

THE PORT OF LOS ANGELES

POLA is obligated only to make certain payments required by the Operating Agreement and is not responsible for paying, and is not guaranteeing the payment of, the principal or accreted value of, premium, if any, or interest on the Bonds, including the Series 2013A Bonds. The Bonds are not secured by a lien on any properties or improvements of the City of Los Angeles or of POLA, or by a pledge of any revenues of POLA. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS–Limited Obligations.” Under certain circumstances, the Operating Agreement requires POLA to pay Shortfall Advances, the payment of which is a limited obligation, payable solely from POLA’s net revenues, after all of POLA’s other obligations, including operation and maintenance costs, are paid. See “AUTHORITY REVENUES–Shortfall Advances” and “INVESTOR CONSIDERATIONS–Limited, Subordinate Obligations of the Ports.” POLA has agreed that it will include in its budget Shortfall Advances of which it has notice, but POLA is not required to reserve or to set aside any funds, and has not reserved or set aside funds, for such purposes, and the payment of Shortfall Advances by POLA is payable after all of POLA’s other obligations, including operation and maintenance costs have been paid.

General

POLA is a proprietary, independent department of the City of Los Angeles similar to the Los Angeles Department of Water and Power and the Los Angeles Department of Airports. The Department operates POLA independently from the City, using its own revenues, and administers and controls its fiscal activities, subject to oversight by the City Council. POLA holds in trust and administers POLA’s facilities, located in San Pedro Bay, approximately 20 miles south of downtown Los Angeles. POLA’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.

POLA has three major continuing sources of revenue: shipping revenue, which is a function of cargo throughput; revenue from permit agreements (agreements similar to leases); and the smallest component, fee and royalty revenue.

POLA operates as a landlord, issuing permits for the use of POLA land, docks, wharves, transit sheds, terminals and other facilities. POLA also is landlord to various shipyards, fish markets, boat repair yards, railroads, restaurants and other similar operations. These arrangements are entered into under various permit agreements, which are similar in form to lease agreements. Under the permit agreements the occupants agree to pay tariffs or fees established by POLA. Permittees are generally shipping or terminal companies, agents or other private firms. POLA has no direct role in managing the daily movements of cargo. POLA 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.

Most of the property on which POLA’s land, docks, wharves, transit sheds, terminals and other facilities are located is owned by the City and administered by POLA, 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. Subsequent state legislative action 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. POLA does not expect that restrictions on the use of tidelands or with respect to tidelands funds will materially adversely affect

POLA's operations or finances of POLA. 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).

Physical Description and Geography

POLA is the largest container port in the United States and the 16th largest in the world, with approximately 7.9 million TEUs handled during calendar year 2011 and __ million TEUs handled in calendar year 2012. POLA encompasses 7,500 acres of land and water which are currently being increased through acquisition, dredging, landfill and reconfiguration, 43 miles of waterfront berthing and 27 terminal facilities including seven major container cargo terminals, one break-bulk facility, seven petroleum/liquid bulk cargo terminals, four warehouse terminals, two passenger cruise terminals and one vehicle handling facility. POLA is served by the two Railroads and lies at the terminus of two major highways within the Los Angeles area highway system. POLA also is linked by subsurface pipelines to many of the major refineries and petroleum distribution terminals within the Los Angeles basin. With its neighbor, POLB, the two ports comprise the eighth busiest container port complex in the world in 2011 in terms of cargo volume. POLA 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. POLA currently has the capability to handle most of the modern, deeper-draft vessels and is undertaking dredging of its main channels to a depth of 53 feet to accommodate the future generation of container ships. Because there is no significant source of river sand or silt in the POLA harbor, these channels do not require frequent dredging for maintenance purposes. 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 accumulations of deposits through the Port.

Many of the container terminal operators located at POLA utilize the Intermodal Container Transfer Facility (the "ICTF"), a specialized rail yard for the transfer of containers to and from trucks and railcars, located five miles from the Port of Los Angeles. The ICTF was financed and constructed by Southern Pacific Transportation Company and the Intermodal Container Transfer Facility Joint Powers Authority, a joint powers authority organized by the Ports. The ICTF is operated by Union Pacific under a long-term lease agreement.

