

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 and the Series 2014B Bonds (as defined herein) from gross income for any period during which such Series 2014A Bonds and Series 2014B 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 and the Series 2014B 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 and the Series 2014C 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.



\$337,275,000		
HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES		
\$203,280,000	\$89,105,000	\$44,890,000
Revenue Bonds and Refunding Revenue Bonds 2014 Series A (AMT)	Refunding Revenue Bonds 2014 Series B (Exempt Facility Non-AMT)	Revenue Bonds 2014 Series C (Governmental 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 and Refunding Revenue Bonds, 2014 Series A (AMT) (the “Series 2014A Bonds”), the Harbor Department of the City of Los Angeles Refunding Revenue Bonds, 2014 Series B (Exempt Facility Non-AMT) (the “Series 2014B Bonds”) and the Harbor Department of the City of Los Angeles Revenue Bonds, 2014 Series C (Governmental Non-AMT) (the “Series 2014C Bonds,” and together with the Series 2014A Bonds and the Series 2014B 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. 14-7674 adopted by the Board of Harbor Commissioners of the City of Los Angeles on July 10, 2014, approved by the City Council of the City of Los Angeles on August 19, 2014 and approved by the Mayor of the City of Los Angeles on August 21, 2014. The Series 2014 Bonds also are being issued pursuant to an Indenture of Trust, to be dated as of September 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 September 18, 2014.

Wells Fargo Securities	Siebert Brandford Shank & Co., L.L.C.		
BofA Merrill Lynch	Cabrera Capital Markets, LLC	RBC Capital Markets	Stifel

MATURITY SCHEDULE

\$203,280,000
Harbor Department of the City of Los Angeles
Revenue Bonds and Refunding Revenue Bonds
2014 Series A (AMT)

Maturity Date (August 1)	Principal Amount	Interest Rate	Yield	CUSIP No.*
2015	\$2,275,000	2.000%	0.160%	544552VL3
2016	3,420,000	4.000	0.390	544552VM1
2017	4,595,000	4.000	0.710	544552VN9
2018	4,865,000	5.000	1.020	544552VP4
2019	5,160,000	5.000	1.350	544552VQ2
2020	5,425,000	5.000	1.660	544552VR0
2021	5,705,000	5.000	1.990	544552VS8
2022	6,000,000	5.000	2.270	544552VT6
2023	6,310,000	5.000	2.450	544552VU3
2024	3,150,000	5.000	2.600	544552VV1
2025	3,310,000	5.000	2.750 ^C	544552VW9
2026	3,480,000	5.000	2.910 ^C	544552VX7
2027	7,245,000	5.000	3.020 ^C	544552VY5
2028	8,160,000	5.000	3.080 ^C	544552VZ2
2029	5,255,000	5.000	3.150 ^C	544552WA6
2030	7,945,000	5.000	3.210 ^C	544552WB4
2031	7,930,000	5.000	3.270 ^C	544552WC2
2032	9,965,000	5.000	3.330 ^C	544552WD0
2033	10,475,000	5.000	3.380 ^C	544552WE8
2034	11,015,000	5.000	3.430 ^C	544552WF5
2035	11,575,000	5.000	3.480 ^C	544552WG3
2036	12,175,000	5.000	3.520 ^C	544552WH1

\$57,845,000 5.000% Term Bonds due August 1, 2044, Yield 3.620%^C; CUSIP No. 544552WJ7*

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^C Priced to the par call date of August 1, 2024.

MATURITY SCHEDULE

\$89,105,000
Harbor Department of the City of Los Angeles
Refunding Revenue Bonds
2014 Series B (Exempt Facility Non-AMT)

Maturity Date (August 1)	Principal Amount	Interest Rate	Yield	CUSIP No.*
2015	\$1,360,000	5.000%	0.120%	544552WK4
2016	1,425,000	4.000	0.260	544552WL2
2017	1,480,000	4.000	0.510	544552WM0
2018	1,545,000	4.000	0.750	544552WN8
2019	1,615,000	5.000	1.030	544552WP3
2020	1,695,000	5.000	1.340	544552WQ1
2021	1,785,000	5.000	1.590	544552WR9
2022	1,875,000	5.000	1.850	544552WS7
2023	1,970,000	5.000	2.050	544552WT5
2024	2,075,000	5.000	2.200	544552WU2
2025	2,180,000	5.000	2.350 ^C	544552WV0
2026	2,290,000	5.000	2.510 ^C	544552WW8
2027	2,410,000	5.000	2.620 ^C	544552WX6
2028	2,530,000	5.000	2.710 ^C	544552WY4
2029	640,000	3.000	3.130	544552WZ1
2029	2,015,000	5.000	2.830 ^C	544552XK3
2030	2,785,000	5.000	2.890 ^C	544552XA5
2031	540,000	3.250	3.350	544552XB3
2031	2,385,000	5.000	2.950 ^C	544552XL1
2032	3,065,000	5.000	3.010 ^C	544552XC1
2033	3,225,000	5.000	3.060 ^C	544552XD9
2034	3,390,000	5.000	3.110 ^C	544552XE7
2035	3,565,000	5.000	3.160 ^C	544552XF4
2036	1,750,000	3.500	3.610	544552XG2
2036	1,985,000	5.000	3.210 ^C	544552XM9

\$12,345,000 5.000% Term Bonds due August 1, 2039, Yield 3.260%^C; CUSIP No. 544552XJ6*

\$25,180,000 5.000% Term Bonds due August 1, 2044, Yield 3.280%^C; CUSIP No. 544552XH0*

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^C Priced to the par call date of August 1, 2024.

MATURITY SCHEDULE

\$44,890,000
Harbor Department of the City of Los Angeles
Revenue Bonds
2014 Series C (Governmental Non-AMT)

Maturity Date (August 1)	Principal Amount	Interest Rate	Yield	CUSIP No.*
2015	\$760,000	2.000%	0.120%	544552XN7
2016	780,000	3.000	0.260	544552XP2
2017	805,000	3.000	0.510	544552XQ0
2018	835,000	4.000	0.750	544552XR8
2019	870,000	4.000	1.030	544552XS6
2020	900,000	3.000	1.340	544552XT4
2021	925,000	3.000	1.590	544552XU1
2022	955,000	3.000	1.850	544552XV9
2023	990,000	4.000	2.050	544552XW7
2024	1,030,000	4.000	2.200	544552XX5
2025	1,075,000	5.000	2.350 ^C	544552XY3
2026	1,130,000	5.000	2.510 ^C	544552XZ0
2027	1,190,000	5.000	2.620 ^C	544552YA4
2028	1,250,000	5.000	2.710 ^C	544552YB2
2029	1,315,000	5.000	2.830 ^C	544552YC0
2030	1,380,000	5.000	2.890 ^C	544552YD8
2031	1,450,000	5.000	2.950 ^C	544552YE6
2032	1,525,000	5.000	3.010 ^C	544552YF3
2033	1,605,000	5.000	3.060 ^C	544552YG1
2034	1,685,000	5.000	3.110 ^C	544552YH9
2035	1,775,000	5.000	3.160 ^C	544552YJ5
2036	1,865,000	5.000	3.210 ^C	544552YK2

\$6,185,000 5.000% Term Bonds due August 1, 2039, Yield 3.260%^C; CUSIP No. 544552YM8*

\$12,610,000 5.000% Term Bonds due August 1, 2044, Yield 3.280%^C; CUSIP No. 544552YL0*

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^C Priced to the par call date of August 1, 2024.

**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

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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.

Hyperlinks Disclosure—References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader’s convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in, Rule 15c2-12(b)(5) adopted by the U.S. Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

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

\$337,275,000

HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES

\$203,280,000 Revenue Bonds and Refunding Revenue Bonds 2014 Series A (AMT)	\$89,105,000 Refunding Revenue Bonds 2014 Series B (Exempt Facility Non-AMT)	\$44,890,000 Revenue Bonds 2014 Series C (Governmental Non-AMT)
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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 \$203,280,000 Harbor Department of the City of Los Angeles Revenue Bonds and Refunding Revenue Bonds, 2014 Series A (AMT) (the “Series 2014A Bonds”), \$89,105,000 Harbor Department of the City of Los Angeles Refunding Revenue Bonds, 2014 Series B (Exempt Facility Non-AMT) (the “Series 2014B Bonds”), and \$44,890,000 Harbor Department of the City of Los Angeles Revenue Bonds, 2014 Series C (Governmental Non-AMT) (the “Series 2014C Bonds,” and together with the Series 2014A Bonds and the Series 2014B 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., revenue from permit and 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. The Port generally encompasses approximately 43 miles of waterfront berthing and 23 terminal facilities, including nine major container cargo terminals, two break-bulk facilities, two dry bulk facilities, seven 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. 14-7674 (the “Resolution”) adopted by the Board of Harbor Commissioners of the City of Los Angeles (the “Board”) on July 10, 2014, approved by the City Council of the City (the “City Council”) on August 19, 2014 and approved by the Mayor of the City (the “Mayor”) on August 21, 2014. The Series 2014 Bonds also are being issued pursuant to an Indenture of Trust, to be dated as of September 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 July 31, 2014, the Department had \$914,505,000 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 of the Department's outstanding Revenue Bonds, 2006 Series D (AMT) (the "Series 2006D Bonds", as described in more detail in the table below, the "Refunded Bonds"), 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 include various new seaport and dock and wharf capital improvements related to the design, development, construction, renovation, acquisition, replacement, modification, removal, demolition and equipping of Port facilities, including improvements to various berths, dredging, and construction and improvements of backlands.

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Refunded Bonds

Series	Maturity Date (August 1)	Principal Amount	Redemption Date ¹	CUSIP Number ²
2006D	2015	\$400,000	September 26, 2014	544552RJ3
2006D	2016	1,500,000	September 26, 2014	544552RK0
2006D	2017	2,615,000	September 26, 2014	544552RL8
2006D	2018	2,810,000	September 26, 2014	544552RM6
2006D	2019	3,000,000	September 26, 2014	544552RN4
2006D	2020	3,155,000	September 26, 2014	544552RP9
2006D	2021	3,315,000	September 26, 2014	544552RQ7
2006D	2022	3,485,000	September 26, 2014	544552RR5
2006D	2023	3,665,000	September 26, 2014	544552RS3
2006D	2027	3,950,000	September 26, 2014	544552RW4
2006D	2028	4,670,000	September 26, 2014	544552RX2
2006D	2029	1,580,000	September 26, 2014	544552RY0
2006D	2030	4,075,000	September 26, 2014	544552RZ7
2006D	2031	3,865,000	September 26, 2014	544552SA1
2006D	2035	24,575,000	September 26, 2014	544552SB9
2006D	2036	<u>6,940,000</u>	September 26, 2014	544552SC7
Total		<u>\$73,600,000</u>		

¹ The Refunded Bonds will be redeemed on September 26, 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.

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”), to be created under the terms of an escrow agreement between the Department and U.S. Bank National Association, as trustee and escrow agent. The amounts deposited into the Escrow Fund will be held uninvested in cash. Amounts on deposit in the Escrow Fund will be used on September 26, 2014 to pay the redemption price of the Refunded Bonds of 101% of the principal amount thereof, plus accrued interest thereon.

Series 2014B Bonds. Proceeds from the sale of the Series 2014B Bonds, along with certain available moneys, will be used to refund \$100,000,000 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.

Series 2014C Bonds. Proceeds from the sale of the Series 2014C Bonds, along with certain available moneys, will be used to finance certain Governmental Projects, make a deposit to the Reserve Fund and to pay costs of issuance of the Series 2014C Bonds, all as described under “—Sources and Uses of Funds” below.

Governmental Projects include Port related capital improvements which benefit the general public, including road, infrastructure, and various parking and park improvements.

“Projects” include Private Activity Projects and 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.

Sources	Series 2014A Bonds	Series 2014B Bonds	Series 2014C Bonds	Total
Par Amount	\$203,280,000.00	\$ 89,105,000.00	\$44,890,000.00	\$337,275,000.00
Net Original Issue Premium	28,246,830.30	14,060,349.00	6,696,284.15	49,003,463.45
Available Moneys of				
Department	471,419.79	—	—	471,419.79
Funds Released from 2006D				
Reserve Fund	<u>4,214,462.95</u>	<u>1,877,909.96</u>	<u>939,020.69</u>	<u>7,031,393.60</u>
Total Sources	<u>\$236,212,713.04</u>	<u>\$105,043,258.96</u>	<u>\$52,525,304.84</u>	<u>\$393,781,276.84</u>
Uses				
Deposit to Construction Fund	\$150,000,000.00	\$ —	\$50,000,000.00	\$200,000,000.00
Refund Outstanding				
Commercial Paper Notes	—	100,000,000.00	—	100,000,000.00
Deposit to Escrow Fund	74,887,662.46	—	—	74,887,662.46
Deposit to Reserve Fund	10,654,694.96	4,747,593.72	2,373,962.97	17,776,251.65
Costs of Issuance ¹	380,875.37	168,961.11	87,443.22	637,279.70
Underwriters' Discount	<u>289,480.25</u>	<u>126,704.13</u>	<u>63,898.65</u>	<u>480,083.03</u>
Total Uses	<u>\$236,212,713.04</u>	<u>\$105,043,258.96</u>	<u>\$52,525,304.84</u>	<u>\$393,781,276.84</u>

¹ Includes legal costs, expenses, other costs of issuance and additional proceeds.

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, 2024 are not subject to optional redemption prior to maturity. The Series 2014A Bonds maturing on or after August 1, 2025, 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, 2024, 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, 2024 are not subject to optional redemption prior to maturity. The Series 2014B Bonds maturing on or after August 1, 2025, 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, 2024, at a redemption price equal to the principal amount thereof, plus accrued and unpaid interest thereon to the redemption date, without premium.

The Series 2014C Bonds maturing on or before August 1, 2024 are not subject to optional redemption prior to maturity. The Series 2014C Bonds maturing on or after August 1, 2025, 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, 2024, 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, 2044 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 and in the following principal amounts; provided, however, that if some but not all of the Series 2014A Bonds have been optionally redeemed, the total amount of sinking fund payments to be made subsequent to such optional or mandatory redemption shall be reduced in an amount equal to the principal amount of such Series 2014A Bonds so redeemed by reducing future sinking fund payments in such order as shall be designated pursuant to written notice filed by the Department with the Trustee:

Redemption Date (August 1)	Principal Amount
2037	\$6,030,000
2038	6,340,000
2039	6,665,000
2040	7,005,000
2041	7,365,000
2042	7,745,000
2043	8,140,000
2044 ¹	8,555,000

¹ Final Maturity.

The Series 2014B Bonds maturing on August 1, 2039 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 and in the following principal amounts; provided, however, that if some but not all of the Series 2014B Bonds have been optionally redeemed, the total amount of sinking fund payments to be made subsequent to such optional or mandatory redemption shall be reduced in an amount equal to the principal amount of such Series 2014B Bonds so redeemed by reducing future sinking fund payments in such order as shall be designated pursuant to written notice filed by the Department with the Trustee:

Redemption Date (August 1)	Principal Amount
2037	\$3,910,000
2038	4,110,000
2039 ¹	4,325,000

¹ Final Maturity.

The Series 2014B Bonds maturing on August 1, 2044 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 and in the following principal amounts; provided, however, that if some but not all of the Series 2014B Bonds have been optionally redeemed, the total amount of sinking fund payments to be made subsequent to such optional or mandatory redemption shall be reduced in an amount equal to the principal amount of such Series 2014B Bonds so redeemed by reducing future sinking fund payments in such order as shall be designated pursuant to written notice filed by the Department with the Trustee:

Redemption Date (August 1)	Principal Amount
2040	\$4,545,000
2041	4,780,000
2042	5,025,000
2043	5,280,000
2044 ¹	5,550,000

¹ Final Maturity.

The Series 2014C Bonds maturing on August 1, 2039 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 and in the following principal amounts; provided, however, that if some but not all of the Series 2014C Bonds have been optionally redeemed, the total amount of sinking fund payments to be made subsequent to such optional or mandatory redemption shall be reduced in an amount equal to the principal amount of such Series 2014C Bonds so redeemed by reducing future sinking fund payments in such order as shall be designated pursuant to written notice filed by the Department with the Trustee:

Redemption Date (August 1)	Principal Amount
2037	\$1,960,000
2038	2,060,000
2039 ¹	2,165,000

¹ Final Maturity.

The Series 2014C Bonds maturing on August 1, 2044 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 and in the following principal amounts; provided, however, that if some but not all of the Series 2014C Bonds have been optionally redeemed, the total amount of sinking fund payments to be made subsequent to such optional or mandatory redemption shall be reduced in an amount equal to the principal amount of such Series 2014C Bonds so redeemed by reducing future sinking fund payments in such order as shall be designated pursuant to written notice filed by the Department with the Trustee:

Redemption Date (August 1)	Principal Amount
2040	\$2,275,000
2041	2,395,000
2042	2,515,000
2043	2,645,000
2044 ¹	2,780,000

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 premium, if any, 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, plus accrued interest, without premium, 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, plus accrued interest thereon, without premium. 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, plus accrued interest on such Series 2014 Bonds, without premium.

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 July 31, 2014, the Department had \$914,505,000 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, the Interest Account—2014 Series B and the Interest Account—2014 Series C; (b) the Principal Fund (the “Principal Fund”), including the Principal Account—2014 Series A, the Principal Account—2014 Series B and the Principal Account—2014 Series C; (c) the Reserve Fund (the “Reserve Fund”); (d) the Redemption Fund (the “Redemption Fund”), including the Redemption Account—2014 Series A, the Redemption Account—2014 Series B and the Redemption Account—2014 Series C; (e) the Costs of Issuance Fund (the “Costs of Issuance Fund”), including the Costs of Issuance Account—2014 Series A, the Costs of Issuance Account—2014 Series B and the Costs of Issuance Account—2014 Series C; (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 C. 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 or subject to mandatory sinking fund redemption 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

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 Refunding Revenue Bonds, 2005 Series A (the “Series 2005A Bonds”), Refunding Revenue Bonds, 2005 Series B (the “Series 2005B Bonds”), Refunding 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”), Refunding Revenue Bonds, 2006 Series A (the “Series 2006A Bonds”), Refunding Revenue Bonds, 2006 Series B (the “Series 2006B Bonds”), Refunding 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”), Refunding Revenue Bonds, 2011 Series A (the “Series 2011A Bonds”), Refunding Revenue 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 (\$67,165,841).

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, 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. 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 \$67,165,841 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 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 cash and a reserve fund surety policy which was issued by National Public Finance Guarantee Corporation (“NPF,” as successor to MBIA Insurance Corporation). The cash and reserve fund surety policy issued by NPF satisfy the funding requirements for the Separate Reserve Fund. The Department will use a portion of the proceeds of the Series 2014 Bonds to current refund and defease all of the outstanding Series 2006D Bonds. The reserve fund surety policy issued by NPF will terminate upon the defeasance of the 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 July 31, 2014, the Department had \$914,505,000 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, \$150,000,000 of which was outstanding as of July 31, 2014 (the “Outstanding Commercial Paper Notes”). See table below entitled “Outstanding Parity Obligations as of July 31, 2014”. However, the Department will 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 and A-2, Subseries B-1 and B-2, Subseries C-1 and C-2 and Subseries D-1 and 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: (i) the Line of Credit Agreement, dated as of July 1, 2012 (the “Wells Fargo CP Line 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”), 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”), as further described in the table below:

Commercial Paper Notes Lines of Credit

Line of Credit Provider	Stated Amount	Subseries	Expiration Date
Mizuho	\$125,000,000	A-1, B-1, C-1, D-1	June 30, 2015
Wells Fargo	\$125,000,000	A-2, B-2, C-2, D-2	June 30, 2015

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. 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 may be terminated prior to their expiration date 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 \$50,000,000 of Outstanding Commercial Paper Notes.

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The following table sets forth the Parity Obligations that have been issued and were outstanding as of July 31, 2014.

**Outstanding Parity Obligations
as of July 31, 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	<u>32,820,000</u>	<u>32,820,000</u>	Series 2011 Indenture
<i>Total</i>	<u>\$1,164,050,000</u>	<u>\$764,505,000</u>	
<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 B-2 ³	— ⁴	50,000,000	Amended and Restated Paying Agent Agreement
Subseries A-1	— ⁴	25,000,000	Amended and Restated Paying Agent Agreement
Subseries A-2	— ⁴	<u>25,000,000</u>	Amended and Restated Paying Agent Agreement
<i>Total Commercial Paper Notes Outstanding</i>		<u>\$150,000,000</u>	
<i>Total Bonds and Commercial Paper Notes Outstanding</i>		<u>\$914,505,000</u>	

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

² See “PLAN OF REFUNDING AND FINANCE AND APPLICATION OF SERIES 2014 BOND PROCEEDS” for a discussion of the refunding and defeasance of the Refunded Bonds.

³ See “PLAN OF REFUNDING AND FINANCE AND APPLICATION OF SERIES 2014 BOND PROCEEDS” for a discussion of the refunding of these Outstanding Commercial Paper Notes.

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 man-made 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., revenue from permit and lease agreements); and the smallest revenue 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 (i.e., fisheries and ship repair), railroads, restaurants and other similar operations. These arrangements are entered into under various lease and permit agreements. Under the agreements the occupants agree to pay to the Department tariffs or fees established by the Department. Permittees 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 23 terminal facilities, including nine major container cargo terminals, two break-bulk facilities, two dry bulk facilities, seven 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 (enacted in 2002) 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. Ruiz’ 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. Ruiz 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 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 leads the nation in 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 ten Fiscal Years. See also “FINANCIAL INFORMATION CONCERNING THE DEPARTMENT—Summary of Revenues, Expenses and Net Assets—Shipping Industry and Recovery from 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 Bulk²	Dry Bulk³	Total⁴	Percent Increase/(Decrease) in Total Tonnage over Prior Year
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 ⁵	149,100	10,600	1,200	160,900	2.0
2012 ⁵	163,900	9,900	1,100	174,900	8.7
2013	156,300	7,800	1,000	165,100	(5.6) ⁶
2014	165,000	10,500	900	176,400	6.8

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 Tonnage changes due to post-close adjustments.

⁶ 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, initially impacting both cargo volume and associated revenue at the Port. The Port has since recovered from the initial impact through ongoing capital investment to enhance capacity and recent favorable movement of alliance traffic. See "FINANCIAL INFORMATION CONCERNING THE DEPARTMENT—Summary of Revenues, Expenses and Net Assets—Shipping Industry and Recovery from Economic Downturn in Past Years" herein.

Source: Harbor Department of the City of Los Angeles

The following Table 2A summarizes revenues per ton for the past ten 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
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	160,900 ³	2.13
2012	357,700	174,900 ³	2.05
2013	347,900 ⁴	165,100 ⁴	2.11
2014	377,900 ⁵	176,400	2.14

¹ Numbers are rounded.

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

³ Tonnage changes due to post-close adjustments.

⁴ 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, initially impacting both cargo volume and associated revenue at the Port. The Port has since recovered from the initial impact through ongoing capital investment to enhance capacity and recent favorable movement of alliance traffic. See "FINANCIAL INFORMATION CONCERNING THE DEPARTMENT—Summary of Revenues, Expenses and Net Assets—Shipping Industry and Recovery from Economic Downturn in Past Years" herein.

⁵ Unaudited.

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
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	7,228	41.02	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	8,186 ²	39.32	35,800	13,800	2.59
2013 ³	347,900	313,700	7,777	40.34	34,200	11,700	2.92
2014 ⁴	377,900	336,400	8,210	40.97	41,500	14,900	2.79

¹ Numbers are rounded.

² TEU change due to post close adjustment.

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, initially impacting both cargo volume and associated revenue at the Port. The Port has since recovered from the initial impact through ongoing capital investment to enhance capacity and recent favorable movement of alliance traffic. See "FINANCIAL INFORMATION CONCERNING THE DEPARTMENT—Summary of Revenues, Expenses and Net Assets—Shipping Industry and Recovery from Economic Downtown in Past Years" herein.

⁴ Unaudited.

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 37.8% of the Department's Fiscal Year 2014 exports, and approximately 55.0% of the Department's Fiscal Year 2014 imports.

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 Recovery from Economic Downturn in Past Years” below.

Table 3
Port of Los Angeles
TEUs By Country
Fiscal Year 2014

Exports Country	TEUs	% of Total	Imports Country	TEUs	% of Total
China	668,108	37.8%	China	2,270,568	55.0%
Japan	200,571	11.3	South Korea	236,496	5.7
South Korea	183,208	10.4	Vietnam	228,772	5.5
Taiwan	162,489	9.2	Taiwan	225,610	5.5
Australia	77,085	4.4	Japan	223,573	5.4
Hong Kong	55,024	3.2	Thailand	166,067	4.0
Singapore	38,100	2.2	Indonesia	131,416	3.2
Vietnam	36,603	2.1	Hong Kong	109,068	2.6
Philippines	35,462	2.0	Malaysia	88,218	2.1
Thailand	32,501	1.8	India	52,190	1.3
All Others	<u>278,878</u>	<u>15.8</u>	All Others	<u>393,112</u>	<u>9.5</u>
Total Exports	<u>1,768,028</u>	<u>100.0%</u>	Total Imports	<u>4,125,090</u>	<u>100.0%</u>

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 Virginia (Norfolk)	2,224
Port of Houston	1,950
Port of Tacoma	1,892
Port of Seattle	1,593

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 and permit agreements. Under the permit agreements the occupants agree to pay tariffs and fees to the Department. Permittees 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 23 terminal facilities and 43 miles of waterfront berthing. The Department also is landlord to fish markets, ocean related entities (i.e., fisheries and ship repair), 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, 2014 are shown in the following Table 5.

Table 5
Port of Los Angeles
Major Permittees (Tenants)
As of June 30, 2014

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.
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 and permit agreements with respect to industrial sites, open land area and other Port property. Such 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 agreements must be subject to review and renegotiation by the Department at intervals of not more than five years. Most agreements do not extend beyond 30 years and rates payable to the Department under the 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 and permit 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, trends 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 August 2014). Such projections are based on the Department’s capital improvement program plan.

Table 7
Port of Los Angeles
Projected Capital Improvement Program Expenditures And Funding¹
(in millions of dollars)

Fiscal Year Ending June 30	Total Capital Improvement Plan Expenditures²	Port Cash	Government Grants	Debt³	% Debt Financing
2014 ⁴	\$ 326	\$221	\$ 80	\$25	8%
2015	281	–	81	200 ⁵	71
2016	256	219	37	–	–
2017	184	176	8	–	–
2018	<u>219</u>	<u>219</u>	<u>–</u>	<u>–</u>	–
Total	<u>\$1,266</u>	<u>\$835</u>	<u>\$206</u>	<u>\$225</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 include those projects that are in planning, design or construction. Some of the costs projected relating to planning and design may change as such projects are further refined during such period. These figures do 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.

⁴ Unaudited.

⁵ The Department will use the proceeds of the Series 2014 Bonds to fund such portion of its Capital Improvement Program Expenditures.

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, and in May 2013 such award was increased by an additional \$3.5 million, of which \$12 million has been received in Fiscal Year 2014. Additionally, in April 2014, the Department was awarded \$2.84 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 expenditures for capital improvement projects in Fiscal Year 2014 were approximately \$326 million comprised of: Terminal Projects (approximately \$182 million), Transportation Projects (approximately \$106 million), Security Projects (approximately \$11 million), Public Access/Environmental Enhancements (approximately \$21 million), and Maritime Services Projects (approximately \$6 million).

For Fiscal Year 2015 the Department has budgeted \$281 million for capital improvement projects in the following categories: Terminal Projects (approximately \$136.3 million), Transportation Projects (approximately \$107.3 million), Security Projects (approximately \$3.4 million), Public Access/Environmental Enhancements (approximately \$4.9 million), and Maritime Services Projects (approximately \$29.1 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	\$ 787
Transportation Projects	265
Security Projects	14
Public Access/Environmental Enhancements	86
Maritime Services	<u>114</u>
Total	\$1,266

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 73 acres to 132 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 2004 (constructed 1,200 feet of wharf at Berth 100, 73 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 November 2013 (constructed 375 feet of wharf and 41 acres of backland development). Alternative Maritime Power (“AMP”) improvements (i.e., plugging into shore-side electrical power while at dock) were installed at the containers wharves constructed in Phases I, II and III. The Port’s long-term contract with China Shipping expires in 2030.

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 facility spans 172 acres and 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. The Port's long-term contract with TraPac expires in 2039.

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 facility spans 205 acres. 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. The Port's long-term contract with YTI expires in 2016 and YTI intends to exercise its option to extend its lease to 2026.

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 (currently 289 acres) 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. The Port’s long-term contract with Eagle Marine expires in 2026.

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 2019. 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 that were formerly used for industrial purposes where historical or past contamination and environmental impairments exist. The Port uses a combination of in-house specialists and outside consultants to perform estimates of potential liability.

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. In Fiscal Year 2014, fees related to the Clean Truck Program amounted to approximately \$1.1 million (unaudited). For Fiscal Year 2015, the Department has budgeted approximately \$1.4 million 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 permit. 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 the 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., revenue from permit and lease agreements); and the smallest revenue 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 and lease 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 2010 through 2014. Simpson & Simpson LLP, Certified Public Accountants, began serving as the Department's independent auditor in Fiscal Year 2013.

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

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Unaudited</u> <u>2014</u>
Revenues					
Shipping Services					
Wharfage	\$ 304,653	\$ 317,621	\$ 333,757	\$ 322,821	\$ 351,588
Dockage	5,943	5,848	4,813	4,689	4,930
Demurrage	212	238	230	228	223
Cranes	913	--	--	--	--
Pilotage	7,025	7,417	7,131	6,954	7,540
Assignment Charges	8,883	12,374	11,785	13,184	13,592
Storage	<u>1</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total Shipping Services	\$ 327,630	\$ 343,498	\$ 357,716	\$ 347,876	\$ 377,873
Rentals					
Land	\$ 39,741	\$ 42,693	\$ 40,127	\$ 38,856	\$ 38,819
Other	<u>3,400</u>	<u>2,735</u>	<u>3,016</u>	<u>4,034</u>	<u>1,966</u>
Total Rentals	43,141	45,428	43,143	42,890	40,156
Royalties, Fees and Other Operating Revenues	<u>36,047</u>	<u>11,577</u>	<u>8,928</u>	<u>6,602</u>	<u>8,582</u>
Total Operating Revenues	\$ 406,818	\$ 400,503	\$ 409,787	\$ 397,368*	\$ 426,611
Expenses					
Operating and Administrative Expenses					
Salaries and Benefits	\$ 92,930	\$ 98,838	\$ 98,614	\$ 101,861	\$ 112,052
City Services and Payments	37,148	29,964	32,014	31,074	33,503
Outside Services	25,776	29,367	27,660	29,690	26,328
Utilities	7,172	6,612	6,653	5,726	12,335
Materials and Supplies	6,367	6,249	6,314	5,989	6,883
Pollution Remediation Expenses	7,768	14,698	11,635	11,635	3,212
Marketing and Public Relations	2,490	2,912	3,177	2,877	2,710
Workers' Compensation, Claims and Settlement	6,265	4,633	7,507	3,550	1,959
Clean Truck Program Expenses	12,260	5,445	790	934	1,100
Travel and Entertainment	546	804	932	1,139	548
Other operating expenses	<u>11,515</u>	<u>10,174</u>	<u>4,511</u>	<u>10,694</u>	<u>6,532</u>
Total Operating and Administrative Expenses	\$ 210,235	\$ 209,695	\$ 199,806	\$ 205,169	\$ 207,162
Income from Operations before Depreciation	196,583	190,808	209,981	192,199	219,449
Depreciation	<u>87,255</u>	<u>90,468</u>	<u>100,485</u>	<u>108,037</u>	<u>124,221</u>
Operating Income	\$ 109,328	\$ 100,340	\$ 109,496	\$ 84,162	\$ 95,228
Nonoperating Revenues/(Expenses)					
Income from investments in JPAs and other entities	\$ 2,270	\$ (333)	1,851	2,049	\$ 2,120
Interest and investment income	15,233	6,436	9,486	826	4,670
Interest expense	(35,663)	(3,704)	(10,538)	(2,473)	(1,530)
Other income and expenses, net	<u>(2,951)</u>	<u>(6,667)</u>	<u>(8,359)</u>	<u>784</u>	<u>(28,133)</u>
Net Nonoperating Revenues/(Expenses)	<u>(21,111)</u>	<u>(4,268)</u>	<u>(7,560)</u>	<u>1,186</u>	<u>(22,873)</u>
Income Before Capital Contributions	\$ 88,217	\$ 96,072	\$ 101,936	\$ 85,348	\$ 72,354
Capital Contributions	16,950	12,059	31,307	17,630	80,374
Special Item	<u>--</u>	<u>--</u>	<u>--</u>	<u>13,387</u>	<u>16,945</u>
Changes in net assets	105,167	108,131	133,243	116,365	169,673
Total net assets – beginning 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>
Net adjustment for prior year amortization of bond premium/discount	--	--	--	--	10,562
Net adjustment for write-off of prior period bond costs	--	--	--	(8,142)	--
Net Other	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>769</u>
Total net assets – end of year	<u>\$2,534,754</u>	<u>\$2,642,885</u>	<u>\$2,776,128</u>	<u>\$2,884,351</u>	<u>\$3,065,355</u>

* 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, initially impacting both cargo volume and associated revenue at the Port. The Port has since recovered from the initial impact through ongoing capital investment to enhance capacity and recent favorable movement of alliance traffic. See "FINANCIAL INFORMATION CONCERNING THE DEPARTMENT—Summary of Revenues, Expenses and Net Assets—Shipping Industry and Recovery from Economic Downtown in Past Years" herein.

Source: Harbor Department of the City of Los Angeles

Management Discussion and Analysis Fiscal Years 2013 and 2014. In Fiscal Year 2014, total cargo volumes increased approximately 5.6% as compared to Fiscal Year 2013 and the Port handled approximately 8.2 million TEUs. As a result, total operating revenues were approximately \$426.6 million (unaudited), an increase of approximately \$29.2 million or 7.4% over Fiscal Year 2013. Total operating and administrative expenses for Fiscal Year 2014 were approximately \$207.2 million (unaudited), an increase of approximately 1.0 % over the same period in Fiscal Year 2013, primarily due to higher salaries and benefit expenses of approximately \$10.2 million (unaudited); 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 Fiscal Year 2014 increased to approximately \$219.4 million (unaudited), an increase of approximately 14.2% from 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 ten Fiscal Years.

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

Fiscal Year Ended June 30	General Cargo Tariff¹	Basic Dockage Charge²
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	6.25	2,465

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 Recovery from 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.

Starting in 2010, economy and trade showed signs of recovery and the Port started to regain its lost container volume. In Fiscal Year 2011 the Port experienced a significant 9.81% increase in container volume as compared to Fiscal Year 2010. In Fiscal Year 2012, the Port experienced a 3.13% increase in container volume as compared to Fiscal Year 2011.

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 initially 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.

In Fiscal Year 2014, the Port experienced a 5.6% increase in container volume as compared to Fiscal Year 2013. Additionally, with the formation of the G6 Alliance (See “CERTAIN INVESTMENT CONSIDERATIONS—Alliances and Consolidation of Container-Shipping Industry” herein for a description of the G6 Alliance), the Port expects to gain a portion of their Transpacific volume via the San Pedro Bay since five of the six container-shipping lines that are part of the G6 Alliance operate at the Port. Furthermore, the capital projects at many of the Port's terminals are moving forward allowing the Port's terminals to grow and offer expanded service offerings. Terminal automation at the Trapac Terminal is moving forward with testing taking place in the second half of 2014 and once completed, automation will allow for more efficient operations and increased container storage which may result in additional container volumes. Furthermore, the EIR for the YTI Container Terminal Redevelopment Project is nearing completion, and once the YTI Container Terminal Redevelopment Project is completed in 2017 (expected), the terminal will be able to accept larger vessels. See “THE PORT AND THE DEPARTMENT—Capital Improvement Planning—Capital Improvement Projects—Terminal Projects”.

Incentive Programs. In Fiscal Year 2014, the Board approved a new limited duration 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. In Fiscal Year 2014, the Department expended approximately \$1.3 million to fund the Vessel Speed Reduction Incentive Program. The Department has budgeted approximately \$2.0 million to fund the Vessel Speed Reduction Incentive Program 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. In Fiscal Year 2014, the Department expended approximately \$324,000 to fund the Technology Advancement Program. The Port has budgeted approximately \$1.0 million in Fiscal Year 2015 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. In Fiscal Year 2014, the Department expended approximately \$63,000 to fund the Marine Engine Exchange Program. The Department has budgeted approximately \$50,000 to fund the Marine Engine Exchange Program in Fiscal Year 2015.

For Fiscal Year 2014, the Department expended approximately \$162,000 in total customer incentives and \$1.8 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 2010 through 2014 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
2010	\$424,321	\$210,235	\$214,086	\$66,851	3.2x
2011	412,962	209,695	203,267	72,927	2.8
2012	435,291	199,806	235,485	71,609	3.3
2013	416,974 ⁵	205,169	211,805	72,401	2.9
2014 ⁶	447,576	207,162	240,414	65,471	3.7

¹ Operating Revenues also include income from investments, and interest and other non-operating revenues.

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, initially impacting both cargo volume and associated revenue at the Port. The Port has since recovered from the initial impact through ongoing capital investment to enhance capacity and recent favorable movement of alliance traffic. See "FINANCIAL INFORMATION CONCERNING THE DEPARTMENT—Summary of Revenues, Expenses and Net Assets—Shipping Industry and Recovery from Economic Downturn in Past Years" herein.

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 that includes an increase in alliances among shippers that have the potential to change cargo flows and increasing levels of terminal

automation. 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 of 45% (calculated as the operating income before depreciation divided by total operating revenues).

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.

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.

[Remainder of page intentionally left blank.]

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	Series 2014C Bonds Principal	Series 2014C Bonds Interest	Total Debt Service Requirements on Other Parity Obligations	Total Debt Service Requirements
2015	\$ —	\$3,700,208	\$ —	\$ 1,611,609	\$ —	\$ 774,780	\$ 63,749,082	\$ 69,835,680
2016	2,275,000	9,992,850	1,360,000	4,328,250	760,000	2,089,550	63,889,056	84,694,706
2017	3,420,000	9,901,700	1,425,000	4,265,750	780,000	2,070,250	67,630,363	89,493,063
2018	4,595,000	9,741,400	1,480,000	4,207,650	805,000	2,046,475	67,041,588	89,917,113
2019	4,865,000	9,527,875	1,545,000	4,147,150	835,000	2,017,700	67,053,238	89,990,963
2020	5,160,000	9,277,250	1,615,000	4,075,875	870,000	1,983,600	66,519,613	89,501,338
2021	5,425,000	9,012,625	1,695,000	3,993,125	900,000	1,952,700	66,968,238	89,946,688
2022	5,705,000	8,734,375	1,785,000	3,906,125	925,000	1,925,325	66,461,594	89,442,419
2023	6,000,000	8,441,750	1,875,000	3,814,625	955,000	1,897,125	65,896,388	88,879,888
2024	6,310,000	8,134,000	1,970,000	3,718,500	990,000	1,863,000	65,880,394	88,865,894
2025	3,150,000	7,897,500	2,075,000	3,617,375	1,030,000	1,822,600	70,027,588	89,620,063
2026	3,310,000	7,736,000	2,180,000	3,511,000	1,075,000	1,775,125	69,469,606	89,056,731
2027	3,480,000	7,566,250	2,290,000	3,399,250	1,130,000	1,720,000	56,833,000	76,418,500
2028	7,245,000	7,298,125	2,410,000	3,281,750	1,190,000	1,662,000	13,766,000	36,852,875
2029	8,160,000	6,913,000	2,530,000	3,158,250	1,250,000	1,601,000	13,322,500	36,934,750
2030	5,255,000	6,577,625	2,655,000	3,035,025	1,315,000	1,536,875	16,456,375	36,830,900
2031	7,945,000	6,247,625	2,785,000	2,905,425	1,380,000	1,469,500	13,975,300	36,707,850
2032	7,930,000	5,850,750	2,925,000	2,767,400	1,450,000	1,398,750	14,371,388	36,693,288
2033	9,965,000	5,403,375	3,065,000	2,622,375	1,525,000	1,324,375	12,879,669	36,784,794
2034	10,475,000	4,892,375	3,225,000	2,465,125	1,605,000	1,246,125	12,865,713	36,774,338
2035	11,015,000	4,355,125	3,390,000	2,299,750	1,685,000	1,163,875	12,857,081	36,765,831
2036	11,575,000	3,790,375	3,565,000	2,125,875	1,775,000	1,077,375	12,842,463	36,751,088
2037	12,175,000	3,196,625	3,735,000	1,956,500	1,865,000	986,375	12,825,675	36,740,175
2038	6,030,000	2,741,500	3,910,000	1,778,500	1,960,000	890,750	12,810,275	30,121,025
2039	6,340,000	2,432,250	4,110,000	1,578,000	2,060,000	790,250	12,799,556	30,110,056
2040	6,665,000	2,107,125	4,325,000	1,367,125	2,165,000	684,625	12,781,944	30,095,819
2041	7,005,000	1,765,375	4,545,000	1,145,375	2,275,000	573,625	—	17,309,375
2042	7,365,000	1,406,125	4,780,000	912,250	2,395,000	456,875	—	17,315,250
2043	7,745,000	1,028,375	5,025,000	667,125	2,515,000	334,125	—	17,314,625
2044	8,140,000	631,250	5,280,000	409,500	2,645,000	205,125	—	17,310,875
2045	8,555,000	213,875	5,550,000	138,750	2,780,000	69,500	—	17,307,125
Total	\$203,280,000	\$176,514,658	\$89,105,000	\$83,210,384	\$44,890,000	\$ 41,409,355	\$1,031,973,682	\$1,670,383,080

¹ Total debt service on the Series 2014 Bonds and the other Parity Obligations (excluding the 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 \$31.1 million. For Fiscal Year 2014, City Services payments totaled approximately \$33.5 million (unaudited). For Fiscal Year 2015, the Department has budgeted approximately \$36.6 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. The annual credit Repayment is applied as a credit against amounts owed to the City by the Department for City Services. The annual credit Repayment is \$5,127,397 and runs through Fiscal Year 2016. 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 unrestricted and restricted funds for Fiscal Years 2010 through 2014.

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

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Unaudited 2014</u>
<u>Unrestricted Funds</u>					
Harbor Revenue Fund	\$191,590	\$154,646	\$182,253	\$99,095 ¹	\$ 55,787 ²
Harbor Special Operating Fund	202,219	201,876	202,396	199,533	160,533
Emergency/ACTA Reserve Fund	37,219	47,311	47,368	47,439	47,475
Others	<u>12,007</u>	<u>37,579</u>	<u>12,338</u>	<u>5,726</u>	<u>1,977</u>
Total Unrestricted Funds	<u>\$443,036</u>	<u>\$441,411</u>	<u>\$444,355</u>	<u>\$351,793</u>	<u>\$265,772</u>
<u>Restricted Funds</u>					
China Shipping Mitigation Fund	37,815	36,473	34,041	34,305	26,830
Community Aesthetic Fund for Parks	3,474	3,468	2,572	475	—
Community Mitigation Trust Fund— TraPac	15,734	10,385	122	108	—
Clean Truck Fee Fund	72	399	3,717	521	6
Batiquitos L/T Investment Fund ³	5,974	5,985	5,993	6,000	6,006
Bond Funds	67,844	67,341	67,796	57,913	58,054
Customer Security Deposits	3,174	3,217	3,225	3,183	3,008
Other	<u>1,210</u>	<u>1,258</u>	<u>3,356</u>	<u>3,261</u>	<u>3,094</u>
Total Restricted Funds	<u>\$135,297</u>	<u>\$128,526</u>	<u>\$120,821</u>	<u>\$105,766</u>	<u>\$ 96,997</u>
Total Unrestricted and Restricted Funds	<u>\$578,333</u>	<u>\$569,937</u>	<u>\$565,176</u>	<u>\$457,559</u>	<u>\$ 362,769</u>

¹In 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 In Fiscal Year 2014, the Department funded its increased level of capital improvement projects from its cash flows from operations and cash position.

