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Antonio R. Villaraigosa

Mayor, City of Los Angeles

Board of Harbor
Commissioners

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Douglas P. Krause

Joseph R. Radisich

Geraldine Knatz, Ph.D.

Executive Director

June 24, 2010

The Honorable Antonio R. Villaraigosa
Mayor, City of Los Angeles
200 N. Spring Street, Room 303
Los Angeles, CA 90012

Mr. Miguel A. Santana
City Administrative Officer
200 N. Main Street
City Hall East, Room 1500
Los Angeles, CA 90012

✓Honorable Members of the
City Council of the
City of Los Angeles

CD No. 15

Attention: Mr. Adam Lid, City Clerk's Office

SUBJECT: RESOLUTION NO. 10-6946 - COMMERCIAL PAPER (CP)
PROGRAM LINE OF CREDIT INCREASE AND EXTENSION
WITH JP MORGAN CHASE BANK


Pursuant to Los Angeles City Charter Section 609 and the Bond Procedural Ordinance of the City of Los Angeles Administrative Code Sections 11.28.1 through 11.28.9, attached is a copy of Resolution No. 10-6958, which was adopted by the Board of Harbor Commissioners at its meeting held Thursday, June 3, 2010. Resolution No. 10-6958 approves, among other matters, the following three documents related to the Harbor Department's Commercial Paper Program: Amendment No. 1 to the Issuing and Paying Agent Agreement; extension and amendment to the Credit Agreement with JP Morgan; and the Offering Memorandum.

TRADE, COMMERCE & TOURISM
JUN 24 2010

RECOMMENDATION

The City Council approve Board of Harbor Commissioners Resolution No. 10-6958 which establishes and implements the issuance and remarketing of the Commercial Paper Program and approves three documents related to the Harbor Department's Commercial Paper Program: Amendment No. 1 to the Issuing and Paying Agent Agreement; extension and amendment to the Credit Agreement with JP Morgan; and the Offering Memorandum.

Respectfully submitted,


ROSE M. DWORSHAK
Commission Secretary

cc: Trade, Commerce, & Tourism Committee
Councilwoman Hahn, encls.
Councilman Rosendahl, encls.
Councilman LaBonge, encls.
Pamela Finney, Mayor's office, encls.
Christine Yee Hollis, CLA, encls.
Alvin Newman, CAO, encls.
Jenny Chavez, CD 15, encls.
Legislative Rep., encls.

6-3-10
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RECOMMENDATION APPROVED AND
RESOLUTION NOS. 10-6946 AND 10-6958 ADOPTED
BY THE BOARD OF HARBOR COMMISSIONERS

June 3, 2010

Rose M. Dwarshak
SECRETARY



Executive Director's
Report to the
Board of Harbor Commissioners

DATE: MAY 25, 2010

FROM: FINANCE DIVISION

SUBJECT: RESOLUTION NO. 10-6946+10-6958 COMMERCIAL PAPER (CP) PROGRAM
LINE OF CREDIT INCREASE AND EXTENSION WITH JP MORGAN
CHASE BANK

SUMMARY:

The Finance Division proposes that the Los Angeles Board of Harbor Commissioners approve and adopt an increase to the City of Los Angeles Harbor Department's (Harbor Department) Commercial Paper (CP) Program Line of Credit with JP Morgan Chase Bank, National Association (JP Morgan) from \$100 million to \$200 million, and extend the term of the CP Program from July 29, 2010 to July 29, 2012. The proposed increase and extension will provide the Harbor Department an efficient method of meeting short-term financing needs for capital projects before long-term debt is used and a way to fund working capital needs in a cost-effective manner.

RECOMMENDATION:

It is recommended that the Board of Harbor Commissioners:

1. Adopt, pursuant to the Los Angeles City Charter (LACC) Section 609 and the Bond Procedural Ordinance of the City of Los Angeles Administrative Code (LAAC) Sections 11.28.1 through 11.28.9, the attached Resolution (Transmittal 1) approving, among other matters, the following three documents related to the Harbor Department's CP Program: Amendment No. 1 to the Issuing and Paying Agent Agreement (Transmittal 2); extension and amendment to the Credit Agreement with JPMorgan (Transmittal 3); and the Offering Memorandum (Transmittal 4);
2. Direct the Executive Director or her designee to undertake jointly and severally any and all actions that are necessary and consistent with the Resolution to establish and implement the issuance and remarketing of the CP Program, subject to the discretionary right of the City Council to review such documents pursuant to the requirements of LAAC Section 11.28.2;

SUBJECT: RESOLUTION NO. 10-6946 + 10-6958 CP PROGRAM LINE OF CREDIT INCREASE AND EXTENSION WITH JP MORGAN CHASE BANK

3. Direct the Board Secretary, pursuant to LACC Section 609 and the Bond Procedural Ordinance of the LAAC Sections 11.28.1 through 11.28.9, to certify that the Board has adopted the Resolution and, on behalf of the Harbor Commission, immediately transmit for further processing certified copies of the Resolution, Board Report, and all related documents to the Mayor, Office of the City Administrative Officer, and City Council; and
4. Adopt Resolution No. 10-6946 + 10-6958.

DISCUSSION:

Background – On August 22, 2001, the Harbor Commissioners authorized the Harbor Department CP Program at a not-to-exceed credit limit of \$375 million. CP Notes are unsecured short-term debt instruments that are issued by the Harbor Department and sold to investors through investment banks that perform as sellers or dealers of CP Notes. CP Notes generally have maturity periods that vary from 1 to 270 days and are used to meet short-term financial needs. From 2001 through August 2006, the Harbor Department issued \$113 million of CP Notes, which were refunded in August 2006 by Harbor Revenue Bonds, 2006 Series D.

On June 4, 2009, the Harbor Commissioners authorized the re-establishment of the CP Program at the level of \$100 million and adopted Resolution No. 09-6753 (Transmittal 5) that, among other things, approved documents related to the CP Program, including Dealer Agreements, a Credit Agreement, an Issuing and Paying Agent Agreement, and an Offering Memorandum. The term of the current Credit Agreement, which is the central document in this group of documents, is one year and is due to expire on July 28, 2010. There was no need to issue CP during the past year, since the Harbor Department issued \$200 million of new money bonds in July 2009.

Based upon staff's assessment of potential funding and liquidity requirements throughout the next two fiscal years, staff is now recommending increasing the limit from \$100 million to \$200 million and extending the term of the Program from one year to two years. In doing so, this will keep CP as an important source of borrowing for the Harbor Department, given the instrument's flexibility, availability and cost effectiveness.

The Current Market Environment – Currently, the Harbor Department does not have any CP Notes outstanding. However, in the current market, CP Notes with maturity of up to 90 days are expected to be issued at rates that are under 0.50% per annum, making CP an especially cost-effective means of short-term financing. The rates are reset every time these notes are sold. The interest paid by the Harbor Department on the CP Notes

SUBJECT: RESOLUTION NO. ~~10-6946~~ 10-6958 CP PROGRAM LINE OF CREDIT INCREASE AND EXTENSION WITH JP MORGAN CHASE BANK

that it proposes to issue may be, for the investor that purchases them; (a) tax exempt, but subject to the Alternative Minimum Tax (AMT), (b) tax exempt and not subject to the AMT (Non-AMT), or (c) taxable depending on the purpose for which the borrowing was incurred.

To ensure the ability to obtain access to a broad base of investors and in order for the notes to be readily sold, the CP line of credit, which is usually referred to as a Credit Facility, requires liquidity support from a commercial bank in the form of a line of credit. The Harbor Department surveyed eleven banks in order to select the most cost effective Credit Facility from a bank with the strongest credit ratings. In the existing market, the ability and willingness to provide credit has improved in the past year, but continues to remain limited. Staff received seven preliminary indications of interest to provide a bank Credit Facility. Based upon this review, staff recommends the re-appointment of JP Morgan as the commercial bank to provide a line of credit to the Harbor Department to support the CP Program. See Transmittal 3 for Credit Agreement details. As noted, subject to the conditions described in the Credit Agreement, the bank will step in to pay a maturing CP Note if the Harbor Department is unable to do so.

By adopting the Resolution, the Harbor Commission will approve: (a) the extension and amendment to the Line of Credit Agreement with JP Morgan to support the Harbor Department's ability to sell the CP; (b) the amendment to the Issuing and Paying Agent Agreement with U.S. Bank to increase the total amount of CP Notes the Harbor Department may issue, (c) the Offering Memorandum which provides potential CP investors with information about the Harbor Department and the CP Program; and, (d) such other documents and actions as may be necessary or desirable from time to time to implement the Harbor Department's CP Program.

The Harbor Commission is asked to approve, ratify, and confirm all actions heretofore taken by the officers, employees, and agents of the Harbor Department in connection with or related to the establishment of the CP Program, the issuance and sale of CP, and to adopt the Document Resolution establishing the Harbor Department's CP Program.

ENVIRONMENTAL ASSESSMENT:

The proposed action is to amend and extend the 2009 Harbor Department CP Program. As an administrative action, the Director of Environmental Management has determined that the proposed action is exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II, Section 2(f) of the Los Angeles City CEQA guidelines.

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ECONOMIC BENEFITS:

This Board action will have no direct employment effect in the five-county region.

FINANCIAL IMPACT:

Costs and/or Revenue Impact – Approval of the proposed Resolution will have no financial impact upon the operating budget of Harbor Department. However, once the \$200 million Credit Facility is in place, the actual, annual non-operating cost to the Harbor Department will be approximately \$1.69 million, beginning in fiscal year 2010/11. Any CP Notes issued in the market will need to be supported by a credit facility through a bank in case the issuer could not pay the notes on their maturity. The calculation of the annual fee of \$1.69 million is based on the \$200 million of principal plus maximum interest at 12% for 270 days and extended by the new rate provided by the bank. This represents an increase of \$218,000 from the current Credit Facility of \$100 million. Additionally, if there is any borrowing under the Credit Facility, the interest on any note outstanding will be in addition to the above stated fee. Currently, CP rates are under 0.50% for 90-day paper. Other associated expenses for the CP Program including financial advisory fees, broker/dealer fees, and issuing and paying agent fees, amounting to about \$300,000, have been budgeted under the Non-Operating expense budget for FY 2010/11.

Alternatives Considered – Staff compared the costs of issuing CP Notes to other means of financing. In particular, staff considered maintaining the existing approved CP Program at \$100 million and the \$60 million revolving line of credit with Union Bank. (The Union Bank line of credit would be utilized if the Department had maximized its CP borrowings.) However, under current and foreseeable market conditions, issuing CP Notes provides flexibility. In addition, CP Notes would be more cost-effective than the revolving credit, as the level of borrowings increases. Additionally, CP has the added advantage that any tax-exempt notes issued in 2010 may be refunded in future years through long-term, tax-exempt bonds.

Benefits of Funding – Having a CP Program provides several significant benefits: (1) access to short-term financing at low CP note rates; (2) the ability to refund in the future any issue of tax-exempt CP notes in 2010 tax-exempt bonds; and, (3) the continued name recognition in the investor marketplace, given that the Harbor Department is not a frequent issuer of debt. Issuing CP will help in the marketability of the Harbor Department long-term securities.

Financial Impact if Not Approved – If the proposed Credit Facility is not approved, the financial flexibility of the Harbor Department will diminish. Such diminution will likely come in the form of higher borrowing costs, as other financial instruments are used.

DATE: MAY 25, 2010

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Source(s) of Funding or Savings – The annual cost, approximately \$1.69 million, for the Credit Facility is budgeted in General Ledger Account #89075, Cost Center 6000 for fiscal year 2010/11 and the interest expense that results from borrowing under the facility is budgeted in General Ledger Account #83110, Cost Center 6000. The same amount will be budgeted in fiscal year 2011/12.

CITY ATTORNEY:

The Office of the City Attorney has reviewed and approved as to form the proposed Resolution and Amendments.

TRANSMITTALS:


1. Resolution No. _____
2. Extension and Amendment to the Credit Agreement
3. Amendment No. 1 to the Issuing and Paying Agent Agreement
4. Offering Memorandum
5. June 2009 Board Report and Resolution No. 09-6753

FIS Approval: KCP (initials)


KARL K. Y. PAN
Chief Financial Officer


MOLLY CAMPBELL
Deputy Executive Director

APPROVED:


GERALDINE KNATZ, Ph.D.
Executive Director

Author: Debt & Treasury
DM10048 FY09/10

RESOLUTION NO. ~~10-6958~~

RESOLUTION OF THE HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES APPROVING AND AUTHORIZING THE EXECUTION OF AN AMENDMENT TO AN ISSUING AND PAYING AGENT AGREEMENT, AN AMENDMENT TO A CREDIT AGREEMENT, AN OFFERING MEMORANDUM AND CERTAIN OTHER DOCUMENTS AND ACTIONS RELATING TO THE DEPARTMENT'S COMMERCIAL PAPER FINANCING PROGRAM AND AUTHORIZING AND DIRECTING CERTAIN ACTIONS WITH RESPECT THERETO (DOCUMENT RESOLUTION)

WHEREAS, the Harbor Department (the "Department") is a Proprietary Department (as defined in the Charter of the City of Los Angeles (the "Charter")) of the City of Los Angeles, established and provided for by the Charter, having control of its own revenues and funds and under the management and control of a Board of Harbor Commissioners (the "Board"); and

WHEREAS, pursuant to Section 609 of the Charter ("Section 609") and the Charter implementation ordinance (the "Procedural Ordinance") relating to the procedures for issuance and sale of revenue bonds by the Department under Section 609, the Department has the power to borrow money and to issue bonds, refunding bonds, notes and other evidences of indebtedness for any lawful purpose relating to the Department payable from the revenues of the Department and from any other money lawfully available to the Department or under its control, in the form and manner approved by the Board; and

WHEREAS, pursuant to Section 609 of the Charter, the Department adopted on August 22, 2001, a resolution (the "Authorizing Resolution") which authorizes and establishes, subject to City Council approval, a financing program (the "Program") for the purpose of issuing, from time to time, short-term revenue notes (the "Notes") in an aggregate principal amount not in excess of \$375 million, to finance all or a portion of the Department's short-term borrowing needs; and

WHEREAS, pursuant to Section 609 of the Charter, the Board adopted on June 4, 2009, a resolution (the "2009 Resolution"), which authorized the Department to issue the Notes as commercial paper notes (the "CP Notes") having maturities of 270 days or less and in an aggregate principal amount not in excess of \$100 million; and

WHEREAS, there are currently no CP Notes outstanding; and

WHEREAS, pursuant to the 2009 Resolution, the Board authorized the Department to enter into the following agreements:

- i. an Issuing and Paying Agent Agreement (Commercial Paper Notes), dated as of July 1, 2009 (the "Original CP Issuing Agreement"), by and between the Department and U.S. Bank Trust National Association as Issuing and Paying Agent (the "Issuing and Paying Agent") which Original CP Issuing Agreement, among other matters, authorizes the issuance of CP Notes in an aggregate principal amount not in excess of \$100 million; and

ii. a Credit Agreement, dated as of July 1, 2009 (the "Original Credit Agreement"), by and between the Department and JPMorgan Chase Bank, National Association (the "Bank"), providing liquidity support for the CP Notes and setting out the terms and conditions of the Advances (as defined in the Original Credit Agreement) which would arise if the liquidity support were drawn upon; and

iii. Dealer Agreements, dated as of July 1, 2009 (the "Dealer Agreements"), by and between the Department and each of Morgan Stanley & Co. Incorporated and Loop Capital Markets LLC (each, a "Dealer") providing for the sale of the CP Notes and obligating the Department to provide certain continuing updated information; and

WHEREAS, the Department proposes to enter into amendments to the CP Issuing Agreement and the Credit Agreement to provide for the issuance of CP Notes up to \$200,000,000 and to provide for an extension of the scheduled expiration date of the Original Credit Agreement; and

WHEREAS, the following documents have been presented to this Board:

i. Amendment No. 1 to the CP Issuing Agreement ("CP Issuing Agreement Amendment" and, together with the Original CP Issuing Agreement, the "CP Issuing Agreement"), which, among other matters, authorizes the issuance of CP Notes in an aggregate principal amount not in excess of \$200 million; and

ii. A letter agreement amending the Credit Agreement (the "Credit Agreement Amendment" and, together with the Original Credit Agreement, the "Credit Agreement", and the Credit Agreement Amendment together with the CP Issuing Agreement Amendment, being referred to herein as the "Financing Documents") to extend the scheduled expiration date from July 29, 2010 to July 29, 2012, to provide for reduced commitment fees and to increase the commitment amount thereunder to support the issuance of CP Notes in an aggregate principal amount not in excess of \$200 million; and

iii. An Offering Memorandum (the "Offering Memorandum") by the Department describing the CP Notes, the Bank, the Department and the Department's financial and operating information; and

WHEREAS, all acts, conditions and things required by the laws of the State of California and by the Charter and Procedural Ordinance to exist, to have happened and to have been performed precedent to and in connection with the consummation of the financing and refunding authorized hereby do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the Department is now duly authorized and empowered, pursuant to each and every requirement of law, to consummate such financing and refunding for the purpose, in the manner and upon the terms herein provided;

NOW THEREFORE, in accordance with the provisions of Section 609 of the Charter, the Board hereby resolves as follows:

1. Findings. The Board hereby determines that the foregoing recitals are true. The Board hereby determines that the issuance of the CP Notes under the terms of the CP Issuing Agreement, the execution and delivery by the Department of the CP Issuing Agreement Amendment and the Credit Agreement Amendment and the taking of actions related thereto are in the best interests of the Department.

2. Approval of Financing Documents; Authorization for Execution. The Board hereby approves in all respects the forms, terms and provisions of the Financing Documents substantially in the forms now before the Board, and hereby authorizes and directs the Executive Director, Deputy Executive Director of Finance and Administration, the Chief Financial Officer, and the Director of Debt and Treasury of the Department or any one or more thereof (each an "Authorized Representative") to execute, acknowledge and deliver the Financing Documents, including counterparts thereof, for and in the name of and on behalf of the Department. The Financing Documents, as executed and delivered, shall be in substantially the forms now before the Board and hereby approved, or with such changes therein as shall be approved by Authorized Representative(s) executing the same and the execution thereof shall constitute conclusive evidence of the Board's approval of any and all changes or revisions therein from the forms of the Financing Documents now before the Board. From and after the execution and delivery of the Financing Documents, the officers, agents and employees of the Department are hereby authorized, empowered and directed to do all such acts and things and to execute all such documents as may be necessary to carry out and comply with the provisions of the Financing Documents.

3. Authorization to Amend and/or Supplement Dealer Agreements. The Board hereby severally authorizes each Authorized Representative to execute, acknowledge and deliver any amendments or supplements to one or both Dealer Agreements, including counterparts thereof, for and in the name of and on behalf of the Department, to the extent such amendments or supplements are necessary or advisable in the discretion of such Authorized Representative to carry out the purposes of this Resolution or to issue the CP Notes.

4. Issuance, Form and Execution of CP Notes. The CP Notes to be issued under the CP Issuing Agreement may be issued in an aggregate principal amount not to exceed \$200,000,000 outstanding at any one time. The Authorized Representatives, or any of them, acting in accordance with the CP Issuing Agreement, are each hereby authorized to determine the actual aggregate principal amount of CP Notes to be authorized and issued (not in excess of the maximum amount set forth above to be outstanding at any one time) and to direct the execution and authentication of the CP Notes in such amount in the manner set out in the CP Issuing Agreement. Such direction shall be conclusive as to the principal amounts hereby authorized. Portions of the CP Notes issued under the Program may be issued so that the interest thereon is excluded from gross income for federal income tax purposes or not excluded from such taxes in such combination as is acceptable to the Authorized Representative implementing the issuance of the same. Payment of principal of, interest on and premium, if any, on the CP Notes shall be made at the place or places and in the manner provided in the Financing Documents. The CP Notes shall be in fully registered form and may be issued in book-entry form as provided in the CP Issuing Agreement. The CP Notes and the Issuing and Paying Agent's certificate of authentication to appear thereon shall be in substantially the forms set forth in the exhibit to the CP Issuing Agreement, with such necessary or appropriate variations,

omissions and insertions as permitted or required by the CP Issuing Agreement or as appropriate to adequately reflect the terms of such CP Notes and the obligations represented thereby. Each of the CP Notes shall be executed on behalf of the Department by any Authorized Representative and any such execution may be by manual or facsimile signature, and each CP Note shall be authenticated by the endorsement of the Issuing and Paying Agent or an agent of the Issuing and Paying Agent. Any facsimile signature of such Authorized Representative(s) shall have the same force and effect as if such Authorized Representative(s) had manually signed each of such CP Notes.

5. CP Notes Payable from Harbor Revenue Fund. The CP Notes shall be special obligations of the Department secured by and payable from the Revenues, as defined in the CP Issuing Agreement to include certain moneys in the Harbor Revenue Fund on a parity with certain payments specified in the CP Issuing Agreement. The CP Notes shall also be secured by and be paid from the funds and accounts held by the Issuing and Paying Agent under the CP Issuing Agreement and from such other sources or the proceeds of other obligations as the Department may hereafter provide.

6. Pledge of Revenues. The Revenues (as defined in the CP Issuing Agreement) are hereby irrevocably pledged in accordance with the terms of the CP Issuing Agreement to secure the CP Notes, any and all Advances made by the Bank under the Credit Agreement and any other obligations of the Department under the Credit Agreement. Such pledge shall be on a parity with the Parity Obligations (as such term is defined in the CP Issuing Agreement) (except with respect to certain obligations of the Department under the Credit Agreement).

7. Approval of Obligations Under the Credit Agreement. The Board hereby specifically authorizes the Department to incur the obligations represented by the Advances as evidenced by the Bank Note (as defined in the Credit Agreement) on the terms and conditions set forth in the Credit Agreement for the purpose of providing liquidity support for the CP Notes, and further authorizes and directs the Department to comply with the other obligations of the Department set forth in said Credit Agreement. The Board acknowledges that the interest rate payable on the Bank Notes for the Advances may exceed the maximum interest rate payable on the CP Notes.

8. Approval of Offering Memorandum. In connection with the sale of the CP Notes from time to time, the Board hereby approves the form of the Offering Memorandum now before this Board and authorizes the circulation of the Offering Memorandum with such additions, deletions and changes as the Authorized Representatives, or any one of them, deem to be appropriate, after consultation with the City Attorney. The Board further hereby authorizes, from time to time, the preparation, execution and delivery of one or more additional or supplemental offering memoranda in accordance with the terms of the hereinabove approved Financing Documents, the execution of any such additional or supplemental offering memoranda by an Authorized Representative to be conclusive evidence of the Board's approval of such supplement, additions, deletions and changes; provided, however, that an Authorized Representative, after consultation with the City Attorney, may present such additional or supplemental offering memoranda to this Board for review and approval. The Offering Memorandum and any supplements and additions thereto shall be circulated for use in selling the CP Notes at such time or times as an Authorized Representative (after consultation with the

Department's financial advisors, the City Attorney, disclosure counsel, bond counsel and/or such other advisors as the Authorized Representative believes to be useful) shall determine.

9. Additional Authorization. The Authorized Representatives and all officers, agents and employees of the Department, for and on behalf of the Department, are hereby authorized and directed to any and all things necessary to effect the execution and delivery of the CP Notes, the Financing Documents and the Offering Memorandum (and additions and supplements thereto) and to carry out the terms thereof. The Authorized Representatives and all other officers, agents and employees of the Department are further authorized and directed, for and on behalf of the Department, to execute all papers, documents, certificates and other instruments that may be required in order to carry out the authority conferred by the Authorizing Resolution, the 2009 Resolution, this Resolution and by the CP Issuing Agreement, the Credit Agreement and the Dealer Agreements or to evidence said authority and its exercise. The foregoing authorization includes, but is in no way limited to, the direction (from time to time) by an Authorized Representative of the investment of the proceeds of the CP Notes and of the Revenues including the execution and delivery of investment agreements related thereto, the execution by an Authorized Representative and the delivery of the tax compliance certificate as required by the CP Issuance Agreement Amendment for the purpose of complying with the rebate requirements of the Internal Revenue Code of 1986, as amended; and the execution and delivery of documents required by The Depository Trust Company in connection with the book-entry Notes. Any Authorized Representative, on behalf of the Department, is further authorized and directed to cause written notice to be provided to the California Debt and Investment Advisory Commission of the proposed sale of the CP Notes, said notice to be provided in accordance with Section 8855 et seq. of the California Government Code, to file the notice of final sale with said Commission, to file the rebates and notices required under section 148(f) and 149(e) of the Internal Revenue Code of 1986, as amended and to file such additional notices and reports as are deemed necessary or desirable by such Authorized Representative in connection with the CP Notes.

10. Costs of Issuance. The Board hereby specifically authorizes funds of the Department together with a portion of the proceeds of the CP Notes to be used to pay costs of issuance of the CP Notes and the continuing costs of the Program, including but not limited to costs of attorneys, accountants, verification agents, financial advisors, the costs associated with rating agencies, printing, publication, mailing and other communication expenses and any related filing fees, and including the reasonable initial, periodic and continuing fees and expenses of the Dealers, the Bank and the Issuing and Paying Agent under the CP Issuing Agreement, the Credit Agreement and the Dealer Agreements.

11. Severability. The provisions of this Resolution are hereby declared to be severable, and, if any section, phrase or provision shall for any reason be declared to be invalid, such declaration shall not affect the validity of the remainder of the sections, phrases and provisions hereof.

12. Ratification of Prior Actions. The Board hereby ratifies the Department's execution and delivery of the Original CP Issuing Agreement, the Original Credit Agreement and the Dealer Agreements and all actions heretofore taken by the officers, employees and agents of the Department with respect to the 2009 Resolution. All actions heretofore taken by the officers,

employees, and agents of the Department before the date this Resolution becomes final as described in Section 13 hereof in connection with or related to the issuance and sale of the CP Notes are hereby approved, ratified and confirmed.

13. Effective Date. This Resolution shall take effect upon approval by the Mayor and City Council in the manner and at the time set forth in the Charter and the City Administrative Code, including Sections 11.28.1, 11.28.2, 11.28.4, 11.28.5 and 11.28.7 of the City Administrative Code.

Approved as to Form:

6/13, 2010

CARMEN A. TRUTANICH
City Attorney

By: 
Deputy/Assistant

CERTIFICATION

The undersigned, duly qualified and acting as Secretary of the Harbor Department, certifies that the foregoing is a true and correct copy of a Resolution adopted at a legally convened meeting of the Board of the Department held on June 3, 2010.

