NEW ISSUE—BOOK ENTRY ONLY **Ratings: See "RATINGS" herein.**

In the opinion of O'Melveny & Myers LLP and Webster & Anderson, Co-Bond Counsel, assuming the accuracy of certain representations and compliance by the Port with certain tax covenants described herein, the interest and original issue discount ("OID"), if any, on the 2002 Bonds is excluded from gross income for federal income tax purposes under existing statutes, regulations, rulings and court decisions (except with respect to any Series L Bonds for any period during which such Series L Bonds are (i) held by a person who is a "substantial user," within the meaning of Section 147(a)(1) of the Internal Revenue Code, as amended (the "Code"), of the facilities financed or refinanced with the Series L Bonds or (ii) held by any "related person" of a substantial user, within the meaning of Section 147(a)(2) of the Code). In addition, Co-Bond Counsel are of the opinion that the Series L Bonds (but not the Series M Bonds) are "specified private activity bonds" and, therefore, the interest and OID, if any, on the Series L Bonds will be treated as specific items of tax preference for purposes of the Code's alternative minimum tax provisions. Further, interest paid with respect to the Series M Bonds is included in the computation of certain federal taxes on corporations. Co-Bond Counsel are also of the opinion that the interest and OID, if any, on the 2002 Bonds is exempt from personal income taxes of the State of California under present state law. See "TAX EXEMPTION" herein.

PORT OF OAKLAND, CALIFORNIA

$401,530,000 REVENUE BONDS 2002 SERIES L (AMT)

$218,470,000 REVENUE BONDS 2002 SERIES M (NON-AMT)

Dated: Date of Delivery **Due: As shown on inside cover**

The Port of Oakland Revenue Bonds 2002 Series L (AMT) (the "Series L Bonds") and the Port of Oakland Revenue Bonds 2002 Series M (Non-AMT) (the "Series M Bonds" and together with the Series L Bonds, the "2002 Bonds") are being issued by the Board of Port Commissioners of the City of Oakland, California (the "Board") to (i) finance or refinance the costs of certain capital projects, including through the refunding of commercial paper notes previously issued by the Port to finance a portion of such capital projects, (ii) satisfy the Reserve Fund Requirement in respect of the 2002 Bonds, (iii) finance capitalized interest and (iv) finance costs of issuance, all as further described herein. See "PURPOSE OF THE 2002 BONDS" and "ESTIMATED SOURCES AND USES OF BOND PROCEEDS" herein.

The 2002 Bonds will be dated their date of delivery and will mature on the dates and in the principal amounts and will bear interest at the rates set forth on the inside of this cover page. The 2002 Bonds are issuable as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as bondholder and nominee for The Depository Trust Company ("DTC"), New York, New York. Individual purchases and sales of the 2002 Bonds may be made in book-entry form only in denominations of $5,000 and integral multiples thereof. PURCHASERS WILL NOT RECEIVE CERTIFICATES REPRESENTING THEIR INTEREST IN THE 2002 BONDS PURCHASED. Interest on the 2002 Bonds will be payable on May 1 and November 1, commencing on November 1, 2002. The principal of and interest and premium, if any, on the 2002 Bonds will be payable by wire transfer by U.S. Bank, N.A., as paying agent ("Paying Agent"), to DTC, which in turn is required to remit such principal, interest and premium, if any, to the DTC Participants for subsequent disbursement to the beneficial owners of the 2002 Bonds, as more fully described in APPENDIX D.

The 2002 Bonds are subject to optional redemption and mandatory sinking fund redemption at the times and prices, subject to the conditions, and in the manner as more fully set forth herein. See "DESCRIPTION OF THE 2002 BONDS" herein.

The 2002 Bonds are limited obligations of the Port of Oakland, California (the "Port") payable solely from and secured by a pledge of Pledged Revenues (as defined herein). The 2002 Bonds are being issued pursuant to a Trust Indenture dated as of April 1, 1989, as amended and supplemented, and as further supplemented and amended by a Twelfth Supplemental Trust Indenture dated as of July 1, 2002 (together, the "Indenture") by and between the Board and U.S. Bank, N.A., San Francisco, California, as trustee (the "Trustee"). The Board has covenanted in the Indenture not to issue any additional bonds or other obligations payable from or secured by a pledge of or lien on Pledged Revenues prior or superior to that of the 2002 Bonds and other parity bonds. The 2002 Bonds are secured by a pledge of and lien on Pledged Revenues on a parity with the Board's 1990 Series D Bonds, 1992 Series E Bonds, 1993 Series F Bonds, 1997 Series G Bonds, 1997 Series H Bonds, 1997 Series I Bonds, 1997 Series J Bonds and 2000 Series K Bonds, outstanding as of July 1, 2002 in the aggregate principal amount of $833,372,485.75.

The 2002 Bonds are not a debt, liability or obligation of the City of Oakland, the State of California or any public agency thereof (other than the Port), and neither the faith and credit nor the taxing power of any of the foregoing is pledged to the payment of the principal of or interest or premium, if any, on the 2002 Bonds. The 2002 Bonds are limited obligations of the Port payable solely from and secured by Pledged Revenues and by amounts held in certain funds and accounts specified in the Indenture. The Port has no power of taxation.

The payment of principal and interest on the 2002 Bonds when due will be insured by a municipal bond new insurance policy issued by Financial Guaranty Insurance Corporation.

FGIC℠

This cover page is not intended to be a summary of the terms of, or the security for, the 2002 Bonds. Investors are advised to read the Official Statement in its entirety to obtain information essential to the making of an informed investment decision.

The 2002 Bonds are offered when, as and if issued by the Port and accepted by the underwriters listed below (the "Underwriters"), subject to the approval of legality by O'Melveny & Myers LLP and Webster & Anderson, Oakland, California, Co-Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for the Port by David L. Alexander, Esq., Port Attorney, and for the Underwriters by Orrick, Herrington & Sutcliffe LLP and HTB Law Group, Oakland, California, Co-Underwriters' Counsel. It is expected that the delivery of the 2002 Bonds will be through DTC on or about August 8, 2002.

Salomon Smith Barney **Goldman, Sachs & Co.**

A.G. Edwards & Sons, Inc. **Henderson Capital Partners, LLC**

Loop Capital Markets, LLC **M.R. Beal & Company** **Ramirez & Co., Inc.**

Dated: July 23, 2002

$401,530,000
Revenue Bonds 2002 Series L (AMT)

MATURITY SCHEDULE

Due November 1	Principal Amount	Interest Rate	Yield or Price	CUSIP (Base: 735000)
2020	$10,205,000	5½ %	4.97%*	DP3
2021	24,170,000	5.00	5.07	DQ1
2022	25,405,000	5.00	5.12	DR9
2023	26,710,000	5.00	5.15	DS7

$4,015,000 5¼% Term Bonds Due November 1, 2027–Yield: 5.25%, CUSIP: 735000 DT5
$118,180,000 5⅜% Term Bonds Due November 1, 2027–Yield: 5.18%*, CUSIP: 735000 EK3
$192,845,000 5.00% Term Bonds Due November 1, 2032–Yield: 5.27%, CUSIP: 735000 DU2

* Priced to call on November 1, 2012 at par.

$218,470,000
Revenue Bonds 2002 Series M (Non-AMT)

MATURITY SCHEDULE

Due November 1	Principal Amount	Interest Rate	Yield or Price	CUSIP (Base: 735000)
2007	$ 6,290,000	3.00%	2.68%	DV0
2008	11,115,000	3.00	3.02	DW8
2009	13,495,000	3½	3.33	DX6
2010	13,975,000	3½	3.53	DY4
2011	9,425,000	5.00	3.73	EL1
2011	5,135,000	4.00	3.73	DZ1
2012	8,305,000	5.00	3.86	EM9
2012	6,940,000	4.00	3.86	EA5
2013	11,415,000	5¼	4.00*	EN7
2013	4,565,000	4.00	4.00	EB3
2014	11,760,000	5¼	4.11*	EP2
2014	5,025,000	4⅛	4.11*	EC1
2015	17,135,000	5¼	4.19*	EQ0
2015	525,000	4¼	4.19*	ED9
2016	17,650,000	5¼	4.29*	ER8
2016	955,000	4¼	4.29	EE7
2017	19,095,000	5¼	4.39*	ES6
2017	500,000	4⅜	4.39	EF4
2018	20,655,000	5¼	4.49*	EG2
2019	21,765,000	5¼	4.58*	EH0
2020	11,900,000	5¼	4.68*	ET4
2020	845,000	4⅝	4.68	EJ6

* Priced to call on November 1, 2012 at par.

NO DEALER, BROKER, SALESPERSON OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION, OTHER THAN THE INFORMATION AND REPRESENTATIONS CONTAINED IN THIS OFFICIAL STATEMENT (INCLUDING APPENDICES), IN CONNECTION WITH THE OFFERING OF THE 2002 BONDS, AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE PORT OF OAKLAND, THE CITY OF OAKLAND OR THE UNDERWRITERS. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY OF THE 2002 BONDS IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL TO MAKE SUCH OFFER, SOLICITATION OR SALE.

THE UNDERWRITERS HAVE PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT. THE UNDERWRITERS HAVE REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, THEIR RESPECTIVE RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITERS DO NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

CERTAIN STATEMENTS CONTAINED IN THIS OFFICIAL STATEMENT REFLECT NOT HISTORICAL FACTS BUT FORECASTS AND “FORWARD-LOOKING STATEMENTS.” IN THIS RESPECT, THE WORDS “ESTIMATE,” “PROJECT,” “ANTICIPATE,” “EXPECT,” “INTEND,” “BELIEVE” AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. ALL PROJECTIONS, FORECASTS, ASSUMPTIONS, EXPRESSIONS OF OPINIONS, ESTIMATES AND OTHER FORWARD-LOOKING STATEMENTS ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY THE CAUTIONARY STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

THE 2002 BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2002 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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PORT OF OAKLAND, CALIFORNIA

$401,530,000 REVENUE BONDS 2002 SERIES L (AMT)	$218,470,000 REVENUE BONDS 2002 SERIES M (NON-AMT)

INTRODUCTION

This introduction is subject in all respects to the more complete information and definitions contained elsewhere in this Official Statement. The offering of the Series L Bonds and the Series M Bonds (defined below) to potential purchasers is made only by means of the entire Official Statement. Investors are instructed to review this entire Official Statement as well as the documents summarized in the Appendices hereto, including the Feasibility Report attached as Appendix A, prior to making an investment decision. Capitalized terms used but not defined in this Official Statement are defined in Appendix C hereto.

The purpose of this Official Statement, including the cover page, table of contents and appendices hereto (this "Official Statement"), is to provide certain information concerning the sale and delivery by the Board of Port Commissioners of the City of Oakland, California (the "Board") of its Revenue Bonds 2002 Series L (AMT) (the "Series L Bonds") in the aggregate principal amount of $401,530,000 and its Revenue Bonds 2002 Series M (Non-AMT) (the "Series M Bonds") in the aggregate principal amount of $218,470,000. The Series L Bonds and the Series M Bonds are referred to collectively herein as the "2002 Bonds."

The Port of Oakland, California (the "Port") is an independent department of the City of Oakland (the "City"). The Board has exclusive control and management of all Port facilities and property, all income and revenue of the Port and proceeds of all bond sales. The Port Area (as defined in the Charter of the City of Oakland, herein the "Charter") extends approximately 19 miles from the border of the City of Emeryville (located immediately north of the San Francisco-Oakland Bay Bridge), south to the border of the City of San Leandro. Port facilities include marine terminals, a railway intermodal terminal and container storage areas covering approximately 848 acres; the Oakland International Airport (the "Airport"), which covers an area of over 2,500 acres; 1,024 acres of commercial, industrial, recreational and other land under lease or available for lease or sale; 1,400 acres of undeveloped land; and approximately 9,700 surface acres of water area. The Port is organized into three operating divisions: Aviation, Maritime and Commercial Real Estate. For further discussion, see "THE PORT OF OAKLAND."

The 2002 Bonds will be issued pursuant to a Trust Indenture, dated as of April 1, 1989, as amended and supplemented (the "Trust Indenture"), and as further amended and supplemented by a Twelfth Supplemental Trust Indenture, dated as of July 1, 2002 (the "Twelfth Supplemental Trust Indenture" and, together with the Trust Indenture, the "Indenture"), between the Board and U.S. Bank, N.A., San Francisco, California, as trustee (the "Trustee"). The 2002 Bonds have been authorized by a resolution adopted by the Board on July 16, 2002 (the "Resolution"), and are being issued under and in accordance with Article VII of the Charter and Ordinance No. 2858 adopted by the Board on February 21, 1989, setting forth certain procedures for the issuance and sale of debt instruments by the Port.

The 2002 Bonds are secured by a pledge of and lien on, and are payable solely from, Pledged Revenues (as defined herein) on a parity with the Board's 1990 Series D Bonds issued in the aggregate principal amount of $30,360,000, the Board's 1992 Series E Bonds issued in the aggregate principal amount of $150,975,000, the Board's 1993 Series F Bonds issued in the aggregate principal amount of $75,342,485.75, the Board's 1997 Series G, H, I and J Bonds issued in the aggregate principal amount of $262,600,000 and the Board's 2000 Series K Bonds issued in the aggregate principal amount of $400,000,000. The 2002 Bonds, the 1990 Series D Bonds, the 1992 Series E Bonds, the 1993 Series F Bonds, the 1997 Series G, H, I and J Bonds, the 2000 Series K Bonds and any Additional Bonds as defined below under "SECURITY AND SOURCES OF PAYMENT FOR THE 2002 BONDS—Additional Bonds" are referred to collectively as the "Parity Bonds." As of July 1, 2002, Parity Bonds were outstanding in the aggregate principal amount of $833,372,485.75. The Board has covenanted in the Indenture not to issue any Additional Bonds or other obligations payable from or secured by a pledge of or lien on Pledged Revenues prior or superior to that of the Parity Bonds.

The payment of the principal of and interest on the 2002 Bonds when due will be insured by a municipal bond new issue insurance policy issued by Financial Guaranty Insurance Corporation (the "Bond Insurer"). See "MUNICIPAL BOND INSURANCE."

The 2002 Bonds are not a debt, liability or obligation of the City of Oakland, the State of California (the "State") or any public agency thereof (other than the Port), and neither the faith and credit nor the taxing power of any of the foregoing is pledged to the payment of the principal of, or interest or premium, if any, on the 2002 Bonds. The 2002 Bonds are limited obligations of the Port payable solely from and secured by Pledged Revenues and by amounts held in certain funds and accounts specified in the Indenture. The Port has no power of taxation.

The Board has covenanted for the benefit of the owners and Beneficial Owners of the 2002 Bonds to provide certain financial information and operating data relating to the Port (the "Annual Report") not later than 240 days following the end of each fiscal year (presently June 30), commencing with the report for Fiscal Year 2002, and to provide notices of the occurrence of certain enumerated events, if material. See "CONTINUING DISCLOSURE."

Proceeds from the sale of the 2002 Bonds, together with other available moneys, will be applied to (i) finance and refinance the costs of certain capital projects, including by refunding certain of the Port's commercial paper notes previously issued to finance a portion of such capital projects; (ii) satisfy the Reserve Fund Requirement in respect of the 2002 Bonds; (iii) finance capitalized interest; and (iv) finance costs of issuance of the 2002 Bonds. See "PURPOSE OF THE 2002 BONDS" and "ESTIMATED SOURCES AND USES OF BOND PROCEEDS."

The capital projects being financed with the proceeds of the 2002 Bonds are part of the Port's capital improvement program (the "CIP"). See "CAPITAL IMPROVEMENT PROGRAM" for a discussion of the projects to be undertaken by the Port, their timing and funding sources.

Included as Appendix A to this Official Statement is a Feasibility Report (the "Feasibility Report") prepared collectively by Ricondo & Associates, Inc., Booz Allen Hamilton Inc. and Jones Lang LaSalle Americas, Inc. (collectively, the "Feasibility Consultants"). The Feasibility Report, among other things, reviews and analyzes the Port's Aviation, Maritime, and Commercial Real Estate Divisions, describes the Port's CIP, extrapolates future levels of Port activity and revenues, and projects future debt service coverage levels with respect to Parity Bonds. For detailed a discussion of the Port's finances and other considerations that may be relevant to potential purchasers of the 2002 Bonds, see "THE PORT'S FINANCES AND OPERATIONS" and "INVESTOR CONSIDERATIONS." See also APPENDIX A—"FEASIBILITY REPORT." ***The findings and projections in the Feasibility Report are subject to a number of assumptions that should be reviewed and considered by prospective investors. No assurances can be given that the projections and expectations discussed in the Feasibility Report will be achieved. Actual results may differ materially from the projections described therein.***

The Port's audited consolidated financial statements for Fiscal Years 2001 and 2000 are included in Appendix B-1 to this Official Statement. Certain unaudited financial data for the first nine-months of Fiscal Year 2002 are included in Appendix B-2 to this Official Statement. The results presented for such nine-month period are not necessarily indicative of the results for all of Fiscal Year 2002.

Brief descriptions of the 2002 Bonds, the Port, the Indenture and certain other documents are included in this Official Statement. Such descriptions do not purport to be comprehensive or definitive. All references herein to such documents and any other documents, statutes, reports or other instruments described herein are qualified in their entirety by reference to each such document, statute, report or other instrument. Information contained herein has been obtained from officers, employees and records of the Port and from other sources believed to be reliable. The information herein is subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Port since the date hereof. This Official Statement is not to be construed as a contract or agreement between the Board and purchasers or Owners (as defined in the Indenture) of any of the 2002 Bonds.

PURPOSE OF THE 2002 BONDS

The 2002 Bonds are being issued to finance and refinance certain capital projects included in the Port's CIP, including the refunding of commercial paper notes previously issued by the Port to finance a portion of such projects. The CIP includes approximately $1.23 billion in capital projects for the Aviation, Maritime, and Commercial Real Estate Divisions of the Port and certain support projects. The CIP consists of projects that are expected to be completed or substantially completed by the end of Fiscal Year 2007. The Port expects to fund the CIP from a variety of sources in addition to the proceeds of the 2002 Bonds, including certain internally generated funds, Additional Bonds, federal and State grants, commercial paper note proceeds and other sources. See "CAPITAL IMPROVEMENT PROGRAM—The Plan for Funding the CIP."

The Port expects that approximately 46.2% of the proceeds of the 2002 Bonds will be used to finance certain Aviation Division projects and approximately 36.8% of the proceeds of the 2002 Bonds will be used to finance certain Maritime Division projects, including, in each case (i) qualifying capitalized interest allocable to the applicable Division and (ii) repayment of commercial paper notes issued to finance projects in the CIP for the applicable Division. Approximately 7.2% of the proceeds of the 2002 Bonds will be used to finance support projects. The remaining 9.8% of the proceeds of the 2002 Bonds will be used to pay costs of issuance and to fund the Reserve Fund Requirement for the 2002 Bonds. None of the proceeds of the 2002 Bonds are expected to be used to finance Commercial Real Estate Division projects in the CIP. The expected uses of the 2002 Bond proceeds are based on estimated costs and other assumptions with respect to the projects included in the CIP; these costs and assumptions and the specific projects that may ultimately be financed with the proceeds of the 2002 Bonds are subject to change. See "CAPITAL IMPROVEMENT PROGRAM" and "ESTIMATED SOURCES AND USES OF BOND PROCEEDS."

The findings and projections in the Feasibility Report take into account the additional funding sources that will be required to complete the CIP and are subject to a variety of assumptions, including the completion of all projects in the CIP according to schedule. See APPENDIX A—"FEASIBILITY REPORT—FINANCIAL ANALYSIS" and "THE PORT'S FINANCES AND OPERATIONS—Projected Debt Service Coverage."

ESTIMATED SOURCES AND USES OF BOND PROCEEDS

The estimated sources and uses of the proceeds of the 2002 Bonds are as follows:

SOURCES OF FUNDS	Series L	Series M
Par Amount	$ 401,530,000.00	$ 218,470,000.00
Plus Net Original Issue Premium		11,630,581.25
Less Net Original Issue Discount	(6,723,280.90)	
Total	$ 394,806,719.10	$ 230,100,581.25
USES OF FUNDS		
Refunding of CP Notes(1)	$ 145,000,000.00	$ 5,000,000.00
Project Costs(2)	160,768,179.41	183,219,790.60
Allocable Portion of Reserve Fund	27,218,703.44	14,809,528.90
Capitalized Interest	54,470,173.83	23,456,505.41
Costs of Issuance(3)	7,349,662.42	3,614,756.34
Total	$ 394,806,719.10	$ 230,100,581.25

(1) See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Subordinated Obligations-Commercial Paper."

(2) To finance the costs of certain capital improvements, including construction costs and related overhead and indirect costs.

(3) Includes the bond insurance premium, legal fees, fees of the Trustee, Underwriters' discount, rating agencies fees, printing costs and certain miscellaneous expenses.

DESCRIPTION OF THE 2002 BONDS

General

The 2002 Bonds will be dated their date of delivery and will bear interest from that date at the rates set forth on the inside cover of this Official Statement. Interest on the 2002 Bonds will be payable on November 1, 2002 and semiannually on each May 1 and November 1 thereafter. The 2002 Bonds will be issued in denominations of $5,000 or integral multiples thereof and will mature in the respective principal amounts shown on the inside cover page of this Official Statement. Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The 2002 Bonds will be issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2002 Bonds. Individual purchases may be made in book-entry form only. Purchasers will not receive certificates representing their interest in the 2002 Bonds purchased. So long as Cede & Co. is the registered owner of the 2002 Bonds, as nominee of DTC, references herein to the Bondholders or registered owners shall mean Cede & Co. and shall not mean the Beneficial Owners of the 2002 Bonds.

So long as Cede & Co. is the registered owner of the 2002 Bonds, principal of and interest and premium, if any, on the 2002 Bonds are payable by wire transfer by the Trustee, as Paying Agent, to Cede & Co., which is required, in turn, to remit such amounts to DTC's participants for subsequent disbursement to the Beneficial Owners. See APPENDIX D—"BOOK-ENTRY SYSTEM."

Optional Redemption

The 2002 Bonds maturing on and after November 1, 2013 are subject to optional redemption prior to maturity, in whole or in part, from any moneys that may be provided for such purpose on or after November 1, 2012 at a redemption price of 100% of the principal amount of such Bonds, plus accrued interest to the date fixed for redemption.

Mandatory Sinking Fund Redemption

The Series L Bonds bearing interest at a rate of 5.25% per annum and maturing on November 1, 2027 are subject to mandatory sinking fund redemption at a redemption price equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, on November 1 of the following years and in the following principal amounts:

Year	Principal Amount
2024	$ 925,000
2025	975,000
2026	1,030,000
2027*	1,085,000

* Final Maturity

The Series L Bonds bearing interest at a rate of 5.375% per annum and maturing on November 1, 2027 are subject to mandatory sinking fund redemption at a redemption price equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, on November 1 of the following years and in the following principal amounts:

Year	Principal Amount
2024	$27,210,000
2025	28,710,000
2026	30,295,000
2027*	31,965,000

* Final Maturity

The Series L Bonds maturing on November 1, 2032 are subject to mandatory sinking fund redemption at a redemption price equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, on November 1 of the following years and in the following principal amounts:

Year	Principal Amount
2028	$34,810,000
2029	36,595,000
2030	38,475,000
2031	40,445,000
2032*	42,520,000

* Final Maturity

On or before the 45th day prior to any mandatory sinking fund redemption date, the Twelfth Supplemental Trust Indenture requires the Trustee to select for redemption (by lot in such manner as the Trustee may determine) from the 2002 Bonds subject to such redemption, an aggregate principal amount of 2002 Bonds equal to the amount to be redeemed on that date as set forth in the tables above and to call for redemption such 2002 Bonds, or portions thereof. At the option of the Board, the Board's obligation with respect to any mandatory sinking fund redemption requirement may be satisfied by delivering to the Trustee for cancellation 2002 Bonds subject to such redemption or by specifying a principal amount of such 2002 Bonds that have been previously canceled or redeemed but not credited against such mandatory sinking fund redemption requirement.

Notice of Redemption; Cessation of Interest

The Twelfth Supplemental Trust Indenture requires that the Trustee, at least 30 days but not more than 60 days before each redemption, mail a notice of redemption by first-class mail to each owner of a 2002 Bond to be redeemed at the owner's registered address; provided that, with respect to 2002 Bonds held by DTC, such notice is to be sent to DTC by express delivery service. Failure to give any required notice of redemption as to any particular 2002 Bonds will not affect the validity of the call for redemption of any 2002 Bonds in respect of which no such failure occurs. Any notice sent as provided in the Twelfth Supplemental Trust Indenture will be conclusively presumed to have been given whether or not actually received by the addressee. When notice of redemption is given, 2002 Bonds called for redemption become due and payable on the redemption date at the applicable redemption price. In the event that sufficient funds are deposited with the Trustee for redemption, interest on the 2002 Bonds to be redeemed will cease to accrue as of the redemption date.

SECURITY AND SOURCES OF PAYMENT FOR THE 2002 BONDS

Pledged Revenues

All Parity Bonds, including the 2002 Bonds, are limited obligations of the Port payable solely from and secured by a pledge of the Port's gross revenues (as further described in the following paragraph, the "Pledged Revenues"), subject to certain exclusions described below. The 2002 Bonds are also secured by amounts held in certain funds and accounts pursuant to the Twelfth Supplemental Trust Indenture, as further described herein.

Pledged Revenues is defined in the Indenture as all income, receipts, earnings and revenues received by, held by, accrued to or entitled to be received by the Board or any successors thereto from the operation and/or ownership of the Port or any of the Port Facilities (as defined in the Indenture) or activities and undertakings related thereto or from any other facilities wherever located with respect to which the Board receives payments and from the investment of amounts held in the Port Revenue Fund, including, but not limited to, (i) rates, tolls, fees, rentals, charges and other payments made to or owed to the Board for the use or availability of property or facilities, (ii) amounts received or owed from the sale or provision of supplies, materials, goods and services provided by or made available by the Board, (iii) Net Proceeds and rental or business interruption insurance proceeds, (iv) amounts held in the Port Revenue Fund, and (v) revenues of Oakland Portside Associates, a California limited partnership ("OPA"). Pledged Revenues also include such additional revenues, if any, as are designated as Pledged Revenues under the terms of any Supplemental Indenture.

The following are specifically excluded under the Indenture from the definition of Pledged Revenues: (i) any amounts received by the Board from ad valorem taxes, (ii) gifts, grants, Passenger Facility Charges and Customer Facility Charges that are restricted by their terms to purposes inconsistent with the payment of debt service on the Bonds, (iii) insurance proceeds to the extent the use of such proceeds is restricted by the terms of the policy under which they are paid to a use inconsistent with the payment of debt service on the Bonds and (iv) Special Facilities Revenues (as defined below under "SECURITY AND SOURCES OF PAYMENT FOR THE 2002 BONDS—Special Obligations").

THE 2002 BONDS ARE NOT A DEBT, LIABILITY OR OBLIGATION OF THE CITY OF OAKLAND, THE STATE, OR ANY PUBLIC AGENCY THEREOF (OTHER THAN THE PORT), AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF ANY OF THE FOREGOING IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, OR INTEREST OR PREMIUM, IF ANY, ON THE 2002 BONDS. THE 2002 BONDS ARE LIMITED OBLIGATIONS OF THE PORT PAYABLE SOLELY FROM AND SECURED BY PLEDGED REVENUES AND THE AMOUNTS HELD IN CERTAIN FUNDS AND ACCOUNTS SPECIFIED IN THE TWELFTH SUPPLEMENTAL TRUST INDENTURE. THE PORT HAS NO POWER OF TAXATION.

Reserve Fund

The Twelfth Supplemental Trust Indenture establishes a Reserve Fund for the 2002 Bonds (the "Reserve Fund"). The initial Reserve Fund Requirement for the 2002 Bonds is $42,028,232.34, representing the average annual debt service due with respect to the 2002 Bonds as of their date of issuance. The Reserve Fund Requirement is subject to adjustment upon any partial redemption or defeasance of the 2002 Bonds. Similar reserve funds also have been established for other series of Parity Bonds currently outstanding. The 2002 Bonds will not have any claim on amounts held in reserve funds for other Parity Bonds, and the other Parity Bonds will not have any claim on amounts held in the Reserve Fund for the 2002 Bonds.

Moneys or instruments held in the Reserve Fund are intended to be used to pay principal and interest on the 2002 Bonds. The Reserve Fund may be drawn upon if the amounts in the Debt Service Fund for either the Series L Bonds or the Series M Bonds are insufficient to pay in full any principal or interest then due on such series of 2002 Bonds. Moneys held in the Reserve Fund may also be used to make any deposit required to be made to the Rebate Fund created for the 2002 Bonds if the Board does not have other funds available from which such deposit can be made.

The Board may, in lieu of a deposit of cash or securities, obtain one or more Reserve Fund Insurance Policies. A Reserve Fund Insurance Policy may be an insurance policy, letter of credit, surety bond or other financial instrument deposited in the Reserve Fund in lieu of or partial substitution for cash or securities. Any such Reserve Fund Insurance Policy must either extend to the final maturity of the 2002 Bonds or the Board agrees to endeavor to replace such Reserve Fund Insurance Policy prior to its expiration with cash or another Reserve Fund Insurance Policy. If the Board is unable to replace such Reserve Fund Insurance Policy with another Reserve Fund Insurance Policy or with cash, it will instruct the Trustee to draw upon the Reserve Fund Insurance Policy prior to its expiration and to deposit the proceeds of such draw in the Reserve Fund.

When the 2002 Bonds are paid in full or are deemed to be paid in full in accordance with the Indenture, moneys in the Reserve Fund may be used to pay the final installments of principal of and interest on the 2002 Bonds. Such amounts also may be withdrawn and transferred to the Board to be used for any lawful purpose, but only upon receipt by the Trustee of an opinion of bond counsel to the effect that the purpose for which such funds are to be used is lawful under the Charter and will not result in the inclusion of interest on the 2002 Bonds in gross income of the recipients thereof for federal income tax purposes.

Rate Covenants

The Board has covenanted in the Indenture to establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with the Port and for services rendered in connection with the Port so that in each Fiscal Year (i) Net Revenues will be equal to at least 1.25 times the actual debt service becoming due on Parity Bonds (including the 2002 Bonds) in such year less debt service paid in such year from the proceeds of other borrowings and from Capitalized Interest; and (ii) Pledged Revenues will be at least sufficient to pay principal of and interest on the Parity Bonds (including the 2002 Bonds) due in such year, all other payments required under the Indenture or any Supplemental Indenture (including deposits to any reserve fund), all other payments necessary to meet ongoing legal obligations of the Port payable from Pledged Revenues and all current Operation and Maintenance Expenses (as defined in the Indenture). A breach of either of these covenants by the Board, however, will not constitute an Event of Default under the Indenture if the Board takes certain remedial actions prescribed in the Indenture within 120 days of discovering such breach. See APPENDIX C—"SUMMARIES OF THE TRUST INDENTURE AND THE TWELFTH SUPPLEMENTAL TRUST INDENTURE—Rate Covenant."

The Port's ability to increase revenues in the near term is limited by the competitive nature of the Port's businesses, the nature of the various agreements and arrangements the Port has with various tenants, and federal statutes governing the use of airport revenues, rates and charges. See "THE PORT'S FINANCES AND OPERATIONS." For a summary of the Port's historical and projected debt service coverage, see "THE PORT'S FINANCES AND OPERATIONS—Historical Debt Service Coverage" and "—Projected Debt Service Coverage." See also "INVESTOR CONSIDERATIONS—Restricted Use of Airport Revenues."

Flow of Funds under City Charter

The application of the Port's revenues is governed by certain provisions of the Charter. Under Section 717(3) of the Charter, all income and revenue from the operation of the Port or from Port Facilities, of whatever kind or nature, and all net income from leases or any other source of income or revenue, is to be deposited in a special fund in the City Treasury designated as the "Port Revenue Fund." Under Section 717(3), all moneys in the Port Revenue Fund must be applied as follows:

First, to pay principal of and interest on, as the same become due and payable, any or all general obligation bonds of the City issued for Port purposes, but only to the extent required by the Constitution of the State or otherwise as determined by resolution of the Board;

Second, to pay the principal of and interest on revenue bonds, or other evidences of indebtedness payable solely from revenues in accordance with the Charter, which are due or become due during the Fiscal Year in which the revenues are received or are to be received, together with reserve fund payments, sinking fund payments or similar charges in connection with such revenue bonds due or to become due in such Fiscal Year;

Third, to pay all costs of maintenance and operation of the facilities from or on account of which such money was received, together with general costs of administration and overhead allocable to such facilities;

Fourth, to defray the expenses of any pension or retirement system applicable to the employees of the Board;

Fifth, for necessary additions, betterments, improvements, repairs or replacements of any facilities;

Sixth, to establish and maintain reserve or other funds to insure the payment on or before maturity of any or all general obligation bonds of the City issued for any facility under the control of the Board, but only to the extent required by the Constitution of the State or otherwise as determined by resolution of the Board;

Seventh, to establish and maintain reserve or other funds to insure the payment on or before maturity of any or all revenue bonds of the Board;

Eighth, to establish and maintain such other reserve funds pertaining to the facilities of the Board as determined by a resolution or resolutions of the Board; and

Ninth, for transfer to the General Fund of the City, to the extent that the Board determines that surplus moneys exist in such fund which are not then needed for any of the above purposes.

The payment of the 2002 Bonds and all other Parity Bonds falls within the second category listed above.

There are currently no outstanding general obligation bonds of the City issued for Port purposes. The Board has covenanted in the Indenture that it will not adopt a resolution permitting the use of Pledged Revenues to pay debt service on the City's general obligation bonds.

The Charter may be amended by a majority vote of the City's electorate. However, a Charter amendment could not revoke the pledge of Pledged Revenues under the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2002 BONDS—Pledged Revenues." The Indenture, however, does not include any flow of funds provisions for, nor does it impose any restrictions on, direct or indirect payments by the Port to the City. Therefore, the existing Charter provisions regarding the priority of application of Port revenues (other than the pledge of Pledged Revenues) and the limitations on payments to the City could be amended without violating any existing provisions of the Indenture. Certain existing provisions of State and federal law, however, may otherwise limit payments to the City. See "THE PORT OF OAKLAND—Aviation Division—Airport Agreements and Rate Setting—Non-Diversion of Airport Revenues" and "THE PORT'S FINANCES AND OPERATIONS—Tideland Trust Properties."

Other Funds and Accounts

Debt Service Funds. For a description of the Debt Service Funds established for the 2002 Bonds and certain other funds and accounts created by the Twelfth Supplemental Trust Indenture, see APPENDIX C—"SUMMARIES OF THE TRUST INDENTURE AND THE TWELFTH SUPPLEMENTAL TRUST INDENTURE—TWELFTH SUPPLEMENTAL TRUST INDENTURE—Establishment of Funds."