POLA's major permittees (tenants) as of June 30, 2012 are listed the following table.

TABLE B-1

**PORT OF LOS ANGELES
MAJOR PERMITTEES (TENANTS)
AS OF JUNE 30, 2012**

APM Terminals Pacific LTD
California Cartage Co., Inc.
China Shipping Holding Company, LTD
Del Monte Corporation
Disney Cruise Line
Eagle Marine Services Ltd.
Evergreen America Corp.
Exxon-Mobil Oil Corporation
GATX Terminals Corporation/Kinder Morgan
Parking Concepts, Inc.
Princess Cruises
Rio Doce Pasha Terminal, L.P.
SA Recycling/Hugo Neu-Proler Corp
Shell Oil Company
TraPac, Inc.
Union Pacific Railroad Company
Vopak Terminal Los Angeles, Inc.
WWL Vehicle Services Americas
Yang Ming Transport Ltd.
Yusen Terminal Inc./N.Y.K. (North America) Inc..

Source: Harbor Department of the City of Los Angeles

POLA sets tariff charges for, among other things, wharfage, dockage, storage, pilotage, land usage, passenger fees and demurrage applicable to all ships and cargo using POLA-owned property and necessary for the orderly movement of cargo. POLA and all other California public ports control and determine their own individual tariff structures. The ports cooperate, however, 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. CAPA’s goal is to permit California ports to obtain an adequate return on investment 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.

Source of Funds for Payment of Shortfall Advances

Pursuant to the Operating Agreement, POLA is obligated to include in its budget each fiscal year an amount equal to the amount of projected Shortfall Advances for such fiscal year that has been forecasted by the Authority and for which due notice thereof has been provided to POLA by the Authority. POLA has not funded a reserve account to pay Shortfall Advances. The payment of Shortfall Advances by POLA is payable after all of POLA’s other obligations, including operation and maintenance costs, are paid.

Financial Information

The Harbor Revenue Fund is a separate fund established by the Charter of the City of Los Angeles. All fees, charges, rentals and revenue from every source collected by POLA in connection with its possession, management and control of the Harbor District and Harbor Assets (as defined in the Charter of the City of Los

Angeles) are deposited in the Harbor Revenue Fund. All such moneys and revenues deposited in the Harbor Revenue Fund are under the direction and control of the Board of Harbor Commissioners. POLA expends moneys in the Harbor Revenue Fund, from time to time, to pay operating and maintenance expenses and debt service on its outstanding indebtedness. Remaining revenues constitute surplus revenues and may be used for any lawful purposes, including, among other things, payment of Shortfall Advances.

The following tables set forth certain historical operational and financial information for POLA's fiscal years ended June 30. The information in tables B-2 and B-3 is derived from POLA's audited financial statements.

TABLE B-2

PORT OF LOS ANGELES
SUMMARY OF REVENUES, EXPENSES AND NET ASSETS
FISCAL YEARS ENDED JUNE 30, 2008 THROUGH 2012

(in thousands of dollars)

