

In the opinion of Sidley Austin LLP, Los Angeles, California ("Bond Counsel"), based on existing statutes, regulations, rulings and judicial decisions and assuming compliance with certain covenants in the documents pertaining to the Bonds and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), as described herein, interest on the Bonds is not includable in the gross income of the owners of the Bonds for federal income tax purposes, except for any 2009A Bond during any period in which such 2009A Bond is held by a "substantial user" of the facilities financed or refinanced with the proceeds of the 2009A Bonds or a "related person" (as such terms are defined in the Code). In the further opinion of Bond Counsel, interest on the Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations, and is not included as an adjustment in calculating federal corporate alternative minimum taxable income for purposes of determining a corporation's alternative minimum tax liability. In the further opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxes imposed by the State of California. See "TAX MATTERS" herein.



\$200,000,000
HARBOR DEPARTMENT
OF THE CITY OF LOS ANGELES
Revenue Bonds

\$100,000,000
2009 Series A

\$100,000,000
2009 Series B

Dated: Date of delivery

Due: August 1, as shown on inside front cover

The Harbor Department of the City of Los Angeles Revenue Bonds, 2009 Series A (the "2009A Bonds") and the Harbor Department of the City of Los Angeles Revenue Bonds, 2009 Series B (the "2009B Bonds" and, together with the 2009A Bonds, the "Bonds") each as described herein will be issued by the Harbor Department (the "Department") of the City of Los Angeles (the "City") in the aggregate principal amount of \$200,000,000.

The Bonds are being issued to (i) finance certain Projects (as defined herein); (ii) fund a debt service reserve fund and (iii) pay the costs incidental to the issuance of the Bonds. The Bonds are being issued under and pursuant to Section 609 of the Charter of the City, relevant ordinances of the City, Section 11.28.1 et seq. of the Los Angeles Administrative Code (collectively, the "Charter"), Resolution No. 09-6724 adopted by the Board on May 7, 2009, approved by the City Council of the City on June 5, 2009 and approved by the Mayor of the City on June 11, 2009 (the "Resolution"). The Bonds are also being issued under an Indenture of Trust (the "Indenture"), dated as of July 1, 2009 by and between the Department and U.S. Bank National Association, as trustee (the "Trustee"). The Bonds will be issued on a parity with the Department's outstanding Parity Obligations (as described herein). See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Parity Obligations" herein.

Principal of and interest on the Bonds are payable solely from the Revenues (as defined herein) and other amounts pledged under the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Source of Payment" and "— Harbor Revenue Fund."

Contemporaneously with the sale of the Bonds, the Department intends to issue its Refunding Revenue Bonds 2009 Series C (the "Refunding Bonds") in the aggregate principal amount of \$230,160,000. The Refunding Bonds when issued pursuant to the Indenture will be Parity Obligations. No Refunding Bonds are being offered pursuant to this Official Statement. The issuance of the Refunding Bonds is not contingent upon the sale of the Bonds and vice versa. The Bonds and the Refunding Bonds, if so issued, will be treated as a single issue for federal tax purposes.

The Bonds are to be delivered as fully registered bonds, in denominations of \$5,000 or any integral multiple thereof, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. See "APPENDIX C – BOOK-ENTRY ONLY SYSTEM" herein. Interest on the Bonds is payable semiannually on August 1 and February 1 of each year, commencing August 1, 2009. Principal of each Bond is payable at its maturity or prior redemption upon surrender of such Bond at the principal corporate trust office of the Trustee in Los Angeles, California. Certain of the Bonds are subject to optional and mandatory redemption prior to maturity as described herein. See "DESCRIPTION OF THE BONDS – Redemption Provisions" herein.

THE BONDS DO NOT CONSTITUTE OR EVIDENCE AN INDEBTEDNESS OF THE CITY, THE STATE OF CALIFORNIA OR ANY SUBDIVISION THEREOF OTHER THAN THE DEPARTMENT, OR A LIEN OR CHARGE ON ANY PROPERTY OR THE GENERAL REVENUES OF THE CITY, THE STATE OF CALIFORNIA OR ANY SUBDIVISION THEREOF OTHER THAN THE DEPARTMENT, AND IN ANY EVENT THE BONDS SHALL NOT BE PAYABLE OUT OF ANY FUNDS OR PROPERTIES OF THE CITY OR THE DEPARTMENT OTHER THAN THE REVENUES DEPOSITED INTO THE HARBOR REVENUE FUND AS PROVIDED IN THE INDENTURE AND OTHER AMOUNTS PLEDGED THEREFOR UNDER THE INDENTURE. THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OF THE DEPARTMENT IN CONTRAVENTION OF ANY CHARTER, STATUTORY OR CONSTITUTIONAL DEBT OR OTHER LIMITATION OR RESTRICTION AND DO NOT CONSTITUTE AN OBLIGATION FOR WHICH THE DEPARTMENT OR THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DEPARTMENT OR THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

The Bonds are offered when, as, and if issued by the Department, subject to approval as to legality by Sidley Austin LLP, Los Angeles, California, Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for the Department by QUATEMAN LLP, Los Angeles, California, Disclosure Counsel for the Department, for the Underwriters by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, and The Gibbs Law Group, P.C., Alameda, California, Co-Counsel to the Underwriters and for the Department by the City Attorney of the City of Los Angeles. Gardner, Underwood & Bacon LLC, Los Angeles, California, served as Financial Advisor to the Department in connection with the execution and delivery of the Bonds. It is anticipated that the Bonds will be available for delivery through the DTC book-entry system in New York, New York, on or about July 9, 2009.

J.P. Morgan

Loop Capital Markets, LLC

Citi

Morgan Stanley

Siebert, Brandford, Shank & Co., LLC

Stone & Youngberg

Dated: June 25, 2009

MATURITY SCHEDULE
\$100,000,000
HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES
REVENUE BONDS
2009 SERIES A
(Base CUSIP Number: 544552)[†]

Maturity (August 1)	Principal Amount	Interest Rate	Yield	CUSIP No. [†]	Maturity (August 1)	Principal Amount	Interest Rate	Yield	CUSIP No. [†]
2010	\$ 3,300,000	2.000%	0.830%	SZ6	2020	\$ 4,835,000	5.000%	4.340% ^c	TK8
2011	3,365,000	3.000	1.650	TA0	2021	5,075,000	5.250	4.460 ^c	TL6
2012	3,465,000	3.250	2.050	TB8	2022	5,340,000	5.250	4.560 ^c	TM4
2013	3,580,000	4.000	2.560	TC6	2023	5,625,000	5.250	4.660 ^c	TN2
2014	3,720,000	5.000	2.990	TD4	2024	5,920,000	5.250	4.750 ^c	TP7
2015	3,905,000	4.750	3.260	TE2	2025	6,230,000	5.250	4.820 ^c	TQ5
2016	4,095,000	4.000	3.550	TF9	2026	6,555,000	5.000	4.990 ^c	TR3
2017	4,255,000	4.000	3.810	TG7	2027	6,885,000	5.000	5.040	TS1
2018	4,425,000	4.000	4.010	TH5	2028	7,230,000	5.000	5.090	TT9
2019	4,605,000	5.000	4.170	TJ1	2029	7,590,000	5.000	5.150	TU6

\$100,000,000
HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES
REVENUE BONDS
2009 SERIES B

\$43,640,000 5.250% 2009 Series B Term Bond due August 1, 2034, priced to yield 5.390% CUSIP No.[†] 544552TV4.

\$56,360,000 5.250% 2009 Series B Term Bond due August 1, 2039, priced to yield 5.430% CUSIP No.[†] 544552TW2.

[†] CUSIP is a registered trademark of American Bankers Association. CUSIP data herein is provided by Standard and Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. CUSIP data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service. CUSIP numbers are provided for convenience of reference only. Neither the Department nor the Underwriters take any responsibility for the accuracy of such CUSIP numbers. CUSIP numbers are provided only for the convenience of the reader.

^c Priced to par call date of August 1, 2019.

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 bonds other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. 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, and is not to be construed as a representation by the Financial Advisor or by any underwriter. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Department or the Department's operations since the date hereof.

Summaries of documents do not purport to be complete statements of their provisions and such summaries 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 of Los Angeles, the County of Los Angeles and others. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded. No such information is a part of or incorporated into this Official Statement, except as expressly noted.

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

The information set forth herein has been obtained from sources which are believed to be current and reliable. Estimates and opinions are included and should not be interpreted as statements of fact. Certain statements included or incorporated by reference in the following information constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget," "anticipate" or other similar words. 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. 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. See "FORWARD LOOKING STATEMENTS."

THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY THE BONDS, NOR SHALL THERE BE ANY SALE OF ANY OF THE BONDS, BY ANY PERSON IN ANY JURISDICTION IN WHICH, OR TO ANY PERSON TO WHOM, IT IS UNLAWFUL TO MAKE SUCH OFFER, SOLICITATION OR SALE.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE FRONT COVER HEREOF, AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

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

425 South Palos Verdes Street
San Pedro, California 90731

BOARD OF HARBOR COMMISSIONERS

Vacant, President[†]
Jerilyn López-Mendoza, Vice President
Kaylynn L. Kim
Douglas P. Krause
Joseph R. Radisich

OFFICERS AND EXECUTIVES

Geraldine Knatz, Ph.D., Executive Director
Molly C. Campbell, Deputy Executive Director, Finance and Administration
Michael R. Christensen, P.E., Deputy Executive Director of Development
Captain John M. Holmes, Deputy Executive Director, Operations
Wally Knox, Deputy Executive Director, External Relations^{††}
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
Rockard J. Delgadillo, *City Attorney*^{†††}
Thomas A. Russell, *General Counsel*

Bond Counsel
Sidley Austin LLP

Disclosure Counsel
QUATEMAN LLP

Financial Advisor
Gardner, Underwood & Bacon LLC

Trustee
U.S. Bank National Association

[†] The Mayor of the City of Los Angeles has appointed Cindy Miscikowski to the Board of Harbor Commissioners. Her appointment is pending confirmation by the City Council of the City of Los Angeles. The Vice President of the Board of Harbor Commissioners is serving as the Acting President of the Board. See "THE PORT AND THE DEPARTMENT – Introduction and Organization."

^{††} Pending confirmation by the City Council of the City of Los Angeles.

^{†††} Carmen Trutanich will hold the office of City Attorney effective July 1, 2009.

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OFFICIAL STATEMENT
\$200,000,000
HARBOR DEPARTMENT
OF THE CITY OF LOS ANGELES
Revenue Bonds

\$100,000,000
2009 Series A

\$100,000,000
2009 Series B

This Official Statement, which includes the cover page, the inside cover page, Parts I and II and appendices hereto, is being furnished by the Harbor Department (the "Department") of the City of Los Angeles (the "City") to provide information in connection with the issuance of its Revenue Bonds, 2009 Series A (the "2009A Bonds") and its 2009 Series B (the "2009B Bonds," and together with the 2009A Bonds, the "Bonds") in the aggregate principal amount of \$200,000,000. Generally, Part I of this Official Statement contains an introduction to the offering of and certain terms and conditions relating to the Bonds, and Part II of this Official Statement contains certain financial and operating information concerning the Department. See also "APPENDIX A – AUDITED FINANCIAL STATEMENTS OF THE HARBOR DEPARTMENT FOR THE FISCAL YEARS ENDED JUNE 30, 2008 AND 2007" and "APPENDIX D – Summary of Certain Provisions of the Indenture."

PART I

INTRODUCTION

This Introduction is qualified in its entirety by reference to the more detailed information included and referred to elsewhere in this Official Statement. The offering of the Bonds to potential investors is made *only* by means of the *entire* Official Statement.

The Department is a proprietary, independent department of 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. It 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, 2008, the Port handled approximately 8,081,361 cargo containers (twenty-foot equivalent units, "TEUs"), ranking the Port as the busiest container port in the nation. 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 which are currently being increased through acquisition, landfill and reconfiguration. The Port generally encompasses approximately 43 miles of waterfront and 27 major cargo 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."

The American Recovery and Reinvestment Tax Act of 2009, enacted on February 19, 2009 ("ARRA"), permits issuers, such as the Department, to issue private activity bonds, the interest on which is a *not* a specific preference item for purposes of the federal individual and corporate alternative minimum taxes. In accordance with such provisions of ARRA, the 2009A Bonds are being issued to (i) finance certain Private Activity Projects (as defined herein); (ii) fund a debt service reserve fund with respect to the 2009A Bonds; and (iii) pay the costs incidental to the issuance of the 2009A Bonds. "Private Activity Projects" means improvements, utilities, structures, watercraft, appliances, facilities and services as the Board of Harbor Commissioners of the City of Los Angeles (the "Board") may deem necessary or convenient for the promotion or accommodation of maritime commerce, navigation or fishery or for any use in connection therewith, or upon the lands and waters, or interests therein, in the possession and under the management, supervision and control of said Board, or for the payment of the cost of acquiring or taking such real property or any interest therein that the Board may deem necessary or convenient for such purposes. All Private Activity Projects (other than projects to the extent the bond-financed cost thereof is not in excess of 3% of the proceeds of the bond issue, or series of bonds, as applicable, from which such costs are financed, net of amounts therefrom deposited in a debt service reserve fund) must constitute a "dock or wharf" facility, or property functionally related and subordinate thereto, within the meaning of Section 142(a)(2) of the Code and the Treasury Regulations (each as defined in the Indenture) thereunder. The 2009B Bonds are being issued to (i) finance certain Governmental Projects (as defined herein); (ii) fund a debt service reserve fund with

respect to the 2009B Bonds; and (iii) pay the costs incidental to the issuance of the 2009B Bonds. "Governmental Projects" means improvements, utilities, structures, watercraft, appliances, facilities and services as the Board may deem necessary or convenient for the promotion or accommodation of maritime commerce, navigation or fishery or for any use in connection therewith, or upon the lands and waters, or interests therein, in the possession and under the management, supervision and control of said Board, or for the payment of the cost of acquiring or taking such real property or any interest therein that the Board may deem necessary or convenient for such purposes. All Governmental Projects (other than projects to the extent the bond-financed cost thereof is not in excess of 10% of the proceeds of the bond issue, or series of bonds, as applicable, from which such costs are financed, net of amounts therefrom deposited in a debt service reserve fund) must not be used in a "private business use" within the meaning of Section 141(b) of the Code and the Treasury Regulations thereunder. The Private Activity Projects and the Governmental Projects are referred to together herein as the "Projects." See "TAX MATTERS." For a description of capital improvement projects of the Department, certain of which constitute the Projects, see "THE PORT AND THE DEPARTMENT – Operating Data and Capital Improvement Plans – Capital Improvement Planning" herein. Proceeds of the Bonds will be used to, among other things, finance certain of these capital improvement projects in Fiscal Years 2009 and 2010.

The Bonds are being issued under and pursuant to Section 609 of the Charter of the City, relevant ordinances of the City, Section 11.28.1 et seq. of the Los Angeles Administrative Code (collectively, the "Charter"), Resolution No. 09-6724 adopted by the Board on May 7, 2009, approved by the City Council of the City (the "City Council") on June 5, 2009 and approved by the Mayor of the City (the "Mayor") on June 11, 2009 (the "Resolution"). The Bonds are also being issued under an Indenture of Trust (the "Indenture"), dated as of July 1, 2009 by and between the Department and U.S. Bank National Association, as trustee (the "Trustee").

The summaries of or references to the Charter, the Resolution, the Indenture, the Bonds and all other documents or instruments referred to in this Official Statement do not purport to be comprehensive or definitive. Each reference to any of the foregoing is qualified in its entirety by reference to each such document or instrument, copies of which are available for inspection at the offices of the Department. Reference should be made to the Resolution and the Indenture for capitalized terms used herein and not otherwise defined. See also "APPENDIX D – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" herein.

Principal of and interest on the Bonds are payable solely from the Revenues (as defined herein) and other amounts pledged under the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Source of Payment" and "– Harbor Revenue Fund."

Pursuant to the Indenture bonds or other obligations of the Department payable out of the Harbor Revenue Fund having priority with respect to payment of principal of or interest senior to the Parity Obligations may not be issued. No such senior obligations are currently outstanding. The Indenture does not prohibit the Department from issuing subordinate obligations payable out of the Harbor Revenue Fund. The Department had \$744,040,000 of Parity Obligations outstanding as of May 31, 2009. Subject to the satisfaction of the conditions set forth in the Indenture, 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 Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Additional Debt" and "– Parity Obligations" herein.

THE BONDS DO NOT CONSTITUTE OR EVIDENCE AN INDEBTEDNESS OF THE CITY, THE STATE OF CALIFORNIA OR ANY SUBDIVISION THEREOF OTHER THAN THE DEPARTMENT, OR A LIEN OR CHARGE ON ANY PROPERTY OR THE GENERAL REVENUES OF THE CITY, THE STATE OF CALIFORNIA OR ANY SUBDIVISION THEREOF OTHER THAN THE DEPARTMENT, AND IN ANY EVENT THE BONDS SHALL NOT BE PAYABLE OUT OF ANY FUNDS OR PROPERTIES OF THE CITY OR THE DEPARTMENT OTHER THAN THE REVENUES DEPOSITED INTO THE HARBOR REVENUE FUND AS PROVIDED IN THE INDENTURE AND OTHER AMOUNTS PLEDGED THEREFOR UNDER THE INDENTURE. THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OF THE DEPARTMENT IN CONTRAVENTION OF ANY CHARTER, STATUTORY OR CONSTITUTIONAL DEBT OR OTHER LIMITATION OR RESTRICTION AND DO NOT CONSTITUTE AN OBLIGATION FOR WHICH THE DEPARTMENT OR THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DEPARTMENT OR THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

DESCRIPTION OF THE BONDS

General

The Bonds will be issued in the aggregate principal amount of \$200,000,000. Interest on the Bonds shall be payable semiannually on February 1 and August 1 of each year commencing August 1, 2009. Interest will be calculated on the basis of a 360-day year composed of twelve 30-day months.

The Bonds will be dated their date of delivery, will bear interest from their date of delivery at the rates per annum, and will mature in the principal amounts and on the dates (subject to prior redemption) set forth on the inside cover page of this Official Statement.

Principal of the Bonds is payable at maturity or prior redemption upon surrender of the Bonds at the principal corporate trust office of the Trustee in Los Angeles, California. The Bonds are to be delivered as fully registered certificates, in denominations of \$5,000 or any integral multiple thereof, registered in the name of Cede & Co., as nominee of the Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. See "APPENDIX C – BOOK-ENTRY ONLY SYSTEM."

So long as Cede & Co. is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the Trustee by wire transfer of New York clearing house or equivalent next-day funds or by wire transfer of same-day funds, to Cede & Co., as nominee for DTC. DTC is obligated, in turn, to remit such amounts to the DTC Participants (as defined herein) for subsequent disbursement to the Beneficial Owners. See "APPENDIX C – BOOK-ENTRY ONLY SYSTEM."

Redemption Provisions

Optional Redemption of the 2009A Bonds

The 2009A Bonds with stated maturities on or after August 1, 2020, shall be subject to redemption at the option of the Department prior to their respective stated maturities, as a whole on any date or in part on any date in the order of maturity as directed by the Department and by lot within each maturity in integral multiples of \$5,000, on or after August 1, 2019, at a redemption price equal to the principal amount thereof, plus accrued interest thereon to the date fixed for redemption, without premium.

Mandatory Redemption of the 2009A Bonds

The 2009A Bonds are not subject to mandatory redemption.

Optional Redemption of the 2009B Bonds

The 2009B Bonds with stated maturities on or after August 1, 2020, shall be subject to redemption at the option of the Department prior to their respective stated maturities, as a whole on any date or in part on any date in the order of maturity as directed by the Department and by lot within each maturity in integral multiples of \$5,000, on or after August 1, 2019, at a redemption price equal to the principal amount thereof, plus accrued interest thereon to the date fixed for redemption, without premium.

Mandatory Redemption of the 2009B Bonds

The 2009B Bonds maturing on August 1, 2034 (the "2009B 2034 Term Bonds") are subject to mandatory redemption or purchase in lieu thereof from sinking fund payments made by the Department, in part (by lot) on August 1, 2030, and on August 1 in each year thereafter at a redemption price equal to the principal amount thereof, plus accrued interest thereon to the date fixed for redemption, without premium; provided, however, that if some but not all of the 2009B 2034 Term Bonds have been optionally redeemed, the total amount of sinking fund payments to be made subsequent to such optional or mandatory redemption shall be reduced in an amount equal to the principal amount of such 2009B 2034 Term Bonds so redeemed by reducing future sinking fund payments in such order as shall be designated pursuant to written notice filed by the Department with the Trustee. The 2009B 2034 Term Bonds shall be redeemed on the following dates and in the following amounts:

Redemption Date (August 1)	Principal Amount
2030	\$ 7,860,000
2031	8,270,000
2032	8,705,000
2033	9,160,000
2034 [†]	9,645,000

[†] Final Maturity

The 2009B Bonds maturing on August 1, 2039 (the “2009B 2039 Term Bonds”) are subject to mandatory redemption or purchase in lieu thereof from sinking fund payments made by the Department, in part (by lot) on August 1, 2035, and on August 1 in each year thereafter at a redemption price equal to the principal amount thereof, plus accrued interest thereon to the date fixed for redemption, without premium; provided, however, that if some but not all of the 2009B 2039 Term Bonds have been optionally redeemed, the total amount of sinking fund payments to be made subsequent to such optional or mandatory redemption shall be reduced in an amount equal to the principal amount of such 2009B 2039 Term Bonds so redeemed by reducing future sinking fund payments in such order as shall be designated pursuant to written notice filed by the Department with the Trustee. The 2009B 2039 Term Bonds shall be redeemed on the following dates and in the following amounts:

Redemption Date (August 1)	Principal Amount
2035	\$ 10,150,000
2036	10,680,000
2037	11,240,000
2038	11,835,000
2039 [†]	12,455,000

[†] Final Maturity

Selection of Bonds for Redemption

Whenever provision is made in the Indenture for the redemption of less than all of the Bonds of a maturity, the Trustee shall select such Bonds for redemption by lot, in any manner which the Trustee in its sole discretion shall deem appropriate and fair, in accordance with the Indenture. The Trustee shall promptly notify the Department in writing of the numbers of the Bonds or portions thereof so selected for redemption by mailing it a copy of the notice of redemption.

Notice of Redemption

Notice of redemption shall be mailed by first-class mail not less than thirty (30) days before any redemption date to the respective owners of any Bonds designated for redemption at their addresses appearing on the registration books and to the securities depositories and to one or more information services by means acceptable to such institutions.

Each notice of redemption shall state the redemption date, the place or places of redemption, whether less than all of the Bonds are to be redeemed, the distinctive numbers of the Bonds to be redeemed, and in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on the redemption date there will become due and payable on each of said Bonds or parts thereof designated for redemption the redemption price thereof, plus accrued interest thereon, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be surrendered. Neither the failure to receive any notice nor any defect therein shall affect the validity of the proceedings for such redemption or the cessation of accrual of interest from and after the redemption date. Notice of redemption of Bonds shall be given by the Trustee, at the expense of the Department, for and on behalf of the Department.

With respect to any notice of redemption of Bonds, unless upon the giving of such notice such Bonds shall be deemed to have been paid within the meaning of the Indenture or the Trustee has received amounts sufficient to pay the principal of, and premium, if any, and interest on, such Bonds to be redeemed, such notice shall state that such redemption shall be conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of amounts sufficient to pay the principal of, and premium, if any, and interest on, such Bonds to be

redeemed, and that if such amounts shall not have been so received said notice shall be of no force and effect and such Bonds shall not be subject to redemption on such date. In the event that such notice of redemption contains such a condition and such amounts are not so received, the redemption shall not be made and the Trustee shall within a reasonable time thereafter give notice, to the persons and in the manner in which the notice of redemption was given, that such amounts were not so received and the redemption was not made.

Partial Redemption of Bonds

Upon surrender of any Bond redeemed in part only, the Department shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the Department, a new Bond or Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the Bonds surrendered and of the same interest rate, maturity and Series.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Source of Payment

Subject to the provisions of the Indenture, all of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held in any fund or account established pursuant to the Indenture (except the Rebate Fund) are irrevocably pledged to secure the payment of the principal of and interest, and the premium, if any, on the Bonds in accordance with their terms and the provisions of the Indenture. The pledge of Revenues is on a parity with the lien on and security interest in Revenues of the Parity Obligations pursuant to the Issuing Documents for such Parity Obligations. The pledge of amounts held in the Reserve Fund (which the Department has elected pursuant to the Indenture to treat as part of the Common Reserve securing all Common Reserve Parity Obligations) is on a parity with the lien on and security interest in such amounts of the Common Reserve Parity Obligations pursuant to the Issuing Documents for such Common Reserve Parity Obligations. The pledge will constitute a lien on and security interest in such amounts on a parity with the lien on and security interest in such amounts of the Parity Obligations pursuant to the Issuing Documents (as defined below) for such Parity Obligations and will attach, be perfected and be valid and binding from and after the Closing Date, without any physical delivery thereof or further act and will be valid and binding against all parties having claims of any kind in tort, contract or otherwise against the Department, irrespective of whether such parties have notice hereof.

“Revenues” means: (a) all money received or collected from or arising out of the use or operation of any harbor or port improvement, work, structure, appliance, facility or utility, service, or watercraft, owned, controlled or operated by the City in or upon or pertaining to the lands and waters, or interests therein, of said City in the Harbor District; all tolls, charges and rentals collected by the Department; and all compensations or fees required to be paid for franchises or licenses, or otherwise by law or ordinance or order, to the City for the operation of any public service utility upon lands and waters, or interests therein, of the City in the Harbor District; provided that for the avoidance of doubt user fees collected by the Department on behalf of, or required to be transmitted to, third parties pursuant to applicable law and not commingled with Revenues, shall not be deemed to be Revenues; and (b) and all interest or gain derived from the investment of amounts in any of the funds or accounts established under the Indenture (except interest and gain derived from the Rebate Fund established and maintained under the Indenture).

“Parity Obligations” means the Bonds and all revenue bonds or notes of the Department authorized, executed, issued and delivered by the Department, and all contracts of the Department authorized and executed by the Department, the payments of which are on a parity with the Bonds and which are secured by a pledge of and lien on the Revenues. See “—Parity Obligations” herein.

The Bonds do not constitute or evidence an indebtedness of the City, the State of California (the “State”) or any subdivision thereof other than the Department, or a lien or charge on any property or the general revenues of the City, the State of California or any subdivision thereof other than the Department, and in any event the Bonds shall not be payable out of any funds or properties of the City or the Department other than the Revenues deposited into the Harbor Revenue Fund as provided in the Indenture and other amounts pledged therefor under the Indenture. The Bonds do not constitute an indebtedness of the Department in contravention of any charter, statutory or constitutional debt or other limitation or restriction and do not constitute an obligation for which the Department or the City is obligated to levy or pledge any form of taxation or for which the Department or the City has levied or pledged any form of taxation.

Pursuant to the Indenture bonds or other obligations of the Department payable out of the Harbor Revenue Fund having priority with respect to payment of principal of or interest senior to the Parity Obligations may not be issued. No such senior obligations are currently outstanding. The Indenture does not prohibit the Department from issuing subordinate obligations payable out of the Harbor Revenue Fund. The Department had \$744,040,000 of Parity Obligations outstanding as of May 31, 2009. Subject to the satisfaction of the conditions set forth in the Indenture, 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 Bonds. The Department currently contemplates re-instituting its Commercial Paper Notes program under which notes issued thereunder are payable on a parity with the Bonds. Under its Commercial Paper Notes program the Department is authorized to issue up to \$375,000,000 principal amount of Commercial Paper Notes at any one time. No Commercial Paper Notes are currently outstanding. In connection therewith, the Department anticipates the execution and delivery of a new liquidity facility with a maximum principal commitment of \$100,000,000. At such time and while such liquidity facility is in effect, the Department may avail itself of the opportunity to issue up to an aggregate principal amount of \$100,000,000 Commercial Paper Notes from time to time. In addition, the Department is in negotiations with a commercial bank to enter into a revolving line of credit facility for Departmental cash flow management, in an amount up to \$60,000,000. Amounts owed under such a bank credit facility, if and when it is finalized, would be structured to constitute Parity Obligations. See “—Additional Debt” and “—Parity Obligations” herein.

Harbor Revenue Fund

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

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

- (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.

Flow of Funds

The Indenture establishes the following funds and accounts: (a) the Interest Fund (the “Interest Fund”), including the Interest Account – 2009 Series A and the Interest Account – 2009 Series B, (b) the Principal Fund (the “Principal Fund”), including the Principal Account – 2009 Series A and the Principal Account – 2009 Series B, (c) the Reserve Fund (the “Reserve Fund”); (d) the Redemption Fund (the “Redemption Fund”), including the Redemption Account – 2009 Series A and the Redemption Account – 2009 Series B, (e) the Construction Fund (the “Construction Fund”), including the Construction Account – 2009 Series A and the Construction Account – 2009 Series B, (f) the Costs of Issuance Fund (the “Costs of Issuance Fund”), including the Costs of Issuance Account – 2009 Series A and the Costs of Issuance Account – 2009 Series B, and (g) the Rebate Fund (the “Rebate Fund”). All such funds and accounts are to be held and administered by the Trustee.

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 thereto, the Department shall transfer from the Harbor Revenue Fund to the Trustee for deposit into the following respective funds, the following amounts in the following order of priority and at the following times, the requirements of each such fund (including the making up of any deficiencies in any such fund resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit:

(a) Not later than the third Business Day preceding each date on which the interest on the Bonds shall become due and payable, that sum, if any, required to cause the aggregate amount on deposit in the Interest Fund to be at least equal to the amount of interest becoming due and payable on such date on all Bonds then outstanding. The Department shall also deposit in any applicable interest account created with respect to Parity Obligations, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any other interest in accordance with the provisions of the Issuing Document relating thereto.

(b) Not later than the third Business Day preceding each date on which the principal on the Bonds shall become due and payable, that sum, if any, required to cause the aggregate amount on deposit in the Principal Fund to equal the principal amount of the 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 Trustee for deposit in: (i) the reserve funds for Parity Obligations which the Department has elected to make a part of the Common Reserve, an amount necessary to cause the balance on deposit therein, including the amounts available under the Common Reserve Security Devices, to be equal to the Common Reserve Requirement or to reimburse the providers of the Common Reserve Security Devices for any draws thereon in accordance with the written direction of the providers of the Common Reserve Security Devices, including interest due on amounts drawn thereunder; provided that to the extent the Department has transferred or is currently transferring amounts necessary to reimburse the providers of the Common Reserve Security Devices as described above, the amount available under the Common Reserve Security Devices shall be deemed to be reinstated by the amount of the draws so reimbursed when determining the balance in the Common Reserve for purposes of this provision; and (ii) each Separate Reserve Fund for any Parity Obligations, an amount necessary to cause the balance on deposit therein, including the amounts available under any security devices credited to such Separate Reserve Fund, to be equal to the Separate Reserve Fund Requirement for such Parity Obligations or to reimburse the providers of such security devices for any draws thereon in accordance with the written direction of the providers thereof, including interest due on amounts drawn thereunder in accordance with the provisions of the Issuing Document for such Parity Obligations; provided that to the extent the Department has transferred or is currently transferring amounts necessary to reimburse the providers of such security devices as described above, the amount available under such security devices shall be deemed to be reinstated by the amount of the draws so reimbursed when determining the balance in such Separate Reserve Fund for purposes of this provision.

No transfer of moneys for deposit to the reserve funds for Parity Obligations which the Department has elected to make a part of the Common Reserve need be made if the balance in the Common Reserve, including the amount available under any Common Reserve Security Device, is at least equal to the Common Reserve Requirement. No transfer of moneys for deposit to any Separate Reserve Fund for any Parity Obligations need be made if the balance in such Separate Reserve Fund, including the amount available under any security devices credited to such Separate Reserve Fund, is at least equal to the Separate Reserve Fund Requirement for such Parity Obligations.

Thereafter, the Department may apply Revenues for any lawful purpose.

See “—Reserve Fund” below.

Rate Covenant

The Department has covenanted under the Indenture 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, which will at least equal one hundred twenty-five percent (125%) of Debt Service, any amounts required to be paid to the provider of any Common Reserve Security Device pursuant to such Common Reserve Security Device, any amounts required to be paid to the provider of any Separate Reserve Fund Security Device pursuant to such Separate Reserve Fund Security Device and other amounts to be paid by the Department under the Indenture, 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; no ordinance adopted by the City Council approving any rate, toll, charge, rental compensation or fee so fixed by the Department will be subject to referendum. "Debt Service" means, for any period of calculation, the sum of principal of and interest on the Bonds, Parity Obligations and other bonds, notes, certificates and other evidences of indebtedness of the Department and bonds, notes, certificates and other evidences of indebtedness of the City payable or serviced out of the Harbor Revenue Fund (as calculated based on the reasonable assumptions of the Department) on a parity with the Bonds during such period. See "APPENDIX D – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."

Reserve Fund

In each indenture, trust agreement or other document pursuant to which any Parity Obligations are issued or delivered (each, an "Issuing Document"), the Department may establish a reserve fund with respect to a Parity Obligation or Parity Obligations. With respect to each reserve fund established with respect to a Parity Obligation with interest payment dates on the Interest Payment Dates hereunder and with the Trustee as trustee under the related Issuing Document, the Department may elect to treat such reserve fund as a part of the Common Reserve securing all Parity Obligations designated by the Department to participate in the Common Reserve (each, a "Common Reserve Parity Obligation"). Each Issuing Document provides that the trustee for all Parity Obligations will be the same trustee. Each time that the Department elects to treat a reserve fund as a part of the Common Reserve, it shall deposit funds in, and/or provide one or more (i) surety bonds, (ii) insurance policies issued by one or more municipal bond insurance companies, (iii) letters of credit, or (iv) other security devices, and credit to such Reserve Fund to satisfy a portion of the Common Reserve Requirement in the Common Reserve, in each case with ratings in the highest rating category by two of the Rating Agencies as of the date of deposit therein, and with provision that such security device(s) shall be available to be drawn upon with respect to all Common Reserve Parity Obligations (each, a "Common Reserve Security Device"), in an amount sufficient to increase the balance in the Common Reserve to the Common Reserve Requirement calculated to take into account such additional Common Reserve Parity Obligations. If the Department establishes a reserve fund for any Parity Obligation but does not elect to make such reserve fund a part of the Common Reserve, then any Reserve Fund so established will be a Separate Reserve Fund and will secure only the Parity Obligations for which such reserve fund was created. The Trustee may withdraw amounts from the Common Reserve in accordance with each Issuing Document for a Common Reserve Parity Obligation to make payments to the owners of the Common Reserve Parity Obligations issued under such Issuing Document when due.

Pursuant to the Indenture, the Department will elect to treat the Reserve Fund established under the Indenture as part of the Common Reserve securing all Common Reserve Parity Obligations. The Indenture establishes the Reserve Fund with respect to the Bonds which the Trustee will maintain and hold in trust separate and apart from other funds held by it. The Trustee shall deposit in the Reserve Fund the amounts required to be deposited therein pursuant to the Indenture. The Trustee shall apply moneys in the Common Reserve in accordance with the Indenture; provided, however, that, in substitution for all or part of the moneys on deposit in the Common Reserve, the Department may provide for the Common Reserve by one or more Common Reserve Security Devices which shall each be available to be drawn on a pro rata basis among all the Common Reserve Security Devices. Upon the expiration of any Common Reserve Security Device prior to the payment in full of all of the Common Reserve Parity Obligations, if the balance in the Common Reserve is less than the Common Reserve Requirement, the Department shall either provide a substitute Common Reserve Security Device or deposit cash in the Reserve Fund to which the expired Common Reserve Security Device was credited, in an amount sufficient to increase the balance in the Common Reserve to the Common Reserve Requirement. The Department is not required to replace

any Common Reserve Security Device that is no longer rated in the highest rating category by two of the Rating Agencies. The Department is obligated to replenish the Common Reserve and any Separate Reserve Fund established under the Issuing Documents for such Parity Obligations from moneys in the Harbor Revenue Fund ratably without any discrimination or preference. See “– Flow of Funds” herein.

If and to the extent that cash has also been deposited in the Common Reserve, all such cash shall be used (including any Permitted Investments purchased with such cash, which shall be liquidated and the proceeds thereof applied as required under the Indenture) prior to any drawing under any Common Reserve Security Device. After first applying all cash and Permitted Investments held in the Common Reserve on a pro rata basis among all reserve funds which the Department has elected to make a part of the Common Reserve, if three Business Days prior to any Interest Payment Date the money in the appropriate accounts in the Interest Fund or the appropriate accounts in the Principal Fund is insufficient to make the payments required by the Indenture on such Interest Payment Date or the money in the appropriate funds and accounts under an Issuing Document is insufficient to make the payments required by such Issuing Document for a Common Reserve Parity Obligation on such Interest Payment Date, the Trustee shall draw on the Common Reserve Security Devices on a pro rata basis among all Common Reserve Security Devices in a timely manner in the amount of such insufficiency and in compliance with the applicable payment procedures for each such Common Reserve Security Device set forth in the related Issuing Document. Upon receipt of such funds, the Trustee shall transfer said funds to the appropriate accounts in the Interest Fund, the appropriate accounts in the Principal Fund or the appropriate funds or accounts under an Issuing Document for a Common Reserve Parity Obligation, as the case may be, in the amount of such insufficiency, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference.

If amounts on deposit in the Common Reserve consist solely of cash and Permitted Investments, if one Business Day prior to any Interest Payment Date the money in the appropriate accounts in the Interest Fund or the appropriate accounts in the Principal Fund is insufficient to make the payments required by the Indenture on such Interest Payment Date or the money in the appropriate funds and accounts under an Issuing Document is insufficient to make the payments required by an Issuing Document for a Common Reserve Parity Obligation on such Interest Payment Date, the Trustee shall transfer from the Common Reserve to the appropriate accounts in the Interest Fund, the appropriate accounts in the Principal Fund or the appropriate funds or accounts under an Issuing Document for a Common Reserve Parity Obligation, as the case may be, the amount of such insufficiency.

In the event that the Trustee has transferred money from the Common Reserve to the Interest Fund or Principal Fund in accordance with the Indenture or to the appropriate funds and accounts under an Issuing Document with respect to a Common Reserve Parity Obligation, upon receipt of the moneys from the Department pursuant to the Indenture, the Trustee shall first reimburse the providers of the Common Reserve Security Devices for any draws thereon on a pro rata basis among all the Common Reserve Security Devices and otherwise in accordance with the written direction of the providers thereof, as applicable, so as to cause the reinstatement of the Common Reserve Security Devices, and thereafter, shall deposit the remainder of such transferred moneys from the Department in the Common Reserve on a pro rata basis among all reserve funds which the Department has elected to make a part of the Common Reserve.

If the amount available and contained in the Common Reserve exceeds an amount equal to the Common Reserve Requirement, the Trustee shall annually on August 1 withdraw the amount of such excess from the Common Reserve on a pro rata basis among all reserve funds which the Department has elected to make a part of the Common Reserve and shall, without preference or priority, deposit ratably, in accordance with the amount of interest becoming due and payable on each series or subseries of Common Reserve Parity Obligations, in the applicable account in the Interest Fund and the applicable interest fund or account established and maintained under the related Issuing Document for any other Common Reserve Parity Obligations, and for this purpose the Trustee shall determine the Value of the Common Reserve on or before August 1 in each year. Except for such withdrawals and reimbursement of the providers of the Common Reserve Security Devices for any draws thereon described above, all moneys in the Common Reserve shall be used and withdrawn by the Trustee solely for the purpose of paying principal of and interest on the Common Reserve Parity Obligations in the event that no other moneys of the Department are applied thereto.

Any money in the Common Reserve in excess of the Common Reserve Requirement after the Department deposits with the Trustee a Common Reserve Security Device as permitted by the Indenture may be allocated ratably, in accordance with the principal amount of Common Reserve Parity Obligations becoming due and payable on the next August 1, into the applicable account in the Redemption Fund and the applicable redemption fund or account established under the related Issuing Document for any other Common Reserve Parity Obligations or transferred by the Trustee to or upon the order of the Department, in either case only upon the written direction of the Department upon delivery of such Common Reserve Security Device to the Trustee.

In the event the Department has determined to obtain one or more Common Reserve Security Devices pursuant to the Indenture, the Trustee shall be required to keep adequate records, verified with any of the providers thereof in the form of statements customarily provided to such provider, as to the amount available to be drawn at any time under the Common Reserve Security Devices and as to the amounts paid and owing to any of the providers thereof.

“Common Reserve Requirement” means, as of any date of calculation, an amount equal to the least of (a) 125% of average annual principal of and interest on all outstanding Parity Obligations entitled to the benefit of the Common Reserve, determined on a fiscal year basis, (b) the maximum aggregate annual principal of and interest on all outstanding Parity Obligations entitled to the benefit of the Common Reserve, determined on a fiscal year basis, and (c) 10% of the proceeds of all Parity Obligations entitled to the benefit of the Common Reserve; provided, however, that, if, upon issuance of a Parity Obligation entitled to the benefit of the Common Reserve, such amount would require moneys to be credited to the Common Reserve from the proceeds of such Parity Obligations in an amount in excess of the maximum amount permitted under the Code to be funded from the proceeds of tax-exempt bonds, the Common Reserve Requirement shall mean an amount equal to the sum of the Common Reserve Requirement immediately preceding issuance of such Parity Obligation and the maximum amount permitted under the Code to be funded from the proceeds of tax-exempt bonds to be deposited therein from the proceeds of such Parity Obligation, as certified in a Certificate of the Department.

Under the Issuing Document for the Department’s 2001 Series A Bonds, 2001 Series B Bonds and 2002 Series A Bonds (collectively, the “2001/2002 Bonds”) and under the Issuing Document for the Department’s 2006 Series D Bonds, the Department did not elect to treat the reserve fund established with respect to the 2001/2002 Bonds and the 2006 Series D Bonds, respectively, as part of the Common Reserve. Accordingly, the Reserve Funds established with respect to the 2001/2002 Bonds and the 2006 Series D Bonds are Separate Reserve Funds and secure only the Parity Obligations for which each such Reserve Fund was created. The 2001/2002 Bonds and the 2006 Series D Bonds are not entitled to the benefit of the Common Reserve. See “— Parity Obligations” below.

Under the Issuing Document for the Department’s 2005 Series A Bonds, 2005 Series B Bonds, 2005 Series C-1 Bonds, 2006 Series A Bonds, 2006 Series B Bonds and 2006 Series C Bonds (collectively, the “2005/2006 Bonds”), the Department elected to treat the reserve fund established with respect to the 2005/2006 Bonds as part of the Common Reserve. It is anticipated that in connection with the Refunding Bonds, if and when issued, the Department will elect to treat the reserve fund established with respect to the Refunding Bonds (as defined below) as part of the Common Reserve. The 2005/2006 Bonds and the related Issuing Document are described in this paragraph and described under “— Parity Obligations” below.

See “FINANCIAL INFORMATION CONCERNING THE DEPARTMENT – Other Financial Matters – Historical Cash Balances” regarding the partial cash funding of a reserve for the 2005/2006 Bonds as a result of the downgrade of a provider of a reserve fund surety for the 2005/2006 Bonds. See also, “APPENDIX D – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

Additional Debt

No Priority

The Indenture provides that no bonds or other obligations of the Department payable out of the Harbor Revenue Fund will be issued having any priority with respect to payment of principal or interest out of the Harbor Revenue Fund over Parity Obligations; no transfer of money will be made out of the Harbor Revenue Fund in any one Fiscal Year for the purpose of paying the principal of or interest on any bonds or other obligations of the City serviced out of the Harbor Revenue Fund unless and until the principal of and interest on the Parity Obligations, due and payable in that Fiscal Year, have been paid or set aside in a separate fund held in trust and charged with such payments.

Additional Indebtedness

Pursuant to the Indenture, no additional Parity Obligations will be created or incurred (the following is referred to as the “Additional Indebtedness Test”),

(i) unless the Net Revenues (*i.e.*, 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, shall have produced a sum equal to at least one hundred twenty-five percent (125%) of the Debt Service, any amounts required to be paid to the provider of any Common Reserve Security Device pursuant to such Common Reserve Security Device, any amounts required to be paid to the provider of any Separate Reserve Fund Security Device pursuant to such Separate Reserve Fund Security Device and other amounts to be paid by the Department under the Indenture due and payable during such 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 Indenture; see “APPENDIX D – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE”), including such Parity Obligations being created or incurred (but excluding Bonds or Parity Obligations to be redeemed or defeased simultaneously with the issuance and with the proceeds of the Parity Obligations being created or incurred) any amounts required to be paid to the provider of any Common Reserve Security Device pursuant to such Common Reserve Security Device, any amounts required to be paid to the provider of any Separate Reserve Fund Security Device pursuant to such Separate Reserve Fund Security Device and other amounts to be paid by the Department under the Indenture due and payable during such twelve calendar month period;

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 (with respect to the Department’s Commercial Paper Notes, see “—Parity Obligations”); and

provided further that, as to any such Parity Obligations or portions thereof bearing no interest but which are sold at a discount and which discount accretes with respect to such Parity Obligations or portions thereof, such accreted discount will be treated as interest, in the calculation of Debt Service; and

provided further that the amount on deposit in a debt service reserve fund on any date of calculation of principal of and interest on such Parity Obligations shall be deducted from the amount of principal due at the final maturity of the Parity Obligations for which such debt service reserve fund was established and in each preceding year until such amount is exhausted; and

provided further that if the Parity Obligations constitute Paired Obligations, the interest rate on such bonds or contracts shall be the resulting linked rate or the effective fixed interest rate to be paid by the Department with respect to such Paired Obligations.

The issuance of bonds, notes or other evidences of indebtedness, or certificates of participation, for the purpose of refunding at or prior to maturity the principal of bonds, notes or other evidences of indebtedness and paying any premium upon redemption of any thereof so refunded 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 Obligations

The Department had outstanding \$744,040,000 of Parity Obligations as of May 31, 2009 as set forth in the following table:

OUTSTANDING PARITY OBLIGATIONS As of May 31, 2009

Original Aggregate Principal Amount	Principal Amount Outstanding	Bond Series	Issuing Document
\$36,180,000	\$ 36,180,000	2001 Series A	Indenture of Trust dated as of July 1, 2001, by and between BNY Western Trust, as original trustee and the Department (“2001 Indenture”)
64,925,000	64,925,000	2001 Series B	2001 Indenture
63,520,000	40,995,000	2002 Series A	2001 Indenture
29,930,000	29,930,000	2005 Series A	Indenture of Trust dated as of October 1, 2005, by and between The Bank of New York, N.A., as original trustee and the Department (“2005/2006 Indenture”)
30,110,000	29,985,000	2005 Series B	2005/2006 Indenture
43,730,000	34,540,000	2005 Series C-1	2005/2006 Indenture
200,710,000	181,855,000	2006 Series A	2005/2006 Indenture
209,815,000	201,395,000	2006 Series B	2005/2006 Indenture
16,545,000	16,310,000	2006 Series C	2005/2006 Indenture
111,300,000	107,925,000	2006 Series D	Indenture of Trust dated as of August 1, 2006, by and between U.S. Bank National Association, as original trustee and the Department
Total	\$744,040,000		

Source: Harbor Department of the City of Los Angeles

Contemporaneously with the sale of the Bonds, the Department intends to issue its Refunding Revenue Bonds 2009 Series C (the “Refunding Bonds”) in aggregate principal amount of \$230,160,000. The Refunding Bonds when issued pursuant to the Indenture will be Parity Obligations. No Refunding Bonds are being offered pursuant to this Official Statement. The issuance of the Refunding Bonds is not contingent upon the sale of the Bonds and vice versa. The Bonds and the Refunding Bonds, if so issued, will be treated as a single issue for federal tax purposes.

The Department has a Commercial Paper Notes program under which the Commercial Paper Notes are payable on a parity with the Bonds. Under its Commercial Paper Notes program the Department is authorized to issue up to \$375,000,000 principal amount of Commercial Paper Notes at any one time. No Commercial Paper Notes are currently outstanding. In connection therewith, the Department anticipates the execution and delivery of a new liquidity facility with a maximum principal commitment of \$100,000,000. At such time and while such liquidity facility is in effect, the Department may avail itself of the opportunity to issue up to an aggregate principal amount of \$100,000,000 Commercial Paper Notes from time to time. The Commercial Paper Notes, if issued, will mature every 270 days or less; provided however for the purposes of the Additional Indebtedness Test principal and interest due on the Commercial Paper Notes shall be determined for the Fiscal Year of determination as if the principal of and interest on the Commercial Paper Notes were being paid from the date of inclusion thereof in substantially equal amounts over a period of 25 years from the date of calculation. See “—Additional Debt – Additional Indebtedness” above. No Commercial Paper Notes are being offered pursuant to this Official Statement. The Commercial Paper Notes program is not contingent upon the sale of the Bonds and vice versa. In addition, the Department is in negotiations with a commercial bank to enter into a revolving line of credit facility for Departmental cash flow management, in an amount up to \$60,000,000. Amounts owed under such a bank credit facility, if and when it is finalized, would be structured to constitute Parity Obligations.

SOURCES AND USES OF FUNDS

Funds in connection with the issuance of the Bonds are expected to be derived from the sources and applied to the uses indicated below.

	2009A Bonds	2009B Bonds	Total
Sources of Funds:			
Principal Amount of Bonds	\$100,000,000.00	\$100,000,000.00	\$200,000,000.00
Plus: Net Original Issue Premium	2,931,793.35	--	2,931,793.35
TOTAL SOURCES	\$102,931,793.35	\$100,000,000.00	\$202,931,793.35
Uses of Funds:			
Deposit to Construction Fund	\$ 95,569,912.57	\$ 90,267,336.47	\$185,837,249.04
Deposit to Reserve Fund	6,610,593.75	6,610,593.75	13,221,187.50
Original Issue Discount	--	2,334,064.00	2,334,064.00
Underwriters' Discount	509,787.03	546,505.78	1,056,292.81
Costs of Issuance ⁽¹⁾	241,500.00	241,500.00	483,000.00
TOTAL USES	\$102,931,793.35	\$100,000,000.00	\$202,931,793.35

(1) Includes cost of fees for rating agencies, bond counsel, disclosure counsel, financial advisor and trustee; printing costs; and other costs of issuance.

INVESTMENT CONSIDERATIONS

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

Ability to Meet Rate Covenant

As described in “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” above, the Department has covenanted under the Indenture that it shall fix rates, tolls and charges, rentals for leases, permits and franchises, and compensations or fees for franchises and licenses, at levels described herein. The recent economic downturn in the economy 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. See “FINANCIAL INFORMATION CONCERNING THE DEPARTMENT – Introduction and Recent Developments – Shipping Activity and Impact of Economic Downturn.”

Industry Trends and Competition

The demand for Department facilities is significantly influenced by a variety of factors, including, among others, the global and domestic economy, the availability of effective labor support, the financial condition of maritime-related industries, the proliferation of operational alliances and other structural conditions affecting maritime carriers.