Port Bond Reserve Fund. In 1989, the Board adopted a resolution establishing a Port Bond Reserve Fund (the "Port Bond Reserve Fund") to be used, first, to ensure timely payment of debt service on all outstanding revenue bonds of the Port, and, second, to fund emergency capital expenditures or extraordinary operating and maintenance expenses. The Port Bond Reserve Fund is an internal fund of the Port funded with Port revenues (not Bond proceeds) and is separate from all Reserve Funds established under the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2002 BONDS—Reserve Fund" above. Funds may be released from the Port Bond Reserve Fund only upon the recommendation of the Port's Chief Financial Officer and the approval of the Board. On November 19, 1996, the Board adopted a resolution providing that the amount in the Port Bond Reserve Fund shall be equal to, and shall not exceed, $30 million.

The Board is not obligated under the Indenture to maintain the Port Bond Reserve Fund, and the Port Bond Reserve Fund could be revised or eliminated at any time by the Board.

Operating Reserve Fund. The Port has established an operating reserve fund (the "Operating Reserve Fund") within the Port Revenue Fund, which is to be funded in an amount equal to 12.5% of the Port's approved annual operating expense budget (the "Operating Reserve Requirement"). The Port's Chief Financial Officer may withdraw funds from the Operating Reserve Fund for unanticipated working capital requirements of the Port, subject, in each case, to any other applicable requirements of the Board. The Port's Chief Financial Officer must report to the Board (i) quarterly on the status of the Operating Reserve Fund and (ii) whenever the Operating Reserve Fund falls below the Operating Reserve Requirement. The balance of the Operating Reserve Fund as of July 1, 2002 was approximately $13 million and satisfied the Operating Reserve Requirement.

The Board is not obligated under the Indenture to maintain the Operating Reserve Fund. The Operating Reserve Fund could be revised or eliminated at any time by the Board.

Additional Bonds

The Board is not subject to any Charter or other statutory limitations on the amount of revenue debt it can issue, nor is it required to seek voter approval for the issuance of revenue debt. The Board has covenanted in the Indenture not to issue Additional Bonds or any other obligations payable from or secured by a pledge of or lien on Pledged Revenues prior or superior to that of the 2002 Bonds and other Parity Bonds. However, subject to certain limitations specified in the Indenture, the Board may issue Additional Bonds payable from and secured by an equal pledge of Pledged Revenues.

Additional Bonds may be issued under the terms of the Indenture on a parity with the 2002 Bonds and all other Parity Bonds (with respect to the pledge of Pledged Revenues), including but not limited to bonds, notes, bond anticipation notes, commercial paper and other instruments creating an indebtedness of the Board, and obligations incurred through lease or installment purchase agreements or other agreements or certificates of participation in such agreements. See APPENDIX C—"SUMMARIES OF THE TRUST INDENTURE AND THE TWELFTH SUPPLEMENTAL TRUST INDENTURE—Additional Bonds."

The Port estimates that following issuance of the 2002 Bonds it will issue approximately $52.3 million of Additional Bonds during the next three years. Proceeds of Additional Bonds, together with other projected funding sources, are expected to fund the remaining projects in the Port's CIP. Such Additional Bonds may also fund projects currently contemplated by the Port but not yet determined to be feasible within the time period covered by the CIP. If the Port proceeds in the future with the projects described below under "THE PORT OF OAKLAND—Aviation Division—Airport Development Program" or "—Maritime Division—Maritime Development Projects—OAB Project," the Port anticipates that a significant portion of the costs for such projects (including related overhead and indirect costs), which are currently estimated at $1 billion and $400 million, respectively, would likely be funded from time to time, possibly within the time frame of the current CIP, with the proceeds of Additional Bonds and other funding sources. The Port is also likely to undertake additional capital projects from time to time after completion of the CIP. See “CAPITAL IMPROVEMENT PROGRAM” and APPENDIX A—“FEASIBILITY REPORT—FINANCIAL ANALYSIS—Consolidated Financing Plan—Revenue Bond Proceeds.”

Repayment Obligations

Under certain circumstances described in APPENDIX C—“SUMMARIES OF THE TRUST INDENTURE AND THE TWELFTH SUPPLEMENTAL TRUST INDENTURE—THE TRUST INDENTURE—Repayment Obligations,” the obligation of the Board to reimburse the provider of a Credit Facility or a Liquidity Facility (a “Repayment Obligation”) may be secured by a pledge of and lien on Pledged Revenues on a parity with the 2002 Bonds. The Port currently has no Repayment Obligations outstanding.

Special Obligations

The Board may designate an existing facility or a planned facility as a “Special Facility” and may incur indebtedness in order to finance the acquisition, construction, renovation or improvement of such facility by a third party. Additionally, the Board may provide that all income and revenues derived by the Board from such Special Facility will constitute “Special Facilities Revenues” and will not be included as Pledged Revenues. Such indebtedness will constitute a “Special Obligation” and will be payable solely from the Special Facilities Revenues.

The Board previously authorized and issued the Port of Oakland, California, Special Facilities Revenue Bonds, 1992 Series A (Mitsui O.S.K. Lines, Ltd. Project), in an original aggregate principal amount of $53,300,000, of which $37,285,000 was outstanding as of July 2, 2002. To the extent the aggregate income and revenues obtained by the Port in connection with the Special Facilities exceed the Special Obligation for a particular Fiscal Year, such excess will be deposited in the Port Revenues Fund and will constitute Pledged Revenues. Upon satisfaction of all obligations in connection with such Special Facilities Bonds, all revenues from the related facilities will be included in the Pledged Revenues. See APPENDIX C—“SUMMARIES OF THE TRUST INDENTURE AND THE TWELFTH SUPPLEMENTAL TRUST INDENTURE—Special Obligations” for a discussion of Special Facilities and Special Facilities Revenues.

Subordinated Obligations

Pursuant to the Indenture, the Board may at any time issue or incur obligations secured by a lien on Pledged Revenues that is subordinate and junior to the lien on Pledged Revenues securing the 2002 Bonds and all other Parity Bonds. Certain existing Subordinated Obligations of the Board are described below. The aggregate amount of the Port’s Subordinated Obligations as of July 2, 2002 was $313,401,546.

Commercial Paper. The Port initiated a commercial paper program in 1998 to provide moneys to pay, among other things, a portion of the costs of the acquisition, construction, reconstruction, improvement and expansion of the Port’s facilities. The Port has used, and expects to continue using, its commercial paper program to provide funding for the CIP. To date, the Port has authorized the issuance of commercial paper notes (the “CP Notes”) in a principal amount not to exceed $300 million. As of July 2, 2002, $300,000,000 principal amount of CP Notes was outstanding. The Port intends to redeem approximately $150 million of the outstanding CP Notes with the proceeds of the 2002 Bonds. See “CAPITAL IMPROVEMENT PROGRAM—The Plan for Funding the CIP” for further discussion regarding the use of Note proceeds to fund the CIP.

The CP Notes are payable from “Available Pledged Revenues,” which is defined in the indentures relating to the CP Notes to mean Pledged Revenues after payment of (i) first, all amounts required to be paid and then due and payable under the Indenture for the principal, interest, reserve fund and any other debt service requirements or related obligations on any Parity Bonds issued under the Indenture, and (ii) second, any debt service requirements then due and payable on any loans and other evidences of indebtedness owing to the State’s Department of Boating and Waterways (“DBW”). Payment of the CP Notes is supported by one of two separate direct-pay letters of credit, one issued by Commerzbank Aktiengesellschaft and The Bank of Nova Scotia, which expires on October 14, 2003;

and the other issued by Bank of America, N.A. and Morgan Guaranty Trust Company, which expires on September 15, 2005.

DBW Loans. In connection with renovation of the Jack London Square marinas in 1999, the Port received a loan from the DBW in an authorized amount of up to $7,176,000, bearing interest at a rate of 4.5% per annum. As of June 30, 2002, the entire authorized amount had been drawn against this DBW loan. In addition, the Port has other outstanding obligations to DBW. As of June 30, 2002, the total amount of outstanding obligations to DBW totaled $10,747,917. The Port's obligation to repay its DBW loans from Pledged Revenues is subordinate to the payment of the 2002 Bonds and other Parity Bonds but senior to the payment of the CP Notes. The Port is currently considering plans to privatize the management of its marinas. Because of the existing covenants in the documentation relating to the DBW loans, at least a portion of the DBW loans will have to be repaid and the documentation relating thereto will have to be amended before any privatization. For further discussion regarding the privatization of the marinas, see "THE PORT OF OAKLAND—Commercial Real Estate Division—Privatization of Marinas."

GE Capital Loan. The Port entered into a tax-exempt financing agreement with GE Capital for the purchase of five 40-foot AirBART shuttle buses and fifteen 35-foot parking lot shuttle buses. The financing agreement provides for a loan of $5 million (of which $2,653,629 was outstanding as of June 30, 2002) bearing interest at 4.89% and repayable over a seven-year term, effective November 9, 1998. GE Capital holds a lien on these buses.

Other Financial Obligations. Pursuant to the Indenture, the Port also has the ability to issue other types of subordinated obligations and could issue bonds secured by a lien on revenues other than Pledged Revenues, such as Passenger Facility Charges and Customer Facilities Charges. See APPENDIX C—"SUMMARIES OF THE TRUST INDENTURE AND THE TWELFTH SUPPLEMENTAL TRUST INDENTURE—Subordinated Obligations." The Port has undertaken a variety of other direct and indirect financial and contractual obligations payable from Pledged Revenues that are subordinate to all Parity Bonds.

MUNICIPAL BOND INSURANCE

The following information has been furnished by the Bond Insurer for use in this Official Statement. The Port makes no representation as to the accuracy or the completeness of such information or as to the absence of material adverse changes in such information subsequent to the date hereof. Reference is made to Appendix G for a specimen of the Policy (as hereinafter defined) issued by the Bond Insurer with respect to the 2002 Bonds.

The Policy

Concurrently with the issuance of the 2002 Bonds, Financial Guaranty Insurance Company, doing business in California as FGIC Insurance Company ("Financial Guaranty"), will issue its Municipal Bond New Issue Insurance Policy (the "Policy") for the 2002 Bonds described in the Policy. The Policy unconditionally guarantees the payment of that portion of the principal or accreted value (if applicable) of and interest on the 2002 Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the issuer of the 2002 Bonds (the "Issuer"). Financial Guaranty will make such payments to State Street Bank and Trust Company, N.A., or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal or accreted value (if applicable) and interest is due or on the business day next following the day on which Financial Guaranty shall have received telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from an owner of 2002 Bonds or the Paying Agent of the nonpayment of such amount by the Issuer. The Fiscal Agent will disburse such amount due on any 2002 Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal, accreted value or interest (as applicable) due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal, accreted value or interest (as applicable) shall be vested in Financial Guaranty. The term "nonpayment" in respect of a 2002 Bond includes any payment of principal, accreted value or interest (as applicable) made to an owner of a 2002 Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

The Policy is non-cancellable and the premium will be fully paid at the time of delivery of the 2002 Bonds. The Policy covers failure to pay principal or accreted value (if applicable) of the 2002 Bonds on their respective stated maturity dates or dates on which the same shall have been duly called for mandatory sinking fund redemption, and not on any other date on which the 2002 Bonds may have been otherwise called for redemption, accelerated or advanced in maturity, and covers the failure to pay an installment of interest on the stated date for its payment.

Generally, in connection with its insurance of an issue of municipal securities, Financial Guaranty requires, among other things, (i) that it be granted the power to exercise any rights granted to the holders of such securities upon the occurrence of an event of default, without the consent of such holders, and that such holders may not exercise such rights without Financial Guaranty's consent, in each case so long as Financial Guaranty has not failed to comply with its payment obligations under its insurance policy; and (ii) that any amendment or supplement to or other modification of the principal legal documents be subject to Financial Guaranty's consent. The specific rights, if any, granted to Financial Guaranty in connection with its insurance of the 2002 Bonds are set forth in the description of the principal legal documents in Appendix C.

This Official Statement contains a section regarding the ratings assigned to the 2002 Bonds and reference should be made to such section for a discussion of such ratings and the basis for their assignment to the 2002 Bonds.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

The Bond Insurer

Financial Guaranty is a wholly-owned subsidiary of FGIC Corporation (the "Corporation"), a Delaware holding company. The Corporation is a subsidiary of General Electric Capital Corporation ("GE Capital"). Neither the Corporation nor GE Capital is obligated to pay the debts of or the claims against Financial Guaranty. Financial Guaranty is a monoline financial guaranty insurer domiciled in the State of New York and subject to regulation by the State of New York Insurance Department. As of March 31, 2002, the total capital and surplus of Financial Guaranty was approximately $1.03 billion. Financial Guaranty prepares financial statements on the basis of both statutory accounting principles and generally accepted accounting principles. Copies of such financial statements may be obtained by writing to Financial Guaranty at 125 Park Avenue, New York, New York 10017, Attention: Communications Department (telephone number: 212-312-3000) or to the New York State Insurance Department at 25 Beaver Street, New York, New York 10004-2319, Attention: Financial Condition Property/Casualty Bureau (telephone number: 212-480-5187).

DEBT SERVICE SCHEDULE

The following table sets forth the debt service schedule, as of July 1, 2002, for the Outstanding Parity Bonds and the debt service schedule for the 2002 Bonds.

TABLE 1

PORT OF OAKLAND
PARITY BONDS DEBT SERVICE SCHEDULE[1]

Fiscal Year[2]	Debt Service on Outstanding Parity Bonds	2002 Bonds			Total Parity Bonds Debt Service
		Principal	Interest	Total 2002 Bonds Debt Service	
2003	$ 60,503,416		$22,533,813	$22,533,813	$ 83,037,229
2004	60,502,614		30,844,763	30,844,763	91,347,377
2005	60,503,154		30,844,763	30,844,763	91,347,917
2006	67,304,180		30,844,763	30,844,763	98,148,943
2007	67,304,961		30,844,763	30,844,763	98,149,724
2008	67,307,886	$ 6,290,000	30,750,413	37,040,413	104,348,299
2009	67,308,436	11,115,000	30,489,338	41,604,338	108,912,774
2010	67,303,346	13,495,000	30,086,450	43,581,450	110,884,796
2011	67,306,526	13,975,000	29,605,725	43,580,725	110,887,251
2012	67,305,146	14,560,000	29,022,838	43,582,838	110,887,984
2013	67,310,465	15,245,000	28,338,088	43,583,088	110,893,553
2014	67,308,696	15,980,000	27,600,719	43,580,719	110,889,415
2015	67,304,934	16,785,000	26,797,434	43,582,434	110,887,368
2016	67,305,686	17,660,000	25,924,144	43,584,144	110,889,830
2017	67,304,903	18,605,000	24,979,588	43,584,588	110,889,491
2018	67,304,288	19,595,000	23,983,800	43,578,800	110,883,088
2019	67,311,238	20,655,000	22,929,425	43,584,425	110,895,663
2020	67,305,591	21,765,000	21,815,900	43,580,900	110,886,491
2021	44,628,338	22,950,000	20,632,016	43,582,016	88,210,354
2022	44,631,895	24,170,000	19,415,213	43,585,213	88,217,108
2023	44,629,051	25,405,000	18,175,838	43,580,838	88,209,889
2024	44,632,397	26,710,000	16,872,963	43,582,963	88,215,360
2025	44,628,038	28,135,000	15,449,663	43,584,663	88,212,701
2026	44,633,209	29,685,000	13,896,938	43,581,938	88,215,147
2027	44,627,638	31,325,000	12,258,547	43,583,547	88,211,185
2028	29,633,156	33,050,000	10,529,791	43,579,791	73,212,947
2029	29,629,969	34,810,000	8,772,000	43,582,000	73,211,969
2030	29,631,969	36,595,000	6,986,875	43,581,875	73,213,844
2031	29,630,559	38,475,000	5,110,125	43,585,125	73,215,684
2032	-	40,445,000	3,137,125	43,582,125	43,582,125
2033	-	42,520,000	1,063,000	43,583,000	43,583,000
TOTAL	$1,622,041,685	$620,000,000	$650,536,813	$1,270,536,813	$2,892,578,498

(1) Totals may not add due to rounding.

(2) Debt Service on the 2002 Bonds and all other Parity Bonds is payable on May 1 and November 1 of each fiscal year.

Source: Port of Oakland

THE PORT OF OAKLAND

The City has operated a public harbor to serve waterborne commerce since its incorporation in 1852. The City has operated an airport since 1927. Exclusive control and management of the harbor and the Airport were delegated to the Board in 1927 by an amendment to the Charter.

The Board has exclusive control and management of the Port Area, all of the Port's facilities and property, real and personal, all income and revenues of the Port, and proceeds of all bond sales initiated by it for harbor or airport improvements or for any other purposes. Under the Charter, the Port is an independent department of the City.

The Board has the power under the Charter to fix, alter, change or modify the rates, tolls, fees, rentals and charges for the use of the Port's facilities and any services provided in connection with the Port's facilities. A substantial portion of the Port's revenues are governed by lease, use, license and other agreements with the Port's tenants and customers. The Port has only a limited ability to increase revenues under certain of those agreements during their respective terms.

The Port has three revenue-producing divisions: Aviation, Maritime and Commercial Real Estate. Total Port operating revenues were approximately $197,170,000 for Fiscal Year 2001 and approximately $152,104,000 for the nine months ended March 31, 2002. In Fiscal Year 2001, the Aviation Division produced 52.3% of total Port operating revenues, the Maritime Division produced 39.5% of total Port operating revenues, and the Commercial Real Estate Division (including OPA) produced 8.2% of total Port operating revenues. For the nine-month period ended March 31, 2002, the Aviation Division produced 51.7% of total Port operating revenues, the Maritime Division produced 40.2% of total Port operating revenues, and the Commercial Real Estate Division (including OPA) produced 8.1% of total Port operating revenues. See "THE PORT'S FINANCES AND OPERATIONS."

Port Management

The Board. The Board consists of seven members appointed for four-year staggered terms by the City Council upon nomination by the Mayor of the City, as provided in the Charter. Members of the Board must be residents of the City and serve without compensation. Board members may be removed from office only for cause and by the affirmative vote of six of the eight members of the City Council. Following is a list of the current members of the Board, together with each member's principal occupation, service commencement date as a Board member and the expiration date of the current term being served.

TABLE 2

PORT OF OAKLAND
BOARD OF PORT COMMISSIONERS

Name	Occupation	Service Commenced	Term ends (July 10)
Frank Kiang President	Chairman & Chief Executive Officer, Metropolitan Bank	July 1998	2001[(1)]
John Protopappas First Vice President	Principal, Madison Park Financial Corp.	April 2000	2003
Patricia Scates Second Vice President	Senior Vice-President and Regional Manager of Commercial Banking, Wells Fargo Bank	July 2000	2004
Darlene Ayers-Johnson Commissioner	Principal, Ayers-Johnson & Associates, Public Policy Consultants	July 2000	2004
David Kramer Commissioner	Executive Director, SEIU Local 535	October 1995	2003
Phillip Tagami Commissioner	Managing Partner, California Commercial Investments	April 2000	2002[(1)]
Peter Uribe Commissioner	President and Senior Geologist, Uribe & Associates, Engineering and Environmental Consultants	August 1998	2001[(1)]

(1) Currently serves in a holdover status until replaced by formal action of the Mayor and City Council. See "Appointment of Port Commissioners" immediately below.

Appointment of Port Commissioners. The Charter creates the Board, provides for the manner of appointment of the seven Port Commissioners and establishes their terms of office. The Commissioners whose terms of office have expired continue in office in a holdover status until replaced by formal action of the Mayor and City Council as provided in the Charter.

Senior Port Management and Port Officials. The Port's administrative staff is headed by the Port's Executive Director. Reporting directly to the Executive Director are the Deputy Executive Director, Director of Communications, Director of Engineering and the Division Directors of Maritime, Aviation and Commercial Real Estate. Reporting to both the Board and the Executive Director are the Port Attorney, the Port Auditor and the Secretary of the Board. Reporting to the Deputy Executive Director are the Chief Financial Officer and the Directors of Strategic and Policy Planning, Corporate Administrative Services, Social Responsibility, and Equal Opportunity. The principal members of the senior management of the Port are set forth below.

Tay Yoshitani was appointed Executive Director of the Port in October 2001. Mr. Yoshitani is responsible for the administration and operations of the Port organization and reports to the Board. From May 1998 until his appointment as Executive Director, Mr. Yoshitani served as the Port's Deputy Executive Director. Prior to joining the Port, Mr. Yoshitani served as the Executive Director of the Maryland Port Administration for three years. Prior to his tenure in Maryland, he served as the Deputy Executive Director of the Port of Los Angeles for six years. Mr. Yoshitani is a graduate of the United States Military Academy and holds an M.B.A. from the Harvard Graduate School of Business Administration.

John Glover was appointed Deputy Executive Director in October 2001. Prior to the appointment, he was the Director of Strategic Policy Planning for the Port. Mr. Glover first joined the Port in 1970 as an airport planner and advanced to the position of the Director of Strategic and Management Planning in 1986. Mr. Glover received his Bachelor's Degree in Architecture and his Master's Degree in Transportation Engineering from the University of California at Berkeley. He is a Member of the American Planning Association and the Transportation Research Board and has served as an advisor to the U.S. Congressional Office of Technology Assessment and the Transportation Research Board.

David L. Alexander, Esq. was appointed Port Attorney by the Board on May 15, 1996. Mr. Alexander is the Port's chief legal officer, with responsibility to provide all advice to the Board, its officers and employees relating to the wide range of legal affairs that arise in the conduct of the Port's business. These include all contracts, litigation, administrative proceedings, environmental matters and all other matters affecting the interests of the Port. Prior to his appointment as Port Attorney, Mr. Alexander was a partner in the Oakland law firm of Wendel, Rosen, Black & Dean for four years. Mr. Alexander was managing partner of Alexander, Millner & McGee and of Alexander & Associates from 1978 to 1992, with additional private practice experience prior thereto. Prior to his appointment as Port Attorney, Mr. Alexander represented public and private entities in the areas of finance, real estate, specialized litigation and government affairs. Mr. Alexander received his Bachelor of Arts Degree from the University of California at Berkeley in 1970 and his Juris Doctorate from the University of California at Berkeley (Boalt Hall School of Law) in 1973.

Douglas Waring was appointed Port Auditor by the Board on September 1, 1999. Mr. Waring is responsible for all internal audits of the Port organization and reports to the Executive Director and the Board. Mr. Waring began working with the Port as a financial consultant in 1989. He later joined the Port in 1993 and served as Budget and Analysis Manager until 1996 when he was appointed as Assistant Port Auditor. Mr. Waring was Chief Financial Officer of Duffel Financial and Construction from 1986 to 1988. He served as Director of Internal Audit Services for Itel Corporation from 1984 to 1986 and Director of Audit Services worldwide for Dillingham Corporation from 1972 to 1984. Mr. Waring graduated as a Chartered Accountant from the Institute of Chartered Accountants in England and Wales.

John T. Betterton was appointed Secretary of the Board on February 19, 2002. Mr. Betterton is responsible for providing notices of all public meetings of the Board and its Committees, compiling and publishing records of all actions taken by the Board and assuring that all bids for Port contracts are received on time and opened in public. Prior to his appointment, Mr. Betterton was an employee of the City, where he served as Deputy Chief of Staff to the City Manager, and as Senior Aide to Oakland Mayor Jerry Brown. Mr. Betterton received a Bachelor of Arts Degree in Philosophy and Political Science from the University of Tennessee.

Fred W. Rickert was appointed Chief Financial Officer in June 1998. Mr. Rickert has primary responsibility for the Port's finances, accounting, financial reporting, purchasing, risk management, budget and financial planning. Prior to becoming Chief Financial Officer, Mr. Rickert served as the Port's Internal Auditor. Before joining the Port in 1996, Mr. Rickert was the Accounting Director for PLM International, a company leasing $1.5 billion of transportation equipment. He also served as the Director of Internal Audit for American President Lines and was the Corporate Controller for Australia—New Zealand Direct Line, Inc. Mr. Rickert is a graduate of California State University at Hayward and holds an M.B.A. from St. Mary's College in Moraga, California.

Harold P. Jones was appointed Director of Communications on June 20, 2000. Prior to his appointment, he served as Manager of Government Affairs for the Port. Mr. Jones is responsible for direction and coordination of the Port's government and community relations activities, all media and public relations. Mr. Jones has more than 25 years of experience in the local, state and federal legislative areas. He was employed as a senior consultant for the California State Legislature-Assembly and later served as the Executive Director of two major Governor-appointed regulatory licensing boards for the State. For five years, Mr. Jones was the owner/director of a private postsecondary vocational school. He holds a Bachelor of Arts Degree in Government and Urban Affairs from Windsor University in Los Angeles and has also attended California State University at Sacramento for postgraduate studies.

Steven J. Grossman was appointed Director of Aviation in August 1992. Mr. Grossman is responsible for the operation, management and marketing of the Port's Aviation Division. Prior to joining the Port, Mr. Grossman spent nine years at San Jose International Airport, with his last position there being that of Deputy Director of Aviation in charge of Finance and Administration. Prior to serving at San Jose International Airport, he was an aviation consultant with a national engineering and planning firm. Mr. Grossman is a graduate of the State University College at Oswego in New York, and received a Master's Degree in Urban Planning in 1977 from Michigan State University.

Jerry A. Bridges was appointed Director of Maritime in September 2001. Mr. Bridges is responsible for the operations, management and marketing of the Port's Maritime Division, which includes planning and development of maritime terminal facilities. Prior to being named Director of Maritime, Mr. Bridges served as the Area Vice President Northern California for Marine Terminals Corporation. In addition, Mr. Bridges has held various operating positions with Sea Land Services and Roadway Express. Mr. Bridges also served 20 years as an officer in the U.S. Marine Corps in active/reserve status and received his Bachelor of Science Degree in Social Sciences from the Appalachian State University in Boone, North Carolina.

Omar R. Benjamin was appointed Director of Commercial Real Estate in February 1998. Mr. Benjamin is responsible for the Port's non-aviation and non-maritime properties, which include the development and management of Jack London Square, as well as hotel, office, industrial and recreational marina operations. For the two years prior to joining the Port, Mr. Benjamin was the Chief Operating Officer of Al Anwa, a real estate investment management company. At Al Anwa, Mr. Benjamin directed investment and business operations and managed a $700 million real estate investment portfolio. Mr. Benjamin also served as the Chief Operating Officer for Newfield Enterprises and worked in Paris, France for three years as an investment manager for The First Investment Capital Corporation. Mr. Benjamin is a graduate of California State University at Hayward.

Joseph K. Wong was appointed Director of Engineering in June 1997. Mr. Wong is responsible for the capital development, engineering design and construction, as well as the operations and maintenance, of all facilities and equipment for the Port. Mr. Wong has been with the Port since 1990, most recently serving as Principal Engineer managing the Design Management Department prior to his appointment as Director. Mr. Wong also served as an engineer in the City's Office of Public Works, where he managed the City's Construction Management Department and Development Services Department and oversaw the damage assessment, safety inspection and evacuation of the buildings damaged in the 1989 Loma Prieta Earthquake. Prior to joining the City, Mr. Wong worked for the Port from 1976 to 1984. Mr. Wong holds Bachelor of Science and Master of Science Degrees in Civil Engineering from the University of California at Berkeley.

Bernida Reagan was appointed Director of Social Responsibility on February 25, 2002. Ms. Reagan is responsible for developing and implementing a comprehensive approach for the Port's involvement in the communities served by the Port. Prior to her appointment, Ms. Reagan was most recently the Executive Director of the East Bay Community Law Center, a non-profit organization that provided free legal services to low-income clients in the areas of housing, public benefits, HIV-related law and economic development. Ms. Reagan currently serves on the board of the Lawyers' Committee for Civil Rights of the San Francisco Bay Area, Urban Habitat, and CitiCentre Dance Theatre. She is also a member of the Alameda County Women's Hall of Fame (1996) and has received the 1996 State Bar of California Legal Services Achievement Award for Northern California. Ms. Reagan received her Bachelor of Science Degree from University of California at Los Angeles in 1976 and her Juris Doctorate from UCLA School of Law in 1979.

Cheryl Perry-League is the Director of Equal Opportunity for the Port. She began her career at the Port in 1983 as a Contract Compliance Officer. She was promoted to Manager of the Equal Opportunity Department in 1986, and to Director of the Office of Equal Opportunity in 1991. She is responsible for implementation of the Port's Equal Opportunity Policy to ensure the Port and its tenants include local businesses and residents in all employment and business opportunities. Ms. Perry-League has a Bachelor of Arts Degree in Labor Studies from San Francisco State University and has also received certificates from the Department of Labor in labor compliance and from the University of California in business planning. Ms. Perry-League is a candidate for a Master's Degree in Human Resources and Organization Development from the University of San Francisco.

Richard J. Wiederhorn was appointed Interim Director of Strategic and Policy Planning in October 2001, after serving as Planning Manager in the Port's Office of Strategic and Policy Planning and Engineering Division since 1991. In his current position, he guides long-range planning and policy coordination among the Port's business lines, organizes and coordinates the Port's plans with the City and other agencies, and designs development strategies and programs in which the Port and the City share objectives. Prior to his arrival at the Port, Mr. Wiederhorn served for three years as Planning Manager for the Port of San Francisco and for 15 years in the planning and development agencies of both Minneapolis and Saint Paul, Minnesota. Mr. Wiederhorn received his Bachelor's Degree from the University of Minnesota and his Master's Degree in City Planning from Ohio State University. Mr. Wiederhorn is a Fellow of the Community Leadership Policy Center at the Hubert H. Humphrey Institute of Public Affairs at the University of Minnesota and is also an active member of the American Planning Association, the Urban Land Institute, and the Waterfront Center, where he sits on several policy and technical committees.

Joseph D. Echelberry was appointed Director of Corporate Administrative Services in July 2002, having served as a senior human resources executive with several healthcare and public sector entities over the past 25 years. Mr. Echelberry is responsible for the administrative functions of the Port, including human resources, management information services, organizational development, workers' compensation and building services. Prior to his appointment, he was the Vice President of Human Resources for Alta Bates Summit Medical Center in Oakland and Berkeley, California. Earlier in his career, he was the Vice President of Human Resources for a California local healthcare district hospital, and Director of Labor Relations/Senior Assistant City Attorney for the City of Detroit, Michigan Police Department. Mr. Echelberry received his Bachelor of Arts in Economics from the University of Michigan and his Juris Doctorate from Wayne State University Law School, in Detroit. He is a member of the Society for Human Resource Management and an inactive member of the State Bars of California and Michigan.

Aviation Division

The Airport is one of three major commercial airports serving the ten-county San Francisco/Oakland/San Jose consolidated metropolitan area (the "Bay Area"). The other two airports are San Francisco International Airport ("SFO"), the largest of the three airports, and San Jose International Airport ("SJC"). In Fiscal Year 2001, the Airport served approximately 5.7 million enplaned passengers and accommodated 124,022 scheduled passenger airlines operations, 275,250 general aviation operations and 28,478 air cargo (including express shipping, freight and mail) operations, representing 695,303 tons of cargo. Historically, the Airport and SJC primarily have served nonstop travel to short- and medium-haul markets. International traffic and nonstop travel to major long-haul markets have been served primarily by SFO.

The Airport serves the East Bay counties of Alameda and Contra Costa and the North Bay counties of Sonoma, Napa and Solano. The Airport is geographically situated in the center of the Bay Area and is closer to downtown San Francisco by ground transportation than SFO. The Airport accounted for approximately 27% of Bay Area domestic origination-destination passenger activity and 47.4% of Bay Area air cargo activity in calendar year 2001. SFO serves San Francisco, the West Bay (San Mateo County), the South Bay (Santa Clara County), the East Bay counties of Alameda and Contra Costa and the North Bay counties of Marin, Napa, Sonoma and Solano. In calendar year 2001, SFO accounted for approximately 46% of Bay Area domestic origination-destination passenger activity and 41.6% of Bay Area air cargo activity. SJC serves Santa Clara County in the South Bay, the southern portions of San Mateo and Alameda Counties, and Santa Cruz County. In calendar year 2001, SJC accounted for 27% of Bay Area domestic origination-destination passenger activity and 11.0% of Bay Area air cargo activity. See APPENDIX A—"FEASIBILITY REPORT—AVIATION DIVISION—Principal Business Focus" for further economic and other information with respect to the Airport's primary air trade area.

In Fiscal Year 2001, the Airport generated approximately 52.3% of the Port's total operating revenues and 39.2% of its net revenues after direct operating and maintenance expenses.

Activity at the Airport.

Passenger Service. In Fiscal Year 2001, the Airport served approximately 5.7 million enplaned passengers, which represents an 11.8% increase over Fiscal Year 2000. Between Fiscal Year 1991 and Fiscal Year 2001, the annual compounded growth rate of enplaned passengers was 6.6%, compared to 3.5% nationwide during this same period. For the first nine months of Fiscal Year 2002, as compared to the same period for Fiscal Year 2001, the number of enplaned passengers grew by 1%. See "Impact of September 11, 2001 Terrorist Attacks" below. Table 3 presents the Airport's total enplaned passengers for the past eleven Fiscal Years and the first nine months of Fiscal Year 2002.

TABLE 3

PORT OF OAKLAND
OAKLAND INTERNATIONAL AIRPORT
ANNUAL PASSENGER ENPLANEMENTS
FISCAL YEARS 1991 THROUGH 2001 AND
FIRST NINE MONTHS OF FISCAL YEAR 2002

Year	Passenger Enplanements	Growth Rate
1991	2,988,306	–
1992	3,085,138	3.2%
1993	3,542,438	14.8[(1)]
1994	3,835,342	8.3
1995	4,620,362	20.5[(2)]
1996	4,947,586	7.1
1997	4,670,652	-5.6[(3)]
1998	4,576,149	-2.0[(3)]
1999	4,757,593	4.0
2000	5,060,240	6.4
2001	5,659,448	11.8
2002	4,133,234	1.0[(4)]
Annual Compounded Growth Rate		
1991-2001		6.6%

(1) Merger of Morris Air with Southwest Airlines and subsequent increase in service by Southwest Airlines.
(2) United Shuttle expansion.
(3) Decrease in service by United Airlines and Delta Air Lines.
(4) Nine month comparison for same period of Fiscal Year 2001, not annualized.

Sources: Port of Oakland
Compiled by Ricondo & Associates, Inc.

