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**PRELIMINARY OFFICIAL STATEMENT DATED \_\_\_\_\_, 2017**

**NEW ISSUE—BOOK-ENTRY ONLY**

**RATING: Moody's: "\_\_\_"  
See "RATING" herein.**

*In the opinion of Quint & Thimmig LLP, Larkspur, California, Bond Counsel, subject to compliance by the City with certain covenants, interest on the Series 2017A Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations under the Internal Revenue Code of 1986, as amended, but such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Interest on the Series 2017B Bonds is includible in gross income of the owners thereof for federal income tax purposes. In addition, in the opinion of Bond Counsel, interest on the Series 2017 Bonds is exempt from personal income taxation imposed by the State of California. See "TAX MATTERS" herein.*

[City Logo]

\$ \_\_\_\_\_\*  
**City of Long Beach**  
**Tidelands Revenue Bonds**  
**Series 2017A**  
**(Aquarium of the Pacific**  
**Project)**

\$ \_\_\_\_\_\*  
**City of Long Beach**  
**Taxable Tidelands Revenue Bonds**  
**Series 2017B**  
**(Queen Mary Improvements)**

**Dated: Date of Delivery**

**Due: November 1, as shown on the inside front cover**

The City of Long Beach Tidelands Revenue Bonds Series 2017A (Aquarium of the Pacific Project) (the "Series 2017A Bonds"), and the City of Long Beach Taxable Tidelands Revenue Bonds Series 2017B (Queen Mary Improvements) (the "Series 2017B Bonds" and, together with the Series 2017A Bonds, the "Series 2017 Bonds"). The Series 2017 Bonds are being issued by the City of Long Beach, California (the "City") pursuant to an Indenture of Trust dated as of October 1, 2017 (the "Indenture"), by and between the City and U.S. Bank National Association, as trustee (the "Trustee").

The Series 2017A Bonds are being issued to (a) pay the costs of certain capital improvements to the Aquarium of the Pacific, located in the City, (b) fund a portion of the reserve requirement for the Series 2017 Bonds, and (c) pay a portion of the costs of issuance of the Series 2017 Bonds. The Series 2017B Bonds are being issued to (a) pay or reimburse the costs of certain capital improvements to the Queen Mary, a tourist attraction and hotel located in Queensway Bay in the City, (b) fund a portion of the reserve requirement for the Series 2017 Bonds, and (c) pay a portion of the costs of issuance of the Series 2017 Bonds. See "PLAN OF FINANCE" and "ESTIMATED SOURCES AND USES OF FUNDS."

The Series 2017 Bonds will be issued as fully registered bonds in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company ("DTC"), New York, New York. Individual purchases and sales of the Series 2017 Bonds may be made in book-entry form only in denominations of \$5,000 and integral multiples thereof. Purchasers will not receive certificates representing their interest in the Series 2017 Bonds. Interest on the Series 2017 Bonds will be payable on May 1 and November 1 of each year, commencing on May 1, 2018. So long as the Series 2017 Bonds are held by DTC, the principal of and interest on the Series 2017 Bonds will be payable by wire transfer to DTC, which in turn will be required to remit such principal and interest to the DTC participants for subsequent disbursement to the beneficial owners of the Series 2017 Bonds, as more fully described herein.

The Series 2017 Bonds are subject to optional redemption as described herein. See "DESCRIPTION OF THE SERIES 2017 BONDS—Redemption Provisions."

The Series 2017 Bonds are secured by a pledge of (a) the Tidelands Revenues (as defined herein); and (b) all of the moneys in the Bond Fund established pursuant to the Indenture (including the Bond Reserve Account therein), including all amounts derived from the investment of such moneys. The Series 2017 Bonds are payable from Tidelands Revenues on a parity with the City's obligation with respect to Tidelands Revenues pursuant to the City Pledge Agreement, dated as of March 1, 2012 (the "City Pledge Agreement"), by and between the City and the Long Beach Bond Finance Authority (the "Authority"). The City Pledge Agreement was entered into in connection with the issuance by the Authority of its 2012 Refunding Revenue Bonds (Aquarium of the Pacific Project) (the "2012 Authority Bonds") which are currently outstanding in the principal amount of \$81,585,000. In the Indenture the City covenants that, except for obligations permitted under the City Pledge Agreement, it will not issue or incur any

\* Preliminary; subject to change.

obligation secured by a pledge of Tidelands Revenues on a parity with its pledge of Tidelands Revenues with respect to the Series 2017 Bonds and the City Pledge Agreement. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS-Additional Obligations Payable From Tidelands Revenues.”

**The principal or redemption price of and interest on the Series 2017 Bonds are payable solely from the Tidelands Revenues and the other amounts pledged therefor pursuant to the Indenture, and the City is not obligated to pay the Series 2017 Bonds except from the Tidelands Revenues. The general fund of the City is not liable, and the full faith and credit or taxing power of the City is not pledged, for the payment of the principal or redemption price of and interest on the Series 2017 Bonds. The Series 2017 Bonds are not secured by a legal or equitable pledge of, or charge, lien or encumbrance upon, any of the property of the City or any of its income or receipts, except the Tidelands Revenues. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS” and “RISK FACTORS.”**

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of the Series 2017 Bonds. Investors must read this entire Official Statement to obtain information essential to the making of an informed decision with respect to the Series 2017 Bonds, giving particular attention to the matters discussed under “RISK FACTORS.” Capitalized terms used on this cover page and not otherwise defined have the meanings set forth herein.

*The Series 2017 Bonds will be offered when, as and if issued, and received by the Underwriters, subject to the approval as to their legality by Quint & Thimmig LLP, Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for the Authority by Stradling Yocca Carlson & Rauth, a Professional Corporation, Disclosure Counsel to the City, for City by the City Attorney of the City of Long Beach, California, and for the Underwriters by their counsel, Kutak Rock LLP. It is anticipated that the Series 2017 Bonds will be available for delivery through the facilities of DTC on or about \_\_\_\_\_, 2017.*

**BofA Merrill Lynch**

Date of Official Statement: \_\_\_\_\_, 2017.

**MATURITY SCHEDULE**

\$ \_\_\_\_\_<sup>\*</sup>  
**City of Long Beach**  
**Tidelands Revenue Bonds Series 2017A**  
**(Aquarium of the Pacific Projects)**

<b>Maturity Date (November 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Yield</b>	<b>Price</b>	<b>CUSIP No. †</b>
2018					
2019					
2020					
2021					
2022					
2023					
2024					
2025					
2026					
2027					

\$ \_\_\_\_\_<sup>\*</sup>  
**City of Long Beach**  
**Taxable Tidelands Revenue Bonds Series 2017B**  
**(Queen Mary Improvements)**

<b>Maturity Date (November 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Price</b>	<b>CUSIP No. †</b>
2018				
2019				
2020				
2021				
2022				
2023				
2024				
2025				
2026				
2027				

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<sup>\*</sup> Preliminary; subject to change.

<sup>†</sup> Copyright 2017, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. The CUSIP data herein is provided by CUSIP Global Services (“CGS”), which is managed on behalf of the American Bankers Association by S&P Global Market Intelligence. The CUSIP numbers are not intended to create a database and do not serve in any way as a substitute for the CGS database. CUSIP numbers have been assigned by an independent company not affiliated with the City and are provided solely for convenience and reference. The CUSIP numbers for a specific maturity are subject to change after the issuance of the Series 2017 Bonds. Neither the City or the Underwriters take responsibility for the accuracy of the CUSIP numbers.

**CITY OF LONG BEACH, CALIFORNIA**

Dr. Robert Garcia  
*Mayor*

Rex Richardson  
*Vice Mayor, Ninth District*

Lena Gonzalez, *First District*  
Jeannine Pearce, *Second District*  
Suzie Price, *Third District*  
Daryl Supernaw, *Fourth District*

Stacy Mungo, *Fifth District*  
Dee Andrews, *Sixth District*  
Roberto Uranga, *Seventh District*  
Al Austin, *Eighth District*

**City Officials**

Charles Parkin, *City Attorney*  
Laura L. Doud, *City Auditor*  
Doug Haubert, *City Prosecutor*

**City Staff**

Patrick H. West, *City Manager*  
Tom Modica, *Assistant City Manager*  
John Gross, *Director of Financial Management*  
David S. Nakamoto, *City Treasurer*  
Monique DeLaGarza, *City Clerk*

**PROFESSIONAL SERVICES**

***Bond Counsel***  
Quint & Thimmig LLP

***Disclosure Counsel***  
Stradling Yocca Carlson & Rauth, a  
Professional Corporation

***Municipal Advisor***  
KNN Public Finance, LLC

***Trustee***  
U.S. Bank National Association

No dealer, broker, salesperson, or other person has been authorized by the City to give any information or to make any representations, other than those contained in this Official Statement, in connection with the offering of the Series 2017 Bonds, and, if given or made, such other information or representation must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series 2017 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Series 2017 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts. See “INTRODUCTION—Forward-Looking Statements” herein.

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

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the City since the date hereof. This Official Statement is submitted in connection with the sale of the Series 2017 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

THE SERIES 2017 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED THEREIN, AND HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE. THE INDENTURE HAS NOT BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED THEREIN. THE SERIES 2017 BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY COMMISSION. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2017 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING TRANSACTIONS, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE SERIES 2017 BONDS TO CERTAIN DEALERS AND OTHERS AT YIELDS HIGHER OR PRICES LOWER THAN THE PUBLIC OFFERING YIELDS AND/OR PRICES STATED ON THE INSIDE COVER PAGE OF THIS OFFICIAL STATEMENT, AND SUCH PUBLIC OFFERING YIELDS AND/OR PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

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## OFFICIAL STATEMENT

\$ _____ *	\$ _____ *
<b>City of Long Beach</b>	<b>City of Long Beach</b>
<b>Tidelands Revenue Bonds</b>	<b>Taxable Tidelands Revenue Bonds</b>
<b>Series 2017A</b>	<b>Series 2017B</b>
<b>(Aquarium of the Pacific</b>	<b>(Queen Mary Improvements)</b>
<b>Project)</b>	

### INTRODUCTION

*This introduction contains only a brief summary of certain of the terms of the Series 2017 Bonds being offered, and a brief description of this Official Statement. All statements contained in this introduction are qualified in their entirety by reference to this entire Official Statement. References to, and summaries of provisions of the Constitution and laws of the State of California and any documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions thereof. All capitalized terms used in this Official Statement and not otherwise defined herein have the meanings ascribed to them in Appendix B under the heading "CERTAIN DEFINITIONS."*

#### **General**

The purpose of this Official Statement, which includes the cover page, the inside cover page, the table of contents and the appendices (this "Official Statement") is to provide certain information with respect to the City of Long Beach Tidelands Revenue Bonds Series 2017A (Aquarium of the Pacific Project) (the "Series 2017A Bonds"), and City of Long Beach Taxable Tidelands Revenue Bonds Series 2017B (Queen Mary Improvements) (the "Series 2017B Bonds," and, together with the Series 2017A Bonds, the "Series 2017 Bonds").

#### **Authority for Issuance**

The Series 2017 Bonds are being issued pursuant to the provisions of Division 1 of Chapter 3.52 of Title 3 of the Long Beach Municipal Code (the "Law"), and the Indenture of Trust, dated as of October 1, 2017 (the "Indenture"), by and between the City of Long Beach, California (the "City") and U.S. Bank National Association, as trustee (the "Trustee").

#### **Purpose of the Series 2017 Bonds**

The Series 2017A Bonds are being issued to (a) pay the costs of certain capital improvements to the Aquarium of the Pacific, located in the City, (b) fund a portion of the reserve requirement for the Series 2017 Bonds, and (c) pay a portion of the costs of issuance of the Series 2017 Bonds. The Series 2017B Bonds are being issued to (a) pay or reimburse the costs of certain capital improvements to the Queen Mary, a tourist attraction and hotel located in Queensway Bay in the City, (b) fund a portion of the reserve requirement for the Series 2017 Bonds, and (c) pay a portion of the costs of issuance of the Series 2017 Bonds. See "PLAN OF FINANCE" and "ESTIMATED SOURCES AND USES OF FUNDS."

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\* Preliminary; subject to change.

## **Security and Sources of Payment for the Series 2017 Bonds**

The Series 2017 Bonds are secured by a pledge of (a) the Tidelands Revenues (as defined herein); and (b) all of the moneys in the Bond Fund established pursuant to the Indenture (including the Bond Reserve Account therein), including all amounts derived from the investment of such moneys. The Series 2017 Bonds are payable from Tidelands Revenues on a parity with the City's obligation with respect to Tidelands Revenues pursuant to the City Pledge Agreement, dated as of March 1, 2012 (the "City Pledge Agreement"), by and between the City and the Long Beach Bond Finance Authority (the "Authority"). The City Pledge Agreement was entered into in connection with the issuance by the Authority of its 2012 Refunding Revenue Bonds (Aquarium of the Pacific Project) (the "2012 Authority Bonds") which are currently outstanding in the principal amount of \$81,585,000. The Indenture permits the City to issue or incur additional obligation secured by a pledge of Tidelands Revenues on a parity with its pledge of Tidelands Revenues with respect to the Series 2017 Bonds and the City Pledge Agreement, subject to satisfaction of the conditions specified in the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS - Additional Obligations Payable From Tidelands Revenues".

The "Tidelands Revenues" consist of all Available Tidelands Operating Revenue (as defined herein), the Available Tidelands Operating Fund Balance (as defined herein), and all Available Tidelands Oil Revenue (as defined herein) See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS," and "APPENDIX B—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."

**The principal or redemption price of and interest on the Series 2017 Bonds are payable solely from the Tidelands Revenues and the other amounts pledged therefor pursuant to the Indenture, and the City is not obligated to pay the Series 2017 Bonds except from the Tidelands Revenues. The general fund of the City is not liable, and the full faith and credit or taxing power of the City is not pledged, for the payment of the principal or redemption price of and interest on the Series 2017 Bonds. The Series 2017 Bonds are not secured by a legal or equitable pledge of, or charge, lien or encumbrance upon, any of the property of the City or any of its income or receipts, except the Tidelands Revenues. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS" and "RISK FACTORS."**

### **Tidelands Revenues**

Available Tidelands Operating Revenue and the Available Tidelands Operating Fund Balance consist of, among other things, revenues derived from the operation of commercial activities in the Tidelands Area (as defined herein), including transfers from the Harbor Department of the City (the "Harbor Department"). Available Tidelands Operating Revenue and the Available Tidelands Operating Fund Balance also include Available Tidelands Oil Revenue transferred from the Tideland Oil Revenue Fund to the Tideland Operating Fund. "THE CITY, THE TIDELANDS AREA AND THE TIDELAND OPERATING FUND."

The transfers from the Harbor Department constituted approximately 48% of the Tidelands Revenues for the fiscal year ended September 30, 2016 ("Fiscal Year 2016"). The Harbor Department was created in 1931 by an amendment to the City Charter to promote, develop and operate the Port of Long Beach (the "Port"), which was the number two-ranked container port in the nation in 2016 with respect to container cargo (according to the American Association of Port Authorities). The transfers are subject to a number of conditions specified in the City Charter, including the approval of a majority of all the members of the Board of Harbor Commissioners of the City (the "Harbor Board") and the approval of two-thirds of the members of the City Council. See "THE CITY, THE TIDELANDS AREA AND THE

TIDELAND OPERATING FUND-The Tideland Operating Fund-Harbor Revenue Fund Transfers to the Tideland Operating Fund” and “THE PORT OF LONG BEACH.”

### **The City**

The City is a chartered city and municipal corporation organized and existing under its charter and the laws of the State. See “THE CITY, THE TIDELANDS AREA AND THE TIDELAND OPERATING FUND.”

### **Continuing Disclosure**

In connection with the issuance of the Series 2017 Bonds, for purposes of Rule 15c2-12, as amended (the “Rule”) promulgated by the U.S. Securities and Exchange Commission (“SEC”) under the Securities Exchange Act of 1934, as amended, the City will agree to provide, or cause to be provided, to the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system (the “EMMA System”), certain annual financial information and operating data relating to the Tideland Operating Fund, Available Tidelands Revenue and the Port of Long Beach, and notices of certain enumerated events. See “CONTINUING DISCLOSURE” and “APPENDIX D—FORM OF CONTINUING DISCLOSURE CERTIFICATE.”

### **Forward-Looking Statements**

This Official Statement contains statements relating to future results that are forward-looking statements. When used in this Official Statement, the words “estimate,” “anticipate,” “forecast,” “project,” “intend,” “propose,” “plan,” “expect” and similar expressions identify forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. See “RISK FACTORS—Forward-Looking Statements.”

### **Additional Information**

Brief descriptions of the Series 2017 Bonds, the Indenture, and certain other documents are included in this Official Statement. Such descriptions do not purport to be comprehensive or definitive. All references herein to such documents and any other documents, statutes, reports or other instruments described herein are qualified in their entirety by reference to the complete text of each such document, statute, report or other instrument. Copies of the Indenture are on file and available for inspection at the offices of the City Treasurer at City of Long Beach, 333 West Ocean Boulevard, 6<sup>th</sup> Floor, Long Beach, California 90802.

Information contained herein has been obtained from officers, employees and records of the City and from other sources believed to be reliable. The information herein is subject to change without notice, and the delivery of this Official Statement will under no circumstances, create any implication that there has been no change in the affairs of the City since the date hereof. This Official Statement is not to be construed as a contract or agreement between the City or the Underwriters (as defined herein) and the purchasers or Owners of any of the Series 2017 Bonds. The City maintains various websites, the information on which is not part of this Official Statement, is not incorporated by reference herein, and should not be relied upon in deciding whether to purchase the Series 2017 Bonds.

**PLAN OF FINANCE**

The Series 2017A Bonds are being issued to (a) pay the costs of certain capital improvements to the Aquarium of the Pacific, located in the City; (b) fund a portion of the reserve requirement for the Series 2017 Bonds, and (c) pay a portion of the costs of issuance of the Series 2017 Bonds. The Series 2017B Bonds are being issued to (a) pay the costs of certain capital improvements to the Queen Mary, (b) fund a portion of the reserve requirement for the Series 2017 Bonds, and (c) pay a portion of the costs of issuance of the Series 2017 Bonds.

Following is a description of the projects to be funded from the proceeds of the Series 2017 Bonds:

Aquarium of the Pacific Improvements. Approximately \$\_\_\_\_\_ of the proceeds of the Series 2017A Bonds will be used to pay the costs of various improvements to the Aquarium of the Pacific. These include all or a portion of the costs of the Aquarium’s Pacific Visions project, consisting of an approximately 29,000 square foot, two story structure, adjacent to, or to be combined with, the Aquarium’s existing facility, including costs of the shell and core of the building and of structural steel, metal decking, concrete decking and a specialty glass facade.

Queen Mary Improvements. Approximately \$\_\_\_\_\_ of the proceeds of the Series 2017B Bonds will be used to pay or reimburse to the City the costs of various improvements to the Queen Mary. These improvements generally consist of renewals and replacements of various elements of the Queen Mary, including roofing, structural reinforcements, fire protection systems and rust repair.

**ESTIMATED SOURCES AND USES OF FUNDS**

The following table sets forth the estimated sources and uses of funds in connection with the issuance of the Series 2017 Bonds.

<b>Sources:</b>	<b><u>Series 2017A Bonds</u></b>	<b><u>Series 2017B Bonds</u></b>	<b><u>Total</u></b>
Principal Amount			
Original Issue Premium			
Available Moneys of the City			
Total Sources			
<b>Uses:</b>			
Deposit to Project Fund			
Deposit to Bond Reserve Account			
Costs of Issuance <sup>(1)</sup>			
Total Uses			

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<sup>(1)</sup> Costs of issuance include rating agency fees, legal and financial advisory fees, underwriters’ discount and other miscellaneous expenses.

**DESCRIPTION OF THE SERIES 2017 BONDS**

**General**

The Series 2017 Bonds will bear interest at the rates and mature on the dates set forth on the inside front cover page of this Official Statement. Interest on the Series 2017 Bonds will be calculated on

the basis of a 360-day year consisting of twelve 30-day months. The Series 2017 Bonds will be dated their initial date of delivery, and will bear interest from that date payable semi-annually on May 1 and November 1 of each year, commencing May 1, 2018 (each an “Interest Payment Date”). Interest due and payable on the Series 2017 Bonds on any Interest Payment Date will be paid to the person who is the registered owner as of the applicable Record Date (Cede & Co., so long as the book-entry system with The Depository Trust Company, New York, New York (“DTC”) is in effect). Each Series 2017 Bond shall bear interest from the Interest Payment Date next preceding the authentication thereof, unless (a) it is authenticated after a Record Date and on or before the following Interest Payment Date, in which event it shall bear interest from such Interest Payment Date; or (b) it is authenticated on or before April 15, 2018, in which event it shall bear interest from the Closing Date; provided, however, that if, as of the date of authentication of any Series 2017 Bond, interest thereon is in default, such Series 2017 Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

The Series 2017 Bonds will be issued in denominations of \$5,000 and integral multiples thereof. The Series 2017 Bonds will be issued in fully registered form and will be registered in the name of Cede & Co., as registered owner and nominee of DTC. DTC will act as securities depository for the Series 2017 Bonds. Individual purchases may be made in book-entry form only. Purchasers will not receive certificates representing their interest in the Series 2017 Bonds purchased. So long as Cede & Co., as nominee of DTC, is the registered owner of the Series 2017 Bonds, references in this Official Statement to the Owners or registered owners means Cede & Co. and does not mean the Beneficial Owners of the Series 2017 Bonds.

So long as Cede & Co. is the registered owner of the Series 2017 Bonds, the principal of and interest on the Series 2017 Bonds will be payable by wire transfer by the Trustee to Cede & Co., as nominee for DTC, which will, in turn, remit such amounts to the DTC participants for subsequent disbursement to the Beneficial Owners. See “APPENDIX E—BOOK-ENTRY-ONLY SYSTEM.”

## **Redemption Provisions**

***Optional Redemption.*** The Series 2017A Bonds maturing on or before November 1, 20\_\_, are not subject to optional redemption prior to their respective stated maturities. The Series 2017A Bonds maturing on or after November 1, 20\_\_, will be subject to optional redemption as a whole or in part, on any date on or after November 1, 20\_\_, from any available source of funds, at a redemption price equal to the principal amount of the Series 2017A Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium.

The Series 2017B maturing on or before November 1, 20\_\_ are subject to redemption prior to their stated maturities at the option of the City and County, in whole or in part (and if in part on a pro rata basis), on any date, at a redemption price equal to the greater of:

- (1) 100% of the principal amount of the Bonds to be redeemed; or
- (2) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of such Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Bonds are to be redeemed, discounted to the date on which such Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Comparable Treasury Yield (defined below) plus \_\_ basis points;

*plus*, in each case, accrued interest on such Bonds to be redeemed to the redemption date.

For purposes of the foregoing provisions concerning redemptions of the Series 2017B Bonds, the following terms shall have the meanings set forth below:

“Calculation Agent” means a commercial bank or an investment banking institution of national standing that is a primary dealer of United States government securities in the United States and designated by the City and County (which may be one of the institutions that served as underwriters for the Bonds being redeemed).

“Comparable Treasury Issue” means the United State Treasury security selected by the Calculation Agent as having a maturity comparable to the remaining term to maturity of the Bonds being redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term to maturity of the Bonds being redeemed.

“Comparable Treasury Price” means, with respect to any date on which a Bond or portion thereof is being redeemed, either (a) the average of five Reference Treasury Dealer quotations for the date fixed for redemption, after excluding the highest and lowest such quotations, and (b) if the Calculation Agent is unable to obtain five such quotations, the average of the quotations that are obtained. The quotations will be the average, as determined by the Calculation Agent, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of principal amount) quoted in writing to the Calculation Agent, at 5:00 p.m. New York City time on the third business day preceding the date fixed for redemption.

“Comparable Treasury Yield” means the yield that represents the weekly average yield to maturity for the preceding week appearing in the most recently published statistical release designated “H.15 (519) Selected Interest Rates” under the heading “Treasury Constant Maturities,” or any successor publication selected by the Calculation Agent that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded United States Treasury securities adjusted to constant maturity, for the maturity corresponding to the remaining term to maturity of the Bonds being redeemed. The Comparable Treasury Yield will be determined as of the third business day immediately preceding the applicable date fixed for redemption. If the H.15 (519) statistical release sets forth a weekly average yield for United States Treasury securities that have a constant maturity that is the same as the remaining term to maturity of the Bonds being redeemed, then the Comparable Treasury Yield will be equal to such weekly average yield. In all other cases, the Comparable Treasury Yield will be calculated by interpolation on a straight-line basis between the weekly average yields on the United States Treasury securities that have a constant maturity (i) closest to and greater than the remaining term to maturity of the Bond being redeemed; and (ii) closest to and less than the remaining term to maturity of the Bond being redeemed. Any weekly average yields calculated by interpolation will be rounded to the nearest 1/100th of 1%, with any figure of 1/200th of 1% or above being rounded upward. If, and only if, weekly average yields for United States Treasury securities for the preceding week are not available in the H.15 (519) statistical release or any successor publication, then the Comparable Treasury Yield will be the rate of interest per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price (each as defined herein) as of the date fixed for redemption.

“Reference Treasury Dealer” means a primary dealer of United States Government securities in the United States (which may be one of the institutions that served as underwriters for the Bonds being redeemed) appointed by the City and County and reasonably acceptable to the Calculation Agent.

***Selection of the Series 2017 Bonds for Redemption.*** If fewer than all of the Series 2017 Bonds of a series are called for redemption, the City will designate the maturities from which the Series 2017

Bonds of such series are to be redeemed. For so long as the Series 2017 Bonds are registered in book-entry form and DTC or a successor securities depository is the sole registered owner of such Bonds, if fewer than all of the Series 2017 Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Series 2017 Bonds to be redeemed shall be selected (i) by lot, in the case of the Series 2017A Bonds, and (ii) on a pro rata pass-through distribution of principal basis in accordance with DTC procedures, in the case of the Series 2017B; provided that, so long as the Series 2017 Bonds are held in book-entry form, the selection for redemption of the Series 2017 Bonds will be made in accordance with the operational arrangements of DTC then in effect, and if the DTC operational arrangements do not allow for redemption on a pro rata pass-through distribution of principal basis, all Series 2017 Bonds will be selected for redemption in accordance with DTC procedures by lot; provided further that any such redemption must be performed such that all Series 2017 Bonds remaining outstanding will be in authorized denominations. See Appendix D, "Book-Entry System."

In connection with any repayment of principal of the Series 2017B Bonds, including payments of scheduled mandatory sinking fund payments, the Registrar will direct DTC to make a pass-through distribution of principal to the owners of such Series 2017B Bonds. A form of Pro Rata Pass-Through Distribution of Principal Notice will be provided to the Registrar that includes a table of factors reflecting the relevant scheduled redemption payments, based on the current schedule of mandatory sinking fund payments, which is subject to change upon certain optional redemptions, and DTC's currently applicable procedures, which are subject to change.

For purposes of calculating pro rata pass-through distributions of principal, "pro rata" means, for any amount of principal or interest to be paid, the application of a fraction to such amounts where (a) the numerator is equal to the amount due to the owners of the relevant Series 2017B Bonds on a payment date and (b) the denominator is equal to the total original par amount of the relevant Series 2017 Bonds.

It is the City's intent that redemption allocations made by DTC with respect to the Series 2017B Bonds be made on a pro rata pass-through distribution of principal basis as described above. However, neither the City nor the Underwriters can provide any assurance that DTC, DTC's direct and indirect participants, or any other intermediary will allocate the redemption of these Series 2017 Bonds on such basis.

If the Series 2017 Bonds are not registered in book-entry form and if fewer than all of the Series 2017 Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Series 2017B Bonds of such maturity and bearing such interest rate to be redeemed will be selected on a pro rata basis, and the particular Series 2017A Bonds of such maturity and bearing such interest rate to be redeemed will be selected by lot, provided that any such redemption must be performed such that all Series 2017 Bonds remaining outstanding will be in authorized denominations.

**Notice of Redemption.** Notice of any redemption shall be given by the Trustee by mailing a copy of a redemption notice by first class mail, postage prepaid, at least 30 days and not more than 60 days prior to the date fixed for redemption to the Owner of the Series 2017 Bond or Series 2017 Bonds to be redeemed. All notices of redemption shall be dated and shall state: (i) the series of the Series 2017 Bonds to be redeemed, (ii) the redemption date, (iii) the redemption price, (iv) if less than all Outstanding Series 2017 Bonds of a series are to be redeemed, the identification (and, in the case of partial redemption, the respective principal amounts) of the Series 2017 Bonds of such series to be redeemed, (v) that on the redemption date the redemption price will become due and payable upon each such Series 2017 Bond or portion thereof called for redemption, and that interest thereon shall cease to accrue from and after said date, and (vi) the place where such Series 2017 Bonds are to be surrendered for payment of the redemption price, which place of payment shall be the Trust Office of the Trustee.

No defect in said further notice nor any failure to give all or any portion of such further notice shall in any manner defeat the effectiveness of a call for redemption if notice thereof is given as prescribed in the Indenture.

