

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

Comprehensive Annual Financial Report

For the fiscal year ended September 30, 2018



Port of
LONG BEACH
The Green Port

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

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Introductory Section



Letter of Transmittal

March 26, 2019

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

Members of the Board of Harbor Commissioners:

State law requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with U.S. generally accepted accounting principles (GAAP) and audited in accordance with U.S. generally accepted auditing standards (GAAS) by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report (CAFR) of the Harbor Department of the City of Long Beach (the Department), an enterprise fund of the City of Long Beach, California (the City), for the fiscal years ended September 30, 2018. 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 years ended September 30, 2018 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 years ended September 30, 2018 are fairly presented, in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is intended to complement the MD&A, and should be read in conjunction with it. The Department's MD&A immediately follows the report of the independent auditors.

Profile of the Department

In 1911, the State of California has conveyed, in trust, to the City certain tidal and submerged lands for the establishment and maintenance of the Harbor District (which includes the Port of Long Beach). Consistent with this grant, the City Charter confers on the Board of Harbor Commissioners (the Board) exclusive control and management of the Department (or the Port). The Board has authority, on behalf of the City, to provide for the needs of commerce, navigation, recreation, and fishery; to develop and maintain all waterfront properties; to dredge and reclaim land; and to construct and operate terminals, railroad tracks, and other facilities both inside and outside the Department's jurisdiction. The 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 Harbor Department generates revenues through leases, tariffs, and other charges assessed to Port of Long Beach tenants and other customers. No local, state, or federal taxes support Port operations. The Harbor Department does not contribute to the City of Long Beach general fund or governmental activities, but compensates the City of Long Beach for services such as public safety, human resources, civil service, and centralized financial, legal, and audit services.

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

Commercial and Economic Outlook

The Port of Long Beach 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 promoted the benefits of our services.

The record container volume was the highlight of the Port's commercial performance in fiscal year 2018. The volume increased 10.7% from the prior year to 8.0 million TEUs. Healthy consumer demand contributed mostly to this positive result. However, the advanced ordering and shipment ahead of import duties increase on Chinese goods especially in the last three months of the year have pushed the container volume to a historic level. Aside from the recent geo-political developments, the following trends have and will continue to shape the future of the maritime industry: capacity management by ocean carriers, rationalization of alliance deployments, vessel upsizing and fuel prices.

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.

Fiscal year 2018 marked the second year of the three alliances (2M+H, OCEAN and THE Alliance). This fiscal year also saw a number of key developments: Maersk Line completed the acquisition of Hamburg Sud, the three Japanese carriers ("K" Line, MOL, and NYK) merged into Ocean Network Express (ONE), COSCO purchased OOCL's parent company OOIL and the pending divestiture of Long Beach Container Terminal (LBCT).

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 of Long Beach, 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 of Long Beach has embarked on a 10-year, \$4.0 billion capital program to upgrade its infrastructure and modernize its facilities in order to improve fluidity and efficiency in its cargo operations and enhance reliability. This program continues with \$2.3 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 Project: A \$1.5 billion 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 Rail Support 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 containers on rail 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 continue 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 Port is making substantial investments to improve the environment through sustainable practices that reduce the environmental impacts from Port operations and development. Planning for the necessary investments in operational improvements, terminal development, and supporting infrastructure, consistent with the long range goals of the Port and its stakeholders, is essential to achieving this goal.

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. The CAAP was updated in 2010, and most recently in 2017, to identify new

strategies to produce necessary emission reductions into the future. The 2017 update includes zero emission goals for cargo handling equipment by 2030 and drayage trucks by 2035.

Similarly, at a joint board session in 2009 the Ports adopted the Water Resources Action Plan (WRAP) which outlines the Ports' water quality programs and strategies for maintaining and improving harbor waters. The Port continues its significant efforts related to complying with regulatory programs, such as the Total Maximum Daily Load (TMDL) and the statewide Industrial General Permit, Construction Storm Water Permit and the Long Beach Municipal Permit. The Port continues to invest in opportunities for the sustainable management of contaminated and non-contaminated sediments within the Harbor District. And finally, we continue to carry out special studies to gain a better understanding of the water quality and sediment in the harbor, the levels of pollution in fish, and the links to the health of the harbor ecosystem.

The Harbor Department administers a number of hazardous materials and waste management programs designed to ensure compliance with applicable federal, State, and local regulations. These programs include surveys to identify the presence of hazardous materials, including asbestos and lead-based paint; assessment and remediation investigations for the cleanup of soil and groundwater contaminated by the long history of industrial development within the Harbor District; and hazardous material spill response.

Through its environmental initiatives, 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 2017 annual air emissions inventory.
- Continued to foster the development of new clean air technologies through the Technology Advancement Program including zero emission terminal equipment.
- Awarded nearly \$80 million in grant-funding to demonstrate zero emission equipment and advanced energy systems in Port operations.
- Established a technical working group with the Port of Los Angeles, the Los Angeles Regional Water Quality Control Board and the State Water Resources Control Board, to conduct the special studies and analysis required to make sound environmental management decisions and support modifications to the Total Maximum Daily Load (TMDL) regulation, which is scheduled to be reconsidered in 2019.
- Working with the TMDL technical working group, completed a comprehensive hydrodynamic, sediment transport and bioaccumulation model to link water and sediment management actions with desired outcomes.
- 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.

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, in addition to access control and radar detection systems.

Since 2001, the Port has secured more than \$160 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 operations 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. Within the Harbor District, the Long Beach Fire Department has two landside stations, one with a hazardous materials response unit, in addition to two swing stations with landside and waterside response capabilities.

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.

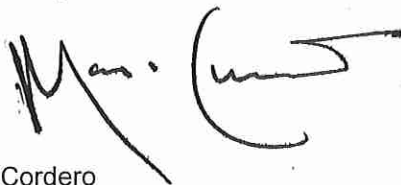
Awards and Acknowledgements

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 for the fiscal year ended September 30, 2017. This was the 35th consecutive year that the Department has received this prestigious award. In order to be awarded a Certificate of Achievement, the Department must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

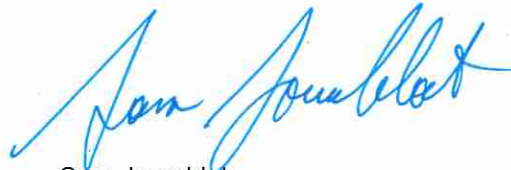
A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

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

Respectfully submitted:



Mario Cordero
Executive Director



Sam Joumbat
Managing Director of Finance and
Administration



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

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

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2017

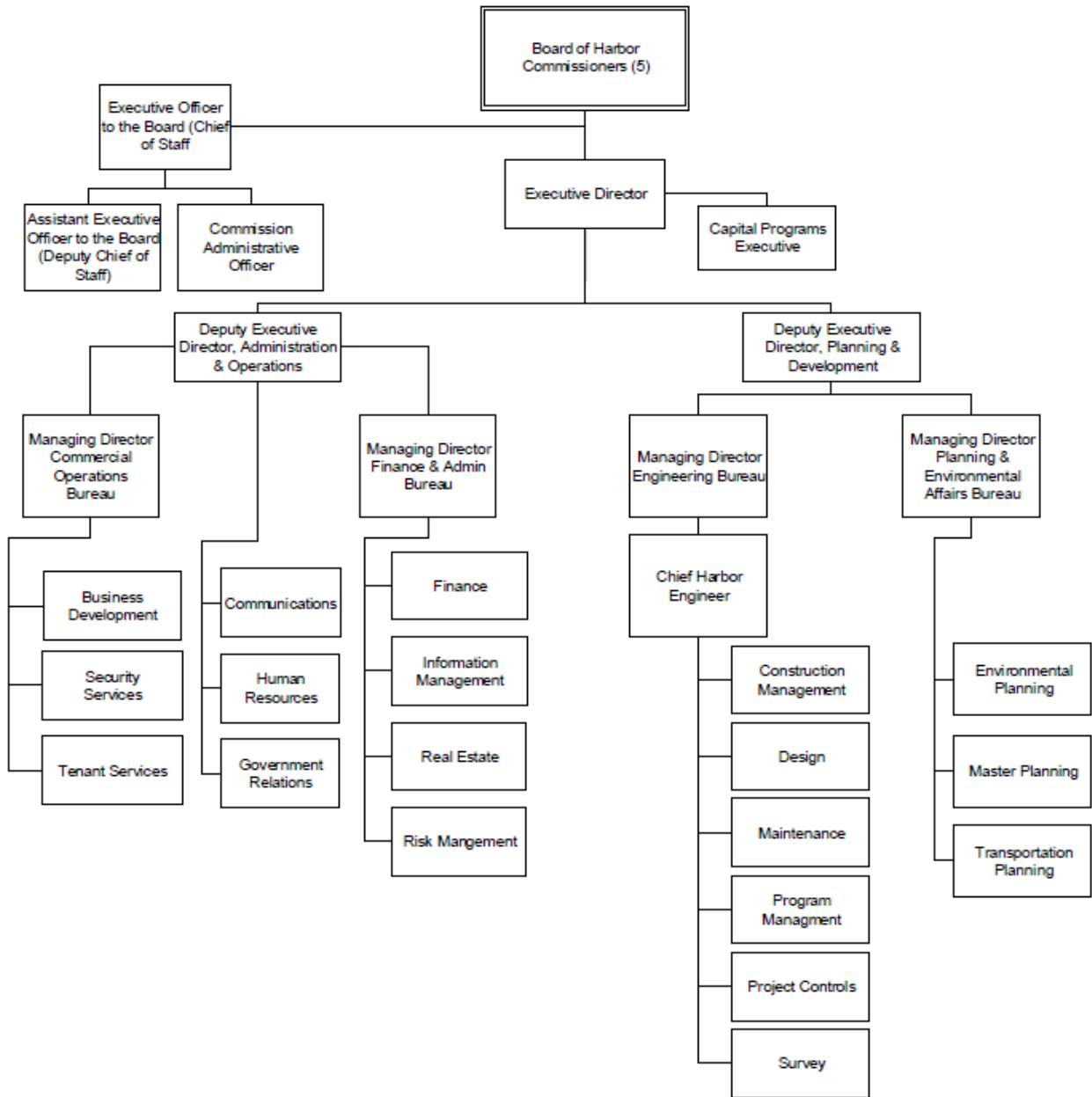
Christopher P. Morill

Executive Director/CEO

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Organizational Chart

September 30, 2018 and 2017



THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Board of Harbor Commissioners and Senior Management

September 30, 2018 and 2017

Board of Harbor Commissioners

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

Executive Offices

Executive Director	Mario Cordero
Deputy Executive Director	Noel Hacegaba (Sep. 2018)
Deputy Executive Director	Richard D. Cameron (Sep. 2018)
Executive Officer to the Board	Richard Jordan
Capital Program Executive	Duane Kenagy
Communications Division	Director, Kerry Gerot
Government Relations Division	Director, Samara Ashley
Human Resources Division	Director, Stacey Lewis

Finance and Administration Bureau

Finance Division	Managing Director, Sam Joumbat
Information Management Division	Acting Director, Don Kwok (Oct. 2017)
Real Estate Division	Director, Nyariana Maiko
Risk Management Division	Director, Eamonn Killeen (Aug. 2018)
	Director, Richard S. Baratta