Airlines Serving the Airport. The Airport is currently served by the following twelve domestic air carriers, one international carrier, two scheduled charter carriers and four cargo carriers:

TABLE 4

PORT OF OAKLAND
OAKLAND INTERNATIONAL AIRPORT
AIRLINES SERVING THE AIRPORT(1)

Domestic Air Carriers	International Air Carriers	Charter Carriers	Air Cargo Carriers
Alaska Airlines	Mexicana	Allegro Airlines	ABX AIR, Inc.
Aloha Airlines		Ryan International	Ameriflight
America West Airlines			FedEx
American Airlines			United Parcel Service
American Eagle			
Continental Airlines			
Delta Air Lines			
JetBlue Airways			
Skywest Airlines			
Southwest Airlines			
Spirit Airlines			
United Airlines			

(1) As of May 31, 2002.

Sources: Port of Oakland
Compiled by Ricondo & Associates, Inc.

Airline Market Shares. For Fiscal Year 2001, Southwest Airlines ("Southwest") was the most active carrier at the Airport, enplaning just over 3.7 million passengers. Southwest accounted for 65.4% of the Airport's total enplanements in Fiscal Year 2001, which is an increase from 61.9% in Fiscal Year 1997 and a decrease from 67.9% in Fiscal Year 2000. Southwest's enplaned passengers increased approximately 28% between Fiscal Years 1997 and 2001. Southwest's reduction in market share from Fiscal Year 2000 to Fiscal Year 2001 was primarily due to increases in available seat capacity on Aloha Airlines, American Airlines ("American"), Continental Airlines ("Continental"), Delta Air Lines ("Delta"), JetBlue Airways ("JetBlue") and Spirit Airlines. Southwest currently has crew bases for pilots and flight attendants in Oakland. For discussion of risks associated with having a dominant carrier at the Airport, see "INVESTOR CONSIDERATIONS—Airline Concentration."

United Airlines ("United") was the Airport's second most active carrier between Fiscal Years 1997 and 2001. United's share of total enplanements at the Airport has decreased from 13.6% in Fiscal Year 1997 to 10.4% in Fiscal Year 2001. United's reduction in market share has been primarily due to United's strategic focus on its hubs. As a result of service reductions after September 11, 2001, United's share of total enplanements at the Airport declined for the first nine months of Fiscal Year 2002 as compared to the other airlines, whose respective shares remained relatively constant or increased. See "Impact of September 11, 2001 Terrorist Attacks" and Table 5 below. United, however, has inaugurated two additional nonstop flights to Washington, D.C. since September 11, 2001.

Alaska Airlines ("Alaska"), the Airport's third-leading carrier, experienced a drop in its share of total enplanements at the Airport from 11.3% in Fiscal Year 1997 to 9.1% in Fiscal Year 2001, primarily as a result of maintaining its schedule while the above-mentioned airlines expanded their available seat capacity.

American rose from sixth to fourth in enplaned passengers between Fiscal Years 1997 and 2001. American's enplaned passengers increased by approximately 99.9% during this period. American had a market share of 4.4% in Fiscal Year 2001. This change was entirely based on American's additional deployment of four daily flights to Los Angeles on MD-80 jet aircraft. During Fiscal Year 2002, American reduced seat availability and the number of flights it operated out of the Airport, resulting in a reduction in its market share to 3.6% for the first nine months of Fiscal Year 2002. American inaugurated two daily nonstop flights to New York on March 2, 2002.

America West Airlines ("America West") was the fourth-leading carrier at the Airport during the first nine months of Fiscal Year 2002. From Fiscal Year 1999 through Fiscal Year 2001, America West was the fifth-leading carrier at the Airport, up from sixth place in Fiscal Year 1998. America West's market share was 3.4% in Fiscal

Year 2001 as compared to 3.2% in Fiscal Year 1997 and 2.7% in Fiscal Year 2000. America West has essentially held its schedule constant with no additional flights new market expansion.

Continental began serving the Airport in Fiscal Year 2000 and had 1.8% of the Airport's enplanements in Fiscal Year 2001. Continental's nonstop flights to Houston compete directly with American's routes as well as with Delta's hub operations in Dallas. Continental's flights to Newark compete with routes to New York by JetBlue and American.

Delta, the other major carrier serving the Airport, experienced a decline in market share from 4.4% to 1.7% between Fiscal Years 1997 and 2001, as its enplaned passengers declined by 54.5% during this period. This change resulted from Delta's elimination of certain daily nonstop flights to Salt Lake City in 1998. However, in Fiscal Year 2002, Delta initiated three daily flights to Salt Lake City and two daily flights to Atlanta, contributing to an increase in market share to 2.5% for the first nine months of Fiscal Year 2002.

In addition to the major carriers discussed above, the other passenger airlines serving the Airport, including the international airlines, had a combined market share of approximately 3.9% in Fiscal Year 2001 and 7.3% for the first nine months of Fiscal Year 2002.

Tables 5 and 6 set forth the leading carriers by enplaned passengers (total passengers boarding at the Airport) and aircraft gross landed weights, respectively, for Fiscal Years 1997 through 2001 and the first nine months of Fiscal Year 2002.

TABLE 5

PORT OF OAKLAND
OAKLAND INTERNATIONAL AIRPORT
HISTORICAL ENPLANEMENTS BY AIRLINE
FISCAL YEARS 1997 THROUGH 2001 AND
FIRST NINE MONTHS OF FISCAL YEAR 2002

	1997		1998		1999		2000		2001		2002[3]	
Airline[1]	Enplane-ments	% Share	Enplane-ments	% Share	Enplane-ments	% Share	Enplane-ments	% Share	Enplane-ments	% Share	Enplane-ments	% Share
Southwest	2,890,754	61.9%	2,990,455	65.3%	3,194,894	67.2%	3,436,583	67.9%	3,701,553	65.4%	2,670,360	64.6%
United	636,925	13.6	556,317	12.2	563,859	11.9	590,275	11.7	586,900	10.4	302,853	7.3
Alaska	528,454	11.3	491,389	10.7	509,735	10.7	541,848	10.7	514,067	9.1	341,424	8.3
American	123,515	2.6	141,845	3.1	150,912	3.2	156,139	3.1	246,935	4.4	148,919	3.6
America West	147,514	3.2	125,812	2.7	120,516	2.5	135,483	2.7	192,194	3.4	154,468	3.7
Continental	–	–	–	–	–	–	3,108	0.1	103,397	1.8	106,650	2.6
Delta	206,638	4.4	187,112	4.1	89,031	1.9	88,417	1.7	94,016	1.7	103,510	2.5
Aloha	–	–	–	–	–	–	22,712	0.4	90,020	1.6	91,119	2.2
JetBlue	–	–	–	–	–	–	–	–	56,251	1.0	78,412	1.9
Mexicana	441	–	1,426	–	14,437	0.3	35,014	0.7	39,713	0.7	34,555	0.8
Skywest	–	–	–	–	–	–	–	–	–	–	48,726	1.2
Spirit	–	–	–	–	–	–	–	–	5,491	0.1	12,646	0.3
American Eagle	–	–	–	–	–	–	–	–	–	–	9,777	0.2
Other[2]	136,411	2.9	81,793	1.8	114,209	2.4	50,661	1.0	28,911	0.5	29,815	0.7
Airport Total	4,670,652	100.0%	4,576,149	100.0%	4,757,593	100.0%	5,060,240	100.0%	5,659,448	100.0%	4,133,234	100.0%

(1) For those airlines that were party to a merger or acquisition only the surviving entity is presented in this table.
(2) Consists of airlines no longer serving the Airport and charter carriers.
(3) First nine months of Fiscal Year 2002, not annualized.

Sources: Port of Oakland
Compiled by Ricondo & Associates, Inc.

TABLE 6

PORT OF OAKLAND
OAKLAND INTERNATIONAL AIRPORT
HISTORICAL LANDED WEIGHT BY AIRLINE
FISCAL YEARS 1997 THROUGH 2001 AND FIRST NINE MONTHS OF FISCAL YEAR 2002
(000 LBS.)

	1997		1998		1999		2000		2001		2002[3]	
Airlines [1]	Landed Weight	% Share	Landed Weight	% Share	Landed Weight	% Share	Landed Weight	% Share	Landed Weight	% Share	Landed Weight	% Share
Southwest	4,232,827	40.3%	4,278,149	40.8%	4,365,296	42.1%	4,406,288	42.8%	4,633,498	41.9%	3,587,491	44.0%
United	1,032,617	9.8	750,335	7.2	797,036	7.7	837,019	8.1	853,764	7.7	427,856	5.2
Alaska	941,611	9.0	876,580	8.4	867,193	8.4	809,707	7.9	768,671	7.0	534,285	6.6
America West	205,324	2.0	190,765	1.8	183,278	1.8	212,285	2.1	253,609	2.3	203,099	2.5
American	167,466	1.6	196,628	1.9	195,458	1.9	198,318	1.9	377,458	3.4	209,870	2.6
Delta	337,295	3.2	311,669	3.0	148,536	1.4	136,625	1.3	148,252	1.3	157,506	1.9
Continental	–	–	–	–	–	–	3,740	–	138,714	1.3	131,728	1.6
Aloha	–	–	–	–	–	–	35,545	0.3	136,576	1.2	157,824	1.9
JetBlue	–	–	–	–	–	–	–	–	55,599	0.5	80,484	1.0
Mexicana	618	–	1,419	–	19,966	0.2	41,592	0.4	53,658	0.5	47,636	0.6
Skywest	–	–	–	–	–	–	–	–	–	–	53,815	0.7
Spirit	–	–	–	–	–	–	–	–	5,980	0.1	15,539	0.2
American Eagle	–	–	–	–	–	–	–	–	–	–	13,038	0.2
All-Cargo	3,259,295	31.0	3,580,487	34.2	3,554,195	34.3	3,501,350	34.0	3,539,511	32.0	2,415,832	29.6
All Other[2]	322,020	3.1	296,354	2.8	236,401	2.3	119,804	1.2	93,370	0.8	115,270	1.4
Airport total	10,499,073	100.0%	10,482,387	100.0%	10,367,359	100.0%	10,302,273	100.0%	11,058,660	100.0%	8,151,273	100.0%

(1) For those airlines that were party to a merger or acquisition, only the surviving entity is presented in this table.
(2) Consists of airlines no longer serving the Airport and charter carriers.
(3) First nine months of Fiscal Year 2002, not annualized.

Sources: Port of Oakland
Compiled by Ricondo & Associates, Inc.

Air Cargo Service. Scheduled air cargo operators at the Airport include FedEx, United Parcel Service ("UPS"), Ameriflight and ABX Air, Inc. (a subsidiary of Airborne Express). Air cargo volume has grown from Fiscal Year 1991 to Fiscal Year 2001 at an annual compounded rate of 11.4%. The decision by FedEx in 1988 to make the Airport a primary hub for its air cargo operations and the subsequent growth of FedEx volume contributed significantly to the growth in air cargo volume at the Airport. As of calendar year 2001, the Airport ranked 13th nationwide in total cargo handled. Air cargo volume decreased between Fiscal Year 1998 and Fiscal Year 2001. This decrease was attributable in large part to a reduction of service by Burlington Air Express ("Burlington") in Fiscal Year 1999, followed by Burlington's elimination of service at the Airport, as well as the elimination of service at the Airport by Airpac in Fiscal Year 2000 and reduced volume by FedEx and UPS in Fiscal Year 2001. For the first nine months of Fiscal Year 2002, air cargo volume decreased 8.3% as compared to the same period in Fiscal Year 2001. See APPENDIX A—"FEASIBILITY REPORT—Aviation Division—Air Traffic—Role of the Airport."

The following table sets forth historical information regarding air cargo volumes at the Airport:

TABLE 7

PORT OF OAKLAND
OAKLAND INTERNATIONAL AIRPORT
AIR CARGO VOLUMES
FISCAL YEARS 1991 THROUGH 2001 AND
FIRST NINE MONTHS OF FISCAL YEAR 2002

Fiscal Year	Tons	Growth Rate
1991	231,597	–
1992	304,260	31.4%
1993	395,964	30.1
1994	475,394	20.1
1995	538,541	13.3
1996	606,785	12.7
1997	672,325	10.8
1998	732,389	8.9
1999	718,548	(1.9)(1)
2000	733,609	2.1
2001	695,303	(5.2)(2)
2002	495,413	(8.3)(3)
Annual Compound Growth Rate 1991-2001		11.4%

(1) Decrease in growth rate was due to departure of Burlington/BAX Global Air Cargo business.
(2) Decrease in growth rate was due to a reduction in volume experienced by UPS and FedEx.
(3) Nine-month comparison for same period of Fiscal Year 2001, not annualized.
Source: Port of Oakland

Information Concerning Airlines. Each of the airlines (or their respective parent corporations) serving the Airport is required to file periodic reports of financial and operating statistics with the United States Department of Transportation (the "DOT"). Such reports can be inspected at the following location: Bureau of Transportation Statistics, Research and Special Programs Administration, U.S. Department of Transportation, 400 Seventh Street, S.W., Room 3103, Washington, D.C. 20590. Copies of such reports can be obtained from the DOT at prescribed rates and by accessing the Bureau of Transportation Statistics website at *www.bts.gov*. In addition, those airlines (or their respective parent corporations) serving the Airport that have sold debt or equity securities to the public in the United States are subject to the information requirements of the Securities Exchange Act of 1934, as amended, and accordingly file reports and other information, including financial information, with the Securities and Exchange Commission (the "Commission"). Such reports and information can be inspected in the Public Reference Room of the Commission at the Everett McKinley Dirksen Building, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such reports and statements can be obtained from the Public Reference Section of the Commission, 450 Fifth Street, N.W. Washington, D.C. 20549, at prescribed rates and by accessing the Commission's web site at *www.sec.gov*. For discussion of particular sensitivities of the airline industry, see "INVESTOR CONSIDERATIONS—The Aviation Industry."

Impact of September 11, 2001 Terrorist Attacks. The Airport was shut down for a two-day period immediately following the September 11, 2001 terrorist attacks on the United States. The Airport was re-opened on September 13, 2001 with limited activity, and by September 14, 2001, all airlines servicing the Airport had resumed activity. While the Airport did experience some reduction in both passenger traffic and available seats immediately following the events of September 11, 2001, the impact at the Airport has been less severe than the impact on other airports in the United States.

While most airlines in the United States instituted significant system-wide reductions in scheduled flights, the only service reductions at the Airport were the elimination of one flight per day by Spirit Airlines and the replacement by American and United of narrow body jets with smaller regional jet aircraft on approximately six West Coast corridor flights. Flights added at the Airport since September 11, 2001 have eliminated this reduction in daily available seats. In the period since September 11, 2001, several air carriers have expanded or introduced service at the Airport, including United and JetBlue (each with twice-daily flights to Washington/Dulles), Southwest (with three daily flights to Chicago Midway and daily service to New Orleans) and American (with twice-daily flights to New York). As a result of these additional flights, based on data from the Official Airline Guide, the Airport is the only Bay Area airport that has not decreased seat availability as compared to last year and is the only Bay Area airport with increased daily flight activity as compared to last year.

Table 8 below presents the percentage change in the Airport's total passenger activity on a monthly basis between Fiscal Year 2001 and Fiscal Year 2002. As shown in the table, the Airport experienced activity increases of approximately 19% in July and August of 2001 as compared to the same months in the prior year. Passenger activity declined by 23.3% in September 2001 due to the terrorist attacks. In October, November and December of 2001, activity was down 4.8%, 4.0% and 3.3%, respectively, as compared to the same months in the prior year's activity. Passenger activity was within 1% of the prior year's activity in each of the months from January through April 2002. Activity in May 2002 was 5.4% higher than in the prior year. Overall, total passenger activity for the first eleven months of Fiscal Year 2002 was 1.1% higher than for the same period in Fiscal Year 2001.

TABLE 8

PORT OF OAKLAND
OAKLAND INTERNATIONAL AIRPORT
MONTHLY COMPARISON OF TOTAL PASSENGERS
FISCAL YEAR 2002 COMPARED TO FISCAL YEAR 2001

Month in Fiscal Year 2002	Change from Corresponding Month in Fiscal Year 2001
July 2001	19.2%
August 2001	19.0
September 2001	(23.3)
October 2001	(4.8)
November 2001	(4.0)
December 2001	(3.3)
January 2002	(0.7)
February 2002	0.4
March 2002	(0.2)
April 2002	(0.2)
May 2002	5.4
Fiscal Year-to-Date	1.1%

In November 2001, Congress enacted the Federal Aviation and Transportation Security Act (the "Aviation Security Act") and created a new federal agency called the Transportation Security Administration (the "TSA") in the United States Department of Transportation. The Aviation Security Act imposes additional security requirements on airlines and airports. In particular, security screeners at airports are required to undergo criminal background checks and must be U.S. citizens. In addition, all airport security screeners have become federal employees for a one-year transition period. Airports may also use state or local law enforcement to provide airport security. See "—Airport Agreements and Rate Setting—Aircraft Rescue and Fire Fighting; Police and Sheriff" for discussion of the use of local law enforcement at the Airport.

The Aviation Security Act also mandates that certain security measures be undertaken at U.S. airports, including: (i) screening or inspection of all individuals, goods, property, vehicles and equipment prior to their entry into secured areas at the airport; (ii) security awareness programs for airport employees; (iii) screening of all checked baggage, and after December 31, 2002, screening of all checked baggage by explosive detection systems; and (iv) operation of a system to screen, inspect or otherwise ensure the security of all cargo transported on all-cargo aircraft. The Port expects to incur additional operational costs of approximately $7.0 million per year to comply with the new TSA requirements, including costs for additional security personnel and new screening equipment. Funding for these security requirements has been incorporated into the CIP. However, additional security requirements or other additional costs resulting from the TSA's operations at the Airport are likely to be imposed pursuant to the Aviation Security Act or otherwise, the full scope of which cannot be predicted at this time. As a result, the full impact on the financial condition of the Port cannot be determined at this time. For further discussion of the security-related improvements underway or planned at the Airport, see "Aviation Development Projects—Other Terminal Improvements."

In addition to the requirements of the Aviation Security Act, regulations and directives of the FAA have also imposed additional security measures, including a requirement to remove any unauthorized vehicles parked within 300 feet of a terminal building where passengers load or unload. As a result, 400 parking spaces located within 300 feet of the Airport's terminals are no longer available. Airport parking revenues thus far in Fiscal Year 2002 have decreased slightly as compared to the same period in Fiscal Year 2001.

The Port has experienced significantly higher insurance premiums with respect to Airport-related and non-Airport-related coverage since September 11, 2001, and as a result has increased deductibles on certain policies. For further discussion, see "THE PORT'S FINANCES AND OPERATIONS—Risk Management and Insurance" and "INVESTOR CONSIDERATIONS—Impacts of September 11, 2001 Terrorist Attacks."

For further discussion of the impact of the terrorist attacks of September 11, 2001 on the Airport, see APPENDIX A—"FEASIBILITY REPORT—Aviation Division—Air Traffic—Historical Airport Activity—Passenger Activity" and "INVESTOR CONSIDERATIONS—Impacts of September 11, 2001 Terrorist Attacks."

Existing Facilities. The Airport's facilities consist generally of terminal facilities, airfield facilities, parking facilities, air cargo facilities, general aviation facilities and maintenance facilities. The Airport has approximately 2,580 acres of land designated for aviation use, a significant portion of which has yet to be developed. See "THE PORT OF OAKLAND—Aviation Division—Aviation Development Projects" and "CAPITAL IMPROVEMENT PROGRAM—Projects in the CIP—Aviation Projects."

The Airport's property is divided into two sections: the North Airport and the South Airport. The North Airport is an air cargo and general aviation facility, which competes with other general aviation airports in Concord, Hayward, Livermore, San Carlos, and San Jose. The South Airport is used for commercial airport operations. The North Airport and the South Airport have separate airfields, with adequate space separating the two airfields to permit simultaneous operations.

North Airport Facilities. The North Airport has three runways of 6,212 feet, 5,452 feet and 3,366 feet, respectively, and an executive general aviation terminal. The second runway is equipped with high intensity approach lights and instrument landing system. Alaska Airlines occupies a maintenance facility at the North Airport consisting of 130,121 square feet of hangar space and vehicle parking and 363,890 square feet of aircraft ramp space.

South Airport Facilities. The Airport's passenger terminal facilities are located at the South Airport. The South Airport has two terminal buildings with over 390,000 gross square feet of space and 24 gates, all equipped with loading bridges. The two terminals were designed to handle 8.7 million total passengers annually, although approximately 11.4 million total passengers (enplaning and deplaning) used the Airport in calendar year 2001. A connector addition between Terminal 1 and Terminal 2 was completed in August 1995. The connector addition allows the Airport to have maximum flexibility regarding the placement of airlines within the complex. The South

Airport has a fully-instrumented 10,000 foot runway, which provides clear over-water approaches at both ends. This runway was completely repaved in August 2001. It is long enough to accommodate all types of commercial aircraft currently in use and is used by both the passenger and air cargo carriers.

FedEx and United operate major facilities within the South Airport that generate significant revenues for the Port. The Airport houses FedEx's West Coast hub for its express package operations, which is among the five largest FedEx hubs in the world. FedEx operates an approximately 239,000 square foot sorting facility, which currently handles approximately 300,000 packages per night, and a 17,280 square foot international clearance station with adjacent aircraft apron on approximately 62.5 acres at the South Airport. FedEx uses 52.5 acres of this facility pursuant to several occupancy agreements: one lease, three licenses and concession agreements, and a right-of-entry and indemnity agreement. The lease term expires August 31, 2011; the other agreements are effective under their respective holdover provisions. FedEx and the Port are in the process of entering into a new long-term lease that would cover the entire 62.5-acre facility.

United leases a 309,910 square-foot facility at the South Airport as the primary maintenance base for its entire wide-body aircraft fleet. The original lease expired on December 31, 1997 and was subsequently renewed for a 10-year period, with one 10-year option remaining. The leased facility, located on a 39.5-acre site, can simultaneously accommodate four Boeing 747 aircraft.

In addition to the revenues generated by the facilities described above, surface parking facilities at the Airport currently accommodate over 7,500 vehicles for short-term, long-term and overflow public parking capacity. See "Aviation Development Projects" below and "CAPITAL IMPROVEMENT PROGRAM—Projects in the CIP—Aviation Projects" for a description of future parking facilities at the Airport.

Airport Agreements and Rate Setting.

Agreements with the Airlines. The commercial air carriers, both passenger and cargo, serving the Airport have historically operated under agreements with the Port that were cancelable on short notice. In September 2000, consistent with past practice, the Port and the airlines agreed to a new 10-year Airline Operating Agreement and Space/Use Permit (the "Airline Operating Agreement"), which may be canceled with respect to any airline, by either the airline or the Port, upon 30 days' written notice. Airlines representing over 90% of the Airport's loads have signed the Airline Operating Agreement. The Port expects to receive the remaining airline signatures. The Airline Operating Agreement requires that the airlines pay landing fees, passenger facility charges, terminal space rentals and other charges for their use of the Airport's facilities. Rates and charges under these agreements are established annually on a calendar year basis in accordance with the Board's rate-setting ordinance. See—"Cost Centers," "—Rate Setting" and "—Non-Diversion of Airport Revenues" below.

Cost Centers. The Airport has a number of separate cost centers, including the passenger terminal areas, the airfield, and contract fueling activities, which are supported by airlines based on a residual rate-setting approach. Rates and charges are established separately for each of these three cost centers so that the Airport's net expenses for operating those cost centers are paid by the airlines. For example, the airlines are required to pay a landing fee (based on relative aircraft landed weight) for use of the Airport's airfield areas and to pay terminal rentals (based on relative square feet leased) for use of the Airport's passenger terminal space. The passenger airlines have no responsibility for the Airport's other cost centers (such as the North Airport, parking and ground access, cargo areas, and certain leased properties). The revenues received by the Port from the Airport's other cost centers generally exceed the operating and capital expenses allocated to such cost centers. See APPENDIX A—"FEASIBILITY REPORT—FINANCIAL ANALYSIS—PORT FINANCIAL STRUCTURE" for a further description of the Port's cost centers.

Rate Setting. Rates for the airline-supported cost centers are adjusted annually at the beginning of each calendar year based on actual expenses incurred by the Port in the prior Fiscal Year and estimated future requirements. To determine rates, the Port summarizes the direct and indirect expenses allocable to each of the airline-supported cost centers for the Fiscal Year. Included in expenses are operating and maintenance expenses, plus an allocated capital cost equal to 1.25 times debt service on any bonds the proceeds of which were spent on such facilities, plus an amortization charge for the Port's internally generated capital invested in the Airport with an interest component equal to the average interest rate on the Port's outstanding bonds.

Separate terminal rental rates are established for ticketing counters, holdrooms and offices, baggage claim areas and baggage make-up. These rates are determined after subtracting concession and other general terminal revenues (including car rental revenues) from expenses. Airfield rates, or landing fees, are derived after subtracting plane storage, apron rental, in-flight catering, ground-handling and other airfield revenues from estimated expenses. The landing fee for calendar year 2002 is $1.14 per 1,000 pounds of landed weight or $14.25 per landing for planes with landed weight less than 12,500 pounds. A contract-fueling fee is derived directly from expenses and paid monthly to the Port by the Oakland Fuel Facilities Corporation ("OFFC"). OFFC is a consortium established by the airlines to dispense jet fuel at the Airport. The costs of "aviation marketing," which were approximately $2.9 million in Fiscal Year 2001, are not included in the allocation of operating expenses to the cost centers supported by airline rates and charges and are paid by the Port from other revenues. Prior to the implementation of the new rates, the Port and representatives of the airlines meet to discuss the results of the Port's analysis.

Airline rates are set annually by Port ordinance. Rates may be adjusted more frequently, but such adjustments of airline rates have not occurred in the past. The airline rates that become effective as of January 1 of each year are based on the actual expenses incurred by the Port with respect to the Airport in the Fiscal Year ending on the prior June 30. Actual costs are adjusted to reflect an estimate for the impact of increased costs in the next year. This procedural approach to setting airline rates creates a lag in the recovery of certain costs through airline rates and charges, particularly if the amount of one or more expense categories, such as debt service, increases materially from one year to the next. However, as reflected in the financial projections contained in the Feasibility Report, beginning in January 1, 2005, the Port intends to revise its rate setting methodology to include debt service related to major Aviation projects in airline rates and charges during the Fiscal Year in which such projects are completed.

Section 113 of the Federal Aviation Administration (the "FAA") Authorization Act of 1994 (the "1994 Act") requires that the rates and charges assessed by an airport operator for the use of its facilities be "reasonable." In January 1995, the DOT issued its final rule outlining the procedures to be followed in determining the reasonableness of new fees or fee increases imposed on airlines and, in June 1996, issued a policy statement (the "Rates and Charges Policy Statement") setting forth the standards that DOT will use in determining the reasonableness of the fees charged to airlines and other aeronautical users. On August 1, 1997, the United States Court of Appeals for the District of Columbia Circuit (the "U.S. Court of Appeals") vacated the Rates and Charges Policy Statement in part and remanded it to the DOT. A portion of the Rates and Charges Policy Statement that was invalidated by the U.S. Court of Appeals concerns the specific methodologies that airports may employ to establish charges for use of their airfield facilities. Both the airline and airport industries have filed petitions with the DOT proposing replacements for the provisions of the Rates and Charges Policy Statement that were vacated by the U.S. Court of Appeals, and in August 1998, DOT initiated a request for comment process soliciting suggestions for appropriate replacement provisions. The DOT continues to have the matter under review.

In accordance with all currently effective requirements imposed by the FAA and the DOT, the Port takes into account only those of its expenses that are properly allocable to the airline-supported cost centers at the Airport (including an allocable portion of the overall borrowing costs associated with all Parity Bonds) in determining the rates and charges for the Airport's airline users. The Port believes that the methods by which it calculates the Airport's rates and charges comply with the portions of Rates and Charges Policy Statement currently in effect and with the 1994 Act. However, no assurance can be given that the 1994 Act will not be modified or replaced in the future, and it is likely that the Rates and Charges Policy Statement will be modified or replaced in the future. The impact of such a modification or replacement on the Port cannot be predicted. There is currently no dispute between the Port and any of the airlines serving the Airport over existing rates and charges.

Non-Diversion of Airport Revenues. As a U.S. airport operator that receives federal airport grant funding, the Port is required to ensure that all airport-generated revenues are expended only for airport purposes as set forth under federal law and further documented in a policy statement promulgated by the DOT effective February 16, 1999 (the "Revenue Retention Policy"). To ensure compliance with the Revenue Retention Policy, the Port, among other things, establishes rates and charges for the use of its Airport facilities to generate revenues adequate to make these facilities self-sufficient. The Port operates, and expects to continue operating, its non-Airport facilities in a similar manner so that such facilities are also self-sustaining. If the Port were unable to generate sufficient non-Airport revenues to support all of its non-Airport activities for any reason, the Revenue Retention Policy could prohibit the Port from using Airport revenues for such purposes (including to pay debt service on the portion of any Parity Bonds allocable to non-Airport purposes).

Rental Car License and Concession Agreements. The car rental companies, which provided over $8.7 million in revenues to the Port in Fiscal Year 2001, operate their rental counters pursuant to various agreements with the Port. The current agreements provide for a concession fee equal to 9.5% of gross receipts in addition to space rental revenues. The agreements pursuant to which car rental lots and maintenance facilities operate at the Airport have expired, but these operations have continued at the Port for a number of years on a "holdover" basis. On January 7, 2002, the Port entered into new agreements with eight car rental companies (the seven companies currently operating at the Airport and a company that intends to operate at the Airport) to finance and operate interim rental car facilities that will be operational during the construction of permanent rental car facilities. The interim facility is expected to be operational by the middle of calendar year 2003. See "Aviation Development Projects" below. The agreements include an eight-year ground lease for 14.5 acres and a five-year concession agreement, including a concession fee of 9.5% of gross receipts in addition to the ground lease rental payments. The current "holdover" agreements will terminate and the new license and concession agreements will commence when operations begin at the interim facility. These agreements are expected to be renegotiated or rebid in connection with the construction of a permanent rental car facility at the planned parking garage. The Port cannot determine the duration or the terms of any future car rental lot or maintenance facility agreements. The use of air cargo, maintenance, hangar and other facilities at the Airport are also typically governed by long-term lease agreements, as are the restaurant and bar concessions.

Aircraft Rescue and Fire Fighting ("ARRF"); Police and Sheriff. On January 17, 1998, the Port consolidated its ARFF program with the City's Fire Services Administration. Pursuant to a memorandum of understanding, the Port paid approximately $4.34 million for Fiscal Year 2002 to the City for ARFF services. The Port also expects to pay and has accrued approximately $5.9 million and $3.7 million for Fiscal Year 2002 for the services of the Alameda County Sheriff Department and the City's police department, respectively, for security-related services at the Airport. A contract for these services was executed between the Port and the Alameda County Sheriff Department this Fiscal Year; a similar agreement is under negotiation between the Port and the City for police services.

Major Sources of Airport Revenues. In Fiscal Year 2001 the Airport generated total revenues of approximately $103 million, which were derived from the sources shown in Table 9.

TABLE 9

PORT OF OAKLAND
OAKLAND INTERNATIONAL AIRPORT
MAJOR SOURCES OF REVENUE
FISCAL YEAR 2001

Revenue Description	South Airport	North Airport	Total	Percent of Total
Airline Payments:				
Landing Fees	$11,798,955	$ 11,466	$11,810,421	11.45%
Terminal Rentals	12,444,334	-	12,444,334	12.07
Contract Fueling	1,557,940	-	1,557,940	1.51
Cargo Area	5,907,572	1,180,467	7,088,039	6.87
Aircraft Maintenance Facilities	3,436,558	3,882,133	7,318,691	7.10
Aircraft Storage	507,715	290,307	798,022	0.77
Subtotal–Airline Payments	$35,653,074	$5,364,373	$41,017,447	39.77%
Other Sources:				
Rental Car Concessions	$ 8,756,682	-	$ 8,756,682	8.49%
Restaurant/Other Concessions	3,559,340	-	3,559,340	3.45
Parking/Ground Access	36,540,258	$ 3,840	36,544,098	35.43
Utility Sales	4,376,337	2,320,981	6,697,318	6.49
Other Leased Areas	365,295	2,504,711	2,870,006	2.78
Fuel	-	1,242,944	1,242,944	1.21
Airfield Catering/Handling	1,849,235	408,386	2,257,621	2.19
Other Miscellaneous Revenue	180,535	14,617	195,152	0.19
Subtotal Other Sources	$55,627,682	$6,495,479	$62,123,161	60.23%
Total	$91,280,756	$11,859,852	$103,140,608	100.00%

Source: Port of Oakland

The single largest source of Aviation-related revenues in Fiscal Year 2001 was the Airport's public parking lots. The Port anticipates that parking revenues will remain relatively constant during the construction of the new parking garage and rental car center, except for a slight projected decrease in Fiscal Year 2004. See "Airport Development Projects" below. The top ten individual revenue sources in Fiscal Year 2001 are presented in the following table.

TABLE 10

PORT OF OAKLAND
OAKLAND INTERNATIONAL AIRPORT
TOP TEN INDIVIDUAL SOURCES OF AVIATION REVENUE
FISCAL YEAR 2001 AND FIRST NINE MONTHS OF FISCAL YEAR 2002

Sources	Fiscal Year 2001	First Nine Months of Fiscal Year 2002
Public Parking	$33,234,439	$23,323,257
Southwest Airlines	11,355,533	6,646,459
United Airlines	6,435,549	4,767,575
FedEx	5,567,027	4,164,864
Alaska Airlines	3,128,196	1,681,265
Hertz Corporation	2,852,692	2,385,779
United Parcel Service	2,350,788	1,826,439
Air Terminal Services (CA1)	2,335,290	2,536,077
Kaiserair Inc	2,311,224	1,945,505
Avis Rent-A-Car System	2,039,133	1,466,265

Source: Port of Oakland

Federal Grants. The FAA Airport Improvement Program ("AIP") provides both entitlement and discretionary grants. Entitlement grants are based on two criteria: the number of enplaning passengers and the amount of landed cargo weight. Between October 1, 1996 and September 30, 2001, the Airport received a total of $18.3 million in AIP entitlement grants (an average of approximately $3.7 million per year). Such grant money was used at the Airport for terminal, taxiway, apron, runway, dike, roadway and other improvements. The Port has also received approximately $939,000 in AIP grants to pay for some of the increased security costs incurred post-September 11, 2001. As described below, the Airport has imposed a passenger facility charge ("PFC") for each passenger enplaned at the Airport. As a result, in accordance with statutes and regulations relating to PFCs, the amount of AIP entitlement grants that the Airport is permitted to receive has been reduced by 50% since 1992 and is expected to be reduced by 75%, commencing in Fiscal Year 2004. The Airport has received approximately $4 million in discretionary grants in the last two years and has received a preliminary notification from the federal government of its intent to award approximately $7 million in discretionary funds in federal fiscal year 2002.