**Rescission of Redemption Notice.** In the case of any optional redemption of Series 2017 Bonds, the notice of redemption may state that the redemption is conditioned upon receipt by the Trustee of sufficient moneys to redeem the Series 2017 Bonds on the anticipated redemption date, and that the optional redemption shall not occur if, by no later than the scheduled redemption date, sufficient moneys to redeem the Series 2017 Bonds have not been deposited with the Trustee. In the event that the Trustee does not receive sufficient funds by the scheduled optional redemption date to so redeem the Series 2017 Bonds to be optionally redeemed, such event shall not constitute an Event of Default; the Trustee shall send written notice to the Owners to the effect that the redemption did not occur as anticipated, and the Series 2017 Bonds for which notice of optional redemption was given shall remain Outstanding for all purposes of the Indenture.

**Effect of Redemption.** Notice of redemption having been given as provided in the Indenture, the Series 2017 Bonds or portions of Series 2017 Bonds to be redeemed shall, on the redemption date, become due and payable at the redemption price therein specified, and from and after such date (unless the City shall default in the payment of the redemption price) interest with respect to such Series 2017 Bonds or portions of Series 2017 Bonds shall cease to accrue and be payable. Upon surrender of such Series 2017 Bonds for redemption in accordance with said notice, such Series 2017 Bonds shall be paid by the Trustee at the redemption price. Installments of interest due on or prior to the redemption date shall be payable as herein provided for payment of interest. Upon surrender for any partial redemption of any Series 2017 Bond, there shall be prepared for the Owner a new Series 2017 Bond or Series 2017 Bonds of the same series and maturity in the amount of the unredeemed principal. All Series 2017 Bonds which have been redeemed shall be canceled and destroyed by the Trustee and shall not be reissued.

## **SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS**

The Series 2017 Bonds will be secured by a first lien on and pledge of (a) all of the Tidelands Revenues, which consist of all Available Tidelands Operating Revenue, the Available Tidelands Operating Fund Balance and all Available Tidelands Oil Revenue and (b) all of the moneys in the Bond Fund established pursuant to the Indenture (including the Bond Reserve Account therein), including all amounts derived from the investment of such moneys.

The Series 2017 Bonds are payable from Tidelands Revenues on a parity with the City's obligation with respect to Tidelands Revenues pursuant to the City Pledge Agreement, dated as of March 1, 2012 (the "City Pledge Agreement"), by and between the Long Beach Bond Finance Authority (the "Authority"), and any future obligations payable on a parity from Tidelands Revenues, subject to satisfaction of the provisions of the Indenture relating thereto. See "- Existing Obligation Payable from Tidelands Revenues" and "-Additional Obligations Payable from Tidelands Revenues" below.

**The principal or redemption price of and interest on the Series 2017 Bonds are payable solely from the Tidelands Revenues and the other amounts pledged therefor pursuant to the Indenture, and the City is not obligated to pay the Series 2017 Bonds except from the Tidelands Revenues. The general fund of the City is not liable, and the full faith and credit or taxing power of the City is not pledged, for the payment of the principal or redemption price of and interest on the Series 2017 Bonds. The Series 2017 Bonds are not secured by a legal or equitable pledge of, or charge, lien or encumbrance upon, any of the property of the City or any of its income or receipts, except the Tidelands Revenues. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS" and "RISK FACTORS."**



## **Tidelands Revenues**

The Tidelands Revenues consist of all of the Available Tidelands Operating Revenue, the Available Tidelands Operating Fund Balance and all of the Available Tidelands Oil Revenue.

“Available Tidelands Operating Revenue” means, as of any date of calculation, all of the amounts deposited or required to be deposited in the Tideland Operating Fund during the Fiscal Year in which the date of calculation occurs pursuant to the City Charter and any and all documents, agreements, ordinances, settlements or other contractual or legal rights or claims of the City, except (a) amounts required to be paid during such Fiscal Year from the Tideland Operating Fund pursuant to the Second Amended and Restated Parking Structure-Public Facilities Sublease, by and between the City and the Hyatt Long Beach Corporation, dated as of January 27, 1995 (the “Hyatt Sublease”); (b) amounts, if any, required to be paid during such Fiscal Year from the Tideland Operating Fund pursuant to the Management Agreement (Long Beach Convention and Entertainment Center) by and between the City and Spectator Management Group, dated as of February 12, 1991, as amended from time to time (the “Convention Center Management Agreement”); (c) amounts required to be paid during such Fiscal Year to the State Department of Boating and Waterways for loans made under the Small Craft Harbor and Operation Contract (Long Beach Bulkhead Wall Restoration and Harbormaster Office) (the “DBAW Obligations”); (d) amounts required to be paid by the City, as lessee, under the Master Equipment Lease-Purchase Agreement, dated October 1, 2005, between the City and DeLiddo and Associates, Inc., dba DEERS, as lessor, which amounts have been assigned to Bank of Sierra (which lease relates to the roofing system for the City’s convention center) (the “Sierra Bank Lease”); and (e) any amounts associated with the City’s marinas located in the Tidelands Area (the “Marinas”), the Queen Mary or the Rainbow Harbor Area. See “THE CITY, THE TIDELANDS AREA AND THE TIDELAND OPERATING FUND.”

“Available Tidelands Operating Fund Balance” means, as of any date of calculation, the amount on deposit in the Tideland Operating Fund that is unencumbered and available to be expended for any purpose of the Tideland Operating Fund; but shall not include (a) any amounts needed to satisfy any of the obligations described in clauses (a) through and including (e) of the definition “Available Tidelands Operating Revenue” due in the then current Fiscal Year or due in any prior Fiscal Year but not yet paid; (b) any amounts in any Abandonment Sub-Fund in the Tideland Operating Fund; or (c) any amounts in the Tideland Operating Fund associated with the Marinas, the Queen Mary or the Rainbow Harbor Area.

“Available Tidelands Oil Revenue” means, as of any date of calculation, all of the following amounts deposited or required to be deposited in the Tideland Oil Revenue Fund during the Fiscal Year in which the calculation date occurs: (a) moneys received by the City pursuant to subdivision (e) of Section 4 of Chapter 138 of California Statutes of 1964 (First Extraordinary Session), as modified by Chapter 941 of California Statutes of 1991, (b) East Wilmington Incremental Oil Revenue (as defined herein), (c) the rental payments paid to the City pursuant to the THUMS Land Lease (as defined herein), (d) the fees paid to the City pursuant to the THUMS Pipeline License, (e) West Wilmington Base Oil Revenue (as defined herein), (f) West Wilmington Incremental Oil Revenue (as defined herein), and (g) Tideland’s Special Facilities and Service Charges (as defined herein), except any of the amounts described in (a) through (g) that are set-aside for (i) abandonment purposes, including, but not limited to amounts deposited to the Abandonment Sub-Fund in the Tideland Oil Revenue Fund, or (ii) maintenance and operating expenses.

Notwithstanding the foregoing, at such time in any Fiscal Year as (a) the Debt Service due in such Fiscal Year has been paid in full, and (b) the amount in the Bond Reserve Account is at least equal to the Bond Reserve Fund Requirement at such time, any Available Tidelands Operating Revenue and Available Tidelands Oil Revenue on hand or thereafter received by the City in such Fiscal Year, and the then Available Tidelands Operating Fund Balance, shall be free of any pledge, lien or security interest

under this Indenture and may, subject to the provisions of the City Pledge Agreement, be used by the City for any lawful purpose for which such revenues or fund balance may be used.

### **Flow of Funds**

Pursuant to the Indenture, the following funds and accounts will be established and maintained by the Trustee under the Indenture:

**Bond Fund.** The Indenture provides that, on each October 1, commencing October 1, 2018, the City shall transfer to the Trustee, from the Tidelands Revenues, an amount equal to the scheduled debt service due on the Series 2017 Bonds in the Fiscal Year that commences on such October 1, less any amount then held by the Trustee in the Bond Fund. The Trustee shall deposit any funds so remitted to it by the City to the Bond Fund. In the event that, as of any date of transfer by the City, there are not sufficient Tidelands Revenues to make the foregoing transfer and any transfer on such date required pursuant to the City Pledge Agreement, the City shall use the available Tidelands Revenues to make the transfers of Tidelands Revenues required for payment of debt service on the Series 2017 Bonds and by the City Pledge Agreement pro rata.

On each Interest Payment Date, the Trustee shall transfer from the Bond Fund and deposit into the following respective accounts the following amounts, in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of amounts in the Bond Fund sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

First: to the Interest Account, the aggregate amount of interest becoming due and payable on the next succeeding Interest Payment Date on all Bonds then Outstanding;

Second: to the Principal Account, the aggregate amount of principal or sinking fund payment becoming due and payable on the Outstanding Bonds on the next succeeding Interest Payment Date, if any; and

Third: to the Bond Reserve Account, the amount needed to increase the amount then on deposit in the Bond Reserve Account to the Bond Reserve Fund Requirement.

As long as all of the foregoing transfers are made at the time and in the manner set forth above any moneys remaining in the Bond Fund shall, as long as the Bonds are outstanding, be treated as surplus and applied for any lawful purpose of the City, including for the redemption of Bonds and shall be transferred to the City upon the Request of the City to the Trustee.

**Bond Reserve Account.** At the time of delivery of the Series 2017 Bonds, a portion of the Series 2017 Bond proceeds, in an amount equal to the initial Bond Reserve Fund Requirement will be deposited in the Bond Reserve Fund. The “Bond Reserve Fund Requirement” means an amount equal to the least of maximum annual debt service on the Bonds, 125% of average annual debt service on the Bonds, and 10% of the principal amount of the Bonds, which amount shall initially be \$\_\_\_\_\_ on the Closing Date.

All amounts in the Bond Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of (a) paying interest on or principal of the Series 2017 Bonds when due and payable to the extent that moneys deposited in the Interest Account or Principal Account, respectively, are not sufficient for such purpose, and (b) making the final payments of principal of and interest on the Series 2017 Bonds.

At any time, moneys on deposit in the Bond Reserve Account may be substituted by the City with a Qualified Reserve Fund Credit Instrument, in an amount equal to all or a portion of the then Bond Reserve Fund Requirement, upon presentation to the Trustee of such Qualified Reserve Fund Credit Instrument. Upon such substitution, the Trustee shall transfer to the Interest Account from amounts on deposit in the Bond Reserve Account an amount equal to the amount available to be drawn on such Qualified Reserve Fund Credit Instrument.

### **Additional Obligations Payable From Tidelands Revenues**

The Indenture provides that the City may issue or enter into other obligations secured by or on a parity with the pledge of and lien on the Tidelands Revenues pursuant to the Indenture and the City Pledge Agreement, provided that: (a) there are no events of default under the Indenture or the City Pledge Agreement; and (b) average annual aggregate Available Tidelands Oil Revenue and Available Tidelands Operating Revenue, based on actual aggregate Available Tidelands Oil Revenue and Available Tidelands Operating Revenue for the two Fiscal Years immediately preceding the issuance of such obligations, exceeds 2.5 times the sum of (i) the then Maximum Annual Debt Service and (ii) the maximum annual payments to be made in any Bond Year from the aggregate of Available Tidelands Oil Revenue and Available Tidelands Operating Revenue with respect to all parity obligations issued or to be issued by the City.

Nothing in the Indenture or the City Pledge Agreement restricts the ability of the City to pledge or place a lien on the Available Tidelands Operating Revenue, the Available Tidelands Operating Fund Balance or the Available Tidelands Oil Revenue that is subordinate to the pledge of and lien on such funds as provided in the Indenture and the City Pledge Agreement.

### **Existing Obligation Payable from Tidelands Revenues**

The Series 2017 Bonds are payable from Tidelands Revenues on a parity with the City's obligation with respect to Tidelands Revenues pursuant to the City Pledge Agreement, which was entered into in connection with the issuance of the 2012 Authority Bonds. As of September 1, 2017, the 2012 Authority Bonds were outstanding in the aggregate principal amount of \$81,585,000.

### **Permitted Investments**

Moneys held by the Trustee under the Indenture will be invested as directed by the Authority in Permitted Investments, subject to the restrictions set forth in the Indenture. See "APPENDIX B—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—INDENTURE."

### **Other Covenants**

The Indenture provides that the City shall not repeal, amend or otherwise modify any document, agreement, ordinance, settlement or other contractual or legal right or claim it has to receive Available Tidelands Oil Revenue and Available Tidelands Operating Revenue that would materially adversely affect the amount, or delay the receipt by the City, of Available Tidelands Oil Revenue and Available Tidelands Operating Revenue. In addition, the City shall not amend or repeal any ordinance or resolution or any provision of its Municipal Code or the City Charter, which amendment or repeal would materially adversely affect the timing or amount of moneys deposited or permitted to be deposited in the Tideland Operating Fund or the Tideland Oil Revenue Fund.

In addition, pursuant to the Indenture, the City is required to faithfully observe and perform all the covenants, conditions and requirements of the Indenture and the City Pledge Agreement, and shall not

issue or enter into any obligations secured by or payable from Tidelands Revenues in any manner other than in accordance with the Indenture and the City Pledge Agreement and shall not take any action that would permit any default to occur under the Indenture or under the City Pledge Agreement, or do or permit to be done, anything that might in any way weaken, diminish or impair the security intended to be given pursuant to the Indenture and the City Pledge Agreement. Subject to the limitations and consistent with the covenants, conditions and requirements contained in the Indenture and the City Pledge Agreement, the City shall comply with the terms, covenants and provisions, express or implied, of all contracts concerning or affecting the application of the Tidelands Revenues. Under the Indenture, the City shall comply promptly, fully and faithfully with and abide by any statute, law, ordinance, order, rule or regulation, judgment, decree, direction or requirement in force or enacted, adopted, prescribed, imposed or entered by any competent governmental authority or agency applicable to or affecting the Tidelands Revenues.

See “APPENDIX B—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

**DEBT SERVICE REQUIREMENTS FOR SERIES 2017 BONDS**

The following table sets forth the debt service requirements for the Series 2017 Bonds (assuming no optional redemption or extraordinary redemption of the Series 2017 Bonds prior to their respective maturities).

<b>Year Ended November 1</b>	<b>Series 2017A</b>		<b>Series 2017B</b>		<b>Total</b>
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	
2018					
2019					
2020					
2021					
2022					
2023					
2024					
2025					
2026					
2027					
Total					

## **THE CITY, THE TIDELANDS AREA AND THE TIDELAND OPERATING FUND**

### **The City**

The City is a major industrial and trade center, and popular beach resort area in the State of California (the “State”). The City encompasses approximately 52 square miles of coastal area located on the southern edge of Los Angeles County (the “County”). The City’s population is approximately 485,000. The center of the City is 22 miles south of downtown Los Angeles, 450 miles south of San Francisco and 110 miles north of San Diego. Since 1907, the City has been governed as a charter city. The present City Charter was originally adopted in 1921 and has been amended from time to time. The City operates under the council-manager form of government with a nine-member City Council.

### **The Tidelands Area**

The State granted to the City all of the tidelands within the territorial boundaries of the City, from the mean high tide line to three miles offshore (together with any real property acquired with funds arising from such tidelands, the “Tidelands Area”). The City received these properties from the State in trust, for the purposes of developing commerce, navigation, fisheries and recreation. The Queen Mary and the Aquarium of the Pacific are located in the Tidelands Area. Under State law and the City Charter, revenues derived from operation of the Tidelands Area can only be used to pay expenses and debt service relating to the Tidelands Area, which includes debt service on the Series 2017 Bonds and amounts payable by the City pursuant to the City Pledge Agreement.

The City has established separate funds to segregate revenues derived from the various enterprise activities of the Tidelands Area. These funds include, but are not limited to, the Tideland Operating Fund, the Tideland Oil Revenue Fund and the Harbor Revenue Fund. Pursuant to the City Pledge Agreement and the Indenture, certain revenues derived from activities in the Tidelands Area that are deposited, or are to be deposited, into the Tideland Operating Fund and the Tideland Oil Revenue Fund are pledged to secure the payment of debt service with respect to the Series 2017 Bonds and City Payments which are used to pay a portion of the principal of and interest on the 2012 Authority Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS.”

### **The Tideland Operating Fund**

The Tideland Operating Fund is established and maintained by the City pursuant to Section 1710 of the City Charter. Generally, revenues derived from the conduct and maintenance of operations, facilities and other improvements situated in the Tidelands Area, outside of the Harbor District (as defined herein), are deposited to the Tideland Operating Fund, except for revenues attributable to oil and gas operations. Additionally, certain transfers from the Tideland Oil Revenue Fund and the Harbor Revenue Fund are deposited to the Tideland Operating Fund.

The two largest sources of revenue deposited to the Tideland Operating Fund include transfers from the Tideland Oil Revenue Fund and transfers from the Harbor Revenue Fund. Approximately 77% of the total revenues deposited to the Tideland Operating Fund in Fiscal Year 2016 and available to make City Payments under the Indenture and the City Pledge Agreement came from transfers from the Tideland Oil Revenue Fund and transfers from the Harbor Revenue Fund.

***Tideland Oil Revenue Fund Transfers to the Tideland Operating Fund.*** One of the largest sources of revenue payable into the Tideland Operating Fund is derived from the operation of the Wilmington Oil Field located in the Tidelands Area. The oil fields in the Tidelands Area are primarily located in the Wilmington Oil Field, which is comprised of West Wilmington (“West Wilmington”) and

East Wilmington (Long Beach Unit) (“East Wilmington” or “Long Beach Unit”). The fields constitute one of the largest sources of oil in the continental United States. Most revenues from oil operations in the Wilmington Field are deposited into the Tideland Oil Revenue Fund, and a portion of such revenues are then transferred (after approval from the City Council) into the Tideland Operating Fund. The majority of the net revenues derived from operating the Wilmington Oil Field are paid to the State. The transfers from the Tideland Oil Revenue Fund to the Tideland Operating Fund consist primarily of the Available Tidelands Oil Revenue. As discussed in more detail below under “AVAILABLE TIDELANDS OIL REVENUE,” the Available Tidelands Oil Revenue consist of moneys received by the City pursuant to subdivision (e) of Section 4 of Chapter 138, the East Wilmington Incremental Oil Revenue, the rental payments paid to the City pursuant to the THUMS Land Lease, the fees paid to the City pursuant to the THUMS Pipeline License, the West Wilmington Base Oil Revenue, the West Wilmington Incremental Oil Revenue, and the Tideland’s Special Facilities and Services Charge. In Fiscal Year 2016, the City transferred approximately \$9.7 million of Available Tidelands Oil Revenue from the Tideland Oil Revenue Fund to the Tideland Operating Fund.

***Harbor Revenue Fund Transfers to the Tideland Operating Fund.*** Another major source of revenue payable into the Tideland Operating Fund are the transfers from the City’s Harbor Department (the “Harbor Department”). The Harbor Department was created by the City Charter to promote, develop and operate the Port of Long Beach (the “Port”), the second ranked container port in the nation in terms of container cargo for the year ended December 31, 2016. There are two separate Harbor Department transfers to the Tideland Operating Fund: (a) a transfer that consists of a reimbursement to the Tideland Operating Fund for police and fire services (this revenue is entirely offset by the commensurate amount of expenditures for police and fire services); and (b) the 5% Transfer that is discussed in the following paragraph.

The City Charter (as amended by Measure D (as defined below)) permits in each Fiscal Year a transfer (the “5% Transfer”) from the Harbor Revenue Fund, subject to the approval of two-thirds of the members of the City Council, of an amount necessary to meet the lawful obligations of the Tideland Operating Fund. Such transfer may not exceed 5% of the gross operating revenues of the Harbor Department as shown on the most recent available independently audited financial statements of the Harbor Department. The 5% Transfer also is subject to the prior approval of a majority of all the members of the Harbor Board, expressed by resolution, finding and determining that the funds proposed to be transferred will not be needed for Harbor Department operations, including, without limitation, operating expenses and capital projects, and that such transfer will not result in insufficient funds to pay the principal of and interest on the revenue bonds issued by the Harbor Department or result in noncompliance by the Harbor Department of its debt to revenue coverage requirements. As of September 1, 2017 the Harbor Department had \$992,980,000 aggregate principal amount of its Harbor Revenue Bonds outstanding (not including amounts available or drawn pursuant to lines of credit from time to time)). See “THE PORT OF LONG BEACH” and “APPENDIX A—HARBOR DEPARTMENT OF THE CITY OF LONG BEACH AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2015 AND 2016.” In Fiscal Year 2016, the Harbor Department’s 5% Transfer to the Tideland Operating Fund amounted to approximately \$18.0 million.

The Harbor Board considers the 5% Transfer for each fiscal year in August of the preceding fiscal year in connection with the adoption of the annual budget for the Harbor Department. Following approval of the Harbor Board, the City Council considers the 5% Transfer as part of the budget approval for the City. The Harbor Board and the City Council have never failed to approve the 5% Transfer to the Tidelands Operating Fund as provided in the City Charter either prior to or after the passage of Measure D. Payment of the 5% Transfer with respect to each fiscal year is made in four equal installments each quarter of the subsequent fiscal year. For example the payment with respect to Fiscal Year 2015-16 was

approved by the Harbor Board and the City Council in August 2015, and paid in equal quarterly installments in Fiscal Year 2016-2017.

Neither the Harbor Board nor the City Council is legally obligated to approve the 5% Transfer, and failure to approve the 5% Transfer by either the Harbor Board or the City Council does not constitute an Event of Default under the Indenture.

***Other Sources of Tidelands Operating Fund Revenue.*** The Tidelands Operating Fund also receives revenue from (a) the Long Beach Convention Center (the “Convention Center”); (b) the Hyatt Sublease; (c) fees, concessions and rentals (which include revenues from an office building complex, island excursion boat, metered parking and citations, aquatic sports facility, recreational vehicle park, hotel, restaurants, and unreserved proceeds from lease agreement with the Queen Mary attraction/hotel/submarine and retail area); and (d) certain other revenues that are primarily interest earnings. Commercial facilities in the Tidelands Area are operated under ground leases, which generally provide for the City to receive rent based on a percentage of net profits received from the operation of the applicable facility.

***Amounts Payable From Tidelands Operating Fund Prior to Payment of Debt Service on Series 2017 Bonds.*** Certain obligations and expenses of the City are payable from amounts on deposit in the Tidelands Operating Fund prior to the payment of debt service on the Series 2017 Bonds. These obligations and expenses include: (a) amounts required to be paid under the Hyatt Sublease; (b) amounts, if any, required to be paid pursuant to the Convention Center Management Agreement; (c) the DBAW Obligations (the DBAW Obligations terminate in 2027 and 2030); (d) amounts required to be paid by the City under the Sierra Bank Lease; and (e) any amounts associated with the Marinas, the Queen Mary and the Rainbow Harbor Area.

***Additional Uses of Amounts on Deposit in Tidelands Operating Fund.*** In addition to securing the payment of the City Payments and debt service on the Series 2017 Bonds and the other uses described above under “Amounts Payable From Tidelands Operating Fund Prior to Payment of Debt Service on Series 2017 Bonds,” the City plans to use Available Tidelands Operating Revenue and other amounts on deposit in the Tidelands Operating Fund to finance certain capital improvement projects to be located in the Tidelands Area. The City has an approved budget balance of \$112 million for capital improvement projects (“CIP”) in the Tidelands Operating Fund, which is anticipated to be expended within 3 to 5 years. Most if not all of the projects were approved by State Land Commission, as it is required that a capital outlay of \$100,000 or more requires its approval. Additional CIP expenditures will depend on the availability of funds every year after all obligations are met.

The following table sets forth historical Available Tidelands Operating Revenues for the fiscal years ended September 30, 2012 through September 30, 2016 and projected Available Tidelands Operating Revenues for the fiscal years ending September 30, 2017 through September 30, 2021. Other than Tidelands Oil Revenues (which are derived from Table 4), and projected debt service with respect to the Series 2017 Bonds, the projections assume that the various revenue and expense elements set forth in the table will be equal to currently estimated amounts for Fiscal Year 2016-17.



**TABLE 1**  
**HISTORICAL AND PROJECTED AVAILABLE TIDELANDS OPERATING REVENUES**  
**FISCAL YEARS ENDED SEPTEMBER 30, 2012-2021 (in \$000's)**

*Fiscal Year Ending 9/30*

	<i>Historical</i>					<i>Projected</i>				
	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>
<b>Revenue:</b>										
Other Licenses and Permits	\$208	\$207	\$190	\$127	\$173	\$173	\$173	\$173	\$173	\$173
Traffic Fines	342	308	258	204	205	205	205	205	205	205
Interest	831	194	637	1,023	1,369	1,369	1,369	1,369	1,369	1,369
Parking Fees	597	603	190	793	813	813	813	813	813	813
Facilities Rentals and Concessions	3,310	3,736	3,769	6,764	3,807	3,807	3,807	3,807	3,807	3,807
Marine Fees and Rentals	694	716	771	816	831	831	831	831	831	831
Tidelands Fees, Concessions, and Rent	160	102	195	176	181	181	181	181	181	181
Convention Center Revenue	729	637	506	542	545	545	545	545	545	545
Hyatt Utility Reimbursement	415	481	595	814	430	430	430	430	430	430
Engineering Labor	132	132	131	143	143	143	143	143	143	143
Other Fees	666	698	721	722	751	751	751	751	751	751
Interfund Transfer from Tidelands Oil <sup>(1)</sup>	27,331	23,541	22,106	11,149	7,297	10,000	7,000	7,000	8,000	6,000
Interfund Transfer from Tideland Oil - Measure D <sup>(1)</sup>	31,587	23,368	20,569	6,843	2,384	2,098	2,018	2,919	2,189	2,994
Interfund Transfer from Harbor - Measure D <sup>(1)</sup>	16,694	17,312	17,844	17,772	18,033	18,033	18,000	18,000	18,000	18,000
Interfund Transfer In - Others	537			654		480				
Other Revenues	815	687	544	596	584	584	584	584	584	584
<b>Total Revenue</b>	<b>\$85,048</b>	<b>\$72,722</b>	<b>\$69,027</b>	<b>\$49,138</b>	<b>\$37,546</b>	<b>\$40,443</b>	<b>\$36,850</b>	<b>\$37,751</b>	<b>\$38,021</b>	<b>\$36,826</b>
<b>Prior Obligations:</b>										
Hyatt Sublease	(111)	(102)	(77)	(74)	(70)	(70)	(70)	(70)	(70)	(70)
Convention Center Management	(1,070)	(989)	(1,055)	(1,125)	(1,268)	(1,269)	(1,269)	(1,269)	(1,269)	(1,269)
DBAW Obligations	(42)	(42)	(42)	(42)	(42)	(42)	(42)	(42)	(42)	(42)
Sierra Bank Lease	(52)	(52)	(52)	(52)	(52)	(52)	(52)	(52)	(52)	(52)
<b>Total Prior Obligations</b>	<b>(\$1,275)</b>	<b>(\$1,185)</b>	<b>(\$1,226)</b>	<b>(\$1,293)</b>	<b>(\$1,432)</b>	<b>(\$1,433)</b>	<b>(\$1,433)</b>	<b>(\$1,433)</b>	<b>(\$1,433)</b>	<b>(\$1,433)</b>
<b>Available Tidelands Operating Revenues</b>	<b>\$83,773</b>	<b>\$71,537</b>	<b>\$67,801</b>	<b>\$47,845</b>	<b>\$36,114</b>	<b>\$39,010</b>	<b>\$35,417</b>	<b>\$36,318</b>	<b>\$36,588</b>	<b>\$35,393</b>
<b>2012 Authority Bonds<sup>(2)</sup></b>	<b>(\$9,002)</b>	<b>(\$10,138)</b>	<b>(\$8,165)</b>	<b>(\$8,154)</b>	<b>(\$8,144)</b>	<b>(\$8,140)</b>	<b>(\$8,139)</b>	<b>(\$8,114)</b>	<b>(\$8,103)</b>	<b>(\$8,126)</b>
<b>Series 2017 Bonds*</b>							(477)	(2,912)	(2,912)	(3,891)
<b>Debt Service Coverage<sup>(3)</sup></b>	<b>9.31x</b>	<b>7.06x</b>	<b>8.30x</b>	<b>5.87x</b>	<b>4.43x</b>	<b>4.79x</b>	<b>4.11x</b>	<b>3.29x</b>	<b>3.32x</b>	<b>2.95x</b>
<b>Available Tidelands Operating Revenues after 2012 Authority Bonds and Series 2017 Bonds</b>	<b>\$74,771</b>	<b>\$61,399</b>	<b>\$59,636</b>	<b>\$39,691</b>	<b>\$27,970</b>	<b>\$30,870</b>	<b>\$26,801</b>	<b>\$25,292</b>	<b>\$25,573</b>	<b>\$23,376</b>

<sup>(1)</sup> See "AVAILABLE TIDELANDS OIL REVENUE"

<sup>(2)</sup> Does not reflect application of other amounts to 2012 Bonds debt service.

<sup>(3)</sup> Available Tidelands Operating Revenues divided by debt service on the 2012 Authority Bonds and Series 2017 Bonds.

\* Preliminary; subject to change.

Source: City of Long Beach - Comprehensive Annual Financial Report.

The following table sets forth the Statements of Net Assets for the Tideland Operating Fund for the fiscal years ended September 30, 2012 through September 30, 2016.

