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NEW ISSUES—BOOK-ENTRY-ONLY

Ratings: See “RATINGS” herein.

In the opinion of Nixon Peabody LLP, as Bond Counsel (“Bond Counsel”), under existing law and assuming compliance with the tax covenants described herein and the accuracy of certain representations and certifications made by the Department described herein, interest on the Series 2014 Bonds (as defined herein) is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), except that no opinion is expressed as to the exclusion of interest on the Series 2014A Bonds (as defined herein) from gross income for any period during which such Series 2014A Bonds are held by a person who, within the meaning of Section 147(a) of the Code, is a “substantial user” of the facilities financed or refinanced with the proceeds of the Series 2014A Bonds, or by a “related person.” Bond Counsel is further of the opinion that interest on the Series 2014A Bonds is treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Bond Counsel is also of the opinion that interest on the Series 2014B Bonds (as defined herein) is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Bond Counsel is further of the opinion that interest on the Series 2014 Bonds is exempt from personal income taxes of the State of California under present state law. See “TAX MATTERS” herein regarding certain other tax considerations.

**[\$AMOUNT]
HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES
Revenue Bonds**

[Logo of Port]

**[\$PAR1]
2014 Series A
(AMT)**

**[\$PAR2]
2014 Series B
(Non-AMT)**

Dated: Date of Delivery

Due: August 1, as shown on inside front cover

The Harbor Department of the City of Los Angeles Revenue Bonds, 2014 Series A (AMT) (the “Series 2014A Bonds”) and the Harbor Department of the City of Los Angeles Revenue Bonds, 2014 Series B (Non-AMT) (the “Series 2014B Bonds,” and together with the Series 2014A Bonds, the “Series 2014 Bonds”) are being issued to (a) finance certain Projects (as defined herein), (b) current refund and defease the Refunded Bonds to generate debt service savings for the Harbor Department of the City of Los Angeles (the “Department”), (c) refund certain outstanding commercial paper notes; [(d) fund a debt service reserve fund;] and (e) pay the costs of issuance of the Series 2014 Bonds. The Series 2014 Bonds are being issued under and pursuant to Section 609 of the Charter of the City of Los Angeles, California, relevant ordinances of the City of Los Angeles, California, and Section 11.28.1 et seq. of the Los Angeles Administrative Code; and Resolution No. 14-[_____] adopted by the Board of Harbor Commissioners of the City of Los Angeles on [_____] , 2014, approved by the City Council of the City of Los Angeles on [_____] , 2014 and approved by the Mayor of the City of Los Angeles on [_____] , 2014. The Series 2014 Bonds also are being issued pursuant to an Indenture of Trust, to be dated as of [July] 1, 2014 (the “Indenture”), by and between the Department and U.S. Bank National Association, as trustee (the “Trustee”).

The Series 2014 Bonds will be issued as fully registered bonds in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company (“DTC”), New York, New York. Individual purchases and sales of the Series 2014 Bonds may be made in book-entry form only in denominations of \$5,000 and integral multiples thereof. Interest on the Series 2014 Bonds will be payable on February 1 and August 1, commencing on [February 1, 2015]. So long as the Series 2014 Bonds are held by DTC, the principal of and interest on the Series 2014 Bonds will be payable by wire transfer to DTC, which in turn will be required to remit such principal and interest to the DTC participants for subsequent disbursement to the beneficial owners of the Series 2014 Bonds, as more fully described herein. See “APPENDIX F—BOOK-ENTRY-ONLY SYSTEM.”

The Series 2014 Bonds are subject to redemption prior to maturity, as more fully described herein. See “DESCRIPTION OF THE SERIES 2014 BONDS—Redemption Provisions.”

Maturity Schedule on Inside Front Cover

Principal of and interest on the Series 2014 Bonds are payable solely from the Revenues and other amounts pledged under the Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS—Source of Payment” and “—Harbor Revenue Fund.” The Series 2014 Bonds will be issued on a parity with the Department’s outstanding Parity Obligations (as described herein). See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS—Outstanding Parity Obligations” herein.

THE SERIES 2014 BONDS DO NOT CONSTITUTE OR EVIDENCE AN INDEBTEDNESS OF THE CITY OF LOS ANGELES, CALIFORNIA (THE “CITY”), THE STATE OF CALIFORNIA (THE “STATE”) OR ANY SUBDIVISION THEREOF OTHER THAN THE DEPARTMENT, OR A LIEN OR CHARGE ON ANY PROPERTY OR THE GENERAL REVENUES OF THE CITY, THE STATE OR ANY SUBDIVISION THEREOF OTHER THAN THE DEPARTMENT, AND IN ANY EVENT THE SERIES 2014 BONDS SHALL NOT BE PAYABLE OUT OF ANY FUNDS OR PROPERTIES OF THE CITY OR THE DEPARTMENT OTHER THAN THE REVENUES DEPOSITED INTO THE HARBOR REVENUE FUND AS PROVIDED IN THE INDENTURE AND OTHER AMOUNTS PLEDGED THEREFOR UNDER THE INDENTURE. THE SERIES 2014 BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OF THE DEPARTMENT IN CONTRAVENTION OF ANY CHARTER, STATUTORY OR CONSTITUTIONAL DEBT OR OTHER LIMITATION OR RESTRICTION AND DO NOT CONSTITUTE AN OBLIGATION FOR WHICH THE DEPARTMENT OR THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DEPARTMENT OR THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

The purchase and ownership of Series 2014 Bonds involve investment risk and may not be suitable for all investors. This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of the Series 2014 Bonds. Investors are advised to read the entire Official Statement, including any portion hereof included by reference, to obtain information essential to the making of an informed decision, giving particular attention to the matters discussed under “CERTAIN INVESTMENT CONSIDERATIONS.” Capitalized terms used on this cover page and not otherwise defined have the meanings set forth herein.

The Series 2014 Bonds are offered when, as, and if issued and received by the Underwriters, subject to the approval of validity by Nixon Peabody LLP, Bond Counsel to the Department, and to certain other conditions. Certain legal matters will be passed upon for the Department by the Office of the City Attorney of the City. Certain legal matters will be passed upon for the Department by Kutak Rock LLP, Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation. Montague DeRose and Associates, LLC has served as Financial Advisor to the Department. It is expected that the delivery of the Series 2014 Bonds will be made through the facilities of DTC on or about [July __, 2014].

Transmittal #5

Kutak Draft 6/19/14

Siebert Brandford Shank & Co., L.L.C.

Wells Fargo Securities

BofA Merrill Lynch

Cabrera Capital Markets, LLC

RBC Capital Markets

Stifel

Date of Official Statement: _____, 2014.

MATURITY SCHEDULE

[\$[PAR1]*
Harbor Department of the City of Los Angeles
Revenue Bonds
2014 Series A
(AMT)

Maturity Date (August 1)	Principal Amount	Interest Rate	Yield	CUSIP No. [†]
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[\$[PAR2]*
Harbor Department of the City of Los Angeles
Revenue Bonds
2014 Series B
(Non-AMT)

Maturity Date (August 1)	Principal Amount	Interest Rate	Yield	CUSIP No. [†]
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* Preliminary; subject to change.

† Copyright 2014, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. The CUSIP data herein is provided by the CUSIP Service Bureau, managed on behalf of the American Bankers Association by Standard & Poor's. The CUSIP numbers are not intended to create a database and do not serve in any way as a substitute for CUSIP service. CUSIP numbers have been assigned by an independent company not affiliated with the City and are provided solely for convenience and reference. The CUSIP numbers for a specific maturity are subject to change after the issuance of the Series 2014 Bonds. Neither the Department nor the Underwriters take responsibility for the accuracy of the CUSIP numbers.

**HARBOR DEPARTMENT
OF THE CITY OF LOS ANGELES**

425 South Palos Verdes Street
San Pedro, CA 90731

BOARD OF HARBOR COMMISSIONERS

Vilma Martinez, President
David Arian, Vice President
Patricia Castellanos
Anthony Pirozzi, Jr.
Edward R. Renwick

OFFICERS AND EXECUTIVES

Eugene D. Seroka, Executive Director
Molly C. Campbell, Deputy Executive Director, Finance and Administration
Michael R. Christensen, P.E., Deputy Executive Director of Development
Ronald J. Boyd, Interim Deputy Executive Director, Operations
David L. Mathewson, Interim Deputy Executive Director, Business Development
Cynthia Ruiz, Deputy Executive Director, External Relations
Karl K.Y. Pan, Chief Financial Officer
Soheila Sajadian, Director of Debt and Treasury

SPECIAL SERVICES

City Attorney

Office of the City Attorney of the City of Los Angeles
Michael N. Feuer, *City Attorney*
Janna Sidley, *General Counsel*

Trustee

U.S. Bank National Association

Bond Counsel

Nixon Peabody LLP

Disclosure Counsel

Kutak Rock LLP

Financial Advisor

Montague DeRose and Associates, LLC

No dealer, broker, salesperson or other person has been authorized by the Department to give any information or to make any representations other than as set forth herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the Department. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series 2014 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Series 2014 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts. See “INTRODUCTION—Forward-Looking Statements” herein.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Department since the date hereof. This Official Statement is submitted in connection with the sale of the Series 2014 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

The order and placement of information in this Official Statement, including the appendices, are not an indication of relevance, materiality or relative importance, and this Official Statement, including the appendices, must be read in its entirety. The captions and headings in this Official Statement are for convenience only and in no way define, limit or describe the scope or intent, or affect the meaning or construction, of any provision or section in this Official Statement.

THE SERIES 2014 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED THEREIN, AND HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE. THE INDENTURE HAS NOT BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED THEREIN. THE SERIES 2014 BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY COMMISSION. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2014 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING TRANSACTIONS, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE SERIES 2014 BONDS TO CERTAIN DEALERS AND OTHERS AT PRICES LOWER OR YIELDS HIGHER THAN THE PUBLIC OFFERING PRICES OR YIELDS STATED ON THE INSIDE COVER PAGE OF THIS OFFICIAL STATEMENT, AND SUCH PUBLIC OFFERING PRICES OR YIELDS MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

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OFFICIAL STATEMENT

\$[AMOUNT]
HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES
Revenue Bonds

\$[PAR1]
2014 Series A
(AMT)

\$[PAR2]
2014 Series B
(Non-AMT)

INTRODUCTION

General

The purpose of this Official Statement, which includes the cover page, inside cover page, table of contents and appendices, is to provide certain information concerning the sale and delivery by the Harbor Department of the City of Los Angeles (the “Department”) of its \$[PAR1] Harbor Department of the City of Los Angeles Revenue Bonds, 2014 Series A (AMT) (the “Series 2014A Bonds”), and \$[PAR2] Harbor Department of the City of Los Angeles Revenue Bonds, 2014 Series B (Non-AMT) (the “Series 2014B Bonds,” and together with the Series 2014A Bonds, the “Series 2014 Bonds” or the “Bonds”). Capitalized terms used but not defined herein have the meanings ascribed to them in “APPENDIX C—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

This Introduction is qualified in its entirety by reference to the more detailed information included and referred to elsewhere in this Official Statement. The offering of the Series 2014 Bonds to potential investors is made only by means of the entire Official Statement.

The Department and the Port

The Department is a proprietary, independent department of the City of Los Angeles, California (the “City”), with possession, management and control of the Port of Los Angeles (the “Port”), located in San Pedro Bay, approximately 20 miles south of downtown Los Angeles. The Department has three major sources of revenue: (a) shipping revenue, which is a function of cargo throughput; (b) revenue from the rental of the Port’s land and buildings (i.e., lease agreements); and (c) fees and royalty revenue, which is the smallest source of revenue. During Fiscal Year 2013, the Port handled approximately 7.8 million TEUs, ranking the Port as the busiest container port in the nation. A “TEU” is a unit of cargo capacity often used to describe the capacity of container ships and container terminals and is based on the volume of a 20-foot long shipping container, a standard-sized metal box which can be easily transferred between different modes of transportation, such as ships, trains and trucks. The Department’s fiscal year (“Fiscal Year”) currently begins on July 1 and ends on June 30 of the following year. In terms of physical size, the Port is the largest port on the West Coast of the United States, including approximately 7,500 acres of land and water which are currently being increased through acquisition, dredging, landfill and reconfiguration. The Port generally encompasses approximately 43 miles of waterfront berthing and 27 terminal facilities (4 of which are warehouse terminals), including nine major container cargo terminals, two break-bulk facilities, seven petroleum/liquid bulk cargo terminals, two passenger cruise terminals and one vehicle handling facility. A description of the Port, the Department and certain financial and operating information concerning the Department is contained in “THE PORT AND THE DEPARTMENT.”

Authority for Issuance

The Series 2014 Bonds are being issued under and pursuant to Section 609 of the Charter of the City, relevant ordinances of the City, and Section 11.28.1 et seq. of the Los Angeles Administrative Code (collectively, the “Charter”); and Resolution No. 14-[_____] (the “Resolution”) adopted by the Board of Harbor Commissioners of the City of Los Angeles (the “Board”) on [_____] , 2014, approved by the City Council of the City (the “City Council”) on [_____] , 2014 and approved by the Mayor of the City (the “Mayor”) on [_____] , 2014. The Series 2014 Bonds also are being issued pursuant to an Indenture of Trust, to be dated as of [July] 1, 2014 (the “Indenture”), by and between the Department and U.S. Bank National Association, as trustee (the “Trustee”).

Purpose of the Series 2014 Bonds

Proceeds from the sale of the Series 2014 Bonds, along with certain other available moneys, will be used to finance certain Projects (as defined herein), current refund and defease the Refunded Bonds (as defined herein) to generate debt service savings for the Department, refund a portion of the Outstanding Commercial Paper Notes (as defined herein), [make a deposit to the Reserve Fund (as defined herein)], and pay costs of issuance of the Series 2014 Bonds, all as further described herein. See “PLAN OF REFUNDING AND FINANCE AND APPLICATION OF SERIES 2014 BOND PROCEEDS.”

Security for the Series 2014 Bonds

The principal of and interest on the Series 2014 Bonds are payable from, and secured by a pledge of and lien on, the Revenues (as defined herein) and other amounts pledged under the Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS—Source of Payment” and “—Harbor Revenue Fund.”

THE SERIES 2014 BONDS DO NOT CONSTITUTE OR EVIDENCE AN INDEBTEDNESS OF THE CITY, THE STATE OF CALIFORNIA (THE “STATE”) OR ANY SUBDIVISION THEREOF OTHER THAN THE DEPARTMENT, OR A LIEN OR CHARGE ON ANY PROPERTY OR THE GENERAL REVENUES OF THE CITY, THE STATE OR ANY SUBDIVISION THEREOF OTHER THAN THE DEPARTMENT, AND IN ANY EVENT THE SERIES 2014 BONDS WILL NOT BE PAYABLE OUT OF ANY FUNDS OR PROPERTIES OF THE CITY OR THE DEPARTMENT OTHER THAN THE REVENUES DEPOSITED INTO THE HARBOR REVENUE FUND AS PROVIDED IN THE INDENTURE AND OTHER AMOUNTS PLEDGED THEREFOR UNDER THE INDENTURE. THE SERIES 2014 BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OF THE DEPARTMENT IN CONTRAVENTION OF ANY CHARTER, STATUTORY OR CONSTITUTIONAL DEBT OR OTHER LIMITATION OR RESTRICTION AND DO NOT CONSTITUTE AN OBLIGATION FOR WHICH THE DEPARTMENT OR THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DEPARTMENT OR THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

Parity Obligations

As of June 30, 2014, the Department had \$[889,505,000] aggregate principal amount of Parity Obligations (including the Refunded Bonds and the Outstanding Commercial Paper Notes) outstanding. The principal of and interest on the Parity Obligations (as defined herein) are secured by a pledge of and lien on Revenues on parity with the Series 2014 Bonds. Subject to the satisfaction of certain conditions set forth in the Indenture, the Department may issue additional bonds, notes or other evidence of indebtedness secured by a pledge of and lien on Revenues on parity with the Series 2014 Bonds. Pursuant to the Indenture, obligations of the Department secured by a pledge of and lien on Revenues

senior to the payment of principal of or interest on the Parity Obligations (including the Series 2014 Bonds) are prohibited. The Department has no such senior obligations outstanding. The Indenture does not prohibit the Department from issuing obligations secured by a pledge of and lien on Revenues subordinate to the payment of principal of and interest on the Parity Obligations (including the Series 2014 Bonds). See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS—Outstanding Parity Obligations.”

Rate Covenant

The Department has covenanted under the Indenture that it will fix rates, tolls and charges, rentals for leases, permits and franchises, and compensations or fees for franchises and licenses, subject to the approval of or submission to the City Council only in those instances and in such manner as may be provided in the Charter, and collect such charges, rentals, compensations and fees, such as to provide revenues, after payment of all Operation and Maintenance costs for each Fiscal Year, which will at least equal 125% of Debt Service (as defined herein), any amounts required to be paid to the provider of any Common Reserve Security Device (as defined herein) pursuant to such Common Reserve Security Device, any amounts required to be paid to the provider of any Separate Reserve Fund Security Device pursuant to such Separate Reserve Fund Security Device and other amounts to be paid by the Department under the Indenture for such Fiscal Year and during such period the City Council will, when its approval is required by the Charter, approve rates, tolls, charges, rentals, compensations and fees so fixed by the Department, sufficient for the purposes aforesaid; no ordinance adopted by the City Council approving any rate, toll, charge, rental compensation or fee so fixed by the Department will be subject to referendum. “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS—Rate Covenant”

Continuing Disclosure

In connection with the issuance of the Series 2014 Bonds, the Department will agree to provide, or to cause to be provided, to the Municipal Securities Rulemaking Board (“MSRB”) through its Electronic Municipal Market Access system (“EMMA”), for purposes of Rule 15c2-12(b)(5) (“Rule 15c2-12”) adopted by the U.S. Securities and Exchange Commission (“SEC”) under the Securities Exchange Act of 1934, as amended, certain annual financial information and operating data relating to the Department and the Port, and, in a timely manner, notice of certain enumerated events. These covenants are made in order to assist the Underwriters (as defined herein) in complying with Rule 15c2-12. See “CONTINUING DISCLOSURE” and “APPENDIX D—FORM OF CONTINUING DISCLOSURE CERTIFICATE.”

Forward-Looking Statements

This Official Statement, including the appendices hereto, contains statements relating to future results that are forward-looking statements. When used in this Official Statement, the words “estimate,” “anticipate,” “forecast,” “project,” “intend,” “propose,” “plan,” “expect” and similar expressions identify forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. See “CERTAIN INVESTMENT CONSIDERATIONS—Forward-Looking Statements.”

Additional Information

Brief descriptions of the Series 2014 Bonds, the Charter, the Resolution, the Indenture and certain other documents are included in this Official Statement and the appendices hereto. Such descriptions do not purport to be comprehensive or definitive. All references herein to such documents and any other documents, statutes, reports or other instruments described herein are qualified in their entirety by reference to each such document, statute, report or other instrument. Information contained herein has been obtained from officers, employees and records of the Department and from other sources believed to be reliable. The information herein is subject to change without notice, and the delivery of this Official Statement will under no circumstances, create any implication that there has been no change in the affairs of the Department or the Port since the date hereof. This Official Statement is not to be construed as a contract or agreement between the Department or the Underwriters and the purchasers or Owners of any of the Series 2014 Bonds. The Department maintains a website, the information on which is not part of this Official Statement, has not and is not incorporated by reference herein, and should not be relied upon in deciding whether to invest in the Series 2014 Bonds.

PLAN OF REFUNDING AND FINANCE AND APPLICATION OF SERIES 2014 BOND PROCEEDS

Plan of Refunding and Finance

Series 2014A Bonds. Proceeds from the sale of the Series 2014A Bonds, along with certain available moneys, will be used to finance certain Private Activity Projects (as defined herein), refund and defease all or a portion of the Department’s outstanding Harbor Department of the City of Los Angeles Revenue Bonds, 2006 Series D (AMT) (the “Outstanding Series 2006D Bonds”), as described in more detail in the table below), [make a deposit to the Reserve Fund (as defined herein)], and to pay costs of issuance of the Series 2014A Bonds, all as described under “—Sources and Uses of Funds” below.

“Private Activity Projects” means [INSERT AMT PROJECTS].

Outstanding Series 2006 Bonds

Series	Maturity Date (August 1)	Principal Amount	CUSIP Number*
2006D	2014	\$ 2,335,000	544552RW4
2006D	2015	2,455,000	544552RX2
2006D	2016	2,580,000	544552RY0
2006D	2017	2,715,000	544552RZ7
2006D	2018	2,855,000	544552SA1
2006D	2019	3,000,000	544552SC7
2006D	2035	<u>24,575,000</u>	544552SB9
Total		\$40,515,000	

* CUSIP numbers are provided only for the convenience of the reader. Neither the Department nor the Underwriters undertake any responsibility for the accuracy of such CUSIP numbers or for any changes or errors in the list of CUSIP numbers.

A portion of the proceeds of the Series 2014A Bonds, together with certain available moneys to be contributed by the Department, will be deposited with U.S. Bank National Association, as trustee and escrow agent, and will be held in an escrow fund (the “Escrow Fund”) for that portion of the Outstanding Series 2006D Bonds that will be refunded with a portion of the proceeds of the Series 2014A Bonds (the “Refunded Bonds”), as described in more detail in the table below, to be created under the terms of an escrow agreement between the Department and U.S. Bank National Association, as trustee and escrow

agent. Certain amounts deposited into the Escrow Fund will be invested in direct, noncallable obligations of the United States Treasury [and all remaining amounts deposited into the Escrow Fund will be held uninvested in cash]. Amounts on deposit in the Escrow Fund will be used on [August 1], 2014 to pay the redemption price of the Refunded Bonds of 101% of the principal amount thereof, plus accrued interest thereon.

Refunded Bonds				
Series	Maturity Date (August 1)	Principal Amount	Redemption Date¹	CUSIP Number²
2006D	2014	\$ 2,335,000	[August 1], 2014	544552RW4
2006D	2015	2,455,000	[August 1], 2014	544552RX2
2006D	2016	2,580,000	[August 1], 2014	544552RY0
2006D	2017	2,715,000	[August 1], 2014	544552RZ7
2006D	2018	2,855,000	[August 1], 2014	544552SA1
2006D	2019	3,000,000	[August 1], 2014	544552SC7
2006D	2035	<u>24,575,000</u>	[August 1], 2014	544552SB9
Total		\$[40,515,000]		

¹ The Refunded Bonds will be redeemed on [August 1], 2014 at a redemption price of 101% of the principal thereof, plus accrued interest.

² CUSIP numbers are provided only for the convenience of the reader. Neither the Department nor the Underwriters undertake any responsibility for the accuracy of such CUSIP numbers or for any changes or errors in the list of CUSIP numbers.

Series 2014B Bonds. Proceeds from the sale of the Series 2014B Bonds, along with certain available moneys, will be used to finance certain Governmental Projects (as defined herein), refund \$_____ of the Outstanding Commercial Paper Notes, issued by the Department in connection with financing certain capital projects at the Port, [make a deposit to the Reserve Fund] and to pay costs of issuance of the Series 2014B Bonds, all as described under “—Sources and Uses of Funds” below.

“Governmental Projects” means [INSERT GOVERNMENT PROJECTS].

“Projects” means, collectively, the Private Activity Projects and the Governmental Projects.

Sources and Uses of Funds

Proceeds from the sale of the Series 2014 Bonds, along with certain other available moneys, will be used to finance the costs of certain capital projects at the Port, refund and defease the Refunded Bonds to generate debt service savings, refund a portion of the Outstanding Commercial Paper Notes, [make a deposit to the Reserve Fund], and pay costs of issuance of the Series 2014 Bonds. The following table sets forth the sources and uses of funds in connection with the issuance of the Series 2014 Bonds.

<u>Sources</u>	<u>Series 2014A Bonds</u>	<u>Series 2014B Bonds</u>	<u>Total</u>
Par Amount			
[Net] Original Issue Premium/(Discount)			
Available Moneys of Department			
Total Sources			
 <u>Uses</u>			
Deposit to Construction Fund			
Refund Outstanding Commercial Paper Notes			
Deposit to Escrow Fund			
[Deposit to Reserve Fund]			
Costs of Issuance ¹			
Total Uses			

¹ Includes Underwriters' discount, legal costs and expenses and other costs of issuance.

DESCRIPTION OF THE SERIES 2014 BONDS

General

The Series 2014 Bonds will bear interest at the rates and mature on the dates set forth on the inside cover page of this Official Statement. Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Series 2014 Bonds will be dated their date of delivery, and will bear interest from that date, payable semi-annually on February 1 and August 1 of each year (each an "Interest Payment Date"), commencing on [February 1, 2015]. Interest due and payable on the Series 2014 Bonds on any Interest Payment Date will be paid to the registered owner as of the Record Date (Cede & Co., so long as the book-entry system with The Depository Trust Company ("DTC") is in effect). Each Series 2014 Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof unless (a) it is authenticated after a Record Date and on or before the following Interest Payment Date, in which event it will bear interest from such Interest Payment Date, or (b) unless it is authenticated on or before [January 15, 2015], in which event it will bear interest from its date of delivery; provided, however, that if, as of the date of authentication of any Series 2014 Bond, interest thereon is in default, such Series 2014 Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

The Series 2014 Bonds will be issued in denominations of \$5,000 or integral multiples thereof. The Series 2014 Bonds will be issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of DTC. DTC will act as securities depository for the Series 2014 Bonds. Individual purchases may be made in book-entry form only. Purchasers will not receive certificates representing their interest in the Series 2014 Bonds purchased. So long as Cede & Co., as a nominee of DTC, is the registered owner of the Series 2014 Bonds, references herein to the

Holders or registered owners means Cede & Co., and does not mean the Beneficial Owners of the Series 2014 Bonds.

So long as Cede & Co. is the registered owner of the Series 2014 Bonds, principal of and interest on the Series 2014 Bonds will be payable by wire transfer by the Trustee to Cede & Co., as nominee for DTC, which is required, in turn, to remit such amounts to the DTC Participants, as defined herein, for subsequent disbursement to the Beneficial Owners. See “APPENDIX F—BOOK-ENTRY-ONLY SYSTEM.”

Redemption Provisions

Optional Redemption. The Series 2014A Bonds maturing on or before August 1, 20[___] are not subject to optional redemption prior to maturity. The Series 2014A Bonds maturing on or after August 1, 20[___], are subject to redemption at the option of the Department prior to their stated maturity, as a whole, or in part in integral multiples of \$5,000, on any date on or after August 1, 20[___], at a redemption price equal to the principal amount thereof, plus accrued and unpaid interest thereon to the redemption date, without premium.

The Series 2014B Bonds maturing on or before August 1, 20[___] are not subject to optional redemption prior to maturity. The Series 2014B Bonds maturing on or after August 1, 20[___], are subject to redemption at the option of the Department prior to their stated maturity, as a whole, or in part in integral multiples of \$5,000, on any date on or after August 1, 20[___], at a redemption price equal to the principal amount thereof, plus accrued and unpaid interest thereon to the redemption date, without premium.

Mandatory Sinking Fund Redemption. The Series 2014A Bonds maturing on August 1, 20[___] are subject to mandatory sinking fund redemption or purchase in lieu thereof in part, by lot, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest thereon to the date fixed for redemption, without premium, on August 1 of the following years an in the following principal amounts:

Redemption Date (August 1)	Principal Amount
---	-----------------------------

¹ Final Maturity.

The Series 2014B Bonds maturing on August 1, 20[___] are subject to mandatory sinking fund redemption in part, by lot, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest thereon to the date fixed for redemption, without premium, on August 1 of the following years an in the following principal amounts:

Redemption Date (August 1)	Principal Amount
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¹ Final Maturity.

Selection of Bonds for Redemption. In the case of any redemption in part of a Series of the Series 2014 Bonds, the Series 2014 Bonds to be redeemed are subject to redemption in such order of maturity as the Department may direct and by lot, selected in such manner as the Trustee deems appropriate, within a maturity; provided, however, that for so long as the Series 2014 Bonds are Book-Entry Bonds, the interests of the Participants in the particular Series 2014 Bonds or portions thereof to be redeemed of a Series of Series 2014 Bonds and within a maturity will be selected by lot by the Security Depository in such manner as the Security Depository and the Participants may determine.

Notice of Redemption. Notice of redemption will be mailed by first-class mail not less than 30 days before any redemption date, to the respective Owners of any Series 2014 Bonds designated for redemption at their addresses appearing on the Registration Books and to the Securities Depositories (DTC) and to the Information Services (MSRB's EMMA system). Each notice of redemption will state the redemption date, the place or places of redemption, the Series, the maturity date and the interest rate of the Bonds to be redeemed, whether less than all of the Series 2014 Bonds are to be redeemed, the distinctive numbers of the Series 2014 Bonds to be redeemed, and in the case of Series 2014 Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice will also state that on the redemption date there will become due and payable on each of said Series 2014 Bonds or parts thereof designated for redemption the principal amount of, plus accrued interest thereon, without premium, and that from and after such redemption date interest thereon will cease to accrue, and will require that such Series 2014 Bonds be surrendered. Neither the failure to receive any notice nor any defect therein will affect the validity of the proceedings for such redemption or the cessation of accrual of interest from and after the redemption date. Notice of redemption of Series 2014 Bonds will be given by the Trustee, at the expense of the Department, for and on behalf of the Department.

With respect to any notice of redemption of Series 2014 Bonds under the Indenture, unless upon the giving of such notice such Series 2014 Bonds will be deemed to have been paid within the meaning of the Indenture or the Trustee has received amounts sufficient to pay the principal of and interest on such Series 2014 Bonds to be redeemed, such notice will state that such redemption is conditioned upon the receipt by the Trustee on or prior to the date fixed for such redemption of amounts sufficient to pay the principal of and interest on, such Series 2014 Bonds to be redeemed, and that if such amounts have not been received said notice will be of no force and effect and such Series 2014 Bonds will not be subject to redemption on such date. In the event that such notice of redemption contains such a condition and such amounts are not so received, the redemption will not be made and the Trustee will within a reasonable time thereafter give notice, to the persons and in the manner in which the notice of redemption was given, that such amounts were not so received and the redemption was not made.

Effect of Redemption. Notice of redemption having been duly given as described above, and moneys for payment of the principal of and accrued interest on the Series 2014 Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Series 2014 Bonds (or portions thereof) so called for redemption will become due and payable, interest on the Series 2014 Bonds so called for redemption will cease to accrue, said Series 2014 Bonds

(or portions thereof) will cease to be entitled to any benefit or security under the Indenture, and the Owners of said Series 2014 Bonds will have no rights in respect thereof except to receive payment of the principal of and accrued interest thereon. The Trustee will, upon surrender for payment of any of the Series 2014 Bonds to be redeemed on their redemption dates, pay the principal of and interest on such Series 2014 Bonds.

Partial Redemption. Upon surrender of any Series 2014 Bond redeemed in part only, the Department will execute and the Trustee will authenticate and deliver to the Owner thereof, at the expense of the Department, a new Series 2014 Bond or Series 2014 Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the Series 2014 Bonds surrendered and of the same interest rate, maturity and Series.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS

Source of Payment

Subject to the provisions of the Indenture, all of the Revenues and any other amounts (including certain proceeds of the sale of the Series 2014 Bonds) held in any fund or account established pursuant to the Indenture (except the Rebate Fund) are irrevocably pledged to secure the payment of the principal of and interest on the Series 2014 Bonds in accordance with their terms and the provisions of the Indenture. The pledge of Revenues is on a parity with the lien on and security interest in Revenues of the Parity Obligations pursuant to the Issuing Documents (as defined herein) for such Parity Obligations. [The pledge of amounts held in the Reserve Fund (which the Department has elected pursuant to the Indenture to treat as part of the Common Reserve securing all Common Reserve Parity Obligations) is on a parity with the lien on and security interest in such amounts of the Common Reserve Parity Obligations pursuant to the Issuing Documents for such Common Reserve Parity Obligations.] The pledge will constitute a lien on and security interest in such amounts on a parity with the lien on and security interest in such amounts of the Parity Obligations pursuant to the Issuing Documents for such Parity Obligations and will attach, be perfected and be valid and binding from and after the date of issuance of the Series 2014 Bonds, without any physical delivery thereof or further act and will be valid and binding against all parties having claims of any kind in tort, contract or otherwise against the Department, irrespective of whether such parties have notice hereof.

“*Revenues*” means: (a) all money received or collected from or arising out of the use or operation of any harbor or port improvement, work, structure, appliance, facility or utility, service, or watercraft, owned, controlled or operated by the City in or upon or pertaining to the lands and waters, or interests therein, of said City in the Harbor District; all tolls, charges and rentals collected by the Department; and all compensations or fees required to be paid for franchises or licenses, or otherwise by law or ordinance or order, to the City for the operation of any public service utility upon lands and waters, or interests therein, of the City in the Harbor District; provided that for the avoidance of doubt user fees collected by the Department on behalf of, or required to be transmitted to, third parties pursuant to applicable law and not commingled with Revenues, will not be deemed to be Revenues; and (b) all interest or gain derived from the investment of amounts in any of the funds or accounts established under the Indenture (except interest and gain derived from the Rebate Fund established and maintained under the Indenture).

“*Parity Obligations*” means the Series 2014 Bonds and all revenue bonds or notes of the Department authorized, executed, issued and delivered by the Department, and all contracts of the Department authorized and executed by the Department, the payments of which are on a parity with the Series 2014 Bonds and which are secured by a pledge of and lien on the Revenues. See “—Outstanding Parity Obligations.”

THE SERIES 2014 BONDS DO NOT CONSTITUTE OR EVIDENCE AN INDEBTEDNESS OF THE CITY, THE STATE OR ANY SUBDIVISION THEREOF OTHER THAN THE DEPARTMENT, OR A LIEN OR CHARGE ON ANY PROPERTY OR THE GENERAL REVENUES OF THE CITY, THE STATE OR ANY SUBDIVISION THEREOF OTHER THAN THE DEPARTMENT, AND IN ANY EVENT THE SERIES 2014 BONDS WILL NOT BE PAYABLE OUT OF ANY FUNDS OR PROPERTIES OF THE CITY OR THE DEPARTMENT OTHER THAN THE REVENUES DEPOSITED INTO THE HARBOR REVENUE FUND AS PROVIDED IN THE INDENTURE AND OTHER AMOUNTS PLEDGED THEREFOR UNDER THE INDENTURE. THE SERIES 2014 BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OF THE DEPARTMENT IN CONTRAVENTION OF ANY CHARTER, STATUTORY OR CONSTITUTIONAL DEBT OR OTHER LIMITATION OR RESTRICTION AND DO NOT CONSTITUTE AN OBLIGATION FOR WHICH THE DEPARTMENT OR THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DEPARTMENT OR THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

As of June 30, 2014, the Department had \$[889,505,000] aggregate principal amount of Parity Obligations (including the Refunded Bonds and the Outstanding Commercial Paper Notes) outstanding. See “—Outstanding Parity Obligations” below for additional information on the Parity Obligations. The principal of and interest on the Parity Obligations are secured by a pledge and lien on Revenues on a parity with the Series 2014 Bonds. Subject to the satisfaction of certain conditions set forth in the Indenture, the Department may issue additional bonds, notes or other evidence of indebtedness secured by a pledge and lien on Revenues on a parity with the Series 2014 Bonds. Pursuant to the Indenture, obligations of the Department secured by a pledge and lien on Revenues senior to the payment of principal of or interest on the Parity Obligations (including the Series 2014 Bonds) are prohibited. The Department has no such senior obligations outstanding. The Indenture does not prohibit the Department from issuing obligations secured by a pledge and lien on Revenues subordinate to the payment of principal of or interest on the Parity Obligations (including the Series 2014 Bonds).

Harbor Revenue Fund

The Harbor Revenue Fund is a fund held by the Department and established by the Charter (the “Harbor Revenue Fund”). Pursuant to the Charter, all fees, charges, rentals and revenue from every source collected by the Department in connection with its possession, management and control of the Harbor District (as defined below) and Harbor Assets (as defined below) are deposited in the City Treasury to the credit of the Harbor Revenue Fund. All such moneys and revenues deposited in the Harbor Revenue Fund are under the direction and control of the Board.

Pursuant to the Charter, moneys deposited in the Harbor Revenue Fund may be appropriated or used only for the following purposes:

- (a) for the necessary expenses of operating the Department, including the operation, promotion and maintenance of the lands and waters, and interests therein, under the possession, management and control of the Board (the “Harbor District”) and all harbor and port improvements, works, utilities, facilities and watercraft, owned, controlled or operated by the Department (collectively with the Harbor District, the “Harbor Assets”) in connection with or for the promotion and accommodation of maritime commerce, navigation and fishery (“Departmental Purposes”);
- (b) for the acquisition, construction, completion and maintenance of Harbor Assets for Departmental Purposes, and for the acquisition or taking by purchase, lease, condemnation or

otherwise of property, real or personal, or other interest necessary or convenient for Departmental Purposes;

(c) for the payment of the principal and interest of bonds issued by the Department or by the City for Departmental Purposes;

(d) for defraying the expenses of any pension or retirement system applicable to the employees of the Department; and

(e) for reimbursements to another department or office of the City on account of services rendered, or materials, supplies or equipment furnished to support Departmental Purposes.

Flow of Funds

The Indenture establishes the following funds and accounts: (a) the Interest Fund (the “Interest Fund”), including the Interest Account—2014 Series A and the Interest Account—2014 Series B; (b) the Principal Fund (the “Principal Fund”), including the Principal Account—2014 Series A and the Principal Account—2014 Series B; [(c) the Reserve Fund (the “Reserve Fund”)]; (d) the Redemption Fund (the “Redemption Fund”), including the Redemption Account—2014 Series A and the Redemption Account—2014 Series B; (e) the Costs of Issuance Fund (the “Costs of Issuance Fund”), including the Costs of Issuance Account—2014 Series A and the Costs of Issuance Account—2014 Series B; (f) the Rebate Fund (the “Rebate Fund”); and (g) the Construction Fund (the “Construction Fund”), including the Construction Account—2014 Series A and the Construction Account—2014 Series B. All such funds and accounts are to be held and administered by the Trustee.

The Department will, from the moneys in the Harbor Revenue Fund, from time to time, pay all Operation and Maintenance costs (including amounts reasonably required to be set aside in contingency reserves for Operation and Maintenance costs, the payment of which is not then immediately required) as they become due and payable. In addition thereto, the Department will transfer from the Harbor Revenue Fund to the Trustee for deposit into the following respective funds, the following amounts in the following order of priority and at the following times, the requirements of each such fund (including the making up of any deficiencies in any such fund resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit:

(a) Not later than the third Business Day preceding each date on which the interest on the Series 2014 Bonds becomes due and payable, that sum, if any, required to cause the aggregate amount on deposit in the Interest Fund to be at least equal to the amount of interest becoming due and payable on such date on all Series 2014 Bonds then outstanding. The Department will also deposit in any applicable interest account created with respect to Parity Obligations, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any other interest in accordance with the provisions of the Issuing Document relating thereto.

(b) Not later than the third Business Day preceding each date on which the principal of the Series 2014 Bonds becomes due and payable, that sum, if any, required to cause the aggregate amount on deposit in the Principal Fund to equal the principal amount of the Series 2014 Bonds coming due and payable on such date. The Department will also deposit in any applicable principal account created with respect to Parity Obligations, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination

or preference, any other principal in accordance with the provisions of the Issuing Document relating thereto.

(c) The Department will, from the remaining moneys in the Harbor Revenue Fund, thereafter, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, transfer to the Trustee for deposit in: (i) the reserve funds for Parity Obligations which the Department has elected to make a part of the Common Reserve, an amount necessary to cause the balance on deposit therein, including the amounts available under the Common Reserve Security Devices, to be equal to the Common Reserve Requirement or to reimburse the providers of the Common Reserve Security Devices for any draws thereon in accordance with the written direction of the providers of the Common Reserve Security Devices, including interest due on amounts drawn thereunder; provided that to the extent the Department has transferred or is currently transferring amounts necessary to reimburse the providers of the Common Reserve Security Devices as described above, the amount available under the Common Reserve Security Devices will be deemed to be reinstated by the amount of the draws so reimbursed when determining the balance in the Common Reserve for purposes of this provision; and (ii) each Separate Reserve Fund for any Parity Obligations, an amount necessary to cause the balance on deposit therein, including the amounts available under any security devices credited to such Separate Reserve Fund, to be equal to the Separate Reserve Fund Requirement for such Parity Obligations or to reimburse the providers of such security devices for any draws thereon in accordance with the written direction of the providers thereof, including interest due on amounts drawn thereunder in accordance with the provisions of the Issuing Document for such Parity Obligations; provided that to the extent the Department has transferred or is currently transferring amounts necessary to reimburse the providers of such security devices as described above, the amount available under such security devices will be deemed to be reinstated by the amount of the draws so reimbursed when determining the balance in such Separate Reserve Fund for purposes of this provision.

No transfer of moneys for deposit to the reserve funds for Parity Obligations which the Department has elected to make a part of the Common Reserve need be made if the balance in the Common Reserve, including the amount available under any Common Reserve Security Device, is at least equal to the Common Reserve Requirement. No transfer of moneys for deposit to any Separate Reserve Fund for any Parity Obligations need be made if the balance in such Separate Reserve Fund, including the amount available under any security devices credited to such Separate Reserve Fund, is at least equal to the Separate Reserve Fund Requirement for such Parity Obligations. See “—Reserve Fund” below.

(d) Thereafter, the Department may apply Revenues for any lawful purpose.

Rate Covenant

The Department has covenanted under the Indenture that it will fix rates, tolls and charges, rentals for leases, permits and franchises, and compensations or fees for franchises and licenses, subject to the approval of or submission to the City Council only in those instances and in such manner as may be provided in the Charter, and collect such charges, rentals, compensations and fees, such as to provide revenues, after payment of all Operation and Maintenance costs for each Fiscal Year, which will at least equal 125% of Debt Service, any amounts required to be paid to the provider of any Common Reserve Security Device pursuant to such Common Reserve Security Device, any amounts required to be paid to the provider of any Separate Reserve Fund Security Device pursuant to such Separate Reserve Fund Security Device and other amounts to be paid by the Department under the Indenture for such Fiscal Year and during such period the City Council will, when its approval is required by the Charter, approve rates,

tolls, charges, rentals, compensations and fees so fixed by the Department, sufficient for the purposes aforesaid; no ordinance adopted by the City Council approving any rate, toll, charge, rental compensation or fee so fixed by the Department will be subject to referendum.

“*Debt Service*” means, for any period of calculation, the sum of principal of and interest on the Series 2014 Bonds, Parity Obligations and other bonds, notes, certificates and other evidences of indebtedness of the Department and bonds, notes, certificates and other evidences of indebtedness of the City payable or serviced out of the Harbor Revenue Fund (as calculated based on the reasonable assumptions of the Department) on a parity with the Series 2014 Bonds during such period. See “—Outstanding Parity Obligations,” “FINANCIAL INFORMATION CONCERNING THE DEPARTMENT—Other Financial Matters—Debt Service on the Parity Obligations” and “APPENDIX C—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

Reserve Fund

[WILL THE 2014 BONDS BE PART OF COMMON RESERVE (POS CURRENTLY), HAVE A SEPARATE RESERVE, OR WILL THE INDENTURE BE MODIFIED TO NOT INCLUDE A RESERVE FUND?]