After the events of September 11, 2001, the FAA provided Program Guidance Letters indicating that the criteria for the eligibility of additional security costs required by federal law and incurred from September 11, 2001 to September 30, 2002 are "broad and can include operational costs that heretofore have not been eligible under AIP." The Airport intends to maximize both PFC and AIP fund availability for reimbursement of both operating and capital costs associated with new security requirements, but has not yet applied for FAA approval to collect PFCs for these security-related costs. Based on the Program Guidance Letters, it is unclear how much AIP and PFC funding will actually be available for this purpose. The Port expects to apply for approximately $7 million of combined AIP and PFC funding to pay for increased security costs. PFCs are described in further detail under "—Passenger Facility Charges" below. However, no assurance can be given that these funds will be made available. If they are not made available, additional security costs may have to be paid for from other Port funds, which could impact other Port programs and projects, including projects in the CIP.

The Port's financial plan for funding its CIP, including the Airport development projects described below, assumes that AIP entitlement grant funds will be available to fund the grant-eligible portions of certain projects. See "CAPITAL IMPROVEMENT PROGRAM—The Plan for Funding the CIP—AIP Grants."

Passenger Facility Charges. Under the Federal Aviation Safety and Capacity Expansion Act of 1990, as amended and recodified, and together with the regulations promulgated thereunder (the "Federal Act"), the FAA may authorize a public agency that controls an airport to impose a PFC of $1.00, $2.00, $3.00, $4.00 or $4.50 (the current maximum level) for each air carrier passenger (subject to certain exceptions) enplaned at an airport controlled by such public agency. PFC revenues are to be used to finance airport projects approved by the FAA, including debt service and other financing costs on bonds issued to finance such specific projects. The eligibility of such projects is subject to certain restrictions. Projects for which the FAA may authorize the use of PFC revenues must (i) preserve or enhance safety, security or capacity of the national air transportation system, (ii) reduce noise or mitigate noise impacts resulting from an airport, or (iii) furnish opportunities for enhanced competition between or among air carriers. The authority to collect a PFC expires once collections reach a maximum amount prescribed by the FAA. The maximum collection amount may be unilaterally increased by up to 15% by the public agency charging the PFC or otherwise increased upon approval of the FAA.

Under the Federal Act, all air carriers serving an airport for which the FAA has authorized the collection of a PFC must collect such PFC at the time they sell an airline ticket to a passenger to be enplaned at the airport. Passenger enplanements subject to the charge include passengers originating their travel itineraries on departing flights out of the collecting airport or connecting passengers at the collecting airport whose itineraries originated in other cities, provided the airport is among the first two or last two airports collecting a PFC on such connecting passenger's itinerary. An authorized PFC may only be collected for "revenue passengers" enplaned at a collecting airport. "Revenue passengers" do not include passengers who do not pay for the air transportation that resulted in their enplanement, including passengers using frequent flyer awards.

Under the Federal Act, the air carriers collecting a PFC on behalf of a public agency must remit the proceeds of the PFC to the public agency on a monthly basis. Prior to such remittance, however, collecting air carriers are entitled to retain any interest accrued on the investment of the proceeds of the PFCs they collect, as well as $0.08 of each PFC collected as compensation for administering the collection process.

Pursuant to the Federal Act, the FAA has approved eleven PFC applications submitted by the Port. Such approvals have authorized the imposition and use of a $3.00 PFC per enplaned passenger at the Airport, providing for total PFC collection authority of $175 million to fund various projects at the Airport. At the end of calendar year 2001, the Port had collected $130 million of the total amount of PFCs that have been approved. The Port's eleventh PFC application as approved by the FAA, provided authority to collect an additional $7 million in PFC revenues at the $4.50 per enplanement level commencing January 1, 2003.

Pledged Revenues presently do not include PFC revenues to the extent the pledge of such revenues would not be permitted under the requirements of the Federal Act. Accordingly, under the Port's current FAA approvals, authorized PFC revenues may not be used to pay debt service on any outstanding Parity Bonds (including the 2002 Bonds). However, the Port could seek a future PFC approval, or seek to amend one of its existing PFC approvals, to permit the use of PFC revenues to pay debt service on the 2002 Bonds, Additional Bonds or CP Notes issued to finance PFC-eligible projects. See APPENDIX C—"SUMMARIES OF THE TRUST INDENTURE AND THE TWELFTH SUPPLEMENTAL TRUST INDENTURE—The Trust Indenture—Amendments."

The Feasibility Report assumes that approximately $150.6 million in PFC revenues will be approved and available to fund the costs of certain PFC-eligible projects currently in the CIP. Assuming such FAA approvals occur, a portion of available PFC revenues may be used to repay CP Notes or 2002 Bonds, the proceeds of which are applied to fund PFC-eligible projects. Essentially, all PFC revenues received by the Port through Fiscal Year 2007 are expected to be applied either to project costs on a pay-as-you-go basis or to repay CP Notes or 2002 Bonds. The Port could also decide to issue PFC-backed revenue bonds secured by a lien on PFCs to finance PFC-eligible projects. No assurances can be given that any application submitted by the Port for additional PFCs will be approved. If PFCs are not available, the Port will have to use other sources of funds for these projects, such as Additional Bonds or increased rates and charges. For further discussion of the availability of PFCs for the CIP, see "CAPITAL IMPROVEMENT PROGRAM—The Plan for Funding the CIP—PFC Revenues." See also "THE

PORT OF OAKLAND—Aviation Division—Litigation Affecting the Airport Development Program" for a discussion of the potential impact of certain litigation on the Port's applications to receive approval for PFCs.

No assurance can be given that the Federal Act will not be modified or restricted by the FAA or the U.S. Congress so as to reduce the amount of PFC revenues available to the Port. The FAA may also terminate the Port's ability to impose a PFC if: (i) the Port is not using its PFC revenues in accordance with the FAA's approval or the Federal Act; (ii) the Port otherwise violates the Federal Act; or (iii) the Port violates certain provisions of the Airport Noise and Capacity Act of 1990 and its implementing regulations. The Federal Act provides certain informal and formal procedural safeguards that must be followed prior to any such termination.

Customer Facility Charges. Under Section 1936 of the California Civil Code (the "CFC Statute") airports in California, including the Port, may collect a single fixed customer facility charge (a "CFC") of up to $10 on each contract rental from rental car companies that operate concessions at their airports. CFC revenues are to be used only to finance the design and construction of consolidated airport car rental facilities and the design, construction and provision of a common use transportation system that moves passengers between airport terminals and those consolidated car rental facilities. CFC revenues may be used to pay debt service and other financing costs on bonds issued to finance such projects. The authority to collect CFCs expires once collections reach the reasonable aggregate costs of these projects. Under the CFC Statute, the rental car companies collecting a CFC on behalf of an airport must remit the proceeds of the CFC to the airport. The collecting rental companies may not retain any portion of such revenues.

Pursuant to a Port ordinance effective April 2002, the rental car companies operating at the Airport are required to collect a $10-per-transaction CFC from their rental customers. The revenue from CFCs collected by the Port, initially projected at over $7 million per year and increasing over time to approximately $8 million, will fund, in part, the costs associated with the construction of the interim rental car facility at the North Airport, the costs of the long-term consolidated rental car facilities to be located in the planned parking garage currently anticipated to be funded with the 2002 Bonds, and the reimbursement of costs incurred for a common busing system between the terminals and the consolidated interim rental car facility at the North Airport. In the event the Port delays the relocation of the rental car companies to the consolidated rental car facilities to be leased in the planned parking garage, the CFC statute may require the Port to suspend its collection of some of the projected CFCs until occupancy by the rental car companies, and the Port may not be able to apply CFC revenues to the payment of debt service allocable to such facilities. However, the Port projects that the loss of these CFCs should be substantially offset by the rental of the available space in the planned parking garage for other uses by airlines or by public parking revenues. The imposition of the CFC would terminate once the debt obligations relating to any facilities financed with CFCs are repaid.

Pursuant to the Indenture and the CFC Statute, Pledged Revenues presently include CFC revenues but only to the extent the proceeds of Parity Bonds are used for qualifying CFC projects. No outstanding Parity Bonds financed qualifying CFC projects; however, the Port expects that a portion of the proceeds of the Series 2002 Bonds will be used to finance qualifying CFC projects. Accordingly, CFC revenues may not be used to pay debt service on any currently outstanding Parity Bonds (including the Series 2002 Bonds) unless qualifying projects are built with Parity Bond proceeds or following the collection and application of CFC revenues in an amount sufficient to repay Parity Bond debt service relating to qualifying CFC projects. See "CAPITAL IMPROVEMENT PROGRAM—The Plan for Funding the CIP."

Airport Development Program. The Port's Airport Development Program ("ADP") is a major development program to expand and improve the Airport's terminal, parking, roadway and cargo facilities, certain segments of which the Airport plans to undertake within the period of the CIP. The Port initiated the ADP in 1989 because the Airport's terminal and landside facilities were forecast to operate at or above their design capacities.

The ADP consists of 13 projects designed to meet the Airport's short-term needs, while providing the flexibility to meet the Airport's long-term requirements at both the North Airport and South Airport. Key elements in the ADP include the expansion and redevelopment of the current terminal complex, new parking lots, and new aircraft parking areas. In addition, it is expected that FedEx will expand its facilities as part of the ADP and will pay the costs of these facilities.

Litigation Affecting the Airport Development Program. The Port certified a final Environmental Impact Report ("EIR") for the ADP and approved the ADP on December 16, 1997. The EIR was challenged by the City of Alameda, the City of San Leandro and two neighborhood groups. A trade union and local school districts also filed suit; however, the trade union dismissed its lawsuit and the Port reached a settlement agreement with the local school districts and the City of San Leandro. In February 1999, the California Superior Court ordered the Port to supplement two sections of the EIR, upholding the remainder of the EIR. The Port certified a Supplement to the EIR in June 1999 to cure the defects identified by the Superior Court and, in November 1999, the Superior Court ruled that the Port had complied with its order. The City of Alameda and the neighborhood groups (collectively, the "Petitioners") appealed certain portions of the February 1999 judgment, as well as the order approving the Supplement to the EIR. The appeal was decided partially in favor of the Petitioners on August 30, 2001, requiring the Port to prepare a second Supplement to the EIR to address health effects from airport-related emissions, nighttime noise, and mitigation for a special-status species. The Port estimates that the second Supplement will be completed in the Fall of 2002.

All parties to the state court litigation entered into a Partial Settlement Agreement, which allows the Port to proceed with certain components of the ADP, independent of the completion of the second Supplement to the EIR. The permitted components include seven new passenger gates and a new passenger terminal concourse, a 6,000-space parking garage, and the remote parking area for passenger and air cargo aircraft at South Field. The Partial Settlement Agreement has not yet been presented to the court for approval, but the Port expects that the court will grant such approval upon remand. All parties to the litigation have agreed not to challenge the approval, construction or funding of the severed projects. These projects are all included in the CIP. See "Aviation Development Projects" below. For a further discussion of the Aviation projects in the Port's CIP, see "CAPITAL IMPROVEMENT PROGRAM—Projects in the CIP—Aviation Projects" and APPENDIX A—"FEASIBILITY REPORT—AVIATION DIVISION—AVIATION CAPITAL IMPROVEMENT PROGRAM."

The Petitioners also filed suit challenging issuance of the Record of Decision and approval of the Airport Layout Plan. No decision has been reached in the federal suit, and no decision is expected prior to Fall of 2002. The United States Court of Appeals for the Ninth Circuit recently ruled that it did not have jurisdiction to hear the suit, and transferred the suit to the District Court for the Northern District of California. The FAA petitioned for a rehearing of that decision but the petition was denied. In connection with the federal suit, the FAA has determined that it will review the Port's second Supplement to the EIR pertaining to the ADP's health impacts prior to issuing further approvals of any ADP component, including PFC approvals, that is relevant to the evaluation of health impacts. The federal suit and the FAA's requirement for further review do not currently impact the Port's ability to proceed with the projects specified in the Partial Settlement Agreement. However, an adverse decision in the federal suit could result in an injunction prohibiting the ADP from proceeding, possibly hindering progress on even the projects permitted by the Partial Settlement Agreement and preventing the FAA from processing any PFC applications of the Port relating to those projects. The Port believes that such an outcome is unlikely since the Petitioners have agreed that these projects can go forward. However, no assurance can be given that such an outcome will not occur.

Since much of the land on which the Airport is located was submerged lands and tidelands, wetlands issues have affected and will continue to affect the ability of the Port to undertake major additions and improvements to the Airport facilities. However, to the extent projects currently incorporated in the CIP are affected, the Port will undertake mitigation to the extent necessary to resolve any wetlands issues.

The Port will not proceed with other components of the ADP unless the Port determines that the issues discussed in this section have been resolved satisfactorily and adequate funding is available. The remaining projects of the ADP discussed above and certain other projects being contemplated by the Port would be included in a future capital program, subject to feasibility and cost analyses performed in conjunction with any future program. See "SECURITY AND SOURCES OF PAYMENTS FOR THE 2002 BONDS—Additional Bonds" for a discussion of the possible use of Additional Bonds to finance the ADP.

Aviation Development Projects. The Airport is currently making or intends to make certain infrastructure improvements that will relieve the congestion at the Airport, enhance customer convenience and increase Airport security. These projects, all of which are included in the CIP, include the projects permitted under the Partial Settlement Agreement (described above) and certain other projects approved by the Board. See "CAPITAL

IMPROVEMENT PROGRAM—Projects in the CIP—Aviation Projects." The projects described below reflect the primary segments of the Aviation Division's projects in the CIP; each project described is comprised of various components, the scope and estimated costs of these components are subject to change and may be revised as the Port continues through its planning process.

Cross Airport Roadway Project. The Cross Airport Roadway Project is an arterial roadway connecting Interstate 880 to Bay Farm Island in the neighboring city of Alameda via the Airport. Thus far, improvements have been made to 98th Avenue, which is a six-lane limited access road that serves as the primary entrance to the Airport. As part of the Cross Airport Roadway Project, most of Airport Drive is expected to be widened from two to three lanes in each direction. The majority of the costs of this project were paid for from funds received by the Port from local funding sources.

South Airport Terminal Improvements. Planned terminal improvements are intended to maximize facility usage. Additional ticket counters, offices, and restrooms are expected to be constructed within the existing terminal infrastructure. The Port also plans to improve and expand information systems in Terminals 1 and 2, including those that provide a common use platform. Planned roadway upgrades include the construction of a third vehicular traffic roadway and curb segment in front of the Airport terminals. This project will provide a dedicated passenger staging curb and lanes for rental car and ground transportation traffic. The Port intends to dedicate the existing roadways for private vehicle traffic. Certain funds in the CIP may be reallocated from this project to the Terminal 2 Renovation and Concourse Extension described below.

Parking. The South Airport portion of the CIP includes the construction of a 6,000-stall parking structure, which will be located on the site of the existing parking lots in front of the terminals. The first two floors of the parking structure are expected to be a dedicated rental car center, allowing passengers to conduct all rental car transactions within walking distance of the terminals. The remaining 4,200 stalls will be available for public parking. The Port is considering using the first two floors of the parking structure on an interim basis for airline purposes if construction of a new terminal complex (contemplated by the ADP but not currently in the CIP) is advanced. If this occurs, the rental car center would move into the structure once airline uses have been moved into the terminal. This could impact the Port's ability to collect CFCs available for debt service. During the construction of the garage, a 4,000-stall parking lot located at Pardee Drive and Swan Way (the "Pardee Lot") will be utilized for replacement parking. The construction of the Pardee Lot is also included in the Airport's CIP and is expected to be completed by the end of Fiscal Year 2003.

Terminal 2 Renovation and Concourse Extension. The renovation and extension of Terminal 2 was developed primarily in response to changing security requirements. As described under "Impacts of September 11, 2001 Terrorist Attacks," the Aviation Security Act mandates the screen checking by explosive detection systems of all outbound baggage by December 31, 2002. In order to comply with these requirements, the Port intends to expand the Airport's outbound baggage processing area by 22,300 square feet. The expanded baggage area is to be constructed on a site adjacent to Terminal 2 (previously used as a parking lot) and 2,000 square feet in the area currently used for airline ticket offices. The displaced airline ticket offices will be relocated to other parts of Terminal 2. Changes in security requirements and passenger behavior since September 11, 2001, have resulted in substantial queuing at Airport ticket counters during peak periods. To enhance airport security and reduce congestion in the passenger check-in area, the Port also intends to construct additional ticket counters and check-in stations in Terminal 2. The Port plans to construct 12 new ticket counters, 2,200 square feet of new airline ticket office space, and 12 new curbside check-in stations outside of Terminal 2. Heightened security requirements and procedures also have resulted in substantial queuing at the Airport's passenger security checkpoints. The Port plans to add five new security checkpoint positions in Terminal 2, for a total of 10 security checkpoint positions. Because the security checkpoint positions and ticket office space will be constructed in the space currently used as a passenger baggage claim area, the Port intends to relocate the existing passenger baggage claim area within the expanded Terminal 2. The Port intends to build the Terminal 2 concourse extension, a two-story, 800 linear foot concourse that will provide seven gates (two of which are to replace gates in Terminal 2 that will have to be closed due to construction of the new concourse) and typical concourse amenities. The new concourse area will extend from the existing Terminal 2 facility. Both the terminal renovation and concourse extension are expected to be completed in 2004.

Bay Area Rapid Transit ("BART") Connection. The BART Connector Project is a BART-sponsored project that will provide an aerial guideway from the Airport to the BART Coliseum Station. The guideway corridor will run along Hegenberger Drive and may have intermittent stops. The CIP includes the Port's share of this project, which will be located on Airport property.

North Airport Improvements. The CIP includes various taxiway and apron rehabilitation projects. Pavement rehabilitation is an ongoing program at the Airport to ensure the useful lives of taxiways and aprons.

Interim Rental Car Facilities. Rental car facilities to be constructed at the North Airport as part of the CIP are interim consolidated facilities that are to be utilized during the construction of the parking structure planned at the South Airport. The consolidated interim rental car facilities are expected to be in service by 2004. All rental car customers will be shuttled via a common busing system to and from the South Airport terminals.

Other Terminal Improvements. Various facility improvements are anticipated to be put in service at the Airport throughout the next year, including additional restrooms in Terminal 1, expansion of the security checkpoints in both Terminal 1 and Terminal 2, and improvements in building temperature control. In addition, the Airport is constructing a charter carrier ticketing facility within the existing terminal infrastructure.

The Airport will continue to plan for future needs, particularly changing security requirements and facilities that are being utilized beyond capacity and congestion-related issues.

Maritime Division

The Port serves as the principal ocean gateway for container cargo in Northern California. The Port's Maritime Division is responsible for planning, designing, constructing and maintaining marine transportation facilities. The Maritime Division is also responsible for providing an interface for waterborne international and domestic cargo moving between inland points in the United States and the Pacific Basin, as well as other points in the world. In Fiscal Year 2001, the Port's Maritime Division generated 39.5% of the Port's total operating revenues.

There are four major terminal areas under the Port's jurisdiction, consisting of 27 deepwater berths with a total of 23,684 linear feet of berthing length. The Port has approximately 848 acres of marine terminal facilities, rail intermodal terminal and container storage areas and is developing approximately 283 additional acres for such uses. Forty-one ship-to-shore container gantry cranes are in operation at 23 container berths, including 27 new post-panamax cranes (seven of which are owned by tenants). Ten additional and two replacement post-panamax cranes were delivered between April 2001 and June 2002. Four older cranes will be removed from service by the end of calendar year 2002.

The Port's container terminal facilities and rail and highway connections have made the Port one of the four major gateways for international containerized cargo shipments on the West Coast with a market share of 11% in calendar year 2001. The other three major gateways are Los Angeles/Long Beach, Seattle/Tacoma and Vancouver with market shares of 61%, 19% and 7%, respectively, in calendar year 2001. The Port's market share relative to the other major West Coast ports decreased from 15% to 11% between calendar year 1992 and calendar year 2001. The Port's Maritime revenue grew from $67.6 million in Fiscal Year 1997 to $77.8 million in Fiscal Year 2001, an increase of 15.1%.

For a discussion of recent market developments affecting the Port and an overview of the competition that exists among the major ports on the West Coast, see APPENDIX A—"FEASIBILITY REPORT—MARITIME DIVISION—Competitive Assessment—Competing West Coast Ports."

Maritime Activity. Containerized cargo represents over 92% of the total cargo tonnage handled by the Port (excluding two privately-owned bulk facilities and vessel fueling operations). The volume of containerized cargo imported at the Port declined 5.1% in calendar year 2001 as compared to calendar year 2000, and the volume of containerized cargo for exports at the Port declined 9.3% in calendar year 2001 as compared to calendar year 2000. The decline in the volume of containerized cargo was typical of West Coast ports. See APPENDIX A—"FEASIBILITY REPORT—MARITIME DIVISION—Current Situation for the Port—Amount and Type of Cargo" and "—Outlook for Maritime Trade at the Port—Trade Outlook at the Port." As described above, the Port's West Coast market share decreased by 4% between calendar year 1992 and calendar year 2001. The Port, however, expects to stop its decline in market share and sustain its current market share due to the opening of the Joint Intermodal Terminal (the "JIT") described under "Existing Facilities—Rail Intermodal Terminal Area" below, increased marketing activities and potential agreements with major shipping lines to be a "first port of call" for certain of such lines' vessels. Cargo originating from or destined to areas west of Denver, Colorado provided approximately 90% of the Port's total containerized traffic. However, with the opening of the JIT, the Port expects to increase the volume of containerized cargo being transported to and from the Midwest and beyond. See "INVESTOR CONSIDERATIONS—The Maritime Industry."

The activity and growth in containerized cargo, measured in twenty-foot equivalent units ("TEUs"), through the Port since 1992 are shown in Table 11 below.

TABLE 11

PORT OF OAKLAND
MARITIME DIVISION
CONTAINERIZED CARGO
CALENDAR YEARS 1992 THROUGH 2001
(000s)

Calendar Year	Revenue Tons	Loaded TEUs
1992	16,333	1,011
1993	17,034	1,033
1994	19,393	1,168
1995	20,390	1,215
1996	19,446	1,144
1997	19,132	1,167
1998	19,612	1,206
1999	21,826	1,260
2000	22,814	1,322
2001	21,215	1,245
Annual Compounded Growth Rate		
1992-2001	2.9%	2.3%

Source: Port of Oakland

The Port handles a diverse range of containerized cargo including both import and export commodities. Principal exports moving through the Port are agricultural products, pulp and waste paper, raw cotton, animal feed, meat, synthetic resins and plastic chemicals, specialized industrial machinery, and wood and lumber. Principal imports are fruits and vegetables, beverages, meat, electronic data processing equipment, auto parts, newsprint, iron and steel, coffee, tea, and spices. The primary direction of trade at the Port is export (outbound), representing 61% of the cargo handled at the Port.

Pacific Rim countries continue to be the principal origination and destination points for cargo moving through the Port. Trade with Asia accounted for over 61% of the Port's traffic in calendar year 2001. The following table sets forth cargo tonnage by trade area at the Port during calendar years 1992 through 2001.

TABLE 12

PORT OF OAKLAND
MARITIME DIVISION
TOTAL CARGO TONS HANDLED BY TRADE AREA
CALENDAR YEARS 1992 THROUGH 2001
(000s)

Calendar Year	Asia	Europe	Australia/ New Zealand	Other Foreign	Hawaii	Other Domestic(1)	Inland Waterways(2)	Total
1992	12,925	1,747	315	94	1,529	396	1,095	18,101
1993	13,447	1,913	350	123	1,352	367	1,027	18,579
1994	15,885	1,777	404	179	1,433	412	889	20,977
1995	16,975	1,810	316	89	1,627	489	989	22,295
1996	14,821	1,781	296	136	2,583	472	1,330	21,419
1997	15,812	2,058	349	52	1,359	435	1,169	21,234
1998	15,716	2,047	392	40	2,208	260	1,317	21,980
1999	16,462	1,907	378	46	3,312	310	1,293	23,708
2000	15,595	2,529	543	39	4,189	514	1,093	24,502
2001	14,156	3,159	824	33	3,430	440	897	22,939
Annual Compounded Growth Rate								
1992-2001	1.0%	6.8%	11.3%	(11.0)%	9.4%	1.2%	(2.2)%	2.7%

(1) Other Domestic includes Guam and former U.S. Trust Territories, including Micronesia, Marshall Islands, Northern Mariana Islands and Palau. This traffic is dominated by Guam and primarily consists of U.S. military cargo.

(2) Represents Port operations, including two privately owned bulk facilities and vessel fueling operations.

Source: Port of Oakland

Major Ocean Carriers Serving the Port. The Port is served by over 35 ocean carriers. The leading carriers at the Port in calendar year 2001, based on loaded containers (TEUs), are listed in the following table.

TABLE 13

PORT OF OAKLAND
MARITIME DIVISION
MAJOR OCEAN CARRIERS SERVING THE PORT
CALENDAR YEAR 2001
(000s)

Ocean Carrier	Total Loaded TEUs
Maersk-Sealand	180,400
Matson Navigation Company	147,500
American President Lines	145,000
Hanjin Shipping Company	80,000
CSX	64,700
Evergreen Marine Corporation (Taiwan) Ltd./Lloyd Triestino(1)	64,600
K-Line	63,000
Hapag Lloyd	44,500
Hyundai Merchant Marine	41,400
Yang Ming Marine Transport	40,500
China Ocean Shipping (Group) Company (Cosco)	39,500
Mitsui-OSK Lines	39,100
DSR-Senator Lines	37,400
OOCL	36,400
NYK Lines	34,200
P&O/NedLloyd	24,600
Australia-New Zealand Direct Line	23,900
China Shipping Lines	19,900
Italia Line	17,000
Wan Hai Lines	16,100
Norasia	14,500
CMA-CGM	14,000
Other(2)	56,800
TOTAL	1,245,000

(1) Evergreen has stated that it intends to make its China Pacific South Service an Oakland first port of call and is currently negotiating the final terms of a new Marine Terminal Agreement. See "Pending Agreements" below.

(2) Includes four new carriers that commenced activity at the Port in 2001: Columbus Line, Mediterranean Bulk, Trans Pacific Lines and Valuship.

Source: Port of Oakland

Worldwide Alliances. Strategic worldwide alliances among ocean carriers involving shared vessels, equipment and terminals have emerged in the last ten years. Ocean carriers are utilizing alliances to benefit from the economies of scale through reduced operating costs and capital expenditures and to spread associated risks among the partners. As a result of the alliances, carriers are demanding merged operations with larger terminals and West Coast ports, including the Port, are realigning existing facilities and constructing new terminals for combined operations. Both objectives require large capital investment, available acreage for expansion and a plan to sequence construction and terminal reassignment that does not disrupt existing terminal operations. Additional support infrastructure is also required for the efficient use of new and realigned terminals. The Port is addressing these needs, in part, with its Vision 2000 Program and the Deepening Project. See "—Maritime Development Projects" below.

Four alliances operate at the Port and accounted for approximately 56% of the Port's container activity in Fiscal Year 2001: the Grand Alliance, which consists of NYK Lines, OOCL, Hapag Lloyd and P&O/NedLloyd; the New World Alliance, which consists of American President Lines, Mitsui-OSK Lines and Hyundai Merchant Marine; the United Alliance, which consists of Hanjin Shipping Company, Sinotrans Container Lines and DSR-Senator Lines; and the CHKY Alliance, which consists of Cosco, K-Line and Yang Ming Marine Transport. Maersk Pacific acquired Sealand Services in December 1999 and the merged entity, Maersk-Sealand, is technically no longer an alliance. Maersk-Sealand accounted for 17% of the Port's container activity in Fiscal Year 2001. Evergreen Marine Corporation (Taiwan), Ltd. and Matson Navigation Corporation, two other independent shipping lines, together accounted for an additional 17% of the Port's container activity in Fiscal Year 2001. See APPENDIX A—"FEASIBILITY REPORT—MARITIME DIVISION—Outlook for Maritime Trade at the Port—Carrier Alliances, Acquisitions and Deregulation" for further information regarding these alliances.

Impact of September 11, 2001 Terrorist Attacks. Following the terrorist attacks of September 11, 2001, the Port's Maritime Division organized a Port Security Committee consisting of the Port's terminal operators, maritime service companies (such as the San Francisco Bar Pilots), local representatives of U.S. Customs, the U.S. Coast Guard, the State Lands Commission, and representatives of the Port and the Ports of San Francisco and Benicia. Port maritime facilities were surveyed to identify terminal areas requiring enhanced security. In March 2002, Interim Security Guidelines for marine terminal and vessel operators were published by the U.S. Coast Guard covering all West Coast ports with respect to the boarding of vessels. In addition, the U.S. Coast Guard has begun a national port vulnerability assessment program and is in the process of issuing "Security Guidelines for Waterfront Facilities," which are terminal-specific and identify three levels of security. The Port has identified a number of specific projects to enhance the physical security of the Port's maritime facilities and submitted grant applications for federal funding to implement these improvements. On June 18, 2002, the Port was advised that the federal government had approved a grant of $4.87 million to upgrade terminal access control systems, install video surveillance systems and develop an emergency communication system for all the Port's marine terminals. The Port plans to proceed with implementation of the program and to proceed with additional applications for grant funding to support security efforts. To date, the Port and its tenants have spent approximately $300,000, of which the Port's share was $15,000, primarily on studies to implement the Interim Security Guidelines and for additional guard watches immediately following the events of September 11, 2001. The Maritime Division has received a proposal from the City to provide additional armed police presence at a projected annual cost to the Port and its tenants of approximately $600,000. This level of presence and security efforts have not been mandated under the current Interim Security Guidelines. To the extent possible, the Port will pursue federal and state grants to pay for all or a portion of any of the mandated security costs. Due to the uncertainty of the level of security that may be required and funding sources available for such costs, none of these potential projects have been included in the CIP and the additional costs were not taken into account in the Feasibility Report. For further discussion of potential impacts of the events of September 11, 2001 and subsequent proposed security measures, see "INVESTOR CONSIDERATIONS—Impacts of September 11, 2001 Terrorist Attacks."

Existing Facilities. The Maritime Division area is comprised of 1,131 acres: 577 acres are developed container terminal areas; 197 acres are being developed for such use; and the remaining acreage is being used for the JIT (described below under "Rail Intermodal Terminal Area"), truck staging, container storage and maritime support services operations. In April 2002, the Port's only operating break-bulk terminal (Burma Road Terminal) was delivered to Caltrans for use as a staging area for the construction of the new San Francisco-Oakland Bay Bridge. The Port's other break-bulk facility (Ninth Avenue Terminal) is currently being utilized for maritime support activities until development of the Port's Oak-to-Ninth Street project. See "PORT OF OAKLAND—Commercial Real Estate Division—Commercial Real Estate Development Projects." The Port maintains four major marine terminal areas: the Outer Harbor Terminal Area, the 7th Street Terminal Area, the Middle Harbor Terminal Area and the Inner Harbor Terminal Area, as well as a rail intermodal area. A description of each of these terminal areas follows.

<u>Outer Harbor Terminal Area</u>. The Outer Harbor Terminal Area includes the leased portion of the Oakland Army Base area west of Maritime Street, the two terminals operated by Maersk-Sealand (Berths 20 through 22 and 24), the Yusen Container Terminal (Berth 23) and the TransBay Container Terminal (Berths 25 and 26). The remaining Outer Harbor Terminal area (Berths 8, 9 and 10) is currently used as a backup container storage area and a tugboat berth. Berths 21 and 22 of the Maersk-Sealand Terminal are used as a container facility, including a maintenance building and a container freight station. These berths cover 59 acres and are served by four container

cranes. Berth 24 is a 57-acre container facility served by three 50 long-ton post-panamax container cranes. The Yusen Container Terminal is preferentially assigned to NYK Lines, a member of the Grand Alliance, and is operated by Yusen Terminals, Inc. It is a 47-acre facility served by two 50-long-ton post-panamax container cranes. The TransBay Container Terminal is a 40-acre facility served by two new 55-long-ton container cranes, with an additional five acres expected to be operational in August 2002. The two replacement cranes for the TransBay Container Terminal were delivered in May 2002; additional cranes are available for use from adjacent facilities as all cranes servicing Berths 23-26 are 100-foot gauge cranes located on linear crane rails.

7th Street Terminal Area. The 7th Street Terminal Area is comprised of 170 acres located between two deep-water channels with rail and highway access and is used for container terminal operations. The 7th Street Terminal Area includes the TraPac Terminal, the SSA Terminal, the Ben E. Nutter Terminal and Berth 40. The TraPac Terminal (Berth 30) is an approximately 31-acre facility equipped with three post-panamax container cranes. The TraPac Terminal is serviced by the New World Alliance and is operated by TransPacific Container Service Corporation. The SSA Terminal (Berths 32, 33 and 34), currently used by Matson, is an approximately 65-acre container terminal operated by Stevedoring Services of America Terminals LLC ("SSAT") and includes a container freight station area. Matson is expected to relocate its operations to the new SSAT Terminal facility (described below under "Middle Harbor Terminal Area") in September 2002. Berths 32, 33 and 34 will then be renovated and are expected to be returned to service by the second quarter of 2004. The Ben E. Nutter Marine Container Terminal (Berths 35, 37 and 38) consists of 58 acres of container area and four post-panamax container cranes. Shipping lines currently using the Ben E. Nutter Terminal include Transpacific Lines, Wan Hai Lines, China Shipping Lines, Evergreen Marine Corp. Ltd., and Yang Ming Marine Transport Corp (including Cosco & K Line cargo). Evergreen Marine Corp. Ltd. is expected to operate Berths 35, 36 and 38 under a marine terminal agreement currently being negotiated with the Port, as more fully described under "Pending Agreements" below. A tugboat operation currently uses Berth 40; however, that operation will be relocated to the Outer Harbor Terminal Area (Berth 9) by the end of calendar year 2002 to make way for the Vision 2000 Middle Harbor Shoreline Park construction project described below under "Maritime Development Projects—Middle Harbor Shoreline Park."

Middle Harbor Terminal Area. The American President Lines Terminal (the "APL Terminal"), serviced by the New World Alliance, is an approximately 80-acre facility that includes Berths 60 through 63 and is presently served by five container cranes, including three post-panamax container cranes. The Port expects that two pre-panamax cranes, which are owned by the Port and currently not in use, will be removed from the APL Terminal by the end of calendar year 2002. Replacement of these cranes will be at the option and expense of APL. Other water carriers also use the facility under secondary assignment agreements.

The Middle Harbor Terminal Area also includes the Hanjin Terminal, whose primary users include Hanjin Shipping Company, DSR-Senator Lines and Sinotrans Container Lines, the members of the United Alliance. The Hanjin Terminal (Berths 55 and 56) is a 90-acre facility served by four new post-panamax container cranes. Another 18 acres are scheduled to be made available to Hanjin in July 2002, and an additional 12 acres in March 2003. The Hanjin Terminal was the first Vision 2000 container terminal to be placed in operation in June 2001.