**TABLE 2**  
**Tidelands Operating Fund Statement of Net Assets**  
**Fiscal Years 2012-2016**  
**(In \$000's)**

	<i>Fiscal Year Ending 9/30</i>				
	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>
<b>ASSETS</b>					
Current Assets:					
Pooled Cash and Cash Equivalents	\$ 151,150	\$ 179,618	\$ 179,469	\$ 153,602	\$144,637
Non-Pooled Cash and Cash Equivalents	6,865	8,029	7,669	9,003	10,157
Non Performing Investments	146	29	-	-	-
Receivables:					
Interest Receivable	39	26	85	59	48
Accounts Receivable	2,633	2,525	2,369	5,694	4,318
Notes and Loans Receivable	-	-	-	-	-
Due from Other Governments	5,271	590	639	8	3
Due from Other Funds	28,761	23,748	22,412	21,110	20,166
Other Receivables	-	-	-	-	-
Allowance for Receivables	(4)	(2)	(4)	(6)	(7)
Inventory	-	-	-	-	-
Other Assets	-	1	-	160	131
Total Current Assets	<u>\$ 194,861</u>	<u>\$ 214,564</u>	<u>\$ 212,639</u>	<u>\$ 189,630</u>	<u>\$179,287</u>
Noncurrent Assets:					
Restricted Non-Current Asset					
Non-Pooled Cash Investments	\$ 8,158	\$ 8,106	\$ 8,212	\$ 8,254	\$7,516
Other Noncurrent Receivables	-	-	-	-	-
Advances to Other Funds	-	-	-	-	-
Capital Assets:					
Land and Other Assets not Being					
Depreciated	29,625	43,693	37,767	37,846	43,277
Property, Plant and Equipment net of					
Accumulated Depreciation	149,300	139,502	148,459	153,895	146,268
Other Assets-Long-Term	-	-	-	-	-
Total Noncurrent Assets	<u>\$ 187,083</u>	<u>\$ 191,301</u>	<u>\$ 194,438</u>	<u>\$ 199,995</u>	<u>\$197,061</u>
Total Assets	\$ 381,944	\$ 405,865	\$ 407,077	\$ 389,625	\$376,348
Deferred Outflows of Resources					
Deferred Outflows	\$ -	\$ 8,288	\$ 7,804	\$ 12,786	\$17,798

Source: City of Long Beach - Comprehensive Annual Financial Report.

**Tidelands Operating Fund**  
**Statement of Net Assets**  
**Fiscal Years 2012-2016**  
**(In \$000's)**  
**(continued)**

	<i>Fiscal Year Ending 9/30</i>				
	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>
<b>LIABILITIES</b>					
Current Liabilities payable from Current Assets:					
Accounts Payable	\$4,474	\$6,278	\$7,544	\$5,988	\$4,558
Accrued Wages	160	249	311	347	453
Accrued Interest Payable	1,925	1,901	1,855	1,795	1,730
Due to Other Funds	1,007	122	157	304	342
Unearned Revenues	108	111	111	115	216
Collections Held in Trust	67	55	68	84	97
Obligations Under Capital Leases	28	29	30	32	34
Bonds Payable Due Within One Year	5,560	3,670	3,780	3,915	4,070
Other Long Term Obligation-Current	104	99	99	16	2
Total Current Liabilities	<u>\$13,433</u>	<u>\$12,514</u>	<u>\$13,955</u>	<u>\$12,596</u>	<u>\$11,502</u>
Noncurrent Liabilities:					
Advances from Other Funds	\$1,300	\$1,300	\$1,300	\$1,300	\$1,300
Deferred Revenues	5,096	5,010	4,923	4,836	4,750
Obligations Under Capital Leases-Current	462	433	402	370	337
Other Long Term Obligations	745	701	602	6	5
Bonds Payable	98,674	93,350	89,570	85,655	81,585
Unamortized Discount ( Premium)		10,614	9,847	9,043	8,224
Net Pension Liability	-	-	-	25,299	37,715
Total Noncurrent Liabilities	<u>\$106,277</u>	<u>\$111,408</u>	<u>\$106,644</u>	<u>\$126,509</u>	<u>\$128,419</u>
Total Liabilities	<u>\$119,710</u>	<u>\$123,922</u>	<u>\$120,599</u>	<u>\$139,105</u>	<u>\$139,921</u>
Deferred Inflows of Resources					
Deferred Inflows	\$ -	\$ -	\$ -	\$ 3,552	3,523
<b>NET ASSETS (DEFICIT)</b>					
Investment in Capital Assets, Net of Related Debt	\$81,572	\$90,812	\$97,925	\$108,248	\$110,346
Restricted for:					
Debt Service	8,254	8,256	8,285	8,371	8,433
Capital Projects	5	87	-	999	1,545
General Purpose	6,803	7,900	7,616	7,912	7,637
Unrestricted	165,600	183,176	180,456	134,224	122,441
Total Net Assets	<u>\$180,662</u>	<u>\$199,419</u>	<u>\$196,357</u>	<u>\$259,754</u>	<u>\$250,402</u>

Source: City of Long Beach - Comprehensive Annual Financial Report.

***Investment of Tideland Operating Fund.*** Moneys deposited to the Tideland Operating Fund are pooled with the other City funds and are maintained and invested by the City Treasurer. Interest income and gains and losses earned on pooled cash and investments are allocated monthly to the various pool participants (including the Tideland Operating Fund) based on their average daily cash balances.

The City maintains an Investment Policy, which, pursuant to the provisions of Section 53646 of the California Government Code, is annually submitted to and reviewed by the Investment Committee of the City and approved by the City Council. Any change in the Investment Policy is reviewed and approved by the City Council. Quarterly reports, which summarize the investment activity and portfolio balances, are also provided to the City Manager, the City Auditor and the City Council. In addition, the Investment Committee, comprised of the City Manager, the City Auditor, the City Attorney, the Director of Financial Management, the City Treasurer, the City Controller, the Budget Manager and the Chief Financial Officers of the Harbor and Water Departments, meets quarterly, or as needed, to review investment policies and strategies and to make recommendations consistent with approved investment policies.

The goal of the Investment Policy is to invest public funds in a prudent manner, maintaining maximum security, meeting the daily cash flow demand of the City and conforming to all State and local statutes governing the investment of public funds and consistent with the aforementioned goals, managing the public funds in order to maximize the return on investments. The objectives of the Investment Policy are, in the following order of priority:

FIRST, *Safety of Principal*, through management of both credit risk and market risk as well as the application of the “Prudent Investor Rule.” Credit risk is to be mitigated through prudent investment choices and portfolio diversification. Market risk is to be mitigated by limiting the weighted average maturity of the City’s portfolio to a maximum of three years.

SECOND, *Liquidity*, to meet all operating requirements that might be reasonably anticipated.

THIRD, *Return on Investment*, to attain market average rates of return through economic cycles. The investment strategy is to seek above market average rates of return consistent with the risk limitations and prudent investment principles of the City’s Investment Policy. The City has established three benchmark measures for the pool funds portfolio: the 91-day U.S. Treasury Bill rate for the short-term portfolio, the One-Year Constant Maturity Treasury Index for the intermediate-term portfolio and the Merrill Lynch one-to-five year Treasury/Agency Index for the long-term portfolio.

The City’s investment alternatives are specified in California Government Code Sections 53600 et seq. Within this framework, the Investment Policy specifies authorized investments, subject to certain limitations.

The City does not have any outstanding obligations payable from its General Fund, where the interest rate on such obligation is set by means of a periodic auction (commonly known as “auction rate securities”). In addition, the City is not currently a party or counterparty to any contract, instrument or agreement commonly known as a “derivative,” such as an interest rate swap, cap, collar, hedge, floor or “swaption” that has been entered into in connection with a General Fund obligation of the City.

According to the City Treasurer’s Monthly Report for the quarter ending June 30, 2017, the City’s invested funds and cash totaled approximately \$1.54 billion. The investment portfolio includes a variety of fixed income securities that vary in maturity from one day to five years. On June 30, 2017, 18.33% of the total City Portfolio was invested in Short Term investments (approximately 3 to 6 months to maturity), 33.79% in Intermediate Term investments (approximately 1 year to maturity) and 28.17% in

Long Term investments (up to 5 years to maturity). The remaining 19.71% is cash held at various financial institutions.

Standard & Poor's Ratings Services has rated the City's investment portfolio "AAf" and a volatility rating of "S1." Any explanation of the significance of such a rating may be obtained from Standard & Poor's Ratings Services.

## **AVAILABLE TIDELANDS OIL REVENUE**

### **General**

Available Tidelands Oil Revenue consists of certain oil revenues collected from the operation of the Wilmington Oil Field. Prior to their transfer to the Tidelands Operating Fund, Available Tidelands Oil Revenue is deposited to the Tidelands Oil Revenue Fund. The Tidelands Oil Revenue Fund was established and is maintained by the City Treasurer pursuant to Section 1709 of the City Charter. In addition to the Available Tidelands Oil Revenue, certain other amounts are deposited to the credit of the Tidelands Oil Revenue Fund, including proceeds and receipts received from the sale or disposition of oil and gas extracted from the Tidelands Area. These other amounts deposited to the Tidelands Oil Revenue Fund are not pledged to nor do they secure the payment of the City Payments. Of the amounts deposited to the Tidelands Oil Revenue Fund, only the Available Tidelands Oil Revenue is pledged to and secures the payment of the Series 2017 Bonds and the City Payments under the City Pledge Agreement.

### **The Wilmington Oil Field**

The Wilmington Oil Field was discovered in 1936 and is one of the largest oil fields in North America. The Wilmington Oil Field is comprised of West Wilmington and East Wilmington (Long Beach Unit). The Wilmington Oil Field is one of the largest oil fields in the contiguous United States with an ultimate recovery estimated at over three billion barrels of oil over its total life (including amounts recovered to date). The field is located on the 13 mile long and 3 mile wide Wilmington Anticline that extends from onshore San Pedro to offshore Seal Beach and is divided vertically by faults creating separate producing entities called Fault Blocks. Oil is produced from five major sand intervals ranging in depths from 2,000 feet to 11,000 feet where over 2.565 billion barrels of oil have been recovered. Oil and gas are recovered through primary production and water flooding.

Operation of the Wilmington Oil Field is managed by two contractors, Tidelands Oil Production Company ("Tidelands OPC") and THUMS Long Beach Company (both companies are owned by California Resources Corporation, described below). The City administers all City oil operations, contracts, leases and agreements and directs all subsidence control operations through its Long Beach Gas and Oil Department.

#### ***West Wilmington.***

General/History and Current Operation. From 1911 through 1935, the State granted the City the Tidelands Area. The City received the Tidelands Area in trust for the purposes of developing commerce, navigation, fisheries and recreation. In 1938, the California Supreme Court ruled that the development and production of oil from the Tidelands Area was compatible with the trust.

The Wilmington Oil Field (which at that time only included West Wilmington) was discovered in 1936. By 1939, the City, through the Harbor Department, let its first 25-year field contract to Long Beach Oil Development Company ("LBOD") to develop its tidelands oil properties. Since then, the City has had a number of contractual arrangements with private parties to develop and operate the Tidelands oil

properties. Pursuant to these arrangements the private parties have significant economic incentives, subject to City review and approval of drilling activities.

During the early 1940's, the City and the U.S. Navy (which previously had a base and shipyard located in the Tidelands Area) noticed the land surface in parts of the Tidelands Area was sinking due to oil production. The City initiated a waterflood in part of West Wilmington to replace the fluid withdrawals and arrest subsidence, which also resulted in increased oil production. In the mid-1950's, the federal government succeeded in litigation against the City holding it liable for subsidence within the Long Beach Naval Shipyard and Navy Base. In 1958, the State enacted the Subsidence Control Act enabling the City to force unitization of subsidence prone areas in order to prevent the sinking of the surface.

In the early 1960's, the City entered into separate arrangements for the operation of various parts of the oil properties with Union Pacific Resources Company ("UPRC") and Mobil Oil. In 1964, LBOD was the successful bidder for a new 25-year Harbor Parcel Field Contract with a bid enabling the City to retain 91% of the net profits.

In 1989, Tidelands Oil Production Company ("Tidelands OPC") was awarded an 11-year field contract for operation of parts of West Wilmington with a bid enabling the City to retain 95% of the net profits. Tidelands OPC is the current operator of West Wilmington. In 1991, the State enacted legislation authorizing the City, with approval of the State Lands Commission, to extend the term of Tidelands OPC's field contract to 2025 based on the implementation of a thermal oil recovery project.

West Wilmington is a very mature oil field. Based on current oil extraction technology, as of January 1, 2017, the City estimated that there were approximately 23.3 million barrels of proved reserves in West Wilmington and that it would take until Fiscal Year 2035 to extract such reserves.

West Wilmington Base Oil Revenue. Pursuant to several agreements (the "West Wilmington Base Agreements") entered into by the City, acting by and through the Harbor Board, and Tidelands OPC, Tidelands OPC agreed to manage West Wilmington for the City and the City received 100% of certain net profits generated from oil produced in West Wilmington. In January 2010, the City and Tidelands OPC entered into the Agreement for Implementation of an Optimized Waterflood Program for the West Wilmington Oil Field, (the "West Wilmington Optimized Waterflood Agreement"), pursuant to which Tidelands OPC agreed to make certain capital investments in West Wilmington in order to increase oil production, and, as an incentive to Tidelands OPC for undertaking such financial risk, Tidelands OPC would receive, among other things, a portion of the net profits attributable to the increased oil production. Under the West Wilmington Optimized Waterflood Agreement, the City and Tidelands OPC agreed to a level of base oil production (the "West Wilmington Base Production"), and that the City would be allocated 97% of the net profits (the "West Wilmington Base Oil Revenue") from such West Wilmington Base Production. The amount of West Wilmington Base Oil Revenue payable to the City each Fiscal Year is dependent on the price of oil and the remaining production life of West Wilmington (the end of its production life is currently estimated to occur in 2035).

West Wilmington Incremental Oil Revenue. In addition to setting forth the provisions for the calculation and receipt of West Wilmington Base Oil Revenue, the West Wilmington Optimized Waterflood Agreement, provides that any net profits attributable to oil production that exceed the West Wilmington Base Production is to be divided among Tidelands OPC (49%) and the City (51%) (the "West Wilmington Incremental Oil Revenue"). The City received West Wilmington Incremental Oil Revenue for the first time in the fiscal year ending September 30, 2012. The amount of West Wilmington Incremental Oil Revenue payable to the City each Fiscal Year is dependent on the price of oil and the

remaining production life of West Wilmington (the end of its production life is currently estimated to occur in 2035).

Tideland's Special Facilities and Services Charge. On January 1, 1970, the City began assessing a land rental charge on all lands within the tideland portion of the Harbor District which were occupied by oil operations. As a result of the State's objection to the assessment of such land rental charge, in October 1976, the City and the State, acting by and through the State Lands Commission, entered into an agreement (the "Tideland's Special Facilities and Services Charge Agreement"), pursuant to which, the City and the State agreed, among other things, to allow the City to apply and collect a special facilities and services charge (the "Tideland's Special Facilities and Services Charge") on all oil operations within the tideland portion of the Harbor District, except for those areas occupied by the East Wilmington oil operations. The Tideland's Special Facilities and Services Charge is a square footage charge on all land within the tideland portion of the Harbor District which is occupied by oil operations (except for those located in East Wilmington). The Tideland's Special Facilities and Services Charge is adjusted yearly based on inflationary index based on salary and benefit costs for a representative sampling of those municipal employees providing services to the oil operations.

#### ***East Wilmington (Long Beach Unit).***

General/History and Current Operation. In 1962, after the City proved it could control subsidence, it placed a referendum before its residents to allow development of East Wilmington, the offshore area of the Tidelands Area, from four landscaped oil islands under the direction and control of the City. In 1964, the State enacted Chapter 138 authorizing the City to develop the offshore area of the Tidelands Area as a unit with the City as unit operator. THUMS (a consortium comprised of various oil companies) became the initial field contractor with a bid providing 95.5% of the net profits going to the City. Development drilling began in 1965.

In the early 1990's, ARCO Long Beach, Inc. and Atlantic Richfield Company (the predecessors to California Resources Long Beach) approached the City and the State with a proposal to develop and fund an optimized waterflood program in East Wilmington for a share of the incremental production. In 1991, the State enacted Chapter 941, California Statutes of 1991 ("Chapter 941"), which authorized the City, State, ARCO Long Beach, Inc. and Atlantic Richfield Company to enter into an optimized waterflood program agreement. See "East Wilmington Incremental Oil Revenue" below for more information about the optimized waterflood program agreement entered into for East Wilmington. Since 2000, THUMS Long Beach Company has been the sole field contractor for East Wilmington.

East Wilmington is a mature oil field. Based on current oil extraction technology, as of January 1, 2017, the City estimated that there were approximately 83.6 million barrels of proved reserves in East Wilmington and that it would take until Fiscal Year 2035 to extract such reserves. However, the current oil extraction technologies are costly and sensitive to oil price.

Chapter 138 Revenues. Chapter 138 provided for the formation of East Wilmington as the mechanism for developing the oil reserves beneath the offshore area of the Wilmington Oil Field. The City was designated as the unit operator, with the City having control over the day-to-day operation (through the City's contractor) of East Wilmington, while the State retained control over budgetary matters. Pursuant to subdivision (e) of Section 4 of Chapter 138, each year the City receives a small portion of the tidelands oil revenue from East Wilmington, which since 1988 has been \$1,000,000 per year. The City will continue to receive the \$1,000,000 until such time as no oil is being produced in East Wilmington.

East Wilmington Incremental Oil Revenue. Pursuant to Chapter 941, the City entered into the Agreement for Implementation of an Optimized Waterflood Program for the Long Beach Unit, dated as of November 5, 1991 (the “East Wilmington Optimized Waterflood Agreement”) with the State, acting through the State Lands Commission, California Resources Corporation (as successor to Atlantic Richfield Company) and California Resources Long Beach (“CRC”) (successor to ARCO Long Beach, Inc.), whereby CRC agreed to make certain capital investments in East Wilmington in order to increase oil production, and, as an incentive to CRC for undertaking such financial risk, CRC would receive a portion of the net profits attributable to the increased oil production. Under the East Wilmington Optimized Waterflood Agreement, the City, the State and CRC agreed to a level of base oil production (the “East Wilmington Base Production”), the net profits from which would continue to be distributed between CRC and the State based on the original percentage of net profits agreed to by CRC and the State, and that, after January 1, 2000, the net profits attributable to oil production that exceeded the East Wilmington Base Production would be divided among CRC (49%), the State (42.5%) and the City (8.5%) (the “East Wilmington Incremental Oil Revenue”). The amount of East Wilmington Incremental Oil Revenue payable to the City each Fiscal Year is dependent on the price of oil and the remaining production life of East Wilmington (the end of its production life is currently estimated to occur in 2035).

THUMS Land Lease. The City and THUMS Long Beach Company (“THUMS Long Beach”), entered into a Lease, dated January 2, 1997, as amended (the “THUMS Land Lease”), pursuant to which the City leased certain parcels of real property located in the Harbor District to THUMS Long Beach in connection with its oil operations within and adjacent to the Harbor District. Pursuant to the THUMS Land Lease, THUMS Long Beach pays the City rent on a monthly basis for the use of such real estate. The monthly rental payments are set pursuant to the terms of the THUMS Land Lease and are adjusted on a periodic basis based on the consumer price index for the Los Angeles-Anaheim-Riverside area. Rent paid by THUMS Long Beach under the THUMS Land Lease is paid to the City for deposit in the Tideland Oil Revenue Fund. The THUMS Land Lease has a termination date of March 31, 2025, unless the lease is terminated earlier pursuant to its terms.

THUMS Pipeline License. The City and THUMS Long Beach, entered into a Pipeline License, with an effective date of February 11, 2005 (the “THUMS Pipeline License”), pursuant to which the City permits THUMS Long Beach to lay, maintain, operate, repair and renew the pipelines with necessary attachments, facilities and appurtenances for the transportation of oil, gas, other hydrocarbons, and water, and the right of ingress and egress to and from the same over City-owned property in the Harbor District. Pursuant to the THUMS Pipeline License, THUMS Long Beach pays the City an annual fee. The annual fee is set pursuant to the terms of the THUMS Pipeline License and is adjusted on a periodic basis based on the pricing provisions set forth in Port of Long Beach Tariff No. 4. THUMS Long Beach has approximately 25 miles of pipeline throughout the City, mostly confined to the Harbor District areas (not including smaller piping on the land lease sites) to move gas and oil for sales, and water to different sites for water injection purposes. The fees paid by THUMS Long Beach under the THUMS Pipeline License is paid to the City for deposit in the Tideland Oil Revenue Fund. The THUMS Pipeline License may be terminated by either the City or THUMS Long Beach at any time pursuant to the terms of the THUMS Pipeline License.

## **Markets and Pricing of Wilmington Field Oil**

The amount of West Wilmington Base Oil Revenue, West Wilmington Incremental Oil Revenue and East Wilmington Incremental Oil Revenue collected by the City each Fiscal Year is mostly dependent upon the amount of oil produced in West Wilmington and East Wilmington, respectively, and the prices at which such oil is sold. Most of the oil produced in the Wilmington Oil Field is sold to local refineries, which use the oil to produce gasoline, diesel and airplane fuel and in the production of asphalt. Oil produced in the Wilmington Oil Field is generally sold at prices based upon the benchmark price of



Midway Sunset with an API gravity adjustment. The benchmark price of Midway Sunset is generally less than the benchmark price of West Texas Intermediate (the price of oil most widely cited in the United States); although, for the year ended December 31, 2016, the average price for Midway Sunset (\$34.75 per barrel) was lower than the average price for West Texas Intermediate (\$41.49) per barrel. The following table sets forth the average price of Midway Sunset and West Texas Intermediate (shown for comparison purposes only) for the fiscal years ended September 30, 2012 through 2016.

**TABLE 3**  
**AVERAGE OIL PRICES**  
**Midway Sunset and West Texas Intermediate**  
**(Dollars per barrel)**

<b>Fiscal Year Ended September 30</b>	<b>Midway Sunset</b>	<b>West Texas Intermediate</b>
2012	\$104.64	\$95.93
2013	99.92	95.64
2014	96.15	98.96
2015	49.62	56.21
2016	33.19	41.49

Source: City of Long Beach

Oil produced in the Wilmington Oil Fields also is priced with a price adjustment based on the oil's API gravity, which is a measurement of how heavy or light a petroleum liquid is compared to water. The higher an oil's API gravity the "lighter" the oil is and the less the adjustment. Oil produced in the Wilmington Oil Fields generally has an API gravity of approximately 17 degrees (West Texas Intermediate crude has a API gravity of approximately 38-40 degrees).

#### **Certain Factors Affecting Oil Production and Tidelands Oil Revenues**

The amount of Tidelands Oil Revenue payable to the City each Fiscal Year is dependent on the price of oil and the remaining production life of the Tidelands oil properties. Production life depends in part on the implementation of continuing capital improvements to the oil fields. In recent years the City has idled certain production wells from time to time as a result of depressed oil prices. Continuing decreases in oil prices could result in declining profitability of the oil operations, which in turn could result in reduced oil production and further revenue declines.

#### **Available Tidelands Oil Revenues, Oil Reserves and Production**

The following table sets forth historical Available Tidelands Oil Revenues and information with respect to oil prices and oil production in the Wilmington Oil Field for the fiscal years ended September 30, 2012 through September 30, 2016 and projected Available Tidelands Oil Revenues and projected information with respect to oil prices and oil production in the Wilmington Oil Field for the fiscal years ending September 30, 2017 through September 30, 2022.

**TABLE 4**  
**HISTORICAL AND PROJECTED AVAILABLE TIDELANDS OIL REVENUES**  
**AND OIL PRICES AND OIL PRODUCTION**

	<i>Fiscal Year Ending 9/30</i>									
	<i>Actual Results</i>					<i>Projections</i>				
	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017<sup>(1)</sup></i>	<i>2018</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>
<b>Available Tidelands Oil Revenue</b>										
<b>LBU</b>										
Chapter 138	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
East Wilmington Incremental Oil	26,331	22,541	21,106	10,149	6,297	9,238	5,127	4,929	5,323	4,042
Thums Land Lease	2,517	2,568	2,615	2,619	2,659	2,699	2,739	2,780	2,822	2,864
Thums Pipeline License	259	259	259	259	259	259	259	259	259	259
<b>Total:</b>	<b>\$30,107</b>	<b>\$26,368</b>	<b>\$24,980</b>	<b>\$14,027</b>	<b>\$10,215</b>	<b>\$12,296</b>	<b>\$9,125</b>	<b>\$8,968</b>	<b>\$9,404</b>	<b>\$8,165</b>
<b>West Wilmington</b>										
WW Base Oil	\$30,660	\$21,138	\$19,200	\$4,837	\$284	\$2,745	\$2,213	\$2,376	\$1,838	\$1,545
WW Incremental Oil	-	-	-			0	87	494	424	359
Tideland's Special Facilities & Service Charge	1,729	1,687	1,685	1,770	2,026	2,073	2,108	2,144	2,180	2,216
<b>Total:</b>	<b>\$32,389</b>	<b>\$22,825</b>	<b>\$20,885</b>	<b>\$6,607</b>	<b>\$2,310</b>	<b>\$4,818</b>	<b>\$4,408</b>	<b>\$5,014</b>	<b>\$4,442</b>	<b>\$4,120</b>
<b>LESS Abandonment Fund</b>	\$3,578	\$2,284	\$3,188	\$2,642	\$2,845	\$5,016	\$4,515	\$4,063	\$3,657	\$3,291
<b>Available Tidelands Oil Revenue</b>	\$58,918	\$46,909	\$42,677	\$17,992	\$9,680	\$12,098	\$9,018	\$9,919	\$10,189	\$8,994
<b>Oil Prices and Oil Production</b>										
Average Price per Barrel <sup>(2)</sup>	\$107.62	\$103.57	\$99.40	\$54.07	\$36.88	\$45.00	\$45.00	\$50.00	\$50.00	\$50.00
<b>Oil Production (Barrels/Fiscal Year)</b>										
East Wilmington	7,839,956	7,831,233	7,809,481	7,439,189	7,050,580	7,062,648	6,239,927	6,137,004	6,018,471	5,825,826
West Wilmington	1,078,586	1,247,153	1,290,037	1,211,470	1,081,993	1,002,831	941,026	883,549	835,611	788,880
<b>Active Wells</b>										
East Wilmington	1,203	1,203	1,237	1,205	1,198	1,195	1,190	1,185	1,175	1,170
West Wilmington	595	595	622	611	599	600	598	598	598	598

<sup>(1)</sup> Fiscal Year 2016-17 amounts are estimated, based on year-to-date unaudited results.

<sup>(2)</sup> Oil prices for Fiscal Years 2017-17 and subsequent years were prepared by the City.

Source: The City of Long Beach

## THE PORT OF LONG BEACH

One of the largest sources of revenue payable into the Tideland Operating Fund and available to make the debt service payments on the Series 2017 Bonds and the City Payments (which are used to pay debt service on the 2012 Authority Bonds) is derived from the 5% Transfer from the Harbor Department. The 5% Transfer was equal to approximately \$18.0 million for Fiscal Year 2016, and constituted approximately 48% of Tidelands Revenues. The 5% Transfer is derived from the gross operating revenues of the Harbor Department as shown on the most recent available independently audited financial statements of the Harbor Department.

As described herein, the City Charter permits the 5% Transfer from the Harbor Revenue Fund, subject to the approval of two-thirds of the members of the City Council, an amount necessary to meet the lawful obligations of the Tideland Operating Fund. Such transfer may not exceed 5% of the gross operating revenues of the Harbor Department as shown on the most recent available independently audited financial statements of the Harbor Department. The 5% Transfer also is subject to the prior approval of a majority of all the members of the Harbor Board, expressed by resolution, finding and determining that the funds proposed to be transferred will not be needed for Harbor Department operations, including, without limitation, operating expenses and capital projects, and that such transfer will not result in insufficient funds to pay the principal of and interest on the revenue bonds issued by the Harbor Department or result in noncompliance by the Harbor Department of its debt to revenue coverage requirements.

### General

The Port is a harbor complex located two miles from open sea in an 11.9 square mile area (the “Harbor District”) within the City and on 359 acres of the City of Los Angeles adjacent to the City. The Port is held in trust by the City pursuant to certain tideland and submerged land grants from the State to the City and is operated and managed by the Harbor Department. The Harbor Department was created in 1931 by an amendment to the City Charter. Pursuant to the City Charter, exclusive control and management of the Harbor Department has been conferred on the Harbor Board.

### Current Port Facilities

*General.* The Port covers approximately 7,600 acres (or approximately 11.9 square miles), of which approximately 4,400 acres (or approximately 6.9 square miles) are water and includes all harbor facilities of the City. The Port has approximately 31.5 miles of waterfront with 65 deep-water cargo berths. The Port has six container terminals with 74 gantry cranes, all of which are post-panamax cranes, and all of which are owned by various tenants of the Port. Five container terminals are served by on-dock rail yards. Additional cargo handling facilities include three transit sheds and one warehouse. Transit sheds are of concrete and steel construction. Rail tracks serve all major marine facilities. The Harbor Department owns a total of 82 miles of rail trackage. Current Harbor Department plans include enlarging and consolidating several of the container terminals due to the demand for larger facilities. See “-Capital Development Program” for information on the expansion of the Port.

The Port is protected by a federally financed breakwater over nine miles in length. Water depths throughout the Port range from 76 feet at the entrance channel to 45 feet in the inner harbor and 55 feet in part of the middle harbor. Depth alongside wharves ranges from 32 to 55 feet, except that the bulk petroleum terminal provides berthing depths of over 70 feet. This facility, at maximum depth, is capable of handling supertankers of up to 265,000 dead weight tons. See “-Capital Development Program—2017-26 Capital Plan”—“Long Beach Harbor Dredging.”