In each indenture, trust agreement or other document pursuant to which Parity Obligations are issued or delivered (each, an “Issuing Document”), the Department may establish a reserve fund for such Parity Obligations. Subject to the terms of each Issuing Document, the Department may elect to treat such reserve fund as a part of the “Common Reserve.” The Common Reserve secures all of the Parity Obligations for which the Department has elected to participate in the Common Reserve (each, a “Common Reserve Parity Obligation”). [Pursuant to the Indenture, at the time of issuance of the Series 2014 Bonds the Trustee will establish a reserve fund for the Series 2014 Bonds (the “Reserve Fund”), and the Department will elect to treat the Reserve Fund as part of the Common Reserve]. In addition to the Reserve Fund, the Department has elected to treat the reserve funds established for its Revenue Bonds, 2005 Series A (the “Series 2005A Bonds”), Revenue Bonds, 2005 Series B (the “Series 2005B Bonds”), Revenue Bonds, 2005 Series C-1 (the “Series 2005C-1 Bonds,” and collectively with the Series 2005A Bonds and the Series 2005B Bonds, the “Series 2005 Bonds”), Revenue Bonds, 2006 Series A (the “Series 2006A Bonds”), Revenue Bonds, 2006 Series B (the “Series 2006B Bonds”), Revenue Bonds, 2006 Series C (the “Series 2006C Bonds,” and collectively with the Series 2006A Bonds and the Series 2006B Bonds, the “Series 2006 Bonds”), Revenue Bonds, 2009 Series A (the “Series 2009A Bonds”), Revenue Bonds, 2009 Series B (the “Series 2009B Bonds”), Refunding Revenue Bonds, 2009 Series C (the “Series 2009C Bonds,” and collectively with the Series 2009A Bonds and the Series 2009B Bonds, the “Series 2009 Bonds”), Revenue Refunding Bonds, 2011 Series A (the “Series 2011A Bonds”), Revenue Refunding Bonds, 2011 Series B (the “Series 2011 B Bonds,” and collectively with the Series 2011B Bonds, the “Series 2011 Bonds”), as part of the Common Reserve. [The Series 2014 Bonds will be secured by the Common Reserve on parity with the other Common Reserve Parity Obligations (the Series 2005 Bonds, the Series 2006 Bonds, the Series 2009 Bonds, the Series 2011 Bonds and any additional Parity Obligations issued in the future for which the Department elects to participate in the Common Reserve)].

Amounts on deposit in the Common Reserve will be drawn upon by the Trustee if the amounts in the respective principal accounts and/or interest accounts for the Common Reserve Parity Obligations [(including the Series 2014 Bonds)] are insufficient to pay in full any principal or interest then due on such Common Reserve Parity Obligations. In the event any amounts are required to be withdrawn from the Common Reserve, such amounts will be withdrawn and deposited pro rata to meet the funding requirements of the Common Reserve Parity Obligations [(including the Series 2014 Bonds)].

The Common Reserve is required to be funded in an amount equal to the Common Reserve Requirement. The “Common Reserve Requirement” means, as of any date of calculation, an amount equal to the least of (a) 125% of average annual principal of and interest on all outstanding Common Reserve Parity Obligations, determined on a fiscal year basis; (b) the maximum aggregate annual principal of and interest on all outstanding Common Reserve Parity Obligations, determined on a fiscal year basis; and (c) 10% of the proceeds of all Common Reserve Parity Obligations; provided, however, that, if, upon issuance of a Common Reserve Parity Obligation, such amount would require moneys to be credited to the Common Reserve from the proceeds of such Common Reserve Parity Obligations in an amount in excess of the maximum amount permitted under the Internal Revenue Code of 1986, as amended (the “Code”), to be funded from the proceeds of tax exempt bonds, the Common Reserve Requirement will mean an amount equal to the sum of the Common Reserve Requirement immediately preceding issuance of such Common Reserve Parity Obligation and the maximum amount permitted under the Code to be funded from the proceeds of tax exempt bonds to be deposited therein from the proceeds of such Common Reserve Parity Obligation, as certified in a Certificate of the Department. [At the time of issuance of the Series 2014 Bonds, sufficient amounts will be on deposit in the Common Reserve to meet the Common Reserve Requirement (\$_____).]

Each time that the Department elects to treat a reserve fund as a part of the Common Reserve, it is required to deposit cash and/or securities to the Common Reserve, and/or provide one or more (a) surety bonds; (b) insurance policies issued by one or more municipal bond insurance companies; (c) letters of credit; or (d) other security devices, in each case with ratings in the highest rating category by two of the Rating Agencies as of the date of deposit therein, and with provision that such security device(s) will be available to be drawn upon with respect to all Common Reserve Parity Obligations (each, a “Common Reserve Security Device”), in an amount sufficient to increase the balance in the Common Reserve to the Common Reserve Requirement calculated to take into account such additional Common Reserve Parity Obligations. Additionally, in substitution for all or part of the moneys and/or securities on deposit in the Common Reserve, the Department may provide one or more Common Reserve Security Devices, which will each be available to be drawn on a pro rata basis among all the Common Reserve Security Devices. Upon the expiration of any Common Reserve Security Device prior to the payment in full of all of the Common Reserve Parity Obligations, if the balance in the Common Reserve is less than the Common Reserve Requirement, the Department will either provide a substitute Common Reserve Security Device or deposit cash in the Common Reserve, in an amount sufficient to increase the balance in the Common Reserve to the Common Reserve Requirement. The Department is not required to replace any Common Reserve Security Device that is no longer rated in the highest rating category by two of the Rating Agencies.

[At the time of issuance of the Series 2014 Bonds, the Department will deposit a portion of the proceeds of the Series 2014 Bonds to the Common Reserve so that the Common Reserve Requirement will be met after the issuance of the Series 2014 Bonds. As of the date of issuance of the Series 2014 Bonds, the Common Reserve is expected to contain \$_____ of cash and securities, which will satisfy the Common Reserve Requirement.]

In addition to the cash and securities, the Common Reserve contains two Common Reserve Security Devices, which were issued by Financial Guaranty Insurance Company (in the principal amount of \$18,942,500) and National Public Finance Guaranty Corporation (in the principal amount of \$23,646,000) (“NPF”), as successor to MBIA Insurance Corporation. The amount of cash and securities in the Common Reserve will satisfy the Common Reserve Requirement without taking into consideration these Common Reserve Security Devices.

If the amount available and contained in the Common Reserve exceeds the Common Reserve Requirement, the Trustee will annually on August 1 withdraw the excess amount from the Common

Reserve on a pro rata basis among all reserve funds which participate in the Common Reserve and will, without preference or priority, deposit ratably, in accordance with the amount of interest becoming due and payable on each series of Common Reserve Parity Obligations, to the applicable interest accounts for the Common Reserve Parity Obligations, and for this purpose the Trustee will determine the Value of the Common Reserve on or before August 1 in each year. Except for such withdrawals and any reimbursement of the providers of the Common Reserve Security Devices for any draws thereon, all moneys in the Common Reserve will be used and withdrawn by the Trustee solely for the purpose of paying principal of and interest on the Common Reserve Parity Obligations in the event that no other moneys of the Department are applied thereto.

[If the Department establishes a reserve fund for any Parity Obligations that the Department elects not to make part of the Common Reserve, such reserve fund will be a Separate Reserve Fund and will secure only the Parity Obligations for which such reserve fund was established. The reserve fund established for the Revenue Bonds, 2006 Series D (the “Series 2006D Bonds”) is not part of the Common Reserve. Accordingly, the reserve fund established with respect to the Series 2006D Bonds is a Separate Reserve Fund and secures only the Series 2006D Bonds. The Common Reserve Parity Obligations [(including the Series 2014 Bonds)] are not secured by the Separate Reserve Fund established for the Series 2006D Bonds. The funding requirements for the Separate Reserve Fund established for the Series 2006D Bonds has been satisfied with a reserve fund surety policy which was issued by National Public Finance Guarantee Corporation (“NPFPG,” as successor to MBIA Insurance Corporation). [Does any cash or securities remain in the reserve?]. The reserve fund surety policy issued by NPFPG satisfies the funding requirements for the Separate Reserve Fund.]

The Department intends to use a portion of the proceeds of the Series 2014 Bonds to current refund and defease [all or a portion] of the outstanding Series 2006D Bonds.

Under the Issuing Document for the Department’s Commercial Paper Notes, Series A (Exempt Facility AMT), Series B (Exempt Facility Non-AMT), Series C (Governmental Non-AMT), and Series D (Taxable) (collectively, the “Commercial Paper Notes”) the Department did not establish a reserve fund for the Commercial Paper Notes. The Commercial Paper Notes are not secured by the Common Reserve.

Additional Debt

No Priority. The Indenture provides that no bonds or other obligations of the Department payable out of the Harbor Revenue Fund will be issued having any priority with respect to payment of principal or interest out of the Harbor Revenue Fund over Parity Obligations (including the Series 2014 Bonds); no transfer of money will be made out of the Harbor Revenue Fund in any one Fiscal Year for the purpose of paying the principal of or interest on any bonds or other obligations of the City serviced out of the Harbor Revenue Fund unless and until the principal of and interest on the Parity Obligations (including the Series 2014 Bonds), due and payable in that Fiscal Year, have been paid or set aside in a separate fund held in trust and charged with such payments.

Additional Indebtedness. Pursuant to the Indenture, no additional Parity Obligations will be created or incurred unless (the following is referred to as the “Additional Indebtedness Test”):

- (a) the Net Revenues (i.e., Revenues less Operation and Maintenance costs) for any consecutive 12-calendar-month period during the 18-calendar-month period preceding the date of adoption by the Board of the resolution authorizing the issuance or execution of such Parity Obligations, as evidenced by a special report prepared by an Independent Certified Public Accountant or Independent Financial Consultant on file with the Department, produces a sum equal to at least 125% of the Debt Service, any amounts required to be paid to the provider of any

Common Reserve Security Device pursuant to such Common Reserve Security Device, any amounts required to be paid to the provider of any Separate Reserve Fund Security Device pursuant to such Separate Reserve Fund Security Device and other amounts to be paid by the Department under the Indenture due and payable during such 12-calendar-month period; and

(b) the Net Revenues for any consecutive 12-calendar-month period during the 18-calendar-month period preceding the date of the execution of such Parity Obligations or the date of adoption by the Board of the resolution authorizing the issuance of such Parity Obligations, including adjustments to give effect as of the first day of such 12-month period to increases or decreases in tolls, charges, rentals, compensations or fees approved and in effect as of the date of calculation, as evidenced by a special report prepared by an Independent Certified Public Accountant or Independent Financial Consultant on file with the Department, will have produced a sum equal to at least 125% of Average Annual Debt Service, including such Parity Obligations being created or incurred (but excluding Series 2014 Bonds or Parity Obligations to be redeemed or defeased simultaneously with the issuance and with the proceeds of the Parity Obligations being created or incurred) any amounts required to be paid to the provider of any Common Reserve Security Device pursuant to such Common Reserve Security Device, any amounts required to be paid to the provider of any Separate Reserve Fund Security Device pursuant to such Separate Reserve Fund Security Device and other amounts to be paid by the Department under the Indenture due and payable during such 12-calendar-month period; and

provided that, as to any such Parity Obligations bearing or comprising interest at other than a fixed rate, the rate of interest on such Parity Obligations will be equal to the rate per annum of the Bond Buyer Revenue Bond Index most recently published in The Bond Buyer preceding the date of calculation, or if such index is no longer in existence, a comparable index selected by the Department; and provided further that if any series or issue of such Parity Obligations have 25% or more of the aggregate principal amount of such series or issue due in any one year, principal of and interest on such series or issue will be determined for the Fiscal Year of determination as if the principal of and interest on such series or issue of such Parity Obligations were being paid from the date of incurrence thereof in substantially equal annual amounts over a period of 25 years from the date of calculation (with respect to the Department's Commercial Paper Notes, see "—Outstanding Parity Obligations"); and provided further that, as to any such Parity Obligations or portions thereof bearing no interest but which are sold at a discount and which discount accretes with respect to such Parity Obligations or portions thereof, such accreted discount will be treated as interest, in the calculation of Debt Service; and provided further that the amount on deposit in a debt service reserve fund on any date of calculation of principal of and interest on such Parity Obligations will be deducted from the amount of principal due at the final maturity of the Parity Obligations for which such debt service reserve fund was established and in each preceding year until such amount is exhausted; and provided further that if the Parity Obligations constitute Paired Obligations, the interest rate on such bonds or contracts will be the resulting linked rate or the effective fixed interest rate to be paid by the Department with respect to such Paired Obligations.

The issuance of bonds, notes or other evidences of indebtedness, or certificates of participation, for the purpose of refunding at or prior to maturity the principal of bonds, notes or other evidences of indebtedness and paying any premium upon redemption of any thereof so refunded will not be limited or restricted by the provisions of the preceding paragraphs, if the Debt Service for such bonds, notes or other evidences of indebtedness, in each year, will be lower than the Debt Service on the bonds, notes or other evidences of indebtedness being refunded. The Series 2014 Bonds are being issued pursuant to the provisions of the preceding sentence.

Outstanding Parity Obligations

As of June 30, 2014, the Department had \$[889,505,000] of Parity Obligations (including the Refunded Bonds) outstanding. The outstanding Parity Obligations consist of the Department's revenue bonds and its commercial paper notes. The Parity Obligations are secured by the Revenues on parity with the Series 2014 Bonds.

Pursuant to the Amended and Restated Issuing and Paying Agent Agreement, dated as of July 1, 2012, by and between the Department and U.S. Bank National Association, as issuing and paying agent (the "Issuing and Paying Agent"), the Department is authorized to issue and to have outstanding, from time to time, up to \$250,000,000 principal amount of its Commercial Paper Notes, \$[125,000,000] of which was outstanding as of June 30, 2014 (the "Outstanding Commercial Paper Notes"). See table below entitled "Outstanding Parity Obligations as of June 30, 2014". However, the Department intends to use a portion of the proceeds of the Series 2014 Bonds to refund a portion of the Outstanding Commercial Paper Notes. See "PLAN OF REFUNDING AND FINANCE AND APPLICATION OF SERIES 2014 BOND PROCEEDS". Each series of Commercial Paper Notes is divided into two subseries designated Subseries A-1 through A-2, Subseries B-1 through B-2, Subseries C-1 through C-2 and Subseries D-1 through D-2. The Commercial Paper Notes are issuable in maturities of 1 to 270 days, the proceeds of which the Department utilizes to finance portions of its capital improvement program and to pay maturing Commercial Paper Notes. The Commercial Paper Notes are payable from and secured by a pledge of and a lien on Revenues on a parity with the other Parity Obligations (including the Series 2014 Bonds) and constitute Parity Obligations. To provide liquidity support for the Commercial Paper Notes, the Department has entered into two separate credit agreements, each providing a line of credit in the amount of \$125,000,000: (i) the Line of Credit Agreement, dated as of July 1, 2012 (the "Wells Fargo CP Lines of Credit"), by and among the Department, U.S. Bank National Association, as issuing and paying agent (the "Issuing and Paying Agent") and Wells Fargo Bank, National Association ("Wells Fargo"), which provides liquidity support for the Commercial Paper Notes designated as Subseries A-1, Subseries B-1, Subseries C-1 and Subseries D-1; and (ii) the Line of Credit Agreement, dated as of July 1, 2012 (the "Mizuho CP Line of Credit," and together with the Wells Fargo CP Line of Credit, the "CP Lines of Credit") by and among the Department, the Issuing and Paying Agent and Mizuho Corporate Bank, Ltd., acting through its New York Branch ("Mizuho," and together with Wells Fargo, the "CP Banks"), which provides liquidity support for the Commercial Paper Notes designated as Subseries A-2, Subseries B-2, Subseries C-2 and Subseries D-2. Pursuant to their respective CP Lines of Credit, the CP Banks have agreed to make advances from time to time to the Issuing and Paying Agent for the purpose of paying the principal of and interest on certain specified subseries of maturing Commercial Paper Notes for which refinancing Commercial Paper Notes have not been issued. Under their respective CP Lines of Credit, subject to certain conditions, each of the CP Banks has agreed to make advances of up to a total principal amount of \$125,000,000. The CP Lines of Credit are not available to pay the principal of or interest on any other Parity Obligations, including the Series 2014 Bonds. The CP Lines of Credit currently expire on July 23, 2015 and may be terminated earlier upon the occurrence of certain events, including, but not limited to, any event in which S&P, Moody's and Fitch have assigned a rating to any of the Department's unenhanced revenue bonds issued as Parity Obligations or other unenhanced debt issued as Parity Obligations below "BBB-," "Baa3" or "BBB-," respectively. Furthermore, upon the occurrence and continuation of an event of termination under the CP Lines of Credit, the CP Banks do not have the right or remedy to accelerate or declare the principal and interest due under their respective CP Line of Credit to be immediately due and payable, except in the case of events of termination under the CP Lines of Credit that are also events of default under the indentures relating to the Parity Obligations. The Department's obligation to repay the CP Banks for advances made under the CP Lines of Credit are secured by a pledge of and lien on Revenues on parity with the other Parity Obligations (including the Series 2014 Bonds) and constitute Parity Obligations. [After a portion of the Outstanding Commercial

Paper Notes are refunded, the Department will have \$_____ of Outstanding Commercial Paper Notes.]

The following table sets forth the Parity Obligations that have been issued and were outstanding as of June 30, 2014.

**Outstanding Parity Obligations
as of June 30, 2014**

Bonds and Commercial Paper Notes	Original Principal Amount	Principal Amount Outstanding¹	Issuing Document
<u>Bonds</u>			
Series 2005A	\$29,930,000	\$25,685,000	Indenture of Trust, dated as of October 1, 2005, by and between the Department and The Bank of New York, N.A., as original trustee (“Series 2005/2006 Indenture”)
Series 2005B	30,110,000	24,095,000	Series 2005/2006 Indenture
Series 2005C-1	43,730,000	7,880,000	Series 2005/2006 Indenture
Series 2006A	200,710,000	50,130,000	Series 2005/2006 Indenture
Series 2006B	209,815,000	84,100,000	Series 2005/2006 Indenture
Series 2006C	16,545,000	12,815,000	Series 2005/2006 Indenture
Series 2006D ²	111,300,000	75,935,000	Indenture of Trust, dated as of August 1, 2006, by and between the Department and U.S. Bank National Association, as trustee
Series 2009A	100,000,000	86,290,000	Indenture of Trust, dated as of July 1, 2009, by and between the Department and U.S. Bank National Association, as trustee (the “Series 2009 Indenture”)
Series 2009B	100,000,000	100,000,000	Series 2009 Indenture
Series 2009C	230,160,000	205,825,000	Series 2009 Indenture
Series 2011A	58,930,000	58,930,000	Indenture of Trust, dated as of July 1, 2011, by and between the Department and U.S. Bank National Association, as trustee (the “Series 2011 Indenture”)
Series 2011B	32,820,000	32,820,000	Series 2011 Indenture
<i>Total</i>	\$1,164,050,000	\$764,505,000	
<u>Commercial Paper Notes</u>			
[Subseries B-1] ³	— ⁴	\$[50,000,000]	Amended and Restated Issuing and Paying Agent Agreement, dated as of July 1, 2012, by and between the Department and U.S. Bank National Association, as issuing and paying agent (the “Amended and Restated Paying Agent Agreement”)
[Subseries A-2]	— ⁴	[25,000,000]	Amended and Restated Paying Agent Agreement
[Subseries B-2] ³	— ⁴	[50,000,000]	Amended and Restated Paying Agent Agreement
<i>Total Commercial Paper Notes Outstanding</i>		\$[125,000,000]	
<i>Total Bonds and Commercial Paper Notes Outstanding</i>		\$[889,505,000]	

¹ See “FINANCIAL INFORMATION CONCERNING THE DEPARTMENT—Other Financial Matters—Debt Service on the Parity Obligations.”

² To be refunded with a portion of the Series 2014A Bonds, as described in “PLAN OF REFUNDING AND FINANCE AND APPLICATION OF SERIES 2014 BOND PROCEEDS”.

³ To be refunded with a portion of the Series 2014 B Bonds, as described in “PLAN OF REFUNDING AND FINANCE AND APPLICATION OF SERIES 2014 BOND PROCEEDS”.

⁴ The Department is authorized to issue and have outstanding, from time to time, a maximum of \$250,000,000 aggregate principal amount of Commercial Paper Notes. The Commercial Paper Notes can be issued as Series A-1 (Exempt Facility AMT), Series A-2 (Exempt Facility AMT), Series B-1 (Exempt Facility Non-AMT), Series B-2 (Exempt Facility Non-AMT), Series C-1 (Governmental Non-AMT), Series C-2 (Governmental Non-AMT), Series D-1 (Taxable) or Series

D-2 (Taxable).

Source: Harbor Department of the City of Los Angeles

THE PORT AND THE DEPARTMENT

Introduction and Organization

General. The Port is located in San Pedro Bay approximately 20 miles south of downtown Los Angeles. The Port is held in trust by the City for the people of the State pursuant to a series of tideland grants. The Department operates the Port independently from the City, using its own revenues, and administers and controls its fiscal activities, subject to oversight by the City Council. Under the Charter, the Department is a proprietary or independent department of the City similar to the Department of Water and Power and Department of Airports. See “—Tideland Trust Properties” below.

The Port’s facilities lie within the shelter of a nine-mile long breakwater constructed by the Federal government in several stages, the first of which commenced in 1899. The breakwater encloses the largest manmade harbor in the Western Hemisphere.

The Department has three major continuing sources of revenue: shipping revenue, which is a function of cargo throughput; revenue from the rental of the Port’s land and buildings (i.e., lease agreements); and the smallest component, fee and royalty revenue.

The Department operates the Port as a landlord, issuing permits to Port occupants for the use of Port land, docks, wharves, transit sheds, terminals and other facilities. The Department also is landlord to fish markets, ocean related entities, railroads, restaurants and other similar operations. These arrangements are entered into under various lease agreements. Under the lease agreements the occupants agree to pay to the Department tariffs or fees established by the Department. Lessees are generally shipping or terminal companies, agents and other private firms. The Department has no direct role in managing the daily movement of cargo. The Department also recovers its costs of providing services and improvements through tariff charges for shipping services. It currently provides facilities for approximately 80 shipping companies and agents which include 27 terminal facilities (4 of which are warehouse terminals), including nine major container cargo terminals, two break-bulk facilities, seven petroleum/liquid bulk cargo terminals, two passenger cruise terminals and one vehicle handling facility and 43 miles of waterfront berthing. See “—Tideland Trust Properties,” “—Operating Data—Terminal Operations,” “—Operating Data—Rental Property” and “FINANCIAL INFORMATION CONCERNING THE DEPARTMENT.” The inbound cargo handled at the Port and the nearby Port of Long Beach, which is adjacent to and east of the Port, is distributed throughout the Southern California region and the rest of the nation. For the purpose of establishing a comprehensive transportation corridor which facilitates a continuous movement of intermodal cargo, the Port and the Port of Long Beach (collectively, the “San Pedro Bay Ports”) cooperatively established the Alameda Corridor Transportation Authority (“ACTA”), an independent joint powers authority under California law. See “FINANCIAL INFORMATION CONCERNING THE DEPARTMENT—Other Financial Matters—Alameda Corridor” below for additional information regarding ACTA. The Port of Long Beach is a financially separate entity governed by its own Board of Harbor Commissioners and is part of the City of Long Beach.

Physical Description and Geography. The Port encompasses approximately 7,500 acres of land and water. The Port is served by two major railroads and lies at or near the terminus of two major freeways within the Los Angeles area freeway system. The Port also is linked by subsurface pipelines to many of the major refineries and petroleum distribution terminals within the Los Angeles Basin. In 2013, the Port and the Port of Long Beach (the San Pedro Bay Ports) together were the sixth busiest port complex in the world, in terms of container volume. The Port primarily competes with the Port of Long Beach and other West Coast ports. Expansion of other ports, construction of additional ports and changes

in access to or features of other ports may affect the Port in the future. See “CERTAIN INVESTMENT CONSIDERATIONS—Port Competition.”

The Port is a deep-water port with a minimum depth of 45 feet below mean low water throughout the main channels and 53 feet at the bulkloader and supertanker channels. The Department recently completed the dredging of its main channel to a depth of 53 feet to accommodate the most modern container ships. The Port currently has the capability to handle modern, deeper-draft vessels, adding to its efficiency and growth potential. However, Port growth may be limited by geographic, physical, economic and environmental regulatory limitations. See “—Environmental and Regulatory Matters.”

Maintenance of Port Facilities. Because the Department operates primarily as a landlord, most of the Port facilities’ maintenance is undertaken by its permittees. The Department maintains all wharf structures within the Port. The Department retains in-house engineers and maintenance crews to conduct regular inspections of all Port facilities. Wharfs are inspected both above and below the water surface. Routine repairs and maintenance are performed by the Department’s Construction and Maintenance division. These repairs and maintenance include replacement of timber fender piles, wharf fenders and other elements. Larger repairs and other preventive maintenance measures may be contracted out as part of the Department’s Wharf Inspection Program, an element of the Department’s Maintenance Improvement Program. See also “—Capital Improvement Planning.”

The Port’s channels have moderate maintenance requirements because there is no major river source of sand or silt coming into the harbor. Sand and silt deposits are typically restricted to storm drain outlets and the adjacent Dominguez Channel. Maintenance dredging typically occurs every three years to remove any accumulations of deposits throughout the Port.

Tideland Trust Properties. Most of the property on which the Department’s land, docks, wharves, transit sheds, terminals and other facilities are located is owned by the City and administered by the Department, subject to a trust created pursuant to certain tideland grants from the State. These tidelands were granted to the City under the State Tidelands Trust Act by the California State Legislature in 1911 for the purpose of promoting commerce, navigation and fishery. California Assembly Bill 2769 expanded the permitted uses of tidelands to include maritime commerce, fishing, navigation and recreation and environmental activities that are water-oriented and are intended to be of statewide benefit. Certain additional requirements and restrictions are imposed by the tidelands grants, including limitations on the sale and long-term leasing of tidelands and limitations on the use of funds generated from the tidelands and tidelands trust assets.

Under the tidelands trusts, funds from the tidelands may be transferred to the City’s General Fund only for tidelands trust purposes and may not be transferred to the City General Fund for general municipal purposes. All amounts in the Harbor Revenue Fund are subject to the tidelands trust use restrictions. The Department does not expect that restrictions on the use of tidelands or with respect to tidelands funds will materially adversely affect the operations or finances of the Department. Tideland grants and terms of the tidelands trusts are subject to amendment or revocation by the California Legislature, as grantor of the trust and as representative of the beneficiaries (the people of the State).

Organization and Management of the Department. The Department is governed by the Board which consists of five commissioners. Commissioners are appointed to staggered five-year terms by the Mayor, subject to confirmation by the City Council. The Charter requires one member of the Board to live within the area surrounding the Harbor District. The Board makes policy for the Department, controls all Department funds and adopts the budget. It sets rates in connection with permit agreements for its land facilities and services, subject, in some instances, to City Council review. The current

commissioners of the Board, their primary occupations and expiration of their current terms are shown below.

Board Commissioners	Occupation	Term Expiring
Vilma Martinez	U.S. Ambassador/Attorney	June 30, 2016
David Arian	Retired ILWU Member	June 30, 2019
Patricia Castellanos	Business Person	June 30, 2018
Anthony Pirozzi, Jr.	Engineer	June 30, 2015
Edward R. Renwick	Business Person	June 30, 2017

Pursuant to the Charter, each department created in the Charter will have a board of commissioners consisting of five commissioners, unless some other number is provided in the Charter for a specific board. Commissioners are appointed by the Mayor, subject to the approval of the City Council. The Charter requires that within 45 days of a vacancy, the Mayor will submit to the City Council for its approval the name of the Mayor's appointee to serve for the next ensuing term or remainder of the unexpired term created by the vacancy. The Board elects one of its members as President and one Vice-President. Elections are held during its last meeting in July of each year, but the Board may fill the unexpired term of any vacancy occurring in the office of President or Vice-President at any meeting.

The management and operations of the Department are under the direction of the Executive Director. Following is brief biographical information regarding members of the Department's senior management team and the City Attorney serving the Department:

Eugene D. Seroka, Executive Director. In June 2014, Eugene D. Seroka became the Executive Director of the Department. He oversees the daily operations and internal management of the Department. Prior to his current position, Mr. Seroka served as Head of Commercial Operations in the American Region for American Presidents Line (APL) Limited, a wholly owned subsidiary of Singapore-based Neptune Orient Lines. Prior to that posting, Mr. Seroka was President of the American Region for APL, where he led more than 1,000 employees and was responsible for all commercial, port terminal, intermodal and labor activities throughout the region. Over the years, Mr. Seroka has held various positions in the sales management and marketing fields with increasing responsibility and high-level assignments all over the world. Mr. Seroka's first overseas posting was in Shanghai where he served as Director of Sales and Marketing for North and Central China from 1999 to 2003. He then moved to Jakarta where he was President Director of PT APL and APL Logistics in Indonesia for two years before relocating to Singapore in 2005 to become Vice President of APL Logistics' business units in 26 countries in the company's Asia/Middle East and South Asia regions. From 2008 to 2010 he served as Regional Vice President for APL and APL Logistics Emirates LLC in Dubai where he managed APL's business in the Middle East and East Africa. Throughout his career, Mr. Seroka has played a key role in global marketing and corporate strategies for APL. Mr. Seroka began working for APL as a sales support representative after graduating from business school in 1988. Mr. Seroka earned a Bachelor of Science in Marketing from the University of New Orleans in 1986 and an MBA from the University of New Orleans in 1988.

Molly C. Campbell, Deputy Executive Director, Finance and Administration. Molly C. Campbell was appointed Deputy Executive Director, Finance and Administration in January 2007, prior to which she was the Department's Chief Financial Officer. As Deputy Executive Director, she directly oversees the Department's accounting, audit, contracts and purchasing, debt & treasury management, financial management, human resources, information systems and risk management divisions. Ms. Campbell is responsible for the development and implementation of the Department's short- and long-range plans including the identification of capital development financial needs, revenue and tariff considerations,

financial performance and analysis, and debt requirements. She also oversees the Department's information systems needs including network infrastructure and mainframe computer operations. In addition, Ms. Campbell is responsible for the Department's administrative functions including recruiting, hiring, labor practices and contracts administration. Prior to her current position, Ms. Campbell served as the Department's Chief Financial Officer since October 2000. Prior to serving as the Department's Chief Financial Officer, Ms. Campbell served as the Director of Public Finance with the Los Angeles City Administrative Officer since 1998, heading the Debt Management Group, which manages the City of Los Angeles' overall debt portfolio. She was responsible for the City's lease financing programs, special tax programs, revenue bonds, the City's Wastewater Commercial Paper Program, judgment bonds and special assessment bonds. Before joining the City, Ms. Campbell was the Manager of Business Planning at Disneyland, leading a coordinated resort-wide capital planning effort in which she played a key role to assist in critical capital deployment decisions affecting significant attractions and show elements at the park. Ms. Campbell earned a bachelor's degree from University of California, Los Angeles and a master's degree from Georgetown University in Washington, D.C. She currently serves on the Southern California Leadership Network and Lakewood Regional Hospital Board of Directors. She is also a board member of the Long Beach Planning Commission.

Michael R. Christensen, P.E., Deputy Executive Director, Development. As Deputy Executive Director of Development at the Port, Michael R. Christensen, P.E., is the second in command at the Department and is head of the Department's Development Bureau. Mr. Christensen oversees the Engineering, Construction, Environmental Management and Goods Movement divisions which employ professional, technical, and clerical staff in support of the permitting, design, construction, maintenance, and environmental management of the infrastructure and development projects at the 7500-acre complex. He also is the liaison with outside transportation agencies on projects adjacent to the Port. Mr. Christensen has more than 35 years of engineering and management experience related to maritime, rail and general transportation projects. Prior to joining the Department in October 2006, Mr. Christensen served as Vice President and Project Manager at Parsons Transportation Group where he was responsible for a broad range of local, regional, and national goods movement and rail projects. His career also includes holding senior management positions at several other transportation consulting firms plus 16 years of service to the Southern Pacific Railroad, where he held various posts including Assistant Chief Engineer for Design and Construction and Chief Environmental Affairs Officer. He has held key leadership positions on a number of major projects that include the Alameda Corridor, the Port of Los Angeles' Transportation Master Plan, the Port of Oakland's Maritime Development Alternative Study and Reno's ReTRAC grade separation project. Mr. Christensen earned a bachelor's degree in civil engineering from Arizona State University and is a member of the American Society of Civil Engineers and the American Railway Engineering and Maintenance-of-Way Association. Mr. Christensen is a registered professional engineer in California and nine other states.

Ronald J. Boyd, Interim Deputy Executive Director, Operations. As Interim Deputy Executive Director of Operations at the Port, Mr. Boyd oversees the Port Police, Port Pilot Service, Wharlinger divisions and Emergency Management and Homeland Security Grant functions. Mr. Boyd is responsible for Port-related security and public safety issues. His divisions work cooperatively with associated government and law enforcement agencies to uphold maritime laws, enforce safety and security regulations and continually test and enhance emergency response and preparedness procedures that are designed to ensure the safety of the Department's workforce and residents in the communities surrounding the Port. Mr. Boyd was appointed the Chief of Port Police in 2004. The Port Police Department enforces laws and conducts maritime law operations in a Port complex that spans 43 miles of waterfront. As Chief of Port Police, Mr. Boyd has handled various special projects including developing the first cruise passenger facility security plan, initiating a port aviation support unit, leading a maritime narcotics unit, and helping form the County's first multi-agency cargo theft investigation task force. Prior to serving as Chief of Port Police, Mr. Boyd served as adjutant to prior chiefs of Port Police. Mr. Boyd

currently serves as the President of the International Association of Airport and Seaport Police, serves on the Executive Committee of the Central California Area Maritime Security Committee, is an appointee to the California Emergency Management Agency's Curriculum Development Advisory Committee, is a voting member of the Urban Area Security Initiative Approval Authority, and serves on the Education Committee of the International Association of Chief of Police. He is a member of the Federal Bureau of Investigation (the "FBI") National Academy Alumni Association and California Narcotics Officers' Association, and former secretary to the Board of Directors of The Ray Charles Foundation. Mr. Boyd completed his Basic Boating and Boarding Officer's training with the United States Coast Guard, and the Seaport Security/Anti-Terrorist Course at the Federal Law Enforcement Training Center in Glynco, Georgia. He is a graduate of the 170th Session of the FBI National Academy and the FBI's Executive Development Course.

David Mathewson, Interim Deputy Executive Director, Business Development. David Mathewson serves as Interim Deputy Executive Director of the Business Development Group for the Department. In this role, Mr. Mathewson is responsible for the daily management of the Department's Real Estate, Marketing, Planning and Research, Trade Services and Economic Development Divisions' activities. He directly oversees the negotiation and administration of leases, permits, acquisitions, and condemnations of commercial and industrial land and water properties. He also oversees the worldwide International Marketing Network and the Port's Foreign-Trade Zone 202, while developing land use strategies for waterfront development and key business initiatives. Mr. Mathewson most recently served as the Port's Director of Planning and Economic Development, where he managed land uses through the Port Master Plan, oversaw maritime and trade research activities, determined cargo forecast data, evaluated socioeconomic impact analyses, managed commercial development opportunities along the Los Angeles waterfront, managed workforce development programs, and managed clean technology commercialization efforts through the Port Technology Development Center. In addition, as a Port employee for more than 30 years, Mr. Mathewson gained much of his experience working as a harbor planning and economic analyst, in which he prepared plans and programs for the Port's land and water use. One of his significant accomplishments was securing approval from the California Coastal Commission for the development of the Pier 400 terminal, which required amending the Port Master Plan. Mr. Mathewson has also held the position of assistant director of marketing, where he managed the Port's liquid bulk and container customer accounts and monitored fresh fruit imports. Mr. Mathewson earned a Bachelor's Degree in Urban Planning from the University of Illinois and a Master's Degree in Public Administration from University of Southern California. He also completed the Executive Education Program at University of California, Los Angeles and earned an International City Management Associate Certificate in Management.

Cynthia Ruiz, Deputy Executive Director, External Relations. Cynthia Ruiz serves as Deputy Executive Director, External Relations for the Department. In this role, she is responsible for providing strategic external relations leadership and support to the Department's senior management and the Commissioners of the Board regarding legislative policy, communications and regional economic opportunities that require Department and City collaboration. Prior to joining the Department, Ms. Ruiz was President of the City of Los Angeles Board of Public Works, where she worked to ensure that the Public Works Department delivered projects on time and on budget. The five-member Board of Public Works is the City's only full-time policymaking board, which is tasked with overseeing the activities of the City's third-largest municipal agency and its more than 5,000 employees. Ms. Ruiz also served on the City's Emergency Operations Board and was the lead Commissioner for the City's Bureau of Sanitation. She is recognized for her community service and passion for improving the lives of Angelenos. Ms. Ruis' involvement in City initiatives has ranged from chairing the City of Los Angeles Environmental Youth Conference from 2007-2009, to working as City Hall's ambassador for promoting the L.A. fashion industry. She served on the LA-32 Neighborhood Council for three years. Ms. Ruiz also is credited with founding Keep Los Angeles Beautiful ("KLAB"), a local affiliate of Keep America Beautiful. She

currently chairs KLAB and was the recipient of the Keep America Beautiful 2007 “Recognition Award” and the 2008 “President’s Circle Award.” Prior to working for the City, Ms. Ruiz worked as a rehabilitation counselor, and also as a mediator for the State of California Rehabilitation Bureau. She has extensive business experience running her own business as well as overseeing the nearly billion-dollar budget at the Board of Public Works. Ms. Ruis is a graduate of California State University, Los Angeles, where she earned both her bachelor’s and master’s degrees in counseling.

Karl K.Y. Pan, Chief Financial Officer. Karl Pan is the Chief Financial Officer for the Department. Appointed in February 2008, he directly oversees the Department’s Accounting and Budget, Debt and Treasury Management, Financial Management, Internal Management Audit and Risk Management sections and associated functions. Mr. Pan has over 30 years of domestic and international finance experience in commercial lending, risk management, operational and capital planning, marketing and economic resources allocation. Prior to his appointment to the Department, Mr. Pan served as the Deputy Executive Director of Finance at Los Angeles World Airports (“LAWA”), a position he held since April 2006. He previously served as the Acting Chief Financial Officer at LAWA since September 2005. Mr. Pan moved to that position after having served as Financial Manager of LAWA’s Debt and Treasury Management Division since January 2004. As Financial Manager, his responsibilities included overseeing LAWA’s debt management, rates and charges and capital programs. He also oversaw LAWA’s grant and passenger facilities charge activities. Prior to his position with LAWA, Mr. Pan served as an Executive Vice President at the Bank of Hawaii in Honolulu where he was on the Management Committee and in charge of the bank’s Global Market. His responsibilities included oversight of more than 40 branches across the Asia-Pacific region, an operating budget of \$90 million, and management of nearly \$5 billion in assets. He also previously worked for Chemical Bank in New York and the Bank of China in Los Angeles. Mr. Pan holds an M.B.A. from the University of California, Los Angeles and a bachelor’s degree from the University of Texas, Austin.

Soheila Sajadian, Director of Debt and Treasury Management. Soheila Sajadian is the Director of Debt and Treasury for the Department. As Director of Debt and Treasury, Ms. Sajadian is responsible for the management and oversight of the Department’s debt portfolio, including the administration of its commercial paper program and cash management section. Ms. Sajadian was appointed to lead the newly created Debt Management Division in December 2006; the division was renamed Debt and Treasury in March 2009. Prior to that, she served as a Financial Manager for the Department’s Treasury Management Division, helping strengthen the Department’s relationship with various rating agencies, in addition to working closely with outside bond and disclosure counsels, the investment banking community and the Department’s financial advisors. In addition to developing methods for maintaining the Department’s credit rating, she is responsible for the financing of capital improvement projects through issuance of short-term and long-term debt and managing the Department’s cash flow to ensure liquidity and the maximum rate of return on the Department’s investments. Prior to joining the Department in 2003, Ms. Sajadian held several key financial positions at Fortune 500 companies, nonprofits and private corporations. Her experience includes program control, financial management, budget formulation, financial forecasts, contract pricing and program reviews for global outsourcing projects. In addition, she teaches managerial finance at UCLA Extension and is a member of Government Finance Officers Association and California Municipal Treasurers Association. Ms. Sajadian holds a master’s degree in business administration with concentration in finance from Virginia Polytechnic Institute, a certificate in accounting from University of Virginia, and a bachelor’s degree in management science from Long Island University.

Janna Sidley, General Counsel. Janna Sidley serves as the General Counsel and oversees all litigation involving the Department and the Port. As a member of the Port’s senior management team, Ms. Sidley is the head of the Harbor Division of the Office of the City Attorney. In 2013, Ms. Sidley was appointed as Managing Assistant City Attorney at the Port. As General Counsel, Ms. Sidley supervises

the attorneys who provide general legal advice to the Board, ACTA and the Intermodal Container Transfer Facility (“ICTF”). Harbor Division attorneys draft contracts, review projects and advise the Board and Department senior management on property management, marketing, international trade, maritime, fishing, environmental and railroad operating matters. Ms. Sidley joined the Los Angeles City Attorney’s Office in 2003 and has worked as a trial deputy specializing in workers' compensation fraud and unfair business practices. In 2006, she was assigned to the Port of Los Angeles, focusing on CEQA (as defined herein) and NEPA (as defined herein) matters. In 2010, Ms. Sidley transferred to the Los Angeles Department of Water and Power and has been responsible for all legal compliance requirements related to CEQA and NEPA. Prior to joining the City Attorney’s Office, Ms. Sidley was an Assistant United States Attorney in Los Angeles from 1998 to 2002. She has worked at the Department of Justice in Washington, D.C., Department of the Interior, and White House. Ms. Sidley earned a Bachelor of Arts degree from University of California, Berkeley, and a Juris Doctor degree from Loyola Law School in Los Angeles.

Neighborhood Councils. The Charter provides that under applicable law the City Council may delegate its authority to hold public hearings to neighborhood councils prior to the City Council making a decision on a matter of local concern. The three neighborhood councils serving the Port area are the Coastal San Pedro Neighborhood Council, the Central San Pedro Neighborhood Council and the Northwest San Pedro Neighborhood Council. All of the neighborhood councils in the Port region hold regular meetings concerning areas of local interest and then pass on their conclusions and resolutions to the City Council.

Port Community Advisory Committee. The Port of Los Angeles Community Advisory Committee (the “Community Advisory Committee”) was established by the Board in 2001 as a standing committee of the Board. The purposes of the Community Advisory Committee are to: (a) assess the impacts of Port developments on the harbor area communities and to recommend suitable mitigation measures to the Board for such impacts; (b) review past, present and future environmental documents in an open public process and to make recommendations to the Board that ensure that impacts to the communities are appropriately mitigated in accordance with Federal and State law; and (c) provide a public forum and to make recommendations to the Board to assist the Department in taking a leadership role in creating balanced communities in Wilmington, Harbor City and San Pedro so that the quality of life is maintained and enhanced by the presence of the Port. The membership of the Community Advisory Committee is made up of local neighborhood councils, community organizations, business and industry groups, resident groups, organized labor and certain ad-hoc, ex-officio and education-at-large participants. The Community Advisory Committee may make recommendations to the Board to assist the Department; however the Community Advisory Committee does not have authority to alter Board actions.

Port Security. The Department’s port security program is designed to secure the Port through prevention and deterrence. Port security operations are conducted by the Los Angeles Port Police. The port security program consists of operational security measures supported by advanced surveillance, communications, command and control and sensor systems. Additionally, the Department is engaged in development and implementation of national and international port and cargo security standards and regulations. The security program is closely coordinated with a number of federal, State and local agencies.

The Los Angeles Port Police conduct varied security operations including:

- (a) land and waterside patrols;

- (b) police boat escorts for vessels of special interest including cruise ships and tank vessels;
- (c) dive operations at selected berths and moored vessels;
- (d) sea marshal boardings of selected deep draft vessels to ensure the safe passage;
- (e) implanting advanced equipment including new patrol boats, mobile interoperable communications van, night vision and underwater explosive detection equipment;
- (f) deployment of explosive detection dogs at selected locations including the Los Angeles World Cruise Terminal and the Catalina Express ferry terminal; and
- (g) inspection and control of dangerous cargos and hazardous materials.

The Los Angeles Port Police participate in joint agency security operations conducted with other law enforcement agencies, including the U.S. Coast Guard, U.S. Customs and Border Protection, Federal Bureau of Investigation, Los Angeles Police Department, Los Angeles Fire Department, Los Angeles County Sheriff, and the Long Beach Police Department.

In addition to the security operations described above, these agencies coordinate intelligence analysis, training and exercises. The Los Angeles Port Police have officers assigned to several of the area intelligence and anti-terrorism task forces.

The Los Angeles Port Police are actively recruiting and training highly qualified officers to fulfill the expanding mission needs of the port industry in general and the specific needs of the Port.