The Port expects the SSAT Terminal (Berths 57 through 59) to open in August 2002. The SSAT Terminal will initially include 127 acres, including three berths, and will be serviced by six post-panamax container cranes. An additional 23 acres are expected to be added to the SSAT Terminal in Fiscal Year 2005, bringing the total acreage of Berths 57 through 59 to approximately 150 acres.

Inner Harbor Terminal Area. The Inner Harbor Terminal Area includes the Charles P. Howard Container Terminal and the Ninth Avenue Terminal, formerly a break-bulk cargo facility. The Charles P. Howard Container Terminal (Berths 67 and 68) is a 50-acre terminal that commenced operation in October 1982 and is currently operated by SSAT under a management agreement with the Port. However, the facility is expected to be vacated by SSAT in August 2002 when they relocate their operations to Berths 57 through 59 as described above under "Middle Harbor Terminal Area." The Port is currently considering several options to maintain operations at this terminal after it is vacated by SSAT. The facility is served by four container cranes, which have been raised to provide a 100-foot lift height above the dock, and will be marketed to smaller container carriers, auto importers and maritime support operations. The Ninth Avenue Terminal (Berths 82, 83 and 84) is a 26-acre area currently utilized for maritime support purposes. The area also includes covered storage area of 204,950 square feet. The Ninth

Avenue Terminal will be removed from the Maritime Division's management and used as a part of the Estuary Plan. See "THE PORT'S FINANCES AND OPERATIONS—Estuary Plan."

Rail Intermodal Terminal Area. Approximately 165 acres of the areas covered by the Vision 2000 Program will provide rail intermodal capability for the Port. Phase I of the JIT, operated by the Burlington Northern Santa Fe Railway ("BNSF"), opened in March 2002 and will have an initial capacity of 225,000 lifts annually. It is designed to improve rail shipping service to and from the Port by allowing BNSF to transfer intermodal cargo between ships and rail cars by trucking the cargo a short distance rather than the previous eleven miles over Interstate 80 to the City of Richmond. The JIT also may be used by the Union Pacific Railroad ("Union Pacific"). The agreement between the Port and BNSF regarding the operation of the JIT provides the Port with a minimum annual guaranteed payment of $500,000 and the potential for additional payments in excess of that amount. The Port does not anticipate any further development of the JIT within the timeframe of the CIP, other than the completion of the gate complex.

Additional Property. Currently the Port leases much of the western portion of the closed Oakland Army Base (the "OAB"), under a sublease from the Oakland Base Reuse Authority. The Port, in turn, leases its subleased portion of the OAB to a tugboat company and several maritime support companies.

The U.S. Army acquired the OAB in the 1940s. The Port retained reversionary rights in the portion of the OAB consisting of all land west of (and including) Maritime Street. In 1995 the Army closed the OAB. Currently the City, the Port and the Army are negotiating the terms of the Army's conveyance of the OAB, and the Army's, the Port's, and the City's respective rights and obligations regarding the conveyance. See "Maritime Development Projects—OAB Project" below and APPENDIX A—"FEASIBILITY REPORT—MARITIME DIVISION—Maritime Projects in the Capital Improvement Program."

Port Tariffs and Operating and Use Agreements. The Port and all other California public ports control and determine their own tariff structures. However, California ports cooperate in setting tariff rates through membership in the California Association of Port Authorities ("CAPA"). One of CAPA's goals is to establish and maintain reasonable and, as far as practicable, uniform terminal rates, charges, classifications, rules and regulations for the handling and movement of domestic and foreign waterborne cargo. Tariffs cover assignment of marine terminal facilities as well as rates and provisions for vessel dockage, wharfage, wharf storage, wharf demurrage, container crane rental and other miscellaneous terminal tariff charges necessary for the orderly movement of cargo. CAPA's goal is to permit California ports to obtain adequate returns on investment to facilitate the maintenance, expansion and improvement of marine facilities. CAPA enjoys an exemption from federal antitrust laws permitting this cooperative rate setting. Each CAPA member has the right to take independent action with regard to its specific tariff structures.

The revenues from the operation and use of Marine Division facilities are generated under five different types of use agreements.

Lease Agreements. Long-term lease agreements are normally five years or longer and specify monthly, quarterly, semi-annual or annual fixed rental payments. These agreements are not subject to tariff rate or cargo volume variations. These agreements allow both the Port and the assignee to designate and accept third-party users into the facility. The third-party users may or may not have a separate agreement with the Port, but the revenue derived from them is shared between the Port and the assignee.

Preferential Assignments. Preferential assignments are long-term agreements, normally five years or longer, that assign a marine terminal to a specific ocean carrier for its use. These agreements assess discounted tariff rates on dockage, wharfage, cranes, demurrage and storage, or combinations of two or more of these types of charges for commitments of time and guaranteed cargo levels. The assignments are non-exclusive; both the Port and the assignee may designate and accept third-party users into the facility. The third-party users may not have a separate agreement with the Port, but the revenue derived from them is shared between the Port and the assignee.

Terminal Use Agreements. Terminal use agreements ("TUAs") are normally five-year agreements that allow an ocean carrier to utilize the Port's marine container terminals. These agreements assess discounted tariff rates on dockage and wharfage or a combination of the two types of charges for commitments of time and guaranteed activity levels. Carriers with this type of agreement normally use public container terminals that are operated by stevedoring companies for the Port.

Management Agreements. The two public container terminals at the Port, the Ben E. Nutter Terminal and the Charles P. Howard Container Terminal, are operated by stevedoring companies under management agreements. These agreements have yearly performance standards requiring minimum activity levels for container cargo and crane use activity. The Port shares a minimum amount of the revenue generated from ocean carrier activity with the terminal operators.

Space Assignment Agreements. Space assignment agreements are short term, normally 30-day renewable agreements for rental of buildings and open acreage.

Presently, all of the Port's marine terminal facilities are operated and used under lease agreements, preferential assignments and management agreements (collectively, "Marine Terminal Agreements"), or TUAs. Most of the Port's maritime revenues are generated by such agreements, which reflect economic incentives for term commitments, volume and revenue guarantees in exchange for discounted tariff charges, and in most cases are subject to a minimum annual guarantee ("MAG"). At the present time, all Port maritime agreements contain escalation provisions that are either based on Port tariff rates or require increases in shipping line volume levels. No assurance can be given that the Port will be able to include such provisions in future agreements.

Pending Agreements.

Evergreen Marine Corporation (Taiwan) Ltd. ("Evergreen"): The Port and Evergreen have executed a letter of intent (the "Evergreen LOI") memorializing their understanding of the general terms of a new preferential assignment agreement for the Ben E. Nutter Terminal. The proposed assignment would be a ten-year agreement with two additional five-year options. The rates and the assumptions that will be used to calculate the MAG have been agreed upon. Rate escalations and breakpoint escalations are still under negotiation. Evergreen would be subject to a MAG of $8,506,000. The Feasibility Report assumes that the Evergreen MAG will be received.

The MAG may increase due to transfers of existing Port customers to the Evergreen (Nutter) Terminal. If such a transferred carrier subsequently leaves the Evergreen Terminal, then the adjusted MAG will be decreased by the same amount by which it was increased. An increase or decrease in the Evergreen Terminal MAG could result in a corresponding adjustment in the MAG for use of the Port facility that was vacated or to which a customer was transferred, but no assurance can be given that any adjustment will not result in a decrease in overall maritime revenues for the Port.

The MAG may decrease due to the transfer of a designated primary user to another Port facility. A decrease in the Evergreen Terminal MAG would cause a corresponding adjustment in the MAG for use of the Port facility to which the customer was transferred. Discontinuance of activity not only from the Evergreen Terminal but also from the entire Port by a designated primary user could significantly decrease the Evergreen Terminal MAG and maritime revenues.

American President Lines ("APL"): The Port and APL are currently negotiating the terms of a new preferential assignment agreement for the APL Terminal. The Port and APL are also negotiating the specific improvements to be constructed at the terminal. The Port has authorized $45 million in funding for such improvements; however, the final agreement may provide for additional improvements, at additional costs, to be paid for by the Port. The Port intends to fund an additional $32 million of wharf improvements at the terminal, whether or not an agreement with APL is reached. During construction, APL would be subject to a MAG ranging from $6.8 million to $9.6 million depending on the percentage of construction completion. If the proposed agreement is not finalized, APL has exercised one of its seven-year options under the existing agreement and will negotiate the corresponding MAG with the Port. The Feasibility Report assumes an agreement with APL on the terms described herein will be executed and the APL MAG will reach $9.6 million.

Table 14 below lists the Port's major Marine Terminal Agreements and certain terms of each agreement. The Port's agreements with American President Lines expired in 2001. The agreements have been extended for the first of two consecutive seven-year options while negotiations for a new Marine Terminal Agreement are being finalized. Other agreements are in various stages of negotiation as indicated. No assurances can be given that the assumptions and terms of such agreements as reflected in the Feasibility Report will reflect the final terms of any such agreements or that these agreements will be executed.

TABLE 14

PORT OF OAKLAND
MARITIME DIVISION
MAJOR MARINE TERMINAL AGREEMENTS
FISCAL YEAR 2001

Lessee, Assignee or Terminal Operator	Minimum Annual Guaranteed Payment	Term of Contract	Expiration Year
American President Lines (1) (Berths 60 and 61)	$ 2,766,032	25 years	2008
American President Lines(1) (Berths 62 and 63)	1,996,920	30 years	2008
American President Lines(1) (Office)	399,488	25 years	2008
Hanjin/Total Terminal International LLC(2)	11,287,500	15 years	2016
International Transportation Service (3)	5,707,686	5½ years	2003
Maersk Pacific Ltd. (Berths 20-22 and 24)	14,073,250	5 years	2004
Marine Terminals Corp(4) (Berths 35 and 37)	2,666,000	10 years	2004
SSA Terminals LLC(5) (Berths 32, 33 and 34)	1,847,496	20 years	2008
SSA Terminals LLC(5) (Berths 67 and 68)	4,200,287	10 years	2007
Yusen Terminal, Inc.(5) (Berths 23)	8,097,263	15 years	2007
Mitsui O.S.K. (Berths 30)	6,017,826	25 years	2019

(1) See "Pending Agreements" above.
(2) Agreement commenced on June 18, 2001 and includes a portion of a 3-year revenue delay and 30 acres to be added to its terminal by January 1, 2003 with an increase in MAG.
(3) Agreement provides for three consecutive 5-year options and includes 5 acres to be added to the terminal by January 1, 2003 with an increase in MAG.
(4) Agreement is expected to be replaced with a new agreement currently being negotiated with Evergreen. See "Pending Agreements" above.
(5) Agreement will terminate upon commencement of a new agreement with SSAT. The new agreement is to commence effective August 1, 2002, subject to substantial completion of improvements currently being undertaken by the Port. The agreement provides for two consecutive 5-year options and a MAG of $20,885,263.

Source: Port of Oakland

Table 15 below provides a summary of the Port's current TUAs. The TUAs do not provide for the assignment of an entire terminal, but rather allow a shipping line to use a specified amount of space at a public container terminal for a specified period of time. Usually, more than one shipping line operating pursuant to a TUA will operate from the same terminal.

TABLE 15

PORT OF OAKLAND
MARITIME DIVISION
TERMINAL USE AGREEMENTS

Shipping Line	Term	Expires	Terminal
China Shipping Lines[(1)]	3 years	5/31/2003	Nutter
China Ocean Shipping (Group) Company[(2)]	5 years	4/30/2004	Howard
Evergreen Marine Corp. (Taiwan) Ltd.[(3)]	5 years	7/31/2005	Nutter
Italia Line/Med Bulk Line[(2)]	5 years	9/30/2004	Howard
Yang Ming Marine Transport Corp.[(1)]	5 years	6/1/2006	Nutter

(1) Agreement was suspended by authorization of the Board on June 18, 2002, because the carrier is not deploying vessels to Oakland; however, the carrier continues to bring cargo to the Port on other lines through charter arrangements. If the agreement is reinstated, it is expected to terminate on the commencement date of Evergreen's new agreement. See "Pending Agreements" above.

(2) Agreement will terminate on the commencement date of a new agreement with SSAT. See Table 14, footnote 5.

(3) Agreement is expected to terminate upon the effectiveness of a new agreement being negotiated with Evergreen. See "Pending Agreements."

Source: Port of Oakland

Major Sources of Maritime Revenue. In Fiscal Year 2001, the Maritime Division generated total revenues of $77.8 million. These revenues were derived from four categories of revenue sources: Fixed, Guaranteed, Variable from Agreement and Short-Term. The terms of the Port's agreements with shipping lines are such that an individual shipping line may make more than one of these types of payments. See "Port Tariffs and Operating and Use Agreements" above. The four categories of revenue sources are described below and the amounts the Port received from each category in Fiscal Year 2001 are presented in Table 16.

Fixed Revenue is derived from long-term agreements (normally five years or longer) that specify monthly, quarterly or yearly rental payments. This revenue is not subject to tariff or activity variations.

Guaranteed Revenue is derived from long-term (five years or longer) Marine Terminal Agreements, including agreements wherein MAGs are stipulated. These agreements also stipulate the terms under which other tenants may use the facility.

Variable Revenue provides the Port with revenue sharing in excess of specified MAGs. This revenue is not guaranteed but is secured by the tenant's commitment to use the Port in exchange for volume discounts against tariff revenue in excess of the MAG.

Short-Term Revenue is derived from activity for which there are short term Port agreements (usually recognized as space assignments), which are for a period of at least 30 days but less than five years in duration.

TABLE 16

PORT OF OAKLAND
MARITIME DIVISION
MAJOR SOURCES OF REVENUE
FISCAL YEAR 2001

		Percentage of Total
Fixed Revenue	$22,209,601	28.6%
Guaranteed Revenue	37,987,157	48.8
Variable Revenue from Agreement	9,879,562	12.7
Short Term Revenue	7,729,680	9.9
TOTAL	$77,806,000	100.0%

Source: Port of Oakland

The top ten individual revenue sources for the Maritime Division in Fiscal Year 2001 cumulatively accounted for $53.7 million or approximately 69% of Maritime Division revenues and are presented in alphabetical order in Table 17 below. The top ten individual revenue sources for the Maritime Division in the nine-month period ended March 31, 2002 cumulatively accounted for $48.3 million or approximately 80.1% of the Maritime Division's revenues. The increase to 80.1% for the nine-month period ended March 31, 2002, reflects the effect of the consolidation of various shipping lines into the first Vision 2000 terminal. See "Existing Facilities—Middle Harbor Terminal Area" above. The top two individual revenue sources accounted for approximately 28.8% of the Maritime Division's Fiscal Year 2001 revenues and 31.5% of the Maritime Division's revenues for the nine-month period ended March 31, 2002. The top five sources accounted for approximately 52.9% of the Maritime Division's Fiscal Year 2001 revenues and 59.8% of the Maritime Division's revenues for the nine month period ended March 31, 2002.

TABLE 17

PORT OF OAKLAND
MARITIME DIVISION
TOP TEN INDIVIDUAL SOURCES OF MARITIME REVENUE
FISCAL YEAR 2001
(in alphabetical order)[(1)]

American President Lines
China Ocean Shipping (Group) Company
Evergreen Marine Corp. (Taiwan) Ltd.
Hanjin Shipping Company
International Transportation Service
Maersk-Sealand/CSX
Matson Navigation Company[(2)]
DSR-Senator Lines, GmbH and Cho Yang
Trans Pacific Container Service Corp.
Yusen Terminal, Inc.

(1) Due to differences in rate agreements, the ranking reflected in Table 13 does not necessarily correspond to a similar ranking of revenue sources.
(2) Revenues attributed to Matson include revenues generated from SSAT at Matson facilities.
Source: Port of Oakland

Federal and State Grants. Some Maritime Division capital projects are eligible for certain types of federal and state grant funding. Grants under these programs have been and are being made for the improvement and construction of highways and roadways, transit projects, non-motorized (e.g. bicycle trail) projects and freight movement projects, with an emphasis on intermodal movements and facilities. Between May 1, 2001 and June 30, 2002, the Port was awarded approximately $20.1 million in various state and federal awards under the Transportation Equity Act for the Twenty-First Century ("TEA-21"). As of June 30, 2002, all of these funds had been expended, except for approximately $1.1 million that is expected to be spent on construction during Fiscal Year 2003. On June 18, 2002, the Port received notice of approval for a $4.87 million federal grant to provide for certain security enhancements at its harbor facilities. See "Impact of September 11, 2002 Terrorist Attacks" above. See also "CAPITAL IMPROVEMENT PROGRAM—The Plan for Funding the CIP—ISTEA and TEA-21 Grants; STIP Grants."

Railroad and Truck Service to the Port. The two western transcontinental railroads, Union Pacific and BNSF, serve the Port.

Union Pacific owns and operates a major intermodal rail facility currently located adjacent to the Port's JIT (see "Existing Facilities—Rail Intermodal Terminal Area" above). In 1997, Union Pacific acquired Southern Pacific Railroad through merger and subsequently relocated its facilities from an 125-acre waterfront intermodal site to the former Southern Pacific Railroad yard. The relocation allowed Union Pacific to significantly improve its Port intermodal facilities. Union Pacific has completed the first phase of a two-phase terminal relocation and upgrade project on this site.

Union Pacific provides rail access on three transcontinental routes. One is a central corridor route between the Bay Area and the border of the State of Nevada, which provides intermodal service to the Midwest and the northeastern United States. Another is a central corridor route over Donner Summit, which currently has various tunnel restrictions that Union Pacific expects to eliminate by 2003. Once these restrictions are eliminated, this route will further reduce the time to Midwest points, giving the Port a transit time to Chicago equal to that of other West Coast ports. Union Pacific also provides service to the southwest and southeast portions of the United States over its southern corridor route through the San Joaquin Valley. See APPENDIX A—"FEASIBILITY REPORT—MARITIME DIVISION—Current Situation for West Coast Ports-West Coast Intermodal Rail Carriers and Discretionary Cargo."

BNSF began utilizing the JIT in March 2002; Union Pacific is also allowed access to the JIT. The Surface Transportation Board granted BNSF extensive "trackage rights" over the Union Pacific lines existing prior to the 1997 merger of Union Pacific and Southern Pacific. As a result of these "trackage rights," BNSF has a direct access to the harbor area via the JIT and provides Port customers intermodal shipping alternatives to Union Pacific. BNSF provides service between the midwest, southwest and southeast points of the United States on its southern route through the San Joaquin Valley.

Non-intermodal, carload rail traffic between the railroads and various facilities in the Port Area are handled by the Oakland Terminal Railway, a switching carrier jointly-owned by Union Pacific and BNSF.

The Port is well situated for truck services to the inland cargo area, with easy access to an extensive freeway system, including the transcontinental highways Interstate 80 and U.S. 50 and the north-south highways Interstate 5, Interstate 880 and U.S. 101.

Maritime Development Projects. The Maritime Division has a number of projects planned to provide ocean carriers the water depth, container terminals and rail-intermodal connectivity needed to increase cargo throughput at the Port. These projects are discussed below. The completion of the Vision 2000 Program, which includes the Middle Harbor Shoreline Park; the Deepening Project; and the renovation and reconfiguration of existing facilities are all included in the CIP. See "CAPITAL IMPROVEMENT PROGRAM—Projects in the CIP—Maritime Projects."

Vision 2000 Program. The Vision 2000 Program is currently under construction and is expected to address maritime industry needs and market demands by modernizing and expanding the Port's marine facilities. The Vision 2000 Program is creating the infrastructure necessary for the Port to meet regional and national cargo needs.

The major elements of the Vision 2000 Program are: (i) acquisition of the Fleet and Industrial Supply Center, Oakland ("FISCO"); (ii) construction of two new 100+ acre container terminals capable of working the largest vessels and supported by gate complexes utilizing the newest technology; and (iii) the construction of the JIT. See "Existing Facilities—Rail Intermodal Terminal Area" above.

The Port's acquisition of FISCO from the U.S. Navy in 1999 and the Water Resources Development Act of 1999 (the "WRDA"), authorizing the Deepening Project, allowed the Port to proceed with its expansion plans. Construction of the first Vision 2000 Program terminal commenced in October 1999, and that terminal opened for operation in June 2001. Construction of the second Vision 2000 Program terminal commenced in the fall of 2000; that facility is currently expected to open in August 2002. Construction of the JIT commenced in March 2000 and the first phase of the project opened in March 2002.

The Port anticipates that projected additional costs required to complete the Vision 2000 Program could be paid from funds currently allocated to the CIP, requiring an equivalent reduction in the funding of other Maritime projects in the CIP. Such a reduction could affect the amount of money available for revenue-producing projects contemplated by the Maritime Division.

Middle Harbor Shoreline Park. The public will gain access to the 31-acre shoreline of the Middle Harbor with the construction of a new shoreline park. The park was a condition imposed by the Bay Area Conservation and Development Commission ("BCDC") in connection with its granting of the permits required for the Vision 2000 Program. The Port expects that the Middle Harbor Shoreline Park will be operated by the East Bay Regional Park District, under an agreement that is currently being negotiated, and will consist of four different areas primarily utilized for recreational and educational purposes, including the five-acre Port View Park Connection, the 16-acre Point Arnold area, The Promenade and a 10-acre peninsula known as The Mole. A portion of the park is scheduled to open in August 2002, in compliance with the BCDC requirement. If for any reason the park is not opened within this time period, the Port may not be able to operate Berths 57 through 59 until the park opens. The Port currently expects that the park will open and the berth will be available as scheduled.

Deepening Project. The Deepening Project will allow the Port's maritime facilities to accommodate the latest generation of container vessels, which are capable of transporting over 6,500 twenty-foot unit containers. In addition to utility relocations, the Deepening Project components include widening and deepening of the harbor entrance, outer and inner harbor channels and two turning basins from –42 feet to –50 feet. The Deepening Project commenced in September 2001 and is expected to be completed by 2006; however, the timing of completion of the Deepening Project is dependent on annual federal appropriations as described below. Construction of the Deepening Project is being undertaken by the United States Army Corps of Engineers (the "Corps"). The Corps is responsible for ensuring that the Deepening Project complies with the WRDA; the Port is responsible for ensuring that the Deepening Project complies with certain state and local requirements.

The Deepening Project was authorized in the Water Resources Development Act of 1999. The Port certified an environmental impact report for the Deepening Project in February 2000 and has received all final approvals for the project. In July 2001, the Port and the federal government entered into the Project Cooperation Agreement (the "PCA"), which specifies the details of cost sharing between the Port and the federal government during the construction and subsequent maintenance of the Deepening Project. The total project authorization in 1999 was $252,290,000, with the federal share totaling $128,081,000 and the Port's share totaling $124,209,000. The latest cost estimate for the Deepening Project, prepared in October 2001, is $293,245,000, with the federal share totaling $145,911,000 and the Port's share totaling $147,334,000, which is slightly greater than 50% of the total project. This increase is within the cost escalation provisions of Section 902 of the WRDA and, as a result, no additional authorization is required. The total cost of the Deepening Project includes the Port's share of design, construction, and the lands, easements, rights-of-way and relocations necessary to complete the project. The total cost also includes the estimated cost of Port-funded local service facilities, such as berth deepening and wharf strengthening. The cost sharing ratio between the federal government and the Port, as set forth in the PCA, varies with the dredging depths and for the environmental restoration components of the project. The PCA requires the Port to deposit its annual share of the cost of the Deepening Project with the federal government at the beginning of each federal fiscal year. The Port's share of the annual costs through federal fiscal year 2002 in the amount of $6,100,000 has been deposited in accordance with the terms of the PCA.

Payment of the federal share of the cost of the Deepening Project is dependent upon annual appropriations by Congress. In federal fiscal year 2001, the Deepening Project received $4 million in Congressional appropriations to commence construction. The Deepening Project received another $10 million in Congressional appropriations in federal fiscal year 2002 to continue the construction. The President's proposed budget for federal fiscal year 2003, released in February 2002, recommended an additional $5 million for the Deepening Project. While Congress has not yet approved the budget for federal fiscal year 2003, the Corps has requested that projects not already begun be put on hold in anticipation of a lower overall budget for the Corps, and requested that amounts for projects currently underway be retained. There can be no assurance given as to the level of federal appropriations for federal fiscal year 2003 or subsequent years.

Although underway, the timing and completion of the Deepening Project are dependent upon additional available funding. The Port expects that it will take all necessary steps to secure additional funding when needed to provide for the completion of the Deepening Project. However, no assurance can be given that additional funding will be made available in a timely manner. Significant delays in the completion of the Deepening Project beyond 2008 could adversely affect the Port's plans for increased container throughput and may have an adverse effect on the projected revenues of the Maritime Division and the Port.

Approximately one-half of the approximately 12 million cubic yards of dredged material will be used to restore and enhance a 180-acre urban wildlife habitat area adjacent to the 31-acre Middle Harbor Shoreline Park (see "Middle Harbor Shoreline Park" above). The Middle Harbor has been dredged continuously for military operations since the 1940s. The Port plans to refill the Middle Harbor by using the dredged material from the Deepening Project to create a shallow water habitat. Nearly all of the remainder of the dredged material is expected to be used for wetlands restoration at the closed Hamilton Army Airfield and at the Montezuma Wetlands Project in the northern area of the San Francisco Bay, and for upland construction projects.

Modernization of Wharves and Other Facilities. The Port is in the process of modernizing the wharves at Berths 22, 32 and 33 and the APL Terminal. In addition, obsolete cranes at Berths 22, 32 and 33 are being replaced and container yards at Berths 22, 32 and 33 and at the APL Terminal are being modernized. In conjunction with the Deepening Project, the Port plans to undertake a program to strengthen and dredge all berths to allow vessels to dock at –50 feet and to strengthen existing wharves designed to support –35 feet depths by strengthening water-side crane girder piles and constructing a submerged retaining wall around the wharves to prevent these piers from being undermined when the berths are dredged to –50 feet.

OAB Project. The Port is negotiating an agreement with the Oakland Base Reuse Authority, the City and the City's redevelopment agency to acquire approximately 184 acres of the OAB plus 57 acres of water for future development of maritime facilities, including container terminals, rail yards and support areas. The proposed agreement provides that the OAB property will be conveyed to the City and that the City will simultaneously convey 20 acres of land plus the 57 acres of water to the Port. Three years following that conveyance, the City will convey the remaining portion of the property to the Port.

Under the terms of the proposed agreement the Port would commit to pay certain expenses, which generally fall into three categories: (1) initial costs prior to conveyance to the Port; (2) interim costs to be expended approximately three years after the initial conveyance to the Port but prior to Port development of new maritime facilities, during which time the Port will receive revenues from leasing of existing facilities; and (3) development costs to be expended approximately five years after conveyance to the Port, incurred in converting the property to its ultimate uses for revenue-generating maritime activities. Initial costs are expected to total approximately $11.5 million. These include legal and environmental expenses related to the closure and transfer of the OAB and relocation costs for existing U.S. Army Reserve uses. Additionally, the Port would pay $1.0 million per year to the City for 30 years for acquisition of a parcel of land within the OAB, known as the Knight Yard. All of these properties are expected to be subleased by the Port to others for rail, container storage, and related activities. Interim costs include continued legal and environmental expenses, and certain mitigation expenses, such as the establishment of a community trust fund, and an allowance for the relocation of homeless shelters and social services providers. These interim costs are expected to total approximately $15.2 million over a two-year period beginning approximately three years after conveyance to the Port; and Port revenues generated during this period from the lease of existing facilities are anticipated to exceed $5.7 million per year. Interim development costs under the proposed agreement include relocation costs for recipients of certain OAB properties for public benefit uses, environmental mitigation expenses, and roadway and other infrastructure development expenses. The interim development costs included in the agreement, approximately $15.2 million, would be only a portion of the overall development costs required to convert the property to its ultimate maritime uses. There are other terms under negotiation that could increase the amounts the Port might be required to pay to the City (or to other parties) within the next three to five years, including for additional properties at and around the OAB. The Port may incur significant environmental remediation costs in connection with the proposed OAB transaction, for which additional funding sources may or may not be available. The Port believes that the OAB transaction, as currently contemplated, would be beneficial to the Port. However, if costs are greater than projected or revenues are less than projected, there could be a decrease in funds available for projects currently included in the CIP.

As part of its future development of the OAB property, the Port anticipates relocating Maritime Street approximately 600 feet to the east and expanding its Outer Harbor Terminal Area. This would allow the Port to provide significantly larger terminals. Additionally, the Port is evaluating the concept of constructing and reconfiguring portions of the Outer Harbor Terminal Area into a new “mega” 100-plus acre container terminal and filling approximately 29 acres of the Outer Harbor.

Since the parties have not concluded their agreement, none of the initial costs, the interim costs, the development costs or any revenues from the future development of the OAB property anticipated as a result of an agreement between the Port and the City are currently included in the Port’s CIP or in the Feasibility Report. No assurances can be given as to the final terms of any agreement with the City, nor that initial and interim costs will not increase or that projected revenues will be realized. The costs of any development at the OAB would be included in a future capital program, subject to feasibility and cost analyses performed in conjunction with any future program. If OAB development projects are advanced into the CIP, proceeds of the 2002 Bonds and other funding sources for the CIP could be used to pay for eligible projects at OAB.

The City and the Port, among other parties, have entered into an agreement with the California Department of Transportation (“Caltrans”) not to challenge an easement granted to Caltrans by the Federal Highway Administration to use 25 acres of the OAB (Berth 7) for use as a construction staging area for the seismic upgrade of the Bay Bridge. Caltrans will occupy and utilize the land for the duration of the bridge’s construction, estimated to be up to 8 to 10 years. Caltrans has deposited with the City for the benefit of the City, the Port and two other parties, a total of approximately $11.6 million for the value of the easement in the site. The Port believes that it is entitled to receive approximately $5.6 million of the Caltrans payment, but it will not receive any portion of the Caltrans payment until the four recipients agree on the allocation of the Caltrans payment. The City and the Port expect that the City will develop the Berth 7 site after the bridge’s construction is complete and Caltrans vacates the property.

For a further discussion of the Maritime Projects in the Port’s CIP, see “CAPITAL IMPROVEMENT PROGRAM—Projects in the CIP—Maritime Projects” and APPENDIX A—“FEASIBILITY REPORT—MARITIME DIVISION—Maritime Projects in the Capital Improvement Program.”

Commercial Real Estate Division

The Commercial Real Estate Division manages the Port’s commercial real estate, which includes all Port properties not used or intended to be used for maritime or aviation purposes.

The Commercial Real Estate Division is also responsible for OPA, a partnership formed for the purpose of undertaking a significant portion of the original development of the Jack London Square project and controlled by the Port. The Port is the general partner and 99% owner of OPA; the remaining 1% ownership interest in OPA is held by the Port of Oakland Public Benefit Corporation (“PBC”), a non-profit public benefit corporation controlled by the Board. Unless otherwise stated, the information presented below includes data on the real estate properties owned directly by the Port and those owned by OPA. As a result of the sale in Fiscal Year 2002 of certain buildings in Jack London Square, representing substantially all OPA assets (other than the Port office building), it is expected that OPA will be dissolved or restructured during Fiscal Year 2003, and that its remaining assets and liabilities will be assumed by the Port. See “Existing Development Areas—Jack London Square” below.

The following table lists the properties managed by the Commercial Real Estate Division.

TABLE 18

PORT OF OAKLAND
COMMERCIAL REAL ESTATE DIVISION PROPERTIES

Properties	Total Acreage	Number of Agreements	Types of Uses
Airport Business Park	628.2[(1)]	13	Office, Retail, Industrial, Hotel
Jack London Square[(2)]	20.3	36	Office, Retail, Entertainment, Hotel, Restaurants, Industrial, Parking
Parking	12.7	3	Public Parking
Distribution Center	27	2	Distribution Terminal
Embarcadero Cove	10	16	Office, Retail, Hotel, Industrial, Marinas
Marinas[(3)]	6	5	Recreational Boat Berthing
Developable Property[(4)]	105	N/A	N/A
Environmentally Sensitive[(5)]	78	N/A	N/A
Other Areas	137	21	Office, Retail, Industrial
Totals	1,024	96	

(1) Includes 565 acres leased to East Bay Regional Park District for nominal rents.
(2) Includes the Port's Retained Assets and property comprising the JLS Transaction. See "Existing Development Areas—Jack London Square" below.
(3) The 5 marinas have 495 berths of which approximately 93% were occupied as of July 2002.
(4) Includes 34 acres in the Airport Business Park and 1.7 acres in Embarcadero Cove.
(5) Includes 72 acres in the Airport Business Park/Distribution Center and 6 acres in Embarcadero Cove.

Source: Port of Oakland

Collectively, the properties generated revenues of approximately $19.2 million in Fiscal Year 2001; approximately $12.2 million generated by the Commercial Real Estate Division and approximately $7.0 million generated by OPA. Approximately 45% of the OPA revenues, however, are derived from rental payments received by OPA from the Port for the rental of office space. Due to the elimination of intercompany transactions between the Port and OPA required by Generally Accepted Accounting Principles ("GAAP"), the Port's Consolidated Financial Statements for the year ended June 30, 2001 show Commercial Real Estate revenue of approximately $16,223,000 and direct operating expenses of $15,346,000. See "THE PORT'S FINANCES AND OPERATIONS" for further discussion regarding revenues and expenses.

The JLS Transactions (described below under "Existing Development Areas—Jack London Square") are expected to result in reduced revenues in the future. Generally, however, the Commercial Real Estate Division's revenues and expenses tend to be stable since the majority of the properties are leased under long-term land development leases and tenants are primarily responsible for most capital and operating costs. Sixty-five of the existing agreements have an average lease term of 30 years and provide 67% of the revenue for the Commercial Real Estate Division. Most of the leases are for ground rental only, but many include improvements owned or constructed by the Port. Twenty-nine existing agreements are reviewed annually and provide approximately 3% of the revenue for the Commercial Real Estate Division. The two OPA agreements remaining after the JLS Transactions (which are expected to be assigned to the Port) generate approximately 23% of the Commercial Real Estate Division's revenue, with varying terms and adjustment clauses typical of commercial office and retail leases. Marina revenues generate about 7% of Commercial Real Estate Division's revenue.

Existing Development Areas. The properties managed by the Commercial Real Estate Division represent a variety of land uses and activities. Administratively, however, the various properties are categorized into three distinct categories: Jack London Square, Embarcadero Cove, and Airport Business Park and Distribution Center.

