

The Harbor Department, an Enterprise Fund of the City of Long Beach, California

Comprehensive Annual Financial Report

For the fiscal year ended September 30, 2016



Port of
LONG BEACH
The Green Port



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LONG BEACH
The Green Port



The Harbor Department, an Enterprise Fund of the City
of Long Beach, California

Comprehensive Annual Financial Report

For the Fiscal Year Ended September 30, 2016
(With Independent Auditors' Report Thereon)

Duane Kenagy
Interim Chief Executive

Chuck Adams
Acting Managing Director
Chief Financial



Port of
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THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

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Introductory Section



Letter of Transmittal

March 27, 2017

The Board of Harbor Commissioners
The Harbor Department of the City of Long Beach
Long Beach, California
Members of the Board of Harbor Commissioners:

State law requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with U.S. generally accepted accounting principles (GAAP) and audited in accordance with U.S. generally accepted auditing standards (GAAS) by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report (CAFR) of the Harbor Department of the City of Long Beach (the Department), an enterprise fund of the City of Long Beach, California (the City), for the fiscal year ended September 30, 2016. The Department's operations are included in the City's reporting entity as an enterprise fund.

This report consists of management's representations concerning the finances of the Department. Management is responsible for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management has established a comprehensive internal control framework that is designed to protect assets from loss, theft, or misuse, and to compile sufficient reliable information for the preparation of the financial statements in conformity with GAAP. The costs of internal controls should not exceed their benefits; therefore, the comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. Management asserts that, to the best of its knowledge and belief, this financial report is complete and reliable in all material aspects.

The Department's basic financial statements have been audited by KPMG LLP, a firm of licensed certified public accountants. The goal of the independent audit is to provide reasonable assurance that the Department's financial statements for the fiscal year ended September 30, 2016 are free of material misstatement. The independent audit entails examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit performed, that there was a reasonable basis for rendering an unmodified opinion, and that the Department's financial statements for the fiscal year ended September 30, 2016 are fairly presented, in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report. GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is intended to complement the MD&A, and should be read in conjunction with it. The Department's MD&A immediately follows the report of the independent auditors.



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Profile of the Department

The State of California has conveyed, in trust, to the City certain tidal and submerged lands for the establishment and maintenance of the Harbor District (which includes the Port of Long Beach). Consistent with this grant, the City Charter confers on the Board of Harbor Commissioners (the Board) exclusive control and management of the Department (or the Port). The Board has authority, on behalf of the City, to provide for the needs of commerce, navigation, recreation, and fishery; to develop and maintain all waterfront properties; to dredge and reclaim land; and to construct and operate terminals, railroad tracks, and other facilities both inside and outside the Department's jurisdiction.

The City Charter provides for the establishment of the Harbor Revenue Fund to account for the administration of the Harbor District by the Department. The Department generates funds through leases, tariffs, and other assessments to its customers. It can disburse these funds only for activities attributable to the trust.

The Department maintains a financial and cost accounting system independent of other City departments. The focus of the statement of revenues and expenses is on inflows and outflows of economic resources using the accrual basis of accounting. Changes in net positions are recognized as soon as the cause of the change occurs, regardless of the timing of related cash flows; that is, revenues are recognized as soon as they are earned, and expenses are recognized as soon as a liability is incurred. All the assets and liabilities associated with the Department's operations are included in the statement of net position. Net position is segregated into investment in capital assets, net of related debt, restricted, and unrestricted. The City, through some of its departments, provides police, fire protection, and other administrative services to the Department, which, in turn, reimburses the provider for the cost of the services received.

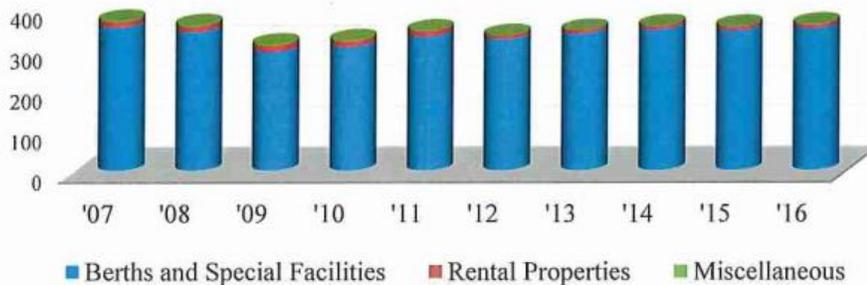
Summary of Operations

Operating Revenues

Total operating revenues for fiscal year 2016 were \$360.7 million, which is a 1.5% increase from fiscal year 2015. Container terminal revenue, which accounted for approximately 76.2% of total operating revenue for the year, was up 1.8% from fiscal 2015 mainly due to rent increase at the Middle Harbor terminal. Revenue at non-container terminals as an overall category was flat.



**Operating Revenue by Type
(in million)**



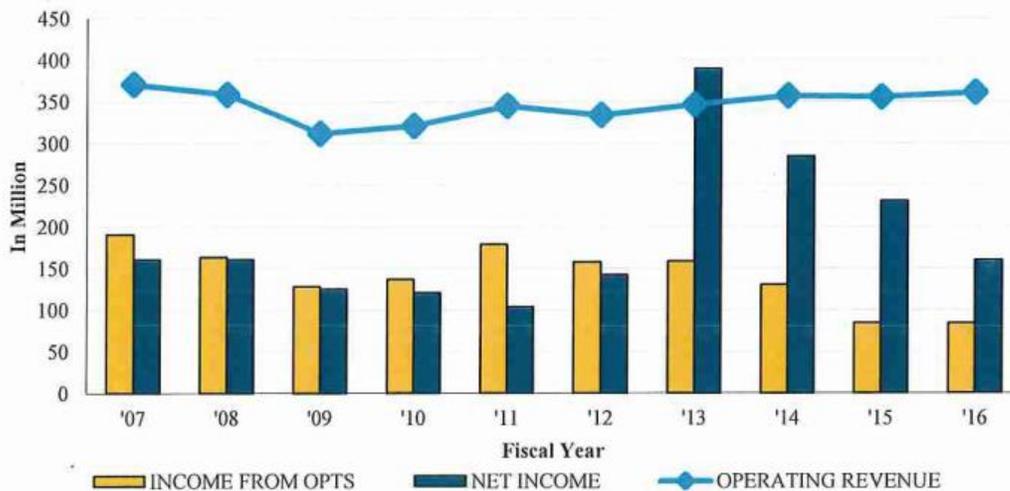
Cargo Volumes

In terms of cargo volumes, measured in metric revenue tons (MRTs), cargo handled by Port terminals decreased 1.8% to 161.3 million. Liquid bulk increased 0.6% to 31.2 million and lumber increased 2.3% to 0.2 million; on the other hand containerized cargo decreased 1.7% to 123.1 million, dry bulk decreased 14.4% to 6.0 million, break-bulk and steel decreased 6.5% to 0.5 million, and vehicles decreased 1.2% to 0.3 million. Containerized cargo, measured in Twenty-Foot Equivalent units (TEUs), decreased 2.0% to 6.9 million.

Net Income

Net income for FY2016 was \$173.1 million, or a decrease of 25.0% versus the prior year. The chart below depicts operating revenue, income from operations, and net income for the last 10 fiscal years.

Operating Revenue, Income from Operations, and Net Income





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Operating Expense, and Other Income and Expense

Port operating expenses include facilities and infrastructure maintenance, fire and safety, indirect terminal operation, and general and administration expenses. These expenses increased by 8.0%, or \$10.8 million, to \$144.5 million. The primary reason for this increase is the higher general and administrative expenses resulted from implementation of net pension liability and postemployment benefits other than pensions (“OPEB”) (*GASB Statement 68 and 75*). Depreciation expense changes were triggered by changes in the amount of completed capital projects, the acquisition/retirement of operating assets, and the number of years that operating assets have been in service. During fiscal year 2016, the depreciation expense category increased by 6.5%, or \$9.0 million, to \$146.7 million. This change is supported by the increase in facilities and infrastructure completed and transferred from the Construction in Progress accounts to the Capital Assets accounts.

The Department’s fiscal year 2016 total non-operating income was \$54.0 million lower than the prior year, primarily due to the sale of 14 gantry cranes to a Port tenant in FY 2015. Excluding this one-time event, non-operating income would have been \$18.0 million lower than the prior year resulting from a greater amount of contingent liability reserves being released in FY 2015.

The City Charter, as amended, provides for a transfer of 5% of the Department’s operating revenue to the City’s Tideland’s Operating Fund. For fiscal year 2016, the Board approved a transfer in the amount of \$18.0 million.

In April 2016, the Department acquired the land from the City for Port’s new headquarter at \$8.0 million. The land is valued at \$12 million, which resulted with the net amount of \$4 million of contributions from the City.

During fiscal year 2016, the Department was not required to make any payment towards the projected Shortfall Advance to the Alameda Corridor Transportation Authority (the ACTA), under the ACTA Use and Operating Agreement. The agreement was executed by the Department, the Harbor Department of the City of Los Angeles (Port of Los Angeles), the ACTA, and the Burlington Northern Santa Fe and Union Pacific Railroads. Any shortfall advance made by the Department and the Port of Los Angeles is reimbursable, with interest, by ACTA. The Department has funded, in prior years, a cash reserve to satisfy claims related to the shortfall advance potential obligation, but no longer believes a reserve is needed. The reserve was eliminated in fiscal year 2012.



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The following table summarizes financial highlights (in thousands):

	September 30		Percentage change
	2016	2015	
Operating revenue	\$ 360,660	355,450	1.5%
Operating expenses	144,533	133,771	8.0%
Depreciation & Amortization	146,721	137,709	6.5%
Income from operations	69,406	83,970	-17.3%
Non-operating revenue (expenses)			
Capital grants	128,282	121,008	6.0%
Transfers to the City Tidelands Fund	(18,033)	(17,772)	1.5%
Other	(6,524) (2)	43,507 (1)	N/A
Net Income	173,131	230,713	-25.0%

(1) Includes one-time net proceeds of \$36 million from the sale of 14 gantry cranes.

(2) Includes \$4 million of one-time capital contribution from the City resulted from the land purchase for Port's headquarter

Operating Revenue by Type

Annual Budget

The budget constitutes an appropriation covering expected revenues and expenditures of the Department; Section 1210 of the City Charter requires the Board to adopt a budget not later than 60 days before the beginning of each fiscal year. The City Charter also provides that the City Council may approve or amend the Department's budget before the first day of the fiscal year. The Department's fiscal 2016 annual budget is \$829.1 million.

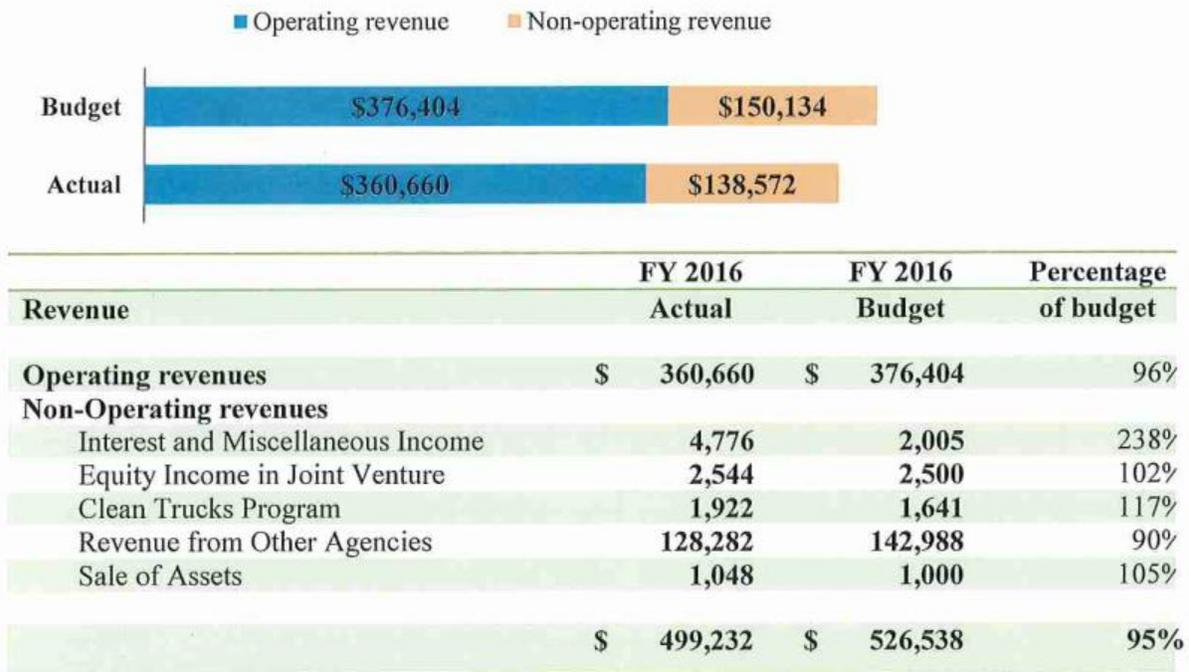
Revenues Actual to Budget

Fiscal year 2016 actual operating revenues came in lower than budget by 4.2%, which was due in part to a delay in a planned increase to Middle Harbor terminal's guaranteed annual minimum payments. Cargo volumes, as measured in metric revenue tons, decreased 1.8% compared to the prior year, with a total of 161.3 million metric revenue tons moving through the Port. Actual capital grant revenues, a part of non-operating income, were 90.0% of the \$142.9 million that was budgeted. Interest earnings were higher than budget due to higher earnings on unrestricted cash balances.



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The following table shows revenues budgetary performance for fiscal year 2016 (in thousands):



Expenses Actual to Budget

The Department moved to nominally increase staffing levels during fiscal year 2016, with the number of filled permanent full-time positions increasing from 494 in 2015 to 501 in 2016, an increase of 1.4%. Although headcount increased versus the prior year, the actual figure fell short of achieving the levels proposed in the budget. Total personnel expenses were \$1.4 million, or 2.3% below budget. Non-personnel expenses were \$6.4 million, or 6.3% lower than budgeted, primarily due to delays in the timing of planned expenditures.

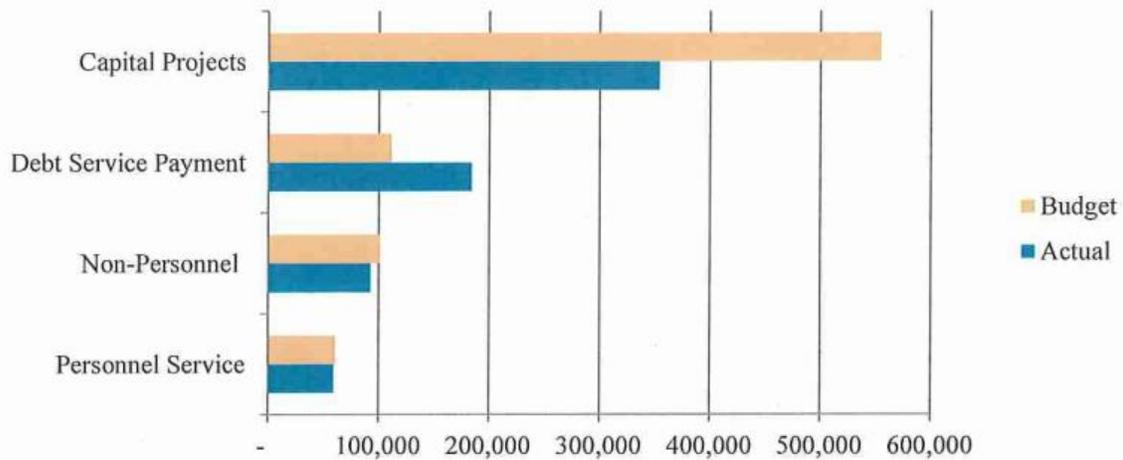
FY 2016 debt service payment totaled \$184.2 million (including line of credit repayment), which was \$72.6 million (65.1%) over budget. This variance is primarily related to the timing of a \$55 million pay-down of the line of credit, which was originally budgeted to occur in FY 2015. Capital outlays (excluding capitalized interest) totaled \$354.2 million, which is \$200.5 million (36.1%) lower than the budgeted amount. The Department continues its ambitious realignment of cargo terminals in order to improve cargo operations and to contribute to an overall cleaner environment around the port complex. It is anticipated that, when completed, this realignment will bring an increase in operational revenue in the years to come. The construction of the Gerald Desmond Replacement Bridge is anticipated to be completed in late 2018.



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The following table shows expenditures and employee headcount budgetary performance for fiscal year 2016 (in thousands):



	FY 2016 Actual	FY 2016 Budget	Percentage of Budget
Expenditures			
Personnel Services *	\$ 59,825	\$ 61,229	98%
Non-Personnel			
Port Operations	35,967	42,887	84
Interdepartmental charges	31,186	33,742	92
Clean Trucks Program	6,578	5,243	125
Furniture, fixtures, and equipment	1,379	1,926	72
Transfers to the City Tidelands Fund	17,737	17,737	100
Debt Service Payment	89,220	91,616	97
Line of Credit Paydown	95,000	20,000	475
Capital Projects	354,246	554,750	64
Total expenditures	\$ 691,138	\$ 829,130	83%

* The \$14 Million of GASB 68 and 75 (pension and OPEB adjustment) is excluded from the actual personnel service cost.

Employee headcount

Regular	501	558	90%
Part time/temporary	24	33	73
No. of employees	525	591	89%



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Debt Administration

The following table shows bond issuance information and long-term changes (exclusive of unamortized bond premium or discount). Note 9 to the financial statements will provide additional

Harbor Revenue Bond	Original Issue	Date of Issue	Coupon	Outstanding Principal
	(in thousands)			(in thousands)
1998A	\$206,330	1/29/1998	6%	\$ 47,030
2010A	208,835	3/31/2010	3% - 5%	136,715
2010B	158,085	4/29/2010	4% - 5%	127,660
2014A	38,465	4/24/2014	4% - 5%	12,730
2014B	20,570	4/24/2014	3% - 5%	20,570
2014C	325,000	6/4/2014	3% - 5%	325,000
2015A	44,845	4/16/2015	4% - 5%	44,845
2015B	20,130	4/16/2015	5%	20,130
2015C	66,085	7/15/2015	5%	66,085
2015D	66,865	7/15/2015	5%	66,865
	\$1,155,210			\$ 867,630

information related to the Department's long-term debt program.

While FY 2016 Budget planned to issue \$200 million of additional Harbor Revenue Bond, lower capital expenditures in both FY 2015 and FY 2016 delayed the borrowing to future years.