The utilization of the Department’s facilities, and therefore the Revenues of the Department, are impacted by the availability of alternate port facilities at competitive prices. Additional port facilities on the West Coast (including, among others, the Ports of Long Beach (the “Port of Long Beach” and together with the Port, the “San Pedro Bay Ports”), San Francisco, Oakland, Portland, Seattle/Tacoma, Vancouver and Prince Rupert) and improvements at the Panama Canal that would allow larger ships to traverse the canal, are currently in planning phases or in construction. Additionally, the Port of Punta Colonet in Mexico is planning to expand at an as yet undetermined future time. Each of these other ports currently has less capacity than the Port. Port tenants may alter their shipping practices. One of the Port’s tenants, Maersk, has announced that it intends to expand its use of

the Port of Seattle, which could reduce shipping activity at the Port. The Revenues of the Department may be adversely impacted by increasing competition from other port facilities; however the Department cannot predict the scope of any such impact at this time. In addition, the imposition of fees that apply only to the Port or to a group of ports that includes the Port, may increase the cost to ocean carriers of utilizing the Port. If such fees are imposed, the Department may reduce the tariffs or other charges applicable to its ocean carriers to moderate some or all of the potential impact, which in turn would reduce revenues.

Security at the Port

Following the terrorists' attacks on September 11, 2001, the Maritime Transportation Security Act ("MTSA") was signed into law on November 25, 2002 to require sectors of the maritime industry to implement measures designed to protect ports and waterways of the United States from a terrorist attack. MTSA requires interagency teamwork within the Department of Homeland Security, including the U.S. Coast Guard, The Transportation Security Administration ("TSA"), the Bureau of Customs and Border Protection and the Department of Transportation's Maritime Administration to develop security regulations. The security regulations focus on those sectors of the maritime industry that have a higher risk of involvement in a transportation security incident, including various tank vessels, barges, large passenger vessels, cargo vessels, towing vessels, offshore oil and gas platforms and port facilities that handle certain kinds of dangerous cargo or service the vessels included in this list. These regulations were promulgated in July 2003 and final rules became effective in November 2003. 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 put in place procedures to comply 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 Bonds 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 Bonds will be outstanding.

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

The 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 Department revenues. The Department maintains a discretionary emergency reserve fund which at March 31, 2009 contained approximately \$37 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 of premiums and the relatively low levels of coverage currently available. To date no earthquakes have caused structural damage to Department facilities. See "APPENDIX B – 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 B – CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES.” Updated information regarding the effects of the current economic crisis on the City’s pension plans’ investment portfolio is not yet available. Given the significant declines in various market indices over the past year, such historical declines may be substantial. Those declines may increase the required contributions to the City pension plans by the Department. 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 Bonds are outstanding, and if any such events occur, whether there will be an adverse impact, material or otherwise, on Department Revenues.

Termination or Expiration of Material Contracts

The Department has entered into a number of material contracts and other relationships relating to the use or operation of Port facilities. Should a significant number of the Department’s permittees default on their obligations, terminate their relationships with the Department or fail to renew their commitments upon expiration, the amount of Revenues realized by the Department could be materially impaired and this could have an adverse

impact on the holders of the Bonds. See “THE PORT AND THE DEPARTMENT – Introduction and Organization – Rental Property.”

Enforceability of Remedies

The remedies available to the owners of the Bonds upon an event of default under the Indenture are in many respects dependent upon regulatory and judicial actions that are in many instances subject to discretion and delay. Under existing laws and judicial decisions, the remedies provided for in the Indenture may not be readily available or may be limited. Legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified to the extent that the enforceability of certain legal rights related to the Bonds is subject to limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the enforcement of creditors’ rights generally and by equitable remedies and proceedings generally and to limitations on legal remedies against cities in the State of California.

CONTINUING DISCLOSURE

The Department will agree to provide annually certain financial information and operating data relating to the Department by not later than 181 days after the end of the Department’s fiscal year of each year in which the Bonds are outstanding (the “Annual Report”), commencing with the report for fiscal year ended June 30, 2009, and to provide notices of the occurrence of certain enumerated events, if material. The specific nature of the information to be contained in the Annual Report or the notices of material events and the terms of the continuing disclosure obligation are contained in “APPENDIX E—FORM OF CONTINUING DISCLOSURE CERTIFICATE.” This undertaking will be made in order to assist the Underwriters in complying with Rule 15c2-12 of the Securities and Exchange Commission, promulgated under the Securities Exchange Act of 1934, as amended (the “Rule”). With respect to Bonds issued by the Department, the Department has not failed to comply in the last five years in any material respect with any “previous undertaking” as that term is used in the Rule.

TAX MATTERS

In the opinion of Sidley Austin LLP, Los Angeles, California, Bond Counsel, based on existing statutes, regulations, rulings and judicial decisions and assuming compliance by the Department with certain covenants in the Indenture and other documents pertaining to the Bonds and the requirements of the Code, regarding the use, expenditure and investment of proceeds of the Bonds and the timely payment of certain investment earnings to the United States, interest on the Bonds is not includable in the gross income of the owners of the Bonds for federal income tax purposes, except for any 2009A Bond during any period in which such 2009A Bond is held by a “substantial user” of the facilities financed or refinanced with the proceeds of the 2009A Bonds or a “related person” (as such terms are defined in the Code). Failure to comply with such covenants and requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds.

In the further opinion of Bond Counsel, interest on the Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations, and is not included as an adjustment in calculating federal corporate alternative minimum taxable income for purposes of determining a corporation’s alternative minimum tax liability.

Ownership of, or the receipt of interest on, tax-exempt obligations may result in collateral 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, 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. Bond Counsel expresses no opinion with respect to any collateral tax consequences and, accordingly, prospective purchasers of the Bonds should consult their tax advisors as to the applicability of any collateral tax consequences.

Certain requirements and procedures contained or referred to in the Indenture or other documents pertaining to the Bonds may be changed, and certain actions may be taken or not taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. Bond Counsel expresses no opinion as to the effect of any change to any document pertaining to the Bonds or of any action taken or not taken where such change is made or action is taken or not taken without our approval or in reliance upon the advice of counsel other than

Sidley Austin LLP with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes.

Original Issue Discount

The initial public offering price of certain of the Bonds (collectively, the “Discount Bonds”) is less than the principal amount of the Discount Bonds. The difference between the principal amount of a Discount Bond and its initial public offering price is original issue discount. Original issue discount on a Discount Bond accrues over the term of such Discount Bond at a constant interest rate. To the extent it has accrued, original issue discount on a Discount Bond is treated as interest excludable from gross income for federal income tax purposes under the conditions and limitations described above. The amount of original issue discount that accrues on a Discount Bond in each year is not an item of tax preference for purposes of calculating federal alternative minimum taxable income, and is not included as an adjustment in calculating federal corporate alternative minimum taxable income for purposes of determining a corporation’s alternative minimum tax liability. Such accrued original issue discount, however, is taken into account in determining the distribution requirements of certain regulated investment companies. Consequently, owners of Discount Bonds should be aware that the accrual of original issue discount in each year may result in additional distribution requirements or other collateral federal income tax consequences although the owner may not have received cash in such year.

The accrual of original issue discount on a Discount Bond increases the owner’s adjusted basis in such Discount Bond. This will affect the amount of taxable gain or loss realized by the owner of the Discount Bond upon the redemption, sale or other disposition of such Discount Bond. The effect of the accrual of original issue discount on the federal income tax consequences of a redemption, sale or other disposition of a Discount Bond that is not purchased at the initial public offering price may be determined according to rules that differ from those described above. Owners of Discount Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the amount of original issue discount that properly accrues with respect to the Discount Bonds, other federal income tax consequences of owning and disposing of the Discount Bonds and any state and local tax consequences of owning and disposing of the Discount Bonds.

Original Issue Premium

Certain of the Bonds may be purchased in the initial offering for an amount in excess of their principal amount (hereinafter, “Premium Bonds”). The excess of the tax basis of a purchaser of a Premium Bond (other than a purchaser who holds a Premium Bond as inventory, stock in trade or for sale to customers in the ordinary course of business) over the principal amount of such Premium Bond is “bond premium.” Bond premium is amortized for federal income tax purposes over the term of a Premium Bond based on the purchaser’s yield to maturity in the Premium Bond, except that in the case of a Premium Bond callable prior to its stated maturity, the amortization period and the yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such Premium Bond. A purchaser of a Premium Bond is required to decrease his or her adjusted basis in such Premium Bond by the amount of bond premium attributable to each taxable year in which such purchaser holds such Premium Bond. The amount of bond premium attributable to a taxable year is not deductible for federal income tax purposes. Purchasers of Premium Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the amount of bond premium attributable to each taxable year and the effect of bond premium on the sale or other disposition of a Premium Bond, and with respect to the state and local tax consequences of owning and disposing of a Premium Bond.

Information Reporting and Backup Withholding

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 Bonds 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.

State Tax Exemption

In the further opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxes imposed by the State of California.

Future Developments

Future legislative proposals, if enacted into law, regulations, rulings or judicial decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to State or local income taxation, or may otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. Further, legislation and regulatory actions and proposals may affect the economic value of the federal or state tax exemption or the market value of the Bonds.

Prospective purchasers of the Bonds should consult their tax advisors regarding pending or proposed federal or state tax legislation, regulations, rulings or litigation, as to which Bond Counsel expresses no opinion.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as Appendix F.

RATINGS

Moody's Investors Service Inc. ("Moody's"), Standard & Poor's Ratings Services ("S&P") and Fitch Ratings ("Fitch") have assigned ratings of "Aa2", "AA" and "AA", respectively, to the Bonds. An explanation of the significance and status of such ratings may be obtained from the rating agencies furnishing the same.

Certain information was supplied by the Department to the rating agencies to be considered in evaluating the Bonds. 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 Bonds.

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 Bonds could have an effect on the market prices and marketability of the Bonds. 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, although the Department has covenanted in the Continuing Disclosure Certificate to provide notice of any rating changes to the Repository.

UNDERWRITING

The Representative has agreed to purchase the 2009A Bonds from the Department at an aggregate purchase price of \$102,422,006.32 (consisting of the par amount of the 2009A Bonds, plus a net original issue premium of \$2,931,793.35 and less an Underwriters' discount of \$509,787.03), pursuant to the terms of the bond purchase agreement. The Representative has agreed to purchase the 2009B Bonds from the Department at an aggregate purchase price of \$97,119,430.22 (consisting of the par amount of the 2009B Bonds, less a net original issue discount of \$2,334,064.00 and less an Underwriters' discount of \$546,505.78), pursuant to the terms of the bond purchase agreement. The bond purchase agreement provides that the obligations of the Underwriters are subject to certain conditions precedent and that the Underwriters will be obligated to purchase all of the Bonds offered under each respective purchase contract if any of the Bonds offered thereunder are purchased. The Bonds may be offered and sold to certain dealers (including dealers depositing such Bonds into investment trusts, accounts or funds) and others at prices lower than the initial public offering price. After the initial public offering, the public offering price of the Bonds may be changed from time to time by the Underwriters.

J.P. Morgan Securities Inc. ("J.P. Morgan"), one of the underwriters for the Bonds, has entered into an agreement (the "Distribution Agreement") with UBS Financial Services Inc. ("UBS") for the retail distribution of certain municipal securities offerings, including the Bonds, at the original issue prices. Pursuant to the Distribution Agreement, J.P. Morgan will share a portion of its underwriting compensation with respect to the Bonds with UBS.

Morgan Stanley and Citigroup Inc., the respective parent companies of Morgan Stanley & Co. Incorporated and Citigroup Global Markets Inc., each an underwriter of the Bonds, have entered into a retail brokerage joint venture. As part of the joint venture each of Morgan Stanley & Co. Incorporated and Citigroup Global Markets Inc. 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, each of Morgan Stanley & Co. Incorporated and Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC for its selling efforts in connection with their respective allocations of Bonds.

LITIGATION

There is no action, suit or proceeding known to be presently pending or threatened restraining or enjoining the execution, issuance or delivery of the Bonds or any of the documents related thereto or in any way contesting or affecting the validity of the foregoing or the action of the Department taken with respect to the issuance or delivery thereof.

LEGAL OPINIONS

The legal opinion of Sidley Austin LLP, Los Angeles, California, Bond Counsel, approving the validity of the Bonds, will be furnished to purchasers without charge upon delivery of the Bonds. The proposed form of such legal opinion is attached hereto as APPENDIX F. Certain legal matters will be passed upon for the Department by its Disclosure Counsel, QUATEMAN LLP, Los Angeles, California, and for the Department by the Office of the City Attorney of the City of Los Angeles. Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, and The Gibbs Law Group, P.C., Alameda, California will pass upon certain matters for the Underwriters. Bond Counsel, Disclosure Counsel and Underwriters' Counsel take no responsibility to Owners of the Bonds for the accuracy, completeness or fairness of this Official Statement

FINANCIAL ADVISOR

Gardner, Underwood & Bacon LLC served as financial advisor to the Department in connection with the issuance of the Bonds.

FINANCIAL STATEMENTS

The financial statements for the Department for the Fiscal Years ended June 30, 2008 and 2007 and Independent Auditor's Report thereon are attached hereto as "APPENDIX A." The financial statements for the Department for the Fiscal Years ended June 30, 2008 and 2007 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 B."

FORWARD-LOOKING STATEMENTS

The statements contained in this Official Statement 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 Official Statement 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.

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 man-made harbor in the Western Hemisphere.

The Department has three major 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 cargo terminals and 43 miles of waterfront berthing. See "—Tideland Trust Properties," "—Terminal Operations," "—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 acquisition, 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 along the Pacific Coast, construction of additional ports and changes in access to or features of other Pacific Coast ports may affect the Port in the future. See "—Competition" below.

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. 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 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 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>
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 Executive	June 30, 2009
Vacant	-	June 30, 2010

Former Board President, S. David Freeman was appointed by the Mayor of the City as Deputy Mayor and resigned as President of the Board effective May 7, 2009. The Mayor has appointed Cindy Miscikowski to the Board and her appointment is pending City Council confirmation. 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 Council. The Charter requires that within 45 days of a vacancy, the Mayor shall submit to the 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. As of the date hereof the Board has not elected a new President of the Board and the Vice President of the Board is serving as Acting President of the Board.

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 of 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.

Wally Knox, Deputy Executive Director, External Relations[†]

Wally Knox serves as the deputy executive director of external relations for the Department. In that role, he provides strategic direction on all Department-related lobbying, legislative policy and external communications initiatives. Immediately before taking his current position, he served as a commissioner of the Los Angeles Department of Water and Power. Mr. Knox began his public life by serving as an elected trustee of the Los Angeles Community College District from 1987 to 1994. In 1994, he was elected to the California State Assembly representing West Los Angeles, Beverly Hills, Bel Air, Century City, Hollywood and portions of Studio City, Sherman Oaks and Encino. While in the State Assembly, he chaired the Select Committee on California's Middle Class, which examined the causes of stagnating wages and declining living standards of working-class families. He also chaired the Labor Committee, Public Employee Retirement Committee and Revenue and Taxation Committee. He authorized legislation to prevent ocean pollution, reduce hazardous air pollution and was the author of legislation providing the foundation for the measure of particulate matter pollution in California's air. Also, he worked to restore California's eight-hour day law and secured legislation to encourage high-paying technological employment by curtailing sales taxes on capital investment. Mr. Knox has been an advocate of the completion of freeway expansions of the 405 and 101 freeways and for ending telephone area code proliferation. Mr. Knox was a national leader in the efforts to obtain restitution for victims of the Holocaust. In recognition of his work he was the 1998 recipient of the award for outstanding leadership by the Jewish Public Affairs Committee. Mr. Knox graduated from Harvard University, the University of California Hastings College of the Law and obtained a master's degree in econometric sociology from University of California Los Angeles. He served four years in the U.S. Army and is a decorated Vietnam War Veteran.

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.

[†] Pending confirmation by the City Council.

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

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. Mr. Russell heads the Harbor Division of the Office of the City Attorney. City Attorney Rocky Delgadillo appointed Russell as managing assistant city attorney at the Port in November 2002. 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 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

Under the Charter, the Council may delegate its authority to hold public hearings to neighborhood councils prior to the 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 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. The program consists of operational security measures, security infrastructure projects, and implementation of national port and cargo security initiatives. Within the Department, port security operations are conducted by the Los Angeles Port Police. The Homeland Security Division coordinates large security projects and manages Port security grants. The security program is closely coordinated with a number of Federal, State and local agencies.

The Los Angeles Port Police conduct varied security operations in furtherance of the Port's layered security scheme including:

- Patrol operations utilizing land based, shore and waterside patrols of Port facilities. These patrols conduct general law enforcement duties on the water as well as Port facility security.
- Vessel escorts for vessels of special interest or hazard including enforcement of the Federal security zone around cruise ships.
- Dive operations for antiterrorism, explosive detection purposes, search and rescue or searches for objects of evidentiary value.
- Vessel boarding by armed Sea Marshals to ensure the safe passage of cruise ships through the Port and prevent a takeover of a ship's bridge or control spaces.
- Implanting advanced equipment including new patrol boats, mobile interoperable communications van, night vision and underwater explosive detection equipment.
- K9 explosive detection dogs assigned to the Los Angeles World Cruise Terminal and the Catalina Ferry.

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 has appointed Terrorism Liaison officers assigned to several of the area terrorism task forces.

The Los Angeles Port Police retained the services of a recognized expert in the field of transportation security and intelligence as an advisor to the Chief of the Los Angeles Port Police. 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 in order to control water side access to facilities.

Since 2002 the Department has been awarded a total of \$72 million in security grants to fund projects and procurements by the Federal government through the U. S. Department of Homeland Security, the Transportation Security Administration and the Federal Emergency Management Agency. The Department has also been awarded Port Security Grants from the State Office of Homeland Security in 2008 and 2007.

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. 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 8,081,361 TEUs handled during the Fiscal Year ended June 30, 2008. A "TEU" is a unit of cargo capacity often used to describe the capacity of container ships and container terminals and is based on the volume of a 20-foot long shipping container, a standard-sized metal box which can be easily transferred between different modes of transportation, such as ships, trains and trucks. The 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 ten-month period ended April 30, 2009. See also "FINANCIAL INFORMATION CONCERNING THE DEPARTMENT – Introduction and Recent Developments – Shipping Activity and Impact of Economic Downturn."

TABLE 1
REVENUE TONNAGE BY CARGO TYPE
FISCAL YEARS 1999-2008
(In thousands of metric revenue tons)

Fiscal Year Ending June 30	General Cargo	Liquid Bulk	Dry Bulk	Total ⁽¹⁾	% Increase (Decrease) in Total Tonnage over Prior Year
1999	66,800	10,200	5,100	82,100	5.4%
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⁾	2,800	190,100	8.8
2008	161,900	13,400	1,900	177,200	(6.8)
2009 ⁽³⁾	122,300	8,900	1,800	132,900	N/A

⁽¹⁾ Computed on an accrual basis, adjusted for unverified amounts.

⁽²⁾ Includes 7,354 of adjustments for prior years.

⁽³⁾ Ten-month period ended April 30, 2009.

Source: Harbor Department of the City of Los Angeles

Table 2A summarizes revenues per ton for the past ten Fiscal Years and the ten-month period ended April 30, 2009, 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 1999-2008

Fiscal Year Ending June 30	Total Shipping Revenues (000)	Total Revenue Tonnage ⁽¹⁾	Shipping Revenue Per Ton	% Increase (Decrease) from Prior Year Per Ton
1999	\$ 171,800	\$ 82,100	\$ 2.09	11.8%
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	177,200	2.12	7.1
2009 ⁽²⁾	289,400	132,900	2.18	2.9

⁽¹⁾ Computed on an accrual basis, adjusted for unverified amounts.

⁽²⁾ Unaudited, ten month period ended April 30, 2009. Does not include year-end accruals.

Source: Harbor Department of the City of Los Angeles

**TABLE 2B
SHIPPING REVENUE BREAKDOWN
FISCAL YEARS 1999-2008**

Fiscal Year Ending 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
1999	\$ 171,800	\$ 127,300	3,516	\$ 36.21	\$ 44,500	19,128	\$ 2.33
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 ⁽¹⁾	289,400	256,800	6,131	41.89	32,600	12,169	2.68

⁽¹⁾ Unaudited, ten month period ended April 30, 2009, excluding amounts from the Rio Doce Pasha terminal in container shipping revenue and TEU count. Does not include year-end accruals.

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 32.2% of the Department's Fiscal Year 2008 exports, and 59% of the Department's Fiscal Year 2008 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 – Shipping Activity and Impact of Economic Downturn" below.

**TABLE 3
TEUs BY COUNTRY
FISCAL YEAR 2008⁽¹⁾**

Exports Country	TEUs	% of Total	Imports Country	TEUs	% of Total
China	501,733	32.2	China	2,443,661	59.0
Taiwan	248,566	16.0	Japan	284,023	6.9
Japan	181,187	11.6	Taiwan	269,384	6.5
South Korea	100,458	6.5	Thailand	157,689	3.8
Thailand	66,775	4.3	South Korea	131,468	3.2
Indonesia	65,615	4.2	Vietnam	130,637	3.2
Hong Kong	57,419	3.7	Hong Kong	127,641	3.1
Singapore	51,607	3.3	Indonesia	126,936	3.1
Malaysia	34,750	2.2	Malaysia	95,090	2.3
Australia	32,247	2.1	Philippines	61,709	1.5
Vietnam	28,357	1.8	India	52,490	1.3
All others	187,880	12.1	All others	260,275	6.3
Total Exports	1,556,594	100.0	Total Imports	4,141,003	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 cargo 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 June 30, 2008

California Cartage Co.
China Shipping
Del Monte
Eagle Marine Services Ltd. (subsidiary of American President Lines Ltd.)
Evergreen Marine Corp.
Exxon-Mobil
GATX Terminal (subsidiary of Kinder Morgan)
Maersk Pacific Ltd. (APM)
Parking Concepts
Pasha Stevedoring & Terminals, LP
Princess Cruises
Royal Caribbean Cruise Lines
SA Recycling
Shell Oil Company
SP/Union Pacific Railroad
Trans Pacific Container Services (subsidiary of Mitsui OSK Lines Ltd.)
Vopak International
WWL Vehicle Services Americas
Yang Ming Transport Ltd.
Yusen Terminals Inc. (subsidiary of NYK)

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 65% of the Department's Fiscal Year 2008 permit revenues. TEUs for the 5 largest tenants as a group increased at a compounded average annual rate of approximately 3.73% from Fiscal Year 2005 to Fiscal Year 2008.

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**

Fiscal year Ending June 30	Minimum Permit Revenue (000)
2010	\$266,233
2011	267,181
2012	268,147
2013	269,132
2014	270,138

Source: Harbor Department of the City of Los Angeles

Rental Property

In addition to its marine terminal operations, the Department enters into permit agreements with respect to industrial sites, open land area and other Port property. Permit agreements are authorized for terms of not more than 50 years. Pursuant to requirements of the Charter all rates payable to the Department under the permit agreements must be subject to review and renegotiation by the Department at intervals of not more than five years. Most permit agreements do not extend beyond 30 years and rates payable to the Department under the permit agreements are generally renegotiated every five years.

The Department’s Real Estate Division conducts frequent reviews and appraisals of property and rates in order to assure the Department of an adequate return on its property used under permit agreements.

The Board has adopted a comprehensive leasing policy (the “Leasing Policy”) covering all agreements for the use of Port property. The Leasing Policy requires all new permits or amendments to existing permits to include covenants to comply with new environmental standards, which include, but are not limited to (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.

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 for the next ten years. 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 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 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 Council in July 2008. 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 2010 through 2015.

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

Fiscal Year Ending June 30	Total Capital Expenditures	Revenues Available for Capital Projects	Government Grants⁽²⁾	Debt	% Debt Financing
2010	\$ 332	\$ 506	--	--	0%
2011	292	483	--	\$105	36
2012	253	364	--	152	60
2013	203	371	--	95	47
2014	129	381	--	10	8
2015	102	381	--	--	0
Total	\$ 1,311	\$ 2,486	\$0	\$362	28%

⁽¹⁾ Totals may not sum due to rounding.

⁽²⁾ The Department's projections assume no grant receipts, however, grants may be received for certain projects.

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 2009 Budget included approximately \$264 million for capital improvement programs as follows: terminals (approximately \$102 million), transportation (approximately \$10 million), security (approximately \$40 million), community (approximately \$74 million) and maritime services (approximately \$38 million). The Department expects to expend approximately \$188 million for capital improvement programs during Fiscal Year 2008-09.

The Department is currently developing its budget for Fiscal Year 2009-10 and anticipates that it will include approximately \$332 million for capital improvement projects in the following categories: terminals (approximately \$140 million), transportation (approximately \$24 million), security (approximately \$22 million), community (approximately \$122 million) and maritime services (approximately \$24 million). The largest of these projects are expected to be the development of access along the San Pedro and Wilmington Waterfront in connection with the commencement of construction of Cabrillo Marina Phase II, Downtown Waterfront Plaza and Harry Bridges Boulevard improvements. Additional planned capital improvement projects for Fiscal Year 2009-10 include the purchase of Port security systems and equipment; beginning 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 2010 through Fiscal Year 2015:

**CAPITAL PROJECT COSTS BY SECTOR
FISCAL YEARS 2010 – 2015**

Project Sector	Estimated Total Cost (\$ millions)
Terminal Projects	\$ 586.5
Transportation Projects	329.0
Security Projects	33.8
Community Projects	334.2
Maritime Services	27.5
Total Construction and Capital Improvement	\$1,311.0

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 Post-panamax 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. The China Shipping Project also includes several community beautification initiatives, including the development of a new community park in San Pedro (Plaza Park), implementing a beautification plan along area corridors and extensive 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. The Fiscal Year 2008-09 Budget includes \$18.2 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 Project – In November 2008, the Board certified the final EIR for the Marine Crude Oil Terminal 400 Project and approved the project. The project consists of the development of a deep-draft marine oil terminal on Pier 400 and will include construction and operation of a new terminal, 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 private company under a long-term permit agreement. The project is currently scheduled to begin construction in early 2010. The Department’s estimated costs for this project are approximately \$78 million.

Transportation Projects

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 2009 and construction is expected to commence in 2011. 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 November 2010. It is estimated that the cost of the project will be \$60 million, of which the Department will be responsible for approximately \$23.7 million.

Security Projects

See “—Introduction and Organization – Port Security.”

Community Projects

San Pedro Waterfront – The San Pedro Waterfront Project (formerly known as Bridge to Breakwater) is generally located along the west side of 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 Division. The Department’s Environmental 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 underlying environmental initiatives program is incorporated into the Department’s Strategic Plan and includes 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. The Department is presently preparing its Water Resources Action Plan which is expected to be completed in calendar year 2009. Other programs include soil and groundwater restoration and habitat management. All these programs are backed up by long term monitoring of air quality, water and sediment quality and soil and groundwater monitoring.

Environmental Documentation

The Department is the lead agency with respect to Department projects under CEQA, which requires public disclosure of the environmental effects of such projects. The disclosure document, known as an EIR, is required for development of all major Port facilities and development projects related to major leases with customers. Presently, through its Environmental Division, the Department is preparing numerous EIRs on 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. The Department is unable to predict the amount of future expenditures associated with environmental mitigation measures that may be required pursuant to EIRs and thus determine if any such expenditure may have a significant financial impact on the Department. Additionally, under certain circumstances, such mitigation expenditures may be offset where third parties are required to contribute to cleanup efforts.

Clean Air Action Plan – Clean Truck Program

In 1997, the State identified diesel emissions as an air toxin which requires consideration of its impact in the approval of Port projects and operations. Subsequent to this, the South Coast Air Quality Management District prepared the Multiple Air Toxics Exposure Study (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. A major source of diesel particulate emissions 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 San Pedro Bay 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 a CAAP initiative that targets emissions from heavy duty trucks, specifically drayage trucks that move cargo in and out of marine terminals at the San Pedro Bay Ports. The Department's current air quality programs are estimated to have accounted for reductions of over 1,000 tons per year of nitrogen oxide ("NOx") emissions and over 60 tons per year of particulate emissions. The Department is also required to comply with rules of the South Coast Air Quality Management District ("SCAQMD") which place limits on certain particulate pollution. The Department is currently working with the SCAQMD, the California Air Resources Board and the California office of the United States Environmental Protection Agency ("USEPA") to address these requirements.

A key feature of the CTP is a series of progressive bans adopted by the San Pedro Bay Ports designed to gradually restrict older, more polluting trucks from operating at marine terminals at the San Pedro Bay Ports until eventually all trucks operating at San Pedro Bay Port terminals will be required to meet USEPA 2007 On Road Heavy Duty emission standards. In recent years, more than 16,000 drayage trucks were regularly operating at the San Pedro Bay Ports. Reduction of emissions from these regular operators is the main focus of the CTP because their regular operations generate the largest amount of truck emissions.

The first progressive truck ban went into effect on October 1, 2008, where trucks older than the 1989 model year were banned from terminals at the San Pedro Bay Ports. It is estimated that the October 1, 2008 ban affected approximately 10% to 15% of trucks (approximately 2,000 trucks) that had been regularly operating at the San Pedro Bay Ports in the past. The next truck ban will go into effect on January 1, 2010, when truck engines older than the 1994 model year will be banned from terminals at the San Pedro Bay Ports, and truck engines with model years between 1994 and 2003 will require emission retrofits for continued operation at terminals at the San

Pedro Bay Ports. It is estimated that the January 1, 2010 ban will impact approximately 80% of trucks (approximately 13,000 trucks) that had been regularly operating at the San Pedro Bay Ports in past years. The final truck ban will go into effect on January 1, 2012, when truck engines older than the 2007 model year will be banned from terminals at the San Pedro Bay Ports. The January 1, 2012 ban will impact the remaining approximately 5% to 10% of trucks (estimated at approximately 1,000 trucks) that had been regularly operating at the San Pedro Bay Ports in past years.

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 each San Pedro Bay Port to allow entry into terminals at the San Pedro Bay Ports. The concession agreement requires trucking companies to 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 San Pedro Bay Ports to keep track of pertinent information about each truck, including its make, model year and operating history.

To assist trucking companies with the replacement of trucks as the bans go into effect, the San Pedro Bay Ports have developed special grant and incentive programs. The Department's grant program (the "Grant Program") provides subsidized loans and leases (up to 80% of the purchase price) to trucking companies toward the purchase of USEPA 2007 emissions compliant trucks. The Department's incentive program (the "Incentive Program") is designed to reward private investment in USEPA 2007 emissions compliant trucks by providing a \$20,000 incentive to trucking companies that can demonstrate they purchased a USEPA 2007 emissions compliant truck without public funds and put such truck into service at a Port terminal. The subsidized loans and leases are administered for the San Pedro Bay Ports by Daimler Truck Financial Services. The Incentive Program is administered by the San Pedro Bay Ports CTP concession and grant administration team.

The Grant Program is funded through Department revenues, California Proposition 1B ("Prop 1B") proceeds and the Clean Truck Fee. However, the State delayed distribution of Prop 1B funds due to the State budget crisis. The Clean Truck Fee is a \$35/TEU charge (\$35 for a twenty foot container and \$70 for larger containers) that is assessed on containerized merchandise and collected from beneficial cargo owners by the terminals in behalf of the San Pedro Bay Ports. There is a Clean Truck Fee exemption for cargo moved by privately funded USEPA 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. The Department budgeted Clean Truck Fee revenues of \$21 million for Fiscal Year 2008-09 and \$30 million for Fiscal Year 2009-10.

As of the date hereof, fewer than 50 trucks have been funded through the Grant Program, due largely to the fact that Prop 1B funds have been delayed. By contrast, the Department's Incentive Program has incentivized the purchase of nearly 2,200 trucks through private investment and eligible for a \$20,000 incentive payment. The Department has authorized \$44 million for these incentive payments out of Department funds, and this money is currently being distributed to qualified incentive program participants.

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 \$160 million dollars for the Department. It is expected that \$81 million will be collected from Clean Truck Fees but due to the State budget crisis, any funding requirements for the CTP are largely expected to be met from Department revenues and potential federal funds.

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 such as 24 hour access to ease roadway congestion, which is also known as “Pier Pass.”

The Pier Pass Program is designed to incentivize use of the Port at off-peak hours to reduce, among other things, emissions from idling engines and traffic congestions. Under the program \$40-per-TEU fee is charged to the beneficial cargo owners for all containers arriving at the San Pedro Bay Ports. If a container is moved during one of the off-peak terminal gates or via rail, the beneficial cargo owner receives a refund of that fee. It was initially estimated that the project would increase off-peak usage to more than 40 percent. The program has exceeded expectations by successfully increasing cargo movement, reducing truck-waiting time inside port terminals and truck traffic during peak daytime commuting periods, although in the current economic environment there can be no assurance that off-peak usage will remain at current levels or increase.

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. 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. Contributions from the Department to the Fund over the subsequent four years of the initial MOU term may vary based on which projects proceed and the level of cargo throughput at the Port.

Intermodal Incentives for Rail Shipment

The Department recently announced an Intermodal Container Incentive Program under which the Department will pay shipping companies \$20.00 per TEU for each additional TEU such company processes through the Port by rail in excess of 2008 base year levels. Intermodal cargo accounts for just over 40% of the total container volume at the Port. The new incremental incentive program begins on May 1, 2009 and is expected to cost the Department approximately \$900,000.

In February 2009, the Department initiated a one year cost reduction program under which the Department will provide terminal operators a ten percent (10%) discount on revenues due to the Department on each rail container they transport to or from the Port by rail. The discount program is retroactive to January 1, 2009 and is expected to cost the Department \$13 million.

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 better 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, but liabilities will be measured at the beginning of that period so that beginning net assets can be restated. The Department will be required to implement the statement for its Fiscal Year 2009 financial statements and does not expect such implementation to have a material adverse impact on the Department’s financial statements. However, no assurance can be given that future impacts will not be material.

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 “Rental Property” herein.

Table 6 shows a breakdown of the Department’s operating revenues, expenses and a statement of net income for Fiscal Years 2004-2008 and the ten-month period ended April 30, 2009. 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 2004-2008
(In thousands of dollars)

	2004	2005	2006	2007	2008	2009 ⁽¹⁾
REVENUES						
Shipping Services						
Wharfage	\$ 270,616	\$ 288,415	\$ 330,933	\$ 331,919	\$ 335,172	\$ 260,075
Dockage	7,150	7,577	8,484	8,201	6,957	5,196
Demurrage	361	310	283	246	276	202
Cranes	3,383	3,155	2,402	2,460	1,944	1,105
Pilotage	7,266	6,951	7,737	8,829	7,677	6,472
Assignment Charges	22,509	22,283	23,312	23,687	22,750	16,317
Storage	99	123	197	129	102	65
Subtotal (Shipping Services)	\$ 311,384	\$ 328,814	\$ 373,348	\$ 375,471	\$ 374,878	\$ 289,432
Rentals						
Land	\$ 30,908	\$ 31,788	\$ 30,807	\$ 37,147	\$ 41,587	34,846
Other	2,353	2,842	3,069	3,175	3,937	3,005
Total Rentals	\$ 33,261	\$ 34,630	\$ 33,876	\$ 40,322	\$ 45,524	\$ 37,851
Royalties, Fees and Other Operating Revenues	5,016	5,384	4,893	6,867	5,943	14,732
Total Operating Revenues	\$ 349,661	\$ 368,828	\$ 412,117	\$ 422,660	\$ 426,345	\$ 342,015
Provision for Bad Debts ⁽²⁾	17,407	13,199	19,958	5,499	--	--
Net Operating Revenues	\$ 332,254	\$ 355,629	\$ 392,159	\$ 417,161	\$ 426,345	\$ 342,015
EXPENSES						
Operating and Administrative Expenses						
Salaries and benefits	\$ 53,165	\$ 58,182	\$ 65,705	\$ 74,313	\$ 95,444 ⁽³⁾	\$ 82,420
Marketing and public relations	3,769	3,455	3,333	4,521	5,274	2,102
Travel and entertainment	758	743	822	604	1,128	585
Outside services	32,104	39,672	33,673	33,277	37,937	21,002
Material and supplies	4,682	5,320	5,400	5,813	8,950	6,396
City services and payments	18,729	22,361	20,821	28,640	27,101	25,824
Other operating expenses	16,967	41,158	54,378	16,607	45,918 ⁽³⁾	51,768
Total Operating and Administrative Expenses	130,174	170,891	184,132	163,775	221,752	190,097
Income from operations before depreciation	202,080	184,738	208,027	253,386	204,593	151,918
Depreciation	67,934	70,040	98,779	88,106	78,295	68,820
Operating income	134,146	114,698	109,248	165,280	126,298	83,098
Nonoperating Revenues/(Expenses)						
Income from investments in JPAs and other entities	2,795	3,543	4,302	4,675	4,440	3,038
Interest and investment income	2,298	7,266	9,582	23,773	34,863	13,611
Interest expense	(43,034)	(42,279)	(37,787)	(50,038)	(38,052)	(30,832)
Other income and expenses, net	(13,724)	11,842	7,222	11,018	(2,536)	(6,230)
Net nonoperating expenses	(51,665)	(19,628)	(16,681)	(10,572)	(1,285)	(20,413)
Income Before Capital Contributions	\$ 82,481	\$ 95,070	\$ 92,567	\$ 154,708	\$ 125,013	\$ 62,685

⁽¹⁾ Unaudited, ten month period ended April 30, 2009.

⁽²⁾ Provision for bad debts formerly included in wharfage in fiscal years 2004-2007, now classified in a separate item.

⁽³⁾ Increase from Fiscal Year 2007 is due primarily to Clean Truck Program incentives, increase in staff at Port Police and Construction and Maintenance divisions and increased Port police salaries, new hires and increases in litigation, claims and settlement expenses. The Department is undertaking measures to reduce expenses in all areas of operating costs.

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.

**TABLE 7
GENERAL CARGO TARIFFS AND
BASIC DOCKAGE CHARGES
FISCAL YEARS 1999-2008**

Fiscal year Ending June 30	General Cargo Tariff ⁽¹⁾	Basic Dockage Charge ⁽²⁾
1999	\$ 5.15	\$ 2,033
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

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

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

Source: Harbor Department of the City of Los Angeles

Shipping 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. For example, total TEUs for February 2009 were 32.56% less than February 2008 and total TEUs for the eight months ended February 28, 2009 as compared to the eight months ended February 29, 2008 had decreased approximately 8.91%. Total TEUs for March 2009 were 9.84% less than March 2008 and total TEUs for the nine months ended March 31, 2009 as compared to the nine months ended March 31, 2008 had decreased approximately 9.00%. Total TEUs for April 2009 were 12.11% less than April 2008 and total TEUs for the ten months ended April 30, 2009 as compared to the ten months ended April 30, 2008 have decreased approximately 9.28%.

The recent downturn in the global economy has had a significant impact on the economies of the Far East region, which accounts for more than 90% of all revenue tonnage at the Port. Because the Far East accounts for such a large portion of the Port's business, continued declines in the domestic economy and that of the Far East region may further cause reductions in Port imports and exports. See "—Operating Data." To mitigate some of the effects of the economic downturn, among other things, the Department initiated intermodal rail cargo incentives to assist shipping customers through difficult economic times, while fostering the ability of the Department to remain competitive. See "—Environmental and Regulatory Matters."

The economic 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.

Operating revenues of the Department increased from the Fiscal Year ended June 30, 2007 to the Fiscal Year ended June 30, 2008 despite a decrease in total cargo during the same period. This increase in operating revenue is attributable to increased rates. The Department has taken certain measures to reduce operating costs, while maintaining the viability of its operations, during the current economic downturn. See APPENDIX A – “AUDITED FINANCIAL STATEMENTS OF THE HARBOR DEPARTMENT FOR THE FISCAL YEARS ENDED JUNE 30, 2008 AND 2007 – Management Discussion and Analysis.”

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 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 2003 ACTA agreed to an expanded mission to develop and support projects that more effectively move cargo to points around Southern California, ease truck congestion, improve air quality and make roads safer. If in the future, ACTA makes income or equity distributions to the San Pedro Bay Ports, any such income or equity distributions shall be shared equally. The Department’s share of ACTA’s operations and assets, liabilities and equity at June 30, 2008 and 2007 is described in Note 4 of the general purpose financial statements set forth in APPENDIX A – “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”). 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 Port to pay up to twenty percent (20%) of the shortfall (“Shortfall”) on an annual basis. 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 payments in their budgets, subject to receipt of timely notice from ACTA, but Shortfall payments are subordinate to other obligations of the Department, including the Bonds, and the Department is not required to take Shortfall payments into account when determining whether it may incur additional indebtedness or when calculating compliance with rate covenants under their respective bond indentures and resolutions.

In April 2004 it was estimated by ACTA that the San Pedro Bay Ports would be required to make Shortfall payments totaling approximately \$20.5 million (the San Pedro Bay Ports each being liable for their one-half share of \$10.25 million) through 2027. Pursuant to the ACTA Operating Agreement, subject to receipt of timely notice from ACTA, the Department is obligated to include any forecasted Shortfall payments in its budget each Fiscal Year. The Department has not funded a reserve account to pay Shortfall payments. No Shortfall payments were payable by the Department in prior Fiscal Years in part due to ACTA’s use of other funds. For Fiscal Year 2009-2010 ACTA has notified the Department that no Shortfall payments are expected to be required.

Estimates of Shortfalls are prepared by ACTA and such Shortfalls 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 payments.

Principal Achievements in Fiscal Year 2008-09 and Fiscal Year 2009-2010 Budget

Principal Achievements in Fiscal Year 2008-09

The following is a summary of the Department’s principal achievements in Fiscal Year 2009:

- Through various initiatives pursued under the CAAP the Department achieved declines in the Port’s share of regional air pollution.
- The Department fostered local economic development through clean technology advancements, including funding, with, among others the South Coast Air Quality Management District, the purchase of a prototype heavy-duty, all-electric, short-haul drayage truck for cargo terminal and on-road use. As part of the agreement for purchase, a manufacturing plant was opened in the City, creating jobs for local workers, business opportunities for local suppliers and a royalty payment to the Department for every truck the manufacturer sells or leases.
- Obtained approval of the China Shipping Project EIR, the third environmental assessment for a major development project approved since December 2007. See “LITIGATION.”
- Released the draft EIR/EIS documents for the San Pedro Waterfront Project and Wilmington Waterfront Project.
- Secured a tentative agreement with American Presidents Line as the starting point for a proposed terminal expansion that will undergo environmental assessment in Fiscal Year 2009-10.
- Secured a homeport agreement with Disney Cruise Line which is schedule to begin operating at the Port in 2011.

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 and the ten-month period ended April 30, 2009 are shown in Table 8 below.

**TABLE 8
HISTORICAL REVENUES, EXPENSES AND DEBT SERVICE COVERAGE
FISCAL YEARS 2004-2008
(In thousands of dollars)**

Fiscal Year Ended June 30	Operating & Other Revenues ⁽¹⁾	Operating & Other Expenses ⁽²⁾	Available Revenues ⁽³⁾	Debt Service ⁽⁴⁾	Debt Service Coverage ⁽⁵⁾
2004	\$ 323,623	\$ 130,174	\$193,449	\$57,994	3.34
2005	378,280	170,891	207,389	58,515	3.54
2006	413,265	184,132	229,133	58,143	3.94
2007	456,627	163,775	292,852	58,293	5.02
2008	463,112	221,752	241,360	61,318	3.94
2009 ⁽⁶⁾	352,434	190,097	162,337	61,298	N/A

⁽¹⁾ Operating and Other Revenues includes total operating revenues, income from investment and other non-operating Revenues minus other non-operating expenses, excluding interest expense on bond indebtedness and notes payable.

⁽²⁾ Operating and Other Expenses includes payroll, fringe benefits, payments for City services and certain other costs of the Department, the payment of which is advanced by the City General Fund and reimbursed by the Harbor Revenue Fund.

⁽³⁾ Operating Revenues and Other Revenues (non-operating) available after payment of Operating Expenses and Other Payments to the City.

⁽⁴⁾ Debt Service includes annual principal payments on issued Bonds, but not on Commercial Paper Notes, which are expected to be issued but are not currently outstanding.

⁽⁵⁾ Calculated based on Operating Revenues and Other Revenues (non-operating) available after payment of Operating Expenses and Other Payments to the City, divided by Annual Debt Service.

⁽⁶⁾ Unaudited, ten month period ended April 30, 2009.

Source: Harbor Department of the City of Los Angeles

Fiscal Year 2009-10 Budget

The Department's proposed budget for Fiscal Year 2009-10 (the "2010 Budget") reflects sharp decreases in import and export activity caused by the continuing global recession and, therefore, anticipates approximately 9-10% lower revenues from ongoing tenant operations. See "—Shipping Activity and Impact of Economic Downturn." In preparing the 2010 Budget the Department emphasized fiscal responsibility and its core mission by planning to fund high priority expansion projects, continuing critical environmental programs, fostering economic development, utilizing new technologies to enhance internal operations and completing important security initiatives. The 2010 Budget anticipates that these priority initiatives in the coming year will help prepare the Department for the post-recession economic recovery.

The following is a summary of the Department's principal goals for Fiscal Year 2009-10:

- With the expectation of creating thousands of jobs during construction and after project completion the Department expects to advance the TraPac project and China Shipping Project, which are designed to become the cleanest and greenest cargo facilities in the world. Other capital development priorities in Fiscal Year 2009-10 include the continuation of previously approved waterfront initiatives in San Pedro and Wilmington.
- To continue generating project environmental assessments and the implementation of environmental initiatives the Department plans to advance a project environmental assessment for Pier 300 (American Presidents Line), install AMP terminals at the World Cruise Center and Evergreen terminals; install a 10-megawatt solar power system at the World Cruise Center and implement the Clean Truck Program.
- The Department also plans to complete several major security initiatives, including a new state-of-the-art Port Police Headquarters.
- The Department plans to continue programs to maintain the Port's position as a major economic engine for the City and region by fostering the development of green technologies that will have future commercial applications in the Port complex and beyond.
- The Department plans to begin the phased implementation of a strategic plan to upgrade internal information technology systems to modern web-based platforms in order to maximize efficiency and enhance Port-related computing performance.

For planning purposes the Department develops projections from time to time, which utilize assumptions the Department believes to be conservative, including reduced revenues and other potential adverse factors. The projections also take into account potential future borrowings (the timing of which will vary depending on then current business conditions). In the future, if revenues decline without a concurrent reduction in expenses and additional borrowings are undertaken, debt service coverage could decline materially.

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, financial reserve, risk management and debt management issues, 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.

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 provide 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 and City Administrative Officer.

Additionally, under the Budget Policy, (a) current appropriations for all funds are limited to the sum of available, unrestricted cash balances and revenues estimated to be received in the current budget year; (b) all departments are required to operate within the adopted budget; (c) capital assets owned by the Department are required to be maintained on a regular schedule; (d) all Department funds are reconciled at the close of the fiscal year to determine the available cash balance at year-end; and (e) Board reports are required to include fiscal impact and economic benefit discussions.

Revenue and Expense Policies

The Department's Revenue and Expense Policies include the following key components: (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 "—Rental Property" for a discussion of the Department's Leasing Policy.

Capital Improvement Plan 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, Commercial Paper Notes, revenue bond proceeds, grants and other moneys, all subject to the review and approval of the Executive Director. Under the Capital Improvement Plan 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) maintain required and additional financial reserves to meet the Department's financial needs; (iii) meet or exceed all debt indenture obligations 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 Strategic 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's short-term and long-term financing programs; (iii) maintaining appropriate reserve and liquidity levels; (iv) providing specific guidelines with respect to the overall management of the Department's 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, (2) maintain a minimum of \$235 million of combined Emergency and Strategic Operating Fund designed to equate to one year of operating expenses and (3) variable rate exposure on long term debt not to exceed 20%.

Other Financial Matters

Debt Service on the Bonds

Debt service to maturity on the Bonds, the Refunding Bonds and Parity Obligations as of July 9, 2009 (excluding Commercial Paper Notes, which are expected to be issued but are not currently outstanding) is shown on Table 9.