Shipments to and from the Port can be received or dispatched by water, rail or truck. Two major rail lines, Union Pacific Railroad Company (“Union Pacific”), and BNSF Railway Company (formerly known as The Burlington Northern and Santa Fe Railway Company) (“BNSF,” and together with Union Pacific, the “Railroads”) serve the Port. These rail carriers have connections with the Port’s rail system and offer reciprocal switching arrangements. Rail service to and from the Port increased after the opening of the Alameda Corridor in 2002. The Alameda Corridor consists of a 20-mile long, multiple-track rail system that links the rail yards and tracks at the Port and the Port of Los Angeles with the Railroads’ transcontinental mainlines originating near downtown Los Angeles, California. The Alameda Corridor consolidated 90 miles of pre-existing rail lines on four separate routes, into an integrated system that is separated from non-rail traffic along Alameda Street. The consolidated rail route eliminated more than 200 at-grade points of conflict between east-west streets and highways and north-south railroad traffic. The Alameda Corridor Transportation Authority (“ACTA”) was responsible for administering the overall design and construction of the Alameda Corridor (with the exception of specific work that was completed by the Railroads, certain utility owners and local agencies), and ACTA is now responsible for the operation of the Alameda Corridor, including all activities related thereto.

In addition, the Port is located at the end of Interstate 710 (the “710 Freeway”), which provides access to the interstate highway system. Major highway carriers serve the Port and provide transportation to all parts of the United States. Some of the containers leaving and entering the Port are also handled at the Intermodal Container Transfer Facility (the “ICTF”), a specialized rail yard located four miles from the Port for the transfer of containers between trucks and railcars, and to the switchyards of BNSF and Union Pacific. Truck travel to such switchyards takes approximately 30 to 60 minutes. The ICTF was financed and constructed by Southern Pacific Transportation Company and the Intermodal Container Transfer Facility Joint Powers Authority, a joint powers authority organized by the Port and the Port of Los Angeles (the “San Pedro Bay Ports”). The ICTF is now operated by Union Pacific.

***Container Terminals.*** Containerized cargo represents the largest source of revenue for the Harbor Department. For the Fiscal Year 2016, containerized cargo accounted for approximately 76% of the Harbor Department’s total operating revenue, primarily through the collection of wharfage. See “—Property Agreements” and “—Port Tariffs.” See “-Capital Development Program—2017-26 Capital Plan” for information on the construction and improvement of the container terminals at the Port. The following is a summary of the major container facilities at the Port.

***Pier A.*** SSA Terminals (Long Beach), LLC, a joint venture among SSA Terminals, L.L.C. (“SSAT”), Terminals Investment Limited and Mediterranean Shipping Company, currently operates the container terminal on Pier A (the “Pier A Container Terminal”). The Pier A Container Terminal is an approximately 200-acre facility that includes three berths, a 3,600-foot-long wharf with a water depth of 50 feet, two gate facilities with a total of 28 truck lanes, a storage area for approximately 24,000 on-ground containers, power outlets for 650 refrigerated containers and an on-site railyard capable of handling two double-stack trains simultaneously. Ten gantry cranes with capacities ranging from 40 tons to 60 tons facilitate cargo movement.

***Pier C.*** SSAT operates a 68-acre container terminal at Pier C (the “Pier C Container Terminal”), which includes two berths, an 1,800 foot-long wharf with a water depth of 42 feet, a storage area for approximately 4,000 on-ground containers and power outlets for 114 refrigerated containers. Three 40-ton to 60-ton capacity gantry cranes facilitate cargo movement

***Piers D, E and F.*** Piers D, E and F (collectively, the “Middle Harbor Terminal”) are currently being consolidated into one 305-acre container terminal as part of the “Middle Harbor Terminal Redevelopment Project.” A portion of the facilities on Piers D and E are currently out of service as the Harbor Department constructs the Middle Harbor Terminal Redevelopment Project.

In 2012, the Harbor Department and Orient Overseas Container Line LLC (“OOCL”) entered into a 40-year preferential assignment agreement for the Middle Harbor Terminal. Phase 1 of the Middle Harbor Terminal was completed and became operational in late-2015. Phase 1 of the Middle Harbor Terminal consists of 193 acres and is capable of handling ships carrying approximately 22,000 TEUs. Once the overall Middle Harbor Terminal Redevelopment Project is fully complete, the facility will be able to handle ships carrying up to 24,000 TEUs. Based on the guaranteed annual minimum payments required to be made by OOCL pursuant to the terms of the preferential assignment agreement, the Harbor Department expects the agreement will generate a minimum of approximately \$4.6 billion of operating revenue for the Harbor Department over the 40-year term. The facility will be operated by OOCL’s subsidiary, Long Beach Container Terminal, LLC. See “-Capital Development Program—2017-26 Capital Plan—Middle Harbor Terminal Redevelopment Project (Piers D, E and F).”

Pier F continues to be operational while improvements are made to Piers D and E. Long Beach Container Terminal, Inc., an OOCL subsidiary, conducts its ground and chassis operation at Pier F (the “Pier F Container Terminal”). The Pier F Container Terminal is an approximately 100-acre facility that includes five berths, a 2,750 foot-long wharf with a water depth of 50 feet, a storage area for approximately 10,000 on-ground containers, power outlets for 240 refrigerated containers, and an on-dock rail yard. The Pier F Container Terminal has seven gantry cranes, with capacities ranging from 40-tons to 60-tons. The operations of Pier F will be consolidated with the operations on Piers D and E once the Middle Harbor Terminal Redevelopment Project is complete.

*Pier G.* International Transportation Service Inc. (“ITS”) operates a container terminal at Pier G (the “Pier G Container Terminal”). The Pier G Container Terminal is an approximately 247-acre facility that includes five berths, a 6,379 foot-long wharf with water depths ranging from 42 feet to 52 feet, a storage area for approximately 12,800 on-ground containers, power outlets for 384 refrigerated containers and an on-dock railyard. The Pier G Container Terminal has 17 gantry cranes, with capacities ranging from 30-tons to 60-tons.

*Pier J.* Pacific Maritime Services LLC (a joint venture between SSAT, CMA CGM and China Overseas Shipping Company (“COSCO”)) operates from Pier J (the “Pier J Container Terminal”). The Pier J Container Terminal is an approximately 256-acre facility that includes five berths, a 5,900 foot-long wharf with water depths ranging from 49 feet to 50 feet, a storage area for approximately 12,320 on-ground containers, power outlets for 685 refrigerated containers and an on-dock railyard. The Pier J Container Terminal has 17 gantry cranes, with capacities ranging from 40-tons to 60-tons.

*Pier T.* Total Terminals International, LLC (a joint venture between Terminal Investment Limited SARL (a subsidiary of Mediterranean Shipping Company) and Hyundai Merchant Marine), operates the Port’s largest container terminal on Pier T (the “Pier T Container Terminal”). The Pier T Container Terminal is an approximately 380-acre facility that includes five berths, a 5,000 foot-long wharf with a water depth of 55 feet, a storage area for approximately 8,300 on-ground containers, power outlets for 1,850 refrigerated containers and an on-dock railyard. The Pier T Container Terminal has fourteen 65-ton gantry cranes. The facilities at the Pier T Container Terminal can handle ships carrying up to 18,000 TEUs. See “—Operating Performance—Leading Revenue Producers—Hanjin Bankruptcy” for a discussion of the bankruptcy proceedings involving Hanjin Shipping Company, Ltd. (“Hanjin”), which was previously the 54% owner of Total Terminals International, LLC (“Total Terminals”). See also “—Operating Performance—Leading Revenue Producers—Restructuring of Preferential Assignment Agreements for Pier A and T Container Terminals.”

**Dry Bulk.** For the 12 months ending September 30, 2016, dry bulk accounted for approximately 8% of the Harbor Department’s total operating revenue, primarily through the collection of wharfage. The following is a summary of the major dry bulk facilities at the Port.

*Piers G and F.* Approximately 5 million and 6 million metric tons of dry bulk products were exported through the dry bulk terminals on Piers G and F in each of the Fiscal Years 2016 and 2015, respectively. These products include petroleum coke, calcined petroleum coke, coal and sulfur.

The Pier G bulkloader consists of two conveyor system shiploaders operated by Metropolitan Stevedore Company. Dry bulk products are stored temporarily in seven specifically-designed sheds that have a total capacity of 586,000 tons and are moved automatically to dockside, where ships are loaded at 3,900 tons per hour. An eighth storage shed, used to store coal, has a capacity of 150,000 tons of product and includes two rotary plow feeders, with a capacity of 3,000 metric tons per hour, which are connected via conveyor to the Pier G shiploaders. The storage sheds are leased to industrial firms that transport their products to the Port for sale abroad. The entire facility is automated and is capable of high-speed handling of cargo by truck or rail. A rotary railroad car dumper is capable of emptying an entire 100-car train in less than four hours, and bottom dumpers on two different track systems also operate at high capacity.

The Pier F bulkloader consists of an automated conveyor shiploader and a ten acre silo complex operated by Koch Carbon Inc. for the storage and exporting of petroleum coke. The petroleum coke is delivered by rail or truck to the silos, screened, sorted and stored for shipment overseas.

*Cement Facilities.* There are two cement terminals at the Port. CEMEX Pacific Coast Cement Corporation operates a 50,000 ton capacity bulk cement terminal from Pier D. This terminal has six silos and a pollution free enclosed unloader that can unload directly into the silos. The screw type unloader has a capacity to handle up to 800 tons of cement per hour. A second cement terminal is located on Pier F and utilizes a vacuum type unloader. Operated by MCC Terminal, Inc., this facility can handle 800 tons per hour and, instead of a silo system, utilizes a warehouse (with a capacity of 52,000 tons) to house and transfer product.

*Salt.* At Pier F, Morton Salt Co. handles bulk solar salt shipped from Baja, California. This salt is used primarily in water softeners and by chemical companies. Conveyor belts, cranes and other equipment are used for unloading and stockpiling the crude salt, which is then graded and bagged or delivered in bulk.

*General Cargo.* For Fiscal Year 2016, general cargo accounted for approximately 7% of the Harbor Department's total operating revenue, primarily through the collection of wharfage and facilities rentals. The following is a summary of the major general cargo facilities at the Port.

*Vehicles.* The Toyota Motor Sales automobile terminal occupies a total of 144 acres in the northern area of the Port on Pier B. Vehicles are unloaded at this terminal, cleaned, processed and transported to destinations from Southern California to the Midwest. Approximately 199,000 vehicles were shipped through this terminal during Fiscal Year 2016 as compared to approximately 204,000 vehicles during Fiscal Year 2015. A majority of all Lexus cars imported into the United States pass through this terminal. Toyota Motor Sales also exports vehicles manufactured at its factories in the United States through this terminal.

Mercedes Benz vehicles arrive and are unloaded at Pier F, Berths 206 and 207. Crescent Terminals, Inc. ("Crescent Terminals") operates Berths 206 and 207. Mercedes received approximately 72,000 vehicles in Fiscal Year 2016 and approximately 68,000 vehicles in Fiscal Year 2015 through these facilities.

*Forest Products.* Weyerhaeuser Company, a subtenant of Fremont Forest Group Corporation, located at Pier T, transports framing lumber by barge from Coos Bay, Oregon, and Longview and

Aberdeen, Washington. At this facility, approximately 173 million board feet of lumber are handled annually.

*Metals.* SA Recycling, LLC operates a recycled steel and iron ore facility on Pier T that includes an 850 foot wharf with a steel reinforced concrete storage area and two loading cranes. The facility is served by rail and truck and has the capacity to handle 650,000 tons per year.

*Break Bulk.* CSA Equipment Inc. (a joint venture of SSA and Cooper/T. Smith) occupies Berths 204-205 on Pier F, and mainly handles machinery, equipment and steel products imported from the Far East. The CSA terminal has an 180,000 square foot storage shed on-site. At Berths F206 and F207 Crescent Terminals, in addition to the Mercedes Benz vehicles, handles other products, including finished steel and project cargo. The Crescent terminal has a 190,000 square foot storage shed on-site.

*Petroleum/Liquid Bulk.* For Fiscal Year 2016, petroleum/liquid bulk accounted for approximately 5% of the Harbor Department's total operating revenue, primarily through the collection of wharfage per barrel. The following is a summary of the major petroleum/liquid bulk facilities at the Port.

*Petroleum Bulk.* The Port maintains five bulk oil terminals; two are leased to Tesoro Refining and Marketing Company ("Tesoro") (on Pier B); one is leased to Carson Cogeneration Company, a Tesoro subsidiary (on Pier T); one is leased to Petro Diamond Terminal Co. ("Petro Diamond") (on Pier B); and one is leased to Chemoil Marine Terminal ("Chemoil") (on Pier F). Each terminal is connected directly to the storage and tank farms of the respective lessee. The three Tesoro terminals handle primarily crude oil, while the Petro Diamond and Chemoil terminals primarily handle finished petroleum products such as gasoline, vessel bunker fuel and jet fuel. The total movement of crude and refined petroleum products during Fiscal Year 2016 was approximately 31.2 million metric tons as compared to approximately 31.0 million metric tons during Fiscal Year 2015.

*Liquid Bulk (Chemical and Oils).* Liquid bulk is handled by Vopak North America at Pier S, Berth S101. Large heavy duty pumps handle a variety of bulk liquids such as chemicals. Additional tank storage capacity is nearby at locations linked by direct pipeline to the berth facilities.

## **Marine Commerce and Cargoes**

The Harbor Department derives the majority of its revenue from containerized cargo operations. The Port handles "local cargo" that "naturally" moves through Southern California (e.g., cargo consumed within the locally defined region) and "discretionary cargo" (cargo that is not consumed within the locally defined region but moves through Southern California for other reasons (e.g., inland distribution capability)). Currently, approximately 65% of the cargo handled by the Port is discretionary cargo. Most discretionary cargo is moved via rail to inland destinations both within and outside California. The amount of discretionary cargo handled by the Port varies on a month-to-month basis and on a year-to-year basis because ocean carriers and cargo owners can choose between various ports to get their cargoes to inland destinations. See "RISK FACTORS—Port Competition."

*Tonnage.* The Harbor Department tracks the volume of marine commerce by Metric Revenue Tons ("MRTs"). Marine commerce passing through the Port by MRTs and TEUs during the last five Fiscal Years is summarized in the following table:

**TABLE 5**  
**Harbor Department of the City of Long Beach**  
**Revenue Tonnage and TEU Summary**  
**(Fiscal Year Ended September 30)**

	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Inbound/Outbound Cargo in Revenue Tonnage (MRTs)<sup>1</sup></b>					
<i>Inbound Cargo</i>					
Foreign	91,490,396	101,026,699	104,245,298	98,464,085	93,927,997
Coastwise/InterCoastal	15,793,069	18,476,723	17,998,456	26,060,757	29,008,568
<b>Total Inbound Cargo</b>	<b>107,283,465</b>	<b>119,503,422</b>	<b>122,243,754</b>	<b>124,524,842</b>	<b>122,936,565</b>
<i>Outbound Cargo</i>					
Foreign	33,278,391	36,768,609	37,066,641	33,592,125	32,737,305
Coastwise/InterCoastal	3,270,377	5,141,434	5,348,303	4,843,410	3,995,516
Bunkers	1,311,310	843,291	866,945	1,313,215	1,652,476
<b>Total Outbound Cargo</b>	<b>37,860,078</b>	<b>42,753,334</b>	<b>43,281,889</b>	<b>39,748,750</b>	<b>38,385,297</b>
<b>Total Cargo in Revenue Tonnage</b>	<b>145,143,543</b>	<b>162,256,756</b>	<b>165,525,643</b>	<b>164,273,592</b>	<b>161,321,863</b>
<b>Container Count in TEUs<sup>2</sup></b>	<b>5,857,206</b>	<b>6,647,975</b>	<b>6,817,591</b>	<b>7,087,700</b>	<b>6,946,257</b>

<sup>1</sup> A Metric Revenue Ton is equal to either 1,000 kilograms or one cubic meter.

<sup>2</sup> A TEU represents a twenty-foot equivalent unit.

Source: Harbor Department

Cargo volumes as measured by MRTs and by TEUs decreased by approximately 1.8% and 2.0%, respectively, in Fiscal Year 2016 as compared to Fiscal Year 2015. These decreases were primarily a result of the bankruptcy of Hanjin and the resulting slowdown of cargo volume passing through the Pier T Container Terminal, shifting carrier alliance routes and consolidation of shipping lines. See “—Operating Performance—Leading Revenue Producers—Hanjin Bankruptcy” for a discussion of the Hanjin bankruptcy. Also, see “—Summary of Historical Operating Results” for a discussion of the Harbor Department’s Fiscal Year 2016 financial results.

The following table sets forth the number of TEUs handled by the Port in the first ten months (October through July) of Fiscal Years 2016 and 2017.



**TABLE 6**  
**Harbor Department of the City of Long Beach**  
**TEUs Handled by Port**  
**(First Seven Months of Fiscal Years 2016 and 2017)**

<b>Month</b>	<b>First Ten Months Fiscal Year 2016</b>	<b>First Ten Months Fiscal Year 2017</b>	<b>Percentage Change</b>
October	619,983	581,808	(6.2)%
November	619,699	534,308	(13.8)
December	596,448	548,929	(8.0)
January	536,188	582,689	8.7
February	561,412	498,311	(11.2)
March	464,855	505,382	8.7
April	478,842	558,014	16.5
May	640,566	648,287	1.2
June	603,339	658,727	9.2
July	637,091	720,312	13.1
August	<u>641,028</u>	<u>692,374</u>	<u>8.0</u>
Total	6,399,451	6,529,139	2.0

Source: Harbor Department

TEUs handled at the Port increased 2.0% during the first eleven months of Fiscal Year 2017 as compared to Fiscal Year 2016. The main contributing factor to the increase was greater cargo throughput as the result of the opening of the new Pier E terminal in Middle Harbor. In addition, new ocean carrier alliances in 2017 added vessels to established service routes. See “RISK FACTORS—Alliances and Consolidation of Container Shipping Industry.”

**Cargo Summary.** For Fiscal Year 2016, the Port’s principal inbound cargoes were bulk petroleum, metal and metal products, furniture, machinery, motor vehicle parts, electronics, apparel, chemicals, plastics and food products, and its principal outbound shipments were petroleum coke, wastepaper, food products, animal feed, scrap metal, chemicals, plastics, coal, bulk petroleum and mineral ores and ash.

The following is a breakdown of cargo handled at the Port during the past two Fiscal Years in tonnage and revenue:

**TABLE 7**  
**Harbor Department of the City of Long Beach**  
**Cargo Summary**  
**(Fiscal Years Ended September 30, 2015 and 2016)**

Type of Cargo	2015				2016			
	Metric Revenue Tons (000's)	Percent of Total Tons	Revenue (000's) <sup>1</sup>	Percent of Revenue <sup>1</sup>	Metric Revenue Tons (000's)	Percent of Total Tons	Revenue (000's) <sup>1</sup>	Percent of Revenue <sup>1</sup>
Containerized	125,105	76%	\$269,866	78%	123,014	76%	\$274,732	79%
Petroleum/Liquid Bulk	31,000	19	17,299	4	31,174	19	17,177	5
Dry Bulk	7,029	4	29,253	9	6,028	4	29,389	8
General Cargo	1,140	1	26,696	8	1,106	1	26,873	8
Total	164,274	100%	\$343,134	100%	161,322	100%	\$348,171	100%

<sup>1</sup> Revenue includes operating revenues from wharfage, dockage, storage/demurrage, rentals, bunkers, special facilities rentals, crane rentals and other.

Source: Harbor Department

## Property Agreements

The Harbor Department operates the Port as a landlord through various property agreements entered into with the tenants of the Port. The property agreements, which convey the right to use, rent or lease Port assets, include leases, preferential assignment agreements, revocable permits, area assignments and pipeline licenses. Pursuant to the property agreements, the tenants of the Port pay the Harbor Department tariff charges (including, but not limited to, wharfage, dockage, storage and demurrage) and other fees, including crane and land rentals. See “—Port Tariffs” below.

Property agreements for industrial and commercial use constitute one of the Harbor Department’s largest and most stable sources of income. The City, acting by and through the Harbor Board, has property agreements with approximately 325 different entities (approximately over 85% of which are with private companies). These agreements include preferential assignments, leases, revocable permits and area assignments. Over the last five Fiscal Years, property agreements covering waterfront property and facilities have generated in excess of 95% of the Harbor Department’s operating revenues. Under these agreements, the Harbor Board assigns or leases property and facilities to terminal operators for terms of up to 40 years. The property agreements with the Port’s top ten revenue producers have expiration dates ranging from 2017 to 2051, with nine of these agreements (including most of the agreements for the major container terminals) expiring between 2022 and 2034.

Most of the property agreements entered into by the cargo terminal operators are in the form of preferential assignment agreements. Under the preferential assignment agreements, the terminal operators primarily pay the Harbor Department tariff charges, mainly wharfage (the charge assessed when cargo crosses the wharf), dockage (the charge assessed for docking a vessel at a berth), storage, and demurrage (charges related to the duration that cargo may be stored at the terminal), for the use of the Port facilities. Most of the preferential assignment agreements with the cargo terminal operators contain a guaranteed annual minimum payment. For Fiscal Year 2016, the preferential assignment agreements with the Port’s major container terminal operators contained guaranteed annual minimum payments of approximately \$258.9 million. The preferential assignment agreements require that the compensation

payable to the Harbor Department be renegotiated at various intervals ranging from two to five years, and if the parties cannot agree, compensation is to be set through arbitration.

Under most of the current property agreements, the terminal operators are responsible for the operation and maintenance of the property and facilities, but the Harbor Department retains responsibility for maintaining the structural integrity of the piers, wharves, bulkheads, retaining walls and fender systems. The Harbor Department expects that future property agreements also will make the terminal operators responsible for maintaining the piers, wharves, bulkheads, retaining walls and fender systems. Under the property agreements, Port tenants are required to comply with all applicable environmental standards set by federal, state or local laws. Port tenants are liable for all costs, expenses, losses, damages, claims, cleanup costs and penalties arising from such tenant's failure to comply with applicable environmental standards. Additionally, Port tenants are required to carry commercial general liability insurance, including bodily injury and property damage liability on the leased premises and to name the City, the Harbor Board and the officers and employees of the Harbor Department as additional insureds. The property agreements also provide that if the property or facilities covered thereby are damaged by acts of God such as fire, flood or earthquake, or if work stoppages or strikes prevent operation of the property or facilities, compensation payable to the Harbor Department will be reduced in proportion to the interference with operations. See “—Stevedoring and Cargo Handling” below. See also “RISK FACTORS—Security at the Port” and “—Seismic Risks.”

During the last five Fiscal Years ended September 30, 2016, revenues from non-waterfront properties and miscellaneous sources have accounted for approximately 3.3% of the Harbor Department's operating revenues. These agreements generally provide for flat rentals or require payment of a percentage of gross revenues, subject to a fixed minimum rental.

### **Port Tariffs**

The Harbor Board sets tariff charges for wharfage, dockage, pilotage, land usage, storage and demurrage applicable to all ships and cargo at municipal berths and wharves or otherwise using City owned property in the Harbor District. The current tariffs are published in the Port of Long Beach Tariff No. 4 (the “Port Tariff”). Under the terms of the various property agreements, the terminal operators, as permittees or lessees are responsible for collecting tariff charges and for remitting to the Harbor Department, all or any portion of such tariff charges required to be paid to the Harbor Department. The Harbor Department charges wharfage on a per container load of freight basis for container cargoes and a commodity rate per ton of cargo basis for bulk and break-bulk cargoes. Dockage is also charged on a per vessel, per day basis. See “—Property Agreements” above.

The Harbor Department and all other California public ports control and determine their own individual tariff structures. However, the ports cooperate in setting tariff rates through membership in the California Association of Port Authorities (“CAPA”). One of CAPA's goals is to establish and maintain reasonable and, as far as practicable, uniform terminal rates, charges, classifications, rules and regulations for the handling and movement of domestic and foreign waterborne cargo. These tariff provisions cover assignment of marine terminal facilities, as well as rates and provisions for vessel dockage, wharfage, wharf storage, wharf demurrage and other miscellaneous terminal charges necessary for the orderly movement of cargo. The goal is to permit California ports to obtain an adequate return on investment in order to facilitate the necessary maintenance, expansion and improvement of marine facilities. CAPA enjoys an exemption from federal antitrust laws which permits this cooperative rate setting. See “RISK FACTORS—Factors Affecting Demand for Port Facilities.”

The Harbor Department may increase tariff charges without amending the property agreements or receiving the consent of the tenants of the Port. See “RISK FACTORS—Factors Affecting Demand for Port Facilities” and “—Port Competition.”

## Operating Performance

**Sources of Operating Revenues.** As discussed under “—Property Agreements” and “—Port Tariffs” above, the Harbor Department derives income from tariffs assessed on shipping activity (primarily wharfage and dockage) and from leases, rentals and utility services. The following table summarizes the sources of the Harbor Department’s operating revenues for the past five Fiscal Years.

**TABLE 8**  
**Harbor Department of the City of Long Beach**  
**Sources of Operating Revenues**  
**(Fiscal Year Ended September 30)**  
**(000’s)**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016<sup>1</sup></u>
<b>Operating Revenues</b>					
Berths & Special Facilities					
Wharfage	\$268,080	\$296,623	\$307,561	\$312,074	\$322,522
Dockage	11,705	12,055	10,877	10,773	8,089
Bunkers	1,373	1,375	703	1,048	1,412
Special Facilities Rentals	28,188	12,426	13,758	16,247	15,612
Crane Rentals <sup>2</sup>	12,760	12,789	12,789	2,372	—
Other	319	601	570	620	536
<i>Total Berths &amp; Special Facilities</i>	<u>\$322,425</u>	<u>\$335,869</u>	<u>\$346,258</u>	<u>\$343,134</u>	<u>\$348,171</u>
Rental Properties	\$ 9,577	\$ 9,374	\$ 9,360	\$ 9,881	\$ 9,958
Utilities/Miscellaneous	1,885	1,001	1,262	2,435	2,531
<b>Total Operating Revenues</b>	<u><u>\$333,887</u></u>	<u><u>\$346,244</u></u>	<u><u>\$356,880</u></u>	<u><u>\$355,450</u></u>	<u><u>\$360,660</u></u>

<sup>1</sup> See “- Fiscal Year 2016 Results” for a discussion of the Harbor Department’s Fiscal Year 2016 financial results.

<sup>2</sup> The Harbor Department sold all of the cranes that it previously owned and leased to certain of the tenants at the Port. As a result of such sale, the Harbor Department no longer collects any crane rentals.

Source: Harbor Department

Wharfage is the Harbor Department’s primary source of operating revenue, generating approximately 89% of the Harbor Department’s operating revenues. The following table compares revenues generated from wharfage charges to tonnage during the last five Fiscal Years:

**TABLE 9**  
**Harbor Department of the City of Long Beach**  
**Wharfage Revenues**  
**(Fiscal Year Ended September 30)**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total Metric Revenue Tons (000's)	145,144	162,257	165,526	164,274	161,322
Wharfage Revenue (000's)	\$268,080	\$296,623	\$307,561	\$312,074	\$322,522
Average Wharfage Revenues Per Ton	\$1.85	\$1.83	\$1.86	\$1.90	\$2.00

Source: Harbor Department

***Leading Revenue Producers.***

General. The following companies represent the Harbor Department's twenty-two largest customers in terms of revenues, listed alphabetically. These customers accounted for approximately 97% of the Harbor Department's operating revenue in Fiscal Year 2016. The largest single customer accounted for approximately 22% of the Harbor Department's operating revenues in Fiscal Year 2016.

**TABLE 10**  
**Harbor Department of the City of Long Beach**  
**Leading Revenue Producers**  
**Fiscal Year 2016**

Carson Cogeneration Company	Mitsubishi Cement Corporation
CEMEX USA	Oxbow Carbon & Minerals, LLC
Chemoil Corp.	Pacific Container Terminal
Crescent Terminals, Inc.	Pacific Crane Maintenance Company
CSA Equipment	SA Recycling, LLC
Energia Logistics Ltd.	SSA Terminal C60 / Matson Navigation
International Transportation Service, Inc.	SSA Terminals Long Beach, LLC
Jacobsen Pilot Service, Inc.	Tesoro Logistics LP
Koch Carbon, Inc.	Tesoro Refining & Marketing
Long Beach Container Terminal, Inc.	Total Terminals International, LLC <sup>1</sup>
Metropolitan Stevedore Company	Toyota Logistics Services

<sup>1</sup> See "Hanjin Bankruptcy" below for a discussion of the Hanjin bankruptcy and the sale of its interest in Total Terminals to a subsidiary of Mediterranean Shipping Company and Hyundai Merchant Marine.