By: Rose M. Dwarshak
Secretary, Board of Commissioners
of Los Angeles

Dated: June 24, 2010

J.P.Morgan

_____, 2010

Port of Los Angeles
P.O. Box 151
San Pedro, CA 90733

Attention: Chief Financial Officer

Ladies and Gentlemen:

Reference is made to the Line of Credit Agreement, dated as of July 1, 2009 (the "Agreement"), among the Harbor Department of the City of Los Angeles, a department of the City of Los Angeles ("you"), a public entity duly established and existing under the laws of the State of California, U.S. Bank National Association, a national banking association organized and existing under the laws of the United States of America, as issuing and paying agent under the Issuing and Paying Agent Agreement as defined in the Agreement (the "Issuing and Paying Agent"), and JPMorgan Chase Bank, N.A., a national banking association (the "Bank" or "we"). Any capitalized term below that is defined in the Agreement shall have the same meaning when used herein.

You have requested, and we are willing, to increase the Commitment Amount to \$217,753,424.66. Accordingly, the defined term "Commitment Amount" set forth in the Agreement is hereby amended and restated to read as follows:

"Commitment Amount" means \$217,753,424.66 or, following the (a) election by the Department to reduce the Commitment Amount pursuant to Section 2.04(h) and upon payment of the applicable Termination Fee, the amount remaining after giving effect to such reduction and/or (b) occurrence of an Event of Termination, the amount to which the Commitment Amount is reduced by the Bank pursuant to Section 7.02(c)(ii).

All references in the Agreement to "\$100,000,000" shall be changed to "\$200,000,000".

You have requested, and we are willing, to extend the Stated Expiration Date from July 29, 2010 to July 29, 2012. In order to induce the Bank to extend the Stated Expiration Date, you and we agree that, from and after July 29, 2010, the Commitment Fee grid set forth in Section 2.4(a) of the Agreement shall be deleted and the following shall be substituted therefor:

RATING LEVEL	RATINGS			COMMITMENT FEE
	MOODY'S	FITCH	S&P	
I	Aa2 or better	AA or better	AA or better	0.775%
II	Aa3	AA-	AA-	0.925%
III	A1	A+	A+	1.075%

IV	A2	A	A	1.225%
V	A3	A-	A-	1.375%
VI	Baa1	BBB+	BBB+	1.525%
VII	Baa2	BBB	BBB	1.675%
VIII	Baa3	BBB-	BBB-	1.825%
IX	Below Baa3	Below BBB-	Below BBB-	1.975%

This letter agreement may not be amended or waived except by an instrument in writing signed by the Bank and you. Except as amended by this letter agreement, the Agreement remains in full force and effect.

This letter agreement may be executed in any number of counterparts, each of which shall be an original, and all of which, when taken together, shall constitute one agreement. Delivery of an executed signature page of this letter agreement by electronic transmission shall be effective as delivery of a manually executed counterpart hereof.

This letter agreement is delivered to you on the understanding that neither this letter agreement nor any of its terms shall be disclosed, directly or indirectly, to any other person except (1) to your officers, directors, employees, accountants, attorneys, agents and advisors who are directly involved in the consideration of this matter on a confidential and need-to-know basis and for whom you shall be responsible for any breach by any of them of this confidentiality undertaking or (b) under compulsion of law (whether by interrogatory, subpoena, civil investigative demand or otherwise) or by order of any court or governmental or regulatory body, provided that, to the extent permitted, you shall give us reasonable prior notice of such disclosure.

[Remainder of page intentionally left blank.]

Please confirm that the foregoing is our mutual understanding by signing and returning to the Bank an executed counterpart of this letter agreement. This letter agreement shall become effective as of the date first above referenced upon our receipt of an executed counterpart of this letter agreement from you.

Very truly yours,

JPMORGAN CHASE BANK, N.A.

By: _____
Name:
Title:

Accepted and agreed to
as of the date first
written above by:

HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES

By: _____
Name:
Title:

U.S. BANK NATIONAL ASSOCIATION,
as Issuing and Paying Agent

By: _____
Name:
Title:

FIRST SUPPLEMENTAL ISSUING AND PAYING AGENT AGREEMENT

dated as of

_____ 1, 2010

between

HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES

and

U.S. BANK NATIONAL ASSOCIATION,
as Issuing and Paying Agent

relating to

HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES
Commercial Paper Notes, Series A (Exempt Facility AMT)
Commercial Paper Notes, Series B (Exempt Facility Non-AMT)
Commercial Paper Notes, Series C (Governmental Non-AMT)
Commercial Paper Notes, Series D (Taxable)

FIRST SUPPLEMENTAL ISSUING AND PAYING AGENT AGREEMENT

THIS FIRST SUPPLEMENTAL ISSUING AND PAYING AGENT AGREEMENT (this "First Supplemental Agreement") is dated as of _____ 1, 2010 between the **HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES**, a department of the City of Los Angeles ("Department"), and **U.S. BANK NATIONAL ASSOCIATION**, a national banking association organized and existing under and by virtue of the laws of the United States of America ("Issuing and Paying Agent"), and amends and supplements that Issuing and Paying Agent Agreement, dated as of July 1, 2009, which is also by and between the Department and the Issuing and Paying Agent (the "Agreement").

RECITALS:

WHEREAS, the Department desires to amend and supplement the Agreement to permit the Department to issue Commercial Paper Notes up to a maximum principal amount of \$200 million; and

WHEREAS, J.P. Morgan Chase Bank, National Association (the "Bank"), as the provider of the Liquidity Facility, is hereby consenting to the execution and delivery of this First Supplemental Agreement; and

WHEREAS, there are no Commercial Paper Notes Outstanding as of the date hereof; and

NOW, THEREFORE, the Department and the Issuing and Paying Agent hereby agree as follows:

ARTICLE I

DEFINITIONS

Section 1.01 Definitions. Capitalized terms not otherwise defined in this First Supplemental Agreement shall have the same meanings as set forth in the Agreement.

ARTICLE II

AMENDMENT TO AGREEMENT

Section 2.01 Amendment to the Definition of Principal Component. The definition of "Principal Component" in Section 1.01 of the Agreement is hereby amended and restated in its entirety to read as follows:

““Principal Component” means, with respect to any Liquidity Facility, the dollar amount that may be drawn on such Liquidity Facility for payment of the unpaid principal amount of Commercial Paper notes on their stated maturity dates, which, under the Credit Agreement is \$200 million.”

Section 2.02 Amendment to Section 2.01 of the Agreement. Section 2.01 of the Agreement is hereby amended and restated in its entirety to read as follows:

“Section 2.01. Authorization. Notes are authorized to be issued in an aggregate principal amount such that the aggregate principal amount outstanding at any one time represented by (i) the Bank Notes, and (ii) the Commercial Paper Notes, does not exceed the lesser of (a) \$200 million and (b) the combined Principal Components under the then-effective Liquidity Facilities.”

Section 2.03 Amendment to Section 5.04. Section 5.04 of the Agreement is hereby amended and restated in its entirety to read as follows:

“Section 5.04. Liquidity Facility. For so long as any Commercial Paper Notes remain Outstanding, the Department will at all times maintain in effect the Credit Agreement or another liquidity facility or combination of liquidity facilities, provided that the combined Principal Components under the Liquidity Facilities in effect at any one time shall not exceed \$200 million, and, provided that the provisions of Section 5.05 shall have been met in connection with any liquidity facility substitution.”

ARTICLE III

MISCELLANEOUS

Section 3.01 Ratification of Agreement. The Agreement, as amended hereby, is in all aspects ratified and approved and remains in full force and effect.

Section 3.02 Execution in Several Counterparts. This First Supplemental Agreement may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as the Department and the Issuing and Paying Agent shall preserve undestroyed, shall together constitute but one and the same instrument.

Section 3.03 Governing Law; Venue. This First Supplemental Agreement is to be governed by, and construed in accordance with the laws of the State of New York with respect to the obligations of the Issuing and Paying Agent under this Agreement, and in accordance with the laws of the State of California with respect to the obligations of the Department under this Agreement.

[End of First Supplemental Agreement]

IN WITNESS WHEREOF, the parties hereto have caused this First Supplemental Agreement to be duly executed and delivered by their respective officers thereunto duly authorized as of the date first above written.

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

Attest:

Commission Secretary
Harbor Department of the City of Los Angeles

By: _____
Managing Director

Approved as to Form:

CARMEN A. TRUTANICH, City Attorney

By: _____
Assistant City Attorney

U.S. BANK NATIONAL ASSOCIATION

By: _____
Authorized Signatory

AGREED TO AND ACCEPTED BY:

**JPMORGAN CHASE BANK,
NATIONAL ASSOCIATION**

By: _____
Timothy A. Self
Executive Director

OFFERING MEMORANDUM

NOT A NEW ISSUE

See "RATINGS" herein

FULL BOOK-ENTRY ONLY

In the opinion of Nixon Peabody LLP, as Note Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Commercial Paper Notes, Series A (the "Series A Notes"), Commercial Paper Notes, Series B (the "Series B Notes") and Commercial Paper Notes, Series C (the "Series C Notes" and together with the Series A Notes and Series B Notes, the "Tax-Exempt Notes") when issued in accordance with a Tax and Nonarbitrage Certificate and the Issuing and Paying Agent Agreement, will be 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 federal tax status of interest on any Series A Note or Series B Note for any period that such Series A Note or Series B Note is held by a "substantial user" of the facilities financed or refinanced by the Series A Notes and Series B Notes, or by a "related person" to such a substantial user within the meaning of Section 147(a) of the Code. Note Counsel observes that interest on the Series A Notes will be treated as a specific preference item for purposes of the federal individual and corporate alternative minimum taxes. Note Counsel further observes that interest on the Series B Notes and the Series C Notes will not be a specific preference item for purposes of the federal individual and corporate alternative minimum taxes but interest on the Series B Notes and Series C Notes will be included in adjusted current earnings when calculating corporate alternative minimum taxable income. Other than as set forth below, Note Counsel will not render an opinion with regard to federal income tax consequences with respect to the Commercial Paper Notes, Series D (the "Taxable Notes" and together with the Tax-Exempt Notes, the "Notes"). Interest on the all of the Notes, including the Taxable Notes, will be exempt from State of California personal income taxes. See "TAX MATTERS" herein.

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

Not to Exceed
\$200,000,000

Commercial Paper Notes

Series A (Exempt Facility AMT)
Series B (Exempt Facility Non-AMT)
Series C (Governmental Non-AMT)
Series D (Taxable)

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of this issue. Investors are advised to read the entire Offering Memorandum to obtain information essential to the making of an informed investment decision. Capitalized terms used on this cover page not otherwise defined shall have the meanings set forth herein. See APPENDIX C – "SUMMARY OF CERTAIN LEGAL DOCUMENTS – Definitions." The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Offering Memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Department or the Department's operations since the date hereof.

The Board of Harbor Commissioners of the City of Los Angeles (the "Board") adopted Resolution No. 6021 on August 22, 2001, Resolution No. 09-6753 on June 4, 2009 and Resolution No. [] on [] (collectively, the "Resolutions"). Pursuant to the Resolutions and the Issuing and Paying Agent Agreement, dated as of July 1, 2009, as amended (the "Issuing and Paying Agent Agreement"), between the Harbor Department of the City of Los Angeles (the "Department") and U.S. Bank National Association, as Issuing and Paying Agent (the "Issuing and Paying Agent"), the Notes were authorized to be issued in an aggregate principal amount not to exceed the lesser of (a) \$200,000,000 and (b) the combined Principal Components of the then-effective Liquidity Facilities. As of the date hereof the Department has no Notes outstanding. As of the date hereof the Principal Component of the Liquidity Facility in effect under that certain Line of Credit Agreement, dated as of July 1, 2009, as amended (the "Credit Agreement"), between and among the Department, the Issuing and Paying Agent and JPMorgan Chase Bank, National Association (the "Bank"), is \$200,000,000. As of the date hereof no Notes are outstanding.

Under the Credit Agreement, subject to certain conditions, the Bank has agreed to make liquidity advances ("Liquidity Advances") to the Issuing and Paying Agent, for the purposes of paying the principal of and interest on maturing Notes (other than a Note owned by, for the account of or on behalf of, the City of Los Angeles (the "City"), the Department or any affiliate thereof) for which no Rollover Note has been issued. The amount of each Liquidity Advance shall equal the lesser of (i) the principal of, and interest on, maturing Notes for which Rollover

Notes have not been issued and (ii) the Commitment Amount less the sum of (a) the aggregate principal amount of all Liquidity Advances, if any, outstanding at such time and (b) the product of (1) the aggregate principal amount of all Liquidity Advances, if any, outstanding at such time, (2) 0.12 and 270/360. The Commitment Amount is \$217,753,424.66, comprised of a \$200,000,000.00 principal component and an interest component of \$17,753,242.66, unless otherwise reduced pursuant to the terms of the Credit Agreement. **In the case of certain events of default described in the Credit Agreement, the obligation of the Bank to make Liquidity Advances shall terminate and during the pendency of certain Suspension Events described in the Credit Agreement, the Bank's commitment to make Liquidity Advances shall be immediately suspended without notice or demand and thereafter the Bank shall be under no obligation to make further Liquidity Advances, even though the Credit Agreement was in effect on the date of issuance of the Notes.**

The Notes are issuable from time to time in fully-registered form, will be dated the date of their respective issuance and will mature not more than 270 days from the date of their respective issuance. Interest payments on each Note will be made on the maturity date of such Note in the amount of interest accrued from and including the date of issuance of such Note to, but excluding, the maturity date thereof. The Notes will not be subject to redemption prior to maturity. See "THE NOTES – Terms of the Notes."

Notes may be purchased in book-entry form only, in minimum denominations of \$100,000 and in integral multiples of \$1,000 in excess thereof. Payments of principal of and interest on the Notes are and will be paid by the Issuing and Paying Agent, to DTC, which is obligated in turn to remit such principal and interest to its DTC Participants for subsequent disbursement to the beneficial owners of the Notes. See APPENDIX D – "DTC BOOK-ENTRY SYSTEM."

The proceeds of the Notes will be used for lawful purposes relating to the Department, including: (i) the construction, maintenance, replacement and operation of improvements, utilities, structures, watercraft, facilities, equipment and services for Departmental purposes; (ii) the replacement of works of the Department that have been damaged or demolished by reason of fire, flood, earthquake, sabotage or acts of God or the public enemy; and (iii) any expenses or charges incurred in connection with the foregoing purposes and to reimburse the Department for expenditures for any such purposes. In addition, proceeds of Notes may be used to pay maturing Notes, to repay Liquidity Advances made under the Credit Agreement and to pay any fees and expenses related to the Notes.

The Notes do not constitute an obligation of the Department other than to pay from Revenues and do not constitute an obligation of the City or any other public agency. The Notes are revenue obligations and are payable as to both principal and interest from, and shall be secured by a pledge (which pledge shall be effected in the manner and to the extent provided in the Issuing and Paying Agent Agreement) of and lien on, the Revenues on a parity with the Parity Obligations. Neither the faith and credit nor the taxing power of the City is pledged to the payment of the Notes. The Revenues constitute a trust fund for the security and payment of the interest on and principal of the Notes and all obligations of the Department relating to the Notes under the Issuing and Paying Agent Agreement and under the Credit Agreement and all Parity Obligations in accordance with the terms of the Parity Revenue Bond Indentures. The Revenues are pledged to the payment of the Notes and all obligations of the Department relating to the Notes under the Issuing and Paying Agent Agreement and under the Credit Agreement without priority or distinction of one over the other. The Revenues are also pledged to the payment of the Parity Obligations in accordance with the terms of the Parity Revenue Bond Indentures. The pledge of Revenues under the Issuing and Paying Agent Agreement is irrevocable until all of the Notes have been paid and retired and any related obligations of the Department under the Credit Agreement have been satisfied in full. Notwithstanding the Department's covenant to 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 of the City in those instances and in such manner as may be required under the Charter, at levels sufficient to provide funds necessary to pay its outstanding obligations payable from the Harbor Revenue Fund (including the Notes), there can be no assurance that there will be sufficient amounts available in the Harbor Revenue Fund at any time for the payment of the maturing Notes. The Department has no taxing power. None of the property of the Department is subject to any mortgage or other lien for the benefit of owners of the Notes. See "SECURITY AND SOURCES OF PAYMENT FOR THE NOTES."

UNDER CERTAIN CIRCUMSTANCES, THE OBLIGATION OF THE BANK TO MAKE LIQUIDITY ADVANCES MAY BE TERMINATED OR SUSPENDED AUTOMATICALLY AND WITH NO NOTICE TO THE OWNERS OF THE NOTES EVEN THOUGH THE CREDIT AGREEMENT WAS IN EFFECT ON THE

DATE OF THE ISSUANCE OF THE NOTES. IN SUCH EVENT, SUFFICIENT FUNDS MAY NOT BE AVAILABLE TO PAY THE NOTES. SEE "THE CREDIT AGREEMENT" AND "THE BANK."

The legal opinions delivered on the date hereof by Nixon Peabody LLP, Note Counsel, with respect to the issuance of the Notes, are set forth in APPENDIX B hereto. See also "TAX MATTERS." Certain legal matters in connection with the Notes will be passed upon for the Department by the City Attorney, for the Department by QUATEMAN LLP, Los Angeles, California, Disclosure Counsel to the Department and for the Bank by White & Case LLP, Los Angeles, California. Frasca & Associates, L.L.C., New York, New York, served as Financial Advisor to the Department in connection with the execution and delivery of the Notes.

Exclusive Dealers

Loop Capital Markets LLC

Morgan Stanley

[_____] , 2010

No dealer, broker, salesperson or other person has been authorized by the Department to give any information or to make any representations, with respect to the Department or its obligations, other than those contained in this Offering Memorandum and if given or made such other information or representations must not be relied upon as having been authorized by the Department.

The information set forth herein has been furnished by the Department and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Offering Memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Department or its operations since the date hereof.

Summaries of documents do not purport to be complete statements of their provisions and are qualified by references to the entire contents of the summarized documents. A wide variety of other information, including financial information concerning the Department, is available from publications and websites of the City, the County of Los Angeles and others. Any such information that is inconsistent with the information set forth in this Offering Memorandum should be disregarded. No such information is a part of or incorporated into this Offering Memorandum except as expressly noted.

This Offering Memorandum does not constitute an offer to sell or the solicitation of an offer to buy the Notes nor shall there be any sale of any of the Notes by any person in any jurisdiction in which, or to any person to whom, it is unlawful to make such offer, solicitation or sale.

This Offering Memorandum contains forward-looking statements within the meaning of the federal securities laws. Such statements are based on currently available information, expectations, estimates, assumptions and projections and management's judgment about the port industry and general economic conditions. Such words as "expects," "intends," "plans," "except," "believes," "estimates," "budget," "continue," "anticipates" or variations of such words or similar expressions are intended to identify forward-looking statements. The forward-looking statements are not guarantees of future performance. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. No assurance is given that actual results will meet the Department's forecasts in any way, regardless of the level of optimism communicated in the information. Factors which may cause a result different than expected or anticipated include new legislation, unfavorable court decisions, increases in prices, changes in environmental compliance requirements, acquisitions, natural disasters such as earthquakes or floods or other impacts of weather. The Department does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur. Estimates and opinions are included and should not be intended as statements of fact and are not to be construed as representations that they will be realized.

This Offering Memorandum is not to be construed as a contract between the Department and the purchasers of the Notes. The offering of the Notes by the Department is not a representation to potential investors that an investment in the Notes is an appropriate investment for such investor or that the Department is recommending the purchase of the Notes to any potential investor. Each potential investor must determine on its own whether an investment in Notes is appropriate for the investor and best satisfies the investment goals and financial position of the investor.

THE NOTES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE NOTES HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

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

425 South Palos Verdes Street
San Pedro, California 90731

BOARD OF HARBOR COMMISSIONERS

Cindy Miscikowski, President
Jerilyn López Mendoza, Vice President
Kaylynn L. Kim
Douglas P. Krause
Joseph R. Radisich

OFFICERS AND EXECUTIVES

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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

SPECIAL SERVICES

City Attorney

Office of the City Attorney of the City of Los Angeles
Carmen Trutanich, *City Attorney*
Thomas A. Russell, *General Counsel*

Note Counsel

Nixon Peabody LLP

Disclosure Counsel

QUATEMAN LLP

Financial Advisor

Frasca & Associates, L.L.C.

Issuing and Paying Agent

U.S. Bank National Association

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CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES
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 SUMMARY OF CERTAIN LEGAL DOCUMENTS
 DTC BOOK-ENTRY SYSTEM
 AUDITED FINANCIAL STATEMENTS OF THE HARBOR
 DEPARTMENT FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND
 2008

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

Not to Exceed
\$200,000,000

Commercial Paper Notes
Series A (Exempt Facility AMT)
Series B (Exempt Facility Non-AMT)
Series C (Governmental Non-AMT)
Series D (Taxable)

This Offering Memorandum, which includes the cover page, the inside cover page, Parts I and II and appendices hereto, is being furnished by the Harbor Department of the City of Los Angeles (the "Department") to provide information in connection with the offering of not to exceed \$200,000,000 of Commercial Paper Notes, Series A (Exempt Facility AMT) (the "Series A Note"), Series B (Exempt Facility Non-AMT) (the "Series B Note"), Series C (Governmental Non-AMT) (the "Series C Note") and Series D (Taxable) (the "Series D Note" and together with the Series A Note, the Series B Note and the Series C Note, the "Notes") of the Department. Generally, Part I of this Offering Memorandum contains an introduction to the offering of and certain terms and conditions relating to the Notes and Part II of this Offering Memorandum contains certain financial and operating information concerning the Department. See also APPENDIX E – "AUDITED FINANCIAL STATEMENTS OF THE HARBOR DEPARTMENT FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND 2008" and APPENDIX C – "SUMMARY OF CERTAIN LEGAL DOCUMENTS."

PART I

INTRODUCTION

This Introduction is qualified in its entirety by reference to the more detailed information included and referred to elsewhere in this Offering Memorandum. The offering of the Notes to potential investors is made only by means of the entire Offering Memorandum. Capitalized terms used in this Offering Memorandum and not otherwise defined shall have the respective meanings assigned to them in APPENDIX C – "SUMMARY OF CERTAIN LEGAL DOCUMENTS – Definitions."

The purpose of this Offering Memorandum is to provide summary information concerning the issuance from time to time by the Department of the Notes.

The Notes are issuable from time to time in fully-registered form, will be dated the date of their respective issuance and will mature not more than 270 days from the date of their respective issuance. Pursuant to the Resolutions (as defined below) and the Issuing and Paying Agent Agreement, dated as of July 1, 2009 (the "Original Issuing and Paying Agent Agreement"), between the Department and U.S. Bank National Association, as Issuing and Paying Agent (the "Issuing and Paying Agent"), as amended by that certain First Supplemental Issuing and Paying Agent Agreement, dated as of [____], 2010 (the "First Supplemental Issuing and Paying Agent Agreement," and together with the Original Issuing and Paying Agent Agreement, the "Issuing and Paying Agent Agreement") by and between the Department and the Issuing and Paying Agent, the Notes will be authorized to be issued in an aggregate principal amount not to exceed the lesser of (a) \$200,000,000 and (b) the combined Principal Components of the then-effective Liquidity Facilities. As of the date hereof the Department has no Notes outstanding. As described herein, as of the date hereof, the Principal Component of the Liquidity Facility in effect under that certain Line of Credit Agreement, dated as of July 1, 2009 (the "Original Credit Agreement"), by and among the Department, the Issuing and Paying Agent and JPMorgan Chase Bank, National Association (the "Bank"), as amended by a letter agreement dated [____], 2010 (the "Credit Agreement Amendment," and together with the Original Credit Agreement, the "Credit Agreement") by and among the Department, the Issuing and Paying Agent and the Bank, is \$200,000,000.

Interest payments on each Note will be made on the maturity date of such Note in the amount of interest accrued from and including the date of issuance of such Note to but excluding the maturity date thereof. The Notes will not be subject to redemption prior to maturity.

The Department and the Port

The Department is a proprietary, independent department of the City of Los Angeles (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: (i) shipping revenue, which is a function of cargo throughput, (ii) revenue from permit agreements (i.e., agreements generally similar to leases) and (iii) fees and royalty revenue. During the fiscal year ended June 30, 2009, the Port handled approximately 7,262,000 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. 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."

Authority for Issuance

The Notes are authorized under Section 609 of the Los Angeles City Charter (the "Charter"), the Charter implementation ordinance related to the procedures for issuance and sale of revenue bonds and other obligations by the Department adding Sections 11.28.1 through 11.28.9 of Division 11, Chapter 1, Article 6.5 to the Los Angeles Administrative Code (the "Procedural Ordinance") and Resolution No. 6021 of the Board of Harbor Commissioners of the City of Los Angeles (the "Board") adopted on August 22, 2001, Resolution No. 09-6753 of the Board adopted on June 4, 2009 and Resolution No. [] of the Board adopted on [], 2010 (collectively, the "Resolutions"). See APPENDIX C – "SUMMARY OF CERTAIN LEGAL DOCUMENTS."

Purpose of the Notes

The proceeds of the Notes will be used for lawful purposes relating to the Department, including: (i) the construction, maintenance, replacement and operation of improvements, utilities, structures, watercraft, facilities, equipment and services for Departmental purposes; (ii) the replacement of works of the Department that have been damaged or demolished by reason of fire, flood, earthquake, sabotage or acts of God or the public enemy; and (iii) any expenses or charges incurred in connection with the foregoing purposes and to reimburse the Department for expenditures for any such purposes.

Security and Source of Payment

The Notes are revenue obligations and are payable as to both principal and interest from, and are secured by a pledge of and lien on, the Revenues on a parity with Parity Obligations. See "SECURITY AND SOURCES OF PAYMENT FOR THE NOTES – Parity and Subordinate Obligations." To provide liquidity support for the Notes, the Department entered into the Credit Agreement.

The Notes do not constitute an obligation of the Department other than to pay from Revenues and do not constitute an obligation of the City or any other public agency. The Notes are revenue obligations and are payable as to both principal and interest from, and shall be secured by a pledge (which pledge shall be effected in the manner and to the extent provided in the Issuing and Paying Agent Agreement) of and lien on, the Revenues on a parity with the Parity Obligations. Neither the faith and credit nor the taxing power of the City is pledged to the payment of the Notes. The Revenues constitute a trust fund for the security and payment of the interest on and principal

of the Notes and all obligations of the Department relating to the Notes under the Issuing and Paying Agent Agreement and under the Credit Agreement and all Parity Obligations in accordance with the terms of the Parity Revenue Bond Indentures (as defined herein). The Revenues are pledged to the payment of the Notes and all obligations of the Department relating to the Notes under the Issuing and Paying Agent Agreement and under the Credit Agreement without priority or distinction of one over the other. The Revenues are also pledge to the payment of the Parity Obligations in accordance with the terms of the Parity Revenue Bond Indentures. The pledge of Revenues under the Issuing and Paying Agent Agreement is irrevocable until all of the Notes have been paid and retired and any related obligations of the Department under the Credit Agreement have been satisfied in full. Notwithstanding the Department's covenant to 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 of the City in those instances and in such manner as may be required under the Charter, at levels sufficient to provide funds necessary to pay its outstanding obligations payable from the Harbor Revenue Fund (including the Notes), there can be no assurance that there will be sufficient amounts available in the Harbor Revenue Fund at any time for the payment of the maturing Notes. The Department has no taxing power. None of the property of the Department is subject to any mortgage or other lien for the benefit of owners of the Notes. See "SECURITY AND SOURCES OF PAYMENT FOR THE NOTES."

