

NEW ISSUES—BOOK-ENTRY-ONLY

Ratings: See “RATINGS” herein.

In the opinion of Nixon Peabody LLP, as Bond Counsel (“Bond Counsel”), under existing law and assuming compliance with the tax covenants described herein and the accuracy of certain representations and certifications made by the Department described herein, interest on the Series 2011 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 2011A Bonds (as defined herein) from gross income for any period during which such Series 2011A 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 2011A Bonds, or by a “related person.” Bond Counsel is further of the opinion that interest on the Series 2011A Bonds is treated as an item of tax preference for purposes of calculating the Federal alternative minimum tax that may be imposed on individuals and corporations. Bond Counsel is also of the opinion that interest on the Series 2011B 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. Interest on the Series 2011B Bonds is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations. Bond Counsel is further of the opinion that interest on the Series 2011 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.

[Logo of Port]

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

\$[_____] *
2011 Series A
(AMT)

\$[_____] *
2011 Series B
(Non-AMT)

Dated: Date of Delivery

Due: August 1, as shown on inside front cover

The Harbor Department of the City of Los Angeles Refunding Revenue Bonds, 2011 Series A (AMT) (the “Series 2011A Bonds”) and the Harbor Department of the City of Los Angeles Refunding Revenue Bonds, 2011 Series B (Non-AMT) (the “Series 2011B Bonds,” and together with the Series 2011A Bonds, the “Series 2011 Bonds”) are being issued to (a) current refund and defease the Refunded Bonds to generate debt service savings for the Harbor Department of the City of Los Angeles (the “Department”), (b) fund a debt service reserve fund, and (c) pay the costs of issuance of the Series 2011 Bonds. The Series 2011 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. 11-[] adopted by the Board of Harbor Commissioners of the City of Los Angeles on [_____] , 2011, approved by the City Council of the City of Los Angeles on [_____] , 2011 and approved by the Mayor of the City of Los Angeles on [_____] , 2011. The Series 2011 Bonds also are being issued pursuant to an Indenture of Trust, to be dated as of [_____] 1, 2011 (the “Indenture”), by and between the Department and U.S. Bank National Association, as trustee (the “Trustee”).

The Series 2011 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 2011 Bonds may be made in book-entry form only in denominations of \$5,000 and integral multiples thereof. Interest on the Series 2011 Bonds will be payable on February 1 and August 1, commencing on [August 1, 2011]. So long as the Series 2011 Bonds are held by DTC, the principal of and interest on the Series 2011 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 2011 Bonds, as more fully described herein. See “APPENDIX F—BOOK-ENTRY-ONLY SYSTEM.”

The Series 2011 Bonds are subject to optional and mandatory sinking fund redemption prior to maturity, as more fully described herein. See “DESCRIPTION OF THE SERIES 2011 BONDS—Redemption Provisions.”

Maturity Schedule on Inside Front Cover

Principal of and interest on the Series 2011 Bonds are payable solely from the Revenues and other amounts pledged under the Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2011 BONDS—Source of Payment” and “—Harbor Revenue Fund.” The Series 2011 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 2011 BONDS—Outstanding Parity Obligations” herein.

THE SERIES 2011 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 2011 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 2011 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 2011 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 2011 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 2011 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, The Gibbs Law Group, P.C. Frasca & Associates, L.L.C. has served as Financial Advisor to the Department. It is expected that the delivery of the Series 2011 Bonds will be made through the facilities of DTC on or about [_____] , 2011.

Morgan Stanley

De La Rosa & Co.

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

Date of Official Statement:

* Preliminary; subject to change.
4828-2705-1785.6

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

MATURITY SCHEDULE

\$[_____]*

**Harbor Department of The City of Los Angeles
Refunding Revenue Bonds
2011 Series A
(AMT)**

Maturity Date (August 1)	Principal Amount	Interest Rate	Price or Yield	CUSIP No.¹
---	-----------------------------	--------------------------	---------------------------	------------------------------

\$ _____ % Term Bonds due August 1, 20__, Yield: ___%; CUSIP No.¹: _____

\$ _____ % Term Bonds due August 1, 20__, Yield: ___%; CUSIP No.¹: _____

\$[_____]*

**Harbor Department of The City of Los Angeles
Refunding Revenue Bonds
2011 Series B
(Non-AMT)**

Maturity Date (August 1)	Principal Amount	Interest Rate	Price or Yield	CUSIP No.¹
---	-----------------------------	--------------------------	---------------------------	------------------------------

\$ _____ % Term Bonds due August 1, 20__, Yield: ___%; CUSIP No.¹: _____

\$ _____ % Term Bonds due August 1, 20__, Yield: ___%; CUSIP No.¹: _____

* Preliminary; Subject to change.

¹ Copyright 2011, American Bankers Association. CUSIP data was provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies Inc. CUSIP numbers are provided only for the convenience of the reader. Neither the Department nor the Underwriters take any responsibility for any changes to or errors in this list of CUSIP numbers.

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

425 South Palos Verdes Street
San Pedro, CA 90731

BOARD OF HARBOR COMMISSIONERS

Cindy Miscikowski, President
David Arian, Vice President
Kaylynn L. Kim
Robin Kramer
Douglas P. Krause

OFFICERS AND EXECUTIVES

Geraldine Knatz, Ph.D., Executive Director
Molly C. Campbell, Deputy Executive Director, Finance and Administration
Michael R. Christensen, P.E., Deputy Executive Director of Development
Captain John M. Holmes, Deputy Executive Director, Operations
Kathryn McDermott, Deputy Executive Director, Business Development
Karl K.Y. Pan, Chief Financial Officer
Soheila Sajadian, Director of Debt and Treasury

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Trustee

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Bond Counsel

Nixon Peabody LLP

Disclosure Counsel

Kutak Rock LLP

Financial Advisor

Frasca & Associates, L.L.C.

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 2011 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 2011 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts. See “INTRODUCTION—Forward-Looking Statements” herein.

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

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Department since the date hereof. This Official Statement is submitted in connection with the sale of the Series 2011 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 2011 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 2011 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 2011 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 2011 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.

TABLE OF CONTENTS

	Page		Page
INTRODUCTION	1	Environmental Compliance and	
General	1	Impact; Air Emissions	60
The Department and the Port.....	1	Termination or Expiration of Material	
Authority for Issuance	2	Contracts	61
Purpose of the Series 2011 Bonds	2	Enforceability of Remedies.....	61
Security for the Series 2011 Bonds	2	Forward-Looking Statements.....	61
Parity Obligations.....	2	CONTINUING DISCLOSURE	62
Rate Covenant	3	TAX MATTERS	62
Continuing Disclosure.....	3	Federal Income Taxes.....	62
Forward-Looking Statements	3	State Taxes.....	63
Additional Information.....	3	Original Issue Discount.....	63
PLAN OF REFUNDING.....	4	Original Issue Premium	63
Plan of Refunding.....	4	Ancillary Tax Matters	63
Sources and Uses of Funds.....	5	Changes in Law and Post Issuance	
DESCRIPTION OF THE SERIES 2011		Events.....	64
BONDS	5	RATINGS.....	64
General	5	UNDERWRITING.....	65
Redemption Provisions.....	6	LITIGATION	66
SECURITY AND SOURCES OF		No Litigation Relating to the Series	
PAYMENT FOR THE SERIES 2011		2011 Bonds	66
BONDS	8	Litigation Relating to the Department	
Source of Payment.....	8	and the Port	66
Harbor Revenue Fund	9	LEGAL OPINIONS	67
Flow of Funds.....	10	FINANCIAL ADVISOR.....	68
Rate Covenant	11	FINANCIAL STATEMENTS	68
Reserve Fund.....	12	MISCELLANEOUS.....	68
Additional Debt.....	14		
Outstanding Parity Obligations	16	APPENDIX A AUDITED FINANCIAL	
THE PORT AND THE DEPARTMENT	17	STATEMENTS OF THE	
Introduction and Organization.....	17	HARBOR DEPARTMENT FOR	
Operating Data	25	THE FISCAL YEARS ENDED	
Capital Improvement Planning.....	30	JUNE 30, 2010 AND 2009	
Environmental and Regulatory Matters.....	36	APPENDIX B CERTAIN INFORMATION	
FINANCIAL INFORMATION		REGARDING THE CITY OF	
CONCERNING THE DEPARTMENT	39	LOS ANGELES	
Summary of Revenues, Expenses and		APPENDIX C SUMMARY OF CERTAIN	
Net Assets	39	PROVISIONS OF THE	
Fiscal Year 2011 Budget	43	INDENTURE	
Container Forecast.....	44	APPENDIX D FORM OF CONTINUING	
Other Financial Matters	46	DISCLOSURE CERTIFICATE	
Financial Policies	55	APPENDIX E FORM OF OPINION OF BOND	
CERTAIN INVESTMENT		COUNSEL	
CONSIDERATIONS	57	APPENDIX F BOOK-ENTRY-ONLY	
Ability To Meet Rate Covenant	57	SYSTEM	
Industry Trends and Competition.....	57		
Port Competition	58		
Security at the Port	59		
Seismic Activity	59		
City Financial Challenges	60		
Pension Liability.....	60		

OFFICIAL STATEMENT

\$[_____]*
HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES
REFUNDING REVENUE BONDS

\$[_____]*
2011 Series A
(AMT)

\$[_____]*
2011 Series B
(Non-AMT)

INTRODUCTION

General

The purpose of this Official Statement, which includes the cover page, inside cover page, table of contents and appendices, is to provide certain information concerning the sale and delivery by the Harbor Department of the City of Los Angeles (the “Department”) of its \$[_____]* Harbor Department of the City of Los Angeles Refunding Revenue Bonds, 2011 Series A (AMT) (the “Series 2011A Bonds”), and \$[_____]* Harbor Department of the City of Los Angeles Refunding Revenue Bonds, 2011 Series B (Non-AMT) (the “Series 2011B Bonds,” and together with the Series 2011A Bonds, the “Series 2011 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 2011 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 permit agreements (i.e., agreements generally similar to leases); and (c) fees and royalty revenue. During Fiscal Year 2010, the Port handled approximately 7,216,000 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 7,500 acres of land and water. The Port generally encompasses approximately 43 miles of waterfront berthing and 27 terminal facilities. A description of the Port, the Department and certain financial and operating information concerning the Department is contained in “THE PORT AND THE DEPARTMENT.”

* Preliminary; subject to change.

Authority for Issuance

The Series 2011 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. 11-[____] (the “Resolution”) adopted by the Board of Harbor Commissioners of the City of Los Angeles (the “Board”) on [____], 2011, approved by the City Council of the City (the “City Council”) on [____], 2011 and approved by the Mayor of the City (the “Mayor”) on [____], 2011. The Series 2011 Bonds also are being issued pursuant to an Indenture of Trust, to be dated as of [____] 1, 2011 (the “Indenture”), by and between the Department and U.S. Bank National Association, as trustee (the “Trustee”).

Purpose of the Series 2011 Bonds

Proceeds from the sale of the Series 2011 Bonds, along with certain other available moneys, will be used to current refund and defease the Refunded Bonds (as defined herein) to generate debt service savings for the Department, make a deposit to the Reserve Fund (as defined herein), and pay costs of issuance of the Series 2011 Bonds, all as further described herein. See “PLAN OF REFUNDING.”

Security for the Series 2011 Bonds

The principal of and interest on the Series 2011 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 2011 BONDS—Source of Payment” and “—Harbor Revenue Fund.”

THE SERIES 2011 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 2011 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 2011 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 May 1, 2011, the Department had \$979,930,000 aggregate principal amount of Parity Obligations (including the Refunded Bonds) 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 2011 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 2011 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 2011 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 2011 Bonds). See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2011 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 2011 BONDS—Rate Covenant”

Continuing Disclosure

In connection with the issuance of the Series 2011 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 (“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 material 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 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 2011 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 2011 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 2011 Bonds.

PLAN OF REFUNDING

Plan of Refunding

A portion of the proceeds of the Series 2011 Bonds, along with certain other available moneys, will be used to refund and defease (i) all or a portion of the Department’s outstanding Harbor Department of the City of Los Angeles Refunding Revenue Bonds, 2001 Series A (the “Series 2001A Bonds”), which are currently outstanding in the aggregate principal amount of \$36,180,000, and/or (ii) all or a portion of the Department’s outstanding Harbor Department of the City of Los Angeles Refunding Revenue Bonds, 2001 Series B (AMT) (the “Series 2001B Bonds”), which are outstanding in the aggregate principal amount of \$64,925,000. The specific Series 2001A Bonds (the “Refunded Series 2001A Bonds”) and the specific Series 2001B Bonds (the “Refunded Series 2001B Bonds,” and collectively with the Refunded Series 2001A Bonds, the “Refunded Bonds”) that will be refunded will be determined by the Department at the time that the Department and the Underwriters (as defined herein) sign the Bond Purchase Agreement (as defined herein). The issuance of the Series 2011 Bonds and the refunding of the Refunded Bonds is subject to market conditions, and the Department will only issue the Series 2011 Bonds and refund the Refunded Bonds if such issuance and refunding result in acceptable debt service savings to the Department. The Refunded Series 2001A Bonds may include some or all of the following Series 2001A Bonds and the Refunded Series 2001B Bonds may include some or all of the following Series 2001B Bonds:

Series	Maturity Date (August 1)*	Principal Amount*	Redemption Date ¹	CUSIP Numbers ²
2001A	2025	<u>\$36,180,000</u>	August 1, 2011	544552JT0
Total		<u>\$36,180,000</u>		
2001B	2015	\$ 2,600,000	August 1, 2011	544552KA9
2001B	2016	7,670,000	August 1, 2011	544552JU7
2001B	2017	8,095,000	August 1, 2011	544552JV5
2001B	2018	8,535,000	August 1, 2011	544552JW3
2001B	2019	9,010,000	August 1, 2011	544552JX1
2001B	2020	9,505,000	August 1, 2011	544552JY9
2001B	2021	10,025,000	August 1, 2011	544552JZ6
2001B	2022	<u>9,485,000</u>	August 1, 2011	544552KQ4
Total		<u>\$64,925,000</u>		

* Preliminary; subject to change.

² The Refunded Bonds will be redeemed on August 1, 2011 at a redemption price of 100% of the principal thereof, plus accrued interest.

³ 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 2011 Bonds, together with certain moneys to be released from the reserve fund and the interest accounts for the Refunded Bonds, will be deposited with U.S. Bank National Association, as trustee and escrow agent, and will be held in an escrow fund for the Refunded Bonds (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. Certain amounts deposited into the Escrow Fund will be [invested in direct, noncallable obligations of the United States Treasury and all remaining amounts deposited into the Escrow Fund will be held uninvested in cash.] Amounts on deposit in the Escrow Fund will be used on August 1, 2011 to pay the principal of and interest on the Refunded Bonds at a redemption price of 100% of the principal amount thereof, plus accrued interest thereon.

Sources and Uses of Funds

Proceeds from the sale of the Series 2011 Bonds, along with certain other available moneys, will be used to current refund and defease the Refunded Bonds to generate debt service savings, make a deposit to the Reserve Fund, and pay costs of issuance of the Series 2011 Bonds. The following table sets forth the sources and uses of funds in connection with the issuance of the Series 2011 Bonds.

<u>Sources</u>	<u>Series 2011A Bonds</u>	<u>Series 2011B Bonds</u>	<u>Total</u>
Par Amount	\$	\$	\$
Original Issue Premium/(Discount)			
Funds Released from Series 2001			
Interest Accounts			
Funds Released from Series 2001	_____	_____	_____
Reserve Fund			
Total Sources	\$_____	\$_____	\$_____
<u>Uses</u>			
Deposit to Escrow Fund	\$	\$	\$
Deposit to Reserve Fund			
Costs of Issuance ¹	_____	_____	_____
Total Uses	\$_____	\$_____	\$_____

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

DESCRIPTION OF THE SERIES 2011 BONDS

General

The Series 2011 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 2011 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 [August 1, 2011]. Interest due and payable on the Series 2011 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 2011 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 [July 15, 2011], 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 2011 Bond, interest

thereon is in default, such Series 2011 Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

The Series 2011 Bonds will be issued in denominations of \$5,000 or integral multiples thereof. The Series 2011 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 2011 Bonds. Individual purchases may be made in book-entry form only. Purchasers will not receive certificates representing their interest in the Series 2011 Bonds purchased. So long as Cede & Co., as a nominee of DTC, is the registered owner of the Series 2011 Bonds, references herein to the Holders or registered owners means Cede & Co., and does not mean the Beneficial Owners of the Series 2011 Bonds.

So long as Cede & Co. is the registered owner of the Series 2011 Bonds, principal of and interest on the Series 2011 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 2011 Bonds maturing on or before August 1, 20__ are not subject to optional redemption prior to maturity. The Series 2011 Bonds maturing on and after August 1, 20__, are subject to redemption at the option of the Department prior to their respective stated maturities, as a whole, or in part in integral multiples of \$5,000, on any date on or after August 1, 20__, at a redemption price equal to the principal amount thereof, plus accrued and unpaid interest thereon to the redemption date, without premium.

