

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

Comprehensive Annual Financial Report

For the fiscal year ended September 30, 2017



Port of
LONG BEACH
The Green Port



THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH
(An Enterprise Fund and Component Unit of the
City of Long Beach, California)

Comprehensive Annual Financial Report

For the fiscal year ended September 30, 2017

(With Independent Auditors' Report Thereon)

Mario Cordero
Executive Director

Sam Joumblat
Managing Director of Finance and Administration

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

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THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

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Introductory Section



Letter of Transmittal

March 15, 2018

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 government auditing standards (GAGAS) 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, 2017. 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, 2017 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, 2017 are fairly presented in all material respects, 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.

Profile of the Department

In 1911, the State of California conveyed to the City, in trust, certain tidal and submerged lands for the establishment and maintenance of the Harbor District (which includes the Port of Long Beach or the Port). 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 Port has succeeded in becoming 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 Department generates revenues through leases, tariffs, and other charges assessed to its customers. No local, state, or federal taxes support port operations. The Department does not contribute to the City general fund or governmental activities, but compensates the City for services such as public safety, human resources, civil service, and centralized financial, legal, and audit services.

The Department maintains a financial and cost accounting system independent of other City departments. The focus of the statement of revenues, expenses, and changes in net position 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 net investment in capital assets, restricted for related debt service, and unrestricted.

Commercial and Economic Outlook

The Port provides best in class customer service in order to attract more commercial activity and maximize revenue opportunities. By aligning its product with the customers' demands, the Port employs a strategic and customized approach with all customer segments. Focused customer outreach ensures the Port has a full understanding of the customers' needs and successfully promotes the benefits of our services.

Commercial performance in calendar year 2017 was led by record container volumes at the Port, increasing approximately 11.4% from the prior year. This was driven by healthy consumer markets, ocean carrier alliance changes, recovery of business at Pier T container terminal following the Hanjin bankruptcy and growing capacity at Long Beach Container Terminal. Three trends continue to shape the fortunes of the maritime industry: ocean carrier mergers and acquisitions, carrier alliances, and vessel upsizing.

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.

During fiscal year 2017, the industry experienced numerous organizational changes with announcements of potential merger and acquisition activities. In April, the four ocean carrier alliances reorganized to three alliances (2M+H Alliance, OCEAN Alliance, and THE Alliance). Recently, Maersk Line had purchased Hamburg Sud, the three Japanese carriers ("K" Line, MOL, and NYK) had consolidated into one much larger company, and COSCO's purchase of OOCL is in the final stage of regulatory approval.

As container ships capable of transporting more than 14,000 twenty-foot-equivalent units (the so-called big ships) continue to call at the Port, the Port's ability to accommodate these 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 had 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 and enhance reliability. This program continues with \$3.0 billion projected capital spends over the next 10 years. When completed, the capital program will make the Port one of the most efficient ports in the world.

Infrastructure projects are currently underway that will extend customer service operations and position the Port for increased volume and revenue focusing on terminal, road, and rail improvements. They include the following:

- **Middle Harbor Redevelopment:** A \$1.5 billion project to combine and modernize two aging shipping terminals. The project more than quintuples on-dock rail capacity and adds shore power connections and advanced technology that will allow the new terminal to move twice the cargo with half the air pollution. Construction began in 2011 and is expected to be completed in 2020.
- **Gerald Desmond Bridge Replacement:** A \$1.5 billion project to build a new bridge to span the Port's main channel. The new bridge will be taller, 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 2019.
- **Pier B Rail Support Facility:** The Pier B On-Dock Rail Facility will provide for more efficient transfer of cargo between marine terminals and the Class 1 railroads, resulting in greater cargo velocity and better customer satisfaction.
- **Pier G & Pier J modernization:** Berth and rail facility improvements at these piers will allow ITS and PCT to accommodate larger vessels and expedite rail containers to and from vessels.
- **The Port plans for additional deepening for berths** to accommodate the latest generation of mega-ships.
- **To accommodate the increase in 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 continues to improve.

In addition to its capital program, the Port is also committed to finding solutions to challenges throughout the entire ocean transportation supply chain: truck turn-times, chassis supply, 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 is taking a leadership role by working with its partners to formulate solutions to permanently eliminate the inefficiencies in the supply chain. Through a combination of infrastructure enhancements, operational improvements, and investment in innovative environmental programs, the Port is on track to ensure efficient and sustainable growth.

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 88% from 2005 levels, as identified in the 2016 emissions inventory. The CAAP was updated in 2010, and most recently in 2017, to adjust ongoing strategies to improve their effectiveness and to identify new strategies to produce necessary emission reductions into the future. As guided by the Green Port Policy, the Port has established itself as a world leader in sustainable seaport operations and development.

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

- Cut diesel particulates by 88%, sulfur oxides by 97%, smog-forming nitrogen oxides by 56%, and greenhouse gases by 22% from 2005 levels, identified in the 2016 annual air emissions inventory.
- Supported the use of lower-sulfur, cleaner fuels in ocean going 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 within 20 nautical miles or 40 nautical miles of the Port (where greater than 90% of ships slow down to 12 knots), 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 zero emission terminal equipment.

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 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 an assistant 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 500 cameras throughout the port complex, including long-range and night-vision units, as well as access control and radar detection systems.

Since 2001, the Port has secured approximately \$154 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. Additionally, the Port has its 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. 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 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

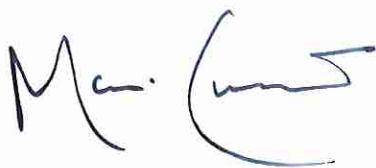
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Department for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2016. This was the 34th consecutive 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 CAFR. 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 CAFR 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.

In addition, the Department received the GFOA award in Distinguished Budget Presentation for the fiscal year 2018.

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:

A handwritten signature in black ink, appearing to read 'Mario Cordero', with a stylized flourish at the end.

Mario Cordero
Executive Director

A handwritten signature in blue ink, appearing to read 'Sam Joumbat', with a stylized flourish at the end.

Sam Joumbat
Managing Director,
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, 2016

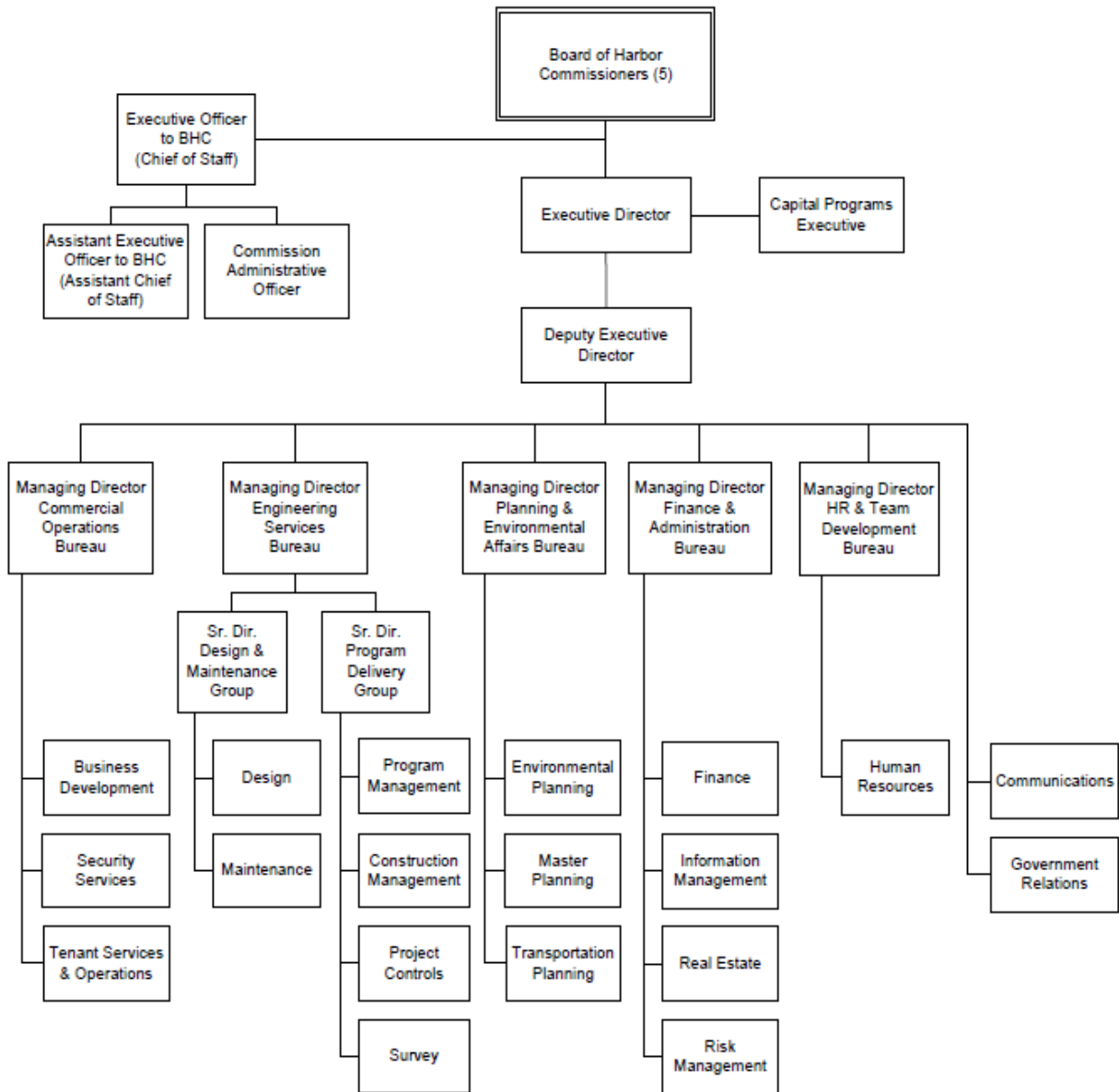
Christopher P. Morill

Executive Director/CEO

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Organizational Chart

September 30, 2017



THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Board of Harbor Commissioners and Senior Management

September 30, 2017

Board of Harbor Commissioners

Lou Anne Bynum, President
Tracy J. Egoscue, Vice President
Lori Ann Guzman, Secretary and Commissioner
Bonnie Lowenthal, Commissioner
Frank Colonna, Commissioner

Executive Officer to the Board

Richard Jordan

Executive Offices

Executive Director
Acting Deputy Executive Director
Capital Program Executive

Mario Cordero (effective May 2017)
Duane Kenagy (effective May 2017)
Vacant

Communications Division
Government Relations Division
Human Resources Division

Director, Kerry Gerot (effective August 2017)
Director, Samantha Ashley
Director, Stacey Lewis (effective July 2017)

Finance and Administration Bureau

Finance Division
Information Management Division
Real Estate Division
Risk Management Division

Managing Director, Sam Joublat (effective August 2017)
Acting Director, Don Kwok (effective September 2017)
Director, Nyariana Maiko
Director, Karl J. Adamowicz
Director, Richard S. Baratta

Commercial Operations Bureau

Business Development Division
Security Division
Tenant Services and Operations Division