The Credit Agreement

Pursuant to the terms of the Credit Agreement, the Bank has agreed to make advances from time to time ("Liquidity Advances") to the Issuing and Paying Agent for the purpose of paying the principal of and interest on maturing Notes (other than Notes owned by, for the account of or on behalf of the City, the Department or any affiliate thereof) for which refinancing Notes ("Rollover Notes") shall not have been issued. Under the Credit Agreement, subject to certain conditions, the Bank has agreed to make Liquidity Advances of up to a total principal amount of \$200,000,000. In the case of certain events of default described in the Credit Agreement, the obligation of the Bank to make Liquidity Advances shall terminate and during the pendency of certain Suspension Events described in the Credit Agreement, the Bank's commitment to make Liquidity Advances shall be immediately suspended without notice or demand and thereafter the Bank shall be under no obligation to make further Liquidity Advances. See "THE CREDIT AGREEMENT."

UNDER CERTAIN CIRCUMSTANCES, THE OBLIGATION OF THE BANK TO MAKE LIQUIDITY ADVANCES MAY BE TERMINATED OR SUSPENDED AUTOMATICALLY AND WITH NO NOTICE TO THE OWNERS OF THE NOTES EVEN THOUGH THE CREDIT AGREEMENT WAS IN EFFECT ON THE DATE OF THE ISSUANCE OF THE NOTES. IN SUCH EVENT, SUFFICIENT FUNDS MAY NOT BE AVAILABLE TO PAY THE NOTES. SEE "THE CREDIT AGREEMENT" AND "THE BANK."

Book-Entry Only System

When issued, the Notes will be issued in book-entry form only and registered in the name of a nominee of The Depository Trust Company ("DTC"), which acts as Securities Depository for the Notes. See "THE NOTES – The Book-Entry System" and APPENDIX D – "DTC BOOK-ENTRY SYSTEM."

Rate Covenant

The Department has covenanted under the Issuing and Paying Agent Agreement and the Credit Agreement that it shall 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 one hundred twenty-five percent (125%) of Debt Service (as described below) and other amounts required to be paid by the Department under the Issuing and Paying Agent Agreement for such Fiscal Year, and during such period the City Council shall, 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. See "SECURITY AND SOURCE OF PAYMENT FOR THE NOTES – Rate Covenant."

Parity Obligations

The Department has authorized and issued certain Parity Obligations that are payable from Revenues of the Department on a parity with the payment of the Notes. The Department may issue additional Parity Obligations in the future subject to the provisions of the Issuing and Paying Agent Agreement. No obligations senior to the Notes or Parity Obligations are currently authorized or outstanding. The Issuing and Paying Agent Agreement does not prohibit the Department from issuing subordinate obligations payable out of the Harbor Revenue Fund. The Department had \$933,740,000 of Parity Obligations outstanding as of December 31, 2009. Subject to the satisfaction of the conditions set forth in the Issuing and Paying Agent Agreement, the Department may issue additional bonds, notes or other evidence of indebtedness payable out of the Harbor Revenue Fund and ranking on a parity with the Notes. See "SECURITY AND SOURCES OF PAYMENT FOR THE NOTES – Parity and Subordinate Obligations." The Department's obligation to repay Liquidity Advances under the Credit Agreement is a revenue obligation, payable as to both principal and interest from, and is secured by a pledge of and lien on, Revenues on a parity with Parity Obligations.

Exclusive Co-Dealers

The Department has appointed Loop Capital Markets LLC and Morgan Stanley & Co. Incorporated, as exclusive co-dealers for the Notes. See "THE INITIAL DEALERS."

No Continuing Disclosure

The offering and sale of the Notes is exempt from the rules of the Securities and Exchange Commission ("SEC") relating to the continuing disclosure of annual financial and operating information and certain material events. Pursuant to continuing disclosure undertakings of the Department in connection with certain of its outstanding revenue bonds, the Department is obligated to provide certain financial information, operating data relating to the Department and the Port, including audited financial statements and notice of certain enumerated events, if material, as provided by Rule 15c2-12 adopted by the SEC promulgated under the Securities and Exchange Act of 1934, as amended (the "Rule"), by not later than 181 days following the end of each Fiscal Year (presently June 30) of the Department. Since July 1, 2009 such filings have been made with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) system, available at <http://www.emma.msrb.org>. Nothing contained on that website is incorporated in this Offering Memorandum. See "NO CONTINUING DISCLOSURE."

Other Matters

The Department provides copies of its annual reports, which include the Department's audited financial statements as well as other pertinent financial information, to each rating agency rating the Notes on a periodic basis. Copies of the Department's annual reports, any other publicly available pertinent financial information prepared by the Department for public distribution, the Resolutions and the Issuing and Paying Agent Agreement may be obtained by requesting the same from the representative of the Department identified under the caption "Additional Information" and upon the payment of costs therefor.

The summaries of and references to all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive and each such summary and reference is qualified in its entirety by reference to each such document, statute, report or instrument.

Additional Information

Requests for copies of annual reports, any other publicly available pertinent financial information prepared by the Department for public distribution, the Resolutions, the Issuing and Paying Agent Agreement and questions about this Offering Memorandum should be addressed to:

Harbor Department of the City of Los Angeles
425 South Palos Verdes Street
San Pedro, California 90731
Attention: Soheila Sajadian, Director, Debt & Treasury Section, (310) 732-3756

THE NOTES

Terms of the Notes

One master Note, Series A (Exempt Facility AMT), one master Note, Series B (Exempt Facility Non-AMT), one master Note, Series C (Governmental Non-AMT) and one Master Note, Series D (Taxable) will initially be registered in the name of Cede & Co., as nominee of DTC. DTC is the securities depository for the Notes. Notes may be purchased in book-entry form only, in minimum denominations of \$100,000 and in integral multiples of \$1,000 in excess thereof. Payments of principal of and interest on the Notes will be paid by the Issuing and Paying Agent, to DTC, which is obligated in turn to remit such principal and interest to its DTC Participants for subsequent disbursement to the beneficial owners of the Notes. See APPENDIX D – “DTC BOOK-ENTRY SYSTEM.”

The Notes shall bear interest at such rates or in such amounts (calculated on the basis of a year consisting of 365/366 days, as applicable, and actual number of days elapsed) and are payable at maturity on such dates as may be fixed by an Authorized Representative at the time of issuance thereof, but no Notes shall mature or become payable on other than a Business Day or more than 270 days from the date of issuance thereof (or in any event, later than one Business Day immediately preceding the stated termination date of the Liquidity Facility (the “Termination Date”) providing liquidity for such Notes), or bear interest at rates in excess of 12%. The Notes may be sold at par or at such discounts as an Authorized Representative establishes at the time of sale.

The Notes are not subject to redemption prior to maturity.

The purchase price payable by a Dealer for the Notes is required to be made, and the amount payable by the Department at maturity will be paid, in immediately available funds.

The Book-Entry System

The Notes will be issued, from time to time, by means of the book-entry system of DTC with no physical distribution of Note certificates made to the public. The book-entry system will evidence ownership of the Notes with transfers of ownership effected on the records of DTC and its participants. The Notes will be registered in the name of Cede & Co., as nominee of DTC. So long as DTC or its nominee is the registered Owner of all Notes, all payments on the Notes will be made directly to DTC or its nominee and disbursements of such payments to the DTC Participants will be the responsibility of DTC and disbursements of such payments to the Beneficial Owners of the Notes will be the responsibility of the DTC Participants. NEITHER THE DEPARTMENT NOR THE ISSUING AND PAYING AGENT WILL BE RESPONSIBLE OR LIABLE FOR SUCH TRANSFERS OF PAYMENTS OR FOR MAINTAINING, SUPERVISING OR REVIEWING THE RECORDS MAINTAINED BY DTC, THE DTC PARTICIPANTS OR PERSONS ACTING THROUGH SUCH PARTICIPANTS. See APPENDIX D – “DTC BOOK-ENTRY SYSTEM.”

Discontinuation of Book-Entry System

DTC may discontinue providing its services with respect to the Notes at any time by giving notice to the Issuing and Paying Agent and the Department and discharging its responsibilities with respect thereto under applicable law. The Department may terminate its participation in the book-entry system of DTC or any other Securities Depository at any time. In the event that such book-entry system is discontinued with respect to the Notes, the Department will execute and deliver replacement Notes in the form of registered certificates. In addition, the following provisions would apply: the principal of and interest on the Notes will be payable upon surrender thereof at the principal office of the Issuing and Paying Agent in Los Angeles, California and the Notes will then be transferable and exchangeable on the terms and conditions provided in the Issuing and Paying Agent Agreement.

SECURITY AND SOURCES OF PAYMENT FOR THE NOTES

Notes Payable from Specified Sources

The Notes are revenue obligations and are payable as to both principal and interest from, and are secured by a pledge of and lien on the Revenues on a parity with Parity Obligations. See “—Parity and Subordinate Obligations.” “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 (as defined below); 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, shall 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 Issuing and Paying Agent Agreement (except interest and gain derived from the Rebate Fund established and maintained under the Issuing and Paying Agent Agreement).

The Notes do not constitute an obligation of the Department other than to pay from Revenues and do not constitute an obligation of the City or any other public agency. The Notes are revenue obligations and are payable as to both principal and interest from, and shall be secured by a pledge (which pledge shall be effected in the manner and to the extent provided in the Issuing and Paying Agent Agreement) of and lien on, the Revenues on a parity with the Parity Obligations. Neither the faith and credit nor the taxing power of the City is pledged to the payment of the Notes. The Revenues constitute a trust fund for the security and payment of the interest on and principal of the Notes and all obligations of the Department relating to the Notes under the Issuing and Paying Agent Agreement and under the Credit Agreement and all Parity Obligations in accordance with the terms of the Parity Revenue Bond Indentures. The Revenues are pledged to the payment of the Notes and all obligations of the Department relating to the Notes under the Issuing and Paying Agent Agreement and under the Credit Agreement without priority or distinction of one over the other. The Revenues are also pledged to the payment of the Parity Obligations in accordance with the terms of the Parity Revenue Bond Indentures. The pledge of Revenues under the Issuing and Paying Agent Agreement is irrevocable until all of the Notes have been paid and retired and any related obligations of the Department under the Credit Agreement have been satisfied in full. Notwithstanding the Department’s covenant to 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 of the City only in those instances and in such manner as may be required under the Charter, at levels sufficient to provide funds necessary to pay its outstanding obligations payable from the Harbor Revenue Fund (including the Notes), there can be no assurance that there will be sufficient amounts available in the Harbor Revenue Fund at any

time for the payment of the maturing Notes. The Department has no taxing power. None of the property of the Department is subject to any mortgage or other lien for the benefit of owners of the Notes.

Harbor Revenue Fund – Flow of Funds

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

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

(1) 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”);

(2) 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;

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

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

(5) 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.

Under the Issuing and Paying Agent Agreement and the Parity Revenue Bond Indentures, the Department is obligated to pay from Revenues all Operation and Maintenance costs of the Department (including amounts reasonably required to be set aside in the contingency reserves for Operation and Maintenance costs, the payment of which is not then immediately required) as they become due and payable. “Parity Revenue Bond Indentures” means (i) the Indenture of Trust dated as of July 1, 2001, by and between the Department and The Bank of New York Trust Company, N.A. (“BNY”), as trustee as successor to BNY Western Trust (the “2001 Indenture”), (ii) the Indenture of Trust dated as of October 1, 2005, by and between the Department and BNY, as trustee (the “2005/2006 Indenture”), (iii) the Indenture of Trust dated as of August 1, 2006, by and between the Department and U.S. Bank National Association, as trustee (the “2006 Indenture”) and (iv) the Indenture of Trust dated as of July 1, 2009 by and between the Department and U.S. Bank National Association, as trustee (the “2009 Indenture”). See “—Parity and Subordinate Obligations.” “Operation and Maintenance costs” means the necessary expenses of conducting the Department, including the operation, promotion and maintenance of all harbor or port improvements, works, utilities, appliances, facilities, services, maritime related recreation facilities and watercraft, owned, controlled or operated by the City for the promotion or accommodation of maritime commerce, navigation or fishery, or used in connection therewith, but shall not include any Shortfall Advances (as defined below). See “—Parity and Subordinate Obligations” and “—Covenant as to Additional Debt” herein and “FINANCIAL INFORMATION CONCERNING THE DEPARTMENT – Introduction and Recent Developments – Alameda Corridor.”

Under the Issuing and Paying Agent Agreement, the Department shall allocate the Revenues to the payment of Operation and Maintenance costs and to the payment of the Parity Obligations, including the Notes, in the order and priorities set forth in each of the Parity Revenue Bond Indentures.

Pursuant to the Parity Revenue Bond Indentures the Department shall, 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, pursuant to the Parity Revenue Bond Indentures the Department shall transfer from the Harbor Revenue Fund to the applicable trustee for the bonds issued under the applicable Parity Revenue Bond Indenture (the "Parity Bonds") for deposit into the following respective funds (established under the applicable Parity Revenue Bond Indenture), 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 (as defined in each Parity Revenue Bond Indenture) preceding each date on which the interest on the Parity Bonds shall become due and payable, that sum, if any, required to cause the aggregate amount on deposit in the applicable interest fund (established under the applicable Parity Revenue Bond Indenture) to be at least equal to the amount of interest becoming due and payable on such date on all Parity Bonds then outstanding. The Department shall also deposit in any interest account created with respect to Parity Obligations (as defined in the applicable Parity Revenue Bond Indenture), 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 applicable indenture, resolution or contract (the "Issuing Document").

(b) Not later than the third Business Day preceding each date on which the principal on the Parity Bonds shall become due and payable, that sum, if any, required to cause the aggregate amount on deposit in the applicable principal fund (established under the applicable Parity Revenue Bond Indenture) to equal the principal amount of the Parity Bonds coming due and payable on such date or subject to mandatory sinking fund redemption on such date. The Department shall 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 shall, 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 applicable trustee for Parity Bonds for deposit in: (i) the reserve funds for Parity Obligations which the Department has elected to make a part of any common reserve established under the applicable Parity Revenue Bond Indenture ("Parity Obligation Common Reserve"), an amount necessary to cause the balance on deposit in such Parity Obligation Common Reserve, including the amounts available under any common reserve security devices entered into pursuant to the terms of the applicable Parity Revenue Bond Indenture ("Parity Obligation Security Devices") to be equal to the common reserve requirement established under the applicable Parity Revenue Bond Indenture ("Parity Obligation Common Reserve Requirement"), or to reimburse the providers of the Parity Obligation Common Reserve Security Devices for any draws thereon in accordance with the written direction of the providers of the Parity Obligation 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 Parity Obligation Common Reserve Security Devices as described above, the amount available under the Parity Obligation Common Reserve Security Devices shall be deemed to be reinstated by the amount of the draws so reimbursed when determining the balance in the Parity Obligation Common Reserve for this purpose and (ii) in each separate reserve fund established under the applicable Parity Revenue Bond Indenture for any Parity

Obligations ("Parity Obligation Separate Reserve Fund"), an amount necessary to cause the balance on deposit therein, including the amounts available under any security devices credited to such Parity Obligation Separate Reserve Fund ("Parity Obligation Separate Reserve Security Devices"), to be equal to the Parity Obligation Separate Reserve Fund requirement for such Parity Obligations ("Parity Obligation Separate Reserve Fund Requirement") or to reimburse the providers of Parity Obligation Separate Reserve 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 Documents; provided that to the extent the Department has transferred or is currently transferring amounts necessary to reimburse the providers of Parity Obligation Separate Reserve Security Devices as described above, the amount available under such Parity Obligation Separate Reserve Security Devices shall be deemed to be reinstated by the amount of the draws so reimbursed when determining the balance in such Parity Obligation 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 Parity Obligation Common Reserve need be made if the balance in the Parity Obligation Common Reserve, including the amount available under any Parity Obligations Common Reserve Security Devices, is at least equal to the Parity Obligation Common Reserve Requirement. No transfer of moneys for deposit to any Parity Obligation Separate Reserve Fund need be made if the balance in such Parity Obligation Separate Reserve Fund, including the amount available under any Parity Obligation Separate Reserve Security Devices credited to such Parity Obligation Separate Reserve Fund, is at least equal to the Parity Obligation Separate Reserve Fund Requirement established under the Parity Revenue Bond Indenture for such Parity Obligations.

Thereafter, the Department may apply Revenues for any lawful purpose. See APPENDIX C – "SUMMARY OF CERTAIN LEGAL DOCUMENTS."

Rate Covenant

The Department has covenanted under the Issuing and Paying Agent Agreement and the Credit Agreement that it shall 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 one hundred twenty-five percent (125%) of Debt Service and other amounts required to be paid by the Department under the Issuing and Paying Agent Agreement for such Fiscal Year, and during such period the City Council shall, 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.

"Debt Service" means, for any period of calculation, the sum of principal of and interest on the Notes, 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 Notes during such period.

Covenant as to Additional Debt

Pursuant to the Issuing and Paying Agent Agreement, no additional Parity Obligations will be created or incurred:

(i) unless the Net Revenues (calculated under the Issuing and Paying Agent Agreement as Revenues less Operation and Maintenance costs) for any consecutive twelve calendar month period during the eighteen 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, will have produced a sum equal to at least one hundred twenty-five percent (125%) of the Debt Service due and payable during such twelve calendar month period; and

(ii) the Net Revenues for any consecutive twelve calendar month period during the eighteen 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 twelve 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, shall have produced a sum equal to at least one hundred twenty-five percent (125%) of average Annual Debt Service (as defined in the Issuing and Paying Agent Agreement), including such Parity Obligations being created or incurred, but excluding Parity Obligations to be redeemed or defeased simultaneously with the issuance and with the proceeds of the Parity Obligations being created or incurred;

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 shall 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 twenty-five percent (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 shall 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 twenty-five (25) years from the date of calculation; 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 shall be deducted from the amount of principal due at the final maturity of the Parity Obligations for which such 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 shall be the resulting linked rate or the effective fixed interest rate to be paid by the Department with respect to such Paired Obligations.

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

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, shall 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 shall be lower than the Debt Service on the bonds, notes or other evidences of indebtedness being refunded.

Parity and Subordinate Obligations

The Department has authorized and issued certain Parity Obligations that are payable from Revenues of the Department on a parity with the payment of the Notes. "Parity Obligations" means all bonds and obligations currently outstanding or subsequently issued or incurred by the Department, the security for which includes a pledge or assignment of or a lien on the Revenues on a parity with that of the Notes. The Department may issue additional Parity Obligations in the future subject to the provisions of the Issuing and Paying Agent Agreement. No senior obligations are currently outstanding. The Issuing and Paying Agent Agreement does not prohibit the Department from issuing subordinate obligations payable out of the Harbor Revenue Fund. Subject to the satisfaction of the conditions set forth in the Issuing and Paying Agent Agreement, the Department may issue additional bonds, notes or other evidence of indebtedness payable out of the Harbor Revenue Fund and ranking on a parity with the Notes. The Department's obligation to repay Liquidity Advances under the Credit Agreement is a revenue obligation, is payable as to both principal and interest from and is secured by a pledge of and lien on revenues on a parity with Parity Obligations. The Department had \$909,130,000 of Parity Obligations outstanding as of June 30, 2010, as set forth in the following table.

**OUTSTANDING PARITY OBLIGATIONS
 AS OF JUNE 30, 2010**

Original Aggregate Principal Amount	Principal Amount Outstanding	Bond Series	Issuing Document
\$ 36,180,000	\$ 36,180,000	2001 Series A	2001 Indenture
64,925,000	64,925,000	2001 Series B	2001 Indenture
63,520,000	35,720,000	2002 Series A	2001 Indenture
29,930,000	29,930,000	2005 Series A	2005/2006 Indenture
30,110,000	29,135,000	2005 Series B	2005/2006 Indenture
43,730,000	30,295,000	2005 Series C-1	2005/2006 Indenture
200,710,000	52,200,000	2006 Series A	2005/2006 Indenture
209,815,000	101,310,000	2006 Series B	2005/2006 Indenture
16,545,000	15,675,000	2006 Series C	2005/2006 Indenture
111,300,000	83,600,000	2006 Series D	2006 Indenture
100,000,000	100,000,000	2009 Series A	2009 Indenture
100,000,000	100,000,000	2009 Series B	2009 Indenture
230,160,000	230,160,000	2009 Series C	2009 Indenture
Total	\$ 909,130,000		

Source: Harbor Department of the City of Los Angeles

The Official Statements for the Parity Bonds outstanding as of the date of this Offering Memorandum have been filed with the Municipal Securities Rulemaking Board. A summary of the terms of each of such Parity Bonds may be found in such Official Statements. In addition, the Department entered into an agreement on April 30, 2010 with a commercial bank for a revolving line of credit facility (the "Line of Credit") for Departmental cash flow management, in an amount up to \$60,000,000. As of the date hereof there has been no draw on the line of credit and the Department does not plan to draw on the Line of Credit during Fiscal Year 2009-10. Amounts owed by the Department in connection with the Line of Credit constitute Parity Obligations.

The Department also has outstanding two loans aggregating \$2,360,246 from the California Department of Boating and Waterways which bear interest at a rate of 4.5% per annum. The notes evidencing such loans will mature in Fiscal Years ending June 30, 2014 and 2015, respectively. The Department's obligation with respect to the payment of such notes is subordinate to the lien of the Notes on the Revenues. In addition, the Department's obligation to pay Shortfall Advances to ACTA pursuant to the ACTA Operating Agreement is subordinate to the lien of the Notes on the Revenues. See "—Covenant as to Additional Debt" and "—Notes Payable from Specified Sources."

THE CREDIT AGREEMENT

The Initial Liquidity Facility

The Department has entered into the Credit Agreement to provide liquidity support to the Department. Under the Credit Agreement, subject to certain conditions, the Bank has agreed to make Liquidity Advances to the Issuing and Paying Agent, for the purpose of paying the principal of and interest on maturing Notes (other than a Note owned by, for the account of or on behalf of, the City, the Department or any affiliate thereof) for which no Rollover Notes have been issued. The amount of each Liquidity Advance shall equal the lesser of (i) the principal of, and interest on, maturing Notes for which Rollover Notes have not been issued and (ii) the Available Amount.

"Available Amount" means, at any time, the Commitment Amount less the sum of (a) the aggregate principal amount of all Liquidity Advances, if any, outstanding at such time and (b) the product of (i) the aggregate principal amount of all Liquidity Advances, if any, outstanding at such time, (ii) 0.12 and (iii) 270/365.

"Commitment Amount" means \$217,753,424.66 or, following the (a) election by the Department to reduce the Commitment Amount pursuant to the Credit Agreement and upon payment of the applicable Termination Fee, the amount remaining after giving effect to such reduction and/or (b) occurrence of an Event of Termination, the amount to which the Commitment Amount is reduced by the Bank pursuant to the Credit Agreement.

The Credit Agreement expires on July 29, 2012 unless terminated earlier or extended pursuant to its terms.

In the case of certain terminating events of default (each, an Immediate Termination Event as defined below) under the terms of the Credit Agreement, the obligation of the Bank to make Liquidity Advances under the Credit Agreement shall immediately terminate without notice or demand. Further, during the pendency of a Suspension Event (as defined below), the Bank's commitment to make Liquidity Advances shall be immediately suspended without notice or demand and thereafter the Bank shall be under no obligation to make Liquidity Advances.

"Immediate Termination Events" include: (i) any failure to pay principal of or interest on any Liquidity Advance when due; (ii) certain voluntary proceedings of the City or the Department seeking relief of indebtedness under bankruptcy, insolvency, reorganization or similar law for the relief of debtors or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of the property and assets that generate or that are used to generate Revenues; consent to such relief or the appointment of or taking possession by any such official in an involuntary custody or other proceeding; making a general assignment for the benefit of creditors; admitting, in writing, its inability to pay its indebtedness as it becomes due; becoming insolvent within the meaning of the Bankruptcy Code; or taking official action to authorize the foregoing; (iii) certain involuntary proceedings against the City or the Department seeking liquidation, reorganization or other relief with respect to it or its debts under bankruptcy, insolvency or other similar law or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of the property and assets that generate or that are used to generate Revenues and such case shall not be dismissed within ninety days; (iv) an order of relief shall be entered against the City or the Department under the federal

bankruptcy laws or similar laws or a debt moratorium, debt adjustment, debt restructuring or comparable extraordinary restriction with respect to the payment of principal or interest on the indebtedness of the Department shall be declared or imposed by any governmental authority having jurisdiction over the Department; (v) any provision of the Related Documents (as defined in the Credit Agreement) relating to the Department's ability or obligation to make payments of the principal of or interest on the Liquidity Advances or the Notes or the pledge of and lien on the Revenues under the Credit Agreement and/or the Issuing and Paying Agent Agreement is ruled to be null and void by a court or other governmental authority with appropriate jurisdiction in a final nonappealable order or judgment; or an authorized representative of the Department or the City publicly denies, consents or repudiates that the Department has any or further liability or obligation with respect to the payment of the principal of or interest on Liquidity Advances or the Notes; (vi) each of Moody's, S&P and Fitch either withdraw or suspend the lowest rating assigned by the same to the Department's senior lien unenhanced revenue bonds or any unenhanced debt of the Department on a parity therewith ("Rating") for credit related reasons or reduce a Rating, in the case of S&P and Fitch below "BBB-" (or its equivalent) and, in the case of Moody's, below "Baa3" (or its equivalent); (vii) a final non-appealable judgment for the payment of money payable out of Revenues ranking senior to or on a parity with the Liquidity Advances and not covered by insurance, equal to in the aggregate or exceeding [\$15,000,000], which judgment or lien shall remain unpaid (or, if such judgment, attachment or levy is to be paid over time, any scheduled payment is not paid when due) or the lien created thereby shall remain undischarged or unbonded by property other than any of the Revenues for a period of sixty (60) days unless the Department is in compliance with the terms of such judgment; and (viii) any Parity Obligation shall not be paid when and as the same shall become due and payable; any payment default shall occur under any Parity Obligation or under any indentures, agreements or other instrument pursuant to which any such Parity Obligation was issued; or any Parity Obligation shall be declared to be due and payable or be required to be repaid or redeemed.