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TABLE 9
DEBT SERVICE ON THE BONDS AND PARITY OBLIGATIONS
As of July 9, 2009

Fiscal Year	Revenue Bonds						Refunding Bonds			Other Parity Obligations			Grand Total
	Principal	2009A Bonds Interest	Total	Principal	2009B Bonds Interest	Total	Principal	Interest	Total	Principal	Interest	Total	
2010	-	\$2,620,515.14	\$2,620,515.14	-	\$2,945,833.33	\$2,945,833.33	-	\$6,540,037.58	\$ 6,540,037.58	\$24,610,000	\$30,134,175.97	\$54,744,175.97	\$66,850,562.02
2011	\$3,300,000	4,637,225.00	7,937,225.00	-	5,250,000.00	5,250,000.00	-	11,655,512.50	11,655,512.50	25,900,000	23,586,347.50	49,486,347.50	74,329,085.00
2012	3,365,000	4,553,750.00	7,918,750.00	-	5,250,000.00	5,250,000.00	\$ 520,000	11,642,512.50	12,162,512.50	26,565,000	22,270,841.25	48,835,841.25	74,167,103.75
2013	3,465,000	4,446,968.75	7,911,968.75	-	5,250,000.00	5,250,000.00	12,865,000	11,319,887.50	24,184,887.50	14,955,000	21,236,942.50	36,191,942.50	73,538,798.75
2014	3,580,000	4,319,062.50	7,899,062.50	-	5,250,000.00	5,250,000.00	10,950,000	10,761,512.50	21,711,512.50	18,240,000	20,407,462.50	38,647,462.50	73,508,037.50
2015	3,720,000	4,154,462.50	7,874,462.50	-	5,250,000.00	5,250,000.00	15,715,000	10,121,887.50	25,836,887.50	14,730,000	19,567,275.00	34,297,275.00	73,258,625.00
2016	3,905,000	3,968,718.75	7,873,718.75	-	5,250,000.00	5,250,000.00	9,675,000	9,499,762.50	19,174,762.50	23,060,000	18,589,462.50	41,649,462.50	73,947,943.75
2017	4,095,000	3,794,075.00	7,889,075.00	-	5,250,000.00	5,250,000.00	8,860,000	9,055,362.50	17,915,362.50	25,555,000	17,336,737.50	42,891,737.50	73,946,175.00
2018	4,255,000	3,627,075.00	7,882,075.00	-	5,250,000.00	5,250,000.00	2,265,000	8,785,587.50	11,050,587.50	34,385,000	15,798,825.00	50,183,825.00	74,366,487.50
2019	4,425,000	3,453,475.00	7,878,475.00	-	5,250,000.00	5,250,000.00	-	8,728,962.50	8,728,962.50	38,650,000	13,931,375.00	52,581,375.00	74,438,812.50
2020	4,605,000	3,249,850.00	7,854,850.00	-	5,250,000.00	5,250,000.00	10,000,000	8,478,962.50	18,478,962.50	30,200,000	12,166,262.50	42,366,262.50	73,950,075.00
2021	4,835,000	3,013,850.00	7,848,850.00	-	5,250,000.00	5,250,000.00	-	8,228,962.50	8,228,962.50	42,775,000	10,295,600.00	53,070,600.00	74,398,412.50
2022	5,075,000	2,759,756.25	7,834,756.25	-	5,250,000.00	5,250,000.00	10,240,000	7,966,412.50	18,206,412.50	34,280,000	8,320,400.00	42,600,400.00	73,891,568.75
2023	5,340,000	2,486,362.50	7,826,362.50	-	5,250,000.00	5,250,000.00	24,055,000	7,077,375.00	31,132,375.00	22,245,000	6,870,356.25	29,115,356.25	73,324,093.75
2024	5,625,000	2,198,531.25	7,823,531.25	-	5,250,000.00	5,250,000.00	28,220,000	5,710,112.50	33,930,112.50	20,520,000	5,789,375.00	26,309,375.00	73,313,018.75
2025	5,920,000	1,895,475.00	7,815,475.00	-	5,250,000.00	5,250,000.00	17,280,000	4,515,737.50	21,795,737.50	34,425,000	4,415,750.00	38,840,750.00	73,701,962.50
2026	6,230,000	1,576,537.50	7,806,537.50	-	5,250,000.00	5,250,000.00	35,055,000	3,142,568.75	38,197,568.75	18,805,000	3,085,000.00	21,890,000.00	73,144,106.25
2027	6,555,000	1,249,125.00	7,804,125.00	-	5,250,000.00	5,250,000.00	38,390,000	1,263,250.00	39,653,250.00	4,025,000	2,514,250.00	6,539,250.00	59,246,625.00
2028	6,885,000	913,125.00	7,798,125.00	-	5,250,000.00	5,250,000.00	425,000	292,875.00	717,875.00	3,950,000	2,324,750.00	6,274,750.00	20,040,750.00
2029	7,230,000	560,250.00	7,790,250.00	-	5,250,000.00	5,250,000.00	-	282,250.00	282,250.00	4,670,000	2,130,800.00	6,800,800.00	20,123,300.00
2030	7,590,000	189,750.00	7,779,750.00	-	5,250,000.00	5,250,000.00	3,225,000	201,625.00	3,426,625.00	1,580,000	1,986,225.00	3,566,225.00	20,022,600.00
2031	-	-	-	\$7,860,000	5,043,675.00	12,903,675.00	975,000	96,625.00	1,071,625.00	4,075,000	1,844,850.00	5,919,850.00	19,895,150.00
2032	-	-	-	8,270,000	4,620,262.50	12,890,262.50	1,445,000	36,125.00	1,481,125.00	3,865,000	1,646,350.00	5,511,350.00	19,882,737.50
2033	-	-	-	8,705,000	4,174,668.75	12,879,668.75	-	-	-	5,690,000	1,407,475.00	7,097,475.00	19,977,143.75
2034	-	-	-	9,160,000	3,705,712.50	12,865,712.50	-	-	-	5,985,000	1,115,600.00	7,100,600.00	19,966,312.50
2035	-	-	-	9,645,000	3,212,081.25	12,857,081.25	-	-	-	6,290,000	808,725.00	7,098,725.00	19,955,806.25
2036	-	-	-	10,150,000	2,692,462.50	12,842,462.50	-	-	-	6,610,000	486,225.00	7,096,225.00	19,938,687.50
2037	-	-	-	10,680,000	2,145,675.00	12,825,675.00	-	-	-	6,940,000	160,487.50	7,100,487.50	19,926,162.50
2038	-	-	-	11,240,000	1,570,275.00	12,810,275.00	-	-	-	-	-	-	12,810,275.00
2039	-	-	-	11,835,000	964,556.25	12,799,556.25	-	-	-	-	-	-	12,799,556.25
2040	-	-	-	12,455,000	326,943.75	12,781,943.75	-	-	-	-	-	-	12,781,943.75
Total	\$100,000,000	\$59,667,940.14	\$159,667,940.14	\$100,000,000	\$136,402,145.83	\$236,402,145.83	\$230,160,000	\$145,403,906.33	\$375,563,906.33	\$503,580,000	\$270,227,925.97	\$773,807,925.97	\$1,545,441,918.27

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. Estimated payments are included in the Department’s annual budget. In connection with the Fiscal Year 2008-2009 Budget estimated payments are \$65 million. Pursuant to a 1977 Settlement Agreement between the City and the Department, the City and the Department established a methodology for billing for services which the City provided to the Department. In 1994, the City reevaluated the method of billing for its services and required the Department to make additional payments of approximately \$66.9 million to the City to reimburse the City for estimated underpayments dating back to 1977. The State by and through its State Lands Commission, which oversees the tide and submerged lands which have been granted to the City, sued the City in 1996 to recover these payments. Later, the Steamship Association of Southern California joined the suit to support the requested State relief. In 2001, the State and City settled the suit. The City has agreed to reimburse the Department approximately \$60-61 million plus 3% interest by payments of about \$5.127 million per year over 15 years and has also agreed to reimburse the Department certain other monies. This repayment began in Fiscal Year 2002 and is applied as a credit against amounts owed to the City by the Department for services rendered at the Port. This repayment method will continue through Fiscal Year 2016 pursuant to the settlement agreement. See Note 10(a) of the Audited Financial Statements of the Department attached hereto as APPENDIX A – “AUDITED FINANCIAL STATEMENTS OF THE HARBOR DEPARTMENT FOR THE FISCAL YEARS ENDED JUNE 30, 2008 AND 2007”. This settlement resolves the dispute between the City and Department as to the past payments the Department owes the City. For purposes of future billings by the City to the Department, the settlement also refines the 1977 settlement methodology to assure the City recovers its proper cost for services to the Department including for fire services.

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 through 2008 and the ten-month period ended April 30, 2009.

**TABLE 10
HISTORICAL ENDING CASH BALANCES
FISCAL YEARS 2004-2008
(In thousands of dollars)**

	2004	2005	2006	2007	2008	2009⁽¹⁾
UNRESTRICTED FUNDS						
Harbor Revenue Fund	\$ 117,287	\$ 211,241	\$ 256,258	\$ 380,138	\$ 488,893	\$ 372,291
RESTRICTED FUNDS						
Emergency Fund ⁽²⁾	\$ 83,229	\$ 84,545	\$ 87,409	\$ 91,775	\$ 96,839	\$ 37,122
China Shipping Mitigation Fund	14,909	18,811	31,036	46,652	51,539	50,415
Community Aesthetic Fund for Parks	--	3,476	3,418	3,449	3,490	3,445
Clean Truck – Truck Fees	--	--	--	--	--	6,814
Batiquitos L/T Investment Fund ⁽³⁾	5,000	5,066	5,243	5,508	5,796	5,947
U.S. Custom House - Terminal Island	--	6,257	6,153	6,230	6,349	--
Bond Funds	17	15	63,917	62	9	61,592
Customer Security Deposits	3,194	1,621	3,142	3,154	3,206	3,007
Other ⁽⁴⁾	928	2,608	2,266	1,499	1,095	12,501
Total Restricted Funds	\$ 107,277	\$ 122,399	\$ 202,584	\$ 158,329	\$ 168,323	\$ 180,843
TOTAL FUNDS	\$ 224,564	\$ 333,640	\$ 458,842	\$ 538,467	\$ 657,216	\$ 553,134

⁽¹⁾ Unaudited, ten month period ended April 30, 2009.

⁽²⁾ In December 2008, the Department transferred \$61.5 million to the bond trustee to cash fund the reserve fund established under the Indentures for the 2005/2006 Bonds as the result of a downgrade by S&P of MBIA Inc., the provider of the reserve fund surety in connection with the 2005/2006 Bonds.

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

⁽⁴⁾ Includes deposit into TraPac Community Mitigation Trust Fund of \$11.24 million in March 2009.

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 April 30, 2009 are shown in the following table:

**TABLE 11
CITY OF LOS ANGELES POOLED INVESTMENT FUND
INVESTMENTS AS OF APRIL 30, 2009**

	Market Value at 4/30/2009 (millions)	% of Total
Treasury Notes	\$ 1,579	29.11%
Medium Term Notes	992	18.29
Commercial Paper- Discounts	1,461	26.94
Federal Agency Issues-Discounts	249	4.59
Federal Agency Issues-Coupons	806	14.86
Federal Agency Pass Through-Bonds	162	2.99
Securities Lending Cash Collateral ⁽¹⁾	--	--
Others	175	3.23
Total	<u>\$ 5,424</u>	<u>100.00%</u>

⁽¹⁾ This program has been suspended since November 2008 due to the economic downturn.
Source: City of Los Angeles, Office of the Treasurer

The latest Treasurer’s report of its investments are contained on the Treasurer’s web site at www.lacity.org/treasurer/investmentReports.htm. Except as expressly set forth herein, nothing contained on that web site 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 Council on an annual basis. The Investment Advisory Committee, comprised of the Treasurer, the City Controller, the Chief Legislative Analyst, the Director of the Office of Administrative and Research Services and a contracted investment advisor, has oversight responsibility to ensure conformance with the investment policy.

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

The average life of the investment portfolio for the General Pool as of March 31, 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 web site at www.portoflosangeles.org/finance/financial_statements.asp and from the Repository. Except as expressly set forth herein, nothing contained on the Department's web site is incorporated herein. See "APPENDIX A – AUDITED FINANCIAL STATEMENTS OF THE HARBOR DEPARTMENT FOR THE FISCAL YEARS ENDED JUNE 30, 2008 AND 2007."

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 \$750 million 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 million as of March 31, 2009. However, the Port, like the entire City, is located within a seismically active region. See "APPENDIX B – CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES – Seismic Considerations" and "—INVESTMENT CONSIDERATIONS – Seismic."

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 10 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 one of the unions and has contracts in place through June 30, 2009. Only 13 employees are covered by the expired contract; however the City has reached a tentative agreement with this union for a new contract covering the period from July 1, 2006 through June 30, 2009. The following is a list of all agreements with collective bargaining units and their expiration dates.

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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, 2012
Engineers and Architects Association (EAA)	Administrative Supervisory Administrative Professional, Engineering & Scientific Supv. Prof. Engineering & Scientific 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, 2012
Los Angeles County Bldg. & Construction Trades Council, AFL-CIO	Building Trades Supervisory Building Trades	September 1, 2007 to June 30, 2012
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	July 1, 2006 to June 30, 2009
Los Angeles Port Police Command Officers Association	Port of Los Angeles Command Officers	July 1, 2006 to June 30, 2009*
Los Angeles Professional Managers Association (LAPMA)	Managers	July 1, 2007 to June 30, 2012
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, 2012

* Tentative agreement on new contract.

Source: Harbor Department of the City of Los Angeles

Retirement Plan

Approximately 88% all of the Department's eligible 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 Pensions System ("LAFPP"). Such plans are the obligation of the City. The respective pension systems, which are responsible for the funding of the LACERS and for LAFPP determines and seeks to resolve any unfunded System liabilities. Under requirements of the City Charter, the Department makes contributions to the LACERS and LAFPP based upon the salary structure

of the Department and the funding determinations made by the City and is not responsible for further funding requirements. For Fiscal Year 2008-09 the Department's contributions to LACERS and LAFPP totaled \$14,036,359. For additional information regarding the LACERS and LAFPP, see APPENDIX B – "CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES – SELECTED INFORMATION REGARDING CITY FINANCIAL OPERATIONS – Retirement and Pension Systems."

LITIGATION REGARDING THE DEPARTMENT

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") the Board and the Board of Harbor Commissioners of the City of Long Beach (collectively, the "Port Defendants"). Pursuant to the ATA Complaint, the ATA seeks to declare void and to permanently enjoin the enforcement of certain concession plan elements of the Cities' respective Clean Truck Programs (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: 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 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 by the District Court 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 truck ban and replacement, the employee transition requirement and other environmental and security provisions. On May 14, 2009, 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. A trial on the merits is currently calendared in the District Court for December 15, 2009.

On October 31, 2008, the Federal Maritime Commission ("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 that the CTP violates 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"), is 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 requests 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 that: (i) require use of employee drivers or prohibit independent owner operators from serving the San Pedro Bay Ports, and/or (ii) establish the use of truck purchase incentives, subsidies, or clean truck fees or exemptions from such fees imposed upon some but not all Environmental Protection Agency-compliant drayage trucks which disadvantage independent owner operators that provide drayage service at the San Pedro Bay Ports. The FMC filed a motion for preliminary injunction which was denied by the United States District Court on

April 15, 2009. The Port Defendants have filed motions seeking to dismiss the case and requesting summary judgment. The District Court's decision is pending.

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 San Pedro Bay Ports' Clean Truck Programs, including employee driver requirement, independent owner operator limitations, incentive programs, off-street parking requirement, Clean Truck Fee exemptions, and concession application criteria. The parties will conduct discovery in 2009 and 2010. A public hearing, initial decision by the administrative law judge and a final decision by the FMC are scheduled in 2011. 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 "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. Following an appeal by the Relator challenging a dismissal by the trial court and other matters, the Ninth Circuit remanded the case to the trial court for further proceedings. A motion for summary judgment was filed by the Defendants, which asked the trial court to enter judgment in favor of the Defendants on the grounds that the City and the Department are immune from suit under the False Claim Acts and that the Relator is not an original source of the false claims information, which the law requires him to be in order to prosecute the case. On April 23, 2009, the Court granted the motion, finding that the Department, the City and the former Executive Director are not subject to suit under the False Claims Acts. On June 5, 2009, the Court granted the motion for summary judgment in favor of Maersk, holding that the Court lacked jurisdiction over the Relator's claims. In order to continue his claim the Relator must appeal the Court's judgment within 60 days of the Court's order. The Department cannot reasonably determine whether the Relator will appeal.

Pollution Damages Claim

The Department has been named as a defendant in a claim by five individuals residing close to the San Pedro Bay Ports who claim physical injury as a result of emissions from operations at the San Pedro Bay Ports. Numerous tenants and companies operating at the San Pedro Bay Ports are also named in the claim. 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

The City of Riverside has challenged the adequacy of the EIR certified by the Board in connection with the China Shipping project. Specifically, Riverside alleges that the EIR fails to address impacts at remote rail crossings in the City and County of Riverside. The action is filed in State court and is currently pending. Extended delays in the resolution of the challenge may cause delays in the completion of the China Shipping project, 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 costs associated with re-drafting, reconsideration of the China Shipping EIR and adoption of additional mitigation measures. The Department cannot reasonably estimate the extent of potential delays or costs that may be associated with 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 Bond Owners are set forth in the Resolution and the Indenture and reference is made to those documents for a statement of the rights and obligations of the Department and the Bond Owners. Neither this Official Statement, nor any statements which may have been made orally or in writing, are to be construed as a contract with the Owners of any of the Bonds. Brief descriptions of portions of the Resolution and the Indenture are included in this Official Statement. Such descriptions do not purport to be comprehensive or definitive; all references herein to the Resolution and the Indenture are qualified in their entirety by reference to such documents, and all references to the Bonds are qualified in their entirety to the definitive form thereof and the information with respect thereto included in the Resolution and the Indenture.

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

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

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APPENDIX A
HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES
AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED
JUNE 30, 2008 AND 2007

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**PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE
CITY OF LOS ANGELES),
A COMPONENT UNIT OF THE
CITY OF LOS ANGELES, CALIFORNIA**

Annual Financial Report

June 30, 2008 and 2007

(With Independent Auditor's Report Thereon)

**PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE
CITY OF LOS ANGELES),
A COMPONENT UNIT OF THE
CITY OF LOS ANGELES, CALIFORNIA**

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Antonio R. Villaralgaosa
Board of Harbor
Commissioners
Geraldine Knatz, Ph.D

Mayor, City of Los Angeles

S. David Freeman
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Vice President

Kaylynn L. Kim

Douglas P. Krause

Joseph R. Radisich

Executive Director

December 17, 2008

Ms. Geraldine Knatz, Ph.D.
Executive Director
Port of Los Angeles
San Pedro, California

This Component Unit Financial Report of the Port of Los Angeles, Harbor Department of the City of Los Angeles, California, for the years ended June 30, 2008 and 2007, is hereby submitted.

Introduction

The management of the Port of Los Angeles (the Port) has prepared this annual report. The responsibility for both the accuracy of the presented data, and the completeness and fairness of the presentation, including all disclosures, rests with the Port. To the best of management's knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and changes in financial position of the Port. All disclosures necessary to enable the reader to gain an understanding of the Port's financial activities have been included. The report contains the audited financial statements of the Port for the years ended June 30, 2008 and 2007, which have received an unqualified opinion from the Port's independent auditors and are presented in accordance with Governmental Accounting Standards Board Statement No. 34, *Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The report is presented in four sections: Introduction, Management's Discussion and Analysis, Financial Statements, and Supplemental Information.

The introductory section outlines the relationship of the Port to the City of Los Angeles and describes the organization and reporting entity. It additionally provides an overview of Port properties, operations, and key statistical data.

The management's discussion and analysis presents a comparative review of financial position and changes in financial position for fiscal years 2008 and 2007. Also included in this section are a description of current and proposed capital development plans, a discussion of prospective revenue growth, and an overview of the economic conditions and the competitive environment in which the Port operates.

The financial section includes the financial statements prepared on an accrual basis and using an economic resources measurement focus. Management's discussion and analysis, notes and the auditor's report accompany these financial statements. The financial statements are comprised of statements of net assets that present the financial position of the Port as of June 30, 2008 and 2007; statements of revenues, expenses, and changes in net assets depicting financial performance for fiscal years 2008 and 2007; and statements of cash flows that present the source and application of funds from operations, financing, and investment activities for fiscal years 2008 and 2007. The accompanying notes to financial statements explain some of the information in the financial statements and provide more detailed data.

The financial section includes the financial statements prepared on an accrual basis and using an economic resources measurement focus. Management's discussion and analysis, notes and the auditor's report accompany these financial statements. The financial statements are comprised of statements of net assets that present the financial position of the Port as of June 30, 2008 and 2007; statements of revenues, expenses, and changes in net assets depicting financial performance for fiscal years 2008 and 2007; and statements of cash flows that present the source and application of funds from operations, financing, and investment activities for fiscal years 2008 and 2007. The accompanying notes to financial statements explain some of the information in the financial statements and provide more detailed data.

The supplemental information section includes selected unaudited financial and statistical information, generally presented on a multi-year basis that further explain and support the information in the financial statements.

The Port of Los Angeles

The Port is a proprietary department of the City of Los Angeles (the City) and was created by the City Charter to promote and develop a deep-water port facility. It is governed by a five-member Board of Harbor Commissioners (the Board), which has the duty to provide for the needs of commerce, navigation, and fishery for the citizens of California. It operates similar to a private business and is substantially autonomous from the City. In accordance with generally accepted accounting principles (GAAP), the accompanying financial statements are included as a component unit of the City, based upon the primary oversight responsibility that the City Council (the Council) and the City have on all matters affecting Port activities.

Also, based on the foregoing criteria of oversight responsibility and accountability of all Port related entities, the operations of the Los Angeles Harbor Improvements Corporation, a nonprofit corporation, have been included in the accompanying financial statements. Two joint ventures with the Port of Long Beach have been recorded as investments of the Port in accordance with the equity method of accounting. Until March 2007, the Port also participated in a shareholder agreement that was created to form the Los Angeles Export Terminal (LAXT). Additional information regarding these joint ventures and shareholders agreement may be found in the notes to the financial statements for the Port.

The management and operation of the Port are under the direction of the Executive Director, who is responsible for coordinating and directing the activities of several major management groups. These groups fall under the responsibilities of the Deputy Executive Director of Development, Deputy Executive Director of Finance & Administration, Deputy Executive Director of Operations and Deputy Executive Director of Business Development. The Senior Director of Communications and the Director of Legislative Affairs, report directly to the Executive Director.

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

The Deputy Executive Director of Finance & Administration oversees the financial affairs as well as administrative side of the Port. Reporting to this position are the Finance Group made up of Accounting, Financial Management, Debt Management, Management/Internal Audit and Risk Management divisions; Contracts & Purchasing; Human Resources; and Information Technology divisions.

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

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

The Senior Director of Communications & Legislative Affairs is charged with the dissemination of information to the public, news media liaison, advertising, legislative coordination, and community involvement activities. This position is also responsible for the communications services unit, which provides multimedia and graphic arts services to the Port.

The Port is located in San Pedro Bay, approximately 20 miles south of downtown Los Angeles. The Port's facilities lie within the shelter of a nine-mile long breakwater constructed by the federal government in several stages, the first of which commenced in 1899. The breakwater encloses the largest man-made harbor in the Western hemisphere.

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

The major sources of income for the Port are from shipping services (wharfage, dockage, pilotage, assignment charges, etc.), land rentals, and fees, concessions and royalties. It currently serves over 80 shipping companies and agents with facilities that include approximately 200 berthing facilities along 43 miles of waterfront.

In terms of its size, the Port is one of the largest West coast ports. The Port encompasses approximately 4,200 acres of land and 3,300 acres of water.

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

The Port provides leases to more than 250 tenants, ranging from individual stalls at the fish market to a 484-acre container terminal. The Port encompasses container and automobile terminals, dry bulk, liquid bulk and break-bulk facilities, and omni terminals. The Intermodal Container Transfer Facility (ICTF) and other intermodal facilities are also on Port property. The Port also provides slips for pleasure craft, sport fishing boats, and charter vessels.

The Port has a main channel with a minimum depth of 45 feet below the mean low water mark. The Port's channels are essentially maintenance free because there is no source of sand or silt coming into the harbor.

The Port currently handles the largest volume of containerized cargo of all U.S. ports, leading the nation for the past eight years, and additionally ranks as number one in cargo value for U.S. waterborne foreign traffic.

The Port's major trading partners are concentrated along the Pacific Rim and include China, Japan, Taiwan, Thailand, and South Korea. Cargo to and from these countries represents the bulk of the total value of all cargo shipped through the Port.

The Port continues to maintain an AA credit rating with Standard & Poor's, Moody's, and Fitch Ratings. This is the highest credit rating for any stand-alone U.S. port and reflects the confidence of the financial community in the strength, continuing financial performance, and competitive position of the Port.

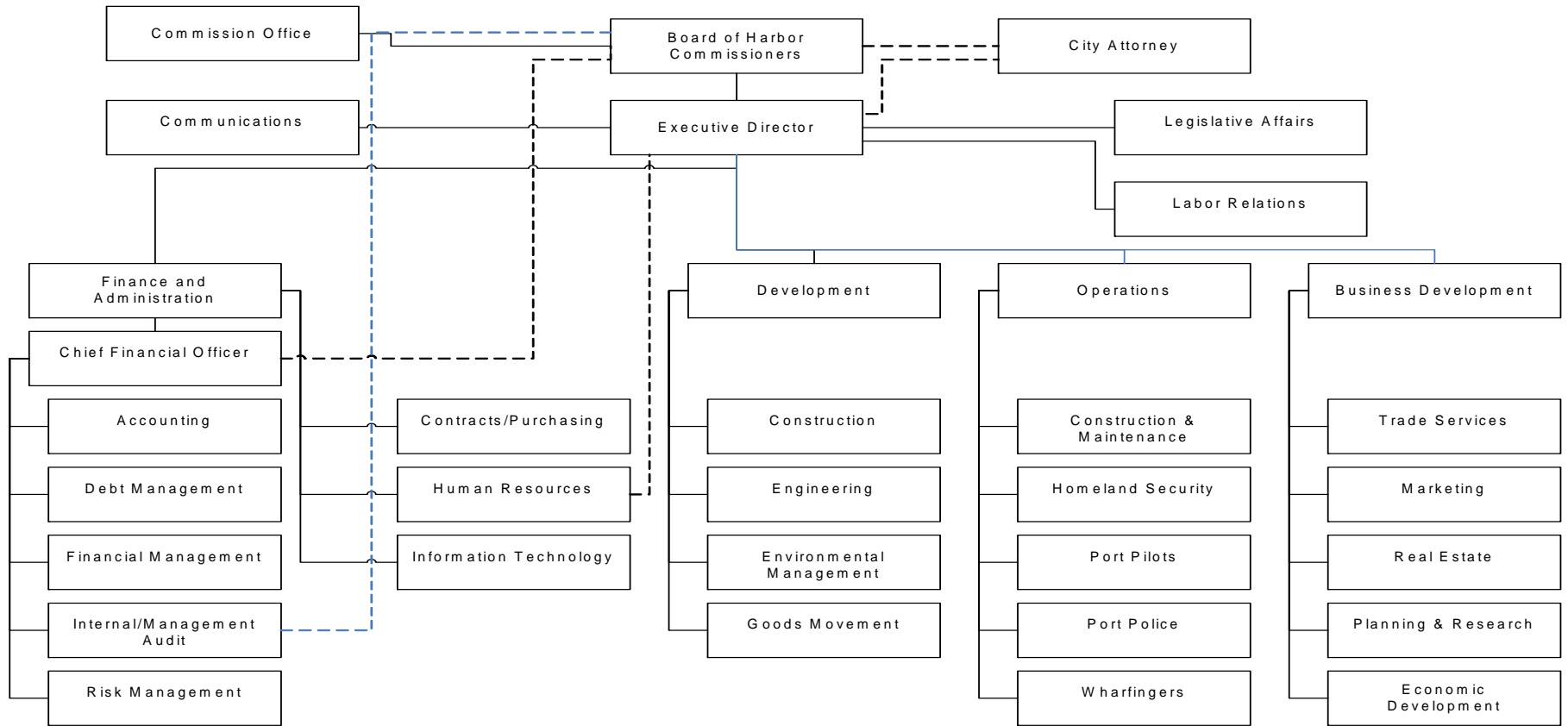
The Port is not subsidized by tax dollars and has maintained its financial strength through generated revenues. The Port of Los Angeles is one of the few U.S. ports that remain self-sufficient.

Sincerely,

A handwritten signature in black ink, appearing to read 'Chungmin Chu', with a long horizontal flourish extending to the right.

CHUNGMIN CHU
Director of Accounting

LOS ANGELES HARBOR DEPARTMENT
 ORGANIZATION CHART
 2008/2009



Board of Harbor Commissioners

S. David Freeman, President
Jerilyn López Mendoza, Vice-President
Kaylynn L. Kim, Commissioner
Douglas P. Krause, Commissioner
Joseph R. Radisich, Commissioner

Senior Management

Geraldine Knatz, Ph.D. Executive Director
Michael Christensen, Deputy Executive Director, Development
Molly Campbell, Deputy Executive Director, Finance & Administration
Capt. John M. Holmes, Deputy Executive Director, Operations
Kathryn McDermott, Deputy Executive Director, Business Development
Arley Baker, Senior Director of Communications

Management Staff

Theresa Adams Lopez, Director of Public & Community Relations
Ralph Appy, Director of Environmental Management
Diane Boskovich, Chief Wharfinger
Ronald Boyd, Chief of Port Police
Kerry Cartwright, Director of Goods Movement
Chungmin Chu, Director of Accounting
George Cummings, Director of Homeland Security
Michael DiBernado, Director of Marketing
Michael Galvin II, Director of Real Estate
Tony Gioiello, Chief Harbor Engineer of Design
Margaret Hernandez, Director of Contracts & Purchasing
Ralph Hicks, Director of Economic Development
Lance Kaneshiro, Director of Information Technology
Tish Lorenzana, Director of Human Resources
Jim MacLellan, Director of Trade Services
David Mathewson, Director of Planning & Research
Kathy Merkovsky, Director of Risk Management
Capt. Jim Morgan, Pilot Service Manager
Julia Nagano, Director of Corporate Communications
James Olds, Director of Management/Internal Audit
Karl Pan, Chief Financial Officer
Soheila Sajadian, Director of Debt Management
Shaun Shahrestani, Chief Harbor Engineer of Construction
Eileen Yoshimura, Director of Financial Management
(Pending Appointment), Director of Construction and Maintenance
(Pending Appointment), Director of Legislative Affairs
(Pending Appointment), Director of Public Labor & Workplace Relations

Legal Staff

Thomas Russell, General Counsel



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Independent Auditor's Report

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

We have audited the accompanying basic financial statements of the Port of Los Angeles (Harbor Department of the City of Los Angeles), a component unit of the City of Los Angeles, California, as of and for the year ended June 30, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the Port of Los Angeles' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Port of Los Angeles' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port of Los Angeles as of June 30, 2008 and 2007 and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2008 on our consideration of the Port of Los Angeles' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters for the year ended June 30, 2008. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 9 to 24 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The introduction and supplemental information sections listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introduction and supplemental information sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Macias Jini & O'Connell LLP

Certified Public Accountants

Los Angeles, California

December 17, 2008

**PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE
CITY OF LOS ANGELES),
A COMPONENT UNIT OF THE
CITY OF LOS ANGELES, CALIFORNIA**

Management's Discussion & Analysis

June 30, 2008 and 2007

(Unaudited)

This section of the Port of Los Angeles' (the Port) annual financial report presents a discussion and analysis of the Port's financial performance during the years that ended June 30, 2008 and 2007. Please read it in conjunction with the transmittal letter at the front of this report and the Port's financial statements, which follow this section.

The Port uses enterprise fund accounting and the financial statements are prepared on an accrual basis using the economic resources measurement focus in accordance with U.S. generally accepted accounting principles promulgated by the Governmental Accounting Standards Board. Revenues are recognized when services are rendered, as opposed to when cash is received, and expenses are recognized when incurred, not when liability is paid. Capital assets are recognized as properties or fixed assets and are depreciated over their useful lives (except land and intangible asset). See the notes to the financial statements for a description of the Port's significant accounting policies.

The following is a condensed summary of the Port's net assets as of June 30, 2008, 2007, and 2006:

Net Assets

(In thousands)

	June 30		
	2008	2007	2006
Current and other assets	\$ 772,618	652,139	571,606
Capital assets	2,758,500	2,726,407	2,732,704
Total assets	<u>3,531,118</u>	<u>3,378,546</u>	<u>3,304,310</u>
Long-term debt outstanding	781,752	804,815	887,765
Other liabilities	272,323	235,862	215,238
Total liabilities	<u>1,054,075</u>	<u>1,040,677</u>	<u>1,103,003</u>
Net assets:			
Invested in capital assets, net of related debt	1,985,653	1,931,037	1,854,468
Restricted	9	62	63,917
Unrestricted	491,381	406,770	282,922
Total net assets	<u>\$ 2,477,043</u>	<u>2,337,869</u>	<u>2,201,307</u>

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June 30, 2008 and 2007

(Unaudited)

Net assets of the Port increased 6.0% to \$2.5 billion in fiscal year 2008. Of these net assets, restricted assets make up very negligible portions for fiscal years 2008 and 2007. The remaining net assets are either unrestricted or are invested in capital assets such as land, facilities, infrastructure, equipment, and the like, net of related debt. These assets are under the management of the Port and must be used for the operation and maintenance of Port facilities and the acquisition and construction of improvements as provided under the State of California Tidelands Trust Act.

Current and other assets of the Port increased 18.5% to \$772.6 million in fiscal year 2008 and 14.1% to \$652.1 million in fiscal year 2007. Increases in these assets are mainly from the continued growth of revenues generated from operations.

Other liabilities of the Port increased 15.5% to \$272.3 in fiscal year 2008 and 9.6% to \$235.9 million in fiscal year 2007. The Port recognized a \$17.0 million liability for the Westway Oil settlement in fiscal year 2008. Trade payables also increased \$18.5 million. In fiscal year 2007, liability under securities lending increased by \$25.2 million or 57.3%.

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June 30, 2008 and 2007

(Unaudited)

The following is a condensed summary of the Port's changes in net assets for the years ended June 30, 2008, 2007, and 2006:

Changes in Net Assets

(In thousands)

	Year ended June 30		
	2008	2007	2006
Net operating revenues	\$ 426,345	417,161	392,159
Income from investments in Joint Powers			
Authorities and other entities	4,440	4,675	4,302
Interest and investment income	34,863	23,773	9,582
Other income and expense, net	(2,536)	11,018	7,222
Total revenues	<u>463,112</u>	<u>456,627</u>	<u>413,265</u>
Expenses:			
Operating and administrative expenses	221,752	163,775	184,132
Depreciation	78,295	88,106	98,779
Interest expense on bonds/notes payable	38,052	50,038	37,787
Total expenses	<u>338,099</u>	<u>301,919</u>	<u>320,698</u>
Income before capital contributions	125,013	154,708	92,567
Capital contributions	14,161	4,145	2,044
Special item	—	(22,291)	—
Changes in net assets	<u>139,174</u>	<u>136,562</u>	<u>94,611</u>
Total net assets - beginning of year	<u>2,337,869</u>	<u>2,201,307</u>	<u>2,106,696</u>
Total net assets - end of year	<u>\$ 2,477,043</u>	<u>2,337,869</u>	<u>2,201,307</u>

Fiscal Year 2008

Net assets for the Port increased \$139.2 million in fiscal year 2008. Approximately 90.8% of total revenues were derived from fees for shipping services and leasing of facilities to customers. Since the Port operates as a landlord, operating expenses are principally administrative in nature. Operating and administrative expense increased \$58.0 million, or 35.4% over the prior fiscal year. The increase is mainly from salaries and benefits due as the Port continues to expand its human resources in fiscal year 2008 primarily in security and construction and maintenance services.

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June 30, 2008 and 2007

(Unaudited)

Depreciation expense decreased \$9.8 million to \$78.3 million in fiscal year 2008. About \$3.0 million of the upward adjustment of the depreciation expense recorded in fiscal year 2008 pertains to periods prior to fiscal year 2007. A substantial amount of capital projects put in depreciable capital assets in fiscal year 2007 were actually completed and placed in service before 2007. Catch up in depreciation for these assets increased depreciation expense in fiscal year 2007. LAXT facilities were removed from the capital asset in fiscal year 2007 and further reduced depreciation by \$2.0 million in fiscal year 2008.

Other income, net of other expense, decreased \$13.6 million to negative \$2.5 million in fiscal year 2008, from \$11.0 million recorded in the prior year. Delinquent charges for late payments greatly dropped when outstanding LAXT accounts were reversed per settlement agreement with POLA. Also, funds deferred for Todd Shipyard were recognized as other income in fiscal year 2007.

Capital contributions of \$14.2 million represent funds for capital grants received in fiscal year 2008 and \$4.1 million in fiscal year 2007.

Income before capital contributions decreased \$29.7 million to \$125.0 million, a 19.2% decrease over the fiscal year 2007 amount of \$154.7 million. This decrease reflects the combined effect of the \$6.5 million increase in total revenues and the \$36.2 million increase in total expenses.

Fiscal Year 2007

Net assets for the Port increased \$136.6 million in fiscal year 2007. Approximately 91.1% of total revenues were derived from fees for shipping services and leasing of facilities to customers. Since the Port operates as a landlord, operating expenses are principally administrative in nature. Operating and administrative expense decreased \$20.4 million, or 11.1% over the prior fiscal year. The decrease mainly reflects a reduction in litigation expense this year for LAXT.

Depreciation expense decreased \$10.7 million to \$88.1 million in fiscal year 2007. The decrease mainly reflects that some \$14.8 million of the upward adjustment of the depreciation expense recorded in fiscal year 2006 that pertained to periods prior to fiscal year 2006. Certain capital projects that began depreciation in fiscal year 2006 were actually completed and placed in service before 2006.

Other income, net of other expense, increased \$3.8 million to \$11.0 million in fiscal year 2007 from \$7.2 million recorded in the prior year. The Port recognized \$2.8 million of unearned revenue as other income in 2007.

Capital contributions of \$4.1 million represent funds for capital grants received in fiscal year 2007.

Income before capital contributions increased \$62.1 million to \$154.7 million; a 67.1% increase over fiscal year 2006 reported income before capital contributions of \$92.6 million. This increase reflects the addition of \$43.3 million in total revenues and a decline of \$18.8 million in total expenses.

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(Unaudited)

Operating Revenues

(In thousands)

	Year ended June 30		
	2008	2007	2006
Shipping services	\$ 374,878	375,471	373,348
Percentage of total revenues	87.9%	88.8%	90.6%
Rentals	45,524	40,322	33,876
Percentage of total revenues	10.7%	9.6%	8.2%
Royalties, fees, other operating revenues	5,943	6,867	4,893
Percentage of total revenues	1.4%	1.6%	1.2%
Total	\$ 426,345	422,660	412,117

Fiscal Year 2008

Operating revenues for fiscal year 2008 rose to \$426.3 million, reflecting a 0.9% increase from prior year revenues of \$422.7 million and is principally attributed to the \$3.3 million increase in wharfage revenue and the \$4.4 million increase in land rental income. The Port moved 8.1 million 20-foot equivalent units (TEUs) in container volume during fiscal year 2008, or a 6.3% drop from the prior year.

Fiscal Year 2007

Operating revenues for fiscal year 2007 rose to \$422.7 million, reflecting a 2.6% increase from prior year revenues of \$412.1 million and is principally attributed to the \$1.0 million increase in wharfage revenue and the \$6.3 million increase in land rental income. The Port moved 8.7 million 20-foot equivalent units (TEUs) in container volume during fiscal year 2007, or 11.0% growth over the prior year.

Shipping Services

Shipping service revenues consist of several classifications of fees assessed for various activities relating to vessel or cargo movement. Of these fees, wharfage is the most significant and comprised 89.4% and 88.4% of the total shipping service revenues in fiscal years 2008 and 2007, respectively. Wharfage is the fee charged against merchandise for passage over wharf premises, between vessels, onto or from barges.

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(Unaudited)

Revenue from shipping services in fiscal year 2008 diminished to \$374.9 million, reflecting a decline of \$0.6 million, or 0.2%, over fiscal year 2007. The decline in container volume from container terminals coupled with higher efficiency discounts given to the customers on revenue sharing agreements brought down shipping services income. Revenue from shipping services in fiscal year 2007 rose to \$375.5 million, reflecting a growth of \$2.1 million, or 0.6%, over fiscal year 2006. Increased cargo volumes and tariff rates were the principal reasons for the growth. Strong economic growth both domestically and in East Asia, ongoing development of improved intermodal facilities, the addition of Pier 400 container terminal, and increasing strength of shipping alliances based in the Port all contributed to growth in market share during fiscal year 2007.

The following are summaries of cargo volumes by major classification handled by the Port and container volumes and associated tonnage:

Cargo Type in Metric Revenue Tons

(In thousands)

	Year ended June 30		
	2008	2007	2006
Container/general cargo	161,901	171,907	155,255
Liquid bulk	6,208	15,433	22,797
Dry bulk	1,862	2,766	3,583
Total	169,971	190,106	181,635

Container Volume in TEUs

(In thousands)

	Year ended June 30		
	2008	2007	2006
Import TEUs	4,325	4,628	4,150
Export TEUs	3,758	4,029	3,651
Total	8,083	8,657	7,801

Metric revenue tons are the measure used to determine cargo volumes that move through the Port. The figure represents the actual weight of cargo, when the figure is available, or the weight is closely approximated by calculation when cargo weight is not provided. A total of 170.0 million metric revenue tons were billed in fiscal year 2008, or 10.6% below fiscal year 2007. A total of 190.1 million metric revenue tons were billed in fiscal year 2007, or a 4.7% growth over fiscal year 2006 volume. Decrease in revenue tonnage does not necessarily come with the same effect in revenue dollars. There are other factors such as revenue sharing, timing of billing and other increases that offset the effect of decline in revenue tonnage.

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During fiscal year 2008, tonnage from dry bulk decreased 32.7%, or 0.9 million metric revenue tons, due principally to decrease in scrap metal export and bulk cement import. Petroleum, or mainly bulk oil, decreased 59.8%, or 9.2 million metric revenue tons. About 7.2 million revenue tons relating to fiscal years 2007, 2006 and 2005 wharfage statistics were adjusted in fiscal year 2008, hence, the drastic drop in petroleum for this year. Tonnage for general cargo billed in fiscal year 2008 was down 10.0 million metric revenue tons compared to the prior year. This represents the drop in equivalent revenue tons of container volume.

During fiscal year 2007, tonnage from dry bulk decreased 22.8%, or 0.8 million metric revenue tons, due principally to reduced bulk coal and coke exports. Petroleum decreased 32.3%, or 7.4 million metric revenue tons. Tonnage for general cargo billed in fiscal year 2007 increased 16.7 million metric revenue tons compared to the prior year. Additional information for volume by cargo type is presented in the supplementary information section of this report in the schedule titled "Key Information on Revenue Statistics."

Rentals

The Port makes available to customers various types of rental properties on Port-controlled lands. These properties include land, buildings, warehouses, wharves, and sheds. Rates are set for these properties using various methodologies and are broken into two general classifications, waterfront and backland. Independent appraisals are performed periodically to establish benchmark rates for these broad land classifications. Rates ultimately set in land rental agreements may be adjusted, within reason, to reflect general market conditions. Rates for other categories of properties are also set through negotiations and will further take into account the condition, location, utility, and other aspects of the property. In all cases, the Port currently seeks to achieve the 12% rate of return on improvements and 10% of land that has been set by Board policy.

During fiscal year 2008, rental income at the Port increased \$5.2 million, or 12.9%, over last year and represented 10.7% of fiscal year 2008 total operating revenues. The growth is the result of the second year increase in land rental rates of the majority of the leases effective September 2007, as a result of the periodic review by the Port. During fiscal year 2007, rental income at the Port increased \$6.4 million, or a 19.0% growth over the prior year and represented 9.7% of fiscal year 2007 total operating revenues. This growth is principally attributable to the fact that land rental rates of the majority of the leases were increased effective September 2006 as a result of the periodic review by the Port.

Royalties, Fees, and Other Operating Revenue

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

Revenues in this category totaled \$5.9 million for fiscal year 2008, a decrease of \$0.9 million or 13.5% behind the prior fiscal period. The catch up on prior years' reimbursable costs of maintenance jobs performed by the Port has diminished in fiscal year 2008. Movie permits declined \$0.3 million in the current year.

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In fiscal year 2007, revenues from royalties, fees, and other operating revenues totaled \$6.9 million, an increase of \$2.0 million or 40.3% over the prior fiscal period. The growth mainly reflects the catch up on prior years reimbursable costs of maintenance jobs performed by the Port.

Operating and Administrative Expenses

During fiscal year 2008, operating and administrative expenses increased \$58.0 million to \$221.8 million, a 35.4% increase from prior fiscal year expense of \$163.8 million. During fiscal 2007, operating and administrative expenses fell \$20.4 million to \$163.8 million, or 11.0% decrease from fiscal year 2006 expense of \$184.1 million. Categories of expense reflecting more significant increases include salaries and benefits, outside services, materials and supplies, and other operating expenses. Changes in other categories of expenses were less significant.

Operating and Administrative Expenses (O&A)

(In thousands)

	Year ended June 30		
	2008	2007	2006
Salaries and benefits	\$ 95,444	74,313	65,705
Percentage of total O&A	43.0%	45.4%	35.7%
Marketing and public relations	5,274	4,521	3,333
Percentage of total O&A	2.4%	2.8%	1.8%
Travel and entertainment	1,128	604	822
Percentage of total O&A	0.5%	0.4%	0.5%
Outside services	37,937	33,277	33,673
Percentage of total O&A	17.1%	20.3%	18.3%
Materials and supplies	8,950	5,813	5,400
Percentage of total O&A	4.1%	3.5%	2.9%
City services	27,101	28,640	20,821
Percentage of total O&A	12.2%	17.5%	11.3%
Other operating expenses	45,918	16,607	54,378
Percentage of total O&A	20.7%	10.1%	29.5%
Total O&A	\$ 221,752	163,775	184,132

Fiscal Year 2008

Salaries and benefits expense rose \$21.1 million, or 28.4% over the prior fiscal year. The increase is the result of scheduled employee pay increases, a \$1.1 million retro pay adjustment, a \$2.0 million upward adjustment in benefit expense, a \$5.2 million one-time payment of City Fire & Police pension for the transfer of Port Police pension from LACERS to LAFPP, and the continued expansion of the Port workforce mainly in Port Police and Construction & Maintenance in fiscal year 2008.

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June 30, 2008 and 2007

(Unaudited)

The \$4.7 million increase in outside services reflects the combined outcome of the drop of \$2.2 million in Port security-related expenditures, \$0.8 million decrease in capital construction services, \$2.1 million increase in environmental assessment cost (net of capitalized amount), \$2.6 million increase in Public and Community Relations expenditures for its community outreach programs, \$1.8 million increase in maintenance services, a collective increase of \$1.5 million in data processing and financial and legal services.

Materials and supplies grew \$3.1 million over the prior fiscal year due to \$2.2 million surge in acquisitions of parts and materials made by Construction & Maintenance and the \$0.9 million increase in administrative and operating supplies.

City services, net of capitalized amount, decreased \$1.5 million during the comparative fiscal years. The decrease reflects the higher capitalized amount of \$1.0 million in fiscal year 2008 because higher salary expenses were capitalized.

Other operating expenses for fiscal year 2008 increased \$29.3 million over prior year due to \$7.2 million increase in subsidy payment for Clean Truck Program (CTP), a \$0.5 million increase in provision for workers' compensation claims, and a \$20.7 million increase in litigation and settlement expenses. The net increase of \$20.7 million in litigation and settlement expenses over prior year reflects the \$17.0 million settlement to be paid by the Port to Westway Oil Terminal, a \$1.2 million increase in China Shipping mitigation fund due to excess in TEU cap, and reduction in litigation reserve of \$3.3 million for the settlement received by the Port from Santa Monica Baykeeper in fiscal year 2007.

Fiscal Year 2007

Salaries and benefits expense rose \$8.6 million, or 13.1% over the prior fiscal year. The increase is the outcome of scheduled employee pay increase, a one-time \$1.4 million retro pay adjustment, and the continued build up of the Port workforce in fiscal year 2007.

City services, net of capitalized amount, increased \$7.8 million during fiscal year 2007. The increase reflects the \$3.0 million higher charges in recreation and park services by the City of Los Angeles. Additionally, a refund of \$1.9 million reduced City services in fiscal year 2006.

Other operating expenses for fiscal year 2007 decreased \$37.8 million from the prior year. The decrease reflects a \$36.0 million reduction in provision for the litigation reserve, a substantial portion of which relates to the LAXT. Most of the litigation reserve for LAXT was made in fiscal year 2006 and the Port made no additional litigation reserve in fiscal year 2007. The City (Port) reached a Settlement Agreement, Mutual Release and Compliance, and Permit Termination Agreement with LAXT in fiscal year 2007. Also, there is a reduction in provision for workers' compensation claims this year by \$5.5 million, arising from a one-time charge of \$5.0 million to set aside additional reserves to meet actuarial requirements in fiscal year 2006.

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Nonoperating Income and Expense

Fiscal Year 2008

Net nonoperating expense for fiscal year 2008 decreased \$9.3 million from the prior year to \$1.3 million.

Interest and investment income increased \$11.1 million to \$34.9 million for fiscal year 2008. The increase includes a \$10.3 million increase in interest income from Harbor Revenue Fund and restricted funds. The average yields as well as the average investable balance were higher this fiscal year than prior year. Unrealized gain from the City of Los Angeles investment pool also went up by \$5.6 million over prior year. Offsetting the increase is the \$4.1 million interest income recorded in fiscal year 2007 from the refunded 1996 Harbor Revenue Bonds.

Interest expense showed a decrease of \$12.0 million to \$38.1 million in fiscal year 2008 due to a \$13.5 million interest expense recognized in fiscal year 2007 for refunding of 1996 Harbor Revenue Bonds. In addition, Harbor Revenue Bonds principal balances are lower than last fiscal year.

Other income, net of other expense, decreased \$13.6 million to negative \$2.5 million in fiscal year 2008, from \$11.0 million recorded in the prior year. The decrease reflects a \$10.9 million decrease in other income and a \$2.6 million increase in other expense. Income from delinquent charges for late payments was greatly reduced by \$2.6 million, when outstanding LAXT accounts were reversed, per settlement agreement with the Port. Federal operating grants received in fiscal year 2008 were \$5.6 million less than the grant receipts last year. A \$2.9 million funds deferred for Todd Shipyard were recognized as other income in fiscal year 2007. Fiscal year 2008 also showed a \$1.7 million increase in cost of abandoned projects charged to expense as well as a \$0.7 million increase in loss on sale of assets.

Fiscal Year 2007

Net nonoperating expense for fiscal year 2007 decreased \$6.1 million from the prior year to \$10.6 million.

Interest and investment income increased \$14.2 million to \$23.8 million for fiscal year 2007. The increase includes \$7.5 million in higher interest income and a \$6.7 million increase in fair value adjustment for the Port's share in the City of Los Angeles' investment pool.

Interest expense showed an increase of \$12.3 million to \$50.0 million in fiscal year 2007. This is mainly caused by an understatement of \$7.2 million in interest expense in fiscal year 2006, and an overstatement of same amount in fiscal year 2007. The Port failed to record the prior year's accrued interest expense for 1996 Bonds totaling \$7.2 million, which was paid through the defeasance escrow accounts in fiscal year 2007.

Long-Term Debt and Capital Assets

Long-Term Debt

The Port's long-term debt is comprised of senior debt in the form of Harbor Revenue Bonds and subordinated debt in the form of loans. As of June 30, 2008 and 2007, the Port's outstanding long-term debt was \$781.8 million

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and \$804.8 million, respectively. For all outstanding bonds, the Port continues to maintain Aa2, AA and AA credit ratings from Moody's, Standard & Poor's and Fitch Ratings.

Bonded Debt

On October 13, 2005, the Port advance refunded a portion of the outstanding 1996A and 1996B Bonds with the issuance of the 2005 Refunding Bonds. Proceeds from 2005A Refunding Bonds and 2005B Refunding Bonds were deposited into the related Crossover Refunding Escrow Funds and invested to refund \$30.9 million of the 1996A Bonds and \$31.7 million of the 1996B Bonds on their call dates (the Crossover Dates) of August 1, 2006 and November 1, 2006, respectively. Prior to their respective Crossover Dates, interest payments on the 2005A and the 2005B Refunding Bonds are payable from and secured by investment receipts from the deposit in the related Crossover Refunding Escrow Funds. The Crossover Refunding 2005A and 2005B Bonds are not on parity with other Harbor Revenue Bonds until their respective Crossover Dates.

In addition, the Port issued and applied the proceeds of the 2005 Series C-1 Refunding Bonds to provide funds to reimburse Citigroup and De La Rosa for funds advanced by them for the purchase of \$15.5 million of 1996A Bonds and \$27.7 million of the 1996B Bonds tendered by the holders thereof in response to a voluntary open market purchase solicitation. All such purchased 1996A Bonds and 1996B Bonds were cancelled on the date of delivery of the Series 2005C-1 Bonds.

On May 4, 2006, the Port issued the 2006A Bonds for \$200.7 million on a forward delivery basis to currently refund the remaining \$202.7 million of 1996A Bonds. All such 1996A Bonds were redeemed and cancelled on their call date of August 1, 2006.

On August 3, 2006, the Port issued the 2006B Bonds for \$209.8 million and the 2006C Bonds for \$16.5 million on a forward-delivery basis to currently refund \$211.9 million of the outstanding 1996B Bonds and \$17.1 million of the 1996C Bonds. All such 1996B Bonds and 1996C bonds were redeemed and cancelled on their call date of November 1, 2006.

The refunding of 1996B Bonds and 1996C Bonds were completed on November 1, 2006. In combination with the completion of refunding of 1996A Bonds, the Port in effect achieved the aggregate debt service savings for approximately \$87 million, representing a net present value benefit of \$51.8 million.