The credit ratings of the Department are the highest ratings among all domestic ports in the United State. The Department's long-term senior lien credit ratings are AA by Fitch Rating ("Fitch"), AA by Standard & Poor's ("S&P") and Aa2 by Moody's Investors Service ("Moody's"). A high credit rating recognizes good financial management by the Department and lowers the cost of borrowing in the future.

Lines of Credit

In July 2013, the Board of Harbor Commissioners authorized the issuance of \$200 million Subordinate Harbor Revenue Revolving Obligations Series A (Tax-Exempt) with Bank of America, and Series B (Tax-Exempt), and Series C (Taxable) with Union Bank. Both of revolving line of



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credit was scheduled to expire on July 29, 2016. Early July 2016, the Board authorized to terminate the line of credit with Bank of America and issue a new line of credit facility (a tax-exempt revolving line of credit and a taxable revolving line of credit) with Union Bank in the amount of \$200 million. The Department will secure the borrowings under the revolving line of credit with a subordinate lien on the revenues of the Department.

As of September 30, 2016, the Department has a total of \$25 million in principal drawn on the line of credit with Union Bank, N.A..

Responsible Growth

The Port's revenue derived from cargo facilities increased by 1.5% between 2015 and 2016 from \$343.1 million to \$348.2 million; cargo volumes measured in metric revenue tons decreased by 1.8% during the same period of time from 164.3 million tons to 161.3 million tons. The Port continues its realignment of cargo terminals in advance of an anticipated growth in trade volumes. Its terminals and installations continue to provide the best alternative for shipping lines to move cargo in and out of the continental United States.

Economic Outlook

In 1911, the State of California established the Long Beach tidelands area as a State Trust and designated the City of Long Beach as a trustee for the people of the State of California. The Port of Long Beach, located in the Tidelands Trust and overseen by the City of Long Beach Harbor Department under direction of the Long Beach Board of Harbor Commissioners, has succeeded and become a landlord port providing the region, state, and nation with state-of-the-art seaport facilities and serving as a safe international gateway for trade. The Port of Long Beach has evolved into the second-busiest container seaport in North America.

The City of Long Beach Harbor Department generates revenues through leases, tariffs, and other charges assessed to Port of Long Beach tenants and other customers. No local, state, or federal taxes support Port operations. The Harbor Department does not fund general City of Long Beach governmental activities, but compensates the City of Long Beach for services such as public safety, human resources, civil service, and centralized financial, legal, and audit services. The expansion or contraction of foreign trade directly affects local, regional, and national economies. The Port, as a crucial economic engine for the region and beyond, must continually strengthen its competitiveness by anticipating and responding to economic challenges, and seizing opportunities to continue to be the preferred seaport for trans-Pacific trade.

Hanjin Bankruptcy

On August 31, 2016, the Hanjin Shipping Co. filed for bankruptcy in South Korean court. Hanjin was the seventh-largest container shipping line in the world, and the announcement was very significant in the shipping industry. Hanjin was a longtime presence at the Port of Long Beach. Hanjin ships called regularly and owned a 54 percent stake in the long-term lease at the Port's "Pier T." In calendar 2015, Hanjin accounted for 12.3 percent of all the containers moving through the Port of Long Beach.



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The bankruptcy caused the idling of many Hanjin container ships around the world, including several in the vicinity of California ports. Empty Hanjin shipping containers were also stacked up around Southern California. Those issues were resolved in about two months.

For the Port of Long Beach, the main effect was the diversion of cargo to other ports served by Hanjin alliance partners. This dramatically reduced cargo traffic at Long Beach's Pier T in the last three months of calendar 2016. Overall, cargo container movement through the Port of Long Beach was down 5.8 percent in calendar 2016 compared to calendar 2015.

The terminal operator, Total Terminals International (TTI), continued to welcome some ships of the "2M Alliance." The Port still earned the "guaranteed annual minimum" lease payment from TTI.

By the end of calendar 2016, the Mediterranean Shipping Company's subsidiary Terminal Investment Limited (TIL) sought to buy out Hanjin's share in the TTI lease. The Long Beach Board of Harbor Commissioners gave its approval to that sale in December 2016, and the sale was approved by the South Korean bankruptcy court in the first quarter of 2017.

By January 2017, the Pier T facility - the largest terminal at the Port of Long Beach - was already seeing the number of vessel calls rise.

Trade and Commerce

Container volume at the Port of Long Beach retracted 2% in 2016 as a result of Hanjin Shipping filing for court receivership and alliance service changes. While the U.S. economy continues to improve, uncertainty elsewhere in the world economy has resulted in poor financial performance by ocean carriers. The container shipping industry is undergoing tremendous changes in 2016. Some of the companies have turned to consolidating with their former rivals if not outright fail and exit the market. Following CMA CGM's announcement to acquire Singapore-based Neptune Orient Lines (NOL, the parent company of APL Line) in December 2015, China's COSCO and China Shipping officially merged in March 2016 to form COSCO Shipping. Later in September 2016, Korea's largest ocean carrier, Hanjin Shipping, filed for court receivership and exited North America and Europe business shortly after. Most recently in November 2016, Japan's three major ocean carriers, K Line, Mitsui O.S. K. and NYK Line, announced that they will merge their container business effective July 2018. All these indicate that transformation in the ocean shipping market is on the horizon.

As container ships capable of transporting more than 10,000 twenty-foot-equivalent units (the so-called big ships) continue to call at the Port of Long Beach, the Port's ability to accommodate the mega vessels and handle the additional cargo volume has become a key objective to retain its competitive advantage over other gateways. In preparation for the next generation of even larger vessels, the Port of Long Beach has embarked on a 10-year, \$4.0 billion capital program to upgrade its infrastructure and modernize its facilities in order to improve fluidity and efficiency in its cargo operations. When completed, the capital program will make the Port of Long Beach one of the cleanest and most efficient ports in the world.

In addition to its capital program, the Port of Long Beach is also committed to finding solutions to challenges throughout the entire ocean transportation supply chain: truck turn-times, chassis shortages, and cargo visibility, to name a few. The influx of larger amounts of cargo over a shorter period of time is further testing the Port's cargo handling capability. However, the Port of Long Beach is taking a leadership role by working with its partners to formulate solutions to permanently



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eliminate the inefficiencies in the supply chain. Through a combination of infrastructure enhancements, operational improvements, and investment in innovative environmental programs, the Port of Long Beach is on track to ensure efficient and sustainable growth.

As a department of the City of Long Beach, the Port of Long Beach strives to be a leader in the goods movement industry, while furthering its status as the City's and the region's biggest economic engine. In addition to delivering excellent customer service and outreach to all of the Port's customer segments, the Port also engages the community to provide outreach and education on the benefits accrued to the local area through the operation of one of the nation's premier maritime gateways. Above all, the Port is committed to being a steward of environmental protection, ensuring cargo volume growth to support the economy and while reducing the negative impacts to the environment. To accommodate the increase in trade volume expected during the next 20 years, the Port will continue to seek innovative solutions for developing facilities and related infrastructure while ensuring that air, water, and soil quality continue to improve.

Projects underway that will increase cargo capacity and/or improve Port infrastructure include:

- **Gerald Desmond Bridge Replacement:** A \$1.4 billion project to build a new bridge to span the Port's Main Channel. The new bridge will be higher, to allow additional clearance for ships, and will also be wider, to ease the flow of cars and trucks that use the bridge. Construction began in early 2013 and will continue through late-2018.
- **Middle Harbor Redevelopment Project:** A \$1.3 billion modernization of two aging shipping terminals. The project more than quintuples on-dock rail capacity, adds shore power hookups and advanced technology that will allow the new terminal to move twice the cargo with half the air pollution. Construction began in 2011 and will continue through 2019.
- **Pier G modernization:** The Department has nearly completed a multiyear, \$470 million renovation of the ITS container terminal. Construction of a new terminal administration and operations complex, new maintenance and repair facility, and an expanded on-dock rail yard is complete.
- The Department is planning additional deepening for berths to accommodate the latest generation of mega-ships.

Environmental Protection

The optimal utilization of Port resources brings environmental issues that need to be addressed to guarantee economic growth with responsible stewardship of the environment. In 2005, the Long Beach Board of Harbor Commissioners adopted the Green Port Policy, which committed to reducing the Port's impact on the environment and the community. In 2006, at a historic joint board session of Long Beach and Los Angeles Boards of Harbor Commissioners (the Ports), the San Pedro Bay Clean Air Action Plan (CAAP) was approved. This ambitious plan identified specific strategies to reduce emissions from port-related equipment. The CAAP has led to major air-quality improvements at the Ports. Diesel Particulate Matter, for example, has been reduced by 84% from 2005 levels, as identified in the 2015 emissions inventory. As guided by the Green Port Policy, the Port of Long Beach has established itself as a world leader in sustainable seaport operations and development.



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Under the Green Port Policy and the Clean Air Action Plan, the Port of Long Beach has:

- Cut diesel particulates by 84%, sulfur oxides by 97%, smog-forming nitrogen oxides by 48%, and greenhouse gases by 14% from 2005 levels, identified in the 2015 annual air emissions inventory. The improvements occurred during a period when container cargo volume increased by 7%.
- Supported the use of lower-sulfur, cleaner fuels in oceangoing ships.
- Completed a successful changeover of the truck fleet through the landmark Clean Trucks Program, which has achieved a 98% reduction in diesel particulate pollution from the truck fleet.
- Continued the Green Flag Vessel Speed Reduction Program (where greater than 90% of ships slow down to 12 knots) within 20 nautical miles or 40 nautical miles of the Port, to reduce air pollution emissions.
- Completed the building of shore power facilities to allow the shipping lines to comply with the state's new shore power regulation, requiring half of all vessel calls to plug in at berth for cleaner air.
- Nurtured the development of new clean air technologies through the Technology Advancement Program — including the world's first diesel-electric hybrid tugboats.

Risk Management

The Port has developed a comprehensive, all-hazard Business Continuity Plan that works to facilitate the efficient and environmentally sound movement of cargo following a business disruption event. The Plan focuses on maintaining a safe and secure Port environment and on keeping the land and water infrastructure operational to the greatest extent possible, and works to achieve those objectives in a legal and financially responsible manner.

Security

The Port of Long Beach continues its commitment to safety and security and is dedicated to being the safest and most secure Port in the world. Since 2009, the Port has operated the Joint Command and Control Center (JCCC). This state-of-the-art facility houses not only the Port of Long Beach Security Division and Harbor Patrol, but also the Long Beach Police Department's Port Police Division. The Long Beach Fire Department is also represented in the JCCC by a Battalion Chief. The Port takes an above the water, on the water, and below the water approach to Maritime Domain Awareness. This is accomplished through the use of the latest integrated, high-tech surveillance systems to maintain vigilance and share data with the many agencies responsible for port security. The JCCC monitors close to 400 cameras throughout the port complex, including long-range and night-vision units, as well as access control, radar and sonar detection systems.



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Since 2001, the Port has secured more than \$151 million in grants to aid in safety and security efforts. The Port is protected by multiple layers of security, including the U.S. Coast Guard, U.S. Customs and Border Protection, Long Beach Police Department and other federal, state, and local law enforcement agencies; and the Port's own Harbor Patrol, a cadre of highly trained public officers who are responsible for security and public safety on the property owned by the Port and any public roadways within its boundaries 24 hours a day, seven days a week. The Long Beach Police Department Port Police Division also provides a dedicated force of police officers who patrol land side and water side in the port complex 24 hours a day, seven days a week. And the Long Beach Fire Department has two land based stations, one with a hazardous materials response unit, as well as two fireboat stations within the port complex.

The Port of Long Beach has made significant investments in technology to mitigate threats against the port. This includes the development of the Virtual Port system. Virtual Port is a geo-spatial-based maritime domain and common operating picture system. It integrates over 60-independent information sources and databases into a single platform providing the status of port operations in real-time. Virtual Port allows users to view and interact with a variety of modules to track vessels, monitor suspicious activities, monitor land and water based assets, share information with port security partners, view news and social media alerts associated with port incidents, and coordinate response activities.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Harbor Department of the City of Long Beach, California, for its Comprehensive Annual Financial Report for the fiscal year ended September 30, 2015. This was the 33rd consecutive year that the Department has received this prestigious award. In order to be awarded a Certificate of Achievement, the Department must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

We would like to acknowledge the dedicated service of the Finance Division staff members, through whose efforts the timely preparation of this report was made possible.

Respectfully submitted:

Duane L. Kenagy, P.E.
Interim Chief Executive

Chuck Adams
Acting Managing Director of
Finance and Administration



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**The Harbor Department
of the City of Long Beach
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

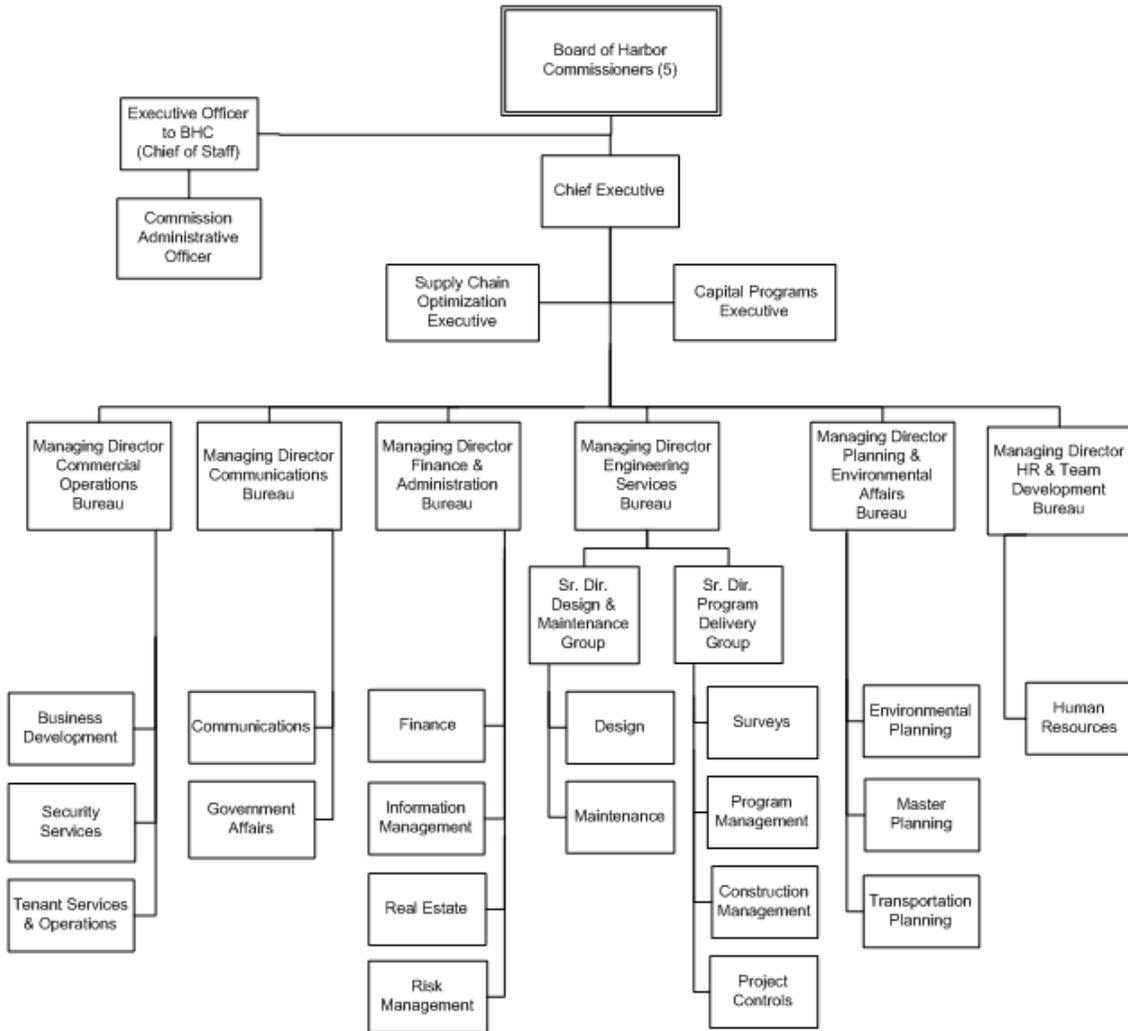
September 30, 2015

Executive Director/CEO

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Organizational Chart

September 30, 2016



THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Board of Harbor Commissioners and Senior Management

September 30, 2016

Board of Harbor Commissioners

Lori A. Guzman, President
Lou A. Bynum, Vice President
Tracy Egoscue, Secretary and Commissioner
Doug Drummond, Commissioner
Rich Dines, Commissioner

Chief of Staff to the Board

Richard Jordan

Executive Offices

Chief Executive Officer
Interim Chief Executive Officer
Senior Executive, Supply Chain Optimization
Acting Senior Executive, Capital Program

Jon Slangerup (through October 2016)
Duane Kenagy (effective October 2016)
Michael Christensen
Al Moro

Finance and Administration Bureau

Managing Director
Acting Managing Director
Finance Division
Information Management Division
Real Estate Division
Risk Management Division

Steven B. Rubin (retired December 2016)
Chuck W. Adams (effective December 2016)
Maurina Lee, Director
Nyariana Maiko, Director
Karl J. Adamowicz, Director
Richard S. Baratta, Director

HR & Team Development Bureau

Managing Director
Human Resources Division

Louis F. Gutierrez
Margaret Huebner, Director (retired February 2017)

Commercial Operations Bureau

Managing Director
Business Development Division
Security Division
Tenant Services and Operations Division

Noel Hacegaba
Donald B. Snyder, Director
Randy Parsons, Director
Glenn Farren, Director

Communication Bureau

Managing Director
Communications Division
Government Relations Division

Noelia Rodriguez
Heather Moro, Acting Director
Samantha Ashley, Director

Planning and Environmental Affairs Bureau

Managing Director
Environmental Planning Division
Master Planning Division
Transportation Planning Division

Richard D. Cameron
Heather Tomley, Director
Matt Plezia, Director
Allison Yoh, Director

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Board of Harbor Commissioners and Senior Management

September 30, 2016

(continued)

Engineering Services Bureau

Managing Director	Douglas Thiessen (retired February 2017)
Managing Director	Sean Gamette (effective February 2017)
Program Delivery Division	Vacant
Program Management Division	Doug Sereno, Director (retired February 2017)
Construction Management Division	Suzanne Plezia, Director
Design and Maintenance Divisions	Neil Morrison, Senior Director
Design Division	John Chun, Director
Maintenance Division	Fred Greco, Director
Project Controls Division	Diane Pierson, Director
Surveys Division	Robert Seidel, Director



Financial Section



KPMG LLP
Suite 1500
550 South Hope Street
Los Angeles, CA 90071-2629

Independent Auditors' Report

The Honorable Members of the Board of Harbor Commissioners
The Harbor Department of the City of Long Beach
Long Beach, California:

Report on the Financial Statements

We have audited the accompanying financial statements of the Harbor Department of the City of Long Beach (the Department), an enterprise fund of the City of Long Beach, California, as of and for the year ended September 30, 2016, and the related notes to the financial statements, as described in the accompanying table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Harbor Department of the City of Long Beach, California as of September 30, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.