Commercial Operations Bureau

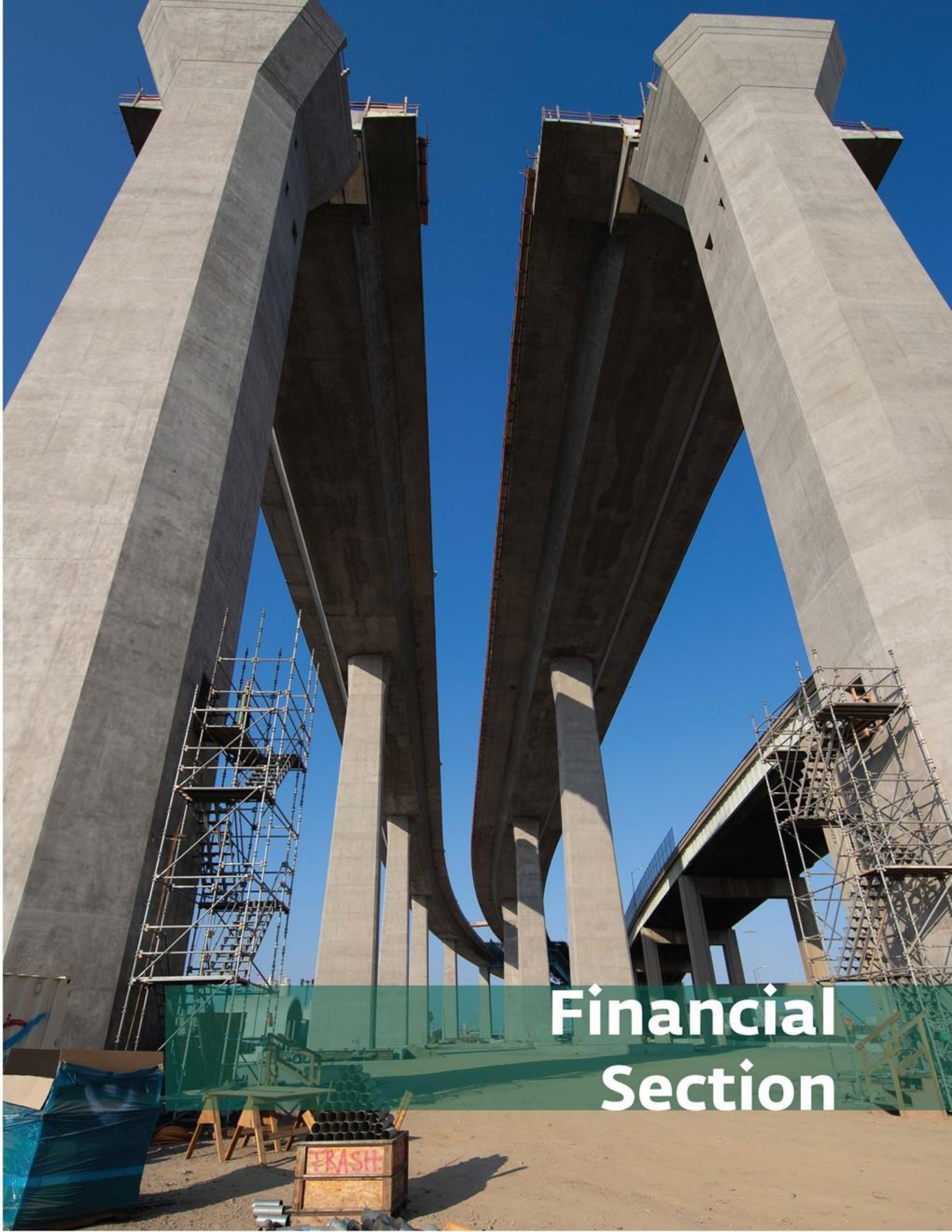
Business Development Division	Acting Managing Director, Don B. Snyder (Sep. 2018)
Security Division	Acting Director, Roger Wu (Oct. 2018)
Tenant Services and Operations Division	Director, Casey Hehr (Aug. 2018)
	Director, Glenn Farren

Planning and Environmental Affairs Bureau

Environmental Planning Division	Acting Managing Director, Heather Tomley (Sep. 2018)
Master Planning Division	Acting Director, Matthew Arms (Oct. 2018)
Transportation Planning Division	Director, Matt Plezia
	Director, Allison Yoh

Engineering Services Bureau

Program Delivery Group	Managing Director, Sean Gamette
Program Management Division	Senior Director, Suzanne Plezia
Construction Management Division	Director, Tom Baldwin
Design and Maintenance Group	Director, Darrin Lambrigger (Mar. 2018)
Design Division	Senior Director, (Vacant)
Maintenance Division	Director, John Chun
Project Controls Division	Director, Fred Greco
Surveys Division	Director, Marlene Dupras (Apr. 2018)
	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 years ended September 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audits 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, 2018 and 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 11–22 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 audits 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 audits were 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, 2019 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, 2019

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Management's Discussion and Analysis

September 30, 2018 and 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 years ended September 30, 2018 and 2017. The information presented here should be read 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

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.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Management's Discussion and Analysis

September 30, 2018 and 2017

Analysis of Net Position

The following condensed financial information provides an overview of the Department's financial position as of September 30, 2018, 2017 and 2016:

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

September 30, 2018, 2017 and 2016

(Amounts expressed in thousands)

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Assets:			
Capital assets, net	\$ 4,766,827	4,551,990	4,365,376
Current and other assets	<u>802,948</u>	<u>802,925</u>	<u>671,277</u>
Total assets	5,569,775	5,354,915	5,036,653
Deferred outflows of resources	<u>21,169</u>	<u>42,089</u>	<u>41,884</u>
Total assets and deferred outflows	\$ <u>5,590,944</u>	\$ <u>5,397,004</u>	\$ <u>5,078,537</u>
Liabilities:			
Current liabilities	\$ 373,220	166,005	171,932
Long-term obligations, net of current portion	<u>1,114,831</u>	<u>1,291,776</u>	<u>1,114,917</u>
Total liabilities	1,488,051	1,457,781	1,286,849
Deferred inflows of resources	<u>21,728</u>	<u>13,086</u>	<u>11,661</u>
Total liabilities and deferred inflows	\$ <u>1,509,779</u>	\$ <u>1,470,867</u>	\$ <u>1,298,510</u>
Net position:			
Net investment in capital assets	\$ 3,642,910	3,491,506	3,442,251
Restricted:			
Capital projects	39,351	39,351	75,610
Debt service	17,237	12,092	13,961
Unrestricted	<u>381,667</u>	<u>383,188</u>	<u>248,205</u>
Total net position	\$ <u>4,081,165</u>	\$ <u>3,926,137</u>	\$ <u>3,780,027</u>

Fiscal Year 2018 Net Position Discussion

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, 2018, \$3.6 billion, or 89.3%, 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,

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Management's Discussion and Analysis

September 30, 2018 and 2017

2018. These capital assets are used to facilitate the operations of the Port of Long Beach (the Port) and its tenants.

The restricted portion of the Department's net position of \$56.6 million, or 1.4%, is comprised of \$39.4 million in environmental mitigation credits for use on landfill capital projects and \$17.2 million of a debt service reserve fund required by the bonds' indenture. The remaining balance of \$381.7 million, or 9.4%, reflects unrestricted resources that may be used for ongoing and future operations of the Department.

Current and other assets of \$802.9 million remained unchanged in fiscal year 2018 from 2017. Current assets increased by \$26.4 million primarily due to the premium proceeds from the 2018A notes issuance which was offset by a \$26.4 million decrease in the interest payment reserve on the 2014C notes in other assets.

Capital assets, net of depreciation increased by \$214.8 million, or 4.7%, from the prior fiscal year mostly on capital expenditures of projects such as the Gerald Desmond Bridge of \$139.6 million and the Port's new headquarter of \$89.8 million. Refer to (page 20) and on (note 17) for additional discussion related to capital assets.

Current liabilities increased by \$207.2 million primary due to the transferred of the \$199.3 million new civic center from long-term liabilities, of which \$89.8 million represented the additional percent completion on the project in fiscal year 2018. Refer to (page 21) and on (note 11 and 12) for additional discussion related to long-term liabilities and debt service.

Fiscal Year 2017 Net Position Discussion

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 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%, to \$802.9 million in fiscal year 2017 from \$671.3 million in the prior fiscal year. This increase was due to the issuance of the 2017 revenue bonds 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 (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 (note 11 and 12) for additional discussion related to long-term liabilities and debt service.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Management's Discussion and Analysis

September 30, 2018 and 2017

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 2018, 2017 and 2016:

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

Years ended September 30, 2018, 2017 and 2016

(Amounts expressed in thousands)

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating revenues	\$ 401,678	381,010	360,660
Operating expenses:			
Facility, infrastructure, and other indirect operating	44,113	42,632	36,274
Fire and Safety	48,600	42,205	40,379
General and administrative	<u>46,546</u>	<u>57,804</u>	<u>67,220</u>
Total operating expenses	139,259	142,641	143,873
Depreciation and amortization	<u>147,223</u>	<u>148,445</u>	<u>146,721</u>
Operating income	<u>115,196</u>	<u>89,924</u>	<u>70,066</u>
Nonoperating revenue (expenses):			
Interest expense, net of interest income	(7,727)	(2,015)	(6,063)
Discontinued Capitalized Projects	(2,889)	—	—
Other income, net	<u>3,022</u>	<u>4,577</u>	<u>(4,470)</u>
Net nonoperating revenues (expenses)	<u>(7,594)</u>	<u>2,562</u>	<u>(10,533)</u>
Income before capital grants and transfer	107,602	92,486	59,533
Transfer to the City	(20,084)	(19,448)	(18,693)
Contribution from the City – Land for new Port headquarters	—	—	4,008
Grants and contributions	<u>67,510</u>	<u>73,072</u>	<u>128,282</u>
Change in net position	155,028	146,110	173,130
Total net position – beginning of year, as restated	<u>3,926,137</u>	<u>3,780,027</u>	<u>3,606,897</u>
Total net position – end of year	\$ <u><u>4,081,165</u></u>	<u><u>3,926,137</u></u>	<u><u>3,780,027</u></u>

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Management's Discussion and Analysis