Commercial Paper Notes

On November 7, 2001, the Port issued its Offering Memorandum for the issuance of Commercial Paper Notes (Notes) not to exceed \$375 million in three series, Series A (Non-AMT), Series B (AMT), and Series C (Taxable). The purpose of the Notes is to provide interim financing for the construction, maintenance, and replacement of the Port's structures, facilities, and equipment. Rates vary on the Notes from 2.38% to 3.45% during the fiscal year ended June 30, 2006. Due dates also vary, but within the maximum of 270 days from the issue dates.

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In fiscal years 2006 and 2005, the Notes were remarketed for principal only. Therefore, the outstanding balance at June 30, 2006 remained unchanged from fiscal year 2005 at \$113.6 million. On August 31, 2006, the Port issued its 2006D Refunding Bonds in the aggregate principal amount of \$111.3 million through a competitive sale to refund the Notes. The bonds were awarded to Lehman Brothers who submitted the bid with the lowest true interest cost (TIC) of 4.7106%. The reasons for refunding short-term variable Notes with long-term fixed rate revenue bonds are: (1) to avoid potential increases in costs of funds due to rising short-term interest rates; (2) to take advantage of the long-term low interest rates in the current bond market; and (3) to more closely match the debt to the expected economic life of the financed projects.

Under Section 609 of the City Charter of the City of Los Angeles and the Bond Procedural Ordinance, the Port's capacity to issue debt is not limited. However, the Port's capacity is constrained contractually under covenants of the currently outstanding debt to an aggregate ratio of revenue to annual debt service of at least one hundred twenty-five percent (125%). As of June 30, 2008, this capacity is approximately \$2.1 billion, calculated by using available operating revenues and current interest rate assumptions of 6.0%. The Port's existing Debt Policy has set the maximum outstanding debt to be \$2 billion.

No bonds were issued in fiscal year 2008.

Long-term debt consisted of the following as of June 30, 2008, 2007, and 2006 (in thousands):

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Revenue bonds payable	\$ 778,481	801,118	770,099
Notes payable	3,271	3,697	4,105
Commercial paper	—	—	113,561
Total	<u>\$ 781,752</u>	<u>804,815</u>	<u>887,765</u>

Capital Assets

Capital assets, net of accumulated depreciation consisted of the following as of June 30, 2008, 2007, and 2006 (in thousands):

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Land	\$ 1,012,297	991,153	955,824
Harbor facilities and equipment, net	1,366,028	1,400,854	1,448,659
Intangible assets	1,050	—	—
Construction in progress	239,291	211,329	232,412
Preliminary costs – capital projects	139,834	123,071	95,809
Total	<u>\$ 2,758,500</u>	<u>2,726,407</u>	<u>2,732,704</u>

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Capital expenditures for fiscal year 2008 increased to \$111.0 million from \$108.2 million in the prior year. Spending was higher in commercial development, port security and other miscellaneous projects. Approximately 26% of the fiscal year 2008 funds were expended on terminal improvements, 25% on commercial development and 16% on Port security. The remaining 33% was primarily used for dredging, environmental enhancements, infrastructure improvements, and Port security.

Major Capital Expenditure – Facilities and Infrastructure

(In thousands)

	Year ended June 30		
	2008	2007	2006
Commercial development	\$ 27,981	13,147	33,913
Dredging	2,252	26,690	17,277
Environmental studies and credits	4,345	9,598	14,126
Infrastructure improvements	2,102	4,452	1,136
Port security	17,663	8,819	1,921
Terminal development	28,957	36,232	25,070
Transportation improvements	1,274	2,762	2,434
Others	26,443	6,546	21,172
Total	<u>\$ 111,017</u>	<u>108,246</u>	<u>117,049</u>

Budgeted expenditures for the Port's fiscal year 2009 Capital Improvement Program has increased from the previous fiscal year. The more significant fiscal year 2009 expenditures will include the San Pedro and Wilmington Waterfront Development Projects, Port Security, Cruise Terminal AMP, TraPac Development, and Pier 300 Improvements.

The Berth 131-148 (TraPac) terminal expansion program is being designed and will upgrade and redevelop 110 acres and develop an additional 57+/- acre of container terminal. Improvements include the construction of 2,600 feet of wharf, five new cranes (purchased by TraPac), 100 foot gauge crane rail, alternative maritime power (AMP), dredging to -53 ft., new buildings (including administration building, maintenance and repair, yard operations, crane maintenance/marine building and driver service buildings), new main gate, relocation of the Pier A Street Rail Yard, ICTF, new reefer wash, demolition of existing buildings, concrete transtainer runways, and general container yard and infrastructure improvements. The estimated project completion date is November 2013.

The Pier 300 development will construct approximately 1,250 linear feet of wharf, develop 40 acres of backland and improve infrastructure to existing terminal. The estimated completion date is fall of 2012.

The Port Police Headquarters Project consists of the design and construction of a new 51,000-square-foot three-story Port police station at 320 S. Center Street with subterranean parking and an adjacent two-level parking structure. The expected construction completion of the project is May 2011.

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The Homeland Security Program consists of five projects: a waterside security surveillance system, facility security enhancements, passenger complex vehicle screening, passenger complex perimeter security, and a waterborne perimeter security barrier. For these projects, the Port is responsible for the design and installation of integrated surveillance systems including cameras, motion detectors, nonintrusive inspection for vehicles, and waterborne perimeter security barriers. Estimated project completion is February 2010.

The Los Angeles Waterfront is envisioned as a catalyst to provide public access waterfront and includes specific development projects and associated infrastructure improvements. The plan has five major programs: 1) Gateway 2) Enhancements 3) Waterfront 4) Cabrillo Way Marina and 5) Cruise Terminal.

The Waterfront Gateway Program includes approximately 2.5 miles of pedestrian promenade, multi-use parkway, and open space including lighting, signage, landscaping, irrigation, and landscaping. In addition, the program includes water features at the Gateway Plaza and 2nd Street, and automatic restrooms. Project completion is expected by summer 2010.

The San Pedro Waterfront Enhancements Program will improve existing, and construct new, pedestrian walks and plazas, create green open spaces, provide additional vehicular parking, construct Angel's Walk LA stanchions, and new landscaping between the Port and waterfront. Project completion is expected in October 2010.

The San Pedro Waterfront will construct new promenades along the water's edge, water cuts, parks and open space, museum and maintenance facilities for the Red Car, roadway improvement and clean-up and development of the former Westway property at Berth 70-71. Estimated program completion date is summer of 2018.

The Wilmington Waterfront Development Program is a 95-acre development incorporating landscaping, commercial/retail/restaurant development, cultural/community facilities, and transportation improvements. Projects include the Avalon Triangle Park, Catalina Freight Relocation, Harry Bridges Boulevard Buffer, and Avalon Boulevard Corridor – Phase I & II.

Cabrillo Way Marina Phase II will include new floating docks with boat slips, boater restrooms, shower facilities, public restrooms, boater and public parking lots, trailer boat and dry storage, and hoist launching facilities. Estimated completion date is June 2011.

The Cruise Terminal Program includes a proposed upgrade of the existing cruise terminal facilities at Berth 91-93, a temporary cruise terminal baggage building at Berth 90-91, AMP, a proposed new cruise terminal in the outer harbor at Berth 46-47, and new multi-level/shared use parking structure. Estimated program completion is expected in summer of 2011.

Open purchase orders and uncompleted construction contracts amounted to approximately \$290,152,000 as of June 30, 2008

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Factors That May Affect the Port's Operations

In November 2006, the governing boards of the Ports of Los Angeles and Long Beach voted to approve the landmark San Pedro Bay Ports Clean Air Action Plan (CAAP), the most comprehensive plan that addresses emissions from the trucks, oceangoing vessels, trains, terminal equipment and harbor craft that serve the Port. The \$2 billion CAAP is expected to reduce Port-related emissions by nearly 50% by 2011.

The major component of this plan is the Clean Truck Program (CTP). This program will replace or retrofit high polluting diesel trucks with ones that meet 2007 EPA emission standards.

The Vessel Speed Reduction Program (VSRP) provides incentives to vessel operators to reduce vessel speeds from 20 knots or more to 12 knots on approach to and departure from the port.

Competitive Environment

In the year ended June 30, 2008, 99.5% of the entire U.S. West Coast containerized cargo market was controlled by six major containerports: the ports of Los Angeles, Long Beach, and Oakland in California; the ports of Seattle and Tacoma in Washington State; and the port of Portland in Oregon. The ports of Los Angeles and Long Beach together controlled 71.8% of all U.S. West Coast market share.

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The industry is capital intensive and requires long lead times to plan and develop new facilities and infrastructure. Resources are typically allocated and facilities developed upon the commitment of customers to long-term leases of 25 to 30 years. Occupancy remains high and West Coast ports have limited capacity for expansion. Additionally, the greater Los Angeles area represents not only a large destination market for waterborne goods, but is also the most attractive point of origin for trans-shipments to Midwest and East Coast destinations.

West Coast Container Market Share*
(In thousands)

	Year ended					
	June 30			June 30		
	2008	2007	2006	2008	2007	2006
	Loaded TEUs			Market share		
	(In thousands)			Percentage		
Los Angeles	5,698	5,705	5,309	38.6%	39.5%	37.3%
Long Beach	4,908	4,743	4,799	33.2%	32.8%	33.7%
Oakland	1,461	1,378	1,442	9.9%	9.6%	10.1%
Tacoma	1,178	1,135	1,163	8.0%	7.9%	8.2%
Seattle	1,246	1,218	1,318	8.4%	8.4%	9.3%
Portland	207	189	139	1.4%	1.3%	1.0%
All others	75	73	73	0.5%	0.5%	0.4%
Total	14,773	14,441	14,243	100.0%	100.0%	100.0%

* Source: Port Import Export Reporting Service.

Contacting the Port's Financial Management

Questions about this report or requests for additional financial information should be addressed to the Chief Financial Officer, Port of Los Angeles, 425 S. Palos Verdes Street, San Pedro, CA 90731.

BASIC FINANCIAL STATEMENTS

**PORT OF LOS ANGELES
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Statements of Net Assets

June 30, 2008 and 2007

(In thousands of dollars)

	2008	2007
Assets:		
Current assets:		
Cash and investments, unrestricted (note 2)	\$ 488,893	380,139
Cash and investments, restricted (note 2)	158,769	149,087
Accounts receivable, less allowance for doubtful accounts of \$8,397 and \$8,714 in 2008 and 2007, respectively (note 14)	38,012	46,890
Grants receivable (note 13)	8,340	1,521
Materials and supplies inventories	2,311	1,973
Prepaid and deferred expenses	3,525	1,192
Accrued interest receivable	5,148	3,863
Current portion of notes receivable, less allowance for doubtful accounts of \$0 and \$0 in 2008 and 2007, respectively (notes 10 and 14)	4,136	4,013
Total current assets	709,134	588,678
Noncurrent restricted assets (note 2):		
Restricted investments – bond funds	9	62
Other restricted cash and investments	9,545	9,180
Accrued interest receivable	61	110
Total noncurrent restricted assets	9,615	9,352
Capital assets (notes 3 and 8):		
Land	1,012,297	991,153
Harbor facilities and equipment, less accumulated depreciation of \$1,058,157 and \$993,988 in 2008 and 2007, respectively	1,366,028	1,400,854
Intangible assets	1,050	—
Construction in progress	239,291	211,329
Preliminary costs – capital projects	139,834	123,071
Net capital assets	2,758,500	2,726,407
Notes receivable (note 10)	32,902	37,056
Investment in Joint Powers Authorities and other entities, less allowance for investment loss of \$0 and \$0 for 2008 and 2007 (notes 4 and 14)	12,255	7,814
Other assets	8,712	9,239
Total assets	3,531,118	3,378,546

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Statements of Net Assets

June 30, 2008 and 2007

(In thousands of dollars)

	2008	2007
Liabilities:		
Current liabilities:		
Accounts payable	\$ 61,237	42,774
Current installments of notes payable and bond indebtedness (note 5)	23,655	22,501
Accrued interest	16,251	16,739
Accrued employee benefits (note 5)	10,626	13,438
Unearned revenue and other deferred credits (note 5)	1,865	358
Liabilities under the City of Los Angeles' securities lending program (note 2)	73,692	69,252
Accrued construction costs payable	1,376	1,228
Other current liabilities (notes 5, 7, 18 and 19)	82,004	62,391
Total current liabilities	270,706	228,681
Long-term liabilities (note 5):		
Bonds payable, net of deferred amount on refunding and unamortized discount/premium of \$11,231 and \$11,793 in 2008 and 2007, respectively	755,271	779,043
Notes payable, net of current installments	2,826	3,271
Accrued employee benefits	7,952	7,291
Other liabilities (notes 7 and 18)	7,857	13,110
Liabilities payable from restricted assets – other liabilities	9,463	9,281
Total long-term liabilities	783,369	811,996
Total liabilities	1,054,075	1,040,677
Commitments and contingencies (notes 11, 15, 17, and 19)		
Net assets:		
Invested in capital assets, net of related debt	1,985,653	1,931,037
Restricted, bond proceeds	9	62
Unrestricted	491,381	406,770
Total net assets	\$ 2,477,043	2,337,869

See accompanying notes to financial statements.

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Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2008 and 2007

(In thousands of dollars)

	2008	2007
Operating revenues (note 8):		
Shipping services:		
Wharfage	\$ 335,172	331,919
Dockage	6,957	8,201
Demurrage	276	246
Cranes	1,944	2,460
Pilotage	7,677	8,829
Assignment charges	22,750	23,687
Storage	102	129
Total shipping services	374,878	375,471
Rentals:		
Land	41,587	37,147
Buildings	501	457
Warehouses	2,169	1,528
Wharf and shed revenue	1,267	1,190
Total rentals	45,524	40,322
Royalties, fees, and other operating revenues:		
Fees, concessions, and royalties	3,701	3,994
Oil royalties	122	78
Other	2,120	2,795
Total royalties, fees, and other operating revenues	5,943	6,867
Total operating revenues	426,345	422,660
Provision for bad debts	—	(5,499)
Net operating revenues	426,345	417,161
Operating and administrative expenses (notes 1 and 9):		
Salaries and benefits	95,444	74,313
Marketing and public relations	5,274	4,521
Travel and entertainment	1,128	604
Outside services	37,937	33,277
Materials and supplies	8,950	5,813
City services, net of capitalized amounts of \$8,342 and \$6,097 in 2008 and 2007, respectively (note 12)	27,101	28,640
Provision for workers' compensation claims	1,347	860
Litigation, claims, and settlement expenses (note 7, 15, 18, and 19)	19,836	(912)
Other operating expenses	24,735	16,659
Total operating and administrative expenses	221,752	163,775
Income from operations before depreciation	204,593	253,386
Depreciation (note 3)	78,295	88,106
Operating income	126,298	165,280

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(In thousands of dollars)

	2008	2007
Nonoperating revenues (expenses):		
Income from investments in Joint Powers Authorities and other entities (note 4)	\$ 4,440	4,675
Interest and investment income	34,863	23,773
Interest expense on bond indebtedness and notes payable (notes 3 and 5)	(38,052)	(50,038)
Other income and expenses, net	(2,536)	11,018
Net nonoperating expenses	(1,285)	(10,572)
Income before capital contributions	125,013	154,708
Capital contributions (note 13)	14,161	4,145
Special item (note 14)	—	(22,291)
Changes in net assets	139,174	136,562
Total net assets – beginning of year	2,337,869	2,201,307
Total net assets – end of year	\$ 2,477,043	2,337,869

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended June 30, 2008 and 2007

(In thousands of dollars)

	2008	2007
Cash flows from operating activities:		
Shipping service fees collected	\$ 383,525	367,874
Rentals collected	45,627	40,720
Royalties, fees, and other operating revenues collected	6,072	6,205
Payments for employee salaries and benefits, net of capitalized amount of \$12,254 and \$10,051 in 2008 and 2007, respectively	(97,592)	(67,784)
Payments for goods and services	(89,903)	(103,787)
Net cash provided by other nonoperating income and expenses	5,169	3,437
Net cash provided by operating activities	252,898	246,665
Cash flows from noncapital financing activities:		
Proceeds from non-capital grants	1,990	7,506
Net cash provided by noncapital financing activities	1,990	7,506
Cash flows from capital and related financing activities:		
Payments for property acquisitions and construction	(124,720)	(107,928)
Proceeds from sales of capital assets	168	38
Proceeds from capital grant	7,353	3,625
Principal repayment – bonds	(22,075)	(27,470)
Payment to escrow agent for bond refunding	—	(54,166)
Principal repayment – notes	(426)	(408)
Interest paid	(38,849)	(44,606)
Net cash used in capital and related financing activities	(178,549)	(230,915)
Cash flows from investing activities:		
Receipt of interest	25,993	22,919
Increase in liabilities under the City of Los Angeles' securities lending program	4,440	25,238
Increase in fair value of pooled investments	7,633	2,043
Payments received on notes receivable	4,031	4,434
Distribution from Joint Powers Authorities and other entities	—	3,500
Net cash provided by investing activities	42,097	58,134
Net increase in cash and cash equivalents	118,436	81,390
Cash and cash equivalents, beginning of year	529,226	447,836
Cash and cash equivalents, end of year (note 2)	\$ 647,662	529,226

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Statements of Cash Flows

Years ended June 30, 2008 and 2007

(In thousands of dollars)

	<u>2008</u>	<u>2007</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ <u>126,298</u>	<u>165,280</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	78,295	88,106
Provision for doubtful accounts	—	5,499
Net cash provided by other nonoperating income and expense	5,169	3,437
Change in accounts receivable	8,878	(8,324)
Change in materials and supplies inventories	(338)	(211)
Change in prepaid and deferred expenses	(2,333)	2,633
Change in accounts payable	23,213	13,378
Change in accrued employee benefits	(2,151)	6,530
Change in other long-term operating liabilities	(5,253)	5
Change in unearned revenue and other deferred credits and other current operating liabilities	<u>21,120</u>	<u>(29,668)</u>
Total adjustments	<u>126,600</u>	<u>81,385</u>
Net cash provided by operating activities	\$ <u><u>252,898</u></u>	<u><u>246,665</u></u>
Noncash investing, capital, and financing activities:		
Contributions of capital assets from other government	\$ —	520
Acquisition of capital assets with construction costs payable	1,376	1,228
Acquisition of capital assets with accounts payable	6,088	10,838
Write-off of discontinued construction projects	2,726	4,073
Bond proceeds deposited to escrow accounts for refundings	—	350,403
Capitalized interest expense, net	307	1,779

See accompanying notes to financial statements.

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(1) Organization and Summary of Significant Accounting Policies

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

(a) Organization and Reporting Entity

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

The Port operates as principal landlord for the purpose of assigning or leasing port facilities and land areas. The Port’s principal source of revenue is from shipping services under tariffs (dockage and wharfage, etc.), rental of land and facilities, royalties (oil wells), and other fees. Capital construction is financed from operations, bonded debt, and loans secured by future revenues and federal grants. Daily operation of the port facilities and regular maintenance are performed by the Port’s permanent work force. Generally, major maintenance and new construction projects are assigned to commercial contractors.

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

In evaluating how to define the Port for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14, *The Financial Reporting Entity*, (GASB Statement No. 14) which the Port adopted effective July 1, 1993. The financial statements include only the financial activities of the Port of Los Angeles and are not intended to present fairly the financial position and results of operations of the City in conformity with GAAP.

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The Los Angeles Harbor Improvements Corporation (LAHIC) is a nonprofit public benefit corporation organized under the laws of the state of California for public purposes. LAHIC was formed to assist the Port by constructing, replacing, extending, or improving facilities and services that the Board of Harbor Commissioners deems necessary for the promotion and accommodation of commerce. From time to time, LAHIC has issued long-term indebtedness to finance specific capital facilities improvements on behalf of the Port's tenants. The nature of these financings is such that the long-term indebtedness will be that of the Port tenant and not LAHIC, nor the Port, nor the City. Therefore, for purposes of the accompanying financial statements, the long-term indebtedness of LAHIC and the corresponding lease receivable from the tenant are eliminated.

The board of directors of LAHIC consists of five members. Election of the LAHIC board of directors occurs by vote of the Board of Harbor Commissioners.

Although the tenant reimburses LAHIC for its costs of operations, the Board of Harbor Commissioners is financially responsible for LAHIC's activities. Further, although LAHIC is legally separate from the Port, LAHIC is reported as if it were part of the Port in accordance with the provisions of GASB Statement No. 14, because its sole purpose is to finance and construct facilities and improvements, which directly benefit the Port.

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

(b) Summary of Significant Accounting Policies

Method of Accounting – The Port activities are accounted for as enterprise fund, and as such, its financial statements are presented using the economic resources measurement focus and the accrual method of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash. The measurement focus is on determination of changes in net assets, financial position, and cash flows.

The Port follows private-sector standards of accounting and financial reporting issued by the Financial Accounting Standards Board (FASB) prior to November 30, 1989, unless those standards conflict with or contradict guidance of the GASB. The Port also has the option of following subsequent private-sector guidance subject to the same limitation. The Port has elected not to follow subsequent private-sector guidance.

Materials and Supplies Inventories – Inventories of materials and supplies are stated at average cost on a first-in, first-out basis.

Capital Assets – Capital assets are carried at cost or at appraised fair market value at the date received, in the case of properties acquired by donation, and by termination of leases for tenant improvements, less allowance for accumulated depreciation.

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Depreciation – Depreciation is computed by use of the straight-line method over the estimated useful lives of the assets.

Current ranges of useful lives for depreciable assets are as follows:

Wharves and sheds	10 to 15 years
Buildings and facilities	10 to 50 years
Equipment	3 to 20 years

Capitalization – The Port capitalizes all purchases greater than \$5,000.

Preliminary Costs of Proposed Capital Projects – Development costs for proposed capital projects that are incurred prior to the finalization of formal construction contracts are capitalized. Upon completion of capital projects, such preliminary costs are transferred to the appropriate property account. In the event the proposed capital projects are abandoned, the associated preliminary costs are charged to expense in the year of abandonment.

Indirect Project Costs – The Port capitalizes indirect project costs associated with the acquisition, development, and construction of new capital projects of the Port. Approximately \$4,759,000 and \$3,876,000 of such indirect project costs were allocated to construction projects for the years 2008 and 2007, respectively.

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

Interest Costs – The Port capitalized interest paid during development and construction of its capital projects, net of any investment income earned during the temporary investment of project related borrowings. During the years ended June 30, 2008 and 2007, the Port capitalized net interest expense of \$307,000 and \$1,779,000, respectively. For 2008, gross interest expense of \$309,000 related to Harbor Revenue Bonds 2006D was reduced by \$2,000 of interest income. For fiscal year (FY) 2007, gross interest expense of \$330,000 related to commercial paper and \$1,453,000 related to Harbor Revenue Bonds 2006D were reduced by \$4,000 of interest income. The remaining interest was expensed as certain projects financed by the commercial paper and Harbor Revenue Bond 2006D proceeds have been completed.

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Pooled Cash and Investments – In order to maximize investment return, the Port pools its available cash with that of the City. The City Treasurer makes investment decisions.

Interest income and realized gains and losses arising from such pooled cash and investments are apportioned to each participating City department/fund based on the relationship of such department/fund's respective daily cash balances to aggregate pooled cash and investments (see note 2). The change in the fair value of pooled investments is allocated to each participating City department/fund based on the aggregate respective cash balances at year-end.

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

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

Accrued Employee Benefits – The Port records all accrued employee benefits, including accumulated vacation and sick pay, as a liability in the period the benefits are earned. Accrued employee benefits are treated as a liability for financial statement presentation.

Operating Leases – A substantial portion of the Port lands and facilities is leased to others. The majority of these leases provide for cancellation on a 30-day notice by either party and for retention of ownership by the Port or restoration of the property at the expiration of the agreement; accordingly, no leases are considered capital leases for purposes of financial reporting (see note 8).

Statements of Cash Flows – For purposes of the statements of cash flows, the Port considers all cash and investments pooled with the City, plus any other cash deposits or investments with initial maturities of three months or less, to be cash and cash equivalents.

Pension and OPEB Plans – All full-time employees of the Port are eligible to participate in the City Employees' Retirement System of the City (the System), a plan available to substantially all City full-time employees. Also, starting FY 2007, all full-time Port Police Officers are eligible to participate in the Los Angeles Fire and Police Pension System (LAFPP), a defined benefit single-

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employer pension plan available to all full-time active sworn firefighters and police officers (except Airport Police) of the City of Los Angeles. The Port's policy is to fund its entire share of the System and LAFPP pensions and the respective other postemployment benefit (OPEB) costs billed by the City. The costs to be funded are determined annually as of July 1 by the System's actuary and are incorporated into the payroll burden rate to reimburse the City for the Port's pro rata share of contributions made (see note 9).

Capital Contributions – The Port receives grants for the purpose of acquisition or construction of property and equipment. These grants are recorded as capital contributions when the grant is earned. Grants are generally earned upon expenditure of funds.

Statement of Net Assets – The statements of net assets are designed to display the financial position of the Port. The Port's equity is reported as net assets, which is classified into three categories defined as follows:

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

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

Effects of Recent GASB Pronouncements –

The following GASB Statements will be implemented in future years.

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In December 2006, 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 better 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 clean up efforts in the notes to the financial statements. GASB Statement No. 49 will be effective for financial statements for periods beginning after December 15, 2007, but liabilities will be measured at the beginning of that period so that beginning net assets can be restated.

The Port is required to implement the statement for the FY 2009 financial statements. The Environmental Management group of the Port has identified the obligating events and has estimated the amount that the Port needs to remedy the pollution. The group will continue to monitor and gather the information that will be needed in FY 2009 reporting.

GASB Statement No. 51, "*Accounting and Financial Reporting for Intangible Assets*." Issued in June 2007, this statement establishes standards for accounting and financial reporting for intangible assets, for all state and local governments. Types of assets that may be considered intangible assets include easements, water rights, timber rights, patents, trademarks, and computer software. GASB Statement No. 51 will be effective for the Port beginning in FY 2010. Retroactive reporting is required. In FY 2008, the Port reported as an intangible asset the radio frequency that was acquired for the Port Police. The Port will continue to analyze and record the intangible assets that will be acquired in the future.

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

Reclassifications – Certain reclassifications have been made to the amounts reported in 2007 in order to conform to the 2008 presentation. Such reclassifications had no effect on previously reported change in net assets.

(2) Cash and Investments

(a) Cash and Pooled Investments

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

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investments that have remaining maturities of one year or less at time of purchase, which are reported at amortized cost.

Pursuant to California Government Code Section 53607 and the Los Angeles City Council File No. 94-2160, the City Treasury provides an Annual Statement of Investment Policy (the Policy) to the City Council. The policy governs the City's pooled investment practices. The Policy addresses soundness of financial institutions in which the Treasurer will deposit funds and types of investment instruments permitted by California Government Code Sections 53600-53636 and 16429.1.

Examples of investments permitted by the City's pooled investment policy are obligations of the U.S. Treasury and government agencies, commercial paper notes, negotiable certificates of deposit, guaranteed investment contracts (none was invested in the General Pool or three of the Port's Special Investment Programs), bankers' acceptances, medium-term corporate notes, money market accounts, and the State of California Local Agency Investment Fund.

The Investment Advisory Committee (IAC) reviews investment performance and strategy. The IAC is composed of the City Treasurer as chairperson, the Office of the Mayor, City Controller, Chief Legislative Analyst, City Administrative Officer, Director of Office of Finance, and an external investment advisor.

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

	2008	2007
Cash in bank and certificates of deposit	\$ 2,415	395
Investment in U.S. Treasury money market fund	9	62
Equity in the City of Los Angeles Investment Pool	654,792	538,011
Total cash and investments	\$ 657,216	538,468

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

	2008	2007
Unrestricted cash and investments:	\$ 488,893	380,139
Restricted cash and investments:		
Current:		
Emergency Fund	96,839	91,775
China Shipping Mitigation Fund	51,539	46,652
Community Aesthetics Mitigation Fund for Parks	3,490	3,449
Owner-Controlled Insurance Program	-	500
U.S. Customs House, Terminal Island	6,349	6,230
Other	552	481
Sub-total- Current	158,769	149,087
Noncurrent:		
Harbor Revenue Bond Funds	9	62
Customer security deposits	3,206	3,154
Batiquitos Environmental Fund	5,796	5,508
Harbor Restoration Fund	543	518
Sub-total - Noncurrent	9,554	9,242
Total restricted cash and investments	168,323	158,329
Total cash and investments	\$ 657,216	538,468

(b) Deposits – Custodial Credit Risk

The Port has cash deposits and certificates of deposit with several major financial institutions amounting to \$2,414,846 and \$395,160 at June 30, 2008 and 2007, respectively, with corresponding bank balances of \$166,665 and \$167,718, respectively. The deposits are entirely covered by federal depository insurance or are collateralized by securities held by the financial institutions in the Port's name in conformance with the State Government Code.

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(c) *Investments Authorized by the City's Investment Policy*

General Pool Investments

The table below identifies the investment types that are authorized for the Port by the City's investment policy for its General Pool, which conforms to the State Government Code. The table also identifies certain provisions of the City's investment policy that address interest rate risk, credit risk, and concentration of credit risk. The City's investment policy is the same for 2008 and 2007.

	<u>Maximum maturities</u>	<u>Maximum concentration</u>
U.S. Treasury and Federal Agency Securities	5 years	100
Bonds issued by local agencies	5 years	100
Registered State Warrants and Municipal Notes	5 years	100
Bankers' Acceptances	180 days	40
Commercial Paper	270 days	40
Negotiable certificates of deposit or time deposits	180 days	30
Yankee certificates of deposit	180 days	30
CRA Certificates of Deposit or Time Deposits	180 days	30
Repurchase Agreements	32 days	15
Reverse Repurchase Agreements	92 days	5*
Medium Term Corporate Notes	5 years	30
Shares of a Money Market Mutual Fund	N/A	20
Securities Lending Program	N/A	20
Asset Backed Securities	5 years	20**
Collateralized Mortgage Obligations	5 years	20**
Local Agency Investment Fund (LAIF)		(per state limit)***

* The total of reverse repurchase agreements and the securities subject to a securities lending agreement may not exceed 20% of the total portfolio.

** Combined total for mortgage-backed and asset-backed securities

*** Current account limit is \$40 million.

Special Investment Programs

The Port has three restricted funds that are invested in the City's Special Investment Pools. These are Emergency Fund 751, Restoration Fund 70L, and Baticuitos Long-term Investment Fund 72W. Investments in the special pools are managed in accordance with the respective pool's policy. If none exists, the pool's policy will be deemed to be the California State Government Code Sections 53600-53636 et seq. Funds in the three restricted funds were solely invested in government agency securities with maturities of 182 days or less per Harbor department instruction, thus the lower rate of return.

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(d) City of Los Angeles Investment Pool

At June 30, 2008 and 2007, the investments held in the City Treasury's General and Special Investment Pool Programs and their maturities are as follows (in thousands):

Type of Investments	Amount	Investment Maturities June 30, 2008			
		1 to 30 Days	31 to 60 Days	61 to 365 Days	366 Days To 5 Years
U.S. Treasury Notes	\$ 1,619,055	—	—	—	1,619,055
U.S. Agencies	1,530,897	230,356	174,594	224,569	901,378
Medium-Term Notes	1,186,097	—	—	352,990	833,107
Commercial Paper	1,984,742	1,450,906	386,282	147,554	—
State of California LAIF	1	1	—	—	—
Certificates of Deposit	8,000	—	—	8,000	—
Guaranteed Investment Contracts	135,224	135,224	—	—	—
Short-Term Investment Funds	38	38	—	—	—
Securities Lending Cash Collateral:					
U.S. Treasury Notes	918,758	—	—	—	918,758
U.S. Agencies	10,721	—	—	—	10,721
Total General and Special Pools	<u>\$ 7,393,533</u>	<u>1,816,525</u>	<u>560,876</u>	<u>733,113</u>	<u>4,283,019</u>

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<u>Type of Investments</u>	<u>Amount</u>	<u>Investment Maturities June 30, 2007</u>			
		<u>1 to 30 days</u>	<u>31 to 60 days</u>	<u>61 to 365 days</u>	<u>366 days to 5 years</u>
U.S. Treasury Notes	\$ 1,651,432	—	—	100,394	1,551,038
U.S. Agencies	2,588,342	270,397	63,258	267,283	1,987,404
Medium-Term Notes	1,135,468	—	—	364,595	770,873
Commercial Paper	900,606	811,139	54,758	34,710	—
State of California LAIF	2,664	2,664	—	—	—
Short-Term Investment Funds	314,860	314,860	—	—	—
Securities Lending Cash	7	7	—	—	—
Collateral:					
U.S. Treasury Notes	898,087	—	—	5,386	892,701
U.S. Agencies	217,385	—	—	—	217,385
Total General and Special Pools	<u>\$ 7,708,851</u>	<u>1,399,067</u>	<u>118,016</u>	<u>772,368</u>	<u>5,419,401</u>

The City Treasurer manages a General Pool and various Special Investment Pools. The investment disclosure information by pool is not available. Accordingly, disclosures provided herein represent the combined General and Special Investment Pools.

The Port has \$654,792,000 and \$538,011,000 invested in the City's General Pool and three Special Investment Programs, which represent approximately 8.9% and 7.0% of the City Treasury's General Pool at June 30, 2008 and 2007, respectively.

Interest Rate Risk: The City's investment policy limits the maturity of its investments as set forth in (c) above.

Credit Risk: The City's pooled investment policy requires that for all classes of investments, except linked banking program certificates of deposits, the issuers' minimum credit ratings shall be by Standard and Poor's Corporation (S&P) A-1/A or Moody's Investor Services (Moody's) P-1/A2 and, if available Fitch IBCA F1/A. In addition, domestic banks are limited to those with a current Fitch Ratings BankWatch of "B/C" or better and an A-1 short-term rating. The City Treasurer is granted the authority to specify approved California banks with a Fitch Ratings BankWatch of "C" or better and an A-2 rating where appropriate. In addition to a "AAA" rating for country risk, foreign banks with domestic licensed offices must be rated "B" or better and TBW-1 short-term rating by Fitch Ratings BankWatch. Domestic savings banks must be rated "B/C" or better and a TBW-1 short-term rating by Fitch Ratings BankWatch.

Medium term notes must be issued by corporations operating within the United States and having total assets in excess of \$500 million. Commercial paper issuers must meet the preceding

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requirement or must be issued by corporations organized in the United States as a special purpose corporation, trust or limited liability company having program-wide credit enhancements.

The City's \$1.53 billion investments in U.S. government-sponsored enterprises consist of securities issued by the Federal Home Loan Bank - \$594.5 million, Federal National Mortgage Association - \$293.8 million, Federal Home Loan Mortgage Corporation - \$537.2 million, and Federal Farm Credit Bank - \$105.5 million. As of June 30, 2008, these securities carried the highest ratings of AAA (S&P) and Aaa (Moody's).

The City's \$1.19 billion investments in medium term notes consist of securities issued by banks and corporations that comply with the requirements discussed above and were rated "A" or better by S&P and "A3" or better by Moody's.

The City's \$1.98 billion investments in commercial paper comply with the requirements discussed above and were rated AAA/A-1+ by S&P and Aaa/P-1 by Moody's.

The issuers of the guaranteed investment contracts (none was invested in the General Pool or three of Port's Special Investment Programs), certificate of deposits and the State of California Local Agency Investment Fund (LAIF) are not rated.

Concentration of Credit Risk: The City's investment policy does not allow more than 10.0% of its investments portfolio, except U.S. Treasury and U.S. sponsored agency issues, to be invested in securities of a single issuer including its related entities. The City's investment policy further provides for a maximum concentration limit of 30% on any individual federal agency or government-sponsored entity. The City's pooled investments comply with these requirements. GAAP requires disclosure of certain investments in any one issuer that represent 5% or more of total investments. Of the City's total pooled investments as of June 30, 2008, \$594.5 million (8%) was invested in securities issued by the Federal Home Loan Bank and \$537.2 million (7%) was invested in securities issued by Federal Home Loan Mortgage Corporation.

(e) *City of Los Angeles Securities Lending Program*

The Securities Lending Program (the SLP) is permitted and limited under provisions of California Government Code Section 53601. The City Council approved the SLP on October 22, 1991 under Council File No. 91-1860, which complies with the California Government Code. The objectives of the SLP in priority order are: safety of loaned securities; and prudent investment of cash collateral to enhance revenue from the investment program. The SLP is governed by a separate policy and guidelines, with oversight responsibility of the Investment Advisory Committee.

The City's custodial bank acts as the securities lending agent. In the event a counterparty defaults by reason of an act of insolvency, the bank shall take all actions which it deems necessary or appropriate to liquidate permitted investment and collateral in connection with such transaction and shall make a reasonable effort for two business days (Replacement Period) to apply the proceeds

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thereof to the purchase of securities identical to the loaned securities not returned. If during the Replacement Period the collateral liquidation proceeds are insufficient to replace any of the loaned securities not returned, the bank shall, subject to payment by the City of the amount of any losses on any permitted investments, pay such additional amounts as necessary to make such replacement.

Under the provisions of the SLP, and in accordance with the California Government Code, no more than 20% of the market value of the General Investment Pool (the Pool) shall be available for lending. The City receives cash as collateral on loaned securities, which is reinvested in securities permitted under the Policy.

In accordance with the California Government Code, the securities lending agent marks to market the value of both the collateral and the reinvestments daily. Except for open loans where either party can terminate a lending contract on demand, term loans shall have a maximum life of 90 days. Earnings from securities lending shall accrue to the Pool and shall be allocated on a pro-rata basis to all Pool participants.

The Port's share of cash collateral received and corresponding liability aggregated approximately \$73,692,000 and \$69,252,000 at June 30, 2008 and 2007, respectively.

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

(f) Other Investment

Other investments of \$9,351 and \$61,809 at June 30, 2008 and 2007, respectively, consist of investments in a money market mutual fund. With an objective of seeking maximum current income to the extent consistent with preservation of capital and maintenance of liquidity, these investments are made through the bond fund trustee bank and they may be invested, as specified in the indenture of trust, with a portfolio consisting of: (1) U.S. dollar denominated deposit account, certificates of deposit, federal funds and banker's acceptances with domestic commercial banks, which have a rating on their short term certificates of deposit on the date of purchase of the highest rating by Fitch, if Fitch rates such instruments, "A-1" or "A-1+" by S&P and "P-1" by Moody's and maturing no more than 360 days after the date of purchase; (2) commercial paper which is rated at the time of purchase in the single highest classification, by Fitch, if Fitch rates such instruments, "A-1+" by S&P and "P-1" by Moody's and which matures not more than 270 days after the date of purchase; (3) investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P and "Aaa" by Moody's; and (4) pre-refunded municipal obligations defined as any bonds or other obligations of any state of the U.S. or any agency, instrumentality or local government unit of any such state; (5)

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investment agreements approved in writing by each Insurer with a provider whose long-term unsecured debt is rated in not lower than the second highest rating category of at least two of the rating agencies and which will not adversely affect Fitch, Moody's or S&P's underlying rating on the Bonds; (6) municipal obligations rated Aaa/AAA or general obligations of states rated in not lower than the second highest rating category of at least two of the rating agencies; and, (7) other forms of investments (including repurchase agreements) approved in writing by each Insurer and which will not adversely affect Fitch, Moody's or S&P's underlying rating on the Bonds.

As of June 30, 2008, this money market fund was rated "Aaa" by Moody's and "AAAm" by S&P.

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(3) Capital Assets

The Port's capital assets consist of the following activity for the years ended June 30, 2008 and 2007 (in thousands):

	July 1, 2007	Increases	Decreases	June 30, 2008
Capital assets not being depreciated:				
Land	\$ 991,153	21,144	-	1,012,297
Construction in progress	211,329	85,895	(57,933)	239,291
Preliminary costs – capital projects	123,071	17,936	(1,173)	139,834
Intangible asset - radio frequency	-	1,050	-	1,050
	<u>1,325,553</u>	<u>126,025</u>	<u>(59,106)</u>	<u>1,392,472</u>
Total capital assets not being depreciated				
Capital assets being depreciated/amortized:				
Wharves and sheds	661,963	4,932	(6,587)	660,308
Buildings/facilities	1,669,330	33,712	(13,489)	1,689,553
Equipment	63,549	12,136	(1,361)	74,324
	<u>2,394,842</u>	<u>50,780</u>	<u>(21,437)</u>	<u>2,424,185</u>
Total capital assets being depreciated/amortized				
Less accumulated depreciation/amortization for:				
Wharves and sheds	(265,915)	(18,275)	-	(284,190)
Buildings/facilities	(689,588)	(54,959)	12,715	(731,832)
Equipment	(38,485)	(5,061)	1,411	(42,135)
Subtotal	<u>(993,988)</u>	<u>(78,295)</u>	<u>14,126</u>	<u>(1,058,157)</u>
Total capital assets being depreciated/amortized, net	<u>1,400,854</u>	<u>(27,515)</u>	<u>(7,311)</u>	<u>1,366,028</u>
Total capital assets, net	<u>\$ 2,726,407</u>	<u>98,510</u>	<u>(66,417)</u>	<u>2,758,500</u>

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	<u>July 1, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2007</u>
Capital assets not being depreciated:				
Land	\$ 955,824	35,336	(7)	991,153
Construction in progress	232,412	36,641	(57,724)	211,329
Preliminary costs – capital projects	<u>95,809</u>	<u>27,398</u>	<u>(136)</u>	<u>123,071</u>
Total capital assets not being depreciated	<u>1,284,045</u>	<u>99,375</u>	<u>(57,867)</u>	<u>1,325,553</u>
Capital assets being depreciated/ amortized:				
Wharves and sheds	656,696	5,267	-	661,963
Buildings/facilities	1,661,073	48,527	(40,270)	1,669,330
Equipment	<u>62,203</u>	<u>8,871</u>	<u>(7,525)</u>	<u>63,549</u>
Total capital assets being depreciated/amortized	<u>2,379,972</u>	<u>62,665</u>	<u>(47,795)</u>	<u>2,394,842</u>
Less accumulated depreciation/ amortization for:				
Wharves and sheds	(247,251)	(18,664)	-	(265,915)
Buildings/facilities	(642,484)	(65,063)	17,959	(689,588)
Equipment	<u>(41,578)</u>	<u>(4,379)</u>	<u>7,472</u>	<u>(38,485)</u>
Total accumulated depreciation	<u>(931,313)</u>	<u>(88,106)</u>	<u>25,431</u>	<u>(993,988)</u>
Total capital assets being depreciated/ amortized, net	<u>1,448,659</u>	<u>(25,441)</u>	<u>(22,364)</u>	<u>1,400,854</u>
Total capital assets, net	<u>\$ 2,732,704</u>	<u>73,934</u>	<u>(80,231)</u>	<u>2,726,407</u>

Net interest expense of \$307,000 and \$1,779,000 were capitalized for 2008 and 2007, respectively.

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(4) Investment in Joint Powers Authorities and Other Entities

The Port has entered into two joint exercise of powers agreements and a shareholders' agreement as follows:

(a) *Intermodal Container Transfer Facility Joint Powers Authority*

The Port and the Harbor Department of the City of Long Beach, California (Port of Long Beach) entered into a joint exercise of powers agreement to form the Intermodal Container Transfer Facility Joint Powers Authority (ICTF) for the purpose of financing and constructing a facility to transfer cargo containers between trucks and railroad cars. The Port contributed \$2,500,000 to the ICTF as part of the agreement. The facility, which began operations in December 1986, was developed by Southern Pacific Transportation Company (SPTC, subsequently a wholly owned subsidiary of Union Pacific Corporation), which operates the facility under a long-term lease agreement. The Port appoints two members of the ICTF's five-member governing board and accounts for its investment using the equity method. Both the Port of Los Angeles and the Port of Long Beach share income and equity distributions equally.

Pursuant to an indenture of trust dated November 1, 1984, the ICTF issued \$53,915,000 in bonds (1984 Bonds) on behalf of the SPTC to construct the facility. In 1989, the ICTF issued \$52,315,000 in refunding bonds (1989 Bonds) on behalf of the SPTC to advance refund all of the 1984 Bonds. In 1999, the ICTF, on behalf of the SPTC, again issued \$42,915,000 of refunding bonds (1999 Bonds) to advance refund all of the 1989 Bonds. The 1999 Bonds are payable solely from payments by the SPTC under the lease agreement for use of the facility. The nature of the bonds is such that the indebtedness is that of the SPTC and not of the ICTF, nor the Port of Los Angeles, nor the Port of Long Beach.

The ICTF's operations are financed from lease revenues by ICTF activities. The ICTF is empowered to perform those actions necessary for the development of its facilities and related facilities, including acquiring, constructing, leasing, and selling any of its property. The Port's share of the ICTF's share of net assets at June 30, 2008 and 2007 is \$12,255,000 and \$7,814,000, respectively.

Separate financial statements for ICTF may be obtained from the Executive Director, Port of Long Beach, 925 Harbor Plaza, Long Beach, California 90802.

(b) *Alameda Corridor Transportation Authority*

In August 1989, the Port and the Port of Long Beach entered into a joint exercise of powers agreement and formed the Alameda Corridor Transportation Authority (ACTA) for the purpose of establishing a comprehensive transportation corridor and related facilities consisting of street and railroad rights-of-way and an improved highway and railroad network along Alameda Street between the Santa Monica Freeway and the Ports of Los Angeles and Long Beach in San Pedro Bay linking the two ports to the central Los Angeles area. The Port of Los Angeles and the Port of Long Beach share income and equity distributions equally.

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During fiscal year 1995, the Port and the Port of Long Beach purchased railroad rights-of-way and other assets totaling approximately \$370 million along the proposed corridor route.

At June 30, 1998, the Port had advanced a total of \$13,334,000 to the ACTA to fund its share of planning and other costs incurred to date. During fiscal year 1999, the ACTA reimbursed the Port for all amounts advanced plus approximately \$3.2 million of interest on such advances out of debt or grant financing proceeds. In addition, the ACTA reimbursed the Port for approximately \$81.7 million of capital assets directly related to the ACTA's mission, which the Port had previously included in construction in progress. Of the capital assets transferred, approximately \$22.2 million had been funded by capital grants, which the Port had previously included in contributions/land valuation equity. The Port has no share of the ACTA's net assets and income at June 30, 2008 and 2007 and, accordingly, they have not been recorded in the accompanying financial statements.

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

(c) *Los Angeles Export Terminal, Inc.*

On April 12, 1993, the Port entered into a shareholders' agreement, which formed the LAXT for the purpose of financing, constructing, and managing a dry bulk handling facility for the export of coal, petroleum coke, and related products on land leased by permit from the Port.

The Port has contributed \$19,000,000 to LAXT as part of the agreement. Such contribution represents a 13.2% share of the total committed capital of \$143,174,000. This capital was raised from the shareholders through a purchase of stock in LAXT. The Port had the right to nominate two directors to a 19-member board of directors. As of June 30, 1998, the terminal began operating under a long-term lease agreement with a terminal manager/operator.

In June 2003, LAXT loaded the last coal vessel, thereby ceasing the coal operations at the facility. As a result of a Settlement Agreement, Mutual Release and Compromise, and Permit Termination Agreement, the Port, in March 2007, wrote off its \$19,000,000 investment, or 100% of its share of equity participation in the LAXT (see note 14.)

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(5) Long-Term Liabilities

(a) Long-term debt consists of the following at June 30, 2008 and 2007:

Parity Bonds	Call Provisions	Interest Rate		Maturity Fiscal Year	Original Amount	Balance			Balance June 30, 2008	Due Within One Year
		%	%			July 1, 2007	Additions	Reductions		
HRB, Issue 2001, Series A	8/1/2011 @ 100%		5.00	2026	\$ 36,180	36,180	-	-	36,180	-
HRB, Issue 2001, Series B	8/1/2011 @ 100%	5.25	- 5.50	2023	64,925	64,925	-	-	64,925	-
HRB, Issue 2002, Series A	8/1/2012 @ 100%		5.50	2016	63,520	50,735	-	4,740	45,995	5,000
HRB, Issue 2005, Series A	8/1/2015 @ 102%	3.25	- 5.00	2027	29,930	29,930	-	-	29,930	-
HRB, Issue 2005, Series B	8/1/2015 @ 102%	3.00	- 5.00	2027	30,110	30,110	-	-	30,110	125
HRB, Issue 2005, Series C-1	8/1/2015 @ 102%	3.50	- 5.00	2018	43,730	42,025	-	3,340	38,685	4,145
HRB, Issue 2006, Series A	8/1/2016 @ 102%		5.00	2027	200,710	197,760	-	8,360	189,400	7,545
HRB, Issue 2006, Series B	8/1/2016 @ 102%		5.00	2027	209,815	209,815	-	3,990	205,825	4,430
HRB, Issue 2006, Series C	8/1/2016 @ 102%		5.00	2026	16,545	16,545	-	-	16,545	235
HRB, Issue 2006, Series D	8/1/2016 @ 102%	4.50	- 5.00	2037	111,300	111,300	-	1,645	109,655	1,730
Total Parity Bonds					\$ 806,765	789,325	-	22,075	767,250	23,210
Department of Boating and Waterways (DBW) Loans										
C#82-21-148			4.50	2014	\$ 4,000	1,767	-	220	1,547	230
C#83-21-147			4.50	2015	4,000	1,930	-	206	1,724	215
Total DBW Loans					\$ 8,000	3,697	-	426	3,271	445
Unamortized bond premium, net						27,906	-	1,616	26,290	
Deferred loss on refunding						(16,113)	-	(1,054)	(15,059)	
Current maturities of long-term debt						(22,501)	(24,248)	(23,094)	(23,655)	
Total long-term debt					\$ 782,314	(24,248)	(31)	758,097	23,655	

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Long-term debt consists of the following at June 30, 2007 and 2006:

Parity Bonds	Call Provisions	Interest Rate		Maturity Fiscal Year	Original Amount	Balance			Balance June 30, 2007	Due Within One Year
		%	%			July 1, 2006	Additions	Reductions		
HRB, Issue 1996B	8/1/2006 @ 101%	5.25	- 6.25	2027	\$ 300,000	37,260	-	37,260	-	-
HRB, Issue 1996B&C	11/1/2006 @ 101%	5.25	- 6.25	2027	320,000	268,555	-	268,555	-	-
HRB, Issue 2001, Series A	8/1/2011 @ 100%		5.00	2026	36,180	36,180	-	-	36,180	-
HRB, Issue 2001, Series B	8/1/2011 @ 100%	5.25	- 5.50	2023	64,925	64,925	-	-	64,925	-
HRB, Issue 2002, Series A	8/1/2012 @ 100%		5.50	2016	63,520	55,230	-	4,495	50,735	4,740
HRB, Issue 2005, Series A	8/1/2015 @ 102%	3.25	- 5.00	2027	29,930	29,930	-	-	29,930	-
HRB, Issue 2005, Series B	8/1/2015 @ 102%	3.00	- 5.00	2027	30,110	30,110	-	-	30,110	-
HRB, Issue 2005, Series C-1	8/1/2015 @ 102%	3.50	- 5.00	2018	43,730	43,730	-	1,705	42,025	3,340
HRB, Issue 2005, Series C-2	Non-callable		4.75	2007	4,090	4,090	-	4,090	-	-
HRB, Issue 2006, Series A	8/1/2016 @ 102%		5.00	2027	200,710	200,710	-	2,950	197,760	8,360
HRB, Issue 2006, Series B	8/1/2016 @ 102%		5.00	2027	-	-	209,815	-	209,815	3,990
HRB, Issue 2006, Series C	8/1/2016 @ 102%		5.00	2026	-	-	16,545	-	16,545	-
HRB, Issue 2006, Series D	8/1/2016 @ 102%	4.50	- 5.00	2037	-	-	111,300	-	111,300	1,645
Total Parity Bonds					<u>\$ 1,093,195</u>	<u>770,720</u>	<u>337,660</u>	<u>319,055</u>	<u>789,325</u>	<u>22,075</u>
Commercial Paper Notes					<u>\$ 113,561</u>	<u>113,561</u>	<u>-</u>	<u>113,561</u>	<u>-</u>	<u>-</u>
Department of Boating and Waterways (DBW) Loans										
C#82-21-148			4.50	2014	\$ 4,000	1,978	-	211	1,767	220
C#83-21-147			4.50	2015	4,000	2,127	-	197	1,930	206
Total DBW Loans					<u>\$ 8,000</u>	<u>4,105</u>	<u>-</u>	<u>408</u>	<u>3,697</u>	<u>426</u>
Unamortized bond premium, net						\$ 15,587	13,033	714	27,906	
Deferred loss on refunding						(16,208)	(1,707)	(1,802)	(16,113)	
Current maturities of long-term debt						(90,503)	(22,501)	(90,503)	(22,501)	-
Total Debt						<u>\$ 797,262</u>	<u>326,485</u>	<u>341,433</u>	<u>782,314</u>	<u>22,501</u>

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(a) Bonds Payable

1996 Series A Bonds

The Revenue Bonds, Issue of 1996 (the 1996 Series A Bonds), were issued by the Port of the City of Los Angeles in the aggregate principal amount of \$300,000,000 on April 23, 1996. Proceeds from the sale of these insured 1996 Series A Bonds were used to finance construction of and improvements to certain facilities owned by the Port, to redeem at maturity certain short-term revenue certificates previously issued by the Port, and to pay certain costs of issuance in connection with the 1996 Series A Bonds.

