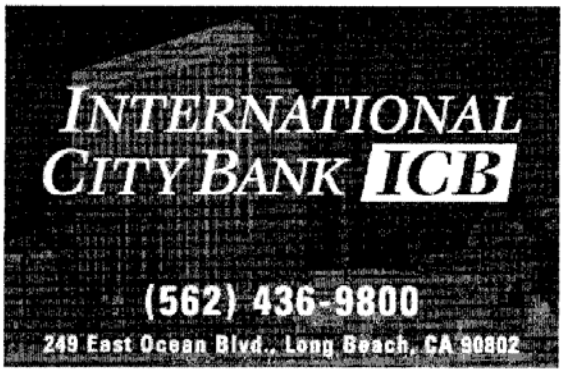
EXHIBIT D

Long Beach BUSINESS JOURNAL

Harbor Staff Releases Five-Year Forecast On Measure D; Bond Rating In Jeopardy



By Sean Belk
Staff Writer

Just weeks before the November 2 election, Long Beach Harbor Department staff presented a forecast on how Measure D would impact port revenues and cash flow over the next five years if passed by voters. The analysis also examined the potential for a downgrade in the port's bond rating.

The measure, placed on the ballot by the city council, would, if passed by the voters, amend City Charter language regarding the formula used to calculate how much port revenue the city can request each year (changing from the current 10 percent of net income to 5 percent of gross operating revenue). Port revenue transferred to the city can only be allocated to the city's Tidelands Operating Fund, which is used for maintaining the city's beaches and surrounding waterfront areas under state law. The city contends that changing the Charter merely "simplifies the formula." The measure also "clarifies" that all oil properties in the city are under the control of the city's gas and oil department, potentially costing the port an estimated $120 million from current operations over the next four years.

On October 18, Sam Joumblat, the port's chief financial officer, gave a brief presentation to the Long Beach Board of Harbor Commissioners at the request of Commissioner Mike Walter.

The analysis included a chart showing four financial scenarios that may occur between fiscal years 2011 to 2015, taking into account oil revenues and the city's annual money transfer request, along with foreseen net income and the amount of funds to be borrowed for capital projects. Staff also discussed what would happen if the port's bond rating was downgraded from its current high "AA" status.

The forecast is based on the assumption that the port's operating revenues would increase 5 percent year-over-year for the next five years. The analysis also assumes the current $3.1 billion port capital plan would be completed as scheduled, all environmental documents would be certified as planned and oil prices would remain at $70 a barrel by the end of that time period.

Under the assumptions, Joumblat presents four scenarios that take into account the city's annual request for a money transfer along with oil revenues that may change if voters pass Measure D this election.

In addition to any changes from Measure D, Joumblat presented the potential loss or gain of about $100 million in new oil revenues that the city would decide to hand over to either the harbor department or to the city's Tideland's Operating Fund within the next few years. That pertains to a contract the city has with Occidental Petroleum (Oxy) for drilling new oil sites located in the port district. He said the city has already cut a deal with Oxy that any revenue from any new oil that will be found would be split 50 percent between the city's Tidelands Fund and Oxy. But the analysis assumes the city may decide to give those funds to the port depending on how things play out over time.

The scenario that would give the city's Tidelands Fund the most money, given the port staff's projected market assumptions, falls under scenario four, which would be a total port contribution of $195 million by the end of fiscal year 2015. That would occur if Measure D passed and the port granted the city's request of 5 percent operating revenue each year and the $100 million oil revenue share would go solely to the Tidelands Fund.

Scenario one would give the city the least amount of money. In that case, the port would get the $100 million in additional oil revenue instead of the city, which would make the port's entire contribution to the city's Tidelands Fund a total of $62 million from fiscal year 2011 to fiscal year 2015.

The difference between scenario one and four is about $133 million, which is "more than triple the status quo," Joumblat added, or about $26.6 million per year in more revenues for the tidelands.

Even with oil revenues out of the equation, Joumblat points out, just changing the City Charter transfer formula from 10 percent net income ($62 million in five years) to 5 percent gross operating revenue ($95 million in five years) would still mean that the city's Tidelands Fund would see a total of $33 million more in funds by the end of the five fiscal years, or about $6.6 million more per year.

Joumblat estimates that, given all assumptions and with the current bond rating status, by the end of 2015, the port will be borrowing more money for capital improvement projects while net income will decrease, regardless of the projected 5 percent increase in operating revenues.

Bond Rating

The port's financial staff also shared figures on additional interest costs if the port's bond rating drops, assuming $1.2 billion in bonds with level payments over 30 years.

Earlier this year, Fitch Ratings gave the port an "AA" rating, the second highest, on two series of port bonds, "reflecting the port's strong financial position," according to a press release in March. The higher rating would mean lower risk to investors and a lower interest rate on debt. This year, the port issued $218 million in harbor revenue bonds and up to $354 million in harbor revenue refunding bonds.

In 1993, the port's bond rating dropped one notch to "AA-," during a very similar time in which the country was experiencing a recession and the state had just begun to allow the city to start tapping into port reserves.

Joumblat's analysis estimates that if bond ratings, provided by Moody's and S&P, dropped one, two or three notches, additional interest costs on debt could range from about $39 million to $158 million. But, in order for that to happen, port staff said that would depend on a bond rating agency's perception of the port's finances and the relationship between the port and the city.

"Some of the questions we've been asked recently are about control and additional funding needs and additional transfers to the city," Joumblat said. "So it depends on their perspective." Also, agencies look at the level of reserves, as the port has increased its capital to debt coverage ratio to 600 days, and would want to make sure adequate funds cover debt service.

Commissioner Walter said he would like to see more of an analysis in the future showing how container traffic or revenues would be affected by the price of oil. "Clearly it impacts our shipping industry," he said.

Commission President Nick Sramek said he needed more time to go over the new information presented. "I'm slowly trying to understand this thing," he said.

However, Richard Steinke, the port's executive director, pointed out that all money transfers to the city's Tideland's Fund are "discretionary" and under the authority of the harbor commission, regardless of whether Measure D passes or not. "If the port saw us going down that slippery slide, the port staff would certainly make a strong recommendation for some other arrangements to intervene," he said. "We don't want to get ourselves into a scenario to take that perilous road. . . . We're trying to keep our financial position as much as possible." Steinke added that any unforeseen catastrophic event would make the port even more cautious of its financial situation.

Trade Industry Groups Speak Out

Meanwhile, on the same day of the commission meeting, the Propeller Club of Los Angeles-Long Beach circulated a press release indicating that six trade industry organizations have taken a stance against Measure D, urging Long Beach residents to vote 'no.' They say the proposed measure would "threaten local jobs" and lessen the port's competitive edge to remain as a "premier international port and solid economic engine for the region."

Dan Meylor, president of the Los Angeles Customs Brokers and Freight Forwarders Association, stated: "Measure D is just a bad idea . . . City politicians put it on the ballot without thinking about the negative impact on the local economy, jobs or important projects ensuring clean air in the Long Beach Community. It will likely affect the Port's bond ratings and associated borrowing costs, driving up the cost of every project and program and reducing the number of these that can be accomplished, which in turn will drive discretionary cargo to other ports in the United States."

The Pacific Merchant Shipping Association, Harbor Association of Industry & Commerce, Future Ports and CALMITSAC also oppose to the measure.

On October 21, the Long Beach Area Chamber of Commerce Government Affairs Committee weighed in with a near unanimous vote to oppose Measure D. The chamber board meets October 28, just four days before election day, to consider the committee's recommendation.