Emphasis of Matters

As discussed in note 1, the financial statements present only the Department and do not purport to, and do not, present fairly the financial position of the City of Long Beach, California as of September 30, 2016, the changes in its financial position or, where applicable, its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 1 to the financial statements, effective October 1, 2015, the Department adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 21–27, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the Department's financial statements. The accompanying information identified in the table of contents as the introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated, March 27, 2017 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

KPMG LLP

Los Angeles, California
March 27, 2017

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Management's Discussion and Analysis

September 30, 2016

(Unaudited)

The following discussion and analysis of the financial performance of the Harbor Department of the City of Long Beach, California (the Department), provides an overview of the financial activities for the fiscal year ended September 30, 2016. We encourage readers to consider the information presented here in conjunction with the additional information contained in the Department's financial statements and related notes and our letter of transmittal that precedes this section.

Using this Financial Report

This annual financial report consists of the Department's financial statements and the required supplementary information and reflects the self-supporting activities of the Department that are funded primarily through leasing property, tariffs, and other charges to its tenants.

Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position and Statements of Cash Flow

The financial statements provide an indication of the Department's financial health. The statement of net position includes all of the Department's assets, deferred outflows, liabilities, and deferred inflows using the accrual basis of accounting, as well as an indication about which assets can be used for general purposes, and which assets are restricted as a result of bond covenants and other requirements. The statement of revenues, expenses, and changes in net position report all of the revenues and expenses during the time periods presented. The statement of cash flows reports the cash provided by and used in operating activities, as well as other cash sources and uses, such as investment income and cash payments for bond principal and capital additions and betterments.

The following condensed financial information provides an overview of the Department's financial position as of September 30, 2016 and 2015:

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Management's Discussion and Analysis

September 30, 2016

(Unaudited)

**Condensed Schedule of Assets, Deferred Outflows,
Liabilities, Deferred Inflows, and Net Position**

September 30, 2016 and 2015

(Amounts expressed in thousands)

	<u>2016</u>	<u>2015 (as adjusted)</u>
Assets:		
Capital assets, net	\$ 4,365,376	4,096,520
Other assets	<u>671,277</u>	<u>878,310</u>
Total assets	5,036,653	4,974,830
Deferred outflows of resources	<u>41,884</u>	<u>22,268</u>
Total assets and deferred outflows	\$ <u>5,078,537</u>	<u>4,997,098</u>

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Management's Discussion and Analysis

September 30, 2016

(Unaudited)

**Condensed Schedule of Assets, Deferred Outflows, Liabilities,
Deferred Inflows, and Net Position**

September 30, 2016 and 2015

(Amounts expressed in thousands)

	<u>2016</u>	<u>2015 (as adjusted)</u>
Liabilities:		
Current liabilities	\$ 171,932	160,802
Long-term obligations, net of current portion	<u>1,114,917</u>	<u>1,217,531</u>
Total liabilities	1,286,849	1,378,333
Deferred inflows of resources	<u>11,661</u>	<u>14,816</u>
Total liabilities and deferred inflows	<u>1,298,510</u>	<u>1,393,149</u>
Net position:		
Net investment in capital assets	3,442,251	3,077,225
Restricted:		
Capital projects	75,610	251,721
Debt service	13,961	13,754
Unrestricted	<u>248,205</u>	<u>264,197</u>
Total net position	<u>\$ 3,780,027</u>	<u>3,606,897</u>

Net position over time may serve as a useful indicator of the Department's financial position. At the close of fiscal year 2016, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$3.8 billion. This is an increase of \$173.1 million from last year. The Department's adoption of the provisions of *GASB Statements No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions Requirements*, effective October 1, 2015, resulted in a reduction of net position totaling approximately \$2.9 million. This statement requires the reporting of a net liability for the Department's share of the City's net other post-employment benefits other than pension (OPEB) obligation. The change in net position consists of \$70.1 million of current year operating income, \$128.3 million of grant revenue accrual from other governmental agencies, \$4.0 million capital contribution from the City on the Port's new headquarter land acquisition transaction and \$18.7 million accrued transfers to the City's Tidelands Operating Fund. In addition, as of September 30, 2016, the construction of the Port's new headquarters building is approximately 20% complete at September 30, 2016. The Department reflects \$49 million of other long term liability and a like amount in construction in progress for this design-build project in the financial statements. See further discussion of the new headquarters building under Capital Asset and Debt Administration below.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Management's Discussion and Analysis

September 30, 2016

(Unaudited)

At September 30, 2016, the largest portion of the Department's net position (91.1% or \$3.4 billion) reflects the Department's net investment in capital assets. This component consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of borrowings attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources attributable to the addition of those assets or related debt are also included. These capital assets facilitate tenants' cargo operations. The amount of net investment in capital assets is not available for future spending. The increase of \$365.0 million from fiscal year 2015 is mainly due to the completion of a portion of Middle Harbor project and a new fireboat.

An additional portion of the Department's net position (2.4%, or \$89.6 million) represents resources that are subject to external restrictions on how they may be used. The decrease of \$175.9 million is due to the release of the construction reserves for repayment of the line of credit and capital project cost. The remaining net position (6.6%, \$248.2 million) is unrestricted net position, to be used in the future to fund the Department's operations.

The adoption of the provisions of GASB Statements No. 75, resulted in the reporting of a net OPEB liability totaling approximately \$3.1 million as reported on the statement of net position as of September 30, 2016.

Detailed disclosure as required by GASB Statements No. 68, No. 71, and No. 75 can be found in notes 1 and 11 to the basic financial statements.

Condensed Schedule of Revenues, Expenses, and Changes in Net Position

Years ended September 30, 2016 and 2015

(Amounts expressed in thousands)

	<u>2016</u>	<u>2015</u>
Operating revenues	\$ 360,660	355,450
Operating expenses:		
Facility and infrastructure	36,274	38,302
Fire and Safety	40,379	48,178
General and administrative	<u>67,220</u>	<u>47,291</u>
Total operating expenses	143,873	133,771
Depreciation and amortization	<u>146,721</u>	<u>137,709</u>
Operating income	<u>70,066</u>	<u>83,970</u>

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Management's Discussion and Analysis

September 30, 2016

(Unaudited)

Condensed Schedule of Revenues, Expenses, and Changes in Net Position

Years ended September 30, 2016 and 2015

(Amounts expressed in thousands)

	<u>2016</u>	<u>2015</u>
Nonoperating revenues (expenses):		
Interest income, net of interest expense	\$ (6,063)	5,969
Gain on sale of capital assets, net	48	35,979
Clean Air Action Plan (CAAP), net	(4,656)	(3,488)
Other income (loss), net	<u>138</u>	<u>5,048</u>
Net nonoperating revenues (expense)	<u>(10,533)</u>	<u>43,508</u>
Income before capital grants and transfer	59,533	127,478
Transfer to City	(18,693)	(17,772)
Contribution from City – New Port Headquarters Land	4,008	—
Capital grants	<u>128,282</u>	<u>121,008</u>
Change in net position	<u>173,130</u>	<u>230,714</u>
Total net position – beginning of year, as previously reported	3,609,819	3,462,209
Cumulative effect resulting from change in accounting for GASB Statement No. 68	—	(83,104)
Cumulative effect resulting from change in accounting for GASB Statement No. 75	<u>(2,922)</u>	<u>—</u>
Total net position – beginning of year, as adjusted	<u>3,606,897</u>	<u>3,379,105</u>
Total net position – end of year	\$ <u><u>3,780,027</u></u>	\$ <u><u>3,609,819</u></u>

A comparison of the operating revenues for fiscal years 2016 and 2015 shows a slight increase of \$5.2 million, or 1.5%. This is primarily due to a 1.8% increase in container terminal revenue, which accounted for approximately 76.2% of total revenue in fiscal year 2016. This increase was largely due to the increased rent at Middle Harbor. Revenue also increased slightly by 0.3% in noncontainerized terminal revenue at the dry bulk, vehicle, and lumber terminals.

Operating expenses (excluding depreciation and amortization) increased \$10.1 million, compared to \$133.8 million at September 30, 2015. The primary reason is due to an increase of pension costs of \$9 million. By operating expense functions, facilities and infrastructure, increased \$2.0 million compared to \$38.3 million in fiscal year 2015, primarily due to expenses at the new Dive Team building. During fiscal year 2016, fire and safety costs decreased by \$7.8 million as several projects were written off in fiscal year 2015 and a similar write off did not occur in fiscal year 2016. The increase of \$19.9 million in general and administrative and other indirect operating expense is mainly related to the pension expense.

Depreciation expense is affected by acquisition and retirement of long-term assets, their useful lives, and the dates when such assets are placed in service. Depreciation expense for fiscal year 2016 was \$9.0 million higher than that of fiscal year 2015, due to \$353.0 million of capital assets, mainly in the Middle Harbor project, that were placed into service towards the end of fiscal 2015.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Management's Discussion and Analysis

September 30, 2016

(Unaudited)

The transfers to City increased by \$920.5 thousand in fiscal year 2016. The Department accrued \$18.0 million as a regular operating transfer to the City Tidelands Fund to be paid in fiscal 2017 as well as \$660 thousand transferred to the City for the Ports mitigation grant for Citywide light an power project.

An increase of \$601.7 thousand in net interest income in fiscal year 2016 is primarily due to a decrease in interest expense on the line of credit. A payment of \$95.0 million on the line of credit was paid during fiscal year 2016.

Total interest expense before capitalization was \$24.7 million in fiscal 2016 and \$27.9 million in fiscal year 2015. The decrease was mainly a result of no bond issuance costs, a lower line of credit balance outstanding, and a higher offsetting amortization of the bond premium/refunding costs in 2016.

Grant revenue increased \$7.3 million to \$128.3 million in fiscal year 2016, as a result of \$28.2 million recognition of Proposition 1B grant received in the prior year and earned in fiscal year 2016. This increase was offset by a slower grant reimbursement for the Gerald Desmond Bridge project and the completion of several grant related projects during fiscal year 2016. In fiscal year 2016, the Department received grant reimbursements of \$95.7 million for bridge, rail, and street improvements, \$31.6 thousand for environmental improvements and \$4.5 million for security related grants.

The Clean Air Action Plan (CAAP) continues to support the Port's efforts to enhance clean air. As a result of the CAAP in 2008, the Clean Trucks Program (CTP) was launched as an effort to reduce truck-related emissions throughout the Port complex. The CTP replaced or retrofitted many short-haul trucks by requiring all trucks entering the port to comply with 2007 EPA emission standards. To help ease this financial burden on the local truck industry, the Port developed a lease subsidy program to help reduce the costs for the owner of upgrading their old trucks with new "Clean Diesel" and "LNG" truck. In 2008, the Board approved to finance and services these leases, while the Department acts as the guarantor for the lease and residual payment. The Department also provided incentives to lessees to keep their trucks by agreeing to pay half of the lease-end residual. Overall, this program's expenses increased by \$1.2 million when compared to that of fiscal year 2015 due to \$1.6 million recorded for the lease end residual values of 72 returned trucks, and a \$0.4 million recorded for 13 trucks in default. Please see note 15 to the financial statements for details.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Management's Discussion and Analysis

September 30, 2016

(Unaudited)

Capital Assets and Debt Administration

Capital Assets

The Department's capital assets, net of accumulated depreciation, as of September 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Nondepreciable capital assets:		
Land	\$ 951,918	931,547
Construction in progress	1,484,888	1,251,763
Rights-of-way	<u>207,031</u>	<u>207,032</u>
Total nondepreciable capital assets	<u>2,643,837</u>	<u>2,390,342</u>
Depreciable capital assets (net):		
Structures and facilities	1,656,861	1,668,548
Furniture, fixtures, and equipment	<u>64,678</u>	<u>37,630</u>
Total depreciable capital assets (net)	<u>1,721,539</u>	<u>1,706,178</u>
Total capital assets, net	<u>\$ 4,365,376</u>	<u>4,096,520</u>

The Department's capital assets include land; structures and facilities; furniture, fixtures, and equipment; construction in progress; and rights-of-way. The impact on the capital asset accounts, net of accumulated depreciation, was a net increase of \$268.9 million from fiscal year 2015 primarily due to the substantial increase of assets placed into service related to major infrastructure projects taking place in the port such as Phase I of the Middle Harbor project and the fireboat and fire station. It is worth noting that major capital project spending during fiscal year 2016 comprise the following: Middle Harbor terminal development (\$121.9 million); Gerald Desmond Bridge replacement project (\$162.5 million); and Fire station and Fireboats safety projects (\$10.1 million). The amount of capital assets transferred out of construction in progress and into service, totaled approximately \$169.3 million for the year ended September 30, 2016.

Debt Administration

The following table summarizes the Department's debt as of September 30, 2016 and 2015.

	<u>2016</u>	<u>2015</u>
Short-term notes (principal and net premiums)	\$ 355,522	367,519
Lines of credit	25,000	120,000
Bond debt (principal and net premiums)	<u>588,392</u>	<u>641,383</u>
Total	<u>\$ 968,914</u>	<u>1,128,902</u>

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Management's Discussion and Analysis

September 30, 2016

(Unaudited)

The Department's total long-term debt decreased by \$159 million, or 14.2%. The decrease was primarily attributed to the net result of the repayment on the line of credit and principal payments made on existing debt.

For the Port's new headquarter project, the Port will make a fixed price Project Completion payment of \$212.6 million at completion in 2019. This payment may be financed through the issue of 20 to 30 years revenue bonds, which are not subject to Alternative Minimum Tax (AMT). The cost of this project could be partially offset by the sale of the Port's Interim Administrative Headquarters building as well as the sale of the World Trade Center parking lot owned by the Port.

The underlying ratings assigned to the Department's bond issues are as follows: Standard & Poor's: AA, stable outlook; Moody's Investors Services: Aa2, stable outlook; and Fitch Ratings: AA, stable outlook.

The debt service coverage ratio for fiscal year 2016 was 2.47. The minimum rate required by the Department's various bond indenture documents is 1.25.

Factors that May Affect the Department

The availability of alternate ports and competition affects the use of the department's facilities and, therefore, operating revenues of the Department. There is significant competition for container trade among North American ports. The department cannot predict the impact of this competition. Ports in the U.S. West Coast, Canada, and Mexico, compete for discretionary intermodal cargo headed from the Asia to mid-western and eastern U.S., which is more heavily populated. This discretionary cargo moves eastward primarily by rail. Discretionary cargo makes up more than half of the container cargo arriving at the Port of Long Beach.

The Port is subject to legal and regulatory requirements relating to air emissions that may be generated by ships, trains, trucks, and other operational activities within the port. Paying for mandated air pollution reduction, infrastructure and other measures has become a significant portion of the Department's capital and operating budgets. 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 amounts forecasted.

Notes to Financial Statements

The notes to the Department's financial statements can be found on pages 33–65 of this report. These notes provide additional information that is essential to a full understanding of the financial statements.

Requests for Information

This financial report is designed to provide a general overview of the Department's finances for people or entities interested in the financial aspects of the Department. Questions concerning any of the information provided in this report should be addressed to the Director of Finance, 4801 Airport Plaza Drive, Long Beach, CA 90815. This report and other financial reports can be viewed on the Port's website at www.polb.com. On the home page, select Finance, there are links to reports by title and reporting date.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Statement of Net Position

September 30, 2016

(Dollars in thousands)

Assets and Deferred Outflows

Current assets:	
Pooled cash and cash equivalents (note 2)	\$ 335,454
Trade accounts receivable, net of allowance (note 3)	50,607
Due from other governmental agencies (note 3)	66,290
Prepaid – dredging services (note 4)	1,844
Prepaid – others	1,892
Interest receivables	190
Inventories of supplies	679
Subtotal	456,956
Harbor Revenue Bond Funds and other funds restricted as to use:	
Pooled cash and cash equivalents	30,017
Total current assets	486,973
Noncurrent assets:	
Capital assets (notes 6 and 12):	
Land	951,918
Structures and facilities	3,288,418
Furniture, fixtures, and equipment	130,576
Construction in progress	1,484,888
Right-of-way (note 5)	207,031
Less accumulated depreciation	(1,697,455)
Net capital assets	4,365,376
Other assets:	
Long-term receivables (note 3)	1,300
Environmental mitigation credits (note 16)	41,162
Investment in joint venture (note 13)	5,211
Restricted pooled cash and cash equivalents (notes 2 and 10)	52,047
Restricted nonpooled cash and cash equivalents (note 2)	1,765
Restricted nonpooled investments (note 2)	73,846
Other noncurrent assets	8,973
Total other assets	184,304
Total noncurrent assets	4,549,680
Total assets	5,036,653
Deferred outflows (note 18)	41,884
Total assets and deferred outflows	\$ 5,078,537

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Statement of Net Position

September 30, 2016

(Dollars in thousands)

Liabilities and Deferred Inflows

Current liabilities payable from current assets:	
Accounts payable and accrued expenses	\$ 73,082
Compensated absences (note 1)	2,031
Due to City of Long Beach	20,143
Liability claims (note 14)	8,600
Security deposits and unearned revenue	7,116
	<hr/>
Total current liabilities payable from current assets	110,972
Current liabilities payable from restricted assets:	
Accrued interest – bonds	16,055
Current portion of bonds indebtedness	44,905
	<hr/>
Total current liabilities payable from restricted assets	60,960
	<hr/>
Total current liabilities	171,932
Long-term obligations net of current portion:	
Bonded indebtedness (note 10)	543,487
Series 2014C Senior notes (note 8)	355,522
Lines of credit (note 9)	25,000
Compensated absences (note 1)	10,883
Net OPEB liability (note 11)	3,103
Net pension liability (note 11)	124,170
Unearned revenue	3,685
Other long-term liability (note 19)	49,067
	<hr/>
Total noncurrent liabilities	1,114,917
	<hr/>
Total liabilities	1,286,849
Deferred inflows (note 18)	11,661
	<hr/>
Total liabilities and deferred inflows	1,298,510
Net position:	
Net investment in capital assets	3,442,251
Restricted – capital projects	75,610
Restricted – debt service	13,961
Unrestricted	248,205
	<hr/>
Total net position	\$ 3,780,027
	<hr/> <hr/>