	2008	2009	2010	2011	2012
REVENUES					
Shipping services					
Wharfage	\$335,172	\$295,287	\$304,653	\$317,621	\$333,757
Dockage	6,957	6,234	5,943	5,848	4,813
Demurrage	276	227	212	238	230
Cranes	1,944	1,120	913	--	-
Pilotage	7,677	7,683	7,025	7,417	7,131
Assignment charges	22,750	18,720	8,883	12,374	11,785
Storage	102	76	1	--	-
Total shipping services	\$374,878	\$329,347	\$327,630	\$343,498	\$357,716
Rentals					
Land	\$41,587	\$38,875	\$39,741	\$42,693	\$40,127
Other	3,937	3,493	3,400	2,735	3,016
Total rentals	\$45,524	\$42,368	\$43,141	\$45,428	\$43,143
Royalties, fees and other operating revenues	5,943	30,509	36,047	11,577	8,928
Total operating revenues	\$426,345	\$402,224	\$406,818	\$400,503	\$409,787
Provision for bad debts	--	--	--	--	--
Net operating revenues	\$426,345	\$402,224	\$406,818	\$400,503	\$409,787
EXPENSES					
Operating and administrative expenses					
Salaries and benefits	\$95,444	\$99,350	\$96,838	\$103,693	\$104,910
Marketing and public relations	5,274	3,676	2,594	3,055	3,380
Travel and entertainment	1,128	635	569	843	991
Outside services	37,937	29,498	24,428	30,601	29,426
Material and supplies	8,950	8,121	6,634	6,556	6,717
City services and payments	27,101	28,704	31,142	22,353	22,236
Other operating expenses	45,918	84,159	48,030	42,594	32,146
Total operating and administrative expenses	221,752	254,143	210,235	209,695	199,806
Income from operations before depreciation	204,593	148,081	196,583	190,808	209,981
Depreciation	78,295	83,413	87,255	90,468	100,485
Operating income	126,298	64,668	109,328	100,340	109,496
Nonoperating revenues/(Expenses)					
Income from investments in JPAs and other entities	4,440	2,980	2,270	(333)	1,851
Interest and investment income	34,863	18,824	15,233	6,436	9,486
Interest expense	(38,052)	(36,979)	(35,663)	(3,704)	(10,538)
Other income and expenses, net	(2,536)	(7,625)	(2,951)	(6,667)	(8,359)
Net nonoperating expenses	(1,285)	(22,800)	(21,111)	(4,268)	(7,560)
Income before capital contributions	\$125,013	\$41,868	\$88,217	\$96,072	\$101,936
Capital contributions	14,161	4,103	16,950	12,059	31,307
[Special item]	--	--	--	--	-
[Deletions of capital contribution]	--	--	--	--	-
Changes in net assets	139,174	45,971	105,167	108,131	133,243
Total net assets - beginning of year	2,337,869	2,383,616	2,429,587	2,534,754	2,642,885
Total net assets - end of year	\$2,477,043	\$2,429,587	\$2,534,754	\$2,642,885	\$2,776,128

Source: Port of Los Angeles

TABLE B-3

**PORT OF LOS ANGELES
REVENUE TONNAGE BY CARGO TYPE⁽¹⁾
FISCAL YEARS 2003 THROUGH 2012**
(in thousands of metric revenue tons)

Fiscal Year Ended June 30	General Cargo	Liquid Bulk	Dry Bulk ⁽²⁾	Total ⁽³⁾	% Increase (Decrease) in Total Tonnage over Prior Year
2003	131,900	11,400	4,200	147,500	16.9%
2004	146,300	11,900	3,900	162,100	9.9
2005	145,000	12,400	4,300	161,700	(0.2)
2006	155,200	16,000	3,600	174,800	8.1
2007	171,900	15,400	2,800	190,100	8.8
2008	161,900	6,200	1,900	170,000	(10.6)
2009	144,400	11,100	2,000	157,500	(7.4)
2010	145,800	10,700	1,300	157,800	0.2
2011	146,400	10,600	1,200	158,200	0.3
2012	164,200	9,900	1,100	175,200	10.7

⁽¹⁾ Numbers are rounded.

⁽²⁾ Dry bulk cargo includes steel slabs, sulfur, sand, pipe, beams, scrap metal, coal, ores, cement, fertilizers, bauxite, and copper concentrate. Most of the decline in dry bulk volume in recent years is primarily attributable to a decline in manufacturing and construction in Southern California and the Southwestern region of the United States, which has reduced the demand for some of these products.

⁽³⁾ Computed on an accrual basis, adjusted for unverified amounts.

Source: POLA

TABLE B-4

CONTAINER VOLUME IN TEUs
(in thousands)

	Year ended June 30		
	2010	2011	2012
Import TEUs	3,786	4,186	4,318
Export TEUs	3,442	3,749	3,868
Total	7,228	7,935	8,186