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

Planning and Environmental Affairs Bureau

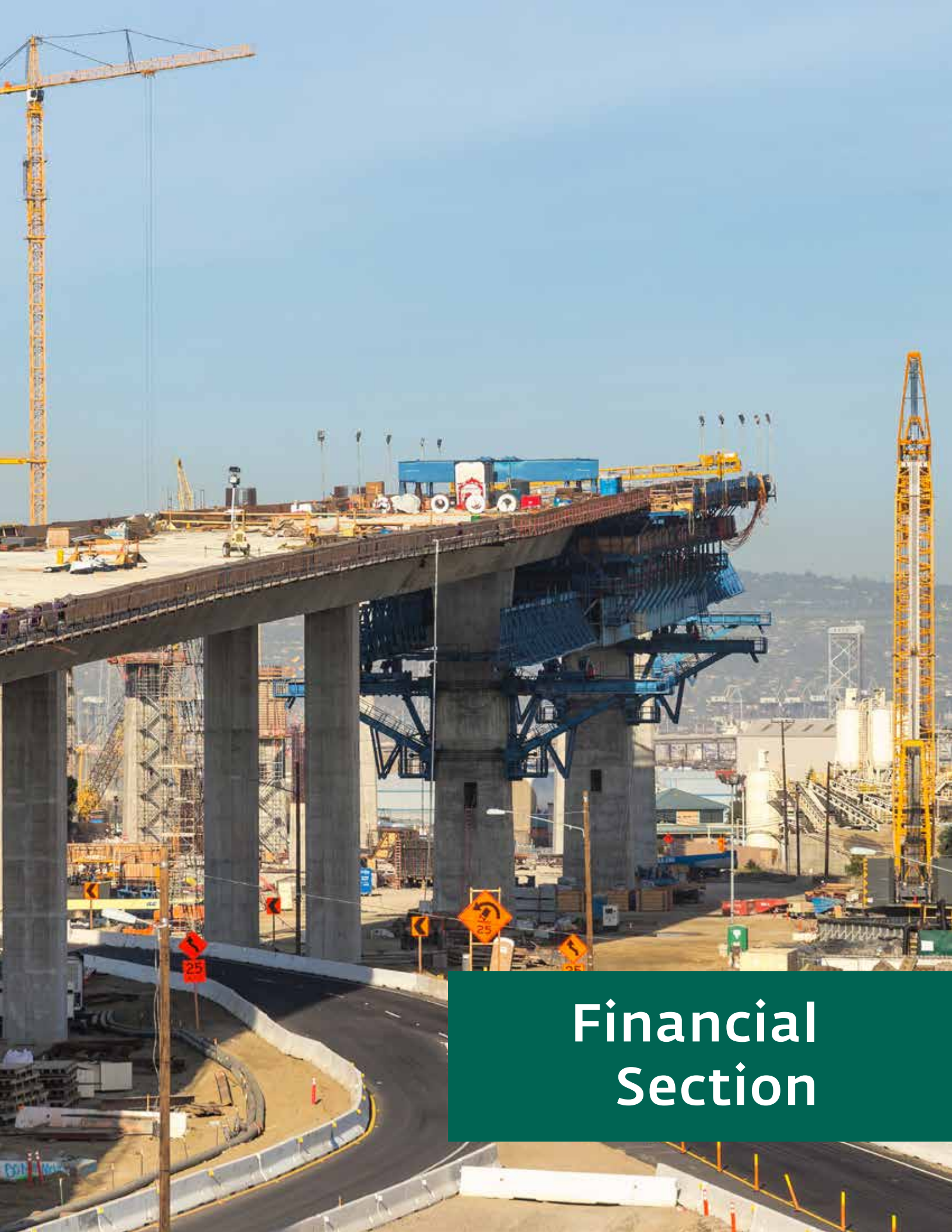
Environmental Planning Division
Master Planning Division
Transportation Planning Division

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

Engineering Services Bureau

Program Delivery Group
Program Management Division
Construction Management Division
Design and Maintenance Group
Design Division
Maintenance Division
Project Controls Division
Surveys Division

Managing Director, Sean Gamette (effective February 2017)
Senior Director, Suzanne Plezia (effective April 2017)
Director, Tom Baldwin (effective April 2017)
Acting Director, Darrin Lambrigger (effective April 2017)
Senior Director, Neil Morrison (retired September 2017)
Director, John Chun
Director, Fred Greco
Director, Vacant
Director, Robert Seidel



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, 2017, 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, 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 11–19 and the OPEB liability and related ratios on page 56 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 financial statements that collectively comprise the Department's basic financial statements. The accompanying supplementary information identified in the table of contents as the introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic 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 26, 2018 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, grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's 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 26, 2018

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Management's Discussion and Analysis

September 30, 2017

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, 2017. 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.

The Department's financial report consists of this management's discussion and analysis (MD&A) and the following financial statements:

- *The statement of net position* – Reports 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 revenue, expenses, and changes in net position* – Reports the results of all revenue and expenses of the Department's operation for the fiscal periods presented
- *The statement of cash flows* – Reports the inflows and outflows of cash and cash equivalents resulting from operating, noncapital financing, capital and related financing, and investing activities; a reconciliation is also provided to assist in understanding the difference between operating income and cash flows from operating activities
- *Notes to the basic financial statements* – Report information that supplements and clarifies significant elements of the financial statements; such information is essential to a full understanding of the Department's financial activities 11

Overview of the Department's Financial Statements

The Department is an enterprise fund, and is a fiscally independent component unit of the City of Long Beach, California (the City). The Department's financial statements are prepared on an accrual basis in accordance with generally accepted accounting principles supported by the Governmental Accounting Standards Board.

Analysis of Net Position

The following condensed financial information provides an overview of the Department's financial position as of September 30, 2017 and 2016:

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Management's Discussion and Analysis

September 30, 2017

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

September 30, 2017 and 2016

(Amounts expressed in thousands)

	<u>2017</u>	<u>2016</u>
Assets:		
Capital assets, net	\$ 4,551,990	4,365,376
Current and other assets	<u>802,925</u>	<u>671,277</u>
Total assets	5,354,915	5,036,653
Deferred outflows of resources	<u>42,089</u>	<u>41,884</u>
Total assets and deferred outflows	<u>\$ 5,397,004</u>	<u>5,078,537</u>
Liabilities:		
Current liabilities	\$ 166,005	171,932
Long-term obligations, net of current portion	<u>1,291,776</u>	<u>1,114,917</u>
Total liabilities	1,457,781	1,286,849
Deferred inflows of resources	<u>13,086</u>	<u>11,661</u>
Total liabilities and deferred inflows	<u>\$ 1,470,867</u>	<u>1,298,510</u>
Net position:		
Net investment in capital assets	\$ 3,491,506	3,442,251
Restricted:		
Capital projects	39,351	75,610
Debt service	12,092	13,961
Unrestricted	<u>383,188</u>	<u>248,205</u>
Total net position	<u>\$ 3,926,137</u>	<u>3,780,027</u>

The changes in net position over time may serve as a useful indicator of the Department's financial activities and position. As of September 30, 2017, \$3.5 billion, or 88.9%, of the Department's total net position represents its net investment in capital assets. This component consists of capital assets, net of accumulated depreciation, reduced by the outstanding borrowings attributable to those assets that have been expended at September 30, 2017. These capital assets are used to facilitate the operations of the Port of Long Beach (the Port) and its tenants.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Management's Discussion and Analysis

September 30, 2017

The restricted portion of the Department's net position of \$51.4 million, or 1.3%, is comprised of \$39.4 million in environmental mitigation credits for use on landfill capital projects and \$12.1 million of a debt service reserve fund required by the bonds' indenture. The remaining balance of \$383.2 million, or 9.8%, reflects unrestricted resources that may be used for ongoing and future operations of the Department.

Current and other assets increased by \$131.6 million, or 19.6%, from \$671.3 million in the prior fiscal year to \$802.9 million in fiscal year 2017. This increase was a result of the 2017 revenue bonds issuance discussed further in (note 12).

Capital assets, net of depreciation increased by \$186.6 million, or 4.3%, from the prior fiscal year mostly on capital expenditures of projects such as the Gerald Desmond Bridge, Middle Harbor, and the Port's new headquarter. Refer to (page 18) and on (note 17) for additional discussion related to capital assets.

Long-term liabilities, net of current portion increased by \$176.9 million due to the 2017 revenue bonds issuance with premiums of \$200.5 million partially offset by a \$25.0 million payoff on the line of credit. Refer to (page 18) and on (note 11 and 12) for additional discussion related to long-term liabilities and debt service.

Analysis of Changes in Net Position

The following condensed financial information provides an overview of the changes of the Department's net position during fiscal years 2017 and 2016:

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

Years ended September 30, 2017 and 2016

(Amounts expressed in thousands)

	<u>2017</u>	<u>2016</u>
Operating revenues	\$ 381,010	360,660
Operating expenses:		
Facility and infrastructure	42,632	36,274
Fire and Safety	42,205	40,379
General and administrative	<u>57,804</u>	<u>67,220</u>
Total operating expenses	142,641	143,873
Depreciation and amortization	<u>148,445</u>	<u>146,721</u>
Operating income	<u>89,924</u>	<u>70,066</u>

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Management's Discussion and Analysis

September 30, 2017

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

Years ended September 30, 2017 and 2016

(Amounts expressed in thousands)

	<u>2017</u>	<u>2016</u>
Nonoperating revenue (expenses):		
Interest income, net of interest expense	\$ (2,015)	(6,063)
Gain on sale of capital assets, net	42	48
Clean Air Action Plan (CAAP), net	(1,127)	(4,656)
Other income (loss), net	5,662	138
Net nonoperating revenues (expenses)	<u>2,562</u>	<u>(10,533)</u>
Income before capital grants and transfer	92,486	59,533
Transfer to the City	(19,448)	(18,693)
Contribution from the City – Land for new Port headquarters	—	4,008
Capital grants	<u>73,072</u>	<u>128,282</u>
Change in net position	146,110	173,130
Total net position – beginning of year, as restated	<u>3,780,027</u>	<u>3,606,897</u>
Total net position – end of year	<u>\$ 3,926,137</u>	<u>3,780,027</u>

Operating Revenues

Operating revenues for fiscal year 2017 were \$381.0 million, an increase of \$20.4 million, or 5.6%, from the prior fiscal year, primarily due to a \$16.7 million, or 6.1%, increase in the container terminal revenue where approximately 76.5% of total operating revenue is generated. The increase was primarily due to placing in service about 94 acres in additional rental property at Pier E due to the completion of the second phase of the Middle Harbor development project.

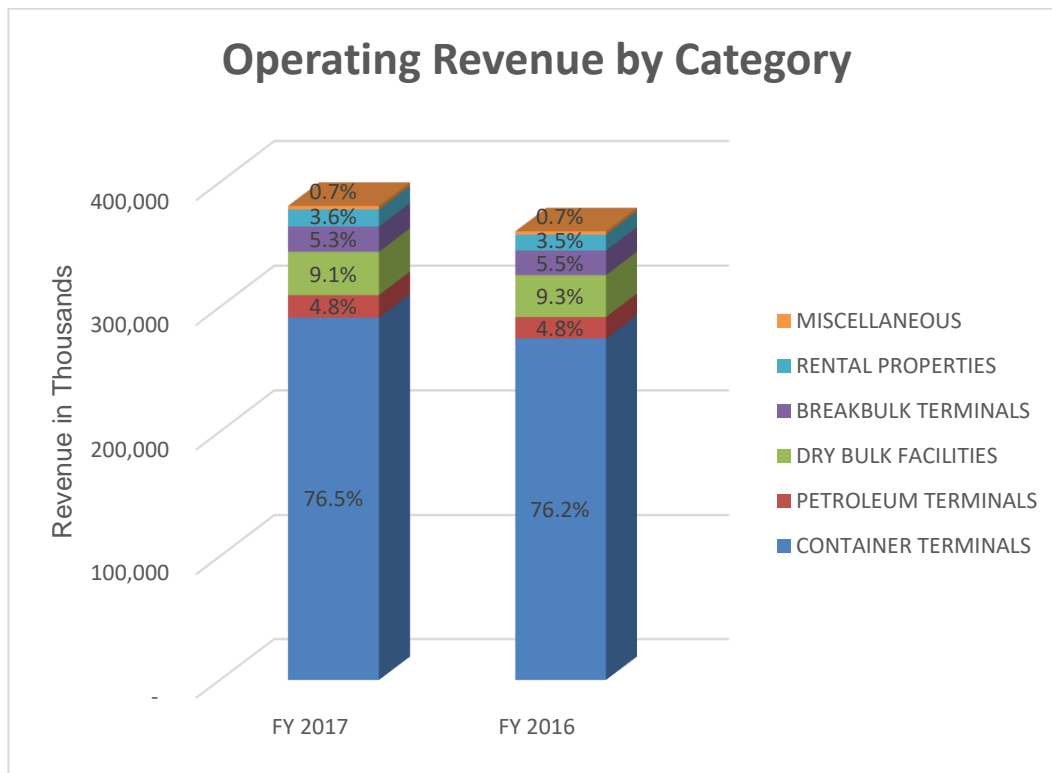
Noncontainerized revenue in the categories of liquid bulk, dry bulk, and breakbulk cargos also increased by \$2.5 million, or 3.5%, driven by healthy market demands.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Management's Discussion and Analysis

September 30, 2017

The chart below depicts the revenue categories as a percentage of total operating revenues:



Cargo Volumes

The Port is one of the top two largest ports in North America by container volume and services many of the major ocean carriers shipping goods inbound and outbound throughout the United States. Some of these major carriers are COSCO Shipping, OOCL, K Line, Mediterranean Shipping, Hyundai Merchant Marine, Matson and SM lines.

