



STRATEGIC ASSET MANAGEMENT POLICY

For Real Property Assets

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SOURCES OF INFORMATION

Development of the Strategic Asset Management Policy included information drawn from discussions with Port of Los Angeles staff, consulting firms, various port agencies located in the United States and elsewhere, other governmental and private sector entities, and Port of Los Angeles tenants' and stakeholder feedback. The development process also included review of documentation from agencies which govern the operation of the Port of Los Angeles, professional real estate organizations, policies from other ports and familiarization with other Port of Los Angeles policies. Outreach and information sources are listed below.

- CardnoTec Asset Management
- Building Owners and Managers Association International (BOMA)
- California State Lands Commission – Public Trust Doctrine
- City of Los Angeles Harbor Department Business Development Bureau and Real Estate Division, Engineering Division, Environmental Management Division, Construction & Maintenance Division
- City of Los Angeles Harbor Department, Office of the City Attorney
- IMC Consulting
- Los Angeles World Airports (LAWA)
- Los Angeles City Charter
- Los Angeles City Administrative Code
- Moffat & Nicol, Norfolk, Virginia
- New Zealand Port Authority
- North American Energy Services, Issaquah, Washington
- Performance Audit of the Port of Los Angeles Real Estate Division (performed by Harvey M. Rose Associates, LLC)
- Port of Galveston, Galveston, Texas
- Port of Long Beach, California
- Port of Los Angeles, 2012-2017 Strategic Plan
- Port Metro Vancouver, Vancouver, B.C.
- Port of New York and New Jersey
- Port of Oakland, California
- Port of Portland, Oregon
- Port of Rotterdam, The Netherlands
- Port of Seattle, Seattle, Washington
- Port of San Diego, California
- Port of Tacoma, Washington
- State Tidelands Trust Grant
- Tubert Consulting
- U.S. Department of Energy, Washington, D.C.
- U.S. Coast Guard, Shore Infrastructure Logistics Command
- Wood Group plc., Aberdeen, Scotland

INTRODUCTION

The Harbor Department is a proprietary department of the City of Los Angeles, more commonly known as the Port of Los Angeles (“Port”) and operates for the purpose of the promotion and accommodation of maritime commerce, navigation and fishery. The Port is one of the state’s primary economic resources and an essential element of the national maritime industry. As a proprietary department the City of Los Angeles (“City”), the Port is financially independent of the City and self-sustaining.

The Port owns approximately 7,500 acres of real property and water encompassing “deep water” waterfront and near-water industrial property supporting 9 containerized cargo terminals, 2 “roll-on / roll-off” terminals, 6 liquid bulk cargo terminals, and assorted rail and other related commercial and industrial facilities. The total water area within the California Coastal Zone is approximately 3,000 acres, of which roughly 2,250 acres are deeper than 35 feet. The Port contributes to the economic future of the City of Los Angeles (“City”) and the State of California by ensuring that marine cargo and other water dependent economic uses are realized in the most efficient and effective manner possible. The Port’s asset holdings include approximately 10 million square feet of building and other property improvements. The net book value of the asset holdings, excluding land value, is approximately \$1.789 billion at Fiscal Year ending June 30, 2012. The majority of the asset holdings are comprised of Port-owned tenant-operated facilities and are primarily located in the “tidelands” (“Tidelands”) area of the City, which property was granted by the State of California under the State Tidelands Trust Grant (“Tidelands Trust”).

The Port is primarily governed by the Los Angeles City Administrative Code (“Administrative Code”); Los Angeles City Charter (“City Charter”); the California Coast Act-Chapter 8 (“Coastal Act”); the State Lands Commission-Public Trust Doctrine (“Public Trust”); Tariff No. 4, as it now exists or may be amended or superseded in the future, (“Tariff”); and the State Tidelands Trust Grant (“Tidelands Trust”). Management and control of the Port is directed by a 5-member Board of Harbor Commissioners (“Board”) and administered by the Executive Director of the City of Los Angeles Harbor Department (“Executive Director”).