Source: Harbor Department

Hanjin Bankruptcy. On August 31, 2016, Hanjin filed for bankruptcy protection in the United States and various other courts around the world, including South Korea. Prior to its bankruptcy filing, Hanjin owned 54% of Total Terminals, which operates the Pier T Container Terminal and generated approximately 22% of the Harbor Department's operating revenues in Fiscal Year 2016. Mediterranean Shipping Company owned the remaining 46% of Total Terminals. In connection with its bankruptcy proceedings, Hanjin sold its interest in Total Terminals to a subsidiary of Mediterranean Shipping Company (Terminal Investment Limited SARL) and Hyundai Merchant Marine. After the sale, Mediterranean's subsidiary Terminal Investment Limited SARL, now owns 80% of Total Terminals, and Hyundai Merchant Marine owns 20%. As a direct result of the Hanjin bankruptcy proceedings, between September 1, 2016 and January 1, 2017, cargo throughput at the Pier T Container Terminal decreased by 36.9%, and cargo throughput at the entire Port decreased by 7.7%. However, during the bankruptcy proceedings of Hanjin, operating revenues of the Harbor Department only decreased by 0.17% as

compared to the same period in Fiscal Year 2016. Additionally, Total Terminals made all guaranteed annual minimum payments under its preferential assignment agreement with the Harbor Department.

Restructuring of Preferential Assignment Agreements for Pier A and T Container Terminals. Some of the same shipping lines call at both the Pier A Container Terminal and the Pier T Container Terminal. As a result of the movement to larger container ships in the maritime industry, these shipping lines have shifted cargo from the Pier A Container Terminal to the larger terminal facilities at the Pier T Container Terminal. This shift in cargo volume has led the Harbor Department and the operators of the Pier A and Pier T Container Terminals to begin discussing the potential of restructuring certain financial terms of the Pier A and Pier T Container Terminal Preferential Assignment Agreements. [UPDATE?] However, as of the date of this Official Statement, the Harbor Department has not come to any agreements with the operators of the Pier A and Pier T Container Terminal and cannot predict if any agreement will be reached or what effect, if any, the shift of cargo volumes between the Pier A and Pier T Container Terminals may have on the revenues of the Harbor Department.

### **Stevedoring and Cargo Handling**

Arranging for stevedoring and cargo handling services is the responsibility of each marine terminal operator. Stevedoring and cargo handling at the Port are provided pursuant to a contract between the Pacific Maritime Association (the “Association”) and the International Longshore and Warehouse Union (“ILWU”). The contract covers approximately 20,000 dockworkers on the West Coast. The Association represents most of the steamship lines, marine terminal operators, car loading bureaus and stevedore companies on the Pacific Coast. The major providers of stevedoring and terminal services include Cooper/T. Smith Stevedoring, Metropolitan Stevedore Company (doing business as Metro Ports), Stevedoring Services of America, and Ports America Inc., along with steamship line-owned terminal operating companies such as Long Beach Container Terminal, Inc. and Total Terminals International, LLC.

The current contract between the Association and the ILWU was entered into on May 21, 2015 and was ratified by the ILWU membership on May 22, 2015, retroactive to July 1, 2014. The current contract was most recently extended through June 30, 2022. The previous contract between the Association and ILWU expired on June 30, 2014. The Association and the ILWU began negotiating a new contract in May 2014, but did not agree on a new contract until February 2015. The protracted negotiations had a compounding effect on congestion issues that had slowed down container cargo movement through the Port between September 2014 and February 2015. The Harbor Department’s revenues and container volumes at the Port were temporarily impacted during Fiscal Year 2015 as a result of the slowdown and other congestion factors, but full-Fiscal Year revenues were not materially affected and container volumes recovered and were slightly higher than the prior Fiscal Year (4%).

In December 2012, a strike by the members of the Office Clerical Unit (“OCU”) of the ILWU resulted in an eight-day closure affecting only three container terminals in the San Pedro Bay that used OCU workers. The members of the OCU are employed by some of the shipping lines and terminal operators that operate at the San Pedro Bay Ports. The OCU and the shipping lines and terminal operators, subsequently agreed to new contracts and the closed terminals were reopened. There was no financial impact to the Harbor Department as a result of the OCU strike.

Prior to the OCU related work stoppage in December 2012, there had been no prolonged work stoppage since October 2002. In October 2002, after the Association and the ILWU failed to agree upon a new contract, the shipping lines and terminal operators instituted a lock-out of ILWU workers, thereby shutting down all West Coast ports, including the Port, for 10 days. Work resumed when the President of the United States ordered the ports to re-open pursuant to the Taft-Hartley Act. Prior to the 2002 lock-

out, there had not been a prolonged work stoppage since 1971. Other than the work stoppages in 1971 and 2002, there has generally been a history of excellent working relationships between the ILWU and the employers represented by the Association. Prolonged work slowdowns or stoppages, particularly if combined with excessive congestion, could adversely affect revenues of the Harbor Department. The employees of the Harbor Department do not work for the tenants of the port or the stevedoring companies.

## **Environmental Compliance**

*General.* The Harbor Department is required to comply with the provisions of a number of federal and state laws designed to protect or enhance the environment. The two basic laws are the Federal National Environmental Policy Act (“NEPA”) and the State of California Environmental Quality Act (“CEQA”). Other federal environmental laws applicable to the Port include the Resources Conservation and Recovery Act, which governs the cleanup, treatment and disposal of hazardous waste; the Clean Air Act, which governs the release of air pollutants; the Toxic Substances Control Act, which governs the handling and disposition of polychlorinated biphenyls (PCBs) and other toxic substances; the Marine Protection, Research and Sanctuary Act of 1972, which governs the ocean dumping of dredged materials; the Rivers and Harbors Act, which governs navigable waterways; and the Clean Water Act, which governs discharge of surface waters. Enforcement agencies include the U.S. and California Environmental Protection Agencies and the U.S. Army Corps of Engineers, which rely on consultation and advice from various federal resource agencies.

The Harbor Department also is required to conform to provisions of a number of other State environmental laws, including the Hazardous Waste Control Act, which governs hazardous waste treatment and disposal, and the Porter-Cologne Act, which governs surface and ground water quality. State enforcement agencies include the Department of Toxic Substances Control, the State Water Resources Control Board and the local Regional Water Quality Control Board. The Air Resources Board, and the regional Air Quality Management District administer the federal Clean Air Act.

Additional environmental laws and regulations may be enacted and adopted, and/or court cases decided, in the future that could be applicable to the Harbor Department and the Port. See “Air Pollution Reduction Programs—2017 AQMP Backstop Measures” below. The Harbor Department is not able to predict what those laws, regulations and/or cases may provide or the costs to the Harbor Department to comply with such laws and regulations. Any additional environmental laws and regulations could significantly delay or limit the Harbor Department’s plans to construct and develop new revenue generating facilities at the Port. See “THE PORT OF LONG BEACH-Capital Development Program.”

In conforming to these laws and their implementing regulations, the Harbor Department has instituted a number of compliance programs and procedures. Some of these are ongoing, including the sampling and analysis of harbor sediments to comply with dredging permit requirements; monitoring of water quality at stormwater outfalls; and oversight of the Harbor Department and tenant housekeeping practices. Other compliance activities are carried out on an intermittent basis as necessary. These include disposal of contaminated soil excavated from construction sites, surveys of Harbor Department-owned buildings for asbestos, and associated remedial actions, other hazardous substances site cleanup related to spills, release and illegal disposal of materials and substances on Port property by third parties, and monitoring and reporting pursuant to construction permits related to air and water quality.

The Harbor Department’s agreements with its tenants require the tenants to take the responsibility for financing the cost associated with cleaning up spills of fuels, oils and other hazardous substances.

***Hazardous Materials/Waste Management.*** 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. The Harbor Department has adopted a number of contingency plans, some of which are mandated by law, regarding potential spills of fuel, oil and other hazardous substances for the Port's marine terminal facilities. The Harbor Department's agreements with its tenants require the tenants to take on the responsibility for financing the cost associated with cleaning up spills of fuels, oils and other hazardous substances.

***CEQA Document Preparation Process.***

***General.*** As the "Lead Agency" under CEQA, the Harbor Department completes CEQA determinations and documentation for all CEQA-regulated projects within the Harbor District. The Harbor Department's CEQA process includes, among other elements, (a) the establishment of a documents preparation protocol for the project description and all key analyses and (b) the establishment of a quality assurance review team, consisting of outside experts in various specialties, that will monitor the process of preparing environmental impact reports ("EIR") and environmental impact statements ("EIS") and make technical, regulatory and other recommendations. The Harbor Department's CEQA process helps reduce the potential for disagreement and challenges from federal, State and local agencies and environmental groups.

***Current CEQA Projects.*** On December 15, 2016, the Harbor Department released a Draft EIR and an Application Summary Report for the Pier B On-Dock Rail Support Facility Project for public review. The proposed project would provide for additional railcar storage and staging capacity, including additional rail tracks for locomotive fueling, railcar repair and to accommodate assembly of cargo trains up to 10,000 feet long. The public comment period for the Draft EIR closed on March 13, 2017. The Harbor Department is reviewing the comments it received. It is anticipated that the Harbor Board will consider the Final EIR for the Pier B On-Dock Rail Support Facility Project in the second half of 2017.

The Harbor Department and the U.S. Army Corps of Engineers are preparing a Port of Long Beach Deep Draft Navigation Feasibility Study and joint EIR/EIS. The study will analyze if there is a federal interest in deepening channels at the Port. The Harbor Department has prepared a Notice of Preparation under CEQA and has solicited input from agencies, organizations and interested parties on the scope of environmental issues to be addressed in the EIR for this project. A Draft EIR is currently being prepared.

***Past CEQA Projects.*** On May 13, 2009, the Middle Harbor Terminal Redevelopment Project EIR/EIS was certified by the Harbor Board. On August 9, 2010, the Harbor Board certified the Final EIR for the Gerald Desmond Bridge Replacement Project (the "Gerald Desmond Bridge EIR"), and on September 23, 2010, Caltrans issued a Finding of No Significant Impacts with respect to the Gerald Desmond Bridge Replacement Project (the "Gerald Desmond Bridge FONSI"). Subsequent to August 9, 2010, the Harbor Board approved certain addenda to the Gerald Desmond Bridge EIR, which were reviewed by Caltrans and, in each case, Caltrans determined that the Gerald Desmond Bridge FONSI remained valid. In October 2013, an EIR/EIS with respect to development of Pier S for navigational improvements to the Back Channel and the Cerritos Channel and a shore realignment at Pier S was approved by the Harbor Board.

***Air Pollution Reduction Programs.*** [DESCRIBE NEW 2017 CAAP AND POTENTIAL COST] In 2006, the Harbor Department together with the Port of Los Angeles, developed the San Pedro Bay



Ports Clean Air Action Plan (the “CAAP”), with input from the EPA, the California Air Resources Board, and the South Coast Air Quality Management District. The CAAP was updated and reauthorized in 2010. The CAAP is the Harbor Department’s ten-year comprehensive plan to address air pollution emissions from Port related sources. The CAAP addresses every category of Port-related emission sources (ships, trucks, trains, cargo handling equipment and harbor craft), and outlines specific, detailed strategies to reduce emissions from each category. Through implementation of the CAAP, since 2005, there has been an 84% reduction in diesel particulate matter, a 97% reduction in sulfur oxides and a 48% reduction in nitrogen oxides emissions from Port-related sources. The CAAP has and will require a significant investment by the Harbor Department, the Port of Los Angeles and private sector businesses and will expedite the introduction of new and innovative methods of reducing emissions prior to any federal or State requirements being imposed on the San Pedro Bay Ports. See “2017 AQMP Backstop Measures” below.

Pursuant to the CAAP, the Harbor Department has undertaken several programs to lower air pollution levels at the Port, including, but not limited to: (a) an incentive-based program that encourages vessels entering the San Pedro Bay Ports to lower their speeds (faster speeds produce higher emissions) (the “Green Flag Incentive Program”); (b) an incentive-based program to encourage vessel operators to deploy their lowest pollution-emitting ships to San Pedro Bay Ports (the “Green Ship Incentive Program”); (c) accelerated replacement of cargo handling equipment with equipment that meets the cleanest engine standards; (d) use of shore-side electrical power for ships calling at the Port (also known as “cold ironing”); (e) a Technology Advancement Program which seeks to accelerate the verification or commercial availability of new, clean technologies, through evaluation and demonstration in port operations; (f) replacement of the entire fleet of 16 switcher locomotives operated by Pacific Harbor Line with less polluting locomotives and the purchase of six generator set locomotives which meet the cleanest engine standards; and (g) the CTP, which requires progressively cleaner engine standards for trucks operating at the Port.

Green Flag Incentive Program. The Green Flag Incentive Program was approved by the Harbor Board in 2005 to boost compliance with the Voluntary Vessel Speed Reduction Program, which was then around 60%. The Green Flag Incentive Program provides financial incentives and recognition to the Port’s vessel operators who consistently participate in a voluntary speed-reduction program designed to reduce air pollution.

Under the original Green Flag Incentive Program, ocean vessels that observed a 12-knot speed limit within 20 nautical miles of the Port during an entire year of voyages to and from the Port were awarded a Green Flag environmental achievement award to recognize their contributions to improved air quality. The ocean carriers who operated the individual ships qualified for a dockage rate reduction of 15% during the following 12 months if 90% of their vessels complied with the 12-knot speed limit for the previous year. In 2009, the program was expanded to 40 nautical miles offshore. Ships observing the speed limit 40 nautical miles offshore qualify for a dockage rate reduction of 25%.

For 2016, the Green Flag Incentive Program had participation rates of 96% and 88% for 20 nautical miles and 40 nautical miles, respectively. In 2015 (the latest information available), air pollution reductions included avoided emissions of approximately 1,224 tons of smog-forming nitrogen oxides and approximately 24 tons of diesel particulate matter. In Fiscal Year 2016, the Harbor Department provided discounts to qualified participants in the Green Flag Incentive Program of approximately \$2.6 million. The Harbor Department estimates that it will provide approximately \$2.6 million of discounts to qualified participants in the Green Flag Incentive Program in Fiscal Year 2017.

Green Ship Incentive Program. The Green Ship Incentive Program is a voluntary clean-air initiative targeting the reduction of smog-causing nitrogen oxides (“NOx”). It rewards qualifying vessel

operators for deploying today's greenest ships to the Port and accelerating the use of tomorrow's greenest ships. Vessels with main engines meeting 2011 Tier 2 standards established by the International Maritime Organization will be eligible for an incentive of \$2,500 per ship call. For vessels meeting the 2016 Tier 3 standards, the incentive will increase to \$6,000 per ship call. Tier 2 engines reduce NOx emissions by 15%, and Tier 3 engines reduce NOx emissions by 80%. In 2016, approximately 23.2% of the vessel calls at the Port were eligible for the Green Ship Incentive Program and the Harbor Department provided approximately \$862,500 in incentive payments.

Shore-Side Electrical Power. Exhaust emissions from auxiliary engines operated by vessels while at berth represent a significant source of air pollution at the Port. A docked cargo ship operates auxiliary engines to power onboard operations which emits several types of air contaminants. The Harbor Department is moving forward with the implementation of shore-side electric power, rather than using internal combustion power (diesel), to power ships while at berth. When shore-side electricity is provided to the vessel, the auxiliary engines can be turned off. Shore-side electrical power will significantly reduce diesel emissions, the major source of air pollution, from large ships while at berth. In November 2007, the Port's first shore-side electrical powered container berth was commissioned at the International Transportation Service terminal on Pier G. Under a lease agreement with the Harbor Department, at least 50 vessel calls per year must use shore-side electrical power. In June 2009, the world's first shore-side electrical powered tanker berth was commissioned at the BP terminal on Pier T. In addition, bulk vessels have been using shore-side electrical power at the Mitsubishi Cement terminal on Pier F since 2007. All remaining container terminal berths were equipped with shore-side electrical power by the end of Fiscal Year 2016. The Harbor Department incurred approximately \$136.3 million of costs in connection with equipping facilities at the Port with shore-side electrical power.

In December 2007, the California Air Resources Board approved the "Airborne Toxic Control Measure for Auxiliary Diesel Engines Operated on Ocean-Going Vessels At-Berth in a California Port" regulation, commonly referred to as the "At-Berth Regulation." The purpose of the At-Berth Regulation is to reduce emissions from diesel auxiliary engines on container ships, passenger ships, and refrigerated-cargo ships while berthing at a California Port. The At-Berth Regulation defines a California Port as any of the Ports of Los Angeles, Long Beach, Oakland, San Diego, San Francisco, and Hueneme. The At-Berth Regulation provides vessel fleet operators visiting these ports two options to reduce at-berth emissions from auxiliary engines: (1) turn off auxiliary engines and connect the vessel to some other source of power, most likely shore-side electrical power; or (2) use alternative control technique(s) that achieve equivalent emission reductions. Starting in 2014, at least 50% of a fleet's visits to the Port were required to use one of these two options to reduce emission, and the percentage of fleet visits required to use one of these two options increases to 70% in 2017, and to 80% starting in 2020. The Harbor Department expects most vessels using Port facilities to use shore-side electrical power in order to comply with the At-Berth Regulation.

Clean Trucks Program. The CTP has successfully reduced air emissions and health risks by modernizing the Port's trucking fleet. The CTP targets emissions from heavy duty trucks that move cargo in and out of the marine terminals at the Port. The CTP instituted a series of progressive bans adopted by the San Pedro Bay Ports designed to gradually restrict older, more polluting trucks from operating at the marine terminals at the San Pedro Bay Ports until eventually all trucks operating at San Pedro Bay Port terminals would be required to meet the EPA's 2007 On-Road Heavy Duty emissions standards. In recent years, more than 16,000 drayage trucks were regularly operating at the San Pedro Bay Ports.

Beginning on October 1, 2008, the Port began a progressive ban on older, dirtier trucks. As of that date all trucks with engine model years older than 1989 were banned from Port service. On January 1, 2010, all trucks with engine model years 1989 to 2003 were also banned from Port service, except trucks with engine model years between 1994 and 2003 that have undergone emission retrofits.

Additionally, on January 1, 2012, all trucks that did not meet the EPA's 2007 On-Road Heavy Duty emissions standards were banned from Port service. Phasing out older vehicles produces clean-air benefits because the EPA is requiring manufacturers to build cleaner engines. Through these efforts, over 13,000 newer diesel and over 900 alternative fuel trucks meeting the EPA's 2007 On-Road Heavy Duty emissions standards are currently serving the Port on a regular basis. With the full implementation of the CTP as of January 1, 2012, diesel particulate matter emissions from trucks has been reduced by an estimated 95% compared to 2005 levels.

2017 AQMP Backstop Measures. In 2017, the South Coast Air Quality Management District adopted its 2017 Air Quality Management Plan (the "2017 AQMP"). The 2017 AQMP contains a "backstop rule" (also known as MOB-01) that would require the San Pedro Bay Ports to develop a strategy to reduce air emissions at the respective ports to levels still to be developed in accordance with the 2017 AQMP. The emission reduction levels could be more strict than what is already set forth in the CAAP. In March 2017, the California Air Resources Board adopted the 2017 AQMP as part of its amendments to the State Implementation Plan pursuant to the Clean Air Act. The amended State Implementation Plan has been submitted to the EPA for review and approval, which review and approval could take up to 18 months. The Harbor Department does not believe the South Coast Air Quality Management District or the California Air Resources Board have the authority to impose rules or regulations on the San Pedro Bay Ports that would require the Ports to regulate emissions from shipping companies, the railroads or the trucking companies because (i) the San Pedro Bay Ports are not regulators and do not have regulatory authority, and (ii) those industries are regulated under international treaties and federal and state laws and thus enjoy various levels of preemption. As of the date of this Official Statement, the Harbor Department cannot predict what final rules and regulations may result from the 2017 AQMP and the State Implementation Plan, the results of any legal challenges to such rules and regulations, or the costs of such rules and regulations, if enforceable against the San Pedro Bay Ports and their respective tenants.

***Water Quality Improvement.*** The Harbor Department faces water quality issues that include not only stormwater runoff from Port lands, but also the on-water activities of industrial harbors, legacy sediment contamination, and inputs from intensely developed urban watersheds upstream. Recognizing the advantages of addressing these issues on a port-wide basis, in 2009, the Harbor Department and the Port of Los Angeles worked cooperatively with regulatory agencies and the public to develop a Water Resources Action Plan (the "WRAP"). The WRAP is a joint plan for managing water and sediment quality at the San Pedro Bay Ports. The WRAP identifies the key issues in the port complex; identifies control measures to address those issues; and assembles existing, as well as proposed, water and sediment programs into those measures. The WRAP describes the implementation tools available to the San Pedro Bay Ports (lease and tariff provisions, incentives, and port-sponsored initiatives) and establishes a schedule for implementing the control measures. A key aspect of the WRAP is its dynamic nature: the WRAP is revisited periodically to add detail and to add or modify measures where appropriate. The control measures described in the WRAP consist largely of plan formulation and the expansion and reorganization of activities that the San Pedro Bay Ports are already engaged in. Accordingly, the cost of implementing the control measures will consist predominately of staff and consultant time. Several of the control measures set forth in the WRAP will likely involve capital costs at the implementation phase. Costs of the WRAP will be paid with Harbor Department revenues, federal, state and local grant funding and other sources of funds. The Harbor Board does not expect these costs to be material to the Harbor Department.

In March 2012, the Los Angeles and Long Beach Harbors Toxic and Metals Total Maximum Daily Load (the "TMDL") was adopted by the State of California Water Resources Control Board. The Harbor Department has begun to implement the requirements of the TMDL, mainly by implementing the programs identified in the WRAP. Additionally the Harbor Department has 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 TMDL, which is scheduled to be reconsidered in 2019. The Harbor Department expects to spend approximately \$2 million per year through 2018 to conduct the necessary studies, required monitoring and development of related implementation plans associated with the TMDL.

Additionally, the City developed a Watershed Management Program (“WMP”) in coordination with the Harbor Department to address the Harbor watershed as well as other near shore watersheds in the City. The WMP is required to comply with the City’s Municipal Stormwater National Pollutant Discharge Elimination System Permit. The WMP is intended to ensure that the Port and the City will achieve all established water quality standards.

***Port Energy Planning.*** As described above, the Harbor Department’s aggressive air-emission reduction programs have resulted in significant improvements in air quality since the Green Port Policy was adopted in 2005. As the Harbor Department moves toward a zero-emission goal, its reliance on electrical power has dramatically increased. On-terminal electricity usage is predicted to quadruple by 2030, compared with a 2005 base year. At the same time, the electrical grid which is maintained by a local utility company is aging and the region experiences power outages. The Harbor Department is currently developing an energy program that seeks to provide energy reliability, resiliency and economic competitiveness to its own operations and those of its tenants.

This long term strategy is designed to assist the region in attracting new businesses, promoting job growth, advanced technologies and customer retention, and to provide reliable assets that can be used in the event of natural or man-made disasters. The Harbor Department expects to spend approximately \$3 million in each of 2017 and 2018, to evaluate the feasibility of various energy strategies, as well as to support appropriate emerging energy technologies. The Harbor Department anticipates that these costs will be partially financed with various grants.

## **Capital Development Program**

### ***Master Plan; Long-Term Land Use Study***

***Master Plan.*** On October 17, 1978 the California Coastal Commission (the “CCC”) certified the Port Master Plan as being in conformance with the policies of Chapters 8 and 3 of the California Coastal Act. The Port Master Plan has been amended on numerous occasions since 1978. All amendments to the Port Master Plan that required the approval of CCC were approved by CCC. The purpose of the Port Master Plan is to provide the Harbor Department with a planning tool to guide future Port development and to ensure that projects and developments in the Harbor District are consistent with the requirements of the California Coastal Act. The Port Master Plan establishes a flexible framework allowing for planned development of the Port and is updated periodically.

On November 4, 2016, the Harbor Department issued a request for proposals for consultant support for a comprehensive update to the Port Master Plan. In June 2017, the Harbor Department selected Leidos as its preferred consultant, which the Harbor Board is expected to approve in July 2017. [[CONFIRM]] Leidos will assist the Harbor Department with updating the Port Master Plan, evaluating the environmental impacts of proposed development and land uses and Port Master Plan approval by the Harbor Board and the CCC.

***Long-Term Land Use Study.*** The Harbor Department also is currently undertaking a comprehensive, long range, land use planning study (the “Long-Term Land Use Study”), the purpose of

which is to produce conceptual plans for future land use and a plan evaluation process that will help Harbor Department staff and the Harbor Board evaluate future needs of the Port. These scenarios also will be evaluated as part of a formal update to the Port Master Plan and the associated environmental document. The Long-Term Land Use Study will address all cargo types and the support facilities they require, and cover the entire Harbor District and key adjacent property owned by the Harbor Department. The Long-Term Land Use Study and the Port Master Plan update will look beyond the point in time at which existing and entitled developments reach capacity, which most likely will occur after 2030.

**2017-26 Capital Plan.** In addition to the Port Master Plan, the Harbor Department maintains a 10-year capital plan which sets forth the specific projects the Harbor Department expects to develop and construct over the next ten years. The 2017-26 Capital Plan is the Harbor Department’s current 10-year capital plan. The 2017-26 Capital Plan includes, but is not limited to, the following capital projects and improvements: the Gerald Desmond Bridge Replacement Project, expansion and modernization at the shipping terminals on Piers D, E, F and G, expansion of rail facilities, construction of a new Port administration building, dredging of the Long Beach Harbor, installation of various security improvements and various infrastructure projects at the Port (including street, storm drain, sewer and water systems projects). Currently, the 2017-26 Capital Plan has an aggregate estimated cost of approximately \$3.0 billion. The Harbor Department expects to finance approximately \$2.6 billion of the costs of the 2017-26 Capital Plan with revenues of the Harbor Department, proceeds of Senior Harbor Bonds and Subordinate Harbor Obligations. The Harbor Department expects the remaining approximately \$393 million of costs of the 2017-26 Capital Plan will be financed with federal and State grants and other sources of funds. See also “THE PORT OF LONG BEACH—Environmental Compliance.”

Many of the improvements to the marine terminals set forth in the Port Master Plan and the 2017-26 Capital Plan, include, but are not limited to, longer wharves, deeper berths and larger storage areas necessary to accommodate the docking and loading/unloading requirements of the current and future container cargo ships. Currently, the largest container cargo ships have the capacity to carry upwards of 21,000 TEUs.

Following is a brief description of some of the major projects included in the 2017-26 Capital Plan:

**Middle Harbor Terminal Redevelopment Project (Piers D, E and F).** The Middle Harbor Terminal Redevelopment Project is a 10-year approximately \$1.31 billion modernization of the shipping terminals on Piers D, E and F. The Harbor Department expects to request Harbor Board approval in June 2017 to increase the budget for the Middle Harbor Terminal Redevelopment Project to \$1.49 billion. The project will consolidate the Pier E terminal (170 acres), the Pier F terminal (101 acres), and the Berth E24 subsidized oil area (five acres), into a single, modern, 305-acre container terminal. The project will add on-dock rail capacity, shore-side electrical power, battery charging stations for electric yard equipment, electric rail-mounted gantry cranes, and deeper channels to accommodate the newest container ships. The project is being constructed in three phases. Phase 1 was completed in late-2015 and is currently in operation. Construction of Phase 2 began in 2015 and is expected to be completed in 2017. Construction of Phase 3 is anticipated to begin in 2018 and be completed in 2020. When completed, the Middle Harbor Terminal is expected to be able to move up to an estimated 3.3 million TEU’s annually, twice the amount of cargo that was moved through the old facilities. See “THE PORT OF LONG BEACH—Current Port Facilities—Container Terminals—Piers D, E and F” for information about the preferential assignment agreement the Harbor Department entered into with OOCL for the Middle Harbor Terminal.

**Pier G Terminal Redevelopment Project.** The Pier G Terminal Redevelopment Project is mostly complete. The project consisted of a multi-year renovation of the Pier G Container Terminal that

upgraded rail, wharf, gate, container yard, maintenance and administration facilities. Portions of the Pier G on-dock rail yard were built over 40 years ago. The “Double Track Access” from Pier G to Pier J is the next project in the Pier G Terminal Redevelopment Project. This project will add a second lead track serving both the Pier G Terminal and the Pier J Terminal, together with construction of additional storage tracks to replace those taken out of service to construct the second lead track.

***Rail Program.*** A major transportation element of the 2017-26 Capital Plan is to move more cargo by rail instead of by truck. The Port has a significant railroad infrastructure improvement program that includes four rail-related projects with an approximate cost of over \$1 billion. Three of these rail-related projects are located adjacent to, but outside of, the marine terminal lease boundaries. The fourth rail-related project will improve the efficiency of rail operations at the Pier G dry bulk terminal. The location and design of these rail-related projects are intended to support a significant increase in the amount of cargo moved by on-dock rail. The largest project within the Rail Program is the Pier B On-Dock Rail Support Facility. The Pier B On-Dock Rail Support Facility is expected to be a seven to 16 year program following EIR certification (see “THE PORT OF LONG BEACH—Environmental Compliance—CEQA Document Preparation Process”). Right-of-way acquisition, utility relocations, street re-alignment and traffic improvements are significant work elements that will be undertaken prior to a phased railyard expansion. The proposed expansion would increase on-dock rail activity at the container terminals by providing a staging yard for on-dock rail operations. This staging yard would (1) allow longer, 10,000-ft trains to be operated consistently from each container terminal without congesting main line operations; (2) improve utilization at each on-dock railyard by shifting train arrival and departure activities, locomotive fueling, and potentially railcar maintenance work to the Pier B yard; (3) act as a central classification yard where the railroads could assemble railcars from different container terminals into a single train; (4) provide a buffer space where each on-dock terminal could stage railcars until the on-dock terminal is ready to load and unload them; and (5) convert certain truck trips to rail trips between the Port and shippers in California, Arizona and Nevada. This project would increase the rail modal share of cargo activity in the harbor, with a corresponding reduction in modal share moving to and from the Port by truck.