Cargo volumes, measured in Metric Revenue Tons (MRTs), increased by 4.2% to 168.1 million MRTs versus 161.3 million MRTs in the prior fiscal year. All cargo categories posted increases compared to the prior fiscal year with the exception of vehicles. Containerized cargo increased 3.3% to 127.1 million MRTs, dry bulk increased 18.9% to 7.1 million MRTs, break-bulk and steel increased 31.6% to 0.7 million MRTs, liquid bulk increased 4.7% to 32.6 million MRTs, and lumber increased 8.7% to 0.3 million MRTs. Vehicles decreased 1.6% to 0.3 million MRTs. The Port continues its realignment of cargo terminals in advance of an anticipated growth in trade volumes. Its terminals and installations continue to provide one of the best alternatives for shipping lines to move cargo into and out of the continental United States.

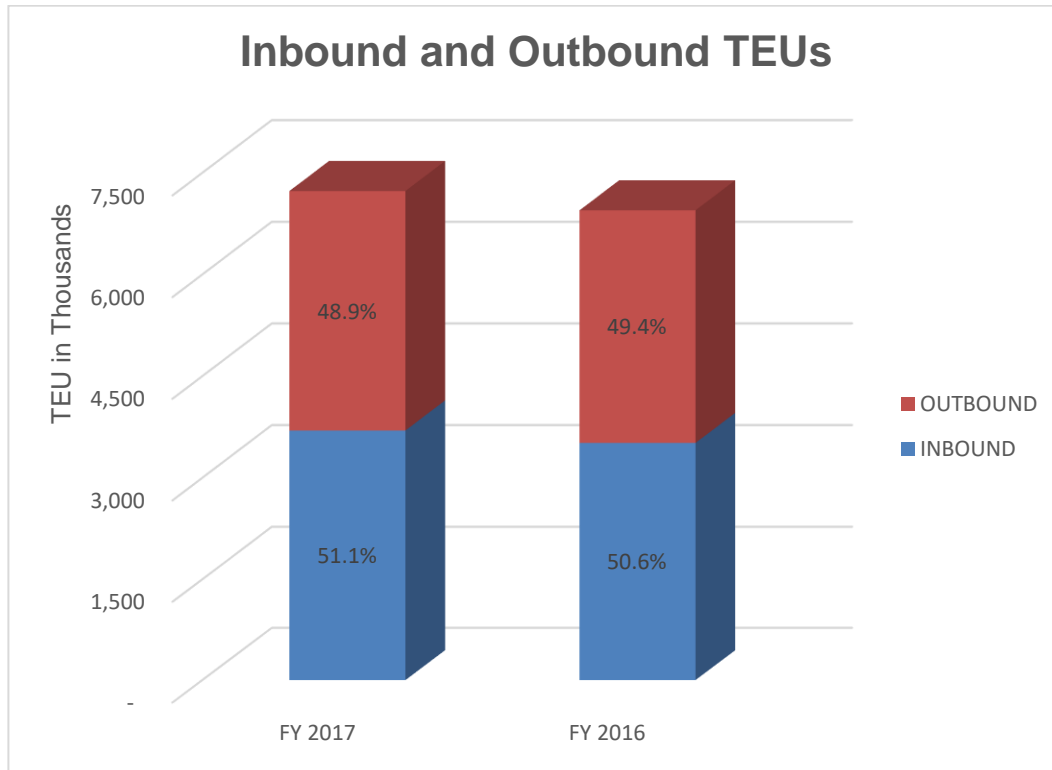
Container count, measured in Twenty-Foot Equivalent Units (TEUs) as a standard measurement used in the maritime industry for measuring containers of varying lengths, increased 4.1% to 7.2 million TEUs versus 6.9 million TEUs in the prior fiscal year.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

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The chart below depicts the components of inbound and outbound TEUs as a percentage of total volume:



Change in Net Position

Net income for fiscal year 2017 was \$146.1 million, a decrease of \$27.0 million, or 15.6%, versus the prior fiscal year. This was primarily the result of \$55.2 million lower grant revenue recognition, partially offset by a \$20.4 million increase in operating revenue. The following section provides a further discussion of the operations.

Operating Expense and Other Income and Expense

Fiscal year 2017 operating expenses (excluding depreciation and amortization) totaled \$142.6 million, or \$1.2 million lower than the prior fiscal year. The facility and infrastructure expense of \$42.6 million was \$6.4 million higher than the prior fiscal year primarily due to capital expenditures that were written off to expense based on project cancellation or revaluation. The fire and safety expense of \$42.2 million had an increase of \$1.8 million over prior the fiscal year, a result of the renegotiated costs increase for services provided by the City of Long Beach Fire and Police Departments. The general and administrative expense was \$57.8 million, a decrease of \$9.4 million mostly due to a lower expense allocation of the retirement program for pension plan, and other postretirement employee benefits totaling \$6.9 million as compared to the prior fiscal year. Additionally, a payment of \$2.2 million was not requested from the City for the new Enterprise Resource Planning (ERP) system in fiscal year 2017, which had occurred in the prior fiscal year. The Port's total ERP cost share portion is approximately \$6.7 million and the Port had made two consecutive payments of \$2.2 million each in fiscal years 2015 and 2016. The final payment is to be made in fiscal year 2018.

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Depreciation expense is affected by fixed assets being placed into service or being retired in accordance with their useful lives. Depreciation expense for fiscal year 2017 was \$148.4 million, and \$1.7 million higher than the prior fiscal year, a result of placing in service various assets from the Port's multibillion capital improvement program that will continue over the next decade.

Net interest expense was a decrease of \$4.1 million, primarily due to the offset of the interest amount being applied to capital projects (capitalized interest) was higher for fiscal year 2017 versus the prior fiscal year. Interest expenses, before allocated capitalized interest, for fiscal years 2017 and 2016 were \$26.4 million and \$24.7 million, respectively, increased by \$1.7 million; allocated capitalized interest amounts for fiscal years 2017 and 2016 were \$20.6 million and \$11.5 million, respectively, increased by \$9.1 million. Interest income was \$3.3 million less than the prior fiscal year, a result of lower short-term market rates.

The CAAP, started in 2006, continues to support the Port's efforts to improve air quality. With this initiative, the Clean Trucks Program (CTP) was launched in fiscal year 2008 to reduce truck-related emissions throughout the Port complex. The CTP replaced or retrofitted many drayage 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 subsidizing the costs of the truck owners in upgrading their old trucks with new "clean diesel" and "liquefied natural gas" trucks. Overall, the CAAP expenses decreased by \$3.5 million when compared to the prior fiscal year, basically due to a few remaining lease closeouts of the CTP lease subsidy in midyear of 2017.

Net other income increased by \$5.5 million due to a tenant cost share contribution towards leasehold improvement of \$3.5 million, and a reduction in other miscellaneous expenses of \$2.0 million versus the prior fiscal year.

Transfers to the City totaled \$19.5 million in fiscal year 2017, an increase of \$0.75 million versus the prior fiscal year. The Department accrued \$19.1 million for the operating transfer to the City Tidelands Operating Fund with payment to occur in fiscal year 2018. Another transfer of \$0.4 million was for the Colorado Lagoon Restoration Project and the Port's mitigation grant program for tree planting.

In fiscal year 2016, the Department acquired land with a cost of \$8.0 million from the City for the Port's new headquarters. The land was valued by the City at \$12.0 million, which resulted in a net contribution from the City in the amount of \$4.0 million during fiscal year 2016. There was no similar contribution in fiscal year 2017.

Grant revenue totaled \$73.1 million, a decrease of \$55.2 million in fiscal year 2017 in comparison to the prior fiscal year. This decrease was primarily due to a lower recognition of grant revenue on the Gerald Desmond Bridge project as a result of construction delays in fiscal year 2017. Other smaller grants, such as for Port security related projects and maintenance dredging (Harbor Maintenance Tax) varies year over year.

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Management's Discussion and Analysis

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Capital Assets and Debt Administration

Capital Assets

The Department's capital assets, net of accumulated depreciation as of September 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Nondepreciable capital assets:		
Land	\$ 1,215,767	951,918
Construction in progress	1,348,274	1,484,889
Rights-of-way	<u>207,032</u>	<u>207,032</u>
Total nondepreciable capital assets	<u>2,771,073</u>	<u>2,643,839</u>
Depreciable capital assets (net):		
Structures and facilities	1,690,303	1,656,860
Furniture, fixtures, and equipment	<u>90,614</u>	<u>64,677</u>
Total depreciable capital assets (net)	<u>1,780,917</u>	<u>1,721,537</u>
Total capital assets, net	<u>\$ 4,551,990</u>	<u>4,365,376</u>

The capital asset accounts, net of accumulated depreciation totaled \$4.6 billion, a net increase of \$186.6 million from the prior fiscal year. The increase in capital spending during fiscal year 2017 comprised largely the following: Middle Harbor terminal development for \$53.6 million; Gerald Desmond Bridge replacement project for \$138.8 million; New Port Headquarters building for \$60.5 million and partially offset by various write-offs to expense due to project cancellation or revaluation. The amount of capital assets transferred out of construction in progress and into service totaled approximately \$470.0 million for the year ended September 30, 2017. Among the major projects throughout the Port, a substantial portion, approximately \$250.0 million, of the assets placed into service was attributed to the constructed land for the Middle Harbor development project.

Debt Administration

The following table summarizes the Department's debt as of September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Short-term notes (principal and net premiums)	\$ 343,404	355,522
Lines of credit	—	25,000
Bond debt (principal and net premiums)	<u>737,536</u>	<u>588,392</u>
Total	<u>\$ 1,080,940</u>	<u>968,914</u>

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The Department's total debt increased by \$112.0 million, or 11.6%. The increase was due to the issuance of 2017 revenue bonds for \$200.5 million with premiums, partially offset by the payment on the line of credit of \$25.0 million and the principal payment on debt of \$44.9 million.

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 2017 was 2.73. 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, the 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 midwestern and eastern United States, 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.

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. In fiscal year 2019, the Department will implement GASB Statement No. 83, *Certain Asset Retirement Obligations*. The Department is evaluating the impact of this standard, however, the standard may require that some of these activities are reported on the financial statements.

The Department is continuing to evaluate the impact of recent tax reform. The most likely impacts would be the elimination of advance refunding option for tax exempt financing and the taxability of moving expenses and other fringe benefit. Until the Department has completed further evaluation, a determination of the impact to the financial statements cannot be made.

