

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

# Comprehensive Annual Financial Report

For the fiscal year ended September 30, 2014



Port of  
**LONG BEACH**  
*The Green Port*



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

# Comprehensive Annual Financial Report

For the Fiscal Year Ended September 30, 2014 and 2013  
(With Independent Auditors' Report Thereon)

Jon Slangerup  
Chief Executive Officer

Steven B. Rubin  
Managing Director



Port of  
**LONG BEACH**

*The Green Port*

# THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

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**WARNING**  
STAY OUT OF THE HIGH LIFT ZONE  
DO NOT STAND UNDER CONTAINERS  
OR APPROACH DURING LIFTING OPERATIONS

HARD HAT AREA

# Introductory Section



## Letter of Transmittal

March 27, 2015

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

Members of the Board of Harbor Commissioners:

State law requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with U.S. generally accepted accounting principles (GAAP) and audited in accordance with U.S. generally accepted auditing standards (GAAS) by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report (CAFR) of the Harbor Department of the City of Long Beach (the Department), an enterprise fund of the City of Long Beach, California (the City), for the fiscal year ended September 30, 2014. The Department's operations are included in the City's reporting entity as an enterprise fund.

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

The Department's basic financial statements have been audited by KPMG LLP, a firm of licensed certified public accountants. The goal of the independent audit is to provide reasonable assurance that the Department's financial statements for the fiscal year ended September 30, 2014 are free of material misstatement. The independent audit entails examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit performed, that there was a reasonable basis for rendering an unmodified opinion, and that the Department's financial statements for the fiscal year ended September 30, 2014 are fairly presented, in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this CAFR.

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

### **Profile of the Department**

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

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

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

### **Summary of Operations**

#### ***Operating Revenues***

Gross operating revenue increased 3.1% from previous year to \$356.9 million. This is a result of the increase in main cargo categories carried by the Port: containerized cargo increased 4.2% to \$279.3 million; steel by 0.7% to \$7.9 million, lumber by 16.1% to \$0.8 million, vehicles by 6.5% to \$13.2 million, other terminals by 4.2% to 3.5 million, and miscellaneous income by 26.2% to \$1.3 million. The following categories decreased: liquid bulk by 8.1% to \$15.5 million, dry bulk by 2.7% to 25.7 million, and rental by 0.2% to 9.4 million.

#### ***Cargo Volumes***

In terms of cargo volumes, measured in metric revenue tons (MRTs), cargo handled by Port terminals increased 2.0% to 165.5 million. Containerized cargo increased 3.3% to 125.7 million; lumber increased 31.0% to 0.21 million; steel increased 60.5% to 2.0 million; vehicles increased 18.8% to 0.3 million, all other terminals 2.0%; on the other hand liquid bulk decreased 3.0% to 29.7 million, and dry bulk

decreased 7.3% to 7.8 million. Containerized cargo measured in Twenty-Foot Equivalent units (TEUs) increased 2.6% to 6.8 million.

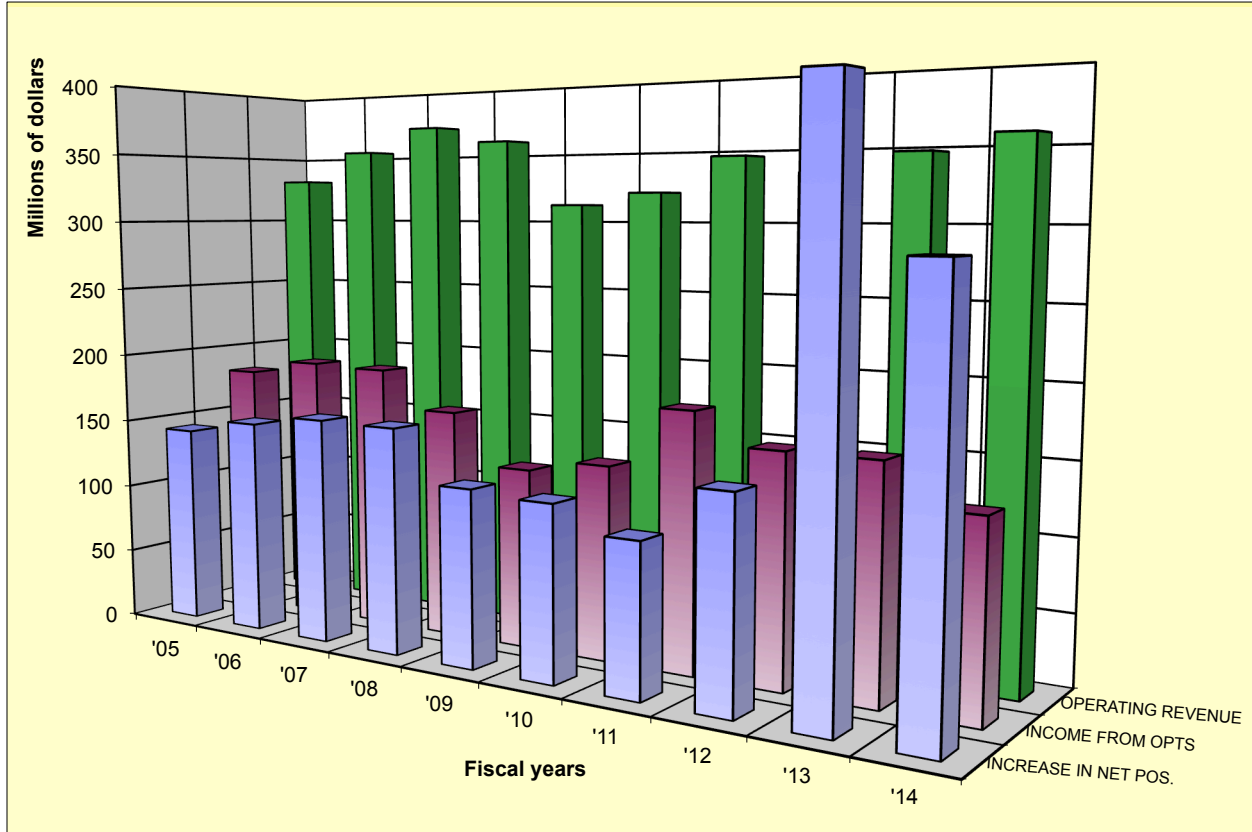
**Cargo Highlights**

	<b>September 30</b>		<b>Percentage change</b>
	<b>2014</b>	<b>2013</b>	
	(In thousands)		
Container revenue (\$)	\$ 279,633	268,295	4.2%
Total tonnage (MRTs)	165,526	162,257	2.0
Container tonnage (MRTs)	125,663	121,683	3.3
Containers (TEUs)	6,818	6,648	2.6

**Net Income**

Net income, shown in the financial statements as increase in net position, decreased 8.9% or \$106.5 million. The chart below depicts operating revenue, income from operations, and net income for the last 10 fiscal years.

**Operating Revenue, Income from Operations, and Change in Net Position**





***Operating Expense, and Other Income and Expense***

Port operating expenses include facilities and infrastructure maintenance, fire and safety, indirect terminal operation, and general and administration expenses. These expenses increased by 11.0%, or \$10.8 million, to \$108.5 million. The primary reason for this increase is the higher expenses devoted to maintain infrastructure and higher disbursements for fire and safety, additionally higher general and administrative expenses. Depreciation expense changes are triggered by changes in the amount of completed capital projects, the acquisition/retirement of operating assets, and the number of years that operating assets have been in service. During fiscal year 2014, the depreciation expense category increased by 29.8% or \$27.1 million, to \$118 million. This change is supported by the increase in facilities and infrastructure completed and transferred from the Construction in Progress accounts to the Capital Assets accounts.

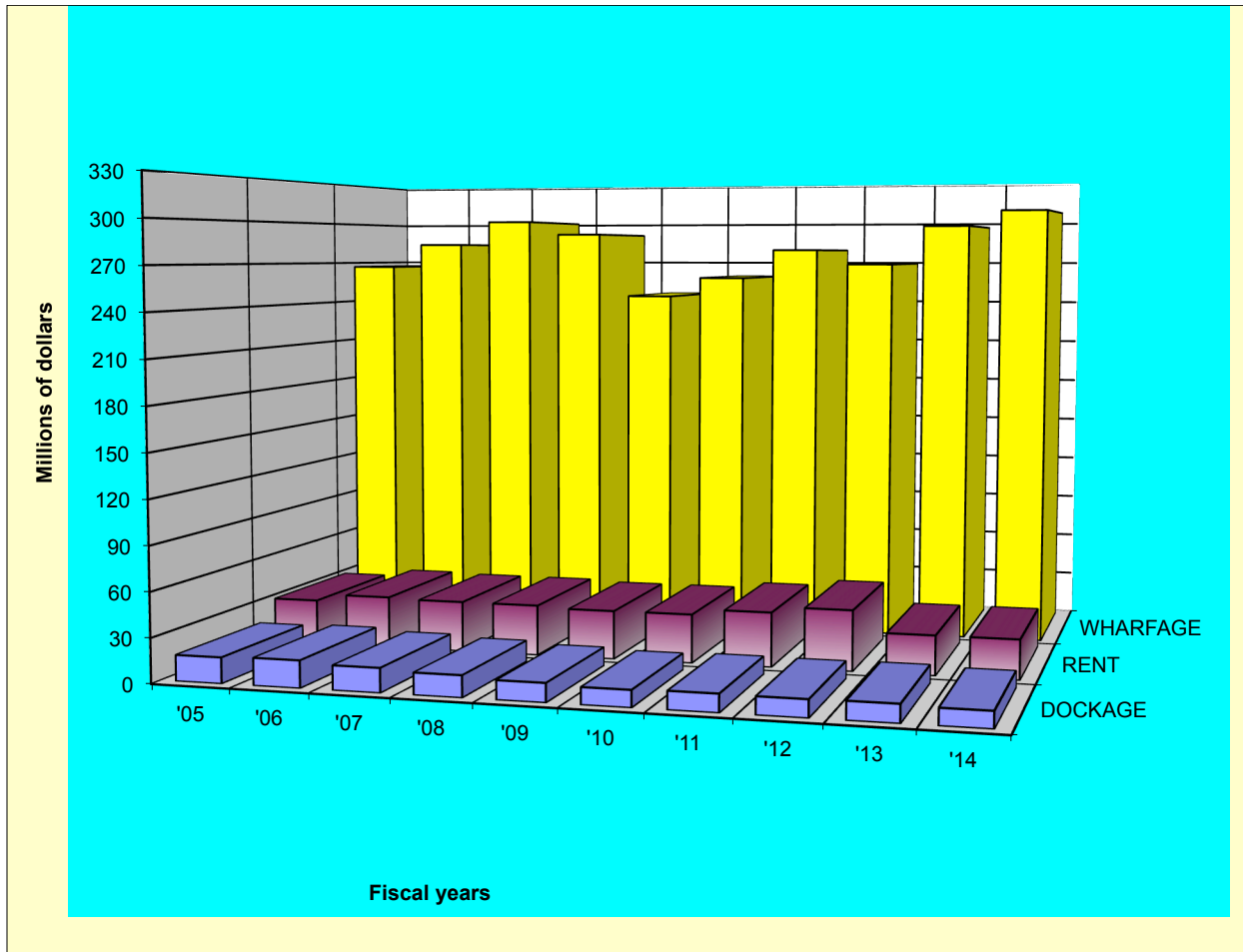
Interest expense, as a result of the 2014 issuance and restructuring of the long-term debt and notes and before the capitalized interest effect, increased by 5.9% to \$30.8 million.

Interest income earned by the Department's pooled-cash accounts and held by the City increased by 323.9% to \$3.1 million, due mainly to higher earnings from the unrestricted cash balance.

The City Charter, as amended, provides for a transfer of 5% of the Department's operating revenue to the City's Tideland's Operating Fund. This transfer is classified as Transfer to the City of Long Beach. For fiscal year 2014, the Board approved a transfer in the amount of \$17.8 million.

During fiscal year 2014, the Department was not required to make any payment towards the projected Shortfall Advance to the Alameda Corridor Transportation Authority (the ACTA), under the ACTA Use and Operating Agreement. The agreement was executed by the Department, the Harbor Department of the City of Los Angeles (Port of Los Angeles), the ACTA, and the Burlington Northern Santa Fe and Union Pacific Railroads. Any shortfall advance made by the Department and the Port of Los Angeles is reimbursable, with interest, by ACTA. The Department has funded, in prior years, a cash reserve to satisfy claims related to the shortfall advance potential obligation, but no longer believes a reserve is needed. The reserve was eliminated in fiscal year 2012.

### Operating Revenue by Type



The following table summarizes financial highlights:

	<b>Financial Highlights</b>		<b>Percentage change</b>
	<b>September 30</b>		
	<b>2014</b>	<b>2013</b>	
	(In thousands)		
Port operating revenue	\$ 356,880	346,244	3.1%
Operating expenses	108,455	97,696	11.0
Depreciation	117,966	90,850	29.8
Income from operations	130,459	157,699	(17.3)
Increase in net position	283,523	390,046	(27.3)
Clean Air Action Plan	(2,474)	(3,420)	(27.7)
Capital grants	178,295	250,543	(28.8)
Contributions to other entities (note 1 (m))	(10,203)	—	N/A
Transfers to the City	(17,844)	(17,312)	3.1
Other nonoperating revenue (expenses)	5,290	2,536	108.6

## **Operating Revenue by Type**

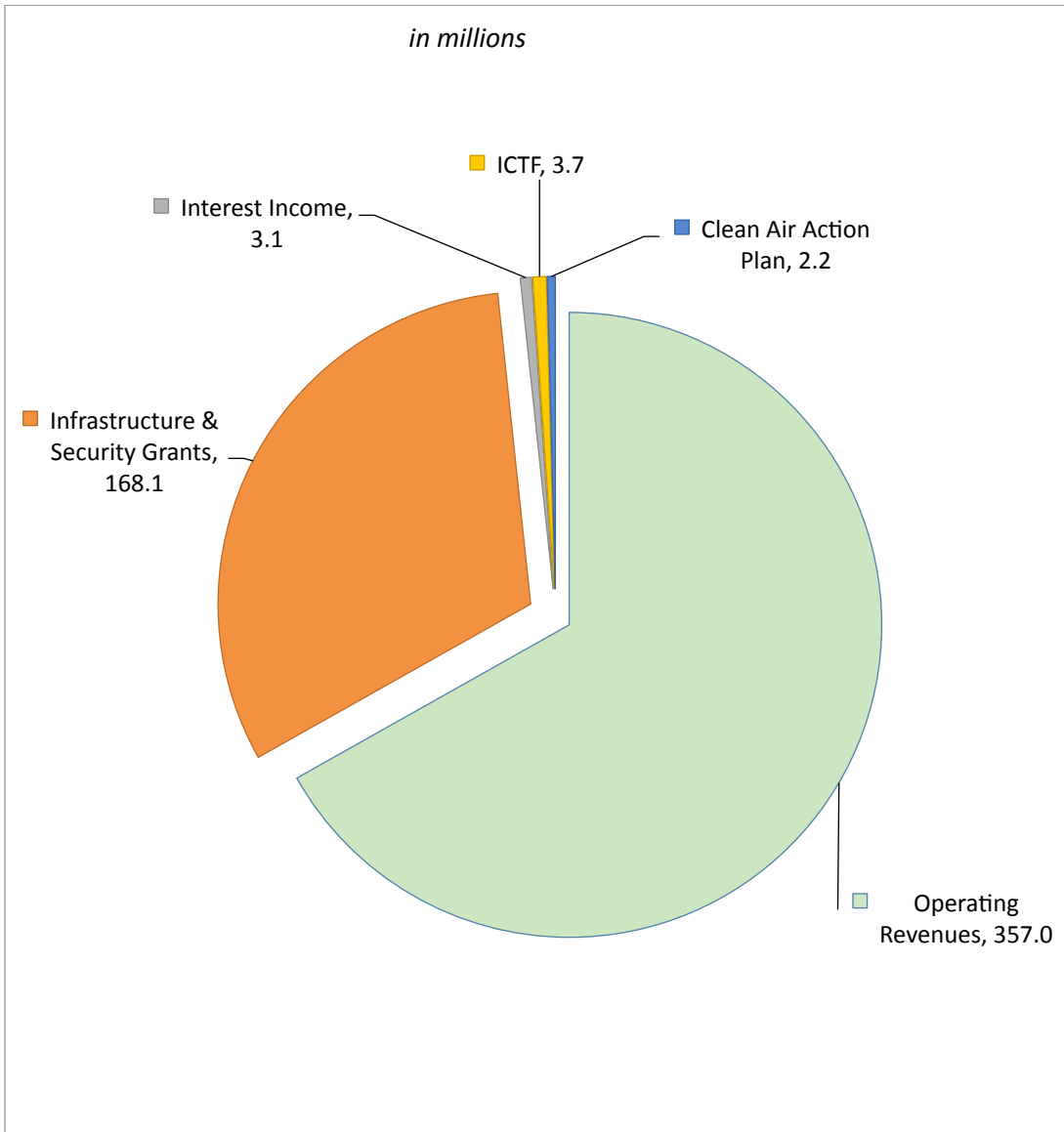
### ***Annual Budget***

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

### ***Revenues Actual to Budget***

Fiscal year 2014 reflected the increase in traffic through the Port terminals with actual revenues lower than budget. Operating revenues were at 95.1% of the budgeted amount. The U.S. economy continues its way to recovery and the operating revenue is slightly lower than anticipated. Cargo volumes increased 2.0% to 165.5 million metric revenue tons when compared to last fiscal year. Capital grant revenues, a part of the nonoperating income, were 59.8% of the \$298.2 million budget. Interest earnings were higher due to higher earnings on unrestricted cash balances.

### Fiscal Year 2014 Budgetary Sources of Funds





The following table shows revenues budgetary performance for fiscal year 2014:

**Actual to Budget Comparison for Fiscal Year 2014**

	<u>Actual</u>	<u>Budget</u>	<u>Percentage of budget</u>
	(In thousands)		
Operating revenues	\$ 356,880	375,208	95.1%
Clean Air Action Plan	2,232	1,000	223.2
Interest income	6,776	2,889	234.5
Infrastructure and Security grants	178,295	298,265	59.8
ICTF	1,640	2,500	65.6
	<u>545,823</u>	<u>679,862</u>	<u>80.3%</u>
Total revenues	\$	\$	80.3%

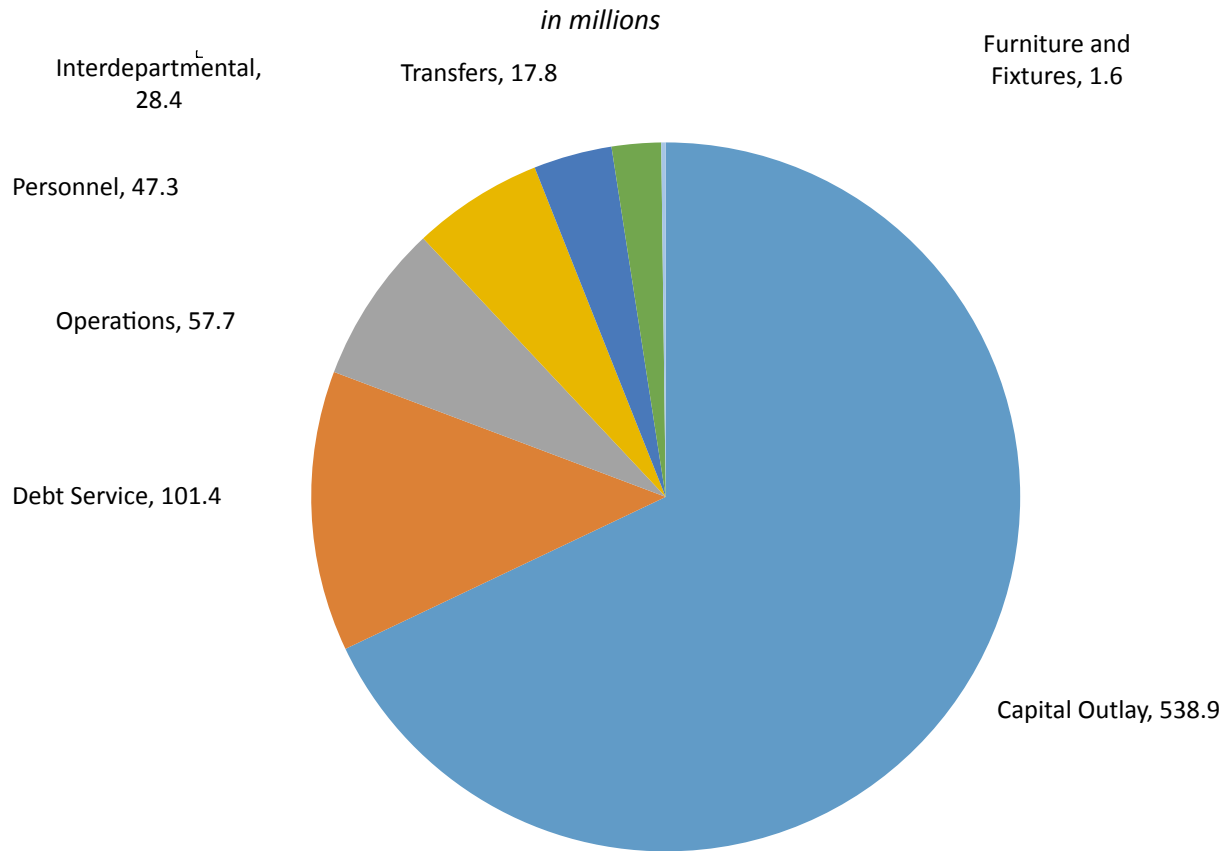
***Expenses Actual to Budget***

The following table shows expenditures and employee headcount budgetary performance for fiscal year 2014:

**Actual to Budget Comparison for Fiscal Year 2014**

	<u>Actual</u>	<u>Budget</u>	<u>Percentage of Budget</u>
Expenditures:			
Capital outlay (includes labor and benefits, excludes Cap. Interest)	\$ 538,883	787,662	68.42%
CAAP and infrastructure	4,706	4,900	96.04
Debt service (excludes refunding)	101,407	81,370	124.62
Personal services-ops (benefits included)	47,301	55,461	85.29
Nonpersonal	53,037	44,597	118.93
Interdepartmental charges	28,397	28,080	101.13
Transfers to the City	17,844	18,372	97.13
Furniture, fixtures, and equipment	1,522	2,888	52.70
	<u>793,097</u>	<u>1,023,330</u>	<u>77.50%</u>
Total expenditures	\$	\$	77.50%
Employee headcount:			
Regular	447	530	84.34%
Part time/temporary	25	33	75.76
	<u>472</u>	<u>563</u>	<u>83.84%</u>
Average no. of employees	\$	\$	83.84%

### Fiscal Year 2014 Expenditures Budget



The Department moved to increase the number of permanent positions and reduced the part time/temporary positions. Actual ending employee figures reflect the change and show an increase of 5.3% in the number of positions filled from 433 in 2013 to 456 in 2014; while the actual labor dollars were underspent as positions were being filled during the year.