The Port also operates the Maritime Law Enforcement Training Center (the "MLETC") which was developed in partnership with the State of California Emergency Management Agency and the U.S. Department of Homeland Security. The MLETC provides port and maritime professionals with the training required to police waterways throughout the country. Initial funding for course development and facility upgrades were provided through state and federal grants, with continued funding provided by student tuition and grant funds.

In order to enhance access control from the water-side, the Department has established Controlled Navigation Areas in certain parts of the Port and in the vicinity of commercial docks and vessels. The purpose of the Controlled Navigation Areas is to exercise a level of control over the thousands of recreational vessels using the Port.

Since 2009 the Department has been awarded approximately \$82.04 million in security grants to fund safety and security projects by federal and State government agencies, including the U.S. Department of Homeland Security, the Federal Emergency Management Agency, the Transportation Security Administration and the State Office of Homeland Security.

The Department has made significant progress on initiatives to improve security such as a Port-wide surveillance camera system, a fiber optic data network, implementation of the Transportation Workers Identification Credential security credentialing program and continued engagement with the Federal Government and overseas ports in improving the security of international supply chains. The Department continues to actively seek additional funding to support the security program from State and federal levels.

Operating Data

The Port is the busiest container port in the nation with approximately 7.8 million TEUs handled during Fiscal Year 2013. The Port also leads the nation in [number of revenue tons handled, value of cargo shipped], revenue and net income. A revenue ton is equal to weight in metric tons or volume in cubic meters, whichever produced the higher revenue. The following Table 1 provides a summary of the type and volume of cargo handled at the Port for the past eleven Fiscal Years. See also “FINANCIAL INFORMATION CONCERNING THE DEPARTMENT—Summary of Revenues, Expenses and Net Assets—Shipping Industry and Impact of Economic Downturn in Past Years.”

Table 1
Port of Los Angeles
Revenue Tonnage by Cargo Type¹
(In Thousands of Metric Revenue Tons)

Fiscal Year Ended June 30	General Cargo	Liquid Bulk ²	Dry Bulk ³	Total ⁴	Percent Increase/(Decrease) in Total Tonnage over Prior Year
2004	146,300	11,900	3,900	162,100	9.9%
2005	145,000	12,400	4,300	161,700	(0.2)
2006	155,200	16,000	3,600	174,800	8.1
2007	171,900	15,400	2,800	190,100	8.8
2008	161,900	6,200	1,900	170,000	(10.6)
2009	144,400	11,100	2,000	157,500	(7.4)
2010	145,800	10,700	1,300	157,800	0.2
2011	146,400	10,600	1,200	158,200	0.3
2012	164,200	9,900	1,100	175,200	10.7
2013	156,300	7,800	1,000	165,100	(5.7) ⁵
2014	[_____]	[_____]	[_____]	[_____]	[_____]

¹ Numbers are rounded.

² For Fiscal Year 2007, the indicated number includes 7,354,000 metric revenue tons, which represents a correcting entry for multiple prior years.

³ Dry bulk cargo includes steel slabs, sulfur, pipe, beams, scrap metal, coal, ores, cement, fertilizers, bauxite, and manufacturing and construction in Southern California and the Southwestern region of the United States, which has reduced the demand for some of these products.

⁴ Computed on an accrual basis, adjusted for unverified amounts.

⁵ In October 2012, Transpacific 8, a service route jointly operated by Mediterranean Shipping Co., Maersk Line and CMA CGM, transferred from the Port to the Port of Long Beach. While such transfer provided financial benefit for Mediterranean Shipping Co. and CMA CGM, it has negatively impacted both cargo volume and associated revenue at the Port.

Source: Harbor Department of the City of Los Angeles

The following Table 2A summarizes revenues per ton for the past eleven Fiscal Years, and the following Table 2B shows the breakdown of shipping revenues by container and noncontainer for the same period. Shipping revenues are comprised of wharfage, dockage, demurrage, cranes, pilotage, assignment charges, and storage.

Table 2A
Port of Los Angeles
Shipping Revenues Per Ton¹

Fiscal Year Ended June 30	Total Shipping Revenues (000s)	Total Revenue Tonnage²	Shipping Revenue Per Ton
2004	\$311,400	162,100	\$1.92
2005	328,800	161,700	2.03
2006	373,300	174,800	2.14
2007	375,500	190,100	1.98
2008	374,900	170,000	2.21
2009	329,300	157,500	2.09
2010	327,600	157,800	2.08
2011	343,500	158,200	2.17
2012	357,700	175,200	2.04
2013	347,900 ⁽³⁾	165,100 ⁽³⁾	2.11
2014	[_____]	[_____]	[_____]

¹ Numbers are rounded.

² Computed on an accrual basis, adjusted for unverified amounts.

³ In October 2012, Transpacific 8, a service route jointly operated by Mediterranean Shipping Co., Maersk Line and CMA CGM, transferred from the Port to the Port of Long Beach. While such transfer provided financial benefit for Mediterranean Shipping Co. and CMA CGM, it has negatively impacted both cargo volume and associated revenue at the Port.

Source: Harbor Department of the City of Los Angeles

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Table 2B
Port of Los Angeles
Shipping Revenue Breakdown¹

Fiscal Year Ended June 30	Container Shipping Revenues				Non-Container Shipping Revenues		
	Total Shipping Revenues (000s)	Container Shipping Revenues (000s)	TEUs (000s)	Container Shipping Revenue Per TEU	Non- Container Shipping Revenues (000s)	Non- Container Tons (000s)	Non- Container Shipping Revenue Per Ton
2004	\$311,400	\$260,700	7,351	\$35.46	\$50,700	19,318	\$2.62
2005	328,800	273,900	7,273	37.66	54,900	21,052	2.61
2006	373,300	311,400	7,801	39.92	61,900	30,832	2.01
2007	375,500	324,200	8,650	37.48	51,300	21,731	2.36
2008	374,900	328,800	8,083	40.68	46,100	18,450	2.50
2009	329,300	293,100	7,262	40.36	36,200	14,518	2.49
2010	327,600	296,500	7,227	41.03	31,100	12,525	2.48
2011	343,500	306,300	7,935	38.60	37,200	14,896	2.50
2012	357,700	321,900	8,171	39.40	35,800	13,800	2.59
2013 ²	347,900	313,700	7,777	40.34	34,200	11,700	2.92
2014	[_____]	[_____]	[_____]	[_____]	[_____]	[_____]	[_____]

¹ Numbers are rounded.

² In October 2012, Transpacific 8, a service route jointly operated by Mediterranean Shipping Co., Maersk Line and CMA CGM, transferred from the Port to the Port of Long Beach. While such transfer provided financial benefit for Mediterranean Shipping Co. and CMA CGM, it has negatively impacted both cargo volume and associated revenue at the Port.

Source: Harbor Department of the City of Los Angeles

The Port's major trading partners are the "Pacific Rim" countries, including China, Japan, Taiwan, Thailand and South Korea. Cargo to and from these countries represents the bulk of the total value of all cargo shipped through the Port. China alone was the destination for approximately 34.4% of the Department's Fiscal Year 2013 exports, and approximately 53.6% of the Department's Fiscal Year 2013 imports.

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The following Table 3 shows a breakdown of total TEUs by country of origin for imports and country of destination for exports. See “FINANCIAL INFORMATION CONCERNING THE DEPARTMENT—Summary of Revenues, Expenses and Net Assets—Shipping Industry and Impact of Economic Downturn in Past Years” below. [Update once FY 2014 data provided]

Table 3
Port of Los Angeles
TEUs By Country
Fiscal Year 2013¹

Exports			Imports		
Country	TEUs	% of Total	Country	TEUs	% of Total
China	598,546	34.4%	China	2,083,523	53.6%
South Korea	190,202	10.9	South Korea	241,896	6.2
Japan	188,251	10.8	Taiwan	220,652	5.7
Taiwan	175,650	10.1	Vietnam	200,325	5.2
Hong Kong	73,339	4.2	Japan	191,947	4.9
Australia	59,992	3.5	Thailand	153,575	4.0
Vietnam	48,353	2.8	Indonesia	135,665	3.5
Thailand	39,848	2.3	Hong Kong	113,288	2.9
Singapore	39,061	2.2	Malaysia	100,133	2.6
Philippines	35,897	2.1	India	57,404	1.5
All Others	<u>290,723</u>	<u>16.7</u>	All Others	<u>385,443</u>	<u>9.9</u>
Total Exports	<u>1,739,862</u>	<u>100.0%</u>	Total Imports	<u>3,883,851</u>	<u>100.0%</u>

¹ Does not include empty containers and domestic cargo.

Source: Ports Import Export Reporting Services (Data from PIERS excludes domestic cargo and empties).

The following Table 4 shows the top container ports in the United States and Canada as measured by total TEUs handled (inbound loaded TEUs, outbound loaded TEUs and empty TEUs) by each respective port for the calendar year ended December 31, 2013. See “CERTAIN INVESTMENT CONSIDERATIONS—Port Competition.”

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Table 4
Top Container Ports in United States and Canada
Total TEUs
Calendar Year 2013
(in thousands of TEUs)

Port	Total TEUs¹
Port of Los Angeles	7,869
Port of Long Beach	6,731
Port of New York and New Jersey	5,467
Port of Savannah	3,034
Port of Vancouver (Canada)	2,825
Port of Oakland	2,347
Port of Houston	1,950
Port of Tacoma	1,892
Port of Seattle	1,593
Port of Charleston	508
Port of Virginia (Norfolk)	390

¹ Includes inbound loaded TEUs, outbound loaded TEUs and empty TEUs.

Source: Port of Los Angeles data, Harbor Department of the City of Los Angeles; data for other ports derived from websites of each respective port.

Terminal Operations.

General. The Department operates the Port as a landlord, issuing permits to a diverse range of cargo-handling companies for the use of Port land, docks, wharves, transit sheds, terminals and other facilities. These arrangements are entered into under various lease agreements. Under the lease agreements the occupants agree to pay tariffs and fees to the Department. Lessees are generally shipping or terminal companies, agents and other private firms. These permits have varying expiration dates over the term of the Series 2014 Bonds. The Department has no direct role in managing the daily movement of cargo. The Department currently provides facilities for approximately 80 shipping companies and agents which include 27 terminal facilities and 43 miles of waterfront berthing. The Department also is landlord to fish markets, ocean related entities, railroads, restaurants and other similar operations. Shipping companies and agents are given preferential assignments to berths at the Port by the Department in order to allow such companies to handle all their ships at the same berth or berths. A berth refers to the location within the Port used for fastening vessels to a pier (or mooring). These assigned berths become the companies' bases of operations at the Port. The Department reserves the right to assign other ships temporarily to berths which have been preferentially assigned when there is space available. The Department also recovers its costs of providing services and improvements through tariff charges for shipping services. The Port's major permittees (tenants) as of June 30, 2013 are shown in the following Table 5.

Table 5
Port of Los Angeles
Major Permittees (Tenants)
As of June 30, 2013

APM Terminals Pacific LTD/Maersk
 China Shipping Holding Company, LTD
 Eagle Marine Services Ltd.
 Everport Terminal Services Inc.
 Exxon-Mobil Oil Corporation
 Kaneb Pipeline/Shore Terminals/Wickland
 Kinder Morgan/GATX Terminals Corporation
 Ports America Cruise, Inc.
 Princess Cruises, Inc.
 Rio Doce Pasha Terminal, L.P.
 SA Recycling/Hugo Neu-Proler Corp
 Santa Catalina Island Resort Services
 Shell Oil Company
 Stevedoring Services of America
 TraPac, Inc.
 Ultramar Inc.
 Vopak/Wilmington Liquid Bulk Terminal
 WWL Vehicle Services Americas/Distribution and Auto Service
 Yang Ming Transport Ltd.
 Yusen Terminal Inc./N.Y.K. (North America) Inc.

Source: Harbor Department of the City of Los Angeles

Revenues Related to Terminal Operations and Tariff Setting. The Department's ten largest permittees accounted for about 86% of Fiscal Year 2013 operating revenues. Most of these major permittees generate revenues for the Port through the handling of TEUs. From Fiscal Year 2010 to Fiscal Year 2013, TEU volumes for the Port increased at an approximate compounded average annual rate of 2.48%.

The Department sets tariff charges for, among other things, wharfage, dockage, storage, pilotage, land usage, passenger fees, storage and demurrage applicable to all ships and cargo using Department owned property and necessary for the orderly movement of cargo. The Department and all other California public ports control and determine their own individual tariff structures. However, the ports cooperate in setting tariff rates through membership in the California Association of Port Authorities ("CAPA"). One of CAPA's goals is to establish and maintain reasonable and, as far as practicable, uniform terminal rates, charges, classifications, rules and regulations for the handling and movement of domestic and foreign waterborne cargo. These tariff provisions cover, among other things, space assignments at marine terminal facilities, as well as other miscellaneous terminal charges necessary for the orderly movement of cargo. The goal is to permit California ports to obtain an adequate return on investment in order to facilitate the necessary maintenance, expansion and improvement of marine facilities. CAPA is exempt from federal antitrust laws, thereby allowing for this cooperative rate setting.

Most of the Port's largest cargo processing permittees are located at terminals which are under long-term permit agreements, generally of 20 to 30 years duration. These permit agreements typically require a portion of the Department's gross tariff on cargo passing through the terminal to be shared by the Department with the permittee, or have the permittee's compensation tied to an efficiency scale

measured by TEUs handled per acre. These provisions generally result in a tariff discount to the facility operator as the volume of cargo increases. The amounts of these discounts, or revenue sharing, or the TEU rate, are based on the volume of cargo handled at the applicable facility, and are typically subject to certain minimum annual guaranteed amounts payable to the Department. The following Table 6 details estimated minimum annual revenues from permit agreements payable to the Department (including minimum annual guarantee income and contractual rental revenues) over the next five Fiscal Years.

Table 6
Port of Los Angeles
Estimated Minimum Annual Permit
Revenue
Under Existing Permits

Fiscal Year Ended June 30	Minimum Permit Revenue (\$000s)
2015	\$300,831
2016	301,251
2017	301,675
2018	302,104
2019	302,969

Source: Harbor Department of the City of Los Angeles

Rental Property. In addition to its marine terminal operations, the Department enters into lease agreements with respect to industrial sites, open land area and other Port property. Lease agreements are authorized for terms of not more than 50 years. Pursuant to requirements of the Charter all rates payable to the Department under the lease agreements must be subject to review and renegotiation by the Department at intervals of not more than five years. Most lease agreements do not extend beyond 30 years and rates payable to the Department under the lease agreements are generally renegotiated every five years.

The Department’s Real Estate Division conducts frequent reviews and appraisals of property and rates in order to assure the Department of an adequate return on its property used under lease agreements.

The Board has adopted a comprehensive leasing policy (the “Leasing Policy”) which applies to all Port property agreements. The Leasing Policy provides the Department with a framework in making leasing decisions, increasing efficiency and achieving consistency and transparency in the development of new property agreement and modifications to existing property use agreements. The Leasing Policy requires all new permits or amendments to existing permits to include covenants to comply with environmental standards. The Leasing Policy includes procedures for the leasing of Port property, for solicitation and selection of tenants, for setting rates and pricing for use of Port property and for assignments and subleases.

Capital Improvement Planning

Overview. In connection with its capital improvement planning the Department reviews and monitors its long-term capital needs on an on-going basis and has identified capital improvement projects through Fiscal Year 2023. However, some of the projects being considered by the Department are in different stages of discussion and remain subject to change. In prioritizing its projects, the Department is

taking into account, among other things, business needs, cash flow position, potential declines in TEU counts and legal and regulatory requirements.

Capital Plan Budgeting Process. Pursuant to Section 11.28.3 of the Los Angeles Administrative Code, not later than June 1 of each year, the Department is required to provide, for information purposes only, to the Mayor, to the Commerce, Energy and Natural Resources Committee of the City Council (or such successor committee as shall be deemed appropriate by the City Council), and to the City Controller, a capital plan or budget covering at least the next Fiscal Year and describing: (i) the proposed capital expenditures of the Department; (ii) the proposed method(s) of financing such proposed expenditures including a discussion, if relevant, of financing alternatives; and (iii) a description of any proposed debt financings. Under the Charter, the Department is obligated to submit a debt accountability and major capital improvement plan to the Mayor, to the City Council and City Controller every two years in conjunction with submittal of its annual budget. The Department submitted its last debt accountability and major capital improvement plan to the City Council in October 2013. Funding for capital projects is subject to annual appropriations from the Department's budget, which must be approved by the Board. The Department's long-term capital improvement plan, when finalized will be presented to the Board for approval.

The following Table 7 sets forth the Department's projected capital improvement program expenditures and funding sources for Fiscal Years 2014 through 2018 (data as of June 2014). Such projections are based on the Department's capital improvement program plan.

Table 7¹
Port of Los Angeles
Projected Capital Improvement Program Expenditures And Funding
(in millions of dollars)

Fiscal Year Ending June 30	Total Capital Expenditures²	Department Revenues	Government Grants	Debt³	% Debt Financing
2014	\$ 338	\$217	\$ 78	\$25	7%
2015	281	365	112	200	71
2016	256	259	36	—	—
2017	184	209	8	—	—
2018	<u>219</u>	<u>150</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total	<u>\$1,278</u>	<u>\$1,200</u>	<u>\$234</u>	<u>\$225</u>	<u>18%</u>

¹ The projected timing, expenditure and funding of the Capital Improvement Program are subject to change and the Department cannot anticipate future changes in the timing, expenditure and funding of the Capital Improvement Program.

² Projected capital improvement project expenditures and funding described in this table are based on the Department's forecasted revenues and includes those projects that are in planning, design or construction. It does not include projects that are under conceptual development wherein the costs have not yet been determined, but which may be material.

³ The projected debt issues may be in the form of bonds, commercial paper, or a combination thereof and are considered along with projected operating cash balances, grants and revenues to support capital improvement projects.

Source: Harbor Department of the City of Los Angeles

Proposition 1B Funding. In November 2006, California voters approved Proposition 1B, which provided for \$19 billion in bonding authority for a total of 16 programs intended to address a broad range of transportation priorities, including rehabilitation and expansion of highways, transit and transit security, port security and air quality. The authority for the use of any bond funds must be provided for in the State's Budget Act.

In April 2008, the Department was awarded \$91.2 million of Proposition 1B funds for transportation improvements through the Trade Corridor Improvement Fund Program. As of April 2014, a total of \$32.5 million of such Proposition 1B funding has been billed and received by the Department.

In August 2008 and April 2009, the Department was awarded \$10.1 million and \$9.9 million, respectively, of Proposition 1B funds for port security projects through the California Port and Maritime Security Grant Program. The construction of a variety of security related projects funded by moneys awarded under State Proposition 1B, including the a Multi-Agency Maritime Law Enforcement Officer Training Center located at the Port Police Wilmington Substation, have been completed. As of June 30, 2013, all of the Proposition 1B funding awarded for security related projects has been billed and received by the Department and all of the security related projects were completed. The Department continues its efforts to secure additional funding for other trade, security and air quality projects.

In January 2012, the Department was awarded \$23.7 million of additional Proposition 1B funding to install shore-side electrical power, also referred to as AMP, at ten berths at the Port, and to date, the Department has requested one reimbursement payment in the amount of \$2.5 million. In February 2012, the Department was awarded \$56.6 million of additional Proposition 1B funds for the Trapac Terminal, of which \$12 million has been received in Fiscal Year 2014. Additionally, in April 2014, the Department was awarded \$2.8 million of additional Proposition 1B funds for the Trapac Terminal.

Capital Improvement Projects. The Department's capital improvement projects are categorized into five types of projects: (i) Terminal Projects, (ii) Transportation Projects, (iii) Security Projects, (iv) Public Access/Environmental Enhancements, and (v) Maritime Services Projects.

The Department's estimated expenditures for capital improvement projects in Fiscal Year 2014 is approximately \$338 million comprised of: Terminal Projects (approximately \$189 million), Transportation Projects (approximately \$102 million), Security Projects (approximately \$12 million), Public Access/Environmental Enhancements (approximately \$24 million), and Maritime Services Projects (approximately \$11 million).

For Fiscal Year 2015 the Department has budgeted \$281 million for capital improvement projects in the following categories: Terminal Projects (approximately \$136 million), Transportation Projects (approximately \$106 million), Security Projects (approximately \$3 million), Public Access/Environmental Enhancements (approximately \$5 million), and Maritime Services Projects (approximately \$33 million). The largest of these projects is expected to be the Trapac Container Terminal. See "Terminal Projects" below. The timing of completion for all capital projects is subject to uncertainties and delays, some of which are outside the control of the Department.

The following Table 8 provides a summary of the total estimated project costs by category of the Department's capital improvement program for Fiscal Years 2014 through 2018. Such estimates are based on the Department's capital improvement program plan.

Table 8
Port of Los Angeles
Capital Improvement Program by Category
Fiscal Years 2014-2018

Project Category	Estimated Total Cost (\$ millions)
Terminal Projects	\$ 792
Transportation Projects	260
Security Projects	16
Public Access/Environmental Enhancements	88
Maritime Services	<u>122</u>
Total	\$1,278

Source: Harbor Department of the City of Los Angeles

Following are summaries of certain of the Department's current capital improvement projects:

Terminal Projects.

China Shipping Terminal Expansion. The China Shipping Project (also known as the "Berth 97-109 Container Terminal Projects") provides for a long-term permit agreement with China Shipping and expands China Shipping's terminal capacity to accommodate an annual throughput of 1.5 million TEUs. The facility footprint is being expanded from an existing 72 acres to 142 acres of backland and 2,500 feet of wharf to be served by ten Postpanamax A-frame cranes. The China Shipping Terminal Expansion Project is estimated to cost approximately \$119 million and consists of three phases plus additional building and mitigation components. The three main phases have been completed. Phase I was completed in December 2013 (constructed 1,200 feet of wharf at Berth 100, 75 acres of backland development and Access Bridge No. 1). Phase II was completed in December 2010 (constructed 925 feet of wharf at Berth 102, 18 acres of backland development and Access Bridge No. 2). Phase III was completed in December 2013 (constructed 375 feet of wharf, 51 acres of backland development and installation of Alternative Maritime Power ("AMP") improvements (i.e., plugging into shore-side electrical power while at dock).

Construction of the Marine Operations and Crane Maintenance buildings are scheduled to begin in March 2015 and are expected to be completed in July 2016. The Department intends to use proceeds of commercial paper, bond funding and cash from operations to finance the costs of the China Shipping Project.

The China Shipping Project also includes several community beautification initiatives, including the redevelopment of an existing community park in San Pedro (Plaza Park), which is currently under construction, and implementing a beautification plan along area corridors and landscaping along Front Street which runs parallel to the terminal perimeter (scheduled to begin construction June 2015).

TraPac Terminal Expansion. The TraPac terminal project (the "TraPac Terminal Project") includes expansion between Berths 136 and 147 on the Port's northwest perimeter to facilitate TraPac's expansion of cargo handling and to increase efficiency. The Department estimates that the TraPac Terminal Project will increase potential related TEU throughput by TraPac from 900,000 TEUs (baseline

year 2003) to 2.4 million TEUs by 2025. The TraPac Terminal Project consists primarily of wharf and backland improvements, work on the ICTF and terminal buildings and installation of AMP improvements. The TraPac Terminal Project will be POLA's most advanced container terminal with advanced automation technology being implemented for the new backland and railyard areas. The TraPac Terminal Project is expected to cost approximately \$510 million and is expected to be completed in March 2017. Construction on the wharf improvements was completed in April 2011. Construction of Phase 1A, 1B and 1C backland improvements have been completed. Construction of backland improvements in Phases 2, 3 and 4, new main gate, administration building and intermodal container transfer facility are in progress. The Department intends to use proceeds of commercial paper, bond funding and cash from operations to finance costs of the TraPac Terminal Project.

For a discussion of the resolution of various challenges to the EIR see “—Environmental and Regulatory Matters—TraPac Settlement/Community Benefits Trust Fund” below.

Cruise Terminal. Since 2008, the Department has invested more than \$42 million in improvements to its World Cruise Center. The improvements include four new gangway systems, two complete AMP berths, new rooftop solar panels designed to generate approximately one megawatt of electricity, and other improvements, including new fenders, painting, lighting and audio/video upgrades. The Department is planning to expand the current AMP system to allow greater flexibility to accommodate larger cruise ships. The Department also has approved the construction of an additional cruise ship terminal at Kaiser Point in the outer harbor terminal which would operate in conjunction with the existing World Cruise Center, enabling the Port to provide more berth space to simultaneously accommodate the larger Voyager class cruise ships and improved navigation for larger ships. Construction of the outer harbor cruise terminal will not be undertaken until such time as market conditions warrant an expansion of the current facilities.

Yang Ming Terminal Redevelopment Project. The Yang Ming terminal redevelopment project (the “Yang Ming Terminal Redevelopment Project”) includes the reconstruction of an existing 45 foot deep container ship berth to a new 53 foot deep container ship berth and an expansion of the existing intermodal rail yard. An EIR/EIS is being prepared for the Yang Ming Terminal Redevelopment Project (scheduled to be completed in May 2016). The Yang Ming Terminal Redevelopment Project is estimated to cost \$121 million with construction to be completed in mid-2018. The Department intends to use proceeds of commercial paper, bond funding and cash from operations to finance costs of the Yang Ming Terminal Redevelopment Project.

YTI Container Terminal Redevelopment Project. The YTI container terminal redevelopment project (the “YTI Container Terminal Redevelopment Project”) includes backland and wharf improvement and expansion of the Terminal Island Container Transfer Facility (TICTF). The backland improvement includes pavement repair and the construction of concrete runway. Wharf improvement includes dredging at Berths 217-220 from an existing depth of 45 feet to 47 feet, installation of sheet piles, installation of king piles, dredging at Berths 214-216 from an existing depth of 45 feet to 53 feet, new landslide crane rail extension along Berths 217-220 and two AMP box relocations from Berths 214-216 to Berths 217-220. TICTF expansion includes construction of a load track and related backland reconstruction. The EIR/EIS is being prepared for the YTI Container Terminal Redevelopment Project (scheduled to be completed in November 2014). The YTI Container Terminal Redevelopment Project is estimated to cost \$58 million with construction to be completed in June 2017. The Department intends to use proceeds of commercial paper, bond funding and cash from operations to finance costs of the YTI Container Terminal Redevelopment Project.

Berths 302-306 Eagle Marine Services/APL Container Terminal Improvements. The Berths 302-306 Eagle Marine Services/APL Container Terminal Improvements (the “Eagle Marine/APL Terminal

Improvements”) includes multiple projects to expand the container terminal by approximately 50 acres and to modify some existing terminal elements. The expansion improvements include approximately 1,250 linear feet of new wharf, AMP installation, dredging, approximately 41 acres developed for automated operations (including reefer racks), and approximately 6 acres developed for terminal operations. Existing terminal improvements include approximately 17 acres redeveloped for automated Landslide Transfer Facility Outside Truck Holding Area, reefers, utilities, AMP installation, relocation of fuel tanks and modification of the Earle Street Gate. The EIR/EIS for the Eagle Marine/APL Terminal Improvements was certified in 2012. The Eagle Marine/APL Terminal Improvements are estimated to cost \$209 million with construction to be completed in 2021. The Department intends to use proceeds of commercial paper, bond funding and cash from operations to finance costs of the Eagle Marine/APL Terminal Improvements.

AltaSea Development (City Dock No. 1). In December 2013, the City Council approved a 50 year lease to transform a 100 year old pier on the LA Waterfront in San Pedro into an urban marine research and innovation center called “AltaSea at the Port of Los Angeles” (the “AltaSea Development”). The lease agreement is between the Port and Rockefeller Philanthropy Advisors, a nonprofit organization that currently serves as the financial sponsor for the AltaSea Development. The AltaSea Development involves approximately 35 acres of land and water at the Port’s City Dock No. 1 site, Berths 56-60 and Berth 70-71. The AltaSea Development will be developed through a private-public partnership comprised of the Port, AltaSea and regional public and private universities. Phase 1 of the AltaSea Development is estimated to cost \$185 million with a completion date of 2018. Funding commitments for Phase 1 of the AltaSea Development total \$82 million to date, including \$57 million in site-related capital investment by the Port and a \$25 million gift by the Annenberg Foundation.

Marine Oil Terminal Engineering and Maintenance Standards Implementation. The Department has tenants which operate marine oil terminals. The Marine Oil Terminal Engineering and Maintenance Standards (“MOTEMS”) establishes standards that apply to all existing and new marine oil terminals in the State. One such standard requires that all liquid bulk wharves at the Port be significantly upgraded or replaced. Through ongoing discussions with the California State Lands Commission (“CSLC”), the commission which oversees the MOTEMS program, the Department has agreed to upgrade or replace its liquid bulk wharves by Fiscal Year 2018. Such costs are estimated to cost \$179 million.

The Port has seven liquid bulk facilities which handle various types of commodities for both import and export. Vessels calling at these facilities include tankers, barges and bulk carriers. The facilities themselves include storage tanks with complex underground pipelines networks. The Port’s marine oil terminals (“MOTs”) were built between 1919 to 1959. Oil cargo operations within the State of California are under the jurisdiction of the California State Lands Commission (CSLM). A new mandate per California Building Code Chapter 31F on Marine Oil Terminals regulations requires all of these facilities to undergo an Initial Audit. This mandate came into effect on February 2006. An Initial Audit was performed at Berths 118-120, 148-151, 163, 164, 167-169, 187-191, and 238-239. Berths 118-120 (Kinder Morgan) is to be de-commissioned within five years. The purpose of the Initial Audit is to determine Fitness-for-Purpose of all marine oil terminals. The Port is currently in negotiations with the MOT tenants to establish new lease agreements with the Port’s financial participation capped at \$7.5 million per berth with the tenant responsible for all additional cost.

Transportation Projects.

West Basin Railyard Project. The West Basin Railyard Project consists of constructing a switching railyard and intermodal storage tracks connecting the Port’s on-dock railyards with the Rail Corridor. The project will relocate the existing Pacific Harbor Line’s switching yard to accommodate the new TraPac intermodal railyard, will maximize use of on-dock rail, reduce an estimated 2,300 daily truck

trips, will reduce pollutants and greenhouse gases, and will result in improved safety because of reductions in truck trips and removal of at-grade rail-roadway crossings. The project is expected to cost approximately \$165 million and is to be funded with federal grants, state and local funds and a capital fund contribution from the Department of \$50 million. Construction began in September 2012 and is expected to be completed by the third quarter of 2014.

I-110 Connectors Improvement Program. The I-110 Connectors Improvement Program (the “ICIP”) consists of several arterial street and freeway-to-freeway interchange improvements in the immediate vicinity of the intersection of SR 47 (Vincent Thomas Bridge) and I-110 freeway. The projects provided for under the ICIP are designed to improve freeway access to Port facilities, eliminate traffic movement conflicts, improve existing non-standard elements, and better accommodate existing and future traffic conditions for the Port and background traffic. The Department and the California Department of Transportation (“Caltrans”) are working in partnership on implementing the ICIP. The ICIP received environmental clearance in February and June 2012 and construction began in November 2013 and the Department expects that construction will be completed in January 2017. It is estimated that the cost of the ICIP will be approximately \$104.1 million, of which the Department would be responsible for approximately \$64.0 million. The Department has used or intends to use proceeds of commercial paper, bond funding, grant funding and cash from operations to finance costs of the ICIP. Other funding sources include the Los Angeles County Metropolitan Transportation Authority (“LACMTA”) (\$14.1 million), Proposition 1B, California State Corridors Improvement Funds (“TCIF”) (\$23.0 million); and Federal Safe, Accountable, Flexible, Efficient Transportation for Equity Act: A Legacy for Users (\$3.6 million).

South Wilmington Grade Separation. The South Wilmington Grade Separation project provides for the construction of a grade separation of a main line rail that connects to the Alameda Corridor. The project is designed to improve safety, reduce delays and emissions, and increase movement of cargo via rail. The project also provides grade-separated vehicular access to all facilities south of Harry Bridges Boulevard from a heavily utilized rail line. The grade separation project will eliminate the conflict between vehicular traffic and two existing at-grade railroad crossings, will provide unimpeded grade-separated vehicular access to the South Wilmington area in which many businesses are located and will eliminate truck queues on surrounding streets and nearby freeway off-ramps. Construction began in February 2013 and is expected to be completed during the first quarter of 2015. The Department estimates that the cost of the project will be approximately \$72.0 million, of which the Department will be responsible for approximately \$35.7 million. The Department has used or intends to use proceeds of commercial paper, bond funding, grant funding and cash from operations to finance costs of the South Wilmington Grade Separation. The remainder of the funding is to be provided by Proposition 1B, TCIF (\$17.0 million) and LACMTA (\$19.3 million).

Security Projects. See “—Introduction and Organization—Port Security” above.

Public Access/Environmental Enhancements. The Los Angeles Waterfront Project (formerly known as the Wilmington Waterfront and the Bridge to Breakwater projects) (the “Los Angeles Waterfront Project”) is located along the waterfronts of Wilmington and San Pedro. The Los Angeles Waterfront Project is comprised of two segments, the Wilmington Segment and the San Pedro Segment. The Wilmington Segment includes two complementary projects, the Wilmington Waterfront Park Project (the “Wilmington Waterfront Park Project”) and the Wilmington Waterfront Project (the “Wilmington Waterfront Project”). The Wilmington Waterfront Park Project was completed in June 2011 and consists of a 30-acre park with walking trails, water features, plazas, public art and a pedestrian bridge. The EIR for the 94-acre Wilmington Waterfront Project was approved by the Board in June 2009 and, when completed, will include a waterfront promenade, 11 acres of open green space, plazas, a 200-foot

observation tower, Red Car museum, and commercial and light industrial development. The cost of the Wilmington Segment is estimated to be approximately \$246 million.

The San Pedro Segment is generally located along the west side of the Port's main channel from the Vincent Thomas Bridge to Cabrillo Beach. The San Pedro Segment, the Wilmington Waterfront Park Project and the Wilmington Project are all connected along existing roadways in the West Basin area of the Port. The EIR for the San Pedro Segment was approved by the Board in September 2009 and, when completed, will transform over 400 acres of property currently operated by the Department. The San Pedro Segment involves development of a variety of land uses within the proposed project area, including, among other things, public waterfront and open space areas, expansion of cruise ship facilities, a continuous waterfront promenade that would extend throughout the proposed project area, upgrades to and expansion of retail and commercial uses, improved transportation infrastructure, and surface and structured parking to accommodate project development within the proposed project area. The five-year cost of the San Pedro Segment is estimated to be approximately \$79 million. The San Pedro Segment is estimated to be completed in 2018.

Maritime Services Projects. The primary current Maritime Services Projects at the Port consist of improvements to the Department's administration building, which are expected to be completed in Fiscal Year 2016 and are estimated to cost approximately \$12 million; and renovation of the municipal fish market, which is expected to be completed in Fiscal Year 2016 and is estimated to cost approximately \$13.7 million. Other projects include a \$1.7 million upgrade to control systems for the Badger Avenue Railroad Bridge, a \$3.9 million retrofit to the wharf supporting the Maritime Museum at Berth 84 and numerous other projects throughout the Port.

Environmental and Regulatory Matters

Environmental Compliance. The Department was the first port in the nation to have an Environmental Management Division. The Department's Environmental Management Division provides full environmental services related to water, soils and sediments, air and living resources. In 2003, the Department adopted an environmental policy, which calls for continuous environmental improvement and the implementation of pollution prevention measures.

The Department's commitment to environmental stewardship is incorporated into the Department's Strategic Plan and includes a sustainability ethic and incorporation of an environmental directive into the Department's Leasing Policy (see "—Operating Data—Rental Property" for a discussion of the Department's leasing policy), establishment of an environmental management system on the Department's construction and maintenance activities and focused programs in the area of customer compliance, water and sediment quality, habitat management, transportation improvements, lighting, noise and aesthetics, clean marinas and air quality. In 2008 the Department completed its Environmental Management System with respect to its assets. The Department's Environmental Management System meets the specifications of the International Organization for Standardization Standard 14001 for environmental management systems.

The Department is required to comply with the provisions of a number of federal and state laws designed to protect or enhance the environment. The basic environmental assessment laws are the federal National Environmental Policy Act ("NEPA") and the California Environmental Quality Act ("CEQA"). These two laws require consideration and disclosure of environmental impacts of development projects. Other federal environmental laws applicable to the Port and the Department include the Resource Conservation and Recovery Act, which governs the treatment and disposal of certain substances; the Clean Water Act and the Marine Protection, Research and Sanctuary Act, which govern the dumping of dredged materials; the Rivers and Harbors Act, which governs navigable waterways; and State and

Federal Endangered Species Act. Enforcement agencies include the U.S. Environmental Protection Agency, U.S. Army Corps of Engineers, Regional Water Quality Control Board, California Air Resources Board and California Department of Toxic Substances Control. The Department also is required to conform to provisions of a number of other State environmental and health and safety laws.

In conforming to these laws and the implementing regulations, the Department has instituted a number of compliance programs and procedures to protect the environment, each of which are designed to, among other things, limit the Department's liabilities. In 2006, the San Pedro Bay Ports established the Clean Air Action Plan (the "CAAP"). See "—Clean Air Action Plan." The Department's voluntary Vessel Speed Reduction Program has been in place since 2001 and has produced favorable results. The Department also has in place the Technology Advancement Program which evaluates and demonstrates new and emerging emissions treatment technologies. In 2008, the Department implemented the historic Clean Truck Program which essentially replaced older polluting trucks with newer clean trucks, thereby reducing truck emissions by over 90 percent at the Port and the surrounding communities. In Fiscal Year 2010, the Department adopted its Water Resources Action Plan aimed at significantly reducing water pollution discharges from land, vessels and the watershed and removing contaminated sediments. Other programs include soil and groundwater Source Control Program, site program and endangered species and habitat management. All these programs are backed up by long-term monitoring of biota, air quality, water and sediment quality and soil and groundwater monitoring.

Environmental Remediation Liability. The Port's environmental remediation liability for Fiscal Year 2014 is estimated to be approximately \$12,520,000. The Port's environmental remediation liability beyond Fiscal Year 2014 through Fiscal Year 2021 is estimated to be approximately \$86,840,050. Such amounts are net of amounts recoverable from insurance and the Port's tenants. Costs associated with pollution remediation liability relate to soil and ground water contamination on sites within the Port's premises.

Environmental Documentation. For projects located on Port property, the Department is the lead agency under CEQA, which requires public disclosure of the environmental effects of Port development projects which are determined to not be exempt under CEQA. Under CEQA, such environmental effects are disclosed through one of several document types, depending on the level of environmental impact. Projects which are determined to have no significant impacts are assessed through a Negative Declaration or an ND. Projects which are determined to have significant impacts but which can be mitigated to avoid or reduce the environmental effects to a point where no significant effect would occur are assessed through a Mitigated Negative Declaration or MND. When a projects has significant and unavoidable impacts, an Environmental Impact Report or an EIR is prepared. In the last three years, the Board has certified/approved six MNDs and six EIRs prepared by the Environmental Management Division. The Environmental Management Division is currently preparing one ND, one MND and two EIRs. Many of these documents have been or are joint documents with federal agencies who have permitting or funding authority over all or part of the project. These disclosure documents examine the environmental effects on air, water, traffic, etc., of proposed projects, and identify feasible mitigation measures to eliminate or reduce any significant environmental effects. Generally, operational mitigation measures become the responsibility of permittees through permits with the Department. Mitigation associated with Department capital development construction are recouped through revenues generated by long-term permits with Department permittees.

Clean Air Action Plan. In 2006, the Department, together with the Port of Long Beach, developed the CAAP with input from the United States Environmental Protection Agency, the California Air Resources Board, and the South Coast Air Quality Management District. The CAAP was updated and reauthorized in 2010. The CAAP is the Department's comprehensive plan to address air pollution emissions from Port-related sources and contains aggressive long-term goals through 2023 to reduce

health risk, diesel particulate matter, and nitrogen and sulfur oxides. Emission sources targeted by the CAAP include ships, trains, cargo handling equipment, harbor craft and heavy duty trucks. Through implementation of the CAAP, since 2005, there has been a 79% reduction in diesel particulate matter, a 56% reduction in sulfur oxides and a 88% reduction in nitrogen oxides emissions from Port-related sources. The CAAP and its associated various measures have cost the Port and the Port's tenants approximately \$250 million to date and the CAAP will continue to require a significant investment by the Department, the Port of Long Beach and private sector businesses and will expedite the introduction of new and innovative methods of reducing emissions prior to any federal or State requirements being imposed on the San Pedro Bay Ports. For Fiscal Year 2014 and Fiscal Year 2015, the Department has budgeted approximately \$1.5 million and \$1.4 million, respectively, for fees related to the Clean Truck Program.

The CAAP addresses every category of Port-related emission sources (ships, trucks, trains, cargo-handling equipment and harbor craft) and outlines specific, detailed strategies to reduce emissions from each category. Pursuant to the CAAP, the Department has undertaken several programs to lower air pollution levels at the Port.

Transportation and Infrastructure Programs. The efficient movement of cargo is integral to environmentally responsible Port operations. The modern and efficient handling of cargo reduces transportation conflicts which in turn benefits traffic flow and reduces air emissions. Such programs include deepening of channels to allow the newest and largest ships to enter the harbor which minimizes the number of ships calling at the Port; development of on- and near-dock rail facilities to divert cargo from trucks to rail; construction of grade separations to separate rail from surface transportation; design of modern facilities to facilitate cargo handling; implementation of an environmental management plan to upgrade the fleet of locomotives operating within the Port and operations changes.

Heavy Container Corridor. The Department created a heavy container corridor to aid in the movement of overweight 40 foot or larger ocean going containers on designated City streets in and around the Port. The City, the City of Long Beach and the State, Department of Public Works approved a measure that allows permits to be granted for overweight container loads in the Port area.

TraPac Settlement/Community Benefits Trust Fund. On December 6, 2007, the Department certified the Final Environment Impact Report (the "TraPac EIR") in connection with the development of various improvements to Berths 136-149 in the Port, currently occupied by TraPac, including TraPac's container terminal operations, such as a new wharf, extension of existing wharf, additional backlands, redesigned access gates, new cranes, new on-dock rail yard, new buildings and road widening. The Department has negotiated TraPac's 30 year container terminal lease. The Natural Resources Defense Council and other environmental and community groups (the "Appellants") filed appeals on various grounds to the City Council in connection with the TraPac EIR. At a Special Meeting on April 3, 2008, the Board approved a Memorandum of Understanding (the "MOU") with the Appellants. The MOU provides for the creation of a nonprofit organization and the Port Community Mitigation Trust Fund (the "Fund"). The Harbor Community Benefit Foundation (the "HCBF") was established as the nonprofit organization responsible for allocating money in the Fund for projects that will protect, improve and assess public health by offsetting past, present and future off-port impacts from Port operations. The MOU also provides that the Appellants release all claims relating to the approval of the TraPac EIR and Environmental Impact Statement, including CEQA challenges. The MOU provides that in the first year the Department will contribute \$12.04 million to the Fund for various purposes, and that amount was paid in March 2009. Additional contributions of approximately \$4 million and \$800,000 were made by the Department to the Fund in June 2010 and August 2010, respectively. On October 26, 2010, the Board approved an operating agreement with the Appellants and the HCBF (the "Operating Agreement"). Although the Operating Agreement did not expressly renew the MOU, it served to clarify many terms of

the MOU, including adding an extension of time for the Department's contributions to the Fund. The Department's requirement to make contributions to the Fund was extended for projects that are certified prior to May 19, 2016. The MOU term remains in effect for such additional contributions as well as the payment of all funds deposited into the Fund, however there is no funding obligation for projects certified after May 19, 2016. Contributions from the Department to the Fund over remaining MOU term will vary based on which projects proceed and the level of cargo throughput at the Port.

Alternative Maritime Power. The Department has been a pioneer in advancing AMP, which is a specialized air quality program that focuses on reducing emissions from container vessels docked at the Port. Instead of running on diesel power while at berth, AMP-equipped ships connect to shore side electrical power. AMP technology is often referred to as "cold ironing" and has been used for naval vessels, Baltic ferries and cruise ships operating in Alaska. The Port is the first port in the world to use AMP technology for in-service container ships.

In June 2004, the Department and China Shipping Container Line opened West Basin Container at Berth 100, the first container terminal in the world to use AMP. The Department continues to encourage use of AMP technology as a means of improving air quality. Depending on the size of the ship, estimates are that AMP will reduce NOx by one ton and take more than half a ton of SOx out of the air each day the ship is at berth and plugged in.