Notes to Financial Statements

The notes to the Department's financial statements can be found on pages 25-55 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 Web site at www.polb.com under the Finance menu. 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, 2017

(Dollars in thousands)

Assets and Deferred Outflows

Current assets:

Pooled cash and cash equivalents (note 2)	\$ 408,288
Trade accounts receivable, net of allowance (note 3)	67,074
Due from other governmental agencies (note 3)	54,105
Other current assets	4,150
	<hr/>
Subtotal	533,617

Harbor Revenue Bond Funds and other funds restricted as to use:

Pooled cash and cash equivalents (note 2)	29,466
Restricted pooled cash and cash equivalents (note 2)	24,172
Restricted nonpooled cash and cash equivalents (note 2)	103,205
	<hr/>
Total current assets	690,460

Noncurrent assets:

Capital assets (note 4):

Land	1,215,767
Construction in progress	1,348,274
Right-of-way (note 6)	207,032
Structures and facilities	3,460,396
Furniture, fixtures, and equipment	166,102
Less accumulated depreciation	(1,845,581)
	<hr/>
Net capital assets	4,551,990

Other assets:

Long-term receivables (note 3)	1,300
Environmental mitigation credits (note 7)	39,351
Investment in joint venture (note 8)	5,374
Restricted nonpooled investments (note 2)	58,371
Other noncurrent assets (note 10)	8,069
	<hr/>
Total other assets	112,465

Total noncurrent assets	<hr/>
	4,664,455

Total assets	5,354,915
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Deferred outflows (note 18)	<hr/>
	42,089

Total assets and deferred outflows	<hr/>
	\$ 5,397,004

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Statement of Net Position

September 30, 2017

(Dollars in thousands)

Liabilities and Deferred Inflows

Current liabilities payable from current assets:

Accounts payable and accrued expenses	\$ 65,706
Compensated absences	3,532
Due to the City of Long Beach (note 9)	19,267
Liability claims (note 10)	5,000
Security deposits and unearned revenue	7,935

Total current liabilities payable from current assets 101,440

Current liabilities payable from restricted assets:

Accrued interest – bonds	17,375
Current portion of bonds indebtedness (note 12)	47,190

Total current liabilities payable from restricted assets 64,565

Total current liabilities 166,005

Long-term obligations net of current portion:

Bonded indebtedness (note 12)	690,346
Series 2014C Senior notes (note 13)	343,404
Compensated absences	8,800
Net OPEB liability (note 15)	3,250
Net pension liability (note 15)	129,893
Unearned revenue	2,751
Environmental remediation liability (note 16)	3,800
Other long-term liability (note 17)	109,532

Total noncurrent liabilities 1,291,776

Total liabilities 1,457,781

Deferred inflows (note 18) 13,086

Total liabilities and deferred inflows 1,470,867

Net position:

Net investment in capital assets	3,491,506
Restricted – capital projects	39,351
Restricted – debt service	12,092
Unrestricted	383,188

Total net position \$ 3,926,137

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, 2017

(Dollars in thousands)

Port operating revenues:	
Berths and special facilities	\$ 364,486
Rental properties	13,732
Miscellaneous	2,792
	<hr/>
Total port operating revenues	381,010
Port operating expenses:	
Facility maintenance	14,384
Infrastructure maintenance	15,986
Fire and safety	42,205
Other indirect operating	12,262
General and administrative	57,804
	<hr/>
Total operating expenses before depreciation	142,641
Depreciation	148,445
	<hr/>
Total operating expenses	291,086
	<hr/>
Income from operations	89,924
Nonoperating revenues, net:	
Investment income, net	1,706
Equity in income from joint venture	2,162
Interest expense	(5,883)
Gain on disposition of capital assets	42
Clean Air Action Program, net	(1,127)
Other income	5,662
	<hr/>
Total nonoperating revenues, net	2,562
	<hr/>
Income before transfers and capital grants	92,486
Transfers (note 9)	(19,448)
Capital grants and contributions	73,072
	<hr/>
Increase in net position	146,110
	<hr/>
Total net position – beginning of year	3,780,027
	<hr/>
Total net position – end of year	\$ 3,926,137
	<hr/>

See accompanying notes to financial statements.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Statement of Cash Flows

Year ended September 30, 2017

(Dollars in thousands)

Cash flows from operating activities:	
Cash received from customers	\$ 364,427
Cash paid to employees	(57,992)
Cash paid to suppliers	(85,332)
Other income	6,566
Clean Air Action Plan (net)	(2,582)
Net cash provided by operating activities	<u>225,087</u>
Cash flows from noncapital/financing activities:	
Transfers to City Tidelands Fund	<u>(18,431)</u>
Net cash used for noncapital financing activities	<u>(18,431)</u>
Cash flows from capital and related financing activities:	
Grants provided	85,257
Interest paid	(43,525)
Principal payments made on bonds payable	(44,905)
Payments on lines of credit	(25,000)
Proceeds from issuance of bonds	200,731
Debt issuance costs	(624)
Payments for capital acquisitions – employees	(8,019)
Payments for capital acquisitions – vendors	(244,453)
Prepaid dredging costs	416
Proceeds from sales of capital assets	42
Net cash used for capital and related financing activities	<u>(80,080)</u>
Cash flows from investing activities:	
Interest received	1,706
Proceeds from non-pooled investments	15,566
Return on investment in joint venture	2,000
Net cash provided by investing activities	<u>19,272</u>
Net increase in cash and cash equivalents	145,848
Cash and cash equivalents, beginning of year	<u>419,283</u>
Cash and cash equivalents, end of the year	<u><u>\$ 565,131</u></u>
Reconciliation of cash and cash equivalents:	
Unrestricted pooled cash and cash equivalents	\$ 408,288
Restricted pooled cash and cash equivalents	53,638
Bond reserve held by the City Treasurer	103,205
	<u><u>\$ 565,131</u></u>

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Statement of Cash Flows

Year ended September 30, 2017

(Dollars in thousands)

Reconciliation of income from operations to net cash provided by operating activities:

Income from operations	\$ 89,924
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Adjustments to reconcile income from operations to net cash provided by operating activities:

Depreciation and amortization	148,445
Other Income, net	3,984
Increase in accounts receivable	(16,467)
Increase in inventory	(51)
Decrease in accounts payable	(4,177)
Increase in accrued liabilities	3,800
Decrease in accrued claims and judgments	(3,600)
Decrease in unearned revenues	(115)
Decrease in due to other funds	(1,893)
Increase in pension liability and related deferred inflows	8,171
Decrease in net pension liability and related deferred outflows	(997)
Increase in net OPEB liability and related deferred outflows	146
Decrease in compensated absences	(2,083)

Total adjustments	<u>135,163</u>
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Net cash provided by operating activities	<u>\$ 225,087</u>
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Supplemental schedule of noncash capital and financing activities:

Accrued capital assets costs	\$ 52,638
Accumulated costs of the Port's new headquarters building	60,465
Accrued capitalized interest	20,554
Amortization of bond premium	18,799
Amortization of deferred outflows on debt refunding	792
Amortization of deferred inflows on debt refunding	(1,024)
Accrued transfers to the City's tidelands fund	19,100

See accompanying notes to financial statements

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2017

(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. If the Corporation had 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.

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 due to the separate legal status.

(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 the 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 revenue 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 revenue and expenses not included in the above categories are reported as nonoperating income. The Department applies all applicable Governmental Accounting Standards Board (GASB) pronouncements and interpretations.

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Notes to Financial Statements

September 30, 2017

(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.

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'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.

(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 revenue, 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 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*
- (iii) Level 3: Unobservable inputs*

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2017

(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.

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.

Depreciation is determined using the straight-line method with no allowance for salvage values. 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.

(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.

(j) Compensated Absences

The Department records all accrued employee benefits, including accumulated sick leave and vacation, as a liability in the period when the benefits are earned. Accrued employee benefits are classified into

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2017

current and noncurrent liability for financial statement presentation. The current liability is calculated based on a five years average of vacation taken or used annually.

(k) Transfers to the City Tidelands Operating Fund

City Charter Chapter XII, Section 1209 (c) (4), as amended, provides for the transfer of a maximum of 5% of Harbor Department operating revenue. The City Charter provides that the City Council, by a 2/3 vote expressed by resolution, may request the transfer to meet the lawful obligations of the Tidelands Operations Fund. The provision requires a majority vote of the Board of Harbor Commissioners, expressed by Resolution, to enact the transfer, determining that the funds will not be needed for Harbor Department operations.

(l) 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.

(m) 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 revenue is recognized in the fiscal year in which all eligibility requirements are met. Proceeds from federal or state grants are considered as nonoperating revenue, recognized as such when reimbursable and grant-eligible expenses are incurred, and are identified as capital grants in the statement of revenue, expenses, and changes in net position. Operating revenue or capital grant funds that have been received but not earned are identified as unearned revenue in the statement of net position.

(n) 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 HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2017

The allowance is set at the greater of (1) one half of one percent (0.5%) of actual 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.

(o) 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 revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

(p) Recent Accounting Pronouncements

(i) Effective in the Current Year

GASB Statement No. 82, *Pension Issues*: Issued in March 2016, effective for periods beginning after June 15, 2017. 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 plan member contribution requirements. This statement did not have a material impact on the Department.

(ii) Effective in Future Years

GASB Statement No. 83, *Certain Asset Retirement Obligations*: Issued in November 2016, effective for periods beginning after June 15, 2018. The objective of this statement is to address accounting and financial reporting for certain assets retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of tangible capital assets. This statement establishes criteria for (1) determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources, (2) requires that recognition occur when the liability is both incurred and reasonably estimable, and (3) requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The Department is evaluating the impact of this statement on its financial statements.

GASB Statement No. 87, *Leases*, issued in June 2017: Effective for periods beginning after December 15, 2019. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases. The statement

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requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. The Department is evaluating the impact of this statement on its financial statements.

(q) Reclassifications

Certain reclassifications have been made to the 2016 financial data to conform to the 2017 presentation.

(2) Cash, Cash Equivalents, and Other Investments

The Department's cash and cash equivalents and investments as of September 30, 2017 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's investment pool	\$ 408,288	53,638	461,926
Other cash equivalents	—	103,205	103,205
Investments held by fiscal agent	—	58,371	58,371
Total cash, cash equivalents, and investments	<u>\$ 408,288</u>	<u>215,214</u>	<u>623,502</u>

The Department's 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, 2017 and 2016, the City's investment pool has a weighted average maturity of less than two years and is not rated. The Department's investment in the pool is not categorized. At September 30, 2017, the Department had \$462.0 million equity in the pool, representing approximately 24.8% of the pool.

The Department also held reserves with a fiscal agent for the 2010A, 2010B, 2015C, 2015D, and the 2014C notes. At September 30, 2017, the Department's amounts held by fiscal agents totaled \$58.4 million and were invested in U.S. Treasury notes that are rated AAA and have a weighted average maturity of 1.4 years. These investments are reported at fair value using observable inputs; however, \$23.2 million are traded in nonactive markets and are accordingly categorized as Level 2 in the fair value hierarchy. The remaining \$35.2 million are traded in active markets and therefore categorized as Level 1 in the fair value hierarchy.

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(3) Accounts Receivable and Other Receivables

Accounts receivable as of September 30, 2017, included the following (expressed in thousands):

Trade accounts receivable	\$	68,979
Less allowance for doubtful accounts		<u>(1,905)</u>
Accounts receivable, net	\$	<u><u>67,074</u></u>

Other receivables as of September 30, 2017 included the following (expressed in thousands):

Due from other governmental agencies:		
Current:		
Federal and state grants	\$	54,105
Long term:		
Tidelands – Beaches and Waterways		<u>1,300</u>
Total due from other governmental agencies	\$	<u><u>55,405</u></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; and the Port Security Grant Program. Funds from these grant programs are available to the Department on a reimbursement basis. Most of these programs require a matching contribution from the Department.