Debt service expense including principal and interest exceeded budget by a pay down on the lines of credit by \$20 million. Interest expense, before capitalized interest, and amortization of debt issuance-related items amounted to \$30.8 million, an increase of \$1.7 million, or 5.8% when compared to prior year.

Capital outlays decreased from \$791.8 million to \$538.9 million; a decrease of \$252.9 million or 31.9%. The Port continues its ambitious realignment of cargo terminals in order to improve cargo operations and to contribute to an overall cleaner environment around the port complex. It is anticipated that, when

completed, this realignment will bring an increase in operational revenue in the years to come. The construction of the Gerald Desmond Replacement Bridge is anticipated to be completed in fiscal 2018.

**Debt Administration**

The following table shows bond issuance information and long-term changes (exclusive of unamortized bond premium or discount). Note 9 to the financial statements provides additional information related to the Department's long-term debt program.

	<u>1998</u>	<u>2002B</u>	<u>2004</u>
	(In thousands, except for rates and dates of issuance)		
Original issue	\$ 206,330	144,240	113,410
Date of issue	02/01/98	06/26/02	03/10/04
Original coupon rate	6.0%	5.1% – 5.5%	4.0% – 5.0%
Beginning year balance	\$ 86,515	43,405	45,185
Fiscal year 2014 redemptions	<u>(12,405)</u>	<u>(43,405)</u>	<u>(45,185)</u>
Ending balance	<u>\$ 74,110</u>	<u>—</u>	<u>—</u>
	<u>2005</u>	<u>2010A</u>	<u>2010B</u>
Original issue	\$ 257,975	200,835	158,085
Date of issue	03/23/05	03/31/10	04/29/10
Original coupon rate	5.0%	3.0% – 5.0%	3.0% – 5.0%
Beginning year balance	\$ 117,200	170,900	138,500
Fiscal year 2014 redemptions	<u>(11,605)</u>	<u>(10,725)</u>	<u>(2,135)</u>
Ending balance	<u>\$ 105,595</u>	<u>160,175</u>	<u>136,365</u>
	<u>2014A</u>	<u>2014B</u>	<u>2014C</u>
Original issue	\$ 38,465	20,570	325,000
Date of issue	04/24/14	04/24/14	06/12/14
Original coupon rate	2.0% – 5.00%	3.0% – 5.00%	3.0% – 5.0%
Issued Fiscal Year 2014	\$ 38,465	20,570	325,000
Fiscal year 2014 redemptions	<u>—</u>	<u>—</u>	<u>—</u>
Ending balance	<u>\$ 38,465</u>	<u>20,570</u>	<u>325,000</u>

The underlying ratings assigned to the Department’s bond issues are as follows: Standard & Poor’s: AA, stable outlook; Moody’s Investors Service: Aa2, stable outlook; and Fitch Ratings: AA, stable outlook. A high credit rating recognizes good financial management by the Department and lowers the cost of borrowing in the future.

*Lines of Credit*

In July 2013, the Board of Harbor Commissioners authorized the issuance of \$200,000,000 Subordinate Harbor Revenue Revolving Obligations Series A (Tax-Exempt), Series B (Tax-Exempt), and Series C (Taxable).

The Harbor Department will secure the borrowings under the revolving lines of credit with a subordinate lien on the revenues of the Department.

*Bank of America, N.A.-Subordinate Harbor Revenue Revolving Obligations Series A (Tax Exempt)*

Bank of America will provide tax-exempt revolving line of credit that will allow the Harbor Department to borrow up to \$78,000,000 at any one time.

The Harbor Department’s obligations to repay any loans made by Bank of America under the Bank of America Credit Agreement will be evidenced by a promissory note (the Bank of America Note) to be issued by the Harbor Department to Bank of America.

*Union Bank, N.A.-Subordinate Harbor Revenue Revolving Obligations Series B (Tax-Exempt) and Series C (Taxable)*

Union Bank will provide two revolving lines of credit (a tax-exempt revolving line of credit and a taxable revolving line of credit) that will allow the Harbor Department to borrow up to \$122,000,000 at any one time.

The Harbor Department’s obligations to repay any loans made by Union Bank under the Union Bank Credit Agreement will be evidenced by two promissory notes (one for tax-exempt loans and one for taxable loans) (the Union Bank Notes) to be issued by the Harbor Department to Union Bank.

Outstanding lines-of-credit indebtedness as of September 30 was as follows:

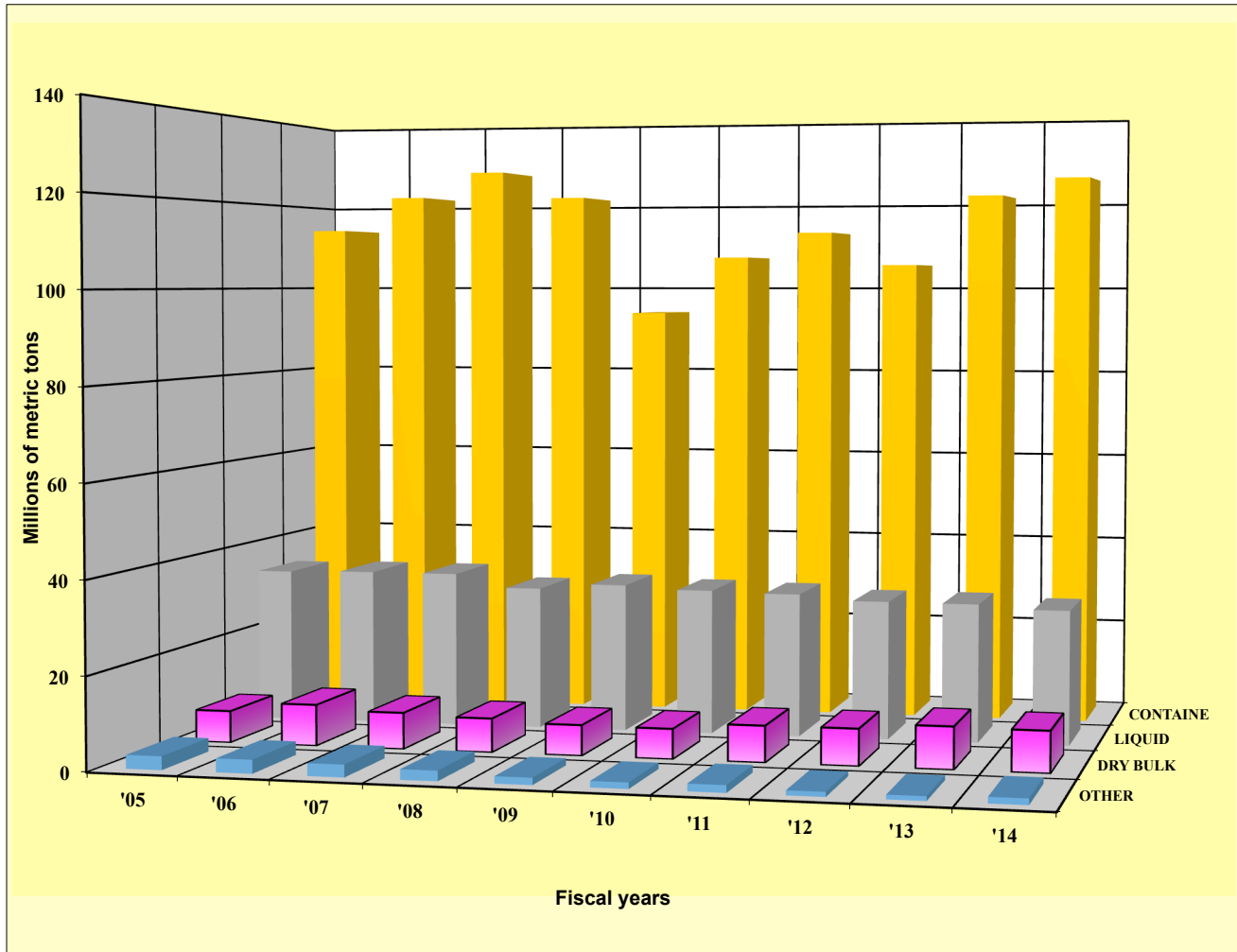
	<u>2014</u>	<u>2013</u>
Line of Credit – Bank of America	\$ 50,000,000	40,000,000
Line of Credit – Union Bank	<u>70,000,000</u>	<u>40,000,000</u>
Total current	<u>\$ 120,000,000</u>	<u>80,000,000</u>



**Responsible Growth**

The Port’s revenue derived from cargo facilities increased by 3.1% between 2014 and 2013 from \$346.2 million to \$356.9 million; cargo volumes measured in metric revenue tons grew by 2.0% during the same period of time from 162.3 million tons to 165.5 million tons. The Port continues its realignment of cargo terminals in advance of an anticipated growth in trade volumes. Its terminals and installations continue to provide the best alternative for shipping lines to move cargo in and out of the continental United States.

**Tonnage by Commodity Group**



**Economic Outlook**

In 1911, the State of California established the Long Beach tidelands area as a State Trust and designated the City of Long Beach as a trustee for the people of the State of California. The Port of Long Beach, located in the Tidelands Trust and overseen by the City of Long Beach Harbor Department under

direction of the Long Beach Board of Harbor Commissioners, has succeeded and become a landlord port providing the region, state, and nation with state-of-the-art seaport facilities and serving as a safe international gateway for trade. The Port of Long Beach has evolved into the second-busiest container seaport in North America.

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

### ***Trade and Commerce***

Container volume at the Port of Long Beach has remained strong. The peak volume the Port of Long Beach experienced in 2007 will likely be matched and perhaps superseded in the coming years as the U.S. economy continues to improve.

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

In addition to its capital program, the Port of Long Beach is also committed to finding solutions to challenges throughout the entire ocean transportation supply chain: truck turn-times, chassis shortages, and cargo visibility, to name a few. The influx of larger amounts of cargo over a shorter period of time is further testing the Port's cargo handling capability. However, the Port of Long Beach is taking a leadership role by working with its partners to formulate solutions to permanently eliminate the inefficiencies in the supply chain. Through a combination of infrastructure enhancements, operational improvements, and investment in innovative environmental programs, the Port of Long Beach is on track to ensure efficient and sustainable growth.

As a department of the City of Long Beach, the Port of Long Beach strives to be a leader in the goods movement industry, while furthering its status as the City's and the region's biggest economic engine. The Port also engages the community to provide outreach and education on the benefits accrued to the local area through the operation of one of the nation's premier maritime gateways. Above all, the Port is committed to being a steward of environmental protection, ensuring cargo volume growth to support the economy and while reducing the negative impacts to the environment.

To accommodate the increase in trade volume expected during the next 20 years, the Port will continue to seek innovative solutions for developing facilities and related infrastructure while ensuring that air, water, and soil quality continue to improve.

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

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

### **Environmental Protection**

The optimal utilization of Port resources brings environmental issues that need to be addressed to guarantee economic growth with responsible stewardship of the environment. In 2005, the Long Beach Board of Harbor Commissioners adopted the Green Port Policy, which committed to reducing the Port's impact on the environment and the community. In 2006, at a historic joint board session of Long Beach and Los Angeles Boards of Harbor Commissioners (the Ports), the San Pedro Bay Clean Air Action Plan (CAAP) was approved. This ambitious plan identified specific strategies to reduce emissions from port-related equipment. The CAAP has led to major air-quality improvements at the Ports. Diesel Particulate Matter, for example, has been reduced by 82% from 2005 levels, as identified in the 2013 emissions inventory. As guided by the Green Port Policy, the Port of Long Beach has established itself as a world leader in sustainable seaport operations and development.

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

- Cut diesel particulates by 82%, sulfur oxides by 90%, smog-forming nitrogen oxides by 54%, and greenhouse gases by 20% from 2005 levels, identified in the 2013 annual air emissions inventory. The improvements occurred during a period when container cargo volume increased by 0.3%.
- Supported the use of lower-sulfur, cleaner fuels in oceangoing ships.
- Completed a successful changeover of the truck fleet through the landmark Clean Trucks Program, which has achieved a 93% reduction in diesel particulate pollution from the truck fleet.

- Continued the Green Flag Vessel Speed Reduction Program (where greater than 90% of ships slow down to 12 knots) within 20 nautical miles or 40 nautical miles of the Port, to reduce air pollution emissions.
- Completed the building of shore power facilities to allow the shipping lines to comply with the state's new shore power regulation, requiring half of all vessel calls to plug in at berth for cleaner air.
- Nurtured the development of new clean air technologies through the Technology Advancement Program — including the world's first diesel-electric hybrid tugboats.

### **Risk Management**

The Port has developed and is managing a comprehensive, all-hazard Business Continuity Plan that facilitates the efficient and environmentally sound movement of cargo by maintaining the land and water infrastructure; maintains a safe and secure Port environment, and meets legal, regulatory, and financial requirements. The primary purpose of the Business Continuity Plan is to ensure Port business partners have available infrastructure and resources necessary to continue business operations prior to, during, and following a major incident.

### **Security**

The Port of Long Beach continues its commitment to safety and security and is dedicated to being the safest, most secured Port in the world. The Port takes an above the water, on the water, and below the water approach to Maritime Domain Awareness using the latest integrated, high-tech surveillance systems to maintain vigilance and share data with the many agencies responsible for Port Security. More than 275 surveillance cameras are deployed throughout the Port complex, including long-range and night-vision units. Strategically deployed underwater sonar machines monitor the waters as well.

Since 2001, the Port has secured more than \$137 million in grants to aid in those efforts. The Port is protected by multiple layers of security, including the Long Beach Police Department, U.S. Coast Guard; U.S. Customs and Border Protection and other federal, state, and local law enforcement agencies; and the Port's own Harbor Patrol, a cadre of 68 trained, armed, public officers who are responsible for security and public safety on the property owned by the Port and any public roadways within its boundaries 24/7/365.

The Port's Joint Command and Control Center (JCCC) is a state-of-the-art communications and command center, which brings together Federal and local agencies to coordinate security measures. The JCCC coalesces security-related information and surveillance data from across the Port complex and allows sharing by a variety of stakeholders and partner agencies including the Coast Guard, FBI, Long Beach Police Department, and Long Beach Fire Department. The Harbor Department maintains an emergency management program, which coordinates with the Business Continuity Plan to ensure uninterrupted key Port operations in the event of an emergency.

### **Awards and Acknowledgements**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Harbor Department of the City of



The Board of Harbor Commissioners  
The Harbor Department of the City of Long Beach  
March 27, 2015  
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Long Beach, California, for its Comprehensive Annual Financial Report for the fiscal year ended September 30, 2013. This was the 31st consecutive year that the Department has received this prestigious award. In order to be awarded a Certificate of Achievement, the Department must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

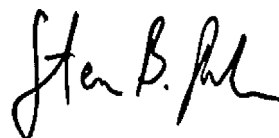
A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

We would like to acknowledge the dedicated service of the Finance Division staff members, through whose efforts the timely preparation of this report was made possible. Additionally, we would like to thank the Communications Division for providing artwork and editing services.

Respectfully submitted:



Jon Slangerup



Steven B. Rubin



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

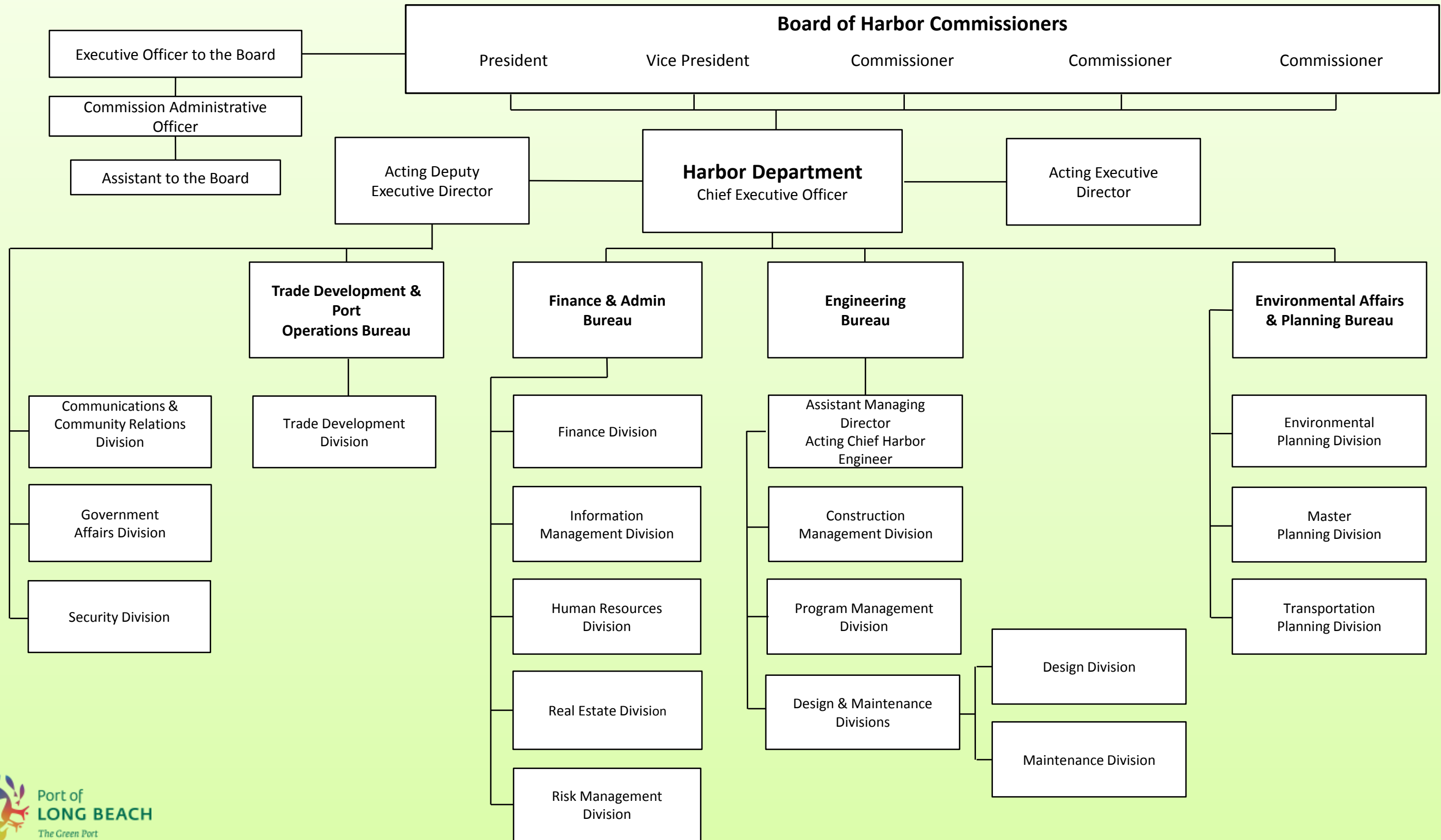
**The Harbor Department  
of the City of Long Beach  
California**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**September 30, 2013**

Executive Director/CEO

# City of Long Beach Harbor Department Organizational Structure Chart









# Financial Section





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

## Independent Auditors' Report

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

We have audited the accompanying financial statements of the Harbor Department of the City of Long Beach (the Department), an enterprise fund of the City of Long Beach, California, as of and for the years ended September 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Harbor Department of the City of Long Beach, California as of September 30, 2014 and 2013, and the respective changes in its financial position and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



### ***Emphasis of Matter***

As discussed in note 1, the financial statements of the Department are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of the City of Long Beach, California that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the City of Long Beach, California as of September 30, 2014 and 2013, the changes in its financial position or, where applicable, its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

### **Other Matters**

#### ***Required Supplementary Information***

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 22-30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Supplementary and Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2015 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

**KPMG LLP**

Los Angeles, California  
March 27, 2015

## THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

### Management's Discussion and Analysis

September 30, 2014 and 2013

(Unaudited)

The following discussion and analysis of the financial performance of the Harbor Department of the City of Long Beach, California (the Department) provides an overview of the financial activities for the fiscal years ended September 30, 2014 and 2013. Descriptions and other details pertaining to the Department are included in the notes to the financial statements. This discussion and analysis should be read in conjunction with the Department's financial statements, which begin on page 31.