"Suspension Events" include: (i) the validity or enforceability of any provision of the Related Documents relating to the Department's ability or obligation to make payments of the principal of or interest on Liquidity Advances or the Notes or the pledge of and lien on the Revenues under the Credit Agreement or the Issuing and Paying Agent Agreement is deemed to be invalid or unenforceable as a result of an authorized representative of the Department, the City, the State or other Governmental Authority with appropriate jurisdiction taking or being permitted to take any official action or introducing or duly enacting any statute or legislation or issuing an executive order; or any such obligation is declared invalid or unenforceable in a proceeding subject to further appeals (prior to the expiration of the ninety (90) day grace period specified in the Credit Agreement); or (ii) certain involuntary proceedings against the City or the Department seeking liquidation, reorganization or other relief with respect to the Department or the Department's debts under bankruptcy, insolvency or other similar law and such case shall not be dismissed within ninety (90) days.

In the event any Suspension Event is cured, the Bank's commitment to provide Liquidity Advances shall be automatically reinstated and the terms of the Credit Agreement will continue in full force and effect (unless the Credit Agreement shall otherwise have terminated or been suspended by its terms.) If any Suspension Event remains uncured through the ninety (90) day grace period specified in the Credit Agreement it may become an Immediate Termination Event.

In the case of any Event of Termination, the Bank may (i) deliver a non-issuance instruction to the Issuing and Paying Agent in the form provided in the Credit Agreement; and/or (ii) reduce the Commitment Amount (as defined in the Credit Agreement) to an amount equal to the sum of the principal amount of the Notes then outstanding and the amount of interest that will be due and payable upon such outstanding Notes at maturity.

Except as provided below, the Bank shall not, upon the occurrence and continuance of an Event of Termination, have the right or remedy to accelerate or declare any principal and interest due to the Bank or under any Liquidity Advance to be immediately due and payable. In the case of any Event of

Termination that is also an “event of default” under any Parity Revenue Bond Indentures, the Bank may by notice to the Department declare all amounts payable under the Credit Agreement (including but not limited to principal and interest on all Liquidity Advances) immediately due and payable, whereupon the same shall become immediately due and payable without demand or further notice of any kind; provided, however, that upon the occurrence of any Event of Termination caused by a voluntary or involuntary relief of indebtedness under bankruptcy, insolvency, reorganization or similar law that is also an “event of default” under any Parity Revenue Bond Indentures, all amounts payable under the Credit Agreement shall automatically and immediately become and be due and payable without demand or further notice of any kind.

The obligation of the Bank to make available any Liquidity Advance under the Credit Agreement is subject to each of the following conditions precedent: (i) no Immediate Termination Event shall have occurred and no Suspension Event shall have occurred and be continuing under the Credit Agreement; (ii) the Bank shall have timely received the Notice of Borrowing (as defined under the Credit Agreement) required under the Credit Agreement; and (iii) the Termination Date shall not have occurred.

Substitution of Liquidity Facility

The Department has covenanted in the Issuing and Paying Agent Agreement that for so long as any Note remains outstanding, it will at all times maintain in effect the Credit Agreement or another liquidity facility or combination of liquidity facilities, provided that the combined Principal Components (as defined in the Issuing and Paying Agent Agreement) under the Liquidity Facilities in effect at any one time shall not exceed \$200,000,000, and provided further that the provisions described below shall have been met in connection with any liquidity facility substitution. As of the date hereof the Credit Agreement is the only Liquidity Facility and under the Credit Agreement the Principal Components are limited to \$200,000,000.

The Department may obtain one or more Substitute Liquidity Facilities to replace one or more Liquidity Facilities then in effect under the Issuing and Paying Agent Agreement, or any portion thereof, so long as the combined Principal Components of said Substitute Liquidity Facility or Facilities does not exceed the aggregate principal amount of Notes maturing on the substitution date, plus the aggregate principal amount of Notes authorized but not then Outstanding under the Issuing and Paying Agent Agreement. At no time shall a Substitute Liquidity Facility replace one or more Liquidity Facilities then in effect with respect to Notes that were Outstanding prior to such replacement and that will remain Outstanding following such replacement. Said Substitute Liquidity Facility shall go into effect at least one Business Day prior to the termination of the Liquidity Facility (or portion thereof) it replaces. Each Substitute Liquidity Facility shall have a commitment at least as great as the Principal Component thereunder plus interest thereon at the Maximum Rate for a period of 270 days. The following are further conditions to the Issuing and Paying Agent’s ability to accept each Substitute Liquidity Facility:

(i) the Department shall deliver written notice of the proposed substitution to the Issuing and Paying Agent, the Agent, the Bank (or other provider of the Liquidity Facility) and each dealer appointed by the Department from time to time not less than twenty (20) days prior to the substitution date;

(ii) there shall be delivered to the Department and the Issuing and Paying Agent written evidence from each rating agency then maintaining a rating on the Notes at the request of the Department, that the substitution of such Liquidity Facility will not, in and of itself, result in any rating then assigned to the Notes being suspended, reduced or withdrawn;

(iii) the Issuing and Paying Agent shall deliver written notice as provided in the Issuing and Paying Agent Agreement to the holders of the Notes at least fifteen days prior to the substitution date;

(iv) an opinion or opinions of counsel to any successor bank or banks shall be delivered to the effect that the Substitute Liquidity Facility is a legal, valid and binding obligation of the issuing bank or banks and is enforceable against the bank or banks in accordance with its terms;

(v) an opinion or opinions of Note Counsel shall be delivered to the effect that the substitution of the Liquidity Facility is authorized under the Issuing and Paying Agent Agreement and will not, in and of itself, adversely affect the exclusion from gross income for federal income tax purposes of interest on the Notes, Series A (Exempt Facility AMT), Notes Series B (Exempt Facility Non-AMT) and Notes, Series C (Governmental Non-AMT); and

(vi) each provider of a Substitute Liquidity Facility shall be rated "A" or better by each rating agency then maintaining a rating on the Notes.

THE BANK

The following information has been furnished by the Bank for use in this Offering Memorandum. Such information has not been independently confirmed or verified by the Department. No representation is made herein by the Department as to the accuracy or adequacy of such information; or as to the information incorporated herein by reference.

JPMorgan Chase Bank, National Association

The Bank is a wholly owned bank subsidiary of JPMorgan Chase & Co., a Delaware corporation whose principal office is located in New York, New York. The Bank offers a wide range of banking services to its customers, both domestically and internationally. It is chartered and its business is subject to examination and regulation by the Office of the Comptroller of the Currency.

As of March 31, 2010, the Bank had total assets of \$1,674.5 billion, total net loans of \$543.5 billion, total deposits of \$1,020.6 billion, and total stockholder's equity of \$127.5 billion. These figures are extracted from the Bank's unaudited Consolidated Reports of Condition and Income (the "Call Report") as of March 31, 2010, prepared in accordance with regulatory instructions that do not in all cases follow U.S. generally accepted accounting principles, which are filed with the Federal Deposit Insurance Corporation. The Call Report, including any update to the above quarterly figures, can be found at www.fdic.gov. Except as expressly set forth herein, nothing contained on such website is incorporated herein.

Additional information, including the most recent annual report on Form 10-K for the year ended December 31, 2009, of JPMorgan Chase & Co., the 2009 Annual Report of JPMorgan Chase & Co., and additional annual, quarterly and current reports filed with or furnished to the SEC by JPMorgan Chase & Co., as they become available, may be obtained without charge by each person to whom this Offering Memorandum is delivered upon the written request of any such person to the Office of the Secretary, JPMorgan Chase & Co., 270 Park Avenue, New York, New York 10017 or at the SEC's website at www.sec.gov. Except as expressly set forth herein, nothing contained on such website is incorporated herein.

The information contained under the caption "THE BANK" relates to and has been obtained from the Bank. The delivery of the Offering Memorandum shall not create any implication that there has been no change in the affairs of the Bank since the date hereof, or that the information contained or referred to under the caption "THE BANK" is correct as of any time subsequent to its date.

INVESTMENT CONSIDERATIONS

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

Revenue Generation; Department Budget

As described in “SECURITY AND SOURCES OF PAYMENT FOR THE NOTES” above, the Department has covenanted under the Issuing and Paying Agent Agreement and the Credit Agreement that it shall 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 to the City only in those instances and in such manner as may be required under the Charter, at levels sufficient to provide funds necessary to pay its outstanding obligations payable from the Harbor Revenue Fund (including the Notes).

The economic downturn, which began in 2007, has resulted in a decrease in Revenues. Continuing declines in Revenues may require the Department to consider additional increases in the schedule of rents, rates, fees and charges for use of the Department and for services rendered by the Department, which increases would be subject to contractual, statutory and regulatory restrictions. Increases in rates and fees generally may have a detrimental impact on the operation of the Port by making the cost of operating at the Port less attractive to the customers of the Department. Should economic conditions persist or worsen, the Department may be unable to take actions sufficient to increase Revenues to provide revenues necessary to pay the Department’s outstanding obligations from the Harbor Revenue Fund (including the Notes). See “FINANCIAL INFORMATION CONCERNING THE DEPARTMENT.”

Under the Credit Agreement, the Bank’s obligations to make Liquidity Advances under the Credit Agreement may be eliminated or suspended upon the occurrence of certain Immediate Termination Events and Suspension Events (as described below). Although the Department has not budgeted for payment of the principal of and interest on the Notes in the event of an Immediate Termination Event or a Suspension Event, the Department anticipates that there would be sufficient moneys in the Harbor Revenue Fund, together with moneys in the Harbor Special Operating Fund, to pay principal of and interest on the Notes as they become due in such an event were to occur.

Industry Trends

The demand for Department facilities and the revenues derived from the use thereof is significantly influenced by a variety of factors, including, among others, the global and domestic economy, fuel prices, construction activity, currency values, international trade, 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. See “FINANCIAL INFORMATION CONCERNING THE DEPARTMENT – Introduction and Recent Developments – Port Activity and Impact of Economic Downturn” and “—Container Forecast.”

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. 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") was signed into law on November 25, 2002 to require sectors of the maritime industry to implement measures designed to protect ports and waterways of the United States from a terrorist attack. MTSA requires interagency teamwork within the Department of Homeland Security, including the U.S. Coast Guard, the Transportation Security Administration ("TSA"), the Bureau of Customs and Border Protection and the Department of Transportation's Maritime Administration to develop security regulations. The security regulations focus on those sectors of the maritime industry that have a higher risk of involvement in a transportation security incident, including various tank vessels, barges, large passenger vessels, cargo vessels, towing vessels, offshore oil and gas platforms and port facilities that handle certain kinds of dangerous cargo or service the vessels included in this list. These regulations require, among other things, that port and vessels owners assess their vulnerabilities and then develop plans that may include implementing vehicle, container and baggage screening procedures, accessing control measures and/or installing surveillance equipment. The Department has procedures in place for compliance with MTSA.

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

Seismic Activity

The Department is located in an area that is seismically active. The two faults closest to the Department 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 Notes 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 Department could sustain extensive damage to its facilities in a major seismic event which could include slope failures along the shoreline, pavement displacement, distortions of pavement grades, breaks in utility, drainage and sewer lines, displacement or collapse of buildings, failure of bulkhead walls and rupture of gas and fuel lines. Damage to Department facilities could materially and adversely affect Revenues. The Department maintains a discretionary emergency reserve fund which at February 28, 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 APPENDIX A – “CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES – Seismic Considerations” and “FINANCIAL INFORMATION CONCERNING THE DEPARTMENT – Insurance.”

Pension Liability

As described in “FINANCIAL INFORMATION CONCERNING THE DEPARTMENT – Retirement Plan,” eligible employees of the Department participate in pension plans administered by the City. See APPENDIX A – “CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES.” 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 March 2009, the California Climate Change Center released a draft paper for informational purposes only that was funded by the California Energy Commission, the California Environmental Protection Agency, Metropolitan Transportation Commission, California Department of Transportation and the California Ocean Protection Council. The title of the paper is "The Impacts of Sea-Level Rise on the California Coast." The paper posits that increases in sea level will be a significant impact of climate change over the coming 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 Notes are outstanding, and if any such events occur, whether there will be an adverse impact, material or otherwise, on Revenues.

Factors Affecting Capital Improvement Projects

The ability of the Department to complete the capital improvement projects described in this Offering Memorandum may be adversely affected by various factors including: (a) estimating errors; (b) design and engineering errors; (c) changes to the scope of the projects, including changes to federal security regulations; (d) delays in contract awards; (e) material and/or labor shortages; (f) unforeseen site conditions; (g) adverse weather conditions and other force majeure events, such as earthquakes; (h) contractor defaults; (i) labor disputes; (j) unanticipated levels of inflation; (k) environmental issues; and (l) unavailability of, or delays in, anticipated funding sources. The Department can provide no assurance that its planned capital improvement projects will not cost more than the current budget for these capital improvement projects. Any schedule delays or cost increases could result in the need to incur additional indebtedness. See "THE PORT AND THE DEPARTMENT – Operating Data and Capital Improvement Plans – Capital Improvement Planning."

Effect of Permittee Bankruptcy

A bankruptcy of a permittee of the Port could result in delays and/or reductions in payments to the Department which could affect the Department's ability to pay debt service on the Notes.

A permittee that has executed a permit or other executory contract with the Department and seeks protection under the U.S. bankruptcy laws must assume or reject (a) its permit within 120 days after the bankruptcy filing (subject to court approval, a one-time 90-day extension is allowed, and further extensions are allowed with the consent of the Department), and (b) its other executory contracts with the Department prior to the confirmation of a plan of reorganization.

In the event of assumption and/or assignment of any agreement to a third party, the permittee would be required to cure any pre- and post-petition monetary defaults and provide adequate assurance of future performance under the applicable preferential assignment agreement, permit or other agreements.

Rejection of a permit or other agreement or executory contract will give rise to an unsecured claim of the Department for damages, the amount of which in the case of a permit is limited by the United States Bankruptcy Code generally to the amounts unpaid prior to bankruptcy plus the greater of (i) one year of rent or (ii) 15% of the total remaining permit payments, not to exceed three years. However, the amount ultimately received in the event of a rejection of a preferential assignment agreement or permit could be considerably less than the maximum amounts allowed under the United States Bankruptcy Code.

In addition, payments made by a permittee in bankruptcy within 90 days of filing a bankruptcy case could be deemed to be an "avoidable preference" under the United States Bankruptcy Code and thus subject to recapture by the debtor or its trustee in bankruptcy.

During the pendency of a bankruptcy proceeding, a debtor permittee may not, absent a court order, make any payments to the Department on account of goods and services provided prior to the bankruptcy. Thus, the Department's stream of payments from a debtor permittee would be interrupted to the extent of pre-petition goods and services, including accrued tariffs and rents.

In general, risks associated with bankruptcy include risks of substantial delay in payment or of non-payment and the risk that the Department may not be able to enforce any of its remedies under the agreements with a bankrupt permittee.

With respect to a permittee in bankruptcy proceedings in a foreign country, the Department is unable to predict what types of orders and/or relief could be issued by foreign bankruptcy tribunals, or the extent to which any such orders would be enforceable in the United States.

Should a significant number of the parties to the major revenue producing property agreements file for bankruptcy protection, Revenues received by the Department could be materially adversely impacted and this could have an adverse impact on the Department's ability to pay debt service on the Notes. There may be other possible effects of a bankruptcy of a permittee that could result in delays or reductions in payments on the Notes. Regardless of any specific adverse determinations in a permittee bankruptcy proceeding, the fact of a permittee bankruptcy proceeding could have an adverse effect on the liquidity and value of the Notes.

City Financial Challenges

The City's Fiscal Year 2009-10 Adopted Budget (the "Adopted Budget") reflects General Fund and certain special funds revenues (exclusive of amounts attributable to the departments of airports, harbor and water and power) of approximately \$6.9 billion. The City has had to address a number of expenditure pressures, including increased pension costs to amortize new unfunded liabilities resulting from investment losses. As a result, the City has made reduced budgeted appropriations throughout its 2008-09 and 2009-10 fiscal years. As part of its last two adopted budgets and through subsequent interim actions, the City has 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 on-going and one-time measures.

The Mayor's Proposed Budget for Fiscal Year 2010-2011, while projecting moderate growth in revenues, calls for additional on-going expenditure reductions as well as some new one-time measures in order to achieve balance

The City's most recent update of its budget outlook suggests that, at current trends, the City would face a budget gap of \$234 million in Fiscal Year 2011-12, with even larger gaps occurring in subsequent years.

The City's proposed staff reductions do not directly apply to Department personnel and other proposed General Fund budget mitigation measures do not directly affect the Department. However, auxiliary services provided to the Department from other City departments may be impacted. Additionally, a number of Department personnel elected to retire under the Early Retirement Program. The Department has generally replaced these positions and positions not filled during a recent Department hiring freeze with personnel laid off from City General Fund positions and has included in its Fiscal Year 2010-2011 budget amounts for employee development. See "FINANCIAL INFORMATION CONCERNING THE DEPARTMENT – Historical Revenues and Fiscal Year 2009-2010 Budget." 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 Department's Notes.

Termination, Expiration and Renewal of Permits

The Department has entered into a number of material contracts and other relationships relating to the use or operation of the Port. Under these agreements, the Department assigns or permits property and facilities to terminal operators for terms of up to 30 years. Should a significant number of the parties to the permits default on their obligation, terminate their relationships with the Department, fail to renew their permits upon expiration or fail to renew their permits at rates sufficient to support the Department's financial obligations, the amount of revenues realized by the Department could be materially impaired and this could have an adverse impact on the Department's ability to pay debt service on the Notes. See "THE PORT AND THE DEPARTMENT – Operating Data and Capital Improvement Plan – Terminal Operations."

Enforceability of Remedies

The remedies available to the owners of the Notes upon an event of default under the Issuing and Paying Agent Agreement 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 in connection with the delivery of the Notes have been qualified to the extent that the enforceability of certain legal rights related to the Notes 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 (the "State").

THE INITIAL DEALERS

The Department has entered into dealer agreements (the "Dealer Agreements" and each, a "Dealer Agreement") with each of the following initial dealers for the Notes: Loop Capital Markets LLC ("Loop Capital Markets") and Morgan Stanley & Co. Incorporated ("Morgan" and together with Loop Capital Markets, the "Dealers" and each a "Dealer").

The Department may terminate each Dealer Agreement upon thirty days' notice to the applicable dealer. Each of Loop Capital Markets and Morgan, as the case may be, may terminate their respective Dealer Agreements upon one hundred twenty (120) days notice to the Department.

In the event that a Dealer delivers a notice of termination under its Dealer Agreement, the Department is required under the Dealer Agreements to use its reasonable efforts to provide for a commercial paper dealer (other than the other commercial paper dealers then serving as dealers for the

Notes) which is reasonably satisfactory to the Bank to assume the obligations of such Dealer under such Dealer Agreement.

Morgan Stanley, parent company of Morgan, a Dealer of the Notes, has entered into a retail brokerage joint venture with Citigroup Inc. As part of the joint venture, Morgan 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 will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Notes.

[On July 23, 2008, the City filed a complaint in the Superior Court for the County of Los Angeles, California, Case Number BC394944, which named a number of defendants, including Morgan. The complaint alleges that the defendants manipulated the municipal derivatives market by various means to decrease the returns the City earned on guaranteed investment contracts and municipal derivative instruments. The complaint was removed to federal district court in the Central District of California on August 25, 2008 and subsequently consolidated for pre-trial coordination with other related actions in the Southern District of New York, Master Docket Number 08-CV-02516 (VM). The Department is not a party to such litigation. There can be no assurance that the Department will not become a party to the pending litigation or other similar litigation. Morgan is an initial dealer of the Notes. Neither the Department nor Morgan can predict the outcome of these lawsuits.]

NO CONTINUING DISCLOSURE

The offering and sale of the Notes is exempt from the rules of the SEC relating to the continuing disclosure of annual financial and operating information and certain material events. Pursuant to continuing disclosure undertakings of the Department in connection with certain of its outstanding revenue bonds, the Department is obligated to provide certain financial information, operating data relating to the Department and the Port, including audited financial statements and notice of certain enumerated events, if material, with any Repository, by not later than 181 days following the end of each Fiscal Year. Such filings are made with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) site at <http://www.emma.msrb.org>. Nothing contained on that website is incorporated in this Offering Memorandum. The information and opinions herein and in such annual reports, official statements and repository filings are subject to change without notice, and neither the delivery thereof nor the delivery of this Offering Memorandum shall, under any circumstances, create any implication that there has been no change in the affairs of the Department or other matters described therein or herein.

RATINGS

The following table sets forth the (i) ratings assigned to the Notes and (ii) the underlying/unenhanced ratings assigned to the Department's outstanding parity indebtedness by Moody's, S&P and Fitch.

	Moody's	S&P	Fitch
Commercial Paper Notes	[P-1]	[A-1+]	[F1+]
Parity Bonds	Aa2	AA	AA

Certain information was supplied by the Department to the rating agencies to be considered in evaluating the Notes. Such ratings express only the view of the respective rating agency, and an explanation of the significance of such ratings may be obtained only from such agencies. Such ratings are not a recommendation to buy, sell or hold the Notes.

There is no assurance that the ratings will remain in effect for any given period of time or that they will not be revised, either downward or upward, or withdrawn entirely, by said rating agencies if, in their judgment, circumstances so warrant. A revision or withdrawal of any rating with respect to the

Notes could have an effect on the market prices and marketability of the Notes. The Department cannot predict the timing or impact of future action by the rating agencies. The Department undertakes no responsibility to oppose any revision or withdrawal of such ratings.

FORWARD-LOOKING STATEMENTS

The statements contained in this Offering Memorandum and in the Appendices hereto, and in any other information provided by the Department, that are not purely historical, are forward-looking statements, including statements regarding the Department's expectations, hopes, intentions or strategies regarding the future. Prospective investors should not place undue reliance on forward-looking statements. All forward-looking statements included in this Offering Memorandum are based on the expectations, hopes, intentions or strategies considered and assumed by the Department as of the date hereof, and the Department assumes no obligation to update any such forward-looking statements. It is important to note that the Department's actual results could differ materially from those in such forward-looking statements.

TAX MATTERS

Series A Notes

In the opinion of Note Counsel, based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Series A Notes, when issued in accordance with a Tax and Nonarbitrage Certificate and the Issuing and Paying Agent Agreement, will be excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"), except that no opinion is expressed as to the federal tax status of interest on any Series A Note for any period that such Series A Note is held by a "substantial user" of the facilities financed or refinanced by the Series A Notes or by a "related person" to such a substantial user within the meaning of Section 147(a) of the Code. Note Counsel observes that interest on the Series A Notes will be a specific preference item for purposes of the federal individual and corporate alternative minimum taxes. Note Counsel is further of the opinion that interest on the Series A Notes is exempt from personal income taxes of the State of California under present state law.

Series B Notes

In the opinion of Note Counsel, based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Series B Notes, when issued in accordance with a Tax and Nonarbitrage Certificate and the Issuing and Paying Agent Agreement, will be excluded from gross income for federal income tax purposes under Section 103 of the Code, except that no opinion is expressed as to the federal tax status of interest on any Series B Note for any period that such Series B Note is held by a "substantial user" of the facilities financed or refinanced by the Series B Notes or by a "related person" to such a substantial user within the meaning of Section 147(a) of the Code. Pursuant to provisions of the American Recovery and Reinvestment Act of 2009 ("ARRA"), interest on tax-exempt obligations that would be treated as a specific preference item for purposes of the federal alternative minimum tax provisions will not be subject to such treatment if initially issued after December 31, 2008 and before January 1, 2011 and either finance new projects costs or refund obligations originally issued after December 31, 2003. Any notes that qualify for such provisions of the ARRA will be issued as Series B Notes. Thus, Note Counsel observes that interest on the Series B Notes will not be a specific preference item for purposes of the federal individual and corporate alternative minimum taxes but is included in the adjusted current earnings when calculating corporate alternative minimum taxable income. Note Counsel is further of the opinion that interest on the Series B Notes is exempt from personal income taxes of the State of California under present state law.

Series C Notes

In the opinion of Note Counsel, based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Series C Notes, when issued in accordance with a Tax and Nonarbitrage Certificate and the Issuing and Paying Agent Agreement, will be excluded from gross income for federal income tax purposes under Section 103 of the Code. Note Counsel observes that interest on the Series C Notes will not be a specific preference item for purposes of the federal individual and corporate alternative minimum taxes but is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Note Counsel is further of the opinion that interest on the Series C Notes is exempt from personal income taxes of the State of California under present state law.

Original Issue Discount

Notice 94-84, 1994-2 C.B. 559, states that the Internal Revenue Service (the "IRS") is studying whether the amount of the payment at maturity on short-term debt obligations (i.e., debt obligations with a stated fixed rate of interest which mature not more than one year from the date of issue) that is excluded from gross income for federal income tax purposes is (i) the stated interest payable at maturity or (ii) the difference between the issue price of the short-term debt obligations and the aggregate amount to be paid at maturity of the short-term debt obligations (the "original issue discount"). For this purpose, the issue price of the short-term debt obligations is the first price at which a substantial amount of the short-term debt obligations is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of Dealers, placement agents or wholesalers). Until the IRS provides further guidance with respect to tax-exempt short-term debt obligations, taxpayers may treat either the stated interest payable at maturity or the original issue discount as interest that is excluded from gross income for federal income tax purposes. However, taxpayer must treat the amount to be paid at maturity on all tax-exempt short-term debt obligations in a consistent manner. Taxpayers should consult their own tax advisors with respect to the tax consequences of ownership of the Tax-Exempt Notes if the taxpayer elects original issue discount treatment.

Original Issue Premium

Tax-Exempt Notes purchased, whether at original issuance or otherwise, of an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Notes") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of notes, like the Premium Notes, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Holder's basis in a Premium Note, will be reduced by the amount of amortizable bond premium properly allocable to such Holder. Holders of Premium Notes should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

Limitations Applicable to the Tax-Exempt Notes

In rendering the opinions regarding the federal income tax treatment of interest on the Tax-Exempt Notes above, Note Counsel will rely upon representations and covenants in the Issuing and Paying Agent Agreement and Tax and Nonarbitrage Certificate concerning the use of the property financed or refinanced with Tax-Exempt Note proceeds, the investment and use of Tax-Exempt Note proceeds and the rebate to the federal government of certain earnings thereon and representations and covenants to be contained in a Tax and Nonarbitrage Certificate executed and delivered by the Department in connection with each new issuance of Tax-Exempt Notes. In addition, Note Counsel has assumed that all such representations are true and correct and that the Department will comply with such covenants. Note Counsel has expressed no opinion with respect to the exclusion of the interest on the Tax-Exempt Notes from gross income under Section 103(a) of the Code in the event that any of such

representations are untrue or the Department fails to comply with such covenants, unless such failure to comply is based on the advice or the opinion of Note Counsel. Note Counsel has expressed no opinion regarding the effect, if any, of legislation enacted or a court decision issued after the date of the issuance of the Tax-Exempt Notes on the exclusion of interest on the Tax-Exempt Notes from gross income for federal income tax purposes or on the exemption of such interest from California personal income taxation. In addition, no assurance can be given that any such legislation or court decision could not directly or indirectly reduce the benefit of the receipt of interest which is otherwise excluded from gross income for federal income tax purposes and exempt from California personal income taxation.