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(4) Capital Assets

Capital assets' schedule as of September 30, 2017 is as follows: (expressed in thousands):

Description	Balance, October 1, 2016	Additions	Adjustments/ disposals	Placed in service	Balance, September 30, 2017
Nondepreciable capital assets:					
Purchased land	\$ 462,009	—	—	99	462,108
Constructed land	489,909	—	—	263,750	753,659
Construction in progress	1,484,888	339,739	(6,079)	(470,274)	1,348,274
Right of way (note 5)	207,032	—	—	—	207,032
Subtotal	2,643,838	339,739	(6,079)	(206,425)	2,771,073
Depreciable capital assets:					
Structures and facilities	3,288,418	—	(196)	172,174	3,460,396
Furniture, fixtures, and equipment	130,575	1,595	(319)	34,251	166,102
Subtotal	3,418,993	1,595	(515)	206,425	3,626,498
Total capital assets	6,062,831	341,334	(6,594)	—	6,397,571
Less accumulated depreciation:					
Structures and facilities	1,631,501	138,592	—	—	1,770,093
Furniture, fixtures, and equipment	65,954	9,853	(319)	—	75,488
Total accumulated depreciation	1,697,455	148,445	(319)	—	1,845,581
Net capital assets	\$ 4,365,376	192,889	(6,275)	—	4,551,990

(5) Operating Property Leases to Tenants

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.

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Property under lease at September 30, 2017 consisted of the following (expressed in thousands):

Land	\$	741,243
Structures and facilities:		
Docks and wharves		683,711
Warehouses and sheds		24,345
Cranes and shiploaders		70,683
Buildings and other facilities		818,961
Infrastructure		<u>1,560,233</u>
Historical cost of leased property		3,899,176
Less accumulated depreciation		<u>(1,643,710)</u>
Carrying value of leased property	\$	<u><u>2,255,466</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):

2018	\$	333,318
2019		333,406
2020		334,951
2021		356,541
2022		327,222
2023–2027		1,341,490
2028–2032		480,717
2033–2037		424,199
2038 and thereafter		<u>1,158,300</u>
Total	\$	<u><u>5,090,144</u></u>

(6) Right-of-Way Purchase

Alameda Corridor Transportation Authority (ACTA)

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, Atchison, Topeka and Santa Fe merged with Burlington Northern becoming Burlington Northern Santa Fe; Union Pacific merged with Southern Pacific.

The total purchase involved 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. Construction of the Project began in 1997 and was completed in April 2002. Funding for the Project

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came from federal, state, and local sources, and from issuance of debt. By the end of fiscal 2003, the Department had paid a total of \$207.0 million for its share related to this right-of-way purchase.

In the future, when ACTA is able and entitled to distribute income or make equity distributions, the Ports shall share such income and equity distributions equally. Refer to (note 10) for additional discussion related to the guarantee the Department has made related to the ACTA.

(7) Environmental Mitigation Credits

The Bolsa Chica Mitigation Agreement of 1996 established a "Project for Wetland Acquisition and Restoration at the Bolsa Chica Lowlands in Orange County, California, for the purpose, among others, of Compensating for Marine Habitat Losses Incurred by the Port Development Landfills within the Harbor Districts of the cities of Los Angeles and Long Beach, California."

In exchange for contributions that the Ports made to restore Bolsa Chica Lowlands, the Bolsa Chica Mitigation Agreement granted the Ports mitigation credits that the Ports may use when they undertake landfill as part of port developments. The agreement established a ratio between the number of mitigation credits to be used and the number of acres to be developed based on whether development occurred within the inner or outer harbors. The agreement established that Bolsa Chica mitigation credits could be used by the Ports at one credit for each acre of outer harbor landfill and in accordance with Section 15(a), that "...inner harbor landfills shall be debited from this account at half the rate of outer harbor landfills...." Section 15(a) of the Bolsa Chica Mitigation Agreement also provided that the inner and outer harbor boundaries could be adjusted based on biological surveys.

The Department contributed a total of \$50.8 million to federal and state regulatory agencies, \$39.4 million in fiscal year 1997 and \$11.4 million in fiscal 2006, to secure environmental mitigation credits that would allow the Department to complete land fill projects within its harbor. 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 the Port's development.

As of September 30, 2017, the Department has utilized a total of \$11.4 million of environmental credits for completed landfill as part of capital projects within the port boundaries to date, of which \$1.8 million was incurred in fiscal year 2017. No other environmental credit has been acquired. The existing \$39.4 million or 238 credits will be partially used in completing the Middle Harbor project that is currently underway and estimated to be completed in fiscal year 2020; and other remaining credits will be used in future projects.

(8) Investment in Joint Venture

Intermodal Container Transfer Facility (ICTF)

The Department and the Port of Los Angeles (POLA) entered into a joint powers agreement to form the Intermodal Container Transfer Facility Joint Powers Authority (ICTF) for the purpose of financing and constructing a facility to transfer cargo containers between trucks and railroad cars. The facility, which began operations in December 1986, was developed and operated by Southern Pacific Transportation Company (SPTC) under a long-term lease agreement. SPTC was subsequently merged and continues to operate as Union Pacific Corporation. The Department appoints two members of the ICTF's five-member governing board and accounts for its investment using the equity method. The Department and POLA share income and equity distributions equally.

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The ICTF's operations are financed from lease revenue from ICTF activities. The Department's share of the ICTF's net position at September 30, 2017 totaled \$5.4 million. Separate ICTF financial statements for the year ended June 30, 2017 are available on their Web site at http://ictf-jpa.org/document_library.php.

(9) Transfers to the City Tidelands Operating Fund

City Charter Chapter XII, Section 1209 (c)(4), as amended, provides for the transfer of a maximum of 5% of Harbor Department's operating revenue. The City Charter provides that the City Council, by a two-third vote expressed by Resolution, may request the transfer to meet the lawful obligations of the Tidelands Operations Fund. The provision requires a majority vote of the Board of Harbor Commissioners, expressed by Resolution, to enact the transfer, determining that the funds will not be needed for Harbor Department's operations. During fiscal year 2017, the Department accrued \$19.1 million as operating transfers due to the City Tidelands Fund, to be paid in fiscal year 2018.

(10) 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 a 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 \$5.0 million for fiscal year 2017, all of which is related to construction claims.

Contract commitments and purchase orders, mostly related to capital projects, for which materials or services were not received at September 30, 2017, aggregated \$74.5 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 \$1.4 billion in aggregate. The coverage also includes terrorism exposure.

(i) Construction related

The Department also carries two insurance programs known as "Builder's Risk," 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 active Department's construction projects currently underway. The coverage limit for each construction project in this program is equivalent to the contract's contract price. Exclusive of earthquake coverage, the maximum per project coverage is \$125.0 million without expressed underwriter approval, but can be increased as needed with underwriter approval.

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(ii) *General Liability*

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

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

Insurance coverage for fire and other risks	\$	1,426,842
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

The Port has a provision that requires tenants, contractors, and vendors 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 of the City, its Board of Harbor Commissioners, and the Department's officers and employees as additional insured. This provision helps the Port in mitigating its insurance liabilities.

(iii) *Workers Compensation*

The Department participates in the City's self-insured workers' compensation program. During fiscal years 2017, it made payments to the City's Insurance Fund totaling \$1.6 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 ACTA

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 POLA. Revenue 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 revenue from use fees and container charges is not sufficient to meet ACTA's obligations, the Department and the POLA have agreed to advance the funds necessary to make up

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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 POLA 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.

In 2011 and 2012, the Department funded Shortfall Advances of \$2.95 million each year. The balance reimbursable by ACTA of \$5.9 million, recorded under "other noncurrent assets", for the previously paid Shortfall Advances remained unchanged as of September 30, 2017. Shortfall Advances made by the Department and the POLA are reimbursable, with interest, upon ACTA's ability to pay, which is undefined in the near term.

On May 24, 2016, ACTA issued the Series 2016 Bonds and restructured a portion of its debt. This potentially helped reduced the frequency and amount of future Shortfall Advances. The most recent notice date, March 24, 2017, indicates that there is no projected shortfall for ACTA's fiscal year ending June 30, 2018.

(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 2013 and is expected to be completed by the end of 2019.

The bridge budget is \$1.492 billion and is a joint effort between Caltrans and the Department. The Department anticipates that funding of the project will come from various sources including federal, state, and local grants. Commitments from these funding sources total \$894.0 million and are available as reimbursement for expenditures on the bridge project; and local matching and Port's contribution of \$598.0 million. 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, 2017, the Department has incurred approximately \$1.012 billion in costs to construct the replacement bridge with an increase of \$131.3 million during the year ended September 30, 2017. Of this total amount, approximately \$561.8 million has been recognized as capital grant revenue from inception, with \$52.7 million reported as part of due from other governmental agencies on the statement of net position as of September 30, 2017.

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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, as a component of the State highway system. The transfer will result in a loss from contributed asset and a reduction of the Department's capital asset. Additionally, the Department has agreed to pay Caltrans operating 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.

(11) Long Term Liabilities

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

Description	Balance October 1, 2016	Additions	Reductions	Balance September 30, 2017	Due in one year
Revenue bonds	\$ 542,630	170,255	44,905	667,980	47,190
Premium	45,762	30,195	6,401	69,556	—
Total revenue bonds	588,392	200,450	51,306	737,536	47,190
2014C Note	325,000	—	—	325,000	—
Premium	30,522	—	12,118	18,404	—
Total notes payable	355,522	—	12,118	343,404	—
Line of credit	25,000	—	25,000	—	—
Compensated absences	12,914	6,919	7,501	12,332	3,532
Net pension liability	124,170	5,723	—	129,893	—
Net OPEB liability	3,103	147	—	3,250	—
Unearned revenues	3,685	—	934	2,751	—
Environmental remediation liability	—	3,800	—	3,800	—
Other long term obligation (Port Headquarters Construction Costs)	49,067	60,465	—	109,532	—
Total long term liability	\$ 1,161,853	277,504	96,859	1,342,498	50,722

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(12) Bonds and Other 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):

Description	Date of issue	Interest rate	Fiscal term and maturity year	Original principal	Ending balance October 1, 2016	Additions	Payments	Ending balance September 30, 2017	Principal due within one year
Revenue bonds:									
1998	2/1/1998	6 %	2018–19	\$ 206,330	47,030	—	14,770	32,260	15,660
2010A	3/31/2010	3%–5%	2018–25	200,835	136,715	—	12,470	124,245	13,060
2010B	4/29/2010	4%–5%	2018–27	158,085	127,660	—	130	127,530	2,675
2014A	4/24/2014	4%–5%	2016–17	38,465	12,730	—	12,730	—	—
2014B	4/24/2014	3%–5%	2018–27	20,570	20,570	—	3,390	17,180	5,480
2015A	4/16/2015	4%–5%	2018–23	44,845	44,845	—	1,415	43,430	10,315
2015B	4/16/2015	5 %	2018–25	20,130	20,130	—	—	20,130	—
2015C	7/15/2015	5 %	2018–32	66,085	66,085	—	—	66,085	—
2015D	7/15/2015	5 %	2018–42	66,865	66,865	—	—	66,865	—
2017A	6/28/2017	5 %	2018–40	101,610	—	101,610	—	101,610	—
2017B	6/28/2017	5 %	2018–43	25,985	—	25,985	—	25,985	—
2017C	6/28/2017	5 %	2018–47	42,660	—	42,660	—	42,660	—
Subtotal bonds				992,465	542,630	170,255	44,905	667,980	47,190
2014C Note	6/12/2017	3%–5%	2019	325,000	325,000	—	—	325,000	—
Line of credit	7/1/2013		2017	25,000	25,000	—	25,000	—	—
Total indebtedness				\$ 1,342,465	892,630	170,255	69,905	992,980	47,190
Unamortized bond premium					106,760	—	18,798	87,960	—
Net total indebtedness					\$ 999,390	170,255	88,703	1,080,940	47,190

Annual Debt Service Requirements to Maturity – All Bonded Debt

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

	Principal	Interest	Total
Fiscal year(s) ending September 30:			
2018	\$ 47,190	32,378	79,568
2019	45,965	31,059	77,024
2020	37,300	28,647	65,947
2021	39,110	26,808	65,918
2022	41,065	24,852	65,917
Thereafter	457,350	229,511	686,861
	\$ 667,980	373,255	1,041,235

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 revenue. 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

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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 \$32.0 million are outstanding and will mature on May 15 of each year from 2018 to 2019 in amounts ranging from \$15.6 million to \$16.6 million, with interest payable semiannually on May 15 and November 15 at a coupon rate 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, 2017, 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, 2017, \$0.6 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 revenue. 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 2010A Bonds, and to pay the costs of issuing the 2010A Bonds.