Source: POLA

TABLE B-5

SHIPPING REVENUE BREAKDOWN⁽¹⁾
FISCAL YEARS ENDED JUNE 30, 2003-2012

Fiscal Year Ended June 30	Total Shipping Revenues (000)	Container Shipping Revenues (000)	TEUs (000)	Container Shipping Revenue Per TEU	Non-Container Shipping (000)	Non-Container Tons (000)	Non-Container Shipping Revenue Per Ton
2003	\$302,100	\$249,800	6,701	\$37.28	\$52,300	19,479	\$2.68
2004	311,400	260,700	7,351	35.46	50,700	19,318	2.62
2005	328,800	273,900	7,273	37.66	54,900	21,052	2.61
2006	373,300	311,400	7,801	39.92	61,900	30,832	2.01
2007	375,500	324,200	8,650	37.48	51,300	21,731	2.36
2008	374,900	328,800	8,083	40.68	46,100	18,450	2.50
2009	329,300	293,100	7,262	40.36	36,200	14,518	2.49
2010	327,600	296,500	7,227	41.03	31,100	12,525	2.48
2011	343,500	306,300	7,935	38.60	37,200	14,896	2.50
2012	357,700	321,900	8,171	39.40	35,800	13,800	2.59

⁽¹⁾ Numbers are rounded.

Source: Port of Los Angeles.

TABLE B-6

TEU COUNT BY COUNTRY
FISCAL YEAR ENDED JUNE 30, 2012

Exports Country	TEUs	% of Total	Imports Country	TEUs	% of Total
China	760,098	37.9%	China	2,327,859	56.1%
Taiwan	242,699	12.1	Japan	271,706	6.6
South Korea	229,784	11.5	Taiwan	248,337	6.0
Japan	225,636	11.3	South Korea	231,204	5.6
Hong Kong	82,748	4.1	Vietnam	191,933	4.6
Singapore	52,559	2.6	Thailand	145,721	3.5
Vietnam	51,628	2.6	Hong Kong	127,467	3.1
Thailand	50,024	2.5	Indonesia	124,518	3.0
Indonesia	45,247	2.3	Malaysia	91,888	2.2
Philippines	42,408	2.1	India	51,074	1.2
All Others	221,214	11.0	All Others	335,863	8.1
Total Exports	2,004,045	100.0	Total Imports	4,147,570	100.0

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

Other Matters

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.

Since 2002 POLA has been awarded approximately \$116 million in 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.

POLA 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. POLA continues to seek additional funding to support the security program from State and federal levels.

Capital Improvement Projects. POLA's capital improvement projects are categorized into five types of projects: (i) Terminal Projects, (ii) Transportation Projects, (iii) Security Projects, (iv) Community Projects, and (v) Maritime Services Projects.

Expenditures for capital improvement projects in POLA's fiscal years 2012 and 2011 were approximately \$143 million and \$233 million, respectively, comprised of: Terminal Projects (a total of approximately \$130 million in 2011 and 2012), Transportation Projects (a total of approximately \$62 million in 2011 and 2012), Security Projects (a total of approximately \$41 million in 2011 and 2012), Community Projects (a total of approximately \$122 million in 2011 and 2012, and Maritime Services Projects (a total of approximately \$21 million in 2011 and 2012).

The following Table B-7 provides a summary of the total estimated project costs by category of the Department's capital improvement program for Fiscal Year 2011 through 2016.

TABLE B-7

**PORT OF LOS ANGELES
CAPITAL IMPROVEMENT PROGRAM BY CATEGORY
FISCAL YEARS 2011-2016**

Project Category	Estimated Total Cost (\$ millions)
Terminal Projects	\$ 595
Transportation Projects	368
Security Projects	49
Community Projects	306
Maritime Projects	<u>140</u>
Total	<u>\$1,458</u>

Source: Harbor Department of the City of Los Angeles.

Terminal Projects. Following are summaries of certain of the Department's Terminal capital improvement projects:

China Shipping Terminal Expansion. POLA refers to its proposed Berth 97-109 Container Terminal Project as the "China Shipping Project." The China Shipping Project provides for a long-term permit agreement with China Shipping and expands China Shipping's terminal capacity to accommodate an annual throughput of 1.5 million TEUs. The facility footprint is being expanded from an existing 72 acres to 142 acres of backland and 2,500 feet of wharf to be served by ten Postpanamax A-frame cranes. The China Shipping Project consists of three phases. Phase I of the China Shipping Project cost approximately \$100 million and has been substantially completed. Phases II and III of the China Shipping Project consist primarily of wharf expansion, backland development, a marine operations building, a crane maintenance building, relocation of the Catalina Express Terminal and installation of AMP improvements. Phases II and III of the China Shipping Project are estimated to cost approximately \$127 million and are expected to be completed in Fiscal Year 2016. Construction on Phase II began in November 2009, and in December 2010, POLA completed a portion of Phase II (925 feet of new container wharf and 18 acres of new container terminal backland) and those facilities were placed into service by China Shipping. Construction of the remainder of Phase II backland of the China Shipping Project is expected to start in March 2013 and is expected to be completed in December 2013. Phase III wharf and backland of the China Shipping Project are currently under construction and are expected to be completed in December 2013. Construction of the terminal buildings is expected to begin in January 2014 and is expected to be completed in April 2015. POLA intends to use proceeds of commercial paper 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, implementing a beautification plan along area corridors and landscaping along Front Street which runs parallel to the terminal perimeter.

TraPac Terminal Expansion. The TraPac terminal project (the "TraPac Terminal Project") includes expansion between Berths 136 and 147 on POLA's northwest perimeter to facilitate TraPac's expansion of cargo handling and to increase efficiency. POLA estimates that the TraPac Terminal Project will increase potential related TEU throughput by TraPac from 900,000 TEUs (baseline year 2003) to 2.4 million TEUs by 2025. The TraPac Terminal Project consists primarily of wharf and backland improvements, work on the ICTF and terminal buildings and installation of AMP improvements. The TraPac Terminal Project will be POLA's most advanced container terminal with advanced automation technology being implemented for the new backland and railyard areas. The TraPac Terminal Project is expected to cost approximately \$376 million and is expected to be completed in fiscal year 2016. Construction on the wharf improvements was completed in April 2011. POLA intends to use commercial paper proceeds and cash from operations to finance costs of the TraPac Terminal Project.

Cruise Terminal. Since 2008, POLA 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. POLA 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.

Transportation and Other Projects. POLA's current transportation and other projects are described below.

West Basin Railyard Project. The West Basin Railyard Project consists of constructing a switching railyard and intermodal storage tracks connecting POLA'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 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 \$125 million and is to be funded with federal grants, state and local funds and a capital fund contribution from POLA of \$50 million. Construction began in September 2012 and is expected to be completed by the third quarter of 2014.

Channel Deepening Project. The Channel Deepening Project (the "Channel Deepening Project") is a cooperative project with the U.S. Army Corps of Engineers and was originally authorized by the United States Congress in 2000. The Channel Deepening Project consists of dredging the Port's main channel to a depth of 53 feet to better accommodate the new generation of container ships. As part of the Channel Deepening Project, the main channel and the west basin have been dredged and the resulting dredge material has been used to expand the China Shipping terminal by 45 acres, the American President Line terminal by 40 acres and the TraPac terminal by 5 acres. Dredge material was also used for a new 8-acre fill at Berth 245 to support future port operations. Dredge material also was used to create approximately 50 acres of shallow water habitat and a 120-acre submerged landfill for the future expansion of Pier 400. POLA expects the Channel Deepening Project will cost approximately \$359 million, of which \$61 million is to be funded by the Army Corps of Engineers with the remaining \$298 million to be funded by POLA, and expects it to be completed in Fiscal Year 2013.

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 Port and background traffic. POLA and the California Department of Transportation ("Caltrans") are working in partnership on implementing the ICIP. The ICIP received environmental clearance in February and June of 2012 and construction is expected to commence in May 2013. It is estimated that the cost of the ICIP will be approximately \$78.3 million, of which POLA would be responsible for approximately \$37.6 million. 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 ("SAFETEA-LU") (\$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 Rail 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. It is anticipated that 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. A construction contract has been awarded with construction scheduled to begin in January 2013 and 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 POLA will be responsible for approximately \$35.7 million. The remainder of the funding is to be provided by Proposition 1B, TCIF (\$17.0 million) and LACMTA (\$19.3 million).

Other Projects. POLA also plans to complete a variety of community projects and administrative and other maritime service projects.

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 affected by water, soils and sediments and air. In 2003, the Department adopted an environmental policy, which calls for continuous environmental improvement and the implementation of pollution prevention measures. 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 and the U.S. Army Corps of Engineers Regional Water Quality Control 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 safety laws.