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

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Investment of Funds. Moneys on deposit in all of the Department’s unrestricted funds and the majority of the Department’s restricted funds 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

	<u>Market Value (millions)</u>	<u>Percent of Total</u>
Treasury Notes	\$4,059	51.60%
Medium Term Notes	1,444	18.35
Commercial Paper	852	10.83
Federal Agency Issues - Coupons	734	9.33
Federal Agency Issues - Discount	552	7.02
Treasury Bills	146	1.86
Bank Deposits	73	0.92
Certificates of Deposit Account Registry Service	<u>7</u>	<u>0.09</u>
Total	<u>\$7,866</u>	<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 <http://finance.lacity.org/content/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 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 791 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 similar harbor facilities 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 those of the Department, 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 work under contract with the Association. The most recent contract expired on June 30, 2014. The Association and ILWU agreed to temporarily renew the expired contract for a short period of time until a new contract is negotiated. 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. 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, which resulted in increased demand for all-water services. See “CERTAIN INVESTMENT CONSIDERATIONS—Port Competition” herein. 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.

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Union	Bargaining Units	Agreement Period*
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 contributed approximately \$19.0 million to LACERS for Fiscal Year 2014, its annual required contribution as calculated by LACERS and its actuaries. The Department has contributed approximately \$20.8 million to LACERS for Fiscal Year 2015, 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 contributed approximately \$3.9 million to LAFPP for Fiscal Year 2014, its annual required contribution as calculated by LAFPP and its actuaries. The Department has contributed approximately \$4.4 million to LAFPP for Fiscal Year 2015, its annual required contribution as calculated by LAFPP and its actuaries.

The valuations incorporate a variety of actuarial methods, some of which are designed to reduce the volatility of contributions from year to year. When measuring the value of assets for determining the UAAL, many pension plans, including LACERS and LAFPP, smooth market value gains and losses over a period of years to reduce volatility. These smoothing methodologies result in an actuarial valuation of assets that are higher or lower than the market value of assets. LACERS and LAFPP recently amended their smoothing methodologies. 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. The full Financial Policies are posted on the Port’s website: http://www.portoflosangeles.org/pdf/POLA_Financial_Policies.pdf, however, such website, and the information contained therein are not incorporated into, and are not part of, this Official Statement.

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., revenue from permit and 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 \$207 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 permits, 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 companies 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.”

In addition, as further described herein under “FINANCIAL INFORMATION CONCERNING THE DEPARTMENT—Other Financial Matters—Labor Relations,” cargo handling at the Port is provided pursuant to a contract between the Association and the ILWU. The contract initially expired on June 30, 2014 and was extended during the pendency of negotiations relating to a new contract. The Department is not privy to the negotiations and cannot predict when a new agreement will be reached. The Department understands that the risk of a work slowdown is the greatest until a new agreement is reached. Prolonged work slowdowns or stoppages, if they occur, could materially adversely affect Department revenues.

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 Bonds

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 Series 2014 Bonds should consult their own tax advisors regarding the impact of any change in law on the Series 2014 Bonds. 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. The Annual Report and any notices of certain 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 certain 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 recently undertook a review of the compliance of the Department with its continuing disclosure undertakings during the past five calendar years. Based on its review: (i) its Fiscal Year 2010 annual report filing pertaining to its Refunding Revenue Bonds, 2001 Series A and 2001 Series B; Refunding Revenue Bonds, 2002 Series A; Refunding Revenue Bonds, 2005 Series A, 2005 Series B and 2005 Series C-1; Refunding Revenue Bonds, 2006 Series A, 2006 Series B and 2006 Series C Bonds and Revenue Bonds 2006 Series D; and Revenue Bonds 2009 Series A, Revenue Bonds 2009 Series B and Refunding Revenue Bonds 2009 Series C, was submitted to the MSRB on December 29, 2010, one day after the filing deadline; (ii) its Fiscal Year 2012 annual report filing and audited financial statements were filed on December 5, 2012 and November 29, 2012, respectively, and only as they pertain to its

Refunding Revenue Bonds 2011 Series A and 2011 Series B (the “2011 Bonds”), were inadvertently filed later than 181 days after the end of Fiscal Year 2012 due to missing 2011 Bonds CUSIP numbers in EMMA’s database that resulted in such filings not being properly linked to the 2011 Bonds; and (iii) its Fiscal Year 2013 audited financial statements were filed on December 16, 2013, and only as it pertains to its 2011 Bonds, were inadvertently filed later than 181 days after the end of Fiscal Year 2013 due to missing 2011 Bonds CUSIP numbers in EMMA’s database that resulted in such filings not being properly linked to the 2011 Bonds.

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 and the Series 2014B Bonds from gross income for any period during which such Series 2014A Bonds and the Series 2014B 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 and the Series 2014B 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 and the Series 2014C 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 and the Series 2014C 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 2014B Bonds maturing on August 1, 2029 and bearing interest at 3.000%, August 1, 2031 and bearing interest at 3.250%, and August 1, 2036 and bearing interest at 3.500% (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

All of the Series 2014 Bonds, except for the Bonds identified above as the Discount Bonds (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 "Aa2" (stable outlook), "AA" (stable outlook) and "AA" (stable 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 \$385,798,380.42 (which is the principal amount of the Series 2014 Bonds, plus a net original issue premium of \$49,003,463.45 and less an underwriters’ discount of \$480,083.03), subject to the terms of a bond purchase agreement, dated September 3, 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.

Siebert Brandford Shank & Co., L.L.C., one of the Underwriters of the Bonds, has entered into a separate agreement with Credit Suisse Securities USA LLC for retail distribution of certain municipal securities offerings, at the original issue prices. Pursuant to said agreement, if applicable to the Bonds, Siebert Brandford Shank & Co., L.L.C. will share a portion of its underwriting compensation with respect to the Bonds, with Credit Suisse Securities USA LLC.

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.

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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 /s/ Eugene D. Seroka
Executive Director, Harbor Department of the
City of Los Angeles

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APPENDIX A

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

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**THE PORT
OF LOS ANGELES**

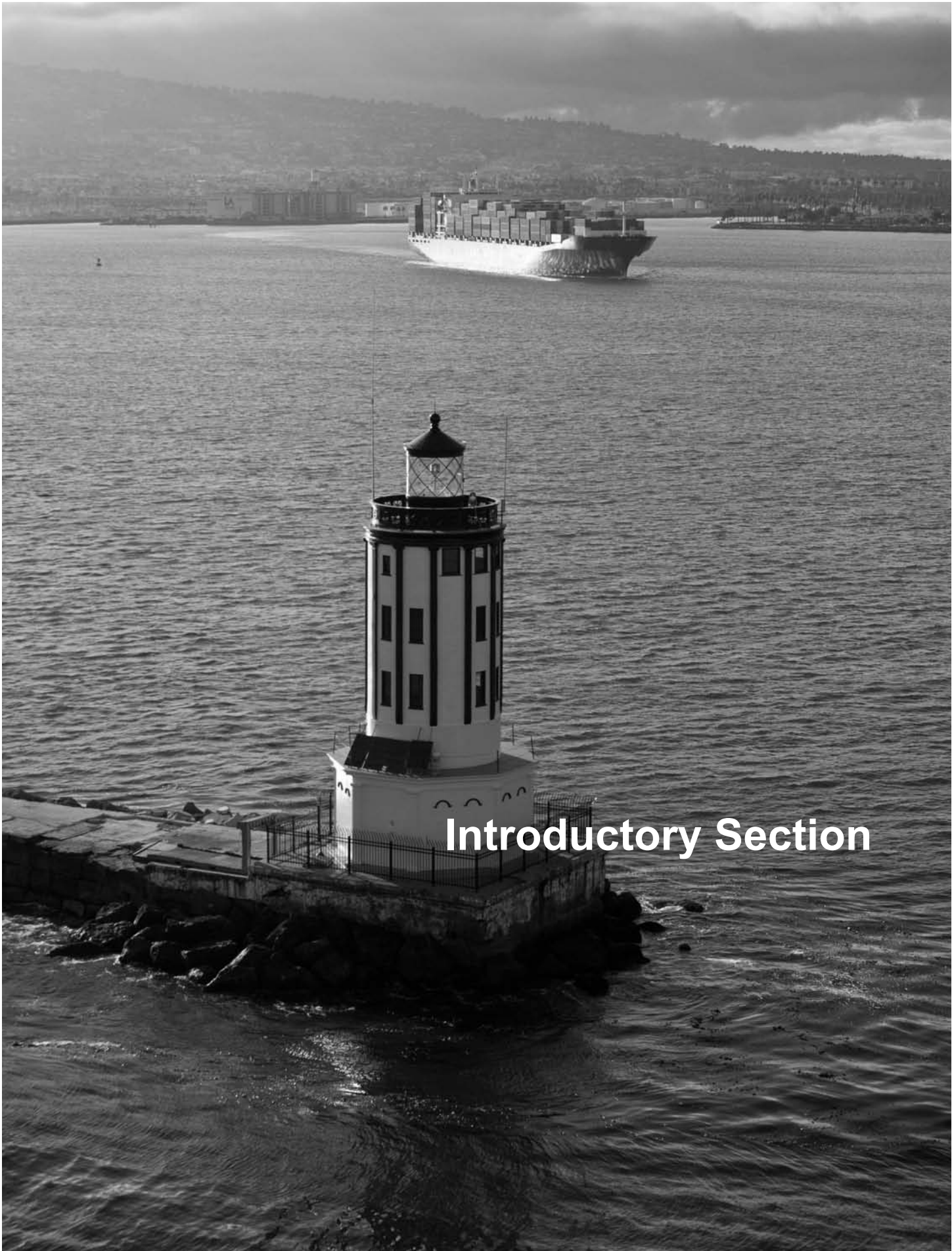
**PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)
Comprehensive Annual Financial Report
June 30, 2013 and 2012
(With Independent Auditor's Report Thereon)**



**PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2013**

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Introductory Section



Eric Garcetti | Mayor, City of Los Angeles

Gary Lee Moore, P.E. | Interim Executive Director

November 21, 2013

Mr. Gary Lee Moore, P.E.
Interim Executive Director
Port of Los Angeles
San Pedro, California

This Annual Financial Report of the Port of Los Angeles, Harbor Department of the City of Los Angeles, California, for the years ended June 30, 2013 and 2012, is hereby submitted.

Introduction

The management of the Port of Los Angeles (the Port) has prepared this annual report. The responsibility for both the accuracy of the presented data, and the completeness and fairness of the presentation, including all disclosures, rests with the Port. To the best of management's knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and changes in financial position of the Port. All disclosures necessary to enable the reader to gain an understanding of the Port's financial activities have been included. The report contains the audited financial statements of the Port for the fiscal years ended June 30, 2013 and 2012, which have received an unqualified opinion from the Port's independent auditors and are presented in accordance with Governmental Accounting Standards Board Statement No. 34, *Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The report is presented in five sections: Introductory, Financial, Management's Discussion and Analysis, Financial Statements, and Supplemental Information.

The Introductory Section outlines the relationship of the Port to the City of Los Angeles and describes the organization and reporting entity. It additionally provides an overview of Port properties, operations, and key personnel.

The Financial Section includes the independent auditor's report. The Management's Discussion and Analysis presents a comparative review of financial position and changes in financial position for fiscal years 2013, 2012, and 2011. Also included in this section are a description of current and proposed capital development plans, a discussion of revenue growth, and an overview of the economic conditions and the competitive environment in which the Port operates.

The financial statements are prepared on an accrual basis and use an economic resources measurement focus. The Financial Statements Section comprise statements of net position that present the financial position as of June 30, 2013 and 2012, statements of revenues, expenses, and changes in net position depicting financial performance for fiscal years 2013 and 2012, statements of cash flows that present the source and application of funds from operations, financing, and investment activities for fiscal years 2013 and 2012, and notes to the financial statements. The accompanying notes to the financial statements explain some of the information in the financial statements and provide more detailed information, generally

presented on a multiyear basis that further explain and support the information in the statements.

The Port of Los Angeles

The Port is a proprietary department of the City of Los Angeles (the City) and is held in trust by the City for the people of the State of California pursuant to a series of tidelands grants. The Port is operated independently from the City, using its own revenues, and administers and controls its fiscal activities. The Port is governed by a five-member Board of Harbor Commissioners (the Board), subject to the oversight by the City Council, which has the duty to provide for the needs of maritime commerce, navigation, fishing and recreation and environmental activities that are water-related and are intended to be of statewide benefit. In accordance with generally accepted accounting principles (GAAP), the accompanying financial statements are included as an Enterprise Fund of the City, based upon the primary oversight responsibility that the City Council (the Council) and the City have on all matters affecting Port activities.

In addition, based on the foregoing criteria of oversight responsibility and accountability of all Port-related entities, the operations of the Los Angeles Harbor Improvements Corporation, a nonprofit corporation, have been included in the accompanying financial statements. Two joint ventures with the Port of Long Beach have been recorded as investments of the Port in accordance with the equity method of accounting. Additional information regarding these joint ventures and shareholders agreement may be found in the notes to the financial statements for the Port.

The management and operation of the Port are under the direction of the Executive Director, who is responsible for coordinating and directing the activities of several major management groups. These groups fall under the responsibilities of the Deputy Executive Director of Development, Deputy Executive Director of Finance & Administration, Deputy Executive Director of Operations, Deputy Executive Director of Business Development, and Deputy Executive Director of External Relations.

The Deputy Executive Director of Development is responsible for Environmental Management, Goods Movement, Construction, and Engineering divisions of the Port.

The Deputy Executive Director of Finance & Administration oversees the financial affairs as well as administrative side of the Port. Reporting to this position are the Finance section and four divisions comprised of Contracts and Purchasing, the Commission Office, Human Resources, and Information Technology. The Finance section is headed by the Chief Financial Officer and is comprised of the following divisions: Accounting, Debt and Treasury Management, Financial Management, Management Audit, and Risk Management.

Reporting to the Deputy Executive Director of Operations are the Construction & Maintenance, Los Angeles Pilot Service, Port Police, and Wharfingers divisions of the Port.

The Deputy Executive Director of Business Development directs the divisions of Planning and Economic Development, Business & Trade Development, and Real Estate.

Reporting to the Deputy Executive Director of External Relations are the Senior Director of Communications and the Senior Director of Governmental Affairs. The Senior Director of Communications is responsible for the planning, direction, and management of the Port's public relations divisions. This position leads strategic analyses to develop and implement policies and

programs in the areas of public, community, and media relations; and represents the Port before elected and appointed officials, council committees, and news media.

The Senior Director of Governmental Affairs is responsible for coordinating legislative representation for the Port and oversees all in-house and contracted lobbying efforts in Sacramento and Washington D.C. The position helps establish and implement the Port's legislative objectives; reviews legislative bills and serves as the primary contact for the Port with elected officials, Council, state, and federal government.

The Port is located by San Pedro Bay, approximately 20 miles south of downtown Los Angeles. 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 man-made harbor in the Western hemisphere.

The Port operates primarily as a landlord, as opposed to an operating port. Its docks, wharves, transit sheds, and terminals are leased to shipping or terminal companies, agents, and to other private firms. Although the Port owns these facilities, it has no direct hand in managing the daily movement of cargoes. The Port is landlord to more than 300 entities, in addition to major terminal operators, other tenants include marinas, fish markets, boat repair yards, railroads, restaurants, and a shipyard.

The major sources of income for the Port are from shipping services (wharfage, dockage, pilotage, assignment charges, etc.), land rentals, and fees, concessions, and royalties. It currently serves over 80 shipping companies and agents with facilities that include 270 berthing facilities along 43 miles of waterfront.

In terms of its size and volume, the Port is one of the world's largest and busiest ports. The Port encompasses approximately 4,300 acres of land and 3,200 acres of water. The majority of the main channel has at least a minimum depth of 53 feet below the mean low water mark.

Within the Port are 27 terminals. Two major railroads serve the Port, and it lies at the terminus of two major freeways within the Los Angeles freeway system. Subsurface pipelines link the Port to major refineries and petroleum distribution terminals within the Los Angeles Basin.

The Port handles the largest volume of containerized cargo of all U.S. ports, and additionally ranks as number one in cargo value for U.S. waterborne foreign traffic. The Port's major trading partners, concentrated along the Pacific Rim, include 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.

The Port is financially self-sufficient through revenues it generates. When appropriate, it seeks to obtain State and Federal funding for defined projects. The Port continues to maintain an AA/Aa2/AA credit ratings with Standard & Poor's, Moody's, and Fitch Investor Services, respectively, with a "stable" outlook. These are the highest credit ratings for any stand-alone U.S. port.

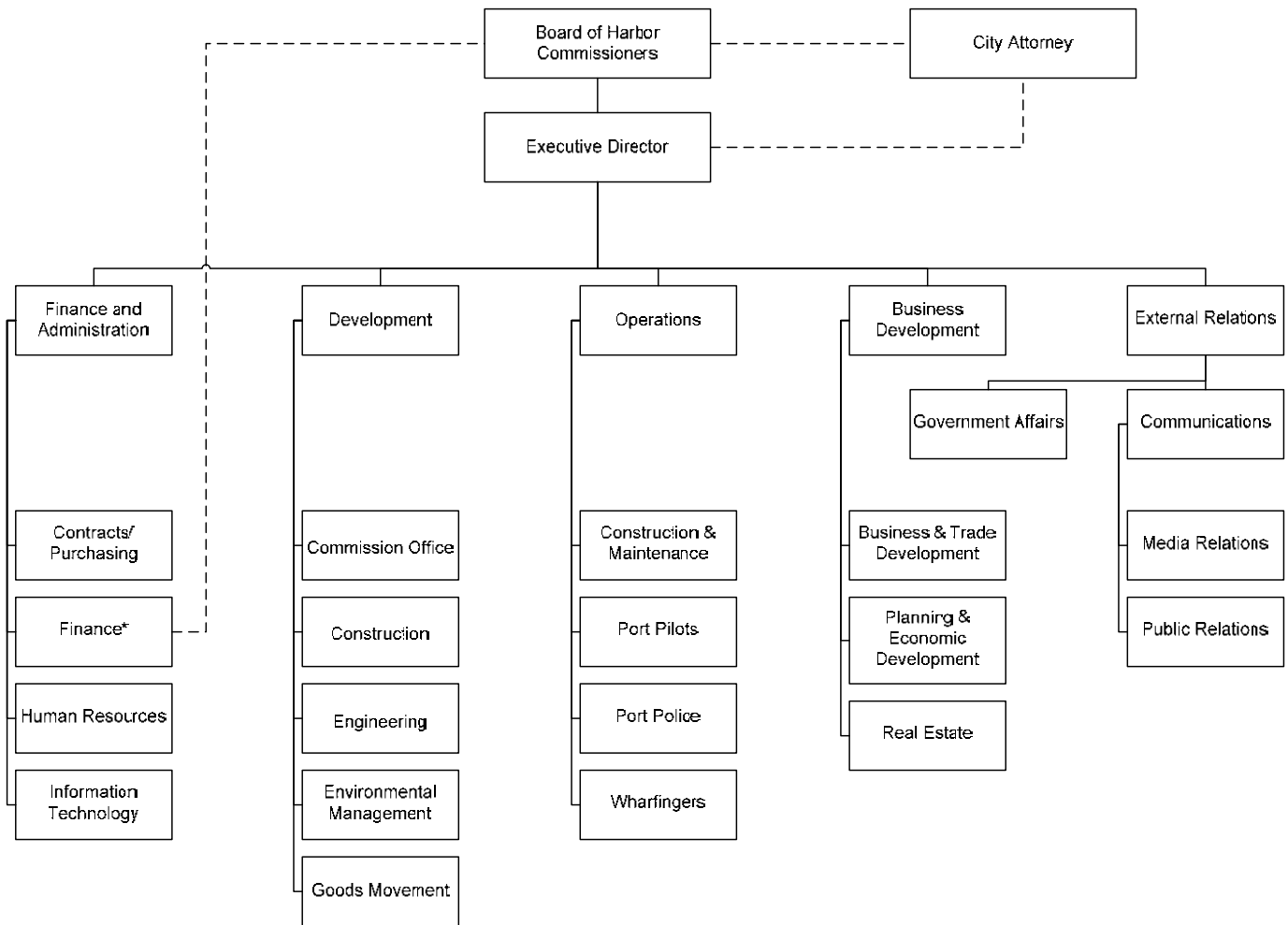
Sincerely,



KARL K.Y. PAN
Chief Financial Officer

**PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)**

Organizational Chart
Fiscal Year 2012 – 2013



*The Chief Financial Officer and Departmental Audit Manager have additional reporting responsibilities to the Board of Harbor Commissioners.

**PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)**

Board of Harbor Commissioners

David Arian
Patricia Castellanos
Vilma S. Martinez
Anthony Pirozzi Jr.
Edward R. Renwick

Senior Management

Gary Lee Moore, P.E.,
Interim Executive Director

Molly Campbell,
Deputy Executive Director – Finance & Administration

Mike Christensen,
Deputy Executive Director – Development

Kathryn McDermott,
Deputy Executive Director – Business Development

Cynthia Ruiz,
Deputy Executive Director – External Relations

Management Staff

Theresa Adams Lopez,
Director of Public Relations

Arley Baker,
Senior Director of Communications

Diane Boskovich,
Chief Wharfinger

Ronald Boyd,
Chief of Port Police

Christopher Cannon,
Director of Environmental Management

Kerry Cartwright,
Director of Goods Movement

Capt. Bent Christiansen,
Pilot Service

Michael DiBernardo,
Director of Business & Trade
Development

Tony Gioiello,
Chief Harbor Engineer of Design

Annie Gregorio,
Director of Accounting

Jack Hedge,
Director of Real Estate

Lance Kaneshiro,
Director of Information Technology

David Libatique,
Senior Director of Governmental Affairs

Tish Lorenzana,
Director of Human Resources

David Mathewson,
Director of Planning & Economic
Development

Kathy Merkovsky,
Director of Risk Management

Jim Morgan,
Director of Construction & Maintenance

Jim Olds,
Director of Management Audits

Karl K.Y. Pan,
Chief Financial Officer

Glenn Robison,
Director of Contracts & Purchasing

Capt. Mike Rubino,
Pilot Service

Soheila Sajadian,
Director of Debt & Treasury

Phillip Sanfield,
Director of Media Relations

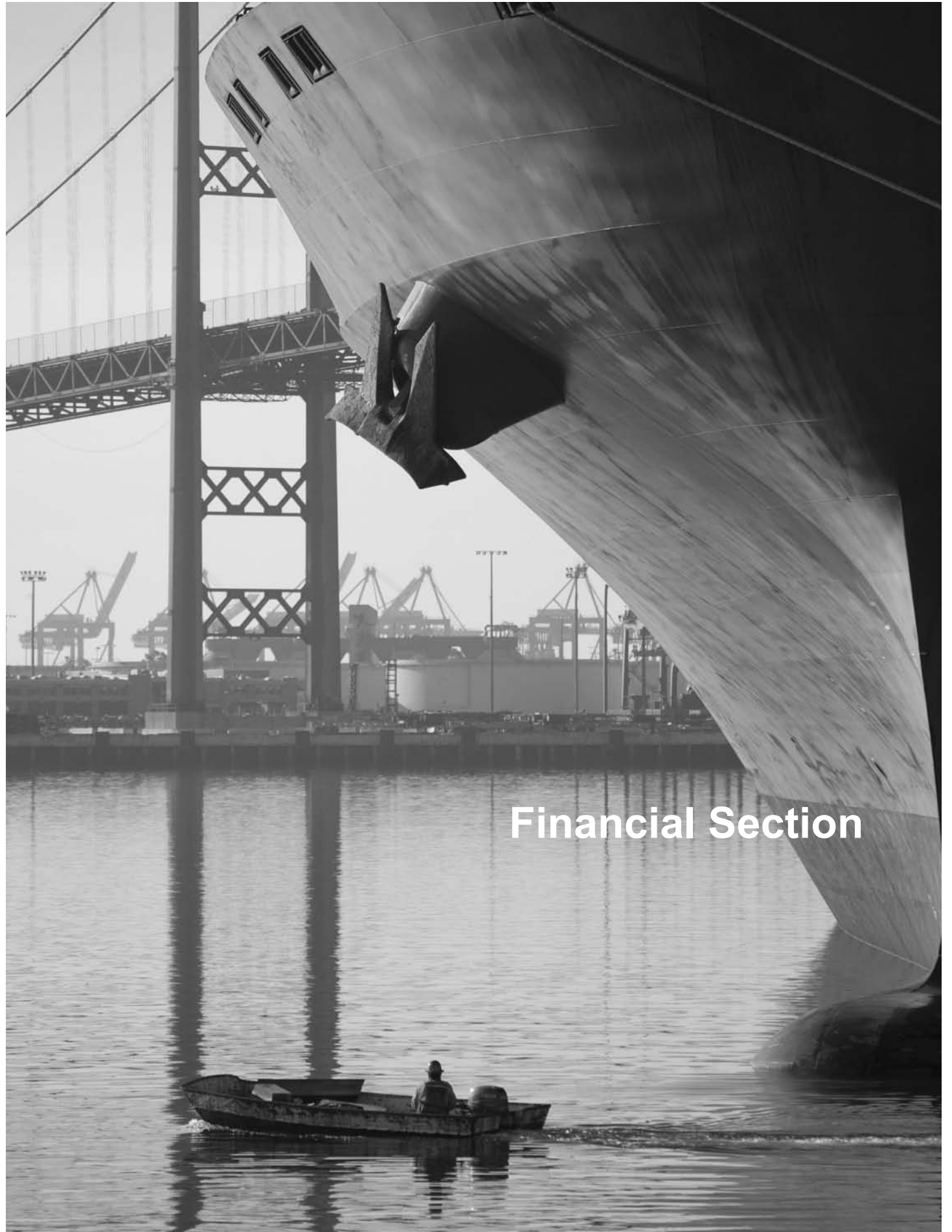
Shaun Shahrestani,
Chief Harbor Engineer of Construction

Julie Wichmann Huerta,
Commission Office

Eileen Yoshimura,
Director of Financial Management

Legal Staff

Janna Sidley,
General Counsel



Financial Section



SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS
BRAINARD C. SIMPSON, CPA
MELBA W. SIMPSON, CPA

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LOS ANGELES, CA 90071
(213) 736-6664 TELEPHONE
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Independent Auditor's Report

The Board of Commissioners
Port of Los Angeles (Harbor Department of the City of Los Angeles):

Report on the Financial Statements

We have audited the accompanying financial statements of the Port of Los Angeles (Harbor Department of the City of Los Angeles) (the Port), an enterprise fund of the City of Los Angeles, California, as of and for the year ended June 30, 2013, and the related notes to the financial statements, as listed in the table of contents. The financial statements of the Port as of and for the year ended June 30, 2012, were audited by other auditors whose report dated November 14, 2012, expressed an unqualified opinion on those financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessment, the auditor considers internal control relevant to the Port's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Port's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port as of June 30, 2013, and respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in note 1.A in the financial statements, the financial statements of the Port are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities of the City of Los Angeles, California that is attributable to the transactions of the Port. They do not purport to, and do not, present fairly the financial position of the City of Los Angeles, California as of June, 30,





2013, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 2 in the financial statements, for the year ended June 30, 2013 the Port adopted the following provisions of the Governmental Accounting Standards Board (GASB):

- GASB Statement No. 62, *Codifications of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*;
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; and
- Statement No. 65, *Items Previously reported as Assets and Liabilities*. The Port restated its beginning net position to reflect an adjustment for the unamortized debt issuance costs.

Our opinion is not modified with respect to the matters mentioned above.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 8 to 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

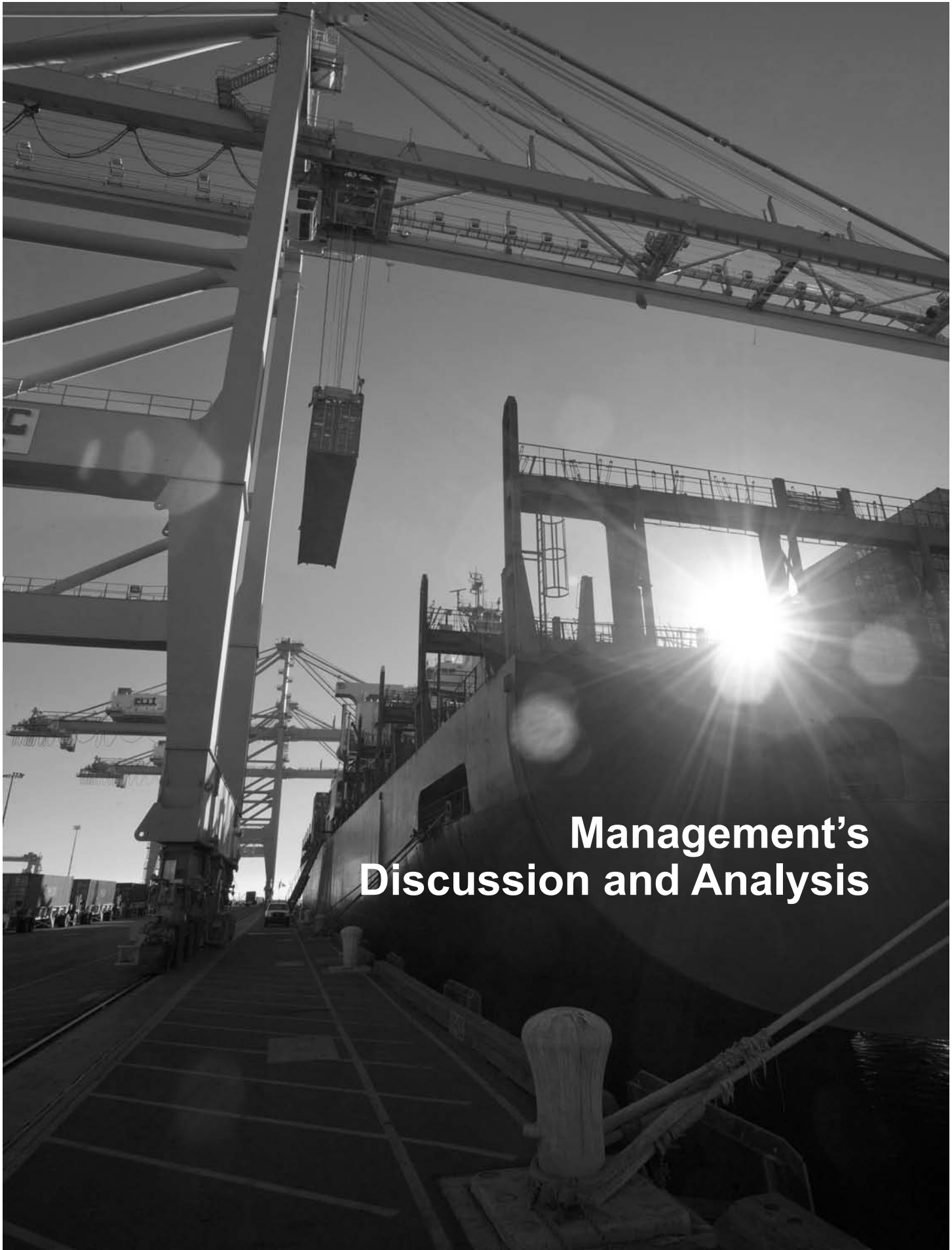
Our audit was conducted for the purpose of forming an opinion on the Port's financial statements. The introduction and supplemental information sections as listed in the accompanying table of contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 8, 2013, on our consideration of the Port's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read 'Simpson & Simpson', is written over a horizontal line.

Los Angeles, California
November 8, 2013



Management's Discussion and Analysis

**PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)**

Management's Discussion and Analysis

June 30, 2013 and 2012

(Unaudited)

Using This Financial Report

The management of the Port of Los Angeles (the Port) presents an overview of the Port's financial performance during the years ended June 30, 2013 and 2012. This discussion and analysis should be read in conjunction with the transmittal letter on pages 1-3 and the Port's financial statements starting from page 34.

The Port's financial report consists of this management's discussion and analysis (MD&A), and the following financial statements:

- *Statements of Net Position* – present information of all of the Port's assets, deferred outflow of resources and liabilities as of June 30, 2013 and 2012. The difference between assets, deferred outflows of resources and liabilities is reported as net position, which over time may increase or decrease and, serves as an indicator of the Port's financial position.
- *Statements of Revenues, Expenses, and Changes in Net Position* – present the results of operations during the current and prior fiscal year. These show how the Port recovered its costs through operating revenues from shipping, rentals, royalties and other fees. Changes in net position were reported when the underlying events occurred, regardless of the timing of the related cash flows. Revenues and expenses were recorded and reported in these statements for some items that will result in cash flows in future periods.
- *Statements of Cash Flows* – present the inflows and outflows of cash and cash equivalents resulting from operating, noncapital financing, capital and related financing, and investing activities. A reconciliation is also provided to assist in understanding the difference between operating income and cash flows from operating activities.
- *Notes to the Financial Statements* – present information that is not displayed on the face of the financial statements. Such information is essential to a full understanding of the Port's financial activities.

**PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)**

Management's Discussion and Analysis

June 30, 2013 and 2012

(Unaudited)

Overview of the Port's Financial Statements

The Port is a fiscally independent department and an enterprise fund of the City. The Port's financial statements are prepared on an accrual basis using the economic resources measurement focus in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB). The notes to the financial statements on pages 41 to 97 provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Highlights for Fiscal Year 2013

- Current assets exceeded current liabilities by \$265.5 million.
- Capital assets, net of accumulated depreciation of \$1.5 billion amounted to \$3.6 billion.
- Application development costs of \$ 4.2 million, incurred during the fiscal year, for the design, installation, coding and testing of the Port's new financial system, the Enterprise Resource Planning System (ERP), was capitalized as Intangible Assets. The ERP system went live in fiscal year 2013.
- Total assets and deferred outflows of resources exceeded total liabilities by \$2.9 billion.
- Bonded debt net of unamortized discounts/premiums of \$30.4 million, totaled \$821.1 million.
- Borrowings in the form of commercial paper continue to total \$100.0 million.
- Operating revenue amounted to \$397.4 million.
- Net operating expenses excluding depreciation of \$108.0 million amounted to \$205.2 million.
- Capital grants amounted to \$17.6 million.

Financial Highlights for Fiscal Year 2012

- Current assets exceeded current liabilities by \$381.8 million.
- Capital assets, net of accumulated depreciation of \$1.4 billion amounted to \$3.4 billion.

**PORT OF LOS ANGELES
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- Application development costs of \$ 4.1 million, incurred during the fiscal year, for the design, installation, coding and testing of the Port's new financial system, the Enterprise Resource Planning System (ERP), was capitalized as Intangible Assets. The ERP system will go live in fiscal year 2013.
- Total assets and deferred outflow of resources exceeded total liabilities by \$2.8 billion.
- Bonded debt net of unamortized discounts/premiums of \$33.4 million, totaled \$873.5 million.
- Borrowings in the form of commercial paper totaled \$100.0 million.
- Operating revenue amounted to \$409.8 million.
- Operating expenses excluding depreciation of \$100.5 million amounted to \$199.8 million.
- Capital grants amounted to \$31.3 million.

Analysis of Net Position

Net position is the difference between the Port's assets, deferred outflows of resources, and liabilities. Over time, increases or decreases in net position may serve as an indicator of whether the Port's financial position is improving or deteriorating. The following is a condensed summary of the Port's net position as of June 30, 2013, 2012, and 2011 (in thousands):

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Condensed Net Position

	FY 2013	FY 2012*	FY 2011*	Increase (Decrease) Over Prior Year	
				FY 2013	FY 2012
Assets					
Current and other assets	\$ 536,621	\$ 653,844	\$ 657,535	\$ (117,223)	\$ (3,691)
Capital assets, net	3,551,505	3,358,320	3,278,907	193,185	79,413
Total assets	4,088,126	4,012,164	3,936,442	75,962	75,722
Deferred outflows of resources	5,660	6,726	6,470	(1,066)	256
Liabilities					
Current liabilities	188,219	167,256	197,938	20,963	(30,682)
Long term liabilities	1,021,216	1,075,506	1,102,089	(54,290)	(26,583)
Total liabilities	1,209,435	1,242,762	1,300,027	(33,327)	(57,265)
Net position					
Net investment in capital assets	2,634,840	2,397,744	2,286,360	237,096	111,384
Restricted for debt service	57,913	67,796	67,341	(9,883)	455
Unrestricted	191,598	310,588	289,184	(118,990)	21,404
Total net position	\$ 2,884,351	\$ 2,776,128	\$ 2,642,885	\$ 108,223	\$ 133,243

*Certain information were reclassified to conform to current year's presentation.

Net Position, Fiscal Year 2013

The largest portion of the Port's net position (\$2.6 billion or 91.3%) reflects its investment in capital assets (e.g. land, facilities and equipment, construction in progress and intangible assets). These assets are used for the construction, operation and maintenance of Port facilities. An additional portion of the Port's net position (\$57.9 million or 2.0%) represents resources that are restricted for debt service. The remaining balance of \$191.6 million or 6.7% are unrestricted resources that may be used to meet the Port's ongoing obligations.

Current and other assets decreased by \$117.2 million or 17.9% from \$653.8 million in fiscal year 2012 to \$536.6 million in fiscal year 2013. Fluctuations in current and other assets result from: decrease in cash and investments of \$107.6 million, net increase of \$2.3 million in accounts and grants receivables, decrease of \$0.1 million in inventories and prepaid expenses, and decline of \$4.7 million in notes receivable.

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Unrestricted and restricted cash, cash equivalents, and investments consist primarily of cash and pooled investments held by the City Treasurer on behalf of the Port. The decrease of \$107.6 million from \$565.2 million at June 30, 2012 to \$457.6 million at June 30, 2013 resulted as the Port used cash for construction activities, the redemption of bonds, and saw a decline in grant reimbursements. At June 30, 2013, the Port's share in the mark to market valuation of the City's pooled investments totaled \$0.9 million, a decrease of \$6.3 million from \$7.2 million in the prior fiscal year. The Port reported additional investments of \$3.9 million from its share in the City's investment purchases on June 30, 2013 and \$1.4 million in securities lending transactions.

Capital assets, net of depreciation increased by \$193.2 million due to continued commercial and terminal development, various building and facilities improvements, and acquisition of equipment.

Current liabilities increased by \$21.0 million or 12.5% mainly due to the increase of \$28.8 million in accounts payable resulting from timing differences in payments, \$1.4 million obligations under securities lending transactions and an increase of \$3.7 million in accrued salaries and benefits, offset by \$6.7 million decrease in the current portion of notes, bonds payable and interest payable due to the redemption of bonds and payment of loans, and decrease of \$5.8 million in other current liabilities. The net decrease of \$5.8 million in other current liabilities mainly resulted from decrease of \$1.6 million in China Mitigation liability, \$2.5 million lower Community Aesthetic Mitigation liability, decrease in shortfall liability of \$3.0 million to the Alameda Corridor Transportation Authority (ACTA), offset by \$3.9 million in accrual of investment purchases, increased pollution remediation liability of \$6.0 million and \$2.9 million additional federal pass through grant liability. Please refer to page 96 of the notes to the financial statements for additional information on the payments from the Community Aesthetic Mitigation Fund, and pages 78-80 for the increase in pollution remediation liability.

Long-term liabilities decreased by \$54.3 million mainly due to lower bonds and notes payable of \$47.1 million and \$6.4 million decrease in other liabilities. The decrease of \$6.4 million in other liabilities was mainly due to \$1.4 million lower workers' compensation liability, \$11.2 million decline in pollution remediation liability, offset by additional liability of \$3.2 million for demolition, restoration, and remediation of a property site resulting from a permit termination and mutual release agreement with Del Monte Corporation. Additional information on the \$11.2 million decline in pollution remediation liability is found on pages 78-80 of the notes to the financial statements.

Net Position, Fiscal Year 2012

The largest portion of the Port's net position (\$2.4 billion or 86.4%) reflects its investment in capital assets (e.g. land, facilities and equipment, construction in progress and intangible assets) less any related outstanding debt used to acquire those assets. These assets are used for operation and maintenance of Port facilities, and construction of various capital projects and improvements. An additional portion of the Port's net position (\$67.8 million or 2.4%) represents resources that are restricted for debt service. The remaining balance of \$310.6 million or 11.2% are unrestricted resources that may be used to meet the Port's ongoing obligations.

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Current and other assets decreased by a marginal \$3.7 million or 0.6% from \$657.5 million in fiscal year 2011 to \$653.8 million in fiscal year 2012. Fluctuations in current and other assets result from: decrease in cash and investments of \$4.8 million, increase of \$9.1 million in accounts and grants receivables, decrease of \$1.5 million in inventories and prepaid expenses, decline of \$4.7 million in notes receivable, and \$1.9 million lower investments in joint powers authorities and other assets.

Unrestricted and restricted cash, cash equivalents, and investments consist primarily of cash and pooled investments held by the City Treasurer on behalf of the Port. The decrease of \$4.8 million from \$569.9 million at June 30, 2011 to \$565.2 million at June 30, 2012 was due mainly to the decrease in cash collateral from securities lending transactions due to the suspension of the City's securities lending program (SLP) in fiscal year 2012. This decrease however, was offset by increased cash from operating activities, increase in grant reimbursements, and higher investment income. At June 30, 2012, the Port's share in the mark to market valuation of the City's pooled investments totaled \$7.2 million, an increase of \$1.4 million from \$5.9 million in the prior fiscal year. The Port also reported additional investments of \$11.9 million from its share in the City's investment purchases on June 30, 2012.

Capital assets, net of depreciation increased by \$79.4 million due to continued commercial and terminal development, various building and facilities improvements, and acquisition of equipment.

Current liabilities decreased by \$30.7 million or 15.5% mainly due to timing differences in payments, and decrease of \$41.1 million in liabilities under the Securities Lending Program due its suspension in the current fiscal year. A payment of \$9.8 million due to the TraPac Mitigation Fund, offset by additional liability of \$11.9 million for Port's share in investment purchases at June 30, 2012, accounted for the net increase of \$1.8 million in other current liabilities. Please refer to pages 94-95 of the notes to financial statements for additional information on the \$9.8 million payment from the TraPac Mitigation Fund.

Long-term liabilities decreased by \$26.6 million mainly due to the decrease in bonds payable of \$33.1 million. Increase in workers' compensation liability accrual due to higher actuarial valuation accounted for the increase in other long-term liabilities.