#### Using this Financial Report

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

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

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

The following condensed financial information provides an overview of the Department's financial position as of September 30, 2014 and 2013:

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

September 30, 2014, 2013, and 2012

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets:			
Capital assets, net	\$ 3,897,293,776	3,476,794,062	2,699,086,270
Other assets	784,607,052	575,983,275	904,491,185
Total assets	4,681,900,828	4,052,777,337	3,603,577,455
Deferred outflows	9,593,000	11,404,155	12,921,455
Total assets and deferred outflows	\$ <u>4,691,493,828</u>	<u>4,064,181,492</u>	<u>3,616,498,910</u>



**THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH**

Management's Discussion and Analysis

September 30, 2014 and 2013

(Unaudited)

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

September 30, 2014, 2013, and 2012

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Liabilities:			
Long-term obligations, net of current portion	\$ 1,036,715,255	671,722,135	641,326,425
Current liabilities	189,606,445	213,773,319	181,853,805
Total liabilities	<u>1,226,321,700</u>	<u>885,495,454</u>	<u>823,180,230</u>
Deferred inflows	<u>2,962,963</u>	—	—
Total liabilities and deferred inflows	<u>\$ 1,229,284,663</u>	<u>885,495,454</u>	<u>823,180,230</u>
Net position:			
Net investment in capital assets	\$ 2,974,555,689	2,848,455,730	2,104,914,537
Restricted	198,818,507	61,654,324	157,537,654
Unrestricted	288,834,969	268,575,984	530,866,489
Total net position	<u>\$ 3,462,209,165</u>	<u>3,178,686,038</u>	<u>2,793,318,680</u>

***Analysis of Fiscal Year 2014***

At the end of fiscal year 2014, the assets of the Department exceeded its liabilities by \$3,462,209,166 (net position). Total net position increased by \$283,523,127. This change consists mainly of \$130,459,020 of current year operating income, \$168,091,855 of grant revenue received from federal and state governments, less \$15,027,748 from other Nonoperating expenses, including financing costs and transfers to the City's Tidelands Operating Fund of \$17,844,001.

The Department's capital assets (land; structures and facilities; furniture, fixtures, and equipment; construction in progress; and rights-of-way) totals \$3,897,293,776 or 113% of the aggregate net position at September 30, 2014. The increase from fiscal year 2013 is the result of the increase in Port construction projects during the year. Capital assets facilitate tenants' cargo operations.

The Department holds \$198,818,507 of net assets subject to restrictions, an increase of \$137,164,183 from last year. The increase is due to the addition to the construction reserves for the completion of capital projects. Restricted net assets are thus identified in the statements of net position and represent 7% of the Department's total net assets.

At the end of fiscal year 2014, the Department reported unrestricted net assets of \$288,834,970 an increase of \$20,258,986 when compared to 2013. This is primarily the result of a \$61,595,919 increase in unrestricted cash and cash equivalents; and a \$30,337,961 decrease in current liabilities.

The \$13,510,381 increase in accounts receivable, included in other assets, is attributed to the increase of business in the Port operated cargo facilities, while the \$21,990,355 decrease in accounts payable is attributed to accelerating the payment process for invoices received from vendors and contractors.

## THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

### Management's Discussion and Analysis

September 30, 2014 and 2013

(Unaudited)

#### *Analysis of Fiscal Year 2013*

At the end of fiscal year 2013, the assets of the Department exceeded its liabilities by \$3,178,686,038 (net position). Total net position, including impacts of implementing GASB 65, increased by \$385,367,358. This change consists mainly of \$157,698,809 current year operating income, \$250,542,833 income derived from grants received from federal and state governments, less \$18,195,834 from other nonoperating expenses, including financing costs and transfers to the City's Tidelands Operating Fund of \$17,312,204.

The Department's investment in capital assets (land; structures and facilities; furniture, fixtures, and equipment; construction in progress; and rights-of-way) is \$2,848,455,730 or 89% of the aggregate net position. The increase from fiscal year 2012 is the result of the increase in Department construction projects during the year. Capital assets facilitate tenants' cargo operations. The Department does not intend to liquidate them to fund ongoing port operations.

The Department holds \$61,654,324 of net assets subject to restrictions, a decrease of \$95,883,330 from last year. The decrease is due to the elimination of the reserves for rail projects; for matching requirements for the construction of the Gerald Desmond Bridge; a federally funded project, and for the reserve for the security projects. Restricted net assets are thus identified in the statements of net position and represent 2% of the Department's total net assets.

At the end of fiscal year 2013, the Department reported unrestricted net assets of \$268,575,984, a decrease of \$262,290,505 when compared to 2012. This is primarily the result of \$282,225,018 decrease in unrestricted balance of pooled cash and cash equivalents; \$9,376,366 decrease in accounts receivable, and \$22,576,560 increase in accounts payable.

The decrease in the unrestricted balance of pooled cash and cash equivalents of \$282,225,018 is primarily attributed to the substantial increase in disbursements related to the capital projects such as the new Gerald Desmond Bridge and the remodeling and upgrading of terminals around the port complex.

**THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH**

Management's Discussion and Analysis

September 30, 2014 and 2013

(Unaudited)

The \$9,376,366 decrease in accounts receivable is attributed to increased efforts to collect receivables from tenants in order to enhance the Department's cash position, while the \$22,576,560 increase in accounts payable is attributed to higher volumes of services and supplies acquired from vendors working in the capital projects that the Department is pushing forward.

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

Years ended September 30, 2014, 2013, and 2012

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating revenues:			
Berth and special facilities	\$ 346,257,749	335,869,457	322,425,435
Miscellaneous	10,622,279	10,374,625	11,461,496
Total operating revenues	<u>356,880,028</u>	<u>346,244,082</u>	<u>333,886,931</u>
Operating expenses:			
Facility and infrastructure	67,331,768	63,922,886	57,003,046
General and administrative	41,123,612	33,772,806	30,633,789
Depreciation and amortization	117,965,628	90,849,581	88,522,820
Total operating expenses	<u>226,421,008</u>	<u>188,545,273</u>	<u>176,159,655</u>
Operating income	<u>130,459,020</u>	<u>157,698,809</u>	<u>157,727,276</u>
Nonoperating revenues (expenses):			
Intergovernmental transfer	(17,844,001)	(17,312,204)	(16,694,347)
Interest income, net of interest expense	5,571,735	2,723,773	(7,039,199)
Gain (loss) on sale of capital assets	16,437	(6,247)	7,268
Clean Air Action Plan (CAAP)	(2,473,926)	(3,419,528)	(3,926,198)
Other income (loss), net	(297,993)	(181,628)	(1,904,389)
Net nonoperating expenses	<u>(15,027,748)</u>	<u>(18,195,834)</u>	<u>(29,556,865)</u>
Income before capital grants	115,431,272	139,502,975	128,170,411
Capital grants and contributions to others	168,091,855	250,542,833	13,626,625
Change in net position	<u>283,523,127</u>	<u>390,045,808</u>	<u>141,797,036</u>
Total net position – beginning of year	3,178,686,038	2,793,318,680	2,651,521,644
Cumulative effect resulting from adoption of GASB 65	—	(4,678,450)	—
Total adjusted net position – beginning of year	<u>3,178,686,038</u>	<u>2,788,640,230</u>	<u>2,651,521,644</u>
Total net position – end of year	<u>\$ 3,462,209,165</u>	<u>3,178,686,038</u>	<u>2,793,318,680</u>

## THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

### Management's Discussion and Analysis

September 30, 2014 and 2013

(Unaudited)

#### *Analysis of Fiscal Year 2014*

A comparison of the operating revenues for fiscal years 2014 and 2013 shows an overall increase of \$10,655,946, or 3.1%, primarily due to an increase in containerized cargo of 3.3%.

Operating expenses (excluding depreciation and amortization) increased \$10,759,687. Cargo facilities maintenance expense increased \$4,174,782 due to work on Pier S and higher maintenance expense at the petroleum and liquid bulk terminals. Infrastructure maintenance, which includes bridges, freeways, streets, and utilities maintenance and expenses related to environmental control, decreased \$2,516,843, primarily due to a reduction of maintenance expense for streets, bridges, and freeways as major capital projects take place. During fiscal year 2014, fire and safety costs increased by \$2,161,654 as the result of higher cost of the services provided by the police and fire departments and higher training costs incurred by the security division.

Depreciation expense is affected by acquisition/retirement of long-term assets, their useful lives, and the dates when such assets are placed in service. Depreciation expense for fiscal year 2014 was \$10,759,687 higher than that of 2013. The reason for this change is the increase of assets of \$660,311,325 placed in service during 2014.

The annual intergovernmental transfer increased by \$531,797 in fiscal year 2014. During the current fiscal year, the Department accrued \$17,844,001 as a regular operating transfer to the City of Long Beach to be paid in fiscal 2015.

Investment income increased by \$2,396,535 in fiscal year 2014 primarily due to recognition of increased revenue from the Intermodal Container Transfer Facility investment (ICTF) with the Port of Los Angeles. The ICTF is a joint venture entered into by the Department and the Port of Los Angeles acting through and by their respective Board of Commissioners to facilitate and operate wharf and dock facilities in the ports.

Total interest expense increased, before allocation to capitalized assets, due to interest incurred on higher levels of debt. A substantial part of the increase pertains to the 2014C short-term notes and the increase on the existing lines of credit with Union Bank and Bank of America.

The decrease in grant revenue of \$82,450,978 from fiscal year 2013 is due to the Gerald Desmond Bridge reduced spending and the completion of several grant related projects in fiscal year 2013. In fiscal year 2014, the Department received grants of \$144,659,678 for bridge, rail, and street improvements, \$10,282,203 in environmental improvements and \$23,353,263 in security related grants. The Department also contributed grant-funded assets to tenants in the amount of \$10,203,289, for net grant revenue of \$168,091,855.

The Clean Air Action Plan (CAAP) continues to support the Port's effort to enhance clean air. The program is collecting less revenue and incurring lower expenses as the CAAP matures. Overall, this program's cash outflow decreased \$945,602 when compared to that of fiscal year 2013.

#### *Analysis of Fiscal Year 2013*

A comparison of the operating revenues for fiscal years 2013 and 2012 shows an overall increase of \$12,357,151, or 3.7%, primarily due to an increase in containerized cargo of 4.7%.

## THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

### Management's Discussion and Analysis

September 30, 2014 and 2013

(Unaudited)

Operating expenses (excluding depreciation and amortization) increased \$10,058,857. Cargo facilities maintenance expense decreased \$288,622 due to lower maintenance performed at the containerized facilities; infrastructure maintenance, which includes bridges, freeways, streets, and utilities maintenance and expenses related to environmental control, increased \$3,108,614, primarily due to higher expenses related to the operation of the water systems and higher street maintenance expenses. During fiscal year 2014, fire and safety costs increased by \$3,601,337 due to higher costs of the services provided by the police and fire departments and higher training costs incurred by the security division.

Depreciation expense is affected by acquisition/retirement of long-term assets, their useful lives, and the dates when such assets are placed in service. Depreciation expense for fiscal year 2013 was \$2,326,761 higher than that of 2012. The reason for this change is the increase of assets placed in service during 2013.

Intergovernmental transfers increased by \$617,857 in fiscal year 2013. During the current fiscal year, the Department transferred \$17,312,204 as a regular operating transfer to the City of Long Beach.

Investment income decreased by \$513,325 in fiscal year 2013 due to lower earning rates resulting from the overall downturn in the economy, the holding of lower average investment balance, and the net effect of the mark-to-market computations and adjustment.

Actual interest expense increased due to additional fees and interest on the pending Transportation Infrastructure Finance and Innovation Act (TIFIA) loan and the newly opened lines of credit with Union Bank and Bank of America, which was affected by interest capitalized on eligible capital construction projects and the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

The Clean Air Action Plan (CAAP) continues to wind down and collects less revenue and incurs lower expenses. Overall, this program experienced a decreased loss of \$506,670 when compared to that of fiscal year 2012.

Other expense decreased as a result of a reduction on the writing off of expenses related to abandoning planning studies. All of the expenses related to the potential construction of a new administration building were written off during fiscal year 2012.

**THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH**

Management's Discussion and Analysis

September 30, 2014 and 2013

(Unaudited)

**Capital Assets and Debt Administration**

***Capital Assets***

The Department's capital assets, net of accumulated depreciation, as of September 30, 2014, 2013, and 2012 are as follows:

<b>Capital Assets, Net</b>			
September 30, 2014, 2013, and 2012			
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Nondepreciable capital assets:			
Land	\$ 904,960,859	903,778,818	904,761,885
Construction in progress	1,248,186,685	1,367,213,130	603,250,900
Rights-of-way	<u>207,823,264</u>	<u>207,823,264</u>	<u>207,823,264</u>
Total nondepreciable capital assets	<u>2,360,970,808</u>	<u>2,478,815,212</u>	<u>1,715,836,049</u>
Depreciable capital assets (net):			
Structures and facilities	1,498,092,581	984,887,991	971,117,488
Furniture, fixtures, and equipment	<u>38,230,387</u>	<u>13,090,859</u>	<u>12,132,733</u>
Total depreciable capital assets (net)	<u>1,536,322,968</u>	<u>997,978,850</u>	<u>983,250,221</u>
Total capital assets, net	<u>\$ 3,897,293,776</u>	<u>3,476,794,062</u>	<u>2,699,086,270</u>

***Analysis of Fiscal Year 2014***

The Department's capital assets include land; structures and facilities; furniture, fixtures, and equipment; construction in progress; and rights-of-way. The impact on the capital asset accounts, net of accumulated depreciation, was a net increase of \$420,499,713 from fiscal year 2013 primarily due to the substantial increase of assets placed into service related to major infrastructure projects taking place in the port. The total amount of capital assets transferred out of construction in progress is approximately \$660 million.

***Analysis of Fiscal Year 2013***

The Department's capital assets include land; structures and facilities; furniture, fixtures, and equipment; construction in progress; and rights-of-way. The net effect on the capital asset accounts was an increase of \$777,707,792 from fiscal year 2012 primarily due to the substantial increase in construction in progress related to major infrastructure projects taking place at the Port.

# THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

## Management's Discussion and Analysis

September 30, 2014 and 2013

(Unaudited)

### *Debt Administration*

The following table summarizes the Department's debt as of September 30, 2014, 2013, and 2012.

#### **Debt Originally Incurred as Long-Term Debt**

September 30, 2014, 2013, and 2012

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Short-term Notes (principal and net premiums)	\$ 376,890,863	—	—
Lines of credit	120,000,000	80,000,000	—
Bond debt (principal and net premiums)	<u>571,176,048</u>	<u>640,837,135</u>	<u>688,291,425</u>
Total	<u>\$ 1,068,066,911</u>	<u>720,837,135</u>	<u>688,291,425</u>

### *Analysis of Fiscal Year 2014*

The Department's total long-term debt increased by \$347,229,776, or 48%. The increase was primarily attributed to the net result of refinancing the 2002 and 2004 bonds with the newly issued 2014A and 2014B, the issuance of the 2014C short-term note and additional funding requested from the existing lines of credit.

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

The debt service coverage ratio for both fiscal years ended 2014 and 2013 was 3.16 and 3.12, respectively. The minimum rate required by the Department's various bond indenture documents is 1.25.

### *Analysis of Fiscal Year 2013*

The Department's total long-term debt decreased by \$32,545,710, or 5%. The decrease was primarily the result of scheduled principal reductions on the bond debt and the amortization of the premiums, which was offset by a fresh line of credit obtained by the Department in the current year.

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

The debt service coverage ratio for both fiscal years ended 2013 and 2012 was 3.12 and 3.14, respectively. The minimum rate required by the Department's various bond indenture documents is 1.25.

### *Factors That May Affect the Department*

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

## **THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH**

### Management's Discussion and Analysis

September 30, 2014 and 2013

(Unaudited)

The use of all-water routes to the East and Gulf Coasts of the United States is an alternative to Asian intermodal cargo moving through West Coast ports. All water services from Asia to the Gulf of Mexico and East Coast ports move primarily through the Panama Canal. The Panama Canal is in the process of expanding its locks. Although recent reports indicate that the opening of the new locks will be delayed to early 2016 from the original scheduled date in 2014, the widening and deepening of the locks will allow larger vessels to transit the Canal. The expansion creates a potential route to the East Coast and Gulf of Mexico for vessels with larger capacity than the current "Panamax" ships. While the effects of an expanded Canal are unknown, the Port of Long Beach has an existing ability to handle ships that are larger than the expanded-Panamax ships, and continues to maintain and improve its terminals, infrastructure, and intermodal capabilities.

The port is subject to legal and regulatory requirements relating to air emissions that may be generated by ships, trains, trucks, and other operational activities within the port. Paying for mandated air pollution reduction, infrastructure and other measures has become a significant portion of the Department's capital and operating budgets. Such expenditures are necessary even if the Department does not undertake any new revenue-generating capital improvements, and the Department cannot provide assurances that the actual cost of the required measures will not exceed the amounts forecasted.

#### ***Notes to Financial Statements***

The notes to the Department's financial statements can be found on pages 36-79 of this report. These notes provide additional information that is essential to a full understanding of the financial statements.

#### ***Requests for Information***

This financial report is designed to provide a general overview of the Department's finances for people or entities interested in the financial aspects of the Port. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, 4801 Airport Plaza Drive, Long Beach, CA 90815.



**THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH**

Statements of Net Position

September 30, 2014 and 2013

<b>Assets and Deferred Outflows</b>	<b>2014</b>	<b>2013</b>
Current assets:		
Pooled cash and cash equivalents (note 2)	\$ 301,487,259	239,891,340
Trade accounts receivable, net of allowance (note 3)	52,765,130	39,254,750
Due from other governmental agencies (note 3)	63,361,175	129,170,528
Prepaid – dredging services (note 4)	1,725,644	1,725,644
Supplies and other assets	631,257	964,214
Subtotal	419,970,465	411,006,476
Harbor Revenue Bond Funds and other funds restricted as to use (notes 2 and 10):		
Pooled cash and cash equivalents	32,902,444	29,901,850
Total current assets	452,872,909	440,908,326
Noncurrent assets:		
Capital assets (notes 6 and 11):		
Land:		
Purchased	448,936,517	448,936,517
Constructed	456,024,342	454,842,301
Total land	904,960,859	903,778,818
Structures and facilities	2,953,692,593	2,337,755,926
Less accumulated depreciation	(1,455,600,012)	(1,352,867,935)
Net structures and facilities	1,498,092,581	984,887,991
Furniture, fixtures, and equipment	83,266,136	44,893,742
Less accumulated depreciation	(45,035,749)	(31,802,883)
Net furniture, fixtures, and equipment	38,230,387	13,090,859
Construction in progress	1,248,186,685	1,367,213,130
Right of way (note 5)	207,823,264	207,823,264
Net capital assets	3,897,293,776	3,476,794,062
Other assets:		
Long-term receivables (note 3)	1,300,000	1,300,000
Environmental mitigation credits (note 17)	43,236,207	43,236,207
Investment in joint venture (note 13)	4,856,537	3,216,783
Restricted pooled cash and cash equivalents (notes 2 and 10)	155,241,652	17,596,976
Restricted nonpooled cash and cash equivalents (note 2)	2,103,405	259,371
Restricted nonpooled investments (note 2)	118,998,406	63,238,300
Other noncurrent assets	5,997,936	6,227,312
Total other assets	331,734,143	135,074,949
Total noncurrent assets	4,229,027,919	3,611,869,011
Total assets	4,681,900,828	4,052,777,337
Deferred outflows (note 18)	9,593,000	11,404,155
Total assets and deferred outflows	\$ 4,691,493,828	4,064,181,492

**THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH**

Statements of Net Position

September 30, 2014 and 2013

<b>Liabilities and Deferred Inflows</b>	<b>2014</b>	<b>2013</b>
	<hr/>	<hr/>
Current liabilities payable from current assets:		
Accounts payable and accrued expenses	\$ 86,238,623	108,228,976
Liability claims (note 14)	6,961,000	14,000,000
Tenant credits and unearned revenue	11,667,741	13,633,406
Due to City of Long Beach (note 15)	<u>17,969,262</u>	<u>17,312,204</u>
Total current liabilities payable from current assets	<u>122,836,626</u>	<u>153,174,586</u>
Current liabilities payable from restricted assets:		
Current portion of indebtedness	51,805,000	49,115,000
Accrued interest payable	<u>14,964,819</u>	<u>11,483,733</u>
Total current liabilities payable from restricted assets	<u>66,769,819</u>	<u>60,598,733</u>
Total current liabilities	<u>189,606,445</u>	<u>213,773,319</u>
Long-term obligations net of current portion:		
Unearned revenue (note 7)	20,453,344	—
Short-term note (note 8)	376,890,863	—
Line of credit (note 9)	120,000,000	80,000,000
Bonded indebtedness (note 10)	<u>519,371,048</u>	<u>591,722,135</u>
Total noncurrent liabilities	<u>1,036,715,255</u>	<u>671,722,135</u>
Total liabilities	1,226,321,700	885,495,454
Deferred inflows (note 18)	<u>2,962,963</u>	—
Total liabilities and deferred inflows	<u>\$ 1,229,284,663</u>	<u>885,495,454</u>
Net position		
Net investment in capital assets	\$ 2,974,555,689	2,848,455,730
Restricted – capital projects	180,880,883	43,236,207
Restricted – debt service	17,937,624	18,418,117
Unrestricted	<u>288,834,969</u>	<u>268,575,984</u>
Total net position	<u>\$ 3,462,209,165</u>	<u>3,178,686,038</u>

See accompanying notes to financial statements.

**THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH**

Statements of Revenues, Expenses, and Changes in Net Position

Years ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Port operating revenues:		
Berths and special facilities	\$ 346,257,749	335,869,457
Rental properties	9,359,785	9,374,145
Miscellaneous	1,262,494	1,000,480
Total port operating revenues	<u>356,880,028</u>	<u>346,244,082</u>
Port operating expenses:		
Facility maintenance	8,637,819	4,463,037
Infrastructure maintenance	17,831,958	20,348,800
Fire and safety	33,286,296	31,124,642
Other indirect operating	7,575,695	7,986,407
General and administrative	41,123,612	33,772,806
Total port operating expenses before depreciation and amortization	<u>108,455,380</u>	<u>97,695,692</u>
Depreciation and amortization	117,965,628	90,849,581
Total port operating expenses	<u>226,421,008</u>	<u>188,545,273</u>
Income from Port operations	<u>130,459,020</u>	<u>157,698,809</u>
Nonoperating revenues (expenses):		
Investment income, net	6,776,204	2,788,773
Interest expense, net	(1,204,469)	(65,000)
Gain (loss) on disposition of capital assets	16,437	(6,247)
Clean Air Action Program (CAAP), net	(2,473,926)	(3,419,528)
Other expense	(297,993)	(181,628)
Total nonoperating revenues (expenses)	<u>2,816,253</u>	<u>(883,630)</u>
Income before capital grants and transfers	133,275,273	156,815,179
Capital grants	178,295,144	250,542,833
Contributions to others (notes 3 and 6)	(10,203,289)	—
Transfers to the City of Long Beach (note 15)	(17,844,001)	(17,312,204)
Increase in net position	<u>283,523,127</u>	<u>390,045,808</u>
Total net position – beginning of year	3,178,686,038	2,793,318,680
Cumulative effect resulting from adoption of GASB 65 (note 1)	—	(4,678,450)
Total adjusted net position – beginning of year	<u>3,178,686,038</u>	<u>2,788,640,230</u>
Total net position – end of year	<u>\$ 3,462,209,165</u>	<u>3,178,686,038</u>

See accompanying notes to financial statements.

**THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH**

Statements of Cash Flows

Years ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Cash received from customers	\$ 362,213,869	355,805,824
Cash paid to employees	(46,929,270)	(44,665,579)
Cash paid to suppliers	<u>(68,141,464)</u>	<u>(41,118,944)</u>
Net cash provided by operating activities	<u>247,143,135</u>	<u>270,021,301</u>
Cash flows from investing activities:		
Interest received	15,510,739	2,000,184
Return on investment in joint venture	2,000,000	2,000,000
Purchases of investments	<u>(67,690,000)</u>	<u>—</u>
Net cash provided by investing activities	<u>(50,179,261)</u>	<u>4,000,184</u>
Cash flows from noncapital/financing activities:		
Clean Air Action Plan	(2,473,926)	(3,419,528)
Transfers to City for Tidelands operations	(17,061,682)	(16,694,347)
Cash payment received from ACTA	200,000	702,063
Other expense	<u>(672,414)</u>	<u>(277,549)</u>
Net cash used in noncapital financing activities	<u>(20,008,022)</u>	<u>(19,689,361)</u>
Cash flows from capital and related financing activities:		
Grant revenues received	233,901,208	188,326,917
Interest paid	(32,245,329)	(33,670,719)
Principal payments – Line of credit	(20,000,000)	—
Principal payments – bond	(125,460,000)	(46,965,000)
Proceeds from line of credit	60,000,000	80,000,000
Proceeds from issuance of short-term notes	378,355,574	—
Proceeds from issuance of bonds	65,229,175	—
Debt issuance costs	(1,332,273)	—
Payments for capital acquisitions – employees	(11,011,257)	(8,932,144)
Payments for capital acquisitions – vendors	(520,324,164)	(812,060,357)
Proceeds from sales of capital assets	<u>16,437</u>	<u>128,972</u>
Net cash used in capital and related financing activities	<u>27,129,371</u>	<u>(633,172,331)</u>
Net increase (decrease) in cash and cash equivalents	204,085,223	(378,840,207)
Cash and cash equivalents, October 1	<u>287,649,537</u>	<u>666,489,744</u>
Cash and cash equivalents, September 30	\$ <u><u>491,734,760</u></u>	\$ <u><u>287,649,537</u></u>
Reconciliation of cash and cash equivalents:		
Unrestricted pooled cash and cash equivalents	\$ 301,487,259	239,891,340
Restricted pooled cash and cash equivalents	188,144,096	47,498,826
2000 bond reserve held by the City Treasurer	<u>2,103,405</u>	<u>259,371</u>
	\$ <u><u>491,734,760</u></u>	\$ <u><u>287,649,537</u></u>

**THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH**

Statements of Cash Flows

Years ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Reconciliation of income from Port operations to net cash provided by operating activities:		
Income from port operations	\$ 130,459,020	157,698,808
Adjustments to reconcile income from Port operations to net cash provided by operating activities:		
Depreciation and amortization	117,965,628	90,849,581
Bad debt expense	29,174	95,923
Decrease (increase) in accounts receivable	(13,481,006)	9,471,991
Decrease (increase) in inventory	(111,437)	83,677
(Decrease) increase in accounts payable	100,652	3,718,527
(Decrease) increase in accrued liabilities	857,686	626,605
(Decrease) increase in deferred revenues	(1,965,665)	(187,799)
(Decrease) increase in unearned revenue – grant	20,453,344	—
(Decrease) increase in due to other funds	(125,261)	(2,336,012)
(Decrease) increase in liability claims	(7,039,000)	10,000,000
Total adjustments	<u>116,684,115</u>	<u>112,322,493</u>
Net cash provided by operating activities	\$ <u>247,143,135</u>	<u>270,021,301</u>
Supplemental disclosure of noncash transactions:		
Change in accrued capital assets costs (purchased but unpaid at year-end)	\$ (22,948,691)	(18,231,428)
Capitalized interest	30,756,096	29,119,187
Amortization of bond premium	10,894,973	3,650,440
Amortization of deferred outflows on debt refunding	1,811,155	1,517,300
Amortization of deferred inflows on debt refunding	345,246	—

See accompanying notes to financial statements.

## THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2014 and 2013

### (1) Summary of Significant Accounting Policies

#### (a) *The Reporting Entity*

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

The Harbor Facilities Corporation (the Corporation), a nonprofit public benefit corporation, has been inactive since 1995 and did not have any activity during the 2014 and 2013 fiscal years. If the Corporation would have any transactions with financial implications, they would be included in the Department's financial statements.

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

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

#### (b) *Basis of Accounting and Measurement Focus*

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

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

## THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2014 and 2013

incurred, and are identified as capital grants in the statements of revenues, expenses, and changes in net position. Operating revenues or capital grant funds that have either been billed or received but not earned are identified as deferred credits and unearned revenue in the statements of net position.

**(c) *Pooled Cash and Cash Equivalents***

In accordance with City Charter requirements, the Department pools its available cash with that of the City. The City's cash management pool is used essentially as a demand deposit account by the participating City organizational units. For purposes of the statements of cash flows, the Department defines cash and cash equivalents as pooled cash and investments, including restricted pooled cash and investments and short term, easily convertible to cash, nonpooled investments. Investment decisions are made by the City Treasurer and approved by an investment committee whose membership includes members of the Department's management ranks.

Investment income and gains/losses arising from such pooled cash and investments are apportioned to each participating unit based on the relationship of the unit's average daily cash balances to the aggregate pooled cash and investments. The Department's share of pooled cash and investments, as of September 30, 2014 and 2013, is stated at fair value (note 2).

**(d) *Nonpooled Cash and Cash Equivalents***

The Department considers all highly liquid investments with an original maturity date of three months or less to be cash and cash equivalents.

**(e) *Investments***

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

**(f) *Inventories***

Inventories of supplies are valued at the lower of average cost or market.

**(g) *Capital Assets***

An asset is classified as a capital asset if it is a nonconsumable, tangible item, valued at a single amount greater than \$5,000, and with a useful life of more than one year. Capital assets are valued at historical costs. The historical cost of acquiring an asset includes the cost necessarily incurred to bring it to the condition and location necessary for its intended use. If an asset requires a period of time in which to carry out the activities necessary to bring it to that condition and location, the interest cost incurred during that period as a result of expenditures is a part of the historical cost of acquiring the asset. Depreciation is determined using the straight-line method with no allowance for salvage values. Identifiable intangible assets are recognized as such if they are separable or when they arise from contractual or other legal right, regardless of whether those rights are transferable or separable from the entity, or from other rights and obligations. An intangible asset will be capitalized if the asset has a useful life of more than one year and an acquisition cost exceeding the capitalization threshold of \$100,000. Amortization of intangible assets will follow the policies set for tangible assets with the following additional considerations: there is no mandated maximum amortization period; intangible

**THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH**

Notes to Financial Statements

September 30, 2014 and 2013

assets with indefinite useful life should not be amortized; and the carrying value of the intangible asset, if any, following the recognition of any impairment loss should be amortized in subsequent reporting periods over the remaining estimated useful life of the asset. When appropriate, provisions for obsolescence or impairment are recognized by charging depreciation at an accelerated rate on specific assets. The estimated economic lives used to determine annual rates of depreciation are subject to periodic review and revision, if appropriate, to assure that the cost of the respective assets will be written off over their economic lives. Estimated useful lives used in the computation of depreciation of capital assets are as follows:

Structures and facilities:	
Bridges and overpasses	50–75 years
Wharves and bulkheads	40 years
Transit sheds and buildings	20–50 years
State highway connections	10–50 years
Others	5–50 years
Intangible assets	3–30 years
Furniture, fixtures, and equipment	2–30 years

Capitalized interest, which represents the cost of borrowed funds used for the construction of capital assets, is included as part of the cost of capital assets and as a reduction of interest expense. The Department capitalized \$30,756,096 and \$29,119,187 in interest costs during the years ended September 30, 2014 and 2013; respectively.

**(h) Investments in Joint Ventures**

Investments in joint power authorities are accounted for using the equity method. The amount realized by the Department is proportional to the reported value and is based on the department’s share of the Joint Venture. The reported profit is proportional to the size of the equity investment.

**(i) Compensated Absences**

The Department records all accrued employee benefits, including accumulated vacation and sick leave, as a liability in the period when the benefits are earned. Accrued employee benefits are treated as a current liability for financial statement presentation.

**(j) Pension Plan and Postretirement Benefits**

All full-time Department employees are members of the State of California Public Employees’ Retirement System (CalPERS). The Department’s policy is to fund all accrued pension costs. These costs are determined annually as of October 1 by CalPERS and are incorporated into the payroll burden rate reimbursable to the City’s Employee Benefits Internal Service Fund. The Department participates in the City’s Retired Employee Health Insurance Program. This program is a single-employer defined-benefit healthcare plan.

**(k) Revenue Recognition**

The Department recognizes revenue on an accrual basis when earned. Rents, tariffs, or other miscellaneous receipts that are received in advance of earnings are deferred until earned.



## THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2014 and 2013

**(l) Allowance for Doubtful Accounts**

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

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

**(m) Use of Estimates**

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

**(n) Contributions to Other Entities**

In recognition of activities that are sponsored by the Port for construction of assets located within the property of the Port, the Port accounts for transfer of ownership as a Contribution to other entities.

**(o) Deferred Outflows and Inflows of Resources**

In addition to assets, the Department reports a separate section for deferred outflows of resources. The balance represents a consumption of net position that applies to a future period(s) resulting from accounting losses on bond refinancing and will be recognized as an outflow of resources at a future dates.

The Department reports a separate section for deferred inflows of resources. The balance represents an acquisition of net position that applies to a future period(s) resulting from accounting gains on bond refinancing or contingent liabilities and will be recognized as an inflow of resources at a future dates.

**(p) Net Position**

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

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

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

## THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2014 and 2013

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

Unrestricted – All other categories of net position. Additionally, unrestricted net position may be designated for use by management of the Department. These requirements limit the area of operations for which expenditures of net position may be made and require that unrestricted net position be designated to support future operations in these areas. The future funding commitments of the Department related to the Clean Air Action Plan (CAAP) are a primary example of unrestricted net position with designated uses (note 13).

### (q) ***Recent Accounting Pronouncements – Effective Fiscal Year 2014***

GASB Statement No. 66, “*Technical Corrections.*” Issued in March 2012, the objective of this Statement is to resolve conflicting guidance from the issuance of Statements No. 54 on Fund Balance Reporting, and No. 62 on codification of accounting and financial reporting guidance contained in pre-November 30, 1989 FASB and AICPA Pronouncements. This statement has no material impact on the Department’s financial statements.

GASB Statement No. 67, “*Financial Reporting for Pension Plans.*” Issued in June 2012, this statement establishes financial reporting standards for defined-benefit pension plans and defined-contribution pension plans that are administered through trusts or equivalent arrangements. This Statement establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement-determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. This statement has no impact on the Department’s financial statements.

GASB Statement No. 70, “*Accounting and Financial Reporting for Nonexchange Financial Guarantees.*” Issued in April 2013, this statement establishes standards for financial guarantees that are nonexchange transactions extended or received by a state or local government. A nonexchange financial guarantee is a guarantee of an obligation of a legally separate entity or individual, including a blended or discretely presented component unit, which requires the guarantor to indemnify a third-party obligation holder under specified conditions. This statement has no impact on the Department’s financial statements.

### **Effective in Future Years**

GASB Statement No. 68, “*Accounting and Financial Reporting for Pensions.*” Issued in June 2012, the objective of this Statement is (a) to improve the usefulness of information for decisions made by users of financial reports of governments whose employees, both active and inactive, are provided with pensions, and (b) improve information provided about pension-related financial support from certain nonemployer entities that make contributions to pension plans that are used to provide benefits to employees of other entities. The Department is currently evaluating the financial impact of this statement that will be effective beginning fiscal year 2015.

**THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH**

Notes to Financial Statements

September 30, 2014 and 2013

GASB Statement No. 69, “*Government Combinations and Disposals of Government Operations.*” Issued in January 2013, the objective of this Statement is to establish reporting standards related to government combinations and disposals of government operations. The Department does not expect this statement to have an impact once the Statement is effective for periods beginning in fiscal year 2015.

GASB Statement No. 71, “*Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68.*” Issued in November 2013, the objective of this Statement is to improve accounting and financial reporting by addressing an issue in Statement No. 68, concerning transition provisions related to certain pension contributions made to defined-benefit pension plans prior to implementation of that Statement by employers and nonemployer contributing entities. The Department is currently evaluating the financial impact of this statement that will be effective beginning fiscal year 2015.

**(2) Cash, Cash Equivalents, and Other Investments**

The Department’s cash and cash equivalents and investments as of September 30, 2014 and 2013 are classified in the accompanying statements of net position as follows:

	<u>2014</u>	<u>2013</u>
Pooled cash and cash equivalents	\$ 301,487,259	239,891,340
Pooled cash and cash equivalents, restricted	<u>188,144,096</u>	<u>47,498,826</u>
Total pooled cash and cash equivalents	<u>489,631,355</u>	<u>287,390,166</u>
Bond reserves held by fiscal agents:		
Nonpooled cash and cash equivalents	2,103,405	259,371
Nonpooled investments	<u>118,998,406</u>	<u>63,238,300</u>
Total bond reserves held by fiscal agents	<u>121,101,811</u>	<u>63,497,671</u>
Total pooled cash and cash equivalents and bond reserves held by fiscal agents	<u>\$ 610,733,166</u>	<u>350,887,837</u>

The majority of the Department’s cash and investments, including restricted cash and investments, are pooled with other City funds and maintained by the City Treasurer. The City Charter requires the Department to participate in the City Treasurer’s pool. The Department’s portion of the City’s total pooled cash and cash equivalents amount as of September 30, 2014 and 2013 was \$489,631,355 or 31.0% and \$287,390,166 or 21.7%, respectively.

The Department’s reserves held by fiscal agents, as of September 30, 2014, were \$121,101,811 for the 2005, 2010A, 2010B bonds and the 2014C Notes (note 10). The Department’s bond reserves held by fiscal agents, as of September 30, 2013, were \$63,497,671 for the 2004, 2005, 2010A, and 2010B bonds.

The City’s investment policy authorizes the pool to invest in obligations issued or guaranteed by the federal government and its agencies and instrumentalities as well as in commercial paper rated A-1 by Standard & Poor’s Corporation or P-1 by Moody’s Commercial Paper Record, bankers’ acceptances, repurchase

**THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH**

Notes to Financial Statements

September 30, 2014 and 2013

agreements, reverse repurchase agreements, bank certificate of deposits, the State Treasurer's Local Agency Investment Fund, and shares of beneficial interest (mutual funds) issued by diversified management companies. It is the policy of the City Treasurer to invest funds in a manner that will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the City and its Departments and to conform to all state and local statutes governing the investment of public funds, using the "prudent person" standard for managing the overall portfolio.

The primary objective of the policy is safety of principal, liquidity, yield, and maintaining the public trust. Individual departmental cash deposits and investments within this pool cannot be specifically identified among the participating units. Interest income and gains and losses earned on pooled cash and investments are allocated monthly to the various pool participants based on their average daily cash balances.

***Investments Authorized by the California Government Code and the City's Investment Policy***

The table on the following page identifies the investment types that are authorized by the City's investment policy for the City's Investment pool. The table also identifies certain provisions of the City's investment policy that address interest rate risk, credit risk, and concentration of credit risk. This table does not include debt proceeds held by bond trustees that are governed by the provisions of debt agreements.

***Investments Authorized by Debt Agreements***

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements.

**THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH**

Notes to Financial Statements

September 30, 2014 and 2013

***Disclosures Relating to Interest Rate Risk***

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and timing cash flows from maturities so that a near-level portion of the portfolio is maturing or coming closer to maturity over time to provide the cash flow and liquidity needed for operations.

<b>Authorized investment type</b>	<b>Maximum maturity</b>	<b>Maximum percentage of Portfolio</b>	<b>Maximum investment in one issuer</b>
Bonds Issued by the City	5 years *	30	None
U.S. Treasury Notes, Bonds, or Bills	5 years *	None	None
Registered State Warrants or Treasury Notes or Bonds of the State of California	5 years *	30	None
Local Agency Bonds	5 years *	30	None
Federal Agency Securities	5 years *	None	None
Bankers Acceptances	180 days	40	30
Commercial Paper	270 days	25	10
Negotiable Certificates of Deposit	5 years *	30	10
Time Certificates of Deposit	5 years *	100	10
Repurchase Agreements	90 days	100	None
Reverse Repurchase Agreements	92 days	20	None
Securities Lending Program	92 days	20	None
Medium-Term Notes	5 years *	30	10
Money Market Funds	N/A	30	10
Local Agency Investment Fund (LAIF)	N/A	None	\$40 million per account
Asset-backed Securities	5 years	20	None
Mortgage-backed Securities	5 years	20	None

\* Maximum maturity of five (5) years unless a longer maturity is approved by the City Council, either specifically or as part of an investment program, at least three (3) months prior to purchase.

**THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH**

Notes to Financial Statements

September 30, 2014 and 2013

The following schedule indicates the interest rate risk of the City's investments as of September 30, 2014 (in thousands):

<u>Investment type</u>	<u>Fair value</u>	<u>Weighted average maturity (in years)</u>
Cash and investments in City pool:		
Money market account	\$ 228	0.003
U.S. Treasury bills	10,000	0.121
U.S. Treasury notes	305,610	0.809
Federal agency securities	1,010,177	1.395
Time Certificate of Deposit	9,967	0.981
Local Agency Investment Fund (LAIF)	<u>120,677</u>	0.003
Subtotal City pool	1,456,659	
Cash and deposits	138,503	
Outstanding checks	<u>(18,105)</u>	
Total City pool	<u>\$ 1,577,057</u>	
Nonpooled cash and investments:		
Cash and deposits	\$ 588	—
Money market funds	46,078	—
U.S. Treasury notes	72,744	1.81
Federal agency securities	102,701	2.65
Guaranteed Investment Contracts	33,132	23.27
City bonds	<u>2,094</u>	4.68
Total nonpooled cash and investments	<u>\$ 257,337</u>	

**THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH**

Notes to Financial Statements

September 30, 2014 and 2013

The following schedule indicates the interest rate risk of the City's investments as of September 30, 2013 (in thousands):

<b>Investment type</b>	<b>Fair value</b>	<b>Weighted average maturity (in years)</b>
Cash and investments in City pool:		
Interdepartment loan (Health SAVERS)	\$ 1,555	5.562
U.S. Treasury bills	36,996	0.361
U.S. Treasury notes	226,158	0.759
Federal agency securities	738,293	1.544
Money Market Account	233	0.003
Local Agency Investment Fund (LAIF)	120,399	0.003
Subtotal City pool	<u>1,123,634</u>	
Cash and deposits	220,376	
Outstanding checks	<u>(21,507)</u>	
Total City pool	<u>\$ 1,322,503</u>	
Non performing short-term investment	\$ 429	
Nonpooled cash and investments:		
Guaranteed Investment Contracts	\$ 45,116	19.310
Money Market Funds	49,282	—
U.S. Treasury notes	70,305	1.790
Federal agency securities	37,602	3.090
Time certificates of deposit	10,000	0.970
City Bonds	2,002	5.680
Cash and deposits	565	
Total nonpooled cash and investments	<u>\$ 214,872</u>	

***Investments with Fair Values Highly Sensitive to Interest Rate Risk***

The City had no investments that were highly sensitive to market interest rate changes as of September 30, 2014 and 2013. Highly sensitive investments are investments whose sensitivity to market interest rate fluctuations are not fully addressed by use of one of the five methods for reporting interest rate risk.

***Disclosures Relating to Credit Risk***

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The minimum rating requirements for commercial paper, asset-backed securities, and medium-term notes is an A rating. Mortgage-backed security issuers must have a minimum AAA rating. State warrants, state treasury notes, or bonds of the State are to be rated at a minimum of A1 / Sp-1 for short-term investments and Aa/AA for long-term investments.