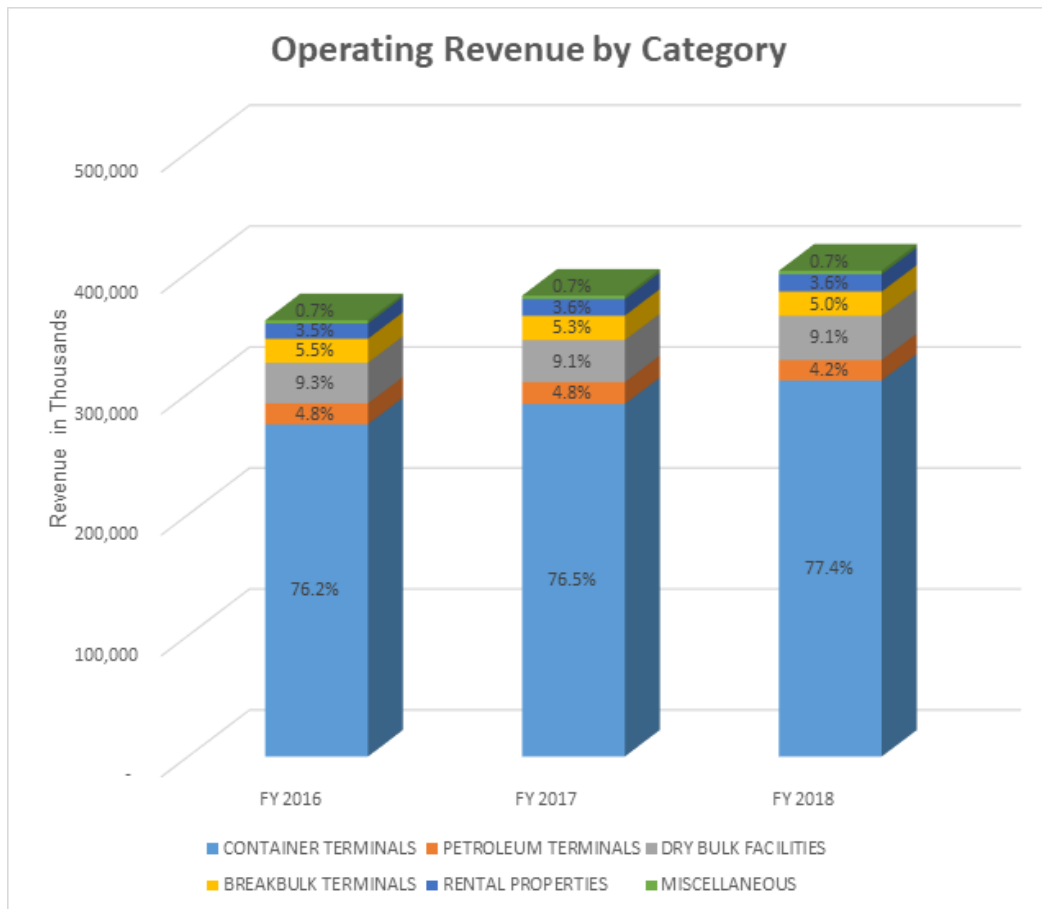
September 30, 2018 and 2017

Fiscal Year 2018 Changes in Net Position Discussion

Operating Revenues

Operating revenues for fiscal year 2018 were \$401.7 million, an increase of \$20.7 million, or 5.4%, from the prior fiscal year, primarily due to a \$19.5 million, or 6.7%, increase in the container terminal revenue where approximately 77.4% of total operating revenue is generated. The increase was primarily due to increased marked demands which resulted in higher cargo volume and generated about \$17.0 million additional in wharfage revenue, driven by market demands. Noncontainerized revenue in the dry bulk categories also increased by about \$2.0 million from the strong cargos performance.

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, Ocean Network Express, Mediterranean Shipping Company, Hyundai Merchant Marine, Matson and SM lines.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

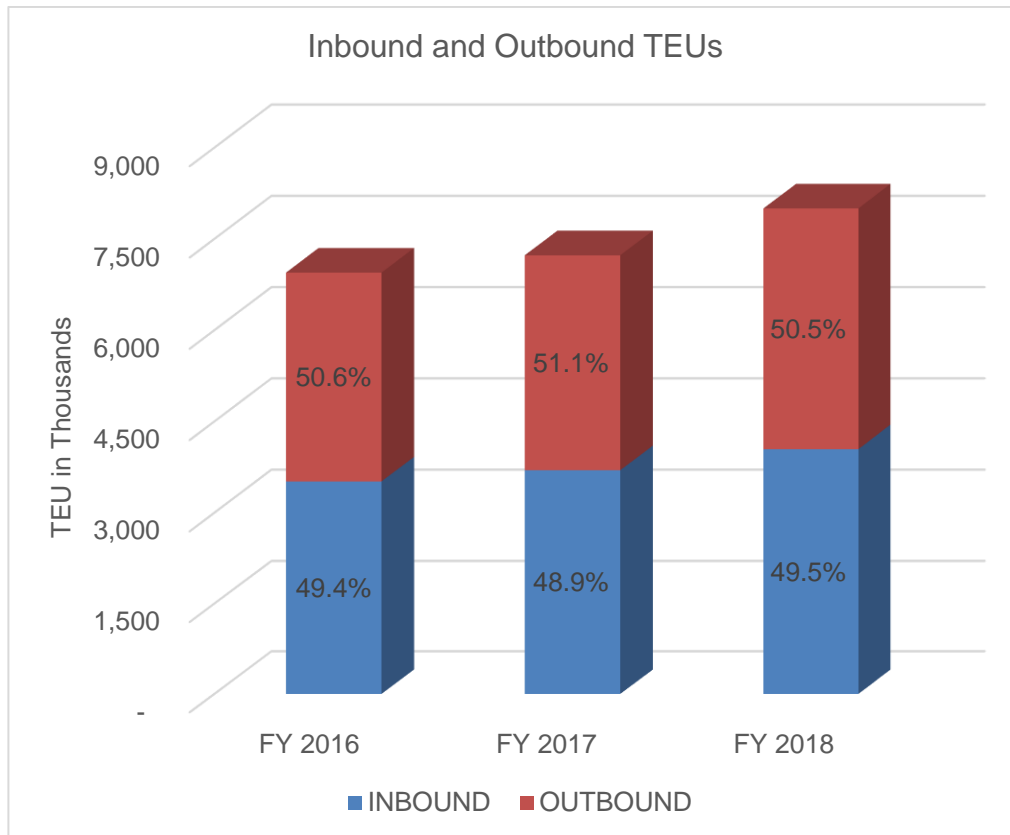
Management's Discussion and Analysis

September 30, 2018 and 2017

Cargo volumes, measured in Metric Revenue Tons (MRTs), increased by 7.4% to 180.6 million MRTs versus 168.1 million MRTs in the prior fiscal year. All cargo categories posted increases compared to the prior fiscal year. Containerized cargo increased 9.3% to 138.9 million MRTs, dry bulk (i.e. coke, coal, sulfur, etc.) increased 13.5% to 8.1 million MRTs, break-bulk (i.e. vehicles, metals, and lumber) increased 15.5% to 1.4 million MRTs, and liquid bulk (i.e. petroleum and crude) decreased 1.4% to 32.2 million MRTs. The Port continues to invest in capital programs to modernize its terminal facilities and infrastructures to enhance operational excellence in preparation for 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 10.7% to 8.0 million TEUs versus 7.2 million TEUs in the prior fiscal year.

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 2018 was \$155.0 million, an increase of \$8.9 million, or 6.1%, from the prior fiscal year. This was primarily the result of \$20.7 million higher in operating revenue, partially offset by a \$5.6 million

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Management's Discussion and Analysis

September 30, 2018 and 2017

lower in grant revenue recognition, and a \$5.6 million increase in interest expense net of interest income. The following section provides a further discussion of the operations.

Operating Expense and Other Income and Expense

Fiscal year 2018 operating expenses (excluding depreciation and amortization) totaled \$139.3 million, or \$3.4 million lower than the prior fiscal year. The facility, infrastructure and other indirect operating expense of \$44.1 million was \$1.5 million lower than the prior fiscal year, a result of expending less in operating and maintenance projects. The fire and safety expense of \$48.6 million had an increase of \$6.4 million over prior the fiscal year, a result of the costs increase and additional services provided by the City of Long Beach Fire and Police Departments for the new fireboats operations. The general and administrative expense was \$46.5 million, a decrease of \$11.3 million compared to the prior fiscal year mostly due to the decrease on the Department's proportionate share on the City's pension from 19.2% for fiscal year 2017 to 18.7% to fiscal year 2018.

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 2018 was \$147.2 million, or \$1.2 million lower than the prior fiscal year due to certain assets that have reached the end of their useful lives and were fully depreciated.

Net interest expense is comprised of the debt service's interest expense incurred offset by an amount that was recognized as part of the capital projects' cost (defined as capitalized interest cost), plus interest income. Net interest expense, for fiscal years 2018 and 2017 was \$9.7 million and \$4.2 million, respectively, an increase of \$5.7 million. The increase is primarily due to the amount recorded for capitalized interest cost which were lower in fiscal year 2018 than in the prior fiscal year due to the decrease in effective interest rate. Interest expenses, before capitalized interest allocation, for fiscal years 2018 and 2017 were \$29.4 million and \$26.4 million, respectively. The increase of \$3.0 million primarily accounted for a full year of interest expense on the 2017 bonds series versus a partial year recorded in the prior fiscal year. The amounts of capitalized interest allocation for fiscal years 2018 and 2017 were \$14.9 million and \$20.6 million, respectively, decreased by \$5.7 million. Interest income was \$3.1 million more than the prior fiscal year due to the rising of short-term interest rates.

Net other income decreased by \$2.9 million due to the write-off of abandoned or discontinued capital projects in fiscal year 2018 versus none in the prior fiscal year.

Transfers to the City totaled \$20.1 million in fiscal year 2018, an increase of \$0.6 million versus the prior fiscal year due to the increase in operating revenues. The Department accrued \$20.1 million for the operating transfer to the City Tidelands Operating Fund, per the City Charter, with payment to occur in fiscal year 2019. Refer to (note 9) for additional discussion.

Grant revenue totaled \$67.5 million, a decrease of \$5.6 million in fiscal year 2018 in comparison to the prior fiscal year. The decrease was primarily because grant revenue recognition on the Gerald Desmond Bridge project was less than the prior fiscal year as eligible construction costs were slightly lower.

Fiscal Year 2017 Changes in Net Position Discussion

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

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Management's Discussion and Analysis

September 30, 2018 and 2017

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.

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.

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 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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Management's Discussion and Analysis

September 30, 2018 and 2017

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 is comprised of the debt service's interest expense incurred offset by an amount that was recognized as part of the capital projects' cost (defined as capitalized interest cost), plus interest income. Net interest expense, for fiscal years 2017 and 2016 were \$2.0 million and \$6.1 million, respectively, a decrease of \$4.1 million, primarily because the amount recorded for capitalized interest cost was higher in fiscal year 2017 than 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.

Net other income increased by \$9.1 million due mainly due to the \$3.5M decrease in CAAP expense, 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.

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.

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 transfer to the City Tidelands Operating Fund with payment to occur in fiscal year 2018. The additional 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.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Management's Discussion and Analysis

September 30, 2018 and 2017

Capital Assets and Debt Administration

Capital Assets

The Department's capital assets, net of accumulated depreciation as of September 30, 2018, 2017 and 2016 are as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Nondepreciable capital assets:			
Land	\$ 1,250,036	1,215,767	951,918
Construction in progress	1,625,306	1,348,274	1,484,889
Right-of-way	<u>207,032</u>	<u>207,032</u>	<u>207,032</u>
Total nondepreciable capital assets	<u>3,082,374</u>	<u>2,771,073</u>	<u>2,643,839</u>
Depreciable capital assets (net):			
Structures and facilities	1,596,260	1,690,303	1,656,860
Furniture, fixtures, and equipment	<u>88,193</u>	<u>90,614</u>	<u>64,677</u>
Total depreciable capital assets (net)	<u>1,684,453</u>	<u>1,780,917</u>	<u>1,721,537</u>
Total capital assets, net	<u>\$ 4,766,827</u>	<u>4,551,990</u>	<u>4,365,376</u>

Fiscal Year 2018 Capital Assets Discussion

The capital asset accounts, net of accumulated depreciation totaled \$4.8 billion, a net increase of \$214.8 million from the prior fiscal year. The increase in capital spending during fiscal year 2018 comprised largely of the following: Gerald Desmond Bridge replacement project for \$139.6 million; New Port Headquarters building for \$89.8 million, and partially offset by various write-offs to expense due to project cancellation or discontinuation. The amount of capital assets transferred out of construction in progress and into service totaled approximately \$85.4 million for the year ended September 30, 2018. Among the major assets placed into service were \$34.4 million in constructed land and \$44.4 million in structures and facilities.

Fiscal Year 2017 Capital Assets Discussion

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 discontinuation. 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.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Management's Discussion and Analysis

September 30, 2018 and 2017

Debt Administration

The following table summarizes the Department's debt as of September 30, 2018, 2017 and 2016:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Short-term notes (principal and net premiums) \$	348,079	343,404	355,522
Lines of credit	—	—	25,000
Bond debt (principal and net premiums)	<u>683,390</u>	<u>737,536</u>	<u>588,392</u>
Total	<u>\$ 1,031,469</u>	<u>1,080,940</u>	<u>968,914</u>

Fiscal Year 2018 Debt Administration Discussion

The Department's total debt decreased by \$49.5 million, or 4.6%. The decrease was due to the principal debt payment.