***Gerald Desmond Bridge Replacement Project.*** The Gerald Desmond Bridge is a vital link in the San Pedro Bay Ports’ goods movement infrastructure because it connects to 710 Freeway, which is the primary access route for the San Pedro Bay Ports and carries approximately 15% of all U.S. port-related container traffic.

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 and higher clearance. The new bridge will provide 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 205-foot vertical clearance to accommodate taller 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. 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 tallest ships.

The Gerald Desmond Bridge Replacement Project is budgeted to cost approximately \$1.467 billion and is a joint effort between the California Department of Transportation (“Caltrans”) and the Harbor Department. Funding for this project will come from numerous sources, including federal and State grants, proceeds of the Subordinate TIFIA Loan and/or additional Senior Harbor Bonds and/or Subordinate Harbor Obligations, and revenues of the Harbor Department.

As of January 1, 2017, the design of the Gerald Desmond Bridge Replacement Project was approximately 99% complete and construction of the Gerald Desmond Bridge Replacement Project was approximately 64% complete. Construction of the new bridge began in 2013 and was originally expected to be completed by the end of 2016. Due to complexities of the site and design, in 2014, the Harbor Department revised the schedule for the Gerald Desmond Bridge Replacement Project, which included changing the date of substantial completion of the bridge (i.e. when the bridge is open to all traffic) to June 2018. As of January 2017, the latest schedule provided by the contractors of the bridge showed a date of substantial completion of May 2019. The Harbor Department and the contractors are currently working together to adjust construction schedules to meet the June 2018 substantial completion date. However, as of the date of this Official Statement, the Harbor Department cannot predict if substantial completion of the bridge will occur by June 2018. See “RISK FACTORS—Factors Affecting 2017-26 Capital Plan” and “—Market Access Required if Subordinate TIFIA Loan Proceeds are not Disbursed.” Following completion of the new bridge, the old bridge will be demolished and removed.

Upon completion of the new Gerald Desmond Bridge, ownership of the bridge will be transferred to Caltrans. However, the Harbor Department has agreed to pay Caltrans all operation and maintenance costs with respect to the new bridge for a 30-year period commencing on the date ownership of the bridge is transferred to Caltrans.

***Civic Center Plaza (Port Headquarters Building).*** The new Port of Long Beach Administrative Headquarters Building project is a part of the City of Long Beach Civic Center project. The project includes the construction of a new headquarters building for the Harbor Department in downtown Long Beach, co-located with a new city hall, a library, a public park and other shared facilities. The Harbor Department’s total project cost, including certain costs associated with facilities that will be shared with the City, the purchase of the land upon which the Port Headquarters Building is being constructed and non-construction cost, is expected to be approximately \$235 million. Procurement of the Port Headquarters Building will be under a modified design-build-finance-operate-maintain approach. The Port Headquarters Building and the City of Long Beach Civic Center are being developed by Plenary Properties Long Beach LLC (“Plenary”). The project agreement with Plenary (the “Project Agreement”) was approved by the Harbor Board on December 17, 2015, and closing of the transaction occurred in April 2016. Construction started in August 2016 and is expected to be completed in late-2019. Plenary, through a loan provided by Sumitomo Mitsui Banking Corporation, is providing the financing for the costs of construction of the Port Headquarters Building. Pursuant to the terms of the Project Agreement, upon completion of the Port Headquarters Building, the Harbor Department has agreed to make a completion payment in the amount of \$212.6 million to Plenary, which will generally equal the amount necessary for Plenary to pay off the construction loan from Sumitomo Mitsui Banking Corporation.

***Long Beach Harbor Dredging.*** The Harbor Department has identified several dredging projects that will be in development over the next few years, including, deepening of the West Basin approach and Pier T berths and widening of the Inner Harbor Turning Basin. A federal study to expand the limits of the federal channels is also underway. Dredging projects that are currently scheduled to move forward have an approximate cost of \$45 million.

***Fire Safety Projects.*** The fire safety projects include the replacement of two obsolete fireboats and the construction of two new fireboat stations. The first of the fireboats was delivered and placed into service in 2016, and the second fireboat is scheduled for delivery in the first half of 2017. The budget for the two fireboats is \$70 million. The two proposed fireboat stations would replace one older station and one temporary facility. The cost of the new fireboat stations is estimated to be \$100 million. See “Litigation Relating to the Harbor Department and the Port—Fireboat Litigation.”

**Infrastructure Capital Improvement Programs.** The Harbor Department owns and maintains infrastructure outside of operating terminals including roadways, water distribution system, sanitary sewer system, storm drain system, electrical distribution system, wharf structures and rock dikes and other assets. To manage the infrastructure condition efficiently, the Harbor Department has developed a 10-year plan for roadway and wet utilities improvements, including water, sanitary sewer and storm drain, with an approximate cost of \$200 million. To proactively monitor and manage infrastructure conditions throughout the Port, the Harbor Department intends to update the plan periodically.

**Funding Sources of 2017-26 Capital Plan.** The Harbor Department plans to finance the 2017-26 Capital Plan with the following sources of funding:

**TABLE 11**  
**Harbor Department of the City of Long Beach**  
**Funding Sources of 2017-26 Capital Plan**  
**(\$000's)**

Funding Source	Amount
Senior Harbor Bonds/Subordinate Harbor Obligations	\$1,160,000
Harbor Department Revenues	1,496,000
Federal and State Grants	393,000
Total	<u>\$3,049,000</u>

Source: Harbor Department.

In the event any of the expected federal or State grants are not received by the Harbor Department, the projects to be financed with such grants may be delayed and/or reduced in scope or the Harbor Department will need to obtain alternative sources of funding (including, but not limited to, public-private partnerships). See also “RISK FACTORS—Unavailability of, or Delays in, Anticipated Funding Sources.”



## Summary of Historical Operating Results

The following table presents the Harbor Department's Statements of Revenues, Expenses and Changes in Net Position for Fiscal Years 2012-2016.

**TABLE 12**  
**Harbor Department of the City of Long Beach**  
**Comparative Summary of Statements of Revenues, Expenses and Changes of Net Position**  
**Fiscal Years Ended September 30, 2012-2016**  
**(\$000's)**

	2012	2013	2014	2015	2016
<b>Port Operating Revenues:</b>					
Berths and Special Facilities	\$322,425	\$335,869	\$346,258	\$343,134	\$348,171
Rental Properties	9,577	9,374	9,360	9,881	9,958
Miscellaneous	1,885	1,001	1,262	2,435	2,531
Total Port Operating Revenues	<u>\$333,887</u>	<u>\$346,244</u>	<u>\$356,880</u>	<u>\$355,450</u>	<u>\$360,660</u>
<b>Port Operating Expenses:</b>					
Operating/Administrative	\$ 87,637	\$ 97,696	\$108,455	\$133,771	\$143,873
Depreciation/Amortization	88,523	90,849	117,966	137,709	146,721
Total Port Operating Expenses	<u>\$176,160</u>	<u>\$188,545</u>	<u>\$226,421</u>	<u>\$271,480</u>	<u>\$290,594</u>
<b>Income from Port Operations</b>	<u>\$157,727</u>	<u>\$157,699</u>	<u>\$130,459</u>	<u>\$83,970</u>	<u>\$70,066</u>
<b>Non-Operating Revenues (Expense):</b>					
Clean Air Action Plan Income (Expense)	\$(3,926)	\$(3,420)	\$(2,474)	\$ (3,488)	\$(4,656)
Gain/(Loss) on Sale of Assets	7	(6)	16	35,979	48
Income from Equity in Joint Ventures, Net	-	2,049	3,640	2,811	2,544
Interest Expense, Net of Interest Capitalized	(10,341)	(65)	(1,205)	(878)	(13,244)
Interest Income	3,302	740	3,136	4,036	4,637
Other Income (Expense), Net	(1,904)	(182)	(298)	5,048	139
Total Non-Operating Revenues (Expenses)	<u>\$(12,863)</u>	<u>\$(884)</u>	<u>\$2,816</u>	<u>\$43,508</u>	<u>\$(10,532)</u>
<b>Income Before Transfers and Capital Grants</b>	<u>\$144,865</u>	<u>\$156,815</u>	<u>\$133,275</u>	<u>\$127,478</u>	<u>\$59,533</u>
Net Operating Transfers	\$(16,694)	\$(17,312)	\$(17,844)	\$(17,772)	\$(18,693)
Capital Grants	13,627	250,543 <sup>1</sup>	178,295 <sup>1</sup>	121,008 <sup>1</sup>	128,282 <sup>1</sup>
Contributions to/from Others	-	-	(10,203)	-	4,008
<b>Change in Net Position</b>	<u>\$ 141,798</u>	<u>\$ 390,046</u>	<u>\$283,523</u>	<u>\$230,713</u>	<u>\$173,130</u>
<b>Total Net Position (beginning of fiscal year)</b>	\$2,651,522	\$2,793,319	\$3,178,686	\$3,462,209	\$3,609,819
Adjustment for GASB 65 Implementation <sup>2</sup>	-	(4,678)	-	-	-
Adjustment for GASB 68 Implementation <sup>2</sup>	-	-	-	(83,104)	-
Adjustment for GASB 75 Implementation <sup>2</sup>	-	-	-	-	(2,922)
<b>Total Adjusted Net Position (beginning of fiscal year)</b>	<u>\$2,651,522</u>	<u>\$2,788,640</u>	<u>\$3,178,686</u>	<u>\$3,379,105</u>	<u>\$3,606,897</u>
<b>Total Net Position (end of fiscal year)</b>	<u>\$2,793,319</u>	<u>\$3,178,686</u>	<u>\$3,462,209</u>	<u>\$3,609,818</u>	<u>\$3,780,027</u>

<sup>1</sup> In Fiscal Years 2013, 2014, 2015 and 2016, the Harbor Department received \$230 million, \$126 million, \$97 million and \$96 million, respectively, of federal and State grants in connection with the Gerald Desmond Bridge Replacement Project.

<sup>2</sup> Certain Governmental Accounting Board Standards Board statements, affecting accounting and financial reporting requirements, were implemented thereby affecting the manner in which the Harbor Department reports its financial information.

Source: The Harbor Department's audited financial statements for Fiscal Years 2012-2016.

***Fiscal Year 2016 Results.*** Fiscal Year 2016 operating revenues were \$360,660,188, an increase of 1.5% from Fiscal Year 2015. The revenue categories of containerized cargo and dry bulk (the Harbor Department's highest revenue producing cargo categories) increased 1.8% and 0.5%, respectively, in Fiscal Year 2016. The revenue category of petroleum/liquid bulk decreased 0.7% in Fiscal Year 2016 and the revenue category of general cargo increased 0.7% in Fiscal Year 2016. Cargo volume for Fiscal Year 2016 was 161,321,863 MRTs, a decrease of 1.8% from Fiscal Year 2015. Fiscal Year 2016 operating and administrative expenses were \$144,532,785, an increase of 8.0% from Fiscal Year 2015.

***[UPDATE] First Seven Months of Fiscal Year 2017 Results.*** Operating revenues through the first seven months of Fiscal Year 2017 were \$209,677,863, an increase of 0.6% from the same period in Fiscal Year 2016. Containerized cargo revenue decreased 1.3% during the first seven months of Fiscal Year 2017 due to the bankruptcy of Hanjin Shipping. All other revenue categories, except revenues from the lumber terminal at Pier T, increased during this period compared to Fiscal Year 2016. Cargo volume for the first seven months of Fiscal Year 2017 was 90,782,321 MRTs, an increase of 1.6% from the same period in Fiscal Year 2016. Operating and administrative expenses in the first seven months of Fiscal Year 2017 were \$65,676,814, a decrease of 1.2% compared to the same period in Fiscal Year 2016. Operating revenues of \$209,677,863 for the first seven months of Fiscal Year 2017 were 1.2% less than budgeted operating revenues of \$212,183,501. As of April 30, 2017, 63% of Fiscal Year 2017 projected guaranteed annual minimums had been earned.

### **Outstanding Senior Harbor Bonds and Subordinate Harbor Obligations**

***Senior Harbor Bonds.*** The following table sets forth information with respect to the Harbor Department's Senior Harbor Bonds which have been issued and were outstanding as of September 1, 2017.

**TABLE 13**  
**Harbor Department of the City of Long Beach**  
**Senior Harbor Bonds**  
**(as of September 1, 2017)**

<u>Existing Senior Bonds</u>	<u>Original Principal Amount</u>	<u>Principal Amount Outstanding</u>	<u>Final Maturity Date</u>
Series 1998A	\$ 206,330,000	\$ 32,260,000	5/15/2019
Series 2010A	200,835,000	124,245,000	5/15/2025
Series 2010B	158,085,000	127,530,000	5/15/2027
Series 2014B	20,570,000	17,180,000	5/15/2027
Series 2014C	325,000,000 <sup>1</sup>	325,000,000	11/15/2018
Series 2015A	44,845,000	43,430,000	5/15/2023
Series 2015B	20,130,000	20,130,000	5/15/2025
Series 2015C	66,085,000	66,085,000	5/15/2032
Series 2015D	66,865,000	66,865,000	5/15/2042
Series 2017A	101,610,000	101,610,000	5/15/2040
Series 2017B	25,985,000	25,985,000	5/15/2043
Series 2017C	42,660,000	42,660,000	5/15/2047
Total	<u>\$1,279,000,000</u>	<u>\$992,980,000</u>	

<sup>1</sup> As of the date of this Official Statement, the Harbor Department is reviewing several options to pay the principal of the Series 2014C Senior Notes on November 15, 2018, including, among other options, drawing down the proceeds of the Subordinate TIFIA Loan and/or issuing additional Senior Bonds and/or additional Subordinate Obligations. See “—Capital Development Program—2017-26 Capital Plan—Gerald Desmond Bridge Replacement Project” and “RISK FACTORS—Market Access Required if Subordinate TIFIA Loan Proceeds are not Disbursed.”

Source: Harbor Department.

## Senior Bonds Debt Service Requirements

The following table sets forth the debt service requirements of the Existing Senior Bonds and the Series 2017 Senior Bonds. See “—Future Financings (Additional Senior Harbor Bonds and Subordinate Harbor Obligations)” below for a discussion of the Board’s plans to issue additional Senior Bonds and/or Subordinate Obligations.

<b>Bond Year Ending May 15</b>	<b>Total Senior Bonds Debt Service</b>
2018	\$79,568,100
2019 <sup>2</sup>	402,023,650
2020	65,947,500
2021	65,917,850
2022	65,917,350
2023	65,109,100
2024	65,113,600
2025	65,065,500
2026	46,613,000
2027	41,439,750
2028	25,381,500
2029	26,584,250
2030	25,386,750
2031	25,379,500
2032	25,379,250
2033	21,879,000
2034	21,877,000
2035	21,880,250
2036	21,882,000
2037	21,885,750
2038	21,879,750
2039	21,882,750
2040	21,882,500
2041	20,522,250
2042	20,523,000
2043	11,863,000
2044	11,863,250
2045	11,860,250
2046	11,863,000
2047	11,865,000
Total	\$1,366,235,400

## Senior Debt Service Coverage

A summary of Revenues, Maintenance Costs, Net Revenues, Senior Debt Service and debt service coverage for Fiscal Years 2012 through 2016 is presented below.

**TABLE 15**  
**Harbor Department of the City of Long Beach**  
**Senior Debt Service Coverage**  
**(\$000's)**

Fiscal Year	Revenues <sup>1</sup>	Maintenance Costs <sup>2</sup>	Net Revenues <sup>3</sup>	Senior Debt Service <sup>4</sup>	Senior Debt Service Coverage	
					Gross <sup>5</sup>	Net <sup>6</sup>
2012	\$337,189	\$ 87,637	\$249,552	\$80,008	4.2x	3.1x
2013	346,984	97,696	249,288	80,811	4.3	3.1
2014	360,016	108,455	251,561	84,724	4.2	3.0
2015	359,486	133,771	225,715	78,363	4.6	2.9
2016	365,298	144,533	220,765	88,669	4.1	2.5

<sup>1</sup> Calculated in accordance with the provisions of the Master Senior Resolution. Includes Total Port Operating Revenue and Interest Income as shown in "Table 12, Harbor Department of the City of Long Beach, Comparative Summary of Statements of Revenues and Expenses" set forth below.

<sup>2</sup> Calculated in accordance with the provisions of the Master Senior Resolution. Includes all Port Operating Expenses excluding Depreciation and Amortization as shown in "Table 12, Harbor Department of the City of Long Beach, Comparative Summary of Statements Revenues and Expenses" set forth below.

<sup>3</sup> Revenues less Maintenance Costs.

<sup>4</sup> Includes debt service on all Senior Bonds.

<sup>5</sup> Revenues divided by Senior Debt Service.

<sup>6</sup> Net Revenues divided by Senior Debt Service.

Source: Revenues and Maintenance Costs are derived from the Harbor Department's audited financial statements for Fiscal Years 2012-2016.

## Outstanding Subordinate Harbor Obligations (Subordinate Revolving Obligations and Subordinate TIFIA Loan)

**Subordinate Revolving Obligations.** Pursuant to the Master Subordinate Resolution, the Subordinate Revolving Obligations Supplemental Resolutions and the Subordinate Revolving Obligations Credit Agreement, the City, acting by and through the Harbor Board, is authorized to issue and have outstanding, from time to time, up to \$200 million in aggregate principal amount of its Subordinate Revolving Obligations. As of September 1, 2017, the City, acting by and through the Harbor Board, had no Subordinate Revolving Obligations outstanding. The Subordinate Revolving Obligations are secured by a pledge of Subordinate Revenues (consisting of Revenues minus the payment of debt service on the Senior Harbor Bonds and the required deposits to any debt service reserve fund established with respect to the Senior Harbor Bonds). All Subordinate Revolving Obligations issued by the City, acting by and through the Harbor Board, are purchased by the Subordinate Revolving Obligations Bank (MUFJ Union Bank, N.A.) in accordance with the terms of the Subordinate Revolving Obligations Credit Agreement. Pursuant to the terms of the Subordinate Revolving Obligations Credit Agreement, the Subordinate Revolving Obligations bear interest at floating rates set forth in the Subordinate Revolving Obligations Credit Agreement. Except as otherwise provided in the Subordinate Revolving Obligations Credit Agreement, the principal of all Subordinate Revolving Obligations outstanding is due and payable on July 11, 2019. However, subject to the terms of the Subordinate Revolving Obligations Credit Agreement, on

July 11, 2019, the City, acting by and through the Harbor Board, can convert any outstanding Subordinate Revolving Obligations to a term loan that will be payable over a three year period after the July 11, 2019 maturity date. Pursuant to the provisions of the Subordinate Revolving Obligations Credit Agreement, the Subordinate Revolving Obligations Bank has the right to accelerate the payment of the principal of and interest on the Subordinate Revolving Obligations upon the occurrence of certain events of default set forth in the Subordinate Revolving Obligations Credit Agreement.

***Subordinate TIFIA Loan.*** The City, acting by and through the Harbor Board, entered into the Subordinate TIFIA Loan Agreement with the TIFIA Lender, pursuant to which the TIFIA Lender, subject to certain conditions, agreed to make the Subordinate TIFIA Loan to the City, acting by and through the Harbor Board, in an amount not to exceed \$325 million. The proceeds of the Subordinate TIFIA Loan, if drawn, will be used by the Harbor Department to finance and refinance the costs of the Gerald Desmond Bridge Replacement Project. See “THE PORT OF LONG BEACH - Capital Development Program—2017-2026 Capital Plan—Gerald Desmond Bridge Replacement Project.” The Subordinate TIFIA Loan, if and when made, will be secured by a pledge of Subordinate Revenues on parity with the Subordinate Revolving Obligations. The proceeds of the Subordinate TIFIA Loan are expected to be drawn, if ever, no later than one year after substantial completion of the Gerald Desmond Bridge (i.e. when the bridge is open to all traffic). Pursuant to the terms of TIFIA Resolution, the Harbor Board has reserved the right (but is not obligated to) use all or a portion of the proceeds of the Subordinate TIFIA Loan to pay all or a portion of the principal of the Series 2014C Senior Notes on their maturity date (November 15, 2018), or any obligations that may be issued to refinance the Series 2014C Senior Notes, and/or to pay additional federally eligible costs of the Gerald Desmond Bridge Replacement Project. The final maturity date of the Subordinate TIFIA Loan will be approximately 35 years after the date the proceeds are first drawn. Pursuant to the provisions of the Subordinate TIFIA Loan Agreement, the TIFIA Lender has the right to accelerate the payment of the principal of and interest on the Subordinate TIFIA Loan upon the occurrence of certain events of default set forth in the Subordinate TIFIA Loan Agreement. See “RISK FACTORS—Market Access Required if Subordinate TIFIA Loan Proceeds are not Disbursed.”

### **Future Financings (Additional Senior Harbor Bonds and Subordinate Harbor Obligations)**

See “THE PORT OF LONG BEACH-Capital Development Program—Funding Sources of 2017-26 Capital Plan” for a discussion of the Harbor Department’s plans to issue additional Senior Harbor Bonds and/or Subordinate Harbor Obligations in the future to finance a portion of the costs of the 2017-26 Capital Plan. Additionally, the City, acting by and through the Harbor Board, may issue additional Senior Harbor Bonds and/or additional Subordinate Obligations in the future to refund outstanding Senior Bonds and/or Subordinate Harbor Obligations.

### **Other Obligations**

***ACTA Shortfall Advances and Surety Obligation Payments.*** In 1999, the Alameda Corridor Transportation Authority (“ACTA”) issued and entered into obligations to finance a portion of the cost of the design and construction of a 20-mile long, multiple-track rail system linking the railyards and tracks at the Port and the Port of Los Angeles (together, the “San Pedro Bay Ports”) with the Railroads’ (as defined in the following paragraph) transcontinental mainlines originating near downtown Los Angeles (the “Alameda Corridor”). See “THE PORT OF LONG BEACH—Current Port Facilities—General.” The Alameda Corridor was financed with contributions from the Harbor Department and the Port of Los Angeles, proceeds of taxable and tax-exempt bonds issued by ACTA, a federal loan (which was prepaid in May 2004 with the proceeds of subordinate taxable and tax-exempt bonds issued by ACTA), a grant from the Los Angeles County Metropolitan Transportation Authority, and various other grant moneys. As of June 30, 2016, ACTA had outstanding approximately \$2.2 billion aggregate principal and initial amount of taxable and tax-exempt bonds (collectively, the “ACTA Obligations”).

On October 12, 1998, the City, acting by and through the Harbor Board, the City of Los Angeles, acting by and through its Board of Harbor Commissioners, ACTA, the Union Pacific Railroad Company (“Union Pacific”), and BNSF Railway Company (formerly known as The Burlington Northern and Santa Fe Railway Company) (“BNSF” and together with Union Pacific, the “Railroads”) entered into the Alameda Corridor Use and Operating Agreement, as amended (the “ACTA Operating Agreement”). The ACTA Operating Agreement governs the administration, operation and maintenance of the Alameda Corridor and the collection and application of use fees, container charges, maintenance and operation charges and Shortfall Advances. The ACTA Obligations are payable from the use fees and container charges, payable by the Railroads, and from Shortfall Advances.

The ACTA Operating Agreement requires the Harbor Department and the Port of Los Angeles, severally and not jointly, to make payments (the “Shortfall Advances”) in the event the amount of use fees and container charges collected from the Railroads are not sufficient to make the debt service payments on the ACTA Obligations. Pursuant to the ACTA Operating Agreement, the Harbor Department and the Port of Los Angeles are each obligated to make up one-half of any deficiency in the payment of debt service on the ACTA Obligations. However, the Harbor Department and the Port of Los Angeles are liable only for a maximum of 40% (20% each) of the total amount of debt service due in each year on the ACTA Obligations. Additionally, neither the Harbor Department nor the Port of Los Angeles is required to make Shortfall Advances that should have been paid by the other party. Based upon the June 30, 2016 outstanding amount of the ACTA Obligations, the Harbor Department and the Port of Los Angeles are potentially liable for a maximum of approximately \$900 million (the Harbor Department and the Port of Los Angeles each being liable for approximately \$450 million) of debt service payments on the ACTA Obligations through 2037. Pursuant to the ACTA Operating Agreement, the Harbor Department is obligated to include any forecasted Shortfall Advances in its budget for each Fiscal Year. The Harbor Department and the Port of Los Angeles were first required to pay Shortfall Advances in calendar year 2011 when they paid a total of \$5.9 million (\$2.95 million each) for debt service payments due on October 1, 2011. The Harbor Department and the Port of Los Angeles were again required to pay Shortfall Advances in calendar year 2012 when they paid a total of \$5.9 million (\$2.95 million each) for debt service payments due on October 1, 2012. The Harbor Department and the Port of Los Angeles were not required to pay Shortfall Advances in 2013, 2014, 2015 or 2016 and do not expect to pay Shortfall Advances in 2017.

In May 2016, ACTA issued its Tax-Exempt Subordinate Lien Revenue Refunding Bonds, Series 2016A, and Tax-Exempt Second Subordinate Lien Revenue Refunding Bonds, Series 2016B Bonds (collectively, the “Series 2016 ACTA Bonds”), the proceeds of which were used to, among other things, refund a portion of ACTA’s outstanding Tax-Exempt Subordinate Lien Revenue Bonds, Series 2004A Bonds. The issuance of the Series 2016 ACTA Bonds included extending the payment of principal that was scheduled to mature in Fiscal Years 2017 through 2026, and thereby the projected Shortfall Advances that the Harbor Department and the Port of Los Angeles were expected to make in those years were eliminated. Although this restructuring increased the overall amount of the debt service on the outstanding ACTA bonds, it generated significant relief from projected Shortfall Advances for the Harbor Department and the Port of Los Angeles through Fiscal Year 2026. The Harbor Department expects that it (and the Port of Los Angeles) may be required to make one or more additional Shortfall Advances between 2026 and 2037, however, as of the date of this Official Statement, the Harbor Department cannot predict either the amount or timing of any such Shortfall Advances.

In connection with ACTA’s issuance of \$83,710,000 of its Taxable Senior Lien Revenue Refunding Bonds, Series 2012 (the “Series 2012 ACTA Bonds”), the Harbor Department and the Port of Los Angeles entered into a debt service reserve surety agreement (the “Series 2012 ACTA Surety Agreement”). Pursuant to the Series 2012 ACTA Surety Agreement, the Harbor Department and the Port of Los Angeles each agreed to make individual payments of up to \$3.6 million (the “Surety Obligation

Payments”) to pay the principal of and interest on the Series 2012 ACTA Bonds in the event the amount of use fees and container charges collected from the Railroads are not sufficient to make the debt service payments on the Series 2012 ACTA Bonds. The Harbor Department’s (and the Port of Los Angeles’) obligation under the Series 2012 Surety Agreement will decrease as deposits, if any, are made to the debt service reserve fund established for the Series 2012 ACTA Bonds. Since the execution of the Series 2012 ACTA Surety Agreement, ACTA has made cash deposits of approximately \$4.1 million to the debt service reserve fund for the Series 2012 ACTA Bonds, thereby reducing the Surety Obligation Payments to a maximum of approximately \$1.6 million for each of the Harbor Department and the Port of Los Angeles. The Harbor Department’s (and the Port of Los Angeles’s) obligation under the Series 2012 Surety Agreement to make the Surety Obligation Payments will decrease further to the extent that deposits, if any, are made to the debt service reserve fund for the Series 2012 ACTA Bonds. According to ACTA, deposits are scheduled to be made to the debt service reserve fund for the Series 2012 ACTA Bonds each October 1 in an amount of approximately \$1 million, so that the debt service reserve fund for the Series 2012 ACTA Bonds will be fully funded by October 1, 2019.

The Harbor Department is obligated to make the Shortfall Advances and the Surety Obligation Payments from any legally available source of excess revenues after making all payments due with respect to the Senior Bonds and the Subordinate Obligations, and the payment of all Maintenance Costs. The Harbor Department’s obligation to make Shortfall Advances and Surety Obligation Payments is to continue even though use fees may be abated as a result of complete blockage of the rail corridor for more than five days. Shortfall Advances and Surety Obligation Payments are to be reimbursed to the Harbor Department and the Port of Los Angeles from use fees and container charges to the extent available, after payment of debt service on the ACTA Obligations, the funding of any reserves associated with the ACTA Obligations, the payment of maintenance and operating expenses of the Alameda Corridor, and the payment of administrative and other amounts.

***Clean Trucks Program - Lease Subsidy Obligations.*** Pursuant to the CAAP, the Harbor Department has undertaken several programs to lower air pollution levels at the Port, including a Clean Trucks Program (the “CTP”), which requires progressively cleaner engine standards for trucks operating at the Port so that by January 2012, all trucks operating at the Port had to be either replaced or retrofitted with emission controls to meet the United States Environmental Protection Agency’s (“EPA”) 2007 On-Road Heavy Duty emissions standards. See “THE PORT OF LONG BEACH—Environmental Compliance—Air Pollution Reduction Programs—Clean Trucks Program.”