Regulation. The operations of the Department are regulated by various agencies. The Department believes that it is currently in substantial compliance with the regulations of all such regulatory bodies.

FINANCIAL INFORMATION CONCERNING THE DEPARTMENT

General

The Department has three major sources of revenue: shipping revenue, a function of cargo throughput; revenue from the rental of the Port's land and buildings (i.e., lease agreements); and the smallest component, fee and royalty revenue. The Department's primary expenses include salaries and benefits, outside and professional services and payments for services rendered by the City to the Department. In recent years, the Department's operating expenses have increased due to increased expenditures for salaries and expenditures, outside services, Port security and environmental initiatives.

With East Asia being the primary trade origin and destination of the ships of the terminal operators at the Port, these growing economies have historically provided the Department with a level of steady growth in its shipping revenues. Even so, the Department has included minimum guarantee provisions in all major permit agreements and seeks the extra security of letter of credit collateralization from certain occupants. Permit agreement income is derived from approximately 380 separate permit agreements, and provides further stabilization of the Department's revenue stream. See "THE PORT AND THE DEPARTMENT—Operating Data—Rental Property" herein.

Summary of Revenues, Expenses and Net Assets

The following Table 9 sets forth a breakdown of the Department's operating revenues, expenses and net assets for Fiscal Years 2009 through 2013 and for the first nine months of Fiscal Years 2013 and 2014. Simpson & Simpson LLP, Certified Public Accountants, began serving as the Department's independent auditor in Fiscal Year 2013.

Table 9
Port of Los Angeles
Summary of Revenues, Expenses and Net Assets
(In Thousands of Dollars)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013¹</u>	<u>Unaudited</u> <u>2014</u>
Revenues						
Shipping Services						
Wharfage	\$ 295,287	\$ 304,653	\$ 317,621	\$ 333,757	\$ 322,821	\$
Dockage	6,234	5,943	5,848	4,813	4,689	
Demurrage	227	212	238	230	228	
Cranes	1,120	913	--	--	--	
Pilotage	7,683	7,025	7,417	7,131	6,954	
Assignment Charges	18,720	8,883	12,374	11,785	13,184	
Storage	76	1	--	--	--	
Total Shipping Services	<u>\$ 329,347</u>	<u>\$ 327,630</u>	<u>\$ 343,498</u>	<u>\$ 357,716</u>	<u>\$ 347,876</u>	
Rentals						
Land	\$ 38,875	\$ 39,741	\$ 42,693	\$ 40,127	\$ 38,856	
Other	3,493	3,400	2,735	3,016	4,034	
Total Rentals	<u>42,368</u>	<u>43,141</u>	<u>45,428</u>	<u>43,143</u>	<u>42,890</u>	
Royalties, Fees and Other Operating Revenues	<u>30,509</u>	<u>36,047</u>	<u>11,577</u>	<u>8,928</u>	<u>6,602</u>	
Total Operating Revenues	<u>\$ 402,224</u>	<u>\$ 406,818</u>	<u>\$ 400,503</u>	<u>\$ 409,787</u>	<u>\$ 397,368</u>	\$
Expenses						
Operating and Administrative Expenses						
Salaries and benefits	\$ 99,350	\$ 96,838	\$ 103,693	\$ 104,910	\$ 109,463	\$
Marketing and public relations	3,676	2,594	3,055	3,380	3,092	
Travel and entertainment	635	569	843	991	1,130	
Outside services	29,498	24,428	30,601	29,426	31,905	
Material and supplies	8,121	6,634	6,556	6,717	6,531	
City services and payments	28,704	31,142	22,353	22,236	19,284	
Other operating expenses	84,159	48,030	42,594	32,146	33,764	
Total Operating and Administrative expenses	<u>\$ 254,143</u>	<u>\$ 210,235</u>	<u>\$ 209,695</u>	<u>\$ 199,806</u>	<u>\$ 205,169</u>	\$
Income from Operations before Depreciation	148,081	196,583	190,808	209,981	192,199	
Depreciation	<u>83,413</u>	<u>87,255</u>	<u>90,468</u>	<u>100,485</u>	<u>108,037</u>	
Operating Income	<u>\$ 64,668</u>	<u>\$ 109,328</u>	<u>\$ 100,340</u>	<u>\$ 109,496</u>	<u>\$ 84,162</u>	\$
Nonoperating Revenues/(Expenses)						
Income from investments in JPAs and other entities	\$ 2,980	\$ 2,270	\$ (333)	1,851	2,049	\$
Interest and investment income	18,824	15,233	6,436	9,486	826	
Interest expense	(36,979)	(35,663)	(3,704)	(10,538)	(2,473)	
Other income and expenses, net	<u>(7,625)</u>	<u>(2,951)</u>	<u>(6,667)</u>	<u>(8,359)</u>	<u>784</u>	
Net Nonoperating Revenues/(Expenses)	<u>(22,800)</u>	<u>(21,111)</u>	<u>(4,268)</u>	<u>(7,560)</u>	<u>1,186</u>	
Income Before Capital Contributions	<u>\$ 41,868</u>	<u>\$ 88,217</u>	<u>\$ 96,072</u>	<u>\$ 101,936</u>	<u>\$ 85,348</u>	\$
Capital Contributions	4,103	16,950	12,059	31,307	17,630	--
Special Item	--	--	--	--	13,387	--
Changes in net assets	45,971	105,167	108,131	133,243	116,365	--
Total net assets – beginning of year	<u>2,383,616</u>	<u>2,429,587</u>	<u>2,534,754</u>	<u>2,642,885</u>	<u>2,776,128</u>	--
Net adjustment for write-off of prior period bond costs	--	--	--	--	(8,142)	--
Total net assets – end of year	<u>\$ 2,429,587</u>	<u>\$ 2,534,754</u>	<u>\$ 2,642,885</u>	<u>\$ 2,776,128</u>	<u>\$ 2,884,351</u>	--

¹ In October 2012, Transpacific 8, a service route jointly operated by Mediterranean Shipping Co., Maersk Line and CMA CGM, transferred from the Port to the Port of Long Beach. While such transfer provided financial benefit for Mediterranean Shipping Co. and CMA CGM, it has negatively impacted both cargo volume and associated revenue at the Port. Source: Harbor Department of the City of Los Angeles

Management Discussion and Analysis First Nine Months of Fiscal Years 2013 and 2014. For the nine months ended March 31, 2014, total cargo volumes increased approximately 3.8% from the same period in Fiscal Year 2013 and the Port handled approximately 6.1 million TEUs. As a result, total operating revenues were approximately \$311.9 million, an increase of \$12.3 million or 4.1% over the same period in Fiscal Year 2013. Total operating and administrative expenses for the nine months ended March 31, 2014 were approximately \$144.6 million, a decrease of approximately 1.7 % over the same period in Fiscal Year 2013, primarily due to reductions in outside service costs of approximately \$ 11.0 million. The savings were partially offset by higher salaries and benefit expenses of approximately \$2.6 million and other operating expenses of approximately \$6.2 million; planned cost of living adjustments, higher pension costs and additional staff hired, as planned, to meet Department capital construction needs contributed to the higher personnel costs. Overall, operating income before depreciation for the nine months ended March 31, 2014 increased to approximately \$167.2 million (an increase of approximately 9.6%) from the same period in Fiscal Year 2013

Tariffs. Shipping revenues are comprised of wharfage, dockage, demurrage, cranes, pilotage, assignment charges, and storage, which the Department sets through tariff charges. The Department's tariffs are competitive with those charged by other West Coast ports. The following Table 10 provides a history of the Department's general cargo tariffs and basic dockage charges over the last eleven Fiscal Years.

Table 10
Port of Los Angeles
General Cargo Tariffs and
Basic Dockage Charges

Fiscal Year Ended June 30	General Cargo Tariff ¹	Basic Dockage Charge ²
2004	\$5.95	\$2,348
2005	5.95	2,348
2006	6.25	2,465
2007	6.25	2,465
2008	6.25	2,465
2009	6.25	2,465
2010	6.25	2,465
2011	6.25	2,465
2012	6.25	2,465
2013	6.25	2,465
2014	[]	[]

¹ Per metric ton or cubic meter of cargo.

² Per overall length of vessel between 180 and 195 meters.

Source: Harbor Department of the City of Los Angeles

Shipping Industry and Impact of Economic Downturn in Past Years. The revenues of the Department depend to a large extent on shipping activity. The shipping industry as a whole and the level of shipping traffic activity at the Port specifically are dependent upon a variety of factors, including: (a) local, regional, national and international economic and trade conditions; (b) international political conditions and hostilities; (c) cargo security concerns; (d) shipping industry economics, including the cost and availability of labor, fuel, vessels, containers and insurance; (e) competition among shipping companies and ports, including with respect to timing, routes and pricing; (f) governmental regulation,

including security regulations and taxes imposed on ships and cargo, as well as maintenance and environmental requirements; and (g) demand for shipments.

In 2008 and 2009, the global economic downturn resulted in a significant drop in local trade. This was exemplified by an approximate 14.1% decrease in the Port's container volume in Fiscal Year 2009 as compared to Fiscal Year 2008 and an approximate 7.1% decrease in the Port's container volume in Fiscal Year 2008 as compared to Fiscal Year 2007. Terminal operators and ocean carriers were looking aggressively at all aspects of their businesses for cost savings to mitigate dropping revenue levels. In order to maintain market share and to attract additional discretionary market share, various port operators, including the Department, provided certain financial incentives to the customers who make port and rail routing decisions. Such incentive programs vary between ports and are often temporary except for the Port's empty container incentive and transshipping incentive which are continuously in effect until rescinded by the Board.

In Fiscal Year 2013, container volume and associated revenue dropped primarily due to the transfer of a service route known as Transpacific 8, jointly operated by Mediterranean Shipping Co., Maersk Line and CMA CGM to the Port of Long Beach. While such transfer provided financial benefit for Mediterranean Shipping Co. and CMA CGM, it has negatively impacted both cargo volume and associated revenue at the Port. The Department has competed to regain the lost cargo volume by offering cargo incentives in calendar year 2014. See “—Incentive Programs” below.

Incentive Programs. In Fiscal Year 2014, the Board approved a new incentive program, the Ocean Common Carrier Incentive Program, to incentivize shipping lines that bring new container business to the Port during calendar year 2014 as compared to the previous calendar year. For every incremental TEU that a shipping line moves through the Port in calendar year 2014 (as compared to the TEUs moved through the Port in calendar year 2013), the Department would pay out to shippers \$5 (for up to and including 99,999 incremental TEUs) or \$15 (for up to and including 100,000 or more incremental TEUs). Such shipping lines will receive a lump-sum payment in Fiscal Year 2015. The Department has budgeted \$3.5 million to fund the Ocean Common Carrier Incentive Program in Fiscal Year 2015. In addition, the Port has a series of incentive programs geared to protect the environment. Under the Vessel Speed Reduction Incentive Program, and in an effort to reduce air pollution, the Port incentivizes vessel operators who berth their ships at the Port when such vessel operators reduce their vessel speed when within a certain distance of the Port. The Department has budgeted approximately \$2.0 million to fund the Vessel Speed Reduction Incentive Program in each of Fiscal Year 2014 and Fiscal Year 2015. The Technology Advancement Program seeks to accelerate the verification or commercial availability of new, clean technologies, through evaluation and demonstration, to move towards an emission free port. The Port has budgeted approximately \$1.5 million and \$1.0 million, in Fiscal Year 2014 and Fiscal Year 2015, respectively, to fund the Technology Advancement Program. Under the Marine Engine Exchange Program, and in an effort to improve air and water quality at San Pedro Bay, the Port incentivizes boat owners to replace older, high polluting motors with low emission rated motors. The Department has budgeted approximately \$50,000 to fund the Marine Engine Exchange Program in each of Fiscal Year 2014 and Fiscal Year 2015.

For Fiscal Year 2014, the Department has budgeted \$340,000 in total customer incentives and \$4.0 million in total environmental incentives. For Fiscal Year 2015, the Department has budgeted \$3.5 million in total customer incentives and \$3.5 million in total environmental incentives.

Debt Service Coverage. The operating revenues, operating expenses (including payments to the City for services), revenues available to pay debt service (excluding amortization, depreciation and interest expense), debt service and debt service coverage ratios for Fiscal Years 2009 through 2013 and Fiscal Year 2014 (unaudited) are shown in the following Table 11.

Table 11
Port of Los Angeles
Debt Service Coverage
(In Thousands of Dollars)

Fiscal Year Ended June 30	Operating Revenues¹	Operating Expenses²	Available Revenues	Debt Service³	Debt Service Coverage⁴
2009	\$424,028	\$254,143	\$169,885	\$61,298	2.8x
2010	424,321	210,235	214,086	66,851	3.2
2011	412,962	209,695	203,267	72,927	2.8
2012	435,291	199,806	235,485	61,609	3.3
2013	416,974 ⁵	205,169	211,805	72,401	2.9
2014 ⁶	[_____]	[_____]	[_____]	[_____]	[_____]

¹ Operating Revenues also include income from investments and interest.

² Operating Expenses include payroll, fringe benefits and payments for City services.

³ Debt Service includes only the principal and interest payments on Parity Obligations.

⁴ Available Revenues divided by Debt Service.

⁵ In October 2012, Transpacific 8, a service route jointly operated by Mediterranean Shipping Co., Maersk Line and CMA CGM, transferred from the Port to the Port of Long Beach. While such transfer provided financial benefit for Mediterranean Shipping Co. and CMA CGM, it has negatively impacted both cargo volume and associated revenue at the Port.

⁶ Unaudited.

Source: Harbor Department of the City of Los Angeles

Fiscal Year 2015 Budget

The Adopted 2015 Budget represents a fiscal plan with resources dedicated to the Department's primary goals of maintaining its competitive edge while enhancing job creation and economic development for the local and surrounding communities and growing Port business in a sustainable and fiscally responsible manner. Accomplishing these goals comes with fiscal challenges, given a slow recovering economy, port competition and a changing shipping paradigm. The Adopted 2015 Budget was formulated based on certain financial metrics in line with the Department's Financial Policies (described below), in particular, to ensure a minimum level of debt service coverage and a minimum level of cash reserves, as well as a separately established key financial metric of a minimum operating margin.

The Adopted 2015 Budget is comprised of three primary components, which includes \$418.4 million in operating revenues, \$217.3 million in operating expenses and \$349.9 million in capital expenditures. The outlook for operating revenues and expenses in the coming Fiscal Year are to be relatively flat as compared to the previous four years, indicative of a slow recovering economy and efforts to control spending. The Adopted 2015 Budget includes 1.3% growth in operating revenues as compared to the prior year's budget, driven primarily by higher TEU volumes generated by organic growth and the Ocean Common Carrier Incentive Program. The Adopted 2015 budget also includes a 3.4% increase in total expenses as compared to the prior year's budget, due in part to the Ocean Common Carrier Incentive Program for which \$3.5 million in incentive payments has been budgeted for this one year initiative.

For planning purposes the Department has developed and uses financial projections based on assumptions the Department believes to be conservative as one of its management tools. This allows the Department to see the potential effects of changes in revenues and expenses on its cash position and debt capacity.

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Other Financial Matters

Debt Service on the Parity Obligations. Debt service on the Series 2014 Bonds and the other Parity Obligations (excluding the Commercial Paper Notes and the Refunded Bonds) is shown in the following Table 13.

Table 13
Port of Los Angeles
Debt Service on Parity Obligations¹

Fiscal Year Ended June 30	Series 2014A Bonds Principal	Series 2014A Bonds Interest	Series 2014B Bonds Principal	Series 2014B Bonds Interest	Total Debt Service Requirements on Other Parity Obligations	Total Debt Service Requirements
2012						
2013						
2014						
2015						
2016						
2017						
2018						
2019						
2020						
2021						
2022						
2023						
2024						
2025						
2026						
2027						
2028						
2029						
2030						
2031						
2032						
2033						
2034						
2035						
2036						
2037						
2038						
2039						
2040						
Total						

¹ Total debt service on the Series 2014 Bonds and the other Parity Obligations (excluding the Refunded Commercial Paper Notes and the Refunded Bonds). Numbers may not total due to rounding to nearest dollar.
 Source: Harbor Department of the City of Los Angeles

Financial Transactions with the City of Los Angeles. The Department is a self-supporting, revenue-producing enterprise fund of the City. Revenues, expenditures, assets and liabilities of the Department are accounted for on a separate basis from other funds of the City and maintained in trust for the people of the State pursuant to the tideland grants. See “THE PORT AND THE DEPARTMENT—Introduction and Organization—Tideland Trust Properties.”

The Department makes annual payments to the City for services rendered by the City on behalf of the Department (“City Services”). Estimated payments are included in the Department’s annual budget. For Fiscal Year 2013 City Services payments totaled approximately \$35.3 million. For Fiscal Year 2014, the Department budgeted approximately \$36.2 million for City Services payments. Pursuant to a 1997 Settlement Agreement between the City and the Department, the City and the Department established a methodology for billing for City Services. In settlement of certain disputes arising under the 1997 Settlement Agreement, the City agreed to reimburse the Department approximately \$61.8 million plus 3% interest by crediting the Department’s annual City Services payment. Repayment is applied as a credit against amounts owed to the City by the Department for City Services. See Note 15(a) of the Audited Financial Statements of the Department attached hereto as “APPENDIX A—AUDITED FINANCIAL STATEMENTS OF THE HARBOR DEPARTMENT FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012”. See also “CERTAIN INVESTMENT CONSIDERATIONS—City Financial Challenges.”

Alameda Corridor. ACTA is a joint exercise of powers authority created by the City and the City of Long Beach, pursuant to the Joint Exercise of Powers Act, California Government Code Section 6500 and following (as it may be amended and supplemented), and organized under an Amended and Restated Joint Exercise of Powers Agreement, dated as of December 18, 1996, as amended, between the City and the City of Long Beach, for the purpose of establishing a comprehensive transportation corridor and related facilities consisting of street and railroad rights-of-way and an improved highway and railroad network along Alameda Street between the Santa Monica Freeway and the Ports in San Pedro Bay, linking the San Pedro Bay Ports to the main east-west rail line in the central Los Angeles area. The Alameda Corridor began operating on April 15, 2002. ACTA is governed by a seven-member board which is comprised of two members from each of the San Pedro Bay Ports, one each from the City and the City of Long Beach and one from the Los Angeles County Metropolitan Transportation Authority. In the future, ACTA may make payments to or require Shortfall Advances from the San Pedro Bay Ports; any such payments or Shortfall Advances will be shared equally. As of June 30, 2013, ACTA had outstanding approximately \$2.1 billion aggregate principal and initial amount of taxable and tax-exempt bonds (collectively, the “ACTA Obligations”). As of June 30, 2013, the Department has no share of ACTA’s assets and income. See Note 6B of the Audited Financial Statements of the Department attached hereto as “APPENDIX A—AUDITED FINANCIAL STATEMENTS OF THE HARBOR DEPARTMENT FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012.”

In October 1998, the San Pedro Bay Ports, ACTA, the Union Pacific Railroad Company (“Union Pacific”), and BNSF Railway Company (formerly known as The Burlington Northern and Santa Fe Railway Company) (“BNSF” and together with Union Pacific, the “Railroads”) entered into the Alameda Corridor Use and Operating Agreement, as amended (the “Corridor Agreement”). The Corridor Agreement governs the administration, operation and maintenance of the Alameda Corridor and the collection and application of use fees, container charges, maintenance and operation charges and Shortfall Advances. The ACTA Obligations are payable from the use fees and container charges, payable by the Railroads, and from Shortfall Advances.

The Corridor Agreement requires the San Pedro Bay Ports, severally and not jointly, to make payments (the “Shortfall Advances”) in the event the amount of use fees and container charges collected from the Railroads are not sufficient to make the debt service payments on the ACTA Obligations. Pursuant to the Corridor Agreement, the San Pedro Bay Ports are each obligated to make up one-half of any deficiency in the payment of debt service on the ACTA Obligations. However, the San Pedro Bay Ports are liable only for a maximum of 40% (20% each) of the total amount of debt service due in each year on the ACTA Obligations. Additionally, each of San Pedro Bay Ports is not required to make Shortfall Advances that should have been paid by the other party. Based upon the June 30, 2013 outstanding amount of the ACTA Obligations, the San Pedro Bay Ports are potentially liable for a

maximum of approximately \$1.6 billion (the Department and the Port of Long Beach each being liable for approximately \$800 million) of debt service payments on the ACTA Obligations through 2037. Pursuant to the Corridor Agreement, the Department is obligated to include any forecasted Shortfall Advances in its budget for each fiscal year. The San Pedro Bay Ports were first required to pay Shortfall Advances in calendar year 2011 when they paid a total of \$5.9 million (\$2.95 million each) for debt service payments due on October 1, 2011. The San Pedro Bay Ports were again required to pay Shortfall Advances in calendar year 2012 when they paid a total of \$5.9 million (\$2.95 million each) for debt service payments due on October 1, 2012. The San Pedro Bay Ports were not required to pay Shortfall Advances in 2013 and do not expect to pay Shortfall Advances in 2014. The Department expects that it (and the Port of Long Beach) may be required to make one or more additional Shortfall Advances between 2015 and 2037, however, as of the date of this Official Statement, the Department cannot predict either the amount or timing of any such Shortfall Advances.

In connection with ACTA's issuance of \$83,710,000 of refunding bonds in 2012 (the "Series 2012 ACTA Bonds"), the Department and the Port of Long Beach entered into a debt service reserve surety agreement (the "Series 2012 ACTA Surety Agreement"). Pursuant to the Series 2012 ACTA Surety Agreement, the Department and the Port of Long Beach each agreed to make individual payments of up to \$3.6 million (the "Surety Obligation Payments") to pay the principal of and interest on the Series 2012 ACTA Bonds in the event the amount of use fees and container charges collected from the Railroads are not sufficient to make the debt service payments on the Series 2012 ACTA Bonds. The Department's (and the Port of Long Beach's) obligation under the Series 2012 Surety Agreement will decrease as deposits, if any, are made to the debt service reserve fund established for the Series 2012 ACTA Bonds. The Department's obligation to make Shortfall Advance payments and Surety Obligation Payments is subordinated to other obligations of the Department, including the Series 2014 Bonds, and the Department is not required to make Shortfall Advance payments and Surety Obligation Payments into account when determining whether it may incur additional indebtedness or when calculating compliance with rate covenants under their respective bond indentures and resolutions. The Department's obligation to make Shortfall Advances and Surety Obligation Payments is to continue even though use fees may be abated as a result of complete blockage of the rail corridor for more than five days. Shortfall Advances and Surety Obligation Payments are to be reimbursed to the Department and the Port of Long Beach from use fees and container charges to the extent available, after payment of debt service on the ACTA Obligations, the funding of any reserves associated with the ACTA Obligations, the payment of maintenance and operating expenses of the Alameda Corridor, and the payment of administrative and other amounts.

Historical Cash Balances. The following Table 14 sets forth the ending cash balances in the Harbor Revenue Fund and the Department's restricted funds for Fiscal Years 2009 through 2013 and Fiscal Year 2014 (unaudited).

Table 14
Port of Los Angeles
Historical Ending Cash Balances
(in thousands of dollars)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Unaudited 2014</u>
Unrestricted Funds						
Harbor Revenue Fund	\$162,684	\$191,590	\$154,646	\$182,253	\$99,095 ¹	[]
Harbor Special Operating Fund	200,685	202,219	201,876	202,396	199,533	[]
Emergency/ACTA Reserve Fund	-	37,219	47,311	47,368	47,439	[]
Others	<u>358</u>	<u>12,007</u>	<u>37,579</u>	<u>12,338</u>	<u>5,726</u>	[]
Total Unrestricted Funds	<u>\$363,727</u>	<u>\$443,036</u>	<u>\$441,411</u>	<u>\$444,355</u>	<u>\$351,793</u>	[]
Restricted Funds						
Emergency Fund ²	\$37,122	\$ -	\$ -	\$ -	\$ -	[]
China Shipping Mitigation Fund	48,547	37,815	36,473	34,041	34,305	[]
Community Aesthetic Fund for Parks	3,448	3,474	3,468	2,572	475	[]
Community Mitigation Trust Fund—TraPac	11,421	15,734	10,385	122	108	[]
Clean Truck Fee Fund	4,551	72	399	3,717	521	[]
Batiquitos L/T Investment Fund ³	5,947	5,974	5,985	5,993	6,000	[]
Bond Funds	61,608	67,844	67,341	67,796	57,913	[]
Customer Security Deposits	3,199	3,174	3,217	3,225	3,183	[]
Other	<u>1,098</u>	<u>1,210</u>	<u>1,258</u>	<u>3,356</u>	<u>3,261</u>	[]
Total Restricted Funds	<u>\$176,941</u>	<u>\$135,297</u>	<u>\$128,526</u>	<u>\$120,821</u>	<u>\$105,766</u>	[]
Total Unrestricted and Restricted Funds	<u>\$540,668</u>	<u>\$578,333</u>	<u>\$569,937</u>	<u>\$565,176</u>	<u>\$457,559</u>	[]

¹ In Fiscal Year 2013, the Department funded its increased level of capital improvement projects, and repaid its 2002 Series A Bonds and a loan provided by the State of California from its cash flows from operations and cash position.

² The fund was reclassified to be Unrestricted Cash in June 2010 and renamed the "Emergency/ACTA Reserve Fund" in March 2011 to cover any shortfall advance requirement by the Alameda Corridor Transportation Authority.

³ As environmental mitigation, the Department created a fund to pay certain maintenance expenses at the Batiquitos Lagoon.

Source: Harbor Department of the City of Los Angeles

[Remainder of page intentionally left blank.]

Investment of Funds. Moneys on deposit in the Harbor Revenue Fund are currently held and invested by the Treasurer of the City (the “Treasurer”) in the Treasurer’s general pooled investment fund (the “Pool”). Gains and losses on the Pool’s investments are allocated on a pro rata basis. The assets of the Pool as of June 30, 2014 are shown in the following Table 15:

Table 15
City of Los Angeles Pooled Investment Fund Investments
As of June 30, 2014

	Market Value (millions)	Percent of Total
Treasury Notes	\$	%
Treasury Bills		
U.S. Sponsored Agency Issues		
Medium Term Notes		
Commercial Paper – Discounts		
Certificate of Deposit		
Short Term Investment Funds		
Securities Lending Short-Term Collateral		
Municipal Bonds		
Total	\$	<u>100.00%</u>

Source: City of Los Angeles, Office of the Treasurer

The latest Treasurer’s reports of its investments are contained on the Treasurer’s website at www.lacity.org/treasurer/investmentReports.htm.

The City’s treasury operations are managed in compliance with the California Government Code and according to a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters and maximum investment maturities. The investment policy is reviewed and authorized by the City Council on an annual basis. The Investment Advisory Committee, comprised of the Treasurer, the City Controller, the Chief Legislative Analyst, the Director of the Office of Administrative and Research Services and a contracted investment advisor, has oversight responsibility to ensure conformance with the investment policy.

[The Treasurer has indicated that none of the moneys on deposit in the Pool are currently invested in leveraged products, structured notes or inverse floating rate notes. The investment policy permits the use of reverse repurchase agreements subject to limits of no more than 10% of the Pool, a maximum maturity of 60 days and matching of the maturity to the re-investment. The Treasurer has indicated, however, that no reverse repurchase agreements are currently utilized with respect to moneys on deposit in the Pool. The Department does not have control over the investment of moneys in the Pool; the Treasurer exercises authority over the purchase of securities and the utilization of investment options permitted under the investment policy.]

The average life of the investment portfolio for the General Pool as of June 30, 2014 was [____] days.

The proceeds of Parity Obligations and other moneys required to be deposited by the Department to the funds and accounts established under the Indenture and the Issuing Documents will be held and invested by the Trustee, at the direction of the Department, in investments permitted thereunder. The Department will deposit a portion of the proceeds of the Series 2014 Bonds and the Department has

previously deposited proceeds of certain Parity Obligations into the Common Reserve. [The Department anticipates that such moneys will be invested in U.S. Treasury securities, federal agency securities or as otherwise permitted in the Indenture and the applicable Issuing Documents.]

Audits. The Department will cause its books and accounts to be audited annually by an independent firm of certified public accountants and will make available for inspection by the Owners and the Trustee, at the office of the Department, a copy thereof, or a summary financial statement, upon request, to any Bond Owner. See “APPENDIX A—AUDITED FINANCIAL STATEMENTS OF THE HARBOR DEPARTMENT FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012” for a copy of the Department’s most recent audited financial statements.

Insurance. The Indenture requires the Department to maintain and will continue to or cause to be procured and maintained insurance on the Harbor Assets with responsible insurers in such amounts and against such risks (including accident to or destruction of the Harbor Assets) as are usually covered in connection with harbor facilities similar to the Harbor Assets and owned by harbor departments similar to the Department so long as such insurance is available from reputable insurance companies at reasonable cost.

The Department will procure and maintain such other insurance which it deems advisable or necessary to protect its interests and the interests of the Bond Owners, which insurance will afford protection in such amounts and against such risks as are usually covered in connection with harbor facilities similar to the Harbor Assets and owned by harbor departments similar to the Department.

Any insurance described in the above paragraphs may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with harbor facilities similar to the facilities refinanced with the proceeds of the Series 2014 Bonds and owned by harbor departments similar to the Department and is, in the opinion of an accredited actuary, actuarially sound.

The Department’s insurance program includes both property and casualty insurance. The property insurance program currently is an all-risk policy. Current limits are \$1.5 billion per occurrence, including terrorism coverage, for all risks of direct loss or damage to the Port’s buildings, structures and personal property for all perils except earthquake and flood. The insurer carrying the property insurance is rated “A+” from A.M. Best and “aa” for the long-term issuer credit rating.

The Department has determined that it is not required under the Indenture to maintain insurance against earthquake damage, although earthquake and flood perils, among other contingencies, are presently covered by a discretionary self-insurance emergency fund administered by the Department that had a balance of approximately \$47.5 million as of April 30, 2014. However, the Port, like the entire City, is located within a seismically active region. See “CERTAIN INVESTMENT CONSIDERATIONS—Seismic Activity.”

The Department also maintains comprehensive general liability insurance, which includes terrorism coverage, in the amount of \$150 million per occurrence for damages including death, personal injury, bodily injury, or property damage which includes a self-insured retention of \$1 million. Department tenants are required to provide a minimum of \$1 million of liability insurance, and to add the City as additional insured on their respective policies. The primary insurer is rated “A” per A.M. Best and “a+” for the long-term issuer credit rating.

The Department’s Workers’ Compensation obligations are self-insured and administered by the City’s Personnel Department.

Labor Relations. The Port is a significant source of employment in the region. While the Department employs fewer than 1,000 persons, tenants of the Port employ approximately 6,400 persons and employment within port related industries exceed 16,000 jobs, approximately 85% of which are related to trading and warehousing.

Arranging for cargo handling services is the responsibility of each shipping line. Cargo handling at the Port is provided pursuant to a contract between the Pacific Maritime Association (the "Association") and the International Longshore and Warehouse Union ("ILWU"). The Association represents most of the steamship lines, marine terminal operators, car loading bureaus and cargo companies on the Pacific Coast. Most ILWU employees are under contract with the Association through June 30, 2014. The Department is not privy to the negotiations for a new contract with the Association and cannot predict when a new agreement will be reached. The Association and ILWU may agree to extend the existing agreement, but there is no guarantee. There has been no prolonged work stoppage since October 2002. In October 2002, after the Association and the ILWU failed to negotiate a new contract, the shipping lines instituted a lock-out of the stevedoring companies, thereby shutting down all West Coast ports, including the Port, for ten days. Work resumed when then President Bush ordered the ports to re-open pursuant to the Taft-Hartley Act. Other than the work stoppage in 2002, there has generally been a history of cooperative working relationships between the ILWU and the employer group represented by the Association. The Department understands that the risk of a work slowdown is the greatest as negotiations get closer to the end of the current contract and until a new agreement is reached. Prolonged work slowdowns or stoppages, if they occur, could adversely affect Department revenues.

Like most City departments, the majority of Department employees are represented by unions. The Department's employees belong to 21 different bargaining units, which are represented by 11 different unions. The City is in negotiations with 17 bargaining units, which are represented by ten different unions. One hundred twenty-eight sworn police employees are covered by two of the expired contracts, and negotiations to arrive at a successor contract are ongoing. The following is a list of all agreements with collective bargaining units and their expiration dates as of the date of this Official Statement.

[Remainder of page intentionally left blank.]

<u>Union</u>	<u>Bargaining Units</u>	<u>Agreement Period*</u>
American Federation of State, County and Municipal Employees, AFL-CIO (“AFSCME”)	Clerical and Support Employees	July 1, 2007 to June 30, 2014
AFSCME	Executive Administrative Assistants	July 1, 2007 to June 30, 2014
Engineers and Architects Association	Administrative; Supervisory Administrative; Professional and Technical; Supervisory Technical	July 1, 2013 to June 30, 2016
Los Angeles City Supervisors and Superintendents Association/Laborers International of North America, Local 777	Supervisory Blue Collar	July 1, 2007 to June 20, 2014
Los Angeles County Building and Construction Trades Council, AFL-CIO	Building Trades; Supervisory Building Trades	September 1, 2007 to June 30, 2014
Los Angeles Port Pilots Association ILWU, Local 68	Port Pilots	July 1, 2011 to June 30, 2014
Los Angeles Port Police Association	Harbor Peace Officers	July 1, 2009 to June 30, 2014
Los Angeles Port Police Command Officers Association	Port of Los Angeles Command Officers	July 1, 2009 to June 30, 2014
Los Angeles Professional Managers Association	Managers	July 1, 2007 to June 30, 2014
Municipal Construction Inspectors Association, Inc.	Inspectors	June 1, 2011 to June 30, 2014
Service Employees Int’l Union (“SEIU”) AFL-CIO, Local 347	Equipment, Operation and Labor; Safety and Security; Service Employees; Service and Crafts	July 1, 2007 to June 30, 2014
SEIU	Professional Engineering and Scientific; Supervisory Professional Engineering and Scientific	June 29, 2011 to June 30, 2014

* The City and respective unions continue to honor the terms of expired employment contracts so long as negotiations are on-going. For employment contracts set to expire on June 30, 2014, negotiations are currently ongoing and still in the early stages. The City cannot provide an estimate as to when successor employment contracts will be approved by the City Council.
Source: Harbor Department of the City of Los Angeles

Retirement Plans. Approximately 87% of all of the Department’s employees participate in the Los Angeles City Employees’ Retirement System (“LACERS”), administered by the City. The remaining 13%, comprised of certain members of the Port Police participate in the Los Angeles Fire and Police Pension System (“LAFPP” or “FPPP”).

The LACERS plan and the LAFPP plan are the obligation of the City, which is responsible for the funding of LACERS, LAFPP and for the determination and resolution of any unfunded LACERS or LAFPP liabilities. Under requirements of the City Charter, the Department makes contributions to LACERS with respect to its employees in amounts determined by the City.

Retired members and surviving spouses and domestic partners of LACERS and LAFPP members are eligible for certain subsidies toward their costs of medical and dental insurance. Both LACERS and LAFPP advance fund retiree health insurance benefits for current retirees and active eligible members for many years, funding the annual contribution recommended by their actuaries. Prior to Fiscal Year 2012,

there were no member contributions for health subsidy benefits; all such costs were funded from the employer's contribution and investment returns thereon. Beginning in Fiscal Year 2012, in addition to employer contributions and investment returns, members will be required to contribute towards the costs for health subsidy benefits.

According to the LACERS' Actuarial Valuation and Review of Retirement and Health Benefits as of June 30, 2013 (the "LACERS Valuation Report"), LACERS had an unfunded actuarial accrued liability ("UAAL") of approximately \$4.658 billion with respect to retirement benefits and approximately \$678 million with respect to health subsidy benefits as of June 30, 2013. As of June 30, 2012, LACERS had an UAAL of approximately \$4.459 billion with respect to retirement benefits and approximately \$650 million with respect to health subsidy benefits. The LACERS Valuation Report also indicated that as of June 30, 2013, LACERS had a funded ratio (based on the actuarial value of the assets of LACERS) of 68.7% with respect to retirement benefits and 71.9% with respect to health subsidy benefits. As of June 30, 2012, LACERS had a funded ratio (based on the actuarial value of the assets of LACERS) of 69.0% with respect to retirement benefits and 71.6% with respect to health subsidy benefits. The funded ratio compares the actuarial value of assets to the actuarial accrued liabilities of a pension plan. The ratios change every valuation year, reflecting asset performance, demographic changes, actuarial assumption/method changes, benefit structure changes or a variety of other actuarial gains and losses. The LACERS Valuation Report indicated that as of June 30, 2013, LACERS had a funded ratio (based on the market value of the assets of LACERS) of 68.2% with respect to retirement benefits and 71.4% with respect to health subsidy benefits. As of June 30, 2012, LACERS had a funded ratio (based on the market value of the assets of LACERS) of 62.9% with respect to retirement benefits and 65.3% with respect to health subsidy benefits.

According to the LAFPP's Actuarial Valuation and Review of Pension and Other Postemployment Benefits (OPEB) as of June 30, 2013 (the "LAFPP Valuation Report"), LAFPP had a UAAL of approximately \$2.975 billion with respect to retirement benefits and approximately \$1.620 billion with respect to health subsidy benefits as of June 30, 2013. As of June 30, 2012, LAFPP had an UAAL of approximately \$2.77 billion with respect to retirement benefits and approximately \$1.572 billion with respect to health subsidy benefits. The LAFPP Valuation Report also indicated that, as of June 30, 2013, LAFPP had a funded ratio (based on the actuarial value of the assets of LAFPP) of 83.1% with respect to retirement benefits and 38.5% with respect to health subsidy benefits. As of June 30, 2012, LAFPP had a funded ratio (based on the actuarial value of the assets of LAFPP) of 83.7% with respect to retirement benefits and 37.1% with respect to health subsidy benefits. The funded ratio compares the actuarial value of assets to the actuarial accrued liabilities of a pension plan. The ratios change every valuation year, reflecting asset performance, demographic changes, actuarial assumption/method changes, benefit structure changes or a variety of other actuarial gains and losses. The LAFPP Valuation Report indicated that as of June 30, 2013, LAFPP had a funded ratio (based on the market value of the assets of LAFPP) of 83.5% with respect to retirement benefits and 38.7% with respect to health subsidy benefits. As of June 30, 2012, LAFPP had a funded ratio (based on the market value of the assets of the LAFPP) of 77.9% with respect to retirement benefits and 34.5% with respect to health subsidy benefits.

The Department contributed approximately \$18.0 million and \$17.5 million to LACERS in Fiscal Years 2013 and 2012, respectively. In each of these Fiscal Years, the Department contribution was equal to 100% of its annual required contribution as calculated by LACERS and its actuaries. The Department has contributed approximately \$19.0 million to LACERS for Fiscal Year 2014, its annual required contribution as calculated by LACERS and its actuaries.

The Department contributed approximately \$3.3 million and \$3.6 million to LAFPP in Fiscal Years 2013 and 2012, respectively. In each of these Fiscal Years, the Department contribution was equal

to 100% of its annual required contribution as calculated by LAFPP and its actuaries. The Department has contributed approximately \$3.9 million to LAFPP for Fiscal Year 2014, its annual required contribution as calculated by LAFPP and its actuaries.

In the past, LACERS and LAFPP have experienced significant investment losses. Due to LACERS' five-year smoothing methodology and LAFPP's seven-year smoothing methodology, a portion of these investment losses has not been recognized in the determination of LACERS' and LAFPP's UAAL, respectively. As such, contributions by the Department to LACERS and LAFPP may increase significantly in the coming Fiscal Years as contribution rates are subject to change due to changes in market conditions and funding methodologies over that time.

For additional information regarding LACERS and LAFPP, see "APPENDIX B—CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES—GENERAL INFORMATION REGARDING MUNICIPAL GOVERNMENT—Retirement and Pension Systems." See also "APPENDIX A—AUDITED FINANCIAL STATEMENTS OF THE HARBOR DEPARTMENT FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012."

Financial Policies

In September 2008 the Department established Financial Policies designed to provide effective financial guidelines and management, to establish financial controls, assist in reporting accurate financial results, promote consistent financial practices, operational efficiencies and best practices and promote compliance with applicable laws, regulations, and accounting and reporting standards. The Department's financial policies address fiscal, leasing, capital improvement plan funding, financial reserve, risk management, disclosure, and debt management topics, and are intended to be reviewed annually and when necessary to address continued relevance and appropriate application. Key themes in the Department's Financial Policies are prudence, transparency, sustainability and accountability.

The Department's Financial Policies described below were most recently approved by the Board in April 2009, April 2010, March 2011, April 2012 and July 2013.

Fiscal Policies. The objective of the Department's Fiscal Policies is to balance prudently the Department's core business requirements and strategic objectives with its financial resources. Pursuant to the Charter, moneys deposited in the Harbor Revenue Fund may be appropriated or used for limited purposes. Pursuant to its Fiscal Policies, annually the Board will adopt a budget that is consistent with implementation of and that reflects the Department's commitment to sustainable, long-term growth as provided in the Department's strategic plan (the "Strategic Plan"). Recommendations to the Board which do not comply with the Department's Fiscal Policies must be identified as noncompliant in an appropriate report. The Department's annual financial statements will be presented to the Board upon the conclusion of the audit process. The Department will maintain Fiscal Policies designed to hold ratings commensurate with strategy and sustain transparency and accountability to its stakeholders.

Budgetary Policies. Under the Department's Budget Policy the Department prepares an annual budget plan for the Board's review consistent with the established strategy and priorities of the Department, with the requirements of the Charter and the guidelines of the Mayor of the City. At the beginning of each budget year, and after consultation with the Board, the Executive Director of the Department will provide a letter to the head of each department, which will set forth the financial targets for the coming Fiscal Year.

Additionally, under the Budget Policy, (a) current appropriations for all funds are limited to the sum of available, unrestricted cash balances and revenues estimated to be received in the current budget

year; (b) all departments are required to operate within the adopted budget; (c) capital assets owned by the Department are required to be maintained on a regular schedule; (d) all Department funds are reconciled at the close of the Fiscal Year to determine the available cash balance at year-end; and (e) Board reports are required to include fiscal impact and economic benefit discussions.

Revenue and Expense Policies. The Department’s Revenue and Expense Policies include the following key components: (a) charges and fees for facilities and services provided to its customers are structured to allow for marginal cost pricing and for the recovery of both direct and indirect costs incurred in the operation of the Port; (b) permit fees will be consistent with the Department’s Leasing Policy; (c) shipping revenues, revenue from the rental of the Port’s land and buildings (i.e., lease agreements), and fee and royalty revenues collected by the Department permit the recovery of the cost of providing services and improvements and the Department will conduct regular reviews of its fee structure, rentals and charges for services, and other operating revenues and expenditures; (d) user charges, rents and fees are pursued and levied to support the cost of operations for which such amounts are charged, including direct, indirect and capital costs; (e) the marginal revenue from any operating activity must exceed the marginal cost of the activity; (f) operating expenses must be funded in whole by operating revenues; (g) the Department will limit financial support of programs funded by federal, state and private grants to avoid commitments that continue beyond available funding; and (h) the Department seeks new and diverse revenues.

Leasing Policy. See “THE PORT AND THE DEPARTMENT—Operating Data—Rental Property” for a discussion of the Department’s Leasing Policy.

Capital Improvement Plan Funding Policy. Amounts budgeted by the Department for capital improvements are taken from the Department’s Capital Improvement Plan (“Capital Improvement Plan”). The Capital Improvement Plan is a planning document which provides that Port facilities may be funded by a variety of sources including the Harbor Revenue Fund, long-term and short-term debt and grants, all subject to the review and approval of the Executive Director. Under the Capital Improvement Plan Funding Policy, capital projects are evaluated based on many factors including anticipated revenue to be generated from the capital project, incremental estimated management and operations expense, total project cost, project contingencies, job creation and if the capital project promotes recreation. All capital projects must be approved by the Board.