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 years 2018 was 3.36, and is calculated as (operating revenues plus interest income minus operating expenses excluding depreciation) divided by (debt service on all senior bonds). The minimum rate required by the Department's various bond indenture documents is 1.25.

Fiscal Year 2017 Debt Administration Discussion

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 debt payment 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 3.33, and is calculated as (operating revenues plus interest income minus operating expenses excluding depreciation) divided by (debt service on all senior bonds). 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 HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Management's Discussion and Analysis

September 30, 2018 and 2017

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 be reported on the financial statements.

Notes to Financial Statements

The notes to the Department's financial statements can be found on pages 28–61 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

Statements of Net Position

September 30, 2018 and 2017

(Dollars in thousands)

Assets and Deferred Outflows	2018	2017
	<hr/>	<hr/>
Current assets:		
Pooled cash and cash equivalents (note 2)	\$ 423,807	408,288
Trade accounts receivable, net of allowance (note 3)	71,153	67,074
Due from other governmental agencies (note 3)	35,574	54,105
Other current assets	12,169	4,150
	<hr/>	<hr/>
Subtotal	542,703	533,617
Harbor Revenue Bond Funds and other funds restricted as to use:		
Restricted pooled cash and cash equivalents (note 2)	46,483	53,638
Restricted nonpooled cash and cash equivalents (note 2)	127,675	103,205
	<hr/>	<hr/>
Total current assets	716,861	690,460
Noncurrent assets:		
Capital assets (note 4 and 5):		
Land	1,250,036	1,215,767
Construction in progress	1,625,306	1,348,274
Right-of-way (note 6)	207,032	207,032
Structures and facilities	3,504,202	3,460,396
Furniture, fixtures, and equipment	171,498	166,102
Less accumulated depreciation	(1,991,247)	(1,845,581)
	<hr/>	<hr/>
Net capital assets	4,766,827	4,551,990
Other assets:		
Long-term receivables (note 3)	1,300	1,300
Environmental mitigation credits (note 7)	39,351	39,351
Investment in joint venture (note 8)	3,374	5,374
Restricted nonpooled investments (note 2)	35,066	58,371
Other noncurrent assets (note 10)	6,996	8,069
	<hr/>	<hr/>
Total other assets	86,087	112,465
	<hr/>	<hr/>
Total noncurrent assets	4,852,914	4,664,455
	<hr/>	<hr/>
Total assets	5,569,775	5,354,915
Deferred outflows (note 18)	21,169	42,089
	<hr/>	<hr/>
Total assets and deferred outflows	5,590,944	5,397,004
	<hr/>	<hr/>

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Statements of Net Position

September 30, 2018 and 2017

(Dollars in thousands)

Liabilities and Deferred Inflows	2018	2017
	<u> </u>	<u> </u>
Current liabilities payable from current assets:		
Accounts payable and accrued expenses	\$ 77,832	65,706
Compensated absences	3,659	3,532
Due to the City of Long Beach (note 9)	21,755	19,267
Liability claims (note 10)	5,000	5,000
Other short-term liability (note 17)	199,325	—
Security deposits and unearned revenue	8,037	7,935
Total current liabilities payable from current assets	<u>315,608</u>	<u>101,440</u>
Current liabilities payable from restricted assets:		
Accrued interest – bonds	11,647	17,375
Current portion of bonds indebtedness (note 12)	45,965	47,190
Total current liabilities payable from restricted assets	<u>57,612</u>	<u>64,565</u>
Total current liabilities	<u>373,220</u>	<u>166,005</u>
Long-term obligations net of current portion:		
Bonded indebtedness (note 12)	637,425	690,346
Senior notes (note 13)	348,079	343,404
Compensated absences	9,365	8,800
Net OPEB liability (note 15)	3,467	3,250
Net pension liability (note 15)	110,982	129,893
Unearned revenue	1,713	2,751
Environmental remediation liability (note 16)	3,800	3,800
Other long-term liability (note 17)	—	109,532
Total noncurrent liabilities	<u>1,114,831</u>	<u>1,291,776</u>
Total liabilities	<u>1,488,051</u>	<u>1,457,781</u>
Deferred inflows (note 18)	<u>21,728</u>	<u>13,086</u>
Total liabilities and deferred inflows	<u>1,509,779</u>	<u>1,470,867</u>
Net position:		
Net investment in capital assets	3,642,910	3,491,506
Restricted – capital projects	39,351	39,351
Restricted – debt service	17,237	12,092
Unrestricted	381,667	383,188
Total net position	<u>\$ 4,081,165</u>	<u>3,926,137</u>

See accompanying notes to financial statements.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Statements of Revenues, Expenses, and Changes in Net Position

Years ended September 30, 2018 and 2017

(Dollars in thousands)

	<u>2018</u>	<u>2017</u>
Port operating revenues:		
Berths and special facilities	\$ 384,376	364,486
Rental properties	14,279	13,732
Miscellaneous	3,023	2,792
Total port operating revenues	<u>401,678</u>	<u>381,010</u>
Port operating expenses:		
Facility maintenance	10,940	14,384
Infrastructure maintenance	17,745	15,986
Fire and safety	48,600	42,205
Other indirect operating	15,428	12,262
General and administrative	46,546	57,804
Total operating expenses before depreciation	<u>139,259</u>	<u>142,641</u>
Depreciation	147,223	148,445
Total operating expenses	<u>286,482</u>	<u>291,086</u>
Income from operations	<u>115,196</u>	<u>89,924</u>
Nonoperating revenues, net:		
Investment income, net	4,808	1,706
Equity in income from joint venture	2,001	2,162
Interest expense	(14,536)	(5,883)
Discontinued capitalized projects	(2,889)	—
Other income, net	3,022	4,577
Total nonoperating revenues, net	<u>(7,594)</u>	<u>2,562</u>
Income before transfers and capital grants	107,602	92,486
Transfers (note 9)	(20,084)	(19,448)
Grants and contributions	70,152	73,072
Pass-through grant expenses	(2,642)	—
Increase in net position	155,028	146,110
Total net position – beginning of year	<u>3,926,137</u>	<u>3,780,027</u>
Total net position – end of year	<u>\$ 4,081,165</u>	<u>3,926,137</u>

See accompanying notes to financial statements.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Statements of Cash Flows

Years ended September 30, 2018 and 2017

(Dollars in thousands)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Cash received from customers	\$ 396,663	364,427
Cash paid to employees	(62,882)	(57,992)
Cash paid to suppliers	(80,041)	(85,332)
Other income	2,922	3,984
Net cash provided by operating activities	<u>256,662</u>	<u>225,087</u>
Cash flows from noncapital/financing activities:		
Transfers to City Tidelands Fund	<u>(19,050)</u>	<u>(18,431)</u>
Net cash used for noncapital financing activities	<u>(19,050)</u>	<u>(18,431)</u>
Cash flows from capital and related financing activities:		
Grants provided	86,041	85,257
Interest paid	(46,376)	(43,525)
Principal payments made on bonds payable	(47,190)	(44,905)
Payments on short term notes	(334,339)	—
Payments on lines of credit	—	(25,000)
Proceeds from issuance of senior notes	348,079	—
Proceeds from issuance of bonds	—	200,731
Debt issuance costs	(553)	(624)
Payments for capital acquisitions – employees	(10,379)	(8,019)
Payments for capital acquisitions – vendors	(225,475)	(244,453)
Prepaid capital projects	(7,885)	416
Proceeds from sales of capital assets	100	42
Cash Receipts from other long term assets	1,074	—
Net cash used for capital and related financing activities	<u>(236,903)</u>	<u>(80,080)</u>
Cash flows from investing activities:		
Interest received	4,808	1,706
Proceeds from non-pooled investments	39,942	31,077
Purchases of investments	(16,625)	(15,511)
Return on investment in joint venture	4,000	2,000
Net cash provided by investing activities	<u>32,125</u>	<u>19,272</u>
Net increase in cash and cash equivalents	32,834	145,848
Cash and cash equivalents, beginning of year	<u>565,131</u>	<u>419,283</u>
Cash and cash equivalents, end of the year	\$ <u>597,965</u>	\$ <u>565,131</u>
Reconciliation of cash and cash equivalents:		
Unrestricted pooled cash and cash equivalents	\$ 423,807	408,288
Restricted pooled cash and cash equivalents	46,483	53,638
Bond reserve held by the City Treasurer	127,675	103,205
	\$ <u>597,965</u>	\$ <u>565,131</u>

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Statements of Cash Flows

Years ended September 30, 2018 and 2017

(Dollars in thousands)

	<u>2018</u>	<u>2017</u>
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ 115,196	89,924
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization	147,223	148,445
Other Income, net	2,922	3,984
Increase in accounts receivable	(4,079)	(16,467)
Increase in inventory	(145)	(51)
Decrease in accounts payable	(12,155)	(4,177)
Increase in accrued liabilities	—	3,800
Increase in accrued claims and judgments	—	(3,600)
Decrease in unearned revenues	(935)	(115)
Increase (decrease) in due to other funds	1,454	(1,893)
Increase (decrease) in pension liability and related deferred inflows	(13,730)	8,171
Increase (decrease) in net pension liability and related deferred outflows	20,128	(997)
Increase in net OPEB liability	218	146
Increase (decrease) in compensated absences	565	(2,083)
Total adjustments	<u>141,466</u>	<u>135,163</u>
Net cash provided by operating activities	\$ <u>256,662</u>	<u>225,087</u>
Supplemental schedule of noncash capital and financing activities:		
Accrued capital assets costs	\$ 66,088	52,638
Accumulated costs of the Port's new headquarters building	89,792	60,465
Accrued capitalized interest	14,895	20,554
Amortization of bond premium	25,362	18,799
Amortization of deferred outflows on debt refunding	791	792
Amortization of deferred inflows on debt refunding	3,462	(1,024)
Accrued transfers to the City's tidelands fund	20,084	19,100
Prepaid capital projects	7,885	—
Discontinued capital projects	2,889	—

See accompanying notes to financial statements

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2018 and 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 Department, together with the Harbor Department of the City of Los Angeles, formed a joint venture in 1983 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 are 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 accompanying financial statements have been prepared using the economic resources measurement focus.

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.

(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

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2018 and 2017

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

(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. This is reported as other assets in the accompanying financial statements.

(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

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2018 and 2017

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.

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. 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 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 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 HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2018 and 2017

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 recorded as unearned revenue until earned.

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 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.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2018 and 2017

(o) Pension Plan and Postretirement Benefits

All full-time Department employees are members of the City's Miscellaneous Plan. The Department's policy is to fund all pension costs accrued. The costs to be funded are determined annually as of October 1 and are incorporated into the payroll burden rate to reimburse the Employee Benefits Internal Service Fund for contributions made on behalf of Department employees (see note 15(a)).

For purposes of measuring net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Miscellaneous Plan and additions to/deductions from Miscellaneous Plan's fiduciary net position have been determined on the same basis as they are reported by the Miscellaneous Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The Department also participates in the City's Retiree Health Care plan (OPEB). This program is a single-employer defined benefit healthcare plan (see note 15(b)).

(p) 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.

(q) Recent Accounting Pronouncements

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. This statement will be effective beginning fiscal year 2019 and 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 requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. This statement will be effective beginning fiscal year 2021 and the Department is evaluating the impact of this statement on its financial statements.

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Notes to Financial Statements

September 30, 2018 and 2017

GASB Statement No. 88, *Certain disclosures related to debt, including direct borrowings and direct placements*, issued in April 2018: Effective for periods beginning after June 15, 2018. The primary objective of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This statement will be effective beginning fiscal year 2019 and the Department is evaluating its impact to the financial statements.