See accompanying notes to financial statements.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Statement of Revenues, Expenses, and Changes in Net Position

Year ended September 30, 2016

(Dollars in thousands)

Port operating revenues:	
Berths and special facilities	\$ 348,171
Rental properties	9,958
Miscellaneous	2,531
	<hr/>
Total port operating revenues	360,660
Port operating expenses:	
Facility maintenance	12,673
Infrastructure maintenance	14,657
Fire and safety	40,379
Other indirect operating	8,944
General and administrative	67,220
	<hr/>
Total operating expenses before depreciation and amortization	143,873
Depreciation and amortization	146,721
	<hr/>
Total operating expenses	290,594
	<hr/>
Income from operations	70,066
Nonoperating revenues (expenses):	
Investment income, net	4,637
Income from equity in joint venture	2,544
Interest expense	(13,244)
Gain on disposition of capital assets	48
Clean Air Action Program (CAAP), net (note 17)	(4,656)
Other income	138
	<hr/>
Total nonoperating revenues (expenses), net	(10,533)
Income before transfers and capital grants	59,533
Transfers (note 15)	(18,693)
Capital grants and contributions	132,290
	<hr/>
Increase in net position	173,130
Total net position – beginning of year, as previously reported	3,609,819
Cumulative effect resulting from change in accounting for GASB 75 (note 1)	(2,922)
	<hr/>
Total net position – beginning of year, as adjusted	3,606,897
Total net position – end of year	\$ <u>3,780,027</u>

See accompanying notes to financial statements.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Statement of Cash Flows

Year ended September 30, 2016

(Dollars in thousands)

Cash flows from operating activities:	
Cash received from customers	\$ 361,226
Cash paid to employees	(86,585)
Cash paid to suppliers	<u>(55,491)</u>
Net cash provided by operating activities	<u>219,150</u>
Cash flows from investing activities:	
Interest received	4,637
Transfer from 2005 bond reserve premiums	14,943
Return on investment in joint venture	<u>3,000</u>
Net cash provided by investing activities	<u>22,580</u>
Cash flows from noncapital/financing activities:	
Clean Air Action Plan (net)	(4,656)
Transfers to City Tidelands Fund	(17,772)
Miscellaneous revenues	<u>1,025</u>
Net cash used for noncapital financing activities	<u>(21,403)</u>
Cash flows from capital and related financing activities:	
Grants provided	160,168
Interest paid	(32,617)
Principal payments made on bonds payable	(45,360)
Payments on lines of credit	(95,000)
Payments for capital acquisitions – employees	(19,839)
Payments for capital acquisitions – vendors	(339,189)
Payment for accusation of land for Port’s new headquarters building	(8,000)
Prepaid dredging costs	(1,079)
Proceeds from sales of capital assets	<u>48</u>
Net cash used for capital and related financing activities	<u>(380,868)</u>
Net decrease in cash and cash equivalents	(160,541)
Cash and cash equivalents, beginning of year	<u>579,824</u>
Cash and cash equivalents, end of the year	\$ <u><u>419,283</u></u>
Reconciliation of cash and cash equivalents:	
Unrestricted pooled cash and cash equivalents	\$ 335,454
Restricted pooled cash and cash equivalents	82,064
Bond reserve held by the City Treasurer	<u>1,765</u>
	\$ <u><u>419,283</u></u>

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Statement of Cash Flows

Year ended September 30, 2016

(Dollars in thousands)

Reconciliation of income from operations to net cash provided by operating activities:	
Income from operations	\$ 70,066
Adjustments to reconcile income from operations to net cash provided by operating activities:	
Depreciation and amortization	146,721
Other income (expense)	138
Decrease (increase) in accounts receivable	(643)
Decrease (increase) in receivable from prepaids	(29,283)
Decrease (increase) in inventory	(95)
(Decrease) increase in accounts payable	12,902
(Decrease) increase in accrued liabilities	(2,739)
(Decrease) Increase in accrued Claims and Judgments	8,600
(Decrease) increase in deferred revenues	1,209
(Decrease) increase in due to other funds	(2,647)
(Decrease) increase in pension liability and related deferred inflows	31,894
(Decrease) Increase in net pension liability and related deferred outflows	(20,408)
(Decrease) increase in net OPEB liability and related deferred outflows	181
(Decrease) increase in compensated absences	3,254
Total adjustments	149,084
Net cash provided by operating activities	\$ 219,150
Supplemental schedule of noncash transactions:	
Accrued capital assets costs	\$ 60,558
Accumulated costs of the Port's new headquarters building	49,067
Capitalized interest	11,458
Amortization of bond premium	19,628
Amortization of deferred outflows on debt refunding	235
Amortization of deferred inflows on debt refunding	(792)
Contribution of land from the City	4,008

See accompanying notes to financial statements

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2016

(1) Summary of Significant Accounting Policies

(a) *The Reporting Entity*

Article XII of the City Charter of the City of Long Beach, California (the City) created the Harbor Department of the City of Long Beach (the Department) to promote and develop the Port of Long Beach (the Port). The Department's operations are included in the City's reporting entity as an enterprise fund; its activities are conducted in the Tidelands Trust area of the City and are subject to coastal area laws of the State of California and to the terms of the trust agreement between the City and the State of California. The financial statements present only the financial activities of the Department and are not intended to present the financial position and results of operations of the City.

The Harbor Facilities Corporation (the Corporation), a nonprofit public benefit corporation, was created in November 1971 under the laws of the State of California. The Corporation was established as a financing mechanism for construction of harbor improvements. It was authorized to issue bonds, debentures, notes and other forms of debt. The Corporation has been inactive since 1995 and did not have any activity during the 2016 fiscal year. If the Corporation would have any transactions with financial implications, they would be included in the Department's financial statements.

The Department, together with the Harbor Department of the City of Los Angeles, formed a joint venture to finance the construction of the Intermodal Container Transfer Facility (ICTF). The ICTF venture has been recorded as an investment under the equity method of accounting in the accompanying financial statements (note 13).

In 1989, the cities of Los Angeles and Long Beach entered into a Joint Exercise of Powers Agreement to create the Alameda Corridor Transportation Authority (ACTA). This agreement was amended and restated in 1996. The purpose of ACTA was to acquire, construct, finance, and operate the Alameda Corridor. The Alameda Corridor consists of a 20-mile-long rail cargo expressway connecting the ports in San Pedro Bay to the transcontinental rail yards near downtown Los Angeles, and it began operating in April 2004. ACTA prepares its own financial statements, and its transactions are not included as part of the Department's financial statements (note 5).

(b) *Basis of Accounting and Measurement Focus*

Disbursement of funds derived from the Department's operations is restricted to Harbor Trust Agreement purposes. The costs of providing port services are recovered entirely through leases, tariffs, and other charges assessed to Department's tenants. Consistent with U.S. generally accepted accounting principles for enterprise funds, the accounting policies of the Department conform to the accrual basis of accounting. The measurement focus of the accompanying financial statements is on the determination of changes in net position. Operating revenues and expenses are generated and incurred through cargo activities performed by port tenants; operating expenses include maintenance of facilities and infrastructure, security, and payments to other City departments for services provided to the Port. Administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as nonoperating income (expense). The Department applies all applicable Governmental Accounting Standards Board (GASB) pronouncements and interpretations.

The Department recognizes operating revenues when they are earned. Proceeds from federal or state grants are considered as nonoperating revenues, recognized as such when reimbursable and

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2016

grant-eligible expenses are incurred, and are identified as capital grants in the statement of revenues, expenses, and changes in net position. Operating revenues or capital grant funds that have been received but not earned are identified as unearned revenue in the statement of net position.

(c) *City of Long Beach Investment Pool*

In order to maximize investment return and in accordance with City Charter requirements, the Department pools its available cash with other City funds into the City of Long Beach Investment Pool (the Pool). The Pool is an internal investment pool that is used as a demand deposit account by participating units. Investment decisions are made by the City Treasurer and approved by a general investment committee whose membership includes a member of the Department's management. Interest income and realized and unrealized gains and losses arising from the Pool are apportioned to each participating unit based on their average daily cash balances compared to aggregate pooled cash and investments.

At September 30, 2016, the Department had equity in the Pool of \$417.5 million, which represents approximately 27.2% of the Pool.

The Department's share of the Pool is stated at fair value.

For a complete description of the Pool and its underlying investments, refer to the City of Long Beach's separately issued financial statements.

(d) *Cash Equivalents*

The Department classifies its investment in the Pool as cash and cash equivalents, regardless of the underlying maturity of the Pool's investments as the pool operates as a demand account for the Department.

The Department classifies all other investments with maturities of three months or less at the time of purchase as cash equivalents. These cash equivalents are reported at amortized cost in the accompanying financial statements.

(e) *Investments*

Investments are reflected at fair value using quoted market prices in active and inactive markets. Realized and unrealized gains and losses are included in the accompanying statement of revenues, expenses, and changes in net position as investment income, net.

(f) *Fair Value Measurements*

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction.

The Department categorizes investments reported at fair value within the fair value hierarchy established by generally accepted accounting principles.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

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The hierarchy is based on the valuation inputs used to measure the fair value of the asset, as follows:

- (i) *Level 1: Quoted prices for identical investments in active markets;*
- (ii) *Level 2: Observable inputs other than quoted market prices; and,*
- (iii) *Level 3: Unobservable inputs.*

(g) Inventories

Inventories of supplies are valued at the lower of average cost or market. Inventory is recorded when purchased, and expensed at the time the inventory is consumed.

(h) Capital Assets

An asset is classified as a capital asset if it is a nonconsumable, tangible item, valued at a single amount greater than \$10 thousand, and with a useful life of more than one year. Capital assets are valued at historical costs. The historical cost of acquiring an asset includes the cost necessarily incurred to bring it to the condition and location necessary for its intended use. If an asset requires a period of time in which to carry out the activities necessary to bring it to that condition and location, the interest cost incurred during that period as a result of expenditures is a part of the historical cost of acquiring the asset. Depreciation is determined using the straight-line method with no allowance for salvage values. Identifiable intangible assets are recognized as such if they are separable or when they arise from contractual or other legal right, regardless of whether those rights are transferable or separable from the entity, or from other rights and obligations. The estimated economic lives used to determine annual rates of depreciation are subject to periodic review and revision, if appropriate, to assure that the cost of the respective assets will be written off over their economic lives. Estimated useful lives used in the computation of depreciation of capital assets are as follows:

Structures and facilities:	
Bridges and overpasses	75 years
Wharves and bulkheads	40 years
Transit sheds and buildings	5–20 years
State highway connections	15 years
Others	5–50 years
Furniture, fixtures, and equipment	5–15 years

Capitalized interest, which represents the cost of borrowed funds used for the construction of capital assets, is included as part of the cost of capital assets and as a reduction of interest expense. The Department capitalized \$11.5 million in interest costs during the year ended September 30, 2016.

(i) Investment in Joint Venture

The investment in the Intermodal Container Transfer Facility Joint Powers Authority (ICTF) is accounted for using the equity method. The amount realized by the Department is proportional to the reported value and is based on the department's share of ICTF. The reported profit is proportional to the size of the equity investment.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2016

(j) *Compensated Absences*

The Department records all accrued employee benefits, including accumulated vacation, as a liability in the period when the benefits are earned. Accrued employee benefits are classified into current and noncurrent liability for financial statement presentation. The current liability in the amount of \$2.0 million as of September 30, 2016, is calculated based on a five years average of vacation taken or used annually. The Department reported \$10.9 million in noncurrent compensated absences liability as of September 30, 2016, of which \$9.3 million is for Retired Employees Health Insurance Program (REHIP) and \$1.6 million is for accrued vacation.

(k) *Net Position*

The Department has adopted a policy of generally utilizing restricted funds, prior to unrestricted funds, when an expense is incurred for purposes for which both are available.

The Department's net position is classified into the following categories:

Net investment in capital assets – Capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets and unexpended bond proceeds and economic losses of refunding of debt.

Restricted – Net position subject to externally imposed conditions or constraints that can be fulfilled by the actions of the Department or by the passage of time. The restrictions are externally imposed by creditors, grantors, contributors, laws or regulations of other governments, or by law through constitutional provisions or enabling legislation.

Unrestricted – All other categories of net position. Additionally, unrestricted net position may be designated for use by management of the Department. These requirements limit the area of operations for which expenditures of net position may be made and require that unrestricted net position be designated to support future operations in these areas.

(l) *Revenue Recognition*

The Department recognizes revenue on an accrual basis when earned. Rents, tariffs, or other miscellaneous receipts that are received in advance of earnings are unearned revenue until earned. Grant revenues are recognized in the fiscal year in which all eligibility requirements are met.

(m) *Allowance for Doubtful Accounts*

The allowance for doubtful accounts (allowance) is estimated at a level to absorb expected accounts receivable losses. The allowance is established to reflect the amount of the Department's receivables that management estimates will be uncollectible. The allowance is set at the greater of (1) one half of one percent (0.5%) of estimated annual operating revenues or (2) the sum of 75% of aged receivable amounts over 120 days delinquent, plus 50% of amounts over 90 days delinquent, plus 25% of amounts over 60 days delinquent, plus 10% of amounts over 30 days delinquent. In addition, management reviews the adequacy of the allowance on a monthly basis by reviewing the aging report and assesses whether any further adjustment is necessary.

To determine uncollectible amounts, the Department's Finance Division reviews all delinquent accounts in August of each year. Amounts deemed uncollectible are written off (note 3).

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2016

(n) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

(o) Recent Accounting Pronouncements

(i) Effective in the Current Year

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. The Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements as well as determining a fair value measurement for financial reporting purposes. The adoption of the provisions of this statement resulted in enhanced investment and fair value disclosures for the Department.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68*. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions. It also amends certain provisions of Statement No. 67 and Statement No. 68 for pension plans and pensions that are within their respective scopes. The provisions in Statement 73 are effective for fiscal years beginning after June 15, 2015 – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. The Department implemented all provisions of this Standard except the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 as those provisions are not required to be implemented until fiscal year 2017. This Statement had no impact on the Department's financial statements.

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement establishes new accounting and financial reporting requirements for the plans of governments whose employees are provided with OPEB. This Statement is applicable to the financial statements of the OPEB plan and is not applicable to the financial statements of the Department.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement addresses reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employee of other governments and parallels the pension standards issued in 2012 – GASB Statement No. 68. The requirements of this Statement are effective for financial statements

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for period beginning after June 15, 2017. The Department early adopted of the provisions of GASB Statements No. 75 in fiscal year 2016. The provisions of this standard required the Department to report a liability for their share of the net OPEB obligation. The Harbor Department participates in the OPEB plan of the City of Long Beach and accordingly the Department has reported their share of the City's net OPEB obligation. The City's net OPEB liability is determined based on an annual actuarial study and the Department's share of the obligation is based on the departments accrued sick leave balance as of the measurement date.

As a result of the adoption of the provisions of this statement, the Department has adjusted net position as follows as of October 1, 2015:

Net Position, as previously reported	\$ 3,609,819
Effects of accounting for adoption of GASB Statement No. 75:	
Net OPEB obligation at beginning of year	<u>(2,922)</u>
Net Position at beginning of year, as adjusted	\$ <u><u>3,606,897</u></u>

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. At September 30, 2016, the Department implemented all provisions of this standard except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing as those provisions are applicable to an external involvement pool sponsor and the Department does not sponsor an external investment pool. This Statement did not have a material impact on the Department's financial statement.

(ii) *Effective in Future Years*

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This Statement requires disclosure of tax abatement information about a reporting government's own tax abatement agreements and those that are entered into by other governments and that reduce the reporting government's tax revenues. This information is intended, among other things, to assist users of financial statements in assessing whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity); whether a government complied with finance related legal and contractual obligations; where a government's financial

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

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September 30, 2016

resources come from and how it uses them; and a government's financial position and economic condition and how they have changed over time. The provisions of this Statement are effective for fiscal years beginning after December 15, 2015. The Department is evaluating the impact of this Standard on their financial statements.

In November 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. The Department is evaluating the impact of this Standard on their financial statements.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, The Financial Reporting Entity, as amended. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The Department is currently evaluating the impact of this Standard on their financial statements.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. The Department is currently evaluating the impact of this Standard on their financial statements.

In March 2016, the GASB issued Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The Department is currently evaluating the impact of this Standard on their financial statements.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2016

(2) Cash, Cash Equivalents, and Other Investments

The Department's cash and cash equivalents and investments as of September 30, 2016, is classified in the accompanying statement of net position as follows (in thousands):

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Equity in the City of Long Beach's Investment pool	\$ 335,454	82,064	417,518
Other cash equivalents	—	1,765	1,765
Investments held by fiscal agent	—	73,846	73,846
	<hr/>	<hr/>	<hr/>
Total cash, cash equivalents and investments	\$ <u>335,454</u>	<u>157,675</u>	<u>493,129</u>

The Departments investment policy allows funds to be invested with the City. The City's investment policy limits the permitted investments in the Investment Pool to the following: Obligations of the U.S. government, federal agencies, local agency bonds, medium-term corporate notes, certificates of deposit; bankers' acceptances, commercial paper, LAIF, repurchase agreements, reverse repurchase agreements, securities lending, asset-backed securities, mortgage-backed securities and money market mutual funds.

As of September 30, 2016 and 2015, the City's Investment Pool has weighted average maturity of less than 2 years and is not rated. The Department's investment in the Pool is not categorized.