Note Counsel has expressed no opinion regarding the impact of ownership of, receipt of interest on, or disposition of the Tax-Exempt Notes other than as expressly described above. Prospective purchasers of the Tax-Exempt Notes should be aware that ownership of, receipt of interest on, or disposition of the Tax-Exempt Notes may be affected by additional federal income tax provisions. Prospective purchasers are advised to consult with their tax advisors regarding the impact of any additional federal income tax provisions on the ownership of, receipt of interest on, or disposition of the Tax-Exempt Notes.

The opinion of Note Counsel described herein shall be deemed in effect on each Business Day during which a Tax-Exempt Note is outstanding to the extent that (i) there is no change in applicable existing state or federal law, (ii) the Issuing and Paying Agent Agreement, in the form in effect on the date of such opinion, remains in full force and effect and has not been materially amended or supplemented, (iii) the representations and covenants of the parties contained in the Issuing and Paying Agent Agreement, the Dealer Agreements, a Tax and Nonarbitrage Certificate and other documents pertaining to the Tax-Exempt Notes, and certain certificates dated the date of an opinion of Note Counsel and delivered by authorized officers of the Department remain true and accurate and are complied with in all material respects, and (iv) no litigation affecting the issuance or validity of the Tax-Exempt Notes is pending at the time of delivery of any such Tax-Exempt Notes. Note Counsel undertakes no obligation to determine, at any time, whether the conditions described in (i) through (iv) of the preceding sentence have been met.

Ownership of, or the receipt of interest on, tax-exempt obligations may result in collateral income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, and taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers who may be eligible for the earned income tax credit. Note Counsel expresses no opinion as to any collateral tax consequences and, accordingly, prospective purchasers of the Tax-Exempt Notes should consult their tax advisors as to the applicability of any such collateral consequences.

Interest paid on tax-exempt obligations is subject to information reporting in a manner similar to interest paid on taxable obligations. While this reporting requirement does not, by itself, affect the excludability of interest from gross income for federal income tax purposes, the reporting requirement causes the payment of interest on the Tax-Exempt Notes to be subject to backup withholding if such interest is paid to beneficial owners that (a) are not "exempt recipients," and (b) either fail to provide certain identifying information (such as the beneficial owner's taxpayer identification number) in the required manner or have been identified by the IRS as having failed to report all interest and dividends required to be shown on their income tax returns. Generally, individuals are not exempt recipients, whereas corporations and certain other entities are exempt recipients. Amounts withheld under the backup withholding rules from a payment to a beneficial owner are allowed as a refund or credit against such beneficial owner's federal income tax liability so long as the required information is furnished to the IRS.

Taxable Notes

Interest on the Taxable Notes is fully taxable for federal income tax purposes. Except as stated in the preceding sentence, Note Counsel will not render an opinion with regard to federal income tax consequences with respect to the Taxable Notes. Each owner of the Taxable Notes should seek advice based on such owner's particular circumstances from an independent tax advisor. Note Counsel is of the opinion that interest on the Taxable Notes is exempt from personal income taxes of the State of California under present state law.

CERTAIN LEGAL MATTERS

The legal opinions delivered on the date hereof by Nixon Peabody LLP, Note Counsel, with respect to the issuance of the Notes, are set forth in APPENDIX B hereto. See also "TAX MATTERS." Certain legal matters in connection with the Notes will be passed upon for the Department by the City Attorney, for the Department by QUATEMAN LLP, Los Angeles, California, Disclosure Counsel to the Department and for the Bank by White & Case LLP, Los Angeles, California.

LITIGATION REGARDING THE NOTES

There is no action, suit or proceeding known to be presently pending or threatened against the Department seeking to restrain or enjoin the execution, issuance or delivery of the Notes or any of the documents related thereto or in any way contesting or affecting the validity of the actions of the Department taken with respect to the issuance or delivery thereof.

FINANCIAL ADVISOR

Frasca & Associates, L.L.C. (the "Financial Advisor") has assisted the Department with various matters relating to the planning, structuring and delivery of the Notes. The Financial Advisor has not been engaged, nor has it undertaken, to make an independent verification or assume responsibility for the accuracy, completeness or fairness of the information contained in this Offering Memorandum. The Financial Advisor is an independent financial advisory firm and is not engaged in the business of underwriting or distributing municipal securities or other public securities.

INDEPENDENT AUDITORS

The financial statements for the Department for the Fiscal Years ended June 30, 2009 and 2008 and Independent Auditor's Report thereon are attached hereto as APPENDIX E. The financial statements for the Department for the Fiscal Years ended June 30, 2009 and 2008 have been audited by Macias Gini & O'Connell LLP, as stated in their report. Certain demographic and financial information regarding the City is attached hereto as APPENDIX A.

PART II

THE PORT AND THE DEPARTMENT

Introduction and Organization

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 City 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."

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 is also 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 over 80 shipping companies and agents which include 27 terminals and 43 miles of waterfront berthing. See “—Tideland Trust Properties,” “—Terminal Operations,” “—Operating Data and Capital Improvement Plans – 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 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 – 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 is also linked by subsurface pipelines to many of the major refineries and petroleum distribution terminals within the Los Angeles Basin. With its neighbor, the Port of Long Beach, the San Pedro Bay Ports comprise the fifth largest port complex in the world. The Port 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 “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 megaships. See “—Operating Data and Capital Improvement Plans – 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.”

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. Tidelands 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

Board of Harbor Commissioners

The Department is governed by a five-member Board. 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. Current members of the Board, their primary occupations and expiration of their current terms are shown below.

<u>Board Members</u>	<u>Occupation</u>	<u>Term Expiring</u>
Cindy Miscikowski	Business Person	June 30, 2010
Kaylynn L. Kim	Attorney	June 30, 2011
Douglas P. Krause	Attorney	June 30, 2012
Jerilyn López Mendoza	Attorney	June 30, 2013
Joseph R. Radisich	Labor Representative	June 30, 2014

Pursuant to the Charter, each department created in the Charter shall 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 shall 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.

Department Management

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 (AAPA), 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, 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 is also 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, 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 Management, Financial Management, Internal Management Audit and Risk Management divisions and associated functions. Mr. Pan has over 29 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 to 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 Port 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, 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. 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: (1) assess the impacts of Port developments on the harbor area communities and to recommend suitable mitigation measures to the Board for such impacts; (2) 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 (3) 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:

- Land and waterside patrols
- Police boat escorts for vessels of special interest including cruise ships and tank vessels
- Dive operations at selected berths and moored vessels
- Sea Marshal boardings of selected deep draft vessels to ensure the safe passage

- Implanting advanced equipment including new patrol boats, mobile interoperable communications van, night vision and underwater explosive detection equipment
- Deployment of explosive detection dogs at selected locations including the Los Angeles World Cruise Terminal and the Catalina Express ferry terminal
- 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 a total of \$89 million in security grants to fund projects and procurements by the Federal and State government through the U. S. Department of Homeland Security, the Federal Emergency Management Agency 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.

Maintenance of Facilities

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 "—Operating Data and Capital Improvement Plans – Channel Deepening Project." Additionally, 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.

Operating Data and Capital Improvement Plans

The Port is the busiest container port in the nation with 7,262,000 TEUs handled during the Fiscal Year 2008-09. 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. 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 nine months ended March 31, 2010. See also "FINANCIAL INFORMATION CONCERNING THE DEPARTMENT – Introduction and Recent Developments – Port Activity and Impact of Economic Downturn."

TABLE 1
REVENUE TONNAGE BY CARGO TYPE
FISCAL YEARS 2000 - 2009⁽¹⁾
AND FOR THE NINE MONTHS ENDED MARCH 31, 2010
(In thousands of metric revenue tons)

Fiscal Year Ended June 30	General Cargo	Liquid Bulk ⁽²⁾	Dry Bulk	Total ⁽³⁾	% Increase (Decrease) in Total Tonnage over Prior Year
2000	81,900	12,500	7,100	101,500	23.6%
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	161,900	6,200	1,900	170,000	(10.6)
2009	144,400	11,100	2,000	157,500	(7.4)
2010 ⁽⁴⁾	104,096	7,818	1,050	112,964	N/A

⁽¹⁾ Numbers are rounded.

⁽²⁾ Fiscal year ended June 30, 2007 the indicated number includes 7,354, which represents a correcting entry for multiple prior years.

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

⁽⁴⁾ Derived from unaudited financial statements for the nine months ended March 31, 2010.

Source: Harbor Department of the City of Los Angeles

Table 2A summarizes revenues per ton for the past ten Fiscal Years and Table 2B shows the breakdown of shipping revenues by container and non-container for the same period. Shipping revenues are comprised of wharfage, dockage, demurrage, crane pilotage, assignment charges and storage.

TABLE 2A
SHIPPING REVENUES PER TON
FISCAL YEARS 2000-2009⁽¹⁾
AND FOR THE NINE MONTHS ENDED MARCH 31, 2010

Fiscal Year Ended June 30	Total Shipping Revenues (000)	Total Revenue Tonnage ⁽²⁾	Shipping Revenue Per Ton	% Increase (Decrease) from Prior Year Per Ton
2000	\$208,400	\$101,500	\$2.05	(1.9)%
2001	232,700	113,900	2.04	(0.5)
2002	249,800	126,200	1.98	(3.1)
2003	302,100	147,500	2.05	3.5
2004	311,400	162,100	1.92	(6.2)
2005	328,800	161,700	2.03	5.8
2006	373,300	174,800	2.14	5.0
2007	375,500	190,100	1.98	(7.5)
2008	374,900	170,000	2.21	11.6
2009	329,300	157,500	2.09	(5.2)
2010 ⁽³⁾	237,900	112,964	2.11	N/A

⁽¹⁾ Numbers are rounded.

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

⁽³⁾ Derived from unaudited financial statements for the nine months ended March 31, 2010.

Source: Harbor Department of the City of Los Angeles

TABLE 2B
SHIPPING REVENUE BREAKDOWN
FISCAL YEARS 2000-2009⁽¹⁾
AND FOR THE NINE MONTHS ENDED MARCH 31, 2010

Fiscal Year Ended June 30	Total Shipping Revenues (000)	Container Shipping Revenues (000)	TEUs (000)	Container Shipping Revenue Per TEU	Non-Container Shipping (000)	Non-Container Tons (000)	Non-Container Shipping Revenue Per Ton
2000	\$208,400	\$155,900	4,358	\$35.77	52,500	23,825	\$2.20
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	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 ⁽²⁾	237,900	211,700	5,212	40.62	26,200	9,948	2.63

⁽¹⁾ Numbers are rounded.

⁽²⁾ Derived from unaudited financial statements for the nine months ended March 31, 2010.

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 31.5% of the Department's Fiscal Year 2008-09 exports, and approximately 56.8% of the Department's Fiscal Year 2008-09 imports.

The following table shows a breakdown of total TEUs by country of origin for imports and country of destination for exports. See "FINANCIAL INFORMATION CONCERNING THE DEPARTMENT – Introduction and Recent Developments – Port Activity and Impact of Economic Downturn" below.

TABLE 3
TEUs BY COUNTRY
CALENDAR YEAR 2009⁽¹⁾

Exports			Imports		
Country	TEUs	% of Total	Country	TEUs	% of Total
China	519,807	34.0%	China	2,021,229	57.9%
Taiwan	184,110	12.1	Japan	198,953	5.7
Japan	170,128	11.1	Taiwan	195,439	5.6
Hong Kong	125,893	8.2	Vietnam	140,251	4.0
Korea, South	99,336	6.5	Thailand	137,276	3.9
Thailand	54,111	3.5	Indonesia	125,411	3.6
Vietnam	53,224	3.5	Korea, South	113,349	3.2
Indonesia	52,776	3.5	Hong Kong	109,630	3.1
Singapore	51,290	3.4	Malaysia	99,982	2.9
Malaysia	27,010	1.8	India	42,922	1.2
All Others	189,109	12.4	All Others	306,396	8.8
Total Exports	1,526,794	100.0%	Total Imports	3,490,837	100.0%

⁽¹⁾ Data from Ports Import Export Reporting Service, an independent import/export reporting service, does not include empty containers and domestic cargo.

Source: Ports Import Export Reporting Services

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 to the Department tariffs or fees. Permittees are generally shipping or terminal companies, agents and other private firms. These permits have varying expiration dates over the term of the Bonds. The Department has no direct role in managing the daily movement of cargo. The Department currently provides facilities for over 80 shipping companies and agents which include 27 terminals and 43 miles of waterfront berthing. The Department is also 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 berths assigned 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) are shown in Table 4.

TABLE 4
MAJOR PERMITTEES (TENANTS) OF THE PORT OF LOS ANGELES
As of March 31, 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 60.7% of the Department's Fiscal Year 2008-09 permit revenues. TEUs for the five largest tenants as a group decreased at a compounded average annual rate of approximately 1.69% from Fiscal Year 2005-06 to Fiscal Year 2008-09.

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, which permits this cooperative rate setting.

Most of the largest cargo processing permittees are located on 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 due to the Department. Table 5 details estimated minimum annual revenues from permit agreements to the Department (including contractual rental revenues) over the next five Fiscal Years.

TABLE 5
PORT OF LOS ANGELES
ESTIMATED MINIMUM ANNUAL PERMIT REVENUE
UNDER EXISTING PERMITS
FISCAL YEARS 2010-2014⁽¹⁾

Fiscal Year Ended June 30	Minimum Permit Revenue (000)
2010	\$ 270,130
2011	270,558
2012	270,990
2013	271,426
2014	271,867

⁽¹⁾ Derived from unaudited financial statements.
 Source: Harbor Department of the City of Los Angeles

For a discussion of certain permit rate reductions, see "FINANCIAL INFORMATION CONCERNING THE DEPARTMENT – Incentive Programs – Permit Rate Reductions."

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 (i) compliance with the vessel speed reduction program; (ii) use of clean Alternative Maritime Power ("AMP"), (i.e. plugging into shore-side electrical power while at dock; see "— Alternative Maritime Power"); (iii) use of low sulfur fuel in main and auxiliary engines within the South Coast Air Basin; (iv) use of alternative fuel in all new yard tractors; and (v) 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.

For a discussion of certain permit rate reductions, see "FINANCIAL INFORMATION CONCERNING THE DEPARTMENT – Incentive Programs – Permit Rate Reductions."

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 2014-15. In prioritizing its projects, the Department is taking into account the recent economic downturn, budgetary constraints, potential declines in TEU counts and legal and regulatory requirements, among other things.

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 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 August 2009. 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 presents the Department's projected capital improvement program expenditures and funding sources for Fiscal Years 2009-10 through 2014-15 as of April 30, 2010.

**PROJECTED CAPITAL IMPROVEMENT PROGRAM EXPENDITURES AND FUNDING
 FISCAL YEARS 2010-2015⁽¹⁾**
 (In millions of dollars)

Fiscal Year Ending June 30	Total Capital Expenditures ⁽²⁾	Department Revenues	Government Grants	Debts ⁽³⁾	% Debt Financing
2010	\$ 310	\$ 382	--	\$ 200	65%
2011	236	373	--	19	8
2012	225	377	--	133	59
2013	125	382	--	--	--
2014	200	389	--	70	35
2015	185	397	--	119	64
Total	\$ 1,281	\$ 2,300	\$ 0	\$ 541	42%

⁽¹⁾ Data as of April 30, 2010.

⁽²⁾ Projected capital improvement project expenditures and funding described in this table are based on the Department's forecasted revenues and budget and does not include various projects, some of which are under conceptual development, including, but not limited to: near dock rail improvements, various port electrification projects, offsite infrastructure improvements and other significant capital improvement projects being analyzed by the Department, the costs of which have not been determined but which can be expected to be material.

⁽³⁾ Operating cash balances and revenues are used to support capital improvement projects prior to the issuance of debt. The net proceeds of the projected debt issues as approved by the Board may be bonds, commercial paper, line of credit or a combination thereof.

Source: Harbor Department of the City of Los Angeles

Capital Development Program

The Department's capital improvement projects are categorized into five types of projects:

- Terminal Projects, including China Shipping, the Trans Pacific Container Services ("TraPac") project, berth developments, World Cruise Center and Yusen and Yang Ming terminals.
- Transportation Projects, including channel deepening and other transportation related improvements.
- Security Projects, including the Port Police Headquarters.
- Community Projects, including Cabrillo Way Marina, San Pedro Waterfront (areas and open space), Wilmington Waterfront Development and environmental enhancements.
- Maritime Services Projects, including the Department's administration building and wharf redevelopment.

The Department's estimated expenditures for capital improvement projects in Fiscal Year 2009-10 is approximately \$310 million comprised of: terminals (approximately \$136 million), transportation (approximately \$31 million), security (approximately \$31 million), community (approximately \$103 million) and maritime services (approximately \$9 million).

The Department is currently developing its budget for Fiscal Year 2010-11 and anticipates that it will include approximately \$236 million for capital improvement projects in the following categories: terminals (approximately \$92 million), transportation (approximately \$29 million), security (approximately \$19 million), community (approximately \$71 million) and maritime services (approximately \$25 million). The largest of these projects is expected to be the Los Angeles Waterfront Project. See "—Community Projects – Los Angeles Waterfront." Capital improvement projects for Fiscal Year 2009-10 include the purchase of Port security systems and equipment; construction of a state-of-the-art police headquarters building; installation of four new gangways, AMP and solar panels at the World Cruise Center Berth 90-93; transportation improvements and improvements to Department facilities and Port-area highway rail system projects undertaken by the San Pedro Bay Ports. The timing

for completion for all capital projects is subject to uncertainties and delays, some of which are outside the control of the Department.

The following is a summary of the total estimated project costs by sector in connection with the Department’s capital improvement plan from Fiscal Year 2009-10 through Fiscal Year 2014-15:

**CAPITAL PROJECTS COSTS BY SECTOR
 FISCAL YEAR 2010-2015**

Project Sector	Estimated Total Cost (\$ millions)
Terminal Projects	\$ 574
Transportation Projects	321
Security Projects	33
Community Projects	326
Maritime Services	27
Total Construction and Capital Improvement	\$ 1,281

Source: Harbor Department of the City of Los Angeles

The following are summaries of certain of the Department’s 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 (“China Shipping Project”) and approved the project. The China Shipping Project provides for a long-term permit agreement 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 wharves served by 10 Postpanamax A-frame cranes. Phase II and Phase III of the China Shipping Project funding are estimated to cost approximately \$106 million. The first phase cost approximately \$100 million for terminal assets already in place. Phase II began construction in November 2009. 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 Department cannot reasonably estimate the extent of potential delays or costs that may be associated with this challenge. See “LITIGATION.”

TraPac – In April 2008, the City announced the resolution of a dispute regarding the Board’s approval of the TraPac Terminal EIR, enabling the Department to proceed with the TraPac Terminal Project. Construction began on the wharf improvements in January 2009. The Fiscal Year 2009-10 Budget includes approximately \$64.3 million for the TraPac Terminal Project. The 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 project will increase potential related TEU throughput by TraPac from 900,000 TEUs (baseline year 2003) to 2.4 million TEUs by 2025. 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 a deep water crude oil import terminal on Pier 400 (the “Marine Crude Oil Terminal Project”) and approved 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. Like many other Port facilities, the terminal would be operated by a private company under a long-term permit agreement. The Marine Crude Oil Terminal Project is currently scheduled to begin construction in early 2011. The Department's estimated costs for this Marine Crude Oil Terminal Project are approximately \$78 million.

Cruise Terminal – The Department is underwriting approximately \$42 million of improvements to its Inner Harbor World Cruise Center. The improvements include four new gangway systems, dockside conduit for AMP, new rooftop solar panel array designed to generate approximately one megawatt of electricity, and other improvements, including painting, lighting and audio/video upgrades. The Department is also considering the construction of an additional cruise ship terminal at Kaiser Point in the outer harbor. If approved by the Board, the outer harbor terminal 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.

Transportation Projects

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 coming generation of megaships. As part of the Channel Deepening Project the main channel and west basin have been dredged and dredged materials have been placed at Pier 100, 300, 400 and the Cabrillo Shallow Water Habitat. The Channel Deepening Project continues and is planned to result in a new 5-acre landfill at the Northwest Slip and to allow realignment of the wharf roadway to facilitate safer and more efficient truck and equipment movement. Dredge material will also be used to create approximately 50 acres of shallow water habitat. The Channel Deepening Project is anticipated to cost the Department approximately \$298 million.

Goods Movement Action Plan – To address transportation infrastructure needs, the San Pedro Bay Ports collaborated with the State on a goods movement plan for the entire State. In 2006 the San Pedro Bay Ports, in cooperation with several agencies and stakeholders, developed the State Business, Transportation & Housing Agency/California Environmental Protection Agency Goods Movement Action Plan (the "GMAP"). Initial implementation of the GMAP has commenced through the State Proposition 1B Trade Corridors Improvement Fund program (the "TCIF"). The San Pedro Bay Ports recently collaborated with various county transportation commissions, public sector rail agencies, the Southern California Association of Governments and the Port of Hueneme to further refine the GMAP. This effort produced a regional trade corridor plan that contains critical goods movement projects that simultaneously improve mobility and reduce emissions. The recommended program represents a combination of highway and railroad improvements as well as grade separations and other mitigation measures.

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 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 \$92.6 million, of which the Department would be responsible for approximately \$51.5 million.

South Wilmington Grade Separation - This 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. Construction on this project is expected to commence in July 2011. It is estimated that the cost of the project will be \$68 million, of which the Department will be responsible for approximately \$31.7 million.

Security Projects

See “—Introduction and Organization – Port Security”

Community Projects

Los Angeles Waterfront Project – The Los Angeles Waterfront Project (formerly known as the Wilmington Waterfront and the Bridge to Breakwater projects) is located in Wilmington and is comprised of two complementary projects, the Harry Bridges Boulevard Buffer Project and the Wilmington Waterfront Project. Construction on the Harry Bridges Boulevard Buffer Project began in January 2008. The Harry Bridges Boulevard Buffer Project will take approximately two years to complete and will feature walking trails, water features, plazas, public art and a pedestrian bridge. The EIR for the 94-acre Wilmington Waterfront Project was approved by the Board on June 18, 2009. The Wilmington Waterfront Project includes a waterfront promenade, 11 acres of open green space, plazas, a 200-foot observation tower, Red Car museum, commercial and light industrial development.

The San Pedro element of the Los Angeles Waterfront Project is generally located along the west side of the Port’s main channel from the Vincent Thomas Bridge to Cabrillo Beach. The proposed Project includes specific development projects and associated infrastructure improvements that would occur on approximately 400 acres currently operated by the Department. The proposed project involves development of a variety of land uses within the proposed project area, including, among other things, public waterfront and open space areas, commercial development, transportation and parking facilities; expansion of cruise ship facilities and operations; new public open spaces; a continuous waterfront promenade that would extend throughout the proposed project area; upgrades to and expansion of the retail and commercial uses; new cruise ship terminals; improved transportation infrastructure; and surface and structured parking to accommodate project development within the proposed project area.

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. The State’s 2009 Budget Act appropriates \$3.5 billion in Proposition 1B funding.

From Proposition 1B funds, the San Pedro Bay Ports anticipate sharing \$650 million for trade infrastructure and \$400 million for air quality projects. In April 2008, the Department was awarded \$91.2 million of Proposition 1B funds for transportation improvements. In August 2008, the Department was awarded \$10 million of Proposition 1B funds for port security programs. The Department is continuing efforts to secure additional funding for other trade, security and air quality projects, including the Clean Truck Program (“CTP”).

The Department has approved construction of a variety of security related projects funded by monies awarded under State Proposition 1B, including a Multi-Agency Maritime Law Enforcement

Officer Training Center located at the Port Police Wilmington Substation. This project will allow the Department, in conjunction with the Los Angeles County Sheriff's Department, to develop a curriculum to provide additional training to the law enforcement agencies that currently operate within the Port.

Environmental and Regulatory Matters

Environmental Compliance

The Department was the first port in the nation to have an Environmental Management Division. The Department's Environmental Management Division provides full environmental services related to water, soils and sediments, air and living resources 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 "—Rental Property" for a discussion of the Department's leasing policy), establishment of an environmental management system on the Department's construction and maintenance activities and focused programs in the area of customer compliance, water and sediment quality, habitat management, transportation improvements, lighting, noise and aesthetics, clean marinas and air quality. In 2008 the Department completed its Environmental Management System with respect to its assets. The Department's Environmental Management System meets the specifications of the International Organization for Standardization Standard 14001 for environmental management systems.

The Department is also 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 is also 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. In Fiscal Year 2009-10 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 EIRs, 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 six 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 ("SCAQMD") prepared the Multiple Air Toxics Exposure Study (MATES II and III) 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 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.

Between Fiscal Years 2004-05 and Fiscal Years 2007-08 there has been a reduction in air emissions at the Port including 1,500 tons per year of NOx emissions, 1,700 tons per year of SOx emissions and over 160 tons per year of diesel particulate emissions. This is a 23% reduction in particulate matter, 14% reduction in NOx and 35% reduction in SOx emissions per TEU handled as a result of the Department's air quality program. The Department continues to work with SCAQMD, the California Air Resources Board ("CARB") and the California office of the U.S. EPA on measures to reduce such emissions.

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 in the two 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, and will ban drayage truck engines older than the 2007 model year from Port terminals.

The CTP truck restrictions coincide with similar regulations, established by CARB, which took effect on January 1, 2010 and apply to ports and rail yards in. These statewide truck restrictions ban trucks with engine model years 1993 and older and require retrofits on trucks equipped with engine model years 1994 to 2003.

As of April 1, 2010, there were approximately 6,600 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 86 percent of the cargo container pick-ups and drop-offs at the Port and generate, on average, more than 80 percent less diesel emissions than their older counterparts.

Administration of the CTP, which commenced with the October 1, 2008 truck ban, is being carried out through a concession program, where trucking companies are required to enter into a contract (a concession agreement) with the Port to allow entry into Port terminals. The concession agreement requires trucking companies to be accountable for their trucks and drivers and demonstrate that each truck operating under its authority has proper insurance, is adequately maintained, and is fit for operation at Port terminals including compliance with Port safety and security measures. The trucks are also required to be registered in a special truck registry (the "Drayage Truck Registry"). The Drayage Truck Registry allows the Department to keep track of pertinent information about each truck, including its make, engine model year and ownership.

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 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 Port by truck.