GASB Statement No. 89, *Accounting for interest cost incurred before the end of a construction period*, issued in June 2018: Effective for periods beginning after December 15, 2019. The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This statement will be effective beginning fiscal year 2021 and the Department is evaluating its impact to the financial statements.

GASB Statement No. 90, *Majority equity interests-an amendment of GASB statements no. 14 and no, 61*, issued in August 2018: Effective for periods beginning after December 15, 2018. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. This statement will be effective beginning fiscal year 2020 and the Department is evaluating its impact to the financial statements.

(r) Reclassifications

Certain reclassifications have been made to the 2017 financial data to conform to the 2018 presentation.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2018 and 2017

(2) Cash, Cash Equivalents, and Investments

The Department's cash and cash equivalents and investments as of September 30, 2018 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	\$ 423,807	46,483	470,290
Other cash equivalents	—	127,675	127,675
Investments held by fiscal agent	<u>—</u>	<u>35,066</u>	<u>35,066</u>
Total cash, cash equivalents, and investments	\$ <u>423,807</u>	<u>209,224</u>	<u>633,031</u>

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	<u>—</u>	<u>58,371</u>	<u>58,371</u>
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, 2018 and 2017, 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, 2018 and 2017, the Department had \$470.3 million and \$461.9 million, respectively equity in the pool, representing approximately 29.0% and 24.8% of the pool.

The Department also held reserves with a fiscal agent for the 2010A, 2010B, 2014C notes, and 2018A notes. At September 30, 2018 and 2017, the amount of reserves held by fiscal agents totaled \$35.1 million and \$58.4 million, respectively, and were invested in U.S. Treasury notes that are rated AAA and have a weighted average maturity of 1.8 years. These investments are reported at fair value using observable inputs. These investments are reported at fair value using observable inputs. However, the investments are traded in non-active markets and therefore categorized as Level 2 in the fair value hierarchy.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2018 and 2017

(3) Accounts Receivable and Other Receivables

Accounts receivable as of September 30, 2018 and 2017, included the following (expressed in thousands):

	<u>2018</u>	<u>2017</u>
Trade accounts receivable	\$ 73,161	68,979
Less allowance for doubtful accounts	<u>(2,008)</u>	<u>(1,905)</u>
Accounts receivable, net	\$ <u>71,153</u>	<u>67,074</u>

Other receivables as of September 30, 2018 and 2017 included the following (expressed in thousands):

	<u>2018</u>	<u>2017</u>
Due from other governmental agencies:		
Current:		
Federal and state grants	\$ 35,574	54,105
Long term:		
Tidelands – Beaches and Waterways	<u>1,300</u>	<u>1,300</u>
Total due from other governmental agencies	\$ <u>36,874</u>	<u>55,405</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.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2018 and 2017

(4) Capital Assets

Capital assets' schedule as of September 30, 2018 is as follows: (expressed in thousands):

<u>Description</u>	<u>Balance, October 1, 2017</u>	<u>Additions</u>	<u>Adjustments/ disposals</u>	<u>Placed in service</u>	<u>Balance, September 30, 2018</u>
Nondepreciable capital assets:					
Purchased land	\$ 462,108	—	—	—	462,108
Constructed land	753,659	—	(162)	34,431	787,928
Construction in progress	1,348,274	368,147	(5,755)	(85,360)	1,625,306
Right of way (note 6)	207,032	—	—	—	207,032
Subtotal	<u>2,771,073</u>	<u>368,147</u>	<u>(5,917)</u>	<u>(50,929)</u>	<u>3,082,374</u>
Depreciable capital assets:					
Structures and facilities	3,460,396	—	(546)	44,352	3,504,202
Furniture, fixtures, and equipment	166,102	377	(1,558)	6,577	171,498
Subtotal	<u>3,626,498</u>	<u>377</u>	<u>(2,104)</u>	<u>50,929</u>	<u>3,675,700</u>
Total capital assets	<u>6,397,571</u>	<u>368,524</u>	<u>(8,021)</u>	—	<u>6,758,074</u>
Less accumulated depreciation:					
Structures and facilities	1,770,093	137,905	(56)	—	1,907,942
Furniture, fixtures, and equipment	75,488	9,375	(1,558)	—	83,305
Total accumulated depreciation	<u>1,845,581</u>	<u>147,280</u>	<u>(1,614)</u>	—	<u>1,991,247</u>
Net capital assets	<u>\$ 4,551,990</u>	<u>221,244</u>	<u>(6,407)</u>	—	<u>4,766,827</u>

Construction in progress at September 30, 2018 includes the following projects:

Gerald Desmond Bridge Replacement Project	\$ 1,183,523
Middle Harbor Redevelopment Program (includes multiple projects)	110,702
New Civic Center Headquarter	209,407
All other programs and projects	<u>121,674</u>
Total	<u>\$ 1,625,306</u>

As of September 30, 2018, \$5.8 million of Construction in Progress was written off, of which \$2.9 million was due to discontinued projects.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2018 and 2017

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

<u>Description</u>	<u>Balance, October 1, 2016</u>	<u>Additions</u>	<u>Adjustments/ disposals</u>	<u>Placed in service</u>	<u>Balance, September 30, 2017</u>
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 6)	207,032	—	—	—	207,032
Subtotal	<u>2,643,838</u>	<u>339,739</u>	<u>(6,079)</u>	<u>(206,425)</u>	<u>2,771,073</u>
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	<u>3,418,993</u>	<u>1,595</u>	<u>(515)</u>	<u>206,425</u>	<u>3,626,498</u>
Total capital assets	<u>6,062,831</u>	<u>341,334</u>	<u>(6,594)</u>	<u>—</u>	<u>6,397,571</u>
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	<u>1,697,455</u>	<u>148,445</u>	<u>(319)</u>	<u>—</u>	<u>1,845,581</u>
Net capital assets	<u>\$ 4,365,376</u>	<u>192,889</u>	<u>(6,275)</u>	<u>—</u>	<u>4,551,990</u>

Construction in progress at September 30, 2017 includes the following projects:

Gerald Desmond Bridge Replacement Project	\$ 1,043,889
Middle Harbor Redevelopment Program (includes multiple projects)	32,804
New Civic Center Headquarter	115,388
All other programs and projects	<u>156,193</u>
Total	<u>\$ 1,348,274</u>

As of September 30, 2018, \$6.1 million of Construction in Progress was written off.

(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.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2018 and 2017

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

Property under lease at September 30, 2018 and 2017 consisted of the following (expressed in thousands):

	<u>2018</u>	<u>2017</u>
Land	\$ 775,511	741,243
Structures and facilities:		
Docks and wharves	696,880	683,711
Warehouses and sheds	24,356	24,345
Cranes and shiploaders	70,602	70,683
Buildings and other facilities	819,539	818,961
Infrastructure	<u>1,573,065</u>	<u>1,560,233</u>
Historical cost of leased property	3,959,953	3,899,176
Less accumulated depreciation	<u>(1,765,487)</u>	<u>(1,643,710)</u>
Carrying value of leased property	<u>\$ 2,194,466</u>	<u>2,255,466</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):

2019	\$ 336,955
2020	341,148
2021	362,979
2022	332,914
2023	299,440
2024–2028	1,211,679
2029–2033	456,020
2037–2038	423,527
2039 and thereafter	<u>1,074,060</u>
Total	<u>\$ 4,838,722</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

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2018 and 2017

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 came from federal, state, and local sources as well as 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 landfill 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, 2018 and 2017, the Department has utilized a total of \$11.4 million, unchanged from fiscal year 2017, of environmental credits for completed landfill as part of capital projects within the port boundaries to date, of which zero amount was incurred in fiscal year 2018 and \$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 phase 3 of 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.

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(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.

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, 2018 and 2017 totaled \$3.4 million and \$5.4 million, respectively. Independent ICTF financial statements for the year ended June 30, 2018 are available on their Web site at <http://ictf-jpa.org>.

(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 years 2018 and 2017, the Department accrued \$20.1 million and \$19.1 million, respectively, as transfers due to the City Tidelands Operating Fund, to be paid in the following fiscal year.

(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 2018, unchanged from fiscal year 2017, all of which is related to construction claims.

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Contract commitments and purchase orders, mostly related to capital projects, for which materials or services were not received at September 30, 2018 and 2017, aggregated \$14.7 million and \$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.

(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 two fiscal years.

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

	<u>2018</u>	<u>2017</u>
Insurance coverage for fire and other risks	\$ 1,426,842	1,426,842
Builder’s risk for Gerald Desmond Bridge project	781,122	781,122
Builder’s risk for other projects	200,000	125,000
Comprehensive general liability	150,000	150,000
Self-insured retention	1,000	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.

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(iii) Workers Compensation

The Department participates in the City's self-insured workers' compensation program. During fiscal years 2018 and 2017, it made payments to the City's Insurance Fund totaling \$1.7 million and \$1.6 million, respectively, 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 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, 2018 and 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 11, 2019, indicates that there is no projected shortfall for ACTA's fiscal year ending June 30, 2020.

(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

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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 opened to traffic by the calendar year end of 2019.

The bridge budget is a joint effort between Caltrans and the Department. At the latest cost estimate review performed on September 2018, the bridge budget was increased by \$69.0 million from \$1.492 billion to \$1.561 billion. The increase is comprised of \$19.0 million for Caltrans' labor related cost, and \$50.0 million for the Department's capitalized interest cost partially as a result of additional time needed to complete the project. 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 \$913.0 million and are available as reimbursement for expenditures on the bridge project; and local matching and Port's contribution of \$648.0 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, 2018 and 2017, the Department has incurred approximately \$1.184 billion and \$1.043 billion, respectively, in costs to construct the replacement bridge with an increase of \$139.6 million and \$131.3 million, respectively, during the years ended September 30, 2018 and 2017. Of this total amount, approximately \$642.5 million and \$561.8 million, respectively, has been received as capital grants from inception, with \$29.0 million and \$52.7 million reported as part of due from other governmental agencies on the statement of net position as of September 30, 2018 and 2017.

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.