Financial Reserve Policy. The Department’s Financial Reserve Policy seeks to, among other things, (a) maintain access to capital markets and other sources of capital funding at the most efficient cost of funds; (b) manage financial risks prudently by maintaining required and additional financial reserves to meet the Department’s financial needs; (c) meet or exceed all debt indenture and Charter requirements; and (d) establish prudent levels of liquidity. The Department may seek, through the approval of the Board, the establishment of reserve funds for the Department. Currently, the Department’s reserve funds include among others: an Emergency/ACTA Reserve Fund, established for unanticipated expenditures, disaster related recovery and revenue shortfalls; revenue bond reserve funds (including the [Reserve Fund]), established to meet the requirements of the issuing documents; a Special Operating Fund which combined with the balance in the Emergency/ACTA Fund would provide for approximately one year of operating expenses. The Financial Reserve Policy currently requires the Department to maintain a minimum of \$217 million in the Special Operating Fund and the Emergency Fund.

Risk Management Policy. The Department’s Risk Management Policy is designed to provide for the continuous identification, analysis and control of risk exposures, the determination of the best methods of preventing or limiting losses and the selection of the most economical method of financing losses through insurance or other means. The Department implements the following techniques under the

Department's Risk Management Policy: (a) assumption of loss, (b) use of available government programs, (c) purchase of insurance; and (d) transfer options and any other program that will provide the Department with the most economical method of financing losses. Under the Department's Risk Management Policy, the Department will consider the purchase of insurance in the following cases: (a) the estimate of the cost of potential loss exceeds an amount considered as an allowable retention of risk and there are no other techniques available at a lesser cost; (b) services of loss adjustment and loss prevention are best secured through an insured program; and (c) legal or contractual obligations require insurance.

Disclosure Policy. The Department's Disclosure Policy is designed to outline procedures for the preparation, review and dissemination of the Department's disclosure documents, which include primary offering disclosure documents and continuing disclosure filings, in order to ensure that such disclosure documents are accurate, complete and timely.

Debt Management Policy. The objectives of the Department's Debt Management Policy include, among others, (a) maintaining of the Department's existing credit ratings; (b) providing for an efficient overall cost of borrowing for the Department; (c) providing specific guidelines for the overall management of the Department's debt; (d) establishing a process for selecting consultants to assist the Department in the issuance and management of the Department's debt; and (e) supporting the Department's strategic plan objectives. The Debt Management Policy requires (i) the Department to maintain a minimum debt service coverage of 2.0x, and (ii) that the Department's variable rate exposure on long-term debt not exceed 20%.

CERTAIN INVESTMENT CONSIDERATIONS

The purchase and ownership of the Series 2014 Bonds involves investment risk and may not be suitable for all investors. Prospective purchasers of the Series 2014 Bonds are urged to read this Official Statement, including all Appendices, in its entirety. The factors set forth below, among others, may affect the security for the Series 2014 Bonds. However, the following does not purport to be an exhaustive listing of all considerations which may be relevant to investing in the Series 2014 Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of these considerations.

Ability To Meet Rate Covenant

As described in "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS" above, the Department has covenanted under the Indenture that it will fix rates, tolls and charges, rentals for leases, permits and franchises, and compensations or fees for franchises and licenses, at levels described herein.

In California, marine terminal services and facilities are priced through leases, and preferential, management and user agreements with water carriers and/or terminal operators. These arrangements generally provide for economic discounts from established tariffs in exchange for term commitments and/or minimum payment guarantees. A substantial majority of the Department's shipping revenues are generated by such agreements. As payments under those agreements are usually based on current tariff rates, the Department can generally increase its revenues under those agreements either by increasing its tariff rates or through increases in shipping line volume. However, there are contractual, statutory, regulatory, practical, procedural and competitive limitations on the extent to which the Department can increase tariffs. Implementation of an increase in the schedule of rentals, rates, fees and charges for the use of the Port could have a detrimental impact on the operation of the Port by making the cost of operating at the Port unattractive to shipping lines and others in comparison to other locations, or by

reducing the operating efficiency of the Port. See “THE PORT AND THE DEPARTMENT—Operating Data—Terminal Operations” above and “—Port Competition” below.

Industry Trends and Competition

The demand for Department facilities is significantly influenced by a variety of factors, including, among others, the global and domestic economy, the availability of effective labor support, the financial condition of maritime-related industries, the increase of operational alliances and other structural conditions affecting maritime carriers.

The utilization of the Department’s facilities, and therefore the Revenues of the Department, are impacted by the availability of alternate port facilities at competitive prices. Additional port facilities on the West Coast (including, among others, the Ports of Long Beach, San Francisco, Oakland, Portland, Seattle/Tacoma, Vancouver and Prince Rupert) and improvements at the Panama Canal that would allow larger ships to traverse the canal, are currently in planning phases or in construction. Although each of these other ports currently has less capacity than the Port, a variety of factors may influence port tenants to alter their shipping practices. While the Revenues of the Department may be adversely impacted by increasing competition from other port facilities, the Department cannot predict the scope of any such impact at this time. In addition, the imposition of fees that apply only to the Port or to a group of ports that includes the Port, may increase the cost to ocean carriers of utilizing the Port. If such fees are imposed, the Department may adjust the tariffs or other charges applicable to its ocean carriers to moderate some or all of the potential impact, which in turn may reduce revenues.

Port Competition

There is significant competition for container traffic among North American ports. Success depends largely on the size of the local market and the efficiency of the port and inland transportation systems for non-local destinations. The utilization of the Department’s facilities, and therefore the revenues of the Department, is impacted by the availability of alternate port facilities at competitive prices. The revenues of the Department may be adversely impacted by increasing competition from other port facilities; however, the Department cannot predict the scope of any such impact at this time.

Primary competition for the Port comes from the Port of Long Beach, the Port of Oakland, the Port of Seattle, the Port of Tacoma, the Port of Vancouver and the Port of Prince Rupert. All of these ports compete with the Port for discretionary intermodal cargo destined for locations in the Central and Eastern United States and Canada. Discretionary cargo makes up approximately 50% of cargo arriving at the Port. Currently, this discretionary cargo moves eastward primarily by rail, after being off loaded at West Coast ports in the United States and Canada. The volume of discretionary cargo is highly elastic and is controlled largely by cargo owners and/or ocean carriers who can direct and redirect cargo to any port they choose. The greatest risk to the Port’s market share is with the intermodal discretionary cargo segment. The San Pedro Bay Ports also compete for both local cargo (e.g., cargo consumed within the locally defined region) and cargo routed through Southern California for other reasons (e.g., superior inland distribution capability).

Additional port facilities and enhancement thereto on the West Coast of North America, elsewhere in the United States and abroad (including, among others, the Port of Long Beach, the Port of San Francisco, the Port of Oakland, the Port of Portland, the Port of Seattle/Tacoma, the Port of Vancouver and the Port of Prince Rupert) and improvements at the Panama Canal that would allow larger ships to traverse the canal, are currently in planning phases or in construction.

The use of all-water routes to the East and Gulf Coasts of the U.S. is an alternative to Asian intermodal cargo moving through United States West Coast ports. All-water service from Asia to the Gulf of Mexico and East Coast ports through the Panama Canal and, to a much lesser extent, through the Suez Canal, also compete for the same cargos. Demand for these all-water services increased following the 2002 labor problems that occurred on the West Coast. The primary appeal of the all-water routes is the expected reliability of the services (i.e., the lack of perceived labor shortages or stoppages). Constraints to all-water routes include lack of channel depth at many Gulf and East Coast ports compared to West Coast ports as well as the current vessel size limitations of the Panama Canal. The latter constraint is being partially addressed by an expansion of the Panama Canal, the completion of which (currently expected by the end of 2015) will allow larger vessels able to carry up to 12,600 TEUs to navigate the isthmus in order to reach Gulf and East Coast ports. However, increased Panama Canal fees may impact routing decisions in the long term and container ships even larger than those of New Panamax size will not fit the newly expanded Panama Canal. The competitive landscape also includes plans now in the works for many ports to increase channel depth and remove other physical obstacles which prevent the calling of “big ships,” and enhancing operational efficiency, through the purchase and use of new equipment and automation, as well as augmenting transportation infrastructure.

Overall cost is also a significant factor in cargo routing decisions. In addition, the imposition of fees that apply only to the Port or to a group of ports that includes the Port may increase the cost to ocean carriers of utilizing the Port. If such fees are imposed, the Department may adjust the tariffs or other charges applicable to its ocean carriers to moderate some or all of the potential impact, which in turn would reduce revenues.

Alliances and Consolidation of Container-Shipping Industry

Since 2007, the financial health of the container-shipping industry has been under substantial stress because of numerous factors, including, among others, the world financial crisis which began in the fall of 2008, overcapacity of available ships, decreasing freight rates and high fuel costs. In response to these challenges, the container-shipping industry has seen the forming of strategic alliances and the merger of certain shipping lines. In April 2014, the U.S. Federal Maritime Commission approved an amendment to an existing agreement between APL, Hapag-Lloyd, Hyundai Merchant Marine, MOL, NYK, and OOCL (the “G6 Alliance”) that will allow the G6 Alliance to cooperate operationally in the trades between the Far East and the U.S. West Coast, and between Northern Europe and all U.S. ports. Additionally, in April 2014, Hapag-Lloyd and Compañía Sud Americana de Vapores agreed to merge, creating the world’s fourth largest container-shipping line. Many of the container-shipping lines that are part of the G6 Alliance operate at the Port. In June 2014, the Ministry of Commerce of the People’s Republic of China declined to approve an alliance known as the P3 Alliance (despite earlier approvals from the U.S. Federal Maritime Commission and the European Commission), comprised of the world’s three largest container shipping lines, Maersk, CMA-CGM and Mediterranean Shipping Company, which would have authorized the three shipping to share vessels and engage in related cooperative operative activities in the trades between the U.S. and Asia, North Europe and the Mediterranean. Additional alliances and mergers could occur in the future. Although, at this time, the Department cannot predict what effect any alliance or merger may have on container traffic at the Port or the Revenues of the Department, such alliances and consolidation in the container-shipping industry continue to create uncertainty regarding container traffic at the Port and/or associated Revenues.

Security at the Port

As a result of the terrorist attacks of September 11, 2001, the Maritime Transportation Security Act (“MTSA”) was signed into law on November 25, 2002 to require sectors of the maritime industry to implement measures designed to protect ports and waterways of the United States from a terrorist attack.

MTSA requires interagency teamwork within the Department of Homeland Security, including the U.S. Coast Guard, the Transportation Security Administration (“TSA”), the Bureau of Customs and Border Protection and the Department of Transportation’s Maritime Administration to develop security regulations. The security regulations focus on those sectors of the maritime industry that have a higher risk of involvement in a transportation security incident, including various tank vessels, barges, large passenger vessels, cargo vessels, towing vessels, offshore oil and gas platforms and port facilities that handle certain kinds of dangerous cargo or service the vessels included in this list. These regulations require, among other things, that port and vessels owners assess their vulnerabilities and then develop plans that may include implementing vehicle, container and baggage screening procedures, accessing control measures and/or installing surveillance equipment. The Department has procedures in place for compliance with MTSA.

National and local law enforcement officials have warned that additional terrorist attacks upon key infrastructure and other targets in the United States are possible. The Department and the surrounding waterways are particularly visible infrastructure assets that could be the subject of future attempted terrorist attacks. A terrorist attack on the Department or the surrounding waterways could have a material adverse effect on the collection of Revenues needed to repay the Series 2014 Bonds and the Department’s other obligations. See “THE PORT AND THE DEPARTMENT—Introduction and Organization—Port Security.”

Seismic Activity

The Port is located in an area that is seismically active. The two faults closest to the Port are the Palos Verdes fault and the Newport-Inglewood fault. More distant faults with a history of causing earthquakes include the San Andreas and San Jacinto faults. A significant earthquake along these or other faults is possible during the period the Series 2014 Bonds will be outstanding.

A forecast prepared by U.S. Geological Survey, Southern California Earthquake Center, and California Geological Survey and released in April 2008 indicates that there is a 67% chance that an earthquake measuring 6.7 or larger on the Richter Scale will occur in the greater Los Angeles area, and a 97% chance that such an earthquake will occur in Southern California, by 2037. The Port could sustain extensive damage to its facilities in a major seismic event from ground motion and liquefaction of underlying soils, which damage could include slope failures along the shoreline, pavement displacement, distortions of pavement grades, breaks in utility, drainage and sewage lines, displacement or collapse of buildings, failure of bulkhead walls, and rupture of gas and fuel lines. A major seismic event in Southern California, or elsewhere in the world, also could result in the creation of a tsunami that could cause flooding and other damage to the Port. Damage to Port facilities as a result of a seismic event could materially adversely affect Revenues.

The Department maintains a discretionary emergency reserve fund which at April 30, 2014 contained approximately \$47.5 million, to cover, among other things, uninsured losses, including damages from earthquake. Other than the Department’s self-funded reserve, the Department does not maintain insurance coverage against earthquake damage because of the high costs in proportion to the relatively low levels of coverage currently available. To date, no earthquakes have caused structural damage to Department facilities. See “FINANCIAL INFORMATION CONCERNING THE DEPARTMENT—Other Financial Matters—Insurance.”

City Financial Challenges

For the past several years, the City has responded to a series of General Fund deficits by implementing a number of ongoing and one-time budgetary measures. These include: a reduction of

authorized positions and implementation of managed hiring in Council-controlled departments, suspension of certain capital projects and other purchases, institution of travel freezes, reduction of City fleet use, elimination of non-core functions and departments, adoption of a private management agreement for the operation of its Convention Center, consolidation of human resources functions within its Personnel Department, and an increase of employee contribution to health benefit costs. Revenue enhancement measures include: implementation of a business tax amnesty program to promote payment of uncollected taxes, creation of the Economic and Workforce Development Department to encourage business and job growth, installation of upgraded parking meters to enhance revenue collection, and an increase in certain City fees. As a result of these reforms, as well as improved economic conditions and growth in a number of economically-sensitive revenues, the City's budget projections now forecast a structural balance by Fiscal Year 2019. The Adopted Fiscal Year 2014-15 Budget supports a path to this goal through the following focus areas: jobs and economic development, mobility and communities, public safety, and environment. While the Department, under the Charter, is a proprietary department vested with the management and control of the Department's assets, the City's near term budget deficits could have an adverse effect on the liquidity and trading value in the secondary market of the Series 2014 Bonds.

Pension Liability

As described in "FINANCIAL INFORMATION CONCERNING THE DEPARTMENT—Other Financial Matters—Retirement Plans," eligible employees of the Department participate in pension plans administered by the City. "APPENDIX A—CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES—GENERAL INFORMATION REGARDING MUNICIPAL GOVERNMENT—Retirement and Pension Systems." Given inherent volatility risk in various market indices, required contributions to the City pension plans by the Department as a percent of salaries may face increases that may or may not be material depending upon a variety of actuarial factors. It is not possible to predict future investment returns.

Environmental Compliance and Impact; Air Emissions

The Department is subject to legal and regulatory requirements relating to air emissions that may be generated by activities at the Department. Such requirements mandate and offer certain incentives for reductions of air pollution from ships, trains, trucks and other operational activities. Paying for mandated air pollution reduction infrastructure, equipment and other measures may become a significant portion of the Department's capital budget and operating budget. Such expenditures are necessary even if the Department does not undertake any new revenue-generating capital improvements, and the Department cannot provide assurances that the actual cost of the required measures will not exceed the forecasted amount.

In addition to the changing legal and regulatory guidelines for air emissions, the standards for required environmental impact review of Department development proposals under the California Environmental Quality Act and similar federal laws are becoming more rigorous and complex. Such modifications to the review process may significantly delay or curtail the Department's efforts to maintain and repair existing infrastructure or to add revenue-generating infrastructure. Additionally, the costs of such projects may be significantly increased to pay for environmental or air quality mitigations necessary to obtain regulatory approvals or survive potential challenges to the Department's environmental impact analysis and mitigation. See "THE PORT AND THE DEPARTMENT—Environmental and Regulatory Matters."

In addition, certain individuals or organizations may nonetheless seek legal remedies to require the Department to take further actions to mitigate health hazards or to seek damages in connection with

the environmental impact of its seaport activities. The Department has developed its Clean Air Action Plan to mitigate such health risks. See “THE PORT AND THE DEPARTMENT—Environmental and Regulatory Matters—Clean Air Action Plan.” Nonetheless, there is a risk that such legal action will be costly to defend, could result in substantial damage awards against the Department or curtail certain Department developments or operations.

In May 2009, the California Climate Change Center released a final paper entitled “The Impacts of Sea-Level Rise on the California Coast” that was funded by the California Energy Commission, the California Environmental Protection Agency, the Metropolitan Transportation Commission, the California Department of Transportation, and the California Ocean Protection Council. The paper posits that increases in sea level will be a significant impact of climate change over the next century and that future flood risk with sea-level rise could be significant at California’s major ports, including the Port. While noting that, among other things, sea-level rise can reduce bridge clearance, reduce efficiency of port operations or flood transportation corridors to and from ports, the report states that impacts are highly site-specific and somewhat speculative. The Department is unable to predict whether sea-level rise or other impacts of climate change will occur while the Series 2014 Bonds are outstanding, and if any such events occur, whether there will be an adverse impact, material or otherwise, on Revenues.

Termination or Expiration of Material Contracts

The Department has entered into a number of material contracts and other relationships relating to the use or operation of Port facilities. Should a significant number of the Department’s permittees default on their obligations, terminate their relationships with the Department or fail to renew their commitments upon expiration, the amount of Revenues realized by the Department could be materially impaired and this could have an adverse impact on the holders of the Series 2014 Bonds. See “THE PORT AND THE DEPARTMENT—Operating Data—Rental Property.”

Enforceability of Remedies

The remedies available to the owners of the Series 2014 Bonds upon an event of default under the Indenture are in many respects dependent upon regulatory and judicial actions that are in many instances subject to discretion and delay. Under existing laws and judicial decisions, the remedies provided for in the Indenture may not be readily available or may be limited. Legal opinions to be delivered concurrently with the delivery of the Series 2014 Bonds will be qualified to the extent that the enforceability of certain legal rights related to the Series 2014 Bonds is subject to limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the enforcement of creditors’ rights generally and by equitable remedies and proceedings generally and to limitations on legal remedies against cities in the State of California.

[Potential Limitation of Tax Exemption of Interest on Series 2014 Senior Bonds

[TO BE REVIEWED BY BOND COUNSEL] From time to time, the President of the United States, the United States Congress and/or state legislatures have proposed and could propose in the future, legislation that, if enacted, could cause interest on the Series 2014 Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent owners from realizing the full current benefit of the tax status of such interest. Clarifications of the Internal Revenue Code of 1986, as amended, or court decisions may also cause interest on the Series 2014 Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation. The introduction or enactment of any such legislative proposals or any clarification of the Internal Revenue Code of 1986, as amended, or court decisions may also affect the market price for, or marketability of, the Series 2014 Bonds. Prospective purchasers of the

Series 2014 Bonds should consult their own tax advisors regarding any such pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion. See “TAX MATTERS—Changes in Law and Post Issuance Events.”]

Forward-Looking Statements

This Official Statement contains statements relating to future results that are “forward-looking statements.” When used in this Official Statement, the words “estimate,” “anticipate,” “forecast,” “project,” “intend,” “propose,” “plan,” “expect” and similar expressions identify forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. See “INTRODUCTION—Forward-Looking Statements.”

CONTINUING DISCLOSURE

The Department will covenant for the benefit of Owners and Beneficial Owners of the Series 2014 Bonds to provide certain financial information and operating data relating to the Department and the Port (the “Annual Report”) by not later than 181 days following the end of the Department’s Fiscal Year (which Fiscal Year currently ends on June 30), commencing with the Annual Report for the Fiscal Year 2014, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and any notices of material events will be filed by the Department with the MSRB through the EMMA system. The specific nature of the information to be contained in the Annual Report and the notices of material events is set forth in “APPENDIX E—FORM OF CONTINUING DISCLOSURE CERTIFICATE.” These covenants will be made in order to assist the underwriters for the Series 2014 Bonds in complying with Rule 15c2-12. [The Department has not failed to comply in all material respects with any previous undertaking with regard to Rule 15c2-12 to provide annual reports or notices of material events for the last five calendar years.]

TAX MATTERS

Federal Income Taxes

The Internal Revenue Code of 1986, as amended (the “Code”), imposes certain requirements that must be met subsequent to the issuance and delivery of the Series 2014 Bonds for interest thereon to be and remain excluded from gross income for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Series 2014 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issue of the Series 2014 Bonds. Pursuant to the Indenture and the Tax and Nonarbitrage Certificate executed by the Department in connection with the issuance of the Series 2014 Bonds (the “Tax Certificate”), the Department has covenanted to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest on the Series 2014 Bonds from gross income for federal income tax purposes pursuant to Section 103 of the Code. In addition, the Department has made certain representations and certifications in the Indenture and the Tax Certificate. Bond Counsel will not independently verify the accuracy of those representations and certifications of the Department.

In the opinion of Nixon Peabody LLP, Bond Counsel, under existing law and assuming compliance with the aforementioned covenants, and the accuracy of certain representations and certifications made by the Department described above, interest on the Series 2014 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code, except that no opinion is expressed as to the exclusion of interest on the Series 2014A Bonds from gross income for any period during which such Series 2014A Bonds are held by a person who, within the meaning of Section 147(a)

of the Code, is a "substantial user" of the facilities financed or refinanced with proceeds of the Series 2014A Bonds, or a "related person."

Bond Counsel is further of the opinion that interest on the Series 2014A Bonds is treated as preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations.

Bond Counsel is also of the opinion that interest on the Series 2014B Bonds is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the Series 2014B Bonds is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations.

State Taxes

Bond Counsel is also of the opinion that interest on the Series 2014 Bonds is exempt from personal income taxes of the State of California under present state law. Bond Counsel expresses no opinion as to other State of California or local tax consequences arising with respect to the Series 2014 Bonds nor as to the taxability of the Series 2014 Bonds or the income therefrom under the laws of any state other than the State of California.

Original Issue Discount

Bond Counsel is further of the opinion that the difference between the principal amount of the Series 2014 Bonds maturing ____ through ____, inclusive and on ____ (collectively the "Discount Bonds") and the initial offering price to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of such Discount Bonds of the same maturity was sold constitutes original issue discount which is excluded from gross income for federal income tax purposes to the same extent as interest on the Series 2014 Bonds. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each Discount Bond and the basis of each Discount Bond acquired at such initial offering price by an initial purchaser thereof will be increased by the amount of such accrued original issue discount. The accrual of original issue discount may be taken into account as an increase in the amount of tax-exempt income for purposes of determining various other tax consequences of owning the Discount Bonds, even though there will not be a corresponding cash payment. Owners of the Discount Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such Discount Bonds.

Original Issue Premium

The Series 2014 Bonds maturing ____ through ____, inclusive and on ____ (collectively, the "Premium Bonds") are being offered at prices in excess of their principal amounts. An initial purchaser with an initial adjusted basis in a Premium Bond in excess of its principal amount will have amortizable bond premium which is not deductible from gross income for federal income tax purposes. The amount of amortizable bond premium for a taxable year is determined actuarially on a constant interest rate basis over the term of each Premium Bond based on the purchaser's yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, over the period to the call date, based on the purchaser's yield to the call date and giving effect to any call premium). For purposes of determining gain or loss on the sale or other disposition of a Premium Bond, an initial purchaser who acquires such obligation with an amortizable bond premium is required to decrease such purchaser's adjusted basis in such Premium Bond annually by the amount of amortizable bond premium for the taxable year. The amortization of bond

premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining various other tax consequences of owning such Series 2014 Bonds. Owners of the Premium Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such Premium Bonds.

Ancillary Tax Matters

Ownership of the Series 2014 Bonds may result in other federal tax consequences to certain taxpayers, including, without limitation, certain S corporations, foreign corporations with branches in the United States, property and casualty insurance companies, individuals receiving Social Security or Railroad Retirement benefits, and individuals seeking to claim the earned income credit. Ownership of the Series 2014 Bonds may also result in other federal tax consequences to taxpayers who may be deemed to have incurred or continued indebtedness to purchase or to carry the Series 2014 Bonds. Prospective investors are advised to consult their own tax advisors regarding these rules.

Interest paid on tax-exempt obligations such as the Series 2014 Bonds is subject to information reporting to the Internal Revenue Service (the "IRS") in a manner similar to interest paid on taxable obligations. In addition, interest on the Series 2014 Bonds may be subject to backup withholding if such interest is paid to a registered owner that (a) fails to provide certain identifying information (such as the registered owner's taxpayer identification number) in the manner required by the IRS, or (b) has been identified by the IRS as being subject to backup withholding.

Bond Counsel is not rendering any opinion as to any federal tax matters other than those described in the opinion attached as Appendix E. Prospective investors, particularly those who may be subject to special rules described above, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Series 2014 Bonds, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

Changes in Law and Post Issuance Events

Legislative or administrative actions and court decisions, at either the federal or state level, could have an adverse impact on the potential benefits of the exclusion from gross income of the interest on the Series 2014 Bonds for federal or state income tax purposes, and thus on the value or marketability of the Series 2014 Bonds. This could result from changes to federal or state income tax rates, changes in the structure of federal or state income taxes (including replacement with another type of tax), repeal of the exclusion of the interest on the Series 2014 Bonds from gross income for federal or state income tax purposes, or otherwise. We note that each year since 2011, President Obama released legislative proposals that would limit the extent of the exclusion from gross income of interest on obligations of states and political subdivisions under Section 103 of the Code (including the Series 2014 Bonds) for taxpayers whose income exceeds certain thresholds. It is not possible to predict whether any legislative or administrative actions or court decisions having an adverse impact on the federal or state income tax treatment of holders of the Series 2014 Bonds may occur. Prospective purchasers of the Bonds should consult their own tax advisors regarding the impact of any change in law on the Bonds. Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance and delivery of the Series 2014 Bonds may affect the tax status of interest on the Series 2014 Bonds. Bond Counsel expresses no opinion as to any Federal, state or local tax law consequences with respect to the Series 2014 Bonds, or the interest thereon, if any action is taken with respect to the Series 2014 Bonds or the proceeds thereof upon the advice or approval of other counsel.

RATINGS

Moody's Investors Service Inc. ("Moody's"), Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"), and Fitch Ratings ("Fitch") have assigned the Series 2014 Bonds ratings of "[]" ([] outlook), "[]" ([] outlook) and "[]" ([] outlook), respectively. Such credit ratings reflect only the views of such organizations and any desired explanation of the meaning and significance of such credit ratings, including the methodology used and any outlook thereon, should be obtained from the rating agency furnishing the same, at the following addresses, which are current as of the date of this Official Statement: Moody's Investors Service, 7 World Trade Center, 250 Greenwich Street, 23rd Floor, New York, New York 10007; Standard & Poor's, 55 Water Street, New York, New York 10041; and Fitch Ratings, One State Street Plaza, New York, New York 10004. Generally, a rating agency bases its credit rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that the ratings will remain in effect for any given period of time or that any such rating will not be revised, either downward or upward, or withdrawn entirely, or a positive, negative or stable outlook announced, by the applicable rating agency, if, in its judgment, circumstances so warrant. The Department undertakes no responsibility to bring to the attention of the Owners of the Series 2014 Bonds any announcement regarding the outlook of any rating agency with respect to the Series 2014 Bonds. Any downward revision or withdrawal or announcement of negative outlook could have an adverse effect on the market price of the Series 2014 Bonds. Maintenance of ratings will require periodic review of current financial data and other updating information by assigning agencies.

UNDERWRITING

The Series 2014 Bonds are being purchased by Wells Fargo Bank, National Association, Siebert Brandford Shank & Co., L.L.C., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Cabrera Capital Markets, LLC, RBC Capital Markets, LLC and Stifel, Nicolaus & Company, Incorporated (the "Underwriters") from the Department at a price of \$_____ (which is the principal amount of the Series 2014 Bonds, plus an original issue premium of \$_____, less an original issue discount of \$_____, less an underwriters' discount of \$_____), subject to the terms of a bond purchase agreement, dated _____, 2014 (the "Bond Purchase Agreement"), between Wells Fargo Securities, as representative of the Underwriters and the Department. The Bond Purchase Agreement provides that the Underwriters will purchase all of the Series 2014 Bonds if any are purchased, and that the obligation to make such purchase is subject to certain terms and conditions set forth in the Bond Purchase Agreement, the approval of certain legal matters by counsel, and certain other conditions. The initial public offering prices of the Series 2014 Bonds set forth on the inside front cover hereof may be changed from time to time by the Underwriters. The Underwriters may offer and sell the Series 2014 Bonds into unit investment trusts or money market funds at prices lower than the public offering prices stated on the cover and the inside of the cover hereof.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the Department, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold

long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Department.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association.

Wells Fargo Bank, National Association (“WFBNA”), senior underwriter of the Series 2014 Bonds, has entered into an agreement (the “Distribution Agreement”) with its affiliate, Wells Fargo Advisors, LLC (“WFA”), for the distribution of certain municipal securities offerings, including the Series 2014 Bonds. Pursuant to the Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Series 2014 Bonds with WFA. WFBNA also utilizes the distribution capabilities of its affiliates, Wells Fargo Securities, LLC (“WFSLLC”) and Wells Fargo Institutional Securities, LLC (“WFIS”), for the distribution of municipal securities offerings, including the Series 2014 Bonds. In connection with utilizing the distribution capabilities of WFSLLC, WFBNA pays a portion of WFSLLC’s expenses based on its municipal securities transactions. WFBNA, WFSLLC, WFIS, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

[INSERT ADDITIONAL RETAIL BROKERAGE AGREEMENT LANGUAGE, IF ANY]

LITIGATION

No Litigation Relating to the Series 2014 Bonds

There is no action, suit or proceeding known to be presently pending or threatened restraining or enjoining the execution, issuance or delivery of the Series 2014 Bonds or any of the documents related thereto or in any way contesting or affecting the validity of the foregoing or the action of the Department taken with respect to the issuance or delivery thereof.

Litigation Relating to the Department and the Port

There is no action, suit or proceeding known to be presently pending or threatened which singly or together with any other action, suit or proceeding would have a material adverse impact on the ability of the Department to pay principal of or interest on the Series 2014 Bonds.

LEGAL OPINIONS

The validity of the Series 2014 Bonds and certain other legal matters are subject to the approving opinion of Nixon Peabody LLP, Bond Counsel. A complete copy of the proposed form of Bond Counsel’s opinion is contained in Appendix C hereto. Certain matters will be passed upon for the Department by the City Attorney of the City of Los Angeles. Certain legal matters in connection with the Official Statement will be passed upon by Kutak Rock LLP, Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation. All of the fees of Bond Counsel, Disclosure Counsel and Underwriter’s Counsel with regard to the issuance of the Series 2014 Bonds are contingent upon the issuance and delivery of the Series 2014 Bonds. Bond Counsel, Disclosure Counsel and Underwriters’ Counsel undertake no responsibility for the accuracy, completeness or fairness of this Official Statement.

FINANCIAL ADVISOR

The Department has retained the services of Montague DeRose and Associates, LLC, as Financial Advisor in connection with the issuance of the Series 2014 Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

FINANCIAL STATEMENTS

The financial statements of the Department for the Fiscal Years ended June 30, 2013 and 2012 and Independent Auditors' Report thereon are attached hereto as Appendix A. The financial statements for the Department for the Fiscal Year ended June 30, 2013 have been audited by Simpson & Simpson, LLP, Certified Public Accountants, as stated in their report. The financial statements of the Department for the Fiscal Year ended June 30, 2012 were audited by other auditors whose report thereon dated November 14, 2012, expressed an unqualified opinion on those statements.

Simpson & Simpson, LLP, Certified Public Accountants, has not been engaged to perform and has not performed since the date of its report included herein as Appendix A, any procedures on the financial statements addressed in that report. Simpson & Simpson, LLP, Certified Public Accountants, also has not performed any procedures relating to this Official Statement.

MISCELLANEOUS

The covenants and agreements of the Department for the benefit of the Bond Owners are set forth in the Resolution and the Indenture and reference is made to those documents for a statement of the rights and obligations of the Department and the Bond Owners. Neither this Official Statement, nor any statements which may have been made orally or in writing, are to be construed as a contract with the Owners of any of the Series 2014 Bonds. Brief descriptions of portions of the Resolution and the Indenture are included in this Official Statement. Such descriptions do not purport to be comprehensive or definitive; all references herein to the Resolution and the Indenture are qualified in their entirety by reference to such documents, and all references to the Series 2014 Bonds are qualified in their entirety to the definitive form thereof and the information with respect thereto included in the Resolution and the Indenture.

The Board has authorized the execution and delivery of this Official Statement by the Executive Director of the Department.

By _____
Executive Director, Harbor Department
of the City of Los Angeles

APPENDIX A

**AUDITED FINANCIAL STATEMENTS OF THE HARBOR DEPARTMENT
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012**

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APPENDIX B

CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES

[TO BE UPDATED]

The following information has been provided to the Department by the City of Los Angeles. Table numbers in this Appendix B are presented as provided in the information provided by the City of Los Angeles and therefore may not be consecutive. Capitalized terms not defined in this Appendix will have the meanings given to them in the Official Statement.

INTRODUCTION

The City of Los Angeles, California (the “City”) is the second most populous city in the United States with an estimated 2014 population of 3.9 million persons. Los Angeles is the principal city of a metropolitan region stretching from the City of Ventura to the north, the City of San Clemente to the south, the City of San Bernardino to the east and the Pacific Ocean to the west.

Founded in 1781, Los Angeles was for its first century a provincial outpost under successive Spanish, Mexican and American rule. The City experienced a population boom following its linkage by rail with San Francisco in 1876. Los Angeles was selected as the Southern California rail terminus because its natural harbor seemed to offer little challenge to San Francisco, home of the railroad barons. But what the region lacked in commerce and industry, it made up in temperate climate and available real estate, and soon tens and then hundreds of thousands of people living in the Northeastern and Midwestern United States migrated to new homes in the region. Agricultural and oil production, followed by the creation of a deep water port, the opening of the Panama Canal, and the completion of the City-financed Owens Valley Aqueduct to provide additional water, all contributed to an expanding economic base. The City’s population climbed to 50,000 persons in 1890, and then swelled to 1.5 million persons by 1940. During this same period, the motor car became the principal mode of American transportation, and the City developed as the first major city of the automotive age. Following World War II, the City became the focus of a new wave of migration, with its population reaching 2.4 million persons by 1960.

The City and its surrounding metropolitan region have continued to experience growth in population and in economic diversity. The City’s 470 square miles contain 11.5% of the area and about 39% of the population of the County of Los Angeles (the “County”). Tourism and hospitality, professional and business services, direct international trade, entertainment (including motion picture and television production), and wholesale trade and logistics all contribute significantly to local employment. Emerging industries are largely technology driven, and include biomedical, digital information technology, and environmental technology. The County is a top-ranked county in manufacturing in the nation. Important components of local industry include apparel, computer and electronic components, transportation equipment, fabricated metal, and food. Fueled by trade with the Pacific Rim countries, the Ports of Los Angeles and Long Beach combined are the busiest ports in the nation. As home to the film, television and recording industries, as well as important cultural facilities, the City serves as a principal global cultural center.

SELECTED ECONOMIC AND DEMOGRAPHIC INFORMATION

The economic and demographic information provided below has been collected from sources that the City considers to be reliable. Because it is difficult to obtain timely economic and demographic information, the City’s economic condition may not be fully apparent in all of the publicly available local

and regional economic statistics provided herein. In particular, the economic statistics provided herein may not fully capture the negative impact of current economic conditions.

Population

Table I summarizes City, County, and State of California (the “State”) population, estimated as of January 1 of each year. The population estimates for 2010 and 2011 incorporate 2010 Census counts as the benchmark and, as a result, the population estimates for 2010 published in 2011 were noticeably lower from the previous year estimates.

Table I
City, County and State Population Statistics

	City of Los Angeles	Annual Growth Rate *	County of Los Angeles	Annual Growth Rate *	State of California	Annual Growth Rate *
1980	2,968,579	—	7,477,421	—	23,667,836	—
1985	3,216,900	1.67%	8,121,000	1.72%	26,113,000	2.07%
1990	3,485,557	1.67	8,863,052	1.83	29,758,213	2.79
1995	3,544,966	0.34	9,103,900	0.54	31,617,770	1.25
2000	3,694,742	0.85	9,519,330	0.91	33,873,086	1.43
2005	3,929,022	1.27	10,153,479	1.33	36,676,931	1.66
2006	3,960,385	0.80	10,202,094	0.48	37,087,005	1.12
2007	3,980,145	0.50	10,231,000	0.28	37,463,609	1.02
2008	4,016,085	0.90	10,285,296	0.53	37,871,509	1.09
2009	4,050,727	0.86	10,355,053	0.68	38,255,508	1.01
2010	3,793,106	-6.36	9,822,121	-5.15	37,223,900	-2.70
2011	3,810,129	0.45	9,858,989	0.38	37,510,766	0.77

* For five-year time series, figures represent average annual growth rate for each of the five years.

Source: State of California, Department of Finance, Report 84 E-4 Population Estimates for California Counties and Cities, January 1, 1976 through January 1, 1980; Report 90 E-4 Population Estimates for California State and Counties January 1, 1981 to January 1, 1990; E-4 Historical Population Estimates for City, County and the State, 1991-2000, with 1990 and 2000 Census Counts. E-4 Population Estimates for Cities, Counties and the State, 2001-2010, with 2000 Benchmark. May 2010.

Industry and Employment

Table II summarizes the average number of employed and unemployed residents of the City and the County, based on the annual “benchmark,” an annual revision process in which monthly labor force and payroll employment data, which are based on estimates, are updated based on detailed tax records. The “benchmark” data is typically released in March for the prior calendar year. Historically, the City’s unemployment rate has been higher than both the County’s and the State’s rates.

The California Employment Development Department has reported preliminary unemployment figures for March 2011 of 12.3% statewide, 12.2% for Los Angeles County, and 13.4% for the City (not seasonally adjusted).

Table II
Estimated Average Annual Employment and
Unemployment of Resident Labor Force *

Civilian Labor Force *	2006	2007	2008	2009	2010
City of Los Angeles					
Employed	1,785,300	1,786,600	1,777,800	1,622,600	1,653,700
Unemployed	<u>103,100</u>	<u>128,000</u>	<u>161,600</u>	<u>275,400</u>	<u>267,200</u>
Total	<u>1,888,400</u>	<u>1,914,600</u>	<u>1,939,400</u>	<u>1,898,000</u>	<u>1,920,900</u>
County of Los Angeles					
Employed	4,578,700	4,626,900	4,563,200	4,336,600	4,262,300
Unemployed	<u>229,900</u>	<u>247,600</u>	<u>367,600</u>	<u>563,500</u>	<u>617,200</u>
Total	<u>4,808,600</u>	<u>4,874,600</u>	<u>4,930,900</u>	<u>4,900,100</u>	<u>4,879,500</u>
Unemployment Rates					
City	5.3%	5.6%	8.3%	12.8%	13.9%
County	4.8	5.1	7.5	11.5	12.6
State	4.9	5.3	7.2	11.3	12.4
United States	4.6	4.6	5.8	9.3	9.4

* March 2010 Benchmark; not seasonally adjusted.

Source: California Employment Development Department, Labor Market Information Division for the State and County; U.S. Bureau of Labor, Department of Labor Statistics for the U.S. Note: Based on surveys distributed to households; not directly comparable to Industry Employment data reported in Table 3. Items may not add to totals due to rounding.

Table III summarizes the California Employment Development Department's estimated average annual employment for the County and the State, which includes full-time and part-time workers who receive wages, salaries, commissions, tips, payment in kind, or piece rates. Separate figures for the City are not maintained. Percentages indicate the percentage of the total employment for each type of employment for the given year. For purposes of comparison, the most recent employment data for the State is also summarized.

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The Trade, Transportation and Utilities sector was the largest employment sector in the County in 2010, employing 19.6% of wage and salary workers. Government, at 15.3%, was the second highest employment sector in the County, followed by Professional and Business Services, which employed 13.9% of wage and salary workers.

Table III
Los Angeles County Estimated Industry Employment and Labor Force ¹

	County				State of California	
	2000	% of Total	2010	% of Total	2010	% of Total
Agricultural	7,700	0.2%	6,400	0.2%	381,600	2.7%
Natural Resources and Mining	3,400	0.1	4,200	0.1	26,800	0.2
Construction	131,700	3.2	104,300	2.8	559,800	3.9
Manufacturing	612,200	15.0	374,200	9.9	1,242,400	8.7
Trade, Transportation and Utilities	786,000	19.3	738,400	19.6	2,616,900	18.3
Information	243,700	6.0	192,400	5.1	429,000	3.0
Financial Activities	224,500	5.5	209,200	5.5	459,800	3.2
Professional and Business Services	587,900	14.4	526,100	13.9	2,069,400	14.5
Educational and Health Services	416,800	10.2	522,700	13.8	1,786,900	12.5
Leisure and Hospitality	344,700	8.4	384,600	10.2	1,493,700	10.5
Other Services	140,000	3.4	136,300	3.6	484,700	3.7
Government	<u>581,300</u>	<u>14.2</u>	<u>576,600</u>	<u>15.3</u>	<u>2,427,100</u>	<u>17.0</u>
Total ²	<u>4,079,800</u>	<u>100.0%</u>	<u>3,775,300</u>	<u>100.0%</u>	<u>14,278,000</u>	<u>100.0%</u>

Note: Based on surveys distributed to employers; not directly comparable to Civilian Labor Force data reported in Table II.

¹The California Economic Development Department has converted employer records from the Standard Industrial Classification coding system to the North American Industry Classification System.

²Total may not equal sum of parts due to independent rounding.

Source: California Employment Development Department, Labor Market Information Division. Based on March 2010 Benchmark report.

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Major Employers

The top 25 major non-governmental employers in the County are listed in Table IV. The employees of these non-governmental employers represent approximately 6.3% of the labor force. In addition, government employment represents approximately 15.3% of the labor force (see Table III—Estimated Industry Employment and Labor Force).

Table IV
Los Angeles County Major Non-Governmental Employers

Employer	Product/Service	Employees
Kaiser Permanente	Nonprofit health care plan	32,700
Northrop Grumman Corp.	Defense contractor	19,000
University of Southern California	Private university	15,121
Boeing Co.	Integrated aerospace and defense systems	13,623
Ralphs/Food 4 Less (division of Kroger Co.)	Grocery retailer	13,500 ¹
Target Corp.	Retailer	13,000
Bank of America	Banking and financial services	12,000 ¹
Cedars-Sinai Medical Center	Medical center	10,467
Home Depot	Home improvement specialty retailer	10,000
Providence Health & Services California	Medical centers	9,960
Wells Fargo	Diversified financial services	9,900
Vons	Retail grocer	9,176
ABM Industries	Facility services, janitorial, parking, security, engineering and lighting	8,800
AT&T Inc.	Telecommunications	8,505
California Institute of Technology	Private university, operator of Jet Propulsion Laboratory	8,400
FedEx Corp.	Shipping and logistics	7,700
Catholic Healthcare West	Hospitals	7,200
Amgen Inc.	Biotechnology	6,700
JPMorgan Chase	Banking and financial services	6,000
Long Beach Memorial Medical Center ²	Regional hospital	5,200
UPS	Transportation and freight	5,000
Children's Hospital Los Angeles	Hospital	4,200
Toyota Motor Sales USA Inc.	Sales, distribution and customer service arm of Toyota, Lexus and Scion	4,100
Adventist Health	Hospitals	3,700
Huntington Memorial Hospital	635-bed, nonprofit community hospital	3,251

¹ Business Journal Estimate.

² Includes Mill Children's Hospital.

Source: *Los Angeles Business Journal*, Weekly Lists, originally published August 30, 2010.

Personal Income

The U.S. Census Bureau defines personal income as the income received by all persons from all sources, and is the sum of “net earnings,” rental income, dividend income, interest income, and transfer receipts. “Net earnings” is defined as wage and salary, supplements to wages and salaries, and proprietors’ income, less contributions for government social insurance, before deduction of personal income and other taxes.

Table V summarizes the latest available estimate of personal income for the County, State and United States.