Analysis of the Port's Activities

The following table presents condensed information showing how the Port's net position changed during fiscal years 2013, 2012 and 2011 (in thousands):

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Condensed Statement of Net Position

	FY 2013	FY 2012	FY 2011	Increase (Decrease) Over Prior Year	
				FY 2013	FY 2012
Operating revenue	\$ 397,368	\$ 409,787	\$ 400,503	\$ (12,419)	\$ 9,284
Operating expenses	(205,169)	(199,806)	(209,695)	(5,363)	9,889
Operating income before depreciation and amortization	192,199	209,981	190,808	(17,782)	19,173
Depreciation and amortization	(108,037)	(100,485)	(90,468)	(7,552)	(10,017)
Operating income	84,162	109,496	100,340	(25,334)	9,156
Net nonoperating revenue (expenses)	1,186	(7,560)	(4,268)	8,746	(3,292)
Income before capital contributions	85,348	101,936	96,072	(16,588)	5,864
Capital contributions	17,630	31,307	12,059	(13,677)	19,248
Special Item	13,387	--	--	13,387	--
Changes in net position	116,365	133,243	108,131	(16,878)	25,112
Net position, July 1	2,776,128	2,642,885	2,534,754	133,243	108,131
Net adjustment for write off of bond issue costs	(8,142)	--	--	(8,142)	--
Net position July 1, restated	2,767,986	2,642,885	2,534,754	125,101	108,131
Net position, June 30	<u>\$ 2,884,351</u>	<u>\$ 2,776,128</u>	<u>\$ 2,642,885</u>	<u>\$ 108,223</u>	<u>\$ 133,243</u>

Fiscal Year 2013

Net position for the Port posted a \$108.2 million or 3.9% increase in fiscal year 2013. Approximately \$390.8 million or 98.3% of total operating revenues were derived from fees for shipping services and leasing of facilities to customers. Since the Port operates as a landlord, operating expenses are principally administrative in nature. Operating expenses were higher by \$5.4 million or 2.7%.

Depreciation expense increased by \$7.6 million to \$108.0 million in fiscal year 2013 from \$100.5 million in fiscal year 2012, primarily due the net addition of \$148.2 million in net depreciable assets in fiscal year 2013.

Nonoperating revenues for fiscal year 2013 totaled \$19.6 million, while nonoperating expenses were \$18.4 million, thereby resulting in net nonoperating revenues of \$1.2 million. Net nonoperating revenues of \$1.2 million mainly include \$2.0 million income from investments in the Intermodal Container Transfer Facility Joint Powers Authority, \$0.8 million from interest and investment income from the Port's cash in the City's pooled investments, \$3.7 million from various rebates and reimbursements, and miscellaneous other receipts of \$0.4 million, offset by nonoperating expenses of \$2.5 million from interest on indebtedness, and \$2.3 million miscellaneous capital work order costs closed to expenses.

As a result, income before capital contributions decreased by \$16.6 million or 16.3% to \$85.3 million in fiscal year 2013 from \$101.9 million in fiscal year 2012.

Capital contributions of \$17.6 million represented funds for capital grants obtained in fiscal year 2013, or a decrease of \$13.7 million compared to the \$31.3 million received in fiscal year 2012. Federal capital grants

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decreased because the maximum grant awards for various projects have been used as of fiscal year 2013 and most of the American Recovery and Reinvestment Act (ARRA) grants are closing. Decreases in capital grants include \$7.5 million for the 2008 Prop B CA Port and Maritime Security Grant and \$3.3 million for Round 8 of the PSG Homeland Security Supplemental Projects Grant. Major ARRA grants that have closed or are closing include \$5.6 million in Port-wide fiber optic project and the Harry Bridges Boulevard improvement project.

In the fiscal year, the Port implemented GASB 65 which requires the charging to expenses of all debt issuance costs, except any portion related to prepaid insurance costs, in the period incurred. The Port adjusted its beginning net position by \$8.1 million to reflect the cumulative effect of applying this change.

An adjustment of \$13.4 million for pollution remediation obligations was reflected as Special Item. Additional information on pollution remediation liability adjustment may be found on pages 78-80 and page 97 of the notes to the Financial Statements.

Fiscal Year 2012

Net position for the Port posted a \$133.2 million or 5.0% increase in fiscal year 2012. Approximately \$400.9 million or 97.8% of total operating revenues were derived from fees for shipping services and leasing of facilities to customers. Since the Port operates as a landlord, operating expenses are principally administrative in nature. Operating and administrative expenses were lower by \$9.9 million or 4.7%.

Depreciation expense increased by \$10.0 million to \$100.5 million in fiscal year 2012 from \$90.5 million in fiscal year 2011, primarily due to the net addition of \$432.2 million in net depreciable assets.

Nonoperating revenue totaled \$25.5 million while nonoperating expenses were \$33.1 million in fiscal year 2012, thereby resulting in net nonoperating expenses of \$7.6 million. The major components of the change were primarily as a result of recognizing an \$8.5 million loss on sale of POLA High School (POLAHS), offset by higher nonoperating revenue of \$13.4 million. During the fiscal year, the Port's investment income was \$3.1 million higher than the prior fiscal year. Credits received from the Department of Water and Power's solar energy program due to the Port's initiatives towards installing solar energy equipment mainly accounted for the \$8.1 million increase in other nonoperating revenue. A \$2.2 million higher distribution from the ICTF also contributed to nonoperating revenue.

As a result, income before capital contributions increased by \$5.9 million to \$101.9 million, a 6.1% increase over fiscal year 2011.

Capital contributions of \$31.3 million represented funds for capital grants obtained in fiscal year 2012, or an increase of \$19.2 million compared to the \$12.1 million received in fiscal year 2011. Increases in federal capital grants during the year included \$1.8 million for Police patrol and boats, \$2.0 million for information technology data storage security project, \$7.0 million for Harry Bridges Boulevard improvement, \$2.0 million for computer aided dispatch and record management system, \$5.6 million for the Port-wide fiber optic continuance project, and \$1.6 million for Port security grant's supplemental projects.

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Operating Revenue

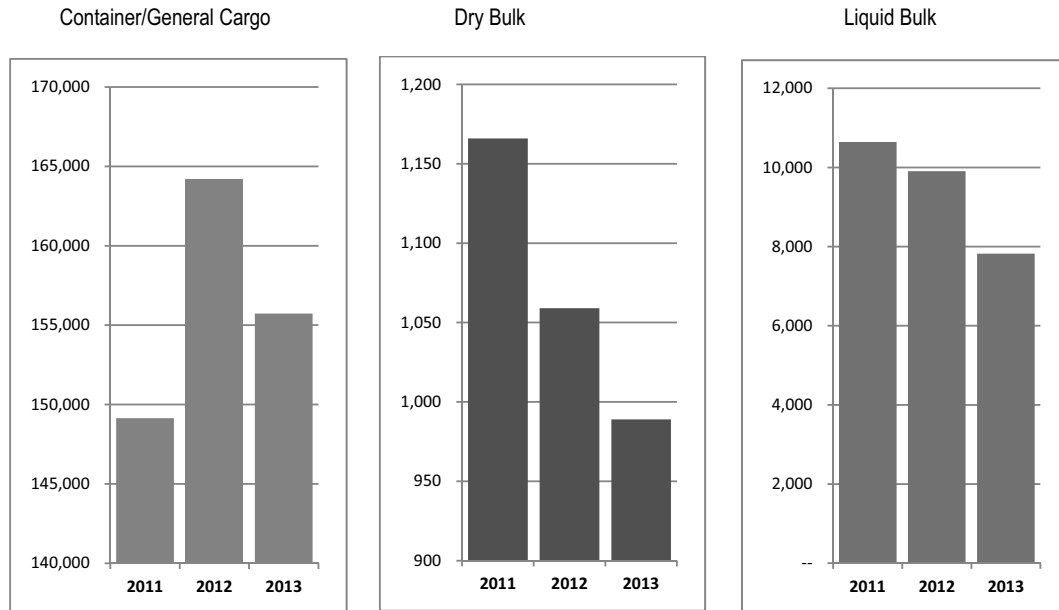
The Port is the leading seaport in North America in terms of shipping container volume. The following presents a summary of cargo volumes by major classification handled by the Port for the last three fiscal years (in thousands):

Cargo Type	In Metric Revenue Tons			% Change Over Prior Year	
	FY 2013	FY 2012*	FY 2011	FY 2012	FY 2011
Container/general cargo	156,278	163,906	149,136	-4.7%	9.9%
Dry bulk	989	1,059	1,166	-6.6%	-9.2%
Liquid bulk	7,820	9,906	10,644	-21.1%	-6.9%
Total	165,087	174,871	160,946		

*Certain information were reclassified to conform to current year's presentation.

Information for the cargo volume that moved through the Port for the last ten fiscal years is found in the supplemental information on page 100.

Following is the graphical presentation of the Port's cargo volumes for fiscal years 2011 to 2013 in thousand metric tons:



In Thousand Metric Tons

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The Port is the number one container port by volume in North America. For fiscal years 2011 and 2012, the Port experienced record breaking export container volumes. In fiscal year 2013, container volume dropped primarily due to the loss of the shipping string known as TP8, a series of vessels operated by the Mediterranean Shipping Company and by CMA CGM Shipping Company. The loss was somewhat mitigated by container gains at other terminals.

The Port's biggest volume commodities include miscellaneous metal products comprising of steel, metal ingots, metal scrap, ferrous and pig iron. These types of goods declined in volume given general economic weakness in the U.S. and the Port's trading partner countries, thereby resulting in lower dry bulk volume of exports in fiscal year 2013.

A general decline in liquid bulk volume is tied to a number of factors related to the general economic situation that affects overall fuel consumption in Southern California. The local refining market continued to import and export but at lower overall volumes as producers and sellers seemed to have balanced better the supply chain. Bunker fuel for shipping operations accounted for 25% of the Port's liquid bulk volumes with jet fuel comprising another 25%. Overall, with local gasoline and diesel fuel demand down, local refineries will continue to produce fuels that would otherwise be imported, keeping down overall liquid bulk volume of imports.

Annual container counts for the Port in twenty-foot equivalent units (TEUs) - a standard measurement used in the maritime industry for measuring containers of varying lengths for the last three fiscal years are as follows (in thousands):

Container Volume	In TEUs			% Change Over Prior Year	
	FY 2013	FY 2012	FY 2011	FY 2013	FY 2012
Import	4,054	4,318	4,186	-6.1%	3.2%
Export	3,723	3,868	3,749	-3.7%	3.2%
Total	7,777	8,186	7,935	-5.0%	3.2%

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The Port's major sources of its operating revenue are derived from shipping services, rental fees, royalties and other concession fees. The following table presents a summary of the Port's operating revenues during fiscal years 2013, 2012 and 2011 (in thousands):

Summary of Operating Revenues

	FY 2013	FY 2012	FY 2011	Increase (Decrease) Over Prior Year	
				FY 2013	FY 2012
Shipping services					
Wharfage	\$ 322,821	\$ 333,757	\$ 317,621	\$ (10,936)	\$ 16,136
Dockage and demurrage	4,917	5,043	6,086	(126)	(1,043)
Pilotage	6,954	7,131	7,417	(177)	(286)
Assignment and other charges	13,184	11,785	12,374	1,399	(589)
Total shipping services	<u>347,876</u>	<u>357,716</u>	<u>343,498</u>	<u>(9,840)</u>	<u>14,218</u>
Rentals					
Land	38,856	40,127	42,693	(1,271)	(2,566)
Others	4,034	3,016	2,735	1,018	281
Total rentals	<u>42,890</u>	<u>43,143</u>	<u>45,428</u>	<u>(253)</u>	<u>(2,285)</u>
Royalties and other fees					
Fees, concession and royalties	1,744	1,866	2,333	(122)	(467)
Clean truck program fees	1,409	3,250	6,376	(1,841)	(3,126)
Others	3,449	3,812	2,868	(363)	944
Total royalties and other fees	<u>6,602</u>	<u>8,928</u>	<u>11,577</u>	<u>(2,326)</u>	<u>(2,649)</u>
Total operating revenues	<u>\$ 397,368</u>	<u>\$ 409,787</u>	<u>\$ 400,503</u>	<u>\$ (12,419)</u>	<u>\$ 9,284</u>

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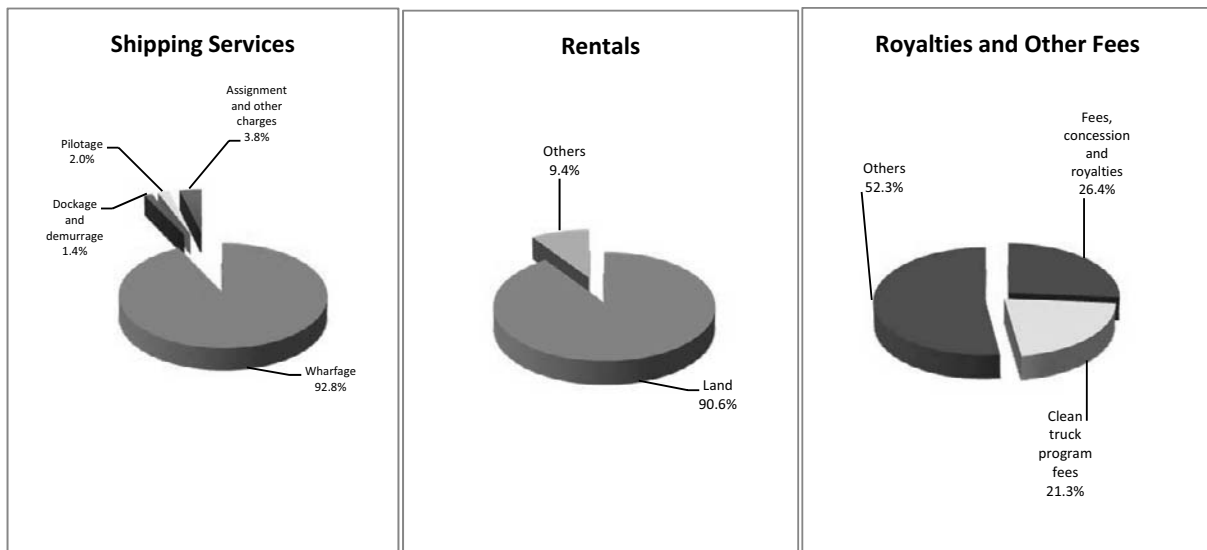
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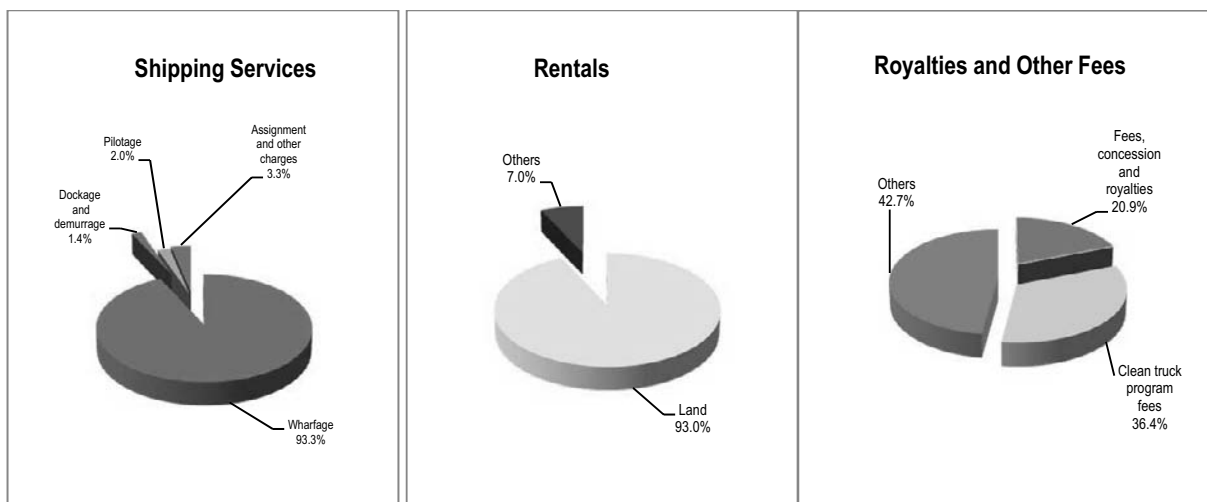
(Unaudited)

The following charts show the major components of each of the Port's sources of operating revenue for fiscal years 2013 and 2012:

Fiscal Year 2013



Fiscal year 2012



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Operating Revenue, Fiscal Year 2013

Operating revenue for fiscal year 2013 decreased to \$397.4 million, reflecting a 3.0% decrease from the prior year revenue of \$409.8 million. As stated earlier, the Port derives its operating revenues primarily from shipping services, rentals, and fees from royalties, concessions and other fees.

Shipping Services

Shipping service revenues consist of several classifications of fees assessed for various activities relating to vessel and cargo movement. Of these fees, wharfage is the most significant and comprised 92.8% of the total shipping service revenues in fiscal year 2013. Wharfage is the fee charged against merchandise for passage over wharf premises, from vessels, and barges. Wharfage is \$10.9 million lower compared to fiscal year 2012 mainly due to the drop in container cargo volume with the departure of one shipping string. Net other shipping revenues were \$1.1 million higher as space assignment revenues increased by \$1.4 million but was offset by \$0.3 million decreases in dockage, demurrage and pilotage revenues. Increase in space assignment revenues was due to additional areas requested by terminal operators.

Rentals

The Port generates revenues from making available various types of rental properties such as land, buildings, warehouses, wharves, and sheds. Rates are negotiated for these properties based upon two general classifications, waterfront and backland. Independent appraisals are performed periodically to establish benchmark rates for these properties. Rates ultimately set in land rental agreements may be adjusted, within reason, to reflect general market conditions. Rates for other categories of properties are also set taking into account the condition, location, utility, and other aspects of the property. In all cases, the Port seeks to achieve a 12.0% rate of return on improvements and 10.0% return on land set by the Board of Harbor Commissioners (the Board).

During fiscal year 2013, rental income at the Port which represented 10.8% of fiscal year 2013 total operating revenues decreased by \$0.3 million, or 0.6%, over last fiscal year. Land rental was down \$1.3 million or 3.2% compared to prior year. The decrease in land rentals was primarily due to the loss of revenues from the termination of permit with Del Monte Corporation and the absence of the Port of Los Angeles High School property offset against scheduled increases in certain other permits.

Royalties, Fees, and Other Operating Revenue

The Port levies fees for a variety of activities conducted on the Port properties. Examples include royalties from the production of oil and natural gas, fees for parking lots, motion picture productions, foreign trade zone operations, miscellaneous concessions, distribution of utilities, and maintenance and repair services conducted by the Port at the request of customers.

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Revenues from royalties, fees, and other operating revenues in 2013 was \$6.6 million or 1.7% of the total revenue. This represented a 26.1% decline or \$2.3 million less in this revenue category compared with fiscal year 2012. The decline was mainly due to a decrease of \$1.8 million in fees from noncompliant trucks under the Port's Clean Truck Program (CTP), as the collection of fees for non-compliant trucks ended in December of 2011.

Operating Revenue, Fiscal Year 2012

Operating revenue for fiscal year 2012 increased to \$409.8 million, reflecting a 2.3% increase from the prior year revenue of \$400.5 million. As stated earlier, the Port derives its operating revenues primarily from shipping services, rentals, and fees from royalties, concessions and other fees.

Shipping Services

Shipping service revenues consist of several classifications of fees assessed for various activities relating to vessel and cargo movement. Of these fees, wharfage is the most significant and comprised 93.3% of the total shipping service revenue in fiscal year 2012. Wharfage is the fee charged against merchandise for passage over wharf premises, from vessels, and barges. Wharfage was \$16.1 million higher compared to fiscal year 2011 mainly due to a 3.2% increase in container cargo volume. Net other shipping revenues were \$0.6 million lower as space assignments were converted to revocable permits moving revenues from assignment charges to wharfage, as well as \$1.0 million and \$0.3 million decreases in dockage and pilotage revenues, respectively.

Rentals

The Port makes available to customers various types of rental properties on Port-controlled lands. These properties include land, buildings, warehouses, wharves, and sheds. Rates are negotiated for these properties based upon two general classifications, waterfront and backland. Independent appraisals are performed periodically to establish benchmark rates for these properties. Rates ultimately set in land rental agreements may be adjusted, within reason, to reflect general market conditions. Rates for other categories of properties are also set taking into account the condition, location, utility, and other aspects of the property. In all cases, the Port seeks to achieve a 12.0% rate of return on improvements and 10.0% return on land set by the Board of Harbor Commissioners (the Board).

During fiscal year 2012, rental income at the Port decreased by \$2.3 million, or 5.0%, over last fiscal year and represented 10.5% of fiscal year 2012 total operating revenues. Land rental was down \$2.6 million or 6.0% compared to prior year. The decrease in land rentals was primarily from a \$3.5 million adjustment of an overstatement of a tenant's prior year rental permit.

Royalties, Fees, and Other Operating Revenue

The Port levies fees for a variety of activities conducted on Port properties. Examples include royalties from the production of oil and natural gas, fees for parking lots, motion picture productions, foreign trade zone operations, miscellaneous concessions, distribution of utilities, and maintenance and repair services conducted by the Port at the request of customers.

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Revenues from royalties, fees, and other operating revenues in 2012 was \$8.9 million or 2.2% of the total revenue. This represented a 22.9% decline or \$2.6 million less in this revenue category compared with fiscal year 2011. The decline was mainly due to a decrease of \$3.1 million from collection of fees from noncompliant trucks under the Port's Clean Truck Program (CTP), as the collection of fees for non-compliant trucks ended in December of 2011.

Operating Expenses

The following table presents a summary of the Port's operating expenses for fiscal years 2013, 2012 and 2011. Included in other operating expenses are expenses for litigation, settlements, clean truck program, pollution remediation, insurance premiums and miscellaneous other items:

	Operating Expenses				
	(amounts in thousands)				
	FY2013	FY2012	FY2011	Increase(Decrease) Over Prior Year	
	FY2013	FY2012	FY2011	FY2013	FY2012
Salaries and benefits, net	\$ 109,463	\$ 104,910	\$ 103,693	\$ 4,553	\$ 1,217
Marketing and public relations	3,092	3,380	3,055	(288)	325
Travel and entertainment	1,130	991	843	139	148
Outside services	31,905	29,426	30,601	2,479	(1,175)
Materials and supplies	6,531	6,717	6,556	(186)	161
City services	19,284	22,236	22,353	(2,952)	(117)
Other operating expenses	33,764	32,146	42,594	1,618	(10,448)
Total Operating Expenses	\$ 205,169	\$ 199,806	\$ 209,695	\$ 5,363	\$ (9,889)

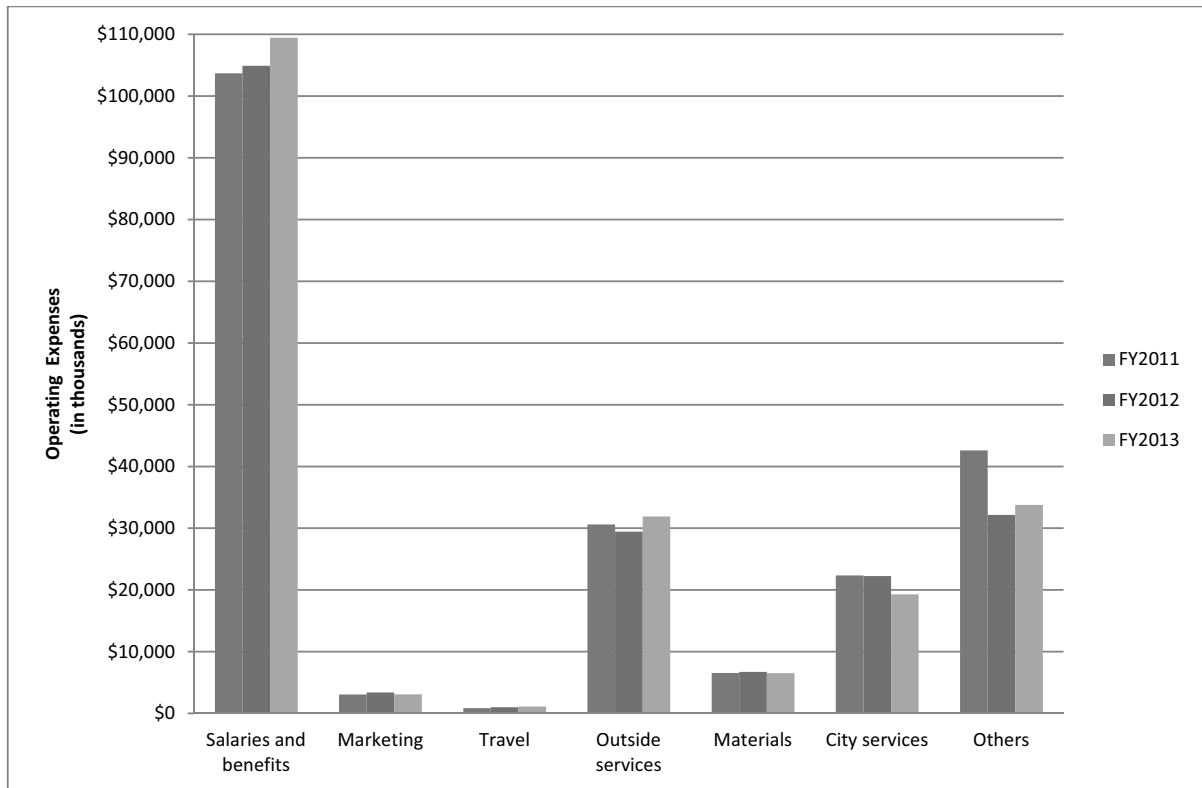
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The following chart shows the graphical comparison of the Port's operating expenses for fiscal years 2013, 2012 and 2011:



Fiscal Year 2013

In fiscal year 2013, operating expenses increased by \$5.4 million to \$205.2 million, a 2.7% increase from prior fiscal year expense of \$199.8 million. Significant drivers in operating expenses include salaries and benefits, outside services, City services, and pollution remediation obligations.

Salaries and benefits expense increased by \$4.6 million to \$109.5 million, or 4.3% higher than prior year of \$104.9 million. Fluctuations in salaries and benefits were caused primarily by the following: increase of \$2.3 million in salaries due to a 2.50% to 3.75% increase in cost of living allowances for Port employees covered by various MOUs effective July 1, 2012, \$0.5 million increase in medical and dental insurance costs; and \$0.8 million increase in overtime pay due to increased construction and capital projects workload. Allocation of portions of the cost of salaries and benefits to capital projects increased by \$0.5 million. Average full time employee headcount decreased by 2 to 952.

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As part of its strategic plan to retain and increase market share, the Port spent \$3.1 million in domestic trade promotion, business, government and other commercial promotion expenses.

Outside services increased by \$2.5 million to \$31.9 million or 8.4% from prior year of \$29.4 million primarily due to higher professional, consulting and maintenance services for the following: \$0.9 million for wharves maintenance, \$0.8 million computer software services, \$4.0 million architectural and engineering design support services, and \$0.5 legal fees. These increases were offset by decreases of \$2.7 million in environmental assessment service fees, \$1.0 million information systems consulting services and \$0.9 million in port security services.

Lower expenditures for maintenance, administrative and operating supplies mainly accounted for the decrease of \$0.2 million in materials and supplies expense.

Total payments for City services decreased by \$3.0 million. Fluctuations in City services payments were: \$4.6 million higher charges from the Department of Water and Power due to the charges for the Alternative Maritime Power project for Berths 136-139, 144 and 145-147, \$3.2 million increase in the Recreation and Parks Department charges because of timing difference in payments for services to various facilities, and \$0.5 million from the departments of Public Works, General Services and Personnel. These increases were offset by lower net payments of \$0.8 million to the City Attorney's Office, \$0.3 million to the City's Information Technology Agency, and allocation of \$12.0 million to various capital projects.

Litigation and settlement expenses were \$0.4 million in fiscal year 2013 due to claims for refunds of overpayment of certain rent and breach of contracts.

The increase of \$5.3 million in pollution remediation expenses was mainly due to remediation costs incurred in the current fiscal year as well as estimates for new pollution remediation sites including that of San Pedro Boat Works, Southwest Marine and the Total Maximum Daily Load Monitoring projects. Additional information regarding pollution remediation for these sites are found on pages 78-80 of the notes to the financial statements.

Fiscal Year 2012

In fiscal year 2012, operating expenses decreased by \$9.9 million to \$199.8 million, a 4.7% decrease from prior fiscal year expense of \$209.7 million. Significant drivers in operating and administrative expenses include outside services, allocations to capital overhead, the Clean Truck Program, City services and benefits.

Salaries and benefits expense increased by \$1.2 million to \$104.9 million, or 1.2% higher than prior year of \$103.7 million. Fluctuations in salaries and benefits were caused primarily by the following: \$1.5 million increase in salaries due to 0.75% increase in cost of living allowances (COLA) for Port employees covered by various MOUs effective July 1, 2011, and a 3% COLA increase for non-represented employees effective January 1, 2012; \$0.2 million increase in pension and retirement contributions; \$0.2 million increase in medical and dental insurance costs; and \$0.4 million increase in overtime pay. Allocation of portions of the cost of salaries and benefits to capital projects increased by \$1.3 million which offset the increases in salaries and benefits account. Average full time employee headcount increased by 4 to 954.

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As part of its strategic plan to retain and increase market share, the Port increased its spending for domestic trade promotion, business, government and other commercial promotion, accounting for the \$0.3 million increase in marketing and public relations expenses.

Outside services decreased by \$1.2 million to \$29.4 million or 3.8% from prior year of \$30.6 million primarily due to \$0.9 million lower maintenance expenses.

Additional maintenance, administrative and operating supplies mainly accounted for the slight increase of \$0.2 million in materials and supplies expense.

Total payments for City services slightly decreased by \$0.1 million. Fluctuations in City services payments were: \$3.2 million higher charges primarily for Fire Department services (\$1.4 million), the Recreation and Parks (\$1.0 million) Department, the City Attorney's Office (\$0.5 million), City Administrative Office and Information Technology Agency (\$0.3 million). These increases were offset by lower net payments of \$2.8 million mainly to Building and Safety, Public Works and the Los Angeles Police departments.

Provision for workers' compensation was \$5.8 million higher mainly due to an increase of \$3.7 million in valuation of the medical component of the fiscal year 2012 workers compensation actuarial study, \$1.1 million in the permanent disability component, and \$1.1 million in temporary disability and other expenses components. As the Port is part of the overall City workers' compensation self-insurance program, the City allocated these costs to the Port on a pro-rata basis.

In prior fiscal year 2011, litigation and settlement expenses were \$3.0 million higher than fiscal year 2012 due to a payment of \$3.2 million for community aesthetic mitigation, representing the cost of four cranes acquired at \$0.8 million each, as stipulated in the environmental impact report for China Shipping.

Lesser administrative expenditures for clean truck monitoring of trucks entering the Port, as well as lower CTP subsidy payments, accounted for \$4.7 million reduction in CTP expenses during the fiscal year.

The decrease of \$8.6 million in pollution remediation expenses was mainly due to lower remediation costs for the site cleanup of 800 Southerland Ave. and the petroleum carbon remediation of HY" c" Tane tank farm. Major cleanup costs for these projects were incurred in fiscal year 2011.

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Nonoperating Revenue and Expenses

Nonoperating revenue and expenses are derived from transactions that do not result from providing services in connection with the Port's ongoing operations. The following table presents a summary of the Port's nonoperating revenue and expenses for fiscal years 2013, 2012 and 2011:

**Summary of NonOperating Revenue and Expenses
(amounts in thousands)**

	FY 2013	FY 2012	FY 2011	Increase (Decrease) Over Prior Year	
				FY 2013	FY 2012
Nonoperating revenue					
Income from investments in					
Joint Powers Authorities	\$ 2,049	\$ 1,851	\$ (333)	\$ 198	\$ 2,184
Interest and investment income	826	9,486	6,436	(8,660)	3,050
Other nonoperating revenue	16,731	14,167	6,023	2,564	8,144
Total nonoperating revenue	19,606	25,504	12,126	(5,898)	13,378
Nonoperating expenses					
Interest expense	2,473	10,538	3,704	(8,065)	6,834
Other nonoperating expenses	15,947	22,526	12,690	(6,579)	9,836
Total nonoperating expenses	18,420	33,064	16,394	(14,644)	16,670
Net nonoperating revenue (expenses)	\$ 1,186	\$ (7,560)	\$ (4,268)	\$ 8,746	\$ (3,292)

Fiscal Year 2013

Net nonoperating revenue (expenses) for fiscal year 2013 increased by \$8.7 million from \$(7.6) million in fiscal year 2012 to \$1.2 million in fiscal year 2013.

Interest and investment income decreased by \$8.7 million or 91.3% to \$0.8 million from the prior fiscal year's \$9.5 million due to lower interest earnings on investments and substantial mark to market loss on investments.

Interest expense decreased by \$8.1 million to \$2.5 million from the prior fiscal year of \$10.5 million. The Port redeemed its Series 2002A bonds and fully paid its \$1.4 million Boating and Waterways loans thereby decreasing interest expenses. Also, in fiscal year 2013, capitalized interest was \$35.7 million compared to \$30.6 million in fiscal year 2012, or a \$5.1 million higher interest capitalized to the construction in progress account resulting in lower interest charged to expenses.

Other nonoperating expenses decreased by \$6.6 million because in the prior fiscal year 2012, the Port recognized a loss on sale of the POLA High School of \$8.5 million.

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Fiscal Year 2012

Net nonoperating revenue (expenses) for fiscal year 2012 displayed an increase of net expenses by \$3.3 million or 77.1% to a net expense of \$7.6 million from prior year's net expense of \$4.3 million.

In prior fiscal year 2011, the Port wrote down \$2.3 million in receivables from the Intermodal Container Transfer Facility Joint Powers Authority (ICTF or JPA). The charge was an accounting adjustment against an overstatement of revenues that resulted from timing differences in the calculation of receipts. This resulted in a negative \$0.3 million share in ICTF's operations in the prior year. ICTF reported income of \$3.9 million in the fiscal year 2012, thereby resulting in \$1.9 million increase in investment revenue from the JPA.

Interest and investment income increased by \$3.1 million or 47.4% to \$9.5 million from the prior fiscal year's \$6.4 million due to higher interest earnings on investments and mark to market gain on investments.

Interest expense increased by \$6.8 million or 184.2% to \$10.5 million from the prior fiscal year of \$3.7 million. The increase resulted primarily from an adjustment to the Port's capitalized interest, reducing interest capitalized to the construction in progress account from \$40.1 million in fiscal year 2011 to \$30.6 million in fiscal year 2012. In addition, the exclusion of the costs of certain completed projects from the calculation of capitalized interest resulted in an adjustment of \$9.5 million in capitalized interest, which was charged to current year's interest expense. The Port also incurred bond interest expense of \$3.8 million from the issuance of the 2011 Series A and B Refunding bonds, but the refunding also reduced interest obligations, thereby generating an immediate \$6.6 million decrease in interest expenses.

The Port recorded as other nonoperating revenue a \$2.5 million solar power incentive received from the Department of Water and Power. Other sources of nonoperating revenues during the year were \$0.3 million in delinquency penalties, \$0.1 million from sale of equipment and other fixed assets, and \$0.6 million credits from rebates and other reimbursements. Included also in nonoperating revenues were noncapital grants received by the Port. During the fiscal year, federal and state grants of \$2.1 million as well as \$5.9 million of federal and state pass-through grants were received.

During the fiscal year, the Port recorded as nonoperating expense a loss of \$8.5 million from the sale of POLA High School, which mainly accounted for the increase of \$9.8 million in nonoperating expenses. Please see page 25 for details on the sale of this property.

Long-Term Debt

The Port's long-term debt comprises of senior debt in the form of Harbor Revenue Bonds, commercial paper, and subordinated debt in the form of a loan. As of June 30, 2013 and 2012, the Port's outstanding long-term debt was \$921.1 million and \$974.9 million, respectively. For all outstanding bonds, the Port continues to maintain Aa2, AA, and AA credit ratings from Moody's, Standard & Poor's, and Fitch Ratings, respectively. For its commercial paper, the ratings are P-1, A-1+, and F-1+, respectively.

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Bonded Debt

Under Section 609 of the City Charter of the City of Los Angeles and the Bond Procedural Ordinance, the Port's capacity to issue debt is not limited. However, the Port's capacity is constrained under covenants of the currently outstanding debt to an aggregate ratio of revenue to annual debt service of at least one hundred twenty-five percent (125%). The Port's financial policy requires that a minimum of 2.0x debt service coverage ratio be maintained at all times. At June 30, 2013, the Port's debt service coverage ratio stood at 3.0x according to the additional bond test method.

The Port's long-term debt consisted of the following as of June 30, 2013, 2012, and 2011 (in thousands):

	2013	2012	2011
Revenue bonds payable	\$ 821,130	\$ 873,488	\$ 905,451
Notes payable	--	1,366	1,874
Commercial paper	100,000	100,000	100,000
Total	\$ 921,130	\$ 974,854	\$ 1,007,325

*Certain information were reclassified to conform to current year's presentation.

Capital Assets

The Port's investment in capital assets, net of accumulated depreciation as of June 30, 2013, 2012 and 2011 amounted to \$3.6 billion, \$3.4 billion and \$3.3 billion, respectively. These accounted for 86.9%, 83.7%, and 83.3% of total assets, respectively. The following table presents the Port's capital assets, net of accumulated depreciation for fiscal years 2013, 2012 and 2011 (in thousands):

	Summary of Capital Assets			Increase(Decrease) Over Prior Year	
	FY 2013	FY 2012	FY 2011	FY 2013	FY 2012
Land	\$ 1,133,902	\$ 1,072,398	\$ 1,058,404	\$ 61,504	\$ 13,994
Facilities and equipment, net	1,821,353	1,788,966	1,468,867	32,387	320,099
Intangible assets, net	20,942	16,953	12,900	3,989	4,053
Construction in progress	342,279	328,026	524,158	14,253	(196,132)
Preliminary costs-capital projects	233,029	151,977	214,578	81,052	(62,601)
Total	\$ 3,551,505	\$ 3,358,320	\$ 3,278,907	\$ 193,185	\$ 79,413

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Fiscal Year 2013

Major capital assets activities during fiscal year 2013 are as follows:

- \$19.0 million - Southwest Marine dry dock demolition.
- \$2.0 million - Acre backland development.
- \$39.6 million - Harry Bridges Boulevard improvement.
- \$16.8 million - construction and improvement of various wharves and terminals including facilities for the San Pedro Waterfront-Downtown water cut.
- \$94.3 million - improvement of various warehouses, buildings and facilities including \$4.7 million for E. Water St. building interior improvement, \$3.6 million for Phase 1A backland improvement, \$33.2 million for alternative marine power improvement, \$4.6 million for improvement of various administration buildings, \$3.7 million for demolition of liquid bulk terminal, \$21.7 million for Inner Cabrillo Beach water quality improvement; \$12.0 million for So. Pacific slip improvement in the San Pedro Waterfront, and \$8.5 million for the Southern California International Gateway project.
- \$1.4 million - Maritime Law Enforcement Training Center equipment.
- \$4.7 million - fiber optic network programs.
- \$3.6 million - Port Police Law Enforcement Resource Tracking system.
- \$4.0 million - Port Police headquarters, Port Police integrated command and control system and other security enhancement projects, and passenger complex perimeter security enhancement projects.
- \$4.2 million – application and development costs for the design, installation, coding and testing of the Port's new financial system, the Enterprise Resource Planning System.

Fiscal Year 2012

Major capital assets activities during fiscal year 2012 are as follows:

- \$162.6 million - Cabrillo Way Marina Phase II development.
- \$113.7 million - various wharves improvement, including \$12.3 million for landfill and wharf demolition.
- \$77.7 million - Harry Bridges Boulevard improvement.
- \$26.7 million - improvement of various terminals including \$23.3 million for cruise terminals.
- \$22.1 million - improvement of various warehouses, buildings and facilities.

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- \$9.5 million - improvement of waterfront and other public areas in Wilmington and San Pedro.
- \$6.8 million - fiber optic network programs.
- \$5.1 million - POLA electric truck program.
- \$11.8 million - for Port Police headquarters, Port Police integrated command and control system and other security enhancement projects, and passenger complex perimeter security enhancement projects.
- \$1.1 million - acquisition of vehicles, parts and accessories.
- \$3.1 million - acquisition of boats, barge, boat hardware and parts.
- \$0.8 million - expended for electronic equipment, devices including computer hardware for the Port's new financial accounting system to be implemented in fiscal year 2013.
- \$3.2 million - police data center equipment, mobile command center and various computer equipment for the new Port police building and headquarters.
- Sale of POLA High School (POLAHS) costing \$14.3 million with accumulated depreciation of \$2.7 million on October 14, 2011. The lease permit with POLAHS provided for the sale of this property as prescribed under California Government Code Section 54220, the City Charter, and the Administrative Code. A notice of intent to purchase this property was received from POLAHS on October 8, 2008. Subsequently, on August 13, 2009, the POLA Board declared this property as surplus to the needs of the POLA. POLA received cash of \$3.5 million on the sale and credited rental income of \$0.4 million resulting in a loss of \$8.5 million reflected as a nonoperating expense on the Port's financial statements.

Estimated Capital Improvement Expenditures for Fiscal Year 2014

Estimated expenditures for the Port's fiscal year 2014 capital outlays are \$451.9 million. Of this total, \$399.9 million has been budgeted for the capital improvement program (CIP). The more significant activities for next fiscal year including expenditures for terminal development, waterfront development, transportation and infrastructure projects, port security and environmental initiatives are as follows:

Terminal Development Projects

- \$256.6 million of CIP budget dedicated to development projects at various Port terminals.
- \$99.3 million for projects at TraPac terminal, including \$28.1 million for a new main gate and administrative buildings, \$61.6 million for backland improvements, including the installation of automatic stacking crane infrastructure, \$9.1 million for a new Intermodal Container Transfer facility, and \$0.5 million of other terminal improvements.
- \$41.5 million for the expansion of China Shipping Container Terminal, including \$12.4 million for the completion of 375 linear feet of expanded wharf and an AMP installation, \$27.9 million for

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construction of new backlands, and \$0.8 million for the design of marine operations and crane maintenance buildings.

- \$95.8 million funding to be provided for AMP installations at the Yang Ming, APL, YTI, Evergreen, and APMT container terminals.
- \$8.2 million for the audit, design, and construction of upgrades at liquid bulk oil cargo handling facilities, and \$1.8 million for construction of a new system of catwalk structures and concrete mooring point at the Exxon Mobil facility.

Waterfront Development Projects

- \$31.1 million for L.A. Waterfront projects.
- \$20.1 million for the construction of a new waterfront promenade, plaza, and town square.
- Other waterfront projects include planning and design of the City Dock No. 1 Urban Marine Research Center and the Front Street beautification project.

Transportation and Infrastructure Projects

- \$60.2 million for the construction of the Berth 200 Rail Yard project and \$33.2 million for the South Wilmington Grade Separation project.
- Other transportation projects are completion of Terminal Island street improvements, Avalon/Fries Street closures environmental assessment, and design and construction of both I-110/SR 47 connector improvements and the John S. Gibson intersection and NB I-110 ramp access improvements.

Port Security Projects

- \$5.3 million for the POLA Fiber Optic Phase II project, IT Cyber Security Improvement Phase I, Port Police Tactical Radio Communications Improvements, Port Police Interoperable Communications System, and completion of the Port Police K9, and 705 N. Front Street Inspection facilities.