Clean Air Action Plan-Clean Truck Program. The San Pedro Bay Ports are located in the South Coast Air Basin. The South Coast Air Basin has some of the worst air quality in the nation. Poor air quality presents a health concern for residents of the South Coast Air Basin, which is designated by the United States Environmental Protection Agency ("U.S. EPA") as being in "extreme non-attainment" of the National Ambient Air Quality Standards for ozone and for particulate matter less than 2.5 microns. In addition, the State identified diesel emissions as a toxic air contaminant which requires consideration of its impact in the approval of Port projects and operations. The primary sources of diesel particulate emissions, oxides of nitrogen ("NOx") and oxides of sulfur ("SOx") are the ships, trucks, trains and cargo handling equipment at the San Pedro Bay Ports.

On November 20, 2006, the San Pedro Bay Ports jointly adopted the San Pedro Bay Clean Air Action Plan (the "CAAP"), a comprehensive program with separate initiatives designed to substantially reduce air emissions from major sources in the two ports over a five-year period. Emission sources targeted by the CAAP include ships, trains, cargo handling equipment, harbor craft and heavy duty trucks. The Clean Truck Program ("CTP") is the CAAP initiative that targets emissions from heavy duty trucks, specifically drayage trucks that move cargo in and out of marine terminals at the Port.

On July 28, 2008, the American Trucking Associations, Inc. (the "ATA") filed, with the United States District Court for the Central District of California, a Complaint for Declaratory Judgment and Injunctive Relief (the "ATA Complaint") against the City of Los Angeles, the City of Long Beach and the Harbor Departments and Boards of Harbor Commissioners of Los Angeles and Long Beach (collectively, the "Port Defendants").

Pursuant to the ATA Complaint, the ATA seeks to declare void and to permanently enjoin the enforcement of certain concession plan elements of the City of Los Angeles' Clean Truck Program and the City of Long Beach's Clean Truck Program (together, the "Concession Plans"). In the ATA Complaint, the ATA alleged that, among other things, the Concession Plans (i) unlawfully re-regulate the trucking industry and violate the Federal Aviation Administration Authorization Act of 1994 (the "FAAA Act") and (ii) constitute unreasonable burdens on interstate commerce under the Commerce Clause of the U.S. Constitution and 49 U.S.C. § 14504a. The ATA Complaint requested as relief: (i) a declaratory judgment that the Concession Plans and Clean Truck Programs are preempted by the FAAA Act and the Commerce Clause, and (ii) a permanent injunction prohibiting the Port Defendants from enforcing any concession plan or other requirement that has the effect of regulating the prices, routes or services of motor carriers serving the San Pedro Bay Ports, or of precluding licensed motor carriers or independent owner-operators from entry into the San Pedro Bay Ports, and (iii) additional unspecified relief which may include damages and attorneys' fees under 42 U.S.C. § 1988. The ATA filed a motion for preliminary injunction which was denied on September 9, 2008. The ATA appealed the denial of the preliminary injunction to the United States Ninth Circuit Court of Appeals (the "Ninth Circuit") and also filed an Emergency Motion for Injunction Pending Appeal. On September 24, 2008, the Ninth Circuit denied the ATA's emergency motion for injunction. On March 20, 2009, the Ninth Circuit reversed the District Court's denial of the preliminary injunction and remanded the case to the District Court to reconsider the ATA's request for the preliminary injunction. On April 3, 2009, the ATA filed a renewed motion for preliminary injunction in the District Court and on April 29, 2009, the District Court issued a preliminary injunction which precludes the San Pedro Bay Ports from enforcing certain provisions within their concession agreements pending trial. While the District Court did not preliminarily enjoin the concession agreements as a whole, it enjoined the ability of the San Pedro Bay Ports to contractually enforce the requirements for truck ban and replacement, employee transition concession fees, off-street parking, financial capability and preferential hiring considerations. On February 24, 2010, a different Ninth Circuit Court of Appeals panel affirmed that the earlier preliminary injunction ruling by Federal District Court need not be expanded to completely enjoin the Department's concession agreements pending trial. The Ninth Circuit Court of Appeals panel held that it was unnecessary to enjoin the entire concession and that the non-enjoined elements could be severed and remain in effect pending trial. On October 19, 2009, the City of Long Beach, the Long Beach Harbor Department and the Long Beach Harbor Commissioners ("Long Beach Defendants") settled their case with the ATA.