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Notes to Financial Statements

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The following are the actual ratings as of September 30, 2014 for each investment type (in thousands):

Rating as of year-end							
Investment type	Legal rating	Total	Not required to be rated	AAA	AA+	A+	Unrated
Cash and investments in City pool:							
Money market account	N/A	\$ 228	—	—	228	—	—
U.S. Treasury bills	N/A	10,000	10,000	—	—	—	—
U.S. Treasury notes	N/A	305,610	305,610	—	—	—	—
Federal agency securities	N/A	1,010,177	—	—	1,010,177	—	—
Time Certificate of Deposit	N/A	9,967	—	—	—	9,967	—
Local Agency Investment Fund (LAIF)	N/A	120,677	—	—	—	—	120,677
Subtotal City pool		1,456,659	315,610	—	1,010,405	9,967	120,677
Cash and deposits		138,503	—	—	—	—	138,503
Outstanding checks		(18,105)	—	—	—	—	(18,105)
Total City pool		\$ 1,577,057	315,610	—	1,010,405	9,967	241,075
Nonpooled cash and investments:							
Cash and deposits	N/A	\$ 588	—	—	—	—	588
Money market funds	N/A	46,078	46,078	—	—	—	—
U.S. Treasury notes	N/A	72,744	—	72,744	—	—	—
Federal agency securities	N/A	102,701	—	—	102,701	—	—
Guaranteed Investment Contracts	N/A	33,132	33,132	—	—	—	—
City bonds	N/A	2,094	—	—	—	—	2,094
Total nonpooled cash and investments		\$ 257,337	79,210	72,744	102,701	—	2,682



**THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH**

Notes to Financial Statements

September 30, 2014 and 2013

Rating as of year-end 2013						
City's pooled investments investment type	legal rating	Total	Not required to be rated	AAA	AA+	Unrated
Cash and investments in city pool:						
Interdepartment loan (Health SAVERS)	N/A	\$ 1,555	1,555	—	—	—
U.S. Treasury bills	N/A	36,996	36,996	—	—	—
U.S. Treasury notes	N/A	226,158	226,158	—	—	—
Federal agency securities	N/A	738,293	—	—	738,293	—
Money market account	N/A	233	—	—	233	—
Local Agency Investment Fund (LAIF)	N/A	120,399	—	—	—	120,399
Subtotal City pool		1,123,634	264,709	—	738,526	120,399
Cash and deposits		220,376	—	—	—	220,376
Outstanding checks		(21,507)	—	—	—	(21,507)
Deposit in transit		—	—	—	—	—
Total city pool		\$ 1,322,503	264,709	—	738,526	319,268
Non-performing investment-short term	N/A	\$ 429	—	—	—	\$ 429
Nonpooled short-term investment:						
Guaranteed Investment Contracts	N/A	\$ 45,116	\$ 45,116	\$ —	\$ —	\$ —
Money market funds	N/A	49,283	49,283	—	—	—
U.S. Treasury notes	N/A	70,305	—	70,305	—	—
Federal agency securities	N/A	37,602	—	—	37,602	—
Time Certificates of Deposit	N/A	10,000	—	—	—	10,000
City bonds	N/A	2,002	—	—	—	2,002
Cash and deposits	N/A	565	—	—	—	565
Total non-pooled cash and investments		\$ 214,873	\$ 94,399	\$ 70,305	\$ 37,602	\$ 12,567

**Concentration of Credit Risk**

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer that represent five percent or more of the City's total pooled investments are as follows (in thousands):

Issuer	Investment type	June 30	
		2014	2013
Federal Farm Credit Bank	Federal agency securities	\$ 67,029	\$ 58,349
Federal Home Loan Bank	Federal agency securities	410,517	155,034
Federal Home Loan Mortgage Corporation	Federal agency securities	244,428	276,248
Federal National Mortgage Association	Federal agency securities	288,203	248,664
Local Agency Investment Fund (LAIF)	Local Agency Investment Fund (LAIF)	120,677	120,399
U.S. Treasuries	U.S. Treasury bills and notes	315,610	263,154

## THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

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### *Custodial Credit Risk*

Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. All securities owned by the City are deposited in trust for safekeeping with a custodial bank different from the City's primary bank.

As of September 30, 2014, the City reported deposits of \$139.0 million, collateralized in compliance with California Government Code, less \$18.0 million for checks outstanding. As of September 30, 2013, the City reported deposits of \$220.4 million, collateralized in compliance with California Government Code, less \$21.5 million for checks outstanding.

### *Investment in State Investment Pool*

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are mortgage-backed securities, loans to certain state funds, securities with interest rates that vary according to changes in rates greater than a one-for-one basis, and structured basis.

### **(3) Accounts Receivable and Other Receivables**

Accounts receivable as of September 30 included the following:

	<u>2014</u>	<u>2013</u>
Trade accounts receivable	\$ 54,549,530	41,002,911
Less allowance for doubtful accounts	(1,784,400)	(1,748,161)
Accounts receivable, net	<u>\$ 52,765,130</u>	<u>39,254,750</u>

The balances of the allowance for uncollectible accounts receivable for the fiscal years 2014 and 2013 were \$1,784,400 and \$1,748,161, respectively.

**THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH**

Notes to Financial Statements

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Other receivables as of September 30 included the following:

	<u>2014</u>	<u>2013</u>
Due from other governmental agencies:		
Current:		
Federal and state grants	\$ 63,361,175	129,170,528
Total current	<u>63,361,175</u>	<u>129,170,528</u>
Long term:		
Tidelands – Beaches and Waterways	1,300,000	1,300,000
Total long term	<u>1,300,000</u>	<u>1,300,000</u>
Total due from other governmental agencies	\$ <u>64,661,175</u>	<u>130,470,528</u>

***Accounts Receivable and Other Receivables***

The Harbor Department is the recipient of numerous grants and other funding appropriations associated with the Gerald Desmond Bridge Replacement Project and various Port Security projects, which include, but are not limited to: The Federal Highway Bridge Program (HBP); the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU); the State Highway Operations and Protection Program (SHOPP); the Trade Corridor Improvement Program – Prop 1B (TCIP); the LA Metro Call for Projects (RSTI); the Surface Transportation Program (STP); the Surface Transportation Program Local Regional Funds (STIP-R); The American Recovery and Reinvestment Act (ARRA); the Port Security Grant Program (PSGP); the Urban Area Security Initiative (USAI) Corridor Mobility Improvement Fund (CMI), and Transportation Infrastructure Finance and Innovation Act (TIFIA).

Funds from these programs are available to the Department on a reimbursement basis. Most, but not all, of these programs require a matching contribution and thus reimbursement is on a percentage basis, different for each program. As eligible expenditures under each program are incurred, the Department submits invoices for reimbursement of the applicable portion of such expenditures. If the program will result in the transfer of title to an organization outside of the Department, a contribution is recognized on the date of transfer.

**(4) Long Beach Harbor Dredging**

The Harbor Department is undertaking an approximately \$54 million dredging project to improve navigation in harbor waters. The project began in 2010. Although there are four separate locations involved in the dredging project, the primary focus is deepening the inner turning basin south of the Tesoro Refining and Marketing oil terminal to 76 feet, the same depth as the main channel. The remaining balance of \$1.7 million as of September 30, 2014, recorded as a prepaid expense, will be used for the Department’s future dredging in conjunction with the U.S. Army Corps of Engineers.

## THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2014 and 2013

### (5) Alameda Corridor Right-of-Way Purchase

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

The total purchase comprised the right-of-way property from the three former railroad companies and a drill track from Southern Pacific to provide an additional right of way to access local businesses along the Project. As of September 30, 2014 and 2013, total costs to the Department related to the rights-of-way purchase amounted to \$207.8 million for both years.

Construction of the Project began in 1997 and it was completed in April 2002. Funding for the Project came from federal, state, and local sources, and from issuance of debt.

Repayment to the Ports for their investments in the right of way and for any advances provided to the Project will occur only after the Project has generated revenues sufficient to retire all debt and to fund a maintenance reserve (note 13).

Beginning in Fiscal Year 2010 and unified security project was undertaken by the Department and several tenants. The project developed a process where authorization was controlled and access to port premises was limited. In Fiscal Year 2014, the project was completed for \$10,203,289 and the title to the capital project was transferred to the tenants as a Contribution to other entities.

**THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH**

Notes to Financial Statements

September 30, 2014 and 2013

**(6) Capital Assets**

Description	2014				Balance, September 30, 2014
	Balance, October 1, 2013	Additions	Disposals/ adjustments	Transfers	
Nondepreciable capital assets:					
Purchased land	\$ 448,936,517	—	—	—	448,936,517
Constructed land	454,842,301	—	—	1,182,041	456,024,342
Construction in progress	1,367,213,130	536,810,632	5,656,290	(661,493,367)	1,248,186,685
Right of way (note 5)	207,823,264	—	—	—	207,823,264
Subtotal	<u>2,478,815,212</u>	<u>536,810,632</u>	<u>5,656,290</u>	<u>(660,311,326)</u>	<u>2,360,970,808</u>
Depreciable capital assets:					
Structures and facilities	2,337,755,926	—	(7,464,965)	623,401,632	2,953,692,593
Furniture, fixtures, and equipment	44,893,742	1,654,710	(192,010)	36,909,694	83,266,136
Subtotal	<u>2,382,649,668</u>	<u>1,654,710</u>	<u>(7,656,975)</u>	<u>660,311,326</u>	<u>3,036,958,729</u>
Total capital assets	<u>4,861,464,880</u>	<u>538,465,342</u>	<u>(2,000,685)</u>	<u>—</u>	<u>5,397,929,537</u>
Less accumulated depreciation:					
Structures and facilities	1,352,867,935	104,631,734	(1,899,657)	—	1,455,600,012
Furniture, fixtures, and equipment	31,802,883	13,333,894	(101,028)	—	45,035,749
Total accumulated depreciation	<u>1,384,670,818</u>	<u>117,965,628</u>	<u>(2,000,685)</u>	<u>—</u>	<u>1,500,635,761</u>
Net capital assets	<u>\$ 3,476,794,062</u>	<u>420,499,714</u>	<u>—</u>	<u>—</u>	<u>3,897,293,776</u>

**THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH**

Notes to Financial Statements

September 30, 2014 and 2013

Description	2013				Balance, September 30, 2013
	Balance, October 1, 2012	Additions	Disposals/ adjustments	Transfers	
Nondepreciable capital assets:					
Purchased land	\$ 448,936,517	—	—	—	448,936,517
Constructed land	455,825,368	—	(983,067)	—	454,842,301
Construction in progress	603,250,900	867,673,476	983,067	(104,694,313)	1,367,213,130
Right of way (note 5)	207,823,264	—	—	—	207,823,264
Subtotal	1,715,836,049	867,673,476	—	(104,694,313)	2,478,815,212
Depreciable capital assets:					
Structures and facilities	2,240,185,567	—	(2,584,644)	100,155,003	2,337,755,926
Furniture, fixtures, and equipment	39,997,728	1,019,118	(662,414)	4,539,310	44,893,742
Subtotal	2,280,183,295	1,019,118	(3,247,058)	104,694,313	2,382,649,668
Total capital assets	3,996,019,344	868,692,594	(3,247,058)	—	4,861,464,880
Less accumulated depreciation:					
Structures and facilities	1,269,068,079	86,260,360	(2,460,504)	—	1,352,867,935
Furniture, fixtures, and equipment	27,864,995	4,589,221	(651,333)	—	31,802,883
Total accumulated depreciation	1,296,933,074	90,849,581	(3,111,837)	—	1,384,670,818
Net capital assets	\$ 2,699,086,270	777,843,013	(135,221)	—	3,476,794,062

**(7) Unearned Revenue**

In 2012, the Port of Long Beach was awarded \$30 million in grant funds from the Proposition 1B (Goods Movement Emission Reduction Program) for the building of shore power infrastructure allowing ships to plug in to electric power at the 12 berths to meet the low emission requirements starting 2014. If the usage requirements are not met over the next 10 years, the Department will need to repay the grant funds in proportion to the shortfall. The Department recognized a liability of \$20,453,344 for potential repayment of the Prop 1B Grant in future years.

**(8) 2014C Harbor Revenue Short-Term Notes and Transportation Infrastructure Finance and Innovation (TIFIA) Act Loan**

The City of Long Beach Harbor Revenue Short-Term Notes Series 2014C Senior Notes (2014C Notes) are secured by the Department's gross revenues. The 2014C Notes, dated June 12, 2014, amounting to \$325,000,000 plus an original issue premium of \$53,355,573, less an underwriter's discount of \$659,483, were issued to finance a portion of the costs of constructing a replacement bridge for the existing Gerald Desmond Bridge, to fund capitalized interest on the 2014C Notes through November 15, 2018, to refund a

**THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH**

Notes to Financial Statements

September 30, 2014 and 2013

portion of the City of Long Beach, California Subordinate Harbor Revenue Revolving Obligations, Series A (Tax-exempt) and Series B (Tax-exempt), and to finance the costs of issuance of the 2014C Notes.

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

The original issue premium is being amortized over the loan term using the effective interest method. Amortization of the premium totaled \$3.6 million for the year ended September 30, 2014.

Funds have been allocated at September 30 to the respective accounts in conformity with the note resolution as follows:

	<u>2014</u>	<u>2013</u>
Service account (amount reserved to meet debt service requirements)	\$ 69,451,375	—
	<u>\$ 69,451,375</u>	<u>—</u>

Scheduled annual principal note maturities and interest are summarized as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year(s) ending September 30:			
2015	\$ —	14,700,000	14,700,000
2016	—	15,643,250	15,643,250
2017	—	15,643,250	15,643,250
2018	—	15,643,250	15,643,250
2019	325,000,000	7,821,625	332,821,625
	<u>\$ 325,000,000</u>	<u>69,451,375</u>	<u>394,451,375</u>

*TIFIA Loan Commitment* –In May 2014, the Harbor Department entered into a loan agreement (the TIFIA Loan) with the US Department of Transportation (USDOT) under the Transportation Infrastructure Finance and Innovation Act (TIFIA). Under the TIFIA Loan, the USDOT will allow the Department to borrow up to \$325,000,000, provided the amount so borrowed will be used to finance and refinance the costs related to the replacement of the Gerald Desmond Bridge, including but not limited to the repayment of the 2014C Notes. The loan is secured by a subordinate lien on the Department’s gross revenues. The loan is expected to be drawn no later than one year after substantial completion of the replacement bridge currently expected in July 2018. As such, there is no outstanding liability for the TIFIA loan as of September 30, 2014. Once drawn upon, the TIFIA loan will repaid be over a period not to exceed 35 years at an interest rate of 3.42%.

## THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Notes to Financial Statements

September 30, 2014 and 2013

### (9) Lines of Credit

In July 2013, the Board of Harbor Commissioners authorized the issuance of \$200,000,000 Subordinate Harbor Revenue Revolving Obligations Series A (Tax-Exempt), Series B (Tax-Exempt), and Series C (Taxable).

The Harbor Department will secure the borrowings under the revolving lines of credit with a subordinate lien on the revenues of the Department.

#### ***Bank of America, N.A.-Subordinate Harbor Revenue Revolving Obligations Series A (Tax-Exempt)***

Bank of America will provide tax-exempt revolving line of credit that will allow the Harbor Department to borrow up to \$78,000,000 at any given point of time. The tax-exempt interest rate to be paid by the Harbor Department for borrowings under the revolving line of credit will be based on a percentage of the daily, one-month, two-month, three-month, or six-month (as selected by the Harbor Department) London Interbank Offered Rate (Libor). Bank of America will make the revolving line of credit available to the Harbor Department for three years (unless the revolving line of credit is terminated earlier or extended pursuant to its terms. Borrowings under the Bank of America revolving line of credit will be incurred by the Harbor Department in the form of City of Long Beach, California Subordinate Harbor Revenue Revolving Obligations, Series A (Tax-Exempt) (Series A Obligations.)

The Harbor Department's obligations to repay any loans made by Bank of America under the Bank of America Credit Agreement will be evidenced by a promissory note (the Bank of America Note) to be issued by the Harbor Department to Bank of America.

#### ***Union Bank, N.A.-Subordinate Harbor Revenue Revolving Obligations Series B (Tax-Exempt) and Series C (Taxable)***

Union Bank will provide two revolving lines of credit (a tax-exempt revolving line of credit and a taxable revolving line of credit) that will allow the Harbor Department to borrow up to \$122,000,000 at any given point of time. The tax-exempt and taxable interest rates to be paid by the Harbor Department for borrowings under the revolving lines of credit to be provided by Union Bank will be based on a percentage of the one-month Libor. Union bank will make the revolving lines of credit available to the Harbor Department for three years (unless the revolving line of credit is terminated earlier or extended pursuant to its terms), Borrowings under the union Bank revolving lines of credit will be incurred by the Harbor Department in the form of City of Long Beach, California Subordinate Harbor Revenue Revolving Obligations, Series B (Tax-Exempt) (Series B Obligations), and City of Long Beach, California Subordinate Harbor Revenue Revolving Obligations, Series C (Taxable) (Series C Obligations).

The Harbor Department's obligations to repay any loans made by Union Bank under the Union Bank Credit Agreement will be evidenced by two promissory notes (one for tax-exempt loans and one for taxable loans) (the Union Bank Notes) to be issued by the harbor Department to Union Bank.



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Notes to Financial Statements

September 30, 2014 and 2013

The outstanding obligations under these lines of credit as of September 30 was as follows:

	<u>2014</u>	<u>2013</u>
Long term:		
Line of Credit – Bank of America	\$ 50,000,000	40,000,000
Line of Credit – Union Bank	70,000,000	40,000,000
Total current	\$ <u>120,000,000</u>	<u>80,000,000</u>

**(10) Bonded Indebtedness**

Outstanding bonded indebtedness as of September 30 was as follows:

	<u>2014</u>	<u>2013</u>
1998 Harbor Revenue Refunding Bonds:		
Maturing 2012 through 2019 at 6.0% interest	\$ 74,110,000	86,515,000
Plus unamortized premium	2,958,656	3,598,366
Total 1998 Harbor Revenue Refunding Bonds	<u>77,068,656</u>	<u>90,113,366</u>
2002B Harbor Revenue Bonds (fixed rate portion):		
Maturing 2012 through 2024 at 5.1% to 5.5% interest	—	43,405,000
Plus unamortized premium	—	2,515,537
Total 2002B Harbor Revenue Bonds	<u>—</u>	<u>45,920,537</u>
2004A & B Harbor Revenue Refunding Bonds:		
Maturing 2012 through 2018 at 4.0% to 5.0% interest	—	45,185,000
Plus unamortized premium	—	1,920,061
Total 2004A & B Harbor Revenue Refunding Bonds	<u>—</u>	<u>47,105,061</u>
2005A & B Harbor Revenue Refunding Bonds:		
Maturing 2012 through 2025 at 5.0% interest	105,595,000	117,200,000
Plus unamortized premium	6,373,903	7,149,913
Total 2005A & B Harbor Revenue Refunding Bonds	<u>111,968,903</u>	<u>124,349,913</u>
2010A Harbor Revenue Bonds:		
Maturing 2012 through 2025 at 0.4% to 5.0% interest	160,175,000	170,900,000
Plus unamortized premium	11,019,283	12,541,363
Total 2010A Harbor Revenue Refunding Bonds	<u>171,194,283</u>	<u>183,441,363</u>

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September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
2010B Harbor Revenue Bonds:		
Maturing 2012 through 2027 at 3.0% to 5.0% interest	\$ 136,365,000	138,500,000
Plus unamortized premium	<u>10,248,702</u>	<u>11,406,895</u>
Total 2010A Harbor Revenue Refunding Bonds	<u>146,613,702</u>	<u>149,906,895</u>
2014A Harbor Revenue Refunding Bonds:		
Maturing 2015 through 2017 at 2.0 to 5.0% interest	38,465,000	—
Plus unamortized premium	<u>2,295,326</u>	<u>—</u>
Total 2014A Harbor Revenue Refunding Bonds	<u>40,760,326</u>	<u>—</u>
2014B Harbor Revenue Refunding Bonds:		
Maturing 2017 through 2027 at 3.0 to 5.0% interest	20,570,000	—
Plus unamortized premium	<u>3,000,178</u>	<u>—</u>
Total 2014B Harbor Revenue Refunding Bonds	<u>23,570,178</u>	<u>—</u>
SUMMARY:		
Principal	535,280,000	601,705,000
Net Premium	35,896,048	39,132,135
Less current portions	<u>51,805,000</u>	<u>49,115,000</u>
Net long-term bonded indebtedness	\$ <u><u>519,371,048</u></u>	\$ <u><u>591,722,135</u></u>

The Department had the following activity in bonded indebtedness for the fiscal years ended September 30, 2014.