Jack London Square. Jack London Square is a mixed-use waterfront commercial development, located along the Oakland Estuary at the foot of Broadway Street, approximately one-half mile from the Oakland City Center. Office, retail, hotel, restaurant and entertainment facilities are all included in the development area. The centerpiece of Jack London Square is a public plaza located atop a 300-car underground-parking garage. The plaza is linked to other development in the eight blocks of the project by pedestrian walkways and a waterside promenade. The Port also constructed a multi-story 1,100 parking car garage to support the entire development.

The Port owns all of the land in Jack London Square and, until March 29, 2002, owned (directly or through OPA) five buildings in Jack London Square encompassing 278,159 square feet of office and retail space, including 114,165 square feet utilized by the Port for its administrative offices. As of March 29, 2002, the office space (other than that used by the Port) was 95% leased and the available retail space was 88% leased. The Port also owns the two garages described above, certain surface parking lots and the improved public plaza, pedestrian walkways and the waterside promenade discussed above.

On March 29, 2002, the Port sold four of the office/retail buildings that belonged to OPA or the Port, encompassing 163,994 square feet of office and retail space, to Jack London Square Partners, LLC ("JLS Partners"), retaining the building that houses its administrative offices, all of the land, the parking garages, surface parking and the public common areas (the "Retained Assets"). At the same time, the Port leased the land on which the buildings sold to JLS Partners are situated to JLS Partners for a term of 66 years, with rental payable to the Port based on the fixed amount payable under the ground leases plus a percentage of net profits from the operations of the buildings by JLS Partners. The Port also entered into a series of agreements with entities related to JLS Partners to manage the Retained Assets, pursuant to which JLS Partners or its related entities will manage all retail and office space, common areas, parking garages and surface parking lots in Jack London Square (these transactions are referred to collectively as the "JLS Transaction"). This transaction, a part of the Commercial Real Estate Division's restructuring plan approved by the Board in 1999, represents a departure from the Port's traditional approach of actively managing its real estate. See APPENDIX A—"FEASIBILITY REPORT—COMMERCIAL REAL ESTATE—Principal Business Focus—Existing Revenue Centers."

The Port and JLS Partners (or its affiliates) have entered into an Asset Management Agreement and an Operating Agreement. The Asset Management Agreement, which covers the management of the Retained Assets, has a minimum term of two years with a six-month termination clause. Under the Asset Management Agreement, the Port has retained an affiliate of JLS Partners as the asset manager for the Retained Assets. The agreement also provides for the Port to approve the budget for all managed assets, including the Retained Assets. The Operating Agreement provides for the maintenance of the common areas in Jack London Square and the allocation of the costs of maintaining the common areas, providing security and conducting marketing and promotional events. All budgets for the operation of the common areas, security and marketing must be agreed to by the Port and JLS Partners. The Port has provided approximately $2.5 million in its Fiscal Year 2003 budget to cover its expected obligations under these contracts.

The Jack London Square's ferry service, initiated in 1989 between Oakland-Alameda and San Francisco, promotes retail and office development in Jack London Square. The ferry service receives subsidies from the Bay Area Metropolitan Transportation Commission, the Port and the City of Alameda. The Port and the City of Alameda jointly fund 20% of the required subsidy, with the Port's portion being approximately $120,000 per year.

Embarcadero Cove. Embarcadero Cove is comprised of properties that lie along the waterfront of the Oakland Estuary, south of the Lake Merritt Channel to 23rd Avenue. Embarcadero Cove includes four recreational marinas with 357 berths, a public fishing pier, shops, offices, three hotels and several restaurants.

The majority of these properties, many of which are subject to various land use restrictions, are leased by the Port under long-term land development arrangements, whereby the tenant is responsible for the development and operating costs of its facilities, subject to a reversion to the Port at the expiration or termination of the lease. The leases for these facilities provide for minimum annual guaranteed payments to the Port and in many instances, the Port also shares in the gross revenue of these activities above minimum annual guaranteed amounts.

Oakland Airport Business Park and Distribution Center. In 1963, the Port developed a business park on a site that adjoins the Airport and the nearby Oakland-Alameda County Coliseum complex. Approximately 800 firms, with more than 30,000 employees, now occupy the Airport Business Park.

The Port owns 628.2-acres in the Airport Business Park; however, 565 acres are leased at a nominal rent to the East Bay Regional Park District. A portion of the remaining Port property is leased to the Oakland Airport Hilton Hotel. The Port also owns the 23-acre property formerly occupied by the Ramada Hotel, which was demolished. The Port has entered into an agreement to sell the Ramada property by December 2002.

An additional 131 acres adjacent to the Airport Business Park has been set aside as a distribution center for distribution and warehousing firms, especially those related to air cargo operations. UPS leases 27 acres of this property for a major distribution terminal. The remaining 104 acres were subject to a court-ordered consent decree entered into in connection with the settlement of environmental litigation. The consent decree provides that approximately 70% of such land will be set aside as permanent wetlands, leaving the remaining 30% (34 acres) available for sale and development. The Port plans to use the 34 acres as an interim airport parking lot (the Pardee Lot) to support the Airport during construction of a parking garage and rental car center. The interim parking lot is targeted for completion during the fourth quarter of Fiscal Year 2003. See "PORT OF OAKLAND—Aviation Division—Aviation Development Projects."

Major Sources of Commercial Real Estate Revenue. The Commercial Real Estate Division (including OPA operations) generated approximately $16.2 million in revenues in Fiscal Year 2001 and approximately $14.7 million in revenues in the first nine months of Fiscal Year 2002, as shown in the table below. As described under "Existing Development Areas—Jack London Square" above, on March 29, 2002, the Port sold four buildings in Jack London Square, leased certain real property in Jack London Square, and entered into a management agreement, all with JLS Partners or its affiliates. As a result, it is expected that revenues generated from Jack London Square will be reduced in the future; the Port cannot currently predict the impact these transactions may have on related expenses.

TABLE 19

PORT OF OAKLAND
COMMERCIAL REAL ESTATE DIVISION
MAJOR SOURCES OF REVENUE
FISCAL YEAR 2001 AND FIRST NINE
MONTHS OF FISCAL YEAR 2002

Source	Fiscal Year 2001	First Nine Months of Fiscal Year 2002
Jack London Square	$7,481,358	$5,828,208
Marinas	1,269,375	1,066,980
Embarcadero Cove	1,218,169	875,035
Business Park	1,089,435	636,075
Distribution Center	222,355	169,273
Other Areas	914,187	726,143
OPA	6,968,683	5,424,269
TOTAL	$ 19,163,562[1]	$14,725,983

(1) The Port's Consolidated Financial Statements for the year ended June 30, 2001 show Commercial Real Estate revenue at $16,223,000. The difference is due to the elimination of intercompany transactions between the Port and OPA as required by GAAP.

Source: Port of Oakland

The top ten individual sources of revenue for the Commercial Real Estate Division and OPA (excluding the Port) in Fiscal Year 2001 and the first nine months of Fiscal Year 2002 are presented in the following table.

TABLE 20

PORT OF OAKLAND
COMMERCIAL REAL ESTATE DIVISION
TOP TEN SOURCES OF COMMERCIAL REAL ESTATE REVENUE
FISCAL YEAR 2001 AND FIRST NINE MONTHS OF FISCAL YEAR 2002

Source	Fiscal Year 2001	First Nine Months of Fiscal Year 2002
Parking	$2,740,000	$ 2,451,632
Oakland Airport Hilton	935,000	613,210
Amtrak	760,800	586,658
Score Learning Center	678,400	622,761
Yoshi's Restaurant & Club	506,600	365,756
Scott's Restaurant	426,700	289,431
Barnes & Noble	404,600	438,668
Embarcadero Executive Inn	364,800	253,980
Waterfront Plaza Hotel	344,000	376,685
Dealey Renton	340,400	271,713

Source: Port of Oakland

Overall, the Port's office and retail holdings, including those owned by OPA, enjoy rental rates and occupancy rates that compare favorably to the overall market. The revenue projections for the Commercial Real Estate Division contained in the Feasibility Report include only revenues that are generated by existing projects and revenues to which the Port is entitled as a result of existing agreements, and excludes revenues that may be derived from any new projects undertaken by the Commercial Real Estate Division or by JLS Partners on the undeveloped portion of Jack London Square after Fiscal Year 2002. See APPENDIX A—"FEASIBILITY REPORT—COMMERCIAL REAL ESTATE—Outlook for Commercial Real Estate—Projections of Commercial Real Estate Activity."

Privatization of the Marinas. The Port's marina basins extend approximately two miles along the City's shoreline. The Commercial Real Estate Division owns and operates the Port's five marinas consisting of 495 berths and generating approximately 7% of Commercial Real Estate Division's revenues. Four marinas are located in the Embarcadero Cove area, including the Union Point Basin containing 96 berths, the Central Basin containing 151 berths and two gangways, and the North Basin I and North Basin II, together containing 106 berths. The fifth marina, known as the Jack London Marina, contains 142 berths. The Port financed the development of the marinas and supporting public improvements in part with loans provided by the DBW.

The Port intends to privatize the management and operation of the marinas by entering into a long-term lease of the submerged land in the marinas and the lease or sale of improvements at the marinas to a private operator. The Port expects to issue a Request for Proposals and Bids related thereto by September 30, 2002. In the event the Port leases the marina assets to a private operator, the documentation relating to the DBW loans will be amended and the Port will be required to repay 33% of its outstanding DBW loans. In the event of a sale of these assets, the entire outstanding balance of the DBW loans becomes due and payable. It is the Port's intention that the selected operator will provide the Port with funds to make the required payment.

Commercial Real Estate Development Projects. Potential new projects contemplated by the Port include the sale, lease and development of parcels in Embarcadero Cove and the Airport Business Park, and pier renovation and common area improvements at Jack London Square. Certain real estate projects are a part of the Port's CIP. However, there are currently no plans to finance such projects with the proceeds of the 2002 Bonds or future revenue bonds. Instead, Commercial Real Estate projects in the CIP will be funded with the proceeds of real estate sales. See "CAPITAL IMPROVEMENT PROGRAM—Projects in the CIP" and APPENDIX A—"FEASIBILITY REPORT—COMMERCIAL REAL ESTATE—Commercial Real Estate Projects in the Capital Improvement Program."

Jack London Square Project. Among its projects, the Commercial Real Estate Division is currently undertaking the next phase of development for Jack London Square. This phase will include the commercial development of all undeveloped surface parking lots and various other parcels within Jack London Square. The Port has entered into agreements with JLS Partners providing for such development. These agreements set forth a timetable for development that requires its commencement by March 2007, and the conditions on which JLS Partners may elect not to proceed with the development. The project is estimated to cost the Port and JLS Partners an aggregate of approximately $200 million, of which the Port's share is up to $10 million. Specifically, the Port will be obligated to contribute up to $5 million towards the construction of a parking garage and an additional $5 million for other public infrastructure. The Port is also obligated to finance certain environmental cleanup required for the proposed development, but the Port can terminate the agreements relating to the next phase of development for the affected parcels if the cost of such cleanup is financially unacceptable to the Port in its reasonable discretion.

Oak-to-Ninth District Project. The Commercial Real Estate Division has made available approximately 60 acres within the Oak-to-Ninth District for sale and/or for a long-term lease (up to 66 years) and redevelopment. The greater Oak-to-Ninth District, consisting of 120 acres, contains the City's largest remaining waterfront development site and includes privately-owned properties not offered by the Port for development. On June 8, 1999, the City and the Port adopted the Estuary Policy Plan (the "Estuary Plan"), which recommends the transformation of the Oak-to-Ninth District from a maritime and marine industrial site to a public-oriented, mixed use, waterfront area that encourages pedestrian access and open space opportunities. In December 2001, the Port entered into an Exclusive Negotiating Agreement with Oakland Harbor Partners, LLC for a residential village including rental and for-sale housing, retail space and a series of open spaces and promenades designed to maximize public access to the shoreline and estuary. Certain portions of the Oak-to-Ninth District are encumbered by the tideland trust, and any future redevelopment must be in compliance with the State Lands Commission's guidelines for administration of the tideland trust. See "THE PORT'S FINANCES AND OPERATIONS—Estuary Plan" and "—Tideland Trust Properties."

CAPITAL IMPROVEMENT PROGRAM

The Port's CIP identifies capital projects for the expansion and/or improvement of facilities at the Port, and is used as the basis for the Port's long-term strategic financial plan. The CIP includes projects for the Aviation, Maritime, and Commercial Real Estate Divisions of the Port, as well as certain support projects not directly allocable to any one of the revenue divisions (the "Support Projects"). The CIP includes projects that are expected to be completed or substantially completed by the end of Fiscal Year 2007 and has a total estimated cost, as of March 31, 2002, of approximately $1.23 billion, which includes the estimated construction costs for the projects in the CIP, an allowance for inflation during the period covered by the CIP and an estimate of the engineering and overhead costs assumed to be incurred in connection with each project. The current estimated cost of engineering and overhead for the CIP is approximately $120 million. The total estimated cost of the CIP can be allocated among Aviation, Maritime and Commercial Real Estate projects, and the Support Projects as follows:

TABLE 21

PORT OF OAKLAND
CAPITAL IMPROVEMENT PROGRAM
ESTIMATED COSTS BY DIVISION
(as of March 31, 2002)

Aviation	$ 671,237,000
Maritime	479,849,000
Commercial Real Estate	27,367,000
Support Projects	51,324,000
Total	$1,229,776,000

The amount shown above for each of the categories of the CIP represents estimated costs for numerous individual projects within that category. Some projects in the CIP are in the preliminary planning stage and the cost estimates for such projects are subject to change; the scope of other projects may be revised as the Port continues its project planning process. In addition, projects may be added to or removed from the CIP as the needs of the Port evolve. The overall cost of the CIP is therefore subject to change, and the variance from the cost estimates above could be material. An increase in the overall cost of the CIP may require the Port to issue a larger amount of additional indebtedness, including Parity Bonds, than it presently anticipates. Moreover, failure to complete certain projects included in the CIP will significantly impact projected Port revenues.

The CIP, as originally contemplated by the Port, included more projects than those described herein, including the terminal expansion component of the ADP and the OAB project. The scope of the CIP was reduced, however, due to financial considerations and, with respect to the terminal expansion component of the ADP, pending litigation. See "THE PORT OF OAKLAND—Aviation Division—Airport Development Program" and "—Maritime Division—Maritime Development Projects—OAB Project." These projects and certain additional projects, if any, to be identified by the Port are expected to be commenced after the period covered by the CIP, though they could be commenced sooner if circumstances so permit. The planning related to these projects is preliminary and no costs associated with these projects have been included in the CIP or the financial analysis contained in the Feasibility Report. These future projects will be undertaken only when necessary approvals have been obtained and the Port determines that adequate financing is available for each project. The additional financial and administrative commitment necessary to commence and complete such future projects, however, could divert resources from the Port's currently planned projects, including those covered by the CIP, and proceeds of the 2002 Bonds could be used for these future projects rather than those currently included in the CIP, if such projects are determined by the Port to be financially feasible. Moreover, the Port expects to fund a significant portion of the costs of these future projects with the proceeds of Additional Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Additional Bonds." There can be no assurances as to when, if ever, any of these future projects will be undertaken by the Port or what the exact elements or costs of any future project will be. If the Port is not able to complete these projects at some reasonable time in the future, its ability to continue to expand and increase revenues may be impaired. See "INVESTOR CONSIDERATIONS—Future Capital Projects."

Projects in the CIP

Aviation Projects. Aviation projects in the CIP total approximately $671.2 million. The Aviation projects included in the CIP are intended to relieve the congestion at the Airport, enhance customer convenience, and increase Airport security. These include modifying roadways, increasing available parking, adding a net five additional gates to Terminal 2, improving Airport security and making additional terminal improvements. These projects are discussed in further detail under "THE PORT OF OAKLAND—Aviation Division—Aviation Development Projects."

Maritime Projects. Maritime projects in the CIP total approximately $479.8 million. The principal components of the CIP for the Maritime Division are completion of Vision 2000 Program, the Deepening Project, construction of a shoreline park and the modernization of wharves and terminals. The Maritime Division projects included in the CIP are described in further detail under "THE PORT OF OAKLAND—Maritime Division—Maritime Development Projects."

Commercial Real Estate Projects. Commercial Real Estate Projects in the CIP total approximately $27.4 million. The Commercial Real Estate projects included in the CIP are the infrastructure and parking improvements at Jack London Square and certain other marina improvements, roadway improvements and security upgrades. Certain of these projects are discussed in further detail under "THE PORT OF OAKLAND—Commercial Real Estate Division—Commercial Real Estate Development Projects." None of the Commercial Real Estate projects are currently expected to be funded with the proceeds of the 2002 Bonds.

Support Projects. Support Projects in the CIP total approximately $51.3 million and consist of (i) capital equipment purchases for the non-revenue divisions that include computer hardware and software, and network and telephone upgrades, (ii) the costs related to the Owner-Controlled Insurance Program ("OCIP"), and (iii) the construction of a Harbor maintenance facilities building. Annual OCIP costs will be allocated to projects in the CIP at the end of each fiscal year.

The following table lists the projects that are included within the CIP, the estimated costs associated with each project, and the estimated completion dates. The costs and completion dates are estimated based on the facts currently available to the Port and are subject to change. The projects include various components that may not be undertaken as currently contemplated. If the Port determines that projects are no longer cost-effective or in the best interest of the Port, such projects could be modified or substituted with other eligible projects. See "CIP Planning" below. There are no assurances that any of these projects will be undertaken by the Port or that the exact elements or costs of any project has been determined.

TABLE 22

PORT OF OAKLAND
CAPITAL IMPROVEMENT PROGRAM
CONTEMPLATED PROJECTS
ESTIMATED COSTS AND COMPLETION

Project	Estimated Cost	Estimated Completion Date (Fiscal Year)
AVIATION		
North Field – miscellaneous apron construction and runway overlays, Airport Services Building and interim rental car facilities	$48,446,000	2008
South Field – terminal office and system upgrades, remain overnight facilities, airfield improvements, utility upgrades, and environmental costs	48,459,000	2004
Terminal 2 Renovation/Extension – Terminal 2 expansion and concourse extension, parking structure, Pardee parking lot	365,643,000	2005
General Airport – Cross Airport Roadway, BART Connector, noise and other mitigation measures, and interim Airport improvements, including security, and miscellaneous capital equipment	208,689,000	2007
Total Aviation	**$671,237,000**	
MARITIME		
Outer Harbor – Berths 22-26	77,000,000	2007
7th Street – Berths 32-33	69,000,000	
Middle Harbor – APL Terminal	77,000,000	2006
Vision 2000 Berths 55-56, Berths 57-59, JIT Maritime Support and Middle Harbor Park	101,149,000	2004
Deepening Project	155,700,000	2008
Total Maritime	**$479,849,000**	
COMMERCIAL REAL ESTATE		
Jack London Square	21,278,000	2003
Embarcadero Cove, Business Park, and Oak to Ninth District	6,089,000	2004
Total Commercial Real Estate	**$27,367,000**	
SUPPORT		
Computer Hardware and Software, Network and Telephone Upgrades	12,309,000	2006
Owner Controlled Insurance Program	26,322,000	2005
Harbor Maintenance Facilities Building	12,693,000	2004
Total Support	**$51,324,000**	
TOTAL CIP	**$1,229,776,000**	

For a further discussion of the Port's CIP, see APPENDIX A—"FEASIBILITY REPORT—AVIATION DIVISION—Aviation Projects in the Capital Improvement Program," "—MARITIME DIVISION—Maritime Projects in the Capital Improvement Program" and "—COMMERCIAL REAL ESTATE DIVISION—Commercial Real Estate Projects in the Capital Improvement Program."

The Plan for Funding the CIP

The Port projects that the $1.23 billion estimated cost of the CIP will be funded from a variety of sources, including AIP grants, congressional energy and water appropriations for federally authorized navigational projects, ISTEA and TEA-21 grants, PFC revenues, CFC revenues, internally generated funds, proceeds from the sale of Port-owned land, CP Note proceeds and the proceeds of revenue bonds (including the 2000 Series K Bonds for costs of the CIP incurred before mid-April 2002, the 2002 Bonds, and any Additional Bonds). The following table shows the amounts currently projected to be derived from each funding source available to the Port.

TABLE 23

PORT OF OAKLAND
CAPITAL IMPROVEMENT PROGRAM
PROPOSED FUNDING SOURCES
(as of March 31, 2002)

AIP Grants	$ 38,197,000
PFC Revenues(1)	150,600,000
CFC Revenues(1)	11,961,000
ISTEA Grants/TEA-21 Grants	1,141,000
Real Estate Sources	27,367,000
Internally Generated Funds(1)(2)	270,914,000
Commercial Paper Note Proceeds	156,180,000
Available Revenue Bond Proceeds (1)(2)(3)	573,416,000
	$1,229,776,000

(1) Includes interest earnings on deposits pending expenditure at an assumed rate of 4%.
(2) The Port may issue a greater amount of Additional Bonds if internally generated funds are needed for other purposes.
(3) Includes proceeds of the 2000 Series K Bonds, the 2002 Bonds and anticipated Additional Bonds, net of issuance costs, bond reserves and capitalized interest.

Each of these funding sources is described briefly below. Also described below are the federal funds anticipated to pay the federal portion of the Deepening Project, which are not included in the projected cost of the CIP. The amount projected to be available from each funding source is based on the estimated cost of certain projects and various other assumptions. See APPENDIX A—"FEASIBILITY REPORT—FINANCIAL ANALYSIS—Aviation Division—Aviation Revenues," "—Maritime Division—Maritime Operating Revenues" and "—Commercial Real Estate Division—Commercial Real Estate Revenues" for discussion of the assumptions underlying Port revenue projections. Such estimates and assumptions are subject to change. Any such changes could have an impact on the Port's plans for funding the CIP, and such changes could be material.

AIP Grants. The Port projects that approximately $27.6 million of AIP entitlement grants and approximately $10.6 million in AIP discretionary grants will be available for the Aviation projects in the CIP. The AIP grants will be applied primarily to the grant-eligible portion of certain airfield-related projects through 2007.

PFC Revenues. The financial plan projects that approximately $150.6 million of PFC revenues will be available to fund the cost of PFC-eligible Aviation projects in the CIP. This assumes that all of the Port's PFC revenues received during the period of the CIP will be applied either to fund project costs on a pay-as-you-go basis or to repay CP Notes or 2002 Bonds issued by the Port.

The Port does not presently have all of the FAA approvals needed to apply the projected PFC revenues toward the cost of the Aviation projects in the CIP or to pay debt service on CP Notes or 2002 Bonds. The Port plans to file the additional PFC applications that will be required to enable such PFC funds to be available for the

CIP on a timely basis. There can be no assurance that such applications will be approved. If the Port does not obtain the necessary approvals for additional PFC revenues, the Port will fund the cost of the Aviation Projects in the CIP from other sources, potentially including Additional Bonds or increased rates and charges.

CFC Revenues. The Port projects that approximately $12 million of CFC revenues will be available for CFC-eligible Aviation projects in the CIP through 2005. Under the CFC Statute, the Port may use its CFC revenues only to finance the design and construction of consolidated airport car rental facilities and the design, construction and provision of a common use transportation system that moves passengers between the airport terminals and those consolidated car rental facilities. The Port or the rental car companies at the Airport intend to provide a common use transportation system between the interim car rental facility and the Airport terminals, with the appropriate amount of CFC revenues securing the financing of related costs. The CIP, however, does not anticipate completion and use of the Port's permanent rental car facility until Fiscal Year 2006. Under the CFC Statute, the CFC revenues, therefore, will not be pledged to secure the payment of debt service on the 2002 Bonds allocable to the design and construction cost of such permanent rental car facility until Fiscal Year 2006. The financial projections contained in the Feasibility Report are based on the assumption that CFC revenues will be available for payment on such debt service by Fiscal Year 2006. Any delay in utilization of the permanent rental car facility by the rental car companies will correspondingly postpone the pledge of CFC revenues for such debt service and other Port funds will be required to cover the debt service. See APPENDIX A—"FEASIBILITY REPORT—AVIATION DIVISION—Aviation Projects in the Capital Improvement Program."

ISTEA and TEA-21 Grants; STIP Grants. Some of the proposed Maritime Division projects are eligible for certain types of federal and state grant funding. The Transportation Equity Act for the Twenty-First Century ("TEA-21") and its predecessor, the Intermodal Surface Transportation Efficiency Act of 1991 ("ISTEA"), are the primary sources of federal grant funding for intermodal transportation projects. State grants are generally made through the State Transportation Improvement Program ("STIP"). Grants under these programs have been and are being made for the improvement and construction of highways and roadways, transit projects, non-motorized (e.g. bike trails) projects and freight movement projects, with an emphasis on intermodal transportation projects and facilities.

The Port received a total of approximately $20.1 million of such funds, of which $19.0 million was applied towards costs related to the Vision 2000 project between Fiscal Year 2001 and 2002. Approximately $1.1 million of such funds is expected to be available for the CIP.

Commercial Real Estate Funding Sources. The financial plan assumes that funding for the Commercial Real Estate projects in the CIP will be provided from sources to be developed by the Commercial Real Estate Division, and not from Bond proceeds. Such possible sources include, among others, proceeds from the sale of certain real estate assets and investments made by third-party developers.

Internally Generated Funds. The Port intends to apply the amounts it generates from operations after the payment of all of its debt service, operating expenses, and other payment obligations to the cost of the CIP. The Port presently projects that approximately $270.9 million of such funds will be generated and available during the five-year period of the CIP. Decreases in revenue, increases in payments to the City, or increases in expenses, among other factors, could decrease the amount of internally-generated funds available for the CIP and result in the issuance of more Additional Bonds than currently projected.

Commercial Paper. As of July 2, 2002, the Port had $300 million of CP Notes outstanding. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2002 BONDS—Subordinated Obligations." Approximately $150 million of outstanding CP Notes will be repaid from the proceeds of the 2002 Bonds. Following repayment of the CP Notes, the Port intends to issue from time to time approximately $150 million of CP Notes within the next several years. The proceeds of these CP Notes will provide approximately $136 million to fund costs of the CIP, with the remainder being applied to pay capitalized interest on the CP Notes. In addition to the amounts estimated to be available from the proceeds of future CP Notes, the Port issued and spent approximately $20 million of Note proceeds on the CIP prior to the issuance of the 2002 Bonds. Consequently, the total amount of Note proceeds available to fund costs of the CIP is estimated to be approximately $156 million. The CP Notes will remain outstanding without amortization until completion of the CIP. Following the completion of the CIP, the Port may refinance the CP Notes issued in connection with the CIP with amortizing revenue bonds, although it has no current plans of doing so. Because any such refinancing is not expected to occur until after Fiscal Year 2011, neither it nor any other repayment of principal in respect of the Port's commercial paper program are reflected in the financial projections contained in the Feasibility Report. See "INVESTOR CONSIDERATIONS—Delays, Increased Costs or Funding Uncertainties."

It is possible that the Port will elect to undertake additional development costs related to the OAB prior to 2007. If that occurs, the Port anticipates funding such costs initially with the proceeds of CP Notes, which would reduce the amount of CP Note proceeds available for projects in the CIP, potentially resulting in certain projects in the CIP being delayed and Additional Bonds being issued beyond what is currently estimated in the CIP.

Additional Bond Proceeds. The Port anticipates that the costs of the CIP not funded from the proceeds of the 2002 Bonds or one of the above sources will be funded from the proceeds of Additional Bonds. Based on the current estimates and assumptions related to the CIP and the Port's operations, the Port projects that, after the issuance of the 2002 Bonds, it will issue Additional Bonds producing approximately $40.3 million of bond proceeds to complete the funding of the CIP. The Port may elect to issue a portion of such Additional Bonds as Parity Bonds on a variable rate basis.

Federal Funds for the Deepening Project. The Port has not included in the CIP the federal energy and water appropriations funds expected to be appropriated as the federal share for the Deepening Project, nor has it included federal costs associated with the Deepening Project. The Deepening Project is required to deepen and maintain federally authorized navigation channels and berths along the Port's terminals and to accommodate the latest generation of container ships. The total cost of the Deepening Project is approximately $293.2 million, of which the federal government is expected to contribute approximately $145.9 million and the Port will contribute the balance. The Port's share of the cost is included in the CIP. For a discussion of the federal government's and the Port's obligations with respect to the funding of the Deepening Project, see "THE PORT OF OAKLAND—Maritime Division—Maritime Development Projects—Deepening Project." See also "INVESTOR CONSIDERATIONS—Delays, Increased Costs or Funding Uncertainties."

Environmental Issues Related to the CIP

The projects in the CIP are subject to various environmental and regulatory considerations. The major issues related to each portion of the CIP are discussed below.

Aviation. The Airport Development Program is currently under legal challenge of the Port-certified Environmental Impact Report and the FAA's Record of Decision and accompanying Environmental Assessment. However, the Port has entered into a Partial Settlement Agreement with all parties who filed the suit in the state court that should allow the Port to proceed with the construction of certain portions of the Airport Development Program. See "THE PORT OF OAKLAND—Aviation Division—Airport Development Program" for the history and status of pending litigation.

The Port is currently seeking permits to construct the Airport projects that may proceed under the Partial Settlement Agreement, and is working with the FAA to complete all federal approvals. The Port is also completing the additional environment analysis necessary to construct the remainder of the Airport Development Program. It is possible that the same or different neighboring jurisdictions and citizens' groups could challenge the supplemental environmental analysis.

Maritime. The Port certified the environmental impact reports for the Vision 2000 Program and the Deepening Project, and the statutes of limitations for challenging these projects have expired. All necessary permits have been obtained for the Vision 2000 and the Deepening Project. The concept for disposal of dredged material through the beneficial reuse of the sediment has been endorsed by all of the regulatory agencies with approval authority. All future maritime projects will be evaluated for environmental and regulatory requirements, and all necessary documentation, certifications and permits will be obtained prior to commencing construction of such projects.

Other Issues Affecting the CIP

Project Labor Agreements. The Maritime and Aviation Project Labor Agreement ("MAPLA") was entered into in 2000 by Davillier-Sloan Inc./Parsons Constructors, Inc. ("DSI/PCI"), on behalf of themselves and the Port, and the Building and Construction Trades Department, the AFL-CIO and the Building and Construction Trades Council of Alameda County (collectively, the "Unions"). The same parties also entered into the Vision 2000 (1999 Facilities) Project Labor Agreement (the "Project Labor Agreement"). MAPLA and the Project Labor Agreement together cover all CIP projects for the Maritime and Aviation Divisions that are advertised for bid by December 31, 2004. The Airport terminal expansion project will be covered by the two agreements until its completion.

Significant elements of both MAPLA and the Project Labor Agreement include an expedited dispute resolution system, uniform work rules among all project contractors, and a prohibition against strikes and walkouts by all signatories to these two agreements. Additionally, the Unions have agreed to "social justice" programs, allowing access to union membership to all workers and development of training and employment programs for area residents, helping to ensure a skilled work force for these projects and assisting the Port in employing area residents and utilizing area businesses in the execution of the CIP. MAPLA also provides for a labor-community-contractor monitoring committee to ensure that the objectives of the "social justice" program are met. All bidders with respect to MAPLA must sign the Project Labor Agreement. Bidding is not restricted to union contractors or union workers.

Owner-Controlled Insurance Program. The Port established an OCIP in 1999 for a seven-year period to transfer the insurable risk of certain construction at the Port, including a portion of the CIP. Under this program, the Port has obtained certain types of insurance required for the construction of projects in the CIP (such as workers compensation and general liability), rather than requiring that its various contractors on the CIP obtain their own insurance. This insurance is applicable through the first $1.8 billion of hard construction costs. If hard construction costs are greater than $1.8 billion during the seven year period, some additional premiums will be collectable. From the establishment of the OCIP through March 31, 2002, $426.5 million of construction has been insured by the OCIP. The Port estimates that the OCIP will cost up to $40 million and currently anticipates that the OCIP will result in savings on construction contract costs. The cost estimates for the CIP presented above reflect assumptions for insurance and other soft costs on a project-by-project basis. At the expiration of the seven years the Port will either authorize another OCIP or return to the traditional method of transferring the construction risks to the contractors insurance. The decision will be based on the available insurance rates and coverages at that time. For a more detailed description of the OCIP, see "THE PORT'S FINANCES AND OPERATIONS—Risk Management and Insurance."

CIP Planning

The Port's capital improvement program planning process is a collaborative effort. Each Port division formally prepares a "Request for Capital Project," which identifies the preliminary scope of the project, the estimated cost and funding source. A feasibility analysis of the plan has been prepared in connection with each issuance of Bonds, each such analysis determining feasibility on the basis of the Port's debt capacity. The most current analysis is expected to be analyzed on an on-going basis and used as the foundation for the preparation of an annual capital budget, which is comprised of capital award and expenditure programs. The Board's Audit/Budget and Finance Committee reviews the budget and recommends adoption by the Board. The Board-approved plan is then implemented by identifying the most cost-effective financing sources and selecting the most appropriate funding mechanisms. The Board generally approves the annual total capital award amount in June for the following Fiscal Year, but the Board approves the specific projects and the financing programs throughout the Fiscal Year. Pursuant to Charter requirements, each contract must be separately approved by the Board prior to award. Quarterly staff meetings are held to review the plan and make revisions to it as necessary to accommodate new projects, scheduling changes and cost revisions.

The Port previously adopted a detailed five-year capital improvement program for the period from Fiscal Year 2000 through Fiscal Year 2004, which included certain major projects that were to be commenced but not completed by the end of Fiscal Year 2004 (including such projects, the program was recognized as the "Extended CIP"). The estimated cost of the Extended CIP was approximately $1.7 billion, which was to be funded with the proceeds of the 2000 Series K Bonds, other Parity Bonds and various other sources. All projects in the Extended CIP were expected to be substantially completed by 2006. Various projects included in the Extended CIP were initiated, and portions of these projects have been completed. The Port also considered, after the issuance of the 2000 Series K Bonds, an increase the scope of the Extended CIP to provide for the funding of various projects included in the ADP. However, due to the events of September 11, 2001, the litigation impacting the Airport Development Program and current economic conditions, the Port reevaluated its long-term capital project and improvement needs and recast the Extended CIP in a manner to better reflect the Port's current priorities, needs and resources. Following the procedures described herein, this reevaluation resulted in the current CIP described in this section of the Official Statement. The current CIP includes or provides for the completion of many, but not all, of the projects that were originally included in the Extended CIP and not yet completed.

THE PORT'S FINANCES AND OPERATIONS

The Port's consolidated financial statements for the years ended June 30, 2001 and 2000 are attached to this Official Statement as APPENDIX B-1. The consolidated financial statements include the Port and its subsidiaries, OPA and PBC. All significant intercompany transactions are eliminated in consolidation. Certain unaudited unconsolidated financial information with respect to the Port for the nine months ended March 31, 2002 is attached hereto as APPENDIX B-2. Results through March 31, 2002 are not necessarily indicative of results for the full fiscal year.