Environmental Initiatives

- \$1.7 million to be spent on the CTP, for concession and grant administration, enforcement, data collection and analysis, outreach, and other support services.
- \$1.8 million funding for air quality and climate change measures.
- Environmental project priorities also include \$3.6 million for pollution remediation work, \$1.2 million for the implementation of the Water Resources Action Plan, \$1.9 million to support and implement the Total Daily Maximum Load requirements
- Over \$0.9 million for mitigation monitoring and reporting of environmental assessments.

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Factors That May Affect the Port's Operations

There is significant competition for container traffic among North American ports. The availability of alternate port facilities at competitive prices affects the use of the Port's facilities and therefore the revenues of the Port. The Port cannot predict the scope of such impact.

All of the ports on the West Coast of the U.S. compete for discretionary intermodal cargo destined for locations across the U.S. and Canada. Discretionary cargo makes up approximately 50% of cargo arriving at the Port. Currently, this discretionary cargo moves eastward primarily by rail. 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 U.S. West Coast ports. All-water service from Asia to the Gulf of Mexico and East Coast ports move primarily through the Panama Canal. The Panama Canal is in the process of expanding its locks such that its capacity will double. Reports indicate that the opening of the new locks will take place in April 2015 as the widening and deepening of the lock chambers will allow ships of greater size to transit the Canal. The expansion creates a potential route to the East and Gulf Coast for ships of greater capacity than the current "Panamax" ships. While the effects of an expanded Canal are unknown, the Port has an existing ability to handle the New Panamax and Super Post Panamax ships and continues to maintain and improve its strong infrastructure and intermodal capabilities.

The Port is subject to legal and regulatory requirements relating to air emissions that may be generated by activities at the Port. 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 Port's capital budget and operating budget. Such expenditures are necessary even if the Port does not undertake any new revenue-generating capital improvements, and the Port cannot provide assurances that the actual cost of the required measures will not exceed the forecasted amount.

Competitive Environment

As of fiscal year ended June 30, 2013, six major container ports controlled 99.2% of the entire U.S. West Coast containerized cargo market: the ports of Los Angeles, Long Beach, and Oakland in California; the ports of Seattle and Tacoma in Washington State; and the port of Portland in Oregon. The ports of Los Angeles and Long Beach together controlled 71.3% of all U.S. West Coast market share based on a loaded TEU basis.

The industry is capital intensive and requires long lead times to plan and develop new facilities and infrastructure. Resources are typically allocated and facilities developed upon the commitment of customers to long-term permits at the Port that currently range from 13 to 26 years before expiry. Occupancy remains high and West Coast ports have limited land areas for expansion. Additionally, the greater Los Angeles area represents not only a large destination market for waterborne goods, but is also the most attractive point of origin for trans-shipments to points east as the Port has extensive on-dock rail facilities creating intermodal connections that provide for time to market advantages.

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The following table presents a summary of the West Coast container market share* for fiscal years 2011 to 2013:

Ports	Loaded TEUs (in thousands)			Percentage Market Share		
	FY 2013*	FY 2012**	FY 2011	FY 2013	FY 2012	FY 2011
Los Angeles	5,621	6,146	5,764	38.8%	42.3%	40.0%
Long Beach	4,705	4,238	4,595	32.5%	29.2%	31.9%
Oakland	1,569	1,573	1,570	10.8%	10.8%	10.9%
Seattle	1,070	1,399	1,403	7.4%	9.6%	9.7%
Tacoma	1,265	914	848	8.7%	6.3%	5.9%
Portland	139	157	144	1.0%	1.1%	1.0%
All others	114	97	84	0.8%	0.7%	0.6%
	<u>14,483</u>	<u>14,524</u>	<u>14,408</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

*Source: PIERS

** Source: UBM Global Trade

Request for Information

This financial report is designed to provide a general overview of the Port of Los Angeles' finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Karl K.Y. Pan, Chief Financial Officer, Port of Los Angeles (Harbor Department of the City of Los Angeles), 425 S. Palos Verdes St., San Pedro, CA 90731.



Financial Statements

**PORT OF LOS ANGELES
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**Statements of Net Position
June 30, 2013 and 2012
(amounts in thousands)**

ASSETS	<u>2013</u>	<u>2012</u>
Current Assets		
Cash and cash equivalents, unrestricted	\$ 351,793	\$ 444,355
Cash and cash equivalents, restricted	38,066	43,236
Accounts receivable, net of allowance for doubtful accounts: 2013 - \$5,170; 2012 - \$5,368	36,200	33,646
Grants receivable	19,161	19,460
Materials and supplies inventories	2,054	2,103
Prepaid expenses	671	724
Accrued interest receivable	934	859
Current portion of notes receivable	4,803	4,663
Total current assets	<u>453,682</u>	<u>549,046</u>
Noncurrent Restricted Assets		
Restricted investments – bond funds	57,913	67,796
Other restricted cash and investments	9,787	9,790
Accrued interest receivable	3	2
Total noncurrent restricted assets	<u>67,703</u>	<u>77,588</u>
Capital assets		
Land	1,133,902	1,072,398
Facilities and equipment net of accumulated depreciation: 2013 - \$1,496,429; 2012 - \$1,388,644	1,821,353	1,788,966
Intangible assets, net of amortization: 2013 - \$203	20,942	16,953
Construction in progress	342,279	328,026
Preliminary costs – capital projects	233,029	151,977
Total capital assets	<u>3,551,505</u>	<u>3,358,320</u>
Notes receivable	10,150	14,975
Investment in Joint Powers Authorities	5,086	5,037
Other assets	--	7,198
TOTAL ASSETS	<u>4,088,126</u>	<u>4,012,164</u>
 DEFERRED OUTFLOWS OF RESOURCES		
Deferred charges on debt refunding	<u>5,660</u>	<u>6,726</u>

continued.....

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**Statements of Net Position
June 30, 2013 and 2012
(amounts In thousands)**

	2013	2012
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 69,966	\$ 41,118
Current maturities of notes payable and bonded debt	26,235	31,816
Accrued interest payable	16,564	17,650
Accrued salaries and employee benefits	14,461	10,786
Obligations under securities lending transactions	1,447	--
Accrued construction cost payable	1,658	2,171
Other current liabilities	57,888	63,715
Total current liabilities	188,219	167,256
Long-term liabilities:		
Long-term liabilities payable from unrestricted assets		
Bonds payable, net of unamortized discount/premium:		
2013 - \$30,390 ; 2012 - \$33,363	794,895	842,203
Notes payable, net of current portion	--	835
Commercial paper	100,000	100,000
Accrued employee benefits	11,559	11,241
Other liabilities	105,201	111,633
Total long-term liabilities payable from unrestricted assets	1,011,655	1,065,912
Long-term liabilities payable from restricted assets	9,561	9,594
Total long-term liabilities	1,021,216	1,075,506
TOTAL LIABILITIES	1,209,435	1,242,762
NET POSITION		
Net investment in capital assets	2,634,840	2,397,744
Restricted for debt service	57,913	67,796
Unrestricted	191,598	310,588
TOTAL NET POSITION	\$ 2,884,351	\$ 2,776,128

See accompanying notes to financial statements.

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**Statements of Revenues, Expenses, and Changes in Net Position
For the Years ended June 30, 2013 and 2012
(amounts In thousands)**

	2013	2012
OPERATING REVENUE		
Shipping services		
Wharfage	\$ 322,821	\$ 333,757
Dockage	4,689	4,813
Demurrage	228	230
Pilotage	6,954	7,131
Assignment charges	13,184	11,785
Total shipping services	347,876	357,716
Rentals		
Land	38,856	40,127
Buildings	2,103	1,252
Warehouses	1,447	1,437
Wharf and shed	484	327
Total rentals	42,890	43,143
Royalties, fees, and other operating revenues		
Fees, concessions, and royalties	1,744	1,866
Clean truck program fees	1,409	3,250
Oil royalties	567	164
Other	2,882	3,648
Total royalties, fees, and other operating revenues	6,602	8,928
Total operating revenue	397,368	409,787
OPERATING EXPENSES		
Salaries and benefits, net of capitalized amounts:		
2013 - \$21,080; 2012 \$20,563	109,463	104,910
Marketing and public relations	3,092	3,380
Travel and entertainment	1,130	991
Outside services	31,905	29,426
Materials and supplies	6,531	6,717
City services, net of capitalized amounts:		
2013 - \$30,553; 2012 - \$16,211	19,284	22,236
Provision for workers' compensation claims	3,112	7,507
Litigation, claims, and settlement expenses	438	--
Clean truck program expenses	934	790
Pollution remediation expenses	11,635	6,341
Other operating expenses	17,645	17,508
Total operating expenses before depreciation	205,169	199,806
Operating Income before depreciation - forwarded	192,199	209,981

continued....

**PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)**

**Statements of Revenues, Expenses, and Changes in Net Position (Continued)
Years ended June 30, 2013 and 2012
(amounts In thousands)**

	2013	2012
Operating Income before depreciation - forwarded	\$ 192,199	\$ 209,981
Depreciation	108,037	100,485
OPERATING INCOME	84,162	109,496
NONOPERATING REVENUE (EXPENSES)		
Income (expense) from investments in Joint Powers Authorities	2,049	1,851
Interest and investment income	826	9,486
Interest expense	(2,473)	(10,538)
Other nonoperating revenue	16,731	14,167
Other nonoperating expense	(15,947)	(22,526)
Total nonoperating revenue (expenses)	1,186	(7,560)
INCOME BEFORE CAPITAL CONTRIBUTIONS	85,348	101,936
Capital contributions	17,630	31,307
Special item	13,387	--
CHANGES IN NET POSITION	116,365	133,243
NET POSITION, JULY 1	2,776,128	2,642,885
Net adjustment for write off of prior period bond issue costs	(8,142)	--
Net position July 1, restated	2,767,986	2,642,885
NET POSITION, JUNE 30	\$ 2,884,351	\$ 2,776,128

See accompanying notes to financial statements.

**PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)**

**Statements of Cash Flows
Years ended June 30, 2013 and 2012
(amounts in thousands)**

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Shipping service fees collected	\$ 345,640	\$ 351,629
Rentals collected	42,614	43,090
Royalties, fees, and other operating revenues collected	6,561	8,785
Payments for employee salaries and benefits, net of capitalized amounts: 2013 - \$21,080; 2012- \$20,563	(105,470)	(106,886)
Payments for goods and services	(55,111)	(79,505)
Net cash provided by operating activities	234,234	217,113
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITY		
Proceeds from noncapital grants	1,029	2,674
Net cash provided by noncapital and related financing activity	1,029	2,674
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments for property acquisitions and construction	(268,540)	(160,011)
Proceeds from sale of capital assets	87	3,604
Proceeds from capital grants	17,930	28,444
Net proceeds from issuance of bonds	--	91,750
Principal repayment, redemption, and defeasance – bonds	(49,385)	(131,555)
Principal repayment – notes	(1,366)	(508)
Payments from (to) bond sinking fund	8,661	(455)
Interest paid	(41,186)	(32,339)
Net cash used in capital and related financing activities	(333,799)	(201,070)
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipt of interest	7,020	8,214
Cash collateral received (paid) under the securities lending transactions	1,447	(41,077)
Increase (decrease) in fair value of investments	(6,267)	1,365
Purchase of investments	(8,081)	--
Net payments received on notes receivable	4,685	4,549
Distribution from Joint Powers Authorities	2,000	3,000
Net cash provided by (used in) investing activities	804	(23,949)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(97,732)	(5,232)
CASH AND CASH EQUIVALENTS, JULY 1	487,591	492,823
CASH AND CASH EQUIVALENTS, JUNE 30	\$ 389,859	\$ 487,591

continued.....

**PORT OF LOS ANGELES
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**Statements of Cash Flows (Continued)
Years ended June 30, 2013 and 2012
(amounts in thousands)**

	2013	2012
CASH AND CASH EQUIVALENTS COMPONENTS		
Cash and cash equivalents, unrestricted	\$ 351,793	\$ 444,355
Cash and cash equivalents, restricted	38,066	43,236
Total cash and cash equivalents	\$ 389,859	\$ 487,591
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 84,162	\$ 109,496
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	108,037	100,485
Provision for doubtful accounts	(137)	323
Changes in assets and liabilities		
Accounts receivable	(2,417)	(6,606)
Materials and supplies inventories	49	120
Prepaid and other assets	331	2,151
Accounts payable	31,374	8,498
Accrued employee benefits	3,993	(1,976)
Other deferred credits and other liabilities	8,842	4,622
Total adjustments to reconcile operating income to net cash provided by operating activities	150,072	107,617
Net cash provided by operating activities	\$ 234,234	217,113
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets with construction payable	\$ 1,658	\$ 2,171
Acquisition of capital assets with accounts payable	732	2,525
Write-off of discontinued construction projects	2,332	2,319
Capitalized interest expense, net	35,720	30,596

See accompanying notes to financial statements.

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

Notes to the Financial Statements

June 30, 2013 and 2012

The Notes to the Financial Statements include disclosures considered necessary for a better understanding of the accompanying financial statements. An index to the Notes follows:

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**PORT OF LOS ANGELES
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Notes to the Financial Statements

June 30, 2013 and 2012

1. Organization and Summary of Significant Accounting Policies

The financial statements of the Port of Los Angeles (Harbor Department of the City of Los Angeles), hereafter referred to as "Port of Los Angeles" or "Port," have been prepared in conformity with generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Port's significant accounting policies are described below.

A. Organization and Reporting Entity

The Port of Los Angeles is an independent, self-supporting department of the City of Los Angeles (the City), formed for the purpose of providing shipping, fishing, recreational, and other resources and benefits for the enjoyment of the citizens of California. The Port is under the control of a five-member Board of Harbor Commissioners (BHC), who are appointed by the Mayor and approved by the City Council. The BHC is administered by an Executive Director, subject to the State of California Tidelands Trust Act. The Port is granted control of tidelands, and all monies arising out of the operation of the Port are limited as to use for the operation and maintenance of Port facilities, the acquisition and construction of improvements, and other such trust considerations under the Tidelands Trust and the Charter of the City.

The Port prepares and controls its own financial plan, administers and controls its fiscal activities, and is responsible for all Port construction and operations. The Port operates as principal landlord for the purpose of assigning or leasing port facilities and land areas. The Port's principal source of revenue is from shipping services under tariffs (dockage and wharfage, etc.), rental of land and facilities, fees (parking and foreign trade zones), and royalties (oil wells). Capital construction is financed by cash from operations, and bonded debt, secured by future revenues and federal grants. Daily operation of the port facilities and regular maintenance are performed by the Port's permanent work force. Generally, large construction projects are assigned to commercial contractors.

Operations of the Port are financed in a manner similar to that of a private business. The Port recovers its costs of providing services and improvements through tariff charges for shipping services and the leasing of facilities to Port customers.

In evaluating how to define the Port for financial reporting purposes, management has considered all potential component units by applying the criteria set forth by the GASB. The financial statements present only the financial activities of the Port in conformity with GAAP and are not intended to present the financial position and results of operations of the City.

The Los Angeles Harbor Improvements Corporation (LAHIC) is a nonprofit public benefit corporation organized under the laws of the state of California for public purposes. LAHIC was formed to assist the Port in undertaking financing third party capital expenditures at potentially advantageous terms that the BHC deems necessary for the promotion and accommodation of commerce.

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The board of directors of LAHIC consists of five members. Election of the LAHIC board of directors occurs by vote of the BHC. The BHC is financially responsible for LAHIC's activities. Further, although LAHIC is legally separate from the Port, it is reported as if it were part of the Port, because its sole purpose is to help finance and construct facilities and improvements, related to Port activities.

LAHIC is included in the reporting entity of the Port, and accordingly, the operations of LAHIC are blended in the Port's accompanying financial statements.

B. Summary of Significant Accounting Policies

Method of Accounting – The Port activities are accounted for as an enterprise fund, and as such, its financial statements are presented using the economic resources measurement focus and the accrual method of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when the related liabilities are incurred. The measurement focus is on determination of changes in net position, financial position, and cash flows.

Cash, Cash Equivalents, and Investments – The Port pools its available cash with that of the City. All cash and investments pooled with the City, plus any other cash deposits or investments with initial maturities of three months or less are considered cash and cash equivalents.

Interest income and realized gains and losses arising from such pooled cash and investments are apportioned to each participating City department fund based on the relationship of such department fund's respective average daily cash balances to aggregate pooled cash and investments. The change in the fair value of pooled investments is allocated to each participating City department fund based on the aggregate respective cash balances at year-end.

The Port's investments, including its share of the City's Investment Pool, are stated at fair value. Fair value is determined based upon market closing prices or bid/asked prices for regularly traded securities. The fair value of investments with no regular market is estimated based on similar traded investments. The fair value of mutual funds, government-sponsored investment pools, and other similar investments is stated at share value or an allocation of fair value of the pool, if separately reported. Certain money market investments with initial maturities at the time of purchase of less than one year are recorded at cost. The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in fair value of investments reported in the prior year and the current year.

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Securities Lending – As a participant in the City’s Investment Pool, the Port also participates in the City’s securities lending program (SLP). The investment collateral received by the City together with the corresponding liability is allocated among the City’s participating funds using the same basis as that of allocating interest income and realized gains or losses.

Materials and Supplies Inventories – Inventories of materials and supplies are stated at lower of average cost or market.

Capital Assets – Capital assets are carried at cost or at appraised fair value at the date received, in the case of properties acquired by donation, and by termination of leases for tenant improvements, less allowance for accumulated depreciation. The Port has a capitalization threshold of \$5,000. Capital assets include intangible assets for the Port’s radio frequency and emission mitigation credits, and capitalized costs of the new enterprise resource planning system.

Development costs for proposed capital projects that are incurred prior to the finalization of formal construction contracts are capitalized. Upon completion of capital projects, such preliminary costs are transferred to the appropriate property account. In the event the proposed capital projects are abandoned, the associated preliminary costs are charged to expense in the year of abandonment. Preliminary costs of capital projects for fiscal years 2013 and 2012 are \$233.0 million and \$152.0 million, respectively.

The Port capitalizes interest costs incurred on indebtedness issued in connection with the acquisition, construction or improvement of capital assets, net of interest revenue on reinvested debt proceeds. Interest capitalized in fiscal years 2013 and 2012 were \$35.7 million and \$30.6 million, respectively.

The Port capitalizes indirect project costs associated with the acquisition, development, and construction of new capital projects. Indirect project costs allocated to construction projects for fiscal years 2013 and 2012 were \$13.9 million and \$7.8 million, respectively.

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. The estimated useful lives of the Port’s depreciable assets are as follows:

Wharves and sheds	15 to 30 years
Buildings and facilities	10 to 50 years
Equipment	3 to 18 years
Intangible assets	20 years

Investments in Joint Powers Authorities – Investments in joint power authorities are accounted for by the equity method.

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Accrued Salaries and Employee Benefits – Aside from accrued salaries, the Port records as liabilities all accrued employee benefits, including estimated liabilities for certain unused vacation and sick leave in the period the benefits are earned. Port employees accumulate annual vacation and sick leave based on their length of service up to a designated maximum. Upon termination or retirement, employees are paid the cash value of their accumulated leave benefits.

Deferred Outflows and Inflows of Resources – In addition to assets, the Port reports a separate section for deferred outflows of resources. This represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources until then. The Port classified deferred charges on refunding resulting from the difference in the carrying value of refunded debt and its reacquisition price amortized over the shorter of the life of the refunded or refunding debt as deferred outflows of resources.

Operating and Nonoperating Revenues and Expenses – The Port differentiates between operating revenues and expenses, and nonoperating revenues and expenses. Operating revenues and expenses generally result from the Port's primary ongoing operations. All revenues and expenses other than these are reported as nonoperating revenues and expenses.

Revenues from shipping services, rental fees, and royalties are the major sources of the Port's revenues. Shipping services revenues consist of fees assessed for various activities relating to vessel and cargo movement. Twenty-foot equivalent units (TEUs) and metric tons are the measures used to determine cargo volumes that move through the Port. Rental fees are collected from the lease of various types of rental properties in Port-controlled lands. Rental rates are set using various methodologies, and are appraised periodically to evaluate and establish benchmark rates. Rental rates may be adjusted, within reason, to reflect general market conditions. The Port levies fees for various activities such as royalties from oil and natural gas production, fees for parking lots, and miscellaneous concessions.

Operating Leases – The Port leases a substantial portion of lands and facilities to others. The majority of these leases provide for cancellation on a 30-day notice by either party and for retention of ownership by the Port or restoration of the property to pre-leased conditions at the expiration of the agreement; accordingly, no leases are considered capital leases.

Pension and Other Post Employment Benefits (OPEB) – All full-time civilian Port employees are eligible to participate in the Los Angeles City Employees' Retirement System (LACERS), a defined benefit single-employer pension plan. Starting fiscal year 2007, all full-time Port police officers are eligible to participate in the Los Angeles Fire and Police Pension system (LAFPP), a defined benefit single-employer pension plan available to all full-time active sworn firefighters and police officers (except Airport Police) of the City. The Port's policy is to fund fully its entire annual share of LACERS and LAFPP pensions and the respective OPEB costs. The funded costs are determined at the start of each fiscal year and are incorporated into the payroll burden rate to reimburse the City for the Port's pro rata contribution share.

Capital Contributions – The Port may receive grants for the purpose of acquisition or construction of property and equipment. These grants are generally structured as

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reimbursements against expenditures. Grants are recorded as capital contributions when the grant is earned. Grants are generally earned upon expenditure of funds.

Net Position – The statements of net position are designed to display the financial position of the Port. The Port’s equity is reported as net position, which is classified into the following categories:

- *Net investment in capital assets* – This category consists of capital assets, net of accumulated depreciation, and is reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- *Restricted* – This category consists of restrictions placed on net asset use through external constraints imposed by creditors (such as debt covenants), grantors, contributors, or law or regulations of other governments. Constraints may also be imposed by law or constitutional provisions or enabling legislation.
- *Unrestricted* – This category consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

When both restricted and unrestricted resources are available for use, it is the Port’s policy to use restricted resources first, and then unrestricted resources, as they are needed.

Use of Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassifications – Certain reclassifications have been made to amounts reported in fiscal year 2012 to conform to the fiscal year 2013 presentation.

2. Adoption of New GASB Pronouncements

GASB Statement No. 62, “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.” Issued in December 2010, this statement incorporates into the GASB’S authoritative literature certain accounting and financial reporting guidance and pronouncements issued on or before November 30, 1989 by the Financial Accounting Standards Board, opinions issued by the Accounting Principles Board as well as accounting research bulletins of the American Institute of Certified Public Accountants’ Committee on Accounting Procedures. The Port implemented this statement in fiscal year 2013. This statement has no material impact on the Port’s financial statements.

GASB Statement No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.” Issued in June 2011, this statement provides guidance for reporting deferred outflows and inflows of resources, and net position in a statement of financial position and related disclosures. Transactions that result in the consumption or acquisition of net assets in one period that are applicable to future periods are now identified as deferred outflows or inflows of resources respectively, and hence, are distinguished from assets and liabilities. This

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statement requires reporting of net position as the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. The Port implemented this statement in fiscal year 2013. This statement has no material impact on the Port's financial statements.

GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities." Issued in March 2012, this statement aims to properly classify certain items that were previously reported as assets and liabilities as deferred outflows or inflows of resources. Further it provides that for current refunding and advance refunding resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt should be reported as a deferred outflow or deferred inflow of resources. Also, the use of the term deferred should be limited to items reported as deferred outflows or inflows of resources. Implementation of this statement will be effective beginning fiscal year 2014. The Port early implemented this statement in fiscal year 2013. Additional information on the Port's reporting of deferred outflows of resources is found on page 44 of the notes to the financial Statements.

This statement also establishes standards of accounting and financial reporting for debt issuance costs. Debt issuance costs which include all costs incurred to issue bonds, financing costs, and other related costs, except any portion related to prepaid insurance costs, should now be recognized as expense in the period incurred. The Port adjusted its beginning net position to reflect an adjustment for the unamortized debt issuance costs of \$8.1 million as of June 30, 2013.

3. Recent GASB Pronouncements

GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements." Issued in November 2010, this statement aims to improve financial reporting of service concession arrangements (SCAs). SCA is an arrangement between a transferor (government) and an operator (governmental or nongovernmental entity) in which the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration; the operator then collects and is compensated by fees from third parties. Implementation of this statement is effective fiscal year 2013. The Port does not have activities that qualify as SCAs, hence, this statement has no impact on the Port's financial statements.

GASB Statement No. 61, "The Financial Reporting Entity: Omnibus." Issued in November 2010, this statement modifies existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity, as well as disclosure requirements. It applies to financial reporting entity by primary governments and other stand-alone government, and to the separately issued financial statements of governmental component units. Implementation of this statement is effective fiscal year 2013. This statement has no impact on the Port's financial statements.

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GASB Statement No. 66, "Technical Corrections." Issued in March 2012, this statement aims to resolve conflicting guidance from the issuance of statements no. 54 on Fund Balance reporting, and no. 62 on codification of accounting and financial reporting guidance contained in the pre-November 30, 1989 FASB and AICPA pronouncements. This statement will be effective beginning fiscal year 2014.

GASB Statement No. 67, "Financial Reporting for Pension Plans." Issued in June 2012, this statement establishes financial reporting standards for defined benefit pension plans and defined contribution pension plans that are administered through trusts or equivalent arrangements. It establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement-determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. This statement will be effective beginning fiscal year 2014.

GASB Statement No. 68, "Accounting and Financial Reporting for Pensions." Issued in June 2012, this statement aims (a) to improve the usefulness of information for decisions made by users of financial reports of governments whose employees, both active and inactive, are provided with pensions, and (b) improve information provided about pension-related financial support from certain non employer entities that make contributions to pension plans that are used to provide benefits to employees of other entities. This statement will be effective beginning fiscal year 2015.

GASB Statement No. 69, "Government Combinations and Disposals for Government Operations." Issued in January 2013, this statement addresses financial reporting for disposals of government operations. Government combinations are arrangements that meet the definition of a government merger, government acquisition, or transfer of operations. This statement will be effective beginning fiscal year 2015.

GASB Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees." Issued in April 2012, this statement establishes standards for financial guarantees that are nonexchange transactions extended or received by a state or local government. A nonexchange financial guarantee is a guarantee of an obligation of a legally separate entity or individual, including a blended or discretely presented component unit, which requires the guarantor to indemnify a third-party obligation holder under specified conditions. This statement will be effective beginning fiscal year 2014.

4. Cash and Investments

The Port's cash and investments consist of the following (in thousands):

	2013	2012
Cash in bank and certificates of deposit	\$ 376	\$ 389
Investment in U.S. Treasury money market fund	57,958	67,796
Equity in the City of Los Angeles Investment Pool	399,225	496,992
Total cash and investments	\$ 457,559	\$ 565,177

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Certain of the Port's cash and investments are restricted as to use by reason of bond indenture requirements or similar legal mandate. The Port's unrestricted and restricted cash and investments are as follows (in thousands):

	2013	2012*
Unrestricted cash and cash equivalents	\$ 351,793	\$ 444,355
Restricted cash and cash equivalents		
Current		
China Shipping Mitigation Fund	34,305	34,041
Community Aesthetics Mitigation Fund for Parks	475	2,572
Community Mitigation Trust Fund – Trapac	108	122
Narcotics/Customs Enforcement Forfeiture Fund	327	445
Clean Truck Program and Fee Fund	521	3,717
Other	2,330	2,339
Subtotal – Current	38,066	43,236
Noncurrent		
Harbor Revenue Bond Funds	57,913	67,796
Commercial Paper Redemption Fund	46	14
Customer Security Deposits	3,183	3,225
Batiquitos Environmental Fund	6,000	5,993
Harbor Restoration Fund	558	558
Subtotal – Noncurrent	67,700	77,586
Total restricted cash and investments	105,766	120,822
Total cash and investments	\$ 457,559	\$ 565,177

*Certain items were reclassified to conform to current year's presentation.

A. Deposits

The Port had cash deposits and certificates of deposit with several major financial institutions amounting to \$0.4 million for both fiscal years ended June 30, 2013 and 2012. The deposits were entirely covered by federal depository insurance or collateralized by securities held by the financial institutions in the Port's name in conformance with the State Government Code.

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June 30, 2013 and 2012

B. Pooled Investments

The cash balances of substantially all funds on deposit in the City Treasury are pooled and invested by the City Treasurer for the purpose of maximizing interest earnings through pooled investment activities but safety and liquidity still take precedence over return. Interest earned on pooled investments is allocated to the participating funds based on each fund's average daily deposit balance during the allocation period with all remaining interest allocated to the General Fund. Investments in the City Treasury are stated at fair value based on quoted market prices except for money market investments that have remaining maturities of one year or less at time of purchase, which are reported at amortized cost.

Pursuant to California Government Code Section 53607 and the Los Angeles City Council (City Council) File No. 94-2160, the City Treasury shall render to the City Council a statement of investment policy (the Policy) annually. City Council File No. 11-1740 was adopted on October 23, 2012, as the City's investment policy. This Policy shall remain in effect until the City Council and the Mayor approve a subsequent revision. The Policy governs the City's pooled investment practices. The Policy addresses soundness of financial institutions in which the Treasurer will deposit funds and types of investment instruments permitted by California Government Code Sections 53600-53635 and 16429.1.

Examples of investments permitted by the Policy are obligations of the U.S. Treasury and government agencies, local agency bonds, commercial paper notes, certificates of deposit (CD) placement service, bankers' acceptances, medium term notes, repurchase agreements, mutual funds, money market mutual funds, and the State of California Local Agency Investment Fund.

The Port had \$399.2 million and \$497.0 million invested in the City's General Pool and three Special Investment Pools, representing approximately 4.7% and 6.2% of the City Treasury's General Pool and Special Investment Pools at June 30, 2013 and 2012, respectively.

The disclosures on "Note 4.B. Pooled Investments" were derived from information prepared by the City and furnished to the Port.

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At June 30, 2013, the investments held in the City Treasury's General and Special Investment Pool Programs and their maturities are as follows (in thousands):

Type of Investments	Amount	Investment Maturities				
		1 to 30 Days	31 to 60 Days	61 to 365 Days	366 Days To 5 Years	Over 5 Years
U.S. Treasury Bills	\$ 184,540	\$ 20,999	\$ --	\$ 163,541	\$ --	\$ --
U.S. Treasury Notes	3,705,030	--	--	--	3,687,736	17,294
U.S. Sponsored Agency Issues	1,980,334	153,076	240,942	512,318	1,060,252	13,746
Medium Term Notes	1,467,556	8,913	32,361	201,292	1,224,990	--
Commercial Paper	1,071,321	962,231	33,999	75,091	--	--
Municipal Bonds	9,774	--	--	--	9,774	--
Certificates of Deposit	7,000	--	--	7,000	--	--
Short Term Investment Funds	22,261	22,261	--	--	--	--
Securities Lending Short-Term Collateral Investment Pool	31,659	31,659	--	--	--	--
Total General and Special Pools	<u>\$ 8,479,475</u>	<u>\$ 1,199,139</u>	<u>\$ 307,302</u>	<u>\$ 959,242</u>	<u>\$ 5,982,752</u>	<u>\$ 31,040</u>

Interest Rate Risk. The Policy limits the maturity of its investments to five years for the U.S. Treasury and government agency securities, medium term notes, CD placement service, collateralized bank deposits, mortgage pass-through securities, and bank/time deposits; one year for repurchase agreements; 270 days for commercial paper; 180 days for bankers' acceptances; and 92 days for reverse repurchase agreements. The Policy also allows City funds with longer-term investment horizons, to be invested in securities that at the time of the investment have a term remaining to maturity in excess of five years, but with a maximum final maturity of thirty years.

Credit Risk. The Policy establishes minimum credit ratings requirement for investments. There is no credit quality requirement for local agency bonds, U.S. Treasury Obligations, State of California Obligations, California Local Agency Obligations, and U.S. Sponsored Agencies (U.S. government sponsored enterprises) securities. The City's \$2.0 billion investments in U.S. government sponsored enterprises consist of securities issued by the Federal Home Loan Bank - \$292.5 million, Federal National Mortgage Association - \$880.9 million, Federal Home Loan Mortgage Corporation - \$617.1 million, Federal Farm Credit Bank - \$121.7 million, Tennessee Valley Authority - \$62.0 million and Farmer Mac Discount Note - \$6.1 million. Of the City's \$2.0 billion investments in U.S. Sponsored Agencies securities, \$1,281.6 million were rated "AA+" by S&P and "Aaa" by Moody's; \$698.7 million were not rated individually by S&P nor Moody's (issuers of these securities are rated "A-1+" by S&P and "P-1" by Moody's).

Medium term notes must be issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Medium term notes must have at least an "A" rating. The City's \$1.5 billion investments in medium term notes consist of securities issued by banks and corporations that comply with these requirements and were rated "A" or better by S&P and "A3" or better by Moody's. Subsequent to purchase, one issuer of \$12.0 million medium term notes was downgraded to "BBB" by S&P and Baa1 by Moody's.

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Commercial paper issues must have a minimum of “A-1” or equivalent rating. If the issuer has issued long-term debt, it must be rated “A” without regard to modifiers. Issuing corporation must be organized and operating within the United States and have assets in excess of \$500.0 million. Of the City’s \$1.1 billion investments in commercial paper, \$971.0 million were rated A-1+/A-1 by S&P and P-1 by Moody’s; \$33.0 million were rated P-1 by Moody’s and not rated by S&P; \$67.3 million were not rated individually by S&P nor Moody’s. The issuers of the certificates of deposit and municipal bonds were not rated.

Concentration of Credit Risk. The Policy does not allow more than 40% of its investment portfolio be invested in commercial paper and bankers’ acceptances, 30% in certificates of deposit and medium term notes, 20% in mutual funds, money market mutual funds and mortgage pass-through securities. The Policy further provides for a maximum concentration limit of 10% in any one issuer of commercial paper as well as in any one mutual fund, and 30% in bankers’ acceptances of any one commercial bank. There is no percentage limitation on the amount that can be invested in the U.S. government agencies. The City’s pooled investments comply with these requirements. GAAP requires disclosure of certain investments in any one issuer that represent 5% or more of total investments. Of the City’s total pooled investments as of June 30, 2013, \$617.1 million (7%) was invested in securities issued by Federal Home Loan Mortgage Corporation, and \$880.9 million (10%) was invested in securities issued by Federal National Mortgage Association.

At June 30, 2012, the investments held in the City Treasury’s General Pool and Special Investment Pool Programs and their maturities are as follows (in thousands):

Type of Investments	Amount	Investment Maturities				
		1 to 30 Days	31 to 60 Days	61 to 365 Days	366 Days To 5 Years	Over 5 Years
U. S. Treasury Notes	\$ 3,773,466	\$ 1,988	\$ --	\$ 62,617	\$ 3,689,504	\$ 19,357
U.S. Treasury Bills	37,004	28,035	6,009	2,960	--	--
U.S. Sponsored Agency Issues	2,018,682	164,006	562,587	207,749	1,073,235	11,105
Medium Term Notes	1,318,929	14,500	--	195,072	1,109,357	--
Commercial Paper	829,790	741,152	88,638	--	--	--
Certificates of Deposit	6,000	--	--	6,000	--	--
Short Term Investment Funds	4,447	4,447	--	--	--	--
Total General and Special Pools	\$ 7,988,318	\$ 954,128	\$ 657,234	\$ 474,398	\$ 5,872,096	\$ 30,462

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Interest Rate Risk. The Policy limits the maturity of its investments to five years for the U.S. Treasury and government agency securities, medium term notes, CD placement service, collateralized bank deposits, mortgage pass-through securities, and bank/time deposits; one year for repurchase agreements; 270 days for commercial paper; 180 days for bankers' acceptances, and 92 days for reverse repurchase agreements. The Policy also allows City funds with longer-term investments horizons, to be invested in securities that at the time of the investment have a term remaining to maturity in excess of five years, but with a maximum final maturity of thirty years.

Credit Risk. The Policy establishes minimum credit ratings requirement for investments. There is no credit quality requirement for local agency bonds, U.S. Treasury Obligations, State of California Obligations, California Local Agency Obligations, and U.S. Sponsored Agencies (U.S. government sponsored enterprises) securities. The City's \$2.0 billion investments in U.S. government sponsored enterprises consist of securities issued by the Federal Home Loan Bank - \$581.8 million, Federal National Mortgage Association - \$602.4 million, Federal Home Loan Mortgage Corporation - \$646.1 million, Federal Farm Credit Bank - \$124.0 million, and Tennessee Valley Authority - \$64.4 million. Of the City's \$2.0 billion investments in U.S. Sponsored Agencies securities, \$1,253.9 million were rated "AA+" by S&P and "Aaa" by Moody's; \$764.8 million were not rated individually by S&P nor Moody's (issuers of these securities are rated "A-1+" by S&P and "P-1" by Moody's).

Medium term notes must be issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Medium term notes must have at least an "A" rating. The City's \$1.3 billion investments in medium term notes consist of securities issued by banks and corporations that comply with these requirements and were rated "A" or better by S&P and "A3" or better by Moody's. Subsequent to purchase, two issuers of \$27.5 million medium term notes were downgraded to "BBB+" by S&P.

Commercial paper issues must have a minimum of "A-1" or equivalent rating. If the issuer has issued long-term debt, it must be rated "A" without regard to modifiers. Issuing corporation must be organized and operating within the United States and have assets in excess of \$500.0 million. Of the City's \$829.8 million investments in commercial paper, \$709.8 million were rated A-1+/A-1 by S&P and P-1 by Moody's; \$120.0 million were not rated individually by S&P nor Moody's. The issuers of the certificates of deposit were not rated.

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Concentration of Credit Risk. The Policy does not allow more than 40% of its investment portfolio be invested in commercial paper and bankers' acceptances, 30% in certificates of deposit and medium term notes, 20% in mutual funds, money market mutual funds and mortgage pass-through securities. The Policy further provides for a maximum concentration limit of 10% in any one issuer of commercial paper as well as in any one mutual fund, and 30% in bankers' acceptances of any one commercial bank. There is no percentage limitation on the amount that can be invested in the U.S. government agencies. The City's pooled investments comply with these requirements. GAAP requires disclosure of certain investments in any one issuer that represent 5% or more of total investments. Of the City's total pooled investments as of June 30, 2012, \$581.8 million (7%) was invested in securities issued by the Federal Home Loan Bank, \$646.1 million (8%) was invested in securities issued by Federal Home Loan Mortgage Corporation, and \$602.4 million (8%) was invested in securities issued by Federal National Mortgage Association.

C. Special Investment Pools

The Port currently has three funds that are invested in the City's Special Investment Pools. They are Emergency/ACTA Reserve Fund 751, Restoration Fund 70L, and Batiquitos Long-term Investment Fund 72W. Investments in the Special Investment Pool are managed in accordance with the California State Government Code Sections 53600-53635 and the City's Policy. Funds in the three funds were invested in U.S. treasuries and government agency securities with maturities of 180 days or less.

D. Other Investments

In each issuance of a parity obligation, the Port is required to establish a reserve fund with a trustee pursuant to the indenture. All moneys in the reserve funds or accounts shall be invested by the trustee solely in permitted investments. Permitted investments on deposit in the debt service reserve funds should be valued at fair market value and marked to market at least once per half year to meet the specific requirement under the indenture. Investments held in the debt service reserve funds shall mature no later than the final maturity of the bonds.

The Port evaluates the value of the reserve funds on or before August 1 of each year, in accordance with the Indenture of Trust (Indenture). The common reserve was \$57.9 million at June 30, 2013 versus \$67.8 million at June 30, 2012, as the Port repaid portions of its parity obligations reducing the amount of the reserve. The majority of the reserve funds were invested at Federal Agency Securities rated "Aaa" by Moody's and "AAA" by Standard & Poor's (S&P), and U.S. treasuries.

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Proceeds from any new money bonds should be invested in the "Permitted Investments" specified as follows: (1) direct obligations of the United States of America or obligations of the principal of and interest on which are unconditionally guaranteed by the United States of America; (2) bonds, debentures, notes, or other evidence of indebtedness issued or guaranteed by the federal or U.S. government agencies identified in the Indenture; (3) money market funds registered under the Federal Securities Act of 1933, and having a rating of AAAm-G, AAA-m, or AA-m by S&P and Aaa, Aa1, or Aa2 by Moody's; (4) certificates of deposit issued by commercial bank, savings and loan associations, or mutual saving banks and secured at all times by collateral held by a third party; (5) certificates of deposits, savings accounts, deposit accounts, or money market deposits, which are fully insured by the Federal Deposit Insurance Corporation (FDIC), including the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF); (6) investment agreements including guaranteed investment contracts, forward purchase agreements, and reserve fund agreements with a provider whose long-term unsecured debt is rated not lower than the second highest rating category of Moody's, and S&P; (7) commercial paper rated at the time of purchase, "Prime-1" by Moody's, and "A-1" or better by S&P; (8) 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; (9) 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; and (10) repurchase agreements between the department and a dealer bank and securities firm. The term of the repurchase agreement may be up to 30 days and the value of the collateral must be equal to 104% of the amount of cash transferred to the dealer bank 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 the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC) then the value of collateral must equal to 105%.

E. City of Los Angeles Securities Lending Program

The Port participates in the City of Los Angeles Securities Lending Program (SLP). The SLP is permitted and limited under provision of California Government Code Section 53601. The City Council approved the SLP on October 22, 1991 under Council File No. 91-1860, which complies with the California Government Code. The objectives of the SLP are safety of loaned securities and prudent investment of cash collateral to enhance revenues from the investment program. The SLP is governed by a separate policy and guidelines.

The City's custodial bank acts as the securities lending agent. In the event a counterparty defaults by reason of an act of insolvency, the bank shall take all actions that are necessary or appropriate to liquidate permitted investment and collateral in connection with such transaction and shall make a reasonable effort for within two business days (Replacement Period) to apply the proceeds thereof to the purchase of securities identical to the loaned securities not returned. If during the replacement period, the collateral liquidation proceeds are insufficient to replace any of the loaned securities not returned, the bank shall, subject to payment by the City of the amount of any losses on any permitted investments, pay such additional amounts as necessary to make such replacement.

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Under the provisions of the SLP, and in accordance with the California Government Code, no more than 20% of the market value of the Pool shall be available for lending. The City receives cash as collateral on loaned securities, which is reinvested in securities permitted under the Policy. In addition, the City receives securities as collateral on loaned securities, which the City has no ability to pledge or sell without borrower default.

In accordance with the California Government Code, the securities lending agent marks to market the value of both the collateral and the reinvestments daily. Except for open loans which either party can terminate a lending contract on demand, term loans shall have a maximum life of 92 days. Earnings from securities lending accrue to the Pool and are allocated on a pro rata basis to all Pool participants.

During fiscal year 2013, collateralizations on all loaned securities were compliant with the required 102% of the market value. The City can sell collateral securities only in the event of borrower default. The lending agent provides indemnification for borrower default. There were no violations of legal or contractual provisions and no borrower or lending agent default losses during the fiscal year. There was no credit risk exposure to the City because the amounts owed to the borrowers exceeded the amounts borrowed. Loaned securities are held by the City's agents in the City's name and are not subject to custodial credit risk.

The Port's share in the assets and liabilities from the reinvested cash collateral amounted to \$1.4 million in fiscal year 2013. The City's SLP was suspended in fiscal year 2012 while negotiating for new terms with the Bank of New York.

The above disclosures were derived from information prepared by the City and furnished to the Port.