The Department also held reserves by fiscal agent for the 2010A, 2010B, 2015C, 2015D and the 2014C Notes (note 10). At September 30, 2016, the Departments amounts held by fiscal agents totaled \$73.8 million and were invested in U.S Treasury notes that are rated AAA and have a weighted average maturity of 1.49 years. These investments are reported a fair value using observable inputs, however, \$38.4 million are traded in nonactive markets and are accordingly categorized as a Level 2 in the fair value hierarchy. The remaining \$35.4 million are traded in active markets and therefore categorized as a Level 1 in the fair value hierarchy.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2016

(3) Accounts Receivable and Other Receivables

Accounts receivable as of September 30, 2016, included the following (expressed in thousands):

Trade accounts receivable	\$	52,410
Less allowance for doubtful accounts		<u>(1,803)</u>
Accounts receivable, net	\$	<u>50,607</u>

Other receivables as of September 30, 2016 included the following (expressed in thousands):

Due from other governmental agencies:		
Current:		
Federal and state grants	\$	66,290
Long term:		
Tidelands – Beaches and Waterways		<u>1,300</u>
Total due from other governmental agencies	\$	<u>67,590</u>

The due from other governmental agencies is related to the grant programs from various governmental agencies, which include, but are not limited to: The Federal Highway Bridge Program; the Trade Corridor Improvement Program; Goods Movement Emission Reduction – Proposition 1B; and the Port Security Grant Program. Funds from these grant programs are available to the Department on a reimbursement basis except the Proposition 1B: Goods Movement Emission Reduction Program. Most of these programs require a matching contribution from the Department. If the grant program will result in the transfer of title to an organization outside of the Department, a contribution is recognized on the date of transfer.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2016

(4) Long Beach Harbor Dredging

A project to deepen the Port of Long Beach Main Channel started in the 1990s. In 2000, Main Channel deepening work was completed except for an isolated location in the Main Channel turning basin. In 2009, the Department, City of Long Beach, and U.S. Army Corps of Engineers undertook a \$56 million dredging project to complete remaining deepening work in the Main Channel turning basin, clean up contaminated sediments in the West Basin at a location identified as IR Site 7, complete maintenance dredging at the City of Long Beach's Catalina Express Terminal, and to fill the Department's Pier G North Slip as part of the Pier G Redevelopment Program. Construction was completed in 2011. The project was completed under budget and a remaining balance of \$1.8 million as of September 30, 2016, recorded as a prepaid expense, will now be used for the Department's share of a feasibility study which will evaluate potential extensions to the Main Channel. This new project is being conducted in partnership with the U.S. Army Corps of Engineers and is called the Long Beach Deep Draft Navigation Study.

(5) Alameda Corridor Right-of-Way Purchase

In December 1994, the Department and the Harbor Department of the City of Los Angeles (collectively, the Ports) executed the purchase of the rights of way needed for the development of the Alameda Corridor Project (the Project), which is a comprehensive transportation corridor between the Ports and the central Los Angeles area. The Ports purchased these rights, sharing the cost on a 50/50 basis, from the three railroad companies then serving the Ports: Union Pacific Railroad Company (Union Pacific), Southern Pacific Railroad Company (Southern Pacific), and Atchison, Topeka and Santa Fe Railroad Companies (Atchison, Topeka and Santa Fe). After the purchase, Southern Pacific merged into Union Pacific and Atchison, Topeka, and Santa Fe merged with Burlington Northern to form the Burlington Northern Santa Fe.

The total purchase comprised the right of way property from the three former railroad companies and a drill track from Southern Pacific to provide an additional right of way to access local businesses along the Project. As of September 30, 2016, total costs to the Department related to the rights of way purchase amounted to \$207.0 million. Construction of the Project began in 1997 and it was completed in April 2002. Funding for the Project came from federal, state, and local sources, and from issuance of debt.

Repayment to the Ports for their investments in the right of way and for any advances provided to the Project will occur only after the Project has generated revenues sufficient to retire all debt and to fund a maintenance reserve (note 14). In December, 2014, ACTA closed escrow for the sale of a joint ownership parcel and distributed the proceeds in the amount of \$472 thousand to the Department. Refer to note 14 for additional discussion related to the guarantee the Department has made related to the Alameda Corridor Transportation Authority.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2016

(6) Capital Assets

Capital Assets schedule as of September 30, 2016 as follows: (expressed in thousands):

Description	Balance, October 1, 2015	Additions	Disposals/ adjustments	Transfers	Balance, September 30, 2016
Nondepreciable capital assets:					
Purchased land	\$ 450,002	12,008	—	—	462,010
Constructed land	481,545	—	—	8,363	489,908
Construction in progress	1,251,764	402,447	24	(169,347)	1,484,888
Right of way (note 5)	207,031	—	—	—	207,031
Subtotal	2,390,342	414,455	24	(160,984)	2,643,837
Depreciable capital assets:					
Structures and facilities	3,164,854	—	(24)	123,588	3,288,418
Furniture, fixtures, and equipment	94,699	1,122	(2,641)	37,396	130,576
Subtotal	3,259,553	1,122	(2,665)	160,984	3,418,994
Total capital assets	5,649,895	415,577	(2,641)	—	6,062,831
Less accumulated depreciation:					
Structures and facilities	1,496,305	135,252	—	—	1,631,557
Furniture, fixtures, and equipment	57,070	11,469	(2,641)	—	65,898
Total accumulated depreciation	1,553,375	146,721	(2,641)	—	1,697,455
Net capital assets	\$ 4,096,520	268,856	—	—	4,365,376

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2016

(7) Long Term Liabilities

Schedule of Changes in Long - Term Liabilities (In thousands)

<u>Description</u>	<u>Balance October 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2016</u>	<u>Due in one year</u>
Revenue bonds	\$ 587,990	—	45,360	542,630	44,905
Premium	53,393	—	7,631	45,762	—
Total Revenue Bonds	<u>641,383</u>	<u>—</u>	<u>52,991</u>	<u>588,392</u>	<u>44,905</u>
2014C Note	325,000	—	—	325,000	—
Premium	42,519	—	11,997	30,522	—
Total notes payable	<u>367,519</u>	<u>—</u>	<u>11,997</u>	<u>355,522</u>	<u>—</u>
Line of credit	25,000	—	—	25,000	—
Compensated absences	10,574	5,286	2,946	12,914	2,031
Net pension liability	90,470	33,700	—	124,170	—
Net OPEB Liability	2,922	181	—	3,103	—
Other long term obligation (Port Headquarters Construction Costs)	<u>—</u>	<u>49,067</u>	<u>—</u>	<u>49,067</u>	<u>—</u>
Total long term liability	<u>\$ 1,137,868</u>	<u>88,234</u>	<u>67,934</u>	<u>1,158,168</u>	<u>46,936</u>

(8) 2014C Harbor Revenue Notes and Transportation Infrastructure Finance and Innovation Act Loan

The City of Long Beach Harbor Revenue Notes Series 2014C Senior Notes (2014C Notes) are secured by the Department's gross revenues. The 2014C Notes, dated June 12, 2014, amounting to \$325.0 million plus an original issue premium of \$53.4 million, less an underwriter's discount of \$659 thousand, were issued to finance a portion of the costs of constructing a replacement bridge for the existing Gerald Desmond Bridge, to fund capitalized interest on the 2014C Notes through November 15, 2018, to refund a portion of the City of Long Beach, California Subordinate Harbor Revenue Revolving Obligations, Series A (Tax-exempt) and Series B (Tax-exempt), and to finance the costs of issuance of the 2014C Notes.

The 2014C Notes are outstanding as of September 30, 2016, and will mature on November 15, 2018 with interest payable semiannually of May 15 and November 15 at coupon rates ranging from 3.0% to 5.0%. The Series 2014C will not be subject to redemption prior to maturity.

The original issue premium is being amortized over the loan term using the effective interest method. Unamortized premium totaled \$30.5 million for the year ended September 30, 2016.

As of September 30, 2016, the balance of the service account \$40.0 million is restricted to meet debt service requirements in conformity with the note resolution.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2016

Scheduled annual principal note maturities and interest are summarized as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year(s) ending September 30:			
2017	\$ —	15,643	15,643
2018	—	15,643	15,643
2019	325,000	7,822	332,822
	<u>\$ 325,000</u>	<u>39,108</u>	<u>364,108</u>

TIFIA Loan Commitment – In May 2014, the Harbor Department entered into a loan agreement (the TIFIA Loan) with the United States Department of Transportation (USDOT) under the Transportation Infrastructure Finance and Innovation Act (TIFIA). Under the TIFIA Loan, the USDOT will allow the Department to borrow up to \$325.0 million, provided the amount so borrowed will be used to finance and refinance the costs related to the replacement of the Gerald Desmond Bridge, including but not limited to the repayment of the 2014C Notes. The loan is secured by a subordinate lien on the Department’s gross revenues. The loan is expected to be drawn no later than one year after substantial completion of the replacement bridge currently expected in July 2018. As such, there is no outstanding liability for the TIFIA loan as of September 30, 2016. Once drawn upon, the TIFIA loan will be repaid be over a period not to exceed 35 years at an interest rate of 3.42%.

(9) Lines of Credit

In July 2013, the Board of Harbor Commissioners authorized the issuance of \$200.0 million Subordinate Harbor Revenue Revolving Obligations Series A (Tax-Exempt), Series B (Tax-Exempt), and Series C (Taxable).

Bank of America provided the Department a tax-exempt line of credit in an aggregate principal amount of \$78.0 million, and Union Bank provided the Department a tax-exempt and taxable line of credit in an aggregate principal amount of \$122.0 million. Both of these line of credit agreements were scheduled to expire on July 29, 2016. In November 2015, the Department made a repayment of \$37.5 million to Union Bank and paid off the outstanding balance of \$37.5 million to Bank of America. In June 2016, the Department made a repayment of \$20.0 million to Union Bank leaving a remaining outstanding balance of \$25.0 million.

On June 30, 2016, the Board of Harbor Commissioners approved a 3-year revolving credit agreement in connection with a tax-exempt and taxable revolving line of credit to be provided by MUFG Union Bank, N.A. in an aggregate principal amount not to exceed \$200.0 million outstanding at any one time. Both of the existing credit agreements with Bank of America and Union Bank were terminated when the Department entered into a new Credit Agreement with Union Bank in early July 2016.

The tax-exempt and taxable interest rates to be paid by the Department for borrowings under the revolving lines of credit to be provided by Union Bank will be based on a percentage of the one-month London Interbank Offered Rate (Libor).

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As of September 30, 2016, the Department has an outstanding balance of \$25.0 million against this new revolving line of credit with Union Bank.

(10) Bonded Indebtedness

Bond premiums and discounts of long-term debt issues are amortized over the life of the related debt. The Harbor department's bonded indebtedness issues and transactions are as follows (in thousands):

1998 Harbor Revenue Refunding Bonds:	
Maturing 2017 through 2019 at 6.0% interest	\$ 47,030
Plus unamortized premium	<u>1,679</u>
Total 1998 Harbor Revenue Refunding Bonds	\$ <u><u>48,709</u></u>
2010A Harbor Revenue Bonds:	
Maturing 2017 through 2025 at 4.0% to 5.0% interest	\$ 136,715
Plus unamortized premium	<u>8,063</u>
Total 2010A Harbor Revenue Bonds	\$ <u><u>144,778</u></u>
2010B Harbor Revenue Refunding Bonds:	
Maturing 2017 through 2027 at 4.0% to 5.0% interest	\$ 127,660
Plus unamortized premium	<u>7,882</u>
Total 2010A Harbor Revenue Refunding Bonds	\$ <u><u>135,542</u></u>
2014A Harbor Revenue Refunding Bonds:	
Maturing 2017 at 4.0 to 5.0% interest	\$ 12,730
Plus unamortized premium	<u>350</u>
Total 2014A Harbor Revenue Refunding Bonds	\$ <u><u>13,080</u></u>
2014B Harbor Revenue Refunding Bonds:	
Maturing 2017 through 2027 at 3.0 to 5.0% interest	\$ 20,570
Plus unamortized premium	<u>2,282</u>
Total 2014A Harbor Revenue Refunding Bonds	\$ <u><u>22,852</u></u>
2015A Harbor Revenue Refunding Bonds:	
Maturing 2017 through 2023 at 4.0 to 5.0% interest	\$ 44,845
Plus unamortized premium	<u>4,573</u>
Total 2015A Harbor Revenue Refunding Bonds	\$ <u><u>49,418</u></u>

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2015B Harbor Revenue Refunding Bonds:		
Maturing 2023 through 2025 at 5.0% interest		\$ 20,130
Plus unamortized premium		<u>4,231</u>
Total 2015B Harbor Revenue Refunding Bonds		\$ <u><u>24,361</u></u>
2015C Harbor Revenue Bonds:		
Maturing 2026 through 2032 at 5.0% interest		\$ 66,085
Plus unamortized premium		<u>8,561</u>
Total 2015C Harbor Revenue Refunding Bonds		\$ <u><u>74,646</u></u>
2015D Harbor Revenue Bonds:		
Maturing 2033 through 2037 at 5.0% interest		\$ 66,865
Plus unamortized premium		<u>8,141</u>
Total 2015D Harbor Revenue Refunding Bonds		\$ <u><u>75,006</u></u>
Summary:		
Principal		\$ 542,630
Net premium		45,762
Less current portions of long term indebtedness		<u>44,905</u>
Net long-term bonded indebtedness		\$ <u><u>543,487</u></u>

The Department had the following activity in bonded indebtedness for the fiscal years ended September 30, 2016 (in thousands).

Description	Balance, October 1, 2015	Additions	Reductions	Balance, September 30, 2,016	Amounts due within one year
1998	\$ 60,965	—	13,935	47,030	14,770
2010A	148,705	—	11,990	136,715	12,470
2010B	134,135	—	6,475	127,660	130
2014A	25,690	—	12,960	12,730	12,730
2014B	20,570	—	—	20,570	3,390
2015A	44,845	—	—	44,845	1,415
2015B	20,130	—	—	20,130	—
2015C	66,085	—	—	66,085	—
2015D	66,865	—	—	66,865	—
	\$ <u><u>587,990</u></u>	<u>—</u>	<u>45,360</u>	<u><u>542,630</u></u>	<u><u>44,905</u></u>

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Annual Debt Service Requirements to Maturity – All Bonded Debt

Scheduled annual principal bond maturities and interest are summarized as follows (in thousands):

<u>Fiscal year(s) ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 44,905	27,171	72,076
2018	47,190	24,882	72,072
2019	45,965	22,546	68,511
2020	37,300	20,135	57,435
2021	39,110	18,295	57,405
2022–thereafter	<u>328,160</u>	<u>109,201</u>	<u>437,361</u>
	<u>\$ 542,630</u>	<u>222,230</u>	<u>764,860</u>

Details of each outstanding debt issue are as follows:

(a) 1998 Harbor Revenue Refunding Bonds

The City of Long Beach Harbor Revenue Refunding Bonds Series 1998A (the 1998 Bonds) are secured by the Department’s gross revenues. The 1998 Bonds, dated February 1, 1998, amounting to \$206.3 million were issued to refund all of the City’s Harbor Revenue Bonds Series 1989A (the 1989 Bonds). The 1989 Bonds were defeased and the liability for those bonds was removed from the Department’s statement of net position.

Serial bonds aggregating to \$47.0 million are outstanding and will mature on May 15 of each year from 2017 to 2019 in amounts ranging from \$13.9 million to \$16.6 million with interest payable semi-annually on May 15 and November 15 at coupon rates of 6.0%. The 1998 Bonds are not subject to optional or mandatory redemption before their respective maturity dates.

The bond resolution requires the Department to maintain sufficient funds in order to meet current and maximum annual debt service payments. As of September 30, 2016, the Department has allocated \$6.6 million and \$17.6 million to a debt service account and reserve account, respectively.

The refunding of the 1989 Bonds resulted in a difference between the reacquisition price and net carrying amount on the old debt of \$8.6 million. The difference between the reacquisition price and net carrying amount is amortized using the straight-line method over the life of the new bonds and is reported in the accompanying statements of net position as component of deferred outflow of resources. As of September 30, 2016, \$1.1 million remained as a deferred outflow to be amortized.

(b) 2010A Harbor Revenue Bonds

The City of Long Beach Harbor Revenue Bonds Series 2010A (the 2010A Bonds) are secured by the Department’s gross revenues. The 2010A Bonds, dated March 31, 2010, amounting to \$200.8 million were issued to finance certain capital improvements at the Port, to fund a reserve fund for the Series 2010A Bonds, and to pay the costs of issuing the Series 2010A Bonds.

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Serial bonds aggregating to \$136.7 million will mature on May 15 of each year from 2017 to 2025 in amounts ranging from \$12.5 million to \$18.3 million with interest payable semiannually on May 15 and November 15 at coupon rates ranging 3.0% to 5.0%.

The Series 2010A Bonds maturing on or before May 15, 2020 are not subject to redemption prior to maturity. The Series 2010A Bonds maturing on or after May 15, 2021 are subject to redemption prior to maturity, at the option of the Board, as a whole or in part on any date, on or after May 15, 2020, at a redemption price equal to 100% of the principal amount of the Series 2010A Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium.

The bond resolution requires the Department to maintain sufficient funds in order to meet current and maximum annual debt service requirement. As of September 30, 2016, \$7.2 million and \$19.5 million were allocated to the debt service account and reserve account respectively.

(c) 2010B Harbor Revenue Refunding Bonds

The City of Long Beach Harbor Revenue Refunding Bonds Series 2010B (the 2010B Bonds) are secured by the Department's gross revenues. The 2010B Bonds, dated April 29, 2010, amounting to \$158.1 million were issued to refund \$63.1 million aggregate principal amount of the City's Harbor Revenue Bonds, Series 2002B, \$12.1 million aggregate principal amount of the City's Harbor Revenue Refunding Bonds, Series 2004A, and \$78.4 million aggregate principal amount of the City's Harbor Revenue Refunding Bonds, Series 2005A, to fund a reserve fund for the Series 2010B Bonds; and to pay the costs of issuing the Series 2010B Bonds.

The difference between the reacquisition price and net carrying amount is amortized using the straight-line method over the life of the new bonds and is reported in the accompanying statement of net position as of September 30, 2016. The remaining balance of \$3.6 million is to be amortized in the statement of net position as a component of deferred outflow of resources.

Serial bonds aggregating to \$127.7 million will mature on May 15 of each year from 2017 to 2027 in amounts ranging from \$130 thousand to \$24.0 million with interest payable semiannually on May 15 and November 15 at coupon rates ranging from 4.0% to 5.0%.

The Series 2010B Bonds maturing on or before May 15, 2020 are not subject to redemption prior to maturity. The Series 2010B Bonds maturing on or after May 15, 2021 are subject to redemption prior to maturity, at the option of the Board, as a whole or in part on any date, on or after May 15, 2020, at a redemption price equal to 100% of the principal amount of the Series 2010B Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium.

The bond resolution requires the Department to maintain sufficient funds in order to meet current and maximum annual debt service requirements. As of September 30, 2016, \$2.4 million and \$16.1 million were allocated to debt service account and reserve account, respectively.

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(d) 2014A Harbor Revenue Refunding Bonds

The City of Long Beach Harbor Revenue Senior Bonds Series 2014A (the 2014A Bonds) are secured by the Department's gross revenues. The 2014A Senior Bonds, dated April 24, 2014, amounting to \$38.5 million were issued in conjunction with the 2014B Senior Bonds described below to (a) (i) refund all of the City of Long Beach, California, Harbor Revenue Bonds, Series 2002B, which were outstanding in the aggregate principal amount of \$43.4 million, (a) (ii) the City of Long Beach, California, Harbor Revenue Refunding Bonds, Series 2004A, which were outstanding in the aggregate principal amount of \$13.1 million, and (a) (iii) the City of Long Beach, California, Harbor Revenue Refunding Bonds, Series 2004B, which were outstanding in the aggregate principal amount of \$32.0 million (collectively, the Refunded Bonds), and (b) pay the costs of issuing the 2014A Bonds.