The Port’s 2012-2017 Strategic Plan (“Strategic Plan”) published in May 2012, establishes the Port’s vision for the future and the path to secure its position in the industry, meet its responsibilities as a custodian of Tidelands Trust property, and fulfill its responsibilities as a proprietary department of the City.

This Strategic Asset Management Policy (“Asset Management Policy”) has been developed to provide comprehensive guidelines for more efficient and effective use and management of the Port’s real property assets. The Asset Management Policy addresses Portfolio management, classification of assets, property management goals, real property strategies, Portfolio strategy, property performance evaluation, and expected outcomes, which are complementary to the Strategic Plan. Implementation of this Asset Management Policy will provide direct support to the 3 key results areas of the Strategic Plan – Competitive Operations, Strong Relationships, and Financial Strength. As measured by certain Key Result Area(s) (“KRA”). Descriptions of each KRA are summarized below.

- Competitive Operations. Development and maintenance of world-class infrastructure; retention and growth of market share; advance technology and sustainability; and/or optimization of land use represent Competitive Operations.
- Strong Relationships. Creation of a positive work place culture and/or increase stakeholder, and community awareness and support represent Strong Relationships.
- Financial Strength. Activity which strengthens the Port's financial performance represents Financial Strength.

The objectives of the Asset Management Policy are to provide the following:

1. Specific guidelines for maintaining and optimizing Port property;
2. A decision making process that is consistent with the Board of Harbor Commissioners and the City of Los Angeles applicable policies and procedures;
3. Fair and equitable methods for prioritizing capital expenditures and ongoing expense;
4. Recognize existing relationships with current customers and their investment in the occupied terminal and premises;
5. A process for assembling, sharing, and maintaining information related to the acquisition, disposition, development, and maintenance of Port property in an open and transparent manner;
6. Optimizing of Tidelands Trust assets consistent with requirements of the State of California;
7. Use of available property consistent with the Port's Master Plan and strategic objectives;
8. Provisions to prevent and control pollution to the extent feasible;
9. Achieve goals for local job participation and living wage requirements; and,
10. Periodically evaluate performance of property and make determinations about future use.

The above objectives have been incorporated into this Strategic Asset Management Policy ("Asset Management Policy") as well as the revised Leasing Policy.

General Provisions

1. It is the policy of the Board that the authority to implement this Asset Management Policy is hereby delegated to the Executive Director.
2. It is the policy of the Board that for the purpose of the Asset Management Policy, the term "Portfolio" shall apply to the Port's real property holdings including the improvements thereto.
3. It is the policy of the Board that the Portfolio shall be managed in accordance with the Asset Management Policy.
 - a. The Asset Management Plan, in essentially the form and content as reviewed and amended by the Audit Committee of the Board, will be implemented.
4. It is the policy of the Board that the Asset Management Policy shall remain in full force and effect unless and until changes are made by Board action.
5. It is the policy of the Board to review and update the Asset Management Policy no less frequently than every 5 years following its adoption.
6. It is the policy of the Board that the Portfolio shall have an optimal balance of assets to sustain respectable financial returns through industry changes and changing economic climates.
7. It is the policy of the Board that the Portfolio shall be efficiently and effectively managed.
8. It is the policy of the Board that the Asset Management Policy shall comport with other Port policies which cover various financial, environmental and other aspects of property use and entitlement. Applicable Port policies, plans, and standards include, but are not limited to, the Port Master Plan, Historic Resource Policy, Clean Air Action Plan, Hazardous Materials Handling Policy, Storm Water Management Policy, and others as may be enacted.
9. It is the policy of the Board that the Asset Management Policy shall be consistent with the Administrative Code, City Charter, Coastal Act, the Public Trust Doctrine, Tariff, and the Tidelands Trust, including giving priority to water-dependent uses that serve the maritime industry and optimize such property to its highest and best use consistent with the Port's strategic goals and objectives.