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5. Capital Assets

The Port's capital assets consist of the following activities for fiscal year ended June 30, 2013 (in thousands):

	Balance July 1, 2012	Additions	Retirements and Disposals	Transfers	Balance June 30, 2013
Capital assets not depreciated					
Land	\$ 1,072,398	\$ --	\$ --	\$ 61,504	\$ 1,133,902
Construction in progress	328,026	171,159	--	(156,906)	342,279
Preliminary costs – capital projects	151,977	122,063	--	(41,011)	233,029
Intangible assets	16,953	--	--	(4,053)	12,900
Total capital assets not depreciated	<u>1,569,354</u>	<u>293,222</u>	<u>--</u>	<u>(140,466)</u>	<u>1,722,110</u>
Capital assets depreciated/amortized					
Wharves and sheds	856,960	--	--	27,324	884,284
Buildings/facilities	2,205,221	--	--	95,287	2,300,508
Equipment	115,429	3,829	(273)	13,802	132,787
Intangible assets	--	4,192	--	4,053	8,245
Total capital assets depreciated/amortized	<u>3,177,610</u>	<u>8,021</u>	<u>(273)</u>	<u>140,466</u>	<u>3,325,824</u>
Less accumulated depreciation/amortization					
Wharves and sheds	(361,532)	(23,708)	--	--	(385,240)
Buildings/facilities	(963,908)	(75,396)	--	--	(1,039,304)
Equipment	(63,204)	(8,730)	252	--	(71,682)
Intangible assets	--	(203)	--	--	(203)
Total accumulated depreciation/amortization	<u>(1,388,644)</u>	<u>(108,037)</u>	<u>252</u>	<u>--</u>	<u>(1,496,429)</u>
Total capital assets depreciated/amortized, net	<u>1,788,966</u>	<u>(100,016)</u>	<u>(21)</u>	<u>140,466</u>	<u>1,829,395</u>
Capital assets, net	<u>\$ 3,358,320</u>	<u>\$ 193,206</u>	<u>\$ (21)</u>	<u>\$ --</u>	<u>\$ 3,551,505</u>

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The Port's capital assets consist of the following activities for fiscal year ended June 30, 2012 (in thousands):

	Balance July 1, 2011	Additions	Retirements and Disposals	Transfers	Balance June 30, 2012
Capital assets not depreciated					
Land	\$ 1,058,404	\$ 13,994	\$ --	\$ --	\$ 1,072,398
Construction in progress	524,158	129,338	--	(325,470)	328,026
Preliminary costs – capital projects	214,578	49,199	--	(111,800)	151,977
Intangible assets	12,900	4,053	--	--	16,953
Total capital assets not depreciated	<u>1,810,040</u>	<u>196,584</u>	<u>--</u>	<u>(437,270)</u>	<u>1,569,354</u>
Capital assets depreciated/amortized					
Wharves and sheds	754,511	102,449	--	--	856,960
Buildings/facilities	1,907,863	311,691	(14,333)	--	2,205,221
Equipment	98,679	18,105	(1,355)	--	115,429
Total capital assets depreciated/amortized	<u>2,761,053</u>	<u>432,245</u>	<u>(15,688)</u>	<u>--</u>	<u>3,177,610</u>
Less accumulated depreciation/amortization					
Wharves and sheds	(339,999)	(21,533)	--	--	(361,532)
Buildings/facilities	(898,739)	(67,916)	2,747	--	(963,908)
Equipment	(53,448)	(11,035)	1,279	--	(63,204)
Total accumulated depreciation/amortization	<u>(1,292,186)</u>	<u>(100,484)</u>	<u>4,026</u>	<u>--</u>	<u>(1,388,644)</u>
Total capital assets depreciated/amortized, net	<u>1,468,867</u>	<u>331,761</u>	<u>(11,662)</u>	<u>--</u>	<u>1,788,966</u>
Capital assets, net	<u>\$ 3,278,907</u>	<u>\$ 528,345</u>	<u>\$ (11,662)</u>	<u>\$ (437,270)</u>	<u>\$ 3,358,320</u>

Net interest expense of \$35.7 million and \$30.6 million was capitalized for fiscal years 2013 and 2012, respectively.

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6. Investment in Joint Powers Authorities and Other Entities

The Port has entered into two joint exercise of powers agreements as follows:

A. Intermodal Container Transfer Facility Joint Powers Authority

The Port of Los Angeles (the POLA) and the Harbor Department of the City of Long Beach, California (POLB) entered into a joint exercise of powers agreement to form the Intermodal Container Transfer Facility Joint Powers Authority (ICTF) for the purpose of financing and constructing a facility to transfer cargo containers between trucks and railroad cars. The POLA contributed \$2.5 million to the ICTF as part of the agreement. The facility, which began operations in December 1986, was developed by Southern Pacific Transportation Company (SPTC, subsequently a wholly owned subsidiary of Union Pacific Corporation), which operates the facility under a long-term lease agreement. The POLA appoints two members of the ICTF's five-member governing board and accounts for its investment using the equity method. Both the POLA and POLB share income and equity distributions equally.

Pursuant to an indenture of trust dated November 1, 1984, the ICTF issued \$53.9 million in bonds (1984 Bonds) on behalf of the SPTC to construct the facility. In 1989, the ICTF issued \$52.3 million in refunding bonds (1989 Bonds) on behalf of the SPTC to advance refund all of the 1984 Bonds. In 1999, the ICTF, on behalf of the SPTC, again issued \$42.9 million of refunding bonds (1999 Bonds) to advance refund all of the 1989 Bonds. The 1999 Bonds are payable solely from payments by the SPTC under the lease agreement for use of the facility. The nature of the bonds is such that the indebtedness is that of the SPTC and not of the ICTF, nor the POLA, nor POLB.

The ICTF's operations are financed from lease revenues by ICTF activities. The ICTF is empowered to perform those actions necessary for the development of the facility, including acquiring, constructing, leasing, and selling any of its property. The Port's share of the ICTF's net position at June 30, 2013 and 2012 totaled \$5.1 million and \$5.0 million, respectively. Separate financial statements for ICTF may be obtained from the Executive Director, Port of Long Beach, 925 Harbor Plaza, Long Beach, California 90802.

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B. Alameda Corridor Transportation Authority

In August 1989, the POLA and the Port of Long Beach (the POLB and, together with the POLA, the Ports) entered into a joint exercise of powers agreement and formed the Alameda Corridor Transportation Authority (ACTA) 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 Harbor and Long Beach Freeways and the POLA and POLB in San Pedro Bay linking the two ports to the central Los Angeles area.

The POLA has no share of the ACTA's net assets and income at June 30, 2013 and 2012, and accordingly, they have not been recorded in the accompanying financial statements. If in the future, ACTA become entitled to distribute income or make equity distributions, The Ports shall share such income and equity distributions equally. If ACTA revenues are insufficient to pay ACTA debt obligations, the POLA will severally but not jointly with the POLB pay up to 20% of any shortfall of that obligation on an annual basis. Any payments made to ACTA are in the form of an advance and subordinated to other obligations of the POLA. The POLA paid \$3.0 million in shortfall payments each in fiscal years 2013 and 2012. Shortfall payments beyond fiscal year 2013 are not expected to occur until fiscal year 2020, at which time, payments are projected to be made each year over a four-year period. The Port does not expect that the projected future shortfall payments will have a material effect on its financial statements.

Separate financial statements for ACTA may be obtained from the Chief Financial Officer, Alameda Corridor Transportation Authority, One Civic Plaza Drive, Suite 350, Carson, California 90745.

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7. Long-Term Liabilities

A. Bonded Debt, Commercial Paper and Other Indebtedness

The Port's activities for bonded debt, commercial paper and other indebtedness for fiscal year 2013 are as follows (in thousands):

Parity Bonds	Call Provisions	Date of Issue	Interest Rate	Fiscal Maturity Year	Original Principal	Beginning Balance July 1, 2012	Additions	Deductions	Ending Balance June 30, 2013	Principal Due Within One Year
Issue 2002, Series A	8/1/2012 @ 100%	5/6/2002	5.25% – 5.50%	2016	\$ 63,520	\$ 24,290	\$ --	\$ (24,290)	\$ --	\$ --
Issue 2005, Series A	8/1/2015 @ 102%	10/13/2005	3.25% – 5.00%	2027	29,930	28,370	--	(1,315)	27,055	1,370
Issue 2005, Series B	8/1/2015 @ 102%	10/13/2005	3.00% – 5.00%	2027	30,110	26,720	--	(1,280)	25,440	1,345
Issue 2005, Series C-1	8/1/2015 @ 102%	10/13/2005	4.00% – 5.00%	2018	43,730	7,880	--	--	7,880	--
Issue 2006, Series A	8/1/2016 @ 102%	5/4/2006	5.00%	2027	200,710	50,130	--	--	50,130	--
Issue 2006, Series B	8/1/2016 @ 102%	8/3/2006	5.00%	2027	209,815	93,425	--	(3,325)	90,100	6,000
Issue 2006, Series C	8/1/2016 @ 102%	8/3/2006	5.00%	2026	16,545	14,310	--	(730)	13,580	765
Issue 2006, Series D	8/1/2014 @ 102%	8/31/2006	4.50% – 5.00%	2037	111,300	80,275	--	(2,115)	78,160	2,225
Issue 2009, Series A	8/1/2019 @ 100%	7/9/2009	2.00% – 5.25%	2029	100,000	93,335	--	(3,465)	89,870	3,580
Issue 2009, Series B	8/1/2019 @ 100%	7/9/2009	5.25%	2040	100,000	100,000	--	--	100,000	--
Issue 2009, Series C	8/1/2019 @ 100%	7/9/2009	4.00% – 5.25%	2032	230,160	229,640	--	(12,865)	216,775	10,950
Issue 2011, Series A	8/1/2021 @ 100%	7/7/2011	3.00% – 5.00%	2023	58,930	58,930	--	--	58,930	--
Issue 2011, Series B	8/1/2021 @ 100%	7/7/2011	4.00% – 5.00%	2026	32,820	32,820	--	--	32,820	--
Total parity bonds					<u>\$ 1,227,570</u>	840,125	--	(49,385)	790,740	26,235
Unamortized bond (discount) premium						33,363	--	(2,973)	30,390	--
Net parity bonds						<u>873,488</u>	--	<u>(52,358)</u>	821,130	26,235
Commercial paper notes						100,000	--	--	100,000	--
Loans - Dept. of Boating and Waterways (DBW)										
C#82-21-148			4.50%	2014	\$ 4,000	562	--	(562)	--	--
C#83-21-147			4.50%	2015	4,000	804	--	(804)	--	--
Total loans					<u>\$ 8,000</u>	1,366	--	(1,366)	--	--
Less: current maturities of long-term debt						(31,816)	(26,235)	31,816	(26,235)	--
Total long-term debt net of current maturities						<u>\$ 943,038</u>	<u>\$ (26,235)</u>	<u>\$ (21,908)</u>	<u>\$ 894,895</u>	<u>\$ 26,235</u>

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The Port's activities for bonded debt, commercial paper and other indebtedness for fiscal year 2012 are as follows (in thousands):

Parity Bonds	Call Provisions	Date of Issue	Interest Rate	Fiscal Maturity Year	Original Principal	Beginning Balance July 1, 2011	Additions	Deductions	Ending Balance June 30, 2012	Principal Due Within One Year
Issue 2001, Series A	8/1/2011 @ 100%	7/11/2001	5.00%	2026	\$ 36,180	\$ 36,180	\$ --	\$ (36,180)	\$ --	\$ --
Issue 2001, Series B	8/1/2011 @ 100%	7/11/2001	5.25% - 5.50%	2023	64,925	64,925	--	(64,925)	--	--
Issue 2002, Series A	8/1/2012 @ 100%	5/6/2002	5.25% - 5.50%	2016	63,520	30,155	--	(5,865)	24,290	6,190
Issue 2005, Series A	8/1/2015 @ 102%	10/13/2005	3.25% - 5.00%	2027	29,930	29,655	--	(1,285)	28,370	1,315
Issue 2005, Series B	8/1/2015 @ 102%	10/13/2005	3.00% - 5.00%	2027	30,110	27,935	--	(1,215)	26,720	1,280
Issue 2005, Series C-1	8/1/2015 @ 102%	10/13/2005	4.00% - 5.00%	2018	43,730	23,170	--	(15,290)	7,880	--
Issue 2006, Series A	8/1/2016 @ 102%	5/4/2006	5.00%	2027	200,710	50,930	--	(800)	50,130	--
Issue 2006, Series B	8/1/2016 @ 102%	8/3/2006	5.00%	2027	209,815	93,425	--	--	93,425	3,325
Issue 2006, Series C	8/1/2016 @ 102%	8/3/2006	5.00%	2026	16,545	15,010	--	(700)	14,310	730
Issue 2006, Series D	8/1/2014 @ 102%	8/31/2006	4.50% - 5.00%	2037	111,300	81,685	--	(1,410)	80,275	2,115
Issue 2009, Series A	8/1/2019 @ 100%	7/9/2009	2.00% - 5.25%	2029	100,000	96,700	--	(3,365)	93,335	3,465
Issue 2009, Series B	8/1/2019 @ 100%	7/9/2009	5.25%	2040	100,000	100,000	--	--	100,000	--
Issue 2009, Series C	8/1/2019 @ 100%	7/9/2009	4.00% - 5.25%	2032	230,160	230,160	--	(520)	229,640	12,865
Issue 2011, Series A	8/1/2021 @ 100%	7/7/2011	3.00% - 5.00%	2023	58,930	--	58,930	--	58,930	--
Issue 2011, Series B	8/1/2021 @ 100%	7/7/2011	4.00% - 5.00%	2026	32,820	--	32,820	--	32,820	--
Total parity bonds					<u>\$ 1,328,675</u>	<u>879,930</u>	<u>91,750</u>	<u>(131,555)</u>	<u>840,125</u>	<u>31,285</u>
Unamortized bond (discount) premium						25,521	10,222	(2,380)	33,363	--
Net parity bonds						<u>905,451</u>	<u>101,972</u>	<u>(133,935)</u>	<u>873,488</u>	<u>31,285</u>
Commercial paper notes						100,000	--	--	100,000	--
Loans - Dept. of Boating and Waterways (DBW)										
C#82-21-148			4.50%	2014	\$ 4,000	825	--	(263)	562	275
C#83-21-147			4.50%	2015	4,000	1,049	--	(245)	804	256
Total loans					<u>\$ 8,000</u>	<u>1,874</u>	<u>--</u>	<u>(508)</u>	<u>1,366</u>	<u>531</u>
Less: current maturities of long-term debt						(30,958)	(31,816)	30,958	(31,816)	--
Total long-term debt net of current maturities						<u>\$ 976,367</u>	<u>\$ 70,156</u>	<u>\$ (103,485)</u>	<u>\$ 943,038</u>	<u>\$ 31,816</u>

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B. Bond Premium and Discount

Original bond discount or premium is amortized over the life of the bonds. At the time of bond refunding, the unamortized discount or premium is amortized over the life of the refunded bonds or the life of the refunding bonds, whichever is shorter. The unamortized discount or premium for the outstanding bonds for fiscal years 2013 and 2012 are as follows (in thousands):

Harbor Revenue Bonds	2013 (Discount) Premium	2012 (Discount) Premium
Issue of 2002, Series A	\$ --	\$ 556
Issue of 2005, Series A	1,260	1,356
Issue of 2005, Series B	1,287	1,385
Issue of 2005 Series C-1	829	1,031
Issue of 2006, Series A	1,865	2,008
Issue of 2006, Series B	2,912	3,135
Issue of 2006, Series C	649	703
Issue of 2006, Series D	2,238	2,335
Issue of 2009, Series A	2,350	2,497
Issue of 2009, Series B	(2,025)	(2,103)
Issue of 2009, Series C	10,447	11,024
Issue of 2011, Series A	5,410	6,006
Issue of 2011, Series B	3,168	3,430
Total	<u>\$ 30,390</u>	<u>\$ 33,363</u>

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C. Principal Maturities and Interest

The Port's scheduled annual debt service payments for bonded debt and other indebtedness are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2014	\$ 26,235	\$ 39,089	\$ 65,324
2015	27,270	37,812	65,082
2016	31,505	36,387	67,892
2017	37,970	34,713	72,683
2018	40,300	32,808	73,108
2019 – 2023	232,470	131,232	363,702
2024 – 2028	228,820	66,845	295,665
2029 – 2033	65,180	34,722	99,902
2034 – 2038	76,700	15,897	92,597
2039 – 2040	24,290	1,292	25,582
Subtotal	790,740	430,797	1,221,537
Unamortized bond premium (discount), net	30,390	--	30,390
Current maturities of long-term debt	(26,235)	--	(26,235)
Total	<u>\$ 794,895</u>	<u>\$ 430,797</u>	<u>\$ 1,225,692</u>

The above schedule does not include the debt service requirements for the commercial paper notes in the amount of \$100.0 million at June 30, 2013.

D. Summary of the Port's Bonded Indebtedness and Pledged Revenues

2002 Series A Refunding Bonds

The 2002 Series A Refunding Bonds were issued in the aggregate principal amount of \$63.5 million on May 6, 2002, on a crossover basis, to advance refund \$64.1 million of the outstanding 1995 Series B Bonds. The 2002 Series A Refunding Bonds were redeemed on August 1, 2012.

2005 Series A Refunding Bonds

The 2005 Series A Refunding Bonds were issued on October 13, 2005 in the aggregate principal amount of \$29.9 million to advance refund, on a crossover basis, \$30.9 million of the 1996 Series A Bonds on their call date (the Crossover Date) of August 1, 2006.

Interest on the 2005 Series A Refunding Bonds is payable semiannually on February 1 and August 1 of each year commencing February 1, 2006. The 2005 Series A Bonds with maturity dates ranging from August 1, 2010 to 2026 bear coupon interest rates from 3.25% to 5.00%.

The bonds maturing on or after August 1, 2016 are subject to optional redemption prior to their stated maturities at the redemption price of 102% if they are redeemed during the period from August 1, 2015 to July 31, 2016.

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At June 30, 2013 and 2012, the outstanding balances of the 2005 Series A Refunding Bonds, plus the unamortized premium of \$1.3 million and \$1.4 million, were \$28.3 million and \$29.7 million, respectively.

Debt service of the Port's 2005 Series A Refunding Bonds are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2014	\$ 1,370	\$ 1,310	\$ 2,680
2015	1,435	1,248	2,683
2016	1,510	1,175	2,685
2017	1,590	1,097	2,687
2018	1,670	1,016	2,686
2019 – 2023	9,730	3,702	13,432
2024 – 2027	9,750	1,006	10,756
Subtotal	27,055	10,554	37,609
Unamortized premium	1,260	--	1,260
Total	<u>\$ 28,315</u>	<u>\$ 10,554</u>	<u>\$ 38,869</u>

2005 Series B Refunding Bonds

The 2005 Series B Refunding Bonds were issued on October 13, 2005 in the aggregate principal amount of \$30.1 million, on a crossover basis, to advance refund \$31.7 million of the 1996 Series B Bonds on their call date of November 1, 2006 (the Crossover Date).

Interest on the 2005 Series B Bonds is payable semiannually on February 1 and August 1 of each year, commencing February 1, 2006. The 2005 Series B Refunding Bonds with maturity dates ranging from August 1, 2008 to 2026 bear coupon interest rates from 3.00% to 5.00%.

The bonds maturing on or after August 1, 2016 are subject to optional redemption prior to their stated maturities at the redemption price of 102% if they are redeemed during the period from August 1, 2015 to July 31, 2016.

At June 30, 2013 and 2012, the outstanding balances of the 2005 Series B Refunding Bonds, plus the unamortized premium of \$1.3 million and \$1.4 million, were \$26.7 million and \$28.1 million, respectively.

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Debt service of the Port's 2005 Series B Refunding Bonds are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2014	\$ 1,345	\$ 1,232	\$ 2,577
2015	1,415	1,169	2,584
2016	1,490	1,097	2,587
2017	1,565	1,020	2,585
2018	1,640	940	2,580
2019 – 2023	9,575	3,347	12,922
2024 – 2027	8,410	783	9,193
Subtotal	25,440	9,588	35,028
Unamortized premium	1,287	--	1,287
Total	<u>\$ 26,727</u>	<u>\$ 9,588</u>	<u>\$ 36,315</u>

2005 Series C-1 Refunding Bonds

The 2005 Series C-1 Refunding Bonds, associated with the purchase on the open market of the purchased 1996 Bonds, were issued on October 13, 2005 in the aggregate principal amount of \$43.7 million.

Interest on the 2005 Series C-1 Refunding Bonds is payable semiannually on February 1 and August 1 of each year, commencing February 1, 2006. The 2005 Series C-1 Bonds with maturity dates ranging from August 1, 2006 to August 1, 2017 bear coupon interest rates from 4.00% to 5.00%.

The bonds maturing on or after August 1, 2017 shall be subject to optional redemption prior to their stated maturities at the redemption price of 102% if they are redeemed during the period from August 1, 2015 to July 31, 2016.

The 2005 Series C-2 Refunding Bonds were issued for \$4.1 million to pay certain issuance costs. The 2005 Series C-2 Bonds Refunding Bonds were sold with a coupon rate of 4.75%.

To take advantage of the American Recovery and Reinvestment Act (ARRA) of 2009, the Port issued the 2009 Series C (Non-AMT) Refunding Bonds in an aggregate amount of \$230.2 million on July 9, 2009. A portion of the Refunding bond proceeds was to provide funds to refund \$2.7 million of the 2005 Series C-1 AMT Bonds.

The outstanding balances of the 2005 Series C-1 Refunding Bonds, net of unamortized premium of \$0.8 million and \$1.0 million, were \$8.7 million and \$8.9 million at June 30, 2013 and 2012, respectively.

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Debt service of the Port's 2005 Series C-1 Refunding Bonds are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2014	\$ --	\$ 389	\$ 389
2015	470	380	850
2016	--	371	371
2017	--	371	371
2018	7,410	185	7,595
Subtotal	7,880	1,696	9,576
Unamortized premium	829	--	829
Total	<u>\$ 8,709</u>	<u>\$ 1,696</u>	<u>\$ 10,405</u>

The 2005 Series A, B, and C refunding transactions resulted in an economic gain of \$4.0 million and a cash savings of \$6.1 million.

2006 Series A Refunding Bonds

The 2006 Series A Refunding Bonds were issued on May 4, 2006 in the aggregate principal amount of \$200.7 million, on a forward-delivery basis, to currently refund \$202.7 million of the 1996A Bonds. The 2006 Series A refunding transactions resulted in an economic gain of \$27.7 million and cash savings of \$44.8 million.

Interest on the 2006 Series A Refunding Bonds is payable semiannually on February 1 and August 1 of each year. Principal and interest are payable commencing August 1, 2006. The 2006 Series A Bonds bear a coupon interest rate of 5.00% with maturity dates ranging from August 1, 2006 to August 1, 2026.

The bonds maturing on or after August 1, 2017 shall be subject to optional redemption prior to their maturities at the redemption price of 102% if they are redeemed during the period from August 1, 2016 to July 31, 2017.

To take advantage of the ARRA, the Port issued the 2009 Series C (Non-AMT) Refunding Bonds on July 9, 2009. A portion of the 2009 Refunding Bond proceeds was to provide funds to refund \$121.1 million of the 2006 Series A AMT Bonds.

At June 30, 2013 and 2012, the outstanding balances of the 2006 Series A Refunding Bonds, net of unamortized premium of \$1.9 million and \$2.0 million, were \$52.0 million and \$52.2 million, respectively.

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Debt service of the Port's 2006 Series A Bonds are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2014	\$ --	\$ 2,507	\$ 2,507
2015	1,370	2,472	3,842
2016	--	2,438	2,438
2017	195	2,433	2,628
2018	8,930	2,205	11,135
2019 – 2023	22,920	6,319	29,239
2024 – 2026	16,715	1,254	17,969
Subtotal	50,130	19,628	69,758
Unamortized premium	1,865	–	1,865
Total	<u>\$ 51,995</u>	<u>\$ 19,628</u>	<u>\$ 71,623</u>

2006 Series B Refunding Bonds

The 2006 Series B Refunding Bonds were issued on August 3, 2006 in the aggregate principal amount of \$209.8 million, on a forward-delivery basis, to currently refund \$211.9 million of the 1996 Series B Bonds. The 2006 Series B refunding transactions resulted in an economic gain of \$18.9 million and cash savings of \$34.7 million.

Interest on the 2006 Series B Refunding Bonds is payable semiannually on February 1 and August 1 of each year. The 2006 Series B Bonds bear a coupon interest rate of 5.00% with maturity dates ranging from August 1, 2007 to August 1, 2026.

The bonds maturing on or after August 1, 2017 shall be subject to optional redemption prior to their maturities at the redemption price of 102% if they are redeemed during the period from August 1, 2016 to July 31, 2017.

To take advantage of the ARRA, the Port issued the 2009 Series C (Non-AMT) Refunding Bonds on July 9, 2009. A portion of the 2009 Refunding Bond proceeds was to provide funds to refund \$94.1 million of the 2006 Series B AMT Bonds.

The outstanding balances of the 2006 Series B Refunding Bonds, net of unamortized premium of \$2.9 million and \$3.1 million, were \$93.0 million and \$96.6 million at June 30, 2013 and 2012, respectively.

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Debt service of the Port's 2006 Series B Refunding Bonds are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2014	\$ 6,000	\$ 4,355	\$ 10,355
2015	--	4,205	4,205
2016	11,540	3,917	15,457
2017	12,140	3,325	15,465
2018	3,095	2,944	6,039
2019 – 2023	57,095	6,023	63,118
2024 – 2026	230	29	259
Subtotal	90,100	24,798	114,898
Unamortized premium	2,912	--	2,912
Total	\$ 93,012	\$ 24,798	\$ 117,810

2006 Series C Refunding Bonds

The 2006 Series C Refunding Bonds were issued on August 3, 2006 in the aggregate principal amount of \$16.5 million, on a forward-delivery basis, to currently refund \$17.1 million of the 1996 Series C Bonds. The refunding transactions resulted in an economic gain of \$1.2 million and cash savings of \$1.6 million.

Interest on the 2006 Series C Refunding Bonds is payable semiannually on February 1 and August 1 of each year. The 2006 Series C Refunding Bonds bear coupon interest at a rate of 5.00% with maturity dates ranging from August 1, 2008 to August 1, 2025.

The bonds maturing on or after August 1, 2017 shall be subject to optional redemption prior to their maturities at the redemption price of 102% if they are redeemed during the period from August 1, 2016 to July 31, 2017.

The outstanding balances of the 2006 Series C Refunding Bonds, net of unamortized premium of \$0.6 million and \$0.7 million, were \$14.2 million and \$15.0 million at June 30, 2013 and 2012, respectively.

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Debt service of the Port's 2006 Series C Refunding Bonds are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2014	\$ 765	\$ 660	\$ 1,425
2015	810	621	1,431
2016	850	579	1,429
2017	895	535	1,430
2018	930	490	1,420
2019 – 2023	5,415	1,681	7,096
2024 – 2026	3,915	299	4,214
Subtotal	13,580	4,865	18,445
Unamortized premium	649	--	649
Total	<u>\$ 14,229</u>	<u>\$ 4,865</u>	<u>\$ 19,094</u>

2006 Series D Refunding Bonds

The 2006 Series D Refunding Bonds were issued on August 31, 2006 in the aggregate principal amount of \$111.3 million, to refund \$113.6 million of Commercial Paper Notes.

Interest on the 2006 Series D Refunding Bonds is payable semiannually on February 1 and August 1 of each year. The 2006 Series D Bonds bear coupon interest at rates ranging from 4.5% to 5.00% with maturity dates from August 1, 2007 to August 1, 2036.

The bonds maturing on or after August 1, 2015 are subject to optional redemption prior to their stated maturities at the redemption price of 101% if they are redeemed during the period from August 1, 2014 to July 31, 2015.

To take advantage of the American Recovery and Reinvestment Act of 2009 (ARRA), the Port issued the 2009 Series C (Non-AMT) Refunding Bonds on July 9, 2009. A portion of the Refunding Bonds was to provide funds to refund \$22.5 million of the 2006 Series D AMT Bonds.

The outstanding balances of the 2006 Series D Refunding Bonds, plus the unamortized premium of \$2.2 million and \$2.3 million were \$80.4 million and \$82.6 million at June 30, 2013 and 2012, respectively.

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Debt service of the Port's 2006 Series D Refunding Bonds are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2014	\$ 2,225	\$ 3,783	\$ 6,008
2015	2,335	3,669	6,004
2016	400	3,601	4,001
2017	1,500	3,553	5,053
2018	2,615	3,451	6,066
2019 – 2023	15,765	15,038	30,803
2024 – 2028	7,615	12,071	19,686
2029 – 2033	19,880	9,016	28,896
2034 – 2037	25,825	2,571	28,396
Subtotal	78,160	56,753	134,913
Unamortized premium	2,238	--	2,238
Total	\$ 80,398	\$ 56,753	\$ 137,151

2009 Series A New Money Bonds

The 2009 Series A New Money Bonds were issued on July 9, 2009 in the aggregate principal amount of \$100.0 million, in accordance with ARRA. The Bonds were issued to (i) finance certain Private Activity Projects; (ii) fund a debt service reserve fund with respect to the 2009A Bonds; and (iii) pay the costs incidental to the issuance of the 2009A Bonds.

Interest on the 2009 Series A Bonds is payable semiannually on February 1 and August 1 of each year, commencing August 1, 2009. The Bonds bear coupon interest at rates ranging from 2.00% to 5.25% with maturity dates from August 1, 2010 to August 1, 2029.

The Bonds with stated maturities on or after August 1, 2020 shall be subject to optional redemption prior to their maturities on or after August 1, 2019 without early redemption premium. The Bonds are not subject to mandatory sinking fund redemption.

The outstanding balances of the 2009 Series A Bonds, net of unamortized premium of \$2.4 million and \$2.5 million, were \$92.2 million and \$95.8 million at June 30, 2013 and 2012, respectively.

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Debt service of the Port's 2009 Series A Bonds are as follows (in thousands):

Fiscal year	Principal	Interest	Total
2014	\$ 3,580	\$ 4,319	\$ 7,899
2015	3,720	4,154	7,874
2016	3,905	3,969	7,874
2017	4,095	3,794	7,889
2018	4,255	3,627	7,882
2019 – 2023	24,280	14,963	39,243
2024 – 2028	31,215	7,833	39,048
2029 – 2032	14,820	750	15,570
Subtotal	89,870	43,409	133,279
Unamortized premium	2,350	--	2,350
Total	<u>\$ 92,220</u>	<u>\$ 43,409</u>	<u>\$ 135,629</u>

2009 Series B New Money Bonds

Along with the issuance of the 2009 Series A New Money Bonds, the Port issued its 2009 Series B Bonds in the aggregate principal amount of \$100.0 million in accordance with the ARRA of 2009. The Bonds were issued to (i) finance certain Governmental Projects in Fiscal Years 2009 and 2010; (ii) fund a debt service reserve fund with respect to the 2009B Bonds; and (iii) pay the costs incidental to the issuance of the 2009B Bonds.

Interest on the 2009 Series B Bonds is payable semiannually on February 1 and August 1 of each year, commencing August 1, 2009. The Bonds bear a coupon interest rate at 5.25% with maturity dates from August 1, 2030 to August 1, 2039.

The Bonds with stated maturities on or after August 1, 2020 shall be subject to optional redemption on or after August 1, 2019 without early redemption premium. The Bonds maturing on August 1, 2034 (the 2009B 2034 Term Bonds) and on August 1, 2039 (the 2009B 2039 Term Bonds) are subject to mandatory sinking fund redemption.

The outstanding balance of the 2009 Series B Bonds, net of unamortized discount of \$2.0 million and \$2.1 million were \$98.0 million and \$97.9 million at June 30, 2013 and 2012, respectively.

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Debt service of the Port's 2009 Series B Bonds are as follows (in thousands):

Fiscal year	Principal	Interest	Total
2014	\$ --	\$ 5,250	\$ 5,250
2015	--	5,250	5,250
2016	--	5,250	5,250
2017	--	5,250	5,250
2018	--	5,250	5,250
2019 – 2023	--	26,250	26,250
2024 – 2028	--	26,250	26,250
2029 – 2033	24,835	24,339	49,174
2034 – 2038	50,875	13,326	64,201
2039 – 2040	24,290	1,292	25,582
Subtotal	100,000	117,707	217,707
Unamortized discount	(2,025)	--	(2,025)
Total	<u>\$ 97,975</u>	<u>\$ 117,707</u>	<u>\$ 215,682</u>

2009 Series C Refunding Bonds

Contemporaneously with the issuance of the 2009 Series A and Series B New Money Bonds, the Port issued the 2009 Series C Refunding Bonds in the aggregate principal amount of \$230.2 million. The Bonds were issued to provide funds for the purchase of certain maturities of the Department's outstanding (i) Refunding Revenue Bonds 2005 Series C-1 (AMT) of \$2.7 million, (ii) Refunding Revenue Bonds 2006 Series A (AMT) of \$121.1 million, (iii) Refunding Revenue Bonds 2006 Series B (AMT) of \$94.1 million, and (iv) Revenue Bonds 2006 Series D (AMT) of \$22.5 million. The refunding transactions resulted in a reduction of \$12.7 million in future debt service payments and the net present value benefit of \$8.2 million.

Interest on the 2009 Series C Refunding Bonds is payable semiannually on February 1 and August 1 of each year, commencing August 1, 2009. The Bonds bear coupon interest rates ranging from 4.00% to 5.25% with maturity dates from August 1, 2011 to August 1, 2031.

The Bond maturing on August 1, 2021, which bears coupon interest at 5.25% per annum, and the Bonds maturing on or after August 1, 2022 are subject to optional redemption prior to their respective stated maturities without early redemption premium. The Bonds maturing on August 1, 2031 (the Term Bonds) are subject to mandatory sinking fund redemption.

The outstanding balances of the 2009 Series C Refunding Bonds, plus the unamortized premium of \$10.4 million and \$11.0 million, were \$227.2 million and \$240.7 million at June 30, 2013 and 2012, respectively.

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Debt service of the Port's 2009 Series C Bonds are as follows (in thousands):

Fiscal year	Principal	Interest	Total
2014	\$ 10,950	\$ 10,762	\$ 21,712
2015	15,715	10,122	25,837
2016	9,675	9,500	19,175
2017	8,860	9,055	17,915
2018	2,265	8,786	11,051
2019 – 2023	44,295	40,481	84,776
2024 – 2028	119,370	14,925	134,295
2029 – 2032	5,645	617	6,262
Subtotal	216,775	104,248	321,023
Unamortized premium	10,447	--	10,447
Total	<u>\$ 227,222</u>	<u>\$ 104,248</u>	<u>\$ 331,470</u>

2011 Series A Refunding Bonds

The 2011 Series A Refunding Bonds were issued in 2011 in the aggregate principal amount of \$58.9 million to refund the outstanding principal of \$64.9 million of the 2001 Series B Refunding Bonds. The refunding transaction resulted in cash flow savings of \$10.7 million and economic gain of \$8.6 million over the life of the bonds.

Interest on the 2011 Series A Refunding Bonds is payable semiannually on February 1 and August 1 of each year starting from August 1, 2012. The bonds bear interest at coupon rates from 3.00% to 5.00% with maturity dates ranging from August 2015 to 2022.

The 2011 Series A Refunding Bonds are subject to optional redemption on or after August 1, 2021 without early redemption premium. Principal and interests on these bonds are payable solely from Harbor revenues and other amounts pledged under the indenture.

The outstanding balance of the 2011 Series A Refunding Bonds, net of unamortized premium of \$5.4 million and \$6.0 million, were \$64.3 million and \$64.9 million at June 30, 2013 and 2012, respectively.

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Debt service of the Port's 2011 Series A Refunding Bonds are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2014	\$ --	\$ 2,904	\$ 2,904
2015	--	2,904	2,904
2016	2,135	2,872	5,007
2017	7,130	2,662	9,792
2018	7,490	2,296	9,786
2019 – 2023	42,175	5,361	47,536
Subtotal	58,930	18,999	77,929
Unamortized premium	5,410	--	5,410
Total	<u>\$ 64,340</u>	<u>\$ 18,999</u>	<u>\$ 83,339</u>

2011 Series B Refunding Bonds

The 2011 Series B Refunding Bonds were issued in 2011 in the aggregate principal amount of \$32.8 million to refund the outstanding principal of \$36.2 million of the 2001 Series A Refunding Bonds. The refunding transaction resulted in cash flow savings of \$5.7 million and economic gain of \$4.0 million.

Interest on the 2011 Series B Refunding Bonds is payable semiannually on February 1 and August 1 of each year starting from February 1, 2012. The bonds bear coupon interest rates from 4.00% to 5.00% with maturity dates ranging from August 2022 to 2025.

The 2011 Series B Refunding Bonds are subject to optional redemption on or after August 1, 2021 without early redemption premium. Principal and interests on these bonds are payable solely from Harbor revenues and other amounts pledged under the indenture.

The outstanding balance of the 2011 Series B Refunding Bonds, net of unamortized premium of \$3.2 million and \$3.4 million, were \$36.0 million and \$36.2 million at June 30, 2013 and 2012, respectively.

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Debt service of the Port's 2011 Series B Refunding Bonds are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2014	\$ --	\$ 1,618	\$ 1,618
2015	--	1,618	1,618
2016	--	1,618	1,618
2017	--	1,618	1,618
2018	--	1,618	1,618
2019 – 2023	1,220	8,067	9,287
2024 – 2027	31,600	2,395	33,995
Subtotal	32,820	18,552	51,372
Unamortized premium	3,168	--	3,168
Total	<u>\$ 35,988</u>	<u>\$ 18,552</u>	<u>\$ 54,540</u>

E. Commercial Paper

In June 2009, the Port established a Commercial Paper program (Program) to issue commercial paper notes (Notes) to provide interim financing primarily for the construction, maintenance, and replacement of the Port's structures, facilities, and equipment needs. The Program was initiated at an aggregate amount of \$100.0 million. The Program was amended in June 2010 to increase the credit limit to \$200.0 million and extended the term to July 29, 2012. In June 2012, the Port increased the credit limit to \$250.0 million, and extended the term to July 2015. As of June 30, 2013 and 2012, the total amount outstanding was \$100.0 million. Funds were used to finance the China Shipping and TraPac Container Terminal Projects. The Notes issued are being remarketed upon maturity and will be refunded through the issuance of long term bonds, and are thus classified as long-term liabilities.

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F. Loans From California Department of Boating and Waterways

The Port obtained two thirty year loans in the mid-1980s aggregating \$8.0 million from the California Department of Boating and Waterways. The notes bear a fixed rate of interest of 4.5%. The Port's obligation with respect to the payment of such notes is subordinate to the lien of the Port's parity obligations on the Harbor Revenue Funds. The Port paid both loans in full on October 31, 2012.

G. Current Year and Prior Years' Defeasance of Debt

The Port defeased certain bonds by placing the proceeds of the new bonds in irrevocable trusts to provide for all future debt service payments on old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the Port's financial statements.

The Port has outstanding bonds in the defeasance escrows held by the trustee at June 30, 2013 and 2012 of \$54.3 million and \$61.3 million, respectively.

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8. Changes in Long-Term Liabilities

The changes in the Port's long-term liabilities for the year ended June 30, 2013 are as follows (in thousands):

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013	Due within one year
Revenue bonds	\$ 840,125	\$ --	\$ (49,385)	\$ 790,740	\$ 26,235
Less unamortized discount/ premium	33,363	--	(2,973)	30,390	--
Net revenue bonds	873,488	--	(52,358)	821,130	26,235
Commercial paper	100,000	--	--	100,000	--
Notes payable	1,366	--	(1,366)	--	--
Accrued salaries	1,862	124,452	(122,040)	4,274	4,274
Compensated absences	8,856	20,733	(20,203)	9,386	9,386
Accrued employee benefits	8,269	122,152	(120,952)	9,469	801
Litigation	465	133	(157)	441	441
Workers compensation	13,639	4,700	(3,164)	15,175	1,939
Pollution remediation	104,599	11,688	(16,926)	99,361	12,520
Deposits	9,596	3,910	(568)	12,938	--
Net pension obligation	3,040	--	(149)	2,891	--
Others	43,702	117,035	(121,607)	39,130	37,383
Total long-term liabilities	<u>\$ 1,168,882</u>	<u>\$ 404,803</u>	<u>\$ (459,490)</u>	<u>\$ 1,114,195</u>	<u>\$ 92,979</u>

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The changes in the Port's long-term liabilities for the year ended June 30, 2012 are as follows (in thousands):

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012	Due within one year
Revenue bonds	\$ 879,930	\$ 91,750	\$ (131,555)	\$ 840,125	\$ 31,285
Less unamortized discount/ premium	25,521	10,222	(2,380)	33,363	--
Net revenue bonds	905,451	101,972	(133,935)	873,488	31,285
Commercial paper	100,000	--	--	100,000	--
Notes payable	1,874	--	(508)	1,366	531
Accrued salaries	4,548	112,004	(114,690)	1,862	1,862
Compensated absences	8,366	27,490	(27,000)	8,856	8,856
Accrued employee benefits	8,049	110,397	(110,177)	8,269	68
Litigation	475	115	(125)	465	465
Workers compensation	7,858	7,507	(1,726)	13,639	1,807
Pollution remediation	101,922	7,544	(4,867)	104,599	6,513
Deposits	9,606	125	(135)	9,596	--
Net pension obligation	3,040	--	--	3,040	--
Others	55,876	15,740	(27,914)	43,702	41,989
Total long-term liabilities	<u>\$ 1,207,065</u>	<u>\$ 382,894</u>	<u>\$ (421,077)</u>	<u>\$ 1,168,882</u>	<u>\$ 93,376</u>

9. GASB 49 Pollution Remediation Obligations

The Port's estimated pollution remediation liability as of June 30, 2013 and 2012 totaled \$99.4 million and \$104.6 million, respectively. These costs relate mostly to soil and ground water contamination on sites within the Port premises. As certain sites were formerly used for a variety of industrial purposes, legacy contamination or environmental impairments exist. As environmental risks may be managed, the Port has adopted the "Managed Environmental Risk" approach in estimating the remediation liability. The Port uses a combination of in-house specialists as well as outside consultants to perform estimates of potential liability. Certain remediation contracts are included in site development plans as final uses for the sites have been identified.

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The changes in the Port's pollution remediation obligations for fiscal year 2013 are as follows (in thousands):

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013	Due Within One Year
Obligating Event					
Named by regulator as a potential party to remediation	\$ 81,297	\$ 8,147	\$ --	\$ 89,444	\$ 12,320
Voluntary commencement	23,302	218	(13,603)	9,917	200
Total	\$ 104,599	\$ 8,365	\$ (13,603)	\$ 99,361	\$ 12,520
Pollution Type					
Soil and or groundwater remediation	\$ 104,599	\$ 8,365	\$ (13,603)	\$ 99,361	\$ 12,520

The changes in the Port's pollution remediation obligations for fiscal year 2012 are as follows (in thousands):

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012	Due Within One Year
Obligating Event					
Named by regulator as a potential party to remediation	\$ 77,863	\$ 3,434	\$ --	\$ 81,297	\$ 6,151
Voluntary commencement	24,059	351	(1,108)	23,302	362
Total	\$ 101,922	\$ 3,785	\$ (1,108)	\$ 104,599	\$ 6,513
Pollution Type					
Soil and or groundwater remediation	\$ 101,922	\$ 3,785	\$ (1,108)	\$ 104,599	\$ 6,513

A Notice of Violation was issued to the former San Pedro Boat Works and the Port by the Los Angeles County Fire Department to remove, dredge and properly dispose of hazardous chemicals found at the location where the company operated. The Port entered into a Voluntary Cleanup Agreement (VCA) with the Department of Toxic Substances Control (DTSC) to oversee this cleanup. The Port has provided the DTSC with testing results as well as maps of the dredging footprints. A majority of the dredging was conducted in conjunction with the Port's main channel deepening, but one area remains to be dredged to comply with the VCA requirements. The Port is currently developing dredging plans for this remaining area. The cleanup work is expected to be completed in fiscal year 2014 at an estimated total cost of \$0.8 million.