The difference between the reacquisition price and net carrying amount is amortized using the straight-line method over the life of the new bonds and is reported in the accompanying statement of net position as of September 30, 2016, \$541.3 thousand remained as a deferred inflow to be amortized in the statement of net position as a component of deferred inflow of resources.

Serial bonds aggregating to \$12.7 million will mature on May 15, 2017 with interest payable semiannually on May 15 and November 15 at coupon rates of 5.0%.

The 2014A Bonds will not be subject to redemption prior to their respective maturity dates.

The bond resolution requires maintaining sufficient funds to meet current and maximum annual debt service requirements. As of September 30, 2016, \$5.0 million was allocated to debt service account.

(e) 2014B Harbor Revenue Refunding Bonds

The City of Long Beach Harbor Revenue Senior Bonds Series 2014B (the 2014B Bonds) are secured by the Department's gross revenues. The 2014B Bonds, dated April 24, 2014, amounting to \$20.6 million were issued in conjunction with the 2014A Bonds described above to refund all of (a) (i) the City of Long Beach, California, Harbor Revenue Bonds, Series 2002B, which were outstanding in the aggregate principal amount of \$43.4 million, (a) (ii) the City of Long Beach, California, Harbor Revenue Refunding Bonds, Series 2004A, which were outstanding in the aggregate principal amount of \$13.1 million, and (a) (iii) the City of Long Beach, California, Harbor Revenue Refunding Bonds, Series 2004B, which were outstanding in the aggregate principal amount of \$32.0 million (collectively, the Refunded Bonds), and (b) pay the costs of issuing the 2014 Bonds.

Serial bonds aggregating to \$20.6 million will mature on May 15 of each year from 2017 to 2027 in amounts ranging from \$940 thousand to \$7.7 million with interest payable semiannually on May 15 and November 15 at coupon rates ranging from 3.0% to 5.0%.

The difference between reacquisition price and net carrying amount is amortized using the straight-line method over the life of the new bonds and is reported in the accompanying statements of net position as of September 30, 2016, \$635 thousand remained as a deferred inflow to be amortized in the statements of net position as a component of deferred inflows.

The 2014B Bonds maturing on or before May 15, 2024 are not subject to redemption prior to maturity. The 2014B Bonds maturing on or after May 15, 2025 are subject to redemption prior to maturity, at the

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option of the Board, as a whole or in part on any date, on or after May 15, 2024, at a redemption price equal to 100% of the principal amount of the 2014B Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemptions without premium.

The bond resolution requires the Department to maintain sufficient fund in order to meet current and maximum annual debt service requirement. As of September 30, 2016, \$1.6 million was allocated to a debt service account.

(f) 2015A Harbor Revenue Refunding Bonds

The City of Long Beach Harbor Revenue Senior Bonds Series 2015A (the 2015A Bonds) are secured by the Department's gross revenues. The 2015A Bonds, dated April 16, 2015, amounting to \$44.8 million were issued in conjunction with the 2015B Bonds described below and other available moneys to (a) current refund and/or defeased all or a portion of the Series 2005 Senior Bonds, and (b) pay the costs of issuing the 2015 Bonds. This refunding was under taken to reduce total debt service payments over the next 10 years by \$36.2 million and resulted in an economic gain of \$12.1 million.

Serial bonds aggregating to \$44.8 million will mature on May 15 of each year from 2017 to 2023 in amounts ranging from \$1.4 million to \$14.4 million with interest payable semiannually on May 15 and November 15 at coupon rates ranging from 4.0% to 5.0%.

The difference between reacquisition price and net carrying amount is amortized using the straight-line method over the life of the new bonds and is reported as a deferred inflow of \$1.6 million in the accompanying statement of net position as of September 30, 2016.

The 2015A Bonds are not subject to redemption prior to maturity.

The bond resolution requires maintaining sufficient funds to meet current and maximum annual debt service requirements. As of September 30, 2016, \$3.6 million was allocated to a debt service account.

(g) 2015B Harbor Revenue Refunding Bonds

The City of Long Beach Harbor Revenue Senior Bonds Series 2015B (the 2015B Bonds) are secured by the Department's gross revenues. The 2015B Bonds, dated April 16, 2015, amounting to \$20.1 million, were issued in conjunction with the 2015A Bonds described above and other available money to (a) current refund and/or defeased all or a portion of the Series 2005 Senior Bonds, and (b) pay the costs of issuing the 2015 Bonds. Even though this refunding resulted in an increase of \$845 thousand in the total of debt service payments over the next 10 years, it resulted in an economic gain of \$1.7 million.

Serial bonds aggregating to \$20.1 million will mature on May 15 of each year from 2023 to 2025 in amounts ranging from \$3.3 million to \$9.8 million with interest payable semiannually on May 15 and November 15 at coupon rates of 5.0%.

The difference between reacquisition price and net carrying amount is amortized using the straight-line method over the life of the new bonds and is reported in the accompanying statement of net position as of September 30, 2016, \$305 thousand remained as a deferred inflow to be amortized in the statement of net position as a component of deferred inflows.

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The 2015B Bonds are not subject to redemption prior to maturity.

The bond resolution requires the Department to maintain sufficient funds in order to meet current debt service requirement. As of September 30, 2016, \$1.1 thousand was allocated to a debt service account.

(h) 2015C Harbor Revenue Bonds

The City of Long Beach Harbor Revenue Senior Bonds Series 2015C (the 2015C Bonds) are secured by the Department's gross revenues. The 2015C Bonds, dated July 15, 2015, amounting to \$66.1 million were issued in conjunction with the 2015D Bonds (the Series 2015 Senior Revenue Bonds) described above to (a) pay and/or reimburse the Harbor Department for capital expenditures incurred or to be incurred by the Harbor Department at the Port of Long Beach including, but not limited to, the Series 2015 Projects, and/or repaying all or a portion of the outstanding Series A Subordinate Obligations and Series B Subordinate Obligations and (b) paying the financing costs and the costs of issuing the Series 2015 Senior Revenue Bond.

Serial bonds aggregating to \$66.1 million will mature on May 15 of each year from 2026 to 2032 in amounts ranging from \$6.9 million to \$16.8 million with interest payable semiannually on May 15 and November 15 at coupon rates of 5.0%.

The Series 2015 Senior Revenue Bonds are subject to redemption prior to maturity, at the option of the Board, as a whole or in part on any date, or after May 15, 2025, at a Redemption Price equal to 100% of the principal amount of the Series 2015 Senior Revenue Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium.

The bond resolution requires the Department to maintain sufficient funds in order to meet current debt service requirement. As of September 30, 2016, \$1.2 thousand was allocated to a debt service account.

(i) 2015D Harbor Revenue Bonds

The City of Long Beach Harbor Revenue Senior Bonds Series 2015D (the 2015D Bonds) are secured by the Department's gross revenues. The 2015D Bonds, dated July 15, 2015, amounting to \$66.9 million were issued in conjunction with the 2015C Bonds (the Series 2015 Senior Revenue Bonds) described above to (a) pay and/or reimburse the Harbor Department for capital expenditures incurred or to be incurred by the Harbor Department including but not limited to, the Series 2015 Projects, and/or repaying all or a portion of the outstanding Series A Subordinate Obligations and Series B Subordinate Obligations and (b) paying the financing costs and the costs of issuing the Series 2015 Senior Revenue Bond.

Serial bonds aggregating to \$66.8 million will mature on May 15 of each year from 2033 to 2042 in amounts ranging from \$5.3 million to \$8.2 million with interest payable semiannually on May 15 and November 15 at coupon rates of 5.0%.

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The Series 2015 Senior Revenue Bonds are subject to redemption prior to maturity, at the option of the Board, as a whole or in part on any date, or after May 15, 2025, at a Redemption Price equal to 100% of the principal amount of the Series 2015 Senior Revenue Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium.

The bond resolution requires the Department to maintain sufficient funds in order to meet current debt service requirement. As of September 30, 2016, \$1.3 million was allocated to a debt service account.

(11) Retirement Program

(a) Pension Plan

(i) Plan Description – Public Employees' Retirement System (CalPERS)

The City contributes to the California Public Employees' Retirement System (CalPERS) agent multiple-employer defined benefit pension plan. The City is considered the employer and the Department is a department of the City. The Department's employees are enrolled in the City Miscellaneous Plan. CalPERS provides retirement benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plan are established by State statute and City resolution. All City departments are considered collectively to be a single employer, and the Department's pension elements are determined as the Department's percentage of the City as a single employer.

CalPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees or beneficiaries. Benefits are based on years of credited service equal to one year of full-time employment, age at retirement and final compensation. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. The cost of living adjustments for the plan is applied as specified by the Public Employees' Retirement Law.

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The Miscellaneous Plan's provisions and benefits in effect at September 30, 2016, are summarized in the following table:

<u>Hire date</u>	<u>Miscellaneous</u>		
	<u>Tier 1 Prior to October 1, 2006</u>	<u>Tier 2 On or after October 1 2006 and prior to January 1 2013</u>	<u>Tier 3 On or after January 1 2013</u>
Benefit formula	2.7% at 55	2.5% at 55	2.0% at 62
Benefit vesting schedule		5 years of service	
Benefit payments		Monthly for life	
Retirement age	50–55	50–55	52–60
	<u>Required contribution rates</u>		
Employee	8.0 %	8.0 %	6.5 %
Employer	16.288 %	16.288 %	16.288 %
	<u>Percentage of eligible compensation</u>		
Monthly benefits	2.0% to 2.7%	2.0% to 2.5%	1.0% to 2.0%

Contributions – California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

(ii) *Allocation Methodology*

The City used a calculated percentage based on the Department's share of the pensionable compensation to the City's total pensionable compensation amounts for each plan, to provide the Department's net pension liability and related GASB 68 accounting elements. The Department's proportionate share totaled 19.8% as of September 30, 2016.

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(iii) *Pension Liability, Pension Expense, and Deferred Outflows and Deferred Inflows Related to Pensions*

The City's net pension liability for the Miscellaneous Plan is measured as the total pension liability, less the plan's fiduciary net position. Net pension liability is measured as of June 30, 2016 (measurement date), using the actuarial valuation report as of June 30, 2015, rolled forward using standard update procedures. The Department's share of the net pension liability for the Miscellaneous Plan was \$90.5 million at the beginning of the measurement period and \$124.2 million at September 30, 2016. For the measurement period ending June 30, 2016 (the measurement date) the Department incurred pension expense of \$10.0 million.

As of September 30, 2016, the Department had deferred outflows and deferred inflows related to pensions as follows (in thousands):

Deferred outflows of resources:

Pension contributions after measurement date	\$	2,072
Difference between actual and expected CalPERS investment returns		32,351
CalPERS change in proportion		<u>2,707</u>
Total deferred outflows of resources	\$	<u><u>37,130</u></u>

Deferred inflows of resources:

CalPERS difference between actual and expected experience	\$	6,332
CalPERS change in assumptions		<u>2,309</u>
Total deferred inflows of resources	\$	<u><u>8,641</u></u>

Exclusive of deferred outflows related to payments after the measurement date, which will be recognized in pension expense in the following year, the net amount of deferred outflows (inflows) of resources related to pensions that will be recognized in pension expense during the next four years is as follows (in thousands):

Measurement period ended		
	June 30	Total
2017		\$ 2,790
2018		8,065
2019		9,748
2020		<u>5,814</u>
Total		\$ <u><u>26,417</u></u>

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(iv) *Actuarial Methods and Assumptions Used to Determine Total Pension Liability*

A summary of principal assumptions and methods used to determine the net pension liability is as follows:

	Miscellaneous
Valuation date	June 30, 2015
Measurement date	June 30, 2016
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Discount rate	7.65 %
Inflation	2.75
Payroll growth	3.00
Projected salary increase	Varies by entry age and service
Investment rate of return	7.50* ¹
Mortality	See note* ²

*¹ Net of Pension Plan Investment and Administrative Expenses; includes inflation

*² The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale AA.
For more details on this table, refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2015 Actuarial Valuation Report were based on the results of an actuarial experience study for the period from 1997 to 2011. Further details of the experience study can be found on the CalPERS website.

Discount Rate – The discount rate used to measure the total pension liability was 7.65%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65% is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the CalPERS website under the GASB Statement No. 68 section.

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The table on the following page reflects the long-term expected real rate of return by asset class for the Miscellaneous Plan. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

<u>Asset class</u>	<u>New strategic allocation</u>	<u>Real return years 1–10 a</u>	<u>Real return years 11+ b</u>
Global equity	51.0 %	5.25 %	5.71 %
Global fixed income	20.0	0.99	2.43
Inflation sensitive	6.0	0.45	3.36
Private equity	10.0	6.83	6.95
Real estate	12.0	4.50	5.13
Infrastructure and forestland	—	4.50	5.09
Liquidity	1.0	(0.55)	(1.05)

^a An expected inflation of 2.5% used for this period

^b An expected inflation of 3.0% used for this period

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following table presents the net pension liability of the City’s Miscellaneous plan as of the measurement date, calculated using the discount rate of 7.65%, compared to a discount rate that is 1% age point lower (6.65%) or 1% age point higher (8.65%). Amounts shown below are for the City’s Miscellaneous plan in thousands:

<u>Sensitivity to Net Pension Liability</u>	
<u>Net pension liability</u>	<u>Total</u>
1% Decrease (6.65%)	\$ 185,995
Current discount rate (7.65%)	124,170
1% Increase (8.65%)	72,934

(b) Postretirement Healthcare Benefits (OPEB)

(i) Plan Description

The Department participates in the City of Long Beach Retiree Health Care plan (the Plan), a single-employer plan administered by the City of Long Beach. The Plan covers all eligible full-time employees of the City. City Council has the authority to establish and amend the benefit terms currently permitted by Ordinance No. C-7556.

(ii) Benefits Provided

The Plan provides health, dental and long-term care insurance for retirees and their dependents as long as (a) that employee participated in a City provided insurance program of that type (PPO or HMO) during the year immediately preceding retirement, (b) has not attained the eligibility age for Medicare payments, and (c) has attained the minimum retirement age for the employee’s

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2016

retirement plan. Benefits are administered through a third-party provider, and the full cost of the benefits is covered by the Plan.

(iii) Total OPEB Liability, OPEB Expense, and Deferred Outflows of Resources Related to OPEB

At September 30, 2016, the Department reported a total OPEB liability of \$3.1 million for its proportionate share of the total OPEB liability. The total OPEB liability was measured as of June 30, 2016 and the total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation as of June 30, 2015. The Department's proportion of the total OPEB liability was based on the Department's share of sick leave balances. At June 30, 2016, the Department's proportion was 6.9%.

For the year ended September 30, 2016, the Department recognized OPEB expense of \$257 thousand. At September 30, 2016, the Department reported \$86 thousand of deferred outflows of resources related to OPEB from contributions made subsequent to the measurement date. Amounts reported as deferred outflows and deferred outflows related to OPEB from the Department's contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability during the year ending September 30, 2017.

(iv) Actuarial Assumptions

The total OPEB liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions.

Valuation date	September 30, 2014, rolled forward to September 30, 2015	
Measurement date	September 30, 2015	
Actuarial cost method	Entry age	
Actuarial assumptions:		
Inflation	3.00 %	
Discount rate	3.76 %	Based on Fidelity Municipal Bond GO AA 20-year Bond Index
Payroll increases	Aggregate Merit	3.25 % CalPERS 1997-2011 experience study
Mortality	CalPERS 1997-2011 experience study	
Healthcare trend rate	7.5% to 7.8%	

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2016

(v) *Sensitivity of the Total OPEB Liability to Changes in the Discount Rate.*

The following presents the total OPEB liability of the Department, as well as what the Department's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.76%) or 1-percentage-point higher (4.76%) than the current discount rate (in thousands):

	1 Percent decrease (2.76%)	Discount rate (3.76%)	1 Percent increase (4.76%)
Total OPEB liability	\$ 3,396	3,103	2,836

(vi) *Sensitivity of the total OPEB Liability to Changes in the Healthcare Cost Trend Rates.*

The following presents the total OPEB liability of the Department, as well as what the Department's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (6.5% decreasing to 5.0% for non-Medicare plans or 6.8% decreasing to 5.0% for Medicare plans) or 1-percentage-point higher (8.5% decreasing to 5.0% for non-Medicare plans or 8.8% decreasing to 5.0% for Medicare plans) than the current healthcare cost trend rates:

	1 Percent decrease (6.5% to 6.8%)	Healthcare cost trend rate (7.5% to 7.8%)	1 Percent increase (8.5% to 8.8%)
Total OPEB liability	\$ 2,757	3,103	3,508

(c) Termination Benefits

As of September 30, 2016, the City has recorded a liability in the Employee Benefits Internal Service Fund of \$135.2 million based on an actuarial study of current and future retiree accumulated sick leave in accordance with GASB Statement No. 16, Accounting for Compensated Absences (GASB 16). The liability takes into account an estimate of future usage, additional leave accumulation, and wage increases for both current retirees and active employees.

The actuarial study assumes an investment return of 4.3% and wage increases of 3.3% per year for safety employees. The \$135.2 million long-term portion of the liability is being funded over time through burden rates, applied as a percentage of current productive salaries, and charged to the various City funds.

For the year ended September 30, 2016, the Department has recorded a liability of \$9.3 million as compensated absence, which represents the Department's share of this liability.

(d) Deferred Compensation Plan

The City offers its employees the option to participate in a deferred compensation plan created in accordance with Internal Revenue Code Section 457 allowing them to defer or postpone receipt of income. Amounts deferred may not be paid to the employee during employment with the City except for

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2016

a catastrophic circumstance creating an undue financial hardship for the employee. Further information regarding the City's deferred compensation plan may be found in the City's Comprehensive Annual Financial Report for the years ended September 30, 2016.

(12) Operating Leases

The major portion of the Department's property is leased to others. Such property includes marine terminal facilities, special-purpose facilities, office and commercial space, and land.

Some marine terminal facilities are leased under agreements that provide the tenants with preferential but not exclusive use of the facilities. Some leases provide for rentals based on gross revenues or, in the case of marine terminal facilities, on annual usage of the facilities. The leases and the preferential assignments generally provide for minimum rentals.

