

EXHIBIT B

**Comments by George Cunningham
Before joint meeting of Propeller Club & HAIC
October 14, 2010**

Good afternoon Propeller Club members and guests. Here we are, together again – the George and Bill show or maybe it's the Bill and George show, according to which one of us you are talking to.

We do have serious stuff to talk about today - Proposition D.

If you read the description of Proposition D on the ballot, it sounds very innocent. One – Prop D will change the formula for the annual transfer of port revenues from the port to the city Tidelands Operating Fund, from a maximum of 10 percent of the net earnings to a maximum of 5 percent of the gross.

And Two – it will give the city authority over all oil interests in the port district.

The ballot argument for Proposition D is that it will create a more transparent, fair, and reliable funding method for the Harbor Department (the Port of Long Beach) to help keep our coastal areas clean and safe.

There is no ballot argument against it. It was rushed through at the last minute – the initiative was still being tweaked by the City Attorney on the same night it was approved – and it left little time for opponents to organize or craft an argument against it.

Here is what Proposition D is really about. The Port has money, the city wants it. And power. Members of the City Council want to extend their power over the port.

Let's break Prop D down to its components parts.

Proposition D would change the formula for port transfers from 10 percent of net to 5 percent of gross. The City Hall folks figure that would amount to a couple extra million dollars a year, based on recent port budgets. The mayor has even said, a couple of million – not a big deal when you have a harbor department getting ready to build a billion dollar bridge to replace one that is slowly falling apart and to spend hundreds of millions more on new infrastructure.

The assumption, of course, is that the annual transfer will be a couple of million more than it was before. But let's look at it this way. The volume of containers coming through the port is once again increasing and is expected to keep on increasing. To handle all that increase, the port is planning to build new, more efficient infrastructure.

So while the gross revenues are expected to go up, so are the expenses. Theoretically under the formula, the port could actually lose money, but still transfer 5 percent of its gross to the city. Now obviously, that's not going to happen.

What is more likely to happen is that the port could cut or downsize some of its capital expenditures and perhaps some of its costly environmental programs – which could eliminate hundreds or thousands of construction jobs, result in dirtier air, and leave the port lacking the infrastructure it needs if it wants to remain competitive. And the port could be forced to raise fees to help cover the revenues lost to the city.

Bond rating agencies, which are watching these developments with keen interest, could lower the port's bond ratings, which means it will cost more money to borrow money and therefore more money to build new infrastructure.

In fairness, the City Charter currently allows the Harbor Commission to transfer its earnings to the city Tidelands Operating Fund, but only IF the money is not needed for “Harbor Department operations, including without limitation, operating expenses and capital projects.” The amended charter would not change that, so the Harbor Commission could just say NO.

But, let’s look at the history. Since 1995, the port has been asked every year by the city to transfer 10 percent of its net to the Tidelands Fund. Some of those years, the port was more than \$1 billion in debt and its debt service – the interest on that debt – was one of the largest items on its budget.

And how many times did the Harbor Commission say no? Zero. From 1995 through 2010, the port has transferred more than \$158 million in port revenue to the City Tidelands Fund. The port always came through for the city, and there is little reason to believe that would change.

And then there are the port oil properties that the city plans to take over. The port acquired the oil properties when it bought a 725-acre oil field superfund site from Union Pacific Resources back in 1994. It was a negotiated deal. The port got land on which to build terminals and Union Pacific got a chunk of cash in exchange for a polluted oil field that was nearing the end of its productive life.

Part of what the port paid for was the oil that remained, but it wasn’t long before that oil became an expense, not an asset. The price of oil at the time was such that pumping it out of the ground cost more than the oil was worth. Only when the price of oil began to climb, did the oil field become valuable.

The city taking over the field would cut the port out of about \$150 million over the next 10 years.

So let's be clear about something. This is about money. It's not about a transparent fair, reliable, funding mechanism to make sure we have clean beaches. It's about money and it's about power.

There's something that many folks in the community do not understand. The City of Long Beach does not own the port. The port is a state trust, supposedly operated by the city for the benefit of all the people of the state.

The port may be in Long Beach, and the voters in Long Beach may be the people who get to decide the issue, but what they decide can have an effect on lots of folks outside the city. The people who grow cotton or almonds or grapes up in the Central Valley, the people who work in the warehouses in Ontario or Rancho Cucamonga or in the railyards in San Bernardino or Barstow. And, of course, for a lot of you folks in this room who depend on the port for your livelihood whether you live in Long Beach or Huntington Beach or Palos Verdes, or Lakewood.