The Port allocates to each of its operating divisions (Aviation, Maritime and Commercial Real Estate) expenses directly related to those operations. In addition, the Port annually allocates indirect costs to those divisions based on a cost allocation plan. Allocated indirect costs include general operating expenses, maintenance, advertising and promotion, administrative expenses, depreciation and amortization and interest expense.

The following table presents the Port's historical operating results for Fiscal Years 1997 through 2001 and for the nine months ended March 31, 2002.

TABLE 24

PORT OF OAKLAND
HISTORICAL OPERATING RESULTS
FISCAL YEARS 1997 THROUGH 2001
AND NINE MONTHS ENDED MARCH 31, 2002
($000)

	1997	1998	1999	2000(1)	2001(1)	Nine Months Ended March 31, 2002(2)
Operating Revenues:						
South Airport	$ 62,005	$ 63,706	$ 67,411	$ 72,015	$ 91,281	$ 69,268
North Airport	7,046	7,611	8,262	9,556	11,860	9,382
Maritime	67,618	72,642	73,325	76,431	77,806	61,187
Commercial Real Estate	13,249	13,879	13,905	14,723	16,223	12,267
	$149,918	$157,838	$162,903	$172,725	$197,170	$152,104
Operating Expenses:						
South Airport	$38,403	$40,673	$45,419	$47,337	$ 57,952	$55,237
North Airport	4,686	5,617	6,798	5,702	8,808	7,164
Maritime	20,377	21,898	25,081	23,025	22,136	13,600
Commercial Real Estate	15,655	15,906	15,811	14,766	15,346	12,182
	$79,121	$84,094	$93,109	$90,830	$104,242	$88,183
Depreciation and Amortization						
Aviation	$11,916	$12,233	$13,387	$13,977	$15,352	$14,357
Maritime	14,889	15,308	15,167	15,453	15,973	15,072
Commercial Real Estate	5,394	5,684	5,673	5,470	5,510	4,960
	$32,199	$33,225	$34,227	$34,900	$36,835	$34,389
Operating Income	$38,598	$40,519	$35,567	$46,995	$56,093	$29,532
Other Income (Expense):						
Interest Income	$ 6,364	$ 5,848	$ 7,394	$ 7,160	$ 5,763	$ 3,656
Interest Expense	(30,417)	(28,635)	(30,238)	(31,309)	(32,086)	(31,776)
Other	(3,379)	(241)	4,293	179	3,959	4,281
Net income before restricted nonoperating income	$11,166	$17,491	$17,016	$23,025	$33,729	$ 5,693
Restricted Nonoperating Income						
Grants from Government Agencies	–	–	–	–	$32,082	$29,898
Passenger Facility Charges	–	–	–	–	18,840	10,738
Net Income	$11,166	$17,491	$17,016	$23,025	$84,651	$46,329

(1) See APPENDIX B-1.
(2) See APPENDIX B-2.
Source: Port of Oakland

Management Discussion of Historical Operating Results

The Port's total consolidated operating revenues increased from approximately $149.9 million to $197.2 million between Fiscal Years 1997 and 2001, an increase of 31.5% or $47.3 million in total. During this period, Aviation Division revenues increased by 49.4%, Maritime Division revenues increased by 15.1%, and Commercial Real Estate Division revenues increased by 22.4%. During the two-year period representing Fiscal Years 1999 through 2001, Port revenue increased $34.3 million or 21.0%. The slower growth in revenues from Fiscal Year 1999 to Fiscal Year 2001 reflects that the Port is nearing revenue capacity limits for existing facilities in both the Aviation and Maritime Divisions. Total operating revenues for the first nine months of Fiscal Year 2002 were approximately $152.1 million and are forecast to be approximately $205 million for the entire Fiscal Year. For a discussion of the Port's anticipated revenues for Fiscal Year 2002 and subsequent fiscal years, see "Port Budget" below.

The Port's consolidated operating expenses increased from $79.1 million to $104.2 million between Fiscal Years 1997 and 2001, an increase of 31.7% or $25.1 million in total. During this period, Aviation Division expenses increased by 54.9%, Maritime Division expenses increased by 8.6% and Commercial Real Estate Division expenses decreased by 2.0%. The increase in expenses of the Aviation Division was largely due to increased use of the Airport facilities, which also resulted in the increased revenues discussed above. Other fluctuations in operating expenses occurred between Fiscal Year 1999 and Fiscal Year 2001 primarily due to the Fiscal Year 2000 implementation of an independently conducted overhead study, which was completed in Fiscal Year 1999. The study recommended increasing the amount charged to the capital program, which decreased the amount charged to operations. The percent then being charged to the capital program had not been changed in 18 years. The charge to capital in Fiscal Year 1999 was approximately 11.0% of the total operating expenses before depreciation and interest, or $10.9 million, and was approximately 19%, or $24.2 million, in Fiscal Year 2001. The total amount projected to be charged to capital in the CIP is approximately $120 million.

The increase in overall expenses reflects an increase in personnel services costs resulting from a cost-of-living adjustment and increased benefits provided to the Port's employees. An offsetting reduction in overall expenses resulted from a revision to the allocation of the overhead costs to the Port's capital improvement program as a result of the study mentioned above. As discussed below under "—Port Budget," as a result of the events of September 11, 2001 and other factors, the Port's expenses in Fiscal Year 2002 are significantly higher than in Fiscal Year 2001, and the Port is forecasting significantly higher expenses for Fiscal Year 2003 and subsequent fiscal years. The Port is projecting increases in insurance premiums, personnel compensation, contributions to CalPERS and unreimbursed security costs mandated by the TSA and the FAA at the Airport or otherwise affecting the Port.

Operating income increased 45% or $17.5 million in total during the five-year period beginning Fiscal Year 1997.

Commencing with Fiscal Year 2001, the Port adopted a provision of the Government Accounting Standards Board Pronouncement #33 ("GASB 33"), which required that the Port account for PFC and grant revenues as income. In prior years, the Port recognized such revenues as an addition to Equity. For Fiscal Year 2001, PFC and grant revenues included in the Port's net income were $18.8 million and $32.1 million, respectively. Excluding PFC and grant revenues, net income increased from approximately $11.2 million in Fiscal Year 1997 to $ 33.7 million in Fiscal Year 2001, a 300.0% increase. For further discussion of GASB 33 and the impact thereof on the Port's financial statements, see Note 2 in Appendix B-1.

Port Budget

The Port's operating budget is an essential component in the Port's overall planning process. The operating budget is a plan for each division's operating revenue and expenses and for Port non-operating income and expenses. The budget has a three year focus; the upcoming Fiscal Year for adoption by the Board and two subsequent years' proposed budgets for information purposes only.

Preliminary budgets for the next Fiscal Year are determined by executive management in planning meetings conducted from October to December. Budget instructions, forms and work sheets based upon the outcome of these planning meetings are distributed in early January to all the divisions and departments responsible for budget preparation. Follow up meetings are the opportunity for each division to present their justifications for new programs or other proposed increases in revenues and expenses as well as the operational needs peculiar to their division.

The Executive Director, in close consultation with the division directors, is responsible for making the final determination of the proposed budget to be submitted to the Board. The Port's Chief Financial Officer has administrative responsibility for the overall planning, coordinating, analyzing, preparing and issuing of the budget.

The Port provides a copy of the draft budget to the City as required by Port Resolution 92087. The final budget is adopted by the Board through a resolution. Copies of the adopted budget must be provided to the City Clerk, in accordance with the City Charter, not later than the third Monday of July.

Following the September 11, 2001 terrorist attacks on the United States, the Port significantly revised its budget as described below under "—Highlights of the Revised Fiscal Year 2002 and Fiscal Year 2003 Budgets." The Port revised its budgets on the basis of projected reductions from air travel and maritime cargo shipments, higher security costs at the Airport and increased insurance premiums on policy renewals.

Highlights of the Revised Fiscal Year 2002 and Fiscal Year 2003 Budgets.

<u>Projected Revenues and Income</u>. The budget for Fiscal Year 2002 was revised after the events of September 11, 2001 to reduce projected revenues by approximately $16 million to approximately $205 million. However, this reduced amount is higher than Fiscal Year 2001 actual revenues by approximately $8 million. The reduction in projected revenues is largely a result of the closure of the Airport for two days following the September 11, 2001 terrorist attack on the United States and the impact of such attacks on the demand for air travel and lower Maritime revenues as a result of the slower economy. The increase in Maritime revenues of $6.4 million from Fiscal Year 2001 to the revised budget for Fiscal Year 2002 is primarily attributable to revenues from space assignments and the opening of Berths 55 and 56. The revised 2002 budget projects that Aviation Division revenue will increase approximately $1 million from Fiscal Year 2001. For further discussion of the impacts of the events of September 11, 2001 on the Airport, see "THE PORT OF OAKLAND—Aviation Division—Impact of September 11, 2001 Terrorist Attacks." For discussion of space assignments and Maritime Facilities, see "THE PORT OF OAKLAND—Maritime Division—Existing Facilities." The Port also realized a $3 million gain in Fiscal Year 2002 from the sale of land as part of the JLS Transactions. See "THE PORT OF OAKLAND—Commercial Real Estate Division."

The Fiscal Year 2003 budget projects a further increase in Port consolidated revenues of $21 million to approximately $225 million, largely as a result of the anticipated completion of the Vision 2000 program. The Fiscal Year 2003 revenue budget contemplates increased Maritime revenue of $16 million, resulting from (i) tariff increases and (ii) various new agreements that have not yet been finalized. If tariffs are not increased or the new agreements are not finalized, actual revenues may be lower than projected. See "THE PORT OF OAKLAND—Maritime Division—Pending Agreements." The Fiscal Year 2003 budget indicates continued recovery and future growth of operations at the Airport with revenues projected to increase $7 million over Fiscal Year 2002. Revenues for the Commercial Real Estate Division are budgeted to decrease by $2 million due to the Fiscal Year 2002 sale of various buildings. The Port also expects to receive approximately $21 million in non-operating income from the sale of several parcels of property in Fiscal Year 2003, the largest of which is expected to be approximately $14.6 million. Currently, there are no signed sales contracts for these parcels.

<u>Projected Expenses</u>. Following the events of September 11, 2001, the Port undertook additional budget cuts of approximately $4 million, lowering operating expenses to approximately $121 million in its revised Fiscal Year 2002 budget. The cost-cutting measures, such as delay in filling vacant staff positions and reductions in administrative expenses, were implemented to mitigate the impact of increases in security expenses and other costs and lower-than-projected revenues.

The Port projected in its Fiscal Year 2003 budget that expenses would increase to approximately $138 million, primarily as a result of increased security and insurance costs and an anticipated increase in retirement benefits for Port employees, subject to adoption by the City of the provisions of Assembly Bill 616. The Port has not included additional potential costs for maritime security in its Fiscal Year 2003 budget, because such costs are uncertain and the Port expects that some or all of such costs may be paid for from other sources. The Port anticipates costs of insurance and Airport security to increase by $3 million and $7 million, respectively, in Fiscal Year 2003 as compared to Fiscal Year 2002, and projects an increase in the cost of retirement benefits of approximately $6 million in Fiscal Year 2003 (and each year thereafter), assuming the provisions of Assembly Bill 616 are adopted by the City. For further discussion of the impact of the events of September 11, 2001 on the Port's expenses and potential funding sources, see "THE PORT OF OAKLAND—Aviation Division—Impact of September 11, 2001 Terrorist Attacks," "—Maritime Division—Impact of September 11, 2001 Terrorist Attacks," "THE PORT'S FINANCES AND OPERATIONS-Risk Management and Insurance" and "INVESTOR CONSIDERATIONS—Impacts of September 11, 2001 Terrorist Attacks."

In an effort to continue reducing costs, Port staff has identified opportunities for cost reductions in the areas of personnel services, training, and travel expenses. The Board, on June 25, 2002, endorsed a plan that would permanently eliminate a number of currently vacant positions, delay the filling of remaining vacant positions, and reduce certain other discretionary expenditures to further reduce the Fiscal Year 2003 budgeted expenses to approximately $134 million from $138 million. (For preparation of the Feasibility Report, the Port provided to the Feasibility Consultants the originally projected budget of $138 million for Port consolidated operating expenses. See APPENDIX A—FEASIBILITY REPORT.")

The operating budget for Fiscal Year 2003, after elimination of certain vacant full-time positions, includes 700 full-time equivalent employees ("FTEs"), an increase of 3 FTEs above the 697 (adjusted) budgeted FTEs for Fiscal Year 2002. In addition, for Fiscal Year 2003, 57 FTEs (decreased from 69 FTEs in Fiscal Year 2002) are dedicated to and budgeted in the CIP.

Projected Net Income. For Fiscal Year 2003, based on an expenditure budget of $134 million, the Port's projected net income before restricted non-operating income is approximately $4.1 million. This net income reflects the expected $21 million gain on the sale of certain properties during the fiscal year. If the property sales do not materialize, it will adversely affect the projected net income from operations. Net income also includes depreciation expense of $62 million and interest expense of $52 million. The Port has further budgeted approximately $48 million of restricted income from grants, CFCs, and PFCs resulting in a projection of net income after restricted income of approximately $52.1 million. Certain projected PFCs have not yet been applied for with the FAA.

For the next two fiscal years ending June 30, 2004 and 2005, as a result of several major maritime and aviation projects coming into operation, the Port is projecting operating deficits of $16 million and $12 million, respectively, after depreciation and interest but before restricted income. When completed projects are placed in service, depreciation and interest expenses are recognized. As a result, expenses exceed revenues during the first several years. The projected depreciation expenses for Fiscal Years 2004 and 2005 are $68 million and $75 million, respectively. As the revenue from the completed projects increases over time, the Port projects positive net operating revenues.

Historical Debt Service Coverage

The following table shows historical debt service coverage on the Parity Bonds then Outstanding for Fiscal Years 1997 through 2001.

TABLE 25

PORT OF OAKLAND
HISTORICAL PARITY BONDS DEBT SERVICE COVERAGE
FISCAL YEARS 1997 THROUGH 2001
(000's)

	1997	1998	1999	2000	2001
Net Revenues Available to Pay Parity Bond Debt Service(1)	$72,895	$79,094	$79,302	$83,655	$98,605
Parity Bond Debt Service	34,983	37,659	37,659	37,676	37,677
Parity Bond Debt Service Coverage	2.08	2.10	2.10	2.22	2.62

Source: Port of Oakland

Projected Debt Service Coverage

The table below presents the projected Parity Bonds debt service coverage for Fiscal Years 2002 through 2007. The projections were developed by the Feasibility Consultants in connection with the preparation of the Feasibility Report and take into account the Port's outstanding Parity Bonds and the impact of the issuance of the 2002 Bonds and the Additional Bonds that are projected to be required to complete the funding of the CIP. The projections are subject to a number of assumptions, including (i) the availability of additional funding sources when needed, (ii) assumed rates of interest and investment returns on the proceeds of Additional Bonds, and (iii) the completion of the CIP according to schedule. The projections also reflect further assumptions with respect to the Port's future operating revenues and operating expenses, and numerous other assumptions related to future activity in the Aviation, Maritime and Commercial Real Estate Divisions.

Table 26 does not take into account debt service on any of the Port's indebtedness other than outstanding Parity Bonds and Parity Bonds contemplated in the CIP. It does not include the CP Notes and the interest or amortization of principal thereof, additional Parity Bonds that may be issued from time to time in the future and other obligations described under "SECURITY AND SOURCES FOR PAYMENT FOR THE 2002 BONDS—Subordinated Obligations." The Port is considering refunding the 1992 Series E Bonds prior to November 1, 2002, which was not included in the assumptions underlying the information in Table 26.

For additional information concerning these and other assumptions see APPENDIX A—"FEASIBILITY REPORT—FINANCIAL ANALYSIS."

No assurances can be given that the projections and future results discussed in this section will be achieved. Future results, for example, could be adversely impacted by such factors as (i) the unavailability of assumed funding sources when needed (particularly grants and other funding that may be subject to future governmental authorization or appropriation), (ii) adverse market conditions affecting the availability, interest rates or other terms of Additional Bonds, (iii) construction delays or costs overruns, (iv) unanticipated increases in expenditures or decrease in revenues, or (v) other adverse and unforeseen events or conditions affecting the Port. Actual results may differ materially from the forecasts described herein.

TABLE 26

PORT OF OAKLAND
PROJECTED PARITY BONDS DEBT SERVICE COVERAGE
FISCAL YEARS 2002 THROUGH 2011[(1)]
(Dollars in 000s)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Net Revenues Available to Pay Parity Bond Debt Service[(2)]	$85,366	$87,786	$102,853	$130,546	$156,529	$170,495	$172,585	$182,313	$191,974	$195,376
Parity Bond Debt Service	40,792	60,826	65,473	73,481	93,220	106,668	115,949	118,941	120,806	120,869
Parity Bond Debt Service Coverage	2.09	1.44	1.57	1.78	1.68	1.60	1.49	1.53	1.59	1.62

(1) The debt service reflected in this table is based on the debt service for the 2002 Bonds projected in the Feasibility Report ($600 million par amount at an interest rate of 6.0%), not actual debt service on the 2002 Bonds (which is lower than that projected), and debt service on future Parity Bonds, assumed to be issued in 2004 (at an interest rate of 6.5%).

(2) Includes departmental operating revenues and expenses of the Port and related consolidating adjustments of the Port's consolidated subsidiaries (OPA and PBC).

Source: Ricondo & Associates, Inc., Booz Allen Hamilton Inc., Jones Lang LaSalle.

Port Payments to the City

The Port makes the following types of payments to the City pursuant to several memoranda of understanding: (i) Special Services, which include various administrative, personnel, maritime area truck traffic enforcement and financial services, (ii) special services for ARFF, (iii) General Services, which includes police, fire, public street cleaning and maintenance, City Treasury management fees, and similar services provided by the City to the Port, and (iv) Lake Merritt maintenance costs. The Port also leases various parcels of land to the City for a de minimis amount.

Special Services and ARFF Payments. Payments for Special Services (which include certain police and other administrative services provided by the City) and ARFF are treated as a cost of Port operations (pursuant to City Charter Section 717(3) Third Purpose) and have priority over certain other expenditures of Port revenues, including debt service reserves. These payments are included as "Operating Expenses" in the Port's budget. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2002 BONDS—Flow of Funds." For the Fiscal Year ended June 30, 2001, approximately $3,245,000 for Special Services payments and $4,344,000 for ARFF payments were accrued by the Port as a current liability. These amounts are expected to be approximately $5.2 million and $4.1 million, respectively, in Fiscal Year 2002 and approximately $4.2 million and $4.4 million, respectively, in Fiscal Year 2003. The increased cost for Special Services in Fiscal Year 2002 was due to services required after the events of September 11th. The reduction of approximately $1.1 million in Special Services payments from Fiscal Year 2002 to Fiscal Year 2003 was due to a shift of service from the Oakland Police Department to the Alameda County Sheriff's Office for Airport security.

General Services and Lake Merritt Payments. General Services payments reimburse the City for police and fire costs the Port incurs on City-owned lands in the Port Area that are unleased and developable. General Service fire costs are based on a proration of the cost of each fire station serving the Port Area and exclude the non-structural secure area of the Airport. Other General Services payments are based on the actual cost of the services (such as public street cleaning and maintenance) that are provided to Port property. Lake Merritt payments reimburse the City for maintenance expenditures made from City funds for Lake Merritt tideland trust purposes. General Services and Lake Merritt payments for maintenance were negotiated in 1991 to be capped at $1.2 million per year, cumulatively, increasing only for inflation. The City is considering substantial capital improvements to the Lake Merritt area and has proposed a nearly $200 million bond issuance be placed on the November 2002 ballot to finance a portion of such capital improvements as well as other improvements related to Lake Merritt and the estuary area. In connection with such proposal, the Port funded $270,000 during Fiscal Year 2002 for a study of the feasibility of linking the estuary to Lake Merritt.

General Services payments and Lake Merritt payments are payable only to the extent the Port determines annually, at the end of each Fiscal Year, that surplus moneys are available for such payments. For Fiscal Year ended June 30, 2001, approximately $589,000 for General Services payments and $1 million for Lake Merritt tideland trust purposes were accrued as a current liability by the Port. The Feasibility Report includes annual payments for general services and Lake Merritt. The Port expects that a surplus will be available to pay such accruals during Fiscal Year 2002 and that such amounts will be paid.

Treasury Management Expenses. The City charges the Port approximately $250,000 per year for Treasury management of the Port Revenue Fund. In prior years the Port has disputed certain charges requested by the City for these services. During Fiscal Year 2001, the Port and the City resolved this dispute, with the Port recovering substantially all of the $1,350,047 claimed as the City's cumulative over-billings for Fiscal Years 1996 through 2001. In response to the Port's request, the City asked the City Auditor to undertake a full investigation of such disputed management expenses. The Port received the City Auditor's report on September 26, 2001, which confirmed the amount owing to the Port. The Port has provided nominal accruals for any potential liabilities to the City and is involved in negotiations with the City to resolve this issue and to formalize an agreement as to these charges for future years. The Port does not believe that any final settlement with the City on this issue would have a significant impact on its operations.

In connection with an audit with regard to the Federal Award Programs for the Fiscal Year 1998 in accordance with OMB Circular A-133, the Port's outside auditors requested certain documents and records from the City to ascertain that certain restricted Airport revenues were used only for airport purposes. The auditors requested the Port Auditor to perform an audit to examine City records to ascertain the validity of the amounts owed or recovered. The audit satisfied the requirements of the external auditors. For the Fiscal Years 1998, 1999, 2000 and 2001, the Port's external auditors have addressed this matter by a footnote to their report. The Port was contacted by the FAA regarding the issues raised in the prior audit reports. The Port continues to work with the City to correct the findings of the audit report.

Future Payments. Any new payment to the City by the Port for any services provided by the City, or for other purposes, must comply with the State's requirements regarding the use of the State's tideland trust revenues, the Charter's requirements regarding the use of all but surplus revenues for Port purposes, and federal legal requirements restricting the use of airport revenues only for airport purposes. The Feasibility Report does not contemplate any new payments to the City. Any new or additional payments to the City, whether for services or for other purposes, will decrease the internally generated funds available to the Port for the CIP and may increase the amount the Port must borrow to fund the CIP or cause the Port to reduce the projects in the CIP.

The City accrued $15 million of receivables from the Port over the past several years. The Port and its independent auditors have concluded that there is no basis for these accruals.

Port Audits

Historically, the City and the Port have used separate external auditors, and the City's auditor has not audited the Port Revenue Fund. Recently, however, the members of the City Council have expressed a desire for the annual financial audit conducted by the City's auditor to include all parts of the City, including the Port. As a result, the City's external auditor may in the future conduct annual audits of the Port Revenue Fund as part of its audit of the City. Nevertheless, the Port expects to retain its own external auditor to audit the Port Revenue Fund and report exclusively to the Board, as well as to ensure compliance with applicable Indenture requirements. The Port and the City have agreed to consider the possibility of hiring the same accounting firm to conduct both audits, as long as the independence of the auditor for the Port's financial statements is maintained.

Investments

Moneys held by the Trustee under the Indenture, including moneys in the Debt Service Fund (and the accounts therein), the Construction Funds and the Reserve Funds, may be invested at the direction of the Port in Permitted Investments pursuant to the Indenture.

The Charter requires that all moneys held in the Port Revenue Fund (including moneys in the Port Bond Reserve Fund) be deposited in the City Treasury. Currently, the Treasury Manager of the City (the "City Treasurer") has the authority to invest such funds in accordance with the City's investment program. As of March 31, 2002, approximately $117,400,000 consisting of moneys in the Port Revenue Fund, PFC funds and other restricted and unrestricted cash were invested as part of the City's investment program, comprising approximately 62.4% of the pooled moneys invested by the City Treasurer. During Fiscal Year 2001 and the nine months ended March 31, 2002, the percentage of Port funds invested by the City Treasurer ranged from 58% to 100% and 53.5% to 86.2%, respectively.

The City's investment program is governed by an investment policy (the "Investment Policy") prepared annually by the Treasury Division of the City's Financial Services Agency and generally adopted by the City Council in late July. The Investment Policy provides the permitted investments, credit standards, investment objectives, oversight, trading policies and mandatory standards, and other specific constraints for the City's investment program. The City's current Investment Policy is under review; the Port has not been advised by the City of any significant anticipated revisions.

The Investment Policy prohibits the average maturity of the investment portfolio to exceed 540 days and the maturity for any one investment under the investment portfolio to exceed 5 years. Investments in repurchase agreements are approved for investment under very specific guidelines (which include maturity, broker and collateral requirements). The Investment Policy is subject to revision at any time. The weighted average maturity of all investments held by the City Treasurer, including the Port Revenue Fund, as of March 31, 2002, was 229 days.

Fitch Ratings, Inc. ("Fitch") has assigned a current managed fund credit rating of "AAA" and a market risk rating of "V-1+" to the City's Operating Fund Portfolio (including any Pledged Revenues held by the City). These ratings are the highest assigned by Fitch. The "AAA" credit rating reflects the highest credit quality based on asset diversification, management strength and operational capabilities. The "V-1+" market risk rating is assigned to money market funds and Local Government Investment Pools that have the lowest market risk and are expected to experience no loss of principal value even in adverse market conditions. Fitch's market risk ratings reflect the rating agency's assessment of relative market risks and total return stability in the portfolio, based on analysis of various market indicators such as interest rates, liquidity, and leverage risk, if any. As a condition of maintaining these ratings, the City provides information on the Operating Fund Portfolio activity and holdings to Fitch for its review on a monthly basis. These ratings may or may not be maintained in the future.

The City is from time to time in possession of Pledged Revenues (or portions thereof), and customarily invests the Pledged Revenues held in the Port Revenue Fund as part of the City's investment program.

Risk Management and Insurance

The Port has established a separate Enterprise Risk Management Department reporting to the Port's Chief Financial Officer, which is currently staffed by four professionals. The Enterprise Risk Management Department administers the Port's OCIP and is responsible for directing and coordinating risk control functions such as risk analysis, purchase of insurance, and recovery for insured and uninsured losses. It also acts in an advisory capacity with regard to fire protection, security, risk aspects of Port contracts, and other loss control activities. Liability claims are jointly administered with the Port Attorney's Office.

The Port imposes certain risk transfer requirements on Port tenants, vendors and contractors. Port policy generally requires that each agreement entered into with an entity doing business with the Port contain provisions to defend and indemnify the Port from losses arising out of that entity's activities and/or products, and to maintain specified levels of insurance coverage. The Port is named as an additional insured under those policies. All insurance provisions in Port agreements either originate with, or are reviewed by, the Port Attorney's office and the Port's Enterprise Risk Management Department. Rental income and business interruption insurance may be required to be maintained on property leased or assigned to tenants. Rental income insurance provides for the continuation of rental or lease payments to the Port in case of fire or other extended coverage loss for the time required to repair or reconstruct damaged facilities.

The Port purchases commercial insurance policies to cover catastrophic and other losses that cannot prudently be assumed by the Port. Those policies currently include the following: Airport general liability, $200 million ($250,000 annual aggregate deductible); Maritime and Commercial Real Estate general liability, $1 million ($200,000 deductible per occurrence) and excess liability, $150 million (over $1 million); General Property, $1.015 billion ($500,000 deductible per occurrence); Automobile Liability Insurance, a primary policy of $1 million ($100,000 per occurrence deductible) with an excess policy of $150 million; Public Officials Errors and Ommissions and Employment Practices, $20 million ($500,000 Self Insured Retention "SIR"); Group Travel and Accident, $500,000 to $5 million; Fiduciary Liability on Deferred Compensation $10 million ($10,000 deductible); War and Terrorism: Airport War Risk Liability, $50 million; Crane Physical Damage, $50 million, ($1 million SIR); and Cranes and Rails: all risks, $100 million ($375,000/7.5% earthquake deductible); Installation Floater, $62.2 million ($100,000 all risk; $250,000 on water damage and 7.5% earthquake damage deductible) and Property Damage and Business Interruption $20 million ($100,000 deductible). The general property policies are based on replacement costs and cover "all risks," excluding (except in the case of cranes) earthquake. The Port is exploring physical damage coverage from War and Terrorism on its headquarters, the Airport and other key facilities. Total insurance premiums for all coverage for Fiscal Year 2002 will approximate $3 million. No assurance can be given that the same insurance coverage or policy limits will be available or obtained by the Port in the future. It is expected that premiums will be approximately double that amount in Fiscal Year 2003 and will continue to be higher in subsequent Fiscal Years as a result of the September 11, 2001 terrorist attacks on the United States. See "INVESTOR CONSIDERATIONS–Impact of September 11, 2001 Terrorist Attacks." The Port is self-insured for workers' compensation claims, and paid $1,094,000 in Fiscal Year 2000, $855,000 in Fiscal Year 2001 and $781,528 in the first nine months of Fiscal Year 2002. Excess workers' compensation and employers' liability insurance is in effect over $500,000 per occurrence with aggregate limits of $25 million.

The Port established the OCIP in July 1999 to transfer the insurable risk of construction for certain construction projects at the Port, including a portion of the CIP. A seven-year, "non-cancelable" program was put in place providing a limit of general liability of $304 million (no deductible); workers compensation and employers' liability; Longshoreman & Harbor Workers Act coverage (no deductible); contracts pollution legal liability of $20 million ($100,000 deductible); builders risk of $500 million ($100,000 deductible); earthquake of $25 million (5% deductible); and project-specific professional liability of $75 million ($150,000 deductible, $500,000 aggregate deductible). Six to eight safety, claims and administrative staff are being provided by the insurance carrier and insurance brokers with the higher number in place at the peak of the construction schedule. See "CAPITAL IMPROVEMENT PROGRAM—Other Factors Affecting the CIP—Owner-Controlled Insurance Program."

Strategic and Business Planning

The Office of Strategic Policy Planning is responsible for managing and coordinating the preparation of long-range and organizational studies, strategic planning and business planning. It also monitors progress against business objectives to provide direction and focus to annual updates of the strategic and business planning effort.

The purpose of the Port's strategic planning program is to align business and financial goals with the Port's mission. The Maritime, Aviation, and Commercial Real Estate divisions periodically update their strategic plans by examining external trends, business performance, and current strategies. Each division then reviews and updates its goals and objectives and develops courses of action for pursuing its objectives. Finally, action plans and resource allocation decisions are made to support these objectives. Each revenue division then updates its business plan using the information developed in the strategic planning process. Each business plan includes a market analysis, a statement of business purpose and services, a summary of goals and objectives, a description of strategies and programs, and revenue and expense projections for the next five years.

Tideland Trust Properties

Most of the property on which the Port's Airport, marine terminals and other facilities are located is owned by the City and administered on behalf of the City by the Port, subject to a trust imposed pursuant to more than a dozen tideland grants from the State. These grants date back as far as 1852.

Certain requirements and restrictions are imposed by the grants. Generally, the use of lands subject to the trust is limited under the terms of the grants to harbor and airport uses and other uses of statewide interest, such as fishing, public recreation, and enjoyment of the waterfront. The Port may not sell any of the granted lands, nor lease them for periods of more than 66 years. There are also certain limitations on the use of funds generated from the trust lands and trust assets. Trust-generated funds may be transferred to the City's General Fund only for trust purposes as opposed to general municipal purposes. All amounts in the Port Revenue Fund in effect constitute funds subject to the State trust. None of the various restrictions on trust funds are expected to adversely affect the operations or finances of the Port.

These tideland grants and trust assets may be subject to amendment or revocation by the State legislature, as grantor of the trust and as representative of the beneficiaries (the people of the State). Under applicable law, any such amendment or revocation may not impair the accomplishment of trust purposes, or impair the existing covenants and agreements between the City, acting by and through the Board, and the Port's bondholders.

Estuary Plan

On June 8, 1999, the City Council adopted an Estuary Plan Policy as part of the City's General Plan. The policy was jointly developed by the City and the Port to provide general guidelines for land use, public open space, waterfront access, traffic circulation and other matters relating to development in an area encompassing a part of the Port and other parts of the City known as the "Estuary Area." The Estuary Area includes the Port's waterfront property from Jack London Square to 66th Avenue, as well as certain property between the Port and the I-880 Freeway. For further discussion of the development recommended by the Estuary Plan Policy, see "THE PORT OF OAKLAND—Commercial Real Estate Division—Commercial Real Estate Development Projects."

In order to better coordinate and facilitate future commercial development activities within the entire Estuary Area, the Port and the City agreed to temporarily transfer to the City the Port's land use authority over the portion of the Estuary Area within the Port's boundaries. This was accomplished in April 2000 by modifying the Port's official boundaries to exclude such area in accordance with established procedures under the City Charter. The City will retain all land use authority for the transferred area only for the duration of time needed to accomplish the development of the portions of the Estuary Area within the Port's current boundaries. After development of each district within the Port Area is completed, the Port's boundaries and land use authority for the affected area will be restored. The transfer did not affect the Port's ownership interests in any property or facilities owned by the Port within the Estuary Area. However, development of Port-owned properties within the Estuary Area requires the Port, like any other landowner within the City, to obtain all necessary land use and development approvals from the City.

The Estuary Area does not include, except to an insubstantial extent, land or development activity within the Port's maritime and Airport operations. Accordingly, the transfer of land use authority does not affect the Port's current or planned maritime and Airport development activity.

Environmental Compliance

The Port is required to comply with a number of federal, state and local laws and regulations designed to protect human health and safety and the environment. The basic environmental assessment laws are the Federal National Environmental Policy Act and the California Environmental Quality Act. These laws require consideration and disclosure of the environmental impacts of development projects. Other federal environmental laws applicable to the Port include, the Comprehensive Environmental Response, Compensation and Liability Act, which governs the cleanup and liability of hazardous substance releases; the Resource Conservation and Recovery Act, which governs the treatment and disposal of hazardous waste (including underground tanks); the Toxic Substances Control Act, which governs the handling and disposition of PCBs and other toxic substances; the Clean Water Act, the Clean

Air Act and the Marine Protection, Research and Sanctuary Act, which govern the dumping of dredged materials; and the Rivers and Harbors Act, which governs navigable waterways. Enforcement agencies including, without limitation, the U.S. Environmental Protection Agency and the Corps.