Property under lease at September 30, 2016 consisted of the following (expressed in thousands):

Land	\$	477,493
Docks and wharves		658,814
Warehouses and sheds		24,244
Cranes and shiploaders		68,910
Buildings and other facilities		805,937
Infrastructure		<u>1,443,113</u>
Historical cost of leased property		3,478,511
Less accumulated depreciation		<u>(1,521,045)</u>
Book value of leased property	\$	<u><u>1,957,466</u></u>

The future minimum rental income under noncancelable operating leases having an initial term in excess of one year is as follows (expressed in thousands):

2017	\$	332,813
2018		333,106
2019		333,195
2020		327,785
2021		325,160
2022–2026		1,431,811
2027–2031		586,997
2032–2036		414,913
2037 and thereafter		<u>1,213,468</u>
Total	\$	<u><u>5,299,248</u></u>

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2016

(13) Investment in Joint Venture

Intermodal Container Transfer Facility Joint Powers Authority (ICTF)

The Department and the Harbor Department of the City of Los Angeles (the Ventures) entered into a joint venture agreement to form ICTF for the purposes of financing and constructing an intermodal container transfer facility (the Facility) to transfer cargo containers between trucks and railroad cars. The Facility has been leased to Southern Pacific, now merged with Union Pacific (the Tenant). The Facility was developed by the Tenant who assumed operational responsibility for the Facility. The Ventures' share net income and equity distributions from ICTF equally. The Department's share of the ICTF's net position at September 30, 2016 totaled \$5.2 million. Separate ICTF financial statements for the year ended June 30, 2016 can be obtained from the Department.

(14) Commitments and Contingencies

The Department is subject to claims and lawsuits arising from the normal course of business. The City Attorney's office evaluates these claims on a regular basis. Department management may make provision for probable losses if deemed appropriate on advice of legal counsel. To the extent that such provision for damages is considered necessary, appropriate amounts are reflected in the accompanying financial statements. Based upon information obtained from the City Attorney with respect to remaining cases, it is the opinion of management that the estimated liability for unreserved claims and suits will not have a material impact on the financial statements of the Department.

Claims expenditures 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. Based on an opinion from legal counsel, the Department reserved a litigation claim liability of \$8.6 million for fiscal year 2016, of which \$7.6 million relates to construction claims.

Contract commitments and purchase orders for which materials or services were not received at September 30, 2016 aggregated \$78.1 million.

(a) Risk Management

The Department currently carries an all-risk property insurance program covering loss or damage by fire and other risks (excluding earthquake and flood) with a loss limit of \$1.3 billion. The coverage also includes terrorism exposure. The Department also carries two Builder's Risk insurance programs, which cover property under construction in the Port. One policy, specific to the construction of the Gerald Desmond Bridge replacement, has an overall policy limit of \$781.1 million that includes an earthquake limit of \$65.0 million. The second policy is a master builder's risk insurance program that covers all other Port of Long Beach construction projects currently underway. The coverage limit for each construction project in this program is equivalent to the contract's contract price. The maximum per project coverage, without express underwriter approval, is \$125.0 million, exclusive of earthquake coverage.

To address third-party liability exposure, an excess liability insurance program is carried by the Department with total limits of \$150.0 million in excess of \$1.0 million self-insured retention. The excess liability insurance program covers the Department's operations and includes acts of terrorism within the \$150.0 million limit. In addition, the Department carries specialized insurance policies providing coverage for damage to owned vessels, damage to other vessels, and pollution liability.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2016

The amount of settlements reached by the Department did not exceed the amount of insurance coverage in any of the past three fiscal years.

Following is a summary of insurance coverage for the Department (in thousands):

Insurance coverage for fire and other risks	\$	1,323,435
Builder's risk for Gerald Desmond Bridge project		781,122
Builder's risk for other projects		125,000
Comprehensive general liability		150,000
Self-insured retention		1,000

Port tenants, contractors, and vendors are required to carry various types and levels of insurance, including general liability insurance on leased premises. The insurance must include coverage for bodily injury and property damage liabilities, and name the City, its Board of Harbor Commissioners, and the Department's officers and employees as additional insured.

The Department participates in the City's self-insured workers' compensation program. During fiscal years 2016, it made payments to the City's Insurance Fund totaling \$1.7 million, for permanent and temporary Department employees. Amounts in the City's Insurance Fund are accumulated to meet losses as they arise.

(b) Potential Obligations Related to the Alameda Corridor Transportation Authority

The Alameda Corridor Use and Operating Agreement was executed by the Department, the Harbor Department of the City of Los Angeles (Port of Los Angeles), ACTA, and the Burlington Northern Santa Fe and Union Pacific Railroads (the railroads) in 1998. This agreement provides for a payment of funds, known as a "Shortfall Advance," to be made, under certain circumstances, to ACTA by the Department and the Port of Los Angeles. Revenues generated by use fees and container charges, paid by the railroads, will be used to pay debt service on ACTA financing, to establish and maintain bond repayment and reserve funds, to establish and replenish a reserve account, and to pay ACTA's reasonable expenses relating to administration of the rail corridor.

To the extent that the revenues from use and container charges are not sufficient to meet ACTA's obligations, the Department and the Port of Los Angeles have agreed to advance the funds necessary to make up the difference. This obligation began after completion of the corridor project and is limited to a total of 40% of the total annual debt service, with the Department and the Port of Los Angeles each responsible for one-half or 20% of the total amount due in such calendar year.

Prior to April 1 of each year, ACTA is required to provide a Notice of Estimated Shortfall Advances and Reserve Account Funding (the Notice); estimates included in the Notice are dependent upon the accuracy of the assumptions used in their formulation. It is anticipated that there will be differences between estimates and actual results; the differences may be material. The most recent Notice date May 25, 2016 indicates that there is no projected shortfall for ACTA's fiscal year ending June 30, 2017. Any Shortfall Advance made by the Department and the Port of Los Angeles is reimbursable, with interest, by ACTA.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2016

On May 24, 2016 ACTA issued the Series 2016 Bonds and restructured a portion of its debt. It potentially reduced the frequency and amount of future Shortfall Advances.

In 2011 and 2012 the Department funded Shortfall Advances of \$2.95 million each year. The balance reimbursable by ACTA of \$5.9 million for the previously paid Shortfall Advances remained unchanged as of September 30, 2016.

(c) Gerald Desmond Bridge Replacement Project

The Gerald Desmond Bridge Replacement Project consists of replacing the existing four-lane Gerald Desmond Bridge, which spans the Port's Main Channel, with a new six-lane bridge. Currently, the Gerald Desmond Bridge is only two lanes in each direction with no shoulder and, depending on tide conditions, is too low to accommodate passage of the largest ships. The new bridge is being built with a cable-stayed design under a design-build contract and will feature three lanes in each direction for improved traffic flow, emergency lanes on both the inner and outer shoulders in each direction to reduce traffic delays and safety hazards from accidents and vehicle breakdowns, a 200-foot vertical clearance to accommodate the world's largest vessels, a reduction in the bridge's steep grades, and a bicycle/pedestrian path with scenic overlooks. Additional improvements include reconstruction of the Terminal Island East Interchange and a new interchange with the 710 Freeway. Construction of the new bridge began in 2014 and is expected to be completed by the end of 2018.

The bridge budget is \$1.467 billion and is a joint effort between Caltrans and the Department. The Department anticipates that funding of the project will come from numerous sources, including, Federal and State grants, and state sources, but local matching funds will also be required. Commitments from these funding sources total \$935.2 million and are available as reimbursement for expenditures on the bridge project. As these expenditures are incurred, amounts eligible for reimbursement from the funding sources are recognized as capital grant revenues in the accompanying statement of revenues, expenses, and change in net position. As of September 30, 2016, the Department has incurred approximately \$880.9 million in costs to construct the replacement bridge with an increase of \$162.5 million during the year ended September 30, 2016. Of this total amount, approximately \$532.4 million has been recognized as capital grant revenue from inception, with \$95.7 million reported as part of due from other governmental agencies on the statement of net position as of September 30, 2016.

Upon completion of the Gerald Desmond Bridge Replacement Project, the agreement with Caltrans provides for transfer of ownership of the new bridge to Caltrans assuming all conditions of the agreement are met. Additionally, the Department has agreed to pay Caltrans all operation and maintenance costs with respect to the new bridge for a 30-year period commencing on the date ownership of the new bridge is transferred to Caltrans.

(15) Transfers to the City

The City Council, by authority of City Charter Chapter XII, Section 1209 (c)(4) as amended, and with the approval of the Board of Harbor Commissioners (the Board), adopted a resolution to transfer 5% of the Department's operating revenue to the City's Tidelands Operating Fund. The Department accrued \$18.0 million as transfers during fiscal year 2016 to the City Tidelands Fund to be paid in fiscal year 2017. In addition, the Department transferred \$660 thousand to the City for a City wide light and power project.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2016

(16) Environmental Mitigation Credits

The Department disbursed \$39.4 million in fiscal year 1997 to secure environmental mitigation credits that would allow the Department to complete projects within its complex. The cost incurred in the acquisition of the environmental credits has been classified as a noncurrent asset. The balance of environmental mitigation credits will be adjusted in the future as landfill credits are used for Port development.

Subsequently, an agreement between the Department, the Port of Los Angeles, and several federal and state regulatory agencies provided for the Department's purchase of land located within the wetlands restoration project at the Bolsa Chica Wetlands in Orange County, California. The 38 acres land was purchased for an additional \$11.4 million and transferred to the state in return for environmental mitigation credits to allow for the construction of landfill in the outer harbor area.

The Department has utilized \$9.6 million of environmental credits for completed capital projects within the port boundaries to date with zero amount utilized in fiscal year 2016. While no further acquisition of environmental credits or utilization of credits has occurred, some existing credits will be used in completing the Middle Harbor project that is underway and projected for completion in fiscal year 2019; other credits will be used in future projects.

(17) Clean Air Action Plan (CAAP)

In 2006, the Long Beach Board of Harbor Commissioners adopted the Green Port Policy, a commitment to reduce the Port's impact on the environment and the community. In 2006, the Long Beach and Los Angeles Boards of Harbor Commissioners approved the San Pedro Bay Clean Air Action Plan (CAAP), which has led to major air-quality successes at both Ports. Diesel particulate matter, nitrogen oxides and sulfur oxides have been reduced by 81% from 2005 levels, based on 2013 emissions studies. The Plan includes the landmark Clean Truck Program (CTP), a successful changeover to a low emission truck fleet; the Green Flag Vessel Speed Reduction Program to reduce air pollution emissions from ships; the building of shore power facilities allowing ships to shut down diesel-fueled auxiliary engines and plug into electric power while at-berth known as cold-ironing and the use of the world's first diesel-electric hybrid tugboats. CAAP revenue is generated predominately from fees paid by drayage truck operators in order to register their trucks and gain access to port terminals. CAAP expenses relate primarily to CTP lease subsidies for certain truck operators, as well the CAAP related administrative costs. The diesel and alternative fuel/LNG trucks financed through CTP 7-year lease subsidy program will come to the end of lease in August 2017. As of September 30, 2016, a total of \$2.0 million contingent liability was recorded, of which \$1.6 million is for the lease end residual values of 72 returned trucks, and \$0.4 million is for 13 trucks in default.

(18) Deferred Outflows/Inflows of Resources

The deferrals of accounting gains and losses are related to cumulative bond refunding activity from current year and prior year bonds. The deferred outflows and deferred inflows of resources related to net pension liability are certain changes in total pension liability and fiduciary net position of the pension plan that are to be recognized in future pension expense.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2016

The schedule of deferrals as of September 30, 2016 (expressed in thousands):

Deferred outflows of resources:

CalPERS – Loss on debt refunding	\$	4,668
Difference of expected and actual investment for pension plan investment		32,351
Pension contribution after measurement date		2,072
CalPERS – change in proportion		2,707
OPEB contributions after measurement date		86
	\$	<u>41,884</u>

Deferred inflows of resources:

Gain on debt refunding	\$	3,020
CalPERS – Change in assumptions		2,309
CalPERS – differences between actual and expected experience		6,332
	\$	<u>11,661</u>

(19) Port Headquarter Building and Civic Center Project

During fiscal 2016, the Harbor and the City entered into a multi-party Public-Private Partnership (P3) agreement (Project Agreement) with an unrelated third party that will result in the construction of a new headquarters building for the Port of Long Beach (Harbor), City Hall, Main Library, and a revitalized Lincoln Park (the Project). The Project Agreement requires Plenary Edgemoor Civic Partners, LLC (PECP) to arrange for the financing of the Civic Center Project through privately placed taxable debt and equity.

The estimated \$522.5 million Project comprises two components; a new \$221.8 million new Harbor headquarters building and a \$300.7 million City project consisting of a City Hall, new Main Library and revitalized Lincoln Park (City Project Assets). Certain common areas will be jointly owned by both the City and the Harbor. The Project Agreement requires PECP to design, build, operate, and maintain the Civic Center complex.

The new Harbor headquarters building has a scheduled completion/occupancy date of June 2019. Upon occupancy of the Harbor Headquarters building, the Harbor will be required to make a one-time payment of \$212.6 million, net of a \$9.2 million payment from the City, to PECP. This payment will be made from Harbor cash and investments on hand or possible future borrowings.

The Harbor will also pay PECP for various operating and maintenance and life-cycle replacement costs related to the Harbor Headquarters building and for the Harbor's portion of the jointly owned common areas. These costs, referred to as FM charges, have a fixed component totaling \$71 thousand a month and a variable component ranging from zero to \$128 thousand a month depending on the scope of lifecycle costs. The FM charges are also to be paid over a 40-year term.

For accounting purposes, due to the build-to-suit nature of the Project Agreement coupled with the Project being constructed on Harbor owned land, the Harbor is deemed to be the owners of the Project during construction. Accordingly, at September 30, 2016, the Harbor has recorded construction-in-progress and a corresponding long-term obligation of \$49.1 million for its share of construction contract costs to date.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2016

(20) Subsequent Events

The Department has evaluated subsequent events through March 27, 2017, the date the financial statements were available to be issued.



Required Supplemental Section

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

OPEB Liability and Related Ratios¹

(As of September 30, dollars in thousands)

Last 10 Years ^{1, 2}

(Unaudited)

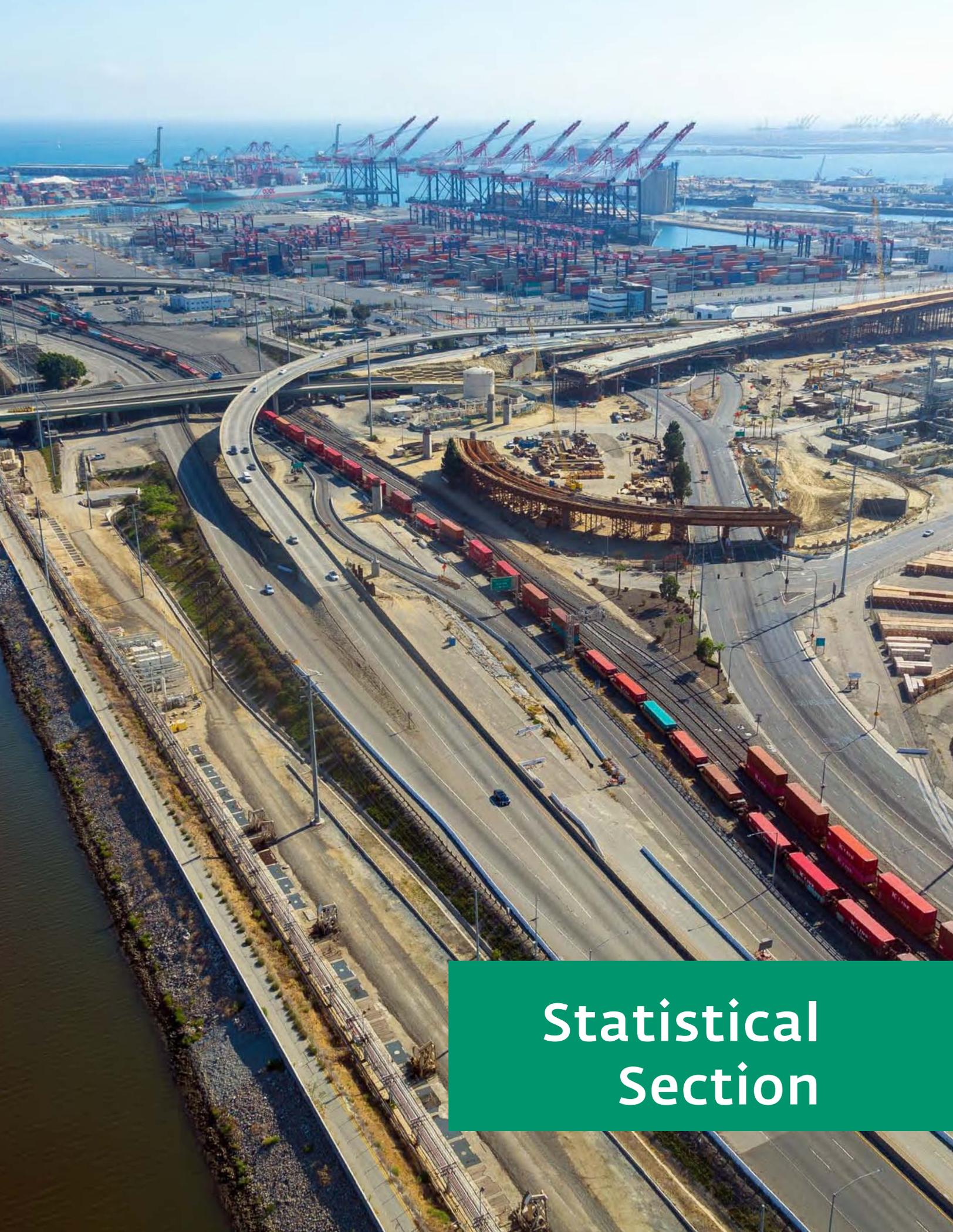
	<u>2016</u>
Department's percentage of total city OPEB liability	6.9 %
Department's total OPEB liability – ending	\$ 3,103
Department covered-employee payroll	47,203
Total department OPEB liability as a percentage of covered payroll	6.6 %

Notes to schedule:

¹ No assets are accumulated in a trust to pay related benefits

² Fiscal year 2016 was the first year of implementation.

See accompanying independent auditors' report.