<u>Description</u>	<u>Balance, October 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, September 30, 2014</u>	<u>Amounts due within one year</u>
1998	\$ 86,515,000	—	12,405,000	74,110,000	13,145,000
2002 B	43,405,000	—	43,405,000	—	—
2004 A and B	45,185,000	—	45,185,000	—	—
2005 A and B	117,200,000	—	11,605,000	105,595,000	12,185,000
2010A	170,900,000	—	10,725,000	160,175,000	11,470,000
2010B	138,500,000	—	2,135,000	136,365,000	2,230,000
2014A	—	38,465,000	—	38,465,000	12,775,000
2014B	—	<u>20,570,000</u>	—	<u>20,570,000</u>	—
	\$ <u><u>601,705,000</u></u>	<u><u>59,035,000</u></u>	<u><u>125,460,000</u></u>	<u><u>535,280,000</u></u>	<u><u>51,805,000</u></u>

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<u>Description</u>	<u>Balance, October 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, September 30, 2012</u>	<u>Amounts due within one year</u>
1998	\$ 98,215,000	—	11,700,000	86,515,000	12,405,000
2002 B	48,455,000	—	5,050,000	43,405,000	5,315,000
2004 A and B	45,685,000	—	500,000	45,185,000	6,930,000
2005 A and B	117,200,000	—	—	117,200,000	11,605,000
2010A	181,355,000	—	10,455,000	170,900,000	10,725,000
2010B	157,760,000	—	19,260,000	138,500,000	2,135,000
	<u>\$ 648,670,000</u>	<u>—</u>	<u>46,965,000</u>	<u>601,705,000</u>	<u>49,115,000</u>

Scheduled annual principal bond maturities and interest are summarized as follows:

<u>Year(s) ending September 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 51,805,000	26,557,923	78,362,923
2016	54,320,000	24,223,700	78,543,700
2017	56,920,000	21,614,950	78,534,950
2018	48,440,000	18,710,800	67,150,800
2019	52,175,000	16,208,900	68,383,900
2020–2024	204,215,000	47,989,150	252,204,150
2025–2029	67,405,000	4,834,000	72,239,000
	<u>\$ 535,280,000</u>	<u>160,139,423</u>	<u>695,419,423</u>

Details of each outstanding debt issue are as follows:

**(a) 1998 Harbor Revenue Refunding Bonds**

The City of Long Beach Harbor Revenue Refunding Bonds Series 1998A (the 1998 Bonds) are secured by the Department's gross revenues. The 1998 Bonds, dated February 1, 1998, amounting to \$206,330,000 were issued to refund all of the City's Harbor Revenue Bonds Series 1989A (the 1989 Bonds). The 1989 Bonds were defeased and the liability for those bonds was removed from the Department's statements of net assets. No amounts remain outstanding as of September 30, 2014 and 2013.

Serial bonds aggregating to \$74,110,000 are outstanding and will mature on May 15 of each year from 2015 to 2019 in amounts ranging from \$13,145,000 to \$16,600,000 with interest payable semi-annually on May 15 and November 15 at coupon rates of 6.0%. The 1998 Bonds are not subject to optional or mandatory redemption before their respective maturity dates.

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Funds have been allocated at September 30 to the respective accounts in conformity with the bond resolution as follows:

	<u>2014</u>	<u>2013</u>
Service account (amount reserved to meet current debt service requirements)	\$ 6,596,850	6,598,462
Reserve account (amount reserved for maximum annual debt service requirements)	<u>17,596,976</u>	<u>17,596,976</u>
	<u>\$ 24,193,826</u>	<u>24,195,438</u>

The refunding of the 1989 Bonds resulted in a difference between the reacquisition price and net carrying amount on the old debt of \$8,569,501. This difference is amortized using the straight-line method over the life of the new bonds and is reported in the accompanying statements of net position as component of deferred outflow of resources. As of September 30, 2014, \$1,861,477 remained as a deferred outflow to be amortized.

**(b) 2002B Harbor Revenue Bonds**

The City of Long Beach Harbor Revenue Bonds Series 2002B (the 2002B Bonds) are secured by the Department's gross revenues. The 2002B Bonds were remarketed in the principal amount of \$144,240,000 and are dated June 26, 2002, the date of delivery of the original bonds. The bonds are defeased in fiscal year 2014 and the liability for those bonds has been removed from the Department's statements of net position.

**(c) 2004 Harbor Revenue Refunding Bonds**

The 2004 Bonds, dated March 10, 2004, amounting to \$113,410,000 were issued to refund and to defease all of the City's Harbor Revenue Bonds Series 1993, to pay the premium for the Bond Insurance Policy, to fund the Series 2004 Reserve Fund, and to finance the costs of issuance of the Series 2004 Bonds. The bonds are defeased in fiscal year 2014 and the liability for those bonds has been removed from the Department's statements of net position.

**(d) 2005 Harbor Revenue Refunding Bonds**

The City of Long Beach Harbor Revenue Refunding Bonds Series 2005A & B (the 2005 Bonds) are secured by the Department's gross revenues. The 2005 Bonds, dated March 23, 2005, amounting to \$257,975,000 were issued to refund and to defease all of the City's Harbor Revenue Bonds Series 1995 (1995 Bonds), to pay the premium for the Bond Insurance Policies, to fund a repayment reserve for the Series 2005 Bonds, and to finance the costs of issuance of the Series 2005 Bonds. The 1995 Bonds are defeased and the liability for those bonds was removed from the Department's statements of net position.

Serial bonds aggregating to \$105,595,000 are outstanding and are set to mature on May 15 of each year from 2015 to 2025 in amounts ranging from \$3,330,000 to \$16,815,000 with interest payable semiannually on May 15 and November 15 at coupon rates of 5.0%.

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The Series 2005 Bonds maturing on or before May 15, 2015 are not subject to call and redemption prior to maturity. The Series 2005 Bonds maturing on or after May 15, 2016 are subject to call and redemption prior to maturity, at the option of the Board, as a whole or in part on any date, on or after May 15, 2015, at a redemption price equal to 100% of the principal amount of the Series 2005 Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium.

The refunding of the 1995 Bonds resulted in a difference between the reacquisition price and net carrying amount on the old debt of \$3,962,756. This difference is amortized using the straight-line method over the life of the new bonds and is reported in the accompanying statements of net position as component of deferred outflow of resources. As of September 30, 2014, \$3,251,635 remained as a deferred outflow to be amortized.

Funds have been allocated at September 30 to the respective accounts in conformity with the bond resolution as follows:

	<u>2014</u>	<u>2013</u>
Service account (amount reserved to meet current debt service requirements)	\$ 6,549,281	6,549,375
Reserve account (amount reserved for maximum annual debt service requirements)	<u>16,654,090</u>	<u>16,618,840</u>
	<u>\$ 23,203,371</u>	<u>23,168,215</u>

*(e) 2010A Harbor Revenue Bonds*

The City of Long Beach Harbor Revenue Bonds Series 2010A (the 2010A Bonds) are secured by the Department's gross revenues. The 2010A Bonds, dated March 31, 2010, amounting to \$200,835,000 were issued to finance certain capital improvements at the Port, to fund a reserve fund for the Series 2010A Bonds, and to pay the costs of issuing the Series 2010A Bonds.

Serial bonds aggregating to \$160,175,000 will mature on May 15 of each year from 2015 to 2025 in amounts ranging from \$11,470,000 to \$18,285,000 with interest payable semiannually on May 15 and November 15 at coupon rates ranging 3.0% to 5.0%.

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

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Funds have been allocated at September 30 to the respective accounts in conformity with the bond resolution as follows:

	<u>2014</u>	<u>2013</u>
Service account (amount reserved to meet current debt service requirements)	\$ 7,204,800	7,105,331
Reserve account (amount reserved for maximum annual debt service requirements)	<u>19,248,332</u>	<u>19,304,262</u>
	<u>\$ 26,453,132</u>	<u>26,409,593</u>

**(f) 2010B Harbor Revenue Refunding Bonds**

The City of Long Beach Harbor Revenue Refunding Bonds Series 2010B (the 2010B Bonds) are secured by the Department's gross revenues. The 2010B Bonds, dated April 29, 2010, amounting to \$158,085,000 were issued to refund \$63,060,000 aggregate principal amount of the City's Harbor Revenue Bonds, Series 2002B, \$12,105,000 aggregate principal amount of the City's Harbor Revenue Refunding Bonds, Series 2004A, and \$78,410,000 aggregate principal amount of the City's Harbor Revenue Refunding Bonds, Series 2005A, to fund a reserve fund for the Series 2010B Bonds; and to pay the costs of issuing the Series 2010B Bonds.

This difference is amortized using the straight-line method over the life of the new bonds and is reported in the accompanying statements of net position as of September 30, 2014. The remaining balance of \$4,479,889 is to be amortized in the statements of net position as component of deferred outflow of resources.

Serial bonds aggregating to \$136,365,000 will mature on May 15 of each year from 2015 to 2027 in amounts ranging from \$130,000 to \$24,000,000 with interest payable semiannually on May 15 and November 15 at coupon rates ranging from 4.0% to 5.0%.

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

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Funds have been allocated at September 30 to the respective accounts in conformity with the bond resolution as follows:

	<u>2014</u>	<u>2013</u>
Service account (amount reserved to meet current debt service requirements)	\$ 3,356,625	3,357,281
Reserve account (amount reserved for maximum annual debt service requirements)	<u>15,958,268</u>	<u>15,942,649</u>
	<u>\$ 19,314,893</u>	<u>19,299,930</u>

**(g) 2014A Harbor Revenue Refunding Bonds**

The City of Long Beach Harbor Revenue Senior Bonds Series 2014A (the 2014A Bonds) are secured by the Department's gross revenues. The 2014A Senior Bonds, dated April 24, 2014, amounting to \$38,465,000 were issued in conjunction with the 2014B Senior Bonds described below to (a) (i) refund all of the City of Long Beach, California, Harbor Revenue Bonds, Series 2002B, which were outstanding in the aggregate principal amount of \$43,405,000, (a) (ii) the City of Long Beach, California, Harbor Revenue Refunding Bonds, Series 2004A, which were outstanding in the aggregate principal amount of \$13,140,000, and (a) (iii) the City of Long Beach, California, Harbor Revenue Refunding Bonds, Series 2004B, which were outstanding in the aggregate principal amount of \$32,045,000 (collectively, the Refunded Bonds), and (b) pay the costs of issuing the 2014A Bonds.

This difference is amortized using the straight-line method over the life of the new bonds and is reported in the accompanying As of September 30, 2014, \$2,273,338 remained as a deferred inflow to be amortized in the statements of net position as component of deferred inflow of resources,

Serial bonds aggregating to \$38,465,000 will mature on May 15 of each year from 2015 to 2017 in amounts ranging from \$12,775,000 to \$12,960,000 with interest payable semiannually on May 15 and November 15 at coupon rates ranging from 2.0% to 5.0%.

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

Funds have been allocated at September 30 to the respective accounts in conformity with the bond resolution as follows:

	<u>2014</u>
Service account (amount reserved to meet current debt service requirements)	\$ 8,129,968
	<u>\$ 8,129,968</u>

**(h) 2014B Harbor Revenue Refunding Bonds**

The City of Long Beach Harbor Revenue Senior Bonds Series 2014B (the 2014B Bonds) are secured by the Department's gross revenues. The 2014B Bonds, dated April 24, 2014, amounting to

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\$20,570,000 were issued in conjunction with the 2014A Bonds described above to refund all of (a) (i) the City of Long Beach, California, Harbor Revenue Bonds, Series 2002B, which were outstanding in the aggregate principal amount of \$43,405,000, (a) (ii) the City of Long Beach, California, Harbor Revenue Refunding Bonds, Series 2004A, which were outstanding in the aggregate principal amount of \$13,140,000, and (a) (iii) the City of Long Beach, California, Harbor Revenue Refunding Bonds, Series 2004B, which were outstanding in the aggregate principal amount of \$32,045,000 (collectively, the Refunded Bonds), and (b) pay the costs of issuing the 2014 Bonds.

Serial bonds aggregating to \$20,570,000 will mature on May 15 of each year from 2017 to 2027 in amounts ranging from \$940,000 to \$7,650,000 with interest payable semiannually on May 15 and November 15 at coupon rates ranging from 3.0% to 5.0%.

This difference is amortized using the straight-line method over the life of the new bonds and is reported in the accompany As of September 30, 2014, \$689,625 remained as a deferred inflow to be amortized in the statements of net position as component of deferred inflow of resources,

The 2014B Bonds maturing on or before May 15, 2024 are not subject to redemption prior to maturity. The 2014B Bonds maturing on or after May 15, 2025 are subject to redemption prior to maturity, at the option of the Board, as a whole or in part on any date, on or after May 15, 2024, at a redemption price equal to 100% of the principal amount of the 2014B Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemptions without premium.

Funds have been allocated at September 30 to the respective accounts in conformity with the bond resolution as follows:

	<u>2014</u>
Service account (amount reserved to meet current debt service requirements)	\$ 1,064,920
	<u>\$ 1,064,920</u>

**(11) Retirement Programs**

**(a) Pension Plan**

The Department participates on a cost-sharing basis with the City in CalPERS, a defined-benefit, agent multiple-employer pension system that acts as a common investment and administrative agent for entities in California. The system also provides death and disability benefits.

The Department is billed by the City for its share of pension costs based upon rates established by CalPERS for the City's general employees. CalPERS does not calculate a separate pension obligation for the Department; therefore, no separate Department obligation can be presented herein. The Department paid \$5,998,239, \$6,676,859, and \$7,358,017 to the City, which was equal to its annual required contribution for fiscal years 2014, 2013, and 2012, respectively.

As employees of the City, the Department's full-time employees are eligible to participate in CalPERS, becoming vested in the system after five years of service. Upon vesting, employees on tier 1 (those



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hired on or before October 20, 1989) and who retire at age 55 are entitled to receive an annual retirement benefit, payable for life, in an amount not to exceed 2.7% (with up to a 5.0% annual Cost of Living Adjustment (COLA) increase) of their highest paid year of employment for each year of credited service. Employees on tier 2 (those hired after October 20, 1989 but before October 1, 2006) and who retire at age 55 are entitled to receive an annual retirement benefit, payable for life, in an amount not to exceed 2.7% (with up to a 2.0% annual COLA increase) of their highest paid year of employment for each year of credited service. The City created tier three for employees hired after October 1, 2006. Vested tier 3 employees who retire at age 55 are entitled to receive an annual retirement benefit, payable for life, in an amount equal to 2.5% (with up to a 2.0% annual COLA increase) of their highest paid year of employment for each year of credited service.

#### **Plan Description – Public Employees’ Retirement System (CalPERS)**

The City contributes to CalPERS, an agent multiple-employer public employee defined-benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State. Benefit provisions and all other requirements are established by state statute and city ordinance. A copy of CalPERS’ annual financial report may be obtained from its executive office at 400 P. Street, Sacramento, California 95814. Since CalPERS is on a fiscal year ending June 30th, all actuarial calculations for the City’s retirement plan are made on a fiscal year ending June 30th, which differs from the City’s September 30th fiscal year-end.

Under the terms of the contract between CalPERS and the City, all full-time employees are eligible to participate in CalPERS and become vested in the system after five years of service. The City has a multiple-tier retirement plan with benefits varying by plan.

“Classic” Safety: Vested first and second tier safety employees who retire at age 50 are entitled to receive an annual retirement benefit, payable monthly for life, in an amount equal to three percent of the employee’s highest paid year of employment for each year of credited service. Third tier police and fire employees are entitled to receive an annual retirement benefit, payable monthly for life, in an amount equal to two percent of the employee’s highest paid year of employment for each year of credited service. Retirees under the first tier are eligible to receive a maximum annual five percent cost-of-living increase while those under the second tier are eligible to receive a maximum annual two percent cost-of-living increase.

“New” Safety: Effective January 1, 2013, safety employees who are either new to CalPERS or who have had a break in CalPERS service of at least six months, and who retire at age 57, are entitled to receive an annual retirement benefit, payable monthly for life, in an amount equal to 2.7% of their highest average annual pensionable compensation earned during a period of at least 36 consecutive months for each year of credited service. For fiscal year 2014, salaries are capped at \$117.0 thousand. The salary cap is permitted to be adjusted based on changes in the CPI for all urban areas.

“Classic” Miscellaneous: Vested first and second tier nonsafety employees who retire at age 55 are entitled to receive an annual retirement benefit, payable monthly for life, in an amount equal to 2.7% of their highest paid year of employment for each year of credited service. The City created tier three for nonsafety employees hired after October 1, 2006. Vested tier three nonsafety employees who retire

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at age 55 are entitled to receive an annual retirement benefit, payable monthly for life, in an amount equal to 2.5% of their highest paid year of employment for each year of credited service. Retirees under the first tier are eligible to receive a maximum annual five percent cost-of-living increase while those under the second and third tier are eligible to receive a maximum annual two percent cost-of-living increase.

“New” Miscellaneous: Effective January 1, 2013, miscellaneous nonsafety employees who are either new to CalPERS or who have had a break in CalPERS service of at least 6 months, and who retire at age 62, are entitled to receive an annual retirement benefit, payable monthly for life, in an amount equal to 2.0% of their highest average annual pensionable compensation earned during a period of at least 36 consecutive months for each year of credited service. For fiscal year 2014, salaries are capped at \$117.0 thousand. The salary cap is permitted to be adjusted based on changes in the CPI for all urban areas.

Audited annual financial statements and 10-year trend information are available from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

#### ***Funding Policy***

CalPERS is a contributory plan deriving funds from employee and employer contributions as well as earnings from investments. The actuarial funding method used for the retirement program is the Entry Age Normal Cost Method. Under this method, projected benefits are determined for all members and the associated liabilities are spread in a manner that produces level annual cost as a percent of pay in each year from the age of hire (entry aged) to the assumed retirement age. The cost allocated to the current fiscal year is called the normal cost.

The actuarial accrued liability for active members is then calculated as the portion of the total cost of the plan allocated to prior years. The actuarial accrued liability for members currently receiving benefits, for active members beyond the assumed retirement age, and for members entitled to deferred benefits, is equal to the present value of the benefits expected to be paid. No normal costs are applicable for these participants.

The excess of the total actuarial accrued liability over the actuarial value of plan assets is called the unfunded actuarial accrued liability. Funding requirements are determined by adding the normal cost and an amortization of the unfunded liability as a level percentage of assumed future payrolls. If a plan's accrued liability exceeds the actuarial value of assets, the annual contribution with respect to the total unfunded liability may not be less than the amount produced by a 30-year amortization of the unfunded liability.

For fiscal year 2015, CalPERS will no longer use an actuarial value of assets as part of the City's annual contribution rate calculation. The new amortization and smoothing policy will spread rate increases or decreases over a five-year period, and will amortize all experience gains and losses over a fixed 30-year period. The rate increases reported below for fiscal year 2015 reflect the effect of this revised approach.

For the fiscal year ended September 30, 2014, all Safety and Miscellaneous plan participants contribute 9.0% and 8.0% of their annual covered salary, respectively. In addition, the City is required to

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contribute at an actuarially determined rate applied to annual covered payroll. The rates applicable to fiscal year 2014 were 15.324% for miscellaneous employees and 22.623% for safety employees. For fiscal year 2015, the contribution rates will be 16.288% for miscellaneous employees and 24.059% for safety employees. The contribution requirements of plan members and the City are established by and may be amended by CalPERS.

***Annual Pension Cost***

For fiscal year 2014, the City's annual pension cost (APC) of \$62.8 million for CalPERS was equal to the City's annual required contribution (ARC) of \$91.4 million less employee contributions of \$28.6 million. The ARC was determined as a part of the June 30, 2011 actuarial valuations.

The City's APC, the percentage of APC contributed to the plans, and the net pension obligation for the miscellaneous and safety plans for the fiscal years ended September 30, 2012, 2013, and 2014 are as follows (dollars in thousands):

<b>Fiscal year</b>	<b>Miscellaneous annual pension cost</b>	<b>Safety annual pension cost</b>	<b>Annual pension cost (APC)</b>	<b>Percentage contribution</b>
2012	\$ 47,436	29,441	76,887	100%
2013	38,483	29,014	67,497	100
2014	33,856	28,952	62,808	100

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***Actuarial Methods and Assumptions***

A summary of principal assumptions and methods used to determine the annual required contribution rate for fiscal year 2014 for miscellaneous and safety employees is shown below:

	<u>Assumptions</u>
Valuation date	June 30, 2011
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll
Amortization period	Closed
Average remaining period	27 Years for miscellaneous and 28 years for safety as of the valuation date
Asset valuation method	15-Year smoothed market
Actuarial assumptions:	
Investment rate of return	7.50% (net of administrative expenses)
Projected salary increases	3.30% to 14.20% depending on age, service, and type of employment
Inflation	2.75%
Payroll growth	3.00%
Individual salary growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 2.75% and an annual production growth of 0.25%.

The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for pension benefits.

***Funded Status and Funding Progress***

As of June 30, 2013, the most recent actuarial valuation date, the funding status for the miscellaneous and safety plans were as follows (dollars in thousands):

<u>Plan</u>	<u>Actuarial value of assets (a)</u>	<u>Actuarial accrued liability (AAL) – entry Age (b)</u>	<u>Unfunded AAL (UAAL) (Excess of assets over AAL) (b-a)</u>	<u>Funded ratio actuarial value basis (a/b)</u>	<u>Covered payroll (c)</u>	<u>UAAL as a percentage of covered payroll ((b-a)/c)</u>
Miscellaneous	\$ 1,652,793	2,143,507	490,714	77.1%	\$ 219,853	223.2%
Safety	1,659,337	2,002,964	343,627	82.8	121,770	282.2

Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continual revision as actual results are compared with the past expectations and new estimates are made about the future.

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The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, presents multiyear trend information, which shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The initial unfunded actuarial accrued liability (or excess assets) associated with these retirement plans is being amortized as a level percentage of projected payroll on a closed basis.

### ***Plan Description – Public Agency Retirement System – Defined-Benefit Plan***

In November 1994, the City established Public Agency Retirement System (PARS) Defined-Benefit Plans for Special Status Contractors and Seasonal and Temporary Employees (The Plans). During fiscal year 2003, the Plans were reported under a combined plan (The Plan). The Plan is a defined-benefit, single-employer retirement plan. The Plan, which took effect on January 1, 1995, is administered for the City through a third-party administrator. The Plan provides for retirement as well as death and disability benefits to eligible individuals and their beneficiaries.