Interest on the 1996 Series A Bonds is payable semiannually on February 1 and August 1 of each year commencing August 1, 1996. The 1996 Series A Bonds with maturity dates ranging from August 1, 1997 through 2026 bear interest at rates from 5.00% to 6.25%. The term bonds are subject to mandatory early redemption. The bonds maturing on or after August 1, 2006 are subject to optional redemption with an early redemption premium. The bonds maturing on or after August 1, 2008 are subject to optional redemption without an early redemption premium. The 1996 Series A Bonds are legal obligations of the Port payable solely from revenues of the Port and do not constitute or evidence indebtedness of the City of Los Angeles.

On October 13, 2005, the Port issued the 2005 Series A Refunding Bonds for \$29,930,000 to advance refund, on a crossover basis, \$30,935,000 of the 1996 Series A Bonds. Such 1996 Series A Bonds were redeemed on their call date (the Crossover Date) of August 1, 2006 at a redemption price of 101%.

In addition, the Port issued and applied a portion of the 2005 Series C-1 Refunding Bonds to provide funds to reimburse Citigroup and De La Rosa for funds advanced by them for the purchase of \$15,525,000 of 1996 Series A Bonds tendered by the holders thereof in response to a voluntary open market purchase solicitation. All such purchased 1996 Series A Bonds were cancelled on the date of delivery of the Series 2005 Series C-1 Bonds.

On May 4, 2006, the Port issued the 2006 Series A Refunding Bonds for \$200,710,000 to currently refund, on a forward delivery basis, \$202,705,000 of the 1996 Series A Bonds. On August 1, 2006, all 1996 Series A Bonds were redeemed. For the Port's current refunding and advance refunding of bonds, the difference between the reacquisition price and the net carrying amount of the refunded bonds is deferred and amortized as interest expense over the life of the refunding bonds, which is shorter than the remaining life of the refunded bonds.

The refunding transaction with the 2006 Series A Bonds resulted in an economic gain of \$27,665,368 and a reduction of \$44,824,990 in future debt service payments.

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1996 Series B and C Bonds

The Revenue Bonds, Issue of 1996 Series B and Series C (the 1996 Series B and C Bonds), were issued by the Port of the City of Los Angeles in the aggregate principal amount of \$320,000,000 on December 4, 1996. Proceeds from the sale of these insured 1996 Series B and C Bonds were used to finance construction of and improvements to certain facilities owned by the Port, to pay certain costs of issuance in connection with the 1996 Series B and C Bonds, and to advance refund the outstanding balance of the 1995 Series A Bonds.

Interest on the 1996 Series B and C Bonds is payable semiannually on May 1 and November 1 of each year commencing May 1, 1997, with principal payments commencing November 1, 1997. The 1996 Series B and C Bonds consist of serial and term bonds maturing in amounts ranging from \$340,000 to \$21,960,000 at rates ranging from 4.875% to 6.25%.

The final maturity dates for 1996 Series B Bonds and 1996 Series C Bonds are November 1, 2026, and 2025, respectively. The term bonds are subject to mandatory early redemption. The bonds maturing on or after November 1, 2006 are subject to optional redemption with an early redemption premium. The bonds maturing on or after November 1, 2008 are subject to optional redemption without an early redemption premium. The 1996 Series B and C Bonds are legal obligations of the Port payable solely from revenues of the Port and do not constitute or evidence indebtedness of the City of Los Angeles.

The \$21,350,000 of 1996 Series C Bonds was issued to advance refund \$19,750,000 of outstanding 1995 Series A Bonds. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the 1995 Series A Bonds of \$1,175,000. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through 2025 using the straight-line method.

On October 13, 2005, the Port issued the 2005 Series B Refunding Bonds for \$30,110,000 to advance refund, on a crossover basis, \$31,690,000 of the 1996 Series B Bonds. Such 1996 Series B Bonds were redeemed and cancelled on their call date (the Crossover Date) of November 1, 2006 at the redemption price of 101%.

In addition, the Port issued and applied a portion of the 2005 Series C-1 Refunding Bonds to reimburse Citigroup and De La Rosa for funds advanced by them for the purchase of \$27,725,000 of the 1996 Series B Bonds tendered by the holders in response to a voluntary open market purchase solicitation. All such purchased 1996 Series B Bonds were cancelled on the date of delivery of the 2005C-1 Series Bonds.

The Port issued the 2006 Series B Refunding Bonds for \$209,815,000 and the 2006 Series C Refunding Bonds for \$16,545,000, on a forward-delivery basis, to currently refund \$211,895,000 of the 1996 Series B Bonds and \$17,065,000 of the 1996 Series C Bonds. Such 1996 Series B Bonds and 1996 Series C Bonds were redeemed and cancelled on their call date of November 1, 2006.

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The refunding of 1996 Series B Bonds and 1996 Series C Bonds was completed on November 1, 2006. The refunding transaction with the 2006 Series B Bonds resulted in an economic gain of \$18,879,238 and a reduction of \$34,739,094 in future debt service payments. The refunding transaction with the 2006 Series C Bonds resulted in an economic gain of \$1,217,279 and a reduction of \$1,552,163 in future debt service payments.

2001 Series A Refunding Bonds

On July 11, 2001, the Port issued the 2001 Series A Refunding Bonds in the aggregate principal amount of \$36,180,000 to advance refund, on a crossover basis, \$33,330,000 of the 1995 Series B Bonds. Interest on the 2001 Series A Refunding Bonds is payable semiannually on February 1 and August 1 of each year commencing February 1, 2002. The 2001 Series A Refunding Bonds with maturity dates ranging from August 1, 2022 to 2025, bear interest at a rate of 5.0%. The bonds maturing on or after August 1, 2011 are subject to optional redemption without an early redemption premium.

The outstanding balances on the 2001 Series A Refunding Bonds, net of unamortized discount of \$870,566 and \$921,776 and unamortized deferred amount on refunding of \$793,166 and \$839,823 were \$34,516,268 and \$34,418,401 at June 30, 2008 and 2007, respectively.

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Debt service of the Port's 2001 Series A Refunding Bonds is as follows (in thousands):

<u>Fiscal Year</u>	<u>Annual Debt Service Requirement</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ -	1,809	1,809
2010	-	1,809	1,809
2011	-	1,809	1,809
2012	-	1,809	1,809
2013	-	1,809	1,809
2014-2018	-	9,045	9,045
2019-2023	-	9,018	9,018
2024-2026	36,180	2,689	38,869
Sub-total	36,180	29,797	65,977
Unamortized Deferred Amount on Refunding of 1995 Series B	(793)	-	(793)
Unamortized Discount	(871)	-	(871)
Total	\$ <u>34,516</u>	<u>29,797</u>	<u>64,313</u>

2001 Series B Bonds

The Port issued the 2001 Series B Refunding Bonds in the aggregate principal amount of \$64,925,000 to purchase \$60,850,000 of the 1995 Series B Bonds tendered by bondholders in response to an open market purchase solicitation conducted through its underwriters.

Interest on the 2001 Series B Refunding Bonds is payable semiannually on February 1 and August 1 of each year commencing on February 1, 2002. The 2001 Series B Refunding Bonds with maturity dates ranging from August 1, 2015 to 2022, bear interest at rates from 5.25% to 5.50%. The bonds maturing on or after August 1, 2011 are subject to optional redemption without an early redemption premium.

The outstanding balances on the 2001 Series B Refunding Bonds, net of unamortized premium of \$725,427 and \$777,243 and unamortized deferred amount on refunding of \$2,994,396 and \$3,208,281, were \$62,656,031 and \$62,493,962 at June 30, 2008 and 2007, respectively.

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Debt service of the Port's 2001 Series B Refunding Bonds is as follows (in thousands):

<u>Fiscal Year</u>	<u>Annual Debt Service Requirement</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ -	3,547	3,547
2010	-	3,547	3,547
2011	-	3,547	3,547
2012	-	3,547	3,547
2013	-	3,547	3,547
2014-2018	18,365	16,523	34,888
2019-2023	46,560	6,456	53,016
Sub-total	64,925	40,714	105,639
Unamortized Deferred Amount on Refunding of 1995 Series B	(2,994)	-	(2,994)
Unamortized Premium	725	-	725
Total	\$ 62,656	40,714	103,370

2002 Series A Bonds

The 2002 Series A Refunding Bonds were issued in the aggregate principal amount of \$63,520,000 on May 6, 2002, on a crossover basis, to advance refund \$64,110,000 of the outstanding 1995 Series B Bonds at their first redemption date of August 1, 2002, with the exception of 1995 Series B Bonds maturing on August 1, 2002 and 2003.

Interest on the 2002 Series A Refunding Bonds is payable semiannually on February 1 and August 1 of each year commencing on August 1, 2002. The 2002 Series A Refunding Bonds with maturity ranging from August 1, 2004 to 2015, bear interest at a rate of 5.50%. The bonds maturing on or after August 1, 2012 are subject to optional redemption without an early redemption premium.

Prior to the Crossover Date, interest on the 2002 Series A Refunding Bonds were secured and payable solely from amounts held in a crossover refunding escrow account created pursuant to the issue's indenture. The outstanding balances on the 2002 Series A Refunding Bonds, net of unamortized premium of \$1,277,077 and \$1,457,371 and unamortized deferred amount on refunding of \$1,096,429 and \$1,251,219 were \$46,175,648 and \$50,941,152 at June 30, 2008 and 2007, respectively.

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Debt service of the Port's 2002 Series A Refunding Bonds is as follows (in thousands):

<u>Fiscal Year</u>	<u>Annual Debt Service Requirement</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 5,000	2,392	7,392
2010	5,275	2,110	7,385
2011	5,565	1,812	7,377
2012	5,865	1,497	7,362
2013	6,190	1,166	7,356
2014-2016	18,100	1,391	19,491
Sub-total	45,995	10,368	56,363
Unamortized Deferred Amount on Refunding of 1995 Series B	(1,096)	-	(1,096)
Unamortized Premium	1,277	-	1,277
Total	\$ 46,176	10,368	56,544

On August 1, 2002, the refunding of 1995 Series B Bonds was completed and resulted in a difference between the reacquisition price and the net carrying amount of the 1995 Series B Bonds of \$3,818,649. The difference is prorated to 2001 Series A Bonds, 2001 Series B Bonds, and 2002 Series A Bonds based on the face value. They are reported in the accompanying financial statements as a deduction from bonds payable and charged to operations through 2025 using the straight-line method.

2005 Series A Bonds

The 2005 Series A Refunding Bonds were issued on October 13, 2005 in the aggregate principal amount of \$29,930,000 to advance refund, on a crossover basis, \$30,935,000 of the 1996 Series A Bonds on their call date of August 1, 2006 .

Interest on the 2005 Series A Bonds is payable semiannually on February 1 and August 1 of each year commencing February 1, 2006. The 2005 Series A Bonds with maturity dates ranging from August 1, 2010 to 2026, bear interest at rates from 3.25% to 5.00%. The bonds maturing on or after August 1, 2015 are subject to optional redemption at the redemption price of 102%.

Prior to the Crossover Date, interest on the Series 2005 Series A Bonds is payable from and secured solely by investment receipts from and amounts on deposit in the related crossover refunding escrow accounts. Until the crossover date, the 2005 Series A Bonds are not on parity with other outstanding Harbor Revenue Bonds.

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The outstanding balance on the 2005 Series A Bonds, plus the unamortized premium of \$1,741,611 and \$1,838,921 and unamortized deferred amount on refunding of \$527,346 and \$556,508 were \$31,144,265 and \$31,212,413 at June 30, 2008 and 2007, respectively.

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

Fiscal Year	Annual Debt Service Requirement		
	Principal	Interest	Total
2009	\$ -	1,433	1,433
2010	-	1,433	1,433
2011	275	1,428	1,703
2012	1,285	1,401	2,686
2013	1,315	1,358	2,673
2014-2018	7,575	5,846	13,421
2019-2023	9,730	3,702	13,432
2024-2027	9,750	1,006	10,756
Sub-total	29,930	17,607	47,537
Unamortized Deferred Amount on Refunding of 1996 Series A	(527)	-	(527)
Unamortized Premium	1,742	-	1,742
Total	\$ 31,145	17,607	48,752

2005 Series B Bonds

The 2005 Series B Refunding Bonds were issued on October 13, 2005 in the aggregate principal amount of \$30,110,000, on a crossover basis, to advance refund \$31,690,000 of the 1996 Series B Bonds on their call date of November 1, 2006 (the Crossover Date).

Interest on the 2005 Series B Bonds is payable semiannually on February 1 and August 1 of each year, commencing February 1, 2006. The 2005 Series B Bonds with maturity dates ranging from August 1, 2008 to August 1, 2026, bear interest at rates from 3.00% to 5.00%. The bonds maturing on or after August 1, 2015 are subject to optional redemption at the redemption price of 102%.

Prior to the Crossover Date, interest on the 2005 Series B Bonds is payable from and secured solely by investment receipts from deposits in the related crossover refunding escrow funds. Until the Crossover Date, the 2005 Series B Bonds are not on parity with other outstanding Harbor Revenue Bonds.

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The outstanding balance on the 2005 Series B Bonds, plus the unamortized premium of \$1,778,702 and \$1,877,063 and unamortized deferred amount on refunding of \$508,123 and \$536,222 were \$31,380,579 and \$31,450,841 at June 30, 2008 and 2007, respectively.

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

<u>Fiscal Year</u>	<u>Annual Debt Service Requirement</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 125	1,434	1,559
2010	850	1,419	2,269
2011	1,200	1,382	2,582
2012	1,215	1,334	2,549
2013	1,280	1,284	2,564
2014-2018	7,455	5,458	12,913
2019-2023	9,575	3,347	12,922
2024-2027	8,410	783	9,193
Sub-total	30,110	16,441	46,551
Unamortized Deferred Amount on Refunding of 1996 Series B	(508)	-	(508)
Unamortized Premium	1,779	-	1,779
Total	\$ 31,381	\$ 16,441	47,822

2005 Series C Refunding Bonds

The 2005 Series C-1 Refunding Bonds were issued on October 13, 2005 in the aggregate principal amount of \$43,730,000, to reimburse Citigroup and De La Rosa for and to pay fees associated with the purchase on the open market of the purchased 1996 Bonds.

Interest on the 2005 Series C-1 Bonds is payable semiannually on February 1 and August 1 of each year commencing February 1, 2006, with principal payments commencing August 1, 2006. The 2005 Series C-1 Bonds with maturity dates ranging from August 2006 to 2017, bear interest at rates from 3.50% to 5.00%. The bonds maturing on or after August 1, 2015 are subject to optional redemption at the redemption price of 102%.

The 2005 Series C-2 Bond was issued for \$4,090,000 to pay certain issuance costs. The 2005 Series C-2 Bond was sold at rate of 4.75%. The bond matured on August 1, 2006 and was not subject to redemption prior to maturity.

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The outstanding balances on the 2005 Series C Refunding Bonds, net of unamortized premium of \$1,999,705 and \$2,219,856 and unamortized deferred amount on refunding of \$1,392,898 and \$1,546,245, were \$39,291,807 and \$42,698,611 at June 30, 2008 and 2007, respectively.

Debt service of the Port's 2005 Series C Bonds is as follows (in thousands):

<u>Fiscal Year</u>	<u>Annual Debt Service Requirement</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 4,145	1,822	5,967
2010	1,540	1,680	3,220
2011	7,125	1,463	8,588
2012	15,290	903	16,193
2013	-	521	521
2014-2018	10,585	2,237	12,822
Sub-total	38,685	8,626	47,311
Unamortized Deferred Amount on Refunding of 1996 Series A & 1996 Series B	(1,393)	-	(1,393)
Unamortized Premium	2,000	-	2,000
Total	\$ 39,292	8,626	47,918

The 2005 Series A, B and C refunding transactions resulted in an economic gain of \$4,049,353 and a reduction of \$6,103,824 in future debt service payments.

2006 Series A Refunding Bonds

The 2006 Series A Refunding Bonds were issued on May 4, 2006 in the aggregate principal amount of \$200,710,000, on a forward delivery basis, to currently refund \$202,705,000 of the 1996A Bonds.

Interest on the 2006 Series A Bonds is payable semiannually on February 1 and August 1 of each year. Principal and interest are payable commencing August 1, 2006. The 2006 Series A Bonds bear interest at rate of 5.00% with maturity dates ranging from August 1, 2007 to August 1, 2026. The bonds maturing on or after August 1, 2016 are subject to optional redemption at the redemption price of 102%.

The outstanding balance of the 2006 Series A Bonds, net of unamortized premium of \$7,722,507 and \$8,149,558 and unamortized deferred amount on refunding of \$3,383,348 and \$3,570,446 were \$193,739,159 and \$202,339,112 at June 30, 2008 and 2007, respectively.

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

Fiscal Year	Annual Debt Service Requirement		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 7,545	9,281	16,826
2010	8,515	8,880	17,395
2011	1,270	8,635	9,905
2012	800	8,584	9,384
2013	7,015	8,388	15,403
2014-2018	43,835	35,643	79,478
2019-2023	55,125	23,597	78,722
2024-2027	65,295	7,001	72,296
Sub-total	<u>189,400</u>	<u>110,009</u>	<u>299,409</u>
Unamortized Deferred Amount on Refunding of 1996 Series A	(3,384)	-	(3,384)
Unamortized Premium	<u>7,724</u>	<u>-</u>	<u>7,724</u>
Total	<u>\$ 193,740</u>	<u>110,009</u>	<u>303,749</u>

The 2006 Series A refunding transactions resulted in an economic gain of \$27,665,368 and a reduction of \$44,824,990 in future debt service payments.

2006 Series B Refunding Bonds

The 2006 Series B Refunding Bonds were issued on August 3, 2006 in the aggregate principal amount of \$209,815,000, on a forward delivery basis, to currently refund \$211,895,000 of the 1996B Bonds.

Interest on the 2006 Series B Bonds is payable semiannually on February 1 and August 1 of each year. The 2006 Series B Bonds bear interest at rate of 5.00% with maturity dates ranging from August 1, 2007 to August 1, 2026. The bonds maturing on or after August 1, 2016 are subject to optional redemption at the redemption price of 102%.

The outstanding balance on the 2006 Series B Bonds, net of unamortized premium of \$7,555,445 and \$7,973,257 and unamortized deferred amount on refunding of \$4,041,568 and \$4,265,064 was \$209,338,877 and \$213,523,193 at June 30, 2008 and 2007, respectively.

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

<u>Fiscal Year</u>	<u>Annual Debt Service Requirement</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 4,430	10,181	14,611
2010	5,975	9,920	15,895
2011	7,885	9,574	17,459
2012	-	9,377	9,377
2013	9,935	9,128	19,063
2014-2018	43,890	38,432	82,322
2019-2023	71,290	24,764	96,054
2024-2027	62,420	6,257	68,677
Sub-total	205,825	117,633	323,458
Unamortized Deferred Amount on Refunding of 1996 Series B	(4,042)	-	(4,042)
Unamortized Premium	7,556	-	7,556
Total	\$ <u>209,339</u>	<u>117,633</u>	<u>326,972</u>

The 2006 Series B refunding transactions resulted in an economic gain of \$18,879,238 and a reduction of \$34,739,094 in future debt service payments.

2006 Series C Refunding Bonds

The 2006 Series C Refunding Bonds were issued on August 3, 2006 in the aggregate principal amount of \$16,545,000, on a forward delivery basis, to currently refund \$17,065,000 of the 1996 Series C Bonds.

Interest on the 2006 Series C Bonds is payable semiannually on February 1 and August 1 of each year. The 2006 Series C Bonds bear interest at rate of 5.00% with maturity dates ranging from August 1, 2008 to August 1, 2025. The bonds maturing on or after August 1, 2016 are subject to optional redemption at the redemption price of 102%.

The outstanding balance on the 2006 Series C Bonds, net of unamortized premium of \$918,253 and \$972,005 and unamortized deferred amount on refunding of \$320,205 and \$338,949 was \$17,143,048 and \$17,178,056 at June 30, 2008 and 2007, respectively.

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

<u>Fiscal Year</u>	<u>Annual Debt Service Requirement</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 235	821	1,056
2010	635	800	1,435
2011	665	767	1,432
2012	700	733	1,433
2013	730	697	1,427
2014-2018	4,250	2,885	7,135
2019-2023	5,415	1,681	7,096
2024-2026	3,915	299	4,214
Sub-total	16,545	8,683	25,228
Unamortized Deferred Amount on Refunding of 1996 Series C	(320)	-	(320)
Unamortized Premium	918	-	918
Total	\$ 17,143	8,683	25,826

The 2006 Series C refunding transactions resulted in an economic gain of \$1,217,279 and a reduction of \$1,552,163 in future debt service payments.

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2006 Series D Refunding Bonds

The 2006 Series D Refunding Bonds were issued on August 31, 2006 in the aggregate principal amount of \$111,300,000, to refund \$113,561,000 of the Commercial Paper Notes.

Interest on the 2006 Series D Bonds is payable semiannually on February 1 and August 1 of each year. The 2006 Series D Bonds bear interest at rates ranging from 4.5% to 5.00% with maturity dates from August 1, 2007 to August 1, 2036. The bonds maturing on or after August 1, 2014 are subject to optional redemption at the redemption price of 101%.

The outstanding balance on the 2006 Series D Bonds, net of unamortized premium of \$3,440,453 and \$3,562,962 was \$113,095,453 and \$114,862,962 at June 30, 2008 and 2007, respectively.

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

<u>Fiscal Year</u>	<u>Annual Debt Service Requirement</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 1,730	5,368	7,098
2010	1,820	5,279	7,099
2011	1,915	5,186	7,101
2012	2,010	5,088	7,098
2013	2,115	4,984	7,099
2014-2018	12,310	23,180	35,490
2019-2023	15,810	19,683	35,493
2024-2028	20,295	15,202	35,497
2029-2033	25,825	9,670	35,495
2034-2037	25,825	2,571	28,396
Sub-total	109,655	96,211	205,866
Unamortized Premium	3,440	-	3,440
Total	\$ 113,095	96,211	209,306

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Bond Premium and Discount

The Port amortizes the original issue discount or premium over the life of each bond issue. Unamortized bond discount or premium, at the time of refunding, is amortized over the shorter of the life of the refunded bonds or the life of the refunding bonds. The unamortized amount for each Port issue is as follows:

<u>Bond Issue</u>	<u>2008 (Discount) Premium</u>	<u>2007 (Discount) Premium</u>
2001A	\$ (871)	(922)
2001B	725	777
2002A	1,277	1,457
2005A	1,742	1,838
2005B	1,779	1,877
2005C-1	2,000	2,220
2006A	7,724	8,151
2006B	7,556	7,973
2006C	918	972
2006D	3,440	3,563
Total	\$ <u>26,290</u>	<u>27,906</u>

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The Port's required debt service payments for long-term debt for the years ending June 30 are as follows:

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 23,655	38,235	61,890
2010	25,075	37,004	62,079
2011	26,386	35,709	62,095
2012	27,673	34,357	62,030
2013	29,111	32,944	62,055
2014-2018	167,200	140,690	307,890
2019-2023	214,595	92,248	306,843
2024-2028	205,175	33,237	238,412
2029-2033	25,825	9,670	35,495
2034-2037	25,826	2,572	28,398
Subtotal	<u>770,521</u>	<u>456,666</u>	<u>1,227,187</u>
Unamortized bond (discount) premium, net	26,290	-	26,290
Deferred loss on refunding	(15,059)	-	(15,059)
Current maturities of long term debt	<u>(23,655)</u>	<u>-</u>	<u>(23,655)</u>
Total debt service payments	<u>\$ 758,097</u>	<u>456,666</u>	<u>1,214,763</u>

(b) Other Debt

Commercial Paper

On November 1, 2001, the Port obtained a credit agreement to provide liquidity support for the issuance of Commercial Paper Notes (Notes) not to exceed \$375,000,000 as a means of interim financing primarily for the construction, maintenance, and replacement of the Port's structures, facilities, and equipment. Rates vary on the Notes from 2.38% to 3.45% during the fiscal year ended June 30, 2006. Due dates also vary, but within the limit of 270 days from the issue dates.

In fiscal year 2006, the Notes were remarketed for principal only. On August 31, 2006, the outstanding Commercial Paper of \$113,561,000 was refunded through the issuance of the 2006 Series D Refunding Bonds in the aggregate principal amount of \$111,300,000.

At June 30, 2008 and 2007, the outstanding Commercial Paper balance was zero.

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California Department of Boating and Waterways

The Port obtained two loans aggregating \$8,000,000 from the California Department of Boating and Waterways. The notes currently bear interest at 4.5%. The Port makes annual payments of interest and principal and the notes will mature in 2014 and 2015, respectively. The Port's obligation with respect to the payment of such notes is subordinate to the lien of the Port's Parity Obligations on the Harbor Revenue Funds. The outstanding balances on such notes were \$3,270,841 and \$3,696,946 at June 30, 2008 and 2007, respectively.

Debt service of the Port's indebtedness is as follows (in thousands):

Fiscal year	Principal	Interest	Total
2009	\$ 445	147	592
2010	465	127	592
2011	486	106	592
2012	508	84	592
2013	531	61	592
2014-2015	836	51	887
Total	\$ 3,271	576	3,847

(c) *Current Year and Prior Years' Defeasance of Debt*

Bonds were defeased through the establishment of irrevocable escrow funds with a major financial institution. Monies placed in trust, when considered with interest to be earned thereon, will be sufficient to make required debt service payments through the earliest possible debt retirement dates. Accordingly, the liability for those bonds has been removed from the accompanying financial statements.

The remaining bonds in the defeasance escrows held by the trustee at June 30, 2008 and 2007 were as follows (in thousands):

	2008	2007
1988 Bonds	\$ 84,665	89,525

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(d) Changes in Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2008 and 2007 was as follows (in thousands):

	July 1, 2007	Additions	Reductions	June 30, 2008	Due within one year
Revenue bonds payable	\$ 789,325	—	(22,075)	767,250	23,210
Less unamortized discount/premium	27,906	—	(1,616)	26,290	—
Unamortized deferred amount on refunding	(16,113)	—	1,054	(15,059)	—
Total revenue bonds payable	801,118	—	(22,637)	778,481	23,210
Notes payable	3,697	—	(426)	3,271	445
Unearned revenue and other deferred credit	358	1,507	—	1,865	1,865
Accrued employee benefits	20,729	—	(2,151)	18,578	10,626
Other liabilities (notes 7, 16, 18 and 19)	84,782	49,135	(34,593)	99,324	82,004
Total long-term liabilities	\$ 910,684	50,642	(59,807)	901,519	118,150

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	July 1, 2006	Additions	Reductions	June 30, 2007	Due within one year
Revenue bonds payable	\$ 770,720	337,660	(319,055)	789,325	22,075
Less unamortized discount/premium	15,587	13,033	(714)	27,906	—
Unamortized deferred amount on refunding	(16,208)	(1,707)	1,802	(16,113)	—
Total revenue bonds payable	770,099	348,986	(317,967)	801,118	22,075
Notes payable	4,105	—	(408)	3,697	426
Commercial paper	113,561	—	(113,561)	—	—
Unearned revenue and other deferred credit	3,141	—	(2,783)	358	358
Accrued employee benefits	14,199	6,530	—	20,729	13,438
Other liabilities (note 7, 16 and 18)	111,662	5,073	(31,953)	84,782	62,391
Total long-term liabilities	\$ 1,016,767	360,589	(466,672)	910,684	98,688

(6) Employee-Deferred Compensation Plan

The City offers a deferred compensation plan created in accordance with Internal Revenue Code Section 457 to its employees, in which the Port and its employees participate, allowing them to defer or postpone receipt of income. Amounts so deferred may not be paid to the employee during employment with the City, except for a catastrophic circumstance creating an undue financial hardship for the employee.

As a result of changes to Section 457 deferred compensation plans resulting from the Small Business Job Protection Act of 1996, the City's deferred compensation plan administrator established a custodial account on behalf of the plan participants. All amounts deferred by the Port's employees are paid to the City, which in turn pays them to the deferred compensation plan administrator. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts are held in such custodial account for the exclusive benefit of the employee participants and their beneficiaries. Information on the Port employees' share of plan assets is not available.

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

(7) Risk Management

The Port purchases insurance on certain risk exposures such as property, railroad, automobiles, fleet, pilotage, and public official. The Port is, however, self-insured for general liability/litigation-type claims and workers' compensation of the Port's employees. In addition, the Port carries excess insurance on certain claims over \$1,000,000. There have been no settlements related to these programs that exceeded insurance coverage in the last three years.

Claims expenses and liabilities are reported when it is probable that a loss has been incurred and the amount of that loss, including those incurred but not reported, can be reasonably estimated. The Port utilizes actuarial studies, historical data, and individual claims reviews to estimate these liabilities. At June 30, 2008 and 2007, approximately \$8,733,000 and \$15,055,000, respectively, were accrued for litigation claims and workers' compensation claims, which are included in other liabilities in the accompanying statements of net assets.

Changes in the reported liability for the years ended June 30, 2008 and 2007 are as follows (in thousands):

	<u>Beginning liability</u>	<u>Current year claims and Estimate changes</u>	<u>Claim payments</u>	<u>Balance at Fiscal year end</u>
2007 – 2008:				
Workers' compensation	\$ 8,400	2,812	(2,579)	8,633
General liability/litigation	6,655	(6,459)	(96)	100
2006 – 2007:				
Workers' compensation	\$ 8,400	1,440	(1,440)	8,400
General liability/litigation	38,075	(3,377)	(28,043)	6,655

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(8) Leases, Rentals, and Revenue Sharing Agreements

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

These lease agreements are intended to be long-term in nature (as long as 30 years) and to provide the Port with a firm tenant commitment for a minimum fixed-income stream. Many agreements also provide for additional payment beyond the fixed portion, based upon tenant usage, revenues, or volume. These agreements are also generally subject to periodic inflationary escalation of base amounts due the Port. For the years ended June 30, 2008 and 2007, the minimum rental income from such agreements aggregated approximately \$259,495,000 and \$248,278,000, respectively.

The property on lease at June 30, 2008 consists of the following (in thousands):

Wharves and sheds	\$	660,308
Cranes and bulk facilities		56,640
Municipal warehouses		10,647
Port pilot facilities and equipment		6,116
Buildings and other facilities		740,359
Cabrillo Marina		41,772
		1,515,842
Less accumulated depreciation		(690,974)
Total	\$	824,868

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

Year ended June 30:		
2009	\$	260,406
2010		260,953
2011		261,901
2012		262,867
2013		263,852
Total	\$	1,309,979

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(9) Retirement Plan

Los Angeles City Employees Retirement System

(a) Retirement Plan Description

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

LACERS provides retirement, disability, death benefits, postemployment healthcare benefits and annual cost-of-living adjustments based on the employees' years of service, age and final compensation. Employees with ten or more years of service may retire if they are at least 55 years old, or if the retirement date is between October 2, 1996 and September 30, 1999 at age 50 or older with at least 30 years of service. Normal retirement allowances are reduced for employees under age 60 at the time of retirement, unless they have more than 30 years of service and are age 55 or older. Employees aged 70 or above may retire at any time with no required minimum period of service. LACERS does not have a mandatory retirement age and none of the Port's employees are required to contribute to LACERS.

(b) Actuarially Determined Contribution Requirements and Contributions Made

The Board of Administration of LACERS establishes and may amend the contribution requirements of System members and the City. Covered employees contribute to LACERS at a rate (8.22% to 13.33%) established through the collective bargaining process for those whose membership began prior to January 1, 1983 and at a fixed rate of 6% of salary for those who entered membership on or after January 1, 1983. The City subsidizes member contributions as determined by the actuarial consultant of LACERS. The Port's pro rata share of the combined actuarially required contributions (ARC) for pension and postemployment healthcare benefits and actual contributions made to LACERS were approximately \$13,765,000 (100% of ARC), \$10,908,000 (100% of ARC) and \$8,577,000 (100% of ARC) for the years ended June 30, 2008, 2007, and 2006, respectively. The allocation of contributions between the pension and postemployment healthcare benefits is not available.

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LACERS's funding policy provides for actuarially determined periodic contributions at rates such that sufficient assets will be available to pay benefits when due. The current year contribution requirement was determined based on the June 30, 2006 and prior year was determined based on June 30, 2005 actuarial valuation, using the following actuarial assumptions (same in both years):

	<u>LACERS</u>
<u>Actuarial valuation date</u>	<u>June 30, 2006 and 2005</u>
<u>Actuarial cost method</u>	<u>Projected unit credit</u>
<u>Amortization method</u>	<u>Level percent of payroll</u>
<u>Remaining amortization Period</u>	<u>Multiple layers not exceeding 30 years, closed</u>
<u>Asset valuation method</u>	<u>5-year market related</u>
<u>Actuarial assumptions: Investment rate of return</u>	<u>8%</u>
<u>Projected salary increases</u>	<u>4.75% - 10%</u>
<u>Inflation rate</u>	<u>3.75%</u>
<u>Cost of living adjustments</u>	<u>3%</u>

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The City and member contribution rates for the year ended June 30, 2008 and 2007 are as follows:

Contribution rates:	<u>LACERS</u>
City	14.6% of covered payroll
Plan members	8.22% to 13.33% of salaries at entry age with City subsidy for members prior to February 1983; 6% for entry date after January 1983

The City's annual pension cost, the percentage of annual pension cost contributed to the plan, and the net pension obligation for fiscal year 2008 and the two preceding years for the plan are as follows (in thousands):

	<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
LACERS	06/30/08	\$ 286,368	100%	\$ (79,972)
	06/30/07	276,190	100%	(81,723)
	06/30/06	227,006	100%	(83,049)

The City allocated a pro rata share of its net pension obligation to the Port and the amounts recorded at June 30, 2008 and 2007 were \$2,367,000 and \$2,172,000, respectively.

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(c) Funded Status of LACERS

Based upon available data, the following is funded status information for the plan as of the most recent actuarial valuation dated June 30, 2008, separate information for the Port is not available (dollars in thousands):

	<u>LACERS</u>
Actuarial Accrued Liability (AAL)	\$ 11,186,404
Actuarial Value of Assets	9,438,318
Underfunded AAL	1,748,086
Funded Ratio	84.4%
Covered Payroll	\$ 1,977,645
Underfunded AAL as a percentage of covered payroll	88.4%

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The funded status of the plan as of June 30, 2008 was based on the following actuarial assumptions:

<u>LACERS</u>	
<u>Actuarial valuation date</u>	<u>June 30, 2008</u>
<u>Actuarial cost method</u>	<u>Projected unit credit</u>
<u>Amortization method</u>	<u>Level percent of payroll</u>
Remaining amortization Period	Multiple layers not exceeding 30 years, closed
<u>Asset valuation method</u>	<u>5-year market related</u>
Actuarial assumptions: Investment rate of return	<u>8%</u>
<u>Projected salary increases</u>	<u>4.75% - 12.25%</u>
<u>Inflation rate</u>	<u>3.75%</u>
Cost of living adjustments	3%

Actuarial valuations involve the estimate of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contribution of the City are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress, presented as Required Supplementary Information (RSI) on page 98, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

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Other contribution information and ten-year historical trend information can be found in LACERS's Comprehensive Annual Financial Report. Copies of LACERS's Comprehensive Annual Financial Report can be obtained from LACERS, 360 East Second Street, 2nd Floor, Los Angeles, California 90012.

(d) *Other Postemployment Benefits (OPEB)*

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

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

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The City's annual required contribution rate for OPEB was 5.5% and 6.1% of annual covered payroll for 2008 and 2007, and was determined based on the June 30, 2006 and 2005 actuarial valuations, respectively. Significant methods and assumptions are as follows (same in both years):

<u>LACERS OPEB</u>	
<u>Actuarial valuation date</u>	<u>June 30, 2006 and 2005</u>
<u>Actuarial cost method</u>	<u>Projected unit credit</u>
<u>Amortization method</u>	<u>Level percent of payroll</u>
<u>Remaining amortization Period</u>	<u>Multiple layers not exceeding 30 years, closed</u>
<u>Asset valuation method</u>	<u>5-year market related</u>
<u>Actuarial assumptions: Investment rate of return</u>	<u>8%</u>
<u>Projected salary increases</u>	<u>N/A</u>
<u>Inflation rate</u>	<u>3.75%</u>
<u>Healthcare cost trend rates:</u>	
Medical	12% graded down over 7 years to ultimate rate of 5%
Dental	5%

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Amounts contributed specifically to the Retiree Health Insurance Premium Subsidy by the Port alone are not available.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB asset (obligation) for fiscal year 2008 and the two preceding years for the plan are as follows (dollars in thousands):

	<u>Year Ended</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Asset (Obligation)</u>
LACERS	06/30/08	\$ 108,849	100%	-
	06/30/07	115,233	100%	-
	06/30/06	76,116	100%	-

From the most recent data made available by the City, as of June 30, 2008, LACERS membership consists of 30,236 active plan participants and 14,975 retired members. Also as of June 30, 2008, the date of the latest actuarial valuation of the City's Retiree Health Insurance Premium Subsidy, the total underfunded health benefit subsidy applicable to LACERS as a whole was approximately \$585,123,000 as follows (dollars in thousands):

	<u>LACERS OPEB</u>
Actuarial Accrued Liability (AAL)	\$ 1,928,043
Actuarial Value of Assets	1,342,920
Underfunded AAL	585,123
Funded Ratio	69.7%
Covered Payroll	\$ 1,977,645
Underfunded AAL as a percentage of covered payroll	29.6%

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The funded status of the OPEB plan as of June 30, 2008 was based on the following actuarial assumptions:

	<u>LACERS OPEB</u>
<u>Actuarial valuation date</u>	<u>June 30, 2008</u>
<u>Actuarial cost method</u>	<u>Projected unit credit</u>
<u>Amortization method</u>	<u>Level percent of payroll</u>
<u>Remaining amortization Period</u>	<u>Multiple layers not exceeding 30 years, closed</u>
<u>Asset valuation method</u>	<u>5-year market related</u>
<u>Actuarial assumptions: Investment rate of return</u>	<u>8%</u>
<u>Projected salary increases</u>	<u>N/A</u>
<u>Inflation rate</u>	<u>3.75%</u>
<u>Healthcare cost trend rates Medical</u>	<u>8.75% graded down over 8 years to ultimate rate of 5%</u>
<u>Dental</u>	<u>5%</u>

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Actuarial valuations involve estimate of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and the annual required contributions of the City are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress, presented as RSI on page 98, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

City of Los Angeles Fire and Police Pensions

(a) Retirement Plan Description

The Los Angeles City Council approved Ordinance No. 177214 that allows Harbor Department (Port Police Officers) the option to transfer from LACERS to Tier 5 of Los Angeles Fire and Police Pensions (LAFPP). The election period was from January 8, 2006 to January 5, 2007 and the decision to transfer is irrevocable.

Only “sworn” service with the Harbor Department is transferable to LAFPP. Other “non-sworn” service with other City Departments is not eligible for transfer. All new employees hired by the Harbor Department after the effective date of the Ordinance automatically go into Tier 5 of LAFPP.

LACERS transferred \$6.1 million of allocated discounted Harbor Port Police assets to LAFPP in October 2007 for fiscal year 2007.

(b) Actuarially Determined Contribution Requirements and Contributions Made

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

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The current year contribution requirement was determined based on the June 30, 2006 actuarial valuation, using the following actuarial assumptions:

	<u>LAFPP</u>
<u>Actuarial valuation date</u>	June 30, 2006
<u>Actuarial cost method</u>	Entry age Normal
<u>Amortization method</u>	Level dollar - Tier 1 Level percent of payroll- Tiers 2, 3, 4, & 5
<u>Remaining amortization Period</u>	Multiple layers not exceeding 30 years, closed
<u>Asset valuation method</u>	5-year market related
Actuarial assumptions:	
<u>Investment rate of return</u>	8%
<u>Projected salary increases</u>	4.90% - 10.09%
<u>Inflation rate</u>	3.75%
<u>Cost of living adjustments</u>	3.75% - Tiers 1 & 2 3% - Tiers 3, 4, & 5

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The City and member contribution rates for the year ended June 30, 2008 are as follows:

Contribution rates:	<u>LAFPP</u>
City	21.7 % of covered payroll
Plan members	6% - Tier 1 7% - Tier 2 8% - Tier 3 & 4 9% - Tier 5

The City's annual pension cost and the percentage of annual pension cost contributed to the plan for fiscal year 2008 and the two preceding years for the plan are as follows (dollars in thousands):

	<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>
LAFPP	06/30/08	\$ 261,635	100%
	06/30/07	224,946	100%
	06/30/06	143,946	100%

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(c) Funded Status of LAFPP

Based upon available data, the following is funded status information for the plan as of June 30, 2008, separate information for the Port is not available (in thousands):

	<u>LAFPP</u>
Actuarial Accrued Liability (AAL)	\$ 14,279,116
Actuarial Value of Assets	14,153,296
Underfunded AAL	125,820
Funded Ratio	99.1%
Covered Payroll	\$ 1,206,589
Underfunded AAL as a percentage of covered payroll	10.43%

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The funded status of the plan as of June 30, 2008 was based on the following actuarial assumptions:

	LAFPP
Actuarial valuation date	June 30, 2008
Actuarial cost method	Entry age normal
Amortization method	Level dollar - Tier 1 Level percent of payroll- Tiers 2, 3, 4, & 5
Remaining amortization Period	Multiple layers not exceeding 30 years, closed
Asset valuation method	5-year market related
Actuarial assumptions: Investment rate of return	8%
Projected salary increases	4.9% - 10.09%
Inflation rate	3.75%
Cost of living adjustments	3.75% - Tiers 1 & 2 3% - Tiers 3, 4, & 5

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Actuarial valuations involve estimate of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contribution of the City are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress, presented as RSI on page 99, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

Other contribution information and ten-year historical trend information can be found in LAFPP's Comprehensive Annual Financial Report. Copies of LAFPP's Comprehensive Annual Financial Report can be obtained from LAFPP, 360 East Second Street, Suite 400, Los Angeles, California 90012.

(d) *Other Postemployment Benefits (OPEB)*

The City Charter, the Administrative Code and related ordinance define the postemployment healthcare benefits. There are no member contributions for healthcare benefits. The Port, as a participant in LAFPP, also provides a Retiree Health Insurance Premium Subsidy.

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

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The City's annual required contribution rate for OPEB was 4.9% of annual covered payroll and was determined based on the June 30, 2006 actuarial valuation. Significant methods and assumptions are as follows:

	<u>LAFPP OPEB</u>
<u>Actuarial valuation date</u>	<u>June 30, 2006</u>
<u>Actuarial cost method</u>	<u>Entry age normal</u>
<u>Amortization method</u>	<u>Level percent of payroll</u>
Remaining amortization Period	29 years, closed
Asset valuation method	5-year market related
Actuarial assumptions: Investment rate of return	8%
Projected salary increases	4.25%
Inflation rate	3.75%
Healthcare cost trend rates:	
Medical	9% graded down by .5% per year for 8 years to ultimate rate of 5%
Dental	5%

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Amounts contributed specifically to the Retiree Health Insurance Premium Subsidy by the Port alone are not available.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB asset (obligation) for fiscal year 2008 and the two preceding years for the plan are as follows (in thousands):

	<u>Year Ended</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Asset (Obligation)</u>
LAFPP	06/30/08	\$ 99,615	79%	(21,358)
	06/30/07	55,163	100%	-
	06/30/06	31,413	100%	-

From the most recent data made available by the City, as of June 30, 2008, LAFPP membership consists of 13,495 active plan participants, 81 vested terminated members, and 12,182 retired members and beneficiaries. Also as of June 30, 2008, the date of the latest actuarial valuation of the City's Retiree Health Insurance Premium Subsidy, the total underfunded health benefit subsidy applicable to LAFPP, as a whole was approximately \$1,069,193,000 as follows (in thousands):

	<u>LAFPP OPEB</u>
Actuarial Accrued Liability (AAL)	\$ 1,836,840
Actuarial Value of Assets	767,648
Underfunded AAL	1,069,193
Funded Ratio	41.8%
Covered Payroll	\$ 1,206,589
Underfunded AAL as a percentage of covered payroll	88.6%

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The funded status of the OPEB plan as of June 30, 2008 was based on the following actuarial assumptions:

	<u>LAFPP OPEB</u>
<u>Actuarial valuation date</u>	June 30, 2008
<u>Actuarial cost method</u>	Entry age normal
<u>Amortization method</u>	Level percent of payroll
Remaining amortization Period	29 years, closed
Asset valuation method	5-year market related
Actuarial assumptions: Investment rate of return	8%
Projected salary increases	4.25%
Inflation rate	3.75%
Healthcare cost trend rates Medical	9% graded down .5% per year over 8 years to ultimate rate of 5%
Dental	5%

Actuarial valuations involve estimate of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and

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the annual required contributions of the City are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress, presented as RSI on page 99, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

(10) Notes Receivable

(a) *City of Los Angeles Settlement*

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

It is and has been the policy of the Port to pay the City all of the amounts to which the City is entitled. In light of these studies, the Board of Harbor Commissioners adopted a resolution providing for the reimbursement to the City of certain expenditures incurred by the City on behalf of the Port, but which the City had never inclusively billed the Port. Under its resolution, the Board of Harbor Commissioners authorized the Port to make, and the Port paid to the City, two annual payments of \$20,000,000 for the 1994/95 and 1995/96 fiscal years. The Board of Harbor Commissioners further authorized the Executive Director to negotiate additional amounts as may be determined to be due, and accordingly, a memorandum of understanding with the City was executed on June 27, 1997 (1997 MOU).

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

On January 19, 2001, the City, along with the Port and the California State Lands Commission, entered into a settlement and mutual release agreement to amicably resolve their disputes concerning the City's entitlement to historic and future reimbursements for costs the City incurred or would incur providing services to the Port. The settlement agreement provides that the City, as

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reimbursement for payments made by the Port to the City for retroactive billings for City services provided during the period July 1, 1977 through June 30, 1994, inclusive, pay the Port \$53,400,000 in principal plus 3% simple interest over a 15-year period.

The settlement agreement also provides that the City reimburse the Port for the payment differential, that amount representing the difference between the actual payments and the amount to which the City would have been entitled to reimbursement during fiscal year 1994-95 and fiscal year 2002-2003, inclusive, had the reimbursement been computed during each of those fiscal years using the settlement formula. This amount is estimated at \$8,352,000. Payment for this period is to be reimbursed to the Port over 15 years, including 3% simple interest. The agreement also states that at any time after five years from January 19, 2001, the City, the Port, and California State Lands Commission may negotiate to amend this agreement to account for new or changed circumstances.

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

Accordingly, the Port of Los Angeles had recorded the amount due from the City as a note receivable of \$32,265,000 and \$36,348,000 and a current portion of notes receivable of \$4,083,000 and \$3,962,000 as of June 30, 2008 and 2007, respectively.

(b) Note Receivable – LAXT

In August of 2001, LAXT issued a note to the Port to defer payment of \$2.0 million of the minimum annual rent required in their lease. This note provides for quarterly interest payments to be made to the Port until such time as the note is fully repaid on or before July 1, 2004. As a result of the Settlement Agreement, Mutual Release and Compromise, and Permit Termination Agreement (Settlement Agreement) with LAXT, the Port wrote off, in March 2007, the \$2.0 million note receivable against the reserve that was made before.

(c) Note Receivable – Yusen

In order to settle the then outstanding \$2,350,867 terminal construction cost overruns, the Port agreed in 1994 that Yusen, one of the Port container terminal tenants, be permitted to pay over 22 years in equal monthly installments of \$106,857. To record the transaction, an amortization schedule using a 5% interest rate was prepared and the note balance was adjusted to \$1,476,887, with the balance of \$873,980 recognized as the Port's capital assets in fiscal year 1995. The note matures in October 2015. The balance outstanding on the Yusen note is \$690,639 and \$759,520 at June 30, 2008 and 2007, respectively.

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(11) Commitments and Contingencies

Open purchase orders and uncompleted construction contracts amounted to approximately \$290,152,000 as of June 30, 2008. Such open commitments do not lapse at the end of the Port's fiscal year and are carried forth to succeeding periods until fulfilled.

In 1985, the Port received a parcel of land, with an estimated value of \$14,000,000 from the federal government, for the purpose of constructing a marina. The Port has agreed to reimburse the federal government up to \$14,000,000 from excess revenues, if any, generated from marina operations after the Port has recovered all costs of construction. No such payments were made in 2008 or 2007.

The Port has certain operating leases whose future minimum payments are insignificant.

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

Alameda Corridor Transportation Authority Agreement (ACTA)

In August 1989, the Port and the Port of Long Beach (the POLB and, together with the Port, the Ports) entered into a joint exercise of powers agreement and formed ACTA for the purpose of establishing a comprehensive transportation corridor and related facilities consisting of street and railroad rights-of-way and an improved highway and railroad network along Alameda Street between the Santa Monica Freeway and the Ports in San Pedro Bay, linking the two Ports to the central Los Angeles area. The Alameda Corridor began operating on April 15, 2002. ACTA is governed by a seven-member board which is comprised of two members from each Port, one each from the Cities of Los Angeles and Long Beach and one from the Metropolitan Transportation Authority. In 2003, ACTA agreed to an expanded mission to develop and support projects that more effectively move cargo to points around Southern California, ease truck congestion, improve air quality, and make roads safer. If in the future ACTA becomes entitled to distribute income or make equity distributions, the Ports shall share any such income or equity distributions equally.