The Harbor Department offered financial incentives, including a subsidized lease program to assist current truck operators that needed financial assistance to buy a cleaner truck. The Harbor Department agreed to provide an 80% subsidy towards the monthly lease obligations, the preventative maintenance requirements of participants in the lease program of the CTP, and the payment of the residual value of the leased truck upon purchase of such truck by the participants in the lease program of the CTP. The Harbor Department’s lease subsidy obligations are collectively referred to herein as the “Lease Subsidy Obligations.” Additionally, as part of the Port’s subsidized lease program, the Harbor Department agreed to guarantee pursuant to a Continuing Guaranty, dated October 8, 2008 (the “Guaranty”), to DCFS USA LLC and Daimler Trust (collectively, “Daimler”), the lease obligations of each of the participants in the lease program of the CTP.

The Harbor Department’s Lease Subsidy Obligations and its obligations under the Guaranty are payable from any legally available source of funds after the payment of debt service and reserve fund obligations on the Senior Bonds and the Subordinate Obligations. [UPDATE] As of April 1, 2017, there was one active lease participant in the CTP, and as of such date the Harbor Department had paid approximately \$33.4 million in lease subsidies and residual payments. The Harbor Department expects that its total remaining Lease Subsidy Obligations and obligations under the Guaranty will be



approximately \$500,000 through the end of calendar year 2017. The Harbor Department's Lease Subsidy Obligations and its obligations under the Guaranty will expire on September 30, 2017.

### **Financial Statements of the Harbor Department**

The audited financial statements of the Harbor Department for the Fiscal Year ended September 30, 2016 (the "2016 Audited Financial Statements") are included as Appendix A attached hereto. The 2016 Audited Financial Statements were audited by KPMG LLP, Los Angeles, California, independent certified public accountants, whose report with respect thereto also appears in Appendix A hereto. The City has not requested, nor did the City obtain, permission from KPMG LLP to include the 2016 Audited Financial Statements as an appendix to this Official Statement. KPMG LLP has not been engaged to perform and has not performed, since the date of its report included in Appendix A hereto, any procedures on the financial statements addressed in that report. KPMG LLP also has not performed any procedures relating to this Official Statement.

### **Litigation Relating to the Harbor Department and the Port**

**General.** From time to time, the Harbor Department is a party to litigation and is subject to claims arising out of its normal course of business and its tenants' operations. In actions brought against the Harbor Department's tenants whereby the Harbor Department is also named as a party to the action, the Harbor Department usually requires the tenant to defend and indemnify the Harbor Department. Additionally, on the advice of counsel, the Harbor Department generally establishes reserves against such lawsuits and claims that are deemed to have merit. The Harbor Department has reserved \$8.6 million to cover outstanding litigation claims. At this time, the management of the Harbor Department is of the opinion that if any lawsuits and claims, pursuant to which the Harbor Department is currently a named party, are concluded adversely to the Harbor Department, they will not have material adverse effect on the Harbor Department's financial condition.

**Fireboat Litigation.** On October 27, 2016, the City, acting by and through the Board, filed a complaint in the Superior Court of California, County of Los Angeles, against Foss Maritime Company ("Foss"), for, among other things, breach of contract in connection with the late construction and delivery of two new fireboats to be used at the Port. See "THE PORT OF LONG BEACH - Capital Development Program—2017-26 Capital Plan—Fire Safety Projects." The Harbor Department is seeking liquidated damages of approximately \$10.2 million. Foss subsequently filed a cross-complaint against the Harbor Department for \$26.1 million seeking damages relating to the first fireboat, which the Harbor Department expects will be amended to include damages Foss attributes to the late delivery of the second fireboat. As of the date of this Official Statement, the Harbor Department cannot predict the ultimate outcome of this litigation

## **RISK FACTORS**

### **Deposits to Tideland Operating Fund**

Approximately 74% of the amounts deposited to the Tideland Operating Fund in Fiscal Year 2016 consisted of Available Tidelands Oil Revenue and the 5% Transfer. Transfers into the Tideland Operating Fund each Fiscal Year are subject to the City's budgeting process. The City's consistent practice is to budget for and request all transfers (including the Available Tidelands Oil Revenue and the 5% Transfer) into the Tideland Operating Fund to which the fund is entitled to receive on an annual basis.

The amount of Available Tidelands Oil Revenue each Fiscal Year will be dependent on the amount of oil recovered from the Wilmington Oil Field and on the price at which such oil is purchased.

The actual amount of oil recovered and the price at which such oil is purchased depends upon a number of factors, including specifically the rate of consumption of motor fuels and the substitution of alternative energy sources for motor vehicles which may be affected by a number of factors including, but not limited to: (a) increasing costs of motor fuels reducing demand; (b) increasing fuel efficiency of motor vehicles and the substitution of alternative energy sources for motor vehicles; (c) development of alternative energy sources; (d) development of mass transit; and (e) changing demographics within the City and State. See “—Factors Affecting Oil Production and Revenues.” Available Tidelands Oil Revenues have declined significantly over the last five years, primarily as a result of declining prices for oil. There can be no assurances that oil prices will not continue to decline.

The 5% Transfer is based upon gross operating revenues of the Harbor Department. The amount of the 5% Transfer is not within the control of the City. Gross operating revenues of the Harbor Department are significantly influenced by a variety of factors, including, among others, global and domestic economic conditions, fuel prices, construction activity, currency values, international trade, availability of effective labor support, the financial condition of maritime related industries, the proliferation of operational alliances and other structural conditions affecting maritime carriers.

### **Factors Affecting Oil Production and Revenues**

The amount of Available Tidelands Oil Revenue each Fiscal Year is dependent on the amount of oil recovered from the Wilmington Oil Field and on the price at which such oil is purchased. The oil industry is fundamentally a commodity business. This means that Available Tidelands Oil Revenue may be significantly affected by changes in oil prices and by changes in margins on refined products (i.e. gasoline). The production of oil in the Wilmington Oil Field is very costly. Since the Wilmington Oil Field is a mature oil field, it takes more and more effort and money to produce each barrel of oil. If world oil prices continue to decline, oil in the Wilmington Oil Field cannot be produced at a profit and Available Tidelands Oil Revenue will be adversely negatively affected. Additionally, if oil prices continue to decline, the production life of the Wilmington Oil Field also will be negatively affected because the amount of recoverable oil in the Wilmington Oil Field, and therefore the life of the field, is directly related to how much oil can be produced at a profit.

Oil prices and margins on refined products are dependent on local, regional and global events or conditions that affect supply and demand. The demand for energy and oil products correlates closely with general economic growth rates. The occurrence of recessions or other periods of low or negative economic growth will typically have a direct adverse impact on the demand for oil and its price. Other factors that impact the demand for oil include, among other factors, changes in population growth rates, periods of civil unrest, technological improvements in energy efficiency, environmental regulations, seasonal weather patterns, increased competitiveness of alternative energy sources that have so far generally not been competitive with oil without the benefit of government subsidies or mandates, and changes in technology or consumer preferences that alter fuel choices (such as alternative fueled vehicles). The price of oil also can be negatively affected by the development of new oil sources and technologies to enhance the recovery of oil from existing sources to the extent such supply increases are not offset by commensurate growth in demand. World oil supply levels and oil prices can also be affected by factors that reduce available supply, such as adherence by member countries to OPEC production quotas and the occurrence of war, hostile actions, natural disasters or unexpected unavailability of distribution channels that may disrupt supplies.

### **Regulations Affecting Oil Production**

Like all oil production throughout the United States, oil production in the Wilmington Oil Field is subject to numerous federal, State and local laws and regulations, including, among others, health, safety

and environmental laws and regulations. Many of these laws and regulations have extensive protocols that must be complied with and such compliance can be quite costly; which in turn reduces that amount of Available Tidelands Oil Revenue. In addition to the federal, State and local laws and regulations that directly affect the production of oil in the Wilmington Oil Field, there are numerous indirect federal, State and local laws and regulations that affect the production of oil in the Wilmington Oil Field and the level of Available Tidelands Oil Revenues, such as laws and regulations limiting green house gas emissions, requiring increased fuel efficiency of vehicles or mandating use of alternative fuel sources. The City cannot predict what additional federal, State or local laws and regulations may be adopted in the future and what adverse effects, if any, such regulations may have on the production of oil in the Wilmington Oil Field and on Available Tidelands Oil Revenue.

### **Approval of 5% Transfer**

The 5% Transfer from the Harbor Revenue Fund is subject to the approval of a majority of all the members of the Harbor Board, expressed by resolution, finding and determining that the funds proposed to be transferred will not be needed for Harbor Department operations, including, without limitation, operating expenses and capital projects, and that such transfer will not result in insufficient funds to pay the principal of and interest on the revenue bonds issued by the Harbor Department or result in noncompliance by the Harbor Department of its debt to revenue coverage requirements. The 5% Transfer is also subject to the approval of two-thirds of the members of the City Council.

Neither the Harbor Board of the City Council is legally obligated to approve the 5% Transfer, and failure to approve the 5% Transfer by either the Harbor Board or the City Council does not constitute an event of default under the Indenture. The 5% Transfer constituted approximately 48% of the total Tidelands Revenues in Fiscal Year 2015-16.

### **Factors Affecting Demand for Port Facilities**

The 5% Transfer is dependent on the continuing financial performance of the Port and the availability of sufficient Port revenues. The demand for Port facilities and the revenues of the Harbor Department are significantly influenced by a variety of factors, including, among others, global and domestic economic and political conditions, governmental regulation (including tariffs and trade restrictions), fuel prices, construction activity, currency values, international trade, availability and cost of labor, vessels, containers and insurance, the efficiency and adequacy of transportation and terminal infrastructure at the Port, the adequacy and location of major distribution hubs, the financial condition of maritime related industries, the proliferation of operational alliances and other structural conditions affecting maritime carriers. See “—Alliances and Consolidation of Container Shipping Industry” below.

Recently, one of the largest factors affecting demand at the Port was Hanjin’s filing for bankruptcy protection in August 2016, and its ultimate sale of its interest in Total Terminals. As discussed above under “THE PORT OF LONG BEACH—Operating Performance—Leading Revenue Producers—Hanjin Bankruptcy”, as a direct result of the Hanjin bankruptcy proceedings, between September 1, 2016 and December 31, 2016, cargo throughput at the Pier T Container Terminal decreased by 36.9%, and cargo throughput at the entire Port decreased by 7.7%. Between January 1, 2017 and April 30, 2017, cargo throughput at the Pier T Container Terminal began to recover but continued to be significantly down compared to the same period in 2016 (a decrease of 28.7%). However, cargo throughput at the entire Port increased 5.1% compared in the first seven months of Fiscal Year 2017 as compared to the same period in Fiscal Year 2016. Additionally, although revenue from the Pier T Container Terminal was down 29.2% for the first seven months of Fiscal Year 2017 as compared to the same period in Fiscal Year 2016 and total container terminal revenue was down 1.3% year-over-year,

total operating revenue for the entire Port was higher by \$1.3 million (0.6%) for the first seven months of Fiscal Year 2017 as compared to the same period in Fiscal Year 2016.

In the past, most recently being in late 2014 and early 2015, another factor affecting demand at the Port (and the Port of Los Angeles) has been congestion which has been caused by, among other things, ocean carriers divesting chassis ownership, shipping alliances and consolidation of the container ship industry, prolonged labor contract negotiation, and large volume ships straining marine terminal operating methods. Between October 2014 and March 2015, cargo throughput at the San Pedro Bay Ports decreased by 1.8% as compared to the period between October 2013 and March 2014. The Harbor Department cannot predict if congestion again will result in decreased demand of the Port's facilities.

Marine terminals continue to adjust to the deployment of mega vessels, defined as vessels with a TEU capacity of 10,000 or more. The Port is one of few ports nationwide that has the physical infrastructure to handle the so-called "big ships". At 76 feet, the Port has one of the deepest harbors of any seaport in the world. Five years ago, the average size vessel calling at the Port carried 8,000 TEUs. Today, vessels carrying up 13,000 TEUs call regularly and larger vessels are expected to arrive in the coming years as Middle Harbor reaches full development.

The San Pedro Bay Ports complex is the focal point for roughly 20 weekly vessel calls from East Asian ports, more than any other port complex in North America. The frequency of these vessel calls provides the Ports with operating flexibility and capacity. The Port offers features that extend beyond the piers, docks and waterways, in that Port tenants are serviced by the Union Pacific and BNSF Railways with over 60 weekly on-dock rail departures from Long Beach linking to an extensive network of rail connections. Additionally, southern California has the largest collection of logistics facilities in the nation, with approximately 900 million square feet of warehouses and distribution centers.

### **Port Competition**

The revenues of the Harbor Department may be adversely impacted by increasing competition from other port facilities; however the Harbor Department cannot predict the scope of any such impact at this time. In addition, the imposition of fees that apply only to the Port or to a group of ports that includes the Port, may increase the cost to ocean carriers of utilizing the Port and may ultimately result in those ocean carriers using competing port facilities. The Harbor Department may reduce the tariffs or other charges applicable to its ocean carriers to moderate some or all of the potential impact, which in turn would reduce Revenues. See "—Factors Affecting Demand for Port Facilities" above.

There is significant competition for container traffic among North American ports. Success depends largely on the size of the local market and the efficiency of the port and inland transportation systems for non-local destinations. According to the American Association of Port Authorities, for the calendar year ended December 31, 2016, the top nine container ports in the nation in terms of container cargo were: (1) Port of Los Angeles (8.9 million TEUs), (2) Port of Long Beach (6.8 million TEUs), (3) Ports of New York and New Jersey (6.3 million TEUs), (4) Port of Savannah (3.6 million TEUs); (5) The Northwest Seaport Alliance (Ports of Seattle and Tacoma) (3.6 million TEUs), (6) Port of Norfolk (2.7 million TEUs), (7) Port of Oakland (2.4 million TEUs), (8) Port of Houston (2.2 million TEUs), and (9) Port of Charleston (2.0 million TEUs).

Primary competition for the Port comes from the U.S. West Coast Ports of Los Angeles, Oakland, Seattle and Tacoma and the Canadian Ports of Vancouver and Prince Rupert. All-water service from Asia to the Gulf of Mexico and East Coast ports through the Panama Canal and through the Suez Canal also compete for the same cargoes. Improvements completed in 2016 to the Panama Canal will allow larger ships to traverse the canal and some diversion of Asian imports from West Coast ports to the U.S. East

and Gulf Coast ports may increase. In addition, there may be longer-term competition from the West Coast ports of Mexico. All of these ports compete with the Port for discretionary intermodal cargo destined for locations in the Central and Eastern United States and Canada. Currently, this discretionary cargo moves eastward primarily by rail, after being off-loaded at West Coast ports in the United States and Canada. Discretionary cargo is highly elastic and is controlled largely by cargo owners and/or ocean carriers who can direct and redirect cargo to any port they choose. Currently, approximately 65% of the cargo handled by the Port is discretionary cargo. Each port has various competitive advantages and disadvantages in attracting this cargo, but overall cost is the primary factor in routing decisions. The greatest risk to the Port's market share is with the intermodal discretionary cargo segment. Reduced market share ultimately could impact revenue for the Harbor Department. See "THE PORT OF LONG BEACH—Stevedoring and Cargo Handling."

***Southern California.*** The Port and the Port of Los Angeles compete for cargo that "naturally" moves through Southern California. Such cargo includes both local cargo (e.g., cargo consumed within the locally defined region) and cargo that is routed through Southern California for other reasons (e.g., superior inland distribution capability). The population base in Southern California has been a key driving force for the growth of container cargo moving through the San Pedro Bay Ports. The roughly 18 million people living in Southern California are a lucrative market for imported goods which cargo owners and ocean carriers need to service directly. The development of large efficient container terminals and connections to intermodal rail links benefit the carriers and cargo owners due to the economies of scale at the San Pedro Bay Ports. Most container services calling on the West Coast include stops in Southern California and of these stops, a majority utilize the San Pedro Bay Ports as their first port of call and primary intermodal gateway. Over the past ten calendar years, total container throughput at the San Pedro Bay Ports decreased slightly from approximately 15.7 million TEUs in 2007 to approximately 15.6 million TEUs in 2016. Container throughput at the San Pedro Bay Ports reached its second highest historical total in 2007, right before the start of the recession in 2008. Over the last five years, as the economy recovered from the recession, total container throughput at the San Pedro Bay Ports increased by 10.7% from approximately 14.1 million TEUs in 2012 to approximately 15.6 million TEUs in 2016. The San Pedro Bay Ports' share of total West Coast TEU throughput was approximately 61.8% in 2016.

The Port of Los Angeles is effectively the Port's only competition for the local market areas of Southern California, Arizona, New Mexico, Southern Nevada and Utah because of its proximity to the Port and shared inland infrastructure. Other Southern California ports, such as San Diego and Hueneme, account for a very small percentage of total West Coast cargo volume and are not expected to increase their market shares significantly in the foreseeable future. The Port of Los Angeles was the number one container port in the nation during calendar year 2016, moving approximately 8.9 million TEUs, as compared to the Port (the second busiest container port in the nation) which moved approximately 6.8 million TEUs. For calendar year 2016, the Port's share of total West Coast containerized cargo was approximately 26.8% as compared to approximately 35.0% for the Port of Los Angeles.

***Oakland.*** The Port of Oakland is the primary container port for the San Francisco Bay Area. Although the Port of San Francisco has cargo handling facilities, its primary focus is waterfront commercial real estate. Therefore, the Port of Oakland dominates container traffic through Northern California. The Port of Oakland handled approximately 2.3 million TEUs in calendar year 2015, accounting for approximately 9.1% of the West Coast container market. In calendar year 2016, the Port of Oakland handled approximately 2.4 million TEUs, and its share of the West Coast container market was approximately 9.4%.

***Pacific Northwest.*** Despite the relatively small population base of western Washington, the Ports of Seattle and Tacoma have some advantages over other ports. Located on Puget Sound, the Ports of Seattle and Tacoma enjoy naturally deep harbors and are one day's sailing time closer to the ports in the

Pacific Rim countries than the Port. Unlike the Port, the Ports of Seattle and Tacoma are subsidized by general property tax revenues, which allow them to price their marine terminal facilities below the Port's. The Ports of Seattle and Tacoma handled approximately 3.5 million TEUs in calendar year 2015, and together accounted for a total of approximately 14.1% of the West Coast container market. The Ports of Seattle and Tacoma handled approximately 3.6 million TEUs, in calendar year 2016, and together accounted for a total of approximately 14.3% of the West Coast container market.

On December 1, 2014 the Ports of Tacoma and Seattle announced the formation of The Northwest Seaport Alliance to unify management at the two ports' marine cargo terminals and collaborate on business objectives, strategic maritime investments, financial returns, performance metrics, organizational structure and communications and public engagement.

The development of additional container handling capacity at Port Metro Vancouver ("PMV"), which was formed by the merger of the Ports of Vancouver, Fraser River and North Fraser River, has added a competitive threat to the Puget Sound ports and provides an alternative gateway for some U.S. intermodal cargo. Like the Ports of Seattle and Tacoma, PMV is one day's sailing time closer to the ports in the Pacific Rim countries than the Port. In January 2010, PMV opened a third berth at Deltaport, which increased PMV's capacity by up to 600,000 TEUs and added 50 acres of container storage facilities to the existing two berth container terminal (210 acres after expansion). In addition, PMV is planning the Robert Banks Terminal 2 Project at Deltaport, which will add a new, three-berth container facility with 200 acres of upland container terminal. PMV handled approximately 3.1 million TEUs in calendar year 2015, accounting for approximately 12.2% of the West Coast container market. PMV handled approximately 2.9 million TEUs in calendar year 2016, accounting for approximately 11.6% of the West Coast container market.

**All-Water Routes.** The use of all-water routes to the East and Gulf Coasts of the U.S. is an alternative to Asian intermodal cargo moving through United States West Coast ports. Demand for these all-water services increased substantially following the 2002 labor problems that occurred on the West Coast. The primary appeal of the all-water routes is the expected reliability of the services (e.g., the lack of perceived labor shortages or stoppages). Historically, constraints to all-water routes included lack of channel depth at many Gulf and East Coast ports compared to West Coast ports as well as the vessel size limitations of the Panama Canal. The latter constraint was by an expansion of the Panama Canal, the completion of which occurred in 2016 and will allow larger vessels to navigate the isthmus in order to reach Gulf and East Coast ports. However, increased Panama Canal fees may impact routing decisions in the long-term, and newly delivered container ships and those in design or on order will not fit the newly expanded Panama Canal. The competitive landscape also includes plans now in the works for many ports to increase channel depth and remove other physical obstacles which prevent the calling of "big ships," and enhancing operational efficiency, through the purchase and use of new equipment and automation, as well as augmenting transportation infrastructure.

### **Alliances and Consolidation of Container Shipping Industry**

As illustrated by the recent bankruptcy of Hanjin, since 2007, the financial health of the container-shipping industry has been under substantial stress because of numerous factors, including, among others, the world financial crisis which occurred between 2008 and 2009, overcapacity of available ships, decreasing freight rates and volatile fuel costs. In response to these challenges, the container-shipping industry has seen the forming of strategic alliances and the merger of certain shipping lines. As of the date of this Official Statement, there are three main shipping alliances, 2M, THE Alliance and Ocean Alliance. In 2014, Maersk and Mediterranean Shipping Company established the "2M Alliance," which according to Maersk, is a 10-year pact for Asia-Europe, trans-Atlantic and trans-Pacific routes, and covers 185 ships. Recently, Hyundai Merchant Marine Shipping became a partner in 2M

through a strategic cooperation agreement. “THE Alliance,” established in 2016, consists of NYK Line, MOL, “K” Line, Yang Ming, and Hapag-Lloyd. According to THE Alliance, the pact will be for five years and will include Asia-Europe, Asia-Mediterranean, trans-Pacific to United States West Coast and East Coast ports, trans-Atlantic and Asia-Middle East routes, and covers 240 ships. “Ocean Alliance,” established in 2016 consists of CMA CGM, Evergreen, OOCL and COSCO. According to Ocean Alliance, the pact will be for ten years and will include Asia-Europe, Asia-Mediterranean, trans-Pacific to United States West Coast and East Coast ports, trans-Atlantic, Asia-Red Sea and Asia-Middle East routes, and covers 323 ships. According to IHS Markit/PIERS, these three alliances shipped over 85% of all imports from Asia to the United States during calendar year 2016. Many of the container-shipping lines that are part of 2M, THE Alliance and Ocean Alliance operate at the Port. In addition to the alliances described above, numerous shipping lines have merged in the past five years. Additional alliances and mergers could occur in the future. Although, at this time, the Harbor Department cannot predict what effect 2M, THE Alliance and Ocean Alliance will have on container traffic at the Port or the revenues of the Harbor Department, alliances and consolidation in the container-shipping industry could impact container traffic at the Port and affect Revenues.

### **Factors Affecting 2017-26 Capital Plan**

The ability of the Harbor Department to complete the projects in the 2017-26 Capital Plan may be adversely affected by various factors including: (a) estimating errors; (b) design and engineering errors; (c) changes to the scope of the projects, including changes to federal security regulations; (d) delays in contract awards; (e) material and/or labor shortages; (f) unforeseen site conditions; (g) adverse weather conditions and other force majeure events, such as earthquakes; (h) contractor defaults; (i) labor disputes; (j) unanticipated levels of inflation; (k) environmental issues; and (l) unavailability of, or delays in, anticipated funding sources. The Harbor Department can provide no assurance that the existing projects in the 2017-26 Capital Plan will not cost more than the current budget for these projects. Any schedule delays or cost increases could result in the need for the Port to incur additional indebtedness.

### **Unavailability of, or Delays in, Anticipated Funding Sources**

As described herein, the Harbor Department anticipates that funding for the 2017-26 Capital Plan will be provided through proceeds of Senior Bonds and Subordinate Obligations, revenues of the Harbor Department, federal and State grants and other sources. See “THE PORT OF LONG BEACH - Capital Development Program” for a description of the financing plan for the 2017-26 Capital Plan. In the event that any of such sources are unavailable for any reason, including unavailability of revenues of the Harbor Department, reduction in the amount or delays in the receipt of federal and State grants available to the Harbor Department or any other reason, the completion of the 2017-26 Capital Plan could be substantially delayed and financing costs could be higher than projected. There can be no assurances that such circumstances will not materially adversely affect the financial condition or operations of the Port.

### **Market Access Required if Subordinate TIFIA Loan Proceeds are not Disbursed**

As of the date of this Official Statement, the Harbor Department is reviewing several options to pay the principal of the Series 2014C Senior Notes on November 15, 2018, including, among other options, drawing down the proceeds of the Subordinate TIFIA Loan and/or issuing additional Senior Bonds and/or additional Subordinate Obligations. See “THE PORT OF LONG BEACH - Outstanding Senior Harbor Bonds and Subordinate Harbor Obligations —Outstanding Subordinate Obligations (Subordinate Revolving Obligations and Subordinate TIFIA Loan)—Subordinate TIFIA Loan” and “THE PORT OF LONG BEACH-Capital Development Program—2017-26 Capital Plan—Gerald Desmond Bridge Replacement Project.” In the event the conditions to disbursement of the Subordinate TIFIA Loan cannot be satisfied on or before the maturity date of the Series 2014C Senior Notes (November 15, 2018)

or the Harbor Department decides that drawing down proceeds from the Subordinate TIFIA Loan is not in its best interest (financial or otherwise), the Harbor Department will be required to use an alternate method of repaying the Series 2014C Senior Notes, which could include issuing additional Senior Bonds and/or additional Subordinate Obligations. However, no assurances can be given that the City, acting by and through the Harbor Board, will be able to access the capital markets in the event proceeds are not disbursed under the Subordinate TIFIA Loan.

### **Future Executive Orders and Federal Laws and Regulations**

Since taking office in January 2017, the Trump Administration has issued several executive orders, and has indicated its intent to initiate additional executive orders, legislation and/or regulations affecting federal policy in areas such as immigration, tariffs and trade. As of the date of this Official Statement, there is insufficient information available about the potential federal action to estimate the impacts, if any, on federal funding to local governments or their operations, including law enforcement, transportation or other activities.

While enforcement of potential executive orders, laws or regulations could impose additional financial burdens upon the Harbor Department and/or the tenants of the Port, as of the date of this Official Statement, insufficient information is available regarding potential federal action to estimate the magnitude, if any, of such potential impacts.

### **Security at the Port**

As a result of the terrorists attacks of September 11, 2001, the Maritime Transportation Security Act of 2002 (“MTSA”) was signed into law on November 25, 2002 to require sectors of the maritime industry to implement measures designed to protect the ports and waterways of the U.S. from a terrorist attack. MTSA requires interagency teamwork within the Department of Homeland Security, including, the U.S. Coast Guard, the Transportation Security Administration (the “TSA”) and the Bureau of Customs and Border Protection, and the Department of Transportation’s Maritime Administration to develop security regulations. The security regulations focus on those sectors of maritime industry that have a higher risk of involvement in a transportation security incident, including various tank vessels, barges, large passenger vessels, cargo vessels, towing vessels, offshore oil and gas platforms, and port facilities that handle certain kinds of dangerous cargo or service the vessels listed above. Such regulations were implemented on July 1, 2003, and final rules became effective in November 2003. The regulations provide for port and vessel owners and operators to assess their vulnerabilities, and to then develop plans that may include implementing vehicle, container and baggage screening procedures, designating security patrols, establishing restricted areas, implementing personnel identification procedures, accessing control measures, and/or installing surveillance equipment. The Harbor Department and each of its applicable tenants have in place procedures for complying with MTSA.

To comply with MTSA regulations and based on the Harbor Department’s own initiatives, the Harbor Department is implementing certain security measures. The Harbor Department has installed and implemented a video camera surveillance system to monitor activities throughout the Port complex. To address waterside threats, the Harbor Department has installed radar and sonar detection systems and has agreements with the Long Beach Police Department to provide 24/7 “on water” patrol capability. The Harbor Department is working with marine terminal operators and other stakeholders within and outside the Port to share video camera feeds, thereby enhancing overall regional security monitoring capabilities. The Harbor Department has installed tools to assist in emergencies, including programmable highway signs, an AM radio station, an automated emergency notification system, and an encrypted radio system to provide secure communications with tenants and emergency services. The Harbor Department continues to support efforts by the TSA to implement a transportation workers identification card. The



Harbor Department has improved and continues to enhance physical security throughout the Port complex by installing security fencing, lighting, barriers and access control systems. These improvements are being applied to all infrastructure above and below ground. Radiation portal monitors have been installed at all of the container terminals, which are managed by the U.S. Customs & Border Protection. All containers originating at foreign ports will be tested for the presence of radioactive materials when leaving the Port.

In February 2009, the Harbor Department opened the Joint Command & Control Center which serves as the Harbor Department Security Division and Port Police Division headquarters and functions as a multi-agency incident command post, housing approximately 120 personnel (which is triple the level of staffing on September 11, 2001). The Command and Control Center functions as a “maritime domain awareness center” and combines and displays all the surveillance, detection and monitoring data from throughout the Port; this data is shared and communicated with facility security personnel and law enforcement agencies that protect the harbor complex. In addition, the Harbor Department is working closely with local, regional, and state agencies to develop a geo-spatial software platform that will interconnect these agencies and provide a common operational picture of the region’s maritime domain to support daily security functions, incident response, and recovery operations. The Command and Control Center also is the home to the Maritime Coordination Center, which coordinates the response to offshore illicit activities for over 70 different maritime law enforcement entities along 320 miles of California coastline. The Harbor Department has significantly increased its budgeted security operating costs since 2002. Security Division operating expenses as well as service agreements with City of Long Beach Fire and Police Departments have increased from \$15.6 million in 2008 to \$26.4 million in 2017.