Statistical Section

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Statements of Net Position

Last Ten Fiscal Years

(In Millions)

(Unaudited)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Assets and deferred outflows:										
Current	\$ 487	501	453	441	673	634	581	1,005	1,068	1,049
Other	4,550	4,474	4,229	3,612	2,931	2,858	2,883	2,403	2,336	2,339
Deferred outflows	42	22	10	11	13	—	—	—	—	—
Total assets and deferred outflows	\$ 5,079	4,997	4,692	4,064	3,617	3,492	3,464	3,408	3,404	3,388
Liabilities and deferred inflows:										
Current	\$ 111	100	123	153	123	104	108	135	206	155
Current – restricted*	61	60	67	61	59	58	57	56	54	57
Long term	1,115	1,215	1,037	672	641	678	751	791	841	1,033
Deferred inflows	12	15	3	—	—	—	—	—	—	—
Total liabilities and deferred inflows	\$ 1,299	1,390	1,230	886	823	840	916	982	1,101	1,245
Net position:										
Net investment in capital assets	\$ 3,442	3,077	2,975	2,848	2,105	1,916	1,859	1,487	1,440	1,269
Restricted	90	265	199	62	157	178	208	197	153	208
Unrestricted	248	267	289	269	531	558	481	744	710	666
Total net position	\$ 3,780	3,609	3,463	3,179	2,793	2,652	2,548	2,428	2,303	2,143
Working capital	\$ 376	401	330	288	550	530	473	871	862	894
Current ratio	2.8	3.1	2.4	2.1	3.7	3.9	3.5	5.3	4.1	4.9
Debt to asset ratio	28.3 %	30.9 %	29.0 %	24.5 %	28.0 %	29.4 %	31.8 %	40.9 %	47.1 %	53.2 %

* Current liabilities payable from restricted assets.

Source: Finance Division, Harbor Department.

See accompanying independent auditors' report.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Changes in Fund Net Position

Last Ten Fiscal Years

(In Millions)

(Unaudited)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Operating revenue	\$ 361	355	357	346	334	345	321	312	359	371
Operating expense	291	271	227	188	176	166	185	184	196	180
Income from operations	70	84	130	158	158	179	136	128	163	191
Other income/(expense)	(15)	39	(12)		(16)	(50)	(13)	(15)	(24)	(68)
Capital grants	132	121	178	251	14	7	19	11	4	10
Investment earnings	5	4	7	1	3	5	8	19	33	43
Transfers to City Tidelands Fund	(19)	(18)	(18)	(17)	(17)	(37)	(30)	(19)	(16)	(15)
Change in net position	\$ 173	230	285	393	142	104	120	124	160	161
Return on investment	— %	7.4 %	9.4 %	14.4 %	6.7 %	5.2 %	6.2 %	8.7 %	13.0 %	14.7 %
Capital expenditures (Includes personnel costs)	\$ 367	363	552	792	373	228	273	189	92	171
Personnel:										
Wages and benefits *	\$ 62	55	48	45	43	42	41	39	34	29

* from operations

Source: Finance Division, Harbor Department.

See accompanying independent auditors' report.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Operating Revenue by Type

Last Ten Fiscal Years

(In Millions)

(Unaudited)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Berth and special facilities:										
Wharfage	\$ 323	313	308	297	268	280	257	243	289	298
Dockage	8	11	11	12	12	12	11	13	14	16
Bunkers	1	—	1	1	1	2	2	2	2	2
Special facilities rentals	16	16	14	12	28	23	21	20	22	22
Crane rentals	—	2	13	13	13	13	13	13	13	13
Other	1	1	1	1	—	—	—	—	—	—
Total berths and special facilities	349	343	348	336	322	330	304	291	340	351
Rental properties	10	10	9	9	10	14	14	16	14	15
Miscellaneous	3	2	1	1	2	2	3	4	4	4
Total operating revenue	\$ 362	355	358	346	334	346	321	311	358	370
Growth (reduction)%	1.5	(1.1)	3.4	3.6	(3.5)	7.4	3.3	(13.1)	(3.2)	5.1
Special facility revenue by terminal commodity:										
Containers	\$ 275	270	280	268	256	267	247	233	280	290
Liquid bulk	17	17	16	17	17	16	17	18	18	19
Dry bulk	29	29	26	26	24	22	19	20	18	18
Vehicles	15	14	13	12	13	10	10	10	10	11
Steel	8	8	8	8	8	8	6	7	9	9
Lumber	1	1	1	1	1	1	1	1	1	1
Miscellaneous	3	3	3	3	3	1	4	2	5	5
Total special facility revenue	\$ 348	342	347	335	322	325	304	291	341	353

Source: Finance Division, Harbor Department.

See accompanying independent auditors' report.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Revenue Bonds Debt Service Coverage

Last Ten Fiscal Years

(Millions of Dollars)

(Unaudited)

Fiscal year	Revenues (a)	Maintenance costs (b)	Net revenues (a-b)	Revenue bonds debt service	Times debt service covered
2016	\$ 365	145	220	89	2.47
2015	359	134	225	80	2.81
2014	360	108	252	81	3.11
2013	349	98	251	81	3.10
2012	337	87	250	80	3.13
2011	350	81	269	80	3.36
2010	330	98	232	82	2.83
2009	330	98	232	82	2.83
2008	393	116	277	93	2.98
2007	414	97	317	91	3.48

(a) Total port operating revenue and interest earned only.

(b) Port operating expenses net of depreciation and amortization.

Source: Finance Division, Harbor Department.

See accompanying independent auditors' report.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Tonnage Summary

Last Ten Fiscal Years

(Millions of Dollars)

(Unaudited)

Fiscal year	Inbound tonnage			Outbound tonnage			POLB Total
	Municipal	Private*	Total	Municipal	Bunkers	Total	
2016	\$ 122,937	—	122,937	36,733	1,652	38,385	161,322
2015	124,525	—	124,525	38,436	1,313	39,749	164,274
2014	122,244	—	122,244	42,415	867	43,282	165,526
2013	119,504	—	119,504	41,910	843	42,753	162,257
2012	107,283	—	107,283	36,947	914	37,861	145,144
2011	112,962	192	113,154	39,717	1,546	41,263	154,417
2010	108,278	209	108,487	36,667	2,412	39,079	147,566
2009	99,835	233	100,068	33,077	2,110	35,187	135,255
2008	118,563	654	119,217	41,605	2,088	43,693	162,910
2007	132,923	362	133,285	37,292	2,460	39,752	173,037
Average annual growth	(0.4)%	— %	(0.4)%	1.6 %	(1.0)%	1.2 %	(0.1)%

Metric revenue ton= 1 metric ton or 1 cubic meter; whichever is the basis for tariff assessment.

* Private berth information is no longer available. Revenues from private berth leases are revenues of the terminal operator and not part of the Port's revenue. Beginning in 2012, the Port implemented a new automated billing system that no longer collects private berth statistics.

Source: Finance Division, Harbor Department.

See accompanying independent auditors' report.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Tonnage by Commodity Group and Vessel Calls

Last Ten Fiscal Years

(Thousands of Metric Revenue Tons)

(Unaudited)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	Total	Average annual growth
Containerized:												
In	93,614	95,798	94,310	91,047	77,910	83,482	79,058	69,354	88,398	99,523	872,494	5.9 %
Out	29,400	29,307	31,262	30,525	27,584	29,623	28,251	24,800	33,234	28,293	292,279	7.8
Other breakbulk:												
In	1,008	1,039	1,002	854	917	752	814	869	1,570	1,931	10,756	(5.5)%
Out	99	101	92	108	98	827	613	644	619	743	3,944	(6.9)
Liquid bulk:												
In	27,971	27,479	26,696	27,398	28,197	28,585	28,138	29,139	27,782	29,536	280,921	— %
Out	3,203	3,521	2,995	3,197	2,466	3,239	4,151	3,800	3,924	5,064	35,560	4.0
Dry bulk:												
In	344	209	235	259	259	333	393	653	1,458	2,230	6,373	(14.1)%
Out	5,684	6,820	8,934	8,869	7,713	7,576	6,148	5,996	5,925	5,717	69,382	7.9
Total:												
In	122,937	124,525	122,243	119,558	107,283	113,152	108,403	100,015	119,208	133,220	1,170,544	6.7 %
Out	38,386	39,749	43,283	42,699	37,861	41,265	39,163	35,240	43,702	39,817	401,165	4.4
Vessel calls*	2,227	2,676	2,752	3,425	3,993	4,758	4,826	4,933	5,140	5,653	40,383	
Annual growth/decline	(0.17)%	(2.76)%	(19.65)%	(14.22)%	(16.08)%	(1.41)%	(2.17)%	(4.03)%	(9.07)%	1.16 %		
TEU's	6,946	7,088	6,818	6,648	5,857	6,298	5,936	5,282	6,737	7,362	64,972	
TEU annual growth/decline	(0.02)%	3.96 %	2.56 %	13.51 %	(7.00)%	6.10 %	12.38 %	(21.60)%	(8.49)%	2.72 %		

* Beginning in FY2014 only billable vessel calls are included in the total vessel call number.

Metric revenue ton= 1 metric ton or 1 cubic meter; whichever is the basis for the tariff assessment.

See accompanying independent auditors' report.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Metric Revenue Tons and Container Counts

Last Ten Fiscal Years

(In thousands)

(Unaudited)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Municipal berths ¹ :										
Foreign	\$ 93,928	98,464	104,245	101,027	91,490	96,908	91,335	82,621	103,777	116,834
Coastwise/intercoastal	29,009	26,061	17,998	18,477	15,793	16,054	16,733	17,214	14,785	16,088
Total inbound cargo	122,937	124,525	122,243	119,504	107,283	112,962	108,068	99,835	118,562	132,922
Outbound cargo:										
Foreign	32,737	33,592	37,067	36,769		36,210	33,340	29,557	37,529	32,233
Coastwise/intercoastal	3,996	4,843	5,348	5,141	3,270	3,507	3,536	3,519	4,075	5,060
Bunkers	1,653	1,313	867	843	1,311	1,546	2,412	2,110	2,088	2,460
Total outbound cargo	38,386	39,748	43,282	42,753	4,581	41,263	39,288	35,186	43,692	39,753
Total municipal cargo	161,323	164,273	165,525	162,257	111,864	154,225	147,356	135,021	162,254	172,675
Private berths ¹ :										
Inbound	—	—	—	—	—	192	209	233	654	362
Outbound	—	—	—	—	—	—	—	—	—	—
Total private cargo	—	—	—	—	—	192	209	233	654	362
Grand total	\$ 161,323	164,273	165,525	162,257	111,864	154,417	147,565	135,254	162,908	173,037
Container count summary (000's) ²										
Loaded inbound TEUs	\$ 3,514	3,596	3,523	3,420	2,932	3,139	2,982	2,612	3,338	3,742
Loaded outbound TEUs	1,538	1,528	1,664	1,671	1,491	1,582	1,485	1,332	1,782	1,472
Total loaded	5,052	5,124	5,187	5,091	4,423	4,721	4,467	3,944	5,120	5,214
Full containers annual growth	— %	(1.2)%	1.9 %	15.1 %	(6.3)%	5.7 %	13.3 %	(23.0)%	(1.8)%	6.1 %
Total empty	1,894	1,964	1,631	1,557	1,434	1,577	1,469	1,338	1,617	2,148
Empty containers annual growth	— %	20.4 %	4.8 %	8.6 %	(9.1)%	7.3 %	9.8 %	(17.2)%	(24.7)%	(4.6)%
Total TEUs	\$ 6,946	7,088	6,818	6,648	5,857	6,298	5,936	5,282	6,737	7,362
Annual growth	— %	4.0 %	2.6 %	13.5 %	(7.0)%	6.1 %	12.4 %	(21.6)%	(8.5)%	2.7 %

¹ Metric revenue tons is equal to either 1,000 kilograms or one cubic meter.

² A TEU represents a twenty-foot equivalent unit.

Source: Finance Division, Harbor Department.

See accompanying independent auditors' report.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Principal Customers

(Unaudited)

Port's Largest Customers	Effective date	Expiration date
CEMEX Construction Materials Pacific, LLC – CEMEX USA	09/1981	08/2021
Chemoil Corporation	07/2010	06/2025
Crescent Terminals, Inc.	07/2000	Month-to-Month
CSA Equipment	02/2013	02/2023
Energia Logistics Ltd.	01/2013	Month-to-Month
International Transportation Service, Inc.	09/2006	08/2026
Jacobsen Pilot Service, Inc.	08/1982	07/2017
Koch Carbon, Inc.	01/1988	12/2027
OOCL, LLC – Long Beach Container Terminal, LLC	07/2011	09/2051
Metropolitan Stevedore Company	09/2014	09/2034
MCC Terminal, Inc – Mitsubishi Cement Corporation	06/1989	06/2022
Oxbow Carbon & Minerals, LLC	09/2014	09/2029
Pacific Maritime Services – Pacific Container Terminal	05/2002	04/2022
SA Recycling, LLC	11/1994	11/2019
SSA Terminals, LLC – SSA Terminal C60/Matson Navigation	05/2002	04/2022
SSA Terminals (Long Beach), LLC	12/2002	12/2027
Tesoro Refining & Marketing	01/1995	Month-to-Month
Tesoro Refining & Marketing Co – Tesoro Logistics LP	01/2012	01/2022
Carson Cogeneration Company – Tesoro Refining & Marketing	06/1983	05/2023
Total Terminals International, LLC	08/2002	08/2027
Toyota Logistics Services	01/2009	12/2028

Contractual obligations between the Port and its customers prevent the Port from releasing information related to tenant's revenue.

Source: Real Estate Division, Harbor Department.

See accompanying independent auditors' report.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Number of Employees by Division/Bureau

Last Ten Fiscal Years

(Unaudited)

	*1 2016	*2 2015	2014	2013	2012	2011	2010	2009	2008	2007
Executive administration	18.0	17.0	11.9	9.3	15.4	17.3	15.6	16.3	13.6	11.8
Growth/decline	0.06 %	42.86 %	27.96 %	(39.61)%	(10.98)%	10.90 %	(4.29)%	19.85 %	15.25 %	40.48 %
Government affairs										
Growth/decline	3.0	4.0	4.0	4.0	4.0	3.4	3.8	3.9	3.3	2.8
Finance and administration bureau:										
Finance	25.0	26.0	24.5	24.9	26.0	21.2	17.9	15.5	14.2	14.4
Human resources	—	—	17.4	16.3	17.0	17.8	17.6	16.9	15.3	13.3
Information management	22.0	22.0	20.6	20.8	21.0	18.6	18.0	13.1	7.3	7.1
Real estate	9.0	8.0	8.8	9.0	9.0	8.0	7.3	6.1	6.7	7.1
Risk management	10.0	10.0	8.3	7.6	8.0	7.0	6.4	6.0	5.2	4.0
Subtotal bureau	66.0	66.0	79.6	78.6	81.0	72.6	67.2	57.6	48.7	45.9
Growth/decline	— %	n/a	1.27 %	(2.96)%	11.57 %	8.04 %	16.67 %	18.28 %	6.10 %	3.61 %
Engineering bureau:										
Construction management	46.0	46.0	—	—	—	—	—	—	—	—
Design	49.0	47.0	—	—	—	—	—	—	—	—
Maintenance	92.0	85.0	—	—	—	—	—	—	—	—
Program delivery/surveys	25.0	25.0	—	—	—	—	—	—	—	—
Program management	28.0	25.0	—	—	—	—	—	—	—	—
Project controls	11.0	9.0	—	—	—	—	—	—	—	—
Engineering design and maintenance	—	1.0	—	—	—	—	—	—	—	—
Engineering	—	—	140.7	128.8	128.0	117.1	115.2	109.7	105.3	103.9
Subtotal bureau	251.0	238.0	140.7	128.8	128.0	117.1	115.2	109.7	105.3	103.9
Growth/decline	5.46 %	69.15 %	9.24 %	0.63 %	9.31 %	1.65 %	5.01 %	4.18 %	1.35 %	5.27 %
Environmental affairs and planning bureau:										
Environmental planning	24.0	23.0	—	—	—	—	—	—	—	—
Transportation planning	6.0	6.0	—	—	—	—	—	—	—	—
Master planning	5.0	6.0	31.7	30.6	31.0	30.3	28.6	25.3	21.1	19.6
Subtotal bureau	35.0	35.0	31.7	30.6	31.0	30.3	28.6	25.3	21.1	19.6
Growth/decline	— %	10.41 %	3.59 %	(1.29)%	2.31 %	5.94 %	13.04 %	19.91 %	7.65 %	16.67 %
Commercial operations bureau										
Business development	13.0	11.0	—	—	—	—	—	—	—	—
Communications	—	—	15.0	12.8	14.0	14.8	14.7	14.1	13.0	11.6
Maintenance	—	—	76.3	81.1	81.0	76.8	72.7	72.1	69.6	68.3
Marketing	—	—	—	—	—	—	—	—	—	—
Security	74.0	80.0	68.0	71.2	76.5	69.8	63.8	58.7	50.7	47.5
Tenant services	9.0	9.0	—	—	—	—	—	—	—	—
Trade relations	—	—	19.3	16.5	16.0	14.9	15.8	15.6	14.5	13.7
Subtotal bureau	96.0	100.0	178.6	181.6	187.5	176.3	167.0	160.5	147.8	141.1
Growth/decline	(4.00)%	(44.01)%	(1.65)%	(3.15)%	6.35 %	5.57 %	4.05 %	8.59 %	4.75 %	(3.16)%
Communications bureau:										
Communications	14.0	16.0	—	—	—	—	—	—	—	—
Government relations	—	—	—	—	—	—	—	—	—	—
Marketing	—	—	—	—	—	—	—	—	—	—
Subtotal bureau	14.0	16.0	—	—	—	—	—	—	—	—
Growth/decline	— %	n/a	— %	— %	— %	— %	— %	— %	— %	— %
HR & Team development bureau:										
Human resources	17.0	18.0	—	—	—	—	—	—	—	—
Team development	1.0	—	—	—	—	—	—	—	—	—
Subtotal bureau	18.0	18.0	—	—	—	—	—	—	—	—
Growth/decline	— %	n/a	— %	— %	— %	— %	— %	— %	— %	— %
Part-time/temporary	35.3	38.0	25.5	29.4	13.0	18.9	27.3	27.7	30.6	21.2
Growth/decline	(7.03)%	49.02 %	(13.27)%	126.15 %	(31.22)%	(30.77)%	(1.44)%	(9.48)%	44.34 %	(1.04)%
Number of employees	536.3	532.0	472.0	462.3	459.9	435.9	424.7	401.0	370.4	346.3
Growth/decline	0.81 %	2.10 %	0.52 %	5.51 %	2.64 %	5.91 %	8.26 %	6.96 %	2.40 %	0.12 %

*1 2015 represents year-end count

*2 2006-2014 represent annual average count

Source: Human Resources, Harbor Department.

See accompanying independent auditors' report.



Port of Long Beach Map Legend

 Containerized Cargo	 Land
 Breakbulk / Neo-Bulk Cargo	 Miscellaneous
 Dry Bulk Cargo	 Roads
 Petroleum / Liquid Cargo	





Port of
LONG BEACH
The Green Port

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