The Port along with BAE Systems (successor to Southwest Marine) were named by the DTSC as parties responsible for remediation of soil and subsea sediment in a contaminated site. Estimated remediation costs as of June 30, 2013 for excavation and off-site disposal of contaminated soil is \$5.0 million.

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The Harbor Toxics Total Maximum Daily Load (Toxics TMDL) integrates all of the Clean Water Act-listed impairments in the Los Angeles Harbor. There are approximately 80 pollutant-water body combinations including but not limited to sediment chemistry and toxicity to fish tissue impairments. The Toxics TMDL establishes load allocations for existing sediments and waste load allocations for inputs such as stormwater runoff. The Toxics TMDL has a 20-year compliance timeline, with several intermediate milestones. The Port estimated cost of \$2.3 million to be incurred for complying with one of these milestones which involves assessment of sediments, water, fish, and pollutant inputs, as well as establishing an implementation plan for remediation action.

The Port was also named by the Regional Water Quality Control Board (RWQCB) as one of the parties responsible for the remediation of a former marine oil terminal at Berths 171-173. As of June 30, 2012, there was an ongoing litigation between the Port and Kinder Morgan Terminals LLC (Kinder Morgan), the current tenant of the site over its cleanup. At the City Council meeting held on April 9, 2013, the City Council approved the Settlement and Release Agreement (Agreement) with Kinder Morgan. Under this Agreement, Kinder Morgan will undertake a dig-and-haul remediation of the polluted site that meets the City's and RWQCB's standards. Related settlements were also concluded with Texaco and ConocoPhillips which should reimburse 25% and 15%, respectively, of the Port's costs to investigate, monitor, and remediate the terminal. The remediation plan calls for excavation and disposal of roughly 0.3 million tons of soil at a cost of approximately \$17.4 million. On June 30, 2013, the estimated remediation cost of \$17.4 million was offset by the 100% recoverable cost of the same amount resulting from these litigation settlements.

In fiscal year 2013, the Port adjusted the outstanding pollution remediation liabilities of \$13.4 million for the Cabrillo Way Marina and the former Kaiser Bulk Loading and Storage. This was reflected as Special Item in the Port's financial statements. Please refer to page 97 for more information on this adjustment.

10. Employee-Deferred Compensation Plan

The City offers a deferred compensation plan created in accordance with Internal Revenue Code Section 457 to its employees, in which Port employees participate, allowing them to defer receipt of income. All amounts deferred by the Port's employees are paid to the City, which in turn pays them to the deferred compensation plan administrator. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts are held in such custodial account for the exclusive benefit of the employee participants and their beneficiaries. Information on the Port employees' share of plan assets is not available and is not recorded in the Port's financial statements.

While the City has full power and authority to administer and to adopt rules and regulations for the plan, all investment decisions under the plan are the responsibility of the plan participants. The City has no liability for losses under the plan, but does have the duty of due care that would be required of an ordinary prudent investor. Under certain circumstances, employees may modify their arrangements with the plan to provide for greater or lesser contributions or to terminate their participation. If participants retire under the plan or terminate service with the City, they may be eligible to receive payments under the plan in accordance with the provisions thereof. In the event of serious financial emergency, the City may approve, upon request, withdrawals from the plan by the participants, along with their allocated contributions.

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11. Risk Management

The Port purchases insurance for a variety of exposures associated with property, automobiles, vessels, railroad, employment practices, travel, police, pilotage, and terrorism. The City is self-insured for workers compensation, and the Port participates in the City's self-insurance program. Third party general liability exposures are self-insured by the Port for \$1.0 million and the excess liability is maintained over the self-insured retention. There have been no settlements in the past three years that have exceeded the Port's insurance coverage.

The actuarially determined accrued liability for workers compensation includes provision for incurred but not reported claims and loss adjustment expenses. The Port's accrued workers compensation liability at June 30, 2013 and 2012 were \$15.2 million and \$13.6 million, respectively.

A number of lawsuits were pending against the Port that arose in the normal course of operations. The Port recognizes a liability for claims and when it is probable that a loss has been incurred and the amount of that loss, including those incurred but not reported, can be reasonably estimated. The City Attorney provides estimates for the amount of liabilities to be probable of occurring from lawsuits. The Port's liability for litigation and other claims at June 30, 2013 and 2012 were \$0.4 million and \$0.5 million, respectively.

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The changes in the Port's estimated claims payable are as follows (in thousands):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Unpaid claims, July 1			
Workers compensation	\$ 13,639	\$ 7,858	\$ 7,858
General liability/litigation	465	475	105
Total unpaid claims, July 1	<u>14,104</u>	<u>8,333</u>	<u>7,963</u>
Provision for current year's events and changes in provision for prior year's events			
Workers compensation	4,700	7,507	1,653
General liability/litigation	133	115	395
Total provision	<u>4,833</u>	<u>7,622</u>	<u>2,048</u>
Claims payments			
Workers compensation	(3,164)	(1,726)	(1,653)
General liability/litigation	(157)	(125)	(25)
Total claims payments	<u>(3,321)</u>	<u>(1,851)</u>	<u>(1,678)</u>
Unpaid claims, June 30			
Workers' compensation	15,175	13,639	7,858
General liability/litigation	441	465	475
Total unpaid claims, June 30	<u>\$ 15,616</u>	<u>\$ 14,104</u>	<u>\$ 8,333</u>
Current portion			
Workers compensation	\$ 1,939	\$ 1,807	\$ 1,302
General liability/litigation	441	465	475
Total current portion	<u>\$ 2,380</u>	<u>\$ 2,272</u>	<u>\$ 1,777</u>

12. Leases, Rentals, and Minimum Annual Guarantee (MAG) Agreements

A substantial portion of the Port lands and facilities are leased to others. The majority of these leases provide for cancellation on a 30-day notice by either party and for retention of ownership by the Port or restoration of the property at the expiration of the agreement; accordingly, no leases are considered capital leases for purposes of financial reporting.

MAG agreements relate to shipping services and certain concessions provide for the additional payment beyond the fixed portion, based upon tenant usage, revenues, or volumes.

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Agreements relating to terminal operations tend to be long term in nature (as long as 30 years) and are made to provide the Port with a firm tenant commitment. These agreements are subject to periodic review and reset of base amounts. For the years ended June 30, 2013 and 2012, the minimum rental income from such lease agreements was approximately \$42.9 million and \$43.1 million, respectively. For the years ended June 30, 2013 and 2012, the MAG payments were approximately \$236.1 million and \$235.1 million, respectively, and were reported under shipping services revenue.

The carrying cost and related accumulated depreciation of property held for operating leases as of June 30, 2013 and 2012 are as follows (in thousands):

	2013	2012
Wharves and sheds	\$ 873,719	\$ 856,960
Cranes and bulk facilities	52,441	52,441
Municipal warehouses	13,431	11,901
Port pilot facilities and equipment	7,820	7,705
Buildings and other facilities	772,172	775,434
Cabrillo Marina	221,557	210,452
Total	1,941,140	1,914,893
Less accumulated depreciation	(939,462)	(879,479)
Net	\$ 1,001,678	\$ 1,035,414

Assuming that current agreements are carried to contractual termination, minimum tenant commitments due to the Port over the next five years are as follows (in thousands):

Fiscal Year Ending	Rental income	MAG income
2014	\$ 43,319	\$ 238,586
2015	43,752	255,679
2016	44,190	255,679
2017	44,631	255,679
2018	45,078	255,679
Total	\$ 220,970	\$ 1,261,302

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13. Los Angeles City Employees Retirement System

A. Retirement Plan Description

All full-time employees of the Port are eligible to participate in the Los Angeles City Employees' Retirement System (LACERS), a single-employer defined benefit pension plan (the Plan). LACERS serves as a common investment and administrative agent for various City departments and agencies that participate in LACERS. The Port makes contributions to LACERS for its pro rata share of retirement costs attributable to its employees. The Port Police joined the Los Angeles Fire and Police Pension system (LAFPP) effective July 1, 2007.

LACERS provides retirement, disability, death benefits, postemployment healthcare benefits, and annual cost-of-living adjustments based on the employees' years of service, age, and final compensation. Employees with ten or more years of service may retire if they are at least 55 years old, or if the retirement date is between October 2, 1996 and September 30, 1999 at age 50 or older with at least 30 years of service. Normal retirement allowances are reduced for employees under age 60 at the time of retirement, unless they have more than 30 years of service and are age 55 or older. Employees aged 70 or above may retire at any time with no required minimum period of service. LACERS does not have a mandatory retirement age.

B. Actuarially Determined LACERS Contribution Requirements and Contributions Made

The Board of Administration of LACERS establishes and may amend the contribution requirements of System members and the City. Covered employees contribute to LACERS at a rate (8.22% to 13.33%) established through the collective bargaining process for those whose membership began prior to January 1, 1983.

For those who entered membership on or after January 1, 1983, the contribution is a fixed rate of 6% of salary. In 2011, the City Council adopted new ordinances that require members of LACERS represented by certain bargaining groups to contribute an additional 2% or 4% of pay beginning April 24, 2011. As a result, LACERS' members' contribution rates at June 30, 2011 are either 6% or 8% of pay. Effective July 1, 2011, contribution rates will be 7%, 9% or 11% of pay, depending upon the terms and conditions of specific Memoranda of Understanding to which the member is subject. Most of the members who contribute 7% or 9% will be required to contribute 11% effective July 1, 2012, and January 1, 2013, respectively.

The City subsidizes member contributions as determined by the actuarial consultant of LACERS. For fiscal year 2013, the contribution rate for LACERS was 24.14% of the City's covered payroll. Based on the Port's reported covered payroll of \$73.7 million for fiscal year 2013, the Port's actual contribution to LACERS, including family death benefit, excess benefit, and limited term plans is \$17.6 million, 100% of the annual required contribution (ARC), \$17.5 million (100% of ARC), and \$17.8 million (100% of ARC) for the fiscal years ended June 30, 2013, 2012, and 2011, respectively. The allocation of contributions between the pension and postemployment healthcare benefits are not available.

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The City's annual pension cost, the percentage of annual pension cost contributed to LACERS, and the net pension obligation for fiscal years ended June 30, 2012, 2011 and 2010 are as follows (amounts in thousands):

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/12	\$ 304,657	101%	\$ (67,990)
06/30/11	300,329	101%	(71,873)
06/30/10	255,999	101%	(75,105)

The City allocated a pro-rata share of its net pension obligation to the Port, and the share of the Port at June 30, 2012 was \$2.9 million.

LACERS issues a publicly available financial report that includes financial statements and required supplementary information for the plan. As of the completion date of the Port's financial statements, LACERS' financial statements and the plan's actuarial valuation study for fiscal year 2013 are not yet available. Reports regarding LACERS may be obtained by writing or calling: Los Angeles City Employees' Retirement System, 202 W. First Street, Suite 500, Los Angeles, CA 90012, (800) 779-8328.

C. Funded Status of LACERS

Actuarial valuations involve the estimate of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the City are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Following is the funded status information of the plan for fiscal years ended June 30, 2012, 2011 and 2010 (amounts in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Underfunded AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll $[(b) - (a)]/(c)$
06/30/2012	\$ 9,934,959	\$ 14,393,959	\$ 4,459,000	69.0%	\$ 1,819,270	245.1%
06/30/2011	9,691,011	13,391,704	3,700,693	72.4%	1,833,392	201.9%
06/30/2010	9,554,027	12,595,025	3,040,998	75.9%	1,817,662	167.3%

The most recent actuarial valuation methods and assumptions used for LACERS as of June 30, 2012 were as follows: actuarial cost method used – entry age normal; amortization method – level percent of payroll; remaining amortization period – multiple layers not exceeding 30 years, closed; asset valuation method – 7-year market related; investment rate of return – 7.75%; projected salary increases – 4.65% to 11.25%; inflation rate – 3.50%; and cost-of-living adjustment of 3.00%

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In October 2012, the LACERS Board modified its funding policy to (1) change the actuarial cost method for the existing retirement benefits from the projected unit credit method to the entry age normal method beginning with the June 30, 2012 valuation; and (2) amortize all UAAL layers as of June 30, 2012 over 30 years, except the layers created in 2004 and 2005 for GASB compliance, and the layers created in 2009 as a result of the City's Early Retirement Incentive Plan, which will maintain their original amortization schedules.

As previously mentioned, information related to the funded status of LACERS retirement plan for fiscal year 2013 are not yet available as of the completion date of the Port's financial statements. Separate information for the Port is not available.

D. Other Postemployment Benefits (OPEB)

The Port, as a participant in LACERS, also provides a retiree health insurance premium subsidy. Under Division 4, Chapter 11 of the City's Administrative Code, certain retired employees are eligible for a health insurance premium subsidy. This subsidy is to be funded entirely by the City. Employees with ten or more years of service who retire after age 55, or employees who retire at age 70 with no minimum service requirement, are eligible for a health premium subsidy with a City approved health carrier. LACERS is advance funding the retiree health benefits on an actuarially determined basis.

During fiscal year 2011, the City adopted an ordinance to freeze the maximum medical subsidy at \$1,190 for LACERS members who retire on or after July 1, 2011. However, LACERS members who at any time prior to retirement contribute the additional 2% or 4% of pay are exempted from the freeze and obtain a vested right to future increases in the maximum medical subsidy at an amount not less than the dollar increase in the Kaiser two-party non-Medicare Part A and Part B premium. As of June 30, 2012, approximately 76% of non-retired members were making the additional contributions, and therefore are not subject to the medical subsidy freeze.

Projections of benefits include the types of benefits in force at the valuation date. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

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As previously mentioned, the actuarial valuation for OPEB for fiscal year 2013 is not yet available as of the completion date of the Port's financial statements.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB asset (obligation) for fiscal years ended June 30, 2012 and the two preceding years for the plan are as follows (amounts in thousands):

Year Ended	Annual OPEB Cost (AOC)	Percentage of OPEB Cost Contributed	Net OPEB Asset (Obligation)
06/30/12	\$ 115,209	100%	\$ --
06/30/11	107,396	100%	--
03/30/10	96,511	100%	--

E. Funded Status of LACERS OPEB

Actuarial valuations involve the estimate of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the City are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Following is the funded status information of the plan for fiscal years ended June 30, 2012, 2011 and 2010 (amounts in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Underfunded AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a)]/(c)
06/30/2012	\$ 1,642,374	\$ 2,292,400	\$ 650,026	71.6%	\$ 1,819,270	35.7%
06/30/2011	1,546,884	1,968,708	421,824	78.6%	1,833,392	23.0%
06/30/2010	1,425,726	2,233,874	808,148	63.8%	1,817,662	44.5%

The most recent actuarial valuation methods and assumptions used for LACERS OPEB as of June 30, 2012 were as follows: actuarial cost method used – entry age normal; amortization method - level percent of payroll; remaining amortization period - multiple layers, closed not exceeding 30 years; asset valuation method - 7-year market related; investment rate of return - 7.75%; projected salary increases - 4.25%; inflation rate - 3.50%; and healthcare cost trend rates – for medical, 8.25%, decreasing by 0.5% for each year for seven years until it reaches an ultimate rate of 5%, and 5% for dental.

In October 2012, the LACERS Board modified its funding policy to (1) change the actuarial cost method for the existing health benefits from the projected unit credit method to the entry age normal method beginning with the June 30, 2012 valuation; and (2) amortize all UAAL layers as of June 30, 2012 over 30 years, except the layers created in 2004 and 2005 for GASB compliance, and the layers created in 2009 as a result of the City's Early Retirement Incentive Plan, which will maintain their original amortization schedules.

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As previously mentioned, information related to the funded status of LACERS for fiscal year 2013 are not yet available as of the completion date of the Port's financial statements. Separate information for the Port is not available.

Notes 13. A to E on LACERS retirement and OPEB plans were derived from information prepared by LACERS and the City.

14. City of Los Angeles Fire and Police Pension System

A. Retirement Plan Description

The Los Angeles City Council approved Ordinance No. 177214 that allows Harbor Department's Port police officers the option to transfer from LACERS to Tier V of LAFPP. The election period was from January 8, 2006 to January 5, 2007 and the decision to transfer is irrevocable.

Only "sworn" service with the Port is transferable to LAFPP. Other "nonsworn" services with other City Departments are not eligible for transfer. All new employees hired by the Harbor Department after the effective date of the Ordinance automatically go into either Tier V or Tier VI of LAFPP.

As part of the change, LACERS transferred \$6.1 million of Harbor Port Police assets to LAFPP in October 2007 for fiscal year 2007.

B. Actuarially Determined Contribution Requirements and Contributions Made

The Board of Administration/Commissioners of LAFPP establishes and may amend the contribution requirements of members and the City. The City's annual cost for the LAFPP plan is calculated based on the ARC of the employer, an amount actuarially determined in accordance with the parameters of the applicable GASB statements. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize unfunded actuarial liabilities over a period not to exceed thirty years. The City Administrative Code and related ordinance define member contributions.

In fiscal year 2013, the Port's contribution rate for sworn employees that are members of the Harbor Tier V plan, as determined by the actuary is 32.30% of covered payroll. The Harbor Tier VI rate is 29.07% of covered payroll. Based on the Port's reported sworn covered payroll of \$9.9 million for Tier V, and \$0.4 million for Tier VI, the Port's pro rata share of the combined ARC for pension and postemployment healthcare benefits, and actual contribution made to LAFPP was \$3.3 million (100% of ARC), \$3.6 million (100% of ARC) and \$3.1 million (100% of ARC) for the years ended June 30, 2012, 2011 and 2010, respectively. The allocation of contributions between the pension and postemployment healthcare benefits is not available.

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The City's annual LAFPP pension cost and the percentage of annual pension cost contributed to the plan for fiscal years ended June 30, 2012, 2011 and 2010 are as follows (amount in thousands):

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net pension Asset (Obligation)
6/30/12	\$ 321,593	100%	\$ --
6/30/11	277,092	100%	--
6/30/10	250,517	100%	--

C. Funded Status of LAFPP

Actuarial valuations involve estimate of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the ARC of the City are subject to continual revision as actual results are compared to expectations and new estimates are made about the future. Following is the funded status information for the LAFPP plan for fiscal years ended June 30, 2012, 2011 and 2010 (amounts in thousands).

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Underfunded AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a)]/(c)
06/30/2012	\$ 14,251,914	\$ 17,030,833	\$ 2,778,919	83.7%	\$ 1,341,914	207.1%
06/30/2011	14,337,669	16,616,476	2,278,807	86.3%	1,343,963	169.6%
06/30/2010	14,219,581	15,520,625	1,301,044	91.6%	1,356,986	95.9%

The most recent actuarial valuation methods and assumptions used for LAFPP as of June 30, 2012 were as follows: actuarial cost method used - entry age normal; amortization method - level dollar for Tier 1, and level percent of payroll for Tiers 2 to 6; remaining amortization period - multiple layers not exceeding 25 years, closed; asset valuation method - 5-year market related prior to June 30, 2008, and 7-year market related after June 30, 2008; investment rate of return - 7.75%; projected salary increases - 5.25% to 12.25%; inflation rate - 3.50%; and cost-of-living adjustment of 3.50% for Tiers 1 and 2, and 3% for Tiers 3 to 6.

LAFPP issues a publicly available financial report that includes financial statements and required supplementary information for the plan. As of the completion date of the Port's financial statements, the LAFPP's financial statements and the plan's actuarial valuation study for fiscal year 2013 are not yet available. Financial and valuation reports may be obtained by writing or calling: Los Angeles Fire and Police Pension system, 360 E. Second Street, Ste 400, Los Angeles, CA 90012, (213) 978-4545.

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D. Other Postemployment Benefits (OPEB)

The City Charter, the Administrative Code, and related ordinance define the postemployment healthcare benefits. There are no member contributions for healthcare benefits. The Port, as a participant in LAFPP, also provides a retiree health insurance premium subsidy.

The LAFPP OPEB actuarial study for valuation date June 30, 2008 determined the ARC for fiscal year ended June 30, 2012. To reflect the phasing-in of assumption changes, the LAFPP Board adopted a contribution rate that was lower than the actuarially determined rate and resulted in a net OPEB obligation. The annual OPEB cost for fiscal years beginning July 1, 2007, and continuing during the 30-year amortization period, shall include interest on the OPEB obligation and adjustment to the ARC.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the LAFPP plan, and the net OPEB asset (obligation) for fiscal years ended June 30, 2012, 2011 and 2010 are as follows (amounts in thousands):

Year Ended	Annual OPEB Cost (AOC)	Percentage of OPEB Cost Contributed	Net OPEB Asset (Obligation)
06/30/12	\$ 159,777	83%	\$ (127,024)
06/30/11	173,646	69%	(99,352)
06/30/10	127,604	90%	(45,682)

From the most recent data made available by the City, as of June 30, 2012, Amounts contributed specifically to the retiree health insurance premium subsidy by the Port alone are not available.

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E. Funded Status of LAFPP OPEB

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the ARC of the City are subject to continual revision as actual results are compared to expectations and new estimates are made about the future. Following is the funded status information for the LAFPP OPEB plan for fiscal years ended June 30, 2012, 2011 and 2010 (amounts in thousands).

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Underfunded AAL (UAAL) (b) – (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) – (a)]/(c)
06/30/2012	\$ 927,362	\$ 2,499,289	\$ 1,571,927	37.1%	\$ 1,341,914	117.1%
06/30/2011	882,890	2,557,607	1,674,717	34.5%	1,343,963	124.6%
06/30/2010	817,276	2,537,825	1,720,549	32.2%	1,356,986	126.8%

The most recent actuarial valuation methods and assumptions used for LAFPP OPEB as of June 30, 2012 were as follows: actuarial cost method used - entry age normal; amortization method – closed amortization periods; remaining amortization period – multiple layers, closed, 24 years for prior to June 30, 2012, and 20 years on or after June 30, 2012; asset valuation method – 5-year market related prior to June 30, 2008, and 7-year market related after June 30, 2008; investment rate of return - 7.75%; projected salary increases - 4.25%; inflation rate - 3.50%; medical healthcare cost trend rate of 8.5%, decreasing by 0.5% for seven years until it reaches an ultimate rate of 5%; and dental healthcare cost trend of 5%.

As previously mentioned, the LAFPP's financial statements and actuarial study for fiscal year 2013 are not yet available as of the completion date of the Port's financial statements.

Notes 14. A to E on LAFPP retirement and OPEB plans were derived from information prepared by LAFPP and the City.

15. Notes Receivable

A. Settlement of Dispute on Nexus Study

In 1994, the City undertook a series of studies to determine whether or not the Port received services from the City for which the Port had not been inclusively billed. These studies, collectively referred to as the Nexus Study, were conducted under the auspices of the City Attorney. The studies found that the City could have billed the Port for substantial amounts for services undertaken on behalf of the Port by the City or for City services conducted within the Port's jurisdiction.

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It is and has been the policy of the Port to pay the City all of the amounts to which the City is entitled. In light of these studies, the BHC adopted a resolution providing for the reimbursement to the City of certain expenditures incurred by the City on behalf of the Port, but which the City had never inclusively billed the Port. Under its resolution, the BHC authorized the Port to make, and the Port paid to the City, two annual payments of \$20.0 million for the 1994/95 and 1995/96 fiscal years. The BHC further authorized the Executive Director to negotiate additional amounts as may be determined to be due, and accordingly, a memorandum of understanding (MOU) with the City was executed on June 27, 1997 (1997 MOU).

The California State Lands Commission (the Commission) is responsible for oversight of the State's Tideland Trust Lands. This Commission, together with the State Office of the Attorney General, has expressed concerns regarding the methodologies employed in the studies and whether such transfers of monies from the Port to the City comply with the criteria for compliance with applicable California State Tidelands Trust Land laws. Prior to the adoption of the above-referenced resolution, the Commission officials and the Office of the Attorney General requested the BHC to postpone any decision involving these trust funds until the Commission and Office of the Attorney General could complete an inquiry into the studies and transfers. Subsequently, various organizations, including the Steamship Association of Southern California, which represents carriers using the Port, together with the Commission and Office of the Attorney General, brought legal action against the City and Port regarding the BHC's action.

On January 19, 2001, the City, along with the Port and the Commission, entered into a settlement and mutual release agreement to resolve their disputes concerning the City's entitlement to historic and future reimbursements for costs the City incurred or would incur providing services to the Port. The settlement agreement provides that the City, as reimbursement for payments made by the Port to the City for retroactive billings for City services provided during the period July 1, 1977 through June 30, 1994, inclusive, pay the Port \$53.4 million in principal plus 3% simple interest over a 15-year period.

The settlement agreement also provides that the City reimburse the Port for the payment differential, that amount representing the difference between the actual payments and the amount to which the City would have been entitled to reimbursement during fiscal year 1994–1995 through fiscal year 2000–2001, inclusive, had the reimbursement been computed during each of those fiscal years using the settlement formula. This amount is estimated at \$8.4 million. Payment for this period is to be reimbursed to the Port over 15 years, including 3% simple interest. The agreement also states that at any time after five years from January 19, 2001, the City, the Port, and the Commission may negotiate to amend this agreement to account for new or changed circumstances.

The State of California (the State), the City, and the Port agreed to mutually release and discharge the other from any and all claims, demands, obligations, and causes of action, of whatever kind or nature pertaining in any way to the use, payment, transfer, or expenditure for any of the services or facilities identified in the Nexus Study or the 1997 MOU and provided for during the period July 1, 1977 through June 30, 2002.

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Accordingly, the Port had recorded the notes receivable due from the City. At June 30, 2013 and 2012, long-term notes receivable amounted to \$9.9 million and \$14.7 million; and current portion of notes receivable amounted to \$4.7 million and \$4.6 million, respectively.

B. Note Receivable – Yusen

In order to settle the then-outstanding \$2.4 million terminal construction cost overruns, the Port agreed in 1994 that Yusen, one of the Port container terminal tenants, be permitted to pay over 22 years in equal monthly installments of \$0.1 million. To record the transaction, an amortization schedule using a 5% interest rate was prepared and the note balance was adjusted to \$1.5 million, with the balance of \$0.9 million recognized as the Port's capital assets in fiscal year 1995. The note matures in October 2015. The long-term note receivable balance outstanding on the Yusen note is \$0.2 million and \$0.3 million at June 30, 2013 and 2012, respectively; while the current portion is \$0.1 million for both fiscal years 2013 and 2012.

16. Commitments, Litigations and Contingencies

A. Commitments

Open purchase orders and uncompleted construction contracts amounted to approximately \$183.9 million as of June 30, 2013. Such open commitments do not lapse at the end of the Port's fiscal year and are carried forth to succeeding periods until fulfilled.

In 1985, the Port received a parcel of land, with an estimated value of \$14.0 million from the federal government, for the purpose of constructing a marina. The Port has agreed to reimburse the federal government up to \$14.0 million from excess revenues, if any, generated from marina operations after the Port has recovered all costs of construction. No such payments were made in fiscal years 2013 and 2012.

B. Litigations

The Port is also involved in certain litigation arising in the normal course of business. In the opinion of management, there is no pending litigation or unasserted claims, the outcome of which would materially affect the financial position of the Port.

C. Alameda Corridor Transportation Authority Agreement (ACTA)

In August 1989, the Port and the POLB (the Ports) entered into a joint exercise of powers agreement and formed ACTA 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 Ports to the central Los Angeles area. The Alameda Corridor began operating on April 15, 2002. ACTA is governed by a seven-member board, which comprises of two members from each Port, one each from the Cities of Los Angeles and Long Beach and one from the Metropolitan Transportation Authority. In 2003, ACTA agreed to an expanded mission to develop and support projects that more effectively move cargo to points around Southern California, ease truck congestion, improve air quality, and make roads safer. If in the future, ACTA become entitled to distribute income or make equity distributions, the Ports shall share such income and equity distributions equally.

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In October 1998, the Ports, ACTA, and the railroad companies, which operate on the corridor, entered into a Corridor Use and Operating Agreement (Corridor Agreement). The Corridor Agreement obligates the privilege of using the corridor to transport cargo into and out of the Ports. ACTA negotiated with BNSF Railway Company (BNSF) and Union Pacific (UP) regarding certain types of cargo movements (trans load movements) for which BNSF and UP are not paying use fees. In the Settlement and Release Agreement (the Agreement), dated July 5, 2006, ACTA, BNSF, and UP agreed to resolve the "Trans loading Dispute." ACTA, the Ports, the City of Los Angeles, and the City of Long Beach (the ACTA Releasing Parties) each release, acquit, and discharge BNSF and UP of all liability and costs, as stated in the Agreement, arising from or relating to the Trans loading Dispute. BNSF and UP (the Railroad Releasing Parties) each release, acquit, and discharge the ACTA Releasing Parties from any and all liability and costs, as stated in the Agreement, arising from or relating to any claim by the Railroad Releasing Parties. These use fees are used to pay (a) the debt service that ACTA incurs on approximately \$1.2 billion of bonds, which ACTA issued in early 1999 and approximately \$686.0 million of bonds issued in 2004, and (b) for the cost of funding required reserves and costs associated with the financing, including credit enhancement and rebate requirements, if any (collectively, ACTA Obligations). Use fees end after 35 years or sooner if the ACTA Obligations are paid off earlier.

If ACTA revenues are insufficient to pay ACTA Obligations, the Corridor Agreement obligates each Port to pay up to twenty percent (20%) of the shortfall (Shortfall) on an annual basis. If this event occurs, the Ports' payments to ACTA are intended to provide cash for debt service payments and to assure that the Alameda Corridor is available to maintain continued cargo movement through the Ports. The Ports are required to include expected Shortfall payments in their budgets, but Shortfall payments are subordinate to other obligations of the Port, including the bonds and commercial paper currently outstanding, the Port does not and is not required to take Shortfall 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.

In 2012, ACTA obtained a Federal Railroad Administration loan for \$83.7 million under Railroad Rehabilitation and Improvement Financing (RRIF) Program. The purpose of the loan which was in the form of 2012 Taxable Senior Lien Revenue Refunding Bonds, was to refinance a portion of ACTA's outstanding bonds. Furthermore, in 2013, ACTA refunded \$288.0 million of its 1999 Series A Bonds in the form of Tax-Exempt Senior Lien Revenue Refunding Bonds of Series 2013A, generating a present value savings of \$35.0 million or 12%. As a result of ACTA's 2012 and 2013 refunding transactions, it is projected that no shortfall advances will be required by the two ports until the year 2019.

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D. TraPac Project and Environmental Impact Report

On December 6, 2007, the Board of Harbor Commissioners (BHC) certified the Final Environmental Impact Report (FEIR) for TraPac, Inc. (TraPac), a terminal operator, and approved the TraPac project. The TraPac project involves the development and improvements to Berths 136-147, currently occupied by TraPac. Subsequent to the project approval, certain entities (Appellants) appealed to the City Council the certification/project approval under the provisions of the California Environmental Quality Act (CEQA).

On April 3, 2008, the BHC approved a MOU between the City and the Appellants. The term of the MOU is five years, and after the first five years, the agreement may be renewed for a successive five-year period by mutual agreement of the Port and a majority of the Appellants. The MOU provides for the revocation of the appeals and the establishment of a Port Community Mitigation Trust Fund (PCMTF) to be operated by a nonprofit entity. The nonprofit created to provide administrative services for this fund is the Harbor Community Benefit Foundation (HCBF). The California Community Foundation (CCF) Community Initiatives Fund (CIF) is a nonprofit entity operated by the CCF to provide fund management services to PCMTF.

The Port had provided the first two years funding of \$12.04 million and \$4.02 million to the PCMTF for the identified TraPac projects in the MOU. Based on the volume of cargo processed in the third year, no additional funding was necessary.

On November 3, 2011, the BHC approved an agreement with the CCF to provide fund management services in relation to the PCMTF Operating Agreement. According to the PCMTF Operating Agreement, the Port shall transfer funds from its existing PCMTF to the new PCMTF held by the CCF upon execution of the agreement with CCF. In fiscal year 2013, \$13.8 million was transferred from the PCMTF to the new PCMTF held by CCF CIF.

As of June 30, 2013, a total of \$16.8 million has been disbursed from the PCMTF including the \$13.8 million funds transferred to the CCF CIF. Total fund balance, including interest earned of the PCMTF at the end of the fiscal year was \$0.1 million.

17. Related-Party Transactions

During the normal course of business, the Port is charged for services provided and use of land owned by the City, the most significant of which is related to fire protection, museum/park maintenance, and legal services. Total amounts charged by the City for services approximate \$49.8 million and \$38.4 million in fiscal years 2013 and 2012, respectively.

18. Capital Contributions

Amounts either received or to be reimbursed for the restricted purpose of the acquisition, construction of capital assets, or other grant-related capital expenditures are recorded as capital contributions. During the years ended June 30, 2013 and 2012, the Port reported capital contributions of \$17.6 million and \$31.3 million, respectively, for certain capital construction and grant projects.

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19. Natural Resources Defense Council Settlement Judgment

In March 2003, the Port settled a lawsuit entitled: Natural Resources Defense Council, Inc., et al. v. City of Los Angeles, et al., regarding the environmental review of a Port project at the China Shipping Terminal. The settlement called for a total of \$50.0 million in mitigation measures to be undertaken by the Port. This \$50.0 million charge was recorded as expense in fiscal year 2003.

The terms of the agreement require that the Port fund various mitigation activities in the amount of \$10.0 million per year over a five-year term ending in fiscal year 2007. As of June 30, 2009, a total of \$50.0 million were transferred from Harbor Revenue Fund to the restricted mitigation fund.

In June 2004, the Port agreed to amend the original settlement to include, and transferred to the restricted mitigation fund, an additional \$3.5 million for the creation of parks and open space in San Pedro.

Pursuant to the settlement agreement, the Port is also obligated to expend up to \$5.0 million to retrofit customer vessels to receive shore-side power as an alternative to using on-board diesel fueled generators. Through the end of fiscal year 2009, the Port has spent \$5.0 million for this program.

The settlement agreement also established a throughput restriction at China Shipping Terminal per calendar year. Actual throughput at the terminal exceeded the cap for calendar years 2008, 2007, 2006, and 2005, and payments of \$1.8 million, \$6.9 million, \$5.8 million, and \$3.9 million, respectively, were made for having exceeded the caps. The Port charged to nonoperating expense and deposited in the restricted mitigation fund the said amounts in June 2009, June 2008, May 2007, and April 2006, respectively. Total deposits for the four years were \$18.3 million, with the June 2009 deposit for calendar year 2008 being the last payment for excess throughput required under the settlement agreement.

As of June 30, 2013 and 2012, the Port has disbursed a total of \$51.3 million and \$47.1 million, respectively from the restricted litigation funds, of which \$4.2 million and \$4.0 million was made in fiscal years 2013 and 2012, respectively, as provided in accordance with the provisions of the settlement.

20. Cash Funding of Reserve Fund

As of June 30, 2013 and 2012, the Port had \$790.7 and \$840.1 million of outstanding parity bonds. The Port holds cash reserves for each Indenture of the outstanding bonds. The BHC, on September 18, 2008, approved the one-time cash funding of the entire reserve requirement of \$61.5 million and transferred from the Harbor Emergency Fund (Fund 751) to the Port's bond trustee in December 2008.

To be consistent with the bond covenants in the Indenture, the required amount for the individual reserve fund will be reevaluated on a yearly basis. Any excess amounts in the Common Reserve will be transferred to the interest fund and/or redemption fund to be used to pay interest and redeem bonds.

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21. Special Item

In fiscal year 2013, the Port adjusted the outstanding pollution remediation liabilities for the Cabrillo Way Marina and the former Kaiser Bulk Loading and Storage of \$7.0 million and \$6.4 million, respectively. The adjustment of \$13.4 million was presented as Special Item in the Port's financial statements. Remediation of these sites was previously identified as necessary in order to excavate and dispose metal impacted soil and remove contamination caused by pipeline leaks. Upon completion of soil excavation, infiltration galleries and nutrient delivery system to perform enhanced in-situ bioremediation for TPH-impacted groundwater would have been installed.

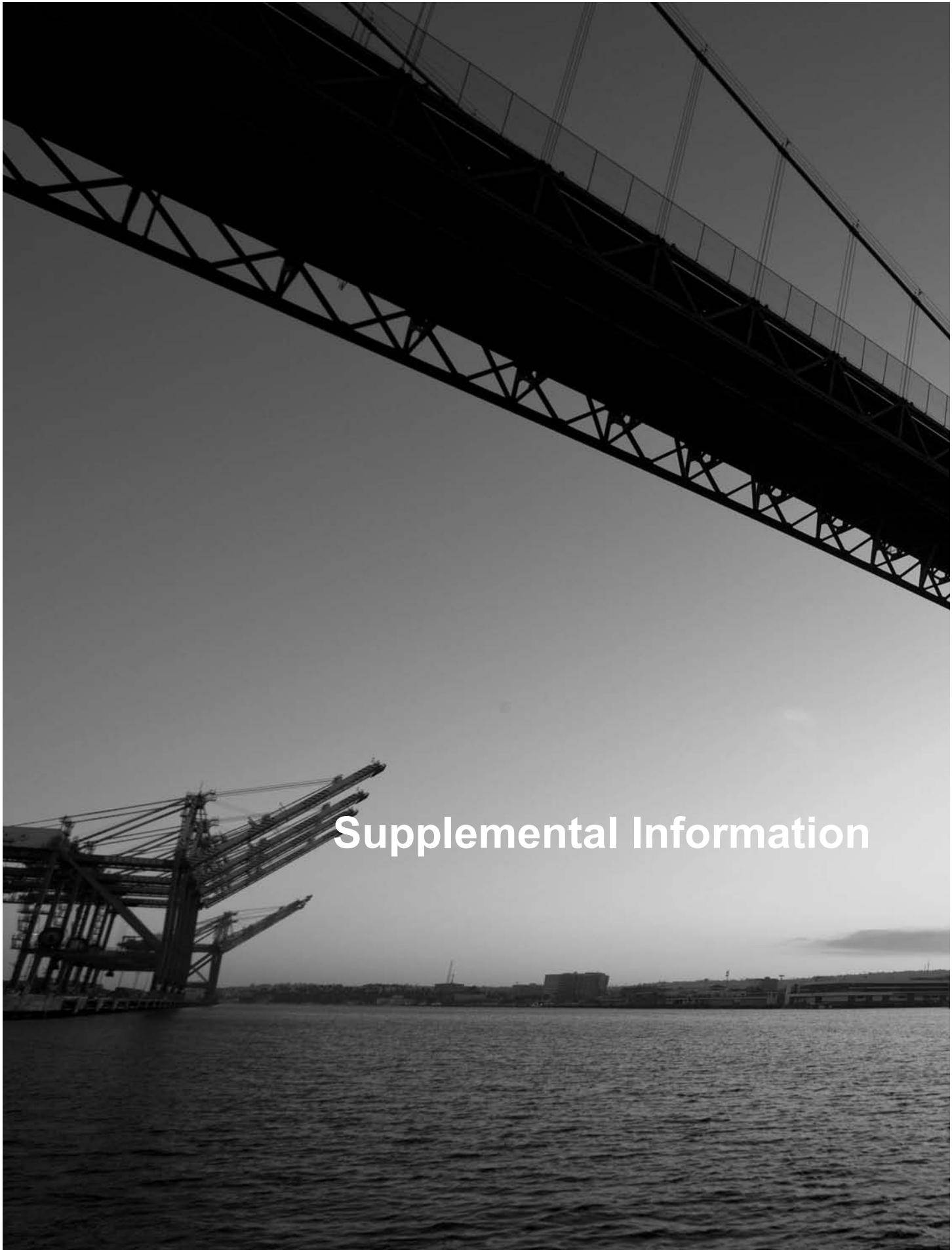
However, the obligating event to perform cleanup at the sites no longer exists and there is no requirement, directive or order from any regulatory agency to perform site cleanup. Currently, the Port has no plan to remediate these sites in the future.

22. Subsequent Events

Commercial Paper Program

In July 2013, the Port issued an additional \$25.0 million commercial paper notes to finance various capital improvement projects.

The Port has evaluated subsequent events through November 8, 2013, the date the financial statements were available to be issued, and has determined that no other significant subsequent events have occurred through that date.



Supplemental Information

PORT OF LOS ANGELES
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Summary of Revenues, Expenses, and Changes in Net Position
Last Ten Fiscal Years
(Unaudited)
(amounts in thousands)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Operating revenues										
Shipping services	\$ 293,977	\$ 315,615	\$ 353,390	\$ 369,972	\$ 374,878	\$ 329,347	\$ 327,630	\$ 343,498	\$ 357,716	\$ 347,876
Rentals	33,261	34,630	33,876	40,322	45,524	42,368	43,141	45,428	43,143	42,890
Royalties, fees, and other operating revenues	5,016	5,384	4,893	6,867	5,943	30,509	36,047	11,577	8,928	6,602
Total operating revenues	332,254	355,629	392,159	417,161	426,345	402,224	406,818	400,503	409,787	397,368
Operating expenses										
Salaries and benefits	53,165	58,182	65,705	74,313	95,444	99,350	96,838	103,693	104,910	109,463
Marketing and public relations	3,769	3,455	3,333	4,521	5,274	3,676	2,594	3,055	3,380	3,092
Travel and entertainment	758	743	822	604	1,128	635	569	843	991	1,130
Outside services	32,104	39,672	33,673	33,277	37,937	29,498	24,428	30,601	29,426	31,905
Materials and supplies	4,682	5,320	5,400	5,813	8,950	8,121	6,634	6,556	6,717	6,531
City services and payments	18,729	22,361	20,821	28,640	27,101	28,704	31,142	22,353	22,236	19,284
Other operating expenses	16,967	41,158	54,378	16,607	45,918	84,159	48,030	42,594	32,146	33,764
Total operating expenses before depreciation	130,174	170,891	184,132	163,775	221,752	254,143	210,235	209,695	199,806	205,169
Operating Income before depreciation	202,080	184,738	208,027	253,386	204,593	148,081	196,583	190,808	209,981	192,199
Depreciation	67,934	70,040	98,779	88,106	78,295	83,413	87,255	90,468	100,485	108,037
Operating Income	134,146	114,698	109,248	165,280	126,298	64,668	109,328	100,340	109,496	84,162
Nonoperating revenues (expenses)										
Income from investments in Joint Powers										
Authorities	2,795	3,543	4,302	4,675	4,440	2,980	5,832	(333)	1,851	2,049
Interest and investment income	2,298	7,266	9,582	23,773	34,863	18,824	11,671	6,436	9,486	826
Interest expense	(43,034)	(42,279)	(37,787)	(50,038)	(38,052)	(36,979)	(35,663)	(3,704)	(10,538)	(2,473)
Other income and expenses, net	(13,724)	11,842	7,222	11,018	(2,536)	(7,625)	(2,951)	(6,667)	(8,359)	784
Net nonoperating revenues (expenses)	(51,665)	(19,628)	(16,681)	(10,572)	(1,285)	(22,800)	(21,111)	(4,268)	(7,560)	1,186
Income before capital contributions	82,481	95,070	92,567	154,708	125,013	41,868	88,217	96,072	101,936	85,348
Capital contributions	867	--	2,044	4,145	14,161	4,103	16,950	12,059	31,307	17,630
Special item	--	--	--	(22,291)	--	--	--	--	--	13,387
Deletions of capital contribution	(2,518)	--	--	--	--	--	--	--	--	--
Changes in net position	80,830	95,070	94,611	136,562	139,174	45,971	105,167	108,131	133,243	116,365
Total net position – beginning of year	1,930,796	2,011,626	2,106,696	2,201,307	2,337,869	2,383,616	2,429,587	2,534,754	2,642,885	2,776,128
Net Adjustment for write off prior period bond issue costs	--	--	--	--	--	--	--	--	--	(8,142)
Net Position July 1, restated	1,930,796	2,011,626	2,106,696	2,201,307	2,337,869	2,383,616	2,429,587	2,534,754	2,642,885	2,767,986
Total net assets – end of year	\$ 2,011,626	\$ 2,106,696	\$ 2,201,307	\$ 2,337,869	\$ 2,477,043	\$ 2,429,587	\$ 2,534,754	\$ 2,642,885	\$ 2,776,128	\$ 2,884,351
Net position:										
Net investment in capital assets	1,853,776	1,890,002	1,854,468	1,931,037	1,985,653	2,101,396	2,164,885	2,278,052	2,397,744	2,634,840
Restricted	17	16	63,917	62	9	61,608	67,844	67,341	67,796	57,913
Unrestricted	157,883	216,678	282,922	406,770	491,381	266,583	302,025	297,492	310,588	191,598
Total net position	\$ 2,011,676	\$ 2,106,696	\$ 2,201,307	\$ 2,337,869	\$ 2,477,043	\$ 2,429,587	\$ 2,534,754	\$ 2,642,885	\$ 2,776,128	\$ 2,884,351

See accompanying independent auditor's report.

PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)

Summary of Debt Service Coverage (Pledged Revenue)

Last Ten Fiscal Years

(Unaudited)

(In thousands of dollars)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Operating revenues (including investment/interest income and non-capital grant revenues) (1)	\$ 337,347	\$ 366,438	\$ 406,043	\$ 445,609	\$ 465,648	\$ 424,028	\$ 424,306	\$ 412,962	\$ 435,291	\$ 416,974
Operating expenses (2)	<u>130,174</u>	<u>170,891</u>	<u>184,132</u>	<u>163,775</u>	<u>221,752</u>	<u>254,143</u>	<u>210,235</u>	<u>209,695</u>	<u>199,806</u>	<u>205,169</u>
Net available revenue	<u>\$ 207,173</u>	<u>\$ 195,547</u>	<u>\$ 221,911</u>	<u>\$ 281,834</u>	<u>\$ 243,896</u>	<u>\$ 169,885</u>	<u>\$ 214,071</u>	<u>\$ 203,267</u>	<u>\$ 235,485</u>	<u>\$ 211,805</u>
Debt service, revenue bonds	\$ 57,994	\$ 58,515	\$ 58,143	\$ 58,293	\$ 61,318	\$ 61,298	\$ 66,851	\$ 72,736	\$ 71,382	\$ 72,204
Debt service, commercial papers	<u>1,029</u>	<u>2,021</u>	<u>3,431</u>	<u>792</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>191</u>	<u>227</u>	<u>194</u>
Total debt service (3)	<u>\$ 59,023</u>	<u>\$ 60,536</u>	<u>\$ 61,574</u>	<u>\$ 59,085</u>	<u>\$ 61,318</u>	<u>\$ 61,298</u>	<u>\$ 66,851</u>	<u>\$ 72,927</u>	<u>\$ 71,609</u>	<u>\$ 72,398</u>
Net available revenue coverage	3.5	3.2	3.6	4.8	4.0	2.8	3.2	2.8	3.3	2.9
Net cash flow from operations	\$ 208,762	\$ 226,037	\$ 201,575	\$ 246,665	\$ 252,898	\$ 151,264	\$ 185,416	\$ 158,228	\$ 217,113	\$ 234,234
Net operating cash flow Coverage	3.5	3.7	3.3	4.2	4.1	2.5	2.8	2.2	3.0	3.2

(1) Operating revenues include pledged pooled investment/interest income and non-capital grant revenues.

(2) Depreciation and amortization expenses, interest expense, and other nonoperating expenses are not included.

(3) Debt service includes principal and interest payments on issued bonds as well as on commercial paper notes, which are senior debt backed by pledged-revenue. Debt service does not include loans from the California Department of Boating and Waterways, which are not backed by pledged-revenue.

Note: Details regarding the Port of Los Angeles' outstanding debt can be found in the notes to the financial statements.

See accompanying independent auditor's report.

**PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)**

**Revenue Statistics
Last Ten Fiscal Years**

(Unaudited)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Revenue Information										
Revenue Rates										
General cargo tariff rate	5.95	5.95	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25
Basic dockage (600')	2,348	2,348	2,465	2,465	2,465	2,465	2,465	2,465	2,465	2,465
Required rate of return on improvements	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%
Required rate of return on land	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Containerized cargo volume										
(in millions of TEUs)	7.4	7.3	7.8	8.7	8.1	7.3	7.2	7.9	8.2	7.8
Inbound tonnage (million tons)	104	102	113	118	105	94	88	94	98	93
Outbound tonnage (million tons)	58	60	69	72	65	66	67	68	75	72
Revenue tons (million)										
General cargo	146.3	145.0	155.2	171.9	161.9	144.3	145.8	149.1	163.9	156.3
Liquid bulk	11.9	12.8	22.8	15.4	6.2	11.1	10.7	10.6	9.9	7.8
Dry bulk	3.9	4.3	3.6	2.8	1.9	2.0	1.4	1.2	1.1	1.0
Total revenue tons (million)	<u>162.1</u>	<u>162.1</u>	<u>181.6</u>	<u>190.1</u>	<u>170.0</u>	<u>157.4</u>	<u>157.9</u>	<u>160.9</u>	<u>174.9</u>	<u>165.1</u>

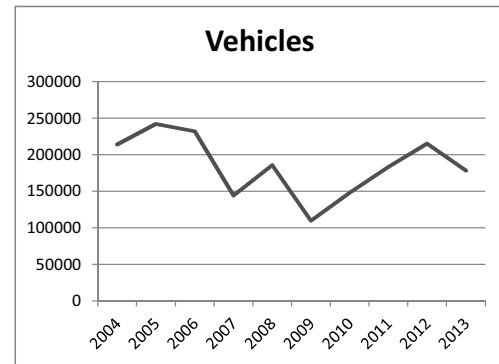
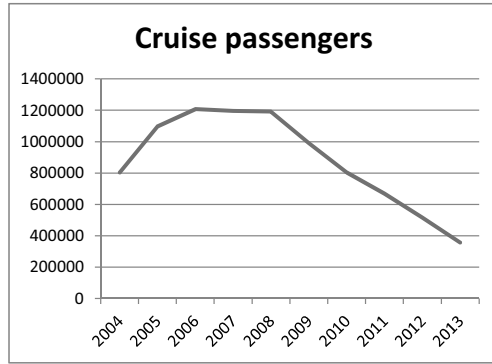
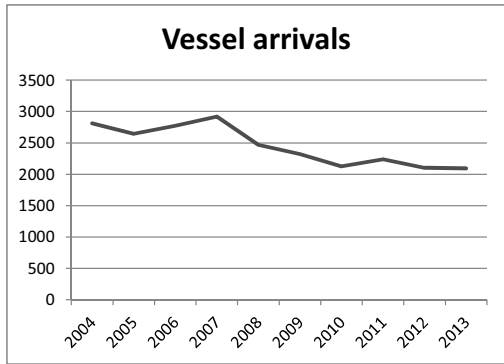
See accompanying independent auditor's report.

**PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)**

**Other Operating Information
Last Ten Fiscal Years**

(Unaudited)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Other Operating Information										
Miles of waterfront	43	43	43	43	43	43	43	43	43	43
Number of major container terminals	8	8	8	8	8	8	8	8	8	8
Number of cargo terminals	26	26	27	25	25	25	24	24	24	24
Vessel arrivals	2,812	2,646	2,771	2,920	2,467	2,322	2,124	2,236	2,100	2,089
Cruise passengers	803,308	1,097,204	1,205,947	1,194,984	1,191,449	990,965	802,899	667,434	515,827	355,875
Vehicles	213,933	242,024	232,149	144,068	185,978	109,634	147,935	183,126	215,374	178,252
Full time employees	634	659	717	806	935	971	948	959	958	947



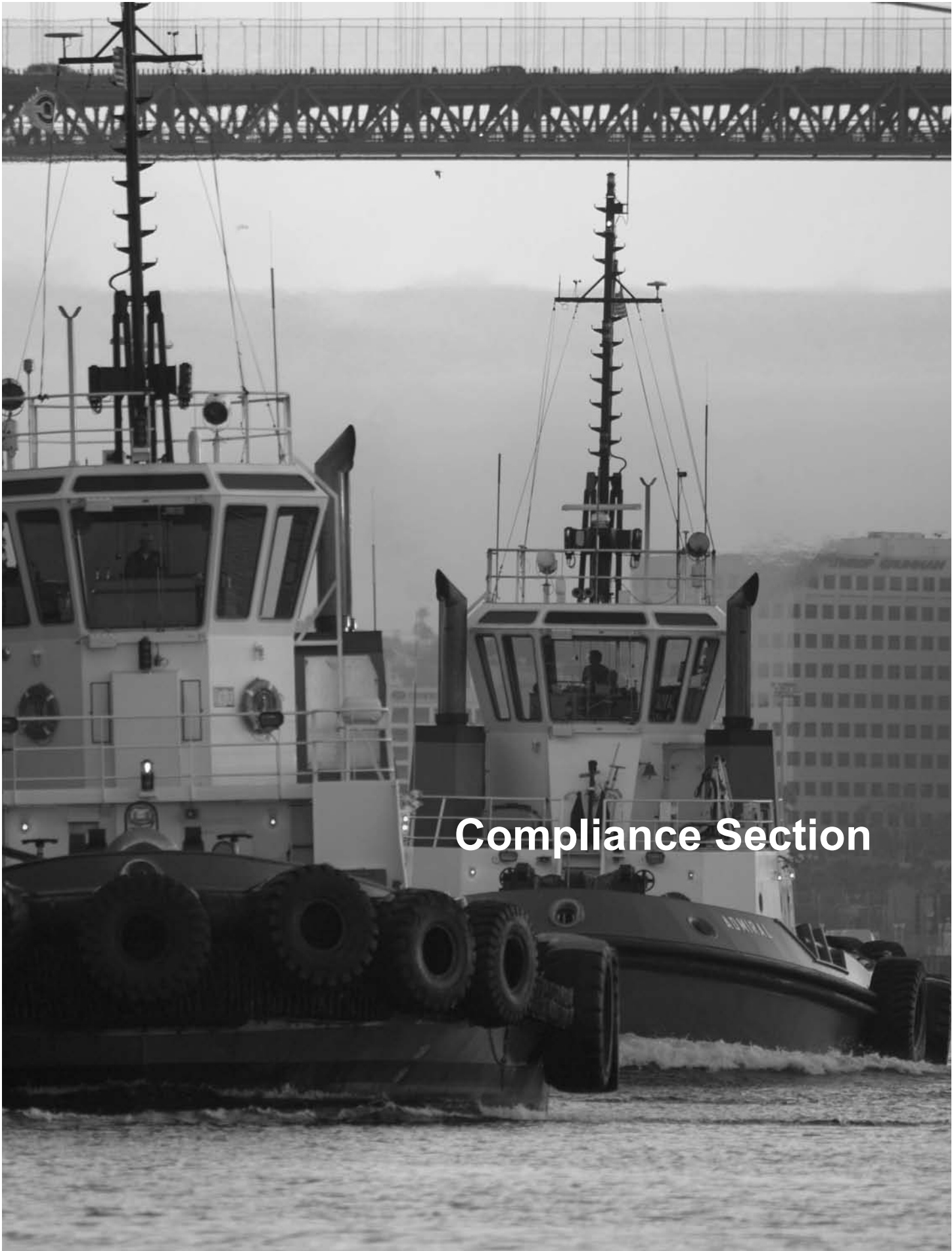
See accompanying independent auditor's report.

**PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES)
Capital Development Program Estimated Expenditures
For Fiscal year 2013-2014
(Unaudited)
(amounts in thousands)**

<u>Project Description</u>	<u>Estimated Expenditures</u>
Berth 90-93 World Cruise Center	\$ 285
Berth 100-102 Development - China Shipping Container Terminal	41,493
Berth 118-131 - Yang Ming Container Terminal	10,741
Berth 135-147 Development - TraPac Container Terminal	99,344
Berth 212-221 Development - YTI Container Terminal	14,128
Berth 222-236 Development - Evergreen Container Terminal	11,190
Berth 258 - Al Larson Boat Yard	325
Berth 301-306 Development - APL Container Terminal	31,314
Berth 400-409 Development - APMT Container Terminal	36,149
Motems (Marine Oil Terminal Engineering and Maintenance Standards)	8,217
Pier 500	232
Miscellaneous Terminal Improvements	3,164
Channel Deepening program	339
Transportation Improvement	125,751
Security Projects	8,713
Environmental Enhancements	2,602
Port-wide Public Enhancements - Community	95
Harbor Department Facilities	15,259
Los Angeles Waterfront	28,384
Miscellaneous Projects	4,783
Total	<u>\$ 442,508</u>

Note: Schedule above excludes capital equipment.

See accompanying independent auditor's report.



Compliance Section



SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Commissioners
Port of Los Angeles (Harbor Department of the City of Los Angeles):

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Port of Los Angeles (Harbor Department of the City of Los Angeles) (the Port), an enterprise fund of the City of Los Angeles, California, as of and for the year ended June 30, 2013, and the related notes to the financial statements as listed in the table of contents, and have issued our report thereon dated November 8, 2013. The financial statements of the Port as of and for the year ended June 30, 2012, were audited by other auditors whose report dated November 14, 2012, express an unqualified opinion on those financial statements.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Port's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Port's internal control. Accordingly, we do not express an opinion on the effectiveness of the Port's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.





Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Port's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read 'Simpson : Simpson', is written over the printed text.

Los Angeles, California
November 8, 2013

APPENDIX B

CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES

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 container 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

Although the economic and demographic information provided below has been collected from sources that the City considers to be reliable, the City has made no independent verification of the information provided by non-City sources and the City takes no responsibility for the completeness or accuracy thereof. The information and data in this Appendix B are the latest data available to the City; however, the current state of the economy of the City, State of California and the United States may not

be reflected in the data discussed below, because more up-to-date publicly available information is not available. This information is provided as general background.

Population

The table below summarizes City, County, and State of California (the “State”) population, estimated as of January 1 of each year. The population estimates for 2005 and later incorporate 2010 U.S. Census counts as the benchmark and, as a result, are noticeably lower than previously published estimates.

Table 1
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	1.62%	8,121,000	1.67%	26,113,000	1.99%
1990	3,476,000	1.56	8,832,500	1.69	29,558,000	2.51
1995	3,544,966	0.39	9,103,896	0.61	31,617,770	1.36
2000	3,679,600	0.75	9,477,651	0.81	33,721,583	1.30
2005	3,769,131	0.48	9,816,153	0.70	35,869,173	1.24
2010	3,794,586	0.13	9,818,605	0.00	37,253,956	0.76
2011	3,806,411	0.31	9,847,712	0.30	37,427,946	0.47
2012	3,827,172	0.55	9,889,520	0.42	37,668,804	0.64
2013	3,866,133	1.02	9,963,811	0.75	37,984,138	0.84
2014	3,904,657	1.00	10,041,797	0.78	38,340,074	0.94

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

Sources: 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 and 2010 Census Counts. September 2011. State of California, Department of Finance, E-4 Population Estimates for Cities, Counties, and the State, 2011-2014, with 2010 Census Benchmark. Sacramento, California, May 2014. State of California, Department of Finance, E-1 Population Estimates for Cities, Counties and the State with Annual Percent Change—January 1, 2013 and 2014. Sacramento, California, May 2014.

Industry and Employment

The following table 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 April 2014 of 7.8% statewide, 7.6% for Los Angeles County, and 8.5% for the City (not seasonally adjusted).

Table 2
Estimated Average Annual Employment and
Unemployment of Resident Labor Force *

Civilian Labor Force *	2009	2010	2011	2012	2013
City of Los Angeles					
Employed	1,676,600	1,647,900	1,669,800	1,680,100	1,728,500
Unemployed	<u>243,700</u>	<u>266,900</u>	<u>261,800</u>	<u>230,900</u>	<u>211,700</u>
Total	<u>1,920,300</u>	<u>1,914,700</u>	<u>1,931,500</u>	<u>1,911,000</u>	<u>1,940,200</u>
County of Los Angeles					
Employed	4,339,300	4,298,500	4,331,500	4,365,800	4,470,700
Unemployed	<u>568,300</u>	<u>617,900</u>	<u>604,900</u>	<u>535,500</u>	<u>489,600</u>
Total	<u>4,907,600</u>	<u>4,916,300</u>	<u>4,936,400</u>	<u>4,901,300</u>	<u>4,960,300</u>
Unemployment Rates					
City	12.7%	13.9%	13.6%	12.1%	10.9%
County	11.6	12.6	12.3	10.9	9.9
State	11.3	12.4	11.7	10.5	8.5
United States	9.3	9.6	8.9	8.1	7.4

* March 2013 Benchmark report as of May 16, 2014; not seasonally adjusted.

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.

Sources: 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.

The table below summarizes the California Employment Development Department's estimated average annual employment for the County, 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.

The Trade, Transportation and Utilities sector was the largest employment sector in the County in 2013, employing 19.0% of wage and salary workers. Educational and Health Services, at 17.3%, was the second highest employment sector in the County, followed by Professional and Business Services, which employed 14.3% of wage and salary workers.

Table 3
Los Angeles County Estimated Industry Employment and Labor Force¹

	County				State of California	
	2000	% of Total	2013	% of Total	2013	% of Total
Agricultural	7,700	0.2%	5,500	0.1%	411,400	2.6%
Natural Resources and Mining	3,400	0.1	4,600	0.1	30,600	0.2
Construction	131,700	3.2	116,500	2.8	636,200	4.1
Manufacturing	612,200	15.0	366,500	8.9	1,250,900	8.0
Trade, Transportation and Utilities	786,000	19.3	780,700	19.0	2,802,500	18.0
Information	243,700	6.0	197,300	4.8	450,400	2.9
Financial Activities	222,800	5.5	211,800	5.1	782,300	5.0
Professional and Business Services	587,900	14.4	590,300	14.3	2,330,900	15.0
Educational and Health Services	418,500	10.3	713,400	17.3	2,307,100	14.8
Leisure and Hospitality	344,700	8.4	436,700	10.6	1,671,300	10.7
Other Services	140,000	3.4	145,500	3.5	515,200	3.3
Government	<u>581,300</u>	<u>14.2</u>	<u>549,200</u>	<u>13.3</u>	<u>2,370,100</u>	<u>15.2</u>
Total ²	<u>4,079,800</u>	<u>100.0%</u>	<u>4,118,000</u>	<u>100.0%</u>	<u>15,558,800</u>	<u>100.0%</u>

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.

Note: Based on surveys distributed to employers; not directly comparable to Civilian Labor Force data reported in Table 2.

Source: California Employment Development Department, Labor Market Information Division. Based on March 2013 Benchmark report released April 18, 2014.

Major Employers

The top 25 major non-governmental employers in the County are listed in the table below. The employees of these non-governmental employers represent approximately 6.6% of the labor force (based on total employment in 2013). In addition, government employment represents approximately 13.3% of the labor force (see Table 3—Estimated Industry Employment and Labor Force).

Table 4
Los Angeles County 2013 Major Non-Governmental Employers

Employer	Product/Service	Employees
Kaiser Permanente	Nonprofit health care plan	36,495
Northrop Grumman Corp.	Defense contractor	16,100
Target Corp.	Retailer	15,000
University of Southern California	Private university	14,525
Bank of America Corp	Banking and financial services	13,746
Ralphs/Food 4 Less (Kroger Co. Division)	Grocery retailer	13,500 ¹
Providence Health & Services So. Cal.	Health care	10,983
Cedars-Sinai Medical Center	Medical center	10,663
Home Depot	Home improvement specialty retailer	10,630
Walt Disney Co.	Entertainment	10,500 ¹
Boeing Co.	Integrated aerospace and defense systems	10,463
Wells Fargo	Diversified financial services	10,100
AT&T Inc.	Telecommunications	8,900
UPS	Transportation and freight	8,845
California Institute of Technology	Private university, operator of Jet Propulsion Laboratory	8,649
ABM Industries Inc.	Facilities services, energy solutions, commercial cleaning, maintenance and repair	8,200
American Apparel Inc.	Apparel manufacturer and retailer	7,960
Edison International	Electric utility	7,850
Vons	Retail grocer	7,750
FedEx Corp.	Shipping and logistics	7,700 ¹
Warner Bros. Entertainment Inc.	Entertainment	7,400 ²
Raytheon Co.	Aerospace and defense contractor	6,973 ³
JPMorgan Chase	Banking and financial services	6,300
Dignity Health	Health care	6,106
Amgen Inc.	Biotechnology	6,000

¹ Business Journal estimate.

² Information provided by City of Burbank.

³ Information provided by City of El Segundo.

Source: *Los Angeles Business Journal*, Weekly Lists, originally published September 9, 2013.

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 wages and salaries, supplements to wages and salaries, and proprietors’ income, less contributions for government social insurance, before deduction of personal income and other taxes.

The following table summarizes the latest available estimate of personal income for the County, State and United States.

Table 5
County, State and U.S. Personal Income

Year and Area	Personal Income (Thousands of Dollars)	Per Capita Personal Income ¹ (Dollars)
2009		
County	\$ 394,935,230	\$ 40,351
State	1,536,429,610	41,569
United States	12,073,738,000	39,357
2010		
County	\$ 403,962,065	\$ 41,113
State	1,579,148,473	42,297
United States	12,423,332,000	40,163
2011		
County	\$ 424,763,231	\$ 42,953
State	1,683,203,700	44,666
United States	13,179,561,000	42,298
2012		
County ²	\$ 443,088,010	\$ 44,474
State	1,768,039,281	46,477
United States	13,729,063,000	43,735
2013		
County	n/a	n/a
State ²	\$ 1,817,010,000	\$ 47,401
United States ²	14,081,242,000	44,543

¹ Per capita personal income was computed using Census Bureau midyear population estimates. Per capita personal income is total personal income divided by total midyear population. Last updated: May 12, 2014; new estimates for 2013.

² Last updated: May 12, 2014.

Source: U.S. Bureau of Economic Analysis, "Table SA1-3 Local Areas Personal Income and Employment," (accessed May 12, 2014). U.S. Bureau of Economic Analysis, "Table SA1-3 Annual State Personal Income and Employment," (accessed May 12, 2014). U.S. Bureau of Economic Analysis, "Table CA1-3 County Personal Income and Employment," (accessed May 12, 2014).

Retail Sales

As the largest city in the County, the City accounted for \$40.1 billion (or 29.7%) of the total \$135.2 billion in County taxable sales for 2012. The following table sets forth a history of taxable sales for the City for calendar years 2009 through 2012, 2012 being the last full year for which data is currently available. A four year series is presented for this information, as the State changed its reporting categories beginning with the 2009 report.

The City experienced a 4.9% increase in sales tax receipts during Fiscal Year 2012-13, estimates 5.5% growth in Fiscal Year 2013-14 and projects 4.6% growth in the Fiscal Year 2014-15 Adopted Budget.

Table 6
City of Los Angeles Taxable Sales
(in thousands)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Motor Vehicle and Parts Dealers	\$ 2,760,647	\$ 2,865,868	\$ 3,224,150	\$ 3,662,657
Home Furnishings and Appliance Stores	1,566,716	1,590,667	1,609,905	1,676,926
Bldg. Materials and Garden Equip. and Supplies	1,700,820	1,711,735	1,834,117	1,942,915
Food and Beverage Stores	2,126,677	2,123,626	2,199,481	2,322,695
Gasoline Stations	3,621,498	4,114,016	4,952,984	5,090,496
Clothing and Clothing Accessories Stores	2,404,735	2,551,905	2,715,953	2,884,984
General Merchandise Stores	2,448,694	2,534,482	2,660,830	2,759,578
Food Services and Drinking Places	5,437,781	5,637,405	6,049,187	6,564,652
Other Retail Group	<u>3,425,579</u>	<u>3,451,919</u>	<u>3,599,674</u>	<u>3,716,658</u>
Total Retail and Food Services	<u>25,493,148</u>	<u>26,581,623</u>	<u>28,846,283</u>	<u>30,621,561</u>
All Other Outlets	<u>8,098,716</u>	<u>8,233,833</u>	<u>9,011,361</u>	<u>9,502,364</u>
Total All Outlets*	<u>\$33,591,864</u>	<u>\$34,815,457</u>	<u>\$37,857,643</u>	<u>\$40,123,926</u>

* Items may not add to totals due to rounding.

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

Land Use

The following table, derived from data maintained by the Los Angeles County Assessor, indicates various land uses within the City based on assessed valuation and the number of parcels.

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Table 7
City of Los Angeles Assessed Valuation and Parcels by Land Use

	2013-14 Assessed Valuation *	% of Total	No. of Parcels	% of Total
<u>Non-Residential</u>				
Commercial Office	\$70,238,001,198	16.59%	35,483	4.59%
Vacant Commercial	2,060,530,764	0.49	1,256	0.16
Industrial	36,730,705,063	8.67	20,234	2.62
Vacant Industrial	1,797,887,497	0.42	3,886	0.50
Recreational	1,686,681,326	0.40	753	0.10
Government/Social/Institutional	3,233,400,613	0.76	3,882	0.50
Miscellaneous	<u>562,381,799</u>	<u>0.13</u>	<u>2,719</u>	<u>0.35</u>
Subtotal Non-Residential	<u>\$ 116,309,588,260</u>	<u>27.46%</u>	<u>68,213</u>	<u>8.83%</u>
<u>Residential</u>				
Single Family Residence	\$ 201,261,659,719	47.52%	485,224	62.83%
Condominium/Townhouse	30,375,352,424	7.17	85,510	11.07
Mobile Homes and Lots	100,620,811	0.02	3,312	0.43
Mobile Home Park	156,257,660	0.04	92	0.01
2-4 Residential Units	23,967,156,168	5.66	74,199	9.61
5+ Residential Units/Apartments	48,223,264,726	11.39	34,700	4.49
Vacant Residential	<u>3,098,543,071</u>	<u>0.73</u>	<u>21,092</u>	<u>2.73</u>
Subtotal Residential	<u>\$307,182,854,579</u>	<u>72.54%</u>	<u>704,129</u>	<u>91.17%</u>
Total	<u>\$423,492,442,839</u>	<u>100.00%</u>	<u>772,342</u>	<u>100.00%</u>

* Local Secured Assessed Valuation, excluding tax-exempt property.
Source: California Municipal Statistics, Inc.

Residential Value and Construction Activity

The following table indicates the array of assessed valuation for residential properties in the City.

Table 8
City of Los Angeles
Per Parcel 2013-14 Assessed Valuation of Residential Properties

	No. of Parcels	2013-14 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Residential Properties	704,129	\$307,182,854,579	\$436,259	\$270,000

2013-14 Assessed Valuation	No. of Residential Parcels *	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
\$0 - \$49,999	44,183	6.275%	6.275%	\$ 1,211,891,629	0.395%	0.395%
\$50,000 - \$99,999	63,435	9.009	15.284	4,709,727,867	1.533	1.928
\$100,000 - \$149,999	62,404	8.863	24.146	7,851,654,576	2.556	4.484
\$150,000 - \$199,999	76,515	10.867	35.013	13,423,659,073	4.370	8.854
\$200,000 - \$249,999	77,045	10.942	45.955	17,291,076,785	5.629	14.483
\$250,000 - \$299,999	67,782	9.626	55.581	18,593,830,080	6.053	20.536
\$300,000 - \$349,999	56,984	8.093	63.674	18,455,539,227	6.008	26.544
\$350,000 - \$399,999	44,473	6.316	69.990	16,598,047,443	5.403	31.947
\$400,000 - \$449,999	32,810	4.660	74.650	13,900,837,062	4.525	36.472
\$450,000 - \$499,999	25,963	3.687	78.337	12,296,946,349	4.003	40.475
\$500,000 - \$549,999	20,247	2.875	81.213	10,611,276,321	3.454	43.930
\$550,000 - \$599,999	17,272	2.453	83.665	9,909,755,274	3.226	47.156
\$600,000 - \$649,999	14,504	2.060	85.725	9,048,833,571	2.946	50.101
\$650,000 - \$699,999	11,861	1.684	87.410	7,990,828,067	2.601	52.703
\$700,000 - \$749,999	9,820	1.395	88.804	7,106,452,299	2.313	55.016
\$750,000 - \$799,999	8,410	1.194	89.999	6,506,930,066	2.118	57.134
\$800,000 - \$849,999	7,029	0.998	90.997	5,791,499,205	1.885	59.020
\$850,000 - \$899,999	6,189	0.879	91.876	5,408,785,770	1.761	60.781
\$900,000 - \$949,999	5,235	0.743	92.620	4,835,956,966	1.574	62.355
\$950,000 - \$999,999	4,503	0.640	93.259	4,387,081,211	1.428	63.783
\$1,000,000 and greater	<u>47,465</u>	<u>6.741</u>	100.000	<u>111,252,245,738</u>	<u>36.217</u>	100.000
Total	704,129	100.000%		\$307,182,854,579	100.000%	

* Improved and unimproved residential properties.
Source: California Municipal Statistics, Inc.

The table below provides a summary of building permits issued by the City by calendar year.

Table 9
City of Los Angeles Building Permit Valuations and New Dwelling Units
(Dollars in Millions)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Total Valuation ¹	\$2,081	\$3,328	\$3,386	\$3,671	\$4,246
Residential ²	567	876	1,121	1,357	1,732
Miscellaneous ³	11	15	26	17	48
Number of Units:					
Single family ⁴	781	772	726	1,059	1,254
Multi-family ⁵	<u>1,892</u>	<u>3,374</u>	<u>5,258</u>	<u>235</u>	<u>7,136</u>
Subtotal Residential	2,673	4,146	5,984	1,294	8,390
Miscellaneous ⁶	<u>185</u>	<u>370</u>	<u>390</u>	<u>477</u>	<u>536</u>
Total Units	2,858	4,516	6,374	1,771	8,926

¹ Represents the total valuation of all construction work for which building permits were issued.

² Valuation of permits issued for Single-Family Dwellings, Duplexes, Apartment Buildings, Hotel/Motels, 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 and Duplexes.

⁵ Number of dwelling units permitted for new Apartment Buildings, Hotel/Motels, 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

The following table 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 10
Los Angeles Metropolitan Area
Non-Residential Vacancy Rates

<u>Year</u> *	<u>Downtown</u>	<u>Suburban</u>	<u>Metropolitan</u>	<u>Industrial Availability</u>
2009	14.9%	14.7%	14.8%	7.7%
2010	17.6	16.7	16.9	7.7
2011	18.1	17.5	17.6	7.4
2012	18.3	16.5	16.8	6.8
2013	18.9	16.1	16.5	6.7

* Second 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 areas. 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. 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 “City 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, Eric Garcetti, assumed office on July 1, 2013.

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. The current Controller, Ron Galperin, assumed office on July 1, 2013.

The City Attorney is attorney and legal advisor to the City and to all City boards, departments, officers, and entities, and prosecutes misdemeanors and violations of the Charter and City ordinances. Mike Feuer assumed the office on July 1, 2013.

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. On July 1, 2011, the Office of the Treasurer was consolidated into the Office of Finance. Antoinette Christovale, the Director of Finance, also serves as the City Treasurer.

The City has 39 departments, bureaus, commissions and offices for which operating funds are annually budgeted by the Council. In addition, four departments (the Department of Water and Power (“DWP”), the Harbor Department, the Department of Airports, and the Housing Authority of the City) are under the control of boards appointed by the Mayor and confirmed by the Council. The City obtains water

and electricity from DWP, the largest municipally-owned utility in the nation. Two departments, the Los Angeles City Employees' Retirement System and the Fire and Police Pension System, are under the control of boards whose membership is comprised of Mayoral appointees and representatives elected by system members.

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 was presented with an initiative petition to seek voter approval of the creation of a 15-member commission, with staff, to attend all meetings of the County regarding health policy, review a representative sample of County health services contracts, and present an annual health services plan regarding the health needs and goals for the City. The City Council adopted the proposed ordinance without alteration, rather than the alternative of placing the matter before the voters. There is currently no estimate of the cost impact of this measure.

An unsuccessful candidate for Mayor in the City's 2013 primary election posted on a website that a complaint was submitted to the United States Securities and Exchange Commission ("SEC") in October 2012, alleging that the City violated federal and state securities laws by failing to disclose certain budgetary information. The City has not received any notice or other communication from the SEC regarding this complaint.

In early 2013, City Council President Herb Wesson asked Mickey Kantor, the former United States Secretary of Commerce, to establish an independent, private commission to study and report on fiscal stability and job growth in the City. Former Mayor Antonio Villaraigosa also endorsed the establishment of such a commission, known as the "Los Angeles 2020 Commission" (the "2020 Commission"). The 2020 Commission has 13 members, including former Governor Gray Davis, representing private sector, labor and governmental viewpoints. In December 2013, the 2020 Commission released its first report, "A Time for Truth," which discussed the current challenges facing the City. In April 2014, the 2020 Commission released its second report, "A Time for Action," which contained a series of measures aimed at enhancing transparency and accountability in City Hall, and putting Los Angeles on a path toward fiscal stability and job creation. The reports were presented to the City Council; no action was taken by the Mayor and City Council on these reports. Both of these reports may be found at www.la2020reports.org; they are not incorporated herein by reference.

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

Retirement and Pension Systems

General

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 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 contribution rates for such years. The City generally makes its actuarially determined Annual Required Contribution (“ARC”), although from time to time phasing-in of assumption changes has resulted in a small net pension obligation or net OPEB obligation for specific years.

The Pension Systems’ annual valuations determine 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 accrued as of the valuation date and the actuarial value of 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 over time the accrued costs attributable to currently active, vested former members and retired employees and their beneficiaries. In addition, various actuarial assumptions are used in the valuation process including the assumed rate of earnings on the assets of the plan in the future, the assumed rates of general inflation, salary inflation, inflation in health care costs, 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 liabilities will be more or less than the liabilities calculated based on the assumptions. The contribution rates in the next year’s valuations are adjusted to take into account actual performance in the current and prior years. In addition, each plan performs an experience study every three years and further adjusts its assumptions accordingly.

The valuations incorporate a variety of actuarial methods, some of which are designed to reduce the volatility of contributions from year to year. When measuring the value of 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. These smoothing methodologies result in an actuarial valuation of assets that are lower or higher than the market value of assets. As discussed below, both systems have recently amended their smoothing methodologies to address extraordinary losses or gains in the market value of assets.

Both Pension Systems have adopted asset allocation plans to guide their investments in stocks, bonds, real estate, alternatives and cash equivalents over a three- to five-year period. The asset allocations of the Pension Systems are summarized further below. Market value investment returns for the past 10 fiscal years are shown in the table below. Any return below the actuarial assumed rate of return (currently 7.75% for both of the Pension Systems) represents an actuarial investment loss, while any return above 7.75% represents an actuarial investment gain.

Table 11
Los Angeles Pension Systems
Historical Market Value Investment Returns

Fiscal Year	LACERS ¹	FPPP ²
2003-04	18.6%	16.9%
2004-05	10.0	10.1
2005-06	12.4	12.5
2006-07	19.5	18.5
2007-08	(5.7)	(4.7)
2008-09	(19.5)	(20.0)
2009-10	12.9	13.7
2010-11	22.6	22.1
2011-12	1.1	1.9
2012-13	14.3	13.0

¹ As of June 30, 2013, the 20-year annualized average rate of return for LACERS was 7.9%. The 30-year average was 9.4%.

² As of June 30, 2013, the 20-year annualized average rate of return for FPPP is 8.0%. The 30-year average is 9.2%.

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

The City has never issued pension obligation bonds to fund either of its Pension Systems.

This section, “**Retirement and Pension Systems**,” and the following section, “**Other Post-Employment Benefits**,” contain certain information relating to LACERS and FPPP. The information contained in these sections is primarily derived from information produced by LACERS and FPPP and their independent accountants and their actuaries. The City has not independently verified the information provided by LACERS and FPPP. The comprehensive annual financial reports, actuarial valuations for retirement and health benefits, and other information concerning LACERS and FPPP are available on their websites. Such information is not incorporated by reference herein. For additional information regarding the Pension Systems, see the City’s Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2013.

Investors are cautioned that, in considering information on the Pension Systems, including the amount of the UAAL for retirement and other benefits, 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 value of 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.

Los Angeles City Employees’ Retirement System (“LACERS”)

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, 2013, the date of its most recent actuarial valuation, LACERS had 24,441 active members, 17,362 retired members and beneficiaries, and 5,799 inactive members. The number of retired members was significantly increased, and the number of active members significantly decreased, as a result of the City’s Early Retirement Incentive Program in Fiscal Year 2009-10. LACERS is funded pursuant to the Entry Age Normal Cost Method, which is designed to produce stable employer

contributions in amounts that increase at the same rate as the employer's payroll (i.e., level percent of payroll).

A number of assumptions are made in calculating the actuarial valuation of retirement benefits. The following are some of the key assumptions used by LACERS' actuary, The Segal Company, in preparing LACERS' actuarial report as of June 30, 2013.

Table 12
Los Angeles City Employees' Retirement System
Actuarial Assumptions
As of June 30, 2013

Investment rate of return	7.75%
Inflation rate	3.50%
Real across-the-board salary increase	0.75%
Projected salary increases	Ranges from 4.65% to 11.25%, based on service
Cost of living adjustments for pensioners	3.00%

Source: Los Angeles City Employees' Retirement System Actuarial Valuation and Review of Retirement and Health Benefits as of June 30, 2013.

Based on the results of its most recent triennial experience study dated September 30, 2011 for the three-year period from July 1, 2008 through June 30, 2011, LACERS adopted new actuarial assumptions, including a reduced assumed investment return from 8% to 7.75%. The impact of these new actuarial assumptions would have increased the City's contribution rate by approximately 1.39% in Fiscal Year 2012-13. However, LACERS' Board approved phasing in impacts of these changes in assumptions over five years, which resulted in a 0.28% increase to the City's contribution rate in Fiscal Year 2012-13, and a .55% increase to the City's contribution rate for Fiscal Year 2013-14.

Over the past several years, LACERS' Board took several actions to change its asset smoothing method. First, it extended the period of time over which it recognizes market gains and loss from five to seven years, effective with the June 30, 2010 actuarial evaluation. Under this asset smoothing, only 1/7th of annual market gains or losses are recognized in the actuarial value of assets each year. The remaining gains or losses are spread equally over the next six years. LACERS also amended the manner by which it recognizes extraordinary losses or gains in the market value of assets. LACERS, like a number of pension systems, maintains a policy that whenever market value falls outside a certain range or "corridor" relative to actuarial value, the excess portion must be recognized in that year's valuation. Previously, losses that resulted in the calculated actuarial value being greater than 120% of the market value, or gains resulting in market values less than 80% of actuarial values, had to be recognized immediately. Because of investment losses for Fiscal Year 2008-09 of approximately 20%, LACERS' actuary estimated that the actuarial value would be greater than 120% of the market value of assets. Application of this corridor meant that losses would be recognized more quickly than would occur under normal smoothing. LACERS' Board adopted a wider corridor, effective June 30, 2009, requiring immediate recognition of the losses or gains of assets whose actuarial value was greater than 150% of the market value or less than 50% of the market value. The effect of this action was to defer the actuarial recognition of extraordinary market losses; however, the unrecognized losses will have to be paid in future years. In connection with the revised smoothing method discussed above, LACERS again, as of June 30, 2010, revised its market corridor, narrowing it to 60%-140%, when the smoothing period was extended from five to seven years.

The following table shows unrecognized gains and losses as of June 30, 2013. As of the valuation date, approximately \$82 million of net investment return losses are being deferred. These deferred losses

will be reflected in future valuations and will increase the City's contribution in the future, unless offset by other favorable plan experience.

Table 13
Los Angeles City Employees' Retirement System
Calculation of Unrecognized Return Due To Asset Smoothing
As of June 30, 2013

Year Ended June 30	Original Market Gain (Loss)	Percent Not Yet Recognized	Amount Not Recognized
2013	\$ 683,838,549	85.71%	\$ 586,147,328
2012	(770,325,267)	71.43	(550,232,334)
2011	1,208,621,516	57.14	690,640,866
2010	392,956,483	42.86	168,409,921
2009	(2,964,832,484)	26.67*	(790,621,996)
2008	(1,549,293,380)	12.00*	<u>(185,915,206)</u>
Total Unrecognized Return (loss)			\$(81,571,421)

*These percentages have been calculated by taking the unrecognized returns developed using a 5-year smoothing period through June 30, 2009 and recognizing those amounts over an extended period of an additional 2 years (for a total of 7 years from the original date of the investment gains or losses) starting with the June 30, 2010 valuation.

Source: Los Angeles City Employees' Retirement System Actuarial Valuation and Review of Retirement and Health Benefits as of June 30, 2013.

LACERS amortizes components that contribute to its UAAL over various periods of time, depending on how the unfunded liability arose, layering separate, fixed amortization periods. Under current funding policy, actuarial losses and gains are amortized over fixed 15-year periods. Liabilities or surpluses due to assumption changes are funded or credited over 15 or 30 years for retiree health care benefits and retirement benefits, respectively. Liabilities caused by future early retirement incentives will be funded over five years; other benefit changes will be amortized over 15 years. Effective for the June 30, 2012 valuation, most existing liabilities on or before June 30, 2012 were combined under one layer and amortized over 30 years. The LACERS Board implemented this revised amortization policy to mitigate the impact of the change in funding policy from the Projected Unit Credit cost method to Entry Age Normal cost method.

The table below 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.

Table 14
Los Angeles City Employees' Retirement System
Schedule of Funding Progress For Retirement Benefits
Actuarial Value Basis
(Dollars in Thousands)¹

Actuarial Valuation As of June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded AAL ²	Funded Ratio ³	Covered Payroll ⁴	Underfunded AAL As a Percentage of Covered Payroll ⁵
2004	\$ 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	1,733,340	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
2011	9,691,011	13,391,704	3,700,693	72.4	1,833,392	201.9
2012	9,934,959	14,393,959	4,458,999	69.0	1,819,270	245.1
2013	10,223,961	14,881,663	4,657,702	68.7	1,846,970	252.2

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.

Source: Los Angeles City Employees' Retirement System Actuarial Valuation and Review of Retirement and Health Benefits as of June 30, 2013.

The actuarial value of assets is different from the market value of assets as gains and losses are smoothed over a number of years. The following table shows the funding progress of LACERS based on the market value of the portion of system assets allocated to retirement benefits.