Portfolio Management and Strategies

1. It is the policy of the Board to maintain, develop and acquire a Portfolio that meets or exceeds financial and economic development goals (for example, attain Rate of Return (“ROR”) targets established by the Board).
2. It is the policy of the Board to organize the Portfolio into asset classifications and develop variable financial return criteria for each asset classification.
3. It is the policy of the Board that management of the Portfolio shall provide for the most efficient and effective manner of controls to achieve current and future real property needs.
 - a. Portfolio management strategies shall seek optimal balance in investment and promotion of projects while seeking to allow broad public access to the Tidelands.
 - b. Each property asset, regardless of classification, will be designated as “core” or “non-core”. Typically a core asset is located in the Tidelands and is critical to the Port’s overall vision. There are several exceptions.
4. It is the policy of the Board to strategically identify and assemble property for future development to accommodate marine cargo and supporting facilities, commercial and industrial facilities, waterfront and visitor-serving projects promoting tourism and accommodating public access to the water and economic development opportunities.
 - a. Such properties will be managed in a strategic manner such as targeting users of such facilities.
5. It is the policy of the Board to modernize and redevelop structures on the waterfront when they are an impediment, not an attraction, for cargo handling, commercial fishing, related industries, tourism and visitors.
6. It is the policy of the Board to make opportunistic and planned acquisitions and divestitures to achieve the optimum diversity of leased properties, revenue sources, and inventory for future growth.
 - a. The Executive Director shall identify and evaluate non-Tidelands Trust properties within the Harbor District that are not core to the Port’s primary mission to determine whether such property should be recommended for disposal.
 - b. Proceeds from any asset disposal will be used for Portfolio reinvestment or redevelopment.

Facilities Management

1. It is the policy of the Board to assess the overall condition of the Portfolio through a survey no less frequently than every five years.
 - a. Preliminary property inspections, using an asset condition index (“ACI”), will be conducted to determine prioritization of maintenance work.
2. It is the policy of the Board that a comprehensive Facility Management Plan shall be developed and implemented.
3. It is the policy of the Board that outcomes from the evaluation of the cost of acquisition, development, operation, maintenance, re-capitalization, and consideration of disposition (“Life Cycle Analyses”) shall be the criteria used in making decisions regarding assets.
 - a. Life Cycle Analyses shall be fully documented to support all costs and assumptions of the assessment.

Port Development

1. It is the policy of the Board to, when available, utilize existing assets first, acquire or develop only what is necessary, and provide for timely disposal or redevelopment.
2. It is the policy of the Board to consider direct Tenant or third-party investment in various facilities (for example warehouses, docks, rail yards, wharves and parking areas) provided that the Port retains effective management controls over the development and use of such facilities, assures reasonable access, and avoids compromising long-term development plans.
3. It is the policy of the Board that direct Tenant and third-party investment in non-essential facilities shall be promoted and encouraged, where the Port’s resource capacity would be better allocated to other investments.
 - a. Such investment is subject to advance Board approval.
4. It is the policy of the Board that the Port may finance certain limited tenant improvements through various methods (for example, rent reductions), so long as the Board finds the benefits are substantial and superior to other available options.
 - a. Such accommodations shall be approved by the Board.
5. It is the policy of the Board that all developments shall be located, designed, and constructed to meet the conditions set forth below.
 - a. Approved development shall minimize substantial adverse environmental impacts.

- b. Approved development shall minimize potential traffic conflicts between vessels.
- c. Approved development shall encourage rail service to port areas and mitigate traffic congestion.
- d. Approved development shall give highest priority to the use of existing land space, within the harbor, for port purposes including but not limited to, maritime facilities and industries, and essential support and access facilities.
- e. Approved development shall provide for beneficial uses consistent with the Public Trust Doctrine, including, but not limited to, recreation and wildlife habitat uses, to the extent feasible.

Asset Performance Evaluation

1. It is the policy of the Board to seek portfolio rates of return consistent with other Board approved financial management policies and strategic goals and objectives of the Harbor Department.
 - a. Preserve core assets for the movements of cargo, marine and water dependent transportation or industrial activities.
 - b. Optimize the asset mix to promote local and regional economic growth consistent with the Port's strategic goals and objectives.
2. Generate adequate revenue to reinvest or expand to advance the Port's overall strategic objectives.
 - a. Manage the Portfolio to a rate of return that, on a blended basis, meets the then Board mandated minimum Debt Coverage Ratio or other financial measures.