Table V
County, State and U.S. Personal Income

Year and Area	Personal Income (Thousands of Dollars)	Per Capita Personal Income (Dollars)
2005		
County	\$ 357,193,633	\$36,434
State	1,387,682,421	38,767
United States	10,476,669,000	35,424
2006		
County	\$ 385,732,651	\$39,519
State	1,495,533,000	41,567
United States	11,256,516,000	37,698
2007		
County	\$ 402,107,608	\$41,307
State	1,566,400,000	43,402
United States	11,900,562,000	39,392
2008		
County	\$ 413,316,582	\$42,265
State	1,604,155,000	43,852
United States	12,380,225,000	40,166
2009		
County	\$ 402,459,119	\$40,867
State	1,566,999,000	42,395
United States	12,168,161,000	39,626
2010*		
County	n/a	n/a
State	\$ 1,605,790,000	\$43,104
United States	12,530,101,000	40,584

* On March 23, 2011, The Bureau of Economic Analysis (BEA) released preliminary estimates of state annual personal income and per capita personal income for 2010. The per capita personal income estimates for 2010 were calculated using the April 1, 2010 decennial census population counts that were released by the Census Bureau on December 21, 2010. Revised estimates of per capita personal income for 2001-2009 were not released because intercensal state population estimates consistent with the 2000 and 2010 decennial census counts are not currently available. In September 2011, BEA plans to release revised state personal income estimates for 2008-2010 and estimates of state per capita income for 2001-2010.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, updated as of March 2011.

Retail Sales

As the largest city in the County, the City accounted for \$33.5 billion (or 29.7%) of the total \$112.7 billion in County taxable sales for 2009. Table VI sets forth a history of taxable sales for the City for calendar years 2005 through 2009, 2009 being the last full year for which data is currently available.

The City experienced a 10.2% decline in sales tax receipts during Fiscal Year 2009-10, suggesting a similar decline in taxable sales. The City estimates that sales tax receipts will increase by 4.1% for Fiscal Year 2010-11, and by 5.0% for Fiscal Year 2010-12.

Table VI
City of Los Angeles Taxable Sales
(in thousands)

	Annual				
	2005	2006	2007	2008	2009
Apparel Stores	\$ 1,707,160	\$ 1,798,035	\$ 1,897,411	\$ 2,097,824	\$ 2,404,735
General Merchandise Stores	3,720,692	3,932,407	3,952,550	3,542,908	2,448,694
Food Stores	1,682,668	1,736,111	1,834,470	1,888,581	2,126,677
Eating And Drinking Establishments	4,943,745	5,282,931	5,632,290	5,743,366	5,437,781
Home Furnishings and Appliances	1,301,546	1,300,167	1,294,546	1,338,890	1,566,716
Building Materials and Farm Implements	2,436,987	2,430,287	2,252,227	1,924,786	1,700,820
Auto Dealers And Auto Supplies	4,187,135	4,158,144	4,077,852	3,302,737	2,760,647
Service Stations	3,872,089	4,292,157	4,494,346	5,159,799	3,621,498
Other Retail Stores	<u>4,860,849</u>	<u>5,002,642</u>	<u>5,070,023</u>	<u>4,383,989</u>	<u>3,425,579</u>
Retail Stores Total	<u>28,712,871</u>	<u>29,932,881</u>	<u>30,505,725</u>	<u>29,382,881</u>	<u>25,493,148</u>
All Other Outlets ¹	<u>8,781,680</u>	<u>9,440,519</u>	<u>9,626,679</u>	<u>9,909,316</u>	<u>8,098,716</u>
Total All Outlets ²	<u>\$37,494,551</u>	<u>\$39,373,400</u>	<u>\$40,132,404</u>	<u>\$39,292,197</u>	<u>\$33,591,864</u>

¹ Primarily manufacturing and wholesale businesses.

² Items may not add to totals due to rounding.

Source: California State Board of Equalization, Research and Statistics Division.

Residential Construction Activity

Table VII provides a summary of residential building permit valuations and the number of new units in the City by calendar year.

Table VII
City of Los Angeles Residential Building Permit Valuations and New Units

	2006	2007	2008	2009	2010
Valuation ¹					
Residential ²	\$2,435	\$2,079	\$1,280	\$604	\$878
Miscellaneous ³	<u>79</u>	<u>4</u>	<u>17</u>	<u>11</u>	<u>15</u>
Total Valuation	<u>\$2,514</u>	<u>\$2,083</u>	<u>\$1,297</u>	<u>\$615</u>	<u>\$893</u>
Number of Units					
Single family ⁴	2,419	2,032	1,070	781	772
Multi-family ⁵	<u>11,752</u>	<u>7,724</u>	<u>5,333</u>	<u>1,892</u>	<u>3,374</u>
Subtotal Residential	<u>14,171</u>	<u>9,756</u>	<u>6,403</u>	<u>2,673</u>	<u>4,146</u>
Miscellaneous ⁶	<u>1,201</u>	<u>746</u>	<u>278</u>	<u>185</u>	<u>370</u>
Total Units	<u>15,372</u>	<u>10,502</u>	<u>6,681</u>	<u>2,858</u>	<u>4,516</u>

¹ In millions of dollars. "Valuation" represents the total valuation of all construction work for which the building permit is issued.

² Valuation permits issued for Single-Family Dwellings, Duplexes, Apartment Buildings, Hotel/Motels, Artist-in-Residences, and Condominiums.

³ Valuation of permits issued for "Addition Creating New Units—Residential" and "Alterations Creating New Units—Residential."

⁴ Number of dwelling units permitted for Single-Family Dwellings, Duplexes and Prefabricated Houses.

⁵ Number of dwelling units permitted for new Apartment Buildings, Hotel/Motels, Artist-in-Residences, and Condominiums.

⁶ Number of dwelling units added includes "Addition Creating New Units—Residential" and "Alterations Creating New Units—Residential."

Source: City of Los Angeles, Department of Building and Safety.

Commercial Real Estate Markets in Los Angeles

Table VIII shows the most recent information available regarding vacancy rates for non-residential space in downtown Los Angeles and the remainder of the Los Angeles Metropolitan Area.

Table VIII
Los Angeles Metropolitan Area
Non-Residential Vacancy Rates

Year*	Downtown	Suburban	Metropolitan	Industrial Availability
2005	13.9%	8.3%	9.1%	7.4%
2006	13.2	9.0	9.6	8.5
2007	15.3	13.9	14.1	6.7
2008	17.4	16.3	16.5	8.3
2009	16.8	16.3	16.4	7.4

* First quarter of year.

Source: California Department of Finance, California Economic Indicators.

Education

The Los Angeles Unified School District (“LAUSD”) administers public instruction for kindergarten through 12th grade (“K-12”), adult, and occupational schools in the City and all or significant portions of a number of smaller neighboring cities and unincorporated territory. The LAUSD, which now encompasses approximately 710 square miles (making it significantly larger than the City at 470 square miles), was formed in 1854 as the Common Schools for the City of Los Angeles, and became a unified school district in 1960. The LAUSD is governed by a seven-member Board of Education, elected by district to serve alternating four-year terms.

There are many public and private colleges and universities located in the City. Major colleges and universities located within the City include the University of California at Los Angeles, the University of Southern California, California State University at Los Angeles, California State University at Northridge, Occidental College and Loyola Marymount University. There are seven community colleges located within the City.

GENERAL INFORMATION REGARDING MUNICIPAL GOVERNMENT

Under the State Constitution, charter cities are generally independent of the State Legislature in matters relating to municipal affairs and in their ability to raise revenues. Charter cities, however, are subject to State Constitutional restrictions. The City is a charter city originally incorporated in 1850. The most recent charter was adopted in 1999, effective July 1, 2000.

The City is governed by the Mayor and the City Council (the “Council”). The Mayor is elected at-large for a four-year term. As executive officer of the City, the Mayor has the overall responsibility for administration of the City. The Mayor recommends and submits the annual budget to the Council and passes upon subsequent appropriations and transfers, approves or vetoes ordinances, and appoints certain City officials and commissioners. He supervises the administrative process of local government and works with the Council in matters relating to legislation, budget and finance. As prescribed by the Charter and City ordinances, the Mayor operates an executive department, of which he is the ex-officio head. The current Mayor, Antonio R. Villaraigosa, was elected on May 17, 2005 and took office on July 1, 2005. He was re-elected Mayor on March 3, 2009 for a second four-year term.

The Council, the legislative body of the City, is a full-time council and enacts ordinances subject to the approval of the Mayor. If the Mayor vetoes, the Council may override the veto of the Mayor by a two-thirds vote. The Council orders elections, levies taxes, authorizes public improvements, approves contracts, adopts zoning and other land use controls, and adopts traffic regulations. The Council adopts or modifies the budget proposed by the Mayor. It authorizes the number of employees in budgetary departments, creates positions and fixes salaries. The Council consists of 15 members elected by district for staggered four-year terms.

The other two elective offices of the City are the Controller and the City Attorney, both elected for four year terms. The Controller is the chief accounting officer for the City. Wendy Greuel assumed the office as of July 1, 2009. The City Attorney is attorney and legal advisor to the Council and all officers, boards, and departments of the City, and prosecutes misdemeanors. Carmen N. Trutanich assumed the office as of July 1, 2009.

The City Administrative Officer (“CAO”) is the chief fiscal advisor to the Mayor and Council and reports directly to both. Miguel A. Santana has been serving as CAO since August 2009.

The City Treasurer (the “Treasurer”) receives, invests and is the custodian of the City’s funds and those of affiliated entities. The Treasurer also serves as the City’s Investment Officer. The Treasurer is appointed by the Mayor and confirmed by the Council.

As of July 1, 2011, the City will have 36 departments, bureaus, commissions and offices for which operating funds are annually budgeted by the Council. In addition, five departments (the Department of Water and Power (“DWP”), the Harbor Department, the Department of Airports, the City Employees’ Retirement System Department, and the Fire and Police Pension System Department), The Community Redevelopment Agency of the City and the Housing Authority of the City are under the control of boards appointed by the Mayor and confirmed by the Council.

Public services provided by the City include police; fire and paramedics; residential refuse collection and disposal, wastewater collection and treatment, street maintenance, traffic management, storm water pollution abatement, and other public works functions; enforcement of ordinances and statutes relating to building safety; public libraries; recreation and parks; community development; housing and aging services; and planning.

The City obtains water and electricity from DWP, the largest municipally owned utility in the nation.

SELECTED INFORMATION REGARDING THE CITY’S RETIREMENT AND PENSION SYSTEMS AND OTHER POST-EMPLOYMENT BENEFITS

Retirement and Pension Systems

The City contributes to three single-employer defined benefit pension plans created by the City Charter: the Los Angeles City Employees’ Retirement System (“LACERS”), the City of Los Angeles Fire and Police Pension Plan (“FPPP”), and the Water and Power Employees’ Retirement, Disability and Death Benefit Insurance Plan (the “Water and Power Plan”). No General Fund monies of the City or monies of the Department are allocated to the Water and Power Plan.

Both LACERS and FPPP (collectively, the “Pension Systems”) provide retirement, disability, death benefits, post-employment healthcare and annual cost-of-living adjustments to plan members and beneficiaries. As required by the City Charter, the actuarial valuations for both Pension Systems are

prepared on an annual basis and the applicable actuary recommends contribution rates for the fiscal year beginning after the completion of that actuarial valuation. When approved by the respective boards of administration of the Pension Systems, these become the City's legally required contribution rates for such years.

The valuation determines the amount needed to fund the normal retirement costs accrued for current employment and to amortize any unfunded actuarial accrued liability ("UAAL"). The UAAL represents the difference between the present value of estimated future benefits and the assets currently available to pay these liabilities. The valuation for each plan is an estimate based on relevant economic and demographic assumptions, with the goal of determining the contributions necessary to sufficiently fund, as of the date of calculation, the accrued costs attributable to currently active, vested terminated and retired employees and their beneficiaries. Examples of the actuarial assumptions that are used in this process are the assumed rate of earnings on the assets of the plan into the future, the assumed future pay increases for current employees, assumed rates of disability, the assumed retirement ages of active employees, the assumed marital status at retirement, and the post-employment life expectancies of retirees and beneficiaries. As plan experience differs from adopted assumptions, the actual amount paid out by a plan will be more or less than the amounts contemplated based on the assumptions. The contribution rates in the next year's valuation are adjusted to take into account actual performance. In addition, each plan performs an experience study every three years and further adjusts its assumptions accordingly.

When measuring assets for determining the UAAL, many pension plans, including the Pension Systems, "smooth" market value gains and losses over a period of years to reduce volatility. The impact of these smoothing methodologies results in an actuarial valuation of assets that is lower or higher than the market value of assets. FPPP revised its smoothing methodology from five years to seven years effective June 30, 2009, so that approximately 14.3% of losses or gains are recognized each year, resulting in the smoothing or spreading of that shortfall or excess over the seven-year period. On September 28, 2010, LACERS took a similar action to change its asset smoothing method from five to seven years, effective with the June 30, 2010 actuarial evaluation.

Both Pension Systems also amended the manner in which they recognize extraordinary losses or gains in the market value of assets. The prior policy of both of the Pension Systems' boards included a market value "corridor" that limits the Actuarial Value of Assets (or "AVA," which is the value of the assets for actuarial purposes, reflecting smoothing) to be within 20% of the Market Value of Assets ("MVA"). In other words, the AVA could not be greater than 120% of the MVA or less than 80% of the MVA. Because of investment losses for Fiscal Year 2008-09 of approximately 20%, the Pension Systems' actuaries estimated that the AVA would be greater than 120% over the next three years. Application of the corridor meant that the AVA would be set at 120% of MVA, lower than it would be with full application of multi-year smoothing. LACERS adopted a wider corridor, requiring immediate recognition of assets whose AVA was greater than 150% of the MVA or less than 50% of the MVA. This expanded corridor is estimated to have reduced the City's Fiscal Year 2010-11 contribution by \$84 million. In connection with the revised smoothing method discussed above, LACERS has again revised its market corridor, narrowing it to 60%-140%. FPPP also adopted a wider corridor (effective June 30, 2009), requiring immediate recognition of assets whose AVA was greater than 140% of the MVA or less than 60% of the MVA. The combination of the seven-year smoothing period and expanded corridor is estimated to have deferred approximately \$196 million in City contributions in Fiscal Year 2010-11. These wider corridors permit the City to defer contributions to future years to address actuarial funding deficiencies.

Other key assumption used in determining the City's annual contribution to its Pension Systems is the assumed return that the Pension Systems will receive on assets as well as health care expense trend rates. On September 2, 2010, FPPP reduced its investment return assumptions from 8.00% to 7.75%.

Relative to the health care expense trend rate, on November 4, 2010 FPPP increased its health care expense trend assumption to 10% a year for three years. These changes, along with actuarial losses, increased the City's contribution to FPPP by an additional 3.2% as a percentage of payroll.

LACERS is expected to undertake an experience study later this calendar year which will look at the investment return assumptions as well as other areas.

It should be noted that the amount of the City's required contribution to LACERS and FPPP for Fiscal Year has not yet been finalized, due to recent and pending employee concessions. As part of the 2011-12 Budget actions, the City Council instructed the City Administrative Officer to report by June 15, 2011 with recommendations to implement approved bargaining agreements by making necessary budgetary adjustments. These adjustments are expected to impact the City's 2011-12 covered payroll amount for LACERS which provides the basis for the City contribution. A reduction in the LACERS contribution amount is anticipated from the Proposed Budget amount. Additionally, in accordance with Council action, the new calculations for the FPPP contribution will be based on reduced sworn covered payroll of \$31.4 million which will also reduce the FPPP contribution amount from the Proposed Budget.

Market value investment returns for the past ten fiscal years are shown in Table XXXIII.

Table XXXIII
Los Angeles Pension Systems
Historical Market Value Investment Returns

Fiscal Year	LACERS ¹	FPPP ²
2000-01	(4.60)%	(10.00)%
2001-02	(5.25)	(7.97)
2002-03	3.61	5.47
2003-04	18.84	16.92
2004-05	9.71	9.83
2005-06	12.34	12.40
2006-07	19.1	18.3
2007-08	(5.8)	(5.0)
2008-09	(20.3)	(20.7)
2009-10	12.8	13.9

¹ The 10-year annualized average rate of return for LACERS is 3.7%. The 20-year average is 7.7%.

² The 10-year annualized average rate of return for FPPP is 2.67%. The 20-year average is 7.93%.

Source: City of Los Angeles, Office of the City Administrative Officer.

LACERS, established in 1937 under the Charter, is a contributory plan covering most City employees except uniformed fire and police personnel and employees of the Department of Water and Power. As of June 30, 2010, LACERS had 26,245 active members, 17,264 retired members and beneficiaries, and 5,344 vested terminated members. The number of retired members was significantly increased, and the number of active members significantly decreased, by the City's Early Retirement Incentive Program. LACERS is funded pursuant to the Projected Unit Credit Cost Method. Among the actuarial assumptions used in the most recent plan valuation are an investment rate of return of 8%, and this same rate is used to discount future values. The inflation rate assumption is 3.75%. Actuarial losses are funded and actuarial gains credited over fixed 15-year periods. Any liability or surplus due to assumption changes is funded or credited over 30 years. Beginning with the June 30, 2010 actuarial valuation, any liability or surplus due to benefit changes is funded or credited over 15 years, except for liabilities caused by early retirement incentives, which will be funded over 5 years. The Board of Pension

Commissioners adopted a policy of re-amortizing LACERS' then existing liabilities over 30 years beginning July 1, 2005.

Table XXXIV shows the actuarial value of the City's liability for retirement benefits (excluding retiree health care and other post-employment benefits), the actuarial value of assets available for retirement benefits, and two indicators of funding progress for LACERS, the funded ratio and the ratio of UAAL to annual payroll. The actuarial value of assets is different from the market value of assets as gains and losses are smoothed over five years. As of June 30, 2010, the date of the most recent actuarial valuation, the market value of LACERS' assets allocated to retirement benefits was \$1.7 billion less than the actuarial value. If the funding ratio of the retirement benefits as of June 30, 2010 were based on market value, the funded ratio would be approximately 62% rather than the 76% reported on an actuarial basis.

Table XXXIV
Los Angeles City Employees' Retirement System
Schedule of Funding Progress for Retirement Benefits
(Dollars in Thousands)¹

Actuarial Valuation As of June 30	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL)	Underfunded or (Overfunded) AAL ²	Funded Ratio ³	Covered Payroll ⁴	Underfunded or (Overfunded) AAL As Percentage of Covered Payroll ⁵
2001	\$6,988,782	\$6,468,066	\$ (520,716)	108.1%	\$1,293,350	(40.3)%
2002 ⁶	7,060,188	7,252,118	191,930	97.4	1,334,335	14.4
2003 ⁶	6,999,647	7,659,846	660,199	91.4	1,405,058	47.0
2004 ⁶	7,042,108	8,533,864	1,491,756	82.5	1,575,285	94.7
2005	7,193,142	9,321,525	2,128,383	77.2	1,589,306	133.9
2006	7,674,999	9,870,662	2,195,663	77.8	1,733,339	126.7
2007	8,599,700	10,526,874	1,927,174	81.7	1,896,609	101.6
2008	9,438,318	11,186,404	1,748,085	84.4	1,977,645	88.4
2009	9,577,747	12,041,984	2,464,237	79.5	1,816,171	135.7
2010	9,554,027	12,595,025	3,040,998	75.9	1,817,662	167.3

¹ Table includes funding for retirement benefits only. Other Post-Employment Benefits ("OPEB") are not included.

² Actuarial Accrued Liability minus Actuarial Value of Assets, commonly referred to as UAAL. Positive numbers represent a funded ratio less than 100%.

³ Actuarial value of assets divided by actuarial accrued liability.

⁴ Annual payroll for members of LACERS.

⁵ UAAL divided by covered payroll.

⁶ Drop in funded ratio is primarily attributable to investment losses and changes in actuarial assumption.

Source: The City of Los Angeles City Employees' Retirement System Actuarial Valuations as of June 30, 2010.

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Table XXXV summarizes the City's payments to LACERS over the past five years. This table includes costs for retirement, other post employment benefits, and other miscellaneous benefits.

Table XXXV
Los Angeles City Employees' Retirement System
Sources and Uses of Contributions
(Dollars in Thousands)¹

	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>Estimated 2010-11</u>	<u>Proposed Budget 2011-12³</u>
Sources of Contributions					
Contributions for Council-Controlled Departments	\$338,914	\$312,661	\$298,217	\$339,136	\$394,564
Airport and Harbor Departments	<u>58,542</u>	<u>57,527</u>	<u>57,548</u>	<u>72,701</u>	<u>87,530</u>
Total	<u>\$397,456</u>	<u>\$370,188</u>	<u>\$355,765</u>	<u>\$411,837</u>	<u>\$482,094</u>
Percent of Payroll	22.8%	20.2%	19.46%	24.49%	27.66%
Uses of Contributions					
Current Service Liability (Normal cost)	\$226,441	\$235,148	\$238,536	\$230,398	\$235,966
UAAL/(Surplus)	170,527	134,527	116,618	180,559	245,362
Adjustments ²	<u>488</u>	<u>513</u>	<u>611</u>	<u>880</u>	<u>466</u>
Total	<u>\$397,456</u>	<u>\$370,188</u>	<u>\$355,765</u>	<u>\$411,837</u>	<u>\$482,094</u>

¹ Includes funding for other post-employment benefits.

² Includes the excess benefit plan, the family death benefit plan, and the limited term plan fund.

³ The amount of the City contribution for the 2011-12 Adopted Budget is pending. As part of the 2011-12 Budget actions, the City Council instructed the City Administrative Officer to report by June 15, 2011 with recommendations to implement approved bargaining agreements by making necessary budgetary adjustments. These adjustments are expected to impact the City's 2011-12 covered payroll which provides the basis for the City contribution. A reduction in the contribution amount is anticipated.

Source: City of Los Angeles, Office of the City Administrative Officer.

The FPPP, established in 1923 under the Charter, represents contributory plans covering uniformed fire and police personnel. Five tiers of benefits are provided, depending on the date of the member's hiring. As of June 30, 2010, the FPPP had 13,654 active members, 12,348 retired members and beneficiaries, and 58 vested former members. The FPPP is funded pursuant to the Entry Age Normal Cost Method. Among the actuarial assumptions used in valuing the plan were an investment rate of return of 7.75% (lowered from 8.0% from the previous year), which is the same rate used to discount future values, and an inflation rate assumption of 3.75%. For Tiers 1 and 2, any UAAL is amortized over a fixed term ending on July 1, 2037. For Tiers 3, 4 and 5, actuarial losses are funded and actuarial gains are credited over a fixed 15-year term; any liability changes due to benefit or assumption changes are funded over 30 years. A recent Charter amendment adopted by City voters on March 8, 2011 provides the FPPP Board with greater flexibility to establish amortization policies.

On March 8, 2011, voters also approved a new tier of retirement benefits (Tier 6) for sworn employees hired after July 1, 2011. Based on studies conducted by an independent consultant, the adoption of the measure is expected to reduce the City's future pension costs for new sworn public safety employees. Assuming the City continues to hire public safety employees to maintain its current workforce, the City is estimated to save approximately \$152 million over the next ten years.

The FPPP also administers a Deferred Retirement Option Program ("DROP"), which became effective May 2002. DROP is a voluntary program whereby a member with a minimum of 25 years of service may file for a service pension but continue to work and earn salary and benefits as an active member. The monthly service pension benefit is deposited into a DROP account that earns a 5% per

annum return, payable upon exiting the DROP program. Participation in the DROP program is limited to a maximum of five years. It began as a five-year program designed to be cost-neutral, with provisions for review and adjustment of the design to retain its cost neutrality. A study of the DROP program issued in January 2008 concluded that no significant adjustments were required. In addition, the sunset clause of the DROP program was removed at that time. The extended DROP program also includes provision for review and adjustment of the program design at least every five years to retain cost neutrality.

In April 2009, FPPP became aware that the Securities and Exchange Commission (SEC) was conducting an investigation of two former members of the FPPP Board of Commissioners related to possible “pay-to-play”. FPPP has been cooperating fully. This investigation came about as a result of charges filed in New York which involved some of the private equity advisors and funds with which FPPP transacted business. The investigation is on-going. The potential liability associated with this investigation, including the impact on the pension system, is not known.

Table XXXVI shows the actuarial value of the City’s liability for retirement benefits (excluding retiree health care and other post-employment benefits), the actuarial value of assets available for retirement benefits, and two indicators of funding progress for FPPP, the funded ratio and the ratio of UAAL to annual payroll. Investment gains and losses are recognized on an actuarial basis over a seven-year period. As of June 30, 2010, the date of the most recent actuarial valuation, the market value of FPPP assets allocated to retirement benefits was \$2.7 billion less than the actuarial value. If the funding ratio of the retirement benefits as of June 30, 2010 were based on market value, the funded ratio would be approximately 74%, rather than the 92% reported on an actuarial basis.

Table XXXVI
Los Angeles Fire and Police Pension Plan
Schedule of Funding Progress for Retirement Benefits
(Dollars in Thousands)¹

Actuarial Valuation As of June 30	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL)	Underfunded or (Overfunded) AAL ²	Funded Ratio ³	Covered Payroll ⁴	Underfunded or (Overfunded) AAL As Percentage of Covered Payroll ⁵
2001	\$11,835,549	\$ 9,954,056	\$(1,881,492)	118.9%	\$ 882,758	(213.1)%
2002	11,491,922	10,606,825	(885,097)	108.3	946,037	(93.6)
2003	11,690,750	11,203,558	(487,192)	104.3	970,727	(50.2)
2004	11,735,696	11,389,981	(345,715)	103.0	1,001,004	(34.5)
2005	11,634,114	12,357,524	723,411	94.1	1,037,445	69.7
2006	12,121,403	12,811,384	689,981	94.6	1,092,815	63.1
2007	13,215,668	13,324,089	108,421	99.2	1,135,592	9.5
2008	14,153,296	14,279,116	125,820	99.1	1,206,589	10.4
2009	14,256,611	14,817,146	560,535	96.2	1,357,249	41.3
2010	14,219,581	15,520,624	1,301,044	91.6	1,356,986	95.9

¹ Table includes funding for retirement benefits only. Does not include DROP program. Other post employment benefits not included.

² Actuarial Accrued Liability minus Actuarial Value of Assets, commonly referred to as UAAL. Positive numbers represent an actuarial surplus.

³ Actuarial value of assets divided by actuarial accrued liability.

⁴ Annual payroll against which UAAL amortized.

⁵ UAAL divided by covered payroll.

⁶ Drop in funded ratio is primarily attributable to investment losses and changes in actuarial assumptions and not increased benefits.

Source: The Fire and Police Pension System Actuarial Valuations.

Table XXXVII summarizes the General Fund's payments to FPPP over the past five fiscal years. This table includes costs for retirement, other post-employment benefits, and other miscellaneous benefits.

Table XXXVII
Los Angeles Fire and Police Pension Plan
Sources and Uses of Contributions
(Dollars in Thousands)

	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>Estimated Budget 2010-11</u>	<u>Proposed Budget 2010-11⁴</u>
General Fund	\$327,089	\$325,615	\$355,308	\$386,505	\$484,010
Percent of Payroll	28.9%	26.23%	28.24%	30.12%	39.07%
Current Service Liability	249,955	272,691	285,929	279,334	306,310
UAAL/(Surplus)	76,701	52,801	69,280	107,171	177,700
Adjustments ^{1,3}	433	123	99	800	592
Tier 5 Current Service Liability ²	-	-	-	-	-
Total	<u>\$327,089</u>	<u>\$325,615</u>	<u>\$355,308</u>	<u>\$386,505</u>	<u>\$484,010</u>

¹ Includes the settlement with the United Firefighters of Los Angeles City through 2007-08 and the excess benefit plan.

² Pursuant to the Charter, the City pays 1% of the required employee contribution whenever the retirement benefits are at least 100% funded.

³ Beginning in 2010-11, the excess benefit plan is a direct payment from the General Fund, rather than being an additional contribution amount to FPPP from the City.

⁴ The amount of the City contribution to FPPP per the 2011-12 Adopted Budget is pending. In accordance with Council action, the new calculations for the FPPP contribution will be based on reduced sworn covered payroll of \$31.4 million which will also reduce the FPPP contribution amount from the Proposed Budget.

Source: City of Los Angeles, Office of the City Administrative Officer.

For additional information, see Note 5 in the "Notes to the City's Basic Financial Statements Fiscal Year Ended June 30, 2010" in the City's Comprehensive Annual Financial Reports.

Other Post-Employment Benefits

Retired members and surviving spouses and domestic partners of LACERS and FPPP members are eligible for certain subsidies toward their costs of medical and dental insurance. Both of the Pension Systems advance fund retiree health insurance benefits for current retirees and active eligible members for many years, funding the annual contribution recommended by their actuaries. Historically, there were no member contributions for health subsidy benefits; all such costs were funded from the employer's contribution and investment returns thereon. Going forward, Tier 6 members will pay 2% towards retiree health for 25 years, which is when they qualify for the maximum subsidy. The City is also negotiating with public safety unions to have the other Tiers pay towards retiree health; however, due to tax implications, this funding will actually be credited towards pension funding rather than health funding.

The City began making payments to its Pension Systems to pre-fund its OPEB obligations in Fiscal Year 1989-90, in the appropriate amount as determined by the Pension Systems and its actuaries. Since implementation of GASB Statements No. 43 and No. 45, the City has contributed most or all of its actuarially determined annual required contribution in each year. Relative to FPPP, beginning in Fiscal Year 2007-08, changes in medical trend rates were phased in over three years, resulting in contributions less than 100% of the annual required contributions. The City's annual funding to LACERS has fully complied with GASB Statements No. 43 and No. 45 beginning in FY 2006-07. For additional

information, see Note 5 in the “Notes to the City’s Basic Financial Statements Fiscal Year Ended June 30, 2010 in the City’s Comprehensive Annual Financial Reports.”

As of June 30, 2010, the unfunded healthcare benefits liabilities of LACERS and the FPPP, based on the actuarial cost method and assumptions used for the related pension plans, are as follows:

Table XXXVIII
Los Angeles City Employees Retirement System
Other Post-Employment Benefits
(Dollars in Thousands)

Actuarial Valuation As of June 30	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL)	Underfunded or (Overfunded) AAL	Funded Ratio *	Covered Payroll	Underfunded or (Overfunded) AAL As Percentage of Covered Payroll
2006	\$ 990,270	\$1,730,799	\$740,529	57.2%	\$1,733,340	42.7%
2007	1,185,544	1,730,400	544,856	68.5	1,896,609	28.7
2008	1,342,920	1,928,043	585,123	69.7	1,977,645	29.6
2009	1,342,497	2,058,177	715,680	65.2	1,816,171	39.4
2010	1,425,726	2,233,874	808,148	63.8	1,817,662	44.5

* Actuarial value of assets divided by actuarial accrued liability.

Source: The City of Los Angeles City Employees’ Retirement System Actuarial Valuations.

Table XXXIX
Los Angeles Fire and Police Pension Plan
Other Post-Employment Benefits
(Dollars in Thousands)

Actuarial Valuation As of June 30	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL)	Underfunded or (Overfunded) AAL	Funded Ratio *	Covered Payroll	Underfunded or (Overfunded) AAL As Percentage of Covered Payroll
2006	\$613,782	\$1,631,187	\$1,017,405	37.6%	\$1,092,815	93.1%
2007	687,096	1,656,653	969,557	41.5	1,135,592	85.4
2008	767,648	1,836,840	1,069,192	41.8	1,206,589	88.6
2009	809,677	2,038,659	1,228,982	39.7	1,357,249	90.5
2010	817,276	2,537,825	1,720,549	32.2	1,356,986	126.8

* Actuarial value of assets divided by actuarial accrued liability.

Source: The Fire and Police Pension System Actuarial Valuations.

Table XL below projects the City’s contributions to LACERS for the next five fiscal years based on information provided by LACERS’ current actuary. These contributions include the projected cost of other post-employment benefits. These projections reflect large deferred investment losses from the previous years, assume an 8% investment return for Fiscal Year 2011-12, the actuarial rate of return of 8% thereafter, a seven-year asset smoothing period, and a corridor limit of 60% to 140% of the market value of assets.

Table XL
Los Angeles City Employees' Retirement System
Projected Contributions
(Dollars in Thousands)

	Proposed Budget 2011-12²	2012-13	2013-14	2014-15	2015-16
LACERS					
Contributions for Council-Controlled Departments ¹	\$394,564	\$448,361	\$487,755	\$521,971	\$559,001
Incremental Change	\$55,429	\$53,797	\$39,394	\$34,216	\$37,030

¹ This line item includes contributions for positions that are special fee, grant fund and special fund supported. Payments are initially made from the General Fund and are subsequently reimbursed from various special fund sources allowing such reimbursements. This excludes Harbor and Airports departments.

² The amount of the City contribution for the 2011-12 Adopted Budget is pending. As part of the 2011-12 Budget actions, the City Council instructed the City Administrative Officer to report by June 15, 2011 with recommendations to implement approved bargaining agreements by making necessary budgetary adjustments. These adjustments are expected to impact the City's 2011-12 covered payroll which provides the basis for the City contribution. A reduction in the contribution amount is anticipated.

Source: City of Los Angeles, Office of the City Administrative Officer.

Table XLI below projects the General Fund's contributions to FPPP, including the projected cost of other post-employment benefits, for the next five fiscal years, based on information provided by FPPP's actuary. These contributions include the projected cost of other post-employment benefits. These projections reflect the deferred investment losses from previous years, assume 7.75% in investment return for Fiscal Year 2011-12, and an actuarial rate of return of 7.75% thereafter. Consistent with FPPP's current policies, investment gains or losses are recognized over a seven-year asset smoothing period, with a corridor limit of 60% to 140% of market value of assets. Additionally, these scenarios also reflect recent changes to the FPPP funding policies as adopted by the Board of Pension Commissioners. These modifications include changing the 10 percent medical trend assumption from a one-year period to a three-year period. However, any potential savings from the establishment of the new Tier 6 pension plan, as approved by City voters in March 2011, are not yet reflected in these estimates.

Table XLI
Los Angeles Fire and Police Pension Plan
Projected Contributions
(Dollars in Thousands)

	Proposed Budget 2011-12*	2012-13	2013-14	2014-15	2015-16
General Fund	\$484,074	\$550,780	\$633,217	\$684,186	\$731,329
Incremental Change	\$ 97,061	\$ 66,706	\$ 82,437	\$ 50,169	\$ 47,143

* The amount of the City contribution to FPPP per the 2011-12 Adopted Budget is pending. In accordance with Council action, the new calculations for the FPPP contribution will be based on reduced sworn covered payroll of \$31.4 million which will also reduce the FPPP contribution amount from the Proposed Budget.

Source: City of Los Angeles, Office of the City Administrative Officer.

The projections in Tables XL and XLI illustrate that the City's contribution rates for LACERS and FPPP may increase substantially over the next few years. If investment returns are higher than investment assumptions, actual contribution rates could be lower than these projections.

Investors are cautioned that, in considering information on the Pension Systems, including the amount of the UAAL, the funded ratio, the calculations of normal cost, and the resulting amounts of

required contributions by the City, this is “forward-looking” information. Such “forward-looking” information reflects the judgment of the boards of the respective Pension Systems and their respective actuaries as to the amount of assets that the Pension Systems will be required to accumulate to fund future benefits over the lives of the currently active employees, vested terminated employees, and existing retired employees and beneficiaries. These judgments are based upon a variety of assumptions, one or more of which may prove to be inaccurate and/or be changed in the future.

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

[TO BE UPDATED ONCE INDENTURE IS NEAR FINAL]

The following is a summary of certain provisions of the Indenture which are not described elsewhere in this Official Statement. This summary does not purport to be comprehensive and reference should be made to the Indenture for a full and complete statement of its provisions. All capitalized terms not defined herein or elsewhere in this Official Statement have the meanings set forth in the Indenture.

DEFINITIONS

Unless the context otherwise requires, the terms defined under this caption will, for all purposes of this Official Statement have the meanings herein specified in the Indenture, to be equally applicable to both the singular and plural forms of any of the terms herein defined.

“Accountant” means any firm of Independent Certified Public Accountants selected by the Department in its sole discretion.

“Agencies” means (1) obligations of any of the following federal agencies which obligations represent full faith and credit of the United States of America, including the Export - Import Bank; Farmers Home Administration; General Services Administration; U.S. Maritime Administration; Small Business Administration; Government National Mortgage Association (GNMA); U.S. Department of Housing & Urban Development (PHA’s); and Federal Housing Administration; and (2) bonds, notes or other evidences of indebtedness rated “AAA” and “Aaa” by S&P and Moody’s, respectively, and the highest rating by Fitch, if Fitch rates such instruments issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation with remaining maturities not exceeding three years.

“Annual Debt Service” means, for any Fiscal Year, the sum of (1) the interest payable on all Parity Obligations in such Fiscal Year, (2) the principal amount or accreted value of all outstanding serial Parity Obligations maturing by their terms in such Fiscal Year, and (3) the principal amount or accreted value of all outstanding term Parity Obligations required to be redeemed or paid in such Fiscal Year.

“Authorized Representative” means with respect to the Department, its Executive Director, Chief Financial Officer, Director of Debt and Treasury or any other person designated as an Authorized Representative of the Department by a Certificate of the Department signed by its Executive Director and filed with the Trustee.

“Average Annual Debt Service” means, as of any date of calculation, the average of Annual Debt Service for all Fiscal Years on all Bonds and Parity Obligations outstanding as of such date.

“Board” means the Board of Harbor Commissioners of the City of Los Angeles.

“Bond Counsel” means a firm of nationally-recognized attorneys experienced in the issuance of tax-exempt obligations the interest on which is excludable from gross income under Section 103 of the Code.

“Bonds” means the Harbor Department of the City of Los Angeles Revenue Bonds, 2014 Series A and 2014 Series B.

“Business Day” means (i) a day which is not a Saturday, Sunday or legal holiday on which banking institutions in the State, or in any other state in which the Office of the Trustee is located, are closed or (ii) a day on which the New York Stock Exchange is not closed.

“Certificate,” “Direction,” “Request,” or “Requisition” of the Department means a written certificate, direction, request or requisition signed in the name of the Department by its Authorized Representative. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined will be read and construed as a single instrument.

“Charter” means the Charter of the City of Los Angeles, effective on July 1, 2000, as the same may be amended or supplemented from time to time.

“City” means the City of Los Angeles, California and its successors and assigns.

“Closing Date” means, with respect to any Series of Bonds, the date on which Bonds of such Series are delivered to the original purchaser thereof.

“Code” means the Internal Revenue Code of 1986, and the regulations issued thereunder, as the same may be amended from time to time, and any successor provisions of law. Reference to a particular section of the Code will be deemed to be a reference to any successor to any such section.

“Common Reserve” means the Reserve Fund established under the Indenture together with all reserve funds established with respect to Parity Obligations which have been designated by the Department to be a part of the Common Reserve in accordance with the Indenture or any Issuing Document for a Common Reserve Parity Obligation.

“Common Reserve Parity Obligation” has the meaning set forth under the caption “REVENUES, FUNDS AND ACCOUNTS; PAYMENT OF PRINCIPAL AND INTEREST—Reserve Fund” in this Appendix C.

“Common Reserve Requirement” means, as of any date of calculation, an amount equal to the least of (a) 125% of average annual principal of and interest on all outstanding Parity Obligations entitled to the benefit of the Common Reserve, determined on a fiscal year basis, (b) the maximum aggregate annual principal of and interest on all outstanding Parity Obligations entitled to the benefit of the Common Reserve, determined on a fiscal year basis, and (c) 10% of the proceeds of all Parity Obligations entitled to the benefit of the Common Reserve; provided, however, that, if, upon issuance of a Parity Obligation entitled to the benefit of the Common Reserve, such amount would require moneys to be credited to the Common Reserve from the proceeds of such Parity Obligations in an amount in excess of the maximum amount permitted under the Code to be funded from the proceeds of tax-exempt bonds, the Common Reserve Requirement will mean an amount equal to the sum of the Common Reserve Requirement immediately preceding issuance of such Parity Obligation and the maximum amount permitted under the Code to be funded from the proceeds of tax-exempt bonds to be deposited therein from the proceeds of such Parity Obligation, as certified in a Certificate of the Department.

“Common Reserve Security Device” will have the meaning set forth under the caption “REVENUES, FUNDS AND ACCOUNTS; PAYMENT OF PRINCIPAL AND INTEREST—Reserve Fund” in this Appendix C.

“Consultant’s Report” means a report signed by an Independent Financial Consultant or Independent Certified Public Accountant and including (1) a statement that the person or firm making or

giving such report has read the pertinent provisions of the Indenture to which such report relates; (2) a brief statement as to the nature and scope of the examination or investigation upon which the report is based; and (3) a statement that, in the opinion of such person or firm, sufficient examination or investigation was made as is necessary to enable said Independent Financial Consultant or Independent Certified Public Accountant to express an informed opinion with respect to the subject matter referred to in the report.

“Continuing Disclosure Certificate” means that certain Continuing Disclosure Certificate executed by the Department, dated the date of delivery of the Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Department and related to the authorization, issuance, sale and delivery of the Bonds, including but not limited to costs of preparation and reproduction of documents, printing expenses, filing and recording fees, initial fees and charges of the Trustee and counsel to the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, rating agency fees, title insurance premiums, letter of credit fees, bond insurance premiums and surety bond premiums (if any), fees and charges for preparation, execution and safekeeping of the Bonds and any other cost, charge or fee in connection with the original issuance of the Bonds.

“Costs of Issuance Fund” means the fund by that name established pursuant to the Indenture.

“Council” means the City Council of the City of Los Angeles.

“Debt Service” means, for any period of calculation, the sum of principal of and interest on the Bonds, Parity Obligations and other bonds, notes, certificates and other evidences of indebtedness of the Department and bonds, notes, certificates and other evidences of indebtedness of the City payable or serviced out of the Harbor Revenue Fund (as calculated based on the reasonable assumptions of the Department) on a parity with the Bonds during such period.

“Department” means the Harbor Department of the City of Los Angeles and its successors and assigns.

“Depository” or “DTC” means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York in its capacity as securities depository for the Bonds.

“Event of Default” means any of the events specified in the Indenture.

“Federal Securities” means any direct, noncallable general obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America), or noncallable obligations the timely payment of principal of and interest on which are fully and unconditionally guaranteed by the United States of America.

“Fiscal Year” means the twelve-month period beginning on July 1 of each year and ending on the next succeeding June 30, both dates inclusive, or any other twelve-month period hereafter selected and designated as the official fiscal year period of the Department.

“Fitch” means Fitch, Inc., or any successor thereto.

“Governmental Bonds” means the 2014 Series B Bonds.

“Governmental Projects” means improvements, utilities, structures, watercraft, appliances, facilities and services as the Board may deem necessary or convenient for the promotion or accommodation of maritime commerce, navigation or fishery, or for any use in connection therewith, or upon the lands and waters, or interests therein, in the possession and under the management, supervision and control of said Board, or for the payment of the cost of acquiring or taking such real property or any interest therein that the Board may deem necessary or convenient for such purposes. All Governmental Projects (other than projects to the extent the bond-financed cost thereof is not in excess of 10% of the proceeds of the bond issue, or series of bonds, as applicable, from which such costs are financed, net of amounts therefrom deposited in a debt service reserve fund) must not be used in a “private business use” within the meaning of Section 141(b) of the Code and the Treasury Regulations thereunder.

“Harbor District” will have the meaning set forth in the Charter.

“Harbor Revenue Fund” means the Harbor Revenue Fund established pursuant to Section 656(a) of the Charter.

“Indenture” means the Indenture of Trust, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture.

“Independent Certified Public Accountant” means any firm of certified public accountants appointed by the Department, and each of whom is independent pursuant to the Statement on Auditing Standards No. 1 of the American Institute of Certified Public Accountants.

“Independent Financial Consultant” means a financial consultant or firm of such consultants appointed by the Department, and who, or each of whom:

- (A) is in fact independent and not under control of the Department;
- (B) does not have any substantial interest, direct or indirect, with the Department;
and
- (C) is not connected with the Department as an officer or employee of the Department, but who may be regularly retained to make reports to the Department.

“Information Services” means the Electronic Municipal Market Access System (“EMMA”), a service of the Municipal Securities Rulemaking Board, or such other service providing information with respect to called bonds as the Department may designate in writing to the Trustee.