Serial bonds aggregating to \$124.2 million will mature on May 15 of each year from 2018 to 2025 in amounts ranging from \$13.1 million to \$18.3 million with interest payable semiannually on May 15 and November 15 at coupon rates ranging from 3.0% to 5.0%.

The 2010A Bonds maturing on or before May 15, 2020 are not subject to redemption prior to maturity. The 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 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 requirements. As of September 30, 2017, \$7.4 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 revenue. 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 2010B Bonds and to pay the costs of issuing the 2010B Bonds.

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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, 2017. The remaining balance of \$3.2 million is to be amortized in the statement of net position as a component of deferred outflow of resources.

Serial bonds aggregating to \$127.5 million will mature on May 15 of each year from 2018 to 2027 in amounts ranging from \$2.6 million 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 2010B Bonds maturing on or before May 15, 2020 are not subject to redemption prior to maturity. The 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 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, 2017, \$3.4 million and \$16 million were allocated to debt service account and reserve account, respectively.

(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 revenue. The 2014A 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 2014A Bonds matured and were fully paid on May 15, 2017.

(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 revenue. 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 Bond, 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 \$17.2 million will mature on May 15 of each year from 2018 to 2027 in amounts ranging from \$0.9 million 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

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and net carrying amount is amortized using the straight-line method over the life of the new bonds and is reported in the statements of net position as of September 30, 2017; \$0.5 million 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 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 maintaining sufficient fund to meet current and maximum annual debt service requirement. As of September 30, 2017, \$2.4 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 revenue. 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 2015A Bonds. This refunding was undertaken to reduce total debt service payments over the next 10 years by \$36.2 million with an economic gain of \$12.1 million.

Serial bonds aggregating to \$43.4 million will mature on May 15 of each year from 2018 to 2023 in amounts ranging from \$4.8 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, reported as a deferred inflow of \$1.3 million in the statement of net position as of September 30, 2017. The 2015A Bonds are not redeemable prior to maturity.

The bond resolution requires maintaining sufficient funds to meet current and maximum annual debt service requirements. As of September 30, 2017, \$4.6 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 revenue. 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 \$0.8 million 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 a coupon rate 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

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of September 30, 2017; \$0.1 million remained as a deferred inflow to be amortized in the statement of net position as a component of deferred inflows.

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, 2017, \$0.4 million 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 revenue. 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 a coupon rate 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, 2017, \$1.3 million 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 revenue. The 2015D Bonds, dated July 15, 2015, amounting to \$66.8 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 \$66.9 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 a coupon rate 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

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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.

(j) 2017A Harbor Revenue Refunding Bonds

The City of Long Beach Harbor Revenue Senior Bonds Series 2017A (the 2017A Bonds) are secured by the Department's gross revenue. The 2017A Bonds, dated June 28, 2017, amounting to \$101.6 million were issued in conjunction with the 2017B and 2017C Bonds (the Series 2017 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 2017 Projects, and (b) pay the financing costs and the costs of issuing the Series 2017 Senior Revenue Bond.

Serial bonds aggregating to \$101.6 million will mature on May 15 of each year from 2026 to 2040 in amounts ranging from \$4.7 million to \$9.3 million, with interest payable semiannually on May 15 and November 15 at a coupon rate of 5.0%.

The Series 2017 Senior Revenue Bonds maturing on or before May 15, 2027 are not subject to redemption prior to maturity. The Series 2017 Senior Revenue Bonds maturing on or after May 15, 2028 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, 2027, at a redemption price equal to 100% of the principal amount of the Series 2017 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, 2017, \$1.3 million was allocated to a debt service account.

(k) 2017B Harbor Revenue Bonds

The City of Long Beach Harbor Revenue Senior Bonds Series 2017B (the 2017B Green Bonds) are secured by the Department's gross revenue. The 2017B Bonds, dated June 28, 2017, amounting to \$26.0 million were issued in conjunction with the 2017A and 2017C Bonds (the Series 2017 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 2017B Green Projects, and (b) pay the financing costs and the costs of issuing the Series 2017 Senior Revenue Bond.

Serial bonds aggregating to \$26.0 million will mature on May 15 of each year from 2041 to 2043 in amounts ranging from \$8.4 million to \$8.9 million with interest payable semiannually on May 15 and November 15 at a coupon rate of 5.0%.

The Series 2017 Senior Revenue Bonds maturing on or before May 15, 2027 are not subject to redemption prior to maturity. The Series 2017 Senior Revenue Bonds maturing on or after May 15, 2028 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, 2027, at a redemption price equal to 100% of the principal amount of the

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Series 2017 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, 2017, \$0.3 million was allocated to a debt service account.

(I) 2017C Harbor Revenue Refunding Bonds

The City of Long Beach Harbor Revenue Senior Bonds Series 2017C (the 2017C Bonds) are secured by the Department's gross revenue. The 2017C Bonds, dated June 28, 2017, amounting to \$42.7 million were issued in conjunction with the 2017A and 2017B Bonds (the Series 2017 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, Series 2017 Projects, (b) repay all of the outstanding Series B Subordinate Revolving Obligations, and (c) pay the financing costs and the costs of issuing the Series 2017 Senior Revenue Bond.

Serial bonds aggregating to \$42.7 million will mature on May 15 of each year from 2043 to 2047 in amounts ranging from \$0.6 million to \$11.3 million, with interest payable semiannually on May 15 and November 15 at a coupon rate of 5.0%.

The Series 2017 Senior Revenue Bonds maturing on or before May 15, 2027 are not subject to redemption prior to maturity. The Series 2017 Senior Revenue Bonds maturing on or after May 15, 2028 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, 2027, at a redemption price equal to 100% of the principal amount of the Series 2017 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, 2017, \$0.5 million was allocated to a debt service account.

(13) 2014C Harbor Revenue Notes and Transportation Infrastructure Finance and Innovation Act Loan Transportation Infrastructure Finance and Innovation Act (TIFIA) commitment

The City of Long Beach Harbor Revenue Notes Series 2014C Senior Notes (the 2014C Notes) are secured by the Department's gross revenue. The 2014C Notes were issued on June 12, 2014 for \$325.0 million plus a premium of \$53.4 million, less an underwriter's discount of \$659.0 thousand. The 2014C Notes were issued to finance a portion of the costs of constructing a replacement bridge for the existing Gerald Desmond Bridge, including capitalized interest associated with the 2014C Notes themselves. The notes were also used to refund a portion of the Subordinate Harbor Revolving Obligations (Series A and Series B) and to pay for the costs of issuance. The 2014C Notes were issued to achieve interest savings during a favorable market for short-term effective-interest rate while deferring the need to draw on the TIFIA loan. It is anticipated that the proceeds from the TIFIA loan, when it is drawn, will be used to repay the 2014C Notes.

The 2014C Notes are outstanding as of September 30, 2017, 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.

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The original issue premium is being amortized over the loan term using the effective-interest method. Unamortized premium totaled \$18.4 million for the year ended September 30, 2017.

As of September 30, 2017, the balance of the debt service account \$24.0 million is restricted to meet debt service requirements in conformity with the note resolution.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending September 30:			
2018	\$ —	15,643	15,643
2019	<u>325,000</u>	<u>7,822</u>	<u>332,822</u>
	<u>\$ 325,000</u>	<u>23,465</u>	<u>348,465</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 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 revenue. The loan is expected to be drawn no later than one year after substantial completion of the replacement bridge currently expected in December 2019. As such, there is no outstanding liability for the TIFIA Loan as of September 30, 2017. Once drawn upon, the TIFIA Loan will be repaid over a period not to exceed 35 years at an interest rate of 3.42%.

(14) Lines of Credit

On June 30, 2016, the Board of Harbor Commissioners approved a three-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. The tax-exempt and taxable interest rates to be paid by the Department for borrowings under the revolving lines of credit with Union Bank will be based on a percentage of the one-month London Interbank Offered Rate (LIBOR). The purpose of this line of credit is to provide more flexibility to access unrestricted funds when the Department has a need.

As of September 30, 2017, the Department has no outstanding balance under this revolving line of credit with Union Bank.

(15) Retirement Program

(a) Pension Plan

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

The City contributes to the 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

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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 the State's statute and the City's 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.

The Miscellaneous Plan's provisions and benefits in effect at September 30, 2017, are summarized in the following table

Hire date	Miscellaneous		
	Tier 1 Prior to October 1, 2006	Tier 2 On or after October 1 2006 and prior to January 1 2013	Tier 3 On or after January 1 2013
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	52–62
	Required contribution rates		
Employee	8.0 %	8.0 %	6.5 %
Employer	20.586 %	20.586 %	20.586 %
	Miscellaneous		
	Tier 1 Prior to October 1, 2006	Tier 2 On or after October 1 2006 and prior to January 1 2013	Tier 3 On or after January 1 2013
	Percentage of eligible compensation		
Monthly benefits	2.0% to 2.7%	2.0% to 2.5%	1.0% to 2.0%

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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 19.2% as of September 30, 2017.

(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, 2017 (measurement date), using the actuarial valuation report as of June 30, 2016, rolled forward using standard update procedures. The Department's share of the net pension liability for the Miscellaneous Plan was \$124.2 million at the beginning of the measurement period and \$129.9 million at June 30, 2017. For the measurement period ending June 30, 2017 (the measurement date) the Department incurred pension expense of \$20.8 million.

As of September 30, 2017, the Department had deferred outflows and deferred inflows related to pensions as follows (in thousands):

Deferred outflows of resources:

Pension contributions after measurement date	\$	6,958
Difference between actual and expected CalPERS investment returns		11,554
CalPERS change in assumptions		17,811
CalPERS change in proportion		1,203
Total deferred outflows of resources	\$	<u>37,526</u>

Deferred inflows of resources:

CalPERS difference between actual and expected experience	\$	8,666
CalPERS change in proportion		1,766
Total deferred inflows of resources	\$	<u>10,432</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)

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of resources related to pensions that will be recognized in pension expense during the next four years is as follows (in thousands):

Measurement period ending June 30	Total
2018	\$ 10,626
2019	10,058
2020	2,225
2021	(2,772)
Total	\$ 20,137

(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, 2016
Measurement date	June 30, 2017
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Discount rate	7.15 %
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 BB. For more details on this table, refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2017 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 7.15%. 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

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be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.15% 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.

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.

Asset class	New strategic allocation	Real return years 1–10 ^a	Real return years 11+ ^b
Global equity	47.0 %	4.90 %	5.38 %
Global fixed income	19.0	0.80	2.27
Inflation sensitive	6.0	0.60	1.39
Private equity	12.0	6.60	6.63
Real estate	11.0	2.80	5.21
Infrastructure and forestland	3.0	3.90	5.36
Liquidity	2.0	(2.20)	(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 7.15%, compared to a discount rate that is 1.0% age point lower (6.15%) or 1.0% age point higher (8.15%). Amounts shown below are for the City's Miscellaneous plan in thousands:

Sensitivity to Net Pension Liability	
Net pension liability	Total
1.0% Decrease (6.15%)	\$ 196,401
Current discount rate (7.15%)	129,893
1.0% Increase (8.15%)	74,979

(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

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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 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*

At September 30, 2017, the Department reported a total OPEB liability of \$3.2 million for its proportionate share of the total OPEB liability. The total OPEB liability was measured as of September 30, 2016 and the total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation as of September 30, 2016. 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 6.5%.