To assist trucking companies with the replacement of trucks as the bans go into effect and incentivize private investment in fleet replacements, the Department has developed special grant and incentive programs. The Department's incentive program (the "Clean Truck Incentive Program") is designed to reward private investment in U.S. EPA 2007 emissions compliant trucks by providing a \$20,000 incentive to trucking companies that can demonstrate they purchased a U.S. EPA 2007 emissions compliant truck without public funds and put such truck into service at a Port terminal. The Department has made \$44 million in incentive payments, coupled with the effect of the truck ban schedule and fees on older trucks, coupled with over \$600 million in private investment by trucking companies to purchase an estimated 6,600 U.S. EPA 2007 (or better) emission compliant trucks to be used at the Port, including an estimated 700 trucks fueled by liquid natural gas. The Clean Truck Incentive Program is administered by the San Pedro Bay Ports team. The Department also funded approximately \$12.5 million together with funding from California State Proposition 1B, the Port of Long Beach and the SCAQMD in an Alternative Fuel Truck Grant Program for grants to be used toward the purchase of U.S. EPA 2007 (or better) emissions compliant alternative fuel drayage trucks utilizing liquid natural gas.

The Clean Truck Fee is collected from beneficial cargo owners by the terminals on behalf of the San Pedro Bay Ports. There is a Clean Truck Fee exemption for cargo moved by privately funded U.S. EPA 2007 emissions compliant trucks and alternative fuel trucks funded by any source. Collection of the Clean Truck Fee began on February 18, 2009, once the electronic gate administration and fee collection system had been established.

Originally, the CTP was projected to cost more than \$2 billion (between the San Pedro Bay Ports), which would be funded by Clean Truck Fees, Prop 1B funds and Port general revenues. This cost was estimated based upon the anticipation that the San Pedro Bay Ports would have to assist trucking companies with replacement of the more than 16,000 trucks that regularly operate at the San Pedro Bay Ports. However based on early experience with the CTP, substantial private investment in trucks has resulted in a reduced need for the San Pedro Bay Ports to provide public funding for the replacement of these trucks, thereby reducing the overall costs of the CTP. Consequently, CTP costs are currently expected to reach approximately \$115 million dollars for the Department. It is expected that \$54 million

will be collected from Clean Truck Fees and any additional funding requirements for the CTP are largely expected to be met from Department revenues.

Overall the Department's CTP costs to date are approximately \$103 million, including nearly \$80 million in truck incentive funding and approximately \$23 million in administrative and other expenses. The Department collected Clean Truck Fee revenues of \$21 million for Fiscal Year 2008-09 and anticipates that it will collect Clean Truck Fee revenues of approximately \$30 million for Fiscal Year 2009-10 and approximately \$2.7 million for Fiscal Year 2010-11. The Department budgeted Clean Truck Fee revenues of \$21 million for Fiscal Year 2008-09, \$30 million for Fiscal Year 2009-10 and \$2.7 million for Fiscal Year 2010-11. The budgeted decrease is due to the projected success of the Clean Truck Program at incentivizing the removal of trucks required to pay the Clean Truck Fee. The Port 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."

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. Negotiation of TraPac's proposed thirty year permit is ongoing. 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 non-profit organization and the Port Community Mitigation Trust Fund (the "Fund"). The non-profit 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. [An additional contribution of \$4 million is pending Board approval.] 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 nitrous oxide (NOx) by one ton and take more than half a ton of sulfur oxides (SOx) out of the air each day the ship is at berth and plugged in.

GASB 49

In December 2006, the Governmental Accounting Standards Board (“GASB”) issued Statement No. 49 (Accounting and Financial Reporting for Pollution Remediation Obligations). This statement requires state and local governments to provide the public with information about the financial impact of environmental cleanup and identifies the circumstances under which a government entity would be required to report a liability related to pollution remediation and how to measure that liability. The statement also requires governments to disclose information about their pollution obligations associated with cleanup efforts in the notes to financial statements. GASB 49 was effective for financial statements for periods beginning after December 15, 2007. Liabilities were measured at the beginning of that period so that beginning net assets could be restated. The Department identified obligating events under GASB 49 and the estimated remediation liability to be approximately \$93.4 million as of June 30, 2008, comprised of mostly soil and ground water contamination on sites within the Port (as a result of such sites being formerly used for industrial purposes). Since all the events which obligate the Department to recognize liabilities under GASB 49 existed in prior years, the Department has realized the full liability against prior years’ earnings. In the Audited Financial Statements of the Department for fiscal year 2008-09 the beginning net assets were restated to reflect this amount.

For more information regarding GASB 49 see APPENDIX E – “AUDITED FINANCIAL STATEMENTS OF THE HARBOR DEPARTMENT FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND 2008.”

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

Introduction and Recent Developments

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. However, certain revenue sources may not be entirely independent of other sources; for example, a reduction in cruise terminal revenues due to a reduction in passengers will likely also result in a reduction in related parking revenues. 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 337 separate permit agreements, and provides further stabilization of the Department's revenue stream. See "THE PORT AND THE DEPARTMENT – Operating Data and Capital Improvement Plans – Rental Property" herein.

Table 6 shows a breakdown of the Department's operating revenues, expenses and a statement of net income for Fiscal Years 2004-05 through 2008-09 and the nine month period ended March 31, 2010. The Department's Auditors, Macias Gini & O'Connell 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 (10) years. These changes did not have a material effect on the financial operations or condition of the Department.

TABLE 6
SUMMARY OF REVENUES, EXPENSES AND NET ASSETS
FISCAL YEARS 2005-2009
AND FOR THE NINE MONTHS ENDED MARCH 31, 2010
 (In thousands of dollars)

	2005	2006	2007	2008	2009	2010 ⁽¹⁾
REVENUES						
Shipping Services						
Wharfage	\$288,415	\$330,933	\$331,919	\$335,172	\$295,287	\$221,340
Dockage	7,577	8,484	8,201	6,957	6,234	4,241
Demurrage	310	283	246	276	227	157
Cranes	3,155	2,402	2,460	1,944	1,120	682
Pilotage	6,951	7,737	8,829	7,677	7,683	5,129
Assignment Charges	22,283	23,312	23,687	22,750	18,720	6,394
Storage	123	197	129	102	76	3
Subtotal	\$328,814	\$373,348	\$375,471	\$374,878	\$329,347	\$237,946
Rentals						
Land	\$31,788	\$30,807	\$37,147	\$41,587	\$38,875	\$31,376
Other	2,842	3,069	3,175	3,937	3,493	2,515
Total Rentals	\$34,630	\$33,876	\$40,322	\$45,524	\$42,368	\$33,891
Royalties, Fees and Other Operating Revenues	5,384	4,893	6,867	5,943	30,509 ⁽²⁾	29,881
Total Operating Revenues	\$368,828	\$412,117	\$422,660	\$426,345	\$402,224	\$301,718
Provision for Bad Debts	13,199	19,958	5,499	--	--	--
Net Operating Revenues	\$355,629	\$392,159	\$417,161	\$426,345	\$402,224	\$301,718
EXPENSES						
Operating and Administrative Expenses						
Salaries and benefits	\$58,182	\$65,705	\$74,313	\$95,444	\$99,350	\$71,041
Marketing and public relations	3,455	3,333	4,521	5,274	3,676	1,960
Travel and entertainment	743	822	604	1,128	635	368
Outside services	39,672	33,673	33,277	37,937	29,498	13,569
Material and supplies	5,320	5,400	5,813	8,950	8,121	3,375
City services and payments	22,361	20,821	28,640	27,101	28,704	23,741
Litigation, claims, and settlement expenses	--	--	--	19,836	13,838	837
Clean Truck Program Expenses	--	--	--	12,464	54,003	16,917
Other operating expenses	41,158	54,378	16,607	13,618	16,318	9,860
Total Operating and Administrative expenses	170,891	184,132	163,775	221,752	254,143	141,668
Income from Operations before Depreciation	184,738	208,027	253,386	204,593	148,081	160,050
Depreciation	70,040	98,779	88,106	78,295	83,413	64,952
Operating Income	114,698	109,248	165,280	126,298	64,668	95,098
Nonoperating Revenues/(Expenses)						
Income from investments in JPAs and other entities	3,543	4,302	4,675	4,440	2,980	1,818
Interest and investment income	7,266	9,582	23,773	34,863	18,824	10,634
Interest expense	(42,279)	(37,787)	(50,038)	(38,052)	(36,979)	(27,060)
Other income and expenses, net	11,842	7,222	11,018	(2,536)	(7,625)	(2,489)
Net Nonoperating Expenses	(19,628)	(16,681)	(10,572)	(1,285)	(22,800)	(17,097)
Income Before Capital Contributions	\$95,070	\$92,567	\$154,708	\$125,013	\$41,868	\$78,001

⁽¹⁾ Derived from unaudited financial statement for the nine months ended March 31, 2010.

⁽²⁾ The increase from Fiscal Year 2007-08 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."

Source: Harbor Department of the City of Los Angeles

The Department's tariffs are competitive with those charged by other west coast ports. Table 7 provides a history of the Department's general cargo tariffs and basic dockage charges over the last ten years and for the nine months ended March 31, 2010.

**TABLE 7
 GENERAL CARGO TARIFFS AND
 BASIC DOCKAGE CHARGES
 FISCAL YEARS 2000-2009
 AND FOR THE NINE MONTHS ENDED MARCH 31, 2010**

Fiscal year Ended June 30	General Cargo Tariff ⁽¹⁾	Basic Dockage Charge ⁽²⁾
2000	5.67	2,236
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 ⁽³⁾	6.25	2,465

⁽¹⁾ Per metric ton or cubic meter of cargo.

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

⁽³⁾ Derived from unaudited financial statements for the period ended March 31, 2010.

Source: Harbor Department of the City of Los Angeles

Port Activity 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: (i) local, regional, national and international economic and trade conditions, (ii) international political conditions and hostilities, (iii) cargo security concerns, (iv) shipping industry economics, including the cost and availability of labor, fuel, vessels, containers and insurance, (v) competition among shipping companies and ports, including with respect to timing, routes and pricing, (vi) governmental regulation, including security regulations and taxes imposed on ships and cargo, as well as maintenance and environmental requirements and (vii) 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.

In Fiscal Years 2007-08 and 2008-09, the global economic downturn resulted in a significant drop in global trade. The Department's revenues from shipping services were approximately \$375 million in Fiscal Year 2006-07 and fell to approximately \$329 million in Fiscal Year 2008-09. The Department's net operating revenues were approximately \$423 million in Fiscal 2006-07 and approximately \$426 million in Fiscal Year 2007-08, but fell to approximately \$402 million in Fiscal Year 2008-09. In recent months, however, the Department experienced a slight improvement in cargo volumes at the Port. For example, total TEUs for March 2010 were 4.51% more than March 2009 and total TEUs for the three months ended March 2010 were approximately 7.94% greater as compared to the three

months ended March 2009. However, total TEUs for the nine months ended March 2010 as compared to the nine months ended March 2009 decreased approximately 6.98%.

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 "FINANCIAL INFORMATION CONCERNING THE DEPARTMENT – Introduction and Recent Development – Incentives Programs." Other North American ports such as the Port of Long Beach, the Port of New York/New Jersey and the Port of Savannah also recently instituted incentive programs. See "INVESTMENT CONSIDERATIONS – Port Competition."

The economic, security and political environment in Mexico may impact the Port due to recent events in that country. These events include 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.

Container Forecast

In 2007, the Department and the Port of Long Beach contracted with The Tioga Group, Inc. and IHS Global Insight (together the "Tioga and IHS") 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 the Tioga and IHS produced the "San Pedro Bay Container Forecast Update" (the "2009 Container Forecast").

The 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 Ports do not suffer any major congestion problems, diversions to other West Coast ports will be minimal.

The following table 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 the table below and the variations may be material. See "CERTAIN INVESTMENT CONSIDERATIONS—Forward-Looking Statements."

CONTAINER FORECAST FOR THE SAN PEDRO BAY PORTS

**2010-2030
 TEUs (000's)⁽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	3,123	4,410	6,151	8,377	11,109	6.55
Total TEUs	12,814	16,959	21,827	27,691	34,563	5.09

⁽¹⁾ Over the last five calendar years the Port handled 61.5% of the average total TEUs that were handled by both of the San Pedro Bay Ports.

⁽²⁾ The San Pedro Bay Ports handled approximately 11.8 million TEUs in 2009.

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

Incentives Programs

Container Customer Initiatives

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. These incentive programs resulted in a reduction of operating revenues for the Department of approximately \$17.4 million for Fiscal Year 2008-09. The Department expects that these incentive programs will result in a reduction of operating revenues of approximately \$19.7 million for the Fiscal Year 2009-10 and a reduction of approximately \$3 million for the Fiscal Year 2010-11.

Intermodal Container Discount Program

In February 2009, the Department initiated the Intermodal Container Discount Program, a one year cost reduction program under which the Department provided terminal operators a ten percent discount on revenues due to the Department on each rail container they transport to or from the Port by rail between January 1, 2009 and December 31, 2009. The Intermodal Container Discount Program cost the Department approximately \$8 million.

Inland Points Intermodal Incentive Program

In March 2009, the Department initiated the Inland Points Intermodal Incentive Program under which the Department incentivized certain eligible carriers through an incentive credit of \$20 per intermodal TEU moved through the Port between May 1, 2009 and April 30, 2010 in excess of such carrier's intermodal container volumes moved through the Port by such carriers between May 1, 2008 and April 30, 2009. Intermodal cargo accounts for just over 40% of the total container volume at the Port. The Inland Points Intermodal Incentive Program cost the Department approximately \$6.6 million in Fiscal Year 2008-09 and has not been continued in Fiscal Year 2009-10.

Permit Rate Reductions

In 2009, the Board approved amendments to certain of its permits. Under these amendments the permittees received a fifty percent rate reduction on up to six acres of space assignments under the permits. These amendments expired on December 31, 2009 and do not affect the minimum annual amounts due under the permits. These permit rate reductions cost the Department approximately \$1.8 million.

To implement the above-described incentive programs the Department has amended certain of its permits to provide, among other things, empty container discounts, one-time credits and certain payment deferrals.

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 shall be shared equally. The Department's share of ACTA's operations and assets, liabilities and equity at June 30, 2009 and 2008 is described in Note 4 of the general purpose financial statements set forth in APPENDIX E – "AUDITED FINANCIAL STATEMENTS OF THE HARBOR DEPARTMENT FOR THE FISCAL YEARS ENDED JUNE 30, 2008 AND 2007."

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 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 twenty percent (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 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 2007-08 and 2008-09, the global economic downturn resulted in a significant drop in global trade. See "—Introduction and Recent Developments – Port Activity and Impact of Economic Downturn." In recent months, however, the Department experienced a slight improvement in cargo volumes at the Port. For example, total TEUs for March 2010 were 4.51% more than March 2009 and total TEUs for the three months ended March 2010 were approximately 7.94% greater as compared to the three months ended March 2009. However, total TEUs for the nine months ended March 2010 as compared to the nine months ended March 2009 decreased approximately 6.98%

ACTA has reported that the reduction in the San Pedro Bay Ports' containerized cargo volume has resulted in a corresponding decline in ACTA's revenue. Based upon the TEU volume projected in the 2009 Container Forecast, ACTA has projected that its revenue 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 has since increased from its low

in early calendar year 2009. See “—Introduction and Recent Developments – Port Activity 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 is also evaluating debt restructuring options that may include, but not be limited to, traditional bond financing and/or a federal 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 2009-10 ACTA has notified the Department that no Shortfall Advance payments are expected to be required.

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.

Historic Revenues and Fiscal Year 2009-2010 Budget

Historical Revenues

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 the most recent five Fiscal Years are shown in Table 8 below.

TABLE 8
HISTORICAL REVENUES, EXPENSES AND DEBT SERVICE COVERAGE
FISCAL YEARS 2005-2009
AND FOR THE NINE MONTHS ENDED MARCH 31, 2010
 (In thousands of dollars)

Fiscal Year Ended June 30	Revenues ⁽¹⁾	Operating & Maintenance Expenses ⁽²⁾	Net Revenues	Debt Service ⁽³⁾	Ratio of Net Revenues to Debt Service ⁽⁴⁾
2005 ⁽⁵⁾	\$ 366,438	\$ 170,891	\$ 195,547	\$ 60,536	3.2
2006 ⁽⁵⁾	406,043	184,132	221,911	61,574	3.6
2007 ⁽⁵⁾	445,609	163,775	281,834	59,085	4.8
2008 ⁽⁵⁾	465,648	221,752	243,896	61,318	4.0
2009	424,028	254,143	169,885	61,298	2.8
2010 ⁽⁶⁾	314,170	141,669	172,501	66,851	2.6

⁽¹⁾ Represents “Revenues,” as the Issuing and Paying Agent Agreement and each Parity Revenue Bond Indenture defines such term.

⁽²⁾ Operation and Maintenance expenses include payroll, fringe benefits and payments for City services.

⁽³⁾ Debt Service includes only the principal and interest payments on Parity Obligations, which includes outstanding Revenue Bonds and the Notes; however as of the date of this Offering Memorandum, no Notes are outstanding. Debt Service does not include loans acquired from the California Department of Boating and Waterways, which are not Parity Obligations. Debt Service on Parity Obligations which have been legally defeased is excluded.

⁽⁴⁾ Net Revenues divided by Debt Service.

⁽⁵⁾ Restated.

⁽⁶⁾ Derived from unaudited financial statements for the nine months ended March 31, 2010.

Source: Harbor Department of the City of Los Angeles

Fiscal Year 2010-2011 Budget

The Department's budget for Fiscal Year 2010-11 (the "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 2011 Budget was formulated based on certain financial metrics in line with the Department's Financial Policies (described below), in particular, that a minimum of 2.0x in debt service coverage and a \$235 million minimum level of cash reserves are maintained.

In addition, the 2011 Budget takes into consideration the effects of the global recession 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 that, in the short run, has reduced revenues but is expected in the long run to generate greater volumes and help strengthen relationships with its customers. 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 2011 Budget continues to rely on conservative revenue assumptions, including a moderate 2% growth in shipping volumes based on trade volume data from tenants and positive signs of year-on-year container volume growth. The 2011 Budget also includes a 23% 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 2010-11 include:

- 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;
- On-schedule continuation of major capital projects, especially the revenue-generating TraPac Terminal and China Shipping Terminal Expansion projects that enable the advancement of important but less revenue-generating projects such as the Los Angeles Waterfront Projects;
- New revenue sources from public and private grants for construction, environmental, economic development, transportation, and security initiatives;
- 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
- 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.

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 and April 2010.

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. See "—Harbor Revenue Fund." 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 non-compliant. 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: (i) 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; (ii) permit fees shall be consistent with the Department's Leasing Policy; (iii) 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; (iv) the marginal revenue from any operating activity must exceed the marginal cost of the activity; (v) operating expenses must be funded in whole by operating revenues; (vi) the Department will limit financial support of programs funded by federal, state and private grants to avoid commitments that continue beyond available funding; (vii) the Department seeks new and diverse revenues; and (viii) 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 and Capital Improvement Plans – 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, (i) maintain access to capital markets and other sources of capital funding at the most efficient cost of funds; (ii) manage financial risks prudently by maintaining required and additional financial reserves to meet the Department's financial needs; (iii) meet or exceed all debt indenture and Charter requirements; and (iv) 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 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: (i) 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; (ii) services of loss adjustment and loss prevention are best secured through an insured program and (iii) legal or contractual obligations require insurance.

Debt Management Policy

The objectives of the Department's Debt Management Policy include, among others, (i) maintaining of the Department's existing credit ratings; (ii) providing for an efficient overall cost of borrowing for the Department; (iii) maintaining appropriate reserves and liquidity levels; (iv) providing specific guidelines with respect to the overall management of the Departments debt (v) establishing a process for selecting consultants to assist the Department in the issuance and management of the Department's debt; and (vi) supporting for the Department's strategic plan objectives. The Debt Management policy is summarized as follows: (1) maintain a minimum debt service coverage of 2.0x, and (2) variable rate exposure on long-term debt not to exceed 20%.

Other Financial Matters

Debt Service on Parity Obligations

Debt service to maturity on the Parity Bonds as of June 30, 2010 is shown on Table 9.

TABLE 9
DEBT SERVICE ON PARITY OBLIGATIONS
AS OF JUNE 30, 2010

Fiscal Year	Principal	Interest	Total
2011	\$ 29,200,000.00	\$ 45,129,085.00	\$ 74,329,085.00
2012	30,450,000.00	43,717,103.75	74,167,103.75
2013	31,285,000.00	42,253,798.75	73,538,798.75
2014	32,770,000.00	40,738,037.50	73,508,037.50
2015	34,165,000.00	39,093,625.00	73,258,625.00
2016	36,640,000.00	37,307,943.75	73,947,943.75
2017	38,510,000.00	35,436,175.00	73,946,175.00
2018	40,905,000.00	33,461,487.50	74,366,487.50
2019	43,075,000.00	31,363,812.50	74,438,812.50
2020	44,805,000.00	29,145,075.00	73,950,075.00
2021	47,610,000.00	26,788,412.50	74,398,412.50
2022	49,595,000.00	24,296,568.75	73,891,568.75
2023	51,640,000.00	21,684,093.75	73,324,093.75
2024	54,365,000.00	18,948,018.75	73,313,018.75
2025	57,625,000.00	16,076,962.50	73,701,962.50
2026	60,090,000.00	13,054,106.25	73,144,106.25
2027	48,970,000.00	10,276,625.00	59,246,625.00
2028	11,260,000.00	8,780,750.00	20,040,750.00
2029	11,900,000.00	8,223,300.00	20,123,300.00
2030	12,395,000.00	7,627,600.00	20,022,600.00
2031	12,910,000.00	6,985,150.00	19,895,150.00
2032	13,580,000.00	6,302,737.50	19,882,737.50
2033	14,395,000.00	5,582,143.75	19,977,143.75
2034	15,145,000.00	4,821,312.50	19,966,312.50
2035	15,935,000.00	4,020,806.25	19,955,806.25
2036	16,760,000.00	3,178,687.50	19,938,687.50
2037	17,620,000.00	2,306,162.50	19,926,162.50
2038	11,240,000.00	1,570,275.00	12,810,275.00
2039	11,835,000.00	964,556.25	12,799,556.25
2040	12,455,000.00	326,943.75	12,781,943.75
Total	\$ 909,130,000.00	\$ 569,461,356.25	\$ 1,478,591,356.25

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 “—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 2008-09 City Services payments totaled approximately \$29 million and for Fiscal Year 2009-10, the Department has budgeted approximately \$32 million for City Services payments. Pursuant to a 1977 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 has agreed to reimburse the Department approximately \$60-61 million plus 3% interest by crediting the Department's annual City Services payment approximately \$5.127 million per year for Fiscal Years 2001-02 through 20015-16 and has also agreed to reimburse the Department certain other monies. Repayment is applied as a credit against amounts owed to the City by the Department for City Services. See Note 10(a) of the Audited Financial Statements of the Department attached hereto as APPENDIX E – "AUDITED FINANCIAL STATEMENTS OF THE HARBOR DEPARTMENT FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND 2008." See also "INVESTMENT CONSIDERATIONS – City Financial Challenges."

Historical Cash Balances

The table below shows the ending cash balances in the Harbor Revenue Fund and the Department's restricted funds for Fiscal Years 2004-05 through 2008-09 and for the nine months ended March 31, 2010.

TABLE 10
HISTORICAL ENDING CASH BALANCES
FISCAL YEARS 2005-2009
AND FOR THE NINE MONTHS ENDED MARCH 31, 2010
 (In thousands of dollars)

	2005	2006	2007	2008	2009	2010 ⁽⁴⁾
UNRESTRICTED FUNDS						
Harbor Revenue Fund	\$ 211,241	\$ 256,258	\$ 380,138	\$ 488,893	\$ 162,684	\$ 173,014
Harbor Special Operating Fund	--	--	--	--	200,685	200,685
Others	--	--	--	--	358	872
Total Unrestricted Restricted Funds	\$ 211,241	\$ 256,258	\$ 380,138	\$ 488,893	\$ 363,727	\$ 374,571
RESTRICTED FUNDS						
Emergency Fund ⁽¹⁾	\$ 84,545	\$ 87,409	\$ 91,775	\$ 96,839	\$ 37,122	\$ 37,219
China Shipping Mitigation Fund	18,811	31,036	46,652	51,539	48,547	48,547
Community Aesthetic Fund for Parks	3,476	3,418	3,449	3,490	3,448	3,448
Community Mitigation Trust Fund TraPac ⁽²⁾	--	--	--	--	11,421	11,624
Clean Truck Fee Fund	--	--	--	--	4,551	1,130
Batiquitos L/T Investment Fund ⁽³⁾	5,066	5,243	5,508	5,796	5,947	5,974
U.S. Custom House – Terminal Island	6,257	6,153	6,230	6,349	--	--
Bond Funds	15	63,917	62	9	61,608	89,384
Customer Security Deposits	1,621	3,142	3,154	3,206	3,199	3,199
Other	2,608	2,266	1,499	1,094	1,097	1,124
Total Restricted Funds	\$ 122,399	\$ 202,584	\$ 158,329	\$ 168,323	\$ 176,940	\$ 201,649
TOTAL FUNDS	\$ 333,640	\$ 458,842	\$ 538,467	\$ 657,216	\$ 540,667	\$ 576,220

⁽¹⁾ In December 2008, the Department transferred \$61.5 million to the bond trustee to cash fund the reserve fund established under the 2005/2006 Indenture as the result of a downgrade by S&P of MBIA Inc., the provider of the reserve fund surety in connection with the bonds issued under the 2005/2006 Indenture.

⁽²⁾ Includes deposit into TraPac Community Mitigation Trust Fund of \$11.42 million in March 2009.

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

⁽⁴⁾ Derived from unaudited financial statements for the nine months ended March 31, 2010.

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 June 30, 2009 are shown in the following table:

**TABLE 11
 CITY OF LOS ANGELES POOLED INVESTMENT FUND
 INVESTMENTS AS OF MARCH 31, 2010**

	Market Value at 3/31/2010 (millions)	% of Total
Treasury Notes	\$ 1,852	29.51%
U. S. Agencies	2,577	41.06
Medium Term Notes	733	11.52
Commercial Paper	423	6.74
Mortgage-Backed Securities	84	1.34
Certificates of Deposit	163	2.76
U. S. Treasury Bills	444	7.07
Total	\$ 6,276	100.00%

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. Except as expressly set forth herein, nothing contained on that website is incorporated herein.

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

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

The average life of the investment portfolio for the General Pool as of June 30, 2009 was 1,034 days.

The Department and the Trustee, not the Treasurer, will have responsibility for the investment of the proceeds of the Bonds and amounts once on deposit in the various funds and accounts under the Indenture. The proceeds of the Bonds and other moneys required to be deposited by the Department to the funds and accounts established under the Indenture will be held and invested by the Trustee, at the direction of the Department, in Permitted Investments, as defined in the Indenture. The Department

anticipates that the proceeds of the Bonds deposited to the Reserve Fund, if any, will be invested in U.S. Treasury securities, federal agency securities or as otherwise permitted in the Indenture or, alternatively, that the Common Reserve Requirement will be satisfied through the deposit of a surety bond to the Reserve Fund in lieu of cash.