The plan benefit is a lifetime monthly annuity equal to 1.5% times the final average of the participant's highest 36 consecutive month's salary times the years of service. The Plan requires employee contributions of 6.2% of earnings (Contractors Special Status) and 3.0% of earnings (Seasonal and Temporary Employees). All employees enter the Plan upon hire and all benefits are vested after five years of service (Contractors Special Status) or immediately (Seasonal and Temporary Employees) and employees are always vested in their employee contributions. It is assumed that upon termination, employees will choose to receive an actuarially equivalent lump sum (based on the actuarial assumptions described below). Audited annual financial statements are available from PARS Public Agency Retirement Services, 4350 Von Karman Avenue, Ste. 100, Newport Beach, CA 92660.

### ***Funding Policy and Annual Pension Cost***

The City's funding policy is to make the contribution as determined by the Plan's actuary valuation date. The following information describes the calculation methodology:

- The Plan's APC for the fiscal year ended September 30, 2014 is based on the period from October 1, 2012 to September 30, 2013. The APC for fiscal year ended September 30, 2014, is \$334 thousand, the same amount contributed for this period.
- The actuarial liabilities and assets are valued as of September 30, 2013.
- The actuarial-cost method used is the projected-unit-credit method. Under this method, the contribution rate is the sum of the normal cost rate plus the unfunded actuarial liability rate. The normal cost is defined as the actuarial present value of benefits allocated to the valuation year and the actuarial accrued liability is the present value of benefits allocated to all periods prior to the valuation year. The normal cost rate is determined by dividing the normal cost by expected covered payroll.

In determining the Plan's actuarial accrued liability, the projected benefit of each participant must be allocated between past years and future years. This allocation is made by multiplying the projected benefit by a fraction, the numerator of which is the participant's total credited years of service on the valuation date, and the denominator is the participant's total credited years of service at anticipated benefit commencement.

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The unfunded actuarial liability is the difference between the actuarial accrued liability and plan assets. This difference is amortized as a level dollar amount to determine the unfunded actuarial liability rate. The actuarial value of plan assets is based on a five-year smoothing of gains and losses. The net pension obligation information below is based on periods from October 1 through September 30:

<b>Fiscal year</b>	<b>Annual pension costs</b>	<b>Actual contribution</b>	<b>Percentage contribution</b>	<b>Net pension obligation</b>
2012	\$ 113,320	113,320	100	—
2013	161,072	161,072	100	—
2014	333,525	333,525	100	—

***Funded Status and Funding Progress***

As of the most recent actuarial valuation date, September 30, 2012, the Plan’s funding status was (dollars in thousands):

<b>Plan</b>	<b>Actuarial value of assets (a)</b>	<b>Actuarial accrued liability (AAL) – entry age (b)</b>	<b>Unfunded AAL (UAAL) (Excess of assets over AAL) (b-a)</b>	<b>Funded ratio actuarial value basis (a/b)</b>	<b>Covered payroll (c)</b>	<b>UAAL as a percentage of covered payroll ((b-a)/c)</b>
PARS	\$ 1,113	1,633	520	68.2%	8,329	6.2%

***Actuarial Methods and Assumptions***

The following is a summary of September 30, 2013 actuarial assumptions:

Interest rate 4.75%  
 Actuarial cost method Entry age normal cost method  
 Mortality 1983 Group annuity mortality (GAM83) table.

Turnover Sample rates are:

<b>Age</b>	<b>Turnover</b>
30	15%
40	15
50	10
60	5

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Seasonal and temporary employees' first five years of service assume the following turnover rates:

	<u>Years of service</u>	<u>Turnover</u>
	—	50%
	1	35
	2	30
	3	25
	4	20
Salary scale	5.0%	
Inflation	3.0%	
Amortization period	Closed	
Average remaining period	10 years	
Retirement age	Age 65 or attained age, if older.	
Form of benefit	Participants are assumed to receive a lump sum upon termination.	

**(b) *Postretirement Healthcare Benefits***

**General Plan Description**

The City's Retired Employees Health Insurance Program is a single-employer defined-benefit healthcare plan. Information is not available separately for the Harbor Department as to the cost of benefits funded, the actuarially computed present value of vested and nonvested accumulated plan benefits, the related assumed rates of return used, and the actuarially computed value of vested benefits over the related OPEB assets. The below disclosures relate to the City of Long Beach. The Harbor Department contributes pay-as-you-go costs annually to the City through the Employer Benefit Internal Service Fund. Refer to the City's Comprehensive Annual Financial Report as of September 30, 2014 for more information.

Under the provisions of the City's Personnel Ordinance, upon retirement, the City allows retirees, their spouses, and eligible dependents to use the cash value at retirement of the retiring employee's accumulated unused sick leave to pay for health, dental, and long-term care insurance premiums. Full-time City employees are entitled to receive up to 96 hours of sick leave per year. Unused sick leave may be accumulated until termination or retirement. No sick leave benefits are vested.

The City has provided two onetime early retirement incentive programs. The first had a maximum value of \$25 thousand for employees, based on age, who retired during calendar year 1996, and the second incentive offered a 16-hour increase in sick leave per year of service to management employees who retired by June 30, 2004. In all cases, once the cash value of the retired employee's unused sick leave is exhausted, the retiree can terminate coverage or elect to continue paying the premiums at the retiree's expense.

At September 30, 2014, there were 588 participants in the City's Retired Employees Health Insurance Program and their noninterest-bearing cash value equivalent of the remaining unused sick leave totaled \$19.3 million. Total premiums and actual claims paid by the City under the Retired Employees Health

## THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

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Insurance Program for the fiscal year ended September 30, 2014 were \$7.5 million and are included as an expense of the Employee Benefits Internal Service Fund.

### **Termination Benefits**

As of September 30, 2014, the City has recorded a liability in the Employee Benefits Internal Service Fund of \$133.7 million based on an actuarial study of current and future retiree accumulated sick leave in accordance with GASB Statement No. 16, *Accounting for Compensated Absences* (GASB 16). The liability takes into account an estimate of future usage, additional leave accumulation, and wage increases for both current retirees and active employees, an additional amount relating to the sick leave incentive for employees who retired during calendar year 1996 and 2009 negotiated public safety health benefit supplements as described below.

### **Fire Retirement Supplement Benefit**

The Long Beach Fire Fighter's Association agreed to defer an October 1, 2009 general salary adjustment to October 1, 2010 and to extend all other adjustments by one year. The supplement eligibility is limited to Fire employees retiring on or before December 31, 2009. The benefit formula is equal to the difference between CalPERS retirement had the October 1, 2009 general salary adjustment been made for a full year and actual retirement benefits received by CalPERS. The supplement is credited annually to retirees Health account and is adjusted by CalPERS cost-of-living adjustment (COLA). Each account will be adjusted as long as retirees or beneficiaries are receiving CalPERS.

### **Police Retirement Supplement Benefit**

The Long Beach Police Officers Association agreed to extend a September 30, 2009 midpoint adjustment of 3.2% for sergeants, 14.8% for lieutenants, and 9.3% for corporals and officers, to a 2.0% minimum increase per year. The midpoint adjustment is based on the Strategic Plan Cities Survey of salaries in similar cities. The supplement eligibility is limited to employees retiring on or after September 30, 2009 and before benefits level reaches what it would have been had the September 30, 2009 adjustment been made. The benefit formula is equal to the difference between CalPERS retirement had the September 30, 2009 midpoint adjustment been made and actual retirement benefits received by CalPERS. The supplement is credited annually to retirees Health account and is adjusted by CalPERS cost-of-living adjustment (COLA). Each account will be adjusted as long as retiree or beneficiaries are receiving CalPERS.

The actuarial study assumes an investment return of 4.3%; wage increases of 3.3% per year for safety employees. The estimated current portion of such obligation of \$9.1 million has been fully funded and the long-term portion of the liability of \$124.7 million is being funded, over time, through burden rates charged to the various City funds, applied as a percent of current productive salaries.

### **Other Postemployment Benefits**

The City has also recorded a liability in the Employee Benefits Internal Fund of \$59.2 million based on an actuarial study of the "implicit subsidy" as defined by GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45), as of September 30, 2014. While the City does not directly contribute any funding towards the cost of



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premiums for retirees, the ability to obtain coverage at an active employees rate constitutes an economic benefit to the retirees. The inclusion of the retirees in the City’s healthcare benefit plans increases the overall health plan rates. The economic benefit is defined as an “implicit subsidy” under GASB 45.

The ability to participate in the City’s plan by self-paying the premiums extends for the lifetime of the retiree. However, upon attaining the age of Medicare eligibility, the retiree may enter a plan coordinated by Medicare. Standard actuarial practice assumes that Medicare supplemental plans do not generally give rise to an implicit subsidy, and while the City has included Medicare eligible retirees in this valuation, their liability under GASB 45 and their implicit subsidy are both \$0. This plan does not issue a separate financial report.

**Funding Policy**

The contribution requirement of plan members and the City are established and may be amended by the City. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the City Council. As of September 30, 2014, the City has not prefunded the plan.

**Annual OPEB Cost and Net OPEB Obligation**

The City’s annual Other Postemployment Benefit (OPEB) cost (expense) is calculated based on the ARC, an amount that is actuarially determined in accordance with the requirements of GASB 45.

The ARC represents the level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the City’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation (in thousands):

Annual required contribution	\$	19,540
Interest on net OPEB obligation		1,812
Adjustment to annual required contribution		(2,191)
Annual OPEB cost		<u>19,161</u>
Contribution made		<u>(5,196)</u>
Increase in net OPEB obligation		13,965
Net OPEB obligation – beginning of year		<u>45,242</u>
Net OPEB obligation – end of year	\$	<u><u>59,207</u></u>

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The ARC was determined as part of the September 2014 actuarial valuation. For the year ended September 30, 2014, the City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows (in thousands):

<u>Fiscal year ended</u>	<u>OPEB Cost annual</u>	<u>Percentage of annual OPEB Cost contributed</u>	<u>Obligation net OPEB</u>
September 30, 2012	\$ 13,486	—	35,514
September 30, 2013	14,437	—	45,242
September 30, 2014	19,161	—	59,207

**Funded Status and Funding Progress**

The funded status of the plan as of September 30, 2014 as follows (in thousands):

Actuarial accrued liability (AAL)	\$ 142,598
Actuarial value of plan assets	—
Unfunded actuarial accrued liability (UAAL)	<u>\$ 142,598</u>
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll	\$ 335,691
UAAL as a percentage of covered payroll	42.5%
ARC as a percentage of covered payroll	5.8

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Actuarial Methods and Assumption**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

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The September 30, 2014 actuarial valuation used the Entry Age Normal Cost method. The actuarial assumptions included a 4.3% investment rate of return (net of administrative expenses), an annual healthcare trend rate that begins at 7.5% for non-Medicare plans and 7.8% for Medicare plans with both decreasing to 5.0% for all plans by September 30, 2021, and an inflation assumption of 3.0%. The Entry Age Normal (EAN) cost method spreads plan costs for each participant from entry date to the expected retirement date. Under the EAN cost method, the plan's normal cost is developed as a level amount over the participants' working lifetime. The actuarial value of plan assets was \$0. The plan's unfunded actuarial accrued liability is being amortized using the level percentage of payroll method on an open basis over 30 years.

**(c) *Deferred Compensation Plan***

The City offers its employees the option to participate in a deferred compensation plan created in accordance with Internal Revenue Code Section 457 allowing them to defer or postpone receipt of income. Amounts deferred may not be paid to the employee during employment with the City except for a catastrophic circumstance creating an undue financial hardship for the employee. Further information regarding the City's deferred compensation plan may be found in the City's Comprehensive Annual Financial Report for the years ended September 30, 2014 and 2013.

**(12) Operating Leases**

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

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

Property under lease at September 30 consisted of the following:

	<u>2014</u>	<u>2013</u>
Land	\$ 798,415,189	797,233,148
Docks and wharves	690,615,888	501,883,155
Warehouses and sheds	45,614,107	45,614,107
Cranes and shiploaders	173,780,673	173,780,673
Buildings and other facilities	514,846,409	401,017,891
Infrastructure	<u>1,252,886,066</u>	<u>940,437,591</u>
Historical cost of leased property	3,476,158,332	2,859,966,565
Less accumulated depreciation	<u>(1,164,430,349)</u>	<u>(1,062,594,985)</u>
Book value of leased property	<u>\$ 2,311,727,983</u>	<u>1,797,371,580</u>

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

Year(s) ending September 30:	
2015	\$ 288,797,000
2016	294,437,000
2017	302,960,000
2018	302,960,000
2019	302,960,000
2020–2024	1,344,412,000
2025–2029	834,139,000
2030–2034	273,704,000
2035 and thereafter	919,173,000
Total	<u>\$ 4,863,542,000</u>

**(13) Investment in Joint Venture**

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

The Department and the Harbor Department of the City of Los Angeles (the Venturers) entered into a joint venture agreement to form ICTF for the purposes of financing and constructing an intermodal container transfer facility (the Facility) to transfer cargo containers between trucks and railroad cars. The Facility has been leased to Southern Pacific, now merged with Union Pacific (the Tenant). The Facility was developed by the Tenant who assumed operational responsibility for the Facility. The Venturers' share net income and equity distributions from ICTF equally. The Department's share of the ICTF's net position at September 30, 2014 and 2013 totaled \$4,856,537 and \$3,216,783 respectively. Separate ICTF financial statements for the year ended June 30, 2014 can be obtained from the Department.

**(14) Commitments and Contingencies**

The Department is subject to claims and lawsuits arising from the normal course of business. The City Attorney's office evaluates these claims on a regular basis. Department management may make provision for probable losses if deemed appropriate on advice of legal counsel. To the extent that such provision for damages is considered necessary, appropriate amounts are reflected in the accompanying financial statements.

Based upon information obtained from the City Attorney with respect to remaining cases, it is the opinion of management that the estimated liability for unreserved claims and suits will not have a material impact on the financial statements of the Department. Contract commitments and purchase orders for which materials or services were not received at September 30, 2014 and 2013 aggregated \$79,760,022 and \$82,582,507, respectively.

**(a) Risk Management**

The Department currently carries an all-risk property insurance program covering loss or damage by fire and other risks (excluding earthquake and flood) with a loss limit of \$1,415,000,000. The coverage also includes terrorism exposure. The Department also carries two Builder's Risk insurance programs,

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which cover property under construction in the Port. One policy, specific to the construction of the Gerald Desmond Bridge replacement, has an overall policy limit of \$649,500,000 that includes an earthquake limit of \$65,000,000. The second policy is a master builder's risk insurance program that covers all other Port of Long Beach construction projects currently underway. The coverage limit for each construction project in this program is equivalent to the contract's bid price.

To address third-party liability exposure, an excess liability insurance program is carried by the Department with total limits of \$150,000,000 in excess of \$1,000,000 self-insured retention. The excess liability insurance program covers the Department's operations and includes acts of terrorism within the \$150,000,000 limit. In addition, the Department carries specialized insurance policies providing coverage for damage to owned vessels, damage to other vessels, and pollution liability.

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

Following is a summary of insurance coverage for the Harbor Department:

	<u>2014</u>	<u>2013</u>
Insurance coverage for fire and other risks	\$ 1,415,000,000	1,415,000,000
Builder's risk	649,500,000	649,500,000
Comprehensive general liability	150,000,000	150,000,000
Self-insured retention	1,000,000	1,000,000

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

The Department participates in the City's self-insured workers' compensation program. During fiscal years 2014 and 2013, it made payments to the City's Insurance Fund totaling \$1,682,120 and \$1,345,005, respectively, for permanent and temporary Department employees. Amounts in the City's Insurance Fund are accumulated to meet losses as they arise.

Claims expenditures and liabilities are reported when it is probable that a loss has been incurred and the amount of that loss, including those incurred but not reported, can be reasonably estimated. Based on an opinion from legal counsel, the Department recognized litigation claim liabilities of \$6,961,000 and \$14,000,000 for fiscal years 2014 and 2013, respectively.

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

The Alameda Corridor Use and Operating Agreement was executed by the Department, the Harbor Department of the City of Los Angeles (Port of Los Angeles), the ACTA, and the Burlington Northern Santa Fe and Union Pacific Railroads (the railroads). This agreement provides for a payment of funds, known as a "Shortfall Advance," to be made, under certain circumstances, to ACTA by the Department and the Port of Los Angeles. Revenues generated by Use Fees and Container Charges, paid by the

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railroads, will be used to pay debt service on ACTA financing, to establish and maintain bond repayment and reserve funds, to establish and replenish a reserve account, and to pay ACTA's reasonable expenses relating to administration of the rail corridor.

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

Prior to April 1 of each year, ACTA is required to provide a Notice of Estimated Shortfall Advances and Reserve Account Funding (the Notice); estimates included in the Notice are dependent upon the accuracy of the assumptions used in their formulation. It is anticipated that there will be differences between estimates and actual results; the differences may be material. The most recent Notice date March 20, 2014 indicates that there is no projected shortfall for ACTA's fiscal year ended June 30, 2015. Any shortfall advance made by the Department and the Port of Los Angeles is reimbursable, with interest, by ACTA.

During 2012, ACTA closed a Railroad Rehabilitation and Improvement Financing (RRIF) Loan of \$83.7 million with the Federal Railroad Administration (FRA). This loan along with the refunding of ACTA's Series 1999A Tax-Exempt Senior Lien Revenue Bonds in January 2013 helps to reduce ACTA's debt service and is expected to defer the need for any additional shortfall advances into future years. The Department has funded, in prior years, a cash reserve to satisfy claims related to the shortfall advance potential obligation. The balance of \$5.9 million remained unchanged as of September 30, 2014 and 2013

(c) ***Gerald Desmond Bridge Replacement Project***

The Gerald Desmond Bridge Replacement Project consists of replacing the existing four-lane Gerald Desmond Bridge, which spans the Port's Main Channel, with a new six-lane bridge. Currently, the Gerald Desmond Bridge is only two lanes in each direction with no shoulder and, depending on tide conditions, is too low to accommodate passage of the largest ships. The new bridge is being built with a cable-stayed design under a design-build contract and will feature three lanes in each direction for improved traffic flow, emergency lanes on both the inner and outer shoulders in each direction to reduce traffic delays and safety hazards from accidents and vehicle breakdowns, a 200-foot vertical clearance to accommodate the world's largest vessels, a reduction in the bridge's steep grades, and a bicycle/pedestrian path with scenic overlooks. Additional improvements include reconstruction of the Terminal Island East Interchange and a new interchange with the 710 Freeway. Construction of the new bridge began in 2014 and is expected to be completed by the end of 2016.

The bridge budget is \$1.263 billion and is a joint effort between Caltrans and the Harbor Department. The Harbor Department anticipates that funding of the project will come from numerous sources, including, federal and State grants, and state sources, but local matching funds will also be required. Commitments from these funding sources total \$846.2 million and are available as reimbursement for expenditures on the bridge project. As these expenditures are incurred, amounts eligible for reimbursement from the funding sources are recognized as capital grant revenues in the accompanying statements of revenues, expenses, and change in net position. As of September 30, 2014, the Harbor

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Department has incurred approximately \$571.3 million in costs to construct the replacement bridge or an increase of \$132.6 million from September 30, 2013. Of this total amount, approximately \$356.0 million has been recognized as capital grant revenue from inception, with \$63.4 million reported as part of due from other governmental agencies on the statement of net position as of September 30, 2014.

Upon completion of the Gerald Desmond Bridge Replacement Project, the agreement with CalTrans provides for transfer of ownership of the new bridge to CalTrans assuming all conditions of the agreement are met. Additionally, the 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 new bridge is transferred to CalTrans.

**(d) Airport Plaza Headquarters**

The Department entered into a 39-nine year agreement in December 2013 with the City of Long Beach for property located at 4801 Airport Plaza Drive, Long Beach, California at an annual rate of \$250,000 or a total of \$9.8 million for 39 years. In conjunction with the agreement, the Department purchased the building at that location for \$18.2 million and refurbished it for an additional \$14.8 million. The land rent will be expensed as incurred and the improvements depreciated over their respective useful lives.

**(15) Transfers to the City of Long Beach**

The City Council, by authority of City Charter Chapter XII, Section 1209 (c)(4) as amended, and with the approval of the Board of Harbor Commissioners (the Board), adopted a resolution to transfer 5% of the Department's operating revenue to the City's Tidelands Operating Fund. The Department transferred \$17,844,001 and \$17,312,204 during fiscal years 2014 and 2013, respectively.

**(16) Environmental Mitigation Credits**

The Department disbursed \$39,395,000 in fiscal year 1997 to secure environmental mitigation credits that would allow the Department to complete projects within its complex. The cost incurred in the acquisition of the environmental credits has been classified as a noncurrent asset. The balance of environmental mitigation credits will be adjusted in the future as landfill credits are used for Port development.

Subsequently, an agreement between the Department, the Port of Los Angeles, and several federal and state regulatory agencies provided for the Department's purchase of land located within the wetlands restoration project at the Bolsa Chica Wetlands in Orange County, California. The land was purchased for an additional \$11,400,000 and transferred to the state in return for environmental mitigation credits to allow for the construction of landfill in the outer harbor area.

The Department has utilized \$7,558,739 of environmental credits for completed capital projects within the port boundaries to date. While no further acquisition of environmental credits or utilization of credits has occurred during the two years ended September 30, 2014, some existing credits will be used in completing the Middle Harbor project that is underway and projected for completion in fiscal year 2019; other credits will be used in future projects.