“Interest Account - 2014 Series A” means the account by that name established pursuant to the Indenture.

“Interest Account - 2014 Series B” means the account by that name established pursuant to the Indenture.

“Interest Fund” means the fund by that name established pursuant to the Indenture.

“Interest Payment Date” means each February 1 and August 1, commencing February 1, 2012 with respect to the Bonds.

“Issuing Document” means any indenture, trust agreement or other document pursuant which any Parity Obligations are issued or delivered; provided that, if a trustee is appointed under an Issuing Document, the trustee for all Parity Obligations will be the Trustee.

“Moody’s” means Moody’s Investors Service, Inc. or any successor thereto.

“Net Revenues” means Revenues less Operation and Maintenance costs.

“Nominee” means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Indenture.

“Office” means with respect to the Trustee, the office of the Trustee at 633 West Fifth Street, 24th Floor, Los Angeles, California 90071, Attention: Corporate Trust Services, provided however, for the purposes of maintenance of the Registration Books and surrender of the Bonds for transfer, exchange or payment, such term will mean the office or agency at which the Trustee conducts its corporate agency function or at such other or additional offices as may be specified in writing by the Trustee to the Department.

“Operation and Maintenance” will mean the necessary expenses of conducting the Department, including the operation, promotion and maintenance of all harbor or port improvements, works, utilities, appliances, facilities, services, maritime related recreation facilities and watercraft, owned, controlled or operated by the City for the promotion or accommodation of maritime commerce, navigation or fishery, or used in connection therewith, but will not include any Shortfall Advances, defined in the Official Statement, dated January 29, 1999, with respect to the Alameda Corridor Transportation Authority Taxable Senior Lien Revenue Bonds Series 1999C and Taxable Subordinate Lien Revenue Bonds Series 1999D as the payments by that name are more particularly defined and described in the Alameda Corridor Use and Operating Agreement, dated as of October 12, 1998, by and among the Department and the other parties thereto, as amended by any amendments and supplements thereto, which the Department is obligated to pay to the Alameda Corridor Transportation Authority pursuant to such Alameda Corridor Use and Operating Agreement.

“Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture relating to Disqualified Bonds) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (b) Bonds with respect to which all liability of the Department will have been discharged in accordance with the defeasance provisions of the Indenture, including Bonds (or portions thereof) described under the caption “MISCELLANEOUS – Money Held for Particular Bonds”; and (c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds will have been authenticated and delivered by the Trustee pursuant to the Indenture.

“Owner” or “Bond Owner,” whenever used in the Indenture with respect to a Bond, means the person in whose name the ownership of such Bond is registered on the Registration Books.

“Paired Obligation” means any Parity Obligations (or portion thereof) designated as Paired Obligations in the resolution, indenture or other document authorizing the issuance or execution and delivery thereof, which are simultaneously issued or executed and delivered (i) the principal of which is of equal amount maturing and to be redeemed or prepaid (or cancelled after acquisition thereof) on the same dates and in the same amounts, and (ii) the interest rates which, taken together, result in an irrevocably fixed interest rate obligation of the Department for the term of all or any portion of the term of such Parity Obligation.

“Parity Obligations” means the Bonds and all revenue bonds or notes of the Department authorized, executed, issued and delivered by the Department, and all contracts of the Department authorized and executed by the Department, the payments of which are on a parity with the Bonds and which are secured by a pledge of and lien on the Revenues.

“Participants” means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds Book-Entry Bonds as securities depository.

“Permitted Investments” means any of the following:

(A) Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

(B) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

U.S. Export-Import Bank (Eximbank)

Direct obligations or fully guaranteed certificates of beneficial ownership

Farmers Home Administration (FmHA)

Certificates of beneficial ownership

Federal Financing Bank

Federal Housing Administration Debentures (FHA)

General Services Administration

Participation certificates

Government National Mortgage Association (GNMA or “Ginnie Mae”)

GNMA – guaranteed mortgage-backed bonds

GNMA – guaranteed pass-through obligations

U.S. Maritime Administration

Guaranteed Title XI financing

U.S. Department of Housing and Urban Development (HUD)

Project Notes

Local Authority Bonds

New Communities Debentures – U.S. government guaranteed debentures

U.S. Public Housing Notes and Bonds – U.S. government guaranteed public housing notes and bonds

(C) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

Federal Home Loan Bank System
Senior debt obligations

Federal Home Loan Mortgage Corporation (FHLMC or “Freddie Mac”)
Participation Certificates
Senior debt obligations

Federal National Mortgage Association (FNMA or “Fannie Mae”)
Mortgage-backed securities and senior debt obligations

Resolution Funding Corp. (REFCORP) obligations

Farm Credit System
Consolidated systemwide bonds and notes

(D) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of AAAM-G; AAA-m; or AA-m and if rated by Moody’s rated Aaa, Aa1 or Aa2, including funds for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee provide investment advisory or other management services.

(E) Certificates of deposit secured at all times by collateral described in (A) and/or (B) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks which may include the Trustee and its affiliates. The collateral must be held by a third party and the bondholders must have a perfected first security interest in the collateral.

(F) Certificates of deposit, savings accounts, deposit accounts or money market deposits of any bank where the short term obligations are rated “Prime-1” by Moody’s and “A-1” or better by S&P.

(G) Investment Agreements, including guaranteed investment contracts, forward purchase agreements and reserve fund put agreements with a provider whose long-term unsecured debt is rated at the time of execution and delivery thereof in not lower than the second highest rating category of Moody’s and S&P.

(H) Commercial paper rated, at the time of purchase, “Prime-1” by Moody’s and “A-1” or better by S&P.

(I) Bonds or notes issued by any state or municipality which are rated by Moody’s and S&P in one of the two highest rating categories assigned by such agencies.

(J) Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of “Prime-1” or “A3” or better by Moody’s and “A-1” or “A” or better by S&P.

(K) Repurchase Agreements which meet the following criteria:

Repurchase Agreements must provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to the Department (buyer/lender), and the transfer of cash from the Department to the dealer bank or securities firm

with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the Department in exchange for the securities at a specified date.

Repurchase Agreements must be between the Department and a dealer bank or securities firm.

Primary dealers on the Federal Reserve reporting dealer list which are rated A or better by S&P and Moody's at the time of execution and delivery thereof, or

Banks rated "A" or above by S&P and Moody's at the time of execution and delivery thereof.

The written Repurchase Agreement must include the following:

Securities which are acceptable for transfer are: (1) Direct U.S. governments, or (2) Federal agencies backed by the full faith and credit of the U.S. government (and FNMA & FHLMC).

The term of the Repurchase Agreement may be up to 30 days.

The collateral must be delivered to the Department, the Trustee (if the Trustee is not supplying the collateral) or third party acting as agent for the Trustee (if the Trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities).

Valuation of Collateral

The securities must be valued weekly, marked-to-market at current market price plus accrued interest; and

The value of the collateral must be equal to 104% of the amount of cash transferred by the Department to the dealer bank or security firm under the Repurchase Agreement plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by the Department, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.

A legal opinion which must be delivered to the Department that the Repurchase Agreement meets the guidelines under State law for legal investment of public funds.

Additional Notes

Any state administered pool investment fund in which the Department is statutorily permitted or required to invest will be deemed a Permitted Investment.

The Trustee will Value the Permitted Investments on deposit in the Common Reserve at least once per year. Permitted Investments on deposit in the Common Reserve may not have maturities extending beyond 5 years, except for

Investment Agreements with respect to the Bonds with a provider whose long-term unsecured debt is rated at the time of execution and delivery thereof in not lower than the second highest rating category of Moody's and S&P.

"Principal Account – 2014 Series A" means the account by that name established pursuant to the Indenture.

"Principal Account – 2014 Series B" means the account by that name established pursuant to the Indenture.

"Principal Fund" means the fund by that name established pursuant to the Indenture.

"Private Activity Bonds" means the 2014 Series A Bonds.

"Private Activity Projects" means improvements, utilities, structures, watercraft, appliances, facilities and services as the Board may deem necessary or convenient for the promotion or accommodation of maritime commerce, navigation or fishery, or for any use in connection therewith, or upon the lands and waters, or interests therein, in the possession and under the management, supervision and control of said Board, or for the payment of the cost of acquiring or taking such real property or any interest therein that the Board may deem necessary or convenient for such purposes. All Private Activity Projects (other than projects to the extent the bond-financed cost thereof is not in excess of 3% of the proceeds of the bond issue, or series of bonds, as applicable, from which such costs are financed, net of amounts therefrom deposited in a debt service reserve fund) must constitute a "dock or wharf" facility, or property functionally related and subordinate thereto, within the meaning of Section 142(a)(2) of the Code and the Treasury Regulations thereunder.

"Procedural Ordinance" means that certain Charter implementation ordinance related to the procedures for issuance and sale of revenue bonds and other obligations by the Department, and amending Sections 11.28.1 through 11.28.9 of Division 11, Chapter 1, Article 6.5 of the Los Angeles Administrative Code to conform the procedures to Charter Sections 609(a) and 610.

"Projects" means, collectively, the Private Activity Projects and the Governmental Projects.

"Rating Agencies" means Fitch, S&P and Moody's.

"Rebate Fund" means the fund by that name established pursuant to the Indenture.

"Record Date" means, with respect to any Interest Payment Date, the fifteenth (15th) day of the calendar month preceding such Interest Payment Date, whether or not such day is a Business Day.

"Redemption Account – 2014 Series A" means the account by that name established pursuant to the Indenture.

"Redemption Account – 2014 Series B" means the account by that name established pursuant to the Indenture.

"Redemption Date" means any date fixed for a redemption prior to maturity of Bonds.

"Redemption Fund" means the fund by that name established pursuant to the Indenture.

“Redemption Price” means, with respect to any Bond (or portion thereof), the principal amount with respect to such Bond (or portion thereof), plus accrued and unpaid interest thereon to the Redemption Date, without premium, payable upon redemption thereof pursuant to the provisions of such Bond and the Indenture.

“Refunded Bond Indenture” means the 2001 Indenture.

“Refunded Bonds” means, collectively, the 2001A Bonds and the 2001B Bonds.

“Registration Books” means the records maintained by the Trustee for the registration of ownership and registration of transfer of the Bonds pursuant to the Indenture.

“Reserve Fund” means the fund by that name established pursuant to the Indenture.

“Resolution” means Resolution No. [__]-[__] of the Board adopted on [____], 2014.

“Responsible Officer of the Trustee” means any officer within the corporate trust division (or any successor group or department of the Trustee) including any vice president, assistant vice president, assistant secretary or any other officer or assistant officer of the Trustee with administrative responsibility for the Indenture on behalf of the Trustee.

“Revenues” means:

(A) all money received or collected from or arising out of the use or operation of any harbor or port improvement, work, structure, appliance, facility or utility, service, or watercraft, owned, controlled or operated by the City of Los Angeles in or upon or pertaining to the lands and waters, or interests therein, of said City in the Harbor District; all tolls, charges and rentals collected by the Harbor Department; and all compensations or fees required to be paid for franchises or licenses, or otherwise by law or ordinance or order, to the City for the operation of any public service utility upon lands and waters, or interests therein, of the City in the Harbor District; provided that for the avoidance of doubt user fees collected by the Department on behalf of, or required to be transmitted to, third parties pursuant to applicable law and not commingled with Revenues, will not be deemed to be Revenues; and

(B) all interest or gain derived from the investment of amounts in any of the funds or accounts established under the Indenture (except interest and gain derived from the Rebate Fund established and maintained under the Indenture).

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., or any successor thereto.

“Securities Depositories” means The Depository Trust Company, 55 Water Street, 50th Floor, New York, New York 10041-0099, Attention: Call Notification Department, Fax: (212) 855-7232; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the Department may designate in a Request of the Department deliver to the Trustee.

“Separate Reserve Fund” means a reserve fund created pursuant to an Issuing Document for a Parity Obligation that is not a part of the Common Reserve.

“Separate Reserve Fund Requirement” will have the meaning set forth for the term “Reserve Fund Requirement” in the Issuing Documents for the Parity Obligations that are not a part of the Common Reserve.

“Separate Reserve Fund Security Device” will have the meaning set forth for the term “Reserve Fund Security Device” in the Issuing Documents for a Parity Obligation that is not a part of the Common Reserve.

“Series” wherever used in the Indenture with respect to Bonds, means all of the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction, regardless of variations in maturity, interest rate, redemption and other provisions, and any Bonds thereafter authenticated and delivered upon transfer or exchange of or in lieu of or in substitution for (but not to refund) such Bonds as provided in the Indenture.

“State” means the State of California.

“Subseries” wherever used in the Indenture with respect to Bonds, means all of the Bonds designated as being of the same subseries within a Series, authenticated and delivered in a simultaneous transaction, regardless of variations in maturity, interest rate, redemption and other provisions, and any Bonds thereafter authenticated and delivered upon transfer or exchange of or in lieu of or in substitution for (but not to refund) such Bonds as provided in the Indenture.

“Supplemental Indenture” means any indenture hereafter duly authorized and entered into between the Department and the Trustee, supplementing, modifying or amending the Indenture; but only if and to the extent that such Supplemental Indenture is authorized pursuant to the Indenture.

“Tax Certificate” means the Tax Certificate concerning certain matters pertaining to the use and investment of proceeds of the Bonds, executed by the Department on the date of issuance of the Bonds, including any and all exhibits attached thereto, as such Tax Certificate may be amended or supplemented in connection with the issuance of the Bonds or otherwise.

“TEFRA Notice” means the notice of public hearing to be held by the Department regarding, among other things, the Department’s issuance of the Private Activity Bonds to finance the costs of the Private Activity Projects and to provide related costs published on _____, 2014 in the Los Angeles Daily News, The Daily Breeze and Los Angeles Metropolitan News-Enterprise, all newspapers of general circulation within the City and County of Los Angeles.

“Trustee” means U.S. Bank National Association, a national banking association organized and existing under the laws of the United States of America, or its successor, as Trustee under the Indenture as provided in the Indenture.

“2001A Bonds” means the Harbor Department of the City of Los Angeles Refunding Revenue Bonds, 2001 Series A.

“2001B Bonds” means the Harbor Department of the City of Los Angeles Refunding Revenue Bonds, 2001 Series B (AMT).

“2001 Indenture” means the Indenture of Trust, dated as of July 1, 2001, by and between the Department and U.S. Bank National Association, as successor to BNY Western Trust Company, as trustee, and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof.

“2014 Series A Bonds” means the Harbor Department of the City of Los Angeles Revenue Bonds, 2014 Series A (AMT).

“2014 Series B Bonds” means the Harbor Department of the City of Los Angeles Revenue Bonds, 2014 Series B (Non-AMT).

“Value” means that the value of any investments will be the lower of the initial cost of such investment and value calculated as follows:

(a) as to investments the bid and asked prices of which are published on a regular basis in The Wall Street Journal (or, if not there, then in The New York Times): the average of the bid and asked prices for such investments so published on or most recently prior to such time of determination;

(b) as to investments the bid and asked prices of which are not published on a regular basis in The Wall Street Journal or The New York Times: the average bid price at such time of determination for such investments by any two nationally recognized government securities dealers (selected by the Trustee in its absolute discretion) at the time making a market in such investments or the bid price published by a nationally recognized pricing service;

(c) as to certificates of deposit and bankers acceptances: the face amount thereof, plus accrued interest;

(d) as to any investment not specified above: the value thereof established by the Department and specified to the Trustee; or

(e) as to any investment, in the manner currently employed by the Trustee or any other manner consistent with corporate trust industry standard.

THE BONDS

Transfer of Bonds. Any Bond may, in accordance with its terms, be transferred on the Registration Books by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Bond at the Office of the Trustee for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Trustee. The Trustee will not be required to register the transfer of any Bond during the period in which the Trustee is selecting Bonds for redemption and any Bond that has been selected for redemption.

Whenever any Bond or Bonds will be surrendered for transfer, the Department will execute and the Trustee will authenticate and will deliver a new Bond or Bonds of authorized denomination or denominations for a like aggregate principal amount of the same maturity and Series. The Trustee will require the Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer. The cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any such transfer will be paid by the Department.

Exchange of Bonds. Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of other authorized denominations of the same maturity. The Trustee will not be required to exchange any Bond during the period in which the Trustee is selecting Bonds for redemption and any Bond that has been selected for redemption. The Trustee will require the Bond Owner requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such

exchange. The cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any such exchange will be paid by the Department.

Registration Books. The Trustee will keep or cause to be kept, at the Office of the Trustee, sufficient records for the registration and transfer of ownership of the Bonds, which will upon reasonable notice and at reasonable times be open to inspection during regular business hours by the Department; and, upon presentation for such purpose, the Trustee will, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such records, the ownership of the Bonds as provided in the Indenture.

REVENUES, FUNDS AND ACCOUNTS; PAYMENT OF PRINCIPAL AND INTEREST

Pledge and Assignment. Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, all of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held in any fund or account established pursuant to the Indenture (except the Rebate Fund established and maintained under the Indenture) are, pursuant to the Indenture, irrevocably pledged to secure the payment of the principal of and interest, and the premium, if any, on the Bonds in accordance with their terms and the provisions of the Indenture subject only to the provisions of the Indenture permitting the terms and conditions set forth in the Indenture. Said pledge of the Revenues is on a parity with the lien on and security interest in the Revenues of the Parity Obligations pursuant to the Issuing Documents for such Parity Obligations. Said pledge of amounts held in the Reserve Fund (which the Department has elected pursuant to the Indenture to treat as part of the Common Reserve securing all Common Reserve Parity Obligations) is on a parity with the lien on and security interest in such amounts of the Common Reserve Parity Obligations pursuant to the Issuing Documents for such Common Reserve Parity Obligations. Said pledge will constitute a lien on and security interest in such amounts and will attach, be perfected and be valid and binding from and after the Closing Date, without any physical delivery thereof or further act and will be valid and binding against all parties having claims of any kind in tort, contract or otherwise against the Department, irrespective of whether such parties have notice hereof.

All Revenues will be promptly deposited by the Department upon receipt thereof in the Harbor Revenue Fund in accordance with the Charter. The Trustee will establish and maintain an Interest Fund, which will contain an "Interest Account – 2014 Series A" and an "Interest Account – 2014 Series B," and a Principal Fund, which will contain a "Principal Account – 2014 Series A" and a "Principal Account – 2014 Series B." All amounts at any time on deposit in the Interest Fund and the Principal Fund will be held by the Trustee in trust separate and apart from other funds held by it.

Application of Interest Fund. The Trustee will, immediately upon receipt of any moneys from the Department for deposit in the Interest Fund, allocate to the Interest Account – 2014 Series A that sum, if any, required to cause the aggregate amount on deposit in the Interest Account – 2014 Series A to be at least equal to the amount of interest becoming due and payable on such date on all 2014 Series A Bonds then Outstanding; and to the Interest Account – 2014 Series B that sum, if any, required to cause the aggregate amount on deposit in the Interest Account – 2014 Series B to be at least equal to the amount of interest becoming due and payable on such date on all 2014 Series B Bonds then Outstanding. In the event such moneys are insufficient to fully fund such accounts, the Trustee will, without preference or priority, allocate such moneys to such accounts ratably, in accordance with the amount of interest becoming due and payable on the 2014 Series A Bonds and the 2014 Series B Bonds on the next Interest Payment Date and will draw on the Common Reserve in accordance with the Indenture, in amounts sufficient to pay interest becoming due and payable on the Bonds on the next Interest Payment Date.

All amounts in the Interest Account – 2014 Series A will be used and withdrawn by the Trustee solely for the purpose of paying interest on the 2014 Series A Bonds as it will become due and payable (including accrued interest on any 2014 Series A Bonds purchased or redeemed prior to maturity pursuant to the Indenture).

All amounts in the Interest Account – 2014 Series B will be used and withdrawn by the Trustee solely for the purpose of paying interest on the 2014 Series B Bonds as it will become due and payable (including accrued interest on any 2014 Series B Bonds purchased or redeemed prior to maturity pursuant to the Indenture).

Application of Principal Fund. The Trustee will immediately upon receipt of any money from the Department for deposit in the Principal Fund allocate to the Principal Account – 2014 Series A that sum, if any, required to cause the aggregate amount on deposit in the Principal Account – 2014 Series A to be at least equal to the principal amount of the 2014 Series A Bonds becoming due and payable on the next August 1; to the Principal Account – 2014 Series B that sum, if any, required to cause the aggregate amount on deposit in the Principal Account – 2014 Series B to be at least equal to the principal amount of the 2014 Series B Bonds becoming due and payable on the next August 1. In the event such moneys are insufficient to fully fund such accounts, the Trustee will, without preference or priority, allocate such moneys to such accounts ratably, in accordance with the principal amount of the 2014 Series A Bonds and the 2014 Series B Bonds becoming due and payable on the next August 1 and will transfer amounts from the Common Reserve in accordance with the Indenture, in amounts sufficient to pay principal when due on the Bonds.

All amounts in the Principal Account – 2014 Series A will be used and withdrawn by the Trustee solely to pay the principal amount of the 2014 Series A Bonds at maturity, purchase or acceleration; provided, however, that at any time prior to selection for redemption of any such 2014 Series A Bonds, upon written direction of the Department, the Trustee will apply such amounts to the purchase of 2014 Series A Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account – 2014 Series A of the Interest Fund) as will be directed pursuant to a Request of the Department, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to the 2014 Series A Bonds.

All amounts in the Principal Account – 2014 Series B will be used and withdrawn by the Trustee solely to pay the principal amount of the 2014 Series B Bonds at maturity, purchase or acceleration; provided, however, that at any time prior to selection for redemption of any such 2014 Series B Bonds, upon written direction of the Department, the Trustee will apply such amounts to the purchase of 2014 Series B Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account – 2014 Series B of the Interest Fund) as will be directed pursuant to a Request of the Department, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to the 2014 Series B Bonds.

Application of Redemption Fund. The Trustee will establish a special fund designated as the “Redemption Fund” which will contain a “Redemption Account – 2014 Series A” and a “Redemption Account – 2014 Series B” to be held in trust by the Trustee separate and apart from other funds held by it. The Trustee will, immediately upon receipt of any moneys from the Department to be applied towards the optional redemption of Bonds deposit such moneys into the applicable Redemption Account as directed in writing by the Department.

All amounts in the Redemption Account – 2014 Series A will be used and withdrawn by the Trustee solely for the purpose of paying the Redemption Price of the 2014 Series A Bonds to be redeemed on such Redemption Date pursuant to the Indenture; provided, however, that at any time prior to selection for redemption of any such 2014 Series A Bonds, upon written direction of the Department, the Trustee will apply such amounts to the purchase of 2014 Series A Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account - 2014 Series A of the Interest Fund) as will be directed pursuant to a Request of the Department, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to the 2014 Series A Bonds.

All amounts in the Redemption Account – 2014 Series B will be used and withdrawn by the Trustee solely for the purpose of paying the Redemption Price of the 2014 Series B Bonds to be redeemed on such Redemption Date pursuant to the Indenture; provided, however, that at any time prior to selection for redemption of any such 2014 Series B Bonds, upon written direction of the Department, the Trustee will apply such amounts to the purchase of 2014 Series B Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account – 2014 Series B of the Interest Fund) as will be directed pursuant to a Request of the Department, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to the 2014 Series B Bonds.

Investments. All moneys in any of the funds or accounts established with the Trustee pursuant to the Indenture will be invested by the Trustee solely in Permitted Investments. Such investments will be directed by the Department pursuant to a Request of the Department filed with the Trustee at least two (2) Business Days in advance of the making of such investments (which directions will be promptly confirmed to the Trustee in writing). The Trustee may conclusively rely on such Request of the Department as a certification that such investments constitute Permitted Investments. In the absence of any such directions from the Department, the Trustee will promptly invest any such moneys in Permitted Investments described in clause (D) of the definition thereof. Obligations purchased as an investment of moneys in any fund will be deemed to be part of such fund or account. Investments held in the Common Reserve will mature no later than the final maturity of the Bonds.

All interest or gain derived from the investment of amounts in any of the funds or accounts established under the Indenture other than the Rebate Fund will, without preference or priority, be allocated to the Interest Account – 2014 Series A and the Interest Account – 2014 Series B in accordance with the amount of interest becoming due and payable on the Bonds on the next Interest Payment Date, unless otherwise provided in the Indenture. All interest or gain derived from the investment of amounts in the Rebate Fund will be retained therein. For purposes of acquiring any investments under the Indenture, other than investment of amounts in the Rebate Fund, the Trustee may commingle funds held by it under the Indenture upon the Request of the Department. The Trustee may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. The Trustee, or its affiliates, may act as sponsor, advisor, or depository with regard to any Permitted Investment. The Trustee will incur no liability for losses arising from any investments made pursuant to the Indenture.

The Department acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grants the Department the right to receive brokerage confirmations of security transactions as they occur, the Department specifically waives receipt of such confirmations to the extent permitted by law. The Trustee will furnish the Department periodic cash transaction statements which include detail for all investment transactions made by the Trustee under the Indenture.

Rebate Fund. The Trustee will establish a special fund designated the “Rebate Fund.” All amounts at any time on deposit in the Rebate Fund will be held by the Trustee in trust, to the extent required to satisfy the requirement to make rebate payments to the United States (the “Rebate Requirement”) pursuant to Section 148 of the Code and the Treasury Regulations promulgated thereunder (the “Treasury Regulations”). Such amounts will be free and clear of any lien under the Indenture and will be governed by this subsection and the tax covenants set forth in the Indenture and by the Tax Certificate. The Trustee will be deemed conclusively to have complied with the Rebate Requirement if it follows the directions of the Department, and will have no independent responsibility to, or liability resulting from its failure to, enforce compliance by the Department with the Rebate Requirement.

Deposits.

(1) Within 45 days of the end of each Bond Year (as such term is defined in the Tax Certificate), (1) the Department will calculate or cause to be calculated with respect to the Bonds the amount that would be considered the “rebate amount” within the meaning of Section 1.148-3 of the Treasury Regulations, using as the “computation date” for this purpose the end of such Bond Year, and (2) upon the Department’s written direction, the Trustee will deposit to the Rebate Fund from deposits from the Department, if and to the extent required, amounts sufficient to cause the balance in the Rebate Fund to be equal to the “rebate amount” so calculated.

(2) The Trustee will not be required to deposit any amount to the Rebate Fund in accordance with the preceding sentence if the amount on deposit in the Rebate Fund prior to the deposit required to be made under this subsection of the Indenture equals or exceeds the “rebate amount” calculated in accordance with the preceding sentence. Such excess may be withdrawn from the Rebate Fund to the extent permitted under the subsection of the Indenture described under the subcaption “—Withdrawals of Excess Amounts” below.

(3) The Department will not be required to calculate the “rebate amount,” and the Trustee will not be required to deposit any amount to the Rebate Fund in accordance with this subsection of the Indenture, with respect to all or a portion of the proceeds of the Bonds (including amounts treated as proceeds of the Bonds) (1) to the extent such proceeds satisfy the expenditure requirements of Section 148(f)(4)(B), or (2) to the extent such proceeds qualify for the exception to arbitrage rebate under Section 148(f)(4)(A)(ii) of the Code for amounts in a “bona fide debt service fund.” In such event, and with respect to such amounts, the Department will provide written direction to the Trustee that the Trustee will not be required to deposit any amount to the Rebate Fund in accordance with this subsection of the Indenture.

Withdrawal Following Payment of Bonds. Any funds remaining in the Rebate Fund after redemption of all the Bonds and any amounts described in the subsection of the Indenture described in paragraph (2) under the subcaption “—Withdrawal for Payment of Rebate” below, or provision made therefor satisfactory to the Trustee, including accrued interest and payment of any applicable fees and expenses to the Trustee, will be withdrawn by the Trustee and remitted to the Department.

Withdrawal for Payment of Rebate. Upon the Department’s written direction, but subject to the exceptions contained in the subsection of the Indenture described under the subcaption “—Deposits” above to the requirement to calculate the “rebate amount” and make deposits to the Rebate Fund, the Trustee will pay to the United States, from amounts on deposit in the Rebate Fund,

(1) not later than 60 days after the end of (i) the fifth Bond Year, and (ii) each fifth Bond Year thereafter, an amount that, together with all previous rebate payments, is equal to at least

90% of the “rebate amount” calculated as of the end of such Bond Year in accordance with Section 1.148-3 of the Treasury Regulations; and

(2) not later than 60 days after the payment of all Bonds, an amount equal to 100% of the “rebate amount” calculated as of the date of such payment (and any income attributable to the “rebate amount” determined to be due and payable) in accordance with Section 1.148-3 of the Treasury Regulations.

Rebate Payments. Each payment required to be made pursuant to the subsection of the Indenture described under the subcaption “—Withdrawal for Payment of Rebate” above will be made to the Internal Revenue Service, Ogden Submission Processing Center, Ogden, Utah 84201 on or before the date on which such payment is due, and will be accompanied by Internal Revenue Service Form 8038-T, which will be completed by or on behalf of the Department and provided to the Trustee.

Deficiencies in the Rebate Fund. In the event that, prior to the time any payment is required to be made from the Rebate Fund, the amount in the Rebate Fund is not sufficient to make such payment when such payment is due, the Department will calculate the amount of such deficiency and direct the Trustee to deposit an amount received from the Department equal to such deficiency into the Rebate Fund prior to the time such payment is due.

Withdrawals of Excess Amounts. In the event that immediately following the calculation required by the subsection of the Indenture described under the subcaption “—Deposits” above, but prior to any deposit made under said subsection, the amount on deposit in the Rebate Fund exceeds the “rebate amount” calculated in accordance with such subcaption, upon written instructions from the Department, the Trustee will withdraw the excess from the Rebate Fund and credit such excess to the Interest Fund.

Record Keeping. The Department will retain records of all determinations made under the Indenture until six years after the complete retirement of the Bonds.

Survival of Defeasance. Notwithstanding anything in the Indenture to the contrary, the Rebate Requirement will survive the payment in full or defeasance of the Bonds.

Application of Funds and Accounts When No Bonds are Outstanding. On the date on which all Bonds will be retired under the Indenture or provision made therefor pursuant to the defeasance provisions of the Indenture and after payment of all amounts due the Trustee under the Indenture, all moneys then on deposit in any of the funds or accounts (other than the Rebate Fund) established with the Trustee pursuant to the Indenture will be withdrawn by the Trustee and paid to the Department.

Reserve Fund. In each Issuing Document, the Department may establish a reserve fund with respect to a Parity Obligation or Parity Obligations. With respect to each reserve fund established with respect to a Parity Obligation with interest payment dates on the Interest Payment Dates hereunder and with the Trustee as trustee under the related Issuing Document, the Department may elect to treat such reserve fund as a part of the Common Reserve securing all Parity Obligations designated by the Department to participate in the Common Reserve (each, a “Common Reserve Parity Obligation”). Each time that the Department elects to treat a reserve fund as a part of the Common Reserve, it will deposit funds in, and/or provide one or more (i) surety bonds, (ii) insurance policies issued by one or more municipal bond insurance companies, (iii) letters of credit, or (iv) other security devices, and credit to such Reserve Fund to satisfy a portion of the Common Reserve Requirement in the Common Reserve, in each case with ratings in the highest rating category by two of the Rating Agencies as of the date of deposit therein, and with provision that such security device(s) will be available to be drawn upon with respect to all Common Reserve Parity Obligations (each, a “Common Reserve Security Device”), in an

amount sufficient to increase the balance in the Common Reserve to the Common Reserve Requirement calculated to take into account such additional Common Reserve Parity Obligations. If the Department establishes a reserve fund for any Parity Obligation but does not elect to make such reserve fund a part of the Common Reserve, then any Reserve Fund so established will be a Separate Reserve Fund and will secure only the Parity Obligations for which such reserve fund was created. The Trustee may withdraw amounts from the Common Reserve in accordance with each Issuing Document for a Common Reserve Parity Obligation to make payments to the owners of the Common Reserve Parity Obligations issued under such Issuing Document when due.

Pursuant to the Indenture, there is established with the Trustee the Reserve Fund with respect to the Bonds which the Trustee will establish and maintain and hold in trust separate and apart from other funds held by it. The Department elects to treat the Reserve Fund established under the Indenture as part of the Common Reserve securing all Common Reserve Parity Obligations. The Trustee will deposit in the Reserve Fund the amounts required to be deposited therein pursuant to the Indenture. The Trustee will apply moneys in the Common Reserve in accordance with this section; provided, however, that, in substitution for all or part of the moneys on deposit in the Common Reserve, the Department may provide for the Common Reserve by one or more Common Reserve Security Devices which will each be available to be drawn on a pro rata basis among all the Common Reserve Security Devices. Upon the expiration of any Common Reserve Security Device prior to the payment in full of all of the Common Reserve Parity Obligations, if the balance in the Common Reserve is less than the Common Reserve Requirement, the Department will either provide a substitute Common Reserve Security Device or deposit cash in the Reserve Fund to which the expired Common Reserve Security Device was credited, in an amount sufficient to increase the balance in the Common Reserve to the Common Reserve Requirement. The Department will not be required to replace any Common Reserve Security Device that is no longer rated in the highest rating category by two of the Rating Agencies.

If and to the extent that cash has also been deposited in the Common Reserve, all such cash will be used (including any Permitted Investments purchased with such cash, which will be liquidated and the proceeds thereof applied as required under the Indenture) prior to any drawing under any Common Reserve Security Device. After first applying all cash and Permitted Investments held in the Common Reserve on a pro rata basis among all reserve funds which the Department has elected to make a part of the Common Reserve, if three Business Days prior to any Interest Payment Date the money in the appropriate accounts in the Interest Fund or the appropriate accounts in the Principal Fund is insufficient to make the payments required by the Indenture on such Interest Payment Date or the money in the appropriate funds and accounts under an Issuing Document is insufficient to make the payments required by such Issuing Document for a Common Reserve Parity Obligation on such Interest Payment Date, the Trustee will draw on the Common Reserve Security Devices on a pro rata basis among all Common Reserve Security Devices in a timely manner in the amount of such insufficiency and in compliance with the applicable payment procedures for each such Common Reserve Security Device set forth in the related Issuing Document. Upon receipt of such funds, the Trustee will transfer said funds to the appropriate accounts in the Interest Fund, the appropriate accounts in the Principal Fund or the appropriate funds or accounts under an Issuing Document for a Common Reserve Parity Obligation, as the case may be, in the amount of such insufficiency, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference.

If amounts on deposit in the Common Reserve consist solely of cash and Permitted Investments, if one Business Day prior to any Interest Payment Date the money in the appropriate accounts in the Interest Fund or the appropriate accounts in the Principal Fund is insufficient to make the payments required by the Indenture on such Interest Payment Date or the money in the appropriate funds and accounts under an Issuing Document is insufficient to make the payments required by an Issuing Document for a Common Reserve Parity Obligation on such Interest Payment Date, the Trustee will

transfer from the Common Reserve to the appropriate accounts in the Interest Fund, the appropriate accounts in the Principal Fund or the appropriate funds or accounts under an Issuing Document for a Common Reserve Parity Obligation, as the case may be, the amount of such insufficiency.

In the event that the Trustee has transferred money from the Common Reserve to the Interest Fund or Principal Fund in accordance with the Indenture or to the appropriate funds and accounts under an Issuing Document with respect to a Common Reserve Parity Obligation, upon receipt of the moneys from the Department pursuant to the Indenture, the Trustee will first reimburse the providers of the Common Reserve Security Devices for any draws thereon on a pro rata basis among all the Common Reserve Security Devices and otherwise in accordance with the written direction of the providers thereof, as applicable, so as to cause the reinstatement of the Common Reserve Security Devices, and thereafter, will deposit the remainder of such transferred moneys from the Department in the Common Reserve on a pro rata basis among all reserve funds which the Department has elected to make a part of the Common Reserve.

If the amount available and contained in the Common Reserve exceeds an amount equal to the Common Reserve Requirement, the Trustee will annually on August 1 withdraw the amount of such excess from the Common Reserve on a pro rata basis among all reserve funds which the Department has elected to make a part of the Common Reserve and will, without preference or priority, deposit ratably, in accordance with the amount of interest becoming due and payable on each series or subseries of Common Reserve Parity Obligations, in the applicable account in the Interest Fund and the applicable interest fund or account established and maintained under the related Issuing Document for any other Common Reserve Parity Obligations, and for this purpose the Trustee will determine the Value of the Common Reserve on or before August 1 in each year. Except for such withdrawals and reimbursement of the providers of the Common Reserve Security Devices for any draws thereon described above, all moneys in the Common Reserve will be used and withdrawn by the Trustee solely for the purpose of paying principal of and interest on the Common Reserve Parity Obligations in the event that no other moneys of the Department are applied thereto.

Any money in the Common Reserve in excess of the Common Reserve Requirement after the Department deposits with the Trustee a Common Reserve Security Device as permitted by the Indenture may be allocated ratably, in accordance with the principal amount of Common Reserve Parity Obligations becoming due and payable on the next August 1, into the applicable account in the Redemption Fund and the applicable redemption fund or account established under the related Issuing Document for any other Common Reserve Parity Obligations or transferred by the Trustee to or upon the order of the Department, in either case only upon the written direction of the Department upon delivery of such Common Reserve Security Device to the Trustee.

In the event the Department has determined to obtain one or more Common Reserve Security Devices pursuant to the Indenture, the Trustee will be required to keep adequate records, verified with any of the providers thereof in the form of statements customarily provided to such provider, as to the amount available to be drawn at any time under the Common Reserve Security Devices and as to the amounts paid and owing to any of the providers thereof.

PARTICULAR COVENANTS

No Priority. No bonds or other obligations of the Department payable out of the Harbor Revenue Fund will be issued having any priority with respect to payment of principal or interest out of the Harbor Revenue Fund over Parity Obligations; no transfer of money will be made out of the Harbor Revenue Fund in any one Fiscal Year for the purpose of paying the principal of or interest on any bonds or other obligations of the City serviced out of the Harbor Revenue Fund unless and until the principal of and

interest on the Parity Obligations, due and payable in that Fiscal Year, have been paid or set aside in a separate fund held in trust and charged with such payments.

Sale of Property. The property of the City which is under the management, supervision and control of the Board will not be sold or otherwise disposed of, as a whole or substantially as a whole, unless such sale or other disposition will provide for a continuance of payments into the Harbor Revenue Fund sufficient in amount to permit payment therefrom of principal of and interest on or with respect to Parity Obligations, or to provide for such payments into some other fund or account charged with such payments.

Exempt Facilities. The Department covenants and agrees that it will not expend the proceeds of the Bonds for any purpose or purposes, in any amount or amounts, or permit any user of the improvements to be financed with the proceeds from the sale of the Private Activity Bonds or any earnings thereon to undertake, or permit, any act or use of such improvements which has the effect of causing or allowing such improvements to be or become facilities which are not included within those set forth and described in Section 142(a) of the Code and the regulations and rulings applicable thereto.

Waiver of Depreciation and Investment Tax Credit. The Department covenants and agrees that it will require any nongovernmental person which, so long as Private Activity Bonds are Outstanding, is granted the right to use any of the improvements to be financed or refinanced with the proceeds from the sale of the Private Activity Bonds or any earnings thereon which Private Activity Bonds are obligations excepted from the definition of private activity bonds pursuant to Section 141(b) of the Code (collectively, "Public Improvements") pursuant to any written lease, permit or other arrangement, to execute an election not to claim on such person's federal income tax return (or any consolidated federal income tax return which includes such person) any investment tax credit or deduction for depreciation with respect to (1) any of the Public Improvements and (2) any land, building, structural components of a building (including heating or air conditioning units) or other structure which is physically supported by, physically supports, or is physically connected to any of the Public Improvements, other than (i) property not financed with the proceeds of obligations the interest on which is or was excluded from gross income for federal income tax purposes, (ii) property that was part of the site for such Public Improvement on or before October 5, 1984, and (iii) tangible personal property (other than air conditioning or heating units).

Each such election will be executed not later than the later of the original delivery date of such Private Activity Bonds or the execution of the lease, permit or other arrangement pursuant to which such nongovernmental person is granted the right to use a Public Improvement, and will be binding upon such person and upon all successors in interest to such person. Each election will be in substantially the form as is attached to the Indenture as Exhibit C which is by reference incorporated therein and made a part thereof. The Department further covenants and agrees that it will retain copies of each such election in its records for the entire term of any such lease, permit or other arrangement, and will require the nongovernmental person to retain the election in its records for the same period. Each such election will be publicly recorded so as to be binding on any successor in interest to the initial nongovernmental person.

Insurance.

(a) The Department will procure and maintain or cause to be procured and maintained insurance on its properties, facilities and equipment with responsible insurers in such amounts and against such risks (including accident to or destruction of its properties, facilities and equipment) as are usually covered in connection with similar harbor facilities owned by harbor departments similar to the Department so long as such insurance is available from reputable insurance companies at a reasonable cost.

(b) The Department will procure and maintain such other insurance which it will deem advisable or necessary to protect its interests and the interests of the Owners of the Bonds, which insurance will afford protection in such amounts and against such risks as are usually covered in connection with harbor facilities similar to those of the Department owned by harbor departments similar to the Department.

Any insurance required by paragraph (a) or (b) above may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with harbor facilities similar to those of the Department owned by harbor departments similar to the Department and is, in the opinion of an accredited actuary, actuarially sound.

Punctual Payment. The Department will punctually pay or cause to be paid the principal and interest to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Revenues and other amounts pledged for such payment as provided in the Indenture.

Extension of Payment of Bonds. The Department will not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest will be extended, such Bonds or claims for interest will not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full for the principal of all of the Bonds then Outstanding and of all claims for interest thereon which will not have been so extended. Nothing in the Indenture will be deemed to limit the right of the Department to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance will not be deemed to constitute an extension of maturity of Bonds.

Against Encumbrances. The Department will not create, or permit the creation of, any pledge, lien, charge or other encumbrances upon the Revenues and other amounts pledged or assigned under the Indenture while any of the Bonds are Outstanding, except the pledge and assignment created by the Indenture or with respect to Parity Obligations. Subject to this limitation, the Department expressly reserves the right to enter into one or more other indentures for any of its corporate purposes and reserves the right to issue other obligations for such purposes.

Power to Issue Bonds and Make Pledge and Assignment. The Department is duly authorized pursuant to law to issue the Bonds and to enter into the Indenture and to pledge and assign the Revenues and other amounts purported to be pledged and assigned under the Indenture in the manner and to the extent provided in the Indenture. The Bonds and the provisions of the Indenture are and will be the legal, valid and binding special obligations of the Department in accordance with their terms, and the Department and the Trustee will at all times, subject to the provisions of the Indenture and to the extent permitted by law, defend, preserve and protect said pledge and assignment of Revenues and other amounts and all the rights of the Bond Owners under the Indenture against all claims and demands of all persons whomsoever.

Tax Covenants. The Department covenants with the owners of the Bonds that, notwithstanding any other provisions of the Indenture, it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of interest on the Bonds under Section 103 of the Code.

The Department will not take any action, or fail to take any action, if any such action or failure to take action would cause the Private Activity Bonds to be other than “exempt facility bonds” within the meaning of Section 142(a)(2) of the Code, and in furtherance thereof, will not make any use of the

proceeds of the Private Activity Bonds or any earnings thereon, or of the portion of the Private Activity Projects financed or refinanced with the proceeds of the Private Activity Bonds, or any portion thereof, as would cause the Private Activity Bonds not to qualify under Section 142(a)(2) of the Code as “exempt facility bonds.” The Department will not, directly or indirectly, use or permit the use of proceeds of the Governmental Bonds or any earnings thereon or portion thereof, by any person other than a governmental unit (as such term is used in Section 141 of the Code) in such manner or to such extent as would result in the loss of exclusion from gross income for federal income tax purposes of interest on the Governmental Bonds. To these ends, so long as any Bonds are Outstanding, the Department, with respect to such proceeds, earnings thereon and property and such other funds, will comply with applicable requirements of the Code and all regulations of the United States Department of the Treasury issued thereunder and under Section 103 of the Internal Revenue Code of 1954, as amended (the “1954 Code”), to the extent such requirements are, at the time, applicable and in effect. The Department will establish reasonable procedures necessary to ensure continued compliance with the aforementioned Sections of the Code and the continued qualification of the portion of the Projects financed or refinanced with the proceeds of the Bonds.