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(11) Long-Term Liabilities

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

<u>Description</u>	<u>Balance October 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2018</u>	<u>Due in one year</u>
Revenue bonds	\$ 667,980	—	47,190	620,790	45,965
Premium	69,556	—	6,956	62,600	—
Total revenue bonds	<u>737,536</u>	<u>—</u>	<u>54,146</u>	<u>683,390</u>	<u>45,965</u>
2014C Note	325,000	—	325,000	—	—
2018A Note	—	327,050	—	327,050	—
Premium	18,404	21,029	18,404	21,029	—
Total notes payable	343,404	348,079	343,404	348,079	—
Compensated absences	12,332	692	—	13,024	3,659
Net pension liability	129,893	—	18,911	110,982	—
Net OPEB liability	3,250	217	—	3,467	—
Unearned revenues	2,751	—	1,038	1,713	—
Environmental remediation liability	3,800	—	—	3,800	—
Other long term obligation (Port Headquarters Construction Costs)	109,532	89,793	—	199,325	199,325
Total long-term liability	\$ <u>1,342,498</u>	<u>438,781</u>	<u>417,499</u>	<u>1,363,780</u>	<u>248,949</u>

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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	<u>588,392</u>	<u>200,450</u>	<u>51,306</u>	<u>737,536</u>	<u>47,190</u>
2014C Note	325,000	—	—	325,000	—
Premium	30,522	—	12,118	18,404	—
Total notes payable	<u>355,522</u>	<u>—</u>	<u>12,118</u>	<u>343,404</u>	<u>—</u>
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)	<u>49,067</u>	<u>60,465</u>	<u>—</u>	<u>109,532</u>	<u>—</u>
Total long term liability	<u>\$ 1,161,853</u>	<u>277,504</u>	<u>96,859</u>	<u>1,342,498</u>	<u>50,722</u>

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(12) Bonds Indebtedness

Bonds' 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	Beginning Balance October 1, 2017	Additions	Payments *	Ending balance September 30, 2018	Principal due within one year
Revenue Bonds									
1998	2/1/1998	6%	2018-19	\$ 206,330	32,260	—	15,660	16,600	16,600
2010A	3/31/2010	3%-5%	2018-25	200,835	124,245	—	13,060	111,185	13,710
2010B	4/29/2010	4%-5%	2018-27	158,085	127,530	—	2,675	124,855	15,655
2014B	4/24/2014	3%-5%	2018-27	20,570	17,180	—	5,480	11,700	—
2015A	4/16/2015	4%-5%	2018-23	44,845	43,430	—	10,315	33,115	—
2015B	4/16/2015	5%	2023-25	20,130	20,130	—	—	20,130	—
2015C	7/15/2015	5%	2026-32	66,085	66,085	—	—	66,085	—
2015D	7/15/2015	5%	2033-42	66,865	66,865	—	—	66,865	—
2017A	6/28/2017	5%	2026-40	101,610	101,610	—	—	101,610	—
2017B	6/28/2017	5%	2041-43	25,985	25,985	—	—	25,985	—
2017C	6/28/2017	5%	2043-47	42,660	42,660	—	—	42,660	—
Total Bonds				\$ 954,000	667,980	—	47,190	620,790	45,965
Unamortized Bond Premium					69,556	—	6,956	62,600	—
Net total bonds indebtedness					\$ 737,536	—	54,146	683,390	45,965

* Bonds' principal payable is annually on May 15, and interest payable is semiannually on May 15 and November 15.

Annual Debt Service Requirements to Maturity – All Bonded Debt (excluding Bond Anticipated Notes)

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

	Principal	Interest	Total
Fiscal year(s) ending September 30:			
2019	45,965	31,059	77,024
2020	37,300	28,648	65,948
2021	39,110	26,808	65,918
2022	41,065	24,852	65,917
2023	42,310	22,799	65,109
Thereafter	415,040	206,712	621,752
	\$ 620,790	340,878	961,668

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

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\$206.3 million were issued to refund all of the City's Harbor Revenue Bonds Series 1989A (the 1989 Bonds). The 1989 Bonds were defeased and the liability for those bonds was removed from the Department's statement of net position.

The 1998 Bonds are not subject to optional or mandatory redemption before their maturity.

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.

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, 2018 and 2017, \$17.6 million were set aside in a bond reserve fund.

(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.

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, 2018 and 2017, \$19.3 million and \$19.5 million were set aside in a bond reserve fund, 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.

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.

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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 statements of net position as component of deferred outflow of resources.

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, 2018 and 2017, \$15.9 million and \$16.0 million were set aside in a bond reserve fund, respectively.

(d) 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.

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 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 inflow of resources.

(e) 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.

The 2015A Bonds are not redeemable prior to maturity.

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 inflow of resources.

(f) 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

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\$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.

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

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 inflow of resources.

(g) 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.

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.

(h) 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 2015D Senior Revenue Bond.

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.

(i) 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

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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.

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.

(j) 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.

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.

(k) 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.

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.

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(13) 2018A, 2014C Harbor Revenue Refunding Short-Term Notes and the associated Transportation Infrastructure Finance and Innovation Act (TIFIA) Loan Commitment

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

Description	Date of issue	Interest rate	Fiscal term and maturity year	Original principal	Beginning Balance October 1, 2017	Additions	Payments *	Ending balance September 30, 2018	Principal due within one year
Senior Notes:									
2014C Notes	6/12/2014	3%-5%	2019	\$ 325,000	325,000	—	325,000	—	—
2018A Notes	9/19/2018	5	2021	327,050	—	327,050	—	327,050	—
Total notes				\$ 652,050	325,000	327,050	325,000	327,050	—
Unamortized Bond Premium					18,404	21,029	18,404	21,029	—
Net total notes indebtedness					\$ 343,404	348,079	343,404	348,079	—

* 2018A Notes' interest payable is semiannually on June 15 and December 15.

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

	Principal	Interest	Total
Fiscal year ending September 30:			
2019	\$ —	11,492	11,492
2020	—	16,353	16,353
2021	327,050	8,176	335,226
	\$ 327,050	36,021	363,071

2014C Senior Notes

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 to achieve interest savings from a favorable short-term interest rate market 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, while deferring the need to draw on the TIFIA loan. As the estimated substantial completion date of the Gerald Desmond Bridge was being extended to December 2019, the 2014C Notes, maturing on November 2018, were refunded with the issuance of the 2018A Senior Notes.

2018A Senior Notes

The City of Long Beach Harbor Revenue Notes Series 2018A Senior Notes (the 2018A Notes) are secured by the Department's gross revenue. The 2018A Notes were issued on September 2018 for \$327.1 million plus a premium of \$21.0 million, less an underwriter's discount of \$214.8 thousand. The 2018A Notes were issued to refund the 2014C Notes. Proceeds of the Series 2018A Senior Notes, along with certain moneys

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and investments to be released from the Interest Account of the Bond Service Fund, will be used to deposit in escrow account to (a) refund and pay, all of the principal and interest on the City's Harbor Revenue Short-Term Notes, Series 2014C (the "Refunded Notes"), which are outstanding in the aggregate principal amount of \$325.0 million, (b) fund a reserve account for interest payments on the Series 2018A Senior Notes through approximately April 24, 2020, and (c) pay the costs of issuing the Series 2018A Senior Notes.

The 2018A Notes were issued likewise to continue leveraging on the interest savings from a favorable short-term interest rate market and deferring on the TIFIA loan draw down. It is anticipated that the proceeds from the TIFIA loan, when it is drawn, will be used to repay the 2018A Notes.

The 2018A Notes are outstanding as of September 30, 2018, and will mature on December 15, 2020 with interest payable semiannually of June 15 and December 15. The Series 2018A Senior Notes will not be subject to redemption prior to maturity.

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 \$3.9 million in the statement of net position as of September 30, 2018.

As of September 30, 2018, the balance of the debt service account \$24.9 million is restricted to meet debt service requirements in conformity with the note resolution.

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 2018A 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, 2018 and 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, 2018 and 2017, the Department has no outstanding balance under this revolving line of credit with Union Bank. The expiration date of this line of credit is July 11, 2019.

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Notes to Financial Statements

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(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 which functions as a cost-sharing plan for the department. CalPERS provides retirement benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the plan are established by the State's statute and the City's resolution. All City departments are considered collectively to be a single employer, and the actuarial present value of vested and nonvested accumulated plan benefits attributable to the Department's employees is determined based on the Department's percentage of plan contribution. CalPERS issues publicly available reports that include a full description of the pension plans, including benefit provisions, assumptions and membership information. All qualified permanent employees of the Department are eligible to participate in the Miscellaneous Plan. The reports can be found on the CalPERS website.

Benefits Provided – 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.

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.

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September 30, 2018 and 2017

The Miscellaneous Plan's provisions and benefits in effect at September 30, 2018, are summarized in the following table:

<u>Hire date</u>	<u>Miscellaneous</u>		
	<u>Tier 1 Prior to October 1, 2006</u>	<u>Tier 2 On or after October 1 2006 and prior to January 1 2013</u>	<u>Tier 3 On or after January 1 2013</u>
Benefit formula	2.7% at 55	2.5% at 55	2.0% at 62
Benefit vesting schedule		5 years of service	
Benefit payments		Monthly for life	
Retirement age	50–55	50–55	52–62
	<u>Required contribution rates</u>		
Employee	8.0 %	8.0 %	6.5 %
Employer	22.459%	22.459%	22.459%
	<u>Percentage of eligible compensation</u>		
Monthly benefits	2.0% to 2.7%	2.0% to 2.5%	1.0% to 2.0%

(ii) *Allocation Methodology*

The City used a calculated percentage based on the Department's share of contribution to the City's total contribution amounts for each plan, to provide the Department's net pension liability and related GASB 68 accounting elements. The Department's proportionate share totaled 18.7% and 19.2% as of September 30, 2018 and 2017, respectively.

(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, 2018 (measurement date). The Department's share of the net pension liability for the Miscellaneous Plan was \$129.9 million at the beginning of the period and \$111.0 million at June 30, 2018. For the measurement period, the Department incurred pension expense of \$18.4 million and is reported in the general administrative operating expense in the accompanying financial statements.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2018 and 2017

As of September 30, 2018 and 2017, the Department had deferred outflows and deferred inflows related to pensions as follows (in thousands):

	<u>2018</u>	<u>2017</u>
Deferred outflows of resources:		
Pension contributions after measurement date	\$ 8,251	6,958
Difference between actual and expected CalPERS investment returns	1,399	11,554
CalPERS change in assumptions	7,701	17,811
CalPERS change in proportion	<u>—</u>	<u>1,203</u>
Total deferred outflows of resources	\$ <u>17,351</u>	<u>37,526</u>
Deferred inflows of resources:		
CalPERS difference between actual and expected experience	\$ 6,629	8,666
CalPERS change in assumptions	6,176	—
CalPERS change in proportion	<u>2,762</u>	<u>1,766</u>
Total deferred inflows of resources	\$ <u>15,567</u>	<u>10,432</u>

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

	<u>Measurement period ending</u>	<u>Total</u>
	<u>June 30</u>	
2019		\$ 2,903
2020		(4,697)
2021		(3,686)
2022		<u>(987)</u>
Total		\$ <u>(6,467)</u>

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2018 and 2017

(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:

<u>Miscellaneous of September 30,</u>	<u>2018</u>	<u>2017</u>
Valuation date	June 30, 2017	June 30, 2016
Measurement date	June 30, 2018	June 30, 2017
Actuarial cost method	Entry Age Normal	Entry Age Normal
Actuarial assumptions:		
Discount rate	7.15%	7.15%
Inflation	2.75	2.75
Payroll growth	3.00	3.00
Projected salary increase	Varies by entry age and service	
Investment rate of return	*1 7.15%	7.50%
Mortality	*2 See note	See note

*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 2017 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 2015. 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 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 long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.15% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.30%.

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The long-term expected rate of return on pension plan investments of 7.15% was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The following table 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 as of September 30, 2018	New strategic allocation	Real return years 1-10^a	Real return years 11+^b
Global equity	50.00%	4.80%	5.98%
Fixed income	28.00	1.00	2.62
Inflation sensitive	—	0.77	1.81
Private equity	8.00	6.30	7.23
Real assets	13.00	3.75	4.93
Liquidity	1.00	—	0.92

^a an expected inflation of 2.00% used for this period

^b an expected inflation of 2.92% used for this period

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Notes to Financial Statements

September 30, 2018 and 2017

Asset class as of September 30, 2017	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 2.50% used for this period

^b an expected inflation of 3.00% 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 Department 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 in thousands:

Sensitivity to Net Pension Liability		
Net pension liability as of September 30,	Total 2018	Total 2017
1.0% Decrease (6.15%)	\$ 174,570	196,401
Current discount rate (7.15%)	110,982	129,893
1.0% Increase (8.15%)	58,334	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 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 access to health, dental and long-term care insurance for retirees and their dependents at active employee rates 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.

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Notes to Financial Statements

September 30, 2018 and 2017

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

At September 30, 2018 and 2017, the Department reported a total OPEB liability of \$3.5 million and \$3.3 million, respectively, for its proportionate share of the total OPEB liability. The total OPEB liability was measured as of September 30, 2017 and 2016 and the total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation as of September 30, 2017 and 2016. The Department's proportion of the City's total OPEB liability was based on the Department's share of sick leave balances. At September 30, 2018 and 2017, the Department's proportion was 6.7% and 6.5%, respectively.