Mandatory Sinking Fund Redemption. The Series 2011A Bonds maturing on August 1, 20__ (the “Series 2011A Term Bonds”) are subject to mandatory redemption from sinking fund payments made by the Department, in part on August 1, 20__, and on August 1 in each year thereafter at a redemption price equal to the principal amount thereof, plus accrued and unpaid interest thereon to the redemption date, without premium. The Series 2011A Term Bonds will be redeemed on the following dates and in the following amounts:

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

The Series 2011B Bonds maturing on August 1, 20__ (the “Series 2011B Term Bonds”) are subject to mandatory redemption from sinking fund payments made by the Department, in part on August 1, 20__, and on August 1 in each year thereafter at a redemption price equal to the principal amount thereof, plus accrued and unpaid interest thereon to the redemption date, without premium. The Series 2011B Term Bonds will be redeemed on the following dates and in the following amounts:

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

If, on or before the date on which the Series 2011A Term Bonds or the Series 2011B Term Bonds are subject to mandatory sinking fund redemption, (i) the Department has purchased Series 2011A Term Bonds or Series 2011B Term Bonds, as applicable, and surrendered such Series 2011A Term Bonds or Series 2011B Term Bonds, as applicable, to the Trustee for cancellation or (ii) Series 2011A Term Bonds or Series 2011B Term Bonds have been optionally redeemed as described in “Optional Redemption” above, then the Department may credit the amount of the Series 2011A Term Bonds or the Series 2011B Term Bonds, as applicable, to such future mandatory sinking fund payments with respect to the Series 2011A Term Bonds or the Series 2011B Term Bonds, as applicable, as the Department may specify in writing to the Trustee.

Selection of Bonds for Redemption. In the case of any redemption in part of a Series of the Series 2011 Bonds, the Series 2011 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 2011 Bonds are Book-Entry Bonds, the interests of the Participants in the particular Series 2011 Bonds or portions thereof to be redeemed of a Series of Series 2011 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 2011 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 2011 Bonds of a Series are to be redeemed, the distinctive numbers of the Series 2011 Bonds to be redeemed, and in the case of Series 2011 Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice also will state that on the redemption date there will become due and payable on each of said Series 2011 Bonds or parts thereof designated for redemption the principal amount of, plus accrued interest thereon, and that from and after such redemption date interest thereon will cease to accrue, and will require that such Series 2011 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 2011 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 2011 Bonds under the Indenture, unless upon the giving of such notice such Series 2011 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 2011 Bonds to be redeemed, such notice will state that such redemption is conditioned upon the receipt by the Trustee on or prior to the date fixed for such redemption of amounts sufficient to pay the

principal of and interest on such Series 2011 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 2011 Bonds will not be subject to redemption on such date. In the event that such notice of redemption contains such a condition and such amounts are not so received, the redemption will not be made and the Trustee will within a reasonable time thereafter give notice, to the persons and in the manner in which the notice of redemption was given, that such amounts were not so received and the redemption was not made.

Effect of Redemption. Notice of redemption having been duly given as described above, and moneys for payment of the principal of and accrued interest on the Series 2011 Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Series 2011 Bonds (or portions thereof) so called for redemption will become due and payable, interest on the Series 2011 Bonds so called for redemption will cease to accrue, said Series 2011 Bonds (or portions thereof) will cease to be entitled to any benefit or security under the Indenture, and the Owners of said Series 2011 Bonds will have no rights in respect thereof except to receive payment of the principal of and accrued interest thereon. The Trustee will, upon surrender for payment of any of the Series 2011 Bonds to be redeemed on their redemption dates, pay the principal of and interest on such Series 2011 Bonds.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2011 BONDS

Source of Payment

Subject to the provisions of the Indenture, all of the Revenues and any other amounts (including proceeds of the sale of the Series 2011 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 2011 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 2011 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 2011 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 2011 Bonds and which are secured by a pledge of and lien on the Revenues. See “—Outstanding Parity Obligations.”

THE SERIES 2011 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 2011 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 2011 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 May 1, 2011, the Department had \$979,930,000 aggregate principal amount of Parity Obligations (including the Refunded Bonds) 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 2011 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 2011 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 2011 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 2011 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 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—2011 Series A and the Interest Account—2011 Series B; (b) the Principal Fund (the “Principal Fund”), including the Principal Account—2011 Series A and the Principal Account—2011 Series B; (c) the Reserve Fund (the “Reserve Fund”); (d) the Redemption Fund (the “Redemption Fund”), including the Redemption Account—2011 Series A and the Redemption Account—2011 Series B; (e) the Costs of Issuance Fund (the “Costs of Issuance Fund”), including the Costs of Issuance Account—2011 Series A and the Costs of Issuance Account—2011 Series B; and (f) the Rebate Fund (the “Rebate Fund”). 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 2011 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 2011 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 2011 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

2011 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 2011 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 2011 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 2011 Bonds the Trustee will establish a reserve fund for the Series 2011 Bonds (the “Reserve Fund”), and the Department will elect to treat the Reserve Fund as part of the Common Reserve. In addition to the Reserve Fund, the Department has elected to treat the reserve funds established for its Revenue Bonds, 2005 Series A (the “Series 2005A Bonds”), Revenue Bonds, 2005 Series B (the “Series 2005B Bonds”), Revenue Bonds, 2005 Series C-1 (the “Series 2005C-1 Bonds,” and collectively with the Series 2005A Bonds and the Series 2005B Bonds, the “Series 2005 Bonds”), Revenue Bonds, 2006 Series A (the “Series 2006A Bonds”), Revenue Bonds, 2006 Series B (the “Series 2006B Bonds”), Revenue Bonds, 2006 Series C (the “Series 2006C Bonds,” and collectively with the Series 2006A Bonds and the Series 2006B Bonds, the “Series 2006 Bonds”), Revenue Bonds, 2009 Series A (the “Series 2009A Bonds”), Revenue Bonds, 2009 Series B (the “Series 2009B Bonds”), and 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”), as part of the Common Reserve. The Series 2011 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 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 2011 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 2011 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 2011 Bonds, sufficient amounts will be on deposit in the Common Reserve to meet the Common Reserve Requirement (\$_____).

Each time that the Department elects to treat a reserve fund as a part of the Common Reserve, it is required to deposit cash and/or securities to the Common Reserve, and/or provide one or more (a) surety bonds; (b) insurance policies issued by one or more municipal bond insurance companies; (c) letters of credit; or (d) other security devices, in each case with ratings in the highest rating category by two of the Rating Agencies as of the date of deposit therein, and with provision that such security device(s) will be available to be drawn upon with respect to all Common Reserve Parity Obligations (each, a "Common Reserve Security Device"), in an amount sufficient to increase the balance in the Common Reserve to the Common Reserve Requirement calculated to take into account such additional Common Reserve Parity Obligations. Additionally, in substitution for all or part of the moneys and/or securities on deposit in the Common Reserve, the Department may provide one or more Common Reserve Security Device, 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 2011 Bonds, the Department will deposit a portion of the proceeds of the Series 2011 Bonds to the Common Reserve so that the Common Reserve Requirement will be met after the issuance of the Series 2011 Bonds. As of the date of issuance of the Series 2011 Bonds, the Common Reserve is expected to contain \$_____ of cash and securities, which will satisfy the Common Reserve Requirement.

In addition to the cash and securities, the Common Reserve contains two Common Reserve Security Devices, which were issued by Financial Guaranty Insurance Company and National Public Finance Guaranty Corporation ("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 funds established for the Series 2001A Bonds, the Series 2001B Bonds, and Refunding Revenue Bonds, 2002 Series A (the “Series 2002A Bonds,” and collectively with the Series 2001A Bonds and the Series 2001B Bonds, the “Series 2001/2002 Bonds”), and Revenue Bonds, 2006 Series D (the “Series 2006D Bonds”) are not part of the Common Reserve. Accordingly, the reserve funds established with respect to the Series 2001/2002 Bonds and the Series 2006D Bonds are Separate Reserve Funds and secure only the Parity Obligations for which each such reserve fund was created. The Series 2001/2002 Bonds and the Series 2006D Bonds are not secured by the Common Reserve. The Common Reserve Parity Obligations (including the Series 2011 Bonds) are not secured by the Separate Reserve Funds established for the Series 2001/2002 Bonds and the Series 2006D Bonds. The funding requirements for the Separate Reserve Funds established for the Series 2001/2002 Bonds and the Series 2006D Bonds have been satisfied with cash and securities deposited to such Separate Reserve Funds. In addition to the cash and securities, the Separate Reserve Funds for the Series 2001/2001 Bonds and the Series 2006D Bonds contain two reserve fund surety policies, which were issued by Ambac Assurance Corporation (“Ambac”) and NPMG, respectively. The amount of cash and securities in the Separate Reserve Funds satisfy the funding requirements for the Separate Reserve Funds without taking into consideration the reserve fund surety policies issued by Ambac and NPMG.

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 2011 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 2011 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 2011 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 2011 Bonds are being issued pursuant to the provisions of the preceding sentence.

Outstanding Parity Obligations

As of May 1, 2011, the Department had \$979,930,000 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 2011 Bonds.

The Department is authorized to issue its Commercial Paper Notes in an aggregate principal amount not to exceed \$200,000,000 outstanding at any one time, \$100,000,000 of which were outstanding as of May 1, 2011. 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 2011 Bonds) and constitute Parity Obligations. Pursuant to a Line of Credit Agreement, dated as of July 1, 2009, as amended by a letter agreement dated July 28, 2010 (collectively, the "Commercial Paper Credit Agreement"), by and among the Department, U.S. Bank National Association, as issuing and paying agent (the "Issuing and Paying Agent"), and JPMorgan Chase Bank, National Association (the "Bank"), the Bank has 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 maturing Commercial Paper Notes for which refinancing Commercial Paper Notes have not been issued. Under the Commercial Paper Credit Agreement, subject to certain conditions, the Bank has agreed to make advances of up to a total principal amount of \$200,000,000. The Commercial Paper Credit Agreement is not available to pay the principal of or interest on any other Parity Obligations, including the Series 2011 Bonds. The Commercial Paper Credit Agreement currently expires on July 29, 2012 and may be terminated earlier upon the occurrence of certain events, including, but not limited to, any event in which S&P, Moody's and Fitch have assigned a rating to any of the Department's unenhanced revenue bonds issued as Parity Obligations or other unenhanced debt issued as Parity Obligations below "BBB-," "Baa3" or "BBB-," respectively. The Department's obligation to repay the Bank for advances made under the Commercial Paper Credit Agreement is secured by a pledge of and lien on Revenues on parity with the other Parity Obligations (including the Series 2011 Bonds) and constitute Parity Obligations.

The following table sets forth the Parity Obligations that have been issued and were outstanding as of May 1, 2011.

**Outstanding Parity Obligations
as of May 1, 2011**

Bonds and Commercial Paper Notes	Original Principal Amount	Principal Amount Outstanding¹	Issuing Document
<u>Bonds</u>			
Series 2001A ²	\$ 36,180,000	\$ 36,180,000	Indenture of Trust dated as of July 1, 2001, by and between the Department and BNY Western Trust, as original trustee (“Series 2001 Indenture”)
Series 2001B ²	64,925,000	64,925,000	Series 2001 Indenture
Series 2002A	63,520,000	30,155,000	Series 2001 Indenture
Series 2005A	29,930,000	29,655,000	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	27,935,000	Series 2005/2006 Indenture
Series 2005C-1	43,730,000	23,170,000	Series 2005/2006 Indenture
Series 2006A	200,710,000	50,930,000	Series 2005/2006 Indenture
Series 2006B	209,815,000	93,425,000	Series 2005/2006 Indenture
Series 2006C	16,545,000	15,010,000	Series 2005/2006 Indenture
Series 2006D	111,300,000	81,685,000	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	96,700,000	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	<u>230,160,000</u>	<u>230,160,000</u>	Series 2009 Indenture
<i>Total</i>	<u>\$1,200,745,000</u>	<u>\$879,930,000</u>	
<u>Commercial Paper Notes</u>			
Series B	— ³	<u>\$100,000,000</u>	Issuing and Paying Agent Agreement, dated as of July 1, 2009, as amended, by and between the Department and U.S. Bank National Association, as issuing and paying agent
<i>Total Commercial Paper Notes Outstanding</i>		<u>\$100,000,000</u>	
<i>Total Bonds and Commercial Paper Notes Outstanding</i>		<u>\$979,930,000</u>	

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

² See “PLAN OF REFUNDING” for a discussion of the current refunding and defeasance of the Refunded Bonds.

³ The Department is authorized to issue and have outstanding, from time to time, a maximum of \$200,000,000 aggregate principal amount of Commercial Paper Notes. The Commercial Paper Notes can be issued as tax-exempt or taxable and in various series designated Series A, B, C and D.

Source: Harbor Department of the City of Los Angeles

THE PORT AND THE DEPARTMENT

Introduction and Organization

General. The Port is located in San Pedro Bay approximately 20 miles south of downtown Los Angeles. The Port is held in trust by the City for the people of the State pursuant to a series of tideland grants. The Department operates the Port independently from the City, using its own revenues,

and administers and controls its fiscal activities, subject to oversight by the City Council. Under the Charter, the Department is a proprietary or independent department of the City similar to the Department of Water and Power and Department of Airports. See “—Tideland Trust Properties” below.

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

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

The Department operates the Port as a landlord, issuing permits to Port occupants for the use of Port land, docks, wharves, transit sheds, terminals and other facilities. The Department also is landlord to 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 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 27 terminal facilities (including eight container cargo terminals, three break-bulk cargo terminals, two dry bulk cargo terminals, seven petroleum/liquid bulk cargo terminals, four warehouse terminals, one automobile terminal and two passenger terminals) 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 which are currently being increased through dredging, landfill and reconfiguration. The Port is served by two major railroads and lies at 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 2010, the Port and the Port of Long Beach (the San Pedro Bay Ports) 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 is undertaking dredging of its main channel to a depth of 53 feet to better accommodate the coming generation of container ships. See “—Capital Improvement Planning—Capital Improvement Projects—Transportation

Projects—Channel Deepening Project.” There is no significant source of sand or silt within the Port’s harbor, thus the Port’s channels do not require frequent dredging for maintenance purposes. The Port currently has the capability to handle most of the 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. See “—Capital Improvement Planning—Capital Improvement Projects—Transportation Projects—Channel Deepening Project.”

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

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

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

Board Commissioners	Occupation	Term Expiring
Cindy Miscikowski	Business Person	June 30, 2015
David Arian	Retired ILWU Member	June 30, 2014
Kaylynn L. Kim	Attorney	June 30, 2011
Robin Kramer	Business Person	June 30, 2013
Douglas P. Krause	Attorney	June 30, 2012

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:

Geraldine Knatz, Ph.D., Executive Director. In January 2006, Geraldine Knatz, Ph.D., became the executive director of the Department. She oversees the daily operations and internal management of the Department. Dr. Knatz previously served as managing director of the neighboring Port of Long Beach for seven years. As the number two executive at the Port of Long Beach, she oversaw a \$2.3 billion capital improvement program and led a number of environmental initiatives, including development of the Green Port Policy. While her tenure at the Port of Long Beach spans two decades, Dr. Knatz began her maritime career as an environmental scientist with the Department in 1977. Dr. Knatz is an alumna of the University of Southern California, where she presently teaches in the Civil Engineering School. Dr. Knatz earned two degrees from USC: a doctorate in biological science and a Master of Science in environmental engineering. She also holds an undergraduate degree in zoology from Rutgers University. Dr. Knatz serves on the ACTA Board of Directors; she serves as chair and Executive Committee member of the American Association of Port Authorities, a trade association which represents 160 public port authorities in the United States, Canada, the Caribbean and Latin America; she chairs the International Association of Ports and Harbors (the "IAPH"), and chairs the organization's Environmental Committee, representing the IAPH World Ports Climate Initiative and serves as the chair of the IAPH Port Environment Committee. She represents the IAPH on international maritime treaties at the United Nations' International Maritime Organization. She is a past chair of the National Academy of Sciences Marine Board and a past chair of its Harbors and Navigation Committee. She was appointed by Governor Arnold Schwarzenegger to the California Ocean Protection Council, which oversees and coordinates statewide policy for the protection and management of California's ocean and coastal resources.

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 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.

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, Environmental, Goods Movement, Construction and Construction and Maintenance 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 32 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.

Captain John M. Holmes, Deputy Executive Director, Operations. As Deputy Executive Director of Operations at the Port, Capt. John M. Holmes oversees the Port Police, Port Pilots, Emergency Preparedness, Wharfinger and Homeland Security divisions. Capt. Holmes 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. He has also participated in the creation of number of national security initiatives, including the Maritime Transportation Security Act, Area Maritime Security Committee and National Sea Marshal Program. Capt. Holmes has over 30 years of international management experience in a variety of positions that include Chief Operating Officer, Fortune 500 executive, senior level Coast Guard officer and maritime security specialist. He most recently served as a Principal and Chief Operating Officer of the Marsec Group, a full-service security consulting firm specializing in supply chain security, technology and operations. Prior to forming the Marsec Group, Capt. Holmes was Vice President and Director of Business Development for Science Applications International Corporation, where he assisted government and commercial customers with the development of technological solutions to homeland security challenges, with an emphasis on port, border and military solutions. Capt. Holmes retired from the

United States Coast Guard in 2003 following 27 years of service in a variety of posts that included Commanding Officer, Officer in Charge of Marine Inspection and Captain of the Port for the Los Angeles-Long Beach port complex. Earlier in his Coast Guard career, he served as Deputy Chief of the Coast Guard Office of Congressional Affairs in Washington, D.C. and as Delegate and Committee Chairman at the International Maritime Organization in London. Capt. Holmes holds bachelor's degrees in English and education from Boston College, and a master's degree in business administration from Washington University's John M. Olin School of Business.