In October 1998, the Ports, ACTA, and the railroad companies, which operate on the corridor, entered into a Corridor Use and Operating Agreement (Corridor Agreement). The Corridor Agreement obligates the railroad companies to pay certain use fees and container charges (Use Fees), which ACTA will assess for the privilege of using the corridor to transport cargo into and out of the Ports. ACTA negotiated with BNSF Railway Company (BNSF) and Union Pacific (UP) regarding certain types of cargo movements (transload movements) for which BNSF and UP are not paying Use Fees. In the Settlement and Release Agreement (the Agreement), dated as July 5, 2006, ACTA, BNSF, and UP agreed to resolve the "Transloading Dispute." ACTA, the Ports, the City of Los Angeles, and the City of Long Beach (the ACTA Releasing Parties) each release, acquit, and discharge BNSF and UP of all liability and costs, as stated in the Agreement, arising from or relating to the Transloading Dispute. BNSF and UP (the Railroad Releasing Parties) each release, acquit, and discharge the ACTA Releasing Parties from any and all

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liability and costs, as stated in the Agreement, arising from or relating to any claim by the Railroad Releasing Parties. These Use Fees are used to pay (a) the debt service that ACTA incurs on approximately \$1.2 billion of bonds, which ACTA issued in early 1999 and approximately \$686 million of bonds issued in 2004, and (b) for the cost of funding required reserves and costs associated with the financing, including credit enhancement and rebate requirements, if any (collectively, ACTA Obligations). Use Fees end after 35 years or sooner if the ACTA Obligations are paid off earlier.

If ACTA revenues are insufficient to pay ACTA Obligations, the Corridor Agreement obligates each Port to pay up to twenty percent (20%) of the shortfall (Shortfall) on an annual basis. If this contingency occurs, the Ports' payments to ACTA are intended to provide cash for debt service payments and to assure that the Alameda Corridor is available to maintain continued cargo movement through the Ports. The Ports are required to include expected Shortfall payments in their budgets, but Shortfall payments are subordinate to other obligations of the Port, including the 2005 and 2006 Bonds, and neither the Port nor the POLB is required to take Shortfall payments into account when determining whether it may incur additional indebtedness or when calculating compliance with rate covenants under their respective bond indentures and resolutions.

In April 2004, it was estimated by ACTA that the Ports would be required to make Shortfall payments totaling approximately \$20.5 million (the Port and POLB each being liable for their one-half share of \$10.25 million) through 2027. Pursuant to the ACTA Operating Agreement, the Port is obligated to include any forecasted Shortfall payments in its budget each fiscal year. No Shortfall payments were payable by the Port in the prior years. ACTA notified the two ports in March 2008 that no Shortfall payment was required for the fiscal year ending June 30, 2008 due to transfers from other available sources and that the total amount of the Shortfall payment for FY 2007-08 is estimated to be zero.

Estimates of Shortfalls are prepared by ACTA and such Shortfalls could vary materially from the estimates. It is not possible to predict whether, when, or how much the Port will be liable for Shortfall payments. In the opinion of management, shortfall payments, if any, would not materially affect the financial position of the Port.

Community Redevelopment Agency Agreement

On September 20, 2007, the Los Angeles Board of Harbor Commissioners approved the agreement between the City of Los Angeles and the Community Redevelopment Agency of the City of Los Angeles (CRALA) for the purpose of readying the underutilized and contaminated industrial properties within the Wilmington Industrial Park, the project area for development.

CRALA may execute note(s) in an aggregate amount not to exceed \$25 million. The note(s) will accrue interest at the General Pool Rate compounded monthly. All notes will become due and payable sixty months from the date of the first executed note pursuant to this agreement unless the term of the note(s) is otherwise extended and approved in writing by CRALA and the Port. The CRALA and the Port may agree in writing to no more than two options to extend the term of this agreement and the notes granted hereunder, each option period not to exceed five additional years.

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CRALA shall pay down the line of credit by applying proceeds generated from the periodic sale and disposition of acquired properties. Repayment of each draw (principal and accruing interest) is deferred until such time as the property that was acquired with the funds at issue is disposed of. CRALA shall repay any outstanding draw (principal and interest) at the end of the term of the line of credit. The line of credit will be frozen if any fund draws are outstanding for longer than sixty months. CRALA shall repay the then outstanding principal together with the interest, promptly upon selling a property, provided that the amount shall be repaid in one balloon payment no later than the 72nd month.

As of June 30, 2008 there has been no drawdown made by CRALA from this line of credit.

Trapac Project and Environmental Impact Report

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

On April 3, 2008, the Board approved a Memorandum of Understanding (MOU) between the City and the Appellants of the Trapac EIR. The term of the MOU is five years and after the first five years, the agreement may be renewed for a successive five-year period by mutual agreement of the Port and a majority of the Appellants. The MOU provides for the revocation of the appeals and the establishment of a Port Community Mitigation Trust Fund.

The MOU provides that the Port's first year funding to be placed in the Community Mitigation Trust Fund is estimated at \$11,240,000 geared towards the identified Trapac projects in the MOU. Contributions from the Port to the Fund over the subsequent four years of the initial MOU term may vary based on the volume of cargo processed at the Port.

(12) Related-Party Transactions

During the normal course of business, the Port is charged for services provided and use of land owned by the City, the most significant of which is related to fire protection, museum/park maintenance, and legal services. Total amounts charged by the City for services approximate \$35,443,000 and \$34,737,000 in fiscal years 2008 and 2007, respectively.

(13) Capital Contributions

Amounts either received or to be reimbursed for the restricted purpose of the acquisition, construction of capital assets, or other grant-related capital expenditures are recorded as capital contributions. During the years ended June 30, 2008 and 2007, the Port reported capital contributions of \$14,161,000 and \$4,145,000 respectively, for certain capital construction and grant projects.

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(14) Los Angeles Export Terminal

Los Angeles Export Terminal (LAXT) is an approximately 120-acre dry bulk facility that handled coal and petroleum coke destined for Asia and the Americas. When incorporated, LAXT's ownership was comprised of a coalition of 51% US firms involved in the coal chain and 49% Japanese utility, steel, and energy companies. Since LAXT's formation, the Port has made equity contributions of \$19.0 million. Beginning in fiscal year 2001, business conditions have been such that LAXT has been unable to meet its minimum rent guarantee to the Port. Accordingly, the Port fully reserved for its share of investment in LAXT and any trade receivables due from LAXT.

On June 10, 2004, LAXT, Oxbow Carbon & Minerals, Inc., and Oxbow Terminals LLC (collectively, the Claimants) filed a claim against the City for damages in excess of \$400 million (the LAXT Claim). The Claimants assert, among other things, that the City breached fiduciary duties to LAXT, breached its lease with LAXT, and interfered with LAXT's efforts to raise additional revenues. The City rejected the LAXT claim on June 23, 2004. The Claimants subsequently filed a court action in which they claimed damages in excess of \$600 million. The Port filed an answer and cross-claim to the court action. The parties reached a Settlement Agreement, Mutual Release and Compromise, and Permit Termination Agreement (Settlement Agreement) effective March 16, 2007 and the City paid the claimants a total of \$27,412,000 as part of the settlement. The Port also wrote off \$66,922,000 in accounts receivable and \$2,000,000 in note receivable that are due from LAXT and \$19,000,000 in LAXT investment against reserves specifically made for LAXT in prior years.

As a result of this settlement, certain Port capital assets that are related to LAXT operations have suffered permanent impairment of their value and are due for demolition. The Port charged a total of \$22,291,000 as a special item in fiscal year 2007 and reduced the book value of these impacted assets to zero.

(15) Natural Resources Defense Council Settlement Judgment

In March 2003, the Port of Los Angeles settled a lawsuit entitled: Natural Resources Defense Council, Inc., et al. v. City of Los Angeles, et al., regarding the environmental review of a Port project. The settlement calls for a total of \$50 million in mitigation measures to be undertaken by the Port. This \$50 million charge was recorded to expense in fiscal year 2003.

The terms of the agreement require that the Port fund various mitigation activities in the amount of \$10 million per year over a five-year term ending fiscal year 2007. As of June 30, 2008, a total of \$50.0 million has been transferred from Harbor Revenue Fund to the restricted mitigation funds.

Pursuant to the settlement, the Port is also obligated to expend up to \$5 million to retrofit customer vessels to receive shore-side power as an alternative to using on-board diesel fueled generators. Through the end of fiscal year 2008, the Port has spent \$5.0 million for this program.

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

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The settlement agreement also established a throughput restriction at China Shipping Terminal per calendar year. Actual throughput at the terminal exceeded the cap for calendar years 2007 and 2006 and in May 2008 and in April 2007 the Port charged to non-operating expense and deposited in the restricted mitigation funds an additional \$5,767,000 and \$3,862,050, respectively.

As of June 30, 2008 the Port has disbursed a total of \$22.3 million, \$3.1 million of this amount was made in FY 2008, as provided in accordance with the provisions of the settlement.

(16) China Shipping Settlement Agreement

In June 2005, the Port of Los Angeles settled a claim filed by China Shipping Holding Company, Ltd. (China Shipping), a current Port tenant, claiming damages and costs resulting from the delays in timely delivery of the premises at Berths 100-102, and environmental mitigation costs.

The settlement provided for an immediate payment of \$10 million to China Shipping and amended their operating permit to provide various credits to the claimant in the form of reduction of minimum annual guarantee and container charges of \$12.2 million to be applied in fiscal year 2005 – 2006. The amendment also provides for additional other credits amounting up to \$7.1 million, if certain acreage or wharf improvements are not delivered within 24 – 48 months following approval of the environmental impact report for the project. Port management believes no conditions currently exist that will impact timely delivery of the facilities. Accordingly, a liability of \$22.2 million was recorded as of June 30, 2005 and payment of \$10 million was made and credits of \$12.2 million issued in fiscal year 2006.

(17) Alleged Misuse of Federal Funds – Stanley D. Mosler vs. City of Los Angeles

An individual has brought a lawsuit under the Federal Civil False Claims Act against the Port, the City, and the Port's former Executive Director, challenging the use by the Port of certain federal funds obtained from the United States under the Water Resources Development Act of 1986 and State funds in the form of Tidelands Revenues for the construction of Pier 400 at the Port. The plaintiff alleges that the federal contribution amount to the construction of Pier 400 was \$108 million and the State contribution was approximately \$1 billion. The case was under seal from 2002 to 2005 while the federal government determined whether to join as a plaintiff. In 2005, the federal government decided not to join as a plaintiff. An amended complaint was served on the Port in August 2005 requesting treble damages. The Port believes that any claims alleging misuse of federal funds and State funds are without merit. The defendants, including the City, filed motions to have the court dismiss the complaint or grant judgment in their favor. On August 11, 2006, the Court granted the City's and Port's motion to disqualify the plaintiff, on the grounds that the plaintiff is not an attorney and therefore cannot represent the interests of the United States or the State in the action, and dismissed the lawsuit. Subsequently the plaintiff brought motions to vacate the dismissal and to allow the substitution of an attorney. The trial court denied both of these motions. On October 13, 2006 the plaintiff in proper filed a notice of appeal seeking review of three court orders: the August 14, 2006 order granting defendant's motion to disqualify relator and dismiss his claims, the October 6, 2006 order denying relator's motion for substitution of counsel, and the October 6, 2006 order denying relator's motion to vacate order of dismissal. The relator Stanley Mosler appealed the

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dismissal of the action to the Ninth Circuit. While the appeal was pending, the trial court judge issued a memorandum indicating that he may not have given the relator adequate notice that dismissal would result from his failure to have counsel. While the matter was pending on appeal, the relator retained counsel. The Ninth Circuit allowed the trial court to reconsider and vacate its prior order of dismissal. Recently, the Ninth Circuit has issued rulings dismissing the pending appeals and granting remand to the trial court. The parties anticipate further proceedings on the merits of the case in the trial court that should lead to a final adjudication.

(18) Asbestos Removal Liabilities

The Port acquired the U.S. Customs House property on Terminal Island from the U.S. General Services Administration in 2005. The Port is aware of the fact that the U.S. Customs House facility is in need of asbestos abatement. The estimate for removal of asbestos materials and lead-based paint materials is \$3,000,000. The Port would incur these asbestos removal costs if the Port's future use of the site requires demolition of the existing structure. Development of the site would require future Board action and approval. The Port has accrued the \$3,000,000 asbestos removal liability in the financial statements as of June 30, 2008 and 2007.

(19) Westway Terminal Co., Inc. Settlement Agreement

Westway operates a marine liquid bulk terminal at the Port under a permit that expires in March 2025. On August 21, 2007, the City of Los Angeles approved the Port's Settlement Agreement, Mutual Release and Compromise, and Permit Termination Agreement with Westway. Under the settlement, Westway's permit will be early terminated and Westway will vacate and surrender the premises on or before February 23, 2009. Within 30 days after the vacate and surrender date, the Port will pay Westway \$17 million, less any applicable charges, as settlement payment. On August 21, 2007, the City (Port) assumed responsibility for the cleanup and abatement order that the Regional Water Quality Control Board had issued to Westway. On and after the vacate and surrender date, the City (Port) will assume responsibility for all claims, demands and damages related to the environmental conditions. Estimate of costs for any clean up and abatement of the property has not been determined.

Westway Terminal vacated the San Pedro premises effective September 15, 2008. In accordance with the terms of the Settlement Agreement, the Port wired the \$17 million to the account of Westway Terminal on October 2, 2008, within 30 calendar days after the Vacate and Surrender Date. This amount was accrued as of June 30, 2008.

(20) Subsequent Events

(a) Cash Funding of Reserve Fund

As of June 30, 2008, the Department had \$767,250,000 of outstanding parity bonds. Each Indenture for the outstanding bonds requires the Department to establish a reserve fund and authorizes the Department to obtain one or more reserve sureties in lieu of fully funding the reserve fund with cash. Three bond insurers (Ambac, FGIC and MBIA) provide the reserve sureties for the Department's outstanding bonds.

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Until December 2007, these three bond insurers maintained “AAA” ratings from the three rating agencies: Fitch, Moody’s, and Standard & Poor’s (S&P). Starting in January 2008, the rating agencies began downgrading the bond insurers. The Department filed material event notices as part of its continuing disclosure undertakings subsequent to each of the related downgrades or placements on negative outlook.

The downgrade of MBIA by S&P on June 5, 2008 triggered certain specific requirements in compliance with the 2005/2006 indenture. The Department opted to cash fund its reserve funds in order to comply with its bond covenants. In so doing, the Board of Harbor Commissioners on September 18, 2008 approved the one-time cash funding of the entire reserve requirement of \$61,519,938 to be transferred from the Harbor Emergency Fund (Fund 751) to the Department’s bond trustee prior to December 2008.

(b) Financial Market Volatility

Subsequent to June 30, 2008, investment market conditions have resulted in an unusually high degree of volatility and increased risks associated with certain investments held by the City of Los Angeles that could impact the value of investments after the date of this financial statements. The Port has proportionate share in the City Treasurer’s General Investment Pool, which is managed by the City Treasurer according to their investment policies. The future potential adverse impact of the economic downturn on the market value of these pool investments will be determined by the changes in the fair market value of the City Treasurer’s General Investment Pool with the Port’s proportionate share. The impact of these future events cannot be determined at this time.

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Required Supplemental Information (Unaudited)

Schedules of Funding Progress

June 30, 2008

(1) Los Angeles City Employees' Retirement System (LACERS)

a) Retirement Plan

Based upon available data, the following represents the LACERS Schedule of Funding Progress, separate information for the Port is not available (dollars in thousands):

**Retirement Plan
Schedule of Funding Progress
(in thousands)**

Valuation date (June 30)	Actuarial accrued liability (AAL)	Actuarial value of assets	Unfunded AAL	Funded ratio	Covered payroll	Unfunded AAL as a % of covered payroll
2006	\$9,870,662	\$ 7,674,999	\$(2,195,663)	77.8%	\$1,733,340	(126.7)%
2007	10,526,874	8,599,700	(1,927,174)	81.7%	1,896,609	(101.6)%
2008	11,186,404	9,438,318	(1,748,086)	84.4%	1,977,645	(88.4)%

b) Other Postemployment Benefits (OPEB)

Based upon available data, the following represents the LACERS Schedule of Funding Progress for the OPEB Plan, separate information for the Port is not available (dollars in thousands):

**Other Postemployment Benefits Healthcare Plans
Schedule of Funding Progress
(in thousands)**

Valuation date (June 30)	Actuarial accrued liability (AAL)	Actuarial value of assets	Unfunded AAL	Funded ratio	Covered payroll	Unfunded AAL as a % of covered payroll
2006	\$ 1,730,799	\$ 990,270	\$ (740,529)	57.2%	\$1,733,340	(42.7)%
2007	1,730,400	1,185,544	(544,856)	68.5%	1,896,609	(28.7)%
2008	1,928,043	1,342,920	(585,123)	69.7%	1,977,645	(29.6)%

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Required Supplemental Information (Unaudited)

Schedules of Funding Progress

June 30, 2008

(2) Los Angeles Fire and Police Pensions (LAFPP)

a) Retirement Plan

Based upon available data, the following represents the LAFPP Schedule of Funding Progress, separate information for the Port is not available (dollars in thousands):

**Retirement Plan
Schedule of Funding Progress
(in thousands)**

<u>Valuation date (June 30)</u>	<u>Actuarial accrued liability (AAL)</u>	<u>Actuarial value of assets</u>	<u>Unfunded AAL</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>Unfunded AAL as a % of covered payroll</u>
2006	\$12,811,384	\$ 12,121,403	\$ (689,981)	94.6%	\$1,092,815	(63.1)%
2007	13,324,089	13,215,668	(108,421)	99.2%	1,135,592	(9.5)%
2008	14,279,116	14,153,296	(125,820)	99.1%	1,206,589	(10.4)%

b) Other Postemployment Benefits Healthcare Plans

Based upon available data, the following represents the LAFPP Schedule of Funding Progress for the OPEB Plan, separate information for the Port is not available (dollars in thousands):

**Other Postemployment Benefits Healthcare Plans
Schedule of Funding Progress
(in thousands)**

<u>Valuation date (June 30)</u>	<u>Actuarial accrued liability (AAL)</u>	<u>Actuarial value of assets</u>	<u>Unfunded AAL</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>Unfunded AAL as a % of covered payroll</u>
2006	\$ 1,631,187	\$ 613,782	\$(1,017,405)	37.6%	\$1,092,814	(93.1)%
2007	1,656,653	687,096	(969,557)	41.5%	1,135,592	(85.4)%
2008	1,836,840	767,647	(1,069,193)	41.8%	1,206,589	(88.6)%

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Capital Development Program Budget

Fiscal Year 2008/2009

(In thousands of dollars)

Project description	Estimated expenditure
Terminal Improvements, General	\$ 143
Minor Capital Projects	1,650
POLA Administrative Building Modifications	3,380
Environmental Assessment & Remediation	2,093
World Cruise Center - General Improvements	8,413
Berth 161 - Maintenance - Yard Improvements	2,682
Wilmington Waterfront	25,436
Berths 97-115 Redevelopment	1,955
West Channel Cabrillo Beach Recreation Complex - Phase II	14,076
Harry S. Bridges Blvd. Improvement	2,745
Berths 142-147 Terminal Redevelopment	18,119
Pier 300 - Wharf & Backland Improvements	12,451
Berths 225-236 Container Terminal Redevelopment	830
Main Channel Deepening	583
Pier A Street Yard Redevelopment	201
Berths 115-131 Redevelopment	2,146
Waterfront Red Car Line	698
Berths 212-225 Backland Development	3,353
Harbor Wide Beautification Projects	363
San Pedro Waterfront Project - San Pedro Waterfront	14,877
San Pedro Waterfront Project - Cabrillo Beach Improvements	8,330
Port-Wide Transportation Improvements	6,520
B. 206-211 Redevelopment	402
Pacific Energy Liquid Bulk Terminal	1,216
Port Security	18,059
LA Port Police Headquarters	23,599
San Pedro Waterfront Project - B. 46-72 Warehouse District	2,145
San Pedro Waterfront Project - B. San Pedro Downtown Harbor	2,562
San Pedro Waterfront Project - B. 73 Fisherman's Wharf	1,102
San Pedro Waterfront Project - Ports-O-Call	1,660
Alternative Maritime Power Port-wide	24,144
B. 258 - 269 (Fish Harbor) Rehabilitation	2,580
Intermodal Container Transfer Facility (ICTF) South	446
San Pedro Slip Improvements	1,971
B. 191-194 Improvements	915
Marine Oil Terminal Engineering	8,452
POLA Tree Planting Program	192
Port-Wide Solar Panel Program	13,506
B. 45-50 - Outer Harbor	2,165
Supplemental Eng./Arch.Services	28,343
Total Estimated Capital Improvement Program Cost	\$ <u>264,503</u>

**PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE
CITY OF LOS ANGELES),
A COMPONENT UNIT OF THE
CITY OF LOS ANGELES, CALIFORNIA**

Schedule of Net Assets by Components

Last Ten Fiscal Years

(Unaudited)

(In thousands of dollars)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Net assets:										
Invested in capital assets, net of related debt	\$ 1,299,889	1,347,288	1,446,072	1,682,470	1,786,780	1,853,776	1,890,002	1,854,468	1,931,037	1,985,653
Restricted	197	204	29	195	95	17	16	63,917	62	9
Unrestricted	<u>206,269</u>	<u>238,278</u>	<u>299,319</u>	<u>179,093</u>	<u>143,921</u>	<u>157,833</u>	<u>216,678</u>	<u>282,922</u>	<u>406,770</u>	<u>491,381</u>
Total net assets	<u>\$ 1,506,355</u>	<u>1,585,770</u>	<u>1,745,420</u>	<u>1,861,758</u>	<u>1,930,796</u>	<u>2,011,626</u>	<u>2,106,696</u>	<u>2,201,307</u>	<u>2,337,869</u>	<u>2,477,043</u>

**PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE
CITY OF LOS ANGELES),
A COMPONENT UNIT OF THE
CITY OF LOS ANGELES, CALIFORNIA**

Schedule of Key Information on Revenue Statistics

Last Ten Fiscal Years

(Unaudited)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Rates:										
General cargo tariff rate	\$ 5.15	5.67	5.67	5.67	5.95	5.95	5.95	6.25	6.25	6.25
Basic dockage (600')	2,033	2,236	2,236	2,236	2,236	2,348	2,348	2,465	2,465	2,465
Required rate of return	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%
Containerized cargo volume (in millions of TEUs)	3.51	4.37	4.99	5.63	6.70	7.35	7.27	7.80	8.66	8.08
Revenue tons (million):										
General cargo	66.8	81.9	97.6	107.1	131.9	146.3	145.0	155.2	171.9	161.9
Liquid bulk	10.2	12.5	10.9	12.9	11.4	11.9	12.8	22.8	15.4	6.2
Dry bulk	5.1	7.1	5.4	6.2	4.2	3.9	4.3	3.6	2.8	1.9
Total	<u>82.1</u>	<u>101.5</u>	<u>113.9</u>	<u>126.2</u>	<u>147.5</u>	<u>162.1</u>	<u>162.1</u>	<u>181.6</u>	<u>190.1</u>	<u>170.0</u>
Vessel arrivals	2,683	3,060	2,899	2,778	2,845	2,812	2,646	2,771	2,920	2,467
Cruise passengers	998,086	1,110,053	1,073,357	1,099,552	1,057,293	803,308	1,097,204	1,205,947	1,194,984	1,191,449
Vehicles	272,348	388,619	312,248	314,986	347,067	213,933	242,024	232,149	144,068	185,978

**PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE
CITY OF LOS ANGELES),
A COMPONENT UNIT OF THE
CITY OF LOS ANGELES, CALIFORNIA**

Summary of Revenues, Expenses, and Changes in Net Assets

Last Ten Fiscal Years

(Unaudited)

(In thousands of dollars)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Operating revenues:										
Shipping services	\$ 171,798	208,436	232,749	248,624	281,700	293,977	315,615	353,390	369,972	374,878
Rentals	37,494	35,594	36,554	34,691	36,563	33,261	34,630	33,876	40,322	45,524
Royalties, fees, and other operating revenues	3,329	5,059	4,195	5,362	5,013	5,016	5,384	4,893	6,867	5,943
Total operating revenues	212,621	249,089	273,498	288,677	323,276	332,254	355,629	392,159	417,161	426,345
Operating and administrative expenses:										
Salaries and benefits	39,863	35,274	39,554	40,682	44,427	53,165	58,182	65,705	74,313	95,444
Marketing and public relations	1,648	2,229	2,385	3,064	3,654	3,769	3,455	3,333	4,521	5,274
Travel and entertainment	567	557	716	713	658	758	743	822	604	1,128
Outside services	13,339	12,715	16,583	21,468	21,971	32,104	39,672	33,673	33,277	37,937
Material and supplies	3,373	3,069	3,108	3,508	3,771	4,682	5,320	5,400	5,813	8,950
City services and payments	20,574	22,961	20,395	19,210	18,525	18,729	22,361	20,821	28,640	27,101
Other operating expenses	7,549	7,189	7,275	10,632	55,409	16,967	41,158	54,378	16,607	45,918
Total operating and administrative expenses	86,913	83,994	90,016	99,277	148,415	130,174	170,891	184,132	163,775	221,752
Income from operations before depreciation	125,708	165,095	183,482	189,400	174,861	202,080	184,738	208,027	253,386	204,593
Depreciation	56,081	56,205	63,187	59,680	59,365	67,934	70,040	98,779	88,106	78,295
Operating income	69,627	108,890	120,295	129,720	115,496	134,146	114,698	109,248	165,280	126,298
Nonoperating revenues/(expenses):										
Income from investments in JPAs and other entities	1,662	2,146	4,485	4,912	3,717	2,795	3,543	4,302	4,675	4,440
Interest and investment income	11,041	12,432	20,092	11,003	11,430	2,298	7,266	9,582	23,773	34,863
Interest expense	(36,611)	(37,300)	(45,983)	(47,555)	(44,293)	(43,034)	(42,279)	(37,787)	(50,038)	(38,052)
Other income and expenses, net	(2,873)	(2,716)	(1,146)	(1,123)	(18,698)	(13,724)	11,842	7,222	11,018	(2,536)
Net nonoperating expenses	(26,781)	(25,438)	(22,552)	(32,763)	(47,844)	(51,665)	(19,628)	(16,681)	(10,572)	(1,285)
Income before capital contributions	42,846	83,452	97,743	96,957	67,652	82,481	95,070	92,567	154,708	125,013
Capital contributions	5,582	2,809	7,500	17,203	1,386	867	—	2,044	4,145	14,161
Special item	—	—	61,752	2,178	—	—	—	—	(22,291)	—
Deletions of capital contribution	(17,378)	(6,846)	(7,345)	—	—	(2,518)	—	—	—	—
Changes in net assets	31,050	79,415	159,650	116,338	69,038	80,830	95,070	94,611	136,562	139,174
Total net assets – beginning of year	1,475,305	1,506,355	1,585,770	1,745,420	1,861,758	1,930,796	2,011,626	2,106,696	2,201,307	2,337,869
Total net assets – end of year	\$ 1,506,355	1,585,770	1,745,420	1,861,758	1,930,796	2,011,626	2,106,696	2,201,307	2,337,869	2,477,043

See accompanying independent auditors' report.

**PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE
CITY OF LOS ANGELES).
A COMPONENT UNIT OF THE
CITY OF LOS ANGELES, CALIFORNIA**

Schedule of Revenue Tonnage by Trade Routes

Last Ten Fiscal Years

(Unaudited)

(In thousands of metric revenue tons)

Trade routes	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Far East	61,140	73,707	83,727	102,482	131,304	143,005	142,385	151,971	166,277	158,442
Domestic	9,770	9,905	9,465	10,979	10,171	8,808	8,408	15,941	9,750	4,899
Australia and New Zealand	2,629	2,797	2,755	3,233	3,004	3,649	3,716	4,204	4,577	2,203
Western Mexico, Central and Western S. America	3,317	2,960	3,185	2,332	2,246	2,077	1,797	1,360	1,586	1,311
India, Persian Gulf, and Red Sea	4,610	5,485	2,225	2,614	1,970	1,795	1,888	2,502	2,258	1,455
Eastern South America	722	1,665	1,009	1,665	988	754	1,099	1,409	800	542
Western Europe	1,727	1,496	1,953	1,671	882	960	1,128	1,752	1,642	339
Caribbean	853	930	860	676	612	1,102	1,369	1,432	1,273	906
Mediterranean	593	560	148	206	159	157	151	227	165	208
Africa	19	31	88	77	94	54	188	25	28	37
Advance Wharfage and Accruals	(3,252)	1,973	8,539	(2,523)	(3,887)	(292)	(20)	811	1,749	(371)
Total	82,128	101,509	113,954	123,412	147,543	162,069	162,109	181,634	190,105	169,971
Percentage of total volume										
Trade routes	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Far East	74.4%	72.6%	73.5%	83.0%	89.0%	88.2%	87.8%	83.7%	87.5%	93.2%
Domestic	11.9%	9.8%	8.3%	8.9%	6.9%	5.4%	5.2%	8.8%	5.1%	2.9%
Australia and New Zealand	3.2%	2.8%	2.4%	2.6%	2.0%	2.3%	2.3%	2.3%	2.4%	1.3%
Western Mexico, Central and Western S. America	4.0%	2.9%	2.8%	1.9%	1.5%	1.3%	1.1%	0.7%	0.8%	0.8%
India, Persian Gulf, and Red Sea	5.6%	5.4%	2.0%	2.1%	1.3%	1.1%	1.2%	1.4%	1.2%	0.9%
Eastern South America	0.9%	1.6%	0.9%	1.3%	0.7%	0.5%	0.7%	0.8%	0.4%	0.3%
Western Europe	2.1%	1.5%	1.7%	1.4%	0.6%	0.6%	0.7%	1.0%	0.9%	0.2%
Caribbean	1.0%	0.9%	0.8%	0.5%	0.4%	0.7%	0.8%	0.8%	0.7%	0.5%
Mediterranean	0.7%	0.6%	0.1%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Africa	0.0%	0.0%	0.1%	0.1%	0.1%	0.0%	0.1%	0.0%	0.0%	0.0%
Advance Wharfage and Accruals	(4.0)%	1.9%	7.5%	(2.0)%	(2.6)%	(0.2)%	(0.0)%	0.4%	0.9%	(0.2)%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

See accompanying independent auditors' report.

**PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE
CITY OF LOS ANGELES),
A COMPONENT UNIT OF THE
CITY OF LOS ANGELES, CALIFORNIA**

Summary of Debt Service Coverage (Pledged Revenue)

Last Ten Fiscal Years

(Unaudited)

(In thousands of dollars)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Operating revenues (1)	\$ 212,621	249,089	273,498	288,677	323,276	332,254	355,629	392,159	417,161	426,345
Operating expenses (2)	86,913	83,994	90,016	99,277	148,415	130,174	170,891	184,132	163,775	221,752
Net available revenue (3) = (1) – (2)	125,708	165,095	183,482	189,400	174,861	202,080	184,738	208,027	253,386	204,593
Debt service, revenue bonds	53,343	53,336	53,333	54,310	54,097	57,994	58,515	58,673	71,117	61,321
Debt service, commercial papers				—	988	1,029	2,021	3,431	792	—
Total debt service (4)	\$ 53,343	53,336	53,333	54,310	55,085	59,023	60,536	62,104	71,909	61,321
Coverage (5) = (3) / (4)	2.4	3.1	3.4	3.5	3.2	3.4	3.1	3.3	3.5	3.3
Net cash flow from operations (6)	\$ 136,803	167,228	200,342	176,083	215,117	208,762	226,037	201,575	246,665	252,898
Coverage (7) = (6) / (4)	2.6	3.1	3.8	3.2	3.9	3.5	3.7	3.2	3.4	4.1

(1) Operating revenues do not include income from investment and other nonoperating revenues.

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

Debt service includes principal and interest payments on issued bonds as well as on commercial paper notes, which are debts backed by pledged-revenue.

Debt service does not include loans from the California Department of Boating and Waterways, which are not backed by pledged-revenue.

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

**PORT OF LOS ANGELES
(HARBOR DEPARTMENT OF THE
CITY OF LOS ANGELES),
A COMPONENT UNIT OF THE
CITY OF LOS ANGELES, CALIFORNIA**

Highlights of Operating Information

Last Ten Fiscal Years

(Unaudited)

(In millions of dollars)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Cash:										
Cash balance – Harbor revenue fund	\$ 192.6	201.6	246.4	74.2	84.5	117.3	211.2	256.3	380.1	488.9
Cash balance – Restricted	73.5	73.5	82.7	87.2	97.1	107.3	122.4	201.3	158.3	168.3
Property:										
Total property	\$ 2,576.8	2,675.5	2,810.9	3,120.2	3,346.0	3,471.4	3,556.1	3,664.0	3,720.4	3,816.7
Allowance for depreciation	480.1	535.0	594.0	653.4	711.8	764.2	833.7	931.3	994.0	1,058.2
Net property	<u>\$ 2,096.7</u>	<u>2,140.5</u>	<u>2,216.9</u>	<u>2,466.8</u>	<u>2,634.2</u>	<u>2,707.2</u>	<u>2,722.4</u>	<u>2,732.7</u>	<u>2,726.4</u>	<u>2,758.5</u>
Construction and maintenance:										
Additions to properties	\$ 0.3	542.3	154.2	330.4	227.8	208.0	85.3	109.3	104.2	117.7
Maintenance expenses	12.3	13.1	12.4	13.4	15.2	17.4	18.4	21.0	23.5	28.1
Employees:										
Salaries	\$ 38.5	37.5	39.0	41.2	43.9	48.9	53.0	56.9	64.9	75.9
Number of employees	577	541	542	557	594	634	659	706	737	850

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APPENDIX B

CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES

The following information has been provided to the Department by the City of Los Angeles. Table numbers in this Appendix B are presented as provided in the information provided by the City of Los Angeles and therefore may not be consecutive. 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 TV 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 extent of the current economic recession.

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	4,065,585	1.07%	10,393,185	0.89%	38,292,687	1.08%

⁽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 May 2009 of 11.2% statewide, 11.4% for Los Angeles County, and 12.5% 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>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
City of Los Angeles					
Employed	1,730,400	1,769,000	1,785,300	1,786,600	1,777,800
Unemployed	<u>137,300</u>	<u>113,300</u>	<u>103,100</u>	<u>128,000</u>	<u>161,600</u>
Total	1,867,700	1,882,300	1,888,400	1,914,600	1,939,400
County of Los Angeles					
Employed	4,454,100	4,552,800	4,613,200	4,662,700	4,598,300
Unemployed	<u>310,400</u>	<u>257,100</u>	<u>231,300</u>	<u>249,900</u>	<u>373,800</u>
Total	4,764,600	4,810,000	4,844,500	4,912,600	4,972,000
Unemployment Rates					
City	7.4%	6.0%	5.5%	6.7%	8.3%
County	6.5%	5.3%	4.8%	5.1%	7.5%
State	6.2%	5.4%	4.9%	5.4%	10.1%
United States	5.5%	5.1%	4.8%	4.6%	7.6%

⁽¹⁾ March 2008 Benchmark; not seasonally adjusted. The “Benchmark” data is typically released in March for the prior calendar year.

Source: California Employment Development Department, Labor Market Information Division for the State and County; U.S. Bureau of Labor, Department of Labor Statistics for the 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 2008, employing 19.7% of wage and salary workers. Government, at 14.8%, is the second highest employment sector in the County, followed by Professional and Business Services, which employs 14.3% of wage and salary workers.

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

	County				State of California	
	<u>2000</u>	% of <u>Total</u>	<u>2008⁽²⁾</u>	% of <u>Total</u>	<u>April 2009⁽³⁾</u>	% of <u>Total</u>
Agricultural	8,400	0.2%	6,900	0.2%	384,500	2.6%
Natural Resources and Mining	3,800	0.1	4,400	0.1	28,100	0.2
Construction	136,800	3.4	145,100	3.6	665,000	4.5
Manufacturing	577,900	14.2	433,800	10.6	1,324,100	8.9
Trade, Transportation & Utilities	789,800	19.3	804,000	19.7	2,701,000	18.3
Information	226,300	5.5	211,300	5.2	454,100	3.1
Financial Activities	228,900	5.6	235,400	5.8	808,900	5.5
Professional and Business Services	588,000	14.4	584,100	14.3	2,141,700	14.5
Educational and Health Services	432,200	10.6	501,500	12.3	1,745,000	11.8
Leisure and Hospitality	348,500	8.5	399,500	9.8	1,519,000	10.3
Other Services	143,200	3.5	146,500	3.6	503,800	3.4
Government	<u>598,300</u>	<u>14.7</u>	<u>603,700</u>	<u>14.8</u>	<u>2,520,700</u>	<u>17.0</u>
Total	4,082,000	100.0%	4,076,200	100.0%	14,795,900	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 2008 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⁾ April 2009 preliminary information, based on March 2008 Benchmark.

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 14.8% 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	36,500
Northrop Grumman Corp.	Defense contractor	20,500
Bank of America Corp.	Banking and financial services	17,442
Boeing Co.	Integrated aerospace and defense systems	15,250
Kroger Co.	Grocery retailer	14,000
Target Corp.	Retailer	12,600
University of Southern California	Private university	12,498
Vons	Grocery retailer	10,981
The Home Depot	Home improvement specialty retailer	10,450
Cedars-Sinai Medical Center	Medical center	9,878
AT&T Inc.	Telecommunications	9,270
Wells Fargo	Diversified financial services	9,029
ABM Industries Inc.	Facility services, janitorial, parking, security, engineering and lighting	9,000
California Institute of Technology	Private university, operator of Jet Propulsion Laboratory	8,607
Providence Health & Services	Trauma care, acute medical, surgical, transition care	7,600
Catholic Healthcare West	Hospitals	7,300
Amgen Inc.	Biotechnology	6,800
Long Beach Memorial Medical Center	Regional hospital	5,340
UPS	Transportation and freight	5,100
Toyota Motor Sales USA Inc.	Sales, distribution and customer service arm of Toyota, Lexus and Scion	4,515
Lockheed Martin Corp.	Aerospace and defense contracting	4,500
Washington Mutual	Banking and financial services	4,400
Adventist Health	Hospitals	4,175
Childrens Hospital Los Angeles	Hospital	4,057
Jack in the Box Inc.	Operates and franchises restaurants	3,076

Source: Los Angeles Business Journal, "The Lists 2009"; from the August 25, 2008 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 for calendar years 2003 through 2008.

Table 5
COUNTY, STATE AND U.S.
PERSONAL INCOME
Calendar Years 2003 Through 2008

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	n/a	n/a
-State	\$ 1,569,370,000	\$42,696
-United States	12,086,534,000	39,751

*Preliminary personal income data and per capital personal income data for the County level is not expected to be released until April 2010.

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

Retail Sales

As the largest city in the County, the City accounted for \$40.1 billion (or 29.12%) of the total \$137.8 billion in County taxable sales for 2007. Table 6 sets forth a history of taxable sales for the City for calendar years 2004 through 2007, 2007 being the last full year for which data is currently available.

Because of a lag in information regarding taxable sales, the City does not yet know the extent to which the recession has affected taxable sales. A preliminary report from the California State Board of Equalization indicates that taxable sales in the first quarter of 2009 were 16.5% below the same period a year ago.

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

	<u>Annual</u>				<u>Quarter</u>	
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>1Q 2007</u>	<u>1Q 2008</u>
Apparel stores	\$ 1,574,342	\$ 1,707,160	\$ 1,798,035	\$ 1,897,411	\$ 449,355	\$ 410,317
General merchandise stores	3,525,399	3,720,692	3,932,407	3,952,550	923,923	860,320
Food stores	1,580,936	1,682,668	1,736,111	1,834,470	416,826	448,743
Eating and drinking establishments	4,579,413	4,943,745	5,282,931	5,632,290	1,363,565	1,411,421
Home furnishings and appliances	1,268,561	1,301,546	1,300,167	1,294,546	317,930	287,793
Building materials and farm implements	2,339,085	2,436,987	2,430,287	2,252,227	562,538	500,283
Auto dealers and auto supplies	4,034,474	4,187,135	4,158,144	4,077,852	1,041,045	917,336
Service stations	3,351,708	3,872,089	4,292,157	4,494,346	975,044	1,220,187
Other retail stores	<u>4,759,013</u>	<u>4,860,849</u>	<u>5,002,642</u>	<u>5,070,023</u>	<u>1,202,366</u>	<u>1,136,484</u>
Retail stores total	27,012,931	28,712,871	29,932,881	30,505,725	7,252,592	7,192,884
All other outlets ⁽¹⁾	<u>8,412,414</u>	<u>8,781,680</u>	<u>9,440,519</u>	<u>9,626,679</u>	<u>2,320,119</u>	<u>2,359,801</u>
TOTAL ALL OUTLETS	\$35,425,345	\$37,494,551	\$39,373,400	\$40,132,404	\$ 9,572,711	\$ 9,552,685

⁽¹⁾ Primarily manufacturing and wholesale businesses.

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>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Valuation ⁽¹⁾					
Residential ⁽²⁾	\$ 1,816	\$ 1,789	\$ 2,435	\$ 2,079	\$ 1,280
Miscellaneous ⁽³⁾	<u>38</u>	<u>71</u>	<u>79</u>	<u>4</u>	<u>17</u>
Total Valuation	\$ 1,854	\$ 1,860	\$ 2,514	\$ 2,083	\$ 1,297
Number of Units:					
Single family ⁽⁴⁾	1,779	2,099	2,419	2,032	1,070
Multi-family ⁽⁵⁾	<u>9,658</u>	<u>7,673</u>	<u>11,752</u>	<u>7,724</u>	<u>5,333</u>
Subtotal Residential	11,437	9,772	14,171	9,756	6,403
Miscellaneous ⁽⁶⁾	<u>675</u>	<u>1,433</u>	<u>1,201</u>	<u>746</u>	<u>278</u>
Total Units	12,112	11,205	15,372	10,502	6,681

⁽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

⁽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.

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.

Table 9 provides a summary of the Average Daily Attendance (“ADA”) of grades K-12 students for the LAUSD.

Table 9
LOS ANGELES UNIFIED SCHOOL DISTRICT
AVERAGE DAILY ATTENDANCE

<u>Fiscal Year Ending June 30</u>	<u>Average Daily Attendance⁽¹⁾</u>
2005	746,605
2006	722,564
2007	710,770
2008	710,415
2009 (Budgeted)	697,025

⁽¹⁾ Includes students in Adult Education Program and District Charter Schools.

Source: Los Angeles Unified School District.

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.

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 Council. The Mayor is elected at-large for a four-year term. As executive officer of the City, the Mayor has the overall responsibility for administration of the City. The Mayor recommends and submits the annual budget to the Council and passes upon subsequent appropriations and transfers, approves or vetoes ordinances, and appoints certain City officials and commissioners. He supervises the administrative process of local government and works with the Council in matters relating to legislation, budget, and finance. As prescribed by the Charter and City ordinances, the Mayor operates an executive department, of which he is the ex-officio head. The current Mayor, Antonio R. Villaraigosa, was elected on May 17, 2005 and took office on July 1, 2005. He was re-elected Mayor on March 3, 2009 for a second 4-year term.

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

The other two elective offices of the City are the Controller and the City Attorney, both elected for four-year terms. The Controller is the chief accounting officer for the City. The position is currently occupied by Rushmore D. Cervantes, serving as Acting City Controller. Wendy Greuel has been elected to assume the office as of July 1, 2009. The City Attorney is attorney and legal advisor to the Council and all officers, boards, and departments of the City, and prosecutes misdemeanors. The current City Attorney, Rockard J. Delgadillo, took office on July 1, 2001. He was elected to a second term ending June 30, 2009. Carmen Trutanich was elected to assume the office as of July 1, 2009.

The City Administrative Officer (“CAO”) is the chief fiscal advisor to the Mayor and Council and reports directly to both. Raymond P. Ciranna has been serving as Interim CAO since January 2008. The Mayor has announced the appointment of Miguel Santana as permanent CAO, pending Council confirmation.

The City Treasurer (the “Treasurer”) receives, invests and is the custodian of the City’s funds and those of affiliated entities. The Treasurer also serves as the City’s Investment Officer. The Treasurer is appointed by the Mayor and confirmed by the Council. The current Treasurer is 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 to reduce volatility. With respect to the Pension Systems, if in the period for which an actuarial valuation is prepared the actual investment return on that Pension Systems' 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. The impact of this results in an actuarial valuation of assets that are lower or higher than the market value of assets depending upon whether the remaining amount to be recognized is either a net gain or a net loss.

The current policy of both of the Pension Systems' boards includes 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. The Pension Systems' actuary is currently projecting from 20% to 30% losses for Fiscal Year 2008-09, and 0% gains the following year. Under all of the investment return scenarios considered by the actuary, the AVA would be greater than 120% over the next three years if the corridor limits are not applied. Application of the corridor means that the AVA would be set at 120% of MVA, lower than it would be with full application of five-year smoothing. The City is exploring a number of alternative strategies that might mitigate the anticipated contribution rate increases in the short-run, such as modifying the existing market value corridor policy or extending the smoothing or amortization periods.

Market value investment returns for the past five fiscal years for both of the Pension Systems are shown in Table 33.

Table 33
LOS ANGELES PENSION SYSTEMS
HISTORICAL MARKET VALUE INVESTMENT RETURNS

	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>
LACERS	18.84%	9.71%	12.34%	19.13%	(5.78%)
FPPP	17.48%	9.83%	12.40%	18.25%	(5.01%)

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, 2008, LACERS had 30,236 active members, 14,975 retired members and beneficiaries, and 4,273 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 liabilities over 30 years beginning July 1, 2005.

Table 34 shows the present value of retirement 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, 2008, the date of the most recent actuarial valuation, the market value of assets was \$433.6 million less than the actuarial value. LACERS has experienced significant additional investment losses since its last valuation. For planning purposes, the City is assuming 25% market losses.

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>
2004	\$7,042,108	\$ 8,533,864	\$1,491,756	82.5%	\$1,575,285	94.7%
2005	7,193,142	9,321,525	2,128,383	77.2	1,589,306	133.9
2006	7,674,999	9,870,662	2,195,663	77.8	1,733,340	126.7
2007	8,599,700	10,526,874	1,927,174	81.7	1,896,609	101.6
2008	9,438,313	11,186,404	1,748,085	84.4	1,977,645	88.4

⁽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, 2008.

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>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
Sources of Contributions					
Contributions for Council-Controlled Departments	\$183,786	\$260,554	\$342,993	\$338,914	\$312,658
Airport and Harbor Departments	<u>27,996</u>	<u>43,706</u>	<u>50,317</u>	<u>58,542</u>	<u>60,729</u>
Total	\$211,782	\$304,260	\$393,310	\$397,456	\$373,387
Percent of payroll	14.3%	19.0%	23.9%	22.8%	20.17%
Uses of Contributions					
Current Service Liability (Normal cost)	\$161,077	\$162,526	\$220,242	\$226,441	\$237,183
UAAL/(Surplus)	50,244	141,332	172,506	170,527	135,691
Adjustments ⁽²⁾	<u>461</u>	<u>402</u>	<u>562</u>	<u>488</u>	<u>513</u>
Total	\$211,782	\$304,260	\$393,310	\$397,456	\$373,387

⁽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 assume losses of 25% in investment return for Fiscal Year 2008-09, 0% 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. The City is considering other funding methodologies to mitigate the short-term impact of these investment losses.

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>2012-2013</u>
LACERS				
Contributions for Council-Controlled Departments ⁽¹⁾	<u>\$298,215</u>	<u>\$459,628</u>	<u>\$538,259</u>	<u>\$556,037</u>
Incremental Change	(14,442)	161,413	78,631	17,778

⁽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, 2008, the FPPP had 13,495 active members, 12,182 retired members and beneficiaries, and 81 vested former members. The FPPP is funded pursuant to the Entry Age

Normal Funding 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.

Table 37 shows the present value of retirement 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 five-year period. As of June 30, 2008, the date of the most recent actuarial valuation, the market value of assets was \$563.8 million less than the actuarial value. FPPP has experienced significant additional investment losses since its last valuation. For planning purposes, the City is assuming 25% market losses.

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⁾
2004	\$11,735,696	\$11,389,981	\$(345,715)	103.0%	\$1,001,004	(34.5)%
2005	11,634,114	12,357,524	723,411	94.1	1,037,445	69.7
2006	12,121,403	12,811,834	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

⁽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 Valuation as of June 30, 2008.

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>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
General Fund	\$167,756	\$176,001	\$279,721	\$327,089	\$325,615
Percent of payroll	15.9%	15.1%	24.8%	28.9%	26.23%
Current Service Liability	\$183,071	180,018	\$211,402	\$249,955	\$272,691
UAAL/(Surplus)	(24,183)	(13,561)	67,707	76,701	52,801
Adjustments ⁽¹⁾	668	544	612	433	123
Tier 5 Current Service Liability ⁽²⁾	<u>8,200</u>	<u>9,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$167,756</u>	<u>\$176,001</u>	<u>\$279,721</u>	<u>\$327,089</u>	<u>\$325,615</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 assume losses of 25% in investment return for Fiscal Year 2008-09, 0% 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 five-year asset smoothing period. The City is considering other funding methodologies to mitigate the short-term impact of these investment losses.

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

	Adopted Budget <u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
General Fund	\$355,308	\$634,046	\$746,388	\$757,710
Incremental Change	\$26,693	\$278,758	\$112,342	\$11,322

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 and 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 interim 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 in both of the projected fiscal 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, these

budgets will be balanced through some combination of revenue increases, expenditure reductions, and transfers from reserves as required by the City's Charter.

The Budget Outlook currently illustrates that, if currently projected investment assumptions materialize, and absent changes to the City's contribution methodology, 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. 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).

The City is 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.

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

For additional information, see Note 5 in the "Notes to the City's Basic Financial Statements Fiscal Year Ended June 30, 2008." Various reports for LACERS and FPPP are posted from time to time on the City's website, at http://www.lacers.org/AboutLACERS/_FormsPublications/Reports/index.htm and <http://www.lafpp.com/LAFPP/index.html>, respectively. Such reports are not incorporated as part of this Official Statement.

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, 2008, 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>2004</u> ⁽¹⁾	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Actuarial Valuation of Assets	\$ 858,997	\$ 893,378	\$ 990,270	\$1,185,544	\$1,342,920
Actuarial Accrued Liability	1,419,813	1,718,899	1,730,799	1,730,400	1,928,042
Unfunded (Overfunded) Actuarial Accrued Liability	560,816	825,521	740,529	544,856	585,123
Funded Ratio	60.5%	52.0%	57.2%	68.5%	69.7%

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

Source: The City of Los Angeles City Employees' Retirement System Actuarial Valuation as of June 30, 2008.