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 Bond Owners and the Trustee, at the office of the Department, a copy thereof, or a summary financial statement, upon request, to any Bond Owner. The annual audited financial statements generally are also available on the Department's website at www.portoflosangeles.org/finance/financial_statements.asp and through the Municipal Securities Rulemaking Board's Electronic Municipal Market Access website (EMMA) currently located at www.emma.msrb.org. Except as expressly set forth herein, nothing contained on the Department's website is incorporated herein. See APPENDIX E – "AUDITED FINANCIAL STATEMENTS OF THE HARBOR DEPARTMENT FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND 2008."

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 shall deem advisable or necessary to protect its interests and the interests of the Bond Owners, which insurance shall 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 financed with the proceeds of the 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 \$37.2 million as of February 28, 2010. However, the Port, like the entire City, is located within a seismically active region. See APPENDIX A – "CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES – SELECTED ECONOMIC AND DEMOGRAPHIC INFORMATION – Seismic Considerations" and "INVESTMENT CONSIDERATIONS – Seismic Activity."

The Department also maintains comprehensive general liability insurance, which includes terrorism coverage, in 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 “a” for the long-term issuer credit rating.

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

Labor Relations

The Port is a significant source of employment in the region. While the Department employs less than 1,000 persons, Port customers employ approximately 6,400 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. The current contract between the Association and ILWU expires on 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 has concluded negotiations with all but two of the unions and has contracts in place through June 30, 2010. One hundred thirty-five (135) sworn police employees are covered by 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.

Union	Bargaining Units	Agreement Period
American Federation of State, County and Municipal Employees, AFL-CIO (AFSCME)	Clerical and Support Employees, Executive Administrative Assistants	July 1, 2007 to June 30, 2014
Engineers and Architects Association (EAA)	Administrative Supervisory Administrative Professional, Technical Supervisory Technical	February 6, 2007 to June 30, 2010
Los Angeles City Supervisors & Superintendents Association/Laborers International of North America, Local 777	Supervisory Blue Collar	July 1, 2007 to June 30, 2014
Los Angeles County Bldg. & 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	July 1, 2007 to June 30, 2010
Service Employees Int'l Union (SEIU) AFL-CIO, Local 347	Equipment, Operation & Labor, Safety & 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 & Scientific, Supervisory Professional Engineering & Scientific	July 1, 2007 to June 30, 2010. Negotiations for an extension to MOU are ongoing.

Source: Harbor Department of the City of Los Angeles

Retirement Plan

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 of 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. There are no member contributions for health subsidy benefits; all such costs are funded from the employer's contribution and investment returns thereon.

According to the LACERS' Actuarial Valuation and Review of Retirement and Health as of June 30, 2009 (the "LACERS Valuation Report"), LACERS had an unfunded actuarial accrued liability ("UAAL") of approximately \$2.16 billion with respect to retirement benefits and \$660 million with respect to health subsidy benefits as of June 30, 2009. As of June 30, 2008, LACERS had an UAAL of approximately \$1.75 billion with respect to retirement benefits and \$585 million with respect to health subsidy benefits. The LACERS Valuation Report also indicated that that LACERS had a funded ratio of 81.6% (comprised of 81.6% with respect to retirement benefits and 67.0% with respect to health subsidy benefits) as of June 30, 2009 and 82.2% (comprised of 84.4% with respect to retirement benefits and 69.7% with respect to health subsidy benefits) as of June 30, 2008. 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

According to the LAFPP's Actuarial Valuation and Review of Retirement and Health as of June 30, 2009 (the "LAFPP Valuation Report"), LAFPP had a UAAL of approximately \$561 million with respect to retirement benefits and \$1,229 million with respect to health subsidy benefits as of June 30, 2009. As of June 30, 2008, LAFPP had an UAAL of approximately \$126 million with respect to retirement benefits and \$1,069 million with respect to health subsidy benefits. The LAFPP Valuation Report also indicated that that LAFPP had a funded ratio of 89.4% (comprised of 96.2% with respect to retirement benefits and 39.7% with respect to health subsidy benefits) as of June 30, 2009 and 92.6% (comprised of 99.1% with respect to retirement benefits and 41.8% with respect to health subsidy benefits) as of June 30, 2008. 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.

In Fiscal Year 2008-09 the Department contributed approximately \$12.6 million to LACERS, up approximately 8.3% from Fiscal Year 2007-08. In Fiscal Year 2008-09 the Department contributed approximately \$1.5 million to LAFPP, down approximately 5.5% from Fiscal Year 2007-08. 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.

In April 2009, LAFPP became aware that the Securities and Exchange Commission was conducting an investigation of individuals associated with the LAFPP 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 whom the LAFPP had or has relationships. The investigation is expected to take more than one year to complete. The potential liability associated with this investigation, including the impact on the pension fund's performance, is not known.

For additional information regarding LACERS and LAFPP, see APPENDIX A – “CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES – SELECTED INFORMATION REGARDING CITY FINANCIAL OPERATIONS – Retirement and Pension Systems.”

LITIGATION

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 or premium, if any, on the 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 (and together with the City, the “Cities”) and the San Pedro Bay Ports (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 CTP and the City of Long Beach’s Clean Truck Program (together, the “Concession Plans”). In the ATA Complaint, the ATA alleged that, among other things, the Concession Plans (i) unlawfully re-regulate the trucking industry and violate the Federal Aviation Administration Authorization Act of 1994 (the “FAAA Act”) and (ii) constitute unreasonable burdens on interstate commerce under the Commerce Clause of the U.S. Constitution and 49 U.S.C. § 14504a. The ATA Complaint requested as relief: (i) a declaratory judgment that the Concession Plans and Clean Truck Programs are preempted by the FAAA Act and the Commerce Clause, and (ii) a permanent injunction prohibiting the Port Defendants from enforcing any concession plan or other requirement that has the effect of regulating the prices, routes or services of motor carriers serving the San Pedro Bay Ports, or of precluding licensed motor carriers or independent owner-operators from entry into the San Pedro Bay Ports, and (iii) additional unspecified relief which may include damages and attorneys’ fees under 42 U.S.C. §1988. The ATA filed a motion for preliminary injunction which was denied on September 9, 2008. The ATA appealed the denial of the preliminary injunction to the United States Ninth Circuit Court of Appeals (the “Ninth Circuit”) and also filed an Emergency Motion for Injunction Pending Appeal. On September 24, 2008, the Ninth Circuit denied the ATA’s emergency motion for injunction. On March 20, 2009, the Ninth Circuit reversed the District Court’s denial of the preliminary injunction and remanded the case to the District Court to reconsider the ATA’s request for the preliminary injunction. On April 3, 2009, the ATA filed a renewed motion for preliminary injunction in the District Court and on April 29, 2009, the District Court issued a preliminary injunction which precludes the San Pedro Bay Ports from enforcing certain provisions within their concession agreements pending trial. While the District Court did not preliminarily enjoin the concession agreements as a whole, it enjoined the ability of the San Pedro Bay Ports to contractually enforce the requirements for truck ban and replacement, employee transition, concession fees, off-street parking, financial capability and preferential hiring considerations. On May 14, 2009, the ATA appealed to the Ninth Circuit the District Court’s issuance of the injunction, asserting that the District Court did not go far enough and that the Concession Plans should have been enjoined in their entirety. On February 24, 2010, a different Ninth Circuit Court of Appeals panel affirmed that the earlier preliminary injunction ruling by Federal District Court need not be expanded to completely enjoin the Department’s concession agreements pending trial. The Ninth

Circuit Court of Appeals panel held that it was unnecessary to enjoin the entire concession and that the non-enjoined elements could be severed and remain in effect pending trial. On October 19, 2009, the City of Long Beach settled its case with the ATA. The City did not settle and a trial on the merits took place in the District Court in April 2010, with a court decision pending.

On October 31, 2008, the Federal Maritime Commission (the "FMC") filed an action in the United States District Court for the District of Columbia against the Port Defendants, for an injunction pursuant to Section 6(h) of the Shipping Act of 1984 in which the FMC alleges violations of Section 10 of the Shipping Act of 1984. The complaint alleges that the San Pedro Bay Ports' Infrastructure and Environmental Programs agreement filed with the FMC (the "FMC Agreement"), was likely, by a reduction in competition, to result in an unreasonable reduction in transportation service or an unreasonable increase in transportation cost, in violation of the Shipping Act Section 6(g). The FMC requested a permanent injunction against the San Pedro Bay Ports operating under their FMC Agreement, or from discussing, agreeing or implementing certain elements of their Concession Plans or Clean Truck Programs. On June 16, 2009, the FMC filed a motion for vacatur of the April 15, 2009 Court Order Denying the Preliminary Injunction and requesting dismissal of the case in its entirety, then subsequently withdrew the request for vacatur and agreed to dismissal without prejudice under a stipulation with the San Pedro Bay Ports. On July 28, 2009 the District Court dismissed the case, officially concluding this matter.

An administrative proceeding entitled, Order for Investigation and Hearing was filed by the FMC on September 24, 2008, commencing an investigation into various issues concerning the CTP and the City of Long Beach's Clean Truck Program, including employee driver requirement, independent owner operator limitations, incentive programs, off-street parking requirement, Clean Truck Fee exemptions, and concession application criteria. On July 29, 2009 the FMC filed its own motion to dismiss the investigation and on August 21, 2009, the FMC dismissed the investigation, officially concluding the matter.

See "THE PORT AND THE HARBOR DEPARTMENT – Environmental and Regulatory Matters – Clean Air Action Plan – Clean Truck Program" above.

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 United States 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 United States District Court granted summary judgment in favor of Maersk, finding that United States lacked jurisdiction over the Relator's claims. The Relator has appealed these rulings to the Ninth Circuit Court of Appeals. The Department cannot reasonably estimate the effect of a successful appeal by the Relator.]

Pollution Damages Claim

The Department has been named as a defendant in an inverse condemnation claim by five individuals residing close to the San Pedro Bay Ports who claim loss of use and enjoyment of their homes as a result of noise and emissions from operations at the San Pedro Bay Ports. Numerous tenants and companies operating at the San Pedro Bay Ports are also named on a nuisance cause of action. The Department has determined that there would be no material adverse impact on the Department's finances or Port operations if there were an adverse determination in this matter, however it cannot be predicted

whether or when similar claims may be asserted in the future and if asserted, whether an adverse determination of such claims, individually or in the aggregate, would have a material adverse impact on the Department's finances or Port operations.

Riverside – China Shipping EIR Challenge

On December 18, 2008, the Department certified the final Environmental Impact Report for the expansion of the China Shipping Terminal at Berth 97-109. 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 indicated that it may appeal the court's ruling. 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 China Shipping 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 "Operating Data and Capital Improvement Plans – Capital Improvement Planning – Capital Development Program."

MISCELLANEOUS

The covenants and agreements of the Department for the benefit of the Owners of the Notes are set forth in the Issuing and Paying Agent Agreement and reference is made to the Issuing and Paying Agent Agreement for a statement of the rights of the Owners of the Notes and the covenants and obligations of the Department. All references to the Notes are qualified in their entirety to the definitive form thereof and the information with respect thereto included in the Issuing and Paying Agent Agreement.

Neither this Offering Memorandum, 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 Notes.

The Board of Harbor Commissioners has authorized the execution and delivery of this Offering Memorandum by its Executive Director.

Geraldine Knatz, Executive Director
Harbor Department
of the City of Los Angeles

APPENDIX A

CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES

The following information has been provided to the Department by the City of Los Angeles. Table numbers in this Appendix 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 Underwriters makes any representations as to the accuracy or the completeness of the following information. Capitalized terms not defined in this Appendix shall 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 2009 population of 4.06 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, and the City of San Bernardino to the east.

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, unlike San Diego's, 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 the current economic condition.

Population

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

Table 1
CITY, COUNTY AND STATE POPULATION STATISTICS

	<u>City of Los Angeles</u>	<u>Annual Growth Rate⁽¹⁾</u>	<u>County of Los Angeles</u>	<u>Annual Growth Rate⁽¹⁾</u>	<u>State of California</u>	<u>Annual Growth Rate⁽¹⁾</u>
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%

⁽¹⁾ 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 2 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 March 2010 of 13.0% statewide, 12.3% for Los Angeles County, and 13.5% for the City (not seasonally adjusted).

Table 2
ESTIMATED AVERAGE ANNUAL EMPLOYMENT AND
UNEMPLOYMENT OF RESIDENT LABOR FORCE

<u>Civilian Labor Force⁽¹⁾</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
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	1,882,300	1,888,400	1,914,600	1,939,400	1,898,000
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	4,810,000	4,844,500	4,912,600	4,972,000	4,833,800
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%

⁽¹⁾ March 2009 Benchmark; not seasonally adjusted. The “Benchmark” data is typically released in March for the prior calendar year.

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

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

Table 3 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 employs 13.8% of wage and salary workers.

Table 3
LOS ANGELES COUNTY
ESTIMATED INDUSTRY EMPLOYMENT AND LABOR FORCE⁽¹⁾

	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 & Utilities	789,800	19.3	742,500	19.4	2,636,500	3.1
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	4,082,000	100.0%	3,835,600	100.0%	14,455,100	100.0%

⁽¹⁾ Since 2000, the California Economic Development Department has converted employer records from the Standard Industrial Classification (SIC) coding system to the North American Industry Classification System (NAICS). 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.

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

Source: California Employment Development Department, Labor Market Information Division.

Major Employers

The top 25 major non-governmental employers in the County are listed in Table 4; these represent approximately 6.2% of the labor force. In addition, government employment represents approximately 15.6% of the labor force (see Table 3 – Estimated Industry Employment and Labor Force).

Table 4
LOS ANGELES COUNTY
MAJOR NON-GOVERNMENTAL EMPLOYERS

<u>Employer</u>	<u>Product/Service</u>	<u>Employees</u>
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
Childrens 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 5 summarizes the latest available estimate of personal income for the County, State and United States.

**Table 5
 COUNTY, STATE AND U.S.
 PERSONAL INCOME**

Year and Area	Personal Income (thousands of dollars)	Per Capita Personal Income (dollars)
2003		
County	\$ 309,827,072	\$ 31,512
State	1,187,040,144	33,554
United States	9,150,320,000	31,504
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

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

Retail Sales

As the largest city in the County, the City accounted for \$39.2 billion (or 29.7%) of the total \$131.8 billion in County taxable sales for 2008. Table 6 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.]

The City experienced a 7% decline in sales tax during Fiscal Year 2008-09 and anticipates an additional 10.8% decline during Fiscal Year 2009-10; a 5% increase in sales tax receipts is projected for Fiscal Year 2010-11.

Table 6
CITY OF LOS ANGELES
TAXABLE SALES
(in thousands)

	Annual				Quarter	
	2005	2006	2007	2008	1Q 2008	1Q 2009
Apparel stores	\$ 1,707,160	\$ 1,798,035	\$ 1,897,411	\$ 2,097,824	\$ 410,317	\$ 685,619
General merchandise stores	3,720,692	3,932,407	3,952,550	3,542,908	860,320	387,846
Food stores	1,682,668	1,736,111	1,834,470	1,888,581	448,743	409,327
Eating and drinking establishments	4,943,745	5,282,931	5,632,290	5,743,366	1,411,421	501,176
Home furnishings and appliances	1,301,546	1,300,167	1,294,546	1,338,890	287,793	746,557
Building materials and farm implements	2,436,987	2,430,287	2,252,227	1,924,786	500,283	526,852
Auto dealers and auto supplies	4,187,135	4,158,144	4,077,852	3,302,737	917,336	537,745
Service stations	3,872,089	4,292,157	4,494,346	5,159,799	1,220,187	1,347,493
Other retail stores	<u>4,860,849</u>	<u>5,002,642</u>	<u>5,070,023</u>	<u>4,383,989</u>	<u>1,136,484</u>	<u>851,503</u>
Retail stores total	28,712,871	29,932,881	30,505,725	29,382,881	7,192,884	5,994,118
All other outlets ⁽¹⁾	<u>8,781,680</u>	<u>9,440,519</u>	<u>9,626,679</u>	<u>9,909,316</u>	<u>2,359,801</u>	<u>1,998,380</u>
TOTAL ALL OUTLETS	\$37,494,551	\$39,373,400	\$40,132,404	\$39,292,197	\$9,552,685	\$7,992,499

⁽¹⁾ 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 7 provides a summary of residential building permit valuations and the number of new units in the City by calendar year.

Table 7
CITY OF LOS ANGELES
RESIDENTIAL BUILDING PERMIT VALUATIONS AND NEW UNITS

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
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	\$ 1,860	\$ 2,514	\$ 2,083	\$ 1,297	\$ 615
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	9,772	14,171	9,756	6,403	2,673
Miscellaneous ⁽⁶⁾	<u>1,433</u>	<u>1,201</u>	<u>746</u>	<u>278</u>	<u>185</u>
Total Units	11,205	15,372	10,502	6,681	2,858

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

Table 8
LOS ANGELES METROPOLITAN AREA
NON-RESIDENTIAL VACANCY RATES⁽¹⁾

	<u>Downtown</u>	<u>Suburban</u>	<u>Total</u>
2004	16.5%	14.1%	13.9%
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

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

⁽²⁾ Includes first three quarters of 2009 only, the most recent information available. [Updates are delayed until further notice (as of 3/17/10-still true 4/20/10).]

Source: RAND California.

Education

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

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

Seismic Considerations

Like most regions in the State, the City is subject to unpredictable and significant seismic activity. A number of known faults run through the City, and the City lies near the San Andreas Fault, which is the boundary between the Pacific and North American tectonic plates. The complex Los Angeles fault system interacts with the alluvial soils and other geologic conditions in the hills and basins. This interaction appears to pose a potential seismic threat for every part of the City, regardless of the underlying geologic and soils conditions. In addition, there are likely to be unmapped faults throughout the City. The most recent major earthquake, the Northridge earthquake in 1994, occurred along a previously unmapped blind thrust fault. Although the Northridge earthquake was listed by seismologists as a moderate earthquake, it was the most costly seismic event in the United States since the 1906 San Francisco earthquake, resulting in the loss of 72 lives and damage to approximately 93,000 buildings.

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 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 City 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 City 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 4-year term.

The City 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 City Council may override the veto of the Mayor by a two-thirds vote. The City Council orders elections, levies taxes, authorizes public improvements, approves contracts, adopts zoning and other land use controls, and adopts traffic regulations. The City 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 City 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 City 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 City Council and reports directly to both. Miguel V. Santana has been serving as CAO since July 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 City Council. The current Treasurer is Joya C. De Foor, who has served in that capacity since January 2001.

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 ("FPPP"), and the Water and Power Employees' Retirement, Disability and Death Benefit Insurance Plan (the "Water and Power Plan"). No General Fund monies of the City are allocated to the Water and Power Plan.

Both LACERS and FPPP (collectively, the "Pension Systems") provide retirement, disability, death benefits, post-employment healthcare and annual cost-of-living adjustments to plan members and beneficiaries. As required by the City Charter, the actuarial valuations for both Pension Systems are prepared on an annual basis and the applicable actuary recommends contribution rates for the fiscal year beginning after the completion of that actuarial valuation. When approved by the respective boards of administration of the Pension Systems, these become the City's 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 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. FPPP recently revised its smoothing methodology from five years to seven years, 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 2008-09, currently estimated at 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. FPPP 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.

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 33.

Table 33
LOS ANGELES PENSION SYSTEMS
HISTORICAL MARKET VALUE INVESTMENT RETURNS

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
LACERS	9.71%	12.34%	19.13%	(5.78%)	(20.26%)
FPPP	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 30,655 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 most recently used in valuing the plan are an investment rate of return of 8%, and this same rate is used to discount future values. Actuarial losses are funded and actuarial gains credited over fixed 15-year periods. Any liability or surplus due to benefit or assumption changes is funded or credited over 30 years. The Board adopted a policy of re-amortizing the System's then existing liabilities over 30 years beginning July 1, 2005.

Table 34 shows the present value of 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 assets was \$2.8 billion less than the actuarial value.

Table 34
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS FOR RETIREMENT BENEFITS
(Dollars in Thousands)⁽¹⁾

<u>Actuarial Valuation As of June 30</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded Or (Overfunded) AAL⁽²⁾</u>	<u>Funded Ratio⁽³⁾</u>	<u>Covered Payroll⁽⁴⁾</u>	<u>Underfunded or (Overfunded) AAL as a Percentage Of Covered Payroll⁽⁵⁾</u>
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	11,741,758	2,164,011	81.5	1,999,861	108.2

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

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

⁽³⁾ Actuarial value of assets divided by actuarial accrued liability.

⁽⁴⁾ Annual payroll for members of LACERS.

⁽⁵⁾ UAAL divided by covered payroll.

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

Table 35 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 35
 LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
 SOURCES AND USES OF CONTRIBUTIONS
 (Dollars in Thousands)⁽¹⁾

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
Sources of Contributions					
Contributions for Council-Controlled Departments	\$ 260,554	\$ 342,993	\$ 338,914	\$ 312,658	\$ 298,217
Airport and Harbor Departments	<u>43,706</u>	<u>50,317</u>	<u>58,542</u>	<u>60,729</u>	<u>57,548</u>
Total	\$ 304,260	\$ 393,310	\$ 397,456	\$ 373,387	\$ 355,765
Percent of payroll	19.0%	23.9%	22.8%	20.2%	19.46%
Uses of Contributions					
Current Service Liability (Normal cost)	\$ 162,526	\$ 220,242	\$ 226,441	\$ 237,183	\$ 238,536
UAAI/(Surplus)	141,332	172,506	170,527	135,691	116,618
Adjustments ⁽²⁾	<u>402</u>	<u>562</u>	<u>488</u>	<u>513</u>	<u>611</u>
Total	\$ 304,260	\$ 393,310	\$ 397,456	\$ 373,387	\$ 355,765

⁽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 36 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 19.6% in Fiscal Year 2008-09 and assumes 0% investment return for Fiscal Year 2009-10, 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 36
 LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
 ADOPTED AND PROJECTED CONTRIBUTIONS
 (Dollars in Thousands)

	Adopted Budget <u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
LACERS				
Contributions for Council-Controlled Departments ⁽¹⁾	<u>\$298,215</u>	<u>\$304,368</u>	<u>\$369,537</u>	<u>\$447,917</u>
Incremental Change	(14,442)	6,153	65,169	78,380

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

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

The City of Los Angeles Fire and Police Pension Plan (FPPP), established in 1923 under the Charter, represents contributory plans covering uniformed fire and police personnel. Five tiers of benefits are provided, depending on the date of the member's hiring. As of June 30, 2009, the FPPP had 13,802 active members, 12,327 retired members and beneficiaries, and 61 vested former members. The FPPP 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 FPPP also administers a Deferred Retirement Option Program ("DROP"), which became effective May 2002. DROP is a voluntary program whereby a member with a minimum of 25 years of service may file for a service pension but continue to work and earn salary and benefits as an active member. The monthly service pension benefit is deposited into a DROP account that earns a 5% per annum return, payable upon exiting the DROP program. Participation in the DROP program is limited to a maximum of five years. It began as a five-year program designed to be cost-neutral, with provisions for review and adjustment of the design to retain its cost neutrality. A study of the 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, FPPP became aware that the Securities and Exchange Commission (SEC) was conducting an investigation of individuals associated with the FPPP 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 that FPPP had or has relationships with. The investigation is expected to take more than one year to complete. The potential liability associated with this investigation, including the impact on the pension fund's performance, is not known.

Table 37 shows the present value of retirement benefits (excluding retiree health care and other post-employment benefits), the actuarial value of assets available for retirement benefits, and two indicators of funding progress for FPPP, the funded ratio and the ratio of UAAL to annual payroll. Investment gains and losses are recognized on an actuarial basis over a seven-year period. As of June 30, 2009, the date of the most recent actuarial valuation, the market value of assets was \$4.1 billion less than the actuarial value.

Table 37
 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 Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded Or (Overfunded) AAL ⁽²⁾	Funded Ratio ⁽³⁾	Covered Payroll ⁽⁴⁾	Underfunded or (Overfunded) AAL as a Percentage Of Covered Payroll ⁽⁵⁾
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 38 summarizes the General Fund's payments to FPPP over the past five fiscal years. This table includes costs for retirement, other post-employment benefits, and other miscellaneous benefits.

Table 38
LOS ANGELES FIRE AND POLICE PENSION PLAN
SOURCES AND USES OF CONTRIBUTIONS
(Dollars in Thousands)

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
General Fund	<u>\$176,001</u>	<u>\$279,721</u>	<u>\$327,089</u>	<u>\$325,615</u>	<u>\$355,308</u>
Percent of payroll	15.1%	24.8%	28.9%	26.23%	28.24%
Current Service Liability	180,018	\$211,402	\$249,955	\$272,691	\$285,929
UAAL/(Surplus)	(13,561)	67,707	76,701	52,801	69,280
Adjustments ⁽¹⁾	544	612	433	123	99
Tier 5 Current Service Liability ⁽²⁾	<u>9,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$176,001</u>	<u>\$279,721</u>	<u>\$327,089</u>	<u>\$325,615</u>	<u>\$355,308</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 39 below projects the General Fund's contributions to FPPP, including the projected cost of other post-employment benefits, for the next four fiscal years, based on information provided by FPPP's actuary. These contributions include the projected cost of other post-employment benefits. These projections reflect the significant investment losses of 20% in Fiscal Year 2008-09, assume 0% in investment return for Fiscal Year 2009-10, and the actuarial rate of return of 8% thereafter. Consistent with FPPP's current policies, investment gains or losses are recognized over a seven-year asset smoothing period, with a corridor limit of 60% to 140% of market value of assets.

Table 39
LOS ANGELES FIRE AND POLICE PENSION PLAN
PROJECTED CONTRIBUTIONS
(Dollars in Thousands)

	<u>Adopted Budget</u> <u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
General Fund	\$355,308	\$408,859	\$499,437	\$597,563
Incremental Change	\$26,693	53,551	90,578	98,126

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 suggests that, at current trends, the City would experience some level of operating deficit the years following 2009-10. 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 through some combination of revenue increases, expenditure reductions, and transfers from reserves.

In the General Fund Budget Outlook included in the Second Financial Status Report released by the City Administrative Officer on November 13, 2009, the City projected continuing budget challenges in the upcoming years. Because many of the Fiscal Year 2009-10 budget balancing solutions are one time measures, and due to projected growth particularly in retirement costs due to investment losses, the forecast for Fiscal Year 2010-11 reflects an estimated deficit of \$408 million. This deficit would increase to \$1 billion for Fiscal Year 2013-14 if no permanent solutions are implemented to reduce the City's expenditures.