The Department will not, directly or indirectly, use or permit the use of any proceeds of any Bonds, or of any property financed or refinanced thereby, or other funds of the Department, or take or omit to take any action, that would cause the Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code. To that end, the Department will comply with all requirements of Section 148 of the Code and all regulations of the United States Department of the Treasury issued thereunder to the extent such requirements are, at the time, in effect and applicable to the Bonds.

The Department will not make any use of the proceeds of the Bonds or any other funds of the Department, or take or omit to take any other action, that would cause the Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

In furtherance of the foregoing tax covenants, the Department covenants that it will comply with the instructions and requirements of the Tax Certificate, which is incorporated in the Indenture. These covenants will survive the payment in full or defeasance of the Bonds.

Further Assurances. The Department will make, execute and deliver any and all such further indentures, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture and for the better assuring and confirming unto the Owners of the Bonds of the rights and benefits provided in the Indenture.

Continuing Disclosure. The Department will comply with and carry out all of the provisions of the Continuing Disclosure Certificate to be executed by the Department in substantially the form approved by the Resolution and dated the date of issuance and delivery of the Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof. Any holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Department to comply with its obligations under this provision. Noncompliance with this provision will not be considered an “Event of Default” and will not result in acceleration of the Bonds, and the sole remedy under the Continuing Disclosure Certificate (or the Indenture) in the event of any failure of the Department to comply with the Continuing Disclosure Certificate will be an action to compel performance. For the purposes of this provision, “Beneficial Owner” means any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

No holder or Beneficial Owner of Bonds may institute such action, suit or proceeding to compel performance unless they will have first delivered to the Department satisfactory written evidence of their status as such, and a written notice of and request to cure such failure and the Department will have refused to comply therewith within a reasonable time.

EVENTS OF DEFAULT AND REMEDIES OF BOND OWNERS

Events of Default. The following events will be Events of Default under the Indenture:

(a) Default by the Department in the due and punctual payment of the principal of any Bonds or any Parity Obligation (of such default relating to any Parity Obligations the Department agrees to notify the Trustee) when and as the same will become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration, or otherwise.

(b) Default by the Department in the due and punctual payment of any installment of interest on any Bonds or any Parity Obligation (of such default relating to any Parity Obligations the Department agrees to notify the Trustee) when and as the same will become due and payable.

(c) Default by the Department in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, if such default will have continued for a period of sixty (60) days after written notice thereof, specifying such default and requiring the same to be remedied, will have been given to the Department by the Trustee or by the Owners of not less than 25 percent in aggregate principal amount of Bonds Outstanding; provided, however, that if in the reasonable opinion of the Department the default stated in the notice can be corrected, but not within such sixty (60) day period and corrective action is instituted by the Department within such sixty (60) day period and diligently pursued in good faith until the default is corrected.

(d) The Department will file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction will approve a petition filed with or without the consent of the Department seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction will assume custody or control of the Department or of the whole or any substantial part of its property.

Remedies Upon Event of Default. If any Event of Default will occur, then, and in each and every such case during the continuance of such Event of Default, the Trustee may, and will, at the direction of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, upon notice in writing to the Department, will declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same will become and will be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding.

Any such declaration is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due will have been obtained or entered, the Department will deposit with the Trustee a sum sufficient to pay all the principal of and installments of interest on the Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Bonds to the extent permitted by law, and the reasonable charges and expenses of the Trustee, including fees and expenses of its attorneys, and any and all other Events of Default known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) will have been made good or cured to the satisfaction of the Trustee or

provision deemed by the Trustee to be adequate will have been made therefor, then, on behalf of the Owners of all of the Bonds, rescind and annul such declaration and its consequences and waive such Event of Default; but no such rescission and annulment will extend to or will affect any subsequent Event of Default, or will impair or exhaust any right or power consequent thereon.

Application of Revenues and Other Funds After Default. If an Event of Default will occur and be continuing, all Revenues will be applied by the Department or the Trustee, as the case may be, and any amounts then held by the Trustee or thereafter received by the Trustee will be applied by the Trustee as follows and in the following order:

(i) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the Bonds and payment of reasonable charges and expenses of the Trustee (including reasonable fees and disbursements of its counsel or advisors) incurred in and about the performance of its powers and duties under the Indenture; and

(ii) To the payment of the Operation and Maintenance costs; and

(iii) To the payment of the principal of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping or otherwise noting thereon of the payment if only partially paid, or surrender thereof if fully paid) in accordance with the provisions of the Indenture (on a parity with the payment of principal of and interest then due on any Parity Obligations in accordance with the provisions of the documents pursuant to which such Parity Obligations were issued or incurred), in the following order of priority:

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available will not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference;

Second: To the payment to the persons entitled thereto of the unpaid principal of any Bonds which will have become due, whether at maturity or by acceleration or redemption, with interest on the overdue principal at the rate of eight percent (8%) per annum, and, if the amount available will not be sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference; and

Third: For any lawful purpose.

Trustee to Represent Bond Owners. If an Event of Default will occur and be continuing, the Trustee is irrevocably appointed pursuant to the Indenture (and the successive respective Owners of the Bonds, by taking and holding the same, will be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the Bonds or the Indenture and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bond Owners, the Trustee in its discretion may, and upon the written request of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, will, proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it will deem most effectual to protect and

enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power in the Indenture granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under the Bonds or the Indenture or any other law; and upon instituting such proceeding, the Trustee will be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other amounts pledged under the Indenture, pending such proceedings. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee will be brought in the name of the Trustee for the benefit and protection of all the Owners of such Bonds, subject to the provisions of the Indenture.

Bond Owners' Direction of Proceedings. Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the Bonds then Outstanding will have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conduct in all remedial proceedings taken by the Trustee under the Indenture, provided that such direction will not be otherwise than in accordance with law and the provisions of the Indenture, and that the Trustee will have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bond Owners not parties to such direction or in its judgment expose the Trustee to liability.

Suit by Owners. No Owner of any Bonds will have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture or any other applicable law with respect to such Bonds, unless (a) such Owners will have given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding will have made written request upon the Trustee to exercise the powers granted pursuant to the Indenture or to institute such suit, action or proceeding in its own name; (c) such Owner or Owners will have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee will have failed to comply with such request for a period of sixty (60) days after such written request will have been received by, and said tender of indemnity will have been made to, the Trustee; and (e) no direction inconsistent with such written request will have been given to the Trustee during such sixty (60) day period by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding.

Such notification, request, tender of indemnity and refusal or omission are declared pursuant to the Indenture, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners of Bonds will have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of Bonds, or to enforce any right under the Bonds, the Indenture or other applicable law with respect to the Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right will be instituted, had and maintained in the manner provided in the Indenture and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

Absolute Obligation of Department. Nothing in the Indenture or in the Bonds contained will affect or impair the obligation of the Department, which is absolute and unconditional, to pay the principal of and interest on the Bonds to the respective Owners of the Bonds at their respective dates of maturity, or upon call for redemption, as provided in the Indenture, but only out of the Revenues and other amounts pledged therefor, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

Remedies Not Exclusive. No remedy in the Indenture conferred upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, will be cumulative and in addition to any other remedy given under the Indenture or now or hereafter existing at law or in equity or otherwise.

No Waiver of Default. No delay or omission of the Trustee or of any Owner of the Bonds to exercise any right or power arising upon the occurrence of any Event of Default will impair any such right or power or will be construed to be a waiver of any such Event of Default or an acquiescence therein.

THE TRUSTEE

Duties, Immunities and Liabilities of Trustee. The Trustee will, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are expressly and specifically set forth in the Indenture and no implied covenants or duties will be read into the Indenture against the Trustee. The Trustee will, during the existence of any Event of Default (which has not been cured), exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

Appointment, Removal and Resignation of the Trustee. The Department may remove the Trustee at any time, unless an Event of Default will have occurred and then be continuing, and will if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee will cease to be eligible in accordance with the Indenture, or will become incapable of acting, or will be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property will be appointed, or any public officer will take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee and thereupon will promptly appoint a successor Trustee by an instrument in writing.

The Trustee may at any time resign by giving written notice of such resignation to the Department and by giving the Bond Owners notice of such resignation by mail at the addresses shown on the Registration Books. Upon receiving such notice of resignation, the Department will promptly appoint a successor Trustee by an instrument in writing.

Any removal or resignation of the Trustee and appointment of a successor Trustee will become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee will have been appointed and have accepted appointment within forty-five (45) days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Bond Owner (on behalf of himself and all other Bond Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture will signify its acceptance of such appointment by executing and delivering to the Department and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, will become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Indenture; but, nevertheless at the Request of the Department or the request of the successor Trustee, such predecessor Trustee will execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and will pay over, transfer, assign and deliver to the successor Trustee any

money or other property subject to the trusts and conditions set forth in the Indenture. Upon request of the successor Trustee, the Department will execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in the Indenture, the Department will mail or cause the successor Trustee to mail a notice of the succession of such Trustee to the trusts under the Indenture to each Rating Agency which is then rating the Bonds and to the Bond Owners at the addresses shown on the Registration Books. If the Department fails to mail such notice within fifteen (15) days after acceptance of appointment by the successor Trustee, the successor Trustee will cause such notice to be mailed at the expense of the Department.

Any Trustee appointed under the provisions of the Indenture in succession to the Trustee will be a trust company, a national banking association or bank having the powers of a trust company having a corporate trust office in San Francisco or Los Angeles, California, having a combined capital and surplus of at least Seventy-Five Million Dollars (\$75,000,000), and subject to supervision or examination for federal or state authority. If such bank, national banking association or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of the Indenture the combined capital and surplus of such bank, national banking association or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee will cease to be eligible in accordance with the provisions of the Indenture, the Trustee will resign immediately in the manner and with the effect specified in the Indenture.

Merger or Consolidation. Any bank, national banking association or trust company into which the Trustee may be merged or converted or with which it may be consolidated or any bank, national banking association or trust company resulting from any merger, conversion or consolidation to which it will be a party or any bank, national banking association or trust company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such bank, national banking association or trust company will be eligible under the Indenture will be the successor to such Trustee, without the execution or filing of any paper or any further act, anything in the Indenture to the contrary notwithstanding.

Liability of Trustee.

(a) The recitals of facts in the Indenture and in the Bonds contained will be taken as statements of the Department, and the Trustee will not assume responsibility for the correctness of the same, or make any representations as to the validity, sufficiency or priority of the Indenture or the Bonds, nor will the Trustee incur any responsibility in respect thereof, other than as expressly stated in the Indenture in connection with the respective duties or obligations in the Indenture or in the Bonds assigned to or imposed upon it. The Trustee will, however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee will not be liable in connection with the performance of its duties under the Indenture, except for its own negligence or willful misconduct. The Trustee may become the Owner of Bonds with the same rights it would have if it were not Trustee, and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bond Owners, whether or not such committee will represent the Owners of a majority in principal amount of the Bonds then Outstanding.

(b) The Trustee will not be liable for any error of judgment made in good faith by a responsible officer or employee, unless it will be proved that the Trustee was negligent in ascertaining the pertinent facts.

(c) The Trustee will not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Indenture.

(d) The Trustee will not be liable for any action taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by the Indenture.

(e) The Trustee will not be deemed to have knowledge of any Event of Default under the Indenture or any other event which, with the passage of time, the giving of notice, or both, would constitute an Event of Default under the Indenture unless and until a Responsible Officer of the Trustee will have actual knowledge of such event or the Trustee will have been notified in writing, in accordance with the Indenture, of such event by the Department or the Owners of not less than 25% of the Bonds then Outstanding. Except as otherwise expressly provided in the Indenture, the Trustee will not be bound to ascertain or inquire as to the performance or observance by the Department of any of the terms, conditions, covenants or agreements in the Indenture of any of the documents executed in connection with the Bonds, or as to the existence of an Event of Default thereunder or an event which would, with the giving of notice, the passage of time, or both, constitute an Event of Default thereunder. The Trustee will not be responsible for the validity, effectiveness or priority of any collateral given to or held by it.

(f) No provision of the Indenture will require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties under the Indenture, or in the exercise of any of its rights or powers.

(g) The Trustee will be under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request or direction of Owners pursuant to the Indenture, unless such Owners will have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities (including reasonable attorneys' fees) which might be incurred by it in compliance with such request or direction. No permissive power, right or remedy conferred upon the Trustee under the Indenture will be construed to impose a duty to exercise such power, right or remedy.

(h) Whether or not expressly provided in the Indenture, every provision of the Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee will be subject to the provisions of the Indenture. The immunities and exceptions from liability of the Trustee will extend to its officers, directors, employees and agents.

(i) In the performance of its duties under the Indenture, the Trustee may employ attorneys, agents and receivers and will not be liable for any action of such attorneys, agents and receivers to the extent selected by it with due care.

(j) The Trustee will have no responsibility with respect to any information, statement or recital whatsoever in any official statement, offering memorandum or other disclosure material prepared or distributed with respect to the Bonds. The Trustee will not be accountable for the use or application by the Department or any other party of any funds which the Trustee has released under the Indenture.

(k) In accepting the trust created by the Indenture, the Trustee acts solely as Trustee for the Owners and not in its individual capacity and all persons, including without limitations the Owners and the Department having any claim against the Trustee arising from the Indenture will look only to the funds and accounts held by the Trustee under the Indenture for payment except as otherwise provided in

the Indenture. Under no circumstances will the Trustee be liable in its individual capacity for the obligations evidenced by the Bonds.

(l) The Trustee will not be considered in breach of or in default in its obligations under the Indenture or progress in respect thereto in the event of enforced delay (“unavoidable delay”) in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to: Acts of God or of the public enemy or terrorists; acts of a government; fires; floods; epidemics; quarantine restrictions; strikes; freight embargoes; earthquakes; explosion; mob violence; riot; inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, materials or supplies in the open market; litigation or arbitration relating to zoning or other governmental action or inaction pertaining to the Trust Estate; malicious mischief; condemnation; and unusually severe weather or delays of suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Trustee.

(m) The Trustee agrees to accept and act upon facsimile transmissions of written instructions and/or directions pursuant to the Indenture; provided, however, that: (a) subsequent to any such facsimile transmission of written instructions and/or directions, the Trustee will forthwith receive the originally executed instructions and/or directions, (b) such originally executed instructions and/or directions will be signed by a person as may be designated and authorized to sign for the party signing such instructions and/or directions, and (c) the Trustee will have on file a current incumbency certificate containing the specimen signature of such designated person.

Right to Rely on Documents. The Trustee will be protected in acting upon any notice, resolution, direction, requisition, request, consent, order, certificate, report, opinion, notes or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee will determine to make such further inquiry or investigation, it will be entitled to examine the books, records and premises of the Department, personally or by agent. The Trustee may consult with counsel, who may be counsel of or to the Department, with regard to all matters concerning the trust created by the Indenture or the duties of the Trustee under the Indenture, and the opinion or advice of such counsel will be full and complete authorization and protection in respect of any action taken or suffered by it under the Indenture in good faith and in accordance therewith.

The Trustee may treat the Owners of the Bonds appearing in the Trustee’s Registration Books as the absolute owners of the Bonds for all purposes and the Trustee will not be affected by any notice to the contrary.

Whenever in the administration of the trusts imposed upon it by the Indenture the Trustee will deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Indenture, such matter (unless other evidence in respect thereof be specifically prescribed in the Indenture) may be deemed to be conclusively proved and established by a Certificate, Request or Requisition of the Department, and such Certificate, Request or Requisition will be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of the Indenture in reliance upon such Certificate, Request or Requisition, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it may deem reasonable.

All moneys received by the Trustee will, until used or applied or invested as provided in the Indenture, be held in trust for the purposes for which they were received but need not be segregated from other funds except to the extent required by law. The Trustee will not be under any liability for interest on any moneys received under the Indenture except such as may be agreed upon.

Preservation and Inspection of Documents. All documents received by the Trustee under the provisions of the Indenture will be retained in its possession and will be subject at all reasonable times upon reasonable prior notice to the inspection of the Department and any Bond Owner, and their agents and representatives duly authorized in writing, at reasonable hours and under reasonable conditions.

Compensation and Indemnification. The Department will pay to the Trustee from time to time all reasonable compensation for all services rendered under the Indenture, and also all reasonable expenses, charges, legal and consulting fees and other disbursements and those of their attorneys, agents and employees, incurred in and about the performance of their powers and duties under the Indenture.

The Department will indemnify, defend and hold harmless the Trustee its officers, employees, directors and agents against any loss, cost, liability or expense (including legal fees and expenses) incurred without negligence, misconduct or bad faith on its part, arising out of or in connection with the execution of the Indenture, acceptance or administration of this trust, including costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers under the Indenture or the enforcement of any of its rights or remedies. The rights of the Trustee and the obligations of the Department under the Indenture will survive removal or resignation of the Trustee and the discharge of the Bonds and the Indenture.

MODIFICATION OR AMENDMENT OF THE INDENTURE

Amendments Permitted.

(a) The Indenture and the rights and obligations of the Department and of the Owners of the Bonds and of the Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental thereto, which the Department and the Trustee may enter into when the written consent of the Owners of a majority in aggregate principal amount of (i) if all of the Outstanding Bonds of all Series are affected, the Bonds of all Series then Outstanding or (ii) if less than all of the Outstanding Bonds of all Series are affected, the Bonds of each affected Series (excluding, in each case, from such consent, and from the Outstanding Bonds, the Bonds of any specified Series and maturity if such amendment by its terms will not take effect so long as any of such Bonds remain Outstanding); provided, however, that in either case the Trustee will exclude Bonds disqualified as provided in the Indenture, if proof of such disqualification will have been filed with the Trustee. No such modification or amendment will (1) extend the fixed maturity of any Bonds, or reduce the amount of principal thereof or premium (if any) thereon, or extend the time of payment, or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the Owner of each Bond so affected, or (2) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to affect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture except as permitted in the Indenture, or deprive the Owners of the Bonds of the lien created by the Indenture on such Revenues and other assets (except as expressly provided in the Indenture), without the consent of the Owners of all of the Bonds then Outstanding. It will not be necessary for the consent of the Bond Owners to approve the particular form of any Supplemental Indenture, but it will be sufficient if such consent will approve the substance thereof. Promptly after the execution by the Department and the Trustee of any Supplemental Indenture pursuant to this subsection, the Department will mail a notice, setting forth in general terms the substance of such Supplemental Indenture, to each Rating Agency and the Owners of the Bonds at the respective addresses shown on the Registration Books. Any failure to give such notice, or any defect therein, will not, however, in any way impair or affect the validity of any such Supplemental Indenture.

(b) The Indenture and the rights and obligations of the Department, of the Trustee and the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the Department and the Trustee may enter into without the consent of any Bond Owners, if the Trustee will receive an opinion of Bond Counsel to the effect that the provisions of such Supplemental Indenture will not materially adversely affect the interests of the Owners of the Outstanding Bonds, including, without limitation, for any one or more of the following purposes:

(1) to add to the covenants and agreements of the Department in the Indenture contained other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved to or conferred upon the Department;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the Department may deem necessary or desirable;

(3) to modify, amend or supplement the Indenture in such manner as to permit the qualification under the Trust Indenture Act of 1939, as amended, or any similar federal statute under the Indenture in effect, and to add such other terms conditions and provisions as may be permitted by said act or similar federal statute;

(4) to modify, amend or supplement the Indenture in such manner as to cause interest on the Bonds to remain excludable from gross income under the Code;

(5) to modify, amend or supplement the Indenture in such manner as to permit the deposit of a surety bond, an insurance policy, a letter of credit or any other security device in the Reserve Fund; or

(6) to modify, amend or supplement the Indenture in such manner as does not materially, adversely affect the Owners.

(c) The Trustee may in its discretion, but will not be obligated to, enter into any such Supplemental Indenture authorized by subsections (a) or (b) above which materially adversely affects the Trustee's own rights, duties or immunities under the Indenture or otherwise.

(d) Prior to the Trustee entering into any Supplemental Indenture under the Indenture, there will be delivered to the Trustee an opinion of Bond Counsel stating, in substance, that such Supplemental Indenture has been adopted in compliance with the requirements of the Indenture and that the adoption of such Supplemental Indenture will not, in and of itself, adversely affect the exclusion of interest on the Bonds from federal income taxation and from state income taxation.

(e) Notwithstanding subsection (a) above, the Department may, at its discretion, execute and deliver such Supplemental Indenture which contains such modifications, alternations, amendments or supplements prior to receipt of the required consents in writing, of the Owners; provided, that such Supplemental Indenture or the applicable provisions of such Supplemental Indenture subject to the consents of the Owners will not become effective until such time as there has been delivered to the Department (i) the required consents, in writing, of Owners and (ii) an opinion of Bond Counsel required in subsection (d) above.

For the purposes of this section, the purchasers of the Bonds of a Series, whether purchasing as underwriters, for resale or otherwise, upon such purchase from the Department, may consent to a modification or amendment permitted by this section in the manner provided in the Indenture and with the same effect as a consent given by the Owners of such Bonds, except that no proof of ownership will be required; provided, that this provision will be disclosed prominently in the offering document, if any, for any Series of Bonds issued pursuant to the Indenture, provided that, if such consent is given by a purchaser who is purchasing as an underwriter or for resale, the nature of the modification or amendment and the provisions for the purchaser consenting thereto will be described in the offering document prepared in connection with the primary offering of the Bonds of such Series by the Department.

Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture pursuant to the Indenture, the Indenture will be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Department, the Trustee and all Owners of Bonds Outstanding will thereafter be determined, exercised and enforced thereunder subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture will be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Endorsement of Bonds; Preparation of New Bonds. Bonds delivered after the execution of any Supplemental Indenture pursuant to the Indenture may, and if the Department so determines will, bear a notation by endorsement or otherwise in form approved by the Department and the Trustee as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand on the Owner of any Bonds Outstanding at the time of such execution and presentation of his or her Bonds for the purpose at the Office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, a suitable notation will be made on such Bonds. If the Supplemental Indenture will so provide, new Bonds so modified as to conform, in the opinion of the Department and the Trustee, to any modification or amendment contained in such Supplemental Indenture, will be prepared and executed by the Department and authenticated by the Trustee, and upon demand on the Owners of any Bonds then Outstanding will be exchanged at the Office of the Trustee, without cost to any Bond Owner, for Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amount of the same maturity and Series.

Amendment of Particular Bonds. The provisions of the Indenture will not prevent any Bond Owner from accepting any amendment as to the particular Bonds held by such Bond Owner.

DEFEASANCE

Discharge of Indenture. Bonds of one or more Series may be paid by the Department in any of the following ways, provided that the Department also pays or causes to be paid any other sums payable under the Indenture by the Department:

- (a) by paying or causing to be paid the principal of and interest and redemption premiums (if any) on such Bonds, as and when the same become due and payable;
- (b) by depositing with the Trustee, in trust, at or before maturity, money or securities in the necessary amount (as provided under the subcaption “—Deposit of Money or Securities with Trustee”) to pay or redeem such Bonds then Outstanding; or
- (c) by delivering to the Trustee, for cancellation by it, such Bonds then Outstanding.

If the Department will also pay or cause to be paid all other sums payable under the Indenture by the Department, then and in that case, at the election of the Department (evidenced by a Certificate of the Department, filed with the Trustee, signifying the intention of the Department to discharge all such indebtedness and the Indenture), and notwithstanding that any such Bonds will not have been surrendered for payment, the Indenture and the pledge of Revenues and other amounts made under the Indenture and all covenants, agreements and other obligations of the Department under the Indenture other than certain obligations with respect to transfer and exchange of Bonds and mutilated, lost, destroyed or stolen Bonds pursuant to the Indenture, certain obligations with respect to the Trustee and any amount required to be paid to any provider of any Common Reserve Security Device or Separate Reserve Fund Security Device under the Indenture, will cease, terminate, become void and be completely discharged and satisfied with respect to such Bonds. In such event, upon the Request of the Department, the Trustee will execute and deliver to the Department all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee will pay over, transfer, assign or deliver all moneys or securities or other property held by them pursuant to the Indenture which are not required for the payment or redemption of such Bonds not theretofore surrendered for such payment or redemption to the Department.

Discharge of Liability on Bonds. Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided under the subcaption “—Deposit of Money or Securities with Trustee”) to pay or redeem any Outstanding Bonds of one or more Series (whether upon or prior to the maturity or the redemption date of such Bonds) and any amounts owing to the provider of any Common Reserve Security Device or Separate Reserve Fund Security Device under the Indenture; provided that, if such Outstanding Bonds are to be redeemed prior to maturity, notice of such redemption will have been given as provided in the Indenture or provisions satisfactory to the Trustee will have been made for the giving of such notice, then all liability of the Department in respect of such Bonds will cease, terminate and be completely discharged, and the Owners thereof will thereafter be entitled only to payment out of such money or securities deposited with the Trustee as aforesaid for their payment, subject however, to the provisions under the subcaption “—Payment of Bonds After Discharge of Indenture.”

The Department may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the Department may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, will be deemed to be paid and retired.

Deposit of Money or Securities with Trustee. Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and will be:

(a) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption will have been given as provided in the Indenture or provisions satisfactory to the Trustee will have been made for the giving of such notice, the amount to be deposited or held will be the principal amount of such Bonds and all unpaid interest and premium, if any, thereon to the redemption date; or

(b) Federal Securities and Agencies the principal of and interest on which when due will, based upon a Consultant’s Report filed with the Department and the Trustee, provide money sufficient to pay the principal of and all unpaid interest to maturity, or to the redemption date (with premium, if any), as the case may be, on the Bonds to be paid or redeemed, as such principal, interest and premium, if any,

become due, provided that in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption will have been given as provided in the Indenture or provision satisfactory to the Trustee will have been made for the giving of such notice; provided, in each case, that (i) the Trustee will have been irrevocably instructed (by the terms of the Indenture or by Request of the Department) to apply such money to the payment of such principal, interest and premium, if any, with respect to such Bonds and (ii) the Department will have delivered to the Trustee an opinion of Bond Counsel addressed to the Department and the Trustee to the effect that such Bonds have been discharged in accordance with the Indenture (which opinion may rely upon and assume the accuracy of the Accountant's opinion referred to above).

Payment of Bonds After Discharge of Indenture. Notwithstanding any provisions of the Indenture, any moneys held by the Trustee in trust for the payment of the principal of, or interest and premium, if any, on any Bonds and remaining unclaimed for two (2) years after such payment has become due and payable (whether at maturity or upon call for redemption or by acceleration as provided in the Indenture), if such moneys were so held at such date, or two (2) years after the date of deposit of such moneys if deposited after said date, will be repaid to the Department free from the trusts created by the Indenture and all liability of the Trustee with respect to such moneys will thereupon cease; provided, however, that before the repayment of such moneys to the Department as aforesaid, the Trustee will at the written direction of the Department (at the cost of the Department) first mail to the Owners of Bonds which have not yet been paid, at the addresses shown on the Registration Books, a notice, in such form as may be deemed appropriate by the Trustee with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Department of the moneys held for the payment thereof. Pursuant to the Indenture, the Department indemnifies the Trustee against any claims of owners of Bonds which were not paid prior to the repayment of moneys to the Department in accordance with this section of the Indenture.

MISCELLANEOUS

Liability of Department Limited to Revenues; Not Indebtedness of Any Other Subdivision of the City. Notwithstanding anything in the Indenture or the Bonds, the Department will not be required to advance any moneys derived from any source other than the Revenues and other amounts pledged under the Indenture for any of the purposes in the Indenture mentioned, whether for the payment of the principal of or interest on the Bonds or for any other purpose of the Indenture. Nevertheless, the Department may, but will not be required to, advance for any of the purposes of the Indenture any funds of the Department which may be made available to it for such purposes.

The Bonds do not constitute or evidence an indebtedness of the City, the State of California or any subdivision thereof other than the Department, or a lien or charge on any property or the general revenues of the City, the State of California or any subdivision thereof other than the Department, and in any event the Bonds will not be payable out of any funds or properties of the City or the Department other than the Revenues deposited into the Harbor Revenue Fund as provided in the Indenture and other amounts pledged therefor under the Indenture. The Bonds do not constitute an indebtedness of the Department in contravention of any charter, statutory or constitutional debt or other limitation or restriction and do not constitute an obligation for which the Department or the City is obligated to levy or pledge any form of taxation or for which the Department or the City has levied or pledged any form of taxation.

Successor Is Deemed Included in All References to Predecessor. Whenever in the Indenture either the Department or the Trustee is named or referred to, such reference will be deemed to include the successors or assigns thereof, and all the covenants and agreements in the Indenture contained by or on

behalf of the Department or the Trustee will bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Limitation of Rights to Parties and Bond Owners. Nothing in the Indenture or in the Bonds expressed or implied is intended or will be construed to give to any person other than the Department, the Trustee and the Owners of the Bonds, any legal or equitable right, remedy or claim under or in respect of the Indenture or any covenant, condition or provision therein or contained in the Indenture; and all such covenants, conditions and provisions are and will be held to be for the sole and exclusive benefit of the Department, the Trustee and the Owners of the Bonds.

Waiver of Notice; Requirement of Mailed Notice. Whenever in the Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the person entitled to receive such notice and in any such case the giving or receipt of such notice will not be a condition precedent to the validity of any action taken in reliance upon such waiver. Whenever in the Indenture any notice will be required to be given by mail, such requirement will be satisfied by the deposit of such notice in the United States mail, postage prepaid, by first-class mail.

Evidence of Rights of Bond Owners. Any request, consent or other instrument required or permitted by the Indenture to be signed and executed by Bond Owners may be in any number of concurrent instruments of substantially similar tenor and will be signed or executed by such Bond Owners in person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any person of Bonds transferable by delivery, will be sufficient for any purpose of the Indenture and will be conclusive in favor of the Trustee and the Department if made in the manner provided in this section of the Indenture.

The fact and date of the execution by any person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the person signing such request, consent or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

The ownership of Bonds will be proved by the Registration Books.

Any request, consent, or other instrument or writing of the Owner of any Bond will bind every future Owner of the same Bond and the Owner of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Department in accordance therewith or in reliance thereon.

Disqualified Bonds. In determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under the Indenture, Bonds which are known by the Trustee to be owned or held by or for the account of the Department, or by any other obligor on the Bonds, or by any person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Department or any other obligor on the Bonds, will be disregarded and deemed not to be Outstanding for the purpose of any such determination. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of this section of the Indenture if the pledgee will establish to the satisfaction of the Trustee the pledgee's right to vote such Bonds and that the pledgee is not a person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Department or any other obligor on the Bonds. In case of a dispute as to such right, any decision by the Trustee taken upon the

advice of counsel will be full protection to the Trustee. Upon request the Department will certify to the Trustee those Bonds that are disqualified pursuant to this section of the Indenture.

Money Held for Particular Bonds. The money held by the Trustee for the payment of the interest, principal or premium due on any date with respect to particular Bonds (or portions of Bonds in the case of registered Bonds redeemed in part only) will, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Owners of the Bonds entitled thereto, subject, however, to the provisions described under the caption “DEFEASANCE—Payment of Bonds After Discharge of Indenture” above but without any liability for interest thereon.

Funds and Accounts. Any fund or account required by the Indenture to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee, either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds and accounts will at all times be maintained in accordance with corporate trust industry standards to the extent practicable, and with due regard for the requirements of the Indenture and for the protection of the security of the Bonds and the rights of every Owner thereof.

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APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the Harbor Department of the City of Los Angeles (the “Department”) in connection with the issuance by the Department of its Harbor Department of the City of Los Angeles, Revenue Bonds, 2014 Series A (AMT), in the aggregate principal amount of \$[PAR1] (the “Series 2014A Bonds”), and Harbor Department of the City of Los Angeles, Revenue Bonds, 2014 Series B (Non-AMT), in the aggregate principal amount of \$[PAR2] (the “Series 2014B Bonds,” and together with the Series 2014A Bonds, the “Series 2014 Bonds”). The Series 2014 Bonds are being issued pursuant to an Indenture of Trust, dated as of [____], 2014 (the “Indenture”), by and between the Department and U.S. Bank National Association, as trustee (the “Trustee”). The Department hereby covenants and agrees as follows:

Section 1. Purpose of this Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Department for the benefit of the Owners and Beneficial Owners of the Series 2014 Bonds and in order to assist the Participating Underwriter in complying with the Rule.

Section 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Department pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Beneficial Owner” shall mean any person that (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Series 2014 Bonds (including persons holding Series 2014 Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Series 2014 Bonds for federal income tax purposes.

“Dissemination Agent” shall mean the Department, acting in its capacity as Dissemination Agent hereunder, or any other successor Dissemination Agent designated in writing by the Department.

“EMMA System” shall mean the MSRB’s Electronic Municipal Market Access system, or such other electronic system designated by the MSRB.

“Fiscal Year” shall mean the one-year period ending on June 30 of each year or such other period of 12 months designated by the Department as its Fiscal Year.

“GASB” shall mean the Governmental Accounting Standards Board.

“Listed Events” shall mean any of the events listed in Section 5(a) or 5(b) of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board, or any successor thereto.

“Obligated Person” means the Department, and any successor thereto.

“Official Statement” shall mean the final official statement of the Department relating to the Series 2014 Bonds.

“Owner” shall mean a registered owner of the Series 2014 Bonds.

“Participating Underwriter” shall mean any of the original underwriters of the Series 2014 Bonds required to comply with the Rule in connection with offering of the Series 2014 Bonds.

“Rule” shall mean Rule 15c2-12 adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“SEC” shall mean the Securities and Exchange Commission.

“State” shall mean the State of California.

Section 3. Provision of Annual Reports.

(a) The Department shall, or shall cause the Dissemination Agent, if the Dissemination Agent is other than the Department, to, not later than 181 days following the end of each Fiscal Year of the Department (which Fiscal Year currently ends on June 30), commencing with the report for Fiscal Year 2014, provide to the MSRB through the EMMA System, in an electronic format and accompanied by identifying information all as prescribed by the MSRB, an Annual Report relating to the immediately preceding Fiscal Year that is consistent with the requirements of Section 4 of this Disclosure Certificate, which Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that any audited financial statements may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Fiscal Year for the Department changes, the Department shall give notice of such change in the same manner as for a Listed Event under Section 5(e).

(b) If in any year, the Department does not provide the Annual Report to the MSRB by the time specified above, the Department shall instead file a notice with the MSRB through the EMMA System in substantially the form attached as Exhibit A hereto.

(c) If the Dissemination Agent is not the Department, the Dissemination Agent shall:

1. file a report with the Department certifying that the Annual Report has been filed pursuant to this Disclosure Certificate and listing the date(s) of the filing(s); and
2. take any other actions mutually agreed to between the Dissemination Agent and the Department.

Section 4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the following:

(a) The Department’s audited financial statements for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles as promulgated from time to time by GASB and all statements and interpretations issued by the Financial Accounting Standards Board which are not in conflict with the statements issued by GASB. If the Department’s audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Information in form and substance similar to Tables 1, 2A, 2B, 3, 5, 6, 9, 10, 11, 13, 14 and 15 set forth in the Official Statement for the most recently completed Fiscal Year.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Department or related public entities, that have been submitted to the MSRB through the EMMA System.

In the event that information necessary to prepare the tables listed above becomes unavailable due to changes in accounting practices, legislative changes or organizational changes, the Department shall state in its Annual Report that such table will no longer be included in the Annual Report and the reason therefore. Comparable information shall be provided if available.

Section 5. Reporting of Significant Events.

(a) The Department shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2014 Bonds not later than ten business days after the occurrence of the event:

1. Principal and interest payment delinquencies;
2. Unscheduled draws on debt service reserves reflecting financial difficulties;
3. Unscheduled draws on credit enhancements reflecting financial difficulties;
4. Substitution of credit or liquidity providers, or their failure to perform;
5. Adverse tax opinions, issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
6. Tender offers;
7. Defeasances;
8. Rating changes; or
9. Bankruptcy, insolvency, receivership or similar event of the Obligated Person;

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an Obligated Person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Obligated Person.

(b) The Department shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2014 Bonds, if material, not later than ten business days after the occurrence of the event:

1. Non-payment related defaults;
2. Unless described in paragraph 5(a)(5), other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Series 2014 Bonds or other material events affecting the tax status of the Series 2014 Bonds;
3. Modifications to rights of the Owners of the Series 2014 Bonds;
4. Series 2014 Bond calls;
5. Release, substitution or sale of property securing repayment of the Series 2014 Bonds;
6. The consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or
7. Appointment of a successor or additional trustee or the change of name of a trustee.

(c) The Department shall give, or cause to be given, in a timely manner, notice of a failure to provide the annual financial information on or before the date specified in Section 3(a), as provided in Section 3.

(d) Whenever the Department obtains knowledge of the occurrence of a Listed Event described in Section 5(b), the Department shall determine if such event would be material under applicable federal securities laws.

(e) If the Department learns of an occurrence of a Listed Event described in Section 5(a), or determines that knowledge of a Listed Event described in Section 5(b) would be material under applicable federal securities laws, the Department shall within ten business days of occurrence file a notice of such occurrence with the MSRB through the EMMA System in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsections (a)(7) or (b)(4) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Series 2014 Bonds pursuant to the Indenture.

Section 6. Customarily Prepared and Public Information. Upon request, the Department shall provide to any person financial information and operating data regarding the Department which is customarily prepared by the Department and is publicly available at a cost not exceeding the reasonable cost of duplication and delivery.

Section 7. Termination of Obligation. The Department's obligations under this Disclosure Certificate shall terminate upon the maturity, legal defeasance, prior redemption or payment in full of all of the Series 2014 Bonds. In addition, in the event that the Rule shall be amended, modified or repealed

such that compliance by the Department with its obligations under this Disclosure Certificate no longer shall be required in any or all respects, then the Department's obligations hereunder shall terminate to a like extent. If such termination occurs prior to the final maturity of the Series 2014 Bonds, the Department shall give notice of such termination in the same manner as for a Listed Event under Section 5(e).

Section 8. Dissemination Agent. The Department may, from time to time, appoint or engage a dissemination agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such dissemination agent, with or without appointing a successor dissemination agent. If at any time there is not any other designated dissemination agent, the Department shall be the dissemination agent. The initial dissemination agent shall be the Department.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Department may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule. The Department shall give notice of any amendment in the same manner as for a Listed Event under Section 5(e).

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Department from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Department chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Department shall not thereby have any obligation under this Disclosure Certificate to update such information or include it in any future notice of occurrence of a Listed Event.

Section 11. Default. In the event of a failure of the Department to comply with any provision of this Disclosure Certificate, any Owner or Beneficial Owner of the Series 2014 Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Department to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed a default under the Indenture and the sole remedy under this Disclosure Certificate in the event of any failure of the Department to comply with this Disclosure Certificate shall be an action to compel performance. Under no circumstances shall any person or entity be entitled to recover monetary damages hereunder in the event of any failure of the Department to comply with this Disclosure Certificate.

No Owner or Beneficial Owner of the Series 2014 Bonds may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the Department satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the Department shall have refused to comply therewith within a reasonable time.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. Any Dissemination Agent appointed hereunder shall have only such duties as are specifically set forth in this Disclosure Certificate, and shall have such rights, immunities and liabilities as shall be set forth in the written agreement between the Department and such Dissemination Agent pursuant to which such Dissemination Agent agrees to perform the duties and obligations of Dissemination Agent under this Disclosure Certificate.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Department, the Dissemination Agent, if any, the Participating Underwriter, and the Owners and

Beneficial Owners from time to time of the Series 2014 Bonds, and shall create no rights in any other person or entity. This Disclosure Certificate is not intended to create any monetary rights on behalf of any person based upon the Rule.

Section 14. Notices. Any notices or communications to the Department may be given as follows:

Harbor Department of the City of Los Angeles
425 South Palos Verdes Street
San Pedro, California 90731
Attention: Executive Director
Fax: (310) 831-6936
Telephone: (310) 732-3827

Section 15. Partial Invalidity. If any one or more of the agreements or covenants or portions thereof required hereby to be performed by or on the part of the Department shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity hereof, and the Beneficial Owners of the Series 2014 Bonds shall retain all the benefits afforded to them hereunder. The Department hereby declares that it would have executed and delivered this Disclosure Certificate and each and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

Section 16. Governing Law. This Disclosure Certificate was made in the City of Los Angeles and shall be governed by, interpreted and enforced in accordance with the laws of the State of California and the City of Los Angeles, without regard to conflict of law principles. Any litigation, action or proceeding to enforce or interpret any provision of this Disclosure Certificate or otherwise arising out of, or relating to this Disclosure Certificate, shall be brought, commenced or prosecuted in a State or Federal court in the County of Los Angeles in the State of California. By its acceptance of the benefits hereof, any person or entity bringing any such litigation, action or proceeding submits to the exclusive jurisdiction of the State of California and waives any defense of forum non conveniens.

IN WITNESS WHEREOF, the undersigned has executed this Disclosure Certificate this ____ day of _____, 2014.

HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES

By: _____
Executive Director

EXHIBIT A

NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Harbor Department of the City of Los Angeles

Name of Bond Issue: Harbor Department of the City of Los Angeles Revenue Bonds, 2014 Series A (AMT)

Harbor Department of the City of Los Angeles Revenue Bonds, 2014 Series B (Non-AMT)

Date of Issuance: _____, 2014

CUSIP: 544552_____

NOTICE IS HEREBY GIVEN that the Harbor Department of the City of Los Angeles (the “Department”) has not provided an Annual Report with respect to the above referenced Bonds as required by Section 3 of the Continuing Disclosure Certificate, dated _____, 2014, executed by the Department for the benefit of the Owners and Beneficial Owners of the above referenced Bonds. The Department anticipates that the Annual Report will be filed by _____, 20__.

Dated: _____

HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES

By: _____
Authorized Representative

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APPENDIX E
FORM OF OPINION OF BOND COUNSEL

[To be provided by Bond Counsel]

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APPENDIX F**BOOK-ENTRY-ONLY SYSTEM****Introduction**

Unless otherwise noted, the information contained under the caption “—General” below has been provided by DTC. The Department makes no representations as to the accuracy or the completeness of such information. The Beneficial Owners of the Series 2014 Bonds should confirm the following information with DTC, the Direct Participants or the Indirect Participants.

NEITHER THE DEPARTMENT NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (B) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE SERIES 2014 BONDS UNDER THE INDENTURE, (C) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 2014 BONDS; (D) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR INTEREST DUE TO THE OWNERS OF THE SERIES 2014 BONDS; (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNERS OF SERIES 2014 BONDS; OR (F) ANY OTHER MATTER REGARDING DTC.

General

DTC will act as securities depository for the Series 2014 Bonds. The Series 2014 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Series 2014 Bond certificate will be issued for each maturity of the Series 2014 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC or held by the Trustee.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Bonds Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of “AA.” The

DTC Rules applicable to Direct Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org. The Department has not undertaken any responsibility for and makes no representations as to the accuracy or the completeness of the content of such material contained on the websites described in the preceding sentence including, but not limited to, updates of such information or links to other Internet sites accessed through the aforementioned websites.

Purchases of the Series 2014 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2014 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2014 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2014 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2014 Bonds, except in the event that use of the book-entry system for the Series 2014 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2014 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2014 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2014 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2014 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

While the Series 2014 Bonds are in the book-entry-only system, redemption notices will be sent to DTC. If less than all of the Series 2014 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be prepaid.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2014 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Trustee as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2014 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2014 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Department, the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Direct and

Indirect Participant and not of DTC, the Trustee or the Department, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Department or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2014 Bonds at any time by giving reasonable notice to the Department. Under such circumstances, in the event that a successor depository is not obtained, certificates representing the Series 2014 Bonds are required to be printed and delivered.

The Department may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificates representing the Series 2014 Bonds will be printed and delivered to the registered holders of the Series 2014 Bonds.

The information in this Appendix F concerning DTC and DTC's book-entry system has been obtained from sources that the Department believes to be reliable, but neither the Department nor the Underwriters take any responsibility for the accuracy thereof.

BENEFICIAL OWNERS WILL NOT RECEIVE PHYSICAL DELIVERY OF SERIES 2014 BONDS AND WILL NOT BE RECOGNIZED BY THE TRUSTEE AS OWNERS THEREOF, AND BENEFICIAL OWNERS WILL BE PERMITTED TO EXERCISE THE RIGHTS OF OWNERS ONLY INDIRECTLY THROUGH DTC AND THE DTC PARTICIPANTS.

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