The City of Los Angeles, the Los Angeles Harbor Department and the Los Angeles Board of Harbor Commissioners ("Los Angeles Defendants") did not settle and a trial on the merits took place in the District Court in April 2010. On August 26, 2010, the District Court issued its Findings of Fact and Conclusions of Law in favor of the Los Angeles Defendants and on September 15, 2010 the District Court entered judgment in favor of the Los Angeles Defendants, also dissolving the preliminary injunction. On September 16, 2010 the ATA filed with the U.S. Court of Appeals for the Ninth Circuit a Notice of Appeal of the Final Judgment. On September 24, 2010, the ATA filed its Motion for Stay of the Final Judgment Pending Appeal District Court. On October 26, 2010, the District Court issued a ruling that enjoined the employee mandate only pending the appeal of the trial judgment, but left all other concession requirements in place and enforceable by the Department. On September 26, 2011, the Ninth Circuit issued a ruling that upheld most of the City's concession agreement, except for one provision -- the employee mandate, which it permanently enjoined. On December 22, 2011, the ATA filed a petition for writ of certiorari to the U.S. Supreme Court appealing the decision. There is no appeal of the employee mandate which remains permanently enjoined. The Los Angeles Defendants filed a brief in opposition to the petition the U.S. Supreme Court on February 21, 2012. In March 2012, the Supreme Court requested the Solicitor General to file an amicus brief containing the U.S. government's position on the ATA case. After the SG files its brief, the Los Angeles Defendants may file a responsive brief, and thereafter the U.S. Supreme Court will decide whether or not to grant certiorari. If certiorari is granted, the ATA and the Los Angeles Defendants will file briefs on the substantive merits case and argue the case before the U.S. Supreme Court for decision. If certiorari is not granted, the case ends.

Outstanding Indebtedness

As of June 30, 2012, POLA maintained approximately \$940 million in parity debt comprised of \$840 million in long-term revenue bonds, \$100 million of commercial paper and \$1.3 million of subordinated loans. POLA has approximately \$840 million in aggregate principal amount of revenue bonds outstanding, which mature on or before 2040 and bear interest at rates between 2.00% and 5.50%. Such bonds are payable from the Harbor Revenue Fund and are senior in payment to POLA's obligation to make Shortfall Advances.

POLA revenue bonds are special, limited obligations of POLA payable solely from revenues of POLA which are generally derived from ownership and operation of the Port of Los Angeles and which include shipping revenue, rental revenue and fee and royalty revenue. Neither the full faith and credit nor the taxing power of the City of Los Angeles, the State of California or any political subdivision thereof is pledged to payment or principal of, premium, if any, or interest on POLA revenue bonds. POLA has no taxing power.

POLA is authorized to issue commercial paper notes from time to time in an aggregate principal amount not to exceed \$375,000,000 at any one time but currently has two liquidity facilities in place in the total amount to \$250,000,000 through July 2015, of which \$100,000,000 is outstanding as of June 30, 2012. Depending on market conditions and the Department's financing needs, POLA intends to refinance the commercial paper on a long-term basis by uninterrupted renewal of the commercial paper and further issuance of revenue bonds. In addition, as of June 20, 2012, POLA had outstanding two loans maturing in fiscal years 2014 and 2015 aggregating \$1,365,828 from the California Department of Boating and Waterways, which bear interest at a rate of 4.5% per annum, both of which were paid off in October 2012. See Note 5 in Appendix B.

Audited Financial Statements

The audited financial statements of POLA for the fiscal years ended June 30, 2012 and 2011 are included in Appendix B. Such financial statements have been audited by KPMG LLP, whose report with respect thereto also appears in Appendix B. POLA has not requested nor did POLA obtain permission from KPMG LLP to include the audited financial statements in this Official Statement. In addition, KPMG LLP has not performed any post-audit review of the financial condition or operations of POLA or reviewed the information with respect to POLA set forth in this Official Statement.