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

<u>As of June 30</u>	<u>2004</u> ⁽¹⁾	<u>2005</u> ⁽¹⁾	<u>2006</u>	<u>2007</u>	<u>2008</u>
Actuarial Valuation of Assets	\$ 605,999	\$ 597,199	\$ 613,782	\$ 687,096	\$ 767,648
Actuarial Accrued Liability	1,009,062	1,257,505	1,631,187	1,656,653	1,836,840
Unfunded Actuarial Accrued Liability	403,064	660,306	1,017,405	969,557	1,069,193
Funded Ratio	60.1%	47.5%	37.6%	41.5%	41.8%

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

Source: The Fire and Police Pension System Actuarial Valuation as of June 30, 2008.

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.

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APPENDIX C

BOOK-ENTRY ONLY SYSTEM

Introduction

Unless otherwise noted, the information contained under the subcaption “– General” below has been provided by DTC (as defined below). Neither the Department nor the Trustee makes any representations as to the accuracy or the completeness of such information. The beneficial owners of the Bonds should confirm the following information with DTC, the Direct Participants (as defined below) or the Indirect Participants (as defined below).

NEITHER THE DEPARTMENT NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT; (B) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE BONDS UNDER THE INDENTURE, (C) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE BONDS; (D) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL, PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO THE OWNER OF THE BONDS; (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNERS OF BONDS; OR (F) ANY OTHER MATTER REGARDING DTC.

General

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity of each Series of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest 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. The information contained in such websites is not incorporated by reference herein.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers

of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. The Department will not have any responsibility or obligation to such Direct Participants and Indirect Participants or the persons for whom they act as nominees. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds 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.

Redemption notices shall be sent to DTC. If less than all of the Bonds of a single maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Department 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Department or the trustee 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 nor its nominee, the Trustee or the Department, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption proceeds, distributions, sinking fund and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Department or the trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates will 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, Bond bonds will be printed and delivered to DTC.

No Assurance Regarding DTC Practices

The information under the subcaption "-- General" above concerning DTC and DTC's book-entry system has been obtained from sources that the Department believes to be reliable, but the Department takes no responsibility for the accuracy thereof.

AS LONG AS CEDE & CO. OR ITS SUCCESSOR IS THE REGISTERED HOLDER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE REGISTERED HOLDERS OF THE BONDS SHALL

MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS. Each person for whom a Participant acquires an interest in the Bonds, as nominee, may desire to make arrangements with such Participant to receive a credit balance in the records of such Participant, and may desire to make arrangements with such Participant to have all communications to DTC, which may affect such person, forwarded in writing by such Participant and to receive notification of all interest payments.

THE DEPARTMENT WILL HAVE NO RESPONSIBILITY OR OBLIGATION WITH RESPECT TO THE PAYMENTS TO THE DIRECT PARTICIPANTS, ANY INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS, OR THE PROVISION OF NOTICE TO THE DIRECT PARTICIPANTS, ANY INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO THE BONDS. NO ASSURANCE CAN BE GIVEN BY THE DEPARTMENT THAT DTC, DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR OTHER NOMINEES OF THE BENEFICIAL OWNERS WILL MAKE PROMPT TRANSFER OF PAYMENTS TO THE BENEFICIAL OWNERS, THAT THEY WILL DISTRIBUTE NOTICES RECEIVED AS THE REGISTERED OWNER OF THE BONDS TO THE BENEFICIAL OWNERS, THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC WILL ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.

Risks of Book-Entry System

The Department makes no assurance, and the Department shall incur no liability, regarding the fulfillment by DTC of its obligations under the book-entry system with respect to the Bonds.

In addition, Beneficial Owners of the Bonds may experience some delay in their receipt of distributions of principal of, premium, if any, and interest on, the Bonds since such distributions will be forwarded by the Trustee to DTC and DTC will credit such distributions to the accounts of the Direct Participants which will thereafter credit them to the accounts of the Beneficial Owners either directly or through Indirect Participants.

Since transactions in the Bonds can be effected only through DTC, Direct Participants, Indirect Participants and certain banks, the ability of a Beneficial Owner to pledge Bonds to persons or entities that do not participate in the DTC system, or otherwise to take actions in respect of such Bonds, may be limited due to lack of a physical certificate. Beneficial Owners will not be recognized by the Department as registered owners of the Bonds, and Beneficial Owners will only be permitted to exercise the rights of registered owners indirectly through DTC and its Participants.

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APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain provisions of the Indenture which are not described elsewhere in the Official Statement. This summary does not purport to be comprehensive and reference should be made to the Indenture for a full and complete statement of its provisions. All capitalized terms not defined herein or elsewhere in the Official Statement have the meanings set forth in the Indenture.

DEFINITIONS

Unless the context otherwise requires, the terms defined under this caption will, for all purposes of this Official Statement have the meanings herein specified in the Indenture, to be equally applicable to both the singular and plural forms of any of the terms herein defined.

“Accountant” means any firm of Independent Certified Public Accountants selected by the Department in its sole discretion.

“Agencies” means obligations of any of the following federal agencies which obligations represent full faith and credit of the United States of America, including the Export - Import Bank; Farmers Home Administration; General Services Administration; U.S. Maritime Administration; Small Business Administration; Government National Mortgage Association (GNMA); U.S. Department of Housing & Urban Development (PHA’s); and Federal Housing Administration; and (2) bonds, notes or other evidences of indebtedness rated “AAA” and “Aaa” by S&P and Moody’s, respectively, and the highest rating by Fitch, if Fitch rates such instruments issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation with remaining maturities not exceeding three years.

“Annual Debt Service” means, for any Fiscal Year, the sum of (1) the interest payable on all Parity Obligations in such Fiscal Year, (2) the principal amount or accreted value of all outstanding serial Parity Obligations maturing by their terms in such Fiscal Year, and (3) the principal amount or accreted value of all outstanding term Parity Obligations required to be redeemed or paid in such Fiscal Year.

“Authorized Representative” means with respect to the Department, its Executive Director, Chief Financial Officer, Director of Debt and Treasury or any other person designated as an Authorized Representative of the Department by a Certificate of the Department signed by its Executive Director and filed with the Trustee.

“Average Annual Debt Service” means, as of any date of calculation, the average of Annual Debt Service for all Fiscal Years on all Bonds and Parity Obligations outstanding as of such date.

“Board” means the Board of Harbor Commissioners of the City of Los Angeles.

“Bond Counsel” means a firm of nationally-recognized attorneys experienced in the issuance of tax-exempt obligations the interest on which is excludable from gross income under Section 103 of the Code.

“Bonds” means the Harbor Department of the City of Los Angeles Revenue Bonds, 2009 Series A and 2009 Series B and the Harbor Department of the City of Los Angeles Refunding Revenue Bonds, 2009 Series C.

“Business Day” means (i) a day which is not a Saturday, Sunday or legal holiday on which banking institutions in the State, or in any other state in which the Office of the Trustee is located, are closed or (ii) a day on which the New York Stock Exchange is not closed.

“Certificate,” “Direction,” “Request,” or “Requisition” of the Department mean a written certificate, direction, request or requisition signed in the name of the Department by its Authorized Representative. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined will be read and construed as a single instrument.

“Charter” means the Charter of the City of Los Angeles, effective on July 1, 2000, as the same may be amended or supplemented from time to time.

“City” means the City of Los Angeles, California and its successors and assigns.

“Closing Date” means, with respect to any Series of Bonds, the date on which Bonds of such Series are delivered to the original purchaser thereof.

“Code” means the Internal Revenue Code of 1986, and the regulations issued thereunder, as the same may be amended from time to time, and any successor provisions of law. Reference to a particular section of the Code will be deemed to be a reference to any successor to any such section.

“Common Reserve” means the Reserve Fund established under the Indenture together with all reserve funds established with respect to Parity Obligations which have been designated by the Department to be a part of the Common Reserve in accordance with the Indenture or any Issuing Document for a Common Reserve Parity Obligation.

“Common Reserve Parity Obligation” has the meaning set forth under the caption “REVENUES, FUNDS AND ACCOUNTS; PAYMENT OF PRINCIPAL AND INTEREST – Reserve Fund” in this Appendix D.

“Common Reserve Requirement” means, as of any date of calculation, an amount equal to the least of (a) 125% of average annual principal of and interest on all outstanding Parity Obligations entitled to the benefit of the Common Reserve, determined on a fiscal year basis, (b) the maximum aggregate annual principal of and interest on all outstanding Parity Obligations entitled to the benefit of the Common Reserve, determined on a fiscal year basis, and (c) 10% of the proceeds of all Parity Obligations entitled to the benefit of the Common Reserve; provided, however, that, if, upon issuance of a Parity Obligation entitled to the benefit of the Common Reserve, such amount would require moneys to be credited to the Common Reserve from the proceeds of such Parity Obligations in an amount in excess of the maximum amount permitted under the Code to be funded from the proceeds of tax-exempt bonds, the Common Reserve Requirement will mean an amount equal to the sum of the Common Reserve Requirement immediately preceding issuance of such Parity Obligation and the maximum amount permitted under the Code to be funded from the proceeds of tax-exempt bonds to be deposited therein from the proceeds of such Parity Obligation, as certified in a Certificate of the Department.

“Common Reserve Security Device” will have the meaning set forth under the caption “REVENUES, FUNDS AND ACCOUNTS; PAYMENT OF PRINCIPAL AND INTEREST – Reserve Fund” in this Appendix D.

“Construction Account – 2009 Series A” means the account by that name established pursuant to the Indenture.

“Construction Account – 2009 Series B” means the account by that name established pursuant to the Indenture.

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

“Consultant’s Report” means a report signed by an Independent Financial Consultant or Independent Certified Public Accountant and including (1) a statement that the person or firm making or giving such report has read the pertinent provisions of the Indenture to which such report relates; (2) a brief statement as to the nature and scope of the examination or investigation upon which the report is based; and (3) a statement that, in the opinion of such person or firm, sufficient examination or investigation was made as is necessary to enable said Independent Financial Consultant or Independent Certified Public Accountant to express an informed opinion with respect to the subject matter referred to in the report.

“Continuing Disclosure Certificate” means that certain Continuing Disclosure Certificate executed by the Department dated the date of delivery of the Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Department and related to the authorization, issuance, sale and delivery of the Bonds, including but not limited to costs of preparation and reproduction of documents, printing expenses, filing and recording fees, initial fees and charges of the Trustee and counsel to the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, rating agency fees, title insurance premiums, letter of credit fees, bond insurance premiums and surety bond premiums (if any), fees and charges for preparation, execution and safekeeping of the Bonds and any other cost, charge or fee in connection with the original issuance of the Bonds.

“Costs of Issuance Fund” means the fund by that name established pursuant to the Indenture.

“Council” means the City Council of the City of Los Angeles.

“Debt Service” means, for any period of calculation, the sum of principal of and interest on the Bonds, Parity Obligations and other bonds, notes, certificates and other evidences of indebtedness of the Department and bonds, notes, certificates and other evidences of indebtedness of the City payable or serviced out of the Harbor Revenue Fund (as calculated based on the reasonable assumptions of the Department) on a parity with the Bonds during such period.

“Department” means the Harbor Department of the City of Los Angeles and its successors and assigns.

“Depository” or “DTC” means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York in its capacity as securities depository for the Bonds.

“Director of Debt and Treasury” means the Director of Debt and Treasury of the Department.

“Event of Default” means any of the events specified in the Indenture.

“Federal Securities” means any direct, noncallable general obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America), or noncallable obligations the timely payment of principal of and interest on which are fully and unconditionally guaranteed by the United States of America.

“Fiscal Year” means the twelve-month period beginning on July 1 of each year and ending on the next succeeding June 30, both dates inclusive, or any other twelve-month period hereafter selected and designated as the official fiscal year period of the Department.

“Fitch” means Fitch, Inc., or any successor thereto.

“Governmental Bonds” means the 2009 Series B Bonds.

“Governmental Projects” means improvements, utilities, structures, watercraft, appliances, facilities and services as the Board may deem necessary or convenient for the promotion or accommodation of maritime commerce, navigation or fishery, or for any use in connection therewith, or upon the lands and waters, or interests therein, in the possession and under the management, supervision and control of said Board, or for the payment of the cost of acquiring or taking such real property or any interest therein that the Board may deem necessary or convenient for such purposes. All Governmental Projects (other than projects to the extent the bond-financed cost thereof is not in excess of 10% of the proceeds of the bond issue, or series of bonds, as applicable, from which such costs are financed, net of amounts therefrom deposited in a debt service reserve fund) must not be used in a “private business use” within the meaning of Section 141(b) of the Code and the Treasury Regulations thereunder.

“Harbor District” will have the meaning set forth in the Charter.

“Harbor Revenue Fund” means the Harbor Revenue Fund established pursuant to Section 656(a) of the Charter.

“Indenture” means the Indenture of Trust, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture.

“Independent Certified Public Accountant” means any firm of certified public accountants appointed by the Department, and each of whom is independent pursuant to the Statement on Auditing Standards No. 1 of the American Institute of Certified Public Accountants.

“Independent Financial Consultant” means a financial consultant or firm of such consultants appointed by the Department, and who, or each of whom:

- (A) is in fact independent and not under control of the Department;
- (B) does not have any substantial interest, direct or indirect, with the Department; and
- (C) is not connected with the Department as an officer or employee of the Department, but who may be regularly retained to make reports to the Department.

“Information Services” means Bloomberg Municipal Repository, 100 Business Park Drive, Skillman, New Jersey 08558; DPC Data Inc., One Executive Drive, Fort Lee, New Jersey 07024; FT Interactive Data, 100 William Street, 15th Floor, Attention: NRMSIR, New York, New York 10038; Standard & Poor’s Securities Evaluations, Inc., 55 Water Street, 45th Floor, New York, New York, 10041; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds as the Department may designate in a written request delivered to the Trustee.

“Interest Account - 2009 Series A” means the account by that name established pursuant to the Indenture.

“Interest Account - 2009 Series B” means the account by that name established pursuant to the Indenture.

“Interest Account - 2009 Series C” means the account by that name established pursuant to the Indenture.

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

“Interest Payment Date” means each February 1 and August 1, commencing August 1, 2009 with respect to the Bonds.

“Issuing Document” means any indenture, trust agreement or other document pursuant which any Parity Obligations are issued or delivered; provided that, if a trustee is appointed under an Issuing Document, the trustee for all Parity Obligations will be the Trustee.

“Moody’s” means Moody’s Investors Service, Inc. or any successor thereto.

“Net Revenues” means Revenues less Operation and Maintenance costs.

“Nominee” means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Indenture.

“Office” means with respect to the Trustee, the office of the Trustee at 633 West Fifth Street, 24th Floor, Los Angeles, California 90071, Attention: Corporate Trust Services, provided however for the purposes of maintenance of the Registration Books and surrender of the Bonds for transfer, exchange or payment, such term will mean the office or agency at which the Trustee conducts its corporate agency function or at such other or additional offices as may be specified in writing by the Trustee to the Department.

“Operation and Maintenance” will mean the necessary expenses of conducting the Department, including the operation, promotion and maintenance of all harbor or port improvements, works, utilities, appliances, facilities, services, maritime related recreation facilities and watercraft, owned, controlled or operated by the City for the promotion or accommodation of maritime commerce, navigation or fishery, or used in connection therewith, but will not include any Shortfall Advances, defined in the Official Statement, dated January 29, 1999, with respect to

the Alameda Corridor Transportation Authority Taxable Senior Lien Revenue Bonds Series 1999C and Taxable Subordinate Lien Revenue Bonds Series 1999D as the payments by that name are more particularly defined and described in the Alameda Corridor Use and Operating Agreement, dated as of October 12, 1998, by and among the Department and the other parties thereto, as amended by any amendments and supplements thereto, which the Department is obligated to pay to the Alameda Corridor Transportation Authority pursuant to such Alameda Corridor Use and Operating Agreement.

“Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture relating to disqualified bonds) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (b) Bonds with respect to which all liability of the Department will have been discharged in accordance with the defeasance provisions of the Indenture, including Bonds (or portions thereof) described under the caption “MISCELLANEOUS – Money Held for Particular Bonds”; and (c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds will have been authenticated and delivered by the Trustee pursuant to the Indenture.

“Owner” or “Bond Owner,” whenever used in the Indenture with respect to a Bond, means the person in whose name the ownership of such Bond is registered on the Registration Books.

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

“Parity Obligations” means the Bonds and all revenue bonds or notes of the Department authorized, executed, issued and delivered by the Department, and all contracts of the Department authorized and executed by the Department, the payments of which are on a parity with the Bonds and which are secured by a pledge of and lien on the Revenues.

“Participants” means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds book-entry Bonds as securities depository.

“Permitted Investments” means any of the following:

- (A) Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.
- (B) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

- U.S. Export-Import Bank (Eximbank)
- Direct obligations or fully guaranteed certificates of beneficial ownership
- Farmers Home Administration (FmHA)
- Certificates of beneficial ownership
- Federal Financing Bank
- Federal Housing Administration Debentures (FHA)
- General Services Administration
- Participation certificates
- Government National Mortgage Association (GNMA or “Ginnie Mae”)
- GNMA – guaranteed mortgage-backed bonds

GNMA – guaranteed pass-through obligations
 U.S. Maritime Administration
 Guaranteed Title XI financing
 U.S. Department of Housing and Urban Development (HUD)
 Project Notes
 Local Authority Bonds
 New Communities Debentures – U.S. government guaranteed debentures
 U.S. Public Housing Notes and Bonds – U.S. government guaranteed public housing notes and bonds

- (C) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

Federal Home Loan Bank System
 Senior debt obligations
 Federal Home Loan Mortgage Corporation (FHLMC or “Freddie Mac”)
 Participation Certificates
 Senior debt obligations
 Federal National Mortgage Association (FNMA or “Fannie Mae”)
 Mortgage-backed securities and senior debt obligations
 Resolution Funding Corp. (REFCORP) obligations
 Farm Credit System
 Consolidated system wide bonds and notes

- (D) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of AAAM-G; AAA-m; or AA-m and if rated by Moody’s rated Aaa, Aa1 or Aa2, including funds for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee provide investment advisory or other management services.
- (E) Certificates of deposit secured at all times by collateral described in (A) and/or (B) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks which may include the Trustee and its affiliates. The collateral must be held by a third party and the bondholders must have a perfected first security interest in the collateral.
- (F) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF.
- (G) Investment Agreements, including guaranteed investment contracts, forward purchase agreements and reserve fund put agreements with a provider whose long-term unsecured debt is rated at the time of execution and delivery thereof in not lower than the second highest rating category of Moody’s and S&P.
- (H) Commercial paper rated, at the time of purchase, “Prime-1” by Moody’s and “A-1” or better by S&P.
- (I) Bonds or notes issued by any state or municipality which are rated by Moody’s and S&P in one of the two highest rating categories assigned by such agencies.
- (J) Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of “Prime-1” or “A3” or better by Moody’s and “A-1” or “A” or better by S&P.
- (K) Repurchase Agreements which meet the following criteria:

Repurchase Agreements must provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to the Department (buyer/lender), and the transfer of cash from the Department to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the Department in exchange for the securities at a specified date.

Repurchase Agreements must be between the Department and a dealer bank or securities firm.

Primary dealers on the Federal Reserve reporting dealer list which are rated A or better by S&P and Moody's at the time of execution and delivery thereof, or

Banks rated "A" or above by S&P and Moody's at the time of execution and delivery thereof.

The written Repurchase Agreement must include the following:

Securities which are acceptable for transfer are: (1) Direct U.S. governments, or (2) Federal agencies backed by the full faith and credit of the U.S. government (and FNMA & FHLMC)

The term of the Repurchase Agreement may be up to 30 days

The collateral must be delivered to the Department, the Trustee (if the Trustee is not supplying the collateral) or third party acting as agent for the Trustee (if the Trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities).

Valuation of Collateral

The securities must be valued weekly, marked-to-market at current market price plus accrued interest; and

The value of the collateral must be equal to 104% of the amount of cash transferred by the Department to the dealer bank or security firm under the Repurchase Agreement plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by the Department, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.

A legal opinion which must be delivered to the Department that the Repurchase Agreement meets the guidelines under State law for legal investment of public funds.

Additional Notes

Any state administered pool investment fund in which the Department is statutorily permitted or required to invest will be deemed a Permitted Investment.

Permitted Investments on deposit in the Common Reserve should be valued at fair market value and marked to market at least once per year. Permitted Investments on deposit in the Common Reserve may not have maturities extending beyond 5 years, except for Investment Agreements with respect to the Bonds with a provider whose long-term unsecured debt is rated at the time of execution and delivery thereof in not lower than the second highest rating category of Moody's and S&P.

"Principal Account – 2009 Series A" means the account by that name established pursuant to the Indenture.

“Principal Account – 2009 Series B” means the account by that name established pursuant to the Indenture.

“Principal Account – 2009 Series C” means the account by that name established pursuant to the Indenture.

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

“Private Activity Bonds” means the 2009 Series A Bonds and the 2009 Series C Bonds, collectively.

“Private Activity Projects” means improvements, utilities, structures, watercraft, appliances, facilities and services as the Board may deem necessary or convenient for the promotion or accommodation of maritime commerce, navigation or fishery, or for any use in connection therewith, or upon the lands and waters, or interests therein, in the possession and under the management, supervision and control of said Board, or for the payment of the cost of acquiring or taking such real property or any interest therein that the Board may deem necessary or convenient for such purposes. All Private Activity Projects (other than projects to the extent the bond-financed cost thereof is not in excess of 3% of the proceeds of the bond issue, or series of bonds, as applicable, from which such costs are financed, net of amounts, therefrom deposited in a debt service fund) must constitute a “dock or wharf” facility, or property functionally related and subordinate thereto, within the meaning of Section 142(a)(2) of the Code and the Treasury Regulations thereunder.

“Procedural Ordinance” means that certain Charter implementation ordinance related to the procedures for issuance and sale of revenue bonds and other obligations by the Department, and amending Sections 11.28.1 through 11.28.9 of Division 11, Chapter 1, Article 6.5 of the Los Angeles Administrative Code to conform the procedures to Charter Sections 609(a) and 610.

“Projects” means, collectively, the Private Activity Projects and the Governmental Projects.

“Purchased Bonds” means those Refunded Bonds, as identified in a Certificate of the Department delivered to the Trustee on or prior to the date of delivery of the 2009 Series C Bonds, that will be purchased from their holder or holders pursuant to a formal tender solicitation with proceeds from the sale of the 2009 Series C Bonds and cancelled pursuant to the terms of the Refunded Bond Indentures, on the date of issuance of the 2009 Series C Bonds.

“Rating Agencies” means Fitch, S&P and Moody’s.

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

“Record Date” means, with respect to any Interest Payment Date, the fifteenth (15th) day of the calendar month preceding such Interest Payment Date, whether or not such day is a Business Day.

“Redemption Account – 2009 Series A” means the account by that name established pursuant to the Indenture.

“Redemption Account – 2009 Series B” means the account by that name established pursuant to the Indenture.

“Redemption Account – 2009 Series C” means the account by that name established pursuant to the Indenture.

“Redemption Date” means any date fixed for a redemption prior to maturity of Bonds.

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

“Redemption Price” means, with respect to any Bond (or portion thereof), the principal amount with respect to such Bond (or portion) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and the Indenture.

“Refunded Bond Indentures” means, collectively, the 2005/06 Indenture and the 2006D Indenture.

“Refunded Bonds” means, collectively, the 2005C-1 Bonds, the 2006A Bonds, the 2006B Bonds and the 2006D Bonds.

“Registration Books” means the records maintained by the Trustee for the registration of ownership and registration of transfer of the Bonds pursuant to the Indenture.

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

“Resolution” means Resolution No. 09-6724 of the Board adopted on May 7, 2009.

“Responsible Officer of the Trustee” means any officer within the corporate trust division (or any successor group or department of the Trustee) including any vice president, assistant vice president, assistant secretary or any other officer or assistant officer of the Trustee with administrative responsibility for the Indenture on behalf of the Trustee.

“Revenues” means:

- (A) all money received or collected from or arising out of the use or operation of any harbor or port improvement, work, structure, appliance, facility or utility, service, or watercraft, owned, controlled or operated by the City of Los Angeles in or upon or pertaining to the lands and waters, or interests therein, of said City in the Harbor District; all tolls, charges and rentals collected by the Harbor Department; and all compensations or fees required to be paid for franchises or licenses, or otherwise by law or ordinance or order, to the City for the operation of any public service utility upon lands and waters, or interests therein, of the City in the Harbor District; provided that for the avoidance of doubt user fees collected by the Department on behalf of, or required to be transmitted to, third parties pursuant to applicable law and not commingled with Revenues, will not be deemed to be Revenues; and
- (B) all interest or gain derived from the investment of amounts in any of the funds or accounts established under the Indenture (except interest and gain derived from the Rebate Fund established and maintained under the Indenture).

“S&P” means Standard & Poor’s Corporation or any successor thereto.

“Securities Depositories” means The Depository Trust Company, 55 Water Street, 50th Floor, New York, New York 10041-0099, Attention: Call Notification Department, Fax: (212) 855-7232; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the Department may designate in a Request of the Department deliver to the Trustee.

“Separate Reserve Fund” means a reserve fund created pursuant to an Issuing Document for a Parity Obligation that is not a part of the Common Reserve.

“Separate Reserve Fund Requirement” will have the meaning set forth for the term “Reserve Fund Requirement” in the Issuing Documents for the Parity Obligations that are not a part of the Common Reserve.

“Separate Reserve Fund Security Device” will have the meaning set forth for the term “Reserve Fund Security Device” in the Issuing Documents for a Parity Obligation that is not a part of the Common Reserve.

“Series” wherever used in the Indenture with respect to Bonds, means all of the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction, regardless of variations in maturity, interest rate, redemption and other provisions, and any Bonds thereafter authenticated and delivered upon transfer or exchange of or in lieu of or in substitution for (but not to refund) such Bonds as provided in the Indenture.

“State” means the State of California.

“Subseries” wherever used in the Indenture with respect to Bonds, means all of the Bonds designated as being of the same subseries within a Series, authenticated and delivered in a simultaneous transaction, regardless of

variations in maturity, interest rate, redemption and other provisions, and any Bonds thereafter authenticated and delivered upon transfer or exchange of or in lieu of or in substitution for (but not to refund) such Bonds as provided in the Indenture.

“Supplemental Indenture” means any indenture hereafter duly authorized and entered into between the Department and the Trustee, supplementing, modifying or amending the Indenture; but only if and to the extent that such Supplemental Indenture is authorized pursuant to the Indenture.

“Tax Certificate” means the Tax Certificate concerning certain matters pertaining to the use and investment of proceeds of the Bonds, executed by the Department on the date of issuance of the Bonds, including any and all exhibits attached thereto, as such Tax Certificate may be amended or supplemented in connection with the issuance of the Bonds or otherwise.

“TEFRA Notice” means the notice of public hearing to be held by the Department regarding the Department’s issuance of the Private Activity Bonds to finance the costs of the Private Activity Projects and to provide related costs published on April 23, 2009 in the Los Angeles Daily News, The Daily Breeze and Los Angeles Metropolitan News-Enterprise, all newspapers of general circulation within the City and County of Los Angeles.

“Trustee” means U.S. Bank National Association, a national banking association organized and existing under the laws of the United States of America, or its successor, as Trustee under the Indenture as provided in the Indenture.

“2005C-1 Bonds” means the Harbor Department of the City of Los Angeles Refunding Revenue Bonds, 2005 Series C-1 (AMT).

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

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

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

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

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

“2009 Series A Bonds” means the Harbor Department of the City of Los Angeles Revenue Bonds, 2009 Series A.

“2009 Series B Bonds” means the Harbor Department of the City of Los Angeles Revenue Bonds, 2009 Series B.

“2009 Series C Bonds” means the Harbor Department of the City of Los Angeles Refunding Revenue Bonds, 2009 Series C.

“Value”, which will be determined as of the end of each month, means that the value of any investments will be the lower of the initial cost of such investment and value calculated as follows:

a) as to investments the bid and asked prices of which are published on a regular basis in The Wall Street Journal (or, if not there, then in The New York Times): the average of the bid and asked prices for such investments so published on or most recently prior to such time of determination;

b) as to investments the bid and asked prices of which are not published on a regular basis in The Wall Street Journal or The New York Times: the average bid price at such time of determination for such investments by any two nationally recognized government securities dealers (selected by the Trustee in its absolute discretion) at the time making a market in such investments or the bid price published by a nationally recognized pricing service;

c) as to certificates of deposit and bankers acceptances: the face amount thereof, plus accrued interest;

d) as to any investment not specified above: the value thereof established by the Department and specified to the Trustee; or

e) as to any investment, in the manner currently employed by the Trustee or any other manner consistent with corporate trust industry standard.

THE BONDS

Transfer of Bonds. Any Bond may, in accordance with its terms, be transferred on the Registration Books by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Bond at the Office of the Trustee for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Trustee. The Trustee will not be required to register the transfer of any Bond during the period in which the Trustee is selecting Bonds for redemption and any Bond that has been selected for redemption.

Whenever any Bond or Bonds will be surrendered for transfer, the Department will execute and the Trustee will authenticate and will deliver a new Bond or Bonds of authorized denomination or denominations for a like aggregate principal amount of the same maturity and Series. The Trustee will require the Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer. The cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any such transfer will be paid by the Department.

Exchange of Bonds. Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of other authorized denominations of the same maturity. The Trustee will not be required to exchange any Bond during the period in which the Trustee is selecting Bonds for redemption and any Bond that has been selected for redemption. The Trustee will require the Bond Owner requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange. The cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any such exchange will be paid by the Department.

Registration Books. The Trustee will keep or cause to be kept, at the Office of the Trustee, sufficient records for the registration and transfer of ownership of the Bonds, which will upon reasonable notice and at reasonable times be open to inspection during regular business hours by the Department; and, upon presentation for such purpose, the Trustee will, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such records, the ownership of the Bonds as provided in the Indenture.

REVENUES, FUNDS AND ACCOUNTS; PAYMENT OF PRINCIPAL AND INTEREST

Pledge and Assignment. Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, all of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held in any fund or account established pursuant to the Indenture (except the Rebate Fund established and maintained under the Indenture) are pursuant to the Indenture irrevocably pledged to secure the payment of the principal of and interest, and the premium, if any, on the Bonds in

accordance with their terms and the provisions of the Indenture subject only to the provisions of the Indenture permitting the terms and conditions set forth in the Indenture. Said pledge of the Revenues is on a parity with the lien on and security interest in the Revenues of the Parity Obligations pursuant to the Issuing Documents for such Parity Obligations. Said pledge of amounts held in the Reserve Fund (which the Department has elected pursuant to the Indenture to treat as part of the Common Reserve securing all Common Reserve Parity Obligations) is on a parity with the lien on and security interest in such amounts of the Common Reserve Parity Obligations pursuant to the Issuing Documents for such Common Reserve Parity Obligations. Said pledge will constitute a lien on and security interest in such amounts and will attach, be perfected and be valid and binding from and after the Closing Date, without any physical delivery thereof or further act and will be valid and binding against all parties having claims of any kind in tort, contract or otherwise against the Department, irrespective of whether such parties have notice hereof.

All Revenues will be promptly deposited by the Department upon receipt thereof in the Harbor Revenue Fund in accordance with the Charter. The Trustee will establish and maintain an Interest Fund, which will contain an "Interest Account - 2009 Series A," an "Interest Account - 2009 Series B" and an "Interest Account - 2009 Series C" and a Principal Fund, which will contain a "Principal Account - 2009 Series A," a "Principal Account - 2009 Series B" and a "Principal Account - 2009 Series C." All amounts at any time on deposit in the Interest Fund and the Principal Fund will be held by the Trustee in trust separate and apart from other funds held by it.

Application of Interest Fund. The Trustee will, immediately upon receipt of any moneys from the Department for deposit in the Interest Fund, allocate to the Interest Account - 2009 Series A that sum, if any, required to cause the aggregate amount on deposit in the Interest Account - 2009 Series A to be at least equal to the amount of interest becoming due and payable on such date on all 2009 Series A Bonds then Outstanding; to the Interest Account - 2009 Series B that sum, if any, required to cause the aggregate amount on deposit in the Interest Account - 2009 Series B to be at least equal to the amount of interest becoming due and payable on such date on all 2009 Series B Bonds then Outstanding; and to the Interest Account - 2009 Series C that sum, if any, required to cause the aggregate amount on deposit in the Interest Account - 2009 Series C to be at least equal to the amount of interest becoming due and payable on such date on all 2009 Series C Bonds then Outstanding. In the event such moneys are insufficient to fully fund such accounts, the Trustee will, without preference or priority, allocate such moneys to such accounts ratably, in accordance with the amount of interest becoming due and payable on the 2009 Series A Bonds, the 2009 Series B Bonds and the 2009 Series C Bonds on the next Interest Payment Date and will draw on the Common Reserve in accordance with the Indenture, in amounts sufficient to pay interest becoming due and payable on the Bonds on the next Interest Payment Date.

All amounts in the Interest Account - 2009 Series A will be used and withdrawn by the Trustee solely for the purpose of paying interest on the 2009 Series A Bonds as it will become due and payable (including accrued interest on any 2009 Series A Bonds purchased or redeemed prior to maturity pursuant to the Indenture).

All amounts in the Interest Account - 2009 Series B will be used and withdrawn by the Trustee solely for the purpose of paying interest on the 2009 Series B Bonds as it will become due and payable (including accrued interest on any 2009 Series B Bonds purchased or redeemed prior to maturity pursuant to the Indenture).

All amounts in the Interest Account - 2009 Series C will be used and withdrawn by the Trustee solely for the purpose of paying interest on the 2009 Series C Bonds as it will become due and payable (including accrued interest on any 2009 Series C Bonds purchased or redeemed prior to maturity pursuant to the Indenture).

Application of Principal Fund. The Trustee will immediately upon receipt of any money from the Department for deposit in the Principal Fund allocate to the Principal Account - 2009 Series A that sum, if any, required to cause the aggregate amount on deposit in the Principal Account - 2009 Series A to be at least equal to the principal amount of the 2009 Series A Bonds becoming due and payable on such date or subject to mandatory sinking fund redemption on the next August 1; to the Principal Account - 2009 Series B that sum, if any, required to cause the aggregate amount on deposit in the Principal Account - 2009 Series B to be at least equal to the principal amount of the 2009 Series B Bonds becoming due and payable on such date or subject to mandatory sinking fund redemption on the next August 1; and to the Principal Account - 2009 Series C that sum, if any, required to cause the aggregate amount on deposit in the Principal Account - 2009 Series C to be at least equal to the principal amount of the 2009 Series C Bonds becoming due and payable on such date or subject to mandatory

sinking fund redemption on the next August 1. In the event such moneys are insufficient to fully fund such accounts, the Trustee will, without preference or priority, allocate such moneys to such accounts ratably, in accordance with the principal amount of the 2009 Series A Bonds, the 2009 Series B Bonds and the 2009 Series C Bonds becoming due and payable on the next August 1 and will transfer amounts from the Common Reserve in accordance with the Indenture, in amounts sufficient to pay principal when due on the Bonds.

All amounts in the Principal Account - 2009 Series A will be used and withdrawn by the Trustee solely to pay the principal amount of the 2009 Series A Bonds at maturity, mandatory sinking fund redemption, purchase or acceleration; provided, however, that at any time prior to selection for redemption of any such 2009 Series A Bonds, upon written direction of the Department, the Trustee will apply such amounts to the purchase of 2009 Series A Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account - 2009 Series A of the Interest Fund) as will be directed pursuant to a Request of the Department, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to the 2009 Series A Bonds.

All amounts in the Principal Account - 2009 Series B will be used and withdrawn by the Trustee solely to pay the principal amount of the 2009 Series B Bonds at maturity, mandatory sinking fund redemption, purchase or acceleration; provided, however, that at any time prior to selection for redemption of any such 2009 Series B Bonds, upon written direction of the Department, the Trustee will apply such amounts to the purchase of 2009 Series B Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account - 2009 Series B of the Interest Fund) as will be directed pursuant to a Request of the Department, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to the 2009 Series B Bonds.

All amounts in the Principal Account - 2009 Series C will be used and withdrawn by the Trustee solely to pay the principal amount of the 2009 Series C Bonds at maturity, mandatory sinking fund redemption, purchase or acceleration; provided, however, that at any time prior to selection for redemption of any such 2009 Series C Bonds, upon written direction of the Department, the Trustee will apply such amounts to the purchase of 2009 Series C Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account - 2009 Series C of the Interest Fund) as will be directed pursuant to a Request of the Department, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to the 2009 Series C Bonds.

Application of Redemption Fund. The Trustee will establish a special fund designated as the "Redemption Fund" which will contain a "Redemption Account – 2009 Series A," a "Redemption Account – 2009 Series B" and a "Redemption Account – 2009 C" to be held in trust by the Trustee separate and apart from other funds held by it. The Trustee will, immediately upon receipt of any moneys from the Construction Account – 2009 Series A transferred in accordance with the Indenture, deposit such moneys into the Redemption Account – 2009 Series A. The Trustee will, immediately upon receipt of any moneys from the Department to be applied towards the optional redemption of Bonds deposit such moneys into the applicable Redemption Account as directed in writing by the Department.

All amounts in the Redemption Account – 2009 Series A will be used and withdrawn by the Trustee solely for the purpose of paying the Redemption Price of the 2009 Series A Bonds to be optionally redeemed on such Redemption Date pursuant to the Indenture; provided, however, that at any time prior to selection for redemption of any such 2009 Series A Bonds, upon written direction of the Department, the Trustee will apply such amounts to the purchase of 2009 Series A Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account - 2009 Series A of the Interest Fund) as will be directed pursuant to a Request of the Department, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to the 2009 Series A Bonds.

All amounts in the Redemption Account – 2009 Series B will be used and withdrawn by the Trustee solely for the purpose of paying the Redemption Price of the 2009 Series B Bonds to be optionally redeemed on such Redemption Date pursuant to the Indenture; provided, however, that at any time prior to selection for redemption of any such 2009 Series B Bonds, upon written direction of the Department, the Trustee will apply such amounts to the purchase of 2009 Series B Bonds at public or private sale, as and when and at such prices (including brokerage and

other charges, but excluding accrued interest, which is payable from the Interest Account - 2009 Series B of the Interest Fund) as will be directed pursuant to a Request of the Department, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to the 2009 Series B Bonds.

All amounts in the Redemption Account – 2009 Series C will be used and withdrawn by the Trustee solely for the purpose of paying the Redemption Price of the 2009 Series C Bonds to be optionally redeemed on such Redemption Date pursuant to the Indenture; provided, however, that at any time prior to selection for redemption of any such 2009 Series C Bonds, upon written direction of the Department, the Trustee will apply such amounts to the purchase of 2009 Series C Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account - 2009 Series C of the Interest Fund) as will be directed pursuant to a Request of the Department, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to the 2009 Series C Bonds.

Investments. All moneys in any of the funds or accounts established with the Trustee pursuant to the Indenture will be invested by the Trustee solely in Permitted Investments. Such investments will be directed by the Department pursuant to a Request of the Department filed with the Trustee at least two (2) Business Days in advance of the making of such investments (which directions will be promptly confirmed to the Trustee in writing). The Trustee may conclusively rely on such Request of the Department as a certification that such investments constitute Permitted Investments. In the absence of any such directions from the Department, the Trustee will promptly invest any such moneys in Permitted Investments described in clause (D) of the definition thereof. Obligations purchased as an investment of moneys in any fund will be deemed to be part of such fund or account. Investments held in the Common Reserve will mature no later than the final maturity of the Bonds.

All interest or gain derived from the investment of amounts in any of the funds or accounts established under the Indenture other than the Construction Account – 2009 Series A and the Rebate Fund will, without preference or priority, be allocated to the Interest Account – 2009 Series A in accordance with the amount of interest becoming due and payable on the 2009 Series A Bonds on the next Interest Payment Date, unless otherwise provided in the Indenture. All interest or gain derived from the investment of amounts in the Construction Account – 2009 Series A and the Rebate Fund will be retained therein. For purposes of acquiring any investments under the Indenture, other than investment of amounts in the Rebate Fund, the Trustee may commingle funds held by it under the Indenture upon the Request of the Department. The Trustee may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. The Trustee, or its affiliates, may act as sponsor, advisor, or depository with regard to any Permitted Investment. The Trustee will incur no liability for losses arising from any investments made pursuant to the Indenture.

The Department acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grants the Department the right to receive brokerage confirmations of security transactions as they occur, the Department specifically waives receipt of such confirmations to the extent permitted by law. The Trustee will furnish the Department periodic cash transaction statements which include detail for all investment transactions made by the Trustee under the Indenture.

Rebate Fund. The Trustee will establish a special fund designated the “Rebate Fund.” All amounts at any time on deposit in the Rebate Fund will be held by the Trustee in trust, to the extent required to satisfy the requirement to make rebate payments to the United States (the “Rebate Requirement”) pursuant to Section 148 of the Code and the Treasury Regulations promulgated thereunder (the “Treasury Regulations”). Such amounts will be free and clear of any lien under the Indenture and will be governed by this subsection and the tax covenants set forth in the Indenture and by the Tax Certificate. The Trustee will be deemed conclusively to have complied with the Rebate Requirement if it follows the directions of the Department, and will have no independent responsibility to, or liability resulting from its failure to, enforce compliance by the Department with the Rebate Requirement.

Deposits.

(1) Within 45 days of the end of each Bond Year (as such term is defined in the Tax Certificate), (1) the Department will calculate or cause to be calculated with respect to the Bonds the amount that would be considered the “rebate amount” within the meaning of Section 1.148-3 of the Treasury Regulations, using as the “computation date” for this purpose the end of such Bond Year, and (2) upon the Department’s

written direction, the Trustee will deposit to the Rebate Fund from deposits from the Department, if and to the extent required, amounts sufficient to cause the balance in the Rebate Fund to be equal to the “rebate amount” so calculated.

(2) The Trustee will not be required to deposit any amount to the Rebate Fund in accordance with the preceding sentence if the amount on deposit in the Rebate Fund prior to the deposit required to be made under this subsection of the Indenture equals or exceeds the “rebate amount” calculated in accordance with the preceding sentence. Such excess may be withdrawn from the Rebate Fund to the extent permitted under the subsection of the Indenture described under the subcaption “ – Withdrawal of Excess Amounts” below.

(3) The Department will not be required to calculate the “rebate amount,” and the Trustee will not be required to deposit any amount to the Rebate Fund in accordance with this subsection of the Indenture, with respect to all or a portion of the proceeds of the Bonds (including amounts treated as proceeds of the Bonds) (1) to the extent such proceeds satisfy the expenditure requirements of Section 148(f)(4)(B), or (2) to the extent such proceeds qualify for the exception to arbitrage rebate under Section 148(f)(4)(A)(ii) of the Code for amounts in a “bona fide debt service fund.” In such event, and with respect to such amounts, the Department will provide written direction to the Trustee that the Trustee will not be required to deposit any amount to the Rebate Fund in accordance with this subsection of the Indenture.

Withdrawal Following Payment of Bonds. Any funds remaining in the Rebate Fund after redemption of all the Bonds and any amounts described in the subsection of the Indenture described in paragraph (2) under the subcaption “ – Withdrawal for Payment of Rebate” below, or provision made therefor satisfactory to the Trustee, including accrued interest and payment of any applicable fees and expenses to the Trustee, will be withdrawn by the Trustee and remitted to the Department.

Withdrawal for Payment of Rebate. Upon the Department’s written direction, but subject to the exceptions contained in the subsection of the Indenture described under the subcaption “ – Deposits” above to the requirement to calculate the “rebate amount” and make deposits to the Rebate Fund, the Trustee will pay to the United States, from amounts on deposit in the Rebate Fund,

(1) not later than 60 days after the end of (i) the fifth Bond Year, and (ii) each fifth Bond Year thereafter, an amount that, together with all previous rebate payments, is equal to at least 90% of the “rebate amount” calculated as of the end of such Bond Year in accordance with Section 1.148-3 of the Treasury Regulations; and

(2) not later than 60 days after the payment of all Bonds, an amount equal to 100% of the “rebate amount” calculated as of the date of such payment (and any income attributable to the “rebate amount” determined to be due and payable) in accordance with Section 1.148-3 of the Treasury Regulations.

Rebate Payments. Each payment required to be made pursuant to the subsection of the Indenture described under the subcaption “ – Withdrawal for Payment of Rebate” above will be made to the Internal Revenue Service, Ogden Submission Processing Center, Ogden, Utah 84201 on or before the date on which such payment is due, and will be accompanied by Internal Revenue Service Form 8038-T, which will be completed by or on behalf of the Department and provided to the Trustee.

Deficiencies in the Rebate Fund. In the event that, prior to the time any payment is required to be made from the Rebate Fund, the amount in the Rebate Fund is not sufficient to make such payment when such payment is due, the Department will calculate the amount of such deficiency and direct the Trustee to deposit an amount received from the Department equal to such deficiency into the Rebate Fund prior to the time such payment is due.

Withdrawals of Excess Amounts. In the event that immediately following the calculation required by the subsection of the Indenture described under the subcaption “ – Deposits” above, but prior to any deposit made under said subsection, the amount on deposit in the Rebate Fund exceeds the “rebate amount” calculated in accordance with such subcaption, upon written instructions from the Department, the Trustee will withdraw the excess from the Rebate Fund and credit such excess to the Interest Fund.

Record Keeping. The Department will retain records of all determinations made under the Indenture until six years after the complete retirement of the Bonds.

Survival of Defeasance. Notwithstanding anything in the Indenture to the contrary, the Rebate Requirement will survive the payment in full or defeasance of the Bonds.

Application of Funds and Accounts When No Bonds are Outstanding. On the date on which all Bonds will be retired under the Indenture or provision made therefor pursuant to the defeasance provisions of the Indenture and after payment of all amounts due the Trustee under the Indenture, all moneys then on deposit in any of the funds or accounts (other than the Rebate Fund) established with the Trustee pursuant to the Indenture will be withdrawn by the Trustee and paid to the Department.

Reserve Fund. In each Issuing Document, the Department may establish a reserve fund with respect to a Parity Obligation or Parity Obligations. With respect to each reserve fund established with respect to a Parity Obligation with interest payment dates on the Interest Payment Dates hereunder and with the Trustee as trustee under the related Issuing Document, the Department may elect to treat such reserve fund as a part of the Common Reserve securing all Parity Obligations designated by the Department to participate in the Common Reserve (each, a “Common Reserve Parity Obligation”). Each time that the Department elects to treat a reserve fund as part of the Common Reserve, it will deposit funds in, and/or provide one or more (i) surety bonds, (ii) insurance policies issued by one or more municipal bond insurance companies, (iii) letters of credit, or (iv) other security devices, and credit to such Reserve Fund to satisfy a portion of the Common Reserve Requirement in the Common Reserve, in each case with ratings in the highest rating category by two of the Rating Agencies as of the date of deposit therein, and with provision that such security device(s) will be available to be drawn upon with respect to all Common Reserve Parity Obligations (each, a “Common Reserve Security Device”), in an amount sufficient to increase the balance in the Common Reserve to the Common Reserve Requirement calculated to take into account such additional Common Reserve Parity Obligations. If the Department establishes a reserve fund for any Parity Obligation but does not elect to make such reserve fund a part of the Common Reserve, then any Reserve Fund so established will be a Separate Reserve Fund and will secure only the Parity Obligations for which such reserve fund was created. The Trustee may withdraw amounts from the Common Reserve in accordance with each Issuing Document for a Common Reserve Parity Obligation to make payments to the owners of the Common Reserve Parity Obligations issued under such Issuing Document when due.

Pursuant to the Indenture, there is established with the Trustee the Reserve Fund with respect to the Bonds which the Trustee will establish and maintain and hold in trust separate and apart from other funds held by it. The Department elects to treat the Reserve Fund established under the Indenture as part of the Common Reserve securing all Common Reserve Parity Obligations. The Trustee will deposit in the Reserve Fund the amounts required to be deposited therein pursuant to the Indenture. The Trustee will apply moneys in the Common Reserve in accordance with this section, provided, however, that, in substitution for all or part of the moneys on deposit in the Common Reserve, the Department may provide for the Common Reserve by one or more Common Reserve Security Devices which will each be available to be drawn on a pro rata basis among all the Common Reserve Security Devices. Upon the expiration of any Common Reserve Security Device prior to the payment in full of all of the Common Reserve Parity Obligations, if the balance in the Common Reserve is less than the Common Reserve Requirement, the Department will either provide a substitute Common Reserve Security Device or deposit cash in the Reserve Fund to which the expired Common Reserve Security Device was credited, in an amount sufficient to increase the balance in the Common Reserve to the Common Reserve Requirement. The Department will not be required to replace any Common Reserve Security Device that is no longer rated in the highest rating category by two of the Rating Agencies.

If and to the extent that cash has also been deposited in the Common Reserve, all such cash will be used (including any Permitted Investments purchased with such cash, which will be liquidated and the proceeds thereof applied as required under the Indenture) prior to any drawing under any Common Reserve Security Device. After first applying all cash and Permitted Investments held in the Common Reserve on a pro rata basis among all reserve funds which the Department has elected to make a part of the Common Reserve, if three Business Days prior to any Interest Payment Date the money in the appropriate accounts in the Interest Fund or the appropriate accounts in the Principal Fund is insufficient to make the payments required by the Indenture on such Interest Payment Date or the money in the appropriate funds and accounts under an Issuing Document is insufficient to make the payments

required by such Issuing Document for a Common Reserve Parity Obligation on such Interest Payment Date, the Trustee will draw on the Common Reserve Security Devices on a pro rata basis among all Common Reserve Security Devices in a timely manner in the amount of such insufficiency and in compliance with the applicable payment procedures for each such Common Reserve Security Device set forth in the related Issuing Document. Upon receipt of such funds, the Trustee will transfer said funds to the appropriate accounts in the Interest Fund, the appropriate accounts in the Principal Fund or the appropriate funds or accounts under an Issuing Document for a Common Reserve Parity Obligation, as the case may be, in the amount of such insufficiency, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference.

If amounts on deposit in the Common Reserve consist solely of cash and Permitted Investments, if one Business Day prior to any Interest Payment Date the money in the appropriate accounts in the Interest Fund or the appropriate accounts in the Principal Fund is insufficient to make the payments required by the Indenture on such Interest Payment Date or the money in the appropriate funds and accounts under an Issuing Document is insufficient to make the payments required by an Issuing Document for a Common Reserve Parity Obligation on such Interest Payment Date, the Trustee will transfer from the Common Reserve to the appropriate accounts in the Interest Fund, the appropriate accounts in the Principal Fund or the appropriate funds or accounts under an Issuing Document for a Common Reserve Parity Obligation, as the case may be, the amount of such insufficiency.

In the event that the Trustee has transferred money from the Common Reserve to the Interest Fund or Principal Fund in accordance with the Indenture or to the appropriate funds and accounts under an Issuing Document with respect to a Common Reserve Parity Obligation, upon receipt of the moneys from the Department pursuant to the Indenture, the Trustee will first reimburse the providers of the Common Reserve Security Devices for any draws thereon on a pro rata basis among all the Common Reserve Security Devices and otherwise in accordance with the written direction of the providers thereof, as applicable, so as to cause the reinstatement of the Common Reserve Security Devices, and thereafter, will deposit the remainder of such transferred moneys from the Department in the Common Reserve on a pro rata basis among all reserve funds which the Department has elected to make a part of the Common Reserve.