Kathryn McDermott, Deputy Executive Director, Business Development. Kathryn McDermott serves as Deputy Executive Director of the Business Development Group for the Department. In this role, Ms. McDermott is responsible for the daily management of the Department's Real Estate, Marketing, Planning and Research, Trade Services and Economic Development Divisions' activities. She directly oversees the negotiation and administration of leases, permits, acquisitions, and condemnations of commercial and industrial land and water properties. She 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. Ms. McDermott, who most recently worked for the Port of Long Beach as the Director of Properties, has more than 20 years of experience in the negotiation of property leases and acquisitions. At the Port of Long Beach, Ms. McDermott was responsible for acquiring and assembling property for development and negotiating leases with shipping lines and terminal operators. In addition, at the Port of Long Beach, she was responsible for property management of the assets, administration of Foreign-Trade Zone 50, and the joint management and administration of ACTA properties with the Department. Ms. McDermott played an instrumental part in implementing the environmentally friendly Green Port Policy and the San Pedro Bay Clean Air Action Plan ("CAAP") by negotiating several cargo terminal leases that included emission mitigation measure from cargo operations. Prior to joining the Port of Long Beach, Ms. McDermott worked in the real estate department of Southern Pacific Railroad, where she coordinated the sale of transportation corridors. Ms. McDermott earned a bachelor's degree in psychology at the University of California, Los Angeles.

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. in finance from the University of California, Los Angeles and a bachelor's degree in liberal arts 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.

Thomas A. Russell, General Counsel. Thomas A. Russell serves as the General Counsel and oversees all litigation involving the Department and the Port. Since November 2002, Mr. Russell has headed the Harbor Division of the Office of the City Attorney. As General Counsel, Mr. Russell 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. Mr. Russell has practiced in the field of maritime law for over 25 years. He has handled cases related to environmental matters, contractual disputes, labor and employment, cargo loss and damage, the rights of ocean carriers, ship mortgages, sale and repossession of sea vessels, as well as matters involving maritime law and state regulation over navigation. Mr. Russell earned his undergraduate degree from the University of California at Berkeley and his law degree from the University of Southern California. He is a former law clerk for Justice Robert Kingsley of the California Court of Appeals. Following his clerkship, Mr. Russell completed formal training in dispute resolution at the Harvard Law School. Russell has been designated a proctor in admiralty of The Maritime Law Association of the United States, and is an honorary member of the American Vessel Documentation Association. He has served as chair of the maritime financing subcommittee of the American Bar Association, and president of the International Business Association of Southern California. Mr. Russell is a contributing author to several national publications, including Benedict on Admiralty and Moore's Federal Practice.

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

Port Community Advisory Committee. The Port of Los Angeles Community Advisory Committee (the "Community Advisory Committee") was established by the Board in 2001 as a standing committee of the Board. The purposes of the Community Advisory Committee are to: (a) assess the impacts of Port developments on the harbor area communities and to recommend suitable mitigation measures to the Board for such impacts; (b) review past, present and future environmental documents in an open public process and to make recommendations to the Board that ensure that impacts of the

communities are appropriately mitigated in accordance with Federal and State law; and (c) provide a public forum and to make recommendations to the Board to assist the Department in taking a leadership role in creating balanced communities in Wilmington, Harbor City and San Pedro so that the quality of life is maintained and enhanced by the presence of the Port. The membership of the Community Advisory Committee is made up of local neighborhood councils, community organizations, business and industry groups, resident groups, organized labor and certain ad-hoc, ex-officio and education-at-large participants. The Community Advisory Committee may make recommendations to the Board to assist the Department; however the Community Advisory Committee does not have authority to alter Board actions.

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

The Los Angeles Port Police conduct varied security operations including:

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

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

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

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

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 2002 the Department has been awarded approximately \$116 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 7.22 million TEUs handled during Fiscal Year 2010. The Port also leads the nation in number of revenue tons handled, value of cargo shipped, revenue and net income. A revenue ton is equal to weight in metric tons or volume in cubic meters, whichever produced the higher revenue. The following Table 1 provides a summary of the type and volume of cargo handled at the Port for the past ten Fiscal Years and for the first nine months of Fiscal Years 2010 and 2011. See also “FINANCIAL INFORMATION CONCERNING THE DEPARTMENT—Summary of Revenues, Expenses and Net Assets—Shipping Industry and Impact of Economic Downturn.”

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 Bulk	Total³	Percent Increase (Decrease) in Total Tonnage over Prior Year
2001	97,600	10,900	5,400	113,900	12.2%
2002	107,100	12,900	6,200	126,200	10.8
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 ³	161,900	6,200	1,900	170,000	(10.6)
2009	144,300	11,100	2,000	157,400	(7.4)
2010	145,800	10,700	1,300	157,800	0.2
First Nine Months					
2010	104,200	7,800	1,000	113,000	—
2011 ⁴	122,500	7,800	800	131,100	16.0

¹ Numbers are rounded and computed on an accrual basis, adjusted for unverified amounts.

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 Due to the global economic slowdown that began in December 2007, the Department began experiencing declines in total revenue tonnage in Fiscal Year 2008.

⁴ Results for the first nine months of Fiscal Year 2011 may not be indicative of results for the full Fiscal Year 2011.

Source: Harbor Department of the City of Los Angeles

The following Table 2A summarizes revenues per ton for the past ten Fiscal Years and for the first nine months of Fiscal Years 2010 and 2011, 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
2001	\$232,700	113,900	\$2.04
2002	249,800	126,200	1.98
2003	302,100	147,500	2.05
2004	311,400	162,100	1.92
2005	328,800	161,700	2.03
2006	373,300	174,800	2.14
2007	375,500	190,100	1.98
2008 ³	374,900	170,000	2.21
2009	329,300	157,400	2.09
2010	327,600	157,800	2.08
<u>First Nine Months</u>			
2010	237,900	113,000	2.11
2011 ⁴	275,900	131,100	2.10

¹ Numbers are rounded.

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

³ Due to the global economic slowdown that began in December 2007, the Department began experiencing declines in shipping revenues and total revenue tonnage in Fiscal Year 2008.

⁴ Results for the first nine months of Fiscal Year 2011 are unaudited and may not be indicative of results for the full Fiscal Year 2011.

Source: Harbor Department of the City of Los Angeles

Table 2B
Port of Los Angeles
Shipping Revenue Breakdown

Fiscal Year Ended June 30	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
2001	\$232,700	\$180,700	4,998	\$36.15	\$52,000	23,197	\$2.24
2002	249,800	194,300	5,633	34.49	55,500	19,494	2.85
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 ²	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 ³	327,600	296,500	7,216	41.09	31,200	12,525	2.49
First Nine Months							
2010	237,900	210,700	5,212	40.43	27,300	10,023	2.72
2011 ⁴	275,900	252,200	5,984	42.15	23,700	9,877	2.40

¹ Numbers are rounded.

² Due to the global economic slowdown that began in December 2007, the Department began experiencing declines in shipping revenues and TEUs in Fiscal Year 2008.

³ In Fiscal Year 2010, the Harbor Department paid approximately \$20 million of incentives to customers resulting in decreased revenues.

⁴ Results for the first nine months of Fiscal Year 2011 are unaudited and may not be indicative of results for the full Fiscal Year 2011.

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, South Korea, Vietnam, Hong Kong, Indonesia and the Philippines. China alone was the destination for approximately 35.3% of the Department's Fiscal Year 2010 exports, and approximately 58.8% of the Department's Fiscal Year 2010 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 Impact of Economic Downturn” below.

Table 3
Port of Los Angeles
TEUs By Country
Fiscal Year 2010¹

Exports			Imports		
Country	TEUs	% of Total	Country	TEUs	% of Total
China	577,862	35.3%	China	2,148,605	58.8%
Taiwan	194,374	11.9	Japan	211,982	5.8
Japan	188,942	11.5	Taiwan	195,667	5.4
South Korea	110,973	6.8	Thailand	146,370	4.0
Hong Kong	107,344	6.6	Vietnam	142,817	3.9
Indonesia	64,766	4.0	Indonesia	132,953	3.6
Vietnam	58,701	3.6	Hong Kong	122,322	3.4
Thailand	57,357	3.5	South Korea	102,379	2.8
Singapore	47,655	2.9	Malaysia	101,814	2.8
Philippines	29,059	1.8	India	44,783	1.2
All Others	<u>197,389</u>	<u>12.1</u>	All Others	<u>303,000</u>	<u>8.3</u>
Total Exports	<u>1,634,422</u>	<u>100.0%</u>	Total Imports	<u>3,490,837</u>	<u>100.0%</u>

¹ Does not include empty containers and domestic cargo.

Source: Ports Import Export Reporting Services, an independent import/export reporting service.

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 permit agreements, which are similar in form to lease 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 2011 Bonds. The Department has no direct role in managing the daily movement of cargo. The Department currently provides facilities for approximately 80 shipping companies and agents which include 27 terminal facilities and 43 miles of waterfront berthing. The Department also is landlord to various shipyards, fish markets, boat repair yards, 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, 2010 are shown in the following Table 4.

Table 4
Port of Los Angeles
Major Permittees (Tenants)
As of June 30, 2010

APM Terminals Pacific LTD
California Cartage Co., Inc.
China Shipping Holding Company, LTD
Del Monte Corporation
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.
Royal Caribbean Cruise Lines
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

Revenues Related to Terminal Operations and Tariff Setting. The Department's permit revenue is diversified, however its five largest permittees accounted for approximately 66% of the Department's Fiscal Year 2010 permit revenues. TEUs for the five largest tenants as a group decreased at a compounded average annual rate of approximately 2% from Fiscal Year 2007 to Fiscal Year 2010.

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 5 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 5
Port of Los Angeles
Estimated Minimum Annual Permit Revenue
Under Existing Permits

Fiscal Year Ended June 30	Minimum Permit Revenue (\$000s)
2011	\$268,973
2012	267,988
2013	268,348
2014	268,793
2015	289,051

Source: Harbor Department of the City of Los Angeles

Rental Property. In addition to its marine terminal operations, the Department enters into permit agreements with respect to industrial sites, open land area and other Port property. Permit 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 permit agreements must be subject to review and renegotiation by the Department at intervals of not more than five years. Most permit agreements do not extend beyond 30 years and rates payable to the Department under the permit 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 permit agreements.

The Board has adopted a comprehensive leasing policy (the “Leasing Policy”) covering all agreements for the use of Port property. The Leasing Policy requires all new permits or amendments to existing permits to include covenants to comply with new environmental standards, which include, but are not limited to (a) compliance with the vessel speed reduction program; (b) use of clean Alternative Maritime Power (“AMP”) (i.e., plugging into shore-side electrical power while at dock; see “—Environmental and Regulatory Matters—Alternative Maritime Power”); (c) use of low sulfur fuel in main and auxiliary engines within the South Coast Air Basin; (d) use of alternative fuel in all new yard tractors; and (e) use of clean “low emission” trucks and locomotives to service terminal facilities. The Leasing Policy includes procedures for the identification of available properties, solicitation and selection of permittees and the creation of evaluation and negotiation teams.

Capital Improvement Planning

Overview. In connection with its capital improvement planning the Department is currently reviewing its long-term capital needs and has identified capital improvement projects through Fiscal Year 2016. In prioritizing its projects, the Department is taking into account, among other things, the recent

economic downturn, budgetary constraints, potential declines in TEU counts and legal and regulatory requirements.

Capital Plan Budgeting Process. Pursuant to Section 11.28.3 of the Los Angeles Administrative Code, not later than June 1 of each year, the Department is required to provide, for information purposes only, to the Mayor, to the Trade, Commerce and Tourism Committee of 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 September 2010. 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 6 sets forth the Department’s projected capital improvement program expenditures and funding sources for Fiscal Years 2011 through 2016 (as of March 2011).

Table 6
Port of Los Angeles
Projected Capital Improvement Program Expenditures And Funding¹
(in millions of dollars)

Fiscal Year Ending June 30	Total Capital Expenditures²	Port Cash	Government Grants	Debt³	% Debt Financing
2011	\$ 254	\$123	\$ 31	\$100 ⁴	39%
2012	209	172	37	–	–
2013	174	73	101	–	–
2014	385	237	66	82	21
2015	202	81	6	115	57
2016	<u>250</u>	<u>120</u>	<u>3</u>	<u>127</u>	<u>51</u>
Total	<u>\$1,474</u>	<u>\$806</u>	<u>\$244</u>	<u>\$424</u>	<u>29%</u>

¹ As of March 2011.

² Projected capital improvement project expenditures and funding described in this table are based on the Department’s forecasted revenues and budget. It does not include various projects, some of which are under conceptual development wherein the costs have not yet been determined, including, but not limited to, near-dock rail improvements, various Port electrification projects, and offsite infrastructure improvements.

³ The projected debt issues may be in the form of bonds, commercial paper notes, lines of credit or a combination thereof.

⁴ Includes proceeds of previously issued and currently outstanding Commercial Paper Notes.

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. In August 2008

and April 2009, the Department was awarded \$10 million and \$10.6 million, respectively, of Proposition 1B funds for port security projects through the California Port and Maritime Security Grant Program. The Department continues its efforts to secure additional funding for other trade, security and air quality projects, including the Clean Truck and Technology Advancement Programs.

The Department has approved construction of a variety of security related projects funded by moneys awarded under State Proposition 1B, including a Multi-Agency Maritime Law Enforcement Officer Training Center located at the Port Police Wilmington Substation. Other capital security related projects are funded by the U.S. Department of Homeland Security, Federal Emergency Management Agency through the Port Security Grant Program. The remaining transportation infrastructure capital related projects are funded by the U.S. Department of Transportation and/or local funds from the Metropolitan Transit Authority.

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) Community Projects, and (v) Maritime Services Projects.

The Department’s estimated expenditures for capital improvement projects in Fiscal Year 2011 is approximately \$254 million comprised of: Terminal Projects (approximately \$101 million), Transportation Projects (approximately \$35 million), Security Projects (approximately \$22 million), Community Projects (approximately \$83 million), and Maritime Services Projects (approximately \$13 million).

For Fiscal Year 2012 the Department has budgeted \$209 million for capital improvement projects in the following categories: Terminal Projects (approximately \$39 million), Transportation Projects (approximately \$55 million), Security Projects (approximately \$25 million), Community Projects (approximately \$45 million), and Maritime Services Projects (approximately \$45 million). The largest of these projects is expected to be the Los Angeles Waterfront Project. See “Community 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 7 provides a summary of the total estimated project costs by category of the Department’s capital improvement program for Fiscal Years 2011 through 2016.

**Table 7
Port of Los Angeles
Capital Improvement Program by Category
Fiscal Years 2011-2016**

Project Category	Estimated Total Cost (\$ millions)
Terminal Projects	\$ 500.7
Transportation Projects	343.8
Security Projects	50.1
Community Projects	176.3
Maritime Services	83.7
Future Allocations	<u>319.4</u>
Total	<u>\$1,474.0</u>

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. In December 2008, the Board certified the final Environmental Impact Report ("EIR") for the proposed Berth 97-109 Container Terminal Project (the "China Shipping Project") and approved the 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 will be expanded from an existing 72 acres to 142 acres of backland and 2,500 feet of wharf 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. Phase 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, a portion of Phase II (925 feet of new container wharf and 18 acres of new container terminal backland) was completed by the Department and placed into service by China Shipping. Construction of the remainder of Phase II and Phase III of the China Shipping Project is subject to removal of certain dredge material as part of the Department's Channel Deepening Project (as described below) and the relocation of the Catalina Express Terminal.

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

The City of Riverside has challenged the adequacy of the EIR certified by the Board in connection with the China Shipping Project. The challenge was denied and the City of Riverside has appealed. The Department does not expect that delays in resolving this challenge will impact the schedule for completion of the China Shipping Project unless the certification is overturned. In such event, delays in completion of the China Shipping Project may occur, and the Department may have to credit China Shipping for failure to perform on schedule and the Department may incur costs. The Department cannot reasonably estimate the extent of potential delays or costs that may be associated with this challenge. See "LITIGATION—Litigation Relating to the Department and the Port."

TraPac Terminal Expansion. The TraPac terminal project (the "TraPac Terminal Project") includes expansion between Berths 136 and 147 on the northwest perimeter of the Port to facilitate TraPac's expansion of cargo handling and increase efficiency. It is estimated 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. In April 2008, the City announced the resolution of a dispute regarding the Board's approval of the TraPac Terminal Project EIR, enabling the Department to proceed with the project. 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 is expected to cost approximately \$326 million and is expected to be completed in Fiscal Year 2016, with some additional ICTF and backland work in Fiscal Year 2017. Construction on the wharf improvements was completed in April 2011. For a discussion of the resolution of various challenges to the EIR see "—Environmental and Regulatory Matters—TraPac Settlement/Community Benefits Trust Fund" below.

Marine Crude Oil Terminal 400 Marine Crude Oil Terminal Project. In November 2008 the Board certified the final EIR for, and approved, a deep water crude oil import terminal on Pier 400 (the “Marine Crude Oil Terminal Project”). The Marine Crude Oil Terminal Project consists of the development of a deep-draft marine oil terminal on Pier 400 and will include construction and operation of a new wharf, new tank farm facilities (with a total of 4.0 million barrels of capacity) and pipelines connecting the terminal and the tank farms to local refineries. Construction on the Marine Crude Oil Terminal Project is currently scheduled to begin in early 2012; however, commencement of construction is subject to the completion of negotiations of a long-term permit agreement with the tenant of the facility. The Department estimates that the Marine Crude Oil Terminal Project will cost approximately \$78 million.

Cruise Terminal. 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 painting, lighting and audio/video upgrades. 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.

Transportation Projects.

West Basin Railyard Project. The West Basin Railyard Project consists of constructing railyard and intermodal storage tracks connecting the Port’s on-dock railyards with the Alameda Corridor. The project will maximize use of on-dock rail, reduce 2,300 daily truck trips, reduce pollutants and greenhouse gases, and result in improved safety because of reductions in truck trips and removal of at-grade rail-roadway crossings. The project will cost approximately \$125 million and will be funded with federal grants, state and local funds and a capital fund contribution from the Department of \$50 million. Construction is expected to start in the first quarter of 2012 and is expected to be completed by the first quarter of 2014.