For the years ended September 30, 2018 and 2017, the Department incurred OPEB expense of \$218 thousand and \$146 thousand, respectively, and is reported in the general administrative operating expense in the accompanying financial statements.

As of September 30, 2018 and 2017, the Department had deferred outflows and deferred inflows related to OPEB as follows (in thousands):

	<u>2018</u>	<u>2017</u>
Deferred outflows of resources:		
OPEB contributions after measurement date	\$ 72	52
Change in assumptions	662	635
Total deferred outflow of resources	\$ <u>734</u>	<u>687</u>
Deferred inflows of resources:		
Difference between actual and expected experience	\$ 456	510
Change in assumptions	120	—
Change in proportion	127	146
Total deferred inflow of resources	\$ <u>703</u>	<u>656</u>

Amounts reported as deferred outflows and deferred inflows 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 following year. Amounts related to both the deferred outflow of resources and deferred inflow of resources will be amortized over the next 8.3 years. Amounts

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September 30, 2018 and 2017

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>
2019	\$ (9)
2020	(9)
2021	(9)
2022	(9)
2023	(9)
2024–2027	<u>4</u>
Total	\$ <u><u>(41)</u></u>

(iv) Actuarial Assumptions

The total OPEB liability in the September 30, 2017 and 2016 actuarial valuation was determined using the following actuarial assumptions.

	<u>2018</u>	<u>2017</u>	
Valuation date	September 30, 2016	2016	
Measurement date	September 30, 2017	2016	
Actuarial cost method	Entry age	Entry age	
Actuarial assumptions:			
Inflation	2.75%	2.75%	
Discount rate	3.50%	3.75%	Based on Fidelity Municipal Bond GO AA 20-year Bond Index
Payroll increases	3.00%	3.00%	Aggregate
Mortality	Merit	Merit	CalPERS 1997-2011 Experience CalPERS 1997-2011 Experience Study and mortality projected fully generational with Scale MP-2017
Withdrawal			CalPERS 1997-2011 Experience Study
Disability			CalPERS 1997-2011 Experience Study
Healthcare trend	7.50%	7.50%	for 2019, decreasing to 4.0% for 2076 and beyond
Participation rate	75%, 100% select City plans		

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September 30, 2018 and 2017

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

Total OPEB liability	1 Percent Decrease (2.5%)	Discount rate (3.5%)	1 Percent Increase (4.5%)
As of September 30, 2018	\$ 3,817	3,467	3,149
Total OPEB liability	1 Percent Decrease (2.75%)	Discount rate (3.75%)	1 Percent Increase (4.75%)
As of September 30, 2017	\$ 3,586	3,250	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 (6.5% decreasing to 4.0%) or higher (8.5% decreasing to 4.0%) than the current healthcare cost trend rates:

Total OPEB liability	1 Percent Decrease (6.5%)	Healthcare Cost Trend Rate (7.5%)	1 Percent Increase (8.5%)
As of September 30, 2018	\$ 3,052	3,467	3,956
As of September 30, 2017	2,870	3,250	3,695

(c) Termination Benefits

As of September 30, 2018 and 2017, the City has recorded a liability in the Employee Benefits Internal Service Fund of \$139.1 million and \$135.2 million, respectively, based on an actuarial study of current and future retiree accumulated sick leave in accordance with GASB Statement No. 16, *Accounting for Compensated Absences* (GASB 16). The liability takes into account an estimate of future usage, additional leave accumulation and wage increases for both current retirees and active employees.

The \$139.1 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 years ended September 30, 2018 and 2017, the Department has recorded noncurrent liabilities totaling \$9.4 million and \$8.8 million, respectively, which represents the Departments share of these liabilities.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2018 and 2017

(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, 2018 and 2017.

(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 in a Department owned warehouse. The estimates abatement cost stands at \$3.8 million, unchanged from fiscal year 2017, and a remediation liability for this amount has been recognized in the fiscal years 2018 and 2017. This warehouse has a net carrying value of zero and there is no reasonable expectation of any recovery associated with these remediation efforts. As of September 30, 2018, the Department has received bid proposals for the design work of remediation project that are currently under review as part of the selection process.

(17) Port Headquarter Building and Civic Center Project

In January 2016, the Board authorized the Department to enter into a project agreement with the City of Long Beach and Plenary Edgemoor Civic Partners LLC (PECP) for the new Civic Center Project. This project included the Port's headquarter building, shared facilities (council/board chambers, central utility plant, and new underground parking), shared rooms and shared civic plaza. The Board also approved a Memorandum of Understanding (MOU) between the Port and the City 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 HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2018 and 2017

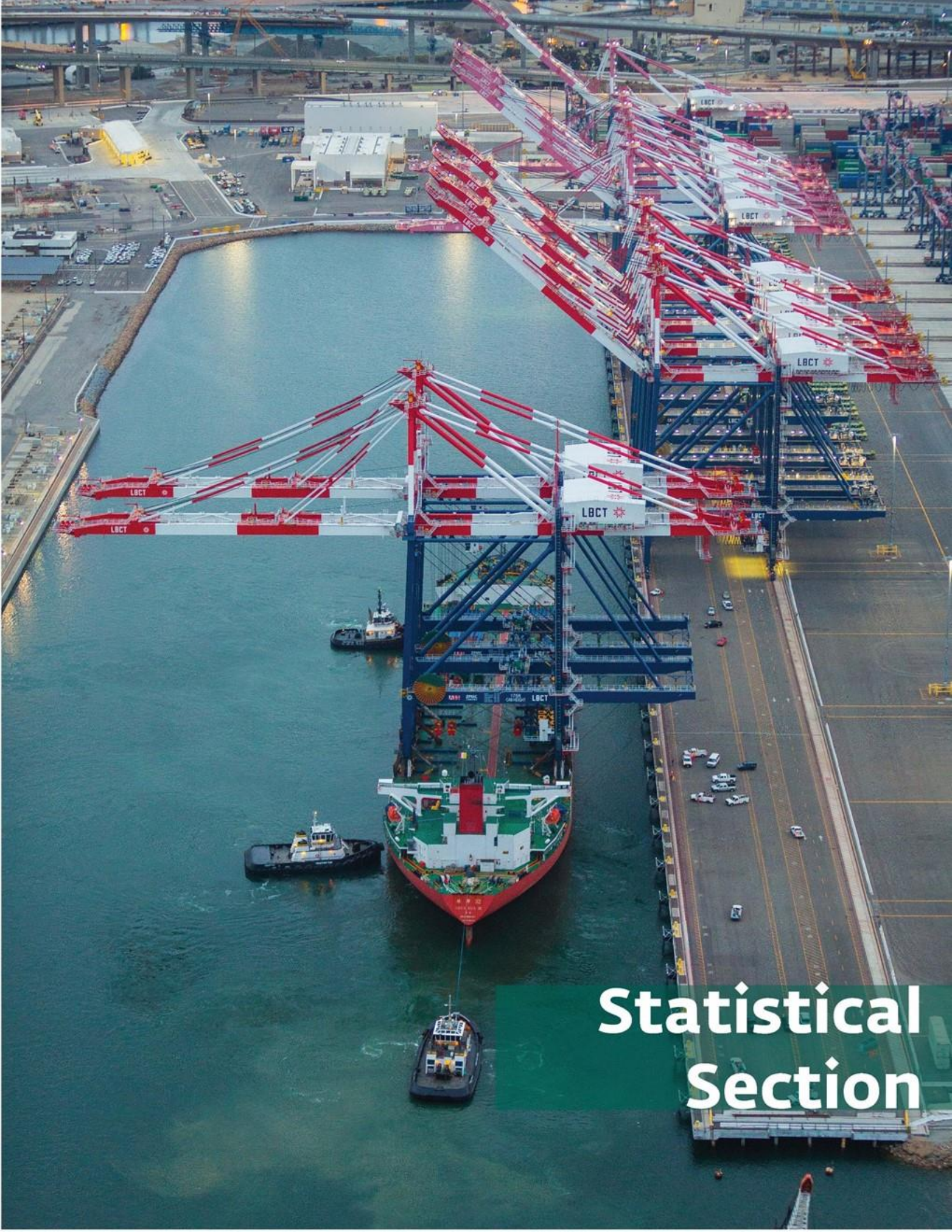
The Project Company, PECP, reported 90% and 52% of project completion for Port Headquarter project at September 30, 2018 and 2017, respectively. For this modified Design-Build-Finance-Operate-Maintain financing model, the Port recorded \$199.3 million \$109.5 million for the 94% and 52% of Project Completion Payment as construction in progress, short term and long term liability for Port Headquarter project at September 30, 2018 and 2017, respectively. At completion, the Port plans to issue bonds to finance this project.

(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, 2018 and 2017 is as follows (expressed in thousands):

	<u>2018</u>	<u>2017</u>
Deferred outflows of resources:		
Loss on debt refunding	\$ 3,084	3,876
Pension related deferred outflows	17,351	37,526
OPEB related deferred outflows	<u>734</u>	<u>687</u>
Total deferred outflows of resources	\$ <u>21,169</u>	<u>42,089</u>
Deferred inflows of resources:		
Gain on debt refunding	\$ 5,458	1,998
Pension related deferred inflows	15,567	10,432
OPEB related deferred inflows	<u>703</u>	<u>656</u>
Total deferred inflows of resources	\$ <u>21,728</u>	<u>13,086</u>



Statistical Section

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Statements of Net Position

Last Ten Fiscal Years

(In Millions)

(Unaudited)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Assets and deferred outflows:										
Current	\$ 717	690	487	501	453	441	673	634	581	1,005
Other	4,853	4,665	4,550	4,474	4,229	3,612	2,931	2,858	2,883	2,403
Deferred outflows	21	42	42	22	10	11	13	—	—	—
Total assets and deferred outflows	\$ 5,591	5,397	5,079	4,997	4,692	4,064	3,617	3,492	3,464	3,408
Liabilities and deferred inflows:										
Current	\$ 315	101	111	100	123	153	123	104	108	135
Current – restricted*	58	65	61	60	67	61	59	58	57	56
Long term	1,115	1,292	1,115	1,215	1,037	672	641	678	751	791
Deferred inflows	22	13	12	15	3	—	—	—	—	—
Total liabilities and deferred inflows	\$ 1,510	1,471	1,299	1,390	1,230	886	823	840	916	982
Net position:										
Net investment in capital assets	\$ 3,643	3,492	3,442	3,077	2,975	2,848	2,105	1,916	1,859	1,487
Restricted	56	51	90	265	199	62	157	178	208	197
Unrestricted	382	383	248	267	289	269	531	558	481	744
Total net position	\$ 4,081	3,926	3,780	3,609	3,463	3,179	2,793	2,652	2,548	2,428
Working capital	\$ 402	589	376	401	330	288	550	530	473	871
Current ratio	1.9	4.2	2.8	3.1	2.4	2.1	3.7	3.9	3.5	5.3
Debt to asset ratio	31.0%	31.3%	28.3%	30.9%	29.0%	24.5%	28.0%	29.4%	31.8%	40.9%

* Current liabilities payable from restricted assets.

Source: Finance Division, Harbor Department.

See accompanying independent auditors' report.