If the amount available and contained in the Common Reserve exceeds an amount equal to the Common Reserve Requirement, the Trustee will annually on August 1 withdraw the amount of such excess from the Common Reserve on a pro rata basis among all reserve funds which the Department has elected to make a part of the Common Reserve and will, without preference or priority, deposit ratably, in accordance with the amount of interest becoming due and payable on each series or subseries of Common Reserve Parity Obligations, in the applicable account in the Interest Fund and the applicable interest fund or account established and maintained under the related Issuing Document for any other Common Reserve Parity Obligations, and for this purpose the Trustee will determine the Value of the Common Reserve on or before August 1 in each year. Except for such withdrawals and reimbursement of the providers of the Common Reserve Security Devices for any draws thereon described above, all moneys in the Common Reserve will be used and withdrawn by the Trustee solely for the purpose of paying principal of and interest on the Common Reserve Parity Obligations in the event that no other moneys of the Department are applied thereto.

Any money in the Common Reserve in excess of the Common Reserve Requirement after the Department deposits with the Trustee a Common Reserve Security Device as permitted by the Indenture may be allocated ratably in accordance with the principal amount of the Common Reserve Parity Obligations becoming due and payable on the next August 1, into the applicable account in the Redemption Fund and the applicable redemption fund or account established under the related Issuing Document for any other Common Reserve Parity Obligations or transferred by the Trustee to or upon the order of the Department, in either case only upon the written direction of the Department upon delivery of such Common Reserve Security Device to the Trustee.

In the event the Department has determined to obtain one or more Common Reserve Security Devices pursuant to the Indenture, the Trustee will be required to keep adequate records, verified with any of the providers thereof in the form of statements customarily provided to such provider, as to the amount available to be drawn at any time under the Common Reserve Security Devices and as to the amounts paid and owing to any of the providers thereof.

PARTICULAR COVENANTS

No Priority. No bonds or other obligations of the Department payable out of the Harbor Revenue Fund will be issued having any priority with respect to payment of principal or interest out of the Harbor Revenue Fund over Parity Obligations; no transfer of money will be made out of the Harbor Revenue Fund in any one Fiscal Year for the purpose of paying the principal of or interest on any bonds or other obligations of the City serviced out of the Harbor Revenue Fund unless and until the principal of and interest on the Parity Obligations, due and payable in that Fiscal Year, have been paid or set aside in a separate fund held in trust and charged with such payments.

Sale of Property. The property of the City which is under the management, supervision and control of the Board will not be sold or otherwise disposed of, as a whole or substantially as a whole, unless such sale or other disposition will provide for a continuance of payments into the Harbor Revenue Fund sufficient in amount to permit payment therefrom of principal of and interest on or with respect to Parity Obligations, or to provide for such payments into some other fund or account charged with such payments.

Exempt Facilities. The Department covenants and agrees that it will not expend the proceeds of the 2009 Series A Bonds for any purpose or purposes, in any amount or amounts, or permit any user of the improvements to be financed with the proceeds from the sale of the 2009 Series A Bonds or any earnings thereon to undertake, or permit, any act or use of such improvements which has the effect of causing or allowing such improvements to be or become facilities which are not included within those set forth and described in Section 142(a) of the Code and the regulations and rulings applicable thereto.

Waiver of Depreciation and Investment Tax Credit. The Department covenants and agrees that it will require any nongovernmental person which, so long as Private Activity Bonds are Outstanding, is granted the right to use any of the improvements to be financed or refinanced with the proceeds from the sale of the Private Activity Bonds or any earnings thereon which Private Activity Bonds are obligations excepted from the definition of private activity bonds pursuant to Section 141(b) of the Code (collectively, "Public Improvements") pursuant to any written lease, permit or other arrangement, to execute an election not to claim on such person's federal income tax return (or any consolidated federal income tax return which includes such person) any investment tax credit or deduction for depreciation with respect to (1) any of the Public Improvements and (2) any land, building, structural components of a building (including heating or air conditioning units) or other structure which is physically supported by, physically supports, or is physically connected to any of the Public Improvements, other than (i) property not financed with the proceeds of obligations the interest on which is or was excluded from gross income for federal income tax purposes, (ii) property that was part of the site for such Public Improvement on or before October 5, 1984, and (iii) tangible personal property (other than air conditioning or heating units).

Each such election will be executed not later than the later of the original delivery date of such Private Activity Bonds or the execution of the lease, permit or other arrangement pursuant to which such nongovernmental person is granted the right to use a Public Improvement, and will be binding upon such person and upon all successors in interest to such person. Each election will be in substantially the form as is attached to the Indenture as Exhibit E which is by reference incorporated therein and made a part thereof. The Department further covenants and agrees that it will retain copies of each such election in its records for the entire term of any such lease, permit or other arrangement, and will require the nongovernmental person to retain the election in its records for the same period. Each such election will be publicly recorded so as to be binding on any successor in interest to the initial nongovernmental person.

Insurance.

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

(b) The Department will procure and maintain such other insurance which it shall deem advisable or necessary to protect its interests and the interests of the Owners of the Bonds, which insurance shall afford

protection in such amounts and against such risks as are usually covered in connection with harbor facilities similar to the Projects and owned by harbor departments similar to the Department.

Any insurance required by the two (2) preceding sentences 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 Projects and owned by harbor departments similar to the Department and is, in the opinion of an accredited actuary, actuarially sound.

Punctual Payment. The Department will punctually pay or cause to be paid the principal and interest to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Revenues and other amounts pledged for such payment as provided in the Indenture.

Extension of Payment of Bonds. The Department will not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest will be extended, such Bonds or claims for interest will not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full for the principal of all of the Bonds then Outstanding and of all claims for interest thereon which will not have been so extended. Nothing in the Indenture will be deemed to limit the right of the Department to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance will not be deemed to constitute an extension of maturity of Bonds.

Against Encumbrances. The Department will not create, or permit the creation of, any pledge, lien, charge or other encumbrances upon the Revenues and other amounts pledged or assigned under the Indenture while any of the Bonds are Outstanding, except the pledge and assignment created by the Indenture or with respect to Parity Obligations. Subject to this limitation, the Department expressly reserves the right to enter into one or more other indentures for any of its corporate purposes and reserves the right to issue other obligations for such purposes.

Power to Issue Bonds and Make Pledge and Assignment. The Department is duly authorized pursuant to law to issue the Bonds and to enter into the Indenture and to pledge and assign the Revenues and other amounts purported to be pledged and assigned under the Indenture in the manner and to the extent provided in the Indenture. The Bonds and the provisions of the Indenture are and will be the legal, valid and binding special obligations of the Department in accordance with their terms, and the Department and the Trustee will at all times, subject to the provisions of the Indenture and to the extent permitted by law, defend, preserve and protect said pledge and assignment of Revenues and other amounts and all the rights of the Bond Owners under the Indenture against all claims and demands of all persons whomsoever.

Tax Covenants. The Department covenants with the owners of the Bonds that, notwithstanding any other provisions of the Indenture, it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of interest on the Bonds under Section 103 of the Code.

The Department will not take any action, or fail to take any action, if any such action or failure to take action would cause the Private Activity Bonds to be other than “exempt facility bonds” within the meaning of Section 142(a)(2) of the Code, and in furtherance thereof, will not make any use of the proceeds of the Private Activity Bonds or any earnings thereon, or of the portion of the Private Activity Projects financed or refinanced with the proceeds of the Private Activity Bonds, or any portion thereof, as would cause the Private Activity Bonds not to qualify under Section 142(a)(2) of the Code as “exempt facility bonds.” The Department will not, directly or indirectly, use or permit the use of proceeds of the Governmental Bonds or any earnings thereon or portion thereof, by any person other than a governmental unit (as such term is used in Section 141 of the Code) in such manner or to such extent as would result in the loss of exclusion from gross income for federal income tax purposes of interest on the Governmental Bonds. To these ends, so long as any Bonds are Outstanding, the Department, with respect to such proceeds, earnings thereon and property and such other funds, will comply with applicable requirements of the Code and all regulations of the United States Department of the Treasury issued thereunder and under Section 103 of the Internal Revenue Code of 1954, as amended (the “1954 Code”), to the extent such requirements are, at the

time, applicable and in effect. The Department will establish reasonable procedures necessary to ensure continued compliance with the aforementioned Sections of the Code and the continued qualification of the portion of the Projects financed or refinanced with the proceeds of the Bonds.

The Department will not, directly or indirectly, use or permit the use of any proceeds of any Bonds, or of any property financed or refinanced thereby, or other funds of the Department, or take or omit to take any action, that would cause the Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code. To that end, the Department will comply with all requirements of Section 148 of the Code and all regulations of the United States Department of the Treasury issued thereunder to the extent such requirements are, at the time, in effect and applicable to the Bonds.

The Department will not make any use of the proceeds of the Bonds or any other funds of the Department, or take or omit to take any other action, that would cause the Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

In furtherance of the foregoing tax covenants, the Department covenants that it will comply with the instructions and requirements of the Tax Certificate, which is incorporated in the Indenture. These covenants will survive the payment in full or defeasance of the Bonds.

Further Assurances. The Department will make, execute and deliver any and all such further indentures, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture and for the better assuring and confirming unto the Owners of the Bonds of the rights and benefits provided in the Indenture.

Continuing Disclosure. The Department will comply with and carry out all of the provisions of the Continuing Disclosure Certificate to be executed by the Department in substantially the form approved by the Resolution and dated the date of issuance and delivery of the Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof. Any holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Department to comply with its obligations under this provision. Noncompliance with this provision will not be considered an “Event of Default” and will not result in acceleration of the Bonds, and the sole remedy under the Continuing Disclosure Certificate (or the Indenture) in the event of any failure of the Department to comply with the Continuing Disclosure Certificate will be an action to compel performance. For the purposes of this provision, “Beneficial Owner” means any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

No holder or Beneficial Owner of Bonds may institute such action, suit or proceeding to compel performance unless they will have first delivered to the Department satisfactory written evidence of their status as such, and a written notice of and request to cure such failure and the Department will have refused to comply therewith within a reasonable time.

EVENTS OF DEFAULT AND REMEDIES OF BOND OWNERS

Events of Default. The following events will be Events of Default under the Indenture:

(a) Default by the Department in the due and punctual payment of the principal of any Bonds or any Parity Obligation (of such default relating to any Parity Obligations the Department agrees to notify the Trustee) when and as the same will become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration, or otherwise.

(b) Default by the Department in the due and punctual payment of any installment of interest on any Bonds or any Parity Obligation (of such default relating to any Parity Obligations the Department agrees to notify the Trustee) when and as the same will become due and payable.

(c) Default by the Department in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, if such default will have continued for a period of sixty (60) days after written notice thereof, specifying such default and requiring the same to be remedied, will have been given to the Department by the Trustee or by the Owners of not less than 25 percent in aggregate principal amount of Bonds Outstanding; provided, however, that if in the reasonable opinion of the Department the default stated in the notice can be corrected, but not within such sixty (60) day period and corrective action is instituted by the Department within such sixty (60) day period and diligently pursued in good faith until the default is corrected.

(d) The Department will file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction will approve a petition filed with or without the consent of the Department seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction will assume custody or control of the Department or of the whole or any substantial part of its property.

Remedies Upon Event of Default. If any Event of Default will occur, then, and in each and every such case during the continuance of such Event of Default, the Trustee may, and will, at the direction of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, upon notice in writing to the Department, will declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same will become and will be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding.

Any such declaration is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due will have been obtained or entered, the Department will deposit with the Trustee a sum sufficient to pay all the principal of and installments of interest on the Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Bonds to the extent permitted by law, and the reasonable charges and expenses of the Trustee, including fees and expenses of its attorneys, and any and all other Events of Default known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) will have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate will have been made therefor, then, on behalf of the Owners of all of the Bonds, rescind and annul such declaration and its consequences and waive such Event of Default; but no such rescission and annulment will extend to or will affect any subsequent Event of Default, or will impair or exhaust any right or power consequent thereon.

Application of Revenues and Other Funds After Default. If an Event of Default will occur and be continuing, all Revenues will be applied by the Department or the Trustee, as the case may be, and any amounts then held by the Trustee or thereafter received by the Trustee will be applied by the Trustee as follows and in the following order:

(i) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the Bonds and payment of reasonable charges and expenses of the Trustee (including reasonable fees and disbursements of its counsel or advisors) incurred in and about the performance of its powers and duties under the Indenture; and

(ii) To the payment of the Operation and Maintenance costs; and

(iii) To the payment of the principal of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping or otherwise noting thereon of the payment if only partially paid, or surrender thereof if fully paid) in accordance with the provisions of the Indenture (on a parity with the payment of principal of and interest then due on any Parity Obligations in accordance with the provisions of the documents pursuant to which such Parity Obligations were issued or incurred), in the following order of priority:

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available will not be

sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference;

Second: To the payment to the persons entitled thereto of the unpaid principal of any Bonds which will have become due, whether at maturity or by acceleration or redemption, with interest on the overdue principal at the rate of eight percent (8%) per annum, and, if the amount available will not be sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference; and

Third: For any lawful purpose.

Trustee to Represent Bond Owners. If an Event of Default will occur and be continuing, the Trustee is irrevocably appointed pursuant to the Indenture (and the successive respective Owners of the Bonds, by taking and holding the same, will be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the Bonds or the Indenture and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bond Owners, the Trustee in its discretion may, and upon the written request of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, will, proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it will deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power in the Indenture granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under the Bonds or the Indenture or any other law; and upon instituting such proceeding, the Trustee will be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other amounts pledged under the Indenture, pending such proceedings. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee will be brought in the name of the Trustee for the benefit and protection of all the Owners of such Bonds, subject to the provisions of the Indenture.

Bond Owners' Direction of Proceedings. Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the Bonds then Outstanding will have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conduct in all remedial proceedings taken by the Trustee under the Indenture, provided that such direction will not be otherwise than in accordance with law and the provisions of the Indenture, and that the Trustee will have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bond Owners not parties to such direction or in its judgment expose the Trustee to liability.

Suit by Owners. No Owner of any Bonds will have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture or any other applicable law with respect to such Bonds, unless (a) such Owners will have given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding will have made written request upon the Trustee to exercise the powers granted pursuant to the Indenture or to institute such suit, action or proceeding in its own name; (c) such Owner or Owners will have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee will have failed to comply with such request for a period of sixty (60) days after such written request will have been received by, and said tender of indemnity will have been made to, the Trustee; and (e) no direction inconsistent with such written request will have been given to the Trustee during such sixty (60) day period by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding.

Such notification, request, tender of indemnity and refusal or omission are declared pursuant to the Indenture, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy under the

Indenture or under law; it being understood and intended that no one or more Owners of Bonds will have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of Bonds, or to enforce any right under the Bonds, the Indenture or other applicable law with respect to the Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right will be instituted, had and maintained in the manner provided in the Indenture and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

Absolute Obligation of Department. Nothing in the Indenture or in the Bonds contained will affect or impair the obligation of the Department, which is absolute and unconditional, to pay the principal of and interest on the Bonds to the respective Owners of the Bonds at their respective dates of maturity, or upon call for redemption, as provided in the Indenture, but only out of the Revenues and other amounts pledged therefor, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

Remedies Not Exclusive. No remedy in the Indenture conferred upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, will be cumulative and in addition to any other remedy given under the Indenture or now or hereafter existing at law or in equity or otherwise.

No Waiver of Default. No delay or omission of the Trustee or of any Owner of the Bonds to exercise any right or power arising upon the occurrence of any Event of Default will impair any such right or power or will be construed to be a waiver of any such Event of Default or an acquiescence therein.

THE TRUSTEE

Duties, Immunities and Liabilities of Trustee. The Trustee will, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are expressly and specifically set forth in the Indenture and no implied covenants or duties will be read into the Indenture against the Trustee. The Trustee will, during the existence of any Event of Default (which has not been cured), exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

Appointment, Removal and Resignation of the Trustee. The Department may remove the Trustee at any time, unless an Event of Default will have occurred and then be continuing, and will if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee will cease to be eligible in accordance with the Indenture, or will become incapable of acting, or will be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property will be appointed, or any public officer will take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee and thereupon will promptly appoint a successor Trustee by an instrument in writing.

The Trustee may at any time resign by giving written notice of such resignation to the Department and by giving the Bond Owners notice of such resignation by mail at the addresses shown on the Registration Books. Upon receiving such notice of resignation, the Department will promptly appoint a successor Trustee by an instrument in writing.

Any removal or resignation of the Trustee and appointment of a successor Trustee will become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee will have been appointed and have accepted appointment within forty-five (45) days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Bond Owner (on behalf of himself and all other Bond Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture will signify its acceptance of such appointment by executing and delivering to the Department and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act,

deed or conveyance, will become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Indenture; but, nevertheless at the Request of the Department or the request of the successor Trustee, such predecessor Trustee will execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and will pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions set forth in the Indenture. Upon request of the successor Trustee, the Department will execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in the Indenture, the Department will mail or cause the successor Trustee to mail a notice of the succession of such Trustee to the trusts under the Indenture to each Rating Agency which is then rating the Bonds and to the Bond Owners at the addresses shown on the Registration Books. If the Department fails to mail such notice within fifteen (15) days after acceptance of appointment by the successor Trustee, the successor Trustee will cause such notice to be mailed at the expense of the Department.

Any Trustee appointed under the provisions of the Indenture in succession to the Trustee will be a trust company, a national banking association or bank having the powers of a trust company having a corporate trust office in San Francisco or Los Angeles, California, having a combined capital and surplus of at least Seventy-Five Million Dollars (\$75,000,000), and subject to supervision or examination for federal or state authority. If such bank, national banking association or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of the Indenture the combined capital and surplus of such bank, national banking association or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee will cease to be eligible in accordance with the provisions of the Indenture, the Trustee will resign immediately in the manner and with the effect specified in the Indenture.

Merger or Consolidation. Any bank, national banking association or trust company into which the Trustee may be merged or converted or with which it may be consolidated or any bank, national banking association or trust company resulting from any merger, conversion or consolidation to which it will be a party or any bank, national banking association or trust company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such bank, national banking association or trust company will be eligible under the Indenture will be the successor to such Trustee, without the execution or filing of any paper or any further act, anything in the Indenture to the contrary notwithstanding.

Liability of Trustee.

(a) The recitals of facts in the Indenture and in the Bonds contained will be taken as statements of the Department, and the Trustee will not assume responsibility for the correctness of the same, or make any representations as to the validity, sufficiency or priority of the Indenture or the Bonds, nor will the Trustee incur any responsibility in respect thereof, other than as expressly stated in the Indenture in connection with the respective duties or obligations in the Indenture or in the Bonds assigned to or imposed upon it. The Trustee will, however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee will not be liable in connection with the performance of its duties under the Indenture, except for its own negligence or willful misconduct. The Trustee may become the Owner of Bonds with the same rights it would have if it were not Trustee, and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bond Owners, whether or not such committee will represent the Owners of a majority in principal amount of the Bonds then Outstanding.

(b) The Trustee will not be liable for any error of judgment made in good faith by a responsible officer or employee, unless it will be proved that the Trustee was negligent in ascertaining the pertinent facts.

(c) The Trustee will not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority in aggregate principal amount of the

Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Indenture.

(d) The Trustee will not be liable for any action taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by the Indenture.

(e) The Trustee will not be deemed to have knowledge of any Event of Default under the Indenture or any other event which, with the passage of time, the giving of notice, or both, would constitute an Event of Default under the Indenture unless and until a Responsible Officer of the Trustee will have actual knowledge of such event or the Trustee will have been notified in writing, in accordance with the Indenture, of such event by the Department or the Owners of not less than 25% of the Bonds then Outstanding. Except as otherwise expressly provided in the Indenture, the Trustee will not be bound to ascertain or inquire as to the performance or observance by the Department of any of the terms, conditions, covenants or agreements in the Indenture of any of the documents executed in connection with the Bonds, or as to the existence of an Event of Default thereunder or an event which would, with the giving of notice, the passage of time, or both, constitute an Event of Default thereunder. The Trustee will not be responsible for the validity, effectiveness or priority of any collateral given to or held by it.

(f) No provision of the Indenture will require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties under the Indenture, or in the exercise of any of its rights or powers.

(g) The Trustee will be under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request or direction of Owners pursuant to the Indenture, unless such Owners will have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities (including reasonable attorneys' fees) which might be incurred by it in compliance with such request or direction. No permissive power, right or remedy conferred upon the Trustee under the Indenture will be construed to impose a duty to exercise such power, right or remedy.

(h) Whether or not expressly provided in the Indenture, every provision of the Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee will be subject to the provisions of the Indenture. The immunities and exceptions from liability of the Trustee will extend to its officers, directors, employees and agents.

(i) In the performance of its duties under the Indenture, the Trustee may employ attorneys, agents and receivers and will not be liable for any action of such attorneys, agents and receivers to the extent selected by it with due care.

(j) The Trustee will have no responsibility with respect to any information, statement or recital whatsoever in any official statement, offering memorandum or other disclosure material prepared or distributed with respect to the Bonds. The Trustee will not be accountable for the use or application by the Department or any other party of any funds which the Trustee has released under the Indenture.

(k) In accepting the trust created by the Indenture, the Trustee acts solely as Trustee for the Owners and not in its individual capacity and all persons, including without limitations the Owners and the Department having any claim against the Trustee arising from the Indenture will look only to the funds and accounts held by the Trustee under the Indenture for payment except as otherwise provided in the Indenture. Under no circumstances will the Trustee be liable in its individual capacity for the obligations evidenced by the Bonds.

(l) The Trustee will not be considered in breach of or in default in its obligations under the Indenture or progress in respect thereto in the event of enforced delay ("unavoidable delay") in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to: Acts of God or of the public enemy or terrorists; acts of a government; fires; floods; epidemics; quarantine restrictions; strikes; freight embargoes; earthquakes; explosion; mob violence; riot; inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, materials or supplies in the open market; litigation or arbitration relating to zoning or other governmental action or inaction pertaining to the Trust

Estate; malicious mischief; condemnation; and unusually severe weather or delays of suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Trustee.

(m) The Trustee agrees to accept and act upon facsimile transmissions of written instructions and/or directions pursuant to the Indenture; provided, however, that: (a) subsequent to any such facsimile transmission of written instructions and/or directions, the Trustee will forthwith receive the originally executed instructions and/or directions, (b) such originally executed instructions and/or directions will be signed by a person as may be designated and authorized to sign for the party signing such instructions and/or directions, and (c) the Trustee will have on file a current incumbency certificate containing the specimen signature of such designated person.

Right to Rely on Documents. The Trustee will be protected in acting upon any notice, resolution, direction, requisition, request, consent, order, certificate, report, opinion, notes or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee will determine to make such further inquiry or investigation, it will be entitled to examine the books, records and premises of the Department, personally or by agent. The Trustee may consult with counsel, who may be counsel of or to the Department, with regard to all matters concerning the trust created by the Indenture or the duties of the Trustee under the Indenture, and the opinion or advice of such counsel will be full and complete authorization and protection in respect of any action taken or suffered by it under the Indenture in good faith and in accordance therewith.

The Trustee may treat the Owners of the Bonds appearing in the Trustee's Registration Books as the absolute owners of the Bonds for all purposes and the Trustee will not be affected by any notice to the contrary.

Whenever in the administration of the trusts imposed upon it by the Indenture the Trustee will deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Indenture, such matter (unless other evidence in respect thereof be specifically prescribed in the Indenture) may be deemed to be conclusively proved and established by a Certificate, Request or Requisition of the Department, and such Certificate, Request or Requisition will be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of the Indenture in reliance upon such Certificate, Request or Requisition, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it may deem reasonable.

All moneys received by the Trustee will, until used or applied or invested as provided in the Indenture, be held in trust for the purposes for which they were received but need not be segregated from other funds except to the extent required by law. The Trustee will not be under any liability for interest on any moneys received under the Indenture except such as may be agreed upon.

Preservation and Inspection of Documents. All documents received by the Trustee under the provisions of the Indenture will be retained in its possession and will be subject at all reasonable times upon reasonable prior notice to the inspection of the Department and any Bond Owner, and their agents and representatives duly authorized in writing, at reasonable hours and under reasonable conditions.

Compensation and Indemnification. The Department will pay to the Trustee from time to time all reasonable compensation for all services rendered under the Indenture, and also all reasonable expenses, charges, legal and consulting fees and other disbursements and those of their attorneys, agents and employees, incurred in and about the performance of their powers and duties under the Indenture.

The Department will indemnify, defend and hold harmless the Trustee its officers, employees, directors and agents against any loss, cost, liability or expense (including legal fees and expenses) incurred without negligence, misconduct or bad faith on its part, arising out of or in connection with the execution of the Indenture, acceptance or administration of this trust, including costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers under the Indenture or the enforcement of any of its rights or remedies. The rights of the Trustee and the obligations of the Department under the Indenture will survive removal or resignation of the Trustee and the discharge of the Bonds and the Indenture.

MODIFICATION OR AMENDMENT OF THE INDENTURE

Amendments Permitted.

(a) The Indenture and the rights and obligations of the Department and of the Owners of the Bonds and of the Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental thereto, which the Department and the Trustee may enter into when the written consent of the Owners of a majority in aggregate principal amount of (i) if all of the Outstanding Bonds of all Series are affected, the Bonds of all Series then Outstanding or (ii) if less than all of the Outstanding Bonds of all Series are affected, the Bonds of each affected Series (excluding, in each case, from such consent, and from the Outstanding Bonds, the Bonds of any specified Series and maturity if such amendment by its terms will not take effect so long as any of such Bonds remain Outstanding); provided, however, that in either case the Trustee will exclude Bonds disqualified as provided in the Indenture, if proof of such disqualification will have been filed with the Trustee. No such modification or amendment will (1) extend the fixed maturity of any Bonds, or reduce the amount of principal thereof or premium (if any) thereon, or extend the time of payment, or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the Owner of each Bond so affected, or (2) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to affect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture except as permitted in the Indenture, or deprive the Owners of the Bonds of the lien created by the Indenture on such Revenues and other assets (except as expressly provided in the Indenture), without the consent of the Owners of all of the Bonds then Outstanding. It will not be necessary for the consent of the Bond Owners to approve the particular form of any Supplemental Indenture, but it will be sufficient if such consent will approve the substance thereof. Promptly after the execution by the Department and the Trustee of any Supplemental Indenture pursuant to this subsection, the Department will mail a notice, setting forth in general terms the substance of such Supplemental Indenture, to each Rating Agency and the Owners of the Bonds at the respective addresses shown on the Registration Books. Any failure to give such notice, or any defect therein, will not, however, in any way impair or affect the validity of any such Supplemental Indenture.

(b) The Indenture and the rights and obligations of the Department, of the Trustee and the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the Department and the Trustee may enter into without the consent of any Bond Owners, if the Trustee will receive an opinion of Bond Counsel to the effect that the provisions of such Supplemental Indenture will not materially adversely affect the interests of the Owners of the Outstanding Bonds, including, without limitation, for any one or more of the following purposes:

(1) to add to the covenants and agreements of the Department in the Indenture contained other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved to or conferred upon the Department;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the Department may deem necessary or desirable;

(3) to modify, amend or supplement the Indenture in such manner as to permit the qualification under the Trust Indenture Act of 1939, as amended, or any similar federal statute under the Indenture in effect, and to add such other terms conditions and provisions as may be permitted by said act or similar federal statute;

(4) to modify, amend or supplement the Indenture in such manner as to cause interest on the Bonds to remain excludable from gross income under the Code;

(5) to modify, amend or supplement the Indenture in such manner as to permit the deposit of a surety bond, an insurance policy, a letter of credit or any other security device in the Reserve Fund; or

(6) to modify, amend or supplement the Indenture in such manner as does not materially, adversely affect the Owners.

(c) The Trustee may in its discretion, but will not be obligated to, enter into any such Supplemental Indenture authorized by subsections (a) or (b) above which materially adversely affects the Trustee's own rights, duties or immunities under the Indenture or otherwise.

(d) Prior to the Trustee entering into any Supplemental Indenture under the Indenture, there will be delivered to the Trustee an opinion of Bond Counsel stating, in substance, that such Supplemental Indenture has been adopted in compliance with the requirements of the Indenture and that the adoption of such Supplemental Indenture will not, in and of itself, adversely affect the exclusion of interest on the Bonds from federal income taxation and from state income taxation.

Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture pursuant to the Indenture, the Indenture will be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Department, the Trustee and all Owners of Bonds Outstanding will thereafter be determined, exercised and enforced thereunder subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture will be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Endorsement of Bonds; Preparation of New Bonds. Bonds delivered after the execution of any Supplemental Indenture pursuant to the Indenture may, and if the Department so determines will, bear a notation by endorsement or otherwise in form approved by the Department and the Trustee as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand on the Owner of any Bonds Outstanding at the time of such execution and presentation of his or her Bonds for the purpose at the Office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, a suitable notation will be made on such Bonds. If the Supplemental Indenture will so provide, new Bonds so modified as to conform, in the opinion of the Department and the Trustee, to any modification or amendment contained in such Supplemental Indenture, will be prepared and executed by the Department and authenticated by the Trustee, and upon demand on the Owners of any Bonds then Outstanding will be exchanged at the Office of the Trustee, without cost to any Bond Owner, for Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amount of the same maturity and Series.

Amendment of Particular Bonds. The provisions of the Indenture will not prevent any Bond Owner from accepting any amendment as to the particular Bonds held by such Bond Owner.

DEFEASANCE

Discharge of Indenture. Bonds of one or more Series may be paid by the Department in any of the following ways, provided that the Department also pays or causes to be paid any other sums payable under the Indenture by the Department:

(a) by paying or causing to be paid the principal of and interest and redemption premiums (if any) on such Bonds, as and when the same become due and payable;

(b) by depositing with the Trustee, in trust, at or before maturity, money or securities in the necessary amount (as provided under the subcaption " – Deposit of Money or Securities with Trustee") to pay or redeem such Bonds then Outstanding; or

(c) by delivering to the Trustee, for cancellation by it, such Bonds then Outstanding.

If the Department will also pay or cause to be paid all other sums payable under the Indenture by the Department, then and in that case, at the election of the Department (evidenced by a Certificate of the Department, filed with the Trustee, signifying the intention of the Department to discharge all such indebtedness and the Indenture), and notwithstanding that any such Bonds will not have been surrendered for payment, the Indenture and the pledge of Revenues and other amounts made under the Indenture and all covenants, agreements and other

obligations of the Department under the Indenture other than certain obligations with respect to transfer, registration and cancellation of Bonds pursuant to the Indenture, certain obligations with respect to the Trustee and any amount required to be paid to any provider of any Common Reserve Security Device or Separate Reserve Fund Security Device under the Indenture, will cease, terminate, become void and be completely discharged and satisfied with respect to such Bonds. In such event, upon the Request of the Department, the Trustee will execute and deliver to the Department all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee will pay over, transfer, assign or deliver all moneys or securities or other property held by them pursuant to the Indenture which are not required for the payment or redemption of such Bonds not theretofore surrendered for such payment or redemption to the Department.

Discharge of Liability on Bonds. Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided under the subcaption “-Deposit of Money or Securities with Trustee”) to pay or redeem any Outstanding Bonds of one or more Series (whether upon or prior to the maturity or the redemption date of such Bonds) and any amounts owing to the provider of any Common Reserve Security Device or Separate Reserve Fund Security Device under the Indenture; provided that, if such Outstanding Bonds are to be redeemed prior to maturity, notice of such redemption will have been given as provided in the Indenture or provisions satisfactory to the Trustee will have been made for the giving of such notice, then all liability of the Department in respect of such Bonds will cease, terminate and be completely discharged, and the Owners thereof will thereafter be entitled only to payment out of such money or securities deposited with the Trustee as aforesaid for their payment, subject however, to the provisions under the subcaption “ – Payment of Bonds After Discharge of Indenture”.

The Department may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the Department may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, will be deemed to be paid and retired.

Deposit of Money or Securities with Trustee. Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and will be:

(a) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption will have been given as provided in the Indenture or provisions satisfactory to the Trustee will have been made for the giving of such notice, the amount to be deposited or held will be the principal amount of such Bonds and all unpaid interest and premium, if any, thereon to the redemption date; or

(b) Federal Securities and Agencies the principal of and interest on which when due will, based upon a Consultant’s Report filed with the Department and the Trustee, provide money sufficient to pay the principal of and all unpaid interest to maturity, or to the redemption date (with premium, if any), as the case may be, on the Bonds to be paid or redeemed, as such principal, interest and premium, if any, become due, provided that in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption will have been given as provided in the Indenture or provision satisfactory to the Trustee will have been made for the giving of such notice;

provided, in each case, that (i) the Trustee will have been irrevocably instructed (by the terms of the Indenture or by Request of the Department) to apply such money to the payment of such principal, interest and premium, if any, with respect to such Bonds and (ii) the Department will have delivered to the Trustee an opinion of Bond Counsel addressed to the Department and the Trustee to the effect that such Bonds have been discharged in accordance with the Indenture (which opinion may rely upon and assume the accuracy of the Accountant’s opinion referred to above).

Payment of Bonds After Discharge of Indenture. Notwithstanding any provisions of the Indenture, any moneys held by the Trustee in trust for the payment of the principal of, or interest and premium, if any, on any Bonds and remaining unclaimed for two (2) years after such payment has become due and payable (whether at maturity or upon call for redemption or by acceleration as provided in the Indenture), if such moneys were so held

at such date, or two (2) years after the date of deposit of such moneys if deposited after said date, will be repaid to the Department free from the trusts created by the Indenture and all liability of the Trustee with respect to such moneys will thereupon cease; provided, however, that before the repayment of such moneys to the Department as aforesaid, the Trustee will at the written direction of the Department (at the cost of the Department) first mail to the Owners of Bonds which have not yet been paid, at the addresses shown on the Registration Books, a notice, in such form as may be deemed appropriate by the Trustee with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Department of the moneys held for the payment thereof. Pursuant to the Indenture, the Department indemnifies the Trustee against any claims of owners of Bonds which were not paid prior to the repayment of moneys to the Department in accordance with this section of the Indenture.

MISCELLANEOUS

Liability of Department Limited to Revenues; Not Indebtedness of Any Other Subdivision of the City.

Notwithstanding anything in the Indenture or the Bonds, the Department will not be required to advance any moneys derived from any source other than the Revenues and other amounts pledged under the Indenture for any of the purposes in the Indenture mentioned, whether for the payment of the principal of or interest on the Bonds or for any other purpose of the Indenture. Nevertheless, the Department may, but will not be required to, advance for any of the purposes of the Indenture any funds of the Department which may be made available to it for such purposes.

The Bonds do not constitute or evidence an indebtedness of the City, the State of California or any subdivision thereof other than the Department, or a lien or charge on any property or the general revenues of the City, the State of California or any subdivision thereof other than the Department, and in any event the Bonds shall not be payable out of any funds or properties of the City or the Department other than the Revenues deposited into the Harbor Revenue Fund as provided in the Indenture and other amounts pledged therefor under the Indenture. The Bonds do not constitute an indebtedness of the Department in contravention of any charter, statutory or constitutional debt or other limitation or restriction and do not constitute an obligation for which the Department or the City is obligated to levy or pledge any form of taxation or for which the Department or the City has levied or pledged any form of taxation.

Successor Is Deemed Included in All References to Predecessor. Whenever in the Indenture either the Department or the Trustee is named or referred to, such reference will be deemed to include the successors or assigns thereof, and all the covenants and agreements in the Indenture contained by or on behalf of the Department or the Trustee will bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Limitation of Rights to Parties and Bond Owners. Nothing in the Indenture or in the Bonds expressed or implied is intended or will be construed to give to any person other than the Department, the Trustee and the Owners of the Bonds, any legal or equitable right, remedy or claim under or in respect of the Indenture or any covenant, condition or provision therein or contained in the Indenture; and all such covenants, conditions and provisions are and will be held to be for the sole and exclusive benefit of the Department, the Trustee and the Owners of the Bonds.

Waiver of Notice; Requirement of Mailed Notice. Whenever in the Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the person entitled to receive such notice and in any such case the giving or receipt of such notice will not be a condition precedent to the validity of any action taken in reliance upon such waiver. Whenever in the Indenture any notice will be required to be given by mail, such requirement will be satisfied by the deposit of such notice in the United States mail, postage prepaid, by first-class mail.

Evidence of Rights of Bond Owners. Any request, consent or other instrument required or permitted by the Indenture to be signed and executed by Bond Owners may be in any number of concurrent instruments of substantially similar tenor and will be signed or executed by such Bond Owners in person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any person of Bonds transferable by delivery, will be sufficient for any purpose of the Indenture and will be conclusive in favor of the Trustee and the Department if made in the manner provided in this section of the Indenture.

The fact and date of the execution by any person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the person signing such request, consent or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

The ownership of Bonds will be proved by the Registration Books.

Any request, consent, or other instrument or writing of the Owner of any Bond will bind every future Owner of the same Bond and the Owner of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Department in accordance therewith or in reliance thereon.

Disqualified Bonds. In determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under the Indenture, Bonds which are known by the Trustee to be owned or held by or for the account of the Department, or by any other obligor on the Bonds, or by any person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Department or any other obligor on the Bonds, will be disregarded and deemed not to be Outstanding for the purpose of any such determination. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of this section of the Indenture if the pledgee will establish to the satisfaction of the Trustee the pledgee's right to vote such Bonds and that the pledgee is not a person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Department or any other obligor on the Bonds. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel will be full protection to the Trustee. Upon request the Department will certify to the Trustee those Bonds that are disqualified pursuant to this section of the Indenture.

Money Held for Particular Bonds. The money held by the Trustee for the payment of the interest, principal or premium due on any date with respect to particular Bonds (or portions of Bonds in the case of registered Bonds redeemed in part only) will, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Owners of the Bonds entitled thereto, subject, however, to the provisions described under the caption "DEFERANCE – Payment of Bonds After Discharge of Indenture" but without any liability for interest thereon.

Funds and Accounts. Any fund or account required by the Indenture to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee, either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds and accounts will at all times be maintained in accordance with corporate trust industry standards to the extent practicable, and with due regard for the audit requirements of the Indenture and for the protection of the security of the Bonds and the rights of every Owner thereof.

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APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This CONTINUING DISCLOSURE CERTIFICATE (the "Disclosure Certificate") is executed and delivered by the HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES (the "Department") in connection with the issuance by the Department of its Harbor Department of the City of Los Angeles Revenue Bonds 2009 Series [], in an aggregate principal amount of \$[] (the "Bonds"). The Bonds are being issued pursuant to an Indenture of Trust, dated as of July 1, 2009, by and between the Department and U.S. Bank National Association (the "Trustee") (the "Indenture"). The Department covenants as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Department for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-2(b)(5).

SECTION 2. Definitions. The definitions set forth in the Indenture apply to any capitalized term used in this Disclosure Certificate, unless such terms are otherwise defined in this Section 2 below:

"Annual Report" shall mean any Annual Report provided by the Department pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person who (a) has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Disclosure Representative" shall mean the Executive Director of the Department, or such officer's designee, or such other officer or employee as the Department shall designate in writing from time to time.

"Dissemination Agent" shall mean the Department, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Department.

"Holders" shall mean either the registered owners of the Bonds, or, if the Bonds are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in its depository system.

"Insurer" shall mean a financial guaranty insurance company insuring the Bonds.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"Participating Underwriter" shall mean any of the underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"Repository" shall mean any nationally recognized municipal securities information repository certified by the Securities and Exchange Commission to be the recipient of information of the nature of the Annual Reports required by this Disclosure Certificate or such other repository or depository provided for by the Rule. Effective July 1, 2009, the Repository approved by the Securities and Exchange Commission is the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access ("EMMA") site.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of California.

"Tax Owner" means the owner of any Bonds for Federal income tax purposes. The assertion of any tax ownership of a Bond must be filed with full documentary support, as part of a written request pursuant to Section 10 hereof.

SECTION 3. Provision of Annual Reports.

(a) The Department shall, not later than 181 days after the end of the Department's fiscal year, commencing with the report for the end of the 2008-2009 Fiscal Year, prepare an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate and shall, or shall cause the Dissemination Agent, if applicable, to provide such Annual Report to the Repository in such form as required by the Repository and the Insurer not later than nine months after the end of the Department's fiscal year. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; *provided* that the audited financial statements of

the Department may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date. If the Department's fiscal year changes, the Department shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the Repository, the Department shall provide the Annual Report to the Dissemination Agent (if other than the Department).

(c) If the Department is unable to provide the Repository an Annual Report as required in subsection 3(a), the Dissemination Agent shall send a notice to the Repository in substantially the form attached as Exhibit A hereto.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of the Repository; and

(ii) (if the Dissemination Agent is other than the Department), file a report with the Department certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing the Repository to which it was provided.

SECTION 4. Content of Annual Reports. The Department's Annual Report shall be in format suitable for filing with the Repository and shall contain or incorporate by reference historical quantitative data concerning the Department (as defined in the Official Statement, dated June 25, 2009 relating to the Bonds), including (i) the Department's audited financial statements prepared in accordance with generally accepted accounting principles in effect from time to time and (ii) information in form and substance similar to tables 1, 2B and 3 through 11 set forth in Part II of the Official Statement up to June 30 of the most recently ended fiscal year.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Department or related public entities, which have been submitted to the Repository. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Department shall clearly identify each such other document so included by reference.

In the event that information necessary to prepare the tables listed above becomes unavailable due to changes in accounting practices, legislative changes or organizational changes, the Department shall state in its Annual Report that such table will no longer be included in the Annual Report and the reasons therefor. Comparable information shall be provided if available.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Department shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if the Department determines that such event is material under applicable federal securities law:

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. modifications to rights of Bond Holders;
4. optional, contingent or unscheduled bond calls;
5. defeasances;
6. rating changes;
7. adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds;
8. unscheduled draws on the debt service reserves reflecting financial difficulties;
9. unscheduled draws on the credit enhancements reflecting financial difficulties;
10. substitution of credit or liquidity providers, or any failure by any credit or liquidity provider to perform; and

11. release, substitution or sale of property securing repayment of the Bonds.

(b) Whenever the Department obtains knowledge of the occurrence of a Listed Event the Department shall as soon as possible determine if such event would be material under federal securities laws.

(c) If the Department determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Department shall promptly file a notice of such occurrence with the Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Indenture.

SECTION 6. Termination of Reporting Obligation. The obligations of the Department under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Department shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. Dissemination Agent. The Department may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice prepared by the Department pursuant to this Disclosure Certificate.

SECTION 8. Amendment. Notwithstanding any other provision of this Disclosure Certificate, the Department may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided the following conditions are satisfied:

(a) the amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Department or type of business conducted; and

(b) this Disclosure Certificate, as amended, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original execution and delivery of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances.

(c) the amendment does not materially impair the interests of Bond Holders, as determined by nationally recognized bond counsel; and

(d) in the event of any amendment or waiver of a provision of this Disclosure Certificate, the Department shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Department. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Department from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Department chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Department shall not have any obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the Department or the Dissemination Agent, if applicable, to comply with any provision of this Disclosure Certificate any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by

court order, to cause the Department, or the Dissemination Agent (if applicable), as the case may be, to comply with its obligations under this Disclosure Certificate provided such action is taken in the Federal or State Court located in the County of Los Angeles, State of California, and provided further that no remedy other than substantial performance may be sought or granted against the Department. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Trust Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the Department to comply with this Disclosure Certificate shall be an action to compel substantial performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent (if one is appointed by the Department) shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Department agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of the disclosure of information pursuant to this Disclosure Certificate or out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the gross negligence or willful misconduct of the Dissemination Agent. The obligations of the Department under this Section shall survive resignation or removal of the Dissemination Agent, termination of Disclosure Certificate and payment of the Bonds. The Dissemination Agent (if not the Department) shall not have any responsibility or liability for the failure to report any Listed Event or any financial information or as to which the Department did not prepare a report in a format suitable for filing with the Repository.

No Holder or Beneficial Owner of the Bonds may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the Department satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the Department shall have refused to comply therewith within a reasonable time.

SECTION 12. Notices. Any notices or communications to the Department may be given as follows:

Harbor Department of the City of Los Angeles
425 South Palos Verdes Street
San Pedro, California 90731
Attention: Executive Director
Fax: (310) 831-6936
Telephone: (310) 732-3827

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

SECTION 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Department, the Dissemination Agent, the Participating Underwriter and Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Signature. This Disclosure Certificate has been executed by the undersigned on the date hereof, and such signature binds the Department to the undertaking herein provided.

Dated: [_____] , 2009

HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES

By: _____
Executive Director

EXHIBIT A

NOTICE TO REPOSITORY OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Party: Harbor Department of the City of Los Angeles (the "Department")
Name of Issue: Harbor Department of the City of Los Angeles Revenue Bonds, 2009 Series A and
2009 Series B (Delivered _____ 2009).

NOTICE IS HEREBY GIVEN that the Department has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Certificate, dated _____, 2009. [The Department has informed the undersigned that it anticipates that the Annual Report will be filed by _____.] [The undersigned Department is the Dissemination Agent under the Continuing Disclosure Certificate referred to herein.]

Dated: _____

HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES

By: _____
Title: _____

cc: Executive Director
Harbor Department of the City of Los Angeles

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APPENDIX F
FORM OF BOND COUNSEL OPINION

Upon delivery of the Bonds, Sidley Austin LLP, Bond Counsel, proposes to render its final opinion with respect to the Bonds in substantially the following form:

[Date of Issuance]

Harbor Department of the City of Los Angeles
425 South Palos Verdes Street
San Pedro, California 90731

\$200,000,000
Harbor Department of the City of Los Angeles
Revenue Bonds, 2009 Series A and 2009 Series B

Ladies and Gentlemen:

We acted as bond counsel to the Harbor Department of the City of Los Angeles (the “Department”) in connection with the issuance and sale of \$100,000,000 aggregate principal amount of Harbor Department of the City of Los Angeles Revenue Bonds, 2009 Series A (the “2009 Series A Bonds”) and \$100,000,000 aggregate principal amount of Harbor Department of the City of Los Angeles Revenue Bonds, 2009 Series B (the “2009 Series B Bonds”) and, together with the 2009 Series A Bonds, the “Bonds”). The Bonds have been authorized under the Charter of the City of Los Angeles, effective on July 1, 2000, as the same may be amended or supplemented from time to time (the “Charter”), and that certain Charter implementation ordinance related to the procedures for issuance and sale of revenue bonds and other obligations by the Department, codified at Sections 11.28.1 through 11.28.9 of Division 11, Chapter 1, Article 6.5 of the Los Angeles Administrative Code, Resolution No. 09-6724 of the Board of Harbor Commissioners of the City of Los Angeles (the “Board”), adopted on May 7, 2009 (the “Resolution”), and the Indenture of Trust (the “Indenture”), dated as of July 1, 2009, by and between the Department and U.S. Bank National Association, a national banking association organized and existing under the laws of the United States of America, as trustee (the “Trustee”). Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Indenture.

Our services as bond counsel were limited to a review of the legal proceedings required for the authorization and issuance of the Bonds. In such connection, we have reviewed an opinion of the City Attorney, certificates of the Department, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigations.

Certain requirements and procedures contained or referred to in the Indenture, the Tax Certificate or other relevant documents relating to the Bonds may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of nationally recognized bond counsel. We render no opinion as to the effect on the exclusion from gross income of interest on the Bonds of any such change or action taken or omitted after the date of this opinion without our approval.

Based upon the examination described above, and after examination of such questions of law as we have deemed relevant in the circumstances, but subject to the limitations set forth above, we are of the opinion that:

1. The proceedings show lawful authority for the execution by the Department of the Indenture. Assuming due authorization, execution and delivery of the Indenture by the Trustee, the Indenture constitutes a valid, legal and binding obligation of the Department enforceable in accordance with its terms.

2. The proceedings show lawful authority for the issuance of the Bonds, the Bonds have been duly authorized and issued by the Department in accordance with the Indenture and the Bonds constitute valid, legal and binding obligations of the Department enforceable in accordance with their terms.

3. The obligation of the Department to pay the principal of and interest on the Bonds is a limited obligation of the Department payable from all of the Revenues and certain amounts on deposit in certain funds and accounts established pursuant to the Indenture, subject to the provisions of the Indenture permitting the application thereof for the purposes, and on the terms and conditions, set forth in the Indenture. The Bonds do not constitute or evidence indebtedness of the City, the State of California or any political subdivision thereof other than the Department, or a lien or charge on any property or the general revenues of the City, the State of California or any political subdivision thereof other than the Department. The Bonds do not constitute an indebtedness of the Department in contravention of any charter, statutory or constitutional debt or other limitation or restriction and do not constitute an obligation for which the Department or the City is obligated to levy or pledge any form of taxation or for which the Department or the City has levied or pledged any form of taxation.

4. The Bonds are payable from Revenues on a parity with the Department's outstanding Refunding Revenue Bonds, 2001 Series A, 2001 Series B (AMT) and 2002 Series A (AMT), issued under and pursuant to that certain Indenture of Trust, dated as of July 1, 2001, by and between BNY Western Trust Company, as trustee, and the Department, the Department's outstanding Refunding Revenue Bonds, 2005 Series A, 2005 Series B, 2005 Series C-1 (AMT), 2006 Series A (AMT), 2006 Series B (AMT) and 2006 Series C, issued under and pursuant to that certain Indenture of Trust, dated as of October 1, 2005, by and between The Bank of New York Trust Company, N.A., as trustee, and the Department, the Department's outstanding Revenue Bonds, 2006 Series D (AMT), issued under and pursuant to that certain Indenture of Trust, dated as of August 1, 2006, by and between U.S. Bank National Association, as trustee, and the Department, the Department's Commercial Paper Notes outstanding as of the date hereof and that may be issued in the future in accordance with Resolution No. 09-6753 of the Board, adopted on June 4, 2009, and the Department's Refunding Revenue Bonds, 2009 Series C, issued on the date hereof under and pursuant to the Indenture, and the proceedings relating thereto, as well as Parity Obligations which may be issued in the future in accordance with the Indenture.

5. Based on existing statutes, regulations, rulings and judicial decisions and assuming compliance by the Department with certain covenants in the documents pertaining to the Bonds and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding the use, expenditure and investment of proceeds of the Bonds and the timely payment of certain investment earnings to the United States, interest on the Bonds is not includable in gross income for federal income tax purposes, except for any 2009 Series A Bond during any period in which such 2009 Series A Bond is held by a "substantial user" of the facilities financed with the proceeds of the 2009 Series A Bond or a "related person" (as such term is defined in the Code). Failure to comply with such covenants and requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds.

6. Interest on the Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations, and is not included as an adjustment in calculating federal corporate alternative minimum taxable income for purposes of determining a corporation's alternative minimum tax liability.

7. Interest on the Bonds is exempt from personal income taxes imposed by the State of California.

With respect to the opinions expressed herein, the rights and obligations of the Department under the Bonds and the Indenture are subject to bankruptcy, insolvency, moratorium and other laws affecting the enforcement of creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public agencies in the State of California.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. Such opinions may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling) after the date

hereof. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur and we have no obligation to update this opinion in light of such actions or events.

Respectfully submitted,

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