There can be no assurance that MTSA requirements will not become more strict or that additional requirements may require the Harbor Department to incur additional security-related expenses.

National and local law enforcement officials have warned that additional terrorist attacks upon key infrastructure and other targets in the United States are possible. The Port and the surrounding waterways are particularly visible infrastructure assets that could be the subject of future attempted terrorist attacks. A shutdown of the Port complex could have a significant impact on the U.S. economy. A terrorist attack on the Port or the surrounding waterways or an attack somewhere else in the country or the world could have a material adverse effect on the collection of revenues at the Port.

## **Cybersecurity**

Computer networks and data transmission and collection are vital to the efficient operations of the Port. The Harbor Department and the tenants at the Port collect and store sensitive data, including intellectual property, proprietary business information, information regarding customers, suppliers and business partners, and personally identifiable information of customers and employees. The secure processing, maintenance and transmission of this information is critical to industry operations.

The Harbor Department approaches cybersecurity through a multi-threaded approach to ensure a layered defense. The Cyber Program Management (“CPM”) framework utilized by the Harbor Department aligns with industry standards and regulations (focusing on National Institute of Standards and Technology Special Publication 800-53 (a publication that recommends security controls for federal information systems and organizations and documents security controls for all federal information systems, except those designed for national security)) and enables it to continually assess and improve its cybersecurity program. The Harbor Department routinely utilizes respected and objective third-party consultants to perform risk assessments of its cybersecurity programs. The CPM framework is used to assess the people, process and technology components. Additionally, the Harbor Department regularly

consults with the United States Coast Guard, the Federal Bureau of Investigation, and the Center for Internet Security to benchmark its practices and stay abreast of emerging threats.

Despite security measures, information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise networks and the information stored there could be disrupted, accessed, publicly disclosed, lost or stolen. Any such disruption, access, disclosure or other loss of information could result in disruptions in the efficiency of commerce, legal claims or proceedings, liability under laws that protect the privacy of personal information, regulatory penalties, operations and the services provided, and cause a loss of confidence in the commercial operations of industries including the operations at the Port, which could ultimately adversely affect Harbor Department revenues.

### **Environmental Compliance and Impacts**

Future environmental laws, regulations, enforcement priorities and standards and judicial decisions may impact the Harbor Department and the Port and the ability to construct and develop new revenue-generating facilities at the Port. Such impacts could be material and could result in significantly delays. See “THE PORT OF LONG BEACH—Environmental Compliance.”

In addition to the laws and regulations enacted and adopted by governmental entities, certain individuals and organizations could seek additional legal remedies to require the Harbor Department to take further actions to mitigate health hazards or seek damages from the Harbor Department in connection with the environmental impact of its maritime activities. Any actions taken by these individuals and organizations could be costly to defend, could result in substantial damage awards against the Harbor Department or could significantly delay or limit the Harbor Department’s plans to construct and develop new revenue-generating facilities at the Port.

In May 2009, the California Climate Change Center released a final paper entitled “The Impacts of Sea-Level Rise on the California Coast” that was funded by the California Energy Commission, the California Environmental Protection Agency, the Metropolitan Transportation Commission, the California Department of Transportation, and the California Ocean Protection Council. The paper posits that increases in sea level will be a significant impact of climate change over the next century and that future flood risk with sea-level rise could be significant at California’s major ports, including the Port. While noting that, among other things, sea-level rise can reduce bridge clearance, reduce efficiency of port operations or flood transportation corridors to and from ports, the report states that impacts are highly site-specific and somewhat speculative. The City is unable to predict whether sea-level rise or other impacts of climate change will occur while the Series 2017 Bonds are outstanding, and if any such events occur, whether there will be an adverse impact, material or otherwise, on Revenues.

### **Termination or Expiration of Property Agreements**

The City, acting by and through the Harbor Board, has agreements with approximately 325 different entities (approximately over 85% of which are with private companies). Over the last five Fiscal Years, property agreements covering waterfront property and facilities have generated in excess of 95% of the Harbor Department’s operating revenues, with the largest single customer accounting for approximately 22% of the Harbor Department’s operating revenues in Fiscal Year 2016. Under these agreements, the City, by and through the Harbor Board, assigns or leases property and facilities to terminal operators for terms of up to 40 years. The property agreements with the Port’s current top ten revenue producers have expiration dates ranging from 2017 to 2051, with nine of these agreements (including most of the agreements for the major container terminals) expiring between 2022 and 2034.

Should a significant number of the parties to the property agreements default on their obligation, terminate their relationships with the Harbor Department or fail to renew their agreements upon expiration, the amount of revenues realized by the Harbor Department could be materially impaired and this could have an adverse impact on the Harbor Department's ability to make the 5% Transfer on the Series 2017 Bonds. See "THE PORT OF LONG BEACH—Property Agreements."

### **Impact of Labor Negotiations**

Protracted negotiations in 2014 and 2015 between the ILWU and the Association, although not involving any employees of the Harbor Department, had a compounding effect on congestion issues that had slowed down container cargo movement through San Pedro Bay Ports from September 2014 through February 2015. The Association and the ILWU reached a tentative agreement on February 20, 2015 which was approved by ILWU delegates on May 22, 2015. Harbor Department revenues were temporarily impacted in January and February 2015 as a result of the protracted negotiations and other congestion factors. The Harbor Department cannot predict with any certainty the extent to which any future failure of the ILWU and the Association to reach contractual agreements may lead to future work slowdowns or work stoppages. Such negotiations, slowdowns or work stoppages could have a material adverse impact on Revenues. See "THE PORT OF LONG BEACH—Stevedoring and Cargo Handling."

### **Effect of Tenant Bankruptcy**

A bankruptcy of a tenant of the Port could result in delays and/or reductions in payments to the Harbor Department which could affect the Harbor Department's ability to make the 5% Transfer.

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

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

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

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

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

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

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

Should a significant number of the parties to the major revenue producing property agreements file for bankruptcy protection, Revenues received by the Harbor Department could be materially adversely impacted and this could have an adverse impact on the Harbor Department's ability to pay debt service on the Series 2017 Bonds. There may be other possible effects of a bankruptcy of a tenant that could result in delays or reductions in payments on the Series 2017 Bonds. Regardless of any specific adverse determinations in a tenant bankruptcy proceeding, the fact of a tenant bankruptcy proceeding could have an adverse effect on the liquidity and value of the Series 2017 Bonds.

With respect to the Hanjin bankruptcy filing, amounts due under the preferential assignment agreement with Total Terminals were paid to the Harbor Department on time and in the full amount. In February 2017, Terminal Investment Limited SARL (the subsidiary of Mediterranean Shipping Company) and Hyundai Merchant Marine finalized the purchase of Hanjin's interest and obligations in Total Terminals. No amounts remain outstanding and unpaid from Total Terminals to the Harbor Department.

### **Effect of City Bankruptcy**

The City is able to file for bankruptcy under Chapter 9 of the United States Bankruptcy Code. Should the City become the debtor in a bankruptcy case, the holders of the Series 2017 Bonds will not have a lien on Tidelands Revenues received by the City after the commencement of the bankruptcy case unless the bankruptcy court determines that Tidelands Revenues constitute "special revenues" within the meaning of the United States Bankruptcy Code. "Special revenues" are defined to include receipts from the ownership, operation, or disposition of projects or systems that are primarily used or intended to be used primarily to provide transportation, utility or other services, as well as other revenues or receipts derived from particular functions of the debtor. While the City believes that Tidelands Revenues should be treated as "special revenues," no assurance can be given that a bankruptcy court would not find otherwise. If Tidelands Revenues are not "special revenues," there could be delays or reductions in payments on the Series 2017 Bonds.

There may be other possible effects of a bankruptcy of the City that could result in delays or reductions in payments on the Series 2017 Bonds. The City cannot predict what types of orders and/or relief may be granted by a bankruptcy court that could have a material adverse effect on the receipt or application of Tidelands Revenues. Regardless of any specific adverse determinations in a City bankruptcy proceeding, the fact of a City bankruptcy proceeding or of City financial difficulties could have an adverse effect on the liquidity and market value of the Series 2017 Bonds.

### **Seismic Risks**

The Port and the Wilmington Oil Field are located in an area considered to be seismically active. The two faults closest to Port and the Wilmington Oil Field are the Palos Verdes fault and the Newport-Inglewood fault. More distant faults with a history of causing earthquakes and damage include the San Andreas and San Jacinto faults.

The Port and the Wilmington Oil Field could sustain extensive damage to their facilities in a major seismic event. A major seismic event in Southern California, or elsewhere in the world, also could result in the creation of a tsunami that could cause flooding and other damage to the Port. Damage to Port facilities or the Wilmington Oil Field as a result of a seismic event could materially adversely affect Tideland's Revenues. Additionally, damage to Long Beach/Los Angeles area infrastructure outside of the Port, such as bridges, streets and freeways, public transportation and rail lines could materially adversely affect access to and from the Port, which in turn could materially adversely affect the 5% Transfer from the Harbor Department.

Neither the City nor the Harbor Department maintains insurance against earthquake damage. To date, no earthquakes have caused structural damage to the Port or the Wilmington Oil Field.

### **Bankruptcy and Other Factors That Could Affect the Security for the Series 2017 Bonds**

In addition to the limitation on remedies contained in the Indenture, the rights and remedies provided in the Indenture with respect to the City may be limited by and are subject to the provisions of federal bankruptcy laws and to other laws or equitable principles that may affect the enforcement of creditors' rights. The ability to enforce such agreements will depend upon the exercise of various remedies specified by such documents which may in many instances require judicial actions that are often subject to discretion, delay and substantial costs or that otherwise may not be readily available or be limited.

The various legal opinions to be delivered concurrently with the issuance of the Series 2017 Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by State and federal laws, rulings and decisions affecting remedies, and by bankruptcy, reorganization, fraudulent conveyance or other laws of general application affecting the enforcement of creditors' rights, including equitable principles.

### **Secondary Market**

There can be no guarantee that there will be a secondary market for the Series 2017 Bonds, or, if a secondary market exists, that the Series 2017 Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular series are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon the then prevailing circumstances. Such prices could be substantially different from the original purchase price.

### **Loss of Tax Exemption on the Series 2017A Bonds**

As discussed herein under the caption "TAX MATTERS," interest on the Series 2017A Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Series 2017A Bonds were issued, as a result of future acts or omissions of the City in violation of its covenants contained in the Indenture. Should such an event of taxability occur, the Series 2017A Bonds are not subject to special redemption or any increase in interest rate and will remain outstanding until maturity or prior redemption.

In addition, as discussed herein under the caption "TAX MATTERS," Congress is, or may be in the future, considering legislative proposals, including some that carry retroactive effective dates, that if enacted, would alter or eliminate the exclusion from gross income for federal income tax purposes of interest on municipal bonds, such as the Series 2017A Bonds. Prospective purchasers of the Series 2017A Bonds should consult their own tax advisors regarding any pending or proposed federal tax

legislation. The City cannot provide any assurance that federal tax law will not change while the Series 2017A Bonds are outstanding or that any such changes will not adversely affect the exclusion of interest on the Series 2017A Bonds from gross income for federal income tax purposes. If the exclusion of interest on the Series 2017A Bonds from gross income for federal income tax purposes were amended or eliminated, it is likely that the market price for the Series 2017A Bonds would be adversely impacted.

### **Forward-Looking Statements**

This Official Statement, including the appendices hereto, contains statements relating to future results that are forward-looking statements. When used in this Official Statement, the words “estimate,” “anticipate,” “forecast,” “project,” “intend,” “propose,” “plan,” “expect” and similar expressions identify forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. See “INTRODUCTION—Forward-Looking Statements.”

### **CERTAIN LEGAL MATTERS**

The legality of the Series 2017 Bonds and certain other legal matters are subject to the approving opinion of Quint & Thimmig LLP, Bond Counsel. A complete copy of the proposed form of final opinion of Bond Counsel is contained in Appendix C hereto. Certain legal matters will be passed upon for the City by Stradling Yocca Carlson & Rauth, a Professional Corporation, Disclosure Counsel; for the City by the City Attorney of the City of Long Beach, California; and for the Underwriters by Kutak Rock LLP, Underwriters’ Counsel. None of Bond Counsel, Disclosure Counsel, or Underwriters’ undertake any responsibility for the accuracy, completeness or fairness of this Official Statement. All of the fees of Bond Counsel, Disclosure Counsel and Underwriters’ Counsel with respect to the issuance of the Series 2017 Bonds are contingent upon the issuance and delivery of the Series 2017 Bonds.

### **MUNICIPAL ADVISOR**

KNN Pubic Finance, LLC, served as the Municipal Advisor in connection with the issuance of the Series 2017 Bonds. The Municipal Advisor is not contractually obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. Fees of the Municipal Advisor with regard to the issuance of the Series 2017 Bonds are contingent upon the issuance and delivery of the Series 2017 Bonds.

### **CONTINUING DISCLOSURE**

Pursuant to Rule 15c2-12 of the Securities and Exchange Commission (the “Rule”), the City has entered into the Continuing Disclosure Certificate pursuant to which it has agreed, for the benefit of owners of the Series 2017 Bonds, to provide certain financial information and operating data, by not later than nine months after the end of each of its fiscal years commencing with the report for the Fiscal Year 2017 (the “Annual Information”), and to provide notices of the occurrence of certain enumerated events. The Annual Information and notices of material events will be filed by the City, with the Municipal Securities Rulemaking Board (the “MSRB”), via its Electronic Municipal Market Access (“EMMA”) system. The nature of the information to be provided in the Annual Information and the notices of material events is set forth in APPENDIX D—“FORM OF CONTINUING DISCLOSURE CERTIFICATE.”

The City has advised that during the past five years, the City and its related entities have not failed to comply in all material respects with previous continuing disclosure undertakings pursuant to the Rule.

## **TAX MATTERS**

### **Series 2017A Bonds**

Federal tax law contains a number of requirements and restrictions which apply to the Series 2017A Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of bond proceeds and the facilities financed therewith, and certain other matters. The City has covenanted to comply with all requirements that must be satisfied in order for the interest on the Series 2017A Bonds to be excludable from gross income for federal income tax purposes. Failure to comply with certain of such covenants could cause interest on the Series 2017A Bonds to become includable in gross income for federal income tax purposes retroactively to the date of issuance of the Series 2017A Bonds.

Subject to the City's compliance with the above-referenced covenants, under existing law, in the opinion of Quint & Thimmig LLP, Bond Counsel, interest on the Series 2017A Bonds is excludable from the gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations under Internal Revenue Code of 1986, as amended (the "Code"), but such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations.

In rendering its opinion, Bond Counsel will rely upon certifications of the City with respect to certain material facts. Bond Counsel's opinion represents its legal judgment based upon its review of the law and the facts that it deems relevant to render such opinion and is not a guarantee of a result.

The Code includes provisions for an alternative minimum tax ("AMT") for corporations in addition to the corporate regular tax in certain cases. The AMT, if any, depends upon the corporation's alternative minimum taxable income ("AMTI"), which is the corporation's taxable income with certain adjustments. One of the adjustment items used in computing the AMTI of a corporation (with certain exceptions) is an amount equal to 75% of the excess of such corporation's "adjusted current earnings" over an amount equal to its AMTI (before such adjustment item and the alternative tax net operating loss deduction). "Adjusted current earnings" would include certain tax-exempt interest, including interest on the Series 2017A Bonds.

Ownership of the Series 2017A Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, corporations subject to the branch profits tax, financial institutions, certain insurance companies, certain S corporations, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Series 2017A Bonds should consult their tax advisors as to applicability of any such collateral consequences.

The issue price (the "Issue Price") for each maturity of the Series 2017A Bonds is the price at which a substantial amount of such maturity of the Series 2017A Bonds is first sold to the public. The Issue Price of a maturity of the Series 2017A Bonds may be different from the price set forth, or the price corresponding to the yield set forth, on the inside cover page hereof.

If the Issue Price of a maturity of the Series 2017A Bonds is less than the principal amount payable at maturity, the difference between the Issue Price of each such maturity, if any, of the Series 2017A Bonds (the “OID Bonds”) and the principal amount payable at maturity is original issue discount.

For an investor who purchases an OID Bond in the initial public offering at the Issue Price for such maturity and who holds such OID Bond to its stated maturity, subject to the condition that the City comply with the covenants discussed above, (a) the full amount of original issue discount with respect to such OID Bond constitutes interest which is excludable from the gross income of the owner thereof for federal income tax purposes; (b) such owner will not realize taxable capital gain or market discount upon payment of such OID Bond at its stated maturity; (c) such original issue discount is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Code, but is taken into account in computing an adjustment used in determining the alternative minimum tax for certain corporations under the Code, as described above; and (d) the accretion of original issue discount in each year may result in an alternative minimum tax liability for corporations or certain other collateral federal income tax consequences in each year even though a corresponding cash payment may not be received until a later year. Owners of OID Bonds should consult their own tax advisors with respect to the state and local tax consequences of original issue discount on such OID Bonds.

Owners of Series 2017A Bonds who dispose of Series 2017A Bonds prior to the stated maturity (whether by sale, redemption or otherwise), purchase Series 2017A Bonds in the initial public offering, but at a price different from the Issue Price or purchase Series 2017A Bonds subsequent to the initial public offering should consult their own tax advisors.

If a Series 2017A Bond is purchased at any time for a price that is less than the Series 2017A Bond’s stated redemption price at maturity or, in the case of an OID Bond, its Issue Price plus accreted original issue discount reduced by payments of interest included in the computation of original issue discount and previously paid (the “Revised Issue Price”), the purchaser will be treated as having purchased a Series 2017A Bond with market discount subject to the market discount rules of the Code (unless a statutory de minimis rule applies). Accrued market discount is treated as taxable ordinary income and is recognized when a Series 2017A Bond is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the purchaser’s election, as it accrues. Such treatment would apply to any purchaser who purchases an OID Bond for a price that is less than its Revised Issue Price even if the purchase price exceeds par. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such Series 2017A Bond. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the Series 2017A Bonds.

An investor may purchase a Series 2017A Bond at a price in excess of its stated principal amount. Such excess is characterized for federal income tax purposes as “bond premium” and must be amortized by an investor on a constant yield basis over the remaining term of the Series 2017A Bond in a manner that takes into account potential call dates and call prices. An investor cannot deduct amortized bond premium relating to a tax-exempt bond. The amortized bond premium is treated as a reduction in the tax-exempt interest received. As bond premium is amortized, it reduces the investor’s basis in the Series 2017A Bond. Investors who purchase a Series 2017A Bond at a premium should consult their own tax advisors regarding the amortization of bond premium and its effect on the Series 2017A Bond’s basis for purposes of computing gain or loss in connection with the sale, exchange, redemption or early retirement of the Series 2017A Bond.

There are or may be pending in the Congress of the United States legislative proposals, including some that carry retroactive effective dates, that, if enacted, could alter or amend the federal tax matters referred to above or affect the market value of the Series 2017A Bonds. It cannot be predicted whether or



in what form any such proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. Prospective purchasers of the Series 2017A Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. Bond Counsel expresses no opinion regarding any pending or proposed federal tax legislation.

The Internal Revenue Service (the “Service”) has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the Service, interest on such tax exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. It cannot be predicted whether or not the Service will commence an audit of the Series 2017A Bonds. If an audit is commenced, under current procedures the Service may treat the City as a taxpayer and the Series 2017A Bond owner may have no right to participate in such procedure. The commencement of an audit could adversely affect the market value and liquidity of the Series 2017A Bonds until the audit is concluded, regardless of the ultimate outcome.

Payments of interest on, and proceeds of the sale, redemption or maturity of, tax exempt obligations, including the Series 2017A Bonds, are in certain cases required to be reported to the Service. Additionally, backup withholding may apply to any such payments to any Series 2017A Bond owner who fails to provide an accurate Form W-9 Request for Taxpayer Identification Number and Certification, or a substantially identical form, or to any Series 2017A Bond owner who is notified by the Service of a failure to report any interest or dividends required to be shown on federal income tax returns. The reporting and backup withholding requirements do not affect the excludability of such interest from gross income for federal tax purposes.

In the further opinion of Bond Counsel, interest on the Series 2017A Bonds is exempt from California personal income taxes.

Ownership of the Series 2017A Bonds may result in other state and local tax consequences to certain taxpayers. Bond Counsel expresses no opinion regarding any such collateral consequences arising with respect to the Series 2017A Bonds. Prospective purchasers of the Series 2017A Bonds should consult their tax advisors regarding the applicability of any such state and local taxes.

### **Series 2017B Bonds**

Interest on the Series 2017B Bonds is includible in gross income of the owners of the Series 2017B Bonds for federal income tax purposes and is subject to all applicable federal taxation.

In the opinion of Bond Counsel, interest on the Series 2017B Bonds is exempt from personal income taxation imposed by the State of California.

The following discussion is a brief summary of the principal United States Federal income tax consequences of the acquisition, ownership and disposition of Series 2017B Bonds by original purchasers of the Series 2017B Bonds who are “U.S. Holders”, as defined in the seventh succeeding paragraph. This summary (i) is based on the Code, Treasury Regulations, revenue rulings and court decisions, all as currently in effect and all subject to change at any time, possibly with retroactive effect; (ii) assumes that the Series 2017B Bonds will be held as “capital assets”; and (iii) does not discuss all of the United States Federal income tax consequences that may be relevant to an owner of Series 2017B Bonds in light of its particular circumstances or to owners of Series 2017B Bonds subject to special rules, such as insurance companies, financial institutions, tax-exempt organizations, dealers in securities or foreign currencies, persons owning the Series 2017B Bonds as a position in a “hedge” or “straddle”, owners of Series 2017B Bonds whose functional currency (as defined in Section 985 of the Code) is not the United States dollar,

owners who acquire Series 2017B Bonds in the secondary market, or individuals, estates and trusts subject to the tax on unearned income imposed by Section 1411 of the Code.

Owners of Series 2017B Bonds should consult with their own tax advisors concerning the United States Federal income tax and other consequences with respect to the acquisition, ownership and disposition of the Series 2017B Bonds as well as any tax consequences that may arise under the laws of any state, local or foreign tax jurisdiction.

In general, if Original Issue Discount (“OID”) is greater than a statutorily defined de minimis amount, an owner of a Series 2017B Bond must include in Federal gross income (for each day of the taxable year, or portion of the taxable year, in which such owner owns such Series 2017B Bond) the daily portion of OID, as it accrues (generally on a constant yield method) and regardless of the owner’s method of accounting. “OID” is the excess of (i) the “stated redemption price at maturity” over (ii) the “issue price”. For purposes of the foregoing: “issue price” means the first price at which a substantial amount of the Series 2017B Bond is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers); “stated redemption price at maturity” means the sum of all payments, other than “qualified stated interest”, provided by such Series 2017B Bond; “qualified stated interest” is stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate; and “de minimis amount” is an amount equal to 0.25 percent of the Series 2017B Bond’s stated redemption price at maturity multiplied by the number of complete years to its maturity. An owner of a Series 2017B Bond may irrevocably elect to include in gross income all interest that accrues on a Series 2017B Bond using the constant-yield method, subject to certain modifications.

In general, if a Series 2017B Bond is originally issued for an issue price (excluding accrued interest) that reflects a premium over the sum of all amounts payable on the Series 2017B Bond other than “qualified stated interest” (a “Taxable Premium Bond”), that Taxable Premium Bond will be subject to Section 171 of the Code, relating to bond premium. In general, if the owner of a Taxable Premium Bond elects to amortize the premium as “amortizable bond premium” over the remaining term of the Taxable Premium Bond, determined based on constant yield principles (in certain cases involving a Taxable Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the highest yield on such Taxable Premium Bond), the amortizable premium is treated as an offset to interest income; the owner will make a corresponding adjustment to the owner’s basis in the Taxable Premium Bond. Any such election is generally irrevocable and applies to all debt instruments of the owner (other than tax-exempt bonds) held at the beginning of the first taxable year to which the election applies and to all such debt instruments thereafter acquired. Under certain circumstances, the owner of a Taxable Premium Bond may realize a taxable gain upon disposition of the Taxable Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner’s original acquisition cost.

Generally, upon the sale, exchange, redemption, or other disposition (which would include a legal defeasance) of a Series 2017B Bond, an owner of a Series 2017B Bond generally will recognize taxable gain or loss in an amount equal to the difference between the amount realized (other than amounts attributable to accrued interest not previously includable in income) and such owner’s adjusted tax basis in the Series 2017B Bond.

The City may cause the deposit of moneys or securities in escrow in such amount and manner as to cause the Series 2017B Bonds to be deemed to be no longer outstanding under the Indenture (a “defeasance”). See APPENDIX B—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE. For federal income tax purposes, such defeasance could result in a deemed exchange under Section 1001 of the Code and a recognition by an owner of Series 2017B Bonds of taxable income or loss, without any

corresponding receipt of moneys. In addition, the character and timing of receipt of payments on the Series 2017B Bonds subsequent to any such defeasance could also be affected.

In general, information reporting requirements will apply to non-corporate owners of the Series 2017B Bonds with respect to payments of principal, payments of interest, and the accrual of OID on a Series 2017B Bond and the proceeds of the sale of a Series 2017B Bond before maturity within the United States. Backup withholding may apply to owners of Series 2017B Bonds under Section 3406 of the Code. Any amounts withheld under the backup withholding rules from a payment to a beneficial owner, and which constitutes over-withholding, would be allowed as a refund or a credit against such beneficial owner's United States federal income tax provided the required information is furnished to the Internal Revenue Service.

The term "U.S. Holder" means a beneficial owner of a Series 2017B Bond that is: (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or of any political subdivision thereof, (iii) an estate the income of which is subject to United States Federal income taxation regardless of its source or (iv) a trust whose administration is subject to the primary jurisdiction of a United States court and which has one or more United States fiduciaries who have the authority to control all substantial decisions of the trust.

Ownership of the Series 2017B Bonds may result in other state and local tax consequences to certain taxpayers. Bond Counsel expresses no opinion regarding any such collateral consequences arising with respect to the Series 2017B Bonds. Prospective purchasers of the Series 2017B Bonds should consult their tax advisors regarding the applicability of any such state and local taxes.

The complete text of the final opinion that Bond Counsel expects to deliver upon the issuance of the Series 2017B Bonds is set forth in Appendix C.

The complete text of the final opinion that Bond Counsel expects to deliver upon issuance of the Series 2017 Bonds is set forth in Appendix F.

## **UNDERWRITING**

The Series 2017 Bonds will be purchased by Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Underwriter"), from the City at a price of \$\_\_\_\_\_ (consisting of the par amount of the Series 2017 Bonds, plus an original issue premium of \$\_\_\_\_\_, less an underwriter's discount of \$\_\_\_\_\_), subject to the terms of a bond purchase agreement (the "Bond Purchase Agreement"), between the Underwriter and the City. The Bond Purchase Agreement provides that the Underwriter will purchase all of the Series 2017 Bonds if any are purchased, and that the obligation to make such purchase is subject to certain terms and conditions set forth in the Bond Purchase Agreement, the approval of certain legal matters by counsel, and certain other conditions.

The Underwriter and its affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Underwriter has, from time to time, performed, and may in the future perform, various investment banking services for the City, for which they received or will receive customary fees and expenses.

In the ordinary course of its various business activities, the Underwriter and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for its own account and for the accounts of its customers and may at any time hold long and short

positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the City.

### **LITIGATION**

No litigation is pending, or to the best knowledge of the City, as applicable, threatened against the City concerning the validity of the Series 2017 Bonds. The City is not aware of any litigation pending or threatened questioning the existence of the City or contesting the pledge of Tidelands Revenues or challenging any action taken by the City with the authorization of the Indenture or any other document relating to the Series 2017 Bonds or the performance by the City of any of its obligations under any of the foregoing.

### **RATING**

Moody's Investors Service Inc. ("Moody's") has assigned a rating of "\_\_\_" to the Series 2017 Bonds. Such rating reflects only the view of Moody's and any explanation of the meaning and significance of such rating, including the methodology used and any outlook thereon, should be obtained from Moody's. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. Moody's rating on the Series 2017 Bonds is not a recommendation to buy, sell or hold the Series 2017 Bonds. There is no assurance such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by Moody's, if in the judgment of Moody's, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Series 2017 Bonds.

### **MISCELLANEOUS**

Included herein are brief summaries of certain documents and reports, which summaries do not purport to be complete or definitive, and reference is made to such documents and reports for full and complete statements of the contents thereof. Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or Owners of any of the Series 2017 Bonds.

### **AUTHORIZATION**

The City has authorized the distribution of this Official Statement. This Official Statement has been duly executed and delivered by the City Treasurer on behalf of the Authority.

CITY OF LONG BEACH

By \_\_\_\_\_  
City Treasurer

**APPENDIX A**

**HARBOR DEPARTMENT OF THE CITY OF LONG BEACH  
AUDITED FINANCIAL STATEMENTS FOR THE  
FISCAL YEARS ENDED SEPTEMBER 30, 2015 AND 2016**

**APPENDIX B**

**SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE**

**APPENDIX C**

**PROPOSED FORM OF BOND COUNSEL OPINION**

**APPENDIX D**

**FORM OF CONTINUING DISCLOSURE CERTIFICATE**



**APPENDIX E**  
**BOOK-ENTRY-ONLY SYSTEM**