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Table 15
Los Angeles City Employees' Retirement System
Schedule of Funding Progress For Retirement Benefits
Market Value Basis
(Dollars in Thousands)¹

Actuarial Valuation As of June 30	Market Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded Liability²	Funded Ratio (Market Value)³	Covered Payroll⁴	Underfunded Liability As a Percentage of Covered Payroll (Market Value)⁵
2004	\$ 6,879,278	\$ 8,533,864	\$ 1,654,586	80.6%	\$ 1,575,285	105.0%
2005	7,393,707	9,321,525	1,927,818	79.3	1,589,306	121.3
2006	8,204,603	9,870,662	1,666,059	83.1	1,733,340	96.1
2007	9,708,718	10,526,874	818,156	92.2	1,896,609	43.1
2008	9,059,551	11,186,404	2,126,853	81.0	1,977,645	107.5
2009	7,122,911	12,041,984	4,919,073	59.2	1,816,171	270.9
2010	7,804,223	12,595,025	4,790,802	62.0	1,817,662	263.6
2011	9,186,697	13,391,704	4,205,007	68.6	1,833,392	229.4
2012	9,058,839	14,393,959	5,335,120	62.9	1,819,270	293.2
2013	10,154,486	14,881,663	4,727,177	68.2	1,846,970	255.9

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

² Actuarial Accrued Liability minus Market Value of Assets. Positive numbers represent a funded ratio less than 100%.

³ Market value of assets divided by actuarial accrued liability.

⁴ Annual payroll for members of LACERS.

⁵ Unfunded liability divided by covered payroll.

Source: Los Angeles City Employees' Retirement System Actuarial Valuation and Review of Retirement and Health Benefits as of June 30, 2013.

The table below summarizes the City's payments to LACERS over the past five years. This table includes costs for retirement, as well as for retiree health care, and other miscellaneous benefits.

Table 16
Los Angeles City Employees' Retirement System
Sources and Uses of Contributions
(Dollars in Thousands)¹

	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13³</u>	<u>2013-14</u>	<u>Adopted 2014-15⁴</u>
Sources of Contributions					
Contributions for Council-controlled					
Departments	\$339,136	\$351,734	\$342,188	\$367,772	\$411,509
Airport, Harbor Departments, LACERS, LAFPP	<u>72,701</u>	<u>72,781</u>	<u>77,917</u>	<u>83,759</u>	<u>93,718</u>
Total	<u>\$411,837</u>	<u>\$424,515</u>	<u>\$420,105</u>	<u>\$451,531</u>	<u>\$505,227</u>
Percent of payroll – Tier 1	24.49%	24.71%	24.14%	25.33%	26.56%
Percent of payroll – Tier 2				18.32%	19.63%
Uses of Contributions					
Current Service Liability (Normal cost)	\$230,398	\$186,487	\$184,202	\$185,217	\$193,578
UAAL	180,559	237,262	234,896	265,081	305,591
Adjustments ²	<u>880</u>	<u>766</u>	<u>1,007</u>	<u>1,233</u>	<u>6,058</u>
Total	<u>\$411,837</u>	<u>\$424,515</u>	<u>\$420,105</u>	<u>\$451,531</u>	<u>\$505,227</u>

¹ Includes funding for OPEB.

² Includes the excess benefit plan, the family death benefit plan, and the limited term plan fund. Beginning with the 2014-15 payment, the true-up obligation for the prior year is also reflected in this line item.

³ A \$3.7 million credit from 2011-12 was applied to 2012-13. The actual amount paid for Council-controlled departments, Airports, and Harbor to LACERS subsequent to this credit was \$416.4 million.

⁴ Payment for the 2013-14 true-up in the amount of \$5,191,511 (all agencies) will be made in 2014-15.

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

In late 2012, the City Council adopted a new civilian retirement tier (Council file 10-1250), which applies to all employees hired on or after July 1, 2013. Prior to the adoption of the new tier, the City successfully negotiated and/or implemented various savings measures, including increasing active member pension contributions from 7% to 11% to help defray the costs of retiree healthcare, freezing retiree health care subsidies for noncontributing employees, deferring cost-of-living adjustments, reducing the size of the civilian workforce by 5,300 positions, implementing a new pension tier for sworn personnel, and lowering the new hire salary for police officers by 20%. Although such measures were significant in helping to ameliorate the City's fiscal difficulties, implementation of a new civilian retirement tier was necessary to further bridge the gap. The new tier will reduce the City's future pension costs by increasing the normal retirement age from 55 to 65, decreasing the maximum retirement factor from 2.16% to 2.00% per year of service, capping the maximum retirement allowance at 75% of an employees' final compensation (compared to the current 100%), setting an employees' pension on a 3-year salary average (as opposed to one year), modifying disability retirement benefits to avoid spikes in the number of disability retirements, eliminating the current 50% survivor continuance benefit capping future retiree annual cost-of-living adjustments to 2% with the option for the employee to purchase up to 3%, requiring that employees pay the full cost of purchasing service credit and limiting the number of years purchasable to four years maximum, and controlling retiree healthcare costs by limiting the benefit to retirees only. The most significant cost offset for the City is achieved through the new tier's cost sharing element, which requires employees to contribute a portion of their salary at 75% of the normal cost of the pension benefits plus 50% of any future unfunded liabilities. This will relieve the City from carrying 100% of future pension cost increases.

In total, the new civilian retirement tier is estimated to result in a five-year savings of \$30 million to \$70 million, a 10-year savings of \$169 million to \$309 million, and a 30-year savings of \$3.9 billion to \$4.3 billion, as calculated by an independent enrolled actuary as required under the City Charter (Section 1168).

In the development and implementation of the new civilian tier, the City reached out to labor unions that represent all civilian employees through a two-year meet and consult process. Various unions contend that the development and implementation of the new tier is subject to meet and confer. As such, administrative actions have been taken against the City and are currently in process. Pending the outcome of the administrative actions, legal action may be taken against the City.

The City contribution is determined annually based on the estimated payroll for the coming fiscal year for LACERS-covered employees (as adopted through the City budget process), multiplied by an actuarially determined contribution percentage needed to fund the retirement and retiree healthcare benefits (as adopted by the LACERS Board). If the estimated covered payroll is less than the actual payroll amount, an actuarial loss will occur as the actual contribution is less than what is expected. Conversely an actuarial gain will occur if the estimated covered payroll is higher than the actual payroll amount. These annual experience gains/losses are added to the Unfunded Actuarial Accrued Liability (“UAAL”) and amortized over 15 years. The City’s future contributions will increase or decrease in the next 15 years to compensate for the contribution shortfall or surplus of a given year. Therefore, from the plan funding perspective, the inexactness in estimated covered payroll does not affect a pension plan’s long-term funding goal.

However, beginning July 1, 2013, the inexactness between the City’s estimated and actual covered payroll will have impact on the contribution rate for members under a new tier of LACERS benefits (Tier 2) adopted by City ordinance. Under Tier 2, the employee contribution is 10% of pensionable salary for the first four years; thereafter, Tier 2 member contributions are based on an actuarially determined rate, adopted by the Board, sufficient to fund 75% of Normal Cost and 50% of UAAL. The UAAL will increase when the estimated covered payroll is less than the actual covered payroll. Tier 2 members could potentially challenge their contribution to the UAAL claiming undue actuarial losses on the grounds that the City understated covered payrolls. Therefore, the LACERS Board adopted a contribution true-up mechanism to prevent such disputes on Tier 2 member contributions. The true-up amount determined by this mechanism, being either an underpayment or overpayment by the City, will result an adjustment to the annual required City contribution for the following fiscal year beginning from fiscal year 2013-2014, rather than incorporated into the UAAL to be amortized over 15 years.

The following table sets forth LACERS’ investments and asset allocation targets.

Table 17
Los Angeles City Employees' Retirement System
Asset Class Market Value and Allocation
As of September 30, 2013
(Dollars in Millions)

<u>Asset Class</u>	<u>Market Value</u>	<u>Market Value to Total Fund (%)</u>	<u>Target to Total Fund (%)</u>
U.S. Equity	\$8.90	69.2%	65.0%
Non-U.S. Equity	2.79	21.7	29.0
Core	2.73	21.2	19.0
Credit Opportunities	0.10	0.8	5.0
Public Real Assets	-	0.0	5.0
Private Real Estate	<u>0.68</u>	<u>5.3</u>	<u>5.0</u>
Total Portfolio	\$12.87	100.0%	100.0%

Source: LACERS Portfolio Performance Review for the Quarter Ending September 30, 2013.

Fire and Police Pension Plan (“FPPP”)

The FPPP, established in 1899 and incorporated into the Charter in 1923, represents contributory plans covering uniformed fire and police (sworn) personnel. As of June 30, 2013, the date of its most recent actuarial valuation, the FPPP had 13,224 active members, 12,432 retired members and beneficiaries, and 133 vested former members. The FPPP is funded pursuant to the Entry Age Normal Cost Method, which is designed to produce stable employer contributions in amounts that increase at the same rate as the employer’s payroll (i.e., level percent of payroll).

Within the FPPP, there is a Deferred Retirement Option Plan (“DROP”). This voluntary plan allows members to retire for pension purposes only, after they are eligible to retire and have completed at least 25 years of service. A member entering DROP continues to work and receive salary and benefits as an active employee, but stops accruing additional service credit for retirement purposes. While in DROP, the member’s retirement benefit is deposited into an interest-bearing account that is distributed to the member when he or she leaves City service. Participation in DROP is limited to a maximum of five years. A new study was completed in February 2014 and is currently being reviewed by the Office of the City Administrative Officer and labor organizations.

Six tiers of benefits are provided, depending on the date of the member’s hiring. For Tier 1, any UAAL is amortized over a fixed term ending on June 30, 2037. For Tiers 2, 3, and 4, level percent of payroll amortization with multiple layers is used as a percent of total valuation payroll from the respective employer (i.e., City or Harbor Port Police). For Tiers 5 and 6, level percent of payroll with multiple layers is used as a percent of combined payroll for these tiers from the respective employer. A Charter amendment adopted by City voters on March 8, 2011 provides the FPPP Board with greater flexibility to establish amortization policies. Under the FPPP Board’s actuarial funding policy, adopted in September 2012, actuarial gains or losses are amortized over 20 years; changes in actuarial assumptions and cost methods are amortized over 25 years; plan amendments are amortized over 15 years; and actuarial funding surpluses are amortized over 30 years. That same Charter amendment created a new tier of retirement benefits (Tier 6) for sworn employees hired after July 1, 2011.

A number of assumptions are made in calculating the actuarial valuation of retirement benefits. The following are some of the key assumptions used by the FPPP actuary, The Segal Company, in preparing FPPP's actuarial report.

Table 18
Los Angeles Fire and Police Pension Plan
Actuarial Assumptions
As of June 30, 2013

Investment rate of return	7.75%
Inflation rate	3.50%
Real across-the-board salary increase	0.75%
Projected salary increases	Ranges from 5.25% to 12.25% based on service
Cost of living adjustments (pensioners)	3.50% for Tiers 1 and 2 and 3.00% for Tiers 3, 4, 5 and 6.

Source: LAFPPP Actuarial Valuation and Review of Pension and Other Postemployment Benefits (OPEB) as of June 30, 2013.

Effective July 1, 2010, the FPPP reduced its assumed investment return from 8% to 7.75%. Also, based on the results of its recent triennial experience study dated June 24, 2011 for the three-year period from July 1, 2007 through June 30, 2010, FPPP adopted new non-economic actuarial assumptions. The impact of these new actuarial assumptions would have increased the City's contribution rate for retirement benefits by approximately 2.94% in Fiscal Year 2012-13. However, FPPP phased in the impacts of these changes in assumptions over three years.

Similar to LACERS, FPPP has taken several actions to change its asset smoothing method. It extended the period of time over which market gains or losses are recognized, extending its smoothing methodology from five years to seven years effective July 1, 2008, so that approximately 1/7th of market losses or gains are recognized each year. FPPP also amended the manner in which they recognize extraordinary losses or gains in the market value of assets, expanding their market value "corridor." Because of investment losses for Fiscal Year 2008-09 of approximately 20%, FPPP adopted a wider corridor (effective July 1, 2008), requiring immediate recognition of assets whose actuarial value was greater than 140% of the market valuation or less than 60% of the market value; the prior corridor was 80% to 120%. The combination of the seven-year smoothing period and three year phase-in is estimated to have deferred approximately \$157 million in City contributions in Fiscal Year 2010-11, \$53 million in Fiscal Year 2011-12, \$90 million in Fiscal Year in 2012-13, and \$80 million in Fiscal Year 2013-14.

The following table shows unrecognized gains and losses as of June 30, 2013 for retirement and health subsidy benefits. As of the valuation date, approximately \$77 million of net investment return is being deferred.

Table 19
Los Angeles Fire and Police Pension Plan
Calculation of Unrecognized Return
As of June 30, 2013

Year Ended June 30	Original Market Gain (Loss)	Percent Not Recognized	Amount Not Recognized
2013	\$ 851,978,845	85.71%	\$ 730,267,581
2012	(1,024,245,456)	71.43	(731,603,897)
2011	1,641,626,618	57.14	938,072,353
2010	737,173,630	42.86	315,931,556
2009	(4,113,928,646)	28.57	(1,175,408,185)
Total unrecognized return (loss)			\$77,259,408

Source: LAFPPP Actuarial Valuation and Review of Pension and Other Postemployment Benefits (OPEB) as of June 30, 2013.

The table below 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.

Table 20
Los Angeles Fire and Police Pension Plan
Schedule of Funding Progress For Retirement Benefits
Actuarial Value Basis
(Dollars in Thousands)¹

Actuarial Valuation As of June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded or (overfunded) AAL ²	Funded Ratio ³	Covered Payroll ⁴	Underfunded AAL As a Percentage of Covered Payroll ⁵
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	15,520,625	1,301,044	91.6	1,356,986	95.9
2011	14,337,669	16,616,476	2,278,807	86.3	1,343,963	169.6
2012	14,251,913	17,030,833	2,778,920	83.7	1,341,914	207.1
2013	14,657,713	17,632,425	2,974,712	83.1	1,367,237	217.6

¹ Table includes funding for retirement benefits only. 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 deficit.

³ Actuarial value of assets divided by actuarial accrued liability.

⁴ Annual payroll against which UAAL amortized.

⁵ UAAL divided by covered payroll.

Source: The Fire and Police Pension System Actuarial Valuations.

Investment gains and losses are recognized on an actuarial basis over a seven-year period. The following table shows the funding progress of FPPP based on the market value of the portion of system assets allocated to retirement benefits.

Table 21
Los Angeles Fire and Police Pension Plan
Schedule of Funding Progress For Retirement Benefits
Market Value Basis
(Dollars in Thousands)¹

Actuarial Valuation As of June 30	Market Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded or (Overfunded) Liability AAL ²	Funded Ratio (Market Value) ³	Covered Payroll ⁴	Underfunded Liability As a Percentage of Covered Payroll (Market Value) ⁵
2004	\$ 11,039,890	\$ 11,389,981	\$ 350,091	96.9%	\$ 1,001,004	35.0%
2005	11,775,706	12,357,524	581,818	95.3	1,037,445	56.1
2006	12,854,086	12,811,384	(42,702)	100.3	1,092,815	(3.9)
2007	14,766,110	13,324,089	(1,442,021)	110.8	1,135,592	(0.1)
2008	13,622,037	14,279,116	657,079	95.4	1,206,589	54.5
2009	10,379,786	14,817,146	4,437,360	70.1	1,357,249	326.9
2010	11,535,936	15,520,625	3,984,688	74.3	1,356,986	293.6
2011	13,564,904	16,616,476	3,051,572	81.6	1,343,963	227.1
2012	13,268,687	17,030,833	3,762,146	77.9	1,341,914	280.4
2013	14,729,976	17,632,425	2,902,449	83.5	1,367,237	212.3

¹ Table includes funding for retirement benefits only. Other post-employment benefits not included.

² Actuarial Accrued Liability minus Market Value of Assets. Positive numbers represent a deficit.

³ Market value of assets divided by actuarial accrued liability.

⁴ Annual payroll against which liability is amortized.

⁵ Liability divided by covered payroll.

Source: The Fire and Police Pension System Actuarial Valuations.

The table below summarizes the General Fund's payments to FPPP over the past five fiscal years. This table includes costs for retirement, retiree health care, and other miscellaneous benefits.

Table 22
Los Angeles Fire and Police Pension Plan
Sources and Uses of Contributions
(Dollars in Thousands)

	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>Adopted Budget 2014-15</u>
General Fund	\$386,505	\$441,861	\$506,086	\$575,941	\$624,974
Percent of Payroll	30.12%	39.07%	39.94%	44.40%	47.94%
Current Service Liability	\$279,334	\$276,171	\$214,223	\$302,040	\$306,625
UAAL/(Surplus)	<u>107,171</u>	<u>165,689</u>	<u>291,863</u>	<u>273,901</u>	<u>318,349</u>
Adjustments*	-	-	-	-	-
Total	<u>\$386,505</u>	<u>\$441,861</u>	<u>\$506,086</u>	<u>\$575,941</u>	<u>\$624,974</u>

* Effective FY 2010-11, the Excess Benefit Plan costs are now credited as part of the Annual Required Contribution (i.e., the costs are included in the contribution rate).

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

The following table sets forth the FPPP's investments and asset allocation targets as of June 30, 2013.

Table 23
Los Angeles Fire and Police Pension Plan
Asset Class by Market Value and Allocation
As of June 30, 2013
(Dollars in Millions)

	<u>Market Value</u>	<u>Cash Market Allocation</u>	<u>Current Target</u>
Domestic Large Cap Equity	\$ 4,817	30.59%	23.00%
Domestic Small Cap Equity	1,127	7.16	6.00
International Developed Markets	2,458	15.61	16.00
International Emerging Markets	616	3.91	5.00
Domestic Bonds	2,109	13.39	14.00
High Yield Bonds	406	2.58	3.00
TIPS	722	4.59	5.00
Real Estate	1,023	6.50	7.00
REITS	276	1.75	2.00
Alternative Investments	1,310	8.32	9.00
Hedge Funds	549	3.49	4.00
Commodities	11	0.07	5.00
Cash Equivalents	<u>320</u>	<u>2.03</u>	<u>1.00</u>
Total	<u>\$15,745</u>	<u>100.00%</u>	<u>100.00%</u>

Source: Los Angeles Fire & Police Pensions June 30, 2013 Performance Report.

Accounting and Financial Reporting Standard

In 2012, the Governmental Accounting Standards Board ("GASB") issued Statement No. 68, Accounting and Financial Reporting for Pensions ("GASB 68"), which applies to governmental entities

such as the City, and Statement No. 67, Financial Reporting for Pension Plans (“GASB 67”), which applies to the financial reports of most pension plans such as LACERS and FPPP. GASB 67 and GASB 68 address the disclosure of pension liability only; they do not impose any additional funding requirements.

GASB 68 revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits, including the City. GASB 68, among other things, requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability and provides greater guidance on measuring the annual costs of pension benefits, including specific guidelines on projecting benefit payments, use of discount rates and use of the “entry age” actuarial cost method. GASB 68 also addresses accountability and transparency through revised and new note disclosures and required supplementary information. The provisions in GASB 68 are effective for fiscal years beginning after June 15, 2014. The City anticipates complying with the provisions of GASB 68 by its effective date (i.e., its financial statements for Fiscal Year 2014-15).

GASB 67 revises existing guidance for the financial reports of most pension plans, including LACERS and FPPP. GASB 67 generally expands the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position, and requires additional note disclosures and required supplementary information. The provisions in GASB 67 are effective for financial statements for fiscal years beginning after June 5, 2013. LACERS and FPPP are expected to comply with the provisions of GASB 67 by its effective date (i.e., financial statements for Fiscal Year 2013-14).

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. These retiree health benefits are accounted for as “Other Post-Employment Benefits” (“OPEB”).

The City began making payments to its Pension Systems to pre-fund its OPEB obligations in Fiscal Year 1989-90, in an amount then determined by the Pension Systems and their actuaries. For the four years beginning Fiscal Year 2007-08, less than the ARC was contributed to the FPPP, primarily reflecting the phasing in of increases in assumed medical cost. The calculations of OPEB liabilities are made by the same actuaries that perform the analysis of the Pension Systems, and generally rely on the same actuarial assumptions, other than those assumptions such as medical inflation specific to OPEB.

As of June 30, 2013, the unfunded healthcare benefits liabilities of LACERS and the FPPP are as follows:

Table 24
Other Post-Employment Benefits
Los Angeles City Employees' Retirement System
(Dollars in Thousands)

Actuarial Valuation As of June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded AAL ¹	Funded Ratio ²	Covered Payroll ³	Underfunded AAL As a Percentage of Covered Payroll ⁴
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
2011	1,546,884	1,968,708	421,824	78.6	1,833,392	23.0
2012	1,642,374	2,292,400	650,027	71.6	1,819,270	35.7
2013	1,734,733	2,412,484	677,751	71.9	1,846,970	36.7

¹ Actuarial Accrued Liability minus Actuarial Value of Assets, commonly referred to as UAAL. Positive numbers represent an actuarial deficit.

² Actuarial value of assets divided by actuarial accrued liability.

³ Annual payroll against which UAAL amortized.

⁴ UAAL divided by covered payroll.

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

Table 25
Other Post-Employment Benefits
Fire and Police Pension Plan
(Dollars in Thousands)

Actuarial Valuation As of June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded AAL ¹	Funded Ratio ²	Covered Payroll ³	Underfunded AAL As a Percentage of Covered Payroll ⁴
2006	\$ 613,782	\$ 1,631,187	\$ 1,017,045	37.6%	\$ 1,092,815	93.1%
2007	687,096	1,656,653	969,557	41.5	1,135,592	85.4
2008	767,647	1,836,840	1,069,193	41.8	1,206,589	88.6
2009	809,677	2,038,659	1,228,982	39.7	1,357,249	90.6
2010	817,276	2,537,825	1,720,549	32.2	1,356,986	126.8
2011	882,890	2,557,607	1,674,716	34.5	1,343,963	124.6
2012	927,362	2,499,289	1,571,927	37.1	1,341,914	117.1
2013	1,013,400	2,633,793	1,620,393	38.5	1,367,237	118.5

¹ Actuarial Accrued Liability minus Actuarial Value of Assets, commonly referred to as UAAL. Positive numbers represent an actuarial deficit.

² Actuarial value of assets divided by actuarial accrued liability.

³ Annual payroll against which UAAL amortized.

⁴ UAAL divided by covered payroll.

Source: The Fire and Police Pension System Actuarial Valuations.

Historically, plan members did not contribute towards healthcare subsidy benefits; all such costs were funded from the employer's contribution and investment returns thereon. The City negotiated

bargaining agreements that will reduce the City’s contributions for OPEB benefits, which include a 4% active employee contribution toward retiree healthcare for 95% of its civilian workforce and a 2% active employee contribution toward retiree healthcare for 71% of its eligible sworn workforce (representing 64% of the sworn workforce). Employees who elected to contribute will have their current retiree health benefits and any future subsidy increases vested. For those civilian bargaining units and sworn employees that opted not to make an additional contribution toward retiree healthcare, their retiree health subsidy has been frozen and cannot surpass the maximum subsidy level in effect as of July 1, 2011. It is estimated that the City OPEB contribution to both systems will be offset by approximately \$80 million in Fiscal Year 2013-14 as the result of members making the additional contribution toward retiree pension costs.

Three lawsuits have been filed challenging the City’s actions relative to freezing OPEB benefits: Los Angeles City Attorneys Association v. City of Los Angeles; Jack Fry, Gary Cline, Sandra Carlsen, Yvette Moreno, and Los Angeles Retired Fire & Police Association, Inc. v. City of Los Angeles; and Los Angeles Police Protective League v. Board of Fire and Police Pension Commissioners v. City of Los Angeles.

Projected Retirement and Other Post-Employment Benefit Expenditures

The table below illustrates the City’s projected contributions to LACERS for the next four fiscal years, under the same actuarial assumptions used by LACERS’ actuary for the LACERS valuation. These contributions illustrate the projected cost of both pension and other post-employment benefits under these assumptions. These projections reflect deferred investment losses from the previous years and the actuarial assumptions described above.

Table 26
Los Angeles City Employees’ Retirement System
Projected Contributions
(Dollars in Thousands)

	Adopted Budget 2014-15	2015-16	2016-17	2017-18	2018-19
LACERS					
Contributions for Council- Controlled Departments ¹²	\$411,509	\$447,471	\$470,844	\$462,389	\$457,371
Percentage of Payroll ³	26.42%	28.36%	29.37%	28.39%	27.53%
Incremental Change	\$43,735	\$35,962	\$23,373	\$(8,455)	\$(5,018)
% Change		9%	5%	2%	1%

¹ Includes the General Fund and various special funds.

² Assumes 7.75% return on market value of assets for 2013-14 and 7.75% per year thereafter.

³ Reflects combined rates for Tiers 1 and 2.

Source: City of Los Angeles, Office of the City Administrative Officer. Based on information from the LACERS actuary commissioned by the City Administrative Officer.

The table below illustrates the City’s projected contributions to FPPP, including the projected cost of pension and other post-employment benefits, for the next four fiscal years, based on an illustration provided by FPPP’s actuary using the plan’s assumed rate of return. These contributions include the projected cost of other post-employment benefits. These illustrations, which are based on the June 30, 2013 actuarial valuation, reflect the deferred investment losses from the previous years, the actuarial assumptions described above, and certain benefit enhancements implemented with the adoption of the

Tier 5 plan in 2002. Potential savings from the establishment of the new Tier 6 pension plan, as approved by City voters in March 2011, are not reflected in these estimates. Savings will occur as current active employees are replaced by new employees in Tier 6.

The triennial experience study adopted by the FPPP board reflected demographic changes, including changes to mortality rates that will increase the City's costs. Increased liabilities arising from the experience study have been phased in over three years.

Table 27
Los Angeles Fire and Police Pension Plan
Projected Contributions
(Dollars in Thousands)

	Adopted Budget 2014-15	2015-16	2016-17	2017-18	2018-19
General Fund*	\$624,974	\$670,821	\$710,558	\$709,689	\$690,746
Percentage of Payroll	47.94%	50.17%	52.27%	51.35%	48.97%
Incremental Change	\$49,033	\$45,847	\$39,736	\$(869)	\$(18,943)
% Change		7%	6%	(0.1)%	3%

* Assumes 7.75% return on market value of assets.

Source: City of Los Angeles, Office of the City Administrative Officer. Based on information from the FPPP actuary requested by the City Administrative Officer.

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain provisions of the Indenture which are not described elsewhere in the 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 the 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 and Refunding Revenue Bonds, 2014 Series A (AMT), Refunding Revenue Bonds, 2014 Series B (Exempt Facility Non-AMT) and Revenue Bonds, 2014 Series C (Governmental Non-AMT).

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

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

“Construction Account – 2014 Series C” means the account by that name established pursuant to the Indenture.

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

“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 C 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 Account - 2014 Series C” 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, 2015 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 Account – 2014 Series C" 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 and the 2014 Series B 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 Account – 2014 Series C” 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 Bonds” means the 2006D Bonds.

“Refunded Bond Indenture” means the 2006D Indenture.

“Refunded CP Notes” means the Exempt Facility Non-AMT CP Notes.

“Refunded Obligations” means the Refunded Bonds and the Refunded CP Notes, collectively.

“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. 14-7674 of the Board adopted on July 10, 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 June 26, 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.

“2005/06 Indenture” means the Indenture of Trust, dated as of October 1, 2005, by and between the Department and The Bank of New York Trust Company, N.A., as predecessor trustee, and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof.

“2006D Bonds” means the Harbor Department of the City of Los Angeles Revenue Bonds, 2006 Series D (AMT).

“2006D Indenture” means the Indenture of Trust, dated as of August 1, 2006, by and between the Department and U.S. Bank National Association, as trustee, and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof.

“2006D Reserve Fund” means the fund established pursuant to the 2006D Indenture to secure payment of the 2006D Bonds.

“2009 Indenture” means the Indenture of Trust, dated as of July 1, 2009, by and between the Department and U.S. Bank National Association, as trustee, and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof.

“2011 Indenture” means the Indenture of Trust, dated as of July 1, 2011, by and between the Department and U.S. Bank National Association, 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 and Refunding Revenue Bonds, 2014 Series A (AMT).

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

“2014 Series C Bonds” means the Harbor Department of the City of Los Angeles Revenue Bonds, 2014 Series C (Governmental 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 and Series. 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.

ISSUANCE OF BONDS; APPLICATION OF PROCEEDS

Application of Costs of Issuance Fund. The moneys in the Costs of Issuance Account – 2014 Series A, Costs of Issuance Account – 2014 Series B and Costs of Issuance Account – 2014 Series C within the Costs of Issuance Fund will be used and withdrawn by the Trustee to pay the Costs of Issuance only of the related Series of Bonds and only upon submission of Requisitions of the Department stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred, that such payment is proper charge against said account and that payment for such charge has not previously been made. On January 1, 2015, or upon the earlier Request of the Department, all amounts remaining in the Costs of Issuance Fund will be deposited by the Trustee in the appropriate account within the Construction Fund as is instructed in a Request of the Department.

Application of Construction Fund. The moneys in the Construction Account - 2014 Series A, including investment earnings thereon, will be held by the Trustee in trust and applied only to those Private Activity Projects listed in the TEFRA Notice in accordance with the written instruction of the Department. The moneys in the Construction Account - 2014 Series C, including investment earnings thereon, will be held by the Trustee in trust and applied to the Governmental Projects in accordance with the written instruction of the Department.

When the Private Activity Projects funded from the Construction Account - 2014 Series A have been completed or abandoned, a Statement of the Department stating the fact and date of such completion of construction (or abandonment, if applicable) and stating that all of such costs of construction and incidental expenses have been determined and paid (or that all of such costs and expenses have been paid less specified claims that are subject to dispute and for which a retention in the Construction Account - 2014 Series A is to be maintained in the full amount of such claims until such dispute is resolved) will be delivered to the Trustee by the Department. Upon the receipt of such statement, the Trustee will transfer any remaining balance in the Construction Account - 2014 Series A not needed for Construction Account - 2014 Series A purposes (but less the amount of any such retention which amount will be certified to the Director of Debt and Treasury of the Department and the Trustee by the Department) first, ratably without any discrimination or preference, to the reserve funds for Parity Obligations which the Department has elected to make a part of the Common Reserve, to the extent necessary, until the amount therein equals the Common Reserve Requirement and the provider of any Common Reserve Security Device has been fully reimbursed for any draws thereon and thereafter to the Redemption Account – 2014 Series A for redemption of 2014 Series A Bonds on the next following date for redemption of the 2014 Series A Bonds in accordance with the Indenture.

When the Governmental Projects funded from the Construction Account - 2014 Series C have been completed or abandoned, a Statement of the Department stating the fact and date of such completion of construction (or abandonment, if applicable) and stating that all of such costs of construction and incidental expenses have been determined and paid (or that all of such costs and expenses have been paid less specified claims that are subject to dispute and for which a retention in the Construction Account - 2014 Series C is to be maintained in the full amount of such claims until such dispute is resolved) will be delivered to the Trustee by the Department. Upon the receipt of such statement, the Trustee will transfer any remaining balance in the Construction Account - 2014 Series C not needed for Construction Account - 2014 Series C purposes (but less the amount of any such retention which amount will be certified to the Director of Debt and Treasury of the Department and the Trustee by the Department) first, ratably without any discrimination or preference, to the reserve funds for Parity Obligations which the Department has elected to make a part of the Common Reserve, to the extent necessary, until the amount therein equals the Common Reserve Requirement and the provider of any Common Reserve Security Device has been fully reimbursed for any draws thereon and thereafter to the Interest Account – 2014 Series C.

Investment earnings on amounts on deposit in any particular account or subaccount in the Construction Fund will remain on deposit in such account for application to construction costs in accordance with the Indenture or, only in the case of the Governmental Bonds, to the payment of interest on the Bonds

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," an "Interest Account - 2014 Series B," and an "Interest Account - 2014 Series C" and a Principal Fund, which will contain a "Principal Account - 2014 Series A," a "Principal Account - 2014 Series B," and a "Principal Account - 2014 Series C." 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; and to the Interest Account - 2014 Series C that sum, if any, required to cause the aggregate amount on deposit in the Interest Account - 2014 Series C to be at least equal to the amount of interest becoming due and payable on such date on all 2014 Series C 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, the 2014 Series B Bonds, and the 2014 Series C 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).

All amounts in the Interest Account - 2014 Series C will be used and withdrawn by the Trustee solely for the purpose of paying interest on the 2014 Series C Bonds as it will become due and payable (including accrued interest on any 2014 Series C 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 such date or subject to mandatory sinking fund redemption 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 such date or subject to mandatory sinking fund redemption on the next August 1; and to the Principal Account – 2014 Series C that sum, if any, required to cause the aggregate amount on deposit in the Principal Account – 2014 Series C to be at least equal to the principal amount of the 2014 Series C Bonds becoming due and payable on such date or subject to mandatory sinking fund redemption 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, the 2014 Series B Bonds and the 2014 Series C 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, mandatory sinking fund redemption, 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, mandatory sinking fund redemption, 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.

All amounts in the Principal Account – 2014 Series C will be used and withdrawn by the Trustee solely to pay the principal amount of the 2014 Series C Bonds at maturity, mandatory sinking fund redemption, purchase or acceleration; provided, however, that at any time prior to selection for redemption of any such 2014 Series C Bonds, upon written direction of the Department, the Trustee will apply such amounts to the purchase of 2014 Series C 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 C 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 C 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”, a “Redemption Account – 2014 Series B” and a “Redemption Account – 2014 Series C” 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 Construction Fund transferred in accordance with the Indenture, deposit such moneys into the Redemption Account – 2014 Series A. 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.

All amounts in the Redemption Account – 2014 Series C will be used and withdrawn by the Trustee solely for the purpose of paying the Redemption Price of the 2014 Series C 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 C Bonds, upon written direction of the Department, the Trustee will apply such amounts to the purchase of 2014 Series C 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 C 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 C 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 Costs of Issuance Account – 2014 Series A, the Costs of Issuance Account – 2014 Series B, and the Costs of Issuance Account – 2014 Series C will be retained therein and used for the purposes thereof, unless otherwise provided in the Indenture. All interest or gain

derived from investments of amounts in the Costs of Issuance Account – 2014 Series A, the Costs of Issuance Account – 2014 Series B, and the Costs of Issuance Account – 2014 Series C will be deposited, respectively, into the Interest Account – 2014 Series A, the Interest Account – 2014 Series B, and the Interest Account – 2014 Series C. 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 under the Indenture 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, respectively, the Interest Account – 2014 Series A, the Interest Account – 2014 Series B, and Interest Account – 2014 Series C.

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 E 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.

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 and Refunding Revenue Bonds, 2014 Series A (AMT), in the aggregate principal amount of \$203,280,000 (the “Series 2014A Bonds”), Harbor Department of the City of Los Angeles, Refunding Revenue Bonds, 2014 Series B (Exempt Facility Non-AMT), in the aggregate principal amount of \$89,105,000 (the “Series 2014B Bonds”) and Harbor Department of the City of Los Angeles, Revenue Bonds, 2014 Series C (Governmental Non-AMT), in the aggregate principal amount of \$44,890,000 (the “Series 2014C Bonds,” and together with the Series 2014A Bonds and Series 2014B Bonds, the “Series 2014 Bonds”). The Series 2014 Bonds are being issued pursuant to an Indenture of Trust, dated as of September 1, 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, 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 18th day of September, 2014.

HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES

By: _____
Eugene D. Seroka, 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 and Refunding Revenue Bonds, 2014 Series A (AMT)

Harbor Department of the City of Los Angeles Refunding Revenue Bonds, 2014 Series B (Exempt Facility Non-AMT)

Harbor Department of the City of Los Angeles Revenue Bonds, 2014 Series C (Governmental Non-AMT)

Date of Issuance: September 18, 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 September 18, 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

September 18, 2014

Harbor Department of the City of Los Angeles
425 South Palos Verdes Street
San Pedro, California 90731

Re: \$337,275,000 Harbor Department of the City of Los Angeles Revenue Bonds and Refunding Revenue Bonds, 2014 Series A (AMT); Refunding Revenue Bonds, 2014 Series B (Exempt Facility Non-AMT); and Revenue Bonds, 2014 Series C (Governmental Non-AMT)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Harbor Department of the City of Los Angeles (the "Department") of \$203,280,000 aggregate principal amount of its Revenue Bonds and Refunding Revenue Bonds, 2014 Series A (AMT) (the "Series 2014A Bonds"), \$89,105,000 aggregate principal amount of its Refunding Revenue Bonds, 2014 Series B (Exempt Facility Non-AMT) (the "Series 2014B Bonds"), and \$44,890,000 aggregate principal amount of its Revenue Bonds, 2014 Series C (Governmental Non-AMT) (the "Series 2014C Bonds, and together with the Series 2014 A Bonds and the Series 2014B Bonds, 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 (the "City"), relevant ordinances of the City and Section 11.28.1 et seq. of the Los Angeles Administrative Code (collectively, the "Charter"); Resolution No. 14-7674 adopted by the Board of Harbor Commissioners of the City on July 10, 2014, approved by the City Council of the City on August 19, 2014 and approved by the Mayor of the City on August 21, 2014 (collectively, the "Resolution"); and the Indenture of Trust, dated as of September 1, 2014 (the "Indenture"), by and between the Department and U.S. Bank National Association, as trustee (the "Trustee"). All capitalized terms not otherwise defined herein have the meanings assigned to them in the Indenture.

As bond counsel, we have examined the Indenture, the Charter, the Resolution, the Tax and Nonarbitrage Certificate of the Department dated the date hereof (the "Tax Certificate"), the opinion of the City Attorney, opinion of counsel to the Trustee, certificates of the Department, the Trustee and others, copies, certified to us as being true and complete, of the proceedings of the Department for the issuance of the Series 2014 Bonds, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein, although in doing so, we have not undertaken to verify independently the accuracy of the factual matters represented, warranted or certified therein, and we have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and the validity against, any parties other than the Department thereto.

The opinions expressed herein are based upon an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have neither undertaken to determine, nor to inform any person, whether any such actions are taken or omitted or events do occur or whether any other matters come to our attention after the date hereof. We call attention to the fact that the rights and obligations under the Series 2014 Bonds, the Indenture and the Tax Certificate may be subject to (i) any applicable bankruptcy, reorganization, insolvency, reorganization, arrangement, moratorium or similar laws affecting creditors' rights generally (including, without limitation, fraudulent conveyance laws), (ii) general principles of equity, including without limitation, concepts of materiality, reasonableness, good faith and fair dealing and the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law, (iii) the exercise of judicial discretion in appropriate cases, (iv) the limitations on legal remedies imposed on actions against public entities in the State of California, and (v) the application of California laws relating to conflicts of interest to which public entities are subject. We express no opinion as to any provision in the Indenture, the Tax Certificate or the Series 2014 Bonds with respect to the priority of any pledge or security interest, indemnification, or governing law. We undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Series 2014 Bonds and express no opinion with respect thereto in this letter.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Series 2014 Bonds constitute the valid and binding limited obligations of the Department.

2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Department and is enforceable in accordance with its terms.

3. The obligation of the Department to pay the principal of and interest on the Series 2014 Bonds is a limited obligation of the Department payable from all of the Revenues and certain amounts on deposit in certain funds and accounts established pursuant to the Indenture, subject to the provisions of the Indenture permitting the application thereof for the purposes, and on the terms and conditions, set forth in the Indenture. The Series 2014 Bonds do not constitute or evidence indebtedness of the City, the State of California or any political 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 political subdivision thereof other than the Department.

4. The Series 2014 Bonds are payable from Revenues on a parity with (a)(i) the Department's outstanding Refunding Revenue Bonds, 2005 Series A, 2005 Series B, 2005 Series C-1 (AMT), 2006 Series A (AMT), 2006 Series B (AMT) and 2006 Series C, issued under and pursuant to that certain Indenture of Trust, dated as of October 1, 2005, by and between The Bank of New York Trust Company, N.A., as trustee, and the Department, (ii) the Department's outstanding Revenue Bonds, 2006 Series D (AMT), issued under and pursuant to that certain Indenture of Trust, dated as of August 1, 2006, by and between U.S. Bank National Association, as trustee, and the Department, (iii) the Department's outstanding Revenue Bonds, 2009 Series A and 2009 Series B and Refunding Revenue Bonds, 2009 Series C, issued under and pursuant to that certain Indenture of Trust, dated as of July 1, 2009, by and between U.S. Bank National Association, as trustee, and the Department, (iv) the Department's outstanding Refunding Revenue Bonds, 2011 Series A (AMT) and 2011 Series B (Non-AMT), issued under and pursuant to that certain Indenture of Trust, dated as of July 1, 2011, by and between U.S. Bank National Association, as trustee, and the Department, and (v) the Department's Commercial Paper Notes outstanding as of the date hereof and that may be issued in the future in accordance with that certain

Amended and Restated Issuing and Paying Agent Agreement, dated as of July 1, 2012, by and between U.S. Bank National Association, as issuing and paying agent, and the Department, as amended, and (b) any Parity Obligations which the Department may issue in the future in accordance with the Indenture.

5. The Internal Revenue Code of 1986, as amended (the “Code”) sets forth certain requirements which 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 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. We have not independently verified the accuracy of those certifications and representations.

Under existing law, assuming compliance with the tax covenants described herein and the accuracy of the aforementioned representations and certifications, 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 and the Series 2014B Bonds from gross income for any period during which such Series 2014A Bonds and Series 2014B 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 and the Series 2014B Bonds, or a “related person.” We are also of the opinion that interest on the Series 2014A Bonds is treated as an item of tax preference for purposes of calculating the alternative minimum tax that may be imposed under the Code with respect to individuals and corporations. We are further of the opinion that interest on the Series 2014B Bonds and the Series 2014C Bonds is not treated as an item of tax preference for purposes of calculating the alternative minimum tax that may be imposed under the Code with respect to individuals and corporations. Interest on the Series 2014B Bonds and the Series 2014C Bonds is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations.

6. We are of the opinion that the interest on the Series 2014 Bonds is exempt from personal income taxes of the State of California under present state law.

7. We are further of the opinion that the difference between the principal amount of the Series 2014B Bonds maturing on August 1, 2029 and bearing interest at 3.000%, August 1, 2031 and bearing interest at 3.250%, and August 1, 2036 and bearing interest at 3.500% (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.

Except as stated in the paragraphs 5 through 7, we express no opinion as to any other federal, state or local tax consequences of the ownership or disposition of the Series 2014 Bonds. Furthermore, we express 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.

The opinion set forth in paragraph 1 above assumes that the Trustee has duly authenticated the Series 2014 Bonds.

No opinion is expressed herein on the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Series 2014 Bonds. This opinion is expressly limited to the matters set forth above and we render no opinion, whether by implication or otherwise, as to any other matters.

Our opinions are limited to matters of California law and applicable federal law, and we assume no responsibility as to the applicability of laws of other jurisdictions. We call attention to the fact that the opinions expressed herein and the exclusion of interest on the Series 2014 Bonds from gross income for federal income tax purposes may be affected by actions taken or omitted or events occurring or failing to occur after the date hereof. We have not undertaken to determine, or inform any person, whether any such actions are taken, omitted, occur or fail to occur. We assume no obligation to update or supplement this opinion to reflect any facts or circumstances which may hereafter come to our attention or any changes in laws which may hereafter occur.

Very truly yours,

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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