Channel Deepening Project. The Channel Deepening Project (the “Channel Deepening Project”) is a cooperative project with the U.S. Army Corp. 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 west basin have been dredged and the resulting dredge material has been used at Piers 100, 300 and 400, and the Cabrillo Shallow Water Habit. Dredge material will be used for a new 5-acre landfill at the Northwest Slip and an 8-acre fill at Berth 245 to support future Port operations and to allow for realignment of the wharf roadway to facilitate safer and more efficient truck and equipment movement. Dredge material also will be used to create approximately 50 acres of shallow water habitat. The Department expects the Channel Deepening Project will cost approximately \$370 million and expects it to be completed in Fiscal Year 2018.

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. The projects provided for under the ICIP are designed to reduce and separate Port truck traffic from roadways heavily used by the general public, 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. The Department and the California Department of

Transportation (“Caltrans”) are working in partnership on implementing the ICIP. The first two listed projects of the ICIP are expected to receive environmental clearance in calendar year 2011 and construction is expected to commence in 2012. It is estimated that the cost of the ICIP will be approximately \$74.2 million, of which the Department would be responsible for approximately \$33.2 million.

South Wilmington Grade Separation. The South Wilmington Grade Separation project provides for the construction of a grade separation of a rail line 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. 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. Design of the project continues, and construction is expected to commence in the first quarter of 2012. The Department estimates that the cost of the project will be approximately \$80.1 million, of which the Department will be responsible for approximately \$43.8 million.

Security Projects. See “—Introduction and Organization—Port Security” above and “—Capital Plan Budgeting Process—Proposition 1B Funding” herein.

Community Projects. 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 Harry Bridges Boulevard Buffer Project (the “Harry Bridges Project”) and the Wilmington Waterfront Project (the “Wilmington Project”). The Harry Bridges Project is expected to be completed in June 2011 and consist of walking trails, water features, plazas, public art and a pedestrian bridge. The EIR for the 94-acre Wilmington 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 Harry Bridges 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. Portions of the San Pedro Segment are scheduled for completion in the summer of 2011, and construction on additional portions of the San Pedro Segment will begin in Fiscal Year 2011. The cost of the San Pedro Segment is estimated to be approximately \$954 million.

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 2014 and are estimated to cost approximately \$12 million; and renovation of the municipal fish market, which is expected to be complete in Fiscal Year 2015 and is estimated to cost approximately

\$13.7 million. In Fiscal Years 2012 and 2013, the Department also will undertake an enterprise resource planning system project estimated to cost \$10.4 million.

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 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 also 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 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 CAAP. See “—Clean Air Action Plan—Clean Truck Program.” 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 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 Documentation. The Department is the lead agency under CEQA, which requires public disclosure of the environmental effects of Port development projects. The disclosure document, known as an Environmental Impact Report or an EIR, is required for development of all major Port facilities and development projects related to major leases with customers. In the last three years, the

Environmental Management Division has prepared five EIRs which have allowed approval of major Port facility development and redevelopment projects. These EIRs, which require 12 to 18 months to approve, examine the environmental effects on air, water, traffic, etc., of proposed projects, and identify feasible mitigation measures to eliminate or reduce any 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—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. The South Coast Air Basin 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. Subsequent to this, the South Coast Air Quality Management District prepared the Multiple Air Toxics Exposure Study which identified diesel particulate emissions, or soot, as a major source of airborne cancer risk in the Los Angeles/South Coast Air Basin. 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 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.

A key feature of the CTP is a series of progressive bans adopted by the Port designed to gradually restrict older, more polluting drayage trucks from operating at Port marine terminals until eventually all drayage trucks operating at Port terminals will be required to meet U.S. EPA 2007 On Road Heavy Duty emission standards. In recent years, nearly 17,000 drayage trucks were regularly operating at the San Pedro Bay Ports. Reduction of emissions from these regular operators is the main focus of the CTP because these regular operations generate the largest amount of truck emissions.

The first progressive truck ban went into effect on October 1, 2008, when drayage trucks older than the 1989 model year were banned from Port terminals. The second truck ban went into effect on January 1, 2010, when drayage truck engines older than the 1994 model year were banned from Port terminals and when engine retrofits were required for drayage truck engines with model years between 1994 and 2003 for continued operation at terminals at the Port. A final truck ban will go into effect on January 1, 2012, when drayage truck engines not meeting US EPA 2007 On Road Heavy Duty emissions standards will be banned from Port terminals.

The CTP truck restrictions coincide with similar regulations that took effect on January 1, 2010 at all ports and rail yards in California, established by the California Air Resources Board (“CARB”). The January 1, 2010 statewide truck restrictions also ban trucks with engine model years 1993 and older, and require retrofits on trucks equipped with engine model years 1994 to 2003.

As of September 2010, there were approximately 8,500 drayage trucks with engines that are U.S. EPA 2007 emissions compliant at the Port and on the surrounding freeways as a result of the CTP.

These trucks are presently making nearly 94% of the cargo container pick-ups and drop-offs at the Port and generate, on average, more than 80% less diesel emissions than their older counterparts.

The CTP is funded by a combination of revenues received from the Clean Truck Fee, Concession fees, Day Pass fees, Drayage Truck Registry fees and the Department's general revenues. The Clean Truck Fee is collected by the San Pedro Bay Port's marine terminal operators from beneficial cargo owners. The beneficial cargo owners are required to pay a Clean Truck Fee for any cargo that is moved by a truck that is not U.S. EPA 2007 emissions compliant. The fee is levied on containerized cargo only, and is assessed at \$35 per TEU, and \$70 on each longer container entering or leaving the cargo terminals at the San Pedro Bay Ports by truck.

Overall the Department's CTP costs to date are approximately \$106 million, including nearly \$82 million in truck incentive funding and approximately \$24 million in administrative and other expenses. The Department collected Clean Truck related revenues of \$25 million for Fiscal Year 2009 and approximately \$31 million for Fiscal Year 2010. The end of the five-year period for the CTP will be coming to a close in early 2012, and the Department does not require Clean Truck related revenues at the same level of prior years. Accordingly, the Department anticipates that it will collect Clean Truck related revenues of approximately \$6.5 million for Fiscal Year 2011. The Department is continuing to adjust the CTP to maintain a balance between costs and revenues without altering the progressive ban of older polluting trucks. Also see "LITIGATION—Litigation Relating to the Department and the Port."

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

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

TraPac Settlement/Community Benefits Trust Fund. On December 6, 2007, the Department certified the Final Environment Impact Report (the "TraPac EIR") in connection with the development of various improvements to Berths 136-149 in the Port, currently occupied by TraPac, including TraPac's container terminal operations, such as a new wharf, extension of existing wharf, additional backlands, redesigned access gates, new cranes, new on-dock rail yard, new buildings and road widening. The Department has negotiated TraPac's 30 year container terminal lease. The Natural Resources Defense Council and other environmental and community groups (the "Appellants") filed appeals on various grounds to the City Council in connection with the TraPac EIR. At a Special Meeting on April 3, 2008, the Board approved a Memorandum of Understanding (the "MOU") with the Appellants. The MOU provides for the creation of a nonprofit organization and the Port Community Mitigation Trust Fund (the "Fund"). The nonprofit organization will be 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 term of the MOU is five years and is renewable for another five years by mutual agreement of the parties. 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 \$11.24 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. Contributions from the Department to the Fund over the remaining initial 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 Basis 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 NO_x by one ton and take more than half a ton of SO_x 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 permit agreements (agreements similar to leases) from flat permit agreements that are not dependent on cargo movement; and the smallest component, fee and royalty revenue. The Department’s primary expenses include salaries and benefits, outside and professional services and payments for services rendered by the City to the Department. In recent years, the Department’s operating expenses have increased due to increased expenditures for 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 over 380 separate permit agreements, and provides further stabilization of the Department’s revenue stream. See “THE PORT AND THE DEPARTMENT—Operating Data—Rental Property” herein.

Summary of Revenues, Expenses and Net Assets

The following Table 8 sets forth a breakdown of the Department’s operating revenues, expenses and net assets for Fiscal Years 2006 through 2010 and for the first nine months of Fiscal Years 2010 and 2011. KPMG LLP began serving as the Department’s independent auditor in Fiscal Year 2010. KPMG LLP reclassified litigation expenses from non-operating expenses to operating expenses, and reclassified provision for bad debts as a separate line item which previously was netted against wharfage. These reclassifications were performed on the Department’s financial statements for the previous ten years. These changes did not have a material effect on the financial operations or condition of the Department.

Table 8
Port of Los Angeles
Summary of Revenues, Expenses and Net Assets
(In Thousands of Dollars)

						First Nine Months	
	2006	2007	2008	2009	2010	2010	2011¹
Revenues							
Shipping Services							
Wharfage	\$ 330,933	\$ 331,919	\$ 335,172	\$ 295,287	\$ 304,653	\$ 221,340	\$ 256,288
Dockage	8,484	8,201	6,957	6,234	5,943	4,241	4,348
Demurrage	283	246	276	227	212	157	180
Cranes	2,402	2,460	1,944	1,120	913	682	26
Pilotage	7,737	8,829	7,677	7,683	7,025	5,129	5,596
Assignment Charges	23,312	23,687	22,750	18,720	8,883	6,394	9,449
Storage	197	129	102	76	1	3	0
Subtotal	<u>373,348</u>	<u>375,471</u>	<u>374,878</u>	<u>329,347</u>	<u>327,630</u>	<u>237,946</u>	<u>275,887</u>
Rentals							
Land	30,807	37,147	41,587	38,875	39,741	31,376	29,993
Other	3,069	3,175	3,937	3,493	3,400	2,515	2,103
Total Rentals	<u>33,876</u>	<u>40,322</u>	<u>45,524</u>	<u>42,368</u>	<u>43,141</u>	<u>33,891</u>	<u>32,096</u>
Royalties, Fees and Other Operating Revenues	4,893	6,867	5,943	30,509 ²	36,047	29,881	9,245
Total Operating Revenues	<u>\$ 412,117</u>	<u>\$ 422,660</u>	<u>\$ 426,345</u>	<u>\$ 402,224</u>	<u>\$ 406,818</u>	<u>\$ 301,718</u>	<u>\$ 317,228</u>
Provision for Bad Debts	19,958	5,499	--	--	--	--	--
Net Operating Revenues	<u>\$ 392,159</u>	<u>\$ 417,161</u>	<u>\$ 426,345</u>	<u>\$ 402,224</u>	<u>\$ 406,818</u>	<u>\$ 301,718</u>	<u>\$ 317,228</u>
Expenses							
Operating and Administrative Expenses							
Salaries and benefits	\$ 65,705	\$ 74,313	\$ 95,444	\$ 99,350	\$ 96,838	\$ 71,041	\$ 75,912
Marketing and public relations	3,333	4,521	5,274	3,676	2,594	1,960	1,919
Travel and entertainment	822	604	1,128	635	569	368	1,124
Outside services	33,673	33,277	37,937	29,498	24,428	13,569	15,918
Material and supplies	5,400	5,813	8,950	8,121	6,634	3,375	3,530
City services and payments	20,821	28,640	27,101	28,704	31,142	23,741	20,364
Litigation, claims, and settlement expenses	--	--	19,836	13,838	3,964	(63)	2,646
Clean Truck Program Expenses ³	--	--	12,464	54,003	20,692	16,917	5,066
Other operating expenses	54,378	16,607	13,618	16,318	23,374	10,760	9,387
Total Operating and Administrative expenses	<u>\$ 184,132</u>	<u>\$ 163,775</u>	<u>\$ 221,752</u>	<u>\$ 254,143</u>	<u>\$ 210,235</u>	<u>\$ 141,668</u>	<u>\$ 135,866</u>
Income from Operations before Depreciation	208,027	253,386	204,593	148,081	196,583	160,050	181,362
Depreciation	98,779	88,106	78,295	83,413	87,255	64,952	67,391
Operating Income	<u>\$ 109,248</u>	<u>\$ 165,280</u>	<u>\$ 126,298</u>	<u>\$ 64,668</u>	<u>\$ 109,328</u>	<u>\$ 95,098</u>	<u>\$ 113,971</u>
Nonoperating Revenues/(Expenses)							
Income from investments in JPAs and other entities	\$ 4,302	\$ 4,675	\$ 4,440	\$ 2,980	\$ 2,270	\$ 1,818	\$ 1,387
Interest and investment income	9,582	23,773	34,863	18,824	15,233	10,634	6,617
Interest expense	(37,787)	(50,038)	(38,052)	(36,979)	(35,663)	(27,060)	(2,843)
Other income and expenses, net	7,222	11,018	(2,536)	(7,625)	(2,951)	(2,489)	(5,147)
Net Nonoperating Expenses	<u>(16,681)</u>	<u>(10,572)</u>	<u>(1,285)</u>	<u>(22,800)</u>	<u>(21,111)</u>	<u>(17,097)</u>	<u>14</u>
Income Before Capital Contributions	<u>\$ 92,567</u>	<u>\$ 154,708</u>	<u>\$ 125,013</u>	<u>\$ 41,868</u>	<u>\$ 88,217</u>	<u>\$ 78,001</u>	<u>\$ 113,985</u>
Capital Contributions	2,044	4,145	14,161	4,103	16,950	--	--
Special Item	--	(22,291)	--	--	--	--	--
Changes in net assets	94,611	136,562	139,174	45,971	105,167	--	--
Total net assets – beginning of year	<u>2,106,696</u>	<u>2,201,307</u>	<u>2,337,869</u>	<u>2,383,616</u>	<u>2,429,587</u>	--	--
Total net assets – end of year	<u>\$2,201,307</u>	<u>\$2,337,869</u>	<u>\$2,477,043</u>	<u>\$2,429,587</u>	<u>\$2,534,754</u>	--	--

¹ Unaudited results for the first nine months of Fiscal Year 2011 may not be indicative of results for the full Fiscal Year 2011.

² The increase from Fiscal Year 2008 is primarily due to the collection of the Clean Truck Fee by the Department. See “THE PORT AND THE DEPARTMENT—Environmental and Regulatory Matters—Clean Air Action Plan—Clean Truck Program.”

³ See “THE PORT AND THE DEPARTMENT—Environmental and Regulatory Matters—Clean Air Action Plan—Clean Truck Program.”

Source: Harbor Department of the City of Los Angeles

Management Discussion and Analysis First Nine Months of Fiscal Years 2011 and 2010. For the nine months ended March 31, 2011, total cargo volumes increased approximately 16% from the same period in Fiscal Year 2010 and the Port handled approximately six million TEUs (an increase of approximately 14.8%). As a result, total operating revenues were approximately \$317.2 million, an increase of \$15.5 million or 5.1% over the same period in Fiscal Year 2010. Total operating and administrative expenses for the nine months ended March 31, 2011 were approximately \$135.9 million, a decrease of approximately 4.1 % over the same period in Fiscal Year 2010, primarily due to a decrease of approximately \$11.9 million in costs related to the Clean Truck Program. The cost savings from the Clean Truck Program were slightly offset by higher salaries and benefit expenses of approximately \$4.9 million; cost of living adjustments, higher pension costs and additional staff hired, as planned, to meet the operating needs of the Department as construction projects are completed, contributed to these higher salaries and benefit expenses. Overall, operating income before depreciation for the nine months ended March 31, 2011 increased to approximately \$181.4 million (an increase of approximately 13.3%) from the same period in Fiscal Year 2010.

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 9 provides a history of the Department's general cargo tariffs and basic dockage charges over the last ten Fiscal Years.

**Table 9
Port of Los Angeles
General Cargo Tariffs and
Basic Dockage Charges**

Fiscal Year Ended June 30	General Cargo Tariff¹	Basic Dockage Charge²
2001	\$5.67	\$2,236
2002	5.67	2,236
2003	5.67	2,236
2004	5.95	2,348
2005	5.95	2,348
2006	6.25	2,465
2007	6.25	2,465
2008	6.25	2,465
2009	6.25	2,465
2010	6.25	2,465

¹ Per metric ton or cubic meter of cargo.

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

Source: Harbor Department of the City of Los Angeles

Shipping Industry and Impact of Economic Downturn. 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.

Recent events in the national and global economy and financial markets, including falling home prices, limited credit availability, financial instability, failures of banks and other major financial institutions, a downturn in consumer spending, business bankruptcies, declining real property and investment values, a significant increase in real property foreclosures and increased job losses, among other factors, have weighed heavily on the global, national and local economies.

A global economic downturn began in Fiscal Year 2008, resulting in a significant drop in global trade. The Department's revenues from shipping services were approximately \$375 million in Fiscal Year 2007 and fell to approximately \$327 million in Fiscal Year 2010. The Department's net operating revenues were approximately \$423 million and \$426 million in Fiscal Years 2007 and 2008, respectively, but fell to approximately \$402 million in Fiscal Year 2009, with a slight rise in Fiscal Year 2010 to \$406 million. However, the Department has begun to experience an improvement in cargo volumes at the Port. For example, total TEUs for the nine months ended March 31, 2011 were approximately 14.8% greater as compared to the nine months ended March 31, 2010.

Terminal operators and ocean carriers have been aggressively analyzing all aspects of their businesses for cost savings to mitigate dropping revenue levels. To mitigate some of the effects of the economic downturn, to maintain market share and to attract additional discretionary market share, among other things, the Department initiated certain financial incentives for its customers through difficult economic times. See “—Incentive Programs” below. Other North American ports such as the Port of Long Beach, the Port of New York/New Jersey and the Port of Savannah also instituted incentive programs. See “CERTAIN INVESTMENT CONSIDERATIONS—Port Competition.”