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 by widening the two systems' funding corridors, but potentially will result in higher long-term contributions absent other changes in earnings or other assumptions. See the footnotes to Table 11, and **"SELECTED INFORMATION REGARD FINANCIAL OPERATIONS—Retirement and Pension Systems."**

The General Fund Budget Outlook illustrates that, if currently projected investment assumptions materialize, and absent changes to the City's contribution policy, 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. The boards of the respective Pension Systems are exploring different funding methodologies to help mitigate these impacts, such as extending the smoothing or amortization periods for market losses, or modifying the existing market value corridor policy. However, any such changes in funding methodology, while reducing contributions over the next few years, would result in potentially higher long-term contributions absent other changes in earnings or other assumptions. Investment assumptions include investment losses of 25% in Fiscal Year 2008-09, and flat returns in Fiscal Year 2009-10 (i.e., 0% returns). Under current funding policies and based on these investment return assumptions, the contributions to both systems would increase by \$440 million in Fiscal Year 2010-11, and an additional \$191 million in Fiscal Year 2011-12 (i.e., in addition to the \$440 million, and beyond the scope of the Three-Year Outlook below).

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.

There are a number of risks associated with the City's efforts to address its Fiscal Year 2009-10 challenges. Savings currently identified are estimates, and may not be fully realized, and additional savings must be identified to fully balance the Fiscal Year 2009-10 budget. Delays in implementing expenditure reductions would reduce the amount of savings that will be generated in the current fiscal year. There is a risk of legal challenge by labor organizations and individual employees contesting certain actions, such as increases in employee retirement contribution rates. Any shortfalls in the City's achieving its budget balancing goals would require that the City adopt additional budget balancing actions, including transfers from the City's Reserve Fund.

For additional information, see Note 5 in the "Notes to the City's Basic Financial Statements Fiscal Year Ended June 30, 2008" in the City's Comprehensive Annual Financial Reports. Various reports for LACERS and FPPP are posted from time to time on the City's website. Such reports are not incorporated as part of this Offering Memorandum.

Other Post-Employment Benefits

Retired members and surviving spouses and domestic partners of LACERS and FPPP members are eligible for certain subsidies toward their costs of medical and dental insurance. Both of the Pension Systems advance fund retiree health insurance benefits for current retirees and active eligible members for many years, funding the annual contribution recommended by their actuaries. 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 FPPP, based on the actuarial cost method and assumptions used for the related pension plans, are as follows:

Table 40
OTHER POST-EMPLOYMENT BENEFITS
LOS ANGELES CITY EMPLOYEES RETIREMENT SYSTEM
(Dollars in thousands)

<u>As of June 30</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
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	52.0%	57.2%	68.5%	69.7%	67.0%

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

Table 41
OTHER POST-EMPLOYMENT BENEFITS
FIRE AND POLICE PENSION PLAN
(Dollars in thousands)

<u>As of June 30</u>	<u>2005⁽¹⁾</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Actuarial Valuation of Assets	\$ 597,199	\$ 613,782	\$ 687,096	\$ 767,648	\$ 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	47.5%	37.6%	41.5%	41.8%	39.7%

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

Source: The Fire and Police Pension System Actuarial Valuations.

The information in Table 40 for 2004 and in Table 41 through 2005 does not purport to reflect the application of GASB 43 and 45, which require that LACERS, FPPP, 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 B-1
FORM OF OPINION OF NIXON PEABODY LLP DATED [_____]
REGARDING SERIES A NOTES
[TO BE PROVIDED]

APPENDIX B-2

FORM OF OPINION OF NIXON PEABODY LLP DATED [_____]
REGARDING SERIES B NOTES
[TO BE PROVIDED]

APPENDIX B-3
FORM OF OPINION OF NIXON PEABODY LLP DATED [_____]
REGARDING SERIES C NOTES
[TO BE PROVIDED]

APPENDIX B-4

FORM OF OPINION OF NIXON PEABODY LLP DATED [_____]
REGARDING SERIES D NOTES
[TO BE PROVIDED]

APPENDIX C
SUMMARY OF CERTAIN LEGAL DOCUMENTS
[TO BE PROVIDED BY NOTE COUNSEL]

APPENDIX D

DTC BOOK-ENTRY SYSTEM

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Department believes to be reliable, but the Department assumes no responsibility for its accuracy.

The DTC, New York, New York, will act as securities depository for the Notes. The Notes 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 note certificate will be issued for each issue of the Notes, each in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest securities depository, 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. 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 Securities 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 its 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; nothing contained in the websites is incorporated into this Offering Memorandum.

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

To facilitate subsequent transfers, all Notes 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 Notes 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 Notes: DTC records reflect only the identity of the Direct Participants to whose accounts such Notes 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. [Beneficial Owners of Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Notes, such as redemptions, tenders, defaults, and proposed amendments to the related documents. For example, Beneficial Owners of Notes may wish to ascertain that the nominee holding the Notes for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.]

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Notes unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer 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 Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Notes 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 or the Issuing and Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by 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 Participant and not of DTC, the Issuing and Paying Agent or the Department, subject to any statutory, or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend 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 Issuing and Paying Agent, 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 Notes at any time by giving reasonable notice to the Department or the Issuing and Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Note certificates 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, Note certificates will be printed and delivered to DTC.

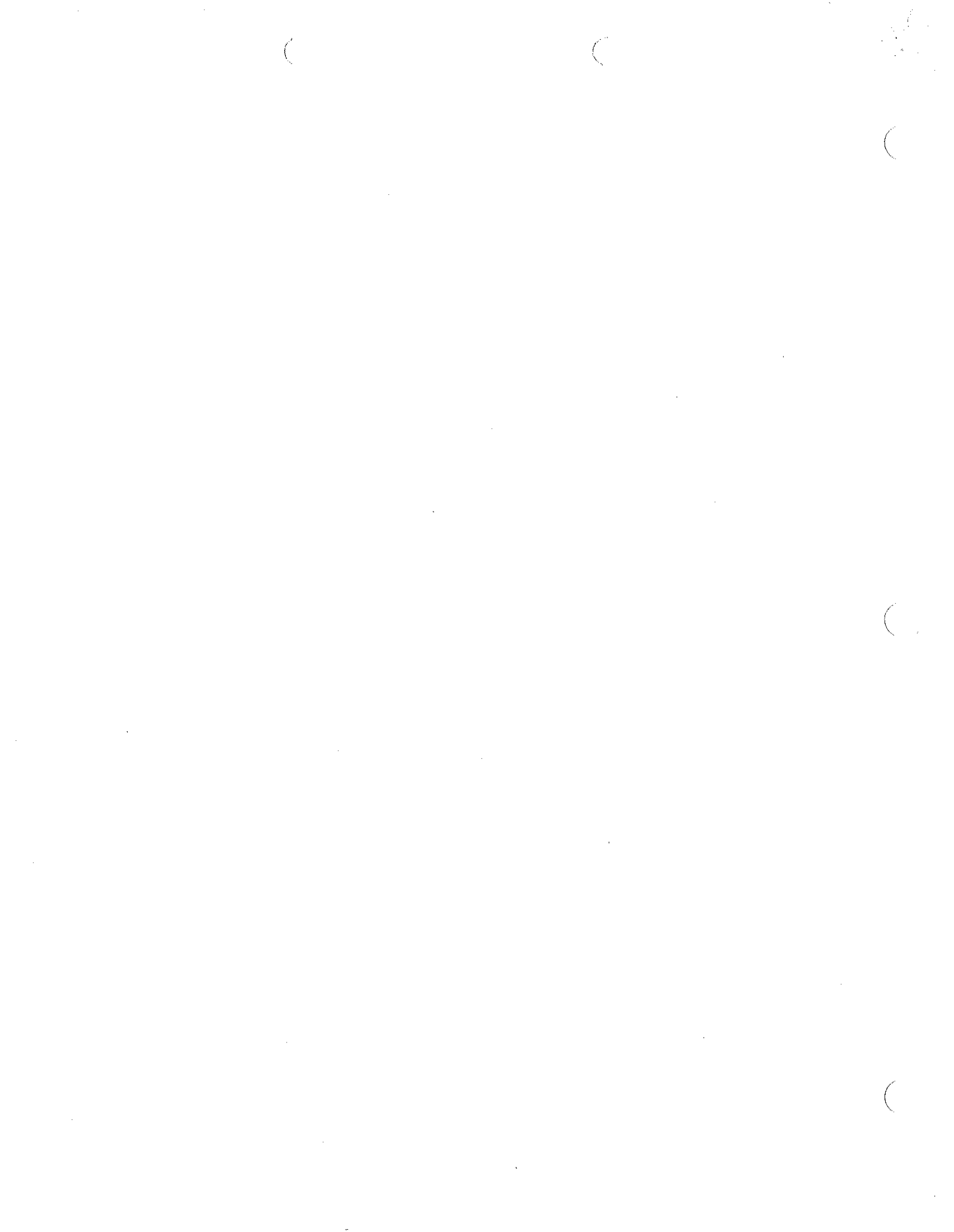
THE DEPARTMENT AND THE ISSUING AND PAYING AGENT SHALL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DTC PARTICIPANT, ANY BENEFICIAL OWNER OR ANY OTHER PERSON CLAIMING A BENEFICIAL OWNERSHIP INTEREST IN THE NOTES UNDER OR THROUGH DTC OR ANY DTC PARTICIPANT, OR ANY OTHER PERSON WHICH IS NOT SHOWN ON THE REGISTRATION BOOKS OF THE ISSUING AND PAYING AGENT AS BEING AN OWNER, WITH RESPECT TO THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT, THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OF ANY AMOUNT IN RESPECT OF THE PRINCIPAL OF OR INTEREST ON THE NOTES; ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO OWNERS; ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS AN OWNER; OR ANY OTHER PROCEDURES OR OBLIGATIONS OF DTC UNDER THE BOOK-ENTRY SYSTEM.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE NOTES, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE HOLDERS OR OWNERS OR REGISTERED HOLDERS OR REGISTERED OWNERS OF THE NOTES SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE NOTES.

APPENDIX E
AUDITED FINANCIAL STATEMENTS OF THE HARBOR DEPARTMENT
FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND 2008

TRANSMITTAL NO. 4
QUATEMAN LLP
DRAFT DATED MAY 26, 2010

00134249/37/3000.0056





Act
TRANSMITTAL #5

425 S. Palos Verdes Street Post Office Box 151 San Pedro, CA 90733-0151 TEL/TDD 310 SEA-PORT www.portoflosangeles.org

Antonio R. Villaraigosa Mayor, City of Los Angeles
S. David Freeman President
Jerilyn López Mendoza Vice President
Kaylynn L. Kim
Douglas P. Krause
Joseph R. Radtsich
Board of Harbor Commissioners
Geraldine Knatz, Ph.D. Executive Director

June 8, 2009

The Honorable Antonio R. Villaraigosa
Mayor, City of Los Angeles
200 N. Spring Street, Room 303
Los Angeles, CA 90012

06-11-09 11:52 RCVD

Mr. Raymond Ciranna
Interim City Administrative Officer
200 N. Main Street
City Hall East, Room 1500
Los Angeles, CA 90012

06-11-09 11:52 RCVD

Honorable Members of the
City Council of the
City of Los Angeles

06-11-09 11:52 RCVD

CD No. 15

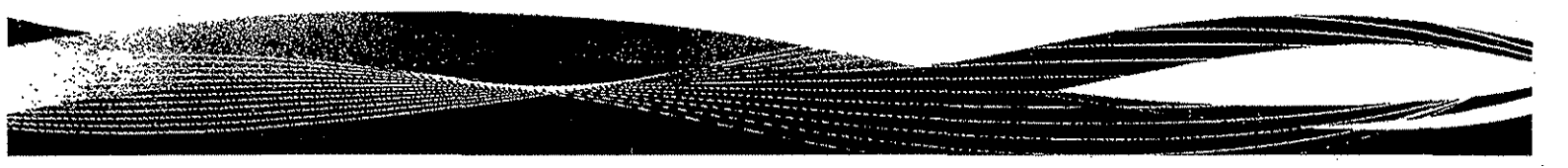
Attention: Mr. Eric Villanueva, City Clerk's Office

SUBJECT: RESOLUTION NO. 09-6753 RE-ESTABLISHING THE
COMMERCIAL PAPER PROGRAM

Pursuant to Los Angeles City Charter Section 609 and the Bond Procedural Ordinance of the City of Los Angeles Administrative Code Sections 11.28.1 through 11.28.9, attached is a copy of Resolution No. 09-6753, which was adopted by the Board of Harbor Commissioners at its meeting held Thursday, June 4, 2009. Resolution No. 09-6753 approves four principal documents related to the Harbor Department's Commercial Paper Program; Dealer Agreements with two underwriters; Issuing and Paying Agent Agreement; Credit Agreement with one bank; and Offering Memorandum.

RECOMMENDATION

The City Council approve Board of Harbor Commissioners Resolution No. 09-6753 which establishes and implements the issuance and remarketing of the Commercial Paper Program and approves four principal documents related to the Harbor Department's Commercial Paper Program; Dealer Agreements with two underwriters; Issuing and Paying Agent Agreement; Credit Agreement with one bank; and Offering Memorandum.



ENVIRONMENTAL ASSESSMENT

The proposed action is to establish the 2009 Harbor Department Commercial Paper Program. As an administrative action, the Director of Environmental Management has determined that the proposed action is exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II, Section 2(f) of the Los Angeles City CEQA Guidelines.

FINANCIAL IMPACT

Approval of the proposed Resolution will have no financial impact upon the Harbor Department. However, once the Commercial Paper Liquidity Facility is in place, the annual cost to the Harbor Department will be approximately \$1.47 million. Additionally, if there is any borrowing under the facility, the interest on any note outstanding will be in addition to the above stated fee. Currently, commercial paper rates are under 1% for 90-day paper. All associated expenses for the program including financial advisory fees, credit facility fees, broker/dealer fees, and issuing and paying agent fees have been budgeted under the Non-Operating expense budget. The annual cost for the Liquidity Facility is budgeted in general ledger account #89075 of cost center 6000; interest expense that results from borrowing under the facility is budgeted in general ledger account #83110 of cost center 6000.

TIME PERIOD

Los Angeles Administrative Code Section 11.28.2 specifies that the City Council must take action on an item within the calendar period consisting of the longer of thirty (30) calendar days or five (5) consecutive Council meetings (convened in regular session) following the receipt by the Council from the City Clerk of certified copies of such Resolution.

Respectfully submitted,


ROSE M. DWORSHAK
Commission Secretary

cc: Trade, Commerce, & Tourism Committee
Councilwoman Hahn, encls.
Councilman Rosendahl, encls.
Councilman LaBonge, encls.
Pamela Finney, Mayor's office, encls.
Christine Yee Hollis, CLA, encls.
Alvin Newman, CAO, encls.
Jenny Chavez, CD 15, encls.
Tricia Carey, Legislative Rep., encls.

bcc: Debt & Treasury Div., encls.
City Attorney, encls.

RECOMMENDATION APPROVED
AND RESOLUTION NO. 09-6753 ADOPTED
BY THE BOARD OF HARBOR COMMISSIONERS



June 4, 2009

Rose M. Dwarshak
SECRETARY

DATE: MAY 28, 2009

FROM: DEBT AND TREASURY DIVISION

SUBJECT: RESOLUTION NO. 09-6753 TO RE-ESTABLISH THE COMMERCIAL PAPER PROGRAM

SUMMARY:

This request is to re-establish the Commercial Paper (CP) Program at the \$100,000,000 level to help finance projects in the City of Los Angeles Harbor Department (Harbor Department) Capital Improvement Program and other capital needs.

RECOMMENDATION:

It is recommended that the Los Angeles Board of Harbor Commissioners:

1. Adopt, pursuant to the Los Angeles City Charter (LACC) Section 609 and the Bond Procedural Ordinance of the City of Los Angeles Administrative Code (LAAC) Sections 11.28.1 through 11.28.9, the attached Resolution (Transmittal 1) approving the following four principal documents related to the Harbor Department's Commercial Paper Program: Dealer Agreements with two underwriters (Transmittal 2); Issuing and Paying Agent Agreement (Transmittal 3); Credit Agreement with one bank (Transmittal 4); and Offering Memorandum (Transmittal 5);
2. Direct the Executive Director or her designees to jointly and severally do any and all actions necessary consistent with the Resolution to establish and implement the issuance and remarketing of the Commercial Paper Program, subject to the right of the City Council to review such documents pursuant to the requirements of LAAC Section 11.28.2;
3. Direct the Board Secretary, pursuant to LACC Section 609 and the Bond Procedural Ordinance of the LAAC Sections 11.28.1 through 11.28.9, to certify that the Board has adopted the Resolution and, on behalf of the Harbor Commissioners, immediately transmit for further processing certified copies of the Resolution, Board report, and all related documents to the Mayor, Office of the City Administrative Officer, and City Council; and
4. Adopt Resolution No. 09-6753.

DATE: MAY 28, 2009

TRANSMITTAL #5
PAGE 2 OF 6

SUBJECT: RESOLUTION NO. 09-6753 TO RE-ESTABLISH THE COMMERCIAL PAPER PROGRAM

DISCUSSION:

1. On August 22, 2001, the Board of Harbor Commissioners authorized the Harbor Department Commercial Paper Program at a not to exceed limit of \$375,000,000. Commercial Paper Notes are unsecured short-term debt instruments that are issued by the Harbor Department and sold to investors through investment banks that perform as sellers or dealers of commercial paper. Commercial Paper Notes generally have maturity periods that vary from 1 to 270 days and may be used to meet short-term financial needs. On October 4, 2001, the Harbor Commissioners adopted Resolution No. 6035 that, among other things, approved documents related to the Commercial Paper Program, including Dealer Agreements, a Credit Agreement, an Issuing and Paying Agent Agreement, and an Offering Memorandum.
2. In September 2006, subsequent to the Harbor Department replacing through a refunding all of the then-outstanding \$113 million of Commercial Paper Notes (CP Notes) with 2006 Series D fixed-rate long term bonds, the three German banks that provided the credit facility for the Program, through an administrative error, canceled the facility without notifying the Harbor Department. In August 2008, after the Harbor Department realized that the credit facility was no longer in place, two of the German Banks were no longer in the business to provide facilities for Commercial Paper Programs. Harbor Department staff at that time attempted to establish a program with the one remaining liquidity provider bank to support issuance of up to \$200 million in CP Notes. Subsequent to negotiation and execution of a term sheet, the credit markets froze and the bank halted extension of all credit. By that time, in fall of 2008, there were no banks in the market offering credit.
3. Pursuant to the Harbor Commissioners' recommendation to issue about \$200 million of revenue bonds, the Harbor Department is also seeking to reactivate the Commercial Paper Program to provide greater funding flexibility for various financial requirements of the Harbor Department. A separate financial and legal team has been formed for each transaction. As additional flexibility, the Harbor Department is also pursuing the establishment of a \$60 million two-year committed line of credit with the Union Bank of California. Together, these financing programs will provide the Harbor Department with a variety of options as it considers and plans its future financing needs.
4. The Harbor Department's Commercial Paper Program allows for the maximum principal amount of \$375 million which may be outstanding at any one time under this Program. However, the Harbor Department is recommending a limited credit

DATE: MAY 28, 2009

TRANSMITTAL #5
PAGE 3 OF 6

SUBJECT: RESOLUTION NO. 09-6753 TO RE-ESTABLISH THE COMMERCIAL PAPER PROGRAM

amount of up to \$100 million based upon staff's assessment of potential funding and liquidity requirements in the next fiscal year, since the Harbor Department is also in the process of a bond issuance transaction.

Currently, CP Notes with maturity of up to 90 days are expected to be issued at rates that are under 1% per annum. The rates are reset every time these notes mature or are remarketed. The interest paid by the Harbor Department on the CP Notes that it proposes to issue may be, for the investor that purchases them, (a) tax exempt but subject to the Alternative Minimum Tax (AMT), (b) tax exempt and not subject to the AMT (Non-AMT), or (c) taxable, depending on the purpose for which the borrowing was incurred.

5. Role of the parties involved in reinstating the CP Program are as follows:

- Financial Advisor: Provides advice to the issuer and coordinates the transaction from start to the end.
- Counsels:
 1. Bond counsel prepares the legal agreements for the CP Program and advises the Department on legal issues.
 2. Disclosure counsel prepares the Offering Memorandum, which describes the CP Program and provides information on the Department.
- Dealers: Underwriting firms engaged in sale and marketing of the CP Notes.
- Issuing and Paying Agent: Acts as depository for safekeeping of the CP Notes, issuing agent on behalf of the Harbor Department for issuing the CP Notes, and paying agent for making payments of principal and interest on the CP Notes on behalf of the Harbor Department.
- Credit Facility Provider: Provides liquidity support to make the payments on the CP Notes in the event that the issuer is unable to pay on the maturity date of the CP Notes. Any such advances would then be repaid by the Harbor Department to the bank.

6. In March 2007, the Harbor Commissioners approved, based on a formal request for proposal process and for a period of 3 years, four firms to form the Harbor Department's pool of financial advisors. Among the firms selected was Frasca & Associates, L.L.C. (Frasca), a certified Women-Owned Business Enterprise. On February 10, 2009, Harbor Department staff selected Frasca from this pool based on a written questionnaire to act as financial advisor on this project. Through the Office of the City Attorney and based upon proposals submitted by law firms within their existing bond counsel pool approved by the Board, Nixon Peabody LLP was chosen as bond counsel and Quateman LLP as disclosure counsel.

DATE: MAY 28, 2009

TRANSMITTAL #5
PAGE 4 OF 6

SUBJECT: RESOLUTION NO. 09-6753 TO RE-ESTABLISH THE COMMERCIAL PAPER PROGRAM

7. The Commercial Paper Dealers were selected by a panel in April 2008 from within the pool of underwriters approved by the Harbor Commissioners in July 2008. The selection panel recommended the appointment of Loop Capital Markets and Morgan Stanley as the Authorized Dealers for the Commercial Paper Program. See Transmittal 2 for Dealer Agreement details.
8. When issuing Commercial Paper, the CP Program is usually backed by a bank credit facility, with the bank providing support known generally as the "liquidity provider." The purpose of a bank credit facility is to provide assurance to the investor marketplace that maturing CP Notes will be fully repaid. The bank credit facility exists either in the form of a standby letter of credit or a line of credit, thereby providing the support to make payments in the event that the issuer (in this case the Harbor Department) is unable to pay upon the maturity of the note.
9. The Issuing and Paying Agent (IPA) was selected in June 2008 based on a survey conducted among banks providing such service. The proposed bank was the highest rated with the lowest overall fees and it has prior Harbor Department Commercial Paper Program experience. The staff recommends the appointment of U. S. Bank as the IPA for the Commercial Paper Program. An IPA is responsible for issuance and redemption of the notes on their maturity dates.
10. Needing a bank credit facility to support the contemplated Commercial Paper Program, the Harbor Department surveyed nine banks. In the existing market, the ability and willingness to provide credit is very tight as bank balance sheets continue to be weak and the demand for credit exceeds the supply. Staff received one strong and two other preliminary indications of interest to provide a bank credit facility to support a commercial paper facility. Based upon this review, the Harbor Department staff recommends the appointment of JP Morgan as the financial institution to provide a line of credit to the Harbor Department to support the Commercial Paper Program. See Transmittal 4 for Credit Agreement details. As noted, the bank will step in to pay a maturing note if the Harbor Department is unable to do so.
11. Governmental issuers of bonds and notes are given ratings by the rating firms of Moody's, Standard & Poor's, and Fitch. These ratings are based on multiple factors including management expertise, capital facilities, customer base, revenues and expenses, amount of outstanding debt, debt policies, among other factors. Ratings differ for long-term bonds and short-term paper. These ratings are used by investors to assist in their decisions. The Harbor Department's long-term debt ratings are currently Aa2, AA and AA by Moody's, Standard & Poor's, and Fitch, respectively. Historically the Harbor Department's CP Notes have been rated A-1+/P-1, the highest ratings possible. Ratings will be sought upon the approval of this Resolution and favorable results are expected.

DATE: MAY 28, 2009

TRANSMITTAL #5

SUBJECT: RESOLUTION NO. 09-6753 TO RE-ESTABLISH THE COMMERCIAL PAPER PROGRAM

12. By adopting this Resolution, the Harbor Commissioners approve the: (a) Dealer Agreements; (b) Issuing and Paying Agent Agreement with U. S. Bank to establish the Program terms; (c) Line of Credit Agreement with JP Morgan to support the Harbor Department's ability to remarket the commercial paper when due; (d) Offering Memorandum which provides potential commercial paper investors information about the Harbor Department and the CP Program; and, (e) such other documents and actions as may be necessary or desirable from time to time to implement the Harbor Department's Commercial Paper Program.

The Harbor Commissioners are asked to approve, ratify, and confirm all actions heretofore taken by the officers, employees, and agents of the Harbor Department in connection with or related to the establishment of the Program, the issuance and sale of commercial paper; and to adopt the Document Resolution establishing the Harbor Department's Commercial Paper Program.

ENVIRONMENTAL ASSESSMENT:

The proposed action is to establish the 2009 Harbor Department Commercial Paper Program. As an administrative action, the Director of Environmental Management has determined that the proposed action is exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II, Section 2(f) of the Los Angeles City CEQA guidelines.

ECONOMIC BENEFITS:

This action will have no direct employment effect in the five-country region.

FINANCIAL IMPACT:

Approval of the proposed Resolution will have no financial impact upon the Harbor Department. However, once the Commercial Paper Liquidity Facility is in place, the annual cost to the Harbor Department will be approximately \$1.47 million. Additionally, if there is any borrowing under the facility, the interest on any note outstanding will be in addition to the above stated fee. Currently, commercial paper rates are under 1% for 90-day paper. All associated expenses for the program including financial advisory fees, credit facility fees, broker/dealer fees, and issuing and paying agent fees have been budgeted under the Non-Operating expense budget. The annual cost for the Liquidity Facility is budgeted in general ledger account #89075 of cost center 6000; interest expense that results from borrowing under the facility is budgeted in general ledger account #83110 of cost center 6000.

DATE: MAY 28, 2009

TRANSMITTAL #5
PAGE 6 OF 6

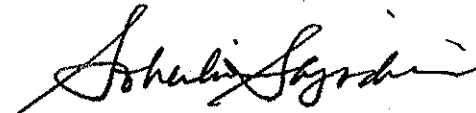
SUBJECT: RESOLUTION NO. 09-6753 TO RE-ESTABLISH THE COMMERCIAL PAPER PROGRAM

CITY ATTORNEY:

The Office of the City Attorney has reviewed and approved as to form the Resolution, Dealer Agreements, Issuing and Paying Agent Agreement and Credit Agreement.

TRANSMITTALS:


1. Resolution No. _____
2. Dealer Agreements
3. Issuing and Paying Agent Agreement
4. Credit Agreement
5. Offering Memorandum
6. CFO Memo Regarding the Private Sale of Commercial Paper Notes


SOHEILA SAJADIAN
Director of Debt and Treasury


for KARL K. Y. PAN
Chief Financial Officer


MOLLY CAMPBELL
Deputy Executive Director

APPROVED:


GERALDINE KNATZ, Ph.D.
Executive Director