For the year ended September 30, 2017, the Department recognized OPEB expense of \$146 thousand. At September 30, 2017, the Department reported \$52 thousand of deferred outflows of resources related to OPEB from contributions made subsequent to the measurement date, \$635 thousand in deferred outflows of resources related to actuarial changes in assumptions, and \$510 thousand deferred inflow of resources related to actuarial determined difference between expected and actual experience.

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 in the year ended September 30, 2018. Amounts related to both the deferred outflow of resources and deferred inflow of resources will be amortized over the next 7.3 years. Amounts reported as deferred outflows and deferred inflows related to OPEB will be recognized in OPEB expense over the next five years as follows (in thousands):

<u>Year ending September 30</u>	<u>Amount to be recognized</u>
2018	\$ 17.0
2019	17.0
2020	17.0
2021	17.0
2022	17.0
2023–2027	39.0

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(iv) Actuarial Assumptions

The total OPEB liability in the September 30, 2016 actuarial valuation was determined using the following actuarial assumptions.

Valuation date	September 30, 2016
Measurement date	September 30, 2016
Actuarial cost method	Entry age
Actuarial assumptions:	
Inflation	2.75%
Discount rate	3.75% Based on Fidelity Municipal Bond GO AA 20-year Bond Index
Payroll increases	3.00% Aggregate
Merit	CalPERS 1997-2011 Experience
Mortality	CalPERS 1997-2011 Experience Study
Withdrawal	CalPERS 1997-2011 Experience Study
Disability	CalPERS 1997-2011 Experience Study
Healthcare trend	ultimate rate of 4.00% for 2076 and beyond

(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 (2.1%) or 1-percentage-point higher (4.1%) than the current discount rate (in thousands):

	1 Percent Decrease (2.1%)	Discount rate (3.1%)	1 Percent Increase (4.1%)
Total OPEB liability	\$ 3,586	3,249	2,943

(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 or higher than the current healthcare cost trend rates:

	1 Percent Decrease (6.5%)	Healthcare Cost Trend Rate (7.5%)	1 Percent Increase (8.5%)
Total OPEB liability	\$ 2,870	3,249	3,695

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(c) Termination Benefits

As of September 30, 2017, 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. An additional amount relating to negotiated public safety health benefit supplements for employees who retired during calendar year 2009 is described as follows:

The actuarial study assumes an investment return of 3.8% and wage increases of 3.0% 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, 2017, the Department has recorded noncurrent liabilities totaling \$8.8 million which represents the Departments share of these liabilities.

(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 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, 2017.

(e) 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 \$3.5 million as of September 30, 2017, is calculated based on a five years average of vacation taken or used annually. The remaining amount of the liability is recorded as non-current.

(16) Environmental Remediation Obligation

On July 2017, as a result of a hazardous building materials survey of a warehouse, the Department identified the presence of environmentally sensitive materials requiring abatement activities. The estimates abatement cost stands at \$3.8 million and a remediation liability for this amount has been recognized in the fiscal year 2017. This warehouse has a net carrying value of zero and there is no reasonable expectation of any recovery associated with these remediation efforts.

(17) Port Headquarter Building and Civic Center Project

In January 2016, the Board of Harbor Commissioners (BHC) authorized the Department to enter into a project agreement with the City of Long Beach and Plenary Edgemoor Civic Partners LLC (PECP) for the Port Headquarter Building, Shared Facilities (Council/Board Chambers, central utility plant, and new underground parking), Shared Rooms and Shared Civic Plaza of the City of Long Beach Civic Center Project. The Board also approved a Memorandum of Understanding (MOU) between the Port and the City

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2017

to provide for mutual performance obligations and internal cost allocations to ensure accurate project cost accounting for construction costs, ongoing costs, utility costs and lifecycle replacement costs. After reviewing a number of alternative financing structures, the Port adopted a modified Design-Build-Finance-Operate-Maintain structure. PECP will finance the Port project during construction. The Port total approved project budget is \$235.0 million, comprising PECP project completion payment of \$212.6 million, project support cost of \$14.4 million and the land purchase of \$8.0 million.

On April 20, 2016, at Financial Close, the Project Agreement was executed with a fixed price Project Completion Payment of \$212.6 million and a schedule Port occupancy date of June 30, 2019. PECP will provide the Port a limited amount of Operation and Maintenance Services and Life-Cycle Replacement Costs over the 40 year post-occupancy period.

The Port acquired the land upon which Port's headquarter is located with a purchase price of \$8.0 million in early 2016. The land had a book value of \$12.0 million at the date of purchase, accordingly a contribution for \$4.0 million was recorded for the year ended September 30, 2016. The shared facilities will be owned by the City and Port under a form of joint ownership in accordance with their respective allocation and subject to easements or other right of access of each other.

The Project Company, PECP, reported 52% of project completion for Port Headquarter project at September 30, 2017. For this modified Design-Build-Finance-Operate-Maintain financing model, the Port recorded \$109.5 million for the 52% of Project Completion Payment as construction in progress and long term liability for Port Headquarter project. At completion, the Port plans to issue bonds to finance this project.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2017

(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 schedule of deferrals as of September 30, 2017 is as follows (expressed in thousands):

Deferred outflows of resources:

Loss on debt refunding	\$	3,876
Pension related deferred outflows:		
Pension contributions after measurement date		6,958
Difference between actual and expected CalPERS investment returns		11,554
Change in assumptions		17,811
Change in the Department's proportion of pension obligation		1,203
OPEB related deferred outflows:		
OPEB contributions after measurement date		52
Change in assumptions		635
Total deferred outflows of resources	\$	<u>42,089</u>

Deferred inflows of resources:

Gain on debt refunding	\$	1,998
Pension related deferred inflows:		
Change in the Department's proportion of pension obligation		1,766
Difference between actual and expected experience		8,666
OPEB related deferred inflows:		
Difference between actual and expected experience		510
Change in the Department's proportion of OPEB obligation		146
Total deferred inflows of resources	\$	<u>13,086</u>



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}

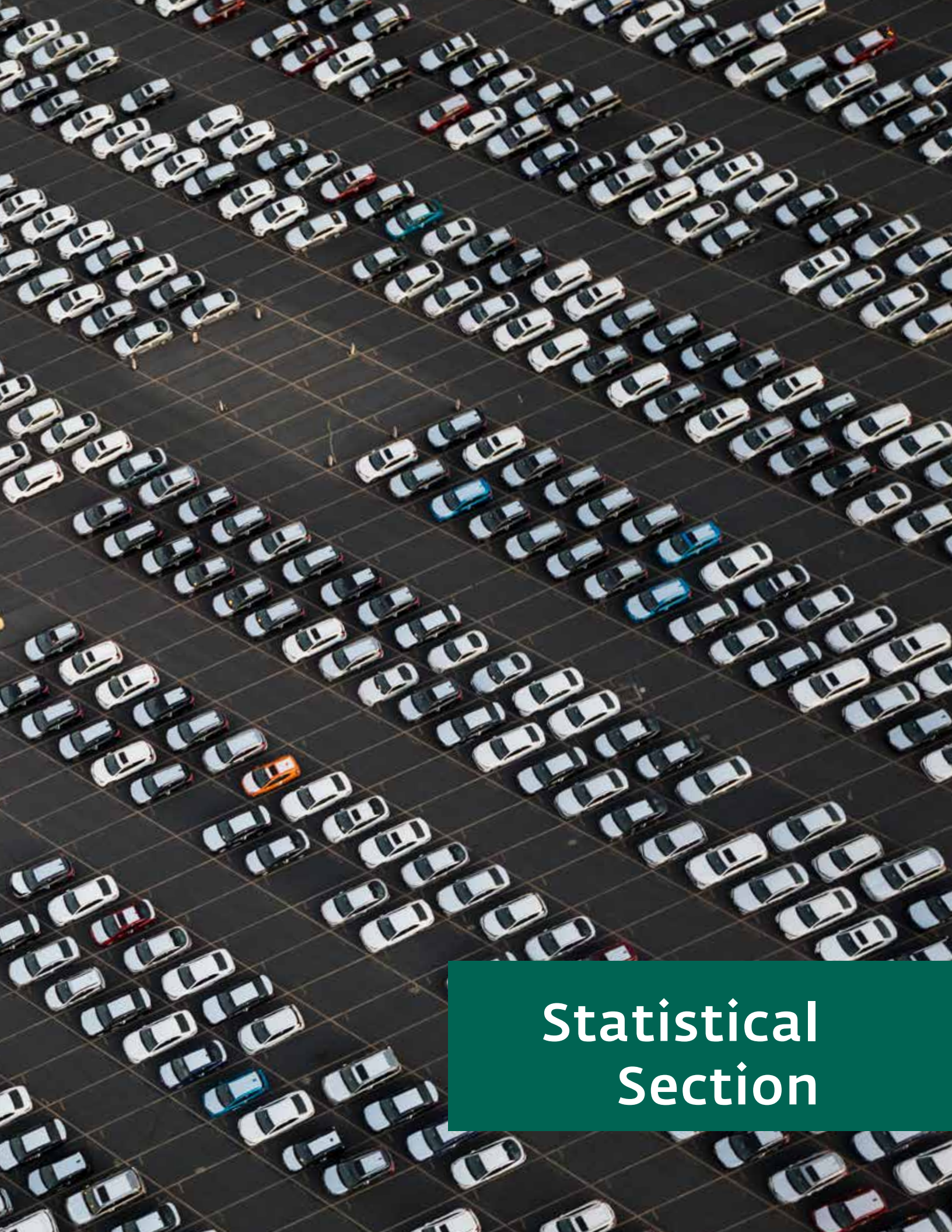
	2017	2016
Department's percentage of total city OPEB liability	6.5 %	6.9 %
Department's total OPEB liability – ending	\$ 3,250	3,103
Department covered-employee payroll	48,381	47,203
Total department OPEB liability as a percentage of covered payroll	6.7 %	6.6 %

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 of GASB Statement No. 75.

See accompanying independent auditors' report.



Statistical Section

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Statements of Net Position

Last 10 fiscal years

(In millions)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Assets and deferred outflows:										
Current	\$ 563	487	501	453	441	673	634	581	1,005	1,068
Other	4,792	4,550	4,474	4,229	3,612	2,931	2,858	2,883	2,403	2,336
Deferred outflows	42	42	22	10	11	13	—	—	—	—
Total assets and deferred outflows	<u>\$ 5,397</u>	<u>5,079</u>	<u>4,997</u>	<u>4,692</u>	<u>4,064</u>	<u>3,617</u>	<u>3,492</u>	<u>3,464</u>	<u>3,408</u>	<u>3,404</u>
Liabilities and deferred inflows:										
Current	\$ 101	111	100	123	153	123	104	108	135	206
Current – restricted*	65	61	60	67	61	59	58	57	56	54
Long term	1,292	1,115	1,215	1,037	672	641	678	751	791	841
Deferred inflows	13	12	15	3	—	—	—	—	—	—
Total liabilities and deferred inflows	<u>\$ 1,471</u>	<u>1,299</u>	<u>1,390</u>	<u>1,230</u>	<u>886</u>	<u>823</u>	<u>840</u>	<u>916</u>	<u>982</u>	<u>1,101</u>
Net position:										
Net investment in capital assets	\$ 3,492	3,442	3,077	2,975	2,848	2,105	1,916	1,859	1,487	1,440
Restricted	51	90	265	199	62	157	178	208	197	153
Unrestricted	383	248	267	289	269	531	558	481	744	710
Total net position	<u>\$ 3,926</u>	<u>3,780</u>	<u>3,609</u>	<u>3,463</u>	<u>3,179</u>	<u>2,793</u>	<u>2,652</u>	<u>2,548</u>	<u>2,428</u>	<u>2,303</u>
Working capital	\$ 462	376	401	330	288	550	530	473	870	862
Current ratio	3.4	2.8	3.1	2.4	2.1	3.7	3.9	3.5	5.3	4.1
Debt to asset ratio	30.4 %	28.3 %	30.9 %	29.0 %	24.5 %	28.0 %	29.4 %	31.8 %	40.9 %	47.1 %