In addition to the events described above, the economic, security and political environment in Mexico also may impact the Port due to recent occurrences in that country, including, but not limited to, efforts to increase the capacity of a West Coast port to be known as Punta Colonet, which were recently postponed by the government of Mexico but which could occur in the future, a flu epidemic that has spread internationally beyond Mexico and numerous reported incidents of drug-related violence, which could adversely impact passenger cruise traffic in and out of the Port.

Incentive Programs. To mitigate some of the effects of the economic downturn, among other things, the Board approved a series of incentive programs, described below, to assist shipping customers through difficult economic times, while fostering the ability of the Department to remain competitive. During Fiscal Year 2010, the Department paid a total of \$19.7 million in incentives of which \$10 million had been accrued for in Fiscal Year 2009, and the remaining \$9.7 million accounted for incentive credits granted to shipping customers in Fiscal Year 2010. Furthermore, in Fiscal Year 2010, the Department incurred an additional amount of \$9.2 million in granting incentives, comprised of \$3.9 million for the Inland Points Intermodal Incentives, \$500,000 for the TraPac Clean Truck Program, and \$4.8 million for the Empty Container Incentive Program. The Department has budgeted \$4.6 million of incentives for Fiscal Year 2011.

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 2006 through 2010 are shown in the following Table 10.

Table 10
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
2006	\$406,043	\$184,132	\$221,911	\$61,574	3.6x
2007	445,609	163,775	281,834	59,085	4.8
2008	465,648	221,752	243,896	61,318	4.0
2009	424,028	254,143	169,885	61,298	2.8
2010	424,321	210,235	214,086	66,851	3.2

¹ Operating Revenues also include income from investments and interest.

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

³ Debt Service includes only the principal and interest payments on Parity Obligations, such as bonds and Commercial Paper Notes. Debt Service does not include loans acquired from the California Department of Boating and Waterways, which are not Parity Obligations.

⁴ Available Revenues divided by Debt Service.

Source: Harbor Department of the City of Los Angeles

Fiscal Year 2011 Budget

The Adopted 2011 Budget represents a fiscal plan with resources dedicated to the Department's primary goals of retaining its status as a premier national economic gateway and building on its record as the leader in environmental stewardship. The Adopted 2011 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.

In addition, the Adopted 2011 Budget takes into consideration the effects of the global economic slowdown on its customers. Specifically, the effects on global trade had a direct, negative impact on the container lines which contribute the majority of Department revenues each year. In response to the economic downturn the Department created customer incentives which, in the short term, have reduced revenues, but are expected to generate greater volumes and help strengthen relationships with its customers in the long run. Although the outlook for shipping revenues in the coming Fiscal Year is projected to be slightly improved, retaining Port business and its competitive position will continue to hold challenges in the near future, as the Department's customers and the economy emerge from the recession. As such, the Adopted 2011 Budget continues to rely on conservative revenue assumptions, including a moderate 3% growth in shipping volumes based on trade volume data from tenants and positive signs of year-on-year container volume growth. The Adopted 2011 Budget also includes a 14% reduction in total expenses from the prior year's budget, reflecting the Department's continued emphasis on controlling costs.

The Department's budget priorities for Fiscal Year 2011 include:

(a) marketing programs that promote and demonstrate the "Port of LA (Los Angeles) Advantage" with the goal of retaining and growing business at a time that is increasingly competitive for the Port and even more challenging for Port customers;

(b) on-schedule continuation of major capital projects, especially the revenue-generating TraPac Terminal Project and the China Shipping Project that enable the

advancement of important but less revenue-generating projects such as the Los Angeles Waterfront Project;

(c) new revenue sources from public and private grants for construction, environmental, economic development, transportation, and security initiatives;

(d) a focus on employee development and ways to utilize human resources in the most efficient and effective manner in light of the difficult economic conditions; and

(e) an emphasis on internal and external communications to maintain a positive, productive and more collaborative work environment.

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.

Container Forecast

In 2007, the Department and the Port of Long Beach contracted with The Tioga Group, Inc. and IHS Global Insight (together “Tioga and IHS”) to prepare a forecast of the volume of TEUs to be handled by the San Pedro Bay Ports through 2030 (the “2007 Container Forecast”). In July 2009, the Department and the Port of Long Beach contracted with the Tioga and IHS to update the 2007 Container Forecast and Tioga and IHS produced the “San Pedro Bay Container Forecast Update” (the “2009 Container Forecast”).

Tioga and IHS considered various factors when developing the 2009 Container Forecast including, but not limited to, population, monetary policy, U.S. and world inflation, food and fuel prices, federal spending and deficits, wages, productivity, unemployment, savings and spending rates and diversion of container cargoes to other East and West Coast ports.

The 2009 Container Forecast was based upon a number of conclusions and assumptions, including, but not limited to, the following assumptions: after the economy recovers from the current recession, it will suffer no major mishaps between 2010 and 2030; there will be no significant changes in the U.S. tax structure; the value of the U.S. dollar will on average depreciate between 2010 and 2030; the Consumer Price Index inflation rate will spike in the early years of the forecast because of rebounding oil prices, average 2.6% per year, and eventually will settle down to approximately 2.0% per year; the price of oil will be above \$75 per barrel during the forecast period; wholesale farm prices will increase 0.3% per year; unemployment in the U.S. will average 5.9% during the forecast period; the rate of growth of discretionary spending by U.S. consumers will average 2.5% per year; 3% of container traffic will be diverted through the Panama Canal once the widening improvements to the Canal are completed (see “CERTAIN INVESTMENT CONSIDERATIONS—Port Competition”); and provided the San Pedro Bay Ports do not suffer any major congestion problems, diversions to other West Coast ports will be minimal.

The following Table 11 shows the forecasted inbound loads, outbound loads and empties in the 2009 Container Forecast. No assurances can be given that the forecasted volume of TEUs will be achieved or that the assumptions on which the 2009 Container Forecast is based will materialize. Inevitably, some assumptions used to develop the 2009 Container Forecast will not be realized and unanticipated events and circumstances will occur. Therefore, actual results will vary from those set forth in Table 11 and the variations may be material. See “CERTAIN INVESTMENT CONSIDERATIONS—Forward-Looking Statements.”

Table 11
Port of Los Angeles
Container Forecast for the San Pedro Bay Ports
2010-2030
TEUS (000s)^{1,2}

	2010	2015	2020	2025	2030	Compounded Annual Growth Rate 2010-2030
Inbound Loads	6,620	8,780	11,333	14,417	18,039	5.14%
Outbound Loads	3,071	3,768	4,343	4,897	5,415	2.88
Empties	<u>3,123</u>	<u>4,410</u>	<u>6,151</u>	<u>8,377</u>	<u>11,109</u>	6.55
Total TEUs	<u>12,814</u>	<u>16,959</u>	<u>21,827</u>	<u>27,691</u>	<u>34,563</u>	5.09

¹Over the last five calendar years the Port handled 54.9% of the average total TEUs that were handled by both of the San Pedro Bay Ports.

²The San Pedro Bay Ports handled approximately 14.1 million TEUs in 2010.

Source: San Pedro Bay Container Forecast Update, July 2009, The Tioga Group, Inc. and IHS Global Insight

Other Financial Matters

Debt Service on the Parity Obligations. Debt service on the Series 2011 Bonds and the other Parity Obligations (excluding the Commercial Paper Notes) is shown in the following Table 12.

**Table 12
Port of Los Angeles
Debt Service on Parity Obligations¹**

Fiscal Year Ended June 30	Series 2011A Bonds Principal	Series 2011A Bonds Interest	Series 2011B Bonds Principal	Series 2011B Bonds Interest	Total Debt Service Requirements on Other Parity Obligations²	Total Debt Service Requirements
2012					\$ 74,167,104	
2013					73,538,799	
2014					73,508,038	
2015					73,258,625	
2016					73,947,944	
2017					73,946,175	
2018					74,366,488	
2019					74,438,813	
2020					73,950,075	
2021					74,398,413	
2022					73,891,569	
2023					73,324,094	
2024					73,313,019	
2025					73,701,963	
2026					73,144,106	
2027					59,246,625	
2028					20,040,750	
2029					20,123,300	
2030					20,022,600	
2031					19,895,150	
2032					19,882,738	
2033					19,977,144	
2034					19,966,313	
2035					19,955,806	
2036					19,938,688	
2037					19,926,163	
2038					12,810,275	
2039					12,799,556	
2040					<u>12,781,944</u>	
Total					<u>\$1,404,262,271</u>	

¹ Total debt service on the Series 2011 Bonds and the other Parity Obligations (excluding the Commercial Paper Notes). Numbers may not total due to rounding to nearest dollar.

² Includes debt service on the Refunded Bonds.

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 2010 City Services payments totaled approximately \$31.1 million. For Fiscal Year 2011, the Department budgeted approximately \$37.3 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 \$62 million plus 3% interest by crediting the Department’s annual City Services payment. Repayment is applied as a credit against amounts owed to the City by the Department for City Services. See Note 11(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, 2010 AND 2009”. See also “CERTAIN INVESTMENT CONSIDERATIONS—City Financial Challenges.”

Alameda Corridor. In August 1989, the San Pedro Bay Ports entered into a joint exercise of powers agreement (which was Amended and Restated in December 1996) 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 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 Cities of Los Angeles and 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, 2010, the Department has no share of ACTA’s assets and income. See Note 4 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, 2010 AND 2009.”

In October 1998, the San Pedro Bay Ports, ACTA and the railroads which operate on the corridor entered into the Alameda Corridor Use and Operating Agreement (“Corridor Agreement”), which was amended in 2006. The Corridor Agreement obligates the railroads to pay certain use fees and container charges (“Use Fees”) which ACTA assesses for the privilege of using the corridor to transport cargo into and out of the San Pedro Bay Ports. These Use Fees are used to pay (a) the debt service which ACTA incurs on approximately \$1.2 billion of bonds which ACTA issued in early 1999 and approximately \$686 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 on June 30, 2064 or sooner if the ACTA Obligations are paid off earlier.

If ACTA revenues are insufficient to pay ACTA Obligations, the Corridor Agreement obligates each San Pedro Bay Port, severally but not jointly, to pay up to 20% of the shortfall (“Shortfall Advance”) on an annual basis. Under the Corridor Agreement, the Department may only be liable for its share of Shortfall Advances and is not obligated to pay any deficiencies in Shortfall Advance payments, if any, by the Port of Long Beach. If this contingency occurs, the San Pedro Bay 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 San Pedro Bay Ports. The San Pedro Bay Ports are required to include expected Shortfall Advance payments in their budgets, but Shortfall Advance payments are subordinated to other obligations of the Department, including the Series 2011 Bonds, and the Department is not required to take Shortfall Advance 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 Fiscal Years 2008 through 2010, the global economic downturn resulted in a significant drop in global trade. See “—Summary of Revenues, Expenses and Net Assets—Shipping Industry and Impact of Economic Downturn.” Recently, however, the Department has begun to experience an improvement in cargo volumes at the Port. For example, total TEUs for the nine months ended March 31, 2011 were approximately 14.8% greater as compared to the nine months ended March 31, 2010.

Based upon the TEU volume projected in the 2009 Container Forecast, ACTA has projected that Shortfall Advances will total approximately \$88 million over the next nine years (from October 1, 2011 through October 1, 2019). Recently however, the San Pedro Bay Ports’ containerized cargo volume have increased above the projected volumes set forth in the 2009 Container Forecast. See “—Summary of Revenues, Expenses and Net Assets—Shipping Industry and Impact of Economic Downturn.”

In light of these port container volume trends, ACTA has reported that it has taken steps to improve its financial position. ACTA’s Railroad Operating Committee approved the reallocation of \$10 million for the payment of debt service on October 1, 2010, which had previously been designated for capacity expansion of the Badger Avenue Rail Bridge. ACTA has reported it also is evaluating debt restructuring options that may include, but not be limited to, traditional bond financing and/or a Federal Rail Administration loan for the purposes of, among other things, reducing or eliminating the likelihood of the need of Shortfall Advances.

Pursuant to the ACTA Operating Agreement, subject to receipt of timely notice from ACTA, the Department is obligated to include any forecasted Shortfall Advance payments in its budget each Fiscal Year. The Department has not funded a reserve account to pay Shortfall Advance payments. No Shortfall Advance payments were payable by the Department in prior Fiscal Years in part due to ACTA’s use of other funds. For Fiscal Year 2011 ACTA has notified the Department that no Shortfall Advance payments are expected to be required. For Fiscal Year 2012, ACTA has notified the Department that a Shortfall Advance of approximately \$9 million will be required in the event that ACTA is unable to close its proposed Federal Rail Administration loan or closes such loan, but without sufficient time to allow ACTA to achieve its contemplated debt restructuring.

Estimates of Shortfall Advances are prepared by ACTA and such Shortfall Advances could vary materially from the estimates. It is not possible to predict whether, when, or how much the Department may be required to pay for Shortfall Advance payments.

Historical Cash Balances. The following Table 13 sets forth the ending cash balances in the Harbor Revenue Fund and the Department’s restricted funds for Fiscal Years 2006 through 2010.

Table 13
Port of Los Angeles
Historical Ending Cash Balances
(in thousands of dollars)

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	As of March 31, 2011⁴
Unrestricted Funds						
Harbor Revenue Fund	\$256,258	\$380,138	\$488,893	\$162,684	\$191,589	\$161,822
Harbor Special Operating Fund ¹	--	--	--	200,685	199,000	202,219
Emergency Fund ²	87,409	91,775	96,839	37,122	37,219	37,271
Others	--	--	--	358	15,226	12,316
Total Unrestricted Funds	<u>\$343,667</u>	<u>\$471,913</u>	<u>\$585,732</u>	<u>\$400,849</u>	<u>\$443,034</u>	<u>\$413,628</u>
Restricted Funds						
China Shipping Mitigation Fund	\$31,036	\$46,652	\$51,540	\$48,547	\$37,815	\$ 33,860
Community Aesthetic Fund for Parks	3,418	3,449	3,490	3,448	3,474	3,474
Community Mitigation Trust Fund TraPac	--	--	--	11,421	15,734	10,476
Clean Truck Fee Fund	--	--	--	4,551	72	387
Batiquitos L/T Investment Fund ³	5,243	5,508	5,796	5,947	5,974	5,985
U.S. Custom House—Terminal Island	6,153	6,230	6,349	--	--	--
Bond Funds	63,917	62	9	61,608	67,844	65,895
Commercial Paper Fund	--	--	--	--	--	10,011
Customer Security Deposits	3,142	3,154	3,206	3,199	3,222	3,222
Other	2,266	1,499	1,094	1,097	1,164	1,488
Total Restricted Funds	<u>\$115,175</u>	<u>\$66,554</u>	<u>\$71,484</u>	<u>\$139,818</u>	<u>\$135,299</u>	<u>\$134,799</u>
Total Unrestricted and Restricted Funds	<u>\$458,842</u>	<u>\$538,467</u>	<u>\$657,216</u>	<u>\$540,667</u>	<u>\$578,333</u>	<u>\$548,427</u>

¹ In Fiscal Year 2009, the Audit Committee established the Harbor Strategic Operating Fund as a general reserve for operating expenses. Amounts deposited in the Harbor Strategic Operating Fund in Fiscal Year 2009, together with amounts in the Emergency Fund, reflected an average of the operating expenses for the previous two years. In April 2010, the Audit Committee changed the name of the fund from Strategic Operating Fund to Special Operating Fund.

² Up until Fiscal Year 2010, the Emergency Fund was classified as a “Restricted Fund”. However, based on a recommendation of KPMG LLP, in Fiscal Year 2010 the Emergency Fund was reclassified as an “Unrestricted Fund”. In December 2008, the Department transferred \$61.5 million to the reserve funds established for the Series 2001/2002 Bonds, the Series 2005 Bonds, the Series 2006 Bonds and the Series 2006D Bonds as the result of a downgrading of Financial Guaranty Insurance Company, NPF and Ambac, the providers of reserve fund surety policies in connection with the Series 2001/2002 Bonds, the Series 2005 Bonds, the Series 2006 Bonds and the Series 2006D Bonds.

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

⁴ Balances as of March 31, 2011 are unaudited and may not be indicative of the balances at the end of Fiscal Year 2011.

Source: Harbor Department of the City of Los Angeles

Investment of Funds. Moneys on deposit in the Harbor Revenue Fund are currently held and invested by the Treasurer of the City (the “Treasurer”) in the Treasurer’s general pooled investment fund (the “Pool”). Gains and losses on the Pool’s investments are allocated on a pro rata basis. The assets of the Pool as of March 31, 2011 are shown in the following Table 14:

Table 14
City of Los Angeles Pooled Investment Fund Investments
As of March 31, 2011

	Market Value (millions)	Percent of Total
Treasury Notes	\$2,500	39.79%
Treasury Bills	247	3.93
Medium Term Notes	896	14.26
Commercial Paper – Discounts	400	6.37
Federal Agency Issues	2,202	35.05
Federal Corp. – Coupons	<u>38</u>	<u>0.60</u>
Total	<u>\$6,283</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 www.lacity.org/treasurer/investmentReports.htm.

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

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

The average life of the investment portfolio for the General Pool as of March 31, 2011 was 1,051 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 2011 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, 2010 AND 2009” for a copy of the Department’s most recent audited financial statements.

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

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

Any insurance described in the above paragraphs may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with harbor facilities similar to the facilities refinanced with the proceeds of the Series 2011 Bonds and owned by harbor departments similar to the Department and is, in the opinion of an accredited actuary, actuarially sound.

The Department’s insurance program includes both property and casualty insurance. The property insurance program currently is an all-risk policy. Current limits are \$1.5 billion per occurrence, including terrorism coverage, for all risks of direct loss or damage to the Port’s buildings, structures and personal property for all perils except earthquake and flood. The insurer carrying the property insurance is rated “A+/XV” 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 million as of March 24, 2011. 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+/XV” per A.M. Best and “aa” for the long-term issuer credit rating.