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Changes in Fund Net Position

Last Ten Fiscal Years

(In Millions)

(Unaudited)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenue	\$ 402	381	361	355	357	346	334	345	321	312
Operating expense	<u>287</u>	<u>291</u>	<u>291</u>	<u>271</u>	<u>227</u>	<u>188</u>	<u>176</u>	<u>166</u>	<u>185</u>	<u>184</u>
Income from operations	115	90	70	84	130	158	158	179	136	128
Other income/(expense)	(10)	—	(15)	39	(12)	—	(16)	(50)	(13)	(15)
Capital grants	68	73	132	121	178	251	14	7	19	11
Investment earnings	2	2	5	4	7	1	3	5	8	19
Transfers to City Tidelands Fund	<u>(20)</u>	<u>(19)</u>	<u>(19)</u>	<u>(18)</u>	<u>(18)</u>	<u>(17)</u>	<u>(17)</u>	<u>(37)</u>	<u>(30)</u>	<u>(19)</u>
Change in net position	<u>\$ 155</u>	<u>146</u>	<u>173</u>	<u>230</u>	<u>285</u>	<u>393</u>	<u>142</u>	<u>104</u>	<u>120</u>	<u>124</u>
Return on investment	4.3%	4.2%	0.1%	7.4%	9.4%	14.4%	6.7%	5.2%	6.2%	8.7%
Capital expenditures (Includes personnel costs)	\$ 251	252	367	363	552	792	373	228	273	189
Personnel:										
Wages and benefits *	\$ 63	60	62	55	48	45	43	42	41	39

* 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)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Berth and special facilities:										
Wharfage	\$ 359	342	323	312	308	297	269	280	258	244
Dockage	7	7	8	11	11	12	12	12	11	13
Bunkers	1	1	1	1	1	1	1	1	2	1
Special facilities rentals	16	13	16	16	14	12	28	23	21	20
Crane rentals	—	—	—	2	13	13	13	13	13	13
Other	1	1	1	1	1	1	—	—	—	—
Total berths and special facilities	384	364	349	343	348	336	323	329	305	291
Rental properties	14	14	10	10	9	9	10	14	14	16
Miscellaneous	4	3	3	2	1	1	2	2	3	4
Total operating revenue	\$ 402	381	362	355	358	346	335	345	322	311
Growth (reduction)%	5.5	5.6	1.5	(1.1)	3.4	3.6	(3.5)	7.4	3.3	(13.1)
Special facility revenue by terminal commodity:										
Containers	\$ 311	291	275	270	280	268	256	267	247	233
Liquid bulk	17	18	17	17	16	17	17	16	17	18
Dry bulk	37	35	29	29	26	26	24	22	19	20
Vehicles	14	15	15	14	13	12	13	10	10	10
Steel	4	4	8	8	8	8	8	8	6	7
Lumber	1	1	1	1	1	1	1	1	1	1
Miscellaneous	—	—	3	3	3	3	3	3	3	2
Total special facility revenue	\$ 384	364	348	342	347	335	322	327	303	291

Source: Finance Division, Harbor Department

See accompanying independent auditors' report.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Revenue Bonds Debt Service Coverage

Last Ten Fiscal Years

(Millions of Dollars)

(Unaudited)

<u>Fiscal year</u>	<u>Revenues (a)</u>	<u>Maintenance costs (b)</u>	<u>Net revenues (a-b)</u>	<u>Revenue bonds debt service (c)</u>	<u>Times debt service covered</u>
2018	\$ 406	139	267	80	3.36
2017	383	143	240	72	3.33
2016	365	144	221	73	3.03
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

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

(b) Port operating expenses before depreciation and amortization.

(c) Bonds only not including bond anticipation notes (BANs) or line of credit.

BANs are set up with capitalized interest reserve funds.

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 total
	Municipal	Private*	Total	Municipal	Bunkers	Total	
2018	139,597	—	139,597	39,734	1,262	40,996	180,593
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
Average annual growth (reduction)	3.9%	—%	3.9%	2.4%	(1.7)%	2.0%	3.4%

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)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	Total	Average annual growth
Containerized:												
In	108,091	98,941	93,614	95,798	94,310	91,047	77,910	83,482	79,058	69,354	891,605	5.3%
Out	30,823	28,174	29,400	29,307	31,262	30,525	27,584	29,623	28,251	24,800	289,749	2.7%
Other break bulk:												
In	1,243	1,127	1,008	1,039	1,002	854	917	752	814	869	9,625	4.6%
Out	129	61	99	101	92	108	98	827	613	644	2,772	2.0%
Liquid bulk:												
In	29,819	30,130	27,971	27,479	26,696	27,398	28,197	28,585	28,138	29,139	283,552	0.3%
Out	2,351	2,497	3,203	3,521	2,995	3,197	2,466	3,239	4,151	3,800	31,420	(3.6)%
Dry bulk:												
In	445	238	344	209	235	259	259	333	393	653	3,368	2.6%
Out	7,692	6,933	5,684	6,820	8,934	8,869	7,713	7,576	6,148	5,996	72,365	4.0%
Total:												
In	<u>139,598</u>	<u>130,436</u>	<u>122,937</u>	<u>124,525</u>	<u>122,243</u>	<u>119,558</u>	<u>107,283</u>	<u>113,152</u>	<u>108,403</u>	<u>100,015</u>	<u>1,188,150</u>	3.9%
Out	<u>40,995</u>	<u>37,665</u>	<u>38,386</u>	<u>39,749</u>	<u>43,283</u>	<u>42,699</u>	<u>37,861</u>	<u>41,265</u>	<u>39,163</u>	<u>35,240</u>	<u>396,306</u>	2.0%
Vessel calls*	2,278	2,149	2,227	2,676	2,752	3,425	3,993	4,758	4,826	4,933	34,017	
Annual growth / (decline)	6.00%	(3.50)%	(16.78)%	(2.76)%	(19.65)%	(14.22)%	(16.08)%	(1.41)%	(2.17)%	(4.03)%	—%	
TEU's	8,001	7,231	6,946	7,088	6,818	6,648	5,857	6,298	5,936	5,282	66,105	
TEU annual growth / (decline)	10.65%	4.10%	(2.00)%	3.96%	2.56%	13.51%	(7.00)%	6.10%	12.38%	(21.60)%	—%	

* 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)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Municipal berths ¹ :										
Foreign	\$ 108,811	99,468	93,928	98,464	104,245	101,027	91,490	96,908	91,335	82,621
Coastwise/intercoastal	30,787	30,977	29,009	26,061	17,998	18,477	15,793	16,054	16,733	17,214
Total inbound cargo	139,598	130,445	122,937	124,525	122,243	119,504	107,283	112,962	108,068	99,835
Outbound cargo:										
Foreign	36,218	32,923	32,737	33,592	37,067	36,769		36,210	33,340	29,557
Coastwise/intercoastal	3,516	3,258	3,996	4,843	5,348	5,141	3,270	3,507	3,536	3,519
Bunkers	1,261	1,474	1,653	1,313	867	843	1,311	1,546	2,412	2,110
Total outbound cargo	40,995	37,655	38,386	39,748	43,282	42,753	4,581	41,263	39,288	35,186
Total municipal cargo	180,593	168,100	161,323	164,273	165,525	162,257	111,864	154,225	147,356	135,021
Private berths ¹ :										
Inbound	—	—	—	—	—	—	—	192	209	233
Outbound	—	—	—	—	—	—	—	—	—	—
Total private cargo	—	—	—	—	—	—	—	192	209	233
Grand total	\$ 180,593	168,100	161,323	164,273	165,525	162,257	111,864	154,417	147,565	135,254
Container count summary (000's) ²										
Loaded inbound TEUs	\$ 4,044	3,698	3,514	3,596	3,523	3,420	2,932	3,139	2,982	2,612
Loaded outbound TEUs	1,564	1,451	1,538	1,528	1,664	1,671	1,491	1,582	1,485	1,332
Total loaded	5,608	5,149	5,052	5,124	5,187	5,091	4,423	4,721	4,467	3,944
Full containers annual growth (decline)	8.9%	1.9%	(1.4)%	(1.2)%	1.9%	15.1%	(6.3)%	5.7%	13.3%	(23.0)%
Total empty	2,393	2,081	1,894	1,964	1,631	1,557	1,434	1,577	1,469	1,338
Empty containers annual growth (decline)	15.0%	9.9%	(3.6)%	20.4%	4.8%	8.6%	(9.1)%	7.3%	9.8%	(17.2)%
Total TEUs	\$ 8,001	7,230	6,946	7,088	6,818	6,648	5,857	6,298	5,936	5,282
Annual growth	10.7%	4.1%	(2.0)%	4.0%	2.6%	13.5%	(7.0)%	6.1%	12.4%	21.6%

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
S7 Sea Launch Limited	01/2013	Month-to-month
International Transportation Service, Inc.	09/2006	08/2026
Jacobsen Pilot Service, Inc.	08/2017	07/2032
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

Employee Headcount by Division

Last 10 fiscal years

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Executive administration	15.0	14.0	18.0	17.0	11.9	9.3	15.4	17.3	15.6	16.3
Business development	12.0	13.0	13.0	11.0	—	—	—	—	—	—
Communications	16.0	14.0	14.0	16.0	15.0	12.8	14.0	14.8	14.7	14.1
Construction management	48.0	45.0	47.0	46.0	—	—	—	—	—	—
Design	46.0	51.0	49.0	48.0	—	—	—	—	—	—
Engineering	—	—	—	—	140.7	128.8	128.0	117.1	115.2	109.7
Environmental planning	24.0	21.0	24.0	23.0	—	—	—	—	—	—
Finance	22.0	25.0	25.0	25.0	24.5	24.9	26.0	21.2	17.9	15.5
Government relations/affairs	3.0	4.0	3.0	4.0	4.0	4.0	4.0	3.4	3.8	3.9
Human resources	18.0	16.0	18.0	18.0	17.4	16.3	17.0	17.8	17.6	16.9
Information management	20.0	22.0	22.0	22.0	20.6	20.8	21.0	18.6	18.0	13.1
Maintenance	82.0	90.0	92.0	84.0	76.3	81.1	81.0	76.8	72.7	72.1
Master planning	7.0	7.0	5.0	6.0	31.7	30.6	31.0	30.3	28.6	25.3
Program delivery	3.0	3.0	3.0	2.0	—	—	—	—	—	—
Program management	22.0	27.0	28.0	25.0	—	—	—	—	—	—
Project controls	12.0	11.0	11.0	8.0	—	—	—	—	—	—
Real estate	8.0	9.0	9.0	8.0	8.8	9.0	9.0	8.0	7.3	6.1
Risk management	11.0	9.0	10.0	10.0	8.3	7.6	8.0	7.0	6.4	6.0
Security	84.0	81.0	74.0	79.0	68.0	71.2	76.5	69.8	63.8	58.7
Survey	21.0	22.0	22.0	23.0	—	—	—	—	—	—
Tenant services/trade relations	13.0	12.0	9.0	9.0	19.3	16.5	16.0	14.9	15.8	15.6
Transportation planning	5.0	7.0	6.0	6.0	—	—	—	—	—	—
Full-time/permanent subtotal	492.0	503.0	502.0	490.0	446.5	432.9	446.9	417.0	397.4	373.3
Growth/decline	(2.2)%	0.2%	2.4%	9.7%	3.1%	(3.1)%	7.2%	4.9%	6.5%	9.9%
Part-time/temporary subtotal	19.0	31.0	29.0	34.0	25.5	29.4	13.0	18.9	27.3	27.7
Growth/decline	(38.7)%	6.9 %	(14.7)%	33.3 %	(13.3)%	126.2 %	(31.2)%	(30.8)%	(1.4)%	(9.5)%
Total number of employees	511.0	534.0	531.0	524.0	472.0	462.3	459.9	435.9	424.7	401.0
Growth/decline	(4.3)%	0.6%	1.3%	11.0%	2.1%	0.5%	5.5%	2.6%	5.9%	8.3%

Note:

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

FY2006 - 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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