* 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 10 fiscal years

(In millions)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Operating revenue	\$ 381	361	355	357	346	334	345	321	312	359
Operating expense	291	291	271	227	188	176	166	185	184	196
Income from operations	90	70	84	130	158	158	179	136	128	163
Other income (expense)	—	(15)	39	(12)	—	(16)	(50)	(13)	(15)	(24)
Capital grants	73	132	121	178	251	14	7	19	11	4
Investment earnings	2	5	4	7	1	3	5	8	19	33
Transfers to City Tidelands Fund	(19)	(19)	(18)	(18)	(17)	(17)	(37)	(30)	(19)	(16)
Change in net position	\$ 146	173	230	285	393	142	104	120	124	160
Return on investment	— %	0.1 %	7.4 %	9.4 %	14.4 %	6.7 %	5.2 %	6.2 %	8.7 %	13.0 %
Capital expenditures (includes personnel costs)	\$ 252	367	363	552	792	373	228	273	189	92
Personnel:										
Wages and benefits *	\$ 60	62	55	48	45	43	42	41	39	34

* 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 10 fiscal years

(In millions)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Berth and special facilities:										
Wharfage	\$ 342	323	312	308	297	269	280	258	244	290
Dockage	7	8	11	11	12	12	12	11	13	14
Bunkers	1	1	1	1	1	1	1	2	1	1
Special facilities rentals	13	16	16	14	12	28	23	21	20	22
Crane rentals	—	—	2	13	13	13	13	13	13	13
Other	1	1	1	1	1	—	—	—	—	—
Total berths and special facilities	364	349	343	348	336	323	329	305	291	340
Rental properties	14	10	10	9	9	10	14	14	16	14
Miscellaneous	3	3	2	1	1	2	2	3	4	4
Total operating revenue	\$ 381	362	355	358	346	335	345	322	311	358
Growth (reduction)%	5.6	1.5	(1.1)	3.4	3.6	(3.5)	7.4	3.3	(13.1)	(3.2)
Special facility revenue by terminal commodity:										
Containers	\$ 291	275	270	280	268	256	267	247	233	280
Liquid bulk	18	17	17	16	17	17	16	17	18	18
Dry bulk	35	29	29	26	26	24	22	19	20	18
Vehicles	15	15	14	13	12	13	10	10	10	10
Steel	4	8	8	8	8	8	8	6	7	9
Lumber	1	1	1	1	1	1	1	1	1	1
Miscellaneous	—	3	3	3	3	3	3	3	2	4
Total special facility revenue	\$ 364	348	342	347	335	322	327	303	291	340

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 10 fiscal years

(In millions)

Fiscal year	Revenue (a)	Maintenance costs (b)	Net revenue (a-b)	Revenue bonds debt service	Times debt service covered
2017	\$ 383	143	240	88	2.73
2016	365	144	221	89	2.48
2015	359	134	225	78	2.88
2014	360	108	252	80	3.15
2013	347	98	249	80	3.11
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

(a) Total port operating revenue and interest earned only

(b) Port operating expenses before 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 10 fiscal years

(Thousands of Metric Revenue Tons)

Fiscal year	Inbound tonnage			Outbound tonnage			Port of Long Beach
	Municipal	Private*	Total	Municipal	Bunkers	Total	total
2017	130,435	—	130,435	36,190	1,474	37,664	168,099
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
Average annual growth (reduction)	1.4 %	— %	1.3 %	(1.0)%	— %	(1.2)%	0.7 %

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

* Private berth information is no longer available. Revenue from private berth leases is revenue 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 10 fiscal years

(Thousands of metric revenue tons)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	Total	Average annual growth
Containerized:												
In	98,941	93,614	95,798	94,310	91,047	77,910	83,482	79,058	69,354	88,398	871,912	1.9 %
Out	28,174	29,400	29,307	31,262	30,525	27,584	29,623	28,251	24,800	33,234	292,160	(1.2)%
Other break bulk:												
In	1,127	1,008	1,039	1,002	854	917	752	814	869	1,570	9,952	(1.5)%
Out	61	99	101	92	108	98	827	613	644	619	3,262	(10.0)%
Liquid bulk:												
In	30,130	27,971	27,479	26,696	27,398	28,197	28,585	28,138	29,139	27,782	281,515	1.0 %
Out	2,497	3,203	3,521	2,995	3,197	2,466	3,239	4,151	3,800	3,924	32,993	(3.3)%
Dry bulk:												
In	238	344	209	235	259	259	333	393	653	1,458	4,381	(13.2)%
Out	6,933	5,684	6,820	8,934	8,869	7,713	7,576	6,148	5,996	5,925	70,598	2.9 %
Total:												
In	130,436	122,937	124,525	122,243	119,558	107,283	113,152	108,403	100,015	119,208	1,167,760	1.3 %
Out	37,665	38,386	39,749	43,283	42,699	37,861	41,265	39,163	35,240	43,702	399,013	(1.2)%
Vessel calls*	2,149	2,227	2,676	2,752	3,425	3,993	4,758	4,826	4,933	5,140	36,879	
Annual decline	(0.04)%	(0.17)%	(2.76)%	(19.65)%	(14.22)%	(16.08)%	(1.41)%	(2.17)%	(4.03)%	(9.07)%		
TEU's	7,231	6,946	7,088	6,818	6,648	5,857	6,298	5,936	5,282	6,737	64,841	
TEU annual growth/ (decline)	0.04 %	(0.02)%	3.96 %	2.56 %	13.51 %	(7.00)%	6.10 %	12.38 %	(21.60)%	(8.49)%		

* Beginning in FY 2014, 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 10 fiscal years

(In thousands)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Municipal berths ¹ :										
Foreign	\$ 99,468	93,928	98,464	104,245	101,027	91,490	96,908	91,335	82,621	103,777
Coastwise/intercoastal	30,977	29,009	26,061	17,998	18,477	15,793	16,054	16,733	17,214	14,785
Total inbound cargo	130,445	122,937	124,525	122,243	119,504	107,283	112,962	108,068	99,835	118,562
Outbound cargo:										
Foreign	32,923	32,737	33,592	37,067	36,769		36,210	33,340	29,557	37,529
Coastwise/intercoastal	3,258	3,996	4,843	5,348	5,141	3,270	3,507	3,536	3,519	4,075
Bunkers	1,474	1,653	1,313	867	843	1,311	1,546	2,412	2,110	2,088
Total outbound cargo	37,655	38,386	39,748	43,282	42,753	4,581	41,263	39,288	35,186	43,692
Total municipal cargo	168,100	161,323	164,273	165,525	162,257	111,864	154,225	147,356	135,021	162,254
Private berths ¹ :										
Inbound	—	—	—	—	—	—	192	209	233	654
Outbound	—	—	—	—	—	—	—	—	—	—
Total private cargo	—	—	—	—	—	—	192	209	233	654
Grand total	\$ 168,100	161,323	164,273	165,525	162,257	111,864	154,417	147,565	135,254	162,908
Container count summary (000's) ²										
Loaded inbound TEUs	\$ 3,698	3,514	3,596	3,523	3,420	2,932	3,139	2,982	2,612	3,338
Loaded outbound TEUs	1,451	1,538	1,528	1,664	1,671	1,491	1,582	1,485	1,332	1,782
Total loaded	5,149	5,052	5,124	5,187	5,091	4,423	4,721	4,467	3,944	5,120
Full containers annual growth (decline)	— %	— %	(1.2)%	1.9 %	15.1 %	(6.3)%	5.7 %	13.3 %	(23.0)%	(1.8)%
Total empty	2,081	1,894	1,964	1,631	1,557	1,434	1,577	1,469	1,338	1,617
Empty containers annual growth (decline)	0.1 %	— %	20.4 %	4.8 %	8.6 %	(9.1)%	7.3 %	9.8 %	(17.2)%	(24.7)%
Total TEUs	\$ 7,230	6,946	7,088	6,818	6,648	5,857	6,298	5,936	5,282	6,737
Annual growth	0.4 %	— %	4.0 %	2.6 %	13.5 %	(7.0)%	6.1 %	12.4 %	21.6 %	(8.5)%

¹ Metric revenue tons is equal to either 1,000 kilograms or one cubic meter.² A TEU represents a 20-foot equivalent unit.

Source: Finance Division, Harbor Department

See accompanying independent auditors' report.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Principal Customers

The 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
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	01/2032
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 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 10 fiscal years

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Executive administration	14.0	18.0	17.0	11.9	9.3	15.4	17.3	15.6	16.3	13.6
Business development	13.0	13.0	11.0	—	—	—	—	—	—	—
Communications	14.0	14.0	16.0	15.0	12.8	14.0	14.8	14.7	14.1	13.0
Construction management	45.0	47.0	46.0	—	—	—	—	—	—	—
Design	51.0	49.0	48.0	—	—	—	—	—	—	—
Engineering	—	—	—	140.7	128.8	128.0	117.1	115.2	109.7	105.3
Environmental planning	21.0	24.0	23.0	—	—	—	—	—	—	—
Finance	25.0	25.0	25.0	24.5	24.9	26.0	21.2	17.9	15.5	14.2
Government relations/affairs	4.0	3.0	4.0	4.0	4.0	4.0	3.4	3.8	3.9	3.3
Human resources	16.0	18.0	18.0	17.4	16.3	17.0	17.8	17.6	16.9	15.3
Information management	22.0	22.0	22.0	20.6	20.8	21.0	18.6	18.0	13.1	7.3
Maintenance	90.0	92.0	84.0	76.3	81.1	81.0	76.8	72.7	72.1	69.6
Master planning	7.0	5.0	6.0	31.7	30.6	31.0	30.3	28.6	25.3	21.1
Program delivery	3.0	3.0	2.0	—	—	—	—	—	—	—
Program management	27.0	28.0	25.0	—	—	—	—	—	—	—
Project controls	11.0	11.0	8.0	—	—	—	—	—	—	—
Real estate	9.0	9.0	8.0	8.8	9.0	9.0	8.0	7.3	6.1	6.7
Risk management	9.0	10.0	10.0	8.3	7.6	8.0	7.0	6.4	6.0	5.2
Security	81.0	74.0	79.0	68.0	71.2	76.5	69.8	63.8	58.7	50.7
Survey	22.0	22.0	23.0	—	—	—	—	—	—	—
Tenant services/trade relations	12.0	9.0	9.0	19.3	16.5	16.0	14.9	15.8	15.6	14.5
Transportation planning	7.0	6.0	6.0	—	—	—	—	—	—	—
Full-time/permanent subtotal	503.0	501.0	490.0	446.5	432.9	446.9	417.0	397.4	373.3	339.8
Growth/decline	0.4 %	2.2 %	9.7 %	3.1 %	(3.1)%	7.2 %	4.9 %	6.5 %	9.9 %	N/A
Part-time/temporary subtotal	31.0	29.0	34.0	25.5	29.4	13.0	18.9	27.3	27.7	30.6
Growth/decline	6.9 %	(14.7)%	33.3 %	(13.3)%	126.2 %	(31.2)%	(30.8)%	(1.4)%	(9.5)%	N/A
Total number of employees	534.0	530.0	524.0	472.0	462.3	459.9	435.9	424.7	401.0	370.4
Growth/decline	0.8 %	1.1 %	11.0 %	2.1 %	0.5 %	5.5 %	2.6 %	5.9 %	8.3 %	N/A

Note:

FY2015 - FY2017 presented the count at year-end (personnel inventory report)

FY 2006–FY2014 presented the count average of the year

Board of Harbor Commissioners are not included

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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