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

Labor Relations. The Port is a significant source of employment in the region. While the Department employs fewer than 1,000 persons, tenants of the Port employ approximately 6,400 persons

and employment within port related industries exceed 16,000 jobs, approximately 85% of which are related to trading and warehousing.

Arranging for cargo handling services is the responsibility of each shipping line. Cargo handling at the Port is provided pursuant to a contract between the Pacific Maritime Association (the "Association") and the International Longshore and Warehouse Union ("ILWU"). The Association represents most of the steamship lines, marine terminal operators, car loading bureaus and cargo companies on the Pacific Coast. Most ILWU employees are under contract with the Association through June 30, 2014. There has been no prolonged work stoppage since October 2002. In October 2002, after the Association and the ILWU failed to negotiate a new contract, the shipping lines instituted a lock-out of the stevedoring companies, thereby shutting down all West Coast ports, including the Port, for ten days. Work resumed when then President Bush ordered the ports to re-open pursuant to the Taft-Hartley Act. Other than the work stoppage in 2002, there has generally been a history of cooperative working relationships between the ILWU and the employer group represented by the Association. 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 20 different bargaining units, which are represented by ten different unions. The City is in negotiations with five bargaining units, which are represented by four different unions. One hundred twenty-seven 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 Offering Memorandum.

<u>Union</u>	<u>Bargaining Units</u>	<u>Agreement Period</u>
American Federation of State, County and Municipal Employees, AFL-CIO (“AFSCME”)	Clerical and Support Employees	July 1, 2007 to June 30, 2013
AFSCME	Executive Administrative Assistants	July 1, 2007 to June 30, 2014
Engineers and Architects Association (“EAA”)	Administrative Supervisory; Administrative Professional and Technical; Supervisory Technical	July 1, 2010 to June 30, 2011*
Los Angeles City Supervisors and Superintendents Association/Laborers International of North America, Local 777	Supervisor 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, 2006 to June 30, 2011
Los Angeles Port Police Association	Harbor Peace Officers	MOU expired June 30, 2009. Negotiations for a successor MOU are ongoing.
Los Angeles Port Police Command Officers Association	Port of Los Angeles Command Officers	MOU expired June 30, 2009. Negotiations for a successor MOU are ongoing.
Los Angeles Professional Managers Association (“LAPMA”)	Managers	July 1, 2007 to June 30, 2014
Municipal Construction Inspectors Association, Inc.	Inspectors	MOU expired June 30, 2010. Negotiations for a successor MOU are ongoing.
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
Service Employees Int’l Union (“SEIU”) AFL-CIO, Local 347	Professional Engineering and Scientific; Supervisory Professional Engineering and Scientific	MOU expired June 30, 2010. Negotiations for successor MOUs are ongoing.

* Term of tentative agreement.

Source: Harbor Department of the City of Los Angeles

Retirement Plans. Approximately 88% of all of the Department’s employees participate in the Los Angeles City Employees’ Retirement System (“LACERS”), administered by the City. The remaining 12%, comprised of certain members of the Port Police participate in the Los Angeles Fire and Police Pension System (“LAFPP”).

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, 2010 (the "LACERS Valuation Report"), LACERS had an unfunded actuarial accrued liability ("UAAL") of approximately \$3.04 billion with respect to retirement benefits and approximately \$808 million with respect to health subsidy benefits as of June 30, 2010. As of June 30, 2009, LACERS had an UAAL of approximately \$2.46 billion with respect to retirement benefits and approximately \$716 million with respect to health subsidy benefits. The LACERS Valuation Report also indicated that as of June 30, 2010, LACERS had a funded ratio (based on the actuarial value of the assets of LACERS) of 75.9% with respect to retirement benefits and 63.8% with respect to health subsidy benefits. As of June 30, 2009, LACERS had a funded ratio (based on the actuarial value of the assets of LACERS) of 79.5% with respect to retirement benefits and 65.2% 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, 2010, LACERS had a funded ratio (based on the market value of the assets of LACERS) of 62.0% with respect to retirement benefits and 52.1% with respect to health subsidy benefits. As of June 30, 2009, LACERS had a funded ratio (based on the market value of the assets of LACERS) of 59.2% with respect to retirement benefits and 48.5% 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, 2010 (the "LAFPP Valuation Report"), LAFPP had a UAAL of approximately \$1.30 billion with respect to retirement benefits and approximately \$1.72 billion with respect to health subsidy benefits as of June 30, 2010. As of June 30, 2009, LAFPP had an UAAL of approximately \$561 million with respect to retirement benefits and approximately \$1.23 billion with respect to health subsidy benefits. The LAFPP Valuation Report also indicated that, as of June 30, 2010, LAFPP had a funded ratio (based on the actuarial value of the assets of LAFPP) of 91.6% (91.7% excluding Port Police) with respect to retirement benefits and 32.2% with respect to health subsidy benefits. As of June 30, 2009, LAFPP had a funded ratio (based on the actuarial value of the assets of LAFPP) of 96.2% (96.3% excluding Port Police) with respect to retirement benefits and 39.1% 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 Department contributed approximately \$11.6 million and \$14.5 million to LACERS in Fiscal Years 2010 and 2009, respectively. In each of these Fiscal Years, the Department contribution was equal to 100% of its annual required contribution as calculated by LACERS and its actuaries. The Department has contributed approximately \$17.7 million to LACERS for Fiscal Year 2011, its annual required contribution as calculated by LACERS and its actuaries.

The Department contributed approximately \$2.1 million and \$1.5 million to LAFPP in Fiscal Years 2010 and 2009, respectively. In each of these Fiscal Years, the Department contribution was equal to 100% of its annual required contribution as calculated by LAFPP and its actuaries. The Department

has contributed approximately \$3.1 million to LAFPP for Fiscal Year 2011, its annual required contribution as calculated by LAFPP and its actuaries.

Since June 30, 2008 LACERS and LAFPP have experienced significant investment losses. Due to LACERS' five-year smoothing methodology and LAFPP's seven-year smoothing methodology, a portion of these investment losses has not been recognized in the determination of LACERS' and LAFPP's UAAL, respectively. As such, contributions by the Department to LACERS and LAFPP may increase significantly in the coming Fiscal Years as contribution rates are subject to change due to changes in market conditions and funding methodologies over that time.

For additional information regarding LACERS and LAFPP, see "APPENDIX B—CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES—GENERAL INFORMATION REGARDING MUNICIPAL GOVERNMENT—Retirement and Pension Systems." See also "APPENDIX A—AUDITED FINANCIAL STATEMENTS OF THE HARBOR DEPARTMENT FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009."

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 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 and March 2011.

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. The Department will maintain Fiscal Policies designed to maintain 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.

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 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) 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; (d) the marginal revenue from any operating activity must exceed the marginal cost of the activity; (e) operating expenses must be funded in whole by operating revenues; (f) the Department will limit financial support of programs funded by federal, state and private grants to avoid commitments that continue beyond available funding; (g) the Department seeks new and diverse revenues; and (h) any revenues earned in excess of expenses will be used to fund capital improvements, pay down debt and make necessary one-time expenditures.

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 and job creation. 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 Fund would provide for approximately one year of operating expenses.

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 self-insurance, purchase of insurance or other means. Under the Department’s Risk Management Policy, the Department may self-insure and 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.

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) maintaining appropriate reserves and liquidity levels; (d) providing specific guidelines with respect to the overall management of the Department’s debt; (e) establishing a process for selecting consultants to assist the Department in the issuance and

management of the Department's debt; and (f) supporting for the Department's strategic plan objectives. The Debt Management policy is summarized as follows: (i) maintain a minimum debt service coverage of 2.0x, and (ii) variable rate exposure on long-term debt not to exceed 20%.

CERTAIN INVESTMENT CONSIDERATIONS

The purchase and ownership of the Series 2011 Bonds involves investment risk and may not be suitable for all investors. Prospective purchasers of the Series 2011 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 2011 Bonds. However, the following does not purport to be an exhaustive listing of all considerations which may be relevant to investing in the Series 2011 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 2011 BONDS" above, the Department has covenanted under the Indenture that it will fix rates, tolls and charges, rentals for leases, permits and franchises, and compensations or fees for franchises and licenses, at levels described herein.

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

Industry Trends and Competition

The demand for Department facilities is significantly influenced by a variety of factors, including, among others, the global and domestic economy, the availability of effective labor support, the financial condition of maritime-related industries, the proliferation 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. Additionally, the Port of Punta Colonet in Mexico is planning to expand at an as yet undetermined future time. Each of these other ports currently has less capacity than the Port. Port tenants may alter their shipping practices. One of the Port's tenants, Maersk, has announced that it intends to expand its use of the Port of Seattle, which could reduce shipping activity at the Port. 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. 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 reduce 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.

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 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. Additionally, the Port of Punta Colonet in Mexico is planning to expand at an as yet undetermined future time.

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. 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 addressed by an expansion of the Panama Canal, the completion of which (expected 2014) will allow the largest vessels currently in service or being designed 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.

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 reduce 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.

Security at the Port

The Maritime Transportation Security Act (“MTSA”) requires 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 2011 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 2011 Bonds will be outstanding.

The 2007 Working Group on California Earthquake Probabilities (“WGCEP 2007”), a multi-disciplinary collaboration of scientists and engineers organized by the Southern California Earthquake Center, the U.S. Geological Survey and the California Geological Survey with major support from the California Earthquake Authority, released the Uniform California Earthquake Rupture Forecast (“UCERF”) in August 2008. The UCERF study—represented as being the first comprehensive framework for comparing earthquake likelihoods throughout all of California—determined that California has a 99.7% chance of having a magnitude 6.7 or larger earthquake during the next 30 years and that the likelihood of an even more powerful quake of magnitude 7.5 or greater in the next 30 years is 46%. The UCERF study determined that such a quake is more likely to occur in the southern half of the State (37% chance in 30 years) than in the northern half (15% chance in 30 years). It is not possible to predict whether or to what extent the predictions in the UCERF study will prove to be accurate.

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 and adversely affect Revenues. The Department maintains a discretionary emergency reserve fund which at June 30, 2010 contained approximately \$37.2 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

Over the last couple of fiscal years, the City has had to address budget deficits to its General Fund because of reduced revenues and a number of expenditure pressures, including increased pension costs. As a result, the City has made reduced budgeted appropriations, made various transfers from special funds, frozen hiring for most City civilian positions and slowed the hiring of new police recruits, modified the deployment plan for fire department resources, reduced overtime funding, implemented an early retirement incentive program (the "Early Retirement Program"), mandated unpaid days off for City employees, eliminated or consolidated several small departments and eliminated and laid off City General Fund positions. These budget balancing measures included a variety of ongoing and one-time measures. The Mayor's 2011-12 Proposed Budget calls for additional ongoing expenditure reductions as well as some new one-time measures in order to achieve balance. While the Department, under the Charter, is a proprietary department vested with the management and control of the Department's assets, the City's budget deficits could have an adverse effect on the liquidity and trading value in the secondary market of the Series 2011 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 the significant declines in various market indices over the past year, required contributions to the City pension plans by the Department as a percent of salaries may increase. 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—Clean Truck Program.” 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 2011 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 2011 Bonds. See “THE PORT AND THE DEPARTMENT—Operating Data—Rental Property.”

Enforceability of Remedies

The remedies available to the owners of the Series 2011 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 2011 Bonds will be qualified to the extent that the enforceability of certain legal rights related to the Series 2011 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.

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 2011 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 2011, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and any notices of material events will be filed by the Department with the MSRB through the EMMA system. The specific nature of the information to be contained in the Annual Report and the notices of material events is set forth in “APPENDIX E—FORM OF CONTINUING DISCLOSURE CERTIFICATE.” These covenants will be made in order to assist the underwriters for the Series 2011 Bonds in complying with Rule 15c2-12. The Department has not failed to comply in all material respects with any previous undertaking with regard to Rule 15c2-12 to provide annual reports or notices of material events for the last five calendar years.

TAX MATTERS

Federal Income Taxes

The Internal Revenue Code of 1986, as amended (the “Code”), imposes certain requirements that must be met subsequent to the issuance and delivery of the Series 2011 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 2011 Bonds to be included in gross income for Federal income tax purposes retroactive to the date of issue of the Series 2011 Bonds. Pursuant to the Indenture and the tax certificate executed by the Department in connection with the issuance of the Series 2011 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 2011 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 2011 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 2011A Bonds from gross income for any period during which such Series 2011A 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 2011A Bonds, or a “related person.”

Bond Counsel is further of the opinion that interest on the Series 2011A Bonds is treated as an item of tax preference for purposes of calculating the Federal alternative minimum tax that may be imposed on individuals and corporations.

Bond Counsel is also of the opinion that interest on the Series 2011B 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 2011B 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 2011 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 2011 Bonds nor as to the taxability of the Series 2011 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 2011 Bonds issued at a discount (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 applicable series of Series 2011 Bonds. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each Discount Bond and the basis of each Discount Bond acquired at such initial offering price by an initial purchaser thereof will be increased by the amount of such accrued original issue discount. The accrual of original issue discount may be taken into account as an increase in the amount of tax-exempt income for purposes of determining various other tax consequences of owning the Discount Bonds, even though there will not be a corresponding cash payment. Owners of the Discount Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such Discount Bonds.

Original Issue Premium

The Series 2011 Bonds issued at a premium (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 2011 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 2011 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 2011 Bonds may 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 2011 Bonds. Prospective investors are advised to consult their own tax advisors regarding these rules.

Commencing with interest paid in 2006, interest paid on tax-exempt obligations such as the Series 2011 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 2011 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 F. 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 2011 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 2011 Bonds for Federal or state income tax purposes, and thus on the value or marketability of the Series 2011 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 2011 Bonds from gross income for Federal or state income tax purposes, or otherwise. 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 2011 Bonds may occur. Prospective purchasers of the Series 2011 Bonds should consult their own tax advisers regarding such matters.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance and delivery of the Series 2011 Bonds may affect the tax status of interest on the Series 2011 Bonds. Bond Counsel expresses no opinion as to any Federal, state or local tax law consequences with respect to the Series 2011 Bonds, or the interest thereon, if any action is taken with respect to the Series 2011 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 2011 Bonds ratings of “[]” ([] outlook), “[]” ([] outlook) and “[]” ([] outlook), respectively. Such credit ratings reflect only the views of such organizations and any desired explanation of the meaning and significance of such credit ratings, including the methodology used and any outlook thereon, should be obtained from the rating agency furnishing the same, at the following addresses, which are current as of the date of this Official Statement: Moody’s Investors Service, 1 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 2011 Bonds any announcement regarding the outlook of any rating agency with respect to the Series 2011 Bonds. Any downward revision or withdrawal or announcement of negative outlook could have an adverse effect on the market price of the Series 2011 Bonds. Maintenance of ratings will require periodic review of current financial data and other updating information by assigning agencies.

UNDERWRITING

The Series 2011 Bonds will be purchased by Morgan Stanley & Co. Incorporated, on its own and on behalf of E. J. De La Rosa & Co., Inc. and Siebert Brandford Shank & Co., L.L.C. (collectively, the “Underwriters”), from the Department at a price of \$_____ (which is the par amount of the Series 2011 Bonds, plus an original issue premium of \$_____, less an original issue discount of \$_____, less an underwriters’ discount of \$_____), subject to the terms of a bond purchase agreement (the “Bond Purchase Agreement”), between Morgan Stanley & Co. Incorporated, as representative of the Underwriters, and the Department. The Bond Purchase Agreement provides that the Underwriters will purchase all of the Series 2011 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 2011 Bonds set forth on the inside of the front cover page hereof may be changed from time to time by the Underwriters. The Underwriters may offer and sell the Series 2011 Bonds to certain dealers (including dealers depositing the Series 2011 Bonds into unit investment trusts or money market funds), at prices lower than the public offering prices or yields higher than the offering yields set forth on the inside of the front cover page hereof.

The following language has been provided by and is being included in this Official Statement at the request of Morgan Stanley & Co. Incorporated. The Department cannot and does not assume any responsibility for the accuracy or completeness of such statements or information. Morgan Stanley, the parent company of Morgan Stanley & Co. Incorporated, one of the underwriters of the Series 2011 Bonds, has entered into a retail brokerage joint venture with Citigroup Inc. As part of the joint venture, Morgan Stanley & Co. Incorporated will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Morgan Stanley & Co. Incorporated will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series 2011 Bonds.

The following language has been provided by and is being included in this Official Statement at the request of E. J. De La Rosa & Co., Inc. The Department cannot and does not assume any responsibility for the accuracy or completeness of such statements or information. E. J. De La Rosa & Co., Inc., one of the underwriters of the Series 2011 Bonds, has entered into separate agreements with Credit Suisse Securities USA LLC, UnionBanc Investment Services LLC and City National Securities, Inc. for retail distribution of certain municipal securities offerings, at the original issue prices. Pursuant to said agreements, if applicable to the Series 2011 Bonds, E. J. De La Rosa & Co., Inc. will share a portion of its underwriting compensation with respect to the Series 2011 Bonds, with Credit Suisse Securities USA LLC, UnionBanc Investment Services LLC or City National Securities, Inc.

LITIGATION

No Litigation Relating to the Series 2011 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 2011 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 2011 Bonds, other than those listed below.