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Notes to Financial Statements

September 30, 2014 and 2013

**(17) Clean Air Action Plan (CAAP)**

In 2006, the Long Beach Board of Harbor Commissioners adopted the Green Port Policy, a commitment to reduce the Port’s impact on the environment and the community. In 2006, the Long Beach and Los Angeles Boards of Harbor Commissioners approved the San Pedro Bay Clean Air Action Plan (CAAP), which has led to major air-quality successes at both Ports. Diesel particulate matter, nitrogen oxides and sulfur oxides have been reduced by 81% from 2005 levels, based on 2013 emissions studies. The Plan includes the landmark Clean Truck Program (CTP), a successful changeover to a low emission truck fleet; the Green Flag Vessel Speed Reduction Program to reduce air pollution emissions from ships; the building of shore power facilities allowing ships to shut down diesel-fueled auxiliary engines and plug into electric power while at-berth known as cold-ironing and the use of the world’s first diesel-electric hybrid tugboats. CAAP revenue is generated predominately from fees paid by drayage truck operators in order to register their trucks and gain access to port terminals. CAAP expenses relate primarily to CTP lease subsidies for certain truck operators, as well the CAAP related administrative costs.

	<u>2014</u>	<u>2013</u>
Clean air action plan:		
Revenue	\$ 2,232,153	1,419,945
Expenses	<u>(4,706,079)</u>	<u>(4,839,473)</u>
Net program investment	<u>\$ (2,473,926)</u>	<u>(3,419,528)</u>

**(18) Deferred Outflows/Inflows**

In adopting GASB 65 in Fiscal Year 2013 and GASB 70 in Fiscal Year 2014, the Department deferred recognition of certain transactions that created assets (outflows) and liabilities (inflows).

*Outflows/Inflows* – The adoption of GASB 65 created deferrals of accounting gain and losses related to accumulative bond refunding activity from prior year bonds that were still outstanding as September 30, 2013. During the current year, new bond refunding activity created new deferrals that are listed below.

	<u>2014</u>	<u>2013</u>
Deferred outflows:		
Bond accounting losses	\$ 9,593,000	11,404,155
Deferred inflows:		
Bond accounting gains	2,962,963	—



**THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH**

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**(19) Net Position**

Net position is the difference between total assets and total liabilities. Increases or decreases in net position may indicate improvement or deterioration of the Department’s financial condition. The Department does not intend to liquidate capital assets to fund ongoing operations. Restricted assets are subject to external restrictions such as construction of capital assets, matching funding requirements for federally funded projects, repayment of long-term debt, and fulfillment of contractual obligations with third parties. Unrestricted net position is available to fund the Department’s continuing operations. As of September 30, 2014 and 2013, the Department’s net position was as follows:

	<u>2014</u>	<u>2013</u>
Net investment in capital assets	\$ 2,974,555,689	2,848,455,730
Restricted – capital projects	180,880,883	43,236,207
Restricted for debt service (note 10)	<u>17,937,624</u>	<u>18,418,117</u>
Total restricted	<u>3,173,374,196</u>	<u>2,910,110,054</u>
Unrestricted	<u>288,834,970</u>	<u>268,575,984</u>
Total unrestricted	<u>288,834,970</u>	<u>268,575,984</u>
Total net position	<u>\$ 3,462,209,166</u>	<u>3,178,686,038</u>

**(20) Subsequent Events**

The Department has evaluated subsequent events through March 27, 2015, the date the financial statements were available to be issued.

In December 2014, the Department’s Board of Harbor Commissioner’s (BHC) authorized the Department to enter into an agreement with the City of Long Beach to study a proposal by Plenary Edgemoor Civic Partners that would result in moving the Department from its current temporary headquarters. The agreement requires the Department to pay a Termination Fee in the event the Department through the BHC, unilaterally terminates the agreement and Plenary Edgemoor Civic Partners is not then in default. While there is no expectation of unilateral termination, future issues may arise that may compel the Department to choose to terminate the process. The Termination Fee amount is determined using a sliding scale, based on milestones being achieved by the preferred Project Team, with the highest possible Termination Fee amount of \$3.5 million, which would accrue at the point of approved entitlements. Any recommendation to terminate the agreement would be brought to the BHC for consideration and approval.

In addition to the Termination Fee, other costs related to the study will also be paid by the Department. The Department and the City will share costs, with the Department’s share at 50% or less. These costs will be incurred over time during the process and the shared costs are expected to be approximately \$5.6 million in total not including any Termination Fee. Therefore, the maximum Department shared cost with the City throughout the evaluation process is expected to be approximately \$6.3 million including any Termination Fee.



# Statistical Section

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Statistical Section

Statements of Net Assets – Last 10 Fiscal Years

(Millions of Dollars)  
(Unaudited)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b>Assets and deferred outflow:</b>										
Current	\$ 453	441	673	634	581	1,005	1,068	1,049	924	440
Deferred outflow line	10	11	13	—	—	—	—	—	—	—
Other	4,228	3,612	2,930	2,858	2,883	2,403	2,336	2,339	2,299	2,630
<b>Total assets and deferred outflow</b>	<b>\$ 4,691</b>	<b>4,064</b>	<b>3,616</b>	<b>3,492</b>	<b>3,464</b>	<b>3,408</b>	<b>3,404</b>	<b>3,388</b>	<b>3,223</b>	<b>3,070</b>
<b>Liabilities and deferred inflow:</b>										
Current	\$ 123	147	123	104	108	135	206	155	88	52
Current – restricted (1)	67	60	59	58	57	56	54	57	56	55
Deferred inflow line	2	—	—	—	—	—	—	—	—	—
Long term	1,037	678	641	678	751	791	841	1,033	1,097	1,135
<b>Total liabilities and deferred inflows</b>	<b>\$ 1,229</b>	<b>885</b>	<b>823</b>	<b>840</b>	<b>916</b>	<b>982</b>	<b>1,101</b>	<b>1,245</b>	<b>1,241</b>	<b>1,242</b>
<b>Net position</b>	<b>\$ 2,954</b>	<b>2,848</b>	<b>2,105</b>	<b>1,916</b>	<b>1,859</b>	<b>1,487</b>	<b>1,440</b>	<b>1,269</b>	<b>1,097</b>	<b>1,108</b>
Net investment in capital assets	199	62	157	178	208	197	153	208	300	279
Unrestricted	309	269	531	558	481	744	710	666	584	442
Contributed capital	—	—	—	—	—	—	—	—	—	—
Retained earnings	—	—	—	—	—	—	—	—	—	—
<b>Total net position</b>	<b>\$ 3,462</b>	<b>3,179</b>	<b>2,793</b>	<b>2,652</b>	<b>2,548</b>	<b>2,428</b>	<b>2,303</b>	<b>2,143</b>	<b>1,981</b>	<b>1,829</b>
Working capital	330	294	550	530	473	871	862	894	836	388
Current ratio	2.4	2.1	3.7	3.9	3.5	5.3	4.1	4.9	6.4	4.1
Debt to asset ratio	26.2%	21.8%	22.8%	24.1%	26.4%	28.8%	32.3%	36.7%	38.5%	40.5%

Note (1): Current liabilities payable from restricted assets.

See accompanying independent auditor's report

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Statistical Section

Changes in Fund Net Assets – Last 10 Fiscal Years

(Millions of Dollars, Except Number of Employees)

(Unaudited)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Operating revenue	\$ 357	346	334	345	321	312	359	371	353	331
Operating expense	227	188	176	166	185	184	196	180	161	149
Income from operations	130	158	158	179	136	127	163	191	192	182
Other income (expense)	—	(4)	(16)	(50)	(13)	(14)	(24)	(68)	(54)	(48)
Capital grants	168	251	14	7	19	11	4	10	2	2
Investment earnings	3	1	3	5	8	19	33	43	28	17
Transfers	(18)	(17)	(17)	(37)	(30)	(19)	(16)	(15)	(14)	(9)
Change in net assets/net income	\$ 283	389	142	104	120	124	160	161	154	144
Return on investment	8.2%	12.3%	5.1%	3.9%	4.7%	5.1%	6.9%	7.5%	7.7%	7.8%
Capital expenditures	\$ 552	792	373	228	273	189	92	171	92	82
Personnel:										
Wages and benefits	\$ 47.8	45.3	43.2	41.7	40.8	38.6	33.7	28.9	26.2	27.0
Average # of employees	472.1	462.3	459.9	435.9	424.7	401.0	370.4	346.3	338.2	337.8
Increase (decrease)	2.12%	0.52%	5.51%	2.64%	5.91%	8.26%	6.96%	2.40%	0.12%	(0.92)%

See accompanying independent auditor's report

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Statistical Section  
 Operating Revenue by Type – Last 10 Fiscal Years  
 (Millions of Dollars)  
 (Unaudited)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Operating revenues by category:										
Special facilities	\$ 346	336	322	329	304	291	341	352	338	315
Rentals	10	9	10	14	14	16	14	15	11	11
Miscellaneous	1	1	2	2	3	4	4	4	4	4
Total operating revenue	\$ 357	346	334	345	321	311	359	371	353	330
Growth (reduction)%	3.0	3.7	(3.3)	7.4	3.3	(13.4)	(3.1)	5.0	7.0	18
Special facility revenue by type:										
Wharfage and bunkers	\$ 308	297	269	280	259	246	291	301	284	267
Dockage	11	12	12	12	11	13	14	16	18	17
Terminal and equipment rental	27	27	41	37	33	33	35	35	36	31
Total special facility	\$ 346	336	322	329	303	292	340	352	338	315
Special facility revenue by terminal commodity:										
Containers	\$ 280	268	256	267	247	233	280	290	275	258
Liquid bulk	16	17	17	16	17	18	18	19	18	18
Dry bulk	26	26	24	22	19	20	18	18	20	17
Vehicles	13	12	13	10	10	10	10	11	11	10
Steel	8	8	8	8	6	7	9	9	9	7
Lumber	1	1	1	1	1	1	1	1	1	1
Miscellaneous	2	3	3	3	3	2	4	3	4	4
Total special facility	\$ 346	335	322	327	303	291	340	351	338	315

See accompanying independent auditors' report.

**THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH**

Statistical Section

Principal Customers

The following list represents the Port’s largest customers, in terms of revenue, listed alphabetically.

These customers accounted for approximately 97% of the Port’s operating revenue during fiscal year 2014.

The largest single-customer accounts for approximately 27% of the Port operating revenues.

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

	<b>Customer Since</b>	<b>Current lease</b>
	<b>Year</b>	<b>expiration date</b>
	<b>Month</b>	
CEMEX USA	1979	April
Chemoil Corp.	1974	July
Crescent Terminals, Inc.	1970	April
Crescent Warehouse	2009	September
CSA Equipment	2013	February
Energia Logistics Ltd.	1966	October
International Transportation Service, Inc.	1037	November
Jacobsen Pilot Service, Inc.	1943	March
Koch Carbon, Inc.	1987	December
Long Beach Container Terminal, Inc.	1980	October
Mercedes Benz U.S.A., LLC	2004	February
Metropolitan Stevedore Company	1939	January
Mitsubishi Cement Corporation	1989	March
Oxbow Carbon & Minerals, LLC	1989	June
Pacific Container Terminal	1972	October
SA Recycling, LLC	1992	October
SSA Terminal C60 / Matson Navigation	2002	May
SSA Terminals Long Beach, LLC	1984	August
Tesoro Refining & Marketing	1940	January
Total Terminals International, LLC	1989	June
Toyota Logistics Services	1970	January
Weyerhaeuser Co./Fremont Forest	1942	October

See accompanying independent auditor’s report

**THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH**

Statistical Section

Revenue Bonds Debt Service Coverage - Last 10 Fiscal Years

(Millions of Dollars)

<b>Fiscal year</b>	<b>Revenues (1)</b>	<b>Maintenance costs (2)</b>	<b>Net revenues (3)</b>	<b>Revenue bonds debt service</b>	<b>Times debt service covered</b>
2014	360	108	252	85	2.96
2013	349	98	251	80	3.14
2012	337	87	250	80	3.13
2011	350	81	269	80	3.36
2010	330	98	232	82	2.83
2009	330	98	232	82	2.83
2008	393	116	277	93	2.98
2007	414	97	317	91	3.48
2006	382	76	306	98	3.12
2005	347	62	285	376 (4)	0.76
Average 10 years coverage					2.86
Revenue bond covenant rate					1.25
Additional bonds covenant					1.25

(1) Includes total port operating revenue in interest income only.

(2) Includes all port operating expenses less depreciation and amortization.

(3) Revenues less maintenance costs.

(4) Includes May, 2005 payment for the 1995 bonds; it does not include debt service for 2005 bonds.

See accompanying independent auditors' report.

## THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Statistical Section

Tonnage Summary – Last 10 Fiscal Years

(Thousands of Metric Revenue Tons)

Fiscal year	Inbound tonnage			Outbound tonnage			POLB Total
	Municipal	Private (1)	Total	Municipal	Bunkers	Total	
2014	122,244	—	122,244	42,415	867	43,282	165,526
2013	119,503	—	119,503	41,910	843	42,753	162,256
2012	107,283	—	107,283	36,947	914	37,861	145,144
2011	112,963	192	113,155	39,717	1,546	41,263	154,418
2010	108,069	209	108,278	36,667	2,412	39,079	147,357
2009	99,835	233	100,068	33,077	2,110	35,187	135,255
2008	118,561	654	119,215	41,605	2,088	43,693	162,908
2007	132,923	362	133,285	37,292	2,460	39,752	173,037
2006	132,091	402	132,493	33,298	2,625	35,923	168,416
2005	123,166	229	123,395	32,728	2,011	34,739	158,134
Average annual growth	3.7%		3.7%	6.4%	(3.7)%	5.9%	4.2%

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

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

See accompanying independent auditor's report



THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Statistical Section

Tonnage by Commodity Group – Last 10 Fiscal Years  
(Thousands of Metric Revenue Tons)

Fiscal year	Containerized		Other breakbulk		Liquid bulk		Dry bulk		Polb		Total
	In	Out	In	Out	In	Out	In	Out	Inbound	Outbound	
2014	94,310	31,262	1,002	92	26,697	2,995	235	8,934	122,244	43,283	165,527
2013	91,047	30,525	854	108	27,398	3,197	259	8,869	119,558	42,699	162,257
2012	77,910	27,584	917	98	28,197	2,466	259	7,713	107,283	37,861	145,144
2011	83,482	29,623	752	827	28,587	3,239	333	7,576	113,154	41,265	154,419
2010	79,058	28,251	709	613	28,034	4,151	393	6,148	108,194	39,163	147,357
2009	69,354	24,800	869	644	29,139	3,800	653	5,996	100,015	35,240	135,255
2008	88,398	33,234	1,569	619	27,782	3,924	1,458	5,925	119,207	43,701	162,908
2007	99,523	28,293	1,920	743	29,536	5,064	2,230	5,717	133,219	39,817	173,036
2006	96,416	25,449	2,141	789	30,362	4,223	3,476	5,559	132,395	36,020	168,415
2005	88,786	25,166	2,050	862	29,798	4,479	2,763	4,231	123,396	34,738	158,134
Average annual growth	5.9%	7.8%	(5.5)%	(6.9)%	(0.6)%	4.0%	(14.1)%	7.9%	3.5%	6.7%	4.2%

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

See accompanying independent auditor's report

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Statistical Section

Container Counts – Last 10 Fiscal Years

(Thousands of Twenty-Foot Equivalent Units – TEU's)

(Unaudited)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Loaded:										
Inbound	\$ 3,523	3,420	2,932	3,139	2,982	2,612	3,338	3,742	3,639	3,329
Outbound	1,664	1,671	1,491	1,582	1,485	1,332	1,782	1,472	1,277	1,185
Total loaded	5,187	5,091	4,423	4,721	4,467	3,944	5,120	5,214	4,916	4,514
Annual growth	1.9%	15.1%	(6.3)%	5.7%	13.3%	(23.0)%	(1.8)%	6.1%	8.9%	19.6%
Total empty	1,631	1,557	1,434	1,577	1,469	1,338	1,617	2,148	2,251	2,130
Annual growth	4.8%	8.6%	(9.1)%	7.4%	9.8%	(17.3)%	(24.7)%	(4.6)%	5.7%	34.5%
Total TEU's	\$ 6,818	6,648	5,857	6,298	5,936	5,282	6,737	7,362	7,167	6,644
Annual growth	2.6%	13.5%	(7.0)%	6.1%	12.4%	(21.6)%	(8.5)%	2.7%	7.9%	24.0%

See accompanying independent auditor's report

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Statistical Section – Last 10 Fiscal Years

Vessel Calls  
(Unaudited)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Vessel calls*	\$ 2,752	\$ 3,425	\$ 3,993	\$ 4,758	\$ 4,826	\$ 4,933	\$ 5,140	\$ 5,653	\$ 5,588	\$ 5,329
Annual growth/decline	(19.65)%	(14.22)%	(16.08)%	(1.41)%	(2.17)%	(4.03)%	(9.07)%	1.16%	4.86%	7.29%
TEU's	\$ 6,818	\$ 6,648	\$ 5,857	\$ 6,298	\$ 5,936	\$ 5,282	\$ 6,737	\$ 7,362	\$ 7,167	\$ 6,643
TEU annual growth/decline	2.56%	13.51%	(7.00)%	6.10%	12.38%	(21.60)%	(8.49)%	2.72%	7.89%	24.03%

\* Beginning in FY 2014 only billable vessel calls are included in the total vessel call number.

See accompanying independent auditors' report.

THE HARBOR DEPARTMENT OF THE CITY OF LONG BEACH

Statistical Section  
Average Number of Employees by Division / Bureau  
Last 10 Fiscal Years  
(Unaudited)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Executive administration	11.9	9.3	15.4	17.3	15.6	16.3	13.6	11.8	8.4	9.3	8.7	7.9	8.0
Growth/decline	27.96%	(39.61)%	(10.98)%	(10.90)%	(4.29)%	19.85%	15.25%	40.48%	(9.68)%	6.90%	10.13%	(1.25)%	—%
Government affairs	4.0	4.0	4.0	3.4	3.8	3.9	3.3	2.8	2.8	2.5	—	—	—
Growth/decline	—%	—	17.65%	(10.55)%	(2.56)%	18.18%	17.86%	—	12.00%	—	—	—	—
Finance and support services bureau:													
Finance	24.5	24.9	26.0	21.2	17.9	15.5	14.2	14.4	15.2	14.9	14.0	14.0	13.9
Human resources	17.4	16.3	17.8	17.8	17.6	16.9	15.3	13.3	14.8	17.7	19.7	18.8	18.3
Information management	20.6	20.8	21.0	18.6	18.0	13.1	7.3	7.1	6.8	6.0	6.1	6.0	6.0
Real estate	8.8	9.0	9.0	8.0	7.3	6.1	6.7	7.1	6.9	7.9	8.3	8.3	8.0
Risk management	8.3	7.6	8.0	7.0	6.4	6.0	5.2	4.0	0.6	—	—	—	—
Subtotal bureau	79.6	78.6	81.0	72.6	67.2	57.6	48.7	45.9	44.3	46.5	48.1	47.1	46.2
Growth/decline	1.27%	(2.96)%	11.57%	8.04%	16.67%	18.28%	6.10%	3.61%	(4.73)%	(3.33)%	2.12%	1.95%	3.82%
Engineering bureau:													
Engineering	140.7	128.8	128.0	117.1	115.2	109.7	105.3	103.9	98.7	99.2	100.6	101.3	98.4
Subtotal bureau	140.7	128.8	128.0	117.1	115.2	109.7	105.3	103.9	98.7	99.2	100.6	101.3	98.4
Growth/decline	9.24%	0.63%	9.31%	1.65%	5.01%	4.18%	1.35%	5.27%	(0.50)%	(1.39)%	(0.69)%	2.95%	15.09%
Environmental affairs and planning bureau:													
Planning	31.7	30.6	31.0	30.3	28.6	25.3	21.1	19.6	16.8	14.9	14.3	13.7	12.1
Subtotal bureau	31.7	30.6	31.0	30.3	28.6	25.3	21.1	19.6	16.8	14.9	14.3	13.7	12.1
Growth/decline	3.59%	(1.29)%	2.31%	5.94%	13.04%	19.91%	7.65%	16.67%	12.75%	4.20%	4.38%	13.22%	1.68%
Trade relations and port operations bureau:													
Communications	15.0	12.8	14.0	14.8	14.7	14.1	13.0	11.6	9.8	8.2	8.2	9.0	8.5
Maintenance	76.3	81.1	81.0	76.8	72.7	72.1	69.6	68.3	73.8	79.8	86.1	86.8	83.3
Security	68.0	71.2	76.5	69.8	63.8	58.7	50.7	47.5	47.8	42.7	37.7	29.8	31.5
Trade relations	19.3	16.5	16.0	14.9	15.8	15.6	14.5	13.7	14.3	12.9	12.5	12.5	14.5
Subtotal bureau	178.6	181.6	187.5	176.3	167.0	160.5	147.8	141.1	145.7	143.6	144.5	138.1	137.8
Growth/decline	(1.65)%	(3.15)%	6.35%	5.57%	4.05%	8.59%	4.75%	(3.16)%	1.46%	(0.62)%	4.63%	0.22%	0.22%
Port operations/temporary	25.5	29.4	13.0	18.9	27.3	27.7	30.6	21.2	21.5	21.8	25.0	23.0	18.9
Growth/decline	(13.27)%	126.15%	(31.22)%	(30.77)%	(1.44)%	(9.48)%	44.34%	(1.40)%	(1.38)%	(12.80)%	8.70%	21.69%	18.13%
Average number of employees	472.0	462.3	459.9	435.9	424.7	401.0	370.4	346.3	338.2	337.8	341.2	331.1	321.4
Growth/decline	2.10%	0.52%	5.51%	2.64%	5.91%	8.26%	6.96%	2.40%	0.12%	(1.00)%	3.05%	3.02%	5.93%

See accompanying independent auditor's report



## Port of Long Beach

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