The Harbor Board may be appointed by the Mayor and confirmed by the City Council, but they also have a fiduciary duty to everybody in the state, and I have to say that I think they do not take that duty lightly. Being a Harbor Commissioner is a prestigious job, but it is also a very demanding job that takes a lot of time and effort on the part of folks who are successful in their own rights and usually very busy holding down jobs in their own chosen fields.

When the City Charter was first adopted, the port was given a large amount of autonomy so it could conduct its business without getting caught up in the petty politics of City Hall. The payoff for the city was that the port would deliver lots of paychecks, lots of business opportunity, and lots of tax revenues from those jobs and businesses that locate in the city because of the port.

It's not like that every place.

If you go across the Bay to the Port of Los Angeles things are very different. Unlike Long Beach, the Port of Los Angeles is not as much an autonomous city department. The Los Angeles City Council is very much involved in port operations and every significant decision made by the port may be questioned and overruled by the City Council.

There are a lot of good people at the Port of Los Angeles, but they operate in the middle of the political circus. When a new mayor is elected in Los Angeles, the entire commission is replaced, so port policy and focus can whipsaw from administration to administration. And if some board member doesn't vote the way the mayor wants, he or she may be gone the following month.

The Port of Los Angeles has been successful despite that environment, which is a testament to some of the folks that work there. But that constant environment of political interference is not healthy or good for the port.

Or go to the Pacific Northwest, the ports there are not departments of a city. The port commissioners are elected and the taxpayers in that port district pay to subsidize the port's operation. If you live in a \$400,000 house in Seattle, for instance, your annual property taxes will include \$87.44 for the Port of Seattle. What taxpayers get for that money is jobs, economic prosperity and all the good things that go along with a healthy and vibrant economy.

In Long Beach, on the other hand, the port subsidizes the city. And the harbor commission enjoys a fair amount of autonomy in how it conducts its business. The Long Beach commissioners often publicly disagree with one another – in a very civil sort of way – and not every vote is unanimous.

But there are folks that would like to change that. They would like to have the City Council more involved in port operations and port decisions. And they would like an even bigger subsidy from the port. And you see that desire reflected in their actions.

Proposition D was placed on the ballot at the last minute. Although it has far-reaching implications, the harbor commission was not included in the discussion leading up to it. There was no study done to analyze what the possible repercussions of it would be.

The only thing that even approached a debate was when two Harbor Commissioners came forward as the measure was being approved for the ballot to ask for a postponement so the matter could be discussed. The mayor and the council members one-by-one took the opportunity to deliver a series of disingenuous and sanctimonious lectures to the two commissioners.

The basic message was that you work for us, and we don't want to hear about you whining about your fiduciary duty to the state of California. And you have to believe that this was part of a coordinated effort toward the emasculation of the Harbor Commission and the usurpation of the board's power.

Perhaps you could make the argument that the City Council, whose members have been directly elected by the voters, should have power over harbor department operations, much as they do it Los Angeles. But there has been no such argument made. There has been no discussion. It smells more of a coup than a decision that has been reached after proper public deliberation.

To be clear. The port is the primary driver for the local economy. In the early 90s, when the cold war ended and the so-called peace dividend turned out to be an aerospace and military bust, the Navy moved away and much of the aerospace industry that had supported the local and regional economy began to dissolve, it was the ports of

Long Beach and Los Angeles that kept the wheels of commerce turning. This port has been and remains the golden goose for the city.

For years, the port has enjoyed a period when it had little real competition. That's changing. There are competitive threats both north and south – from Prince Rupert to the Panama Canal. The local cargo will probably always mostly come through these two ports, but the discretionary cargo – the cargo headed for points east of the Rockies – will soon no longer have to.

This is the time that the port needs to prepare for the coming battle for market share that is about to erupt, because the winners of that battle are going to be the communities that get the jobs and the economic benefits that go along with that market share. And to be ready for that battle, the ports need to be financially strong.

The question that remains unanswered is this: Why can't the city of Long Beach live within its means? Huntington Beach doesn't have a port. Neither does Manhattan Beach or Newport Beach or Laguna Beach or Seal Beach or other coastal cities. But somehow they manage to get along and pay their bills and balance their budgets.

I suspect the answer is simply that Long Beach has become addicted to port money. And when hard times come, it turns to the port to once more bail it out. The city budget problems are real. Everybody is hurting and the city of Long Beach is no exception.

But Proposition D is a long-term change in policy to address a short-term problem. The economy will at some point recover, and will the city at that point decide, well we will now stop depending on the port for our yearly fix? Now we will back off and be financially responsible.

What do you think?