Clean Truck Program. 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, the City of Long Beach, the Department, the Harbor Department of the City of Long Beach, the Board and the Board of Harbor Commissioners of the City of 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 Department’s Clean Truck Program and the Port 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 (a) unlawfully re-regulate the trucking industry and violate the Federal Aviation Administration Authorization Act of 1994 (the “FAAA Act”); and (b) 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; (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 preferred hiring considerations. On February 24, 2010, a different Ninth Circuit panel affirmed that the earlier preliminary injunction ruling by District Court need not be expanded to completely enjoin the Department’s concession agreements pending trial. The Ninth Circuit 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 settled its case with the ATA. The City, the Department and the Board (“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, and briefing is scheduled for February through April, 2011. 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, but left all other concession requirements in place and enforceable by the Department. The U.S. Court of Appeals for the Ninth Circuit is scheduled to hear oral arguments on June 10, 2011.

False Claims Act. A case was brought by an individual (the “Relator”) under the Federal Civil False Claims Act and the California False Claims Act (together, the “False Claims Acts”) against the Department, the City, the Department’s former Executive Director and shipping line and Department permittee Maersk (collectively, the “False Claims Defendants”), challenging the use by the Department of certain federal funds obtained from the United States Army Corps of Engineers and State funds for the construction of Pier 400 at the Port. On April 23, 2009, the District Court granted summary judgment in favor of the City and the Department, finding the City and the Department immune from suit under the False Claim Acts because the Relator was not an original source of the alleged false claims information. On June 5, 2009, the District Court granted summary judgment in favor of Maersk, finding that it lacked jurisdiction over the Relator’s claims. The Relator appealed these rulings to the Ninth Circuit. On December 22, 2010, the Ninth Circuit affirmed the District Court’s granting of the summary judgments.

Riverside—China Shipping EIR Challenge. On December 18, 2008, the Department certified the final EIR for the expansion of the China Shipping Terminal at Berth 97-109. The China Shipping Project will roughly double the existing 72-acre terminal and extend the wharf to 2,500 feet to be served by 10 Post-panamax cranes. The City of Riverside challenged the EIR in an action filed in Superior Court. Specifically, the City of Riverside alleges that the EIR fails to address the impact of increased rail traffic at crossings in the City and County of Riverside. On March 10, 2010, the Orange County Superior Court denied the City of Riverside’s petition. The City of Riverside has filed an appeal with the Fourth District California Court of Appeal. The parties are awaiting a hearing date and decision from the court. Delays in resolving this challenge are not expected to impact the schedule for completion of the China Shipping Project unless the certification is overturned. If the certification is overturned, delays in the completion of the China Shipping Project may occur, may require the Department to credit China Shipping certain amounts under the China Shipping permit for failure to deliver portions of the China Shipping Project on schedule and may require the Department to incur costs associated with re-drafting, reconsideration of the EIR and adoption of additional mitigation measures. The Department cannot reasonably estimate the potential costs that may be incurred if additional mitigation measures are required as a result of this challenge. See “THE PORT AND THE DEPARTMENT—Capital Improvement Planning—Capital Improvement Projects—Terminal Projects—China Shipping Terminal Expansion.”

LEGAL OPINIONS

The validity of the Series 2011 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, The Gibbs Law Group, P.C. [All of the fees of Bond Counsel, Disclosure Counsel and Underwriter’s Counsel with regard to the issuance of the Series 2011 Bonds are contingent upon the issuance and delivery of the Series 2011 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 Frasca & Associates, L.L.C. of New York, New York, as Financial Advisor in connection with the issuance of the Series 2011 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, 2010 and 2009 and Independent Auditors' Report thereon are attached hereto as Appendix A. The financial statements for the Department for the Fiscal Year ended June 30, 2010 have been audited by KPMG LLP, as stated in their report. The financial statements of the Department for the Fiscal Year ended June 30, 2009 were audited by other auditors whose report thereon dated January 29, 2010, expressed an unqualified opinion on those statements.

KPMG LLP 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. KPMG LLP also has not performed any procedures relating to this Official Statement.

MISCELLANEOUS

The covenants and agreements of the Department for the benefit of the Bond Owners are set forth in the Resolution and the Indenture and reference is made to those documents for a statement of the rights and obligations of the Department and the Bond Owners. Neither this Official Statement, nor any statements which may have been made orally or in writing, are to be construed as a contract with the Owners of any of the Series 2011 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 2011 Bonds are qualified in their entirety to the definitive form thereof and the information with respect thereto included in the Resolution and the Indenture.

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

By _____
Executive Director

APPENDIX A

**AUDITED FINANCIAL STATEMENTS OF THE HARBOR DEPARTMENT FOR THE FISCAL
YEARS ENDED JUNE 30, 2010 AND 2009**

APPENDIX B

CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES

[UPDATE TO COME FROM CITY IN LATE MAY]

The following information has been provided to the Department by the City of Los Angeles. Table numbers in this Appendix A are presented as provided in the information provided by the City of Los Angeles and therefore may not be consecutive. Neither the Department nor the Dealers makes any representations as to the accuracy or the completeness of the following information. 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 2010 population of 4.09 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 39.1% 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 rank first in the nation in volume of cargo shipped and received. As home to the film, television and recording industries, as well as important cultural facilities, the City serves as a principal global cultural center.

SELECTED ECONOMIC AND DEMOGRAPHIC INFORMATION

The economic and demographic information provided below has been collected from sources that the City considers to be reliable. Because it is difficult to obtain timely economic and demographic

information, the City’s economic condition may not be fully apparent in all of the publicly available local and regional economic statistics provided herein. In particular, the economic statistics provided herein may not fully capture the negative impact of current economic conditions.

Population

Table I summarizes City, County, and State of California (the “State”) population, estimated as of January 1 of each year.

Table I
City, County and State Population Statistics

	City of Los Angeles	Annual Growth Rate *	County of Los Angeles	Annual Growth Rate *	State of California	Annual Growth Rate *
1980	2,968,579	—	7,477,421	—	23,782,000	—
1985	3,216,900	1.67%	8,121,000	1.72%	26,113,000	1.96%
1990	3,485,557	1.67	8,863,052	1.83	29,758,213	2.79
1995	3,547,700	0.36	9,103,900	0.54	31,617,000	1.25
2000	3,694,820	0.83	9,519,330	0.91	33,984,980	1.50
2005	3,934,714	1.30	10,166,417	1.36	36,728,196	1.61
2006	3,980,422	1.16	10,257,994	0.90	37,195,240	1.27
2007	3,996,070	0.39	10,275,914	0.17	37,559,440	0.98
2008	4,022,450	0.66	10,301,658	0.25	37,883,992	0.86
2009	4,050,727	0.70	10,355,053	0.52	38,255,508	0.98
2010	4,094,764	1.09	10,441,080	0.83	38,648,090	1.03

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

Source: U.S. Census for 1980, 1990 and 2000; other figures are California Department of Finance estimates as of January 1 of each year.

Industry and Employment

Table II summarizes the average number of employed and unemployed residents of the City and the County, based on the annual “benchmark,” an annual revision process in which monthly labor force and payroll employment data, which are based on estimates, are updated based on detailed tax records. 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 2010 of 12.3% statewide, 11.9% for Los Angeles County, and 13.2% for the City (not seasonally adjusted).

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

Civilian Labor Force *	2005	2006	2007	2008	2009
City of Los Angeles					
Employed	1,769,000	1,785,300	1,786,600	1,777,800	1,622,600
Unemployed	<u>113,300</u>	<u>103,100</u>	<u>128,000</u>	<u>161,600</u>	<u>275,400</u>
Total	<u>1,882,300</u>	<u>1,888,400</u>	<u>1,914,600</u>	<u>1,939,400</u>	<u>1,898,000</u>
County of Los Angeles					
Employed	4,552,800	4,613,200	4,662,700	4,598,300	4,196,900
Unemployed	<u>257,100</u>	<u>231,300</u>	<u>249,900</u>	<u>373,800</u>	<u>636,900</u>
Total	<u>4,810,000</u>	<u>4,844,500</u>	<u>4,912,600</u>	<u>4,972,000</u>	<u>4,833,800</u>
Unemployment Rates					
City	6.0%	5.5%	6.7%	8.3%	14.5%
County	5.3	4.8	5.1	7.5	13.2
State	5.4	4.9	5.4	10.1	13.2
United States	5.1	4.8	4.6	7.6	9.7

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.

* March 2009 Benchmark; not seasonally adjusted. The "Benchmark" data is typically released in March for the prior calendar year.

Source: California Employment Development Department, Labor Market Information Division for the State and County; U.S. Bureau of Labor, Department of Labor Statistics for the United States.

Table III 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 2009, employing 19.4% of wage and salary workers. Government, at 15.6%, is the second highest employment sector in the County, followed by Professional and Business Services, which employed 13.8% of wage and salary workers.

Table III
Los Angeles County Estimated Industry Employment and Labor Force¹

	County				State of California	
	2000	% of Total	2009 ²	% of Total	2009 ³	% of Total
Agricultural	8,400	0.2%	6,200	0.2%	375,800	2.6%
Natural Resources and Mining	3,800	0.1	4,100	0.1	25,700	0.2
Construction	136,800	3.4	116,500	3.0	620,100	4.3
Manufacturing	577,900	14.2	389,200	10.1	1,280,900	8.9
Trade, Transportation and Utilities	789,800	19.3	742,500	19.4	2,636,500	18.2
Information	226,300	5.5	193,700	5.1	446,800	3.1
Financial Activities	228,900	5.6	220,200	5.7	797,100	5.5
Professional and Business Services	588,000	14.4	528,100	13.8	2,051,600	14.2
Educational and Health Services	432,200	10.6	513,900	13.4	1,740,200	12.0
Leisure and Hospitality	348,500	8.5	383,900	10.0	1,499,000	10.4
Other Services	143,200	3.5	137,900	3.6	484,300	3.4
Government	598,300	14.7	599,500	15.6	2,497,300	17.3
Total ⁴	<u>4,082,000</u>	<u>100.0%</u>	<u>3,835,600</u>	<u>100.0%</u>	<u>14,455,100</u>	<u>100.0%</u>

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

¹ Since 2000, the California Economic Development Department has converted employer records from the Standard Industrial Classification coding system to the North American Industry Classification System. Items may not add to totals due to rounding.

² March 2009 Benchmark. The “benchmark” is the annual revision process in which monthly labor force and payroll employment data, which are based on estimates, are updated based on detailed tax records. Benchmark data are typically released in March for the prior calendar year.

³ March 2009 Benchmark.

⁴ Total may not equal sum of parts due to independent rounding.

Source: California Employment Development Department, Labor Market Information Division

Major Employers

The top 25 major nongovernmental employers in the County are listed in Table IV. The employees of these nongovernmental employers represent approximately 6.3% of the labor force. In addition, government employment represents approximately 15.6% of the labor force (see Table III—Estimated Industry Employment and Labor Force).

Table IV
Los Angeles County Major Nongovernmental Employers

Employer	Product/Service	Employees
Kaiser Permanente	Non-profit health care plan	34,179
Northrop Grumman Corp.	Defense contractor	19,137
Boeing Co.	Integrated aerospace and defense systems	14,400
Kroger Co.	Grocery retailer	14,000
University of Southern California	Private university	13,044
Target Corp.	Retailer	13,000
Home Depot	Home improvement specialty retailer	10,000
Providence Health & Services	Medical centers	9,715
Vons	Retail grocer	9,688
Cedars-Sinai Medical Center	Medical center	9,300
Wells Fargo	Diversified financial services	9,100
ABM Industries Inc.	Facility services, janitorial, parking, security, engineering and lighting	9,000
AT&T Inc.	Telecommunications	8,950
California Institute of Technology	Private university, operator of Jet Propulsion Laboratory	8,504
FedEx Corp.	Shipping and logistics	8,500
Catholic Healthcare West	Hospitals	7,275
Amgen Inc.	Biotechnology	6,500
Costco Wholesale	Membership chain of warehouse stores	5,587
Long Beach Memorial Medical Center	Regional hospital	5,400
UPS	Transportation and freight	5,100
JP Morgan Chase	Banking and financial services	4,700
Children's Hospital Los Angeles	Hospital	4,211
Toyota Motor Sales USA Inc.	Sales, distribution and customer service arm of Toyota, Lexus and Scion	4,200
Adventist Health	Hospitals	3,804
Time Warner Cable Business Class	Cable provider	3,100

Source: *Los Angeles Business Journal*, "The Lists 2010"; from the August 31, 2009 issue

Personal Income

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

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

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

Year and Area	Personal Income (Thousands of Dollars)	Per Capita Personal Income (Dollars)
2004		
County	\$ 326,402,466	\$ 33,034
State	1,265,970,355	35,440
United States	9,711,363,000	33,123
2005		
County	346,423,416	35,022
State	1,348,255,191	37,462
United States	10,284,356,000	34,757
2006		
County	369,174,348	37,362
State	1,436,446,919	39,626
United States	10,968,393,000	36,714
2007		
County	390,295,865	39,794
State	1,520,755,000	41,805
United States	11,634,322,000	38,615
2008		
County	413,316,582	42,265
State	1,569,370,000	43,852
United States	12,086,534,000	40,166
2009*		
County	n/a	n/a
State	1,564,388,897	42,325
United States	12,015,535,000	39,138

* Preliminary personal income data and per capital personal income data for the County level is not expected to be released until late April 2011.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

Retail Sales

As the largest city in the County, the City accounted for \$39.3 billion (or 29.7%) of the total \$131.8 billion in County taxable sales for 2008. Table VI sets forth a history of taxable sales for the City for calendar years 2005 through 2008, 2008 being the last full year for which data is currently available. The most recent quarterly data available is for the first quarter of 2009, which indicated a 16.3% decline in sales from the first quarter of 2008.

The City experienced a 7% decline in sales tax during Fiscal Year 2009 and anticipates an additional 10.8% decline during Fiscal Year 2010 in its adjusted budget; a 5% increase in sales tax receipts is projected for Fiscal Year 2011, primarily reflecting the decline in the City's unemployment rate.

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

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

* Primarily manufacturing and wholesale businesses. Items may not add to totals due to rounding.
Source: California State Board of Equalization, Research and Statistics Division

Residential Construction Activity

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

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

	2005	2006	2007	2008	2009
Valuation ¹					
Residential ²	\$ 1,789	\$ 2,435	\$ 2,079	\$ 1,280	\$ 604
Miscellaneous ³	<u>71</u>	<u>79</u>	<u>4</u>	<u>17</u>	<u>11</u>
Total Valuation	<u>\$ 1,860</u>	<u>\$ 2,514</u>	<u>\$ 2,083</u>	<u>\$ 1,297</u>	<u>\$ 615</u>
Number of Units					
Single family ⁴	2,099	2,419	2,032	1,070	781
Multi-family ⁵	<u>7,673</u>	<u>11,752</u>	<u>7,724</u>	<u>5,333</u>	<u>1,892</u>
Subtotal Residential	<u>9,772</u>	<u>14,171</u>	<u>9,756</u>	<u>6,403</u>	<u>2,673</u>
Miscellaneous ⁶	<u>1,433</u>	<u>1,201</u>	<u>746</u>	<u>278</u>	<u>185</u>
Total Units	<u>11,205</u>	<u>15,372</u>	<u>10,502</u>	<u>6,681</u>	<u>2,858</u>

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

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

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

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

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

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

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

Commercial Real Estate Markets in Los Angeles

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

Table VIII
Los Angeles Metropolitan Area Nonresidential Vacancy Rates¹

Year	Downtown	Suburban	Total
2005	15.0%	11.5%	12.0%
2006	14.1	10.0	10.5
2007	13.5	8.4	9.2
2008	13.1	9.5	10.0
2009 ²	15.2	14.7	14.8

¹The downtown index covers office buildings in the central core. The corresponding suburban area includes the remainder of the metropolitan area, excluding the central core.

²Includes first three quarters of 2009 only, the most recent information available.
Source: RAND California

Education

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

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

GENERAL INFORMATION REGARDING MUNICIPAL GOVERNMENT

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

The City is governed by the Mayor and the City Council (the “Council”). The Mayor is elected at-large for a four-year term. As executive officer of the City, the Mayor has the overall responsibility for administration of the City. The Mayor recommends and submits the annual budget to the Council and passes upon subsequent appropriations and transfers, approves or vetoes ordinances, and appoints certain City officials and commissioners. He supervises the administrative process of local government and works with the Council in matters relating to legislation, budget and finance. As prescribed by the Charter and City ordinances, the Mayor operates an executive department, of which he is the ex-officio

head. The current Mayor, Antonio R. Villaraigosa, was elected on May 17, 2005 and took office on July 1, 2005. He was re-elected Mayor on March 3, 2009 for a second four-year term.

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

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

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

The City Treasurer (the “Treasurer”) receives, invests and is the custodian of the City’s funds and those of affiliated entities. The Treasurer also serves as the City’s Investment Officer. The Treasurer is appointed by the Mayor and confirmed by the Council. The current Treasurer is [_____], who has served in that capacity since [_____] 2011.

The City has 39 departments, bureaus, commissions and offices for which operating funds are annually budgeted by the Council. In addition, five departments (the Department of Water and Power (“DWP”), the Harbor Department, the Department of Airports, the City Employees’ Retirement System Department, and the Fire and Police Pension System Department), The Community Redevelopment Agency of the City and the Housing Authority of the City are under the control of boards appointed by the Mayor and confirmed by the Council.

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

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

SELECTED INFORMATION REGARDING CITY FINANCIAL OPERATIONS

Retirement and Pension Systems

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

Both LACERS and LAFPPP (collectively, the “Pension Systems”) provide retirement, disability, death benefits, post-employment healthcare and annual cost-of-living adjustments to plan members and beneficiaries. As required by the City Charter, the actuarial valuations for both Pension Systems are prepared on an annual basis and the applicable actuary recommends contribution rates for the fiscal year beginning after the completion of that actuarial valuation. When approved by the respective boards of administration of the Pension Systems, these become the City’s legally required contribution rates for such years.

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

When measuring assets for determining the UAAL, many pension plans, including the Pension Systems, “smooth” market value gains and losses over a period of years to reduce volatility. LACERS uses a five-year smoothing approach; if in the period for which an actuarial valuation is prepared the actual investment return on LACERS’ assets is lower or higher than the actuarial assumed rate of return, then, under current practices, 20% of the shortfall or excess is recognized in that actuarial valuation and each of the next four valuations, resulting in the smoothing or spreading of that shortfall or excess over a five-year period. LAFPPP recently revised its smoothing methodology from five years to seven years effective June 30, 2009, so that approximately 14.3% of losses or gains are recognized each year. The impact of these smoothing methodology results in an actuarial valuation of assets that are lower or higher than the market value of assets.

Both Pension Systems recently amended the manner in which they recognize extraordinary losses or gains in the market value of assets. The prior policy of both of the Pension Systems’ boards included a market value “corridor” that limits the Actuarial Value of Assets (or “AVA,” which is the value of the assets for actuarial purposes, reflecting smoothing) to be within 20% of the Market Value of Assets (“MVA”). In other words, the AVA cannot be greater than 120% of the MVA or less than 80% of the MVA. Because of investment losses for Fiscal Year 2009 of approximately 20%, the Pension Systems’ actuaries estimated that the AVA would be greater than 120% over the next three years. Application of the corridor meant that the AVA would be set at 120% of MVA, lower than it would be with full application of multi-year smoothing. LACERS adopted a wider corridor, requiring immediate recognition of assets whose AVA was greater than 150% of the MVA or less than 50% of the MVA. LAFPPP also adopted a wider corridor, requiring immediate recognition of assets whose AVA was greater than 140% of the MVA or less than 60% of the MVA. These wider corridors permit the City to defer contributions to future years to address actuarial funding deficiencies.

Market value investment returns for the past five fiscal years for which final results are available for both of the Pension Systems are shown in Table XXXIII.

Table XXXIII
Los Angeles Pension Systems Historical Market Value Investment Returns

	2004-05	2005-06	2006-07	2007-08	2008-09
LACERS	9.71%	12.34%	19.13%	(5.78%)	(20.26%)
LAFPPP	9.83	12.40	18.25	(5.01)	(20.74)

Source: City of Los Angeles, LACERS and FPPS actuarial valuations

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, 2009, LACERS had 30,055 active members, 14,991 retired members and beneficiaries, and 4,554 vested terminated members. LACERS is funded pursuant to the Projected Unit Credit Cost Method. Among the actuarial assumptions used in the most recent plan valuation are an investment rate of return of 8%, and this same rate is used to discount future values. The inflation rate assumption is 3.75%. Actuarial losses are funded and actuarial gains credited over fixed 15-year periods. Any liability or surplus due to assumption changes is funded or credited over 30 years. Beginning with the June 30, 2010 actuarial valuation, any liability or surplus due to benefit changes is funded or credited over 15 years, except for liabilities caused by early retirement incentives, which will be funded over five years. The Board adopted a policy of re-amortizing the System's then existing liabilities over 30 years beginning July 1, 2005.

Table XXXIV shows the actuarial value of the City's liability for retirement benefits (excluding retiree health care and other post-employment benefits), the actuarial value of assets available for retirement benefits, and two indicators of funding progress for LACERS, the funded ratio and the ratio of UAAL to annual payroll. The actuarial value of assets is the market value of assets with actuarial gains and losses smoothed over five years. As of June 30, 2009, the date of the most recent actuarial valuation, the market value of system assets was \$2.8 billion less than the actuarial value.

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

Actuarial Valuation As of June 30	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL)	Underfunded or (Overfunded) AAL²	Funded Ratio³	Covered Payroll⁴	Underfunded or (Overfunded) AAL As Percentage of Covered Payroll⁵
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

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: The City of Los Angeles City Employees' Retirement System Actuarial Valuation as of June 30, 2009

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

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

	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>Adopted Budget 2010-11</u>
Sources of Contributions					
Contributions for Council-Controlled Departments	\$342,993	\$338,914	\$312,661	\$298,217	\$339,135
Airport and Harbor Departments	<u>50,317</u>	<u>58,542</u>	<u>57,527</u>	<u>57,548</u>	<u>71,309</u>
Total	<u>393,310</u>	<u>397,456</u>	<u>370,188</u>	<u>355,765</u>	<u>410,444</u>
Percent of Payroll	23.9%	22.8%	20.2%	19.46%	24.49%
Uses of Contributions					
Current Service Liability (Normal cost)	220,242	226,441	235,148	238,536	229,617
UAAL/(Surplus)	172,506	170,527	134,527	116,618	179,947
Adjustments ²	<u>562</u>	<u>488</u>	<u>513</u>	<u>611</u>	<u>880</u>
Total	<u>\$393,310</u>	<u>\$397,456</u>	<u>\$370,188</u>	<u>\$355,765</u>	<u>\$410,414</u>

¹ Includes funding for other post-employment benefits.

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

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

Table XXXVI below projects the City's contributions to LACERS for the next four fiscal years based on information provided by LACERS' current actuary. These contributions include the projected cost of other post-employment benefits. These projections reflect the significant investment losses of 20% in Fiscal Year 2009 and assumes 16% investment return for Fiscal Year 2010, and the actuarial rate of return of 8% thereafter. Consistent with LACERS' current policies, investment gains or losses are recognized over a five-year asset smoothing period, with a corridor limit of 50% to 150% of the market value of assets.

Table XXXVI
Los Angeles City Employees' Retirement System Adopted and Projected Contributions
(Dollars in Thousands)

	<u>Adopted Budget 2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
LACERS				
Contributions for Council-Controlled Departments*	\$339,135	\$422,494	\$499,169	\$565,488
Incremental Change	<u>\$ 40,919</u>	<u>\$ 84,085</u>	<u>\$ 76,675</u>	<u>\$ 66,319</u>

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

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

The LAFPPP, established in 1923 under the Charter, represents contributory plans covering uniformed fire and police personnel. Five tiers of benefits are provided, depending on the date of the member's hiring. As of June 30, 2009, the LAFPPP had 13,802 active members, 12,327 retired members and beneficiaries, and 61 vested former members. The LAFPPP is funded pursuant to the Entry Age Normal Cost Method. Among the actuarial assumptions used in valuing the plan are an investment rate of return of 8%, which is the same rate used to discount future values. The inflation rate assumption is

3.75%. For Tiers 1 and 2, any UAAL is amortized over a fixed term ending on July 1, 2037. For Tiers 3, 4 and 5, actuarial losses are funded and actuarial gains are credited over a fixed 15-year term; any liability changes due to benefit or assumption changes are funded over 30 years.

The LAFPPP also administers a Deferred Retirement Option Program (“DROP”), which became effective May 2002. DROP is a voluntary program whereby a member with a minimum of 25 years of service may file for a service pension but continue to work and earn salary and benefits as an active member. The monthly service pension benefit is deposited into a DROP account that earns a 5% per annum return, payable upon exiting the DROP program. Participation in the DROP program is limited to a maximum of five years. It began as a five-year program designed to be cost-neutral, with provisions for review and adjustment of the design to retain its cost neutrality. A study of the program concluded that no adjustment was required. In addition, a five-year extension of the DROP program for rank and file police officers and firefighters has been approved. The extended program also includes provision for review and adjustment of the program design to retain cost neutrality.

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

Table XXXVII 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 LAFPPP, the funded ratio and the ratio of UAAL to annual payroll. Investment gains and losses are recognized on an actuarial basis over a seven-year period. As of June 30, 2009, the date of the most recent actuarial valuation, the market value of system assets was \$4.1 billion less than the actuarial value.

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

Actuarial Valuation As of June 30	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL)	Underfunded or (Overfunded) AAL²	Funded Ratio³	Covered Payroll⁴	Underfunded or (Overfunded) AAL As Percentage of Covered Payroll⁵
2005	\$11,634,114	\$12,357,524	\$723,411	94.1%	\$1,037,445	69.7%
2006	12,121,403	12,811,834	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

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

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

³ Actuarial value of assets divided by actuarial accrued liability.

⁴ Annual payroll against which UAAL amortized.

⁵ UAAL divided by covered payroll.

Source: The Fire and Police Pension System Actuarial Valuations

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

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

	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>Adopted Budget 2010-11</u>
General Fund	\$279,721	\$327,089	\$325,615	\$355,308	\$387,013
Percent of Payroll	24.8%	28.9%	26.23%	28.24%	30.12%
Current Service Liability	211,402	249,955	272,691	285,929	279,334
UAAL/(Surplus)	67,707	76,701	52,801	69,280	107,171
Adjustments ¹	612	433	123	99	508
Tier 5 Current Service Liability ²	-	-	-	-	-
Total	<u>\$279,721</u>	<u>\$327,089</u>	<u>\$325,615</u>	<u>\$355,308</u>	<u>\$387,013</u>

¹ Includes the settlement with the United Firefighters of Los Angeles City ("UFLAC") and the excess benefit plan.

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

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

Table XXXIX below projects the General Fund's contributions to LAFPPP, including the projected cost of other post-employment benefits, for the next four fiscal years, based on information provided by LAFPPP's actuary. These contributions include the projected cost of other post-employment benefits. These projections reflect the significant investment losses of 20% in Fiscal Year 2009, assume 0% in investment return for Fiscal Year 2010, and the actuarial rate of return of 8% thereafter. Consistent with LAFPPP's current policies, investment gains or losses are recognized over a seven-year asset smoothing period, with a corridor limit of 60% to 140% of market value of assets.

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

	<u>Adopted Budget 2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>
General Fund	\$387,013	\$450,186	\$514,535	\$595,643	\$645,536
Incremental Change	\$ 31,705	\$ 63,173	\$ 64,349	\$ 81,108	\$ 49,893

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

As part of its budget planning, the City Administrative Officer prepares a multi-year budget outlook, based on the existing budget, known major future obligatory expenditures and projections of other revenues and expenditures, to identify future budget challenges, including whether a budget gap is likely to occur. This planning tool helps the City identify potential budgetary pressures and allows for earlier implementation of budget adjustments, either through the annual budget process or through interim action. The outlook is updated in connection with the City's periodic financial status reports and the Budget process. The most recent update of this outlook projects that, at current trends, the City will experience growth in operating deficits in the years following Fiscal Year 2011, from \$318.5 million in Fiscal Year 2012 to \$550.9 million in Fiscal Year 2015. It is important to note that the outlook is constantly changing, and does not include all potential revenues and expenditures. Even though budget

deficits are currently projected, as they have in prior years, these budgets will be balanced when enacted, as required by City Charter, through some combination of revenue increases, expenditure reductions, and transfers from reserves.

The General Fund Budget Outlook reflects recent policy changes adopted by the Los Angeles City Employees' Retirement System and the Fire and Police Pension System. The changes in funding methodology effectively lower the City's contribution in the near term, but potentially will result in higher long-term contributions absent other changes in earnings or other assumptions. See the footnotes to Table X, and "GENERAL INFORMATION REGARDING MUNICIPAL GOVERNMENT—Retirement and Pension Systems."

The projections in Tables XXXVI and XXXIX illustrates that, if currently projected investment assumptions materialize, the City's contribution rates for the Los Angeles City Employees' Retirement System and the Fire and Police Pension System will increase substantially over the next few years. If investment returns are lower than investment assumptions, actual contribution rates could be higher than these projections.

Investors are cautioned that, in considering information on the Pension Systems, including the amount of the UAAL, the funded ratio, the calculations of normal cost, and the resulting amounts of required contributions by the City, this is "forward-looking" information. Such "forward-looking" information reflects the judgment of the boards of the respective Pension Systems and their respective actuaries as to the amount of assets that the Pension Systems will be required to accumulate to fund future benefits over the lives of the currently active employees, vested terminated employees, and existing retired employees and beneficiaries. These judgments are based upon a variety of assumptions, one or more of which may prove to be inaccurate and/or be changed in the future.

For additional information, see Note 5 in the "Notes to the City's Basic Financial Statements Fiscal Year Ended June 30, 2009" in the City's Comprehensive Annual Financial Reports. Various reports for LACERS and LAFPPP are posted from time to time on the City's website.

Other Post-Employment Benefits

Retired members and surviving spouses and domestic partners of LACERS and LAFPPP members are eligible for certain subsidies toward their costs of medical and dental insurance. Both of the Pension Systems advance fund retiree health insurance benefits for current retirees and active eligible members for many years, funding the annual contribution recommended by their actuaries. There are no member contributions for health subsidy benefits; all such costs are funded from the employer's contribution and investment returns thereon.

As of June 30, 2009, the unfunded healthcare benefits liabilities of LACERS and the LAFPPP, based on the actuarial cost method and assumptions used for the related pension plans, are as follows:

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

As of June 30	2005¹	2006	2007	2008	2009
Actuarial Valuation of Assets	\$ 893,378	\$ 990,270	\$1,185,544	\$1,342,920	\$1,342,496
Actuarial Accrued Liability	1,718,899	1,730,799	1,730,400	1,928,042	2,003,441
Unfunded (Overfunded) Actuarial Accrued Liability	825,521	740,529	544,856	585,123	660,944
Funded Ratio ²	52.0%	57.2%	68.5%	69.7%	67.0%

¹ Does not reflect the application of GASB 43 and 45.

² Actuarial value of assets divided by actuarial accrued liability.

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

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

As of June 30	2005¹	2006	2007	2008	2009
Actuarial Valuation of Assets	\$ 597,199	\$ 613,782	\$ 687,096	\$ 767,647	\$ 809,677
Actuarial Accrued Liability	1,257,505	1,631,187	1,656,653	1,836,840	2,038,659
Unfunded Actuarial Accrued Liability	660,306	1,017,405	969,557	1,069,193	1,228,982
Funded Ratio ²	47.5%	37.6%	41.5%	41.8%	39.7%

¹ Does not reflect the application of GASB 43 and 45.

² Actuarial value of assets divided by actuarial accrued liability.

Source: The Fire and Police Pension System Actuarial Valuations

The information in Table XL for 2005 does not purport to reflect the application of GASB 43 and 45, which require that LACERS, LAFPPP, and the City account for and report the annual cost and the outstanding obligations and commitments related to health insurance subsidies and other post-employment benefits in essentially the same manner as they do for pensions. Subsequent results reflect the application of the new GASB standards.

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

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, Refunding Revenue Bonds, 2011 Series A (AMT), in the aggregate principal amount of \$_____ (the “Series 2011A Bonds”), and Harbor Department of the City of Los Angeles, Refunding Revenue Bonds, 2011 Series B (Non-AMT), in the aggregate principal amount of \$_____ (the “Series 2011B Bonds,” and together with the Series 2011A Bonds, the “Series 2011 Bonds”). The Series 2011 Bonds are being issued pursuant to an Indenture of Trust, dated as of [_____] 1, 2011 (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 2011 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 2011 Bonds (including persons holding Series 2011 Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Series 2011 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 2011 Bonds.

“Owner” shall mean a registered owner of the Series 2011 Bonds.

“Participating Underwriter” shall mean any of the original underwriters of the Series 2011 Bonds required to comply with the Rule in connection with offering of the Series 2011 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 2011, 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, 4, 5, 8, 9, 10, 12, 13 and 14 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 2011 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 2011 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 2011 Bonds or other material events affecting the tax status of the Series 2011 Bonds;
3. Modifications to rights of the Owners of the Series 2011 Bonds;
4. Series 2011 Bond calls;
5. Release, substitution or sale of property securing repayment of the Series 2011 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 2011 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 2011 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 2011 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 2011 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 2011 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 2011 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 2011 Bonds shall retain all the benefits afforded to them hereunder. The Department hereby declares that it would have executed and delivered this Disclosure Certificate and each and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

Section 16. Governing Law. This Disclosure Certificate was made in the City of Los Angeles and shall be governed by, interpreted and enforced in accordance with the laws of the State of California and the City of Los Angeles, without regard to conflict of law principles. Any litigation, action or proceeding to enforce or interpret any provision of this Disclosure Certificate or otherwise arising out of, or relating to this Disclosure Certificate, shall be brought, commenced or prosecuted in a State or Federal court in the County of Los Angeles in the State of California. By its acceptance of the benefits hereof, any person or entity bringing any such litigation, action or proceeding submits to the exclusive jurisdiction of the State of California and waives any defense of forum non conveniens.

IN WITNESS WHEREOF, the undersigned has executed this Disclosure Certificate this ____ day of _____, 2011.

HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES

By: _____
Executive Director

EXHIBIT A

NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Harbor Department of the City of Los Angeles

Name of Bond Issue: Harbor Department of the City of Los Angeles Refunding Revenue
Bonds, 2011 Series A (AMT)

Harbor Department of the City of Los Angeles Refunding Revenue
Bonds, 2011 Series B (Non-AMT)

Date of Issuance: _____, 2011

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 _____, 2011, 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

APPENDIX E
FORM OF OPINION OF BOND COUNSEL

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 2011 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 2011 BONDS UNDER THE SUBORDINATE 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 2011 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 2011 BONDS; (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNERS OF SERIES 2011 BONDS; OR (F) ANY OTHER MATTER REGARDING DTC.

General

DTC will act as securities depository for the Series 2011 Bonds. The Series 2011 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 2011 Bond certificate will be issued for each maturity of the Series 2011 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 Standard & Poor’s highest rating: “AAA.”

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 2011 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2011 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2011 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 2011 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 2011 Bonds, except in the event that use of the book-entry system for the Series 2011 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2011 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 2011 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 2011 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2011 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 2011 Bonds are in the book-entry-only system, redemption notices will be sent to DTC. If less than all of the Series 2011 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 2011 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 2011 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2011 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 2011 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 2011 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 2011 Bonds will be printed and delivered to the registered holders of the Series 2011 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 2011 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.