The Port is also required to comply with a number of State environmental, health and safety laws, including, without limitation, the Hazardous Waste Control Act, which governs hazardous waste treatment, storage and disposal; the Aboveground Petroleum Storage Act, which governs above ground storage tanks; the McAteer-Petris Act, which regulates fill in the San Francisco Bay and certain activities, including development within a certain distance from the shoreline; the Occupational Safety and Health Act; the Hazardous Substance Account Act, the California Porter-Cologne Act and State underground storage tank laws. State enforcement agencies include the California Environmental Protection Agency, Department of Toxic Substances Control; the State Water Resources Control Board; the San Francisco Bay Conservation and Development Commission; the Regional Water Quality Control Board (San Francisco Bay Region) and the State Department of Industrial Relations (Division of Occupational Safety and Health). The State has delegated enforcement authority to the Alameda County Health Care Services Agency, Department of Environmental Health in a number of situations. Further, the City is the Certified Unified Program Agency for the purpose of regulating certain hazardous materials issues within the City, including the Port Area. The City has jurisdiction over: (i) hazardous waste generators, (ii) aboveground storage tanks (spill prevention control and countermeasure plan only), (iii) underground storage tanks, (iv) hazardous materials release response plans and inventories (commonly referred to as hazardous materials business plans), (v) requirements concerning acutely hazardous materials (commonly referred to as risk management plans) and (vi) State Uniform Fire Code requirements concerning hazardous material management plans and inventories.

In conforming to these laws and the implementing regulations, the Port has instituted a number of compliance programs and procedures. Some of these are ongoing, including the sampling and analysis of berth sediments to comply with maintenance dredging permit requirements; monitoring of groundwater wells and drainage outfalls; and sampling and analysis of storm water discharge and effluent monitoring of discharges to sanitary sewers. Other compliance activities are carried out on an intermittent basis as necessary. These include the sampling and disposal of contaminated soil excavated from construction and remediation sites; testing and removal of leaking underground fuel storage tanks and associated soil and groundwater cleanup; surveys of Port buildings for asbestos and lead based paint, and associated remedial abatement actions; and spill reports to regulatory agencies and associated site cleanup. In the area of worker safety, the Port has developed an Illness and Injury Prevention Program as mandated by California Occupational Safety and Health Administration for companies with more than 15 employees.

It is the Port's intent that its environmental programs comply with regulatory and legal requirements while effectively managing financial resources. The Port continues to strive to improve its existing environmental compliance programs and has set up internal procedures for addressing new environmental compliance issues that arise. A significant portion of the Port's property has been used in the past for a variety of industrial and commercial purposes. Some of these former uses have left behind environmental contamination. The Port's financial statements include accrued liabilities, established, reviewed and adjusted periodically, based on new information, in accordance with applicable accounting standards, for the estimated costs of compliance with environmental laws and regulations and remediation of known contamination. Current environmental liabilities, which have been determined to be estimable and probable at this time, are several million dollars that the Port has accrued in various legal and environmental liability accounts. These contingent liabilities include, but are not limited to, continued groundwater monitoring and operation and maintenance activities at a state Superfund site, investigating and remediating certain known soil and groundwater contamination on various Port lands, some of which are the subject of regulatory enforcement orders and agreements with State regulatory agencies, assessing and abating asbestos and lead paint in Port buildings, obtaining regulatory closure at various former underground storage tank locations, preparing and updating contingency and business plans, responding to federal and State regulatory orders issued to the Port and others at permitted landfills that require certain remedial/removal activities, and addressing soil, ground water and compliance issues at the above ground storage tanks facility (commonly known as the South Field Tank Farm) that services the Airport. The Port may discover additional environmental liabilities in the future, which would be reflected in adjustments to liabilities on the Port's financial statements when determined by the Port to be estimable and probable. In addition, depending on circumstances, the Port may be able to recover some costs from other parties responsible for the contamination, including insurance carriers.

The Port's Environmental Health and Safety Department is responsible for maintaining all required state and local permits and associated documentation for the storm water pollution prevention program for industrial and construction operations, above-ground and underground storage tanks, hazardous materials (including hazardous soils) handling, storage and disposal and stationary sources of air emissions (such as generators). The Port staff is also responsible for maintaining federal, state and local permits for dredging, disturbance of navigable waters, wetlands restoration work, maintenance of marine facilities, new construction, general construction work on land and over water, public access projects and discharges to waters of the State.

See "THE PORT OF OAKLAND—Aviation Division—Airport Development Program" for a discussion of the Port's liability and exposure in connection with certain pending environmental proceedings.

Seismic Activity

During the past 150 years, the Bay Area has experienced several major and numerous minor earthquakes. The most recent major earthquake in the Bay Area was the October 17, 1989 Loma Prieta earthquake with a magnitude of 7.1 on the Richter scale and an epicenter near Santa Cruz, approximately 60 miles south of the City. The San Andreas fault, at its closest, is about 12 miles to the west of the Port; the Hayward fault, at its closest, is about seven miles to the east of the Port. A significant earthquake along these or other faults is possible during the period the 2002 Bonds will be outstanding.

The Port experienced very little disruption in business as a result of the 1989 earthquake and aftershocks. Despite the closure of a portion of its main runway, the Airport served as a back-up airport for the Bay Area, accepting flights from SFO and the Alameda Naval Air Station. In the harbor area, all but two of the Port's ten marine terminals returned to near normal operation within a day or two after the earthquake. One terminal remains inactive, but has had no material impact on the Port's operations. No container ships were turned away from the Port as a result of the earthquake.

Most of the 1989 earthquake repair costs for the aviation facilities were covered by the FAA (80.6% of the airfield repairs and 75% of building repairs) and the State's Office of Emergency Services (the remaining portion). The majority of the 1989 earthquake repair costs for maritime and other repairs were covered by the Federal Emergency Management Agency ("FEMA") (75% of eligible maritime and other repairs), the State's Office of Emergency Services (earthquake recovery funds) and insurance.

In June 1998, the receipt of FEMA grant funds for 1989 earthquake repairs ended. As required by federal law, FEMA's Office of the Inspector General initiated an audit of the Port's administration and expenditure of the FEMA grant funds in December 1999. The audit was completed and the Final Inspection Report approved in February 2001. The audit resulted in disallowed costs of $11,984 and, because of these disallowed costs and certain overpayments by FEMA and the State's Office of Emergency Services ("OES"), the Port was obligated to reimburse FEMA approximately $587,517, less offsets from OES. The Port made the required payment of $458,086 to OES in April 2002.

Current seismic design code and construction practices have been utilized in the design and construction of the more recent buildings and facilities constructed by the Port. Because wharves, dikes and fills are not governed by these building codes, the Port has passed an ordinance establishing special site-specific seismic evaluation studies to be done as part of the design process. Recently constructed facilities, which were designed to this criteria, suffered little or no damage in the 1989 earthquake.

It is possible that the Port could sustain damage to its facilities in a major seismic event from ground motion and liquefaction of underlying soils. The Port currently does not maintain commercial insurance coverage for property damage resulting from earthquake other than on the marine terminal container cranes and currently has no plans to obtain earthquake insurance.

Energy Contracts

The Port acts as a municipal utility for electrical power provided to the Airport and to certain portions of the Maritime facilities, and purchases power from several sources. The Port's five-year long-term electric power contract for the Airport ended early in calendar year 2001, during the State's electric power crisis. Since that contract ended, the Port has satisfied its Airport electric power needs with forward power contracts from several different suppliers. One of its suppliers was Enron Power Marketing, Inc. ("EPMI"), a subsidiary of Enron Corporation. The port has terminated all existing supply contracts with EPMI and is in the process of negotiating a termination fee regarding amounts due EPMI under the contract. The full contract amount is reflected in the Port's budget. The Port's current forward power contracts cover 67% of the Airport's power requirements and 100% of the Maritime Division's power needs through the end of this calendar year. The Port is contemplating further power purchases for the balance of the Airport's requirements for this year, plus up to 50% of the Airport's projected power requirements for the next five years. The Maritime Division's power has been contracted for through 2004. In addition to the forward contracts, the Port has a continuous supply agreement with Northern California Power Agency to purchase power for the Port on an as-needed basis and for emergencies. The Port does not expect a power interruption at its facilities.

The Port's electricity transmission, distribution and utility labor costs are recovered through tenant charges. The Port is in the process of engaging the services of a consultant to evaluate its utility rate structure.

Employees and Labor Relations

A number of Port employees (approximately 324) are included in the Clerical-Administrative and Maintenance-Operations Units represented by United Public Employees, Local 790. Local 790, and its predecessor Local 390, have formally represented Port employees since the late 1960s. Approximately 99 Port employees in professional engineering classifications are represented by Western Council of Engineers ("WCE"), a professional association. International Brotherhood of Electrical Workers ("IBEW") Local 1245 represents approximately 40 supervisory/administrative positions in the facilities and construction departments. The remaining Port employees are in unrepresented classifications, which include management, supervisory, professional, technical and other miscellaneous positions.

The Port has approximately 30 to 50 revolving vacancies during any Fiscal Year. These vacancies continue as a general trend because of staff turnovers and the time it takes to comply with extensive Civil Service recruitment and examination rules. To meet the need for staff support to cover the work of these vacant positions, the Port utilizes a combination of temporary agency workers and contract consultants, as well as overtime by regular employees. Because the Port is able to provide a temporary workforce, there generally is no adverse impact on Port operations.

The Port negotiated a five-year agreement with Local 790 commencing July 1, 1997, which expired on June 30, 2002. The Port and Local 790 are currently in negotiations for a new agreement. The Port has a Memorandum of Understanding with IBEW for the term September 1, 2001 to October 1, 2003. Additionally, the WCE has a three-year contract starting from July 1, 2001 through June 30, 2004. In the event the City adopts the provisions of Assembly Bill 616, which enhances retirement benefits, the WCE contract will be extended for two additional years ending June 30, 2006.

The Port's Human Resources Manager, who reports to the Director of Corporate Administrative Services, has primary responsibility for both negotiations and labor-management relations with Local 790, IBEW and the WCE. The Port Attorney's Office advises the Port on labor relations matters and performs all legal work relative to labor relations, *e.g.* arbitration and appeals.

The Port shares a common Civil Service system with the City. Port employees are assigned to positions that are either "classified" Civil Service positions or that are exempt from Civil Service. All Port employees are Civil Service employees except those that are specifically exempted from the Civil Service system by the City Charter or by Resolution of the Civil Service Board, as described in the "Port of Oakland Personnel Rules and Procedures."

Social Responsibility Division

The Social Responsibility Division ("SRD") was created by the Board in Fiscal Year 2002 to direct the development and implementation of programs to assure that the Port's plans, goals, capital improvement programs and general operations are undertaken in a manner that is socially responsible to the communities impacted and served by the Port. The Employment Resources Development Program, a resource center for the benefit of local residents seeking employment with the Port and its tenants, is managed by the SRD. The SRD is also responsible for Contract Compliance (previously under the Equal Opportunity Division), which encourages participation of small and local contractors, consultants and vendor businesses in Port programs through outreach, monitoring education and technical assistance. It also encourages disadvantaged business enterprises to participate in Federal Disadvantaged Business Programs and facilitates cooperative participation with community organizations by presenting and promoting Port programs at meetings, conferences and workshops. The SRD is also responsible for the Social Justice Component of the Maritime and Aviation Project Labor Agreements ("MAPLA"), which implements policies and procedures to ensure local hire and local business participation on Port projects and the development and implementation of procedures for monitoring and assuring compliance by Port contractors with the Port's Living Wage policies (Port Ordinance No. 3666 and City of Oakland Charter Section 728). See "Living Wage Ordinance; Charter Amendment" below.

In Fiscal Year 2003, the SRD will be allocated 18 full-time equivalent employees and a budget of approximately $1.9 million.

Local Business Utilization Policy

The Board, recognizing that small local business participation in Port contracting opportunities is vital to the local economy, adopted a Non-Discrimination Small/Local Business Utilization Policy (the "Small Business Policy") in 1997 to enable small local businesses to compete more effectively for participation in Port public works, consulting, and procurement contracts. To achieve this goal, the Port allocates preference points in the award of contracts that favor small local businesses. Bid specifications, requests for proposals, project packages, and contracts have been revised to allow for small local businesses to compete more successfully for work as prime contractors, subcontractors, consultants, and vendors. In addition, the Small Business Policy provides for the establishment of small local business support programs, which may include technical assistance programs, bonding programs, prompt payment programs, and advisory or training programs. The Port's Executive Director is responsible for issuing regulations and standards for the small local business utilization programs adopted by the Port. The Director of Social Responsibility is responsible for implementation of the Small Business Policy. The Executive Director is authorized to adjust and modify the regulations and may suspend preferences on programs when, in consultation with the Port's Chief Engineer, it is determined to be in the best interests of the Port to do so.

The Small Business Policy was amended by the addition of a component policy designed to facilitate maximum opportunity for local business participation as prime contractors, consultants, subcontractors and subconsultants for Port capital improvement projects awarded and undertaken under contracts requiring completion by alternative project delivery methods, including design-build, construction manager-at-risk, and master-builder. The resulting plan is intended to maximize small local business participation without negatively affecting schedules or budgets on proposed projects. The Port does not believe that the Small Business Policy has significantly increased contracting costs for the Port to date, but the Port cannot project what impact, if any, the policy could have on the Port in the future.

Living Wage Ordinance; Charter Amendment

The Board in 2001 enacted a living wage ordinance ("Living Wage Ordinance") requiring entities that either provide services to the Port or receive financial subsidies from the Port to provide their employees with wages and certain benefits at or above an established minimum level. The minimum level, effective November 16, 2001, is $9.13 per hour for employees who are provided medical benefits and $10.50 for employees who are not provided medical benefits. This amount is subject to adjustment annually. In addition, the ordinance requires covered employers to provide 12 days of paid leave per year. The provisions of the Living Wage Ordinance take effect upon award or renewal of service contracts or upon approval of financial subsidy. The initial increase in service contract costs to the Port is expected to be approximately $500,000 annually, rising to approximately $900,000 per year when existing service contracts are renewed and subjected to the Living Wage Ordinance in the next five years.

In March 2002, voters in the City elected to amend the City Charter (the "Charter Amendment") to apply new living wage requirements to tenants and contractors of the Airport and the Port's maritime operations (but not Commercial Real Estate operations) and their subcontractors. As with the Living Wage Ordinance, the provisions of the Charter Amendment apply to contracts with covered employers entered into or amended after the effective date of the Charter Amendment. The minimum hourly wage for employees covered by these provisions is the same as the City's living wage ordinance. There is no conclusive study regarding tenants' responses to the Charter Amendment or the potential impact on Port revenues, if any. The Port does not expect to lose current or potential tenants as a result of the Charter Amendment or any other living wage ordinance applicable to the Port and/or its tenants, but no assurance can be given that there will be no financial impact on the Port.

The Port has filed a request for declaratory relief in Alameda County Superior Court seeking a determination as to whether the Charter Amendment applies to certain tenants at the Port with agreements that are in holdover status. Such tenancies include certain existing agreements with rental car companies. The Port is considering the adoption of an ordinance authorizing the extension of the Charter Amendment to holdover tenancies as a matter of policy.

INVESTOR CONSIDERATIONS

Impact of September 11, 2001 Terrorist Attacks

The terrorist attacks of September 11, 2001 caused temporary closure of the Airport. The Airport was re-opened on September 13, 2001 with limited activity and by September 14, 2001, all airlines servicing the Airport had resumed activity. Along with the loss of revenues during this flight disruption, the Airport also experienced a reduction in passenger traffic and daily available seats in the following months. Moreover, enplanements since September 11, 2001 have been lower than had been forecast by the Port prior to the terrorist attacks, and approximately 400 parking stalls have become unavailable because of security requirements. While the revenue loss caused by the events of September 11, 2001 on the Airport was less severe than at other airports in the United States, the Port's aviation operations have been and may continue to be adversely affected by the events of September 11, 2001.

The terrorist attacks also initially impacted tenants at the Port's cargo terminals. Immediately after the terrorist attacks, San Francisco Bay was temporarily closed to cargo vessels and a "Sea Marshall Program" was implemented, which included the boarding and inspection of each vessel and crew, and escorting each vessel to its final destination. This activity created an initial backlog of ships awaiting clearance. However, after a short period of time, normal operation resumed when the U.S. Coast Guard modified procedures that permitted ongoing inspections without stopping cargo operations.

The Port has been and may continue to be adversely affected by the increased costs associated with the more stringent security requirements imposed after September 11, 2001. In November 2001, the Aviation Security Act was enacted. As described in further detail under "THE PORT OF OAKLAND—Aviation Division—Impact of September 11, 2001 Terrorist Attacks," the Aviation Security Act imposes additional security requirements that may require the installation of additional equipment at U.S. airports, including the Airport. The Port has initiated the acquisition of such additional equipment and has begun designing and remodeling the Airport's passenger terminals to comply with new airport security requirements. Anticipated funding for the new airport security requirements currently in effect has been incorporated into the CIP. However, additional security requirements or other additional costs resulting from the TSA's operations at the Airport are likely to be imposed pursuant to the Aviation Security Act or otherwise, the full scope of which cannot be predicted at this time. As a result, the full impact on the financial condition of the Port cannot be determined at this time. The U.S. Coast Guard has begun a national port vulnerability assessment program and is in the process of issuing "Security Guidelines for Waterfront Facilities," which are terminal-specific and identify three levels of security. The program is expected to provide for identification procedures for Port employees and truckers, access controls, internal and perimeter security, lighting, security alarms, video surveillance, communication systems, training and security awareness and security plans. Since it is not yet clear what security measures will be required by the federal government and other governmental authorities for the maritime industry and the Port's maritime operations, the impact of such measures on the financial condition of the Port cannot be determined at this time and no such security measures are included in the CIP. The Port intends to comply with any requirements imposed by the Aviation Security Act and the U.S. Coast Guard and with any other governmental requirement affecting the Airport, the Port or any of its facilities.

The Port has also experienced a general increase in the premiums and deductibles for its commercial insurance policies to cover catastrophic and other losses that cannot be practically assumed by the Port. The events of September 11, 2001 have resulted in increased premiums and deductibles for the Port's basic lines of insurance; cranes previously covered for earthquake-caused losses and the Port's Excess Workers Compensation program, previously providing unlimited coverage, are now each capped at $100 million and $25 million, respectively. It is expected that such premiums and deductibles will continue to be higher in the near future. To contain premium increases, the Port has increased its insurance deductibles/retentions as follows: Port Liability to $200,000 from $100,000; Public Officials Errors and Omissions to $500,000 from $250,000; and Airport Liability to $250,000 from $200,000. The Port has purchased separate War and Terrorism coverage which was previously included in the Port's standard policies. See "THE PORT'S FINANCES AND OPERATIONS—Risk Management and Insurance." No assurance can be given that the same insurance coverage or policy limits will be available or obtained by the Port in the future.

The occurrence of another terrorist attack (whether domestic or international and whether against facilities of the Port or elsewhere) could have a material adverse impact on the Port, its finances and/or its operations. For further discussion of the impact of the terrorist attacks of September 11, 2001 on the Port, see "THE PORT OF OAKLAND—Aviation Division—Impact of September 11, 2001 Terrorist Attacks," "—Maritime Division—Impact of September 11, 2001 Attacks," "THE PORT'S FINANCES AND OPERATIONS—Management Discussion of Historical Operating Results" and "—Port Budget," and "—The Aviation Industry," below.

The Aviation Industry

The ability of the Port to generate revenues from its Airport operations depends in part upon the financial health of the airline industry. The economic condition of the airline industry is volatile, and the industry has undergone significant changes, including mergers, acquisitions, bankruptcies and closures, since deregulation in 1978. Recent events, including a weaker economy and the terrorist attacks of September 11, 2001, have had significant negative impacts on profitability in the industry generally. As a result, additional bankruptcy filings, liquidations or restructurings by members of the airline industry remain possible.

The airline industry is sensitive to a variety of factors, including (i) the cost and availability of labor, fuel, aircraft and insurance, (ii) general economic conditions, (iii) international trade, (iv) currency values, (v) competitive considerations, including the effects of deregulation, (vi) traffic and airport capacity constraints, (vii) governmental regulation, including security regulations and taxes imposed on airlines and passengers, and maintenance and environmental requirements, (viii) passenger demand for air travel and (ix) disruption caused by airline accidents, criminal incidents, acts of war or terrorism. The airline industry is also vulnerable to strikes and other union activity. As a result of these and other factors, many airlines have operated at a loss in the past and some have filed for bankruptcy, ceased operations, and/or merged with other airlines.

Many airlines are facing particularly challenging circumstances following the September 11, 2001 terrorist attacks. Prior to the terrorist attacks on the United States, many commercial airlines had reported widening operating losses or reduced profits as a result of the softening national and world economies. Ongoing effects of the September 11, 2001 attacks, the U.S. military response, which the President has warned may continue for years, and warnings by the government of potential future terrorist attacks are placing additional financial pressure on the airline industry. While facing increasing labor, security, insurance and other costs, most carriers have experienced significant declines in passenger demand and revenues per passenger mile flown. Some carriers have responded by reducing their system-wide flight capacity and operations, furloughing employees and implementing other cost-cutting measures. In addition, the U.S. government has enacted legislation providing authorization for approximately $5 billion in grants (which were provided to all U.S. airlines) and $10 billion in loan guarantees to assist the U.S. airlines in dealing with lost revenues stemming from the attacks on September 11, 2001. The Port understands that America West has received approximately $380 million in federal loan guarantees. United has applied for approximately $1.8 billion in federal loan guarantees; a decision has not yet been made regarding

United's application. According to published reports, Spirit Airlines and Aloha Airlines have also applied for $60 million and $40.5 million, respectively, in federal loan guarantees, and such applications are still pending. The Port also understands that some carriers that do not serve the Airport have had their applications for federal loan guarantees rejected. Despite implementing cost-cutting measures and receiving governmental aid, many U.S. carriers reported record-breaking losses for the quarter ended September 30, 2001 and continued (though smaller) losses through the quarter ended March 31, 2002. Certain airlines have warned investors of the potential for bankruptcy if passenger demand remains low and costs cannot be contained, or if federal loan guarantees are not made available to them. In addition, the credit ratings of U.S. airlines, including all of the airlines operating at the Airport other than Southwest, have been downgraded by national credit rating agencies.

The Aviation Security Act imposes costs on airlines as well as their passengers. The additional security costs resulting from the Aviation Security Act are to be paid by charging passengers $2.50 per departure or connection, not to exceed $5.00 per one way trip. To the extent such fees are insufficient, the Aviation Security Act also authorizes the imposition of additional fees on air carriers over and above the approximately $700 million per year currently paid by the airline industry. New security mandates imposed on airlines are also increasing airline security costs. Airline executives have warned that lengthy waits and other inconveniences associated with increased security requirements, as well as the imposition of additional taxes on airline tickets such as those imposed by the Aviation Security Act, may deter passengers from flying, thus further delaying the recovery of the industry.

Business conditions within the airline industry, together with effects of the events of September 11, 2001, could result in future restructuring of the airline industry. The financial health of some of the airlines at the Airport may continue to be adversely affected by prevailing industry conditions and by ongoing effects of the attacks on September 11, 2001, the military response of the United States to the attacks and any related subsequent events, which could threaten some carriers' long-term viability. Further, air traffic levels and the resulting financial performance of airlines are sensitive to general economic trends. Thus, a general weakness in the economy will usually result in a decline in consumer spending, including vacation, personal and other discretionary travel. Economic downturns also result in reduced business spending and a reduction in business air travel and higher-margin first class and business class ticketing. The Port makes no representation with respect to the continued viability of any of the carriers serving the Airport, airline service patterns or the impact of any airline failures on the revenues of the Port.

In the event of a bankruptcy proceeding involving one or more of the airlines serving the Airport, the airline involved in such proceedings, or its bankruptcy trustee, would have the option of deciding whether to assume or reject the Airline Operating Agreement and related Space/Use Permit with the Port. If the such agreements were assumed, the affected airline would be required to cure any prior defaults and to provide adequate assurance of future performance. Because both the Port and each signatory airline have the right to terminate the agreements with respect to that airline on 30 days' notice, the ability of an airline to reject the agreements in bankruptcy does not significantly increase the financial risk to the Port of an airline ceasing operations at the Airport. However, the cessation of operations at the Airport by an airline could adversely impact the revenues of the Port.

Airline Concentration

For Fiscal Year 2001, Southwest was the most active carrier at the Airport, accounting for 65.4% of the Airport's total enplanements. See "THE PORT OF OAKLAND—Aviation Division—Activities at the Airport—Airlines Serving the Airport." Should Southwest cease providing services at the Airport for any reason, certain market considerations and facility attributes suggest that there should be continued demand for some or all of the current and future space and gates utilized by Southwest. The Airport is geographically situated in the center of the Bay Area and is closer to downtown San Francisco by ground transportation than SFO. The Bay Area is a significant origin-destination market. The Airport accounted for approximately 27% of Bay Area domestic origination-destination passenger activity and 47.4% of Bay Area air cargo activity in calendar year 2001. While the Port does not believe that a cessation or decrease in services by Southwest would have a material impact on the Port's long-term financial condition, it is likely that the Port would experience a short-term reduction in revenues. The Port cannot predict the actual outcome of a possible cessation or decrease in services.

The Maritime Industry

The demand for Port facilities is significantly influenced by alliances and other structural conditions affecting the maritime industry, as well as the global and domestic economy, the condition of maritime-related industries, and other factors. For example, trade with Asia accounted for over 61% of the Port's traffic in calendar year 2001, and the economic downturn in Asia and the United States has had an impact on the Port's operations. See "THE PORT OF OAKLAND—Maritime Division—Maritime Activity." In addition, the bargaining power of alliances in the maritime industry may also increase as the volumes of cargo controlled by such alliances increase, and the impact on a port of gaining or losing a single alliance customer could substantially increase. Accommodating an alliance at a single terminal generally requires significant acreage and, thus, a high level of throughput to keep costs down. The carriers, as a result, may route their discretionary cargo through larger and less expensive terminals in order to reduce unit costs, which may significantly impact the split of cargo among West Coast ports. The Port cannot predict future alliances or other structural shifts within the maritime industry or the impact of such shifts on its operations or finances.

Restricted Use of Airport Revenues

The Port is required to ensure that all airport-generated revenues are expended only for airport purposes as set forth under federal law. See "THE PORT OF OAKLAND—Aviation Division—Airport Agreement and Rate Setting—Non-Diversion of Airport Revenues." Consequently, revenues from the Aviation Division cannot be used to pay for Maritime Divisions projects in the CIP or debt service associated with such projects. If the Port were unable to generate sufficient non-Airport revenues to support all of its non-Airport activities for any reason, the Port would be prohibited from using Airport revenues for such purposes (including to pay debt service on the portion of any Parity Bonds allocable to non-Airport purposes).

Delays, Cost Increases or Funding Uncertainties

The projects included in the CIP are expected to be completed by 2008, and the Feasibility Report assumes that the projects will be completed in a timely manner. However, construction could be delayed due to various factors, including, but not limited to, economic conditions, events such as the terrorist attacks of September 11th, labor, bidding and contracting requirements, weather and unanticipated engineering, environmental or geological problems.

If funds are not available to finance the projects in the CIP, the completion of projects may be delayed or projects may not be undertaken. Changes in federal or state law or anticipated appropriations could impact the availability of funds from AIP grants, PFCs and CFCs, as well as other government funds, including federal funds for the Deepening Project. Further, as described under "CAPITAL IMPROVEMENT PROGRAM—The Plan for Funding the CIP—PFC Revenues," additional FAA approvals are required to apply PFC revenues towards the cost of Aviation projects in the CIP. PFC revenues will not be available at the levels forecast with respect to the CIP if such approvals are not obtained. The availability of CP Note proceeds could also be reduced or eliminated if the letter of credit supporting such CP Notes is terminated or expires and is not replaced. In addition, market conditions could impact the ability of the Port to issue Additional Bonds or to obtain funding from other sources, and the availability of Port cash could be reduced for the reasons set forth under "CAPITAL IMPROVEMENT PROGRAM—The Plan for Funding the CIP—Internally Generated Funds."

The cost of completing projects included in the CIP could be higher than projected as a result of many factors, including, but not limited to, unanticipated engineering, environmental or geological problems, change orders, labor requirements, changes in cost of materials, or significant delays in the completion of such projects. Significant delays could also result in a larger portion of the proceeds of the Bonds being used to fund capitalized interest, reducing the amount of proceeds available to fund projects in the CIP. If some of the projects in the CIP cost significantly more than projected, the Port may delay other projects in the CIP or elect not to undertake such projects.

The Port is engaged in numerous public works construction projects under contracts awarded through a sealed low-bid selection process. It is generally acknowledged that the contracts awarded through such a process are likely to experience disputes regarding alleged changed work and claims for extra costs. The frequency and magnitude of the Port's public work contract disputes are in the typical range for a capital-intensive public agency in California. The Port's standard public works contracts contain a comprehensive claims procedure that requires the contractor to prove timely notice of claims, supporting documentation, and to attend mediation as a prerequisite to any litigation.

The Port expects to use a variety of alternative delivery methods with respect to the various projects within the CIP, including construction manager at risk, design-build, and master builder arrangements. The Port has not used any of these types of arrangements on projects as large as those contemplated in the CIP in the past and cannot predict the extent to which the use of such delivery processes might result in risk factors that are different from those in the design-bid-build process.

Failure to substantially complete the projects funded with proceeds of the 2002 Bonds could have a material adverse effect on the financial condition of the Port. Significant delay in the completion of the Deepening Project or the Airport's Terminal 2 expansion project, in particular, could adversely affect the Port's plans for expanded use of its maritime and aviation facilities, and could therefore adversely affect financial condition of the Port. Moreover, the timing for completion of the Deepening Project is dependent upon additional available federal appropriations, and additional FAA approvals are required to apply PFCs toward the cost of Aviation projects in the CIP. The Port expects that it will take all necessary steps to secure additional funding when needed to provide for the completion of all of the projects in the CIP, but there can be no assurance that additional funding will be available to the Port.

Future Capital Projects; Additional Bonds

It is possible that during the construction period for the CIP the Port will elect to commence the development of additional large capital projects, such as the remaining portions of the ADP, including the terminal expansion program, and the development of the OAB. If such projects or other large projects are commenced, they are likely to require the Port to issue a significant amount of Additional Bonds. Depending on the timing of such projects, it may also be necessary to add appropriate personnel or other resources to manage the additional administrative responsibilities associated with such projects. Such additional personnel and administrative responsibilities may result in increased expenses for the Port.

The expiration or termination without renewal of either or both of the letters of credit supporting the CP Notes would preclude the Port from issuing additional CP Notes (or would reduce the amount of additional CP Notes the Port could issue) either to repay currently outstanding CP Notes at maturity or to generate cash. If such event were to occur, the Port would likely issue more Additional Bonds than are currently contemplated in the CIP to repay the CP Notes.

Availability of Pledged Revenues Upon Bankruptcy of City

The City is from time to time in possession of Pledged Revenues (or portions thereof) and customarily invests the Pledged Revenues held in the Port Revenue Fund as part of the City's investment program as described under "THE PORT'S FINANCES AND OPERATIONS—Investments." Should the City initiate a proceeding for bankruptcy protection, a court could hold that the holders of the 2002 Bonds and Parity Bonds do not have a valid lien on the portion of the Pledged Revenues invested as part of the City's investment program unless the holders could trace the invested Pledged Revenues. In such case, if the invested Pledged Revenues could not be traced, the holders would be unsecured creditors of the City with respect to such Pledged Revenues.

Threatened Labor Activity by International Longshore and Warehouse Union

Labor negotiations are underway between the International Longshore and Warehouse Union (the "ILWU") and the Pacific Maritime Association (the "PMA"), which represents companies engaged in shipping to ports on the West Coast of the United States. The prior agreement between the two parties expired on June 30, 2002. The Port is not involved in such negotiations. During the last two contract negotiations between these parties, the ILWU staged a work slowdown, causing significant losses for the Port. The PMA has indicated that it may lock out workers if a work slowdown is staged in connection with these negotiations. It is also possible that the ILWU would strike if negotiations do not proceed to the union's satisfaction. Should union activity of this kind occur, it is possible that it would be targeted against all Ports on the West Coast of the United States or against the Port in particular. Major shippers have requested the federal government to intervene in the event of a strike by the ILWU to preclude any major impact to the economy. The Port cannot predict whether a strike, slowdown or lockout will occur or the duration of any such labor activity. Any of such events could have an adverse impact on the Port.

TAX EXEMPTION

In the opinion of O'Melveny & Myers LLP and Webster & Anderson, Co-Bond Counsel, under existing statutes, regulations, rulings and court decisions, the interest on the 2002 Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"), except for interest on any Series L Bonds for any period during which such Series L Bonds are (i) held by a person who is a "substantial user," within the meaning of Section 147(a)(1) of the Code, of the items financed or refinanced with the Series L Bonds or (ii) held by any "related person" of a substantial user, within the meaning of Section 147(a)(2) of the Code. In addition, Co-Bond Counsel are of the opinion that the Series L Bonds (but not the Series M Bonds) are "specified private activity bonds" as defined in Section 57(a)(5)(C) of the Code, and, therefore the interest on the Series L Bonds will be treated as a specific item of tax preference for purposes of the Code's alternative minimum tax provisions. Further, interest on the Series M Bonds received by or allocated to a corporation will be included in adjusted current earnings for purposes of computing such corporation's alternative minimum tax liability.

The original issue discount ("OID") on the 2002 Bonds, if any, is treated as interest for federal income tax purposes and is excluded from gross income to the same extent as interest on the 2002 Bonds. OID is includable in adjusted current earnings as it accrues each year rather than at the time OID is actually paid to and received by the Owners of the 2002 Bonds upon the maturity or earlier redemption of the 2002 Bonds. OID accrues on an actuarial basis (i.e., on the basis of a geometric progression over the term of such 2002 Bonds) rather than ratably, and an Owner's adjusted basis in such 2002 Bonds used to determine the amount of gain or loss on disposition of such 2002 Bonds, will be increased by the amount of such accrued OID.

Co-Bond Counsel are also of the opinion that the interest and OID, if any, on the 2002 Bonds is exempt from personal income taxes of the State of California under present state law.

In rendering these opinions, Co-Bond Counsel have relied upon representations and covenants of the Port in the Indenture and in the Port's Tax and Nonarbitrage Certificate concerning the investment and use of 2002 Bond proceeds, the rebate, if any, to the United States Government of certain earnings thereon to the extent required and the use of the facilities financed or refinanced with the proceeds of the 2002 Bonds. In addition, Co-Bond Counsel has assumed that all such representations are true and correct and that the Port will comply with such covenants. Co-Bond Counsel has expressed no opinion with respect to the exclusion of the interest and any OID on the 2002 Bonds from gross income under Section 103(a) of the Code in the event that any such representations by the Port are untrue or the Port fails to comply with such covenants, unless such failure to comply is based on the advice or the opinion of Co-Bond Counsel. Co-Bond Counsel have expressed no opinion regarding the effect, if any, of legislation enacted after the date hereof on the exclusion of interest on the 2002 Bonds from gross income for federal income tax purposes. In addition, no assurance can be given that such legislation could not directly or indirectly reduce the benefit of the receipt of interest which is otherwise excluded from gross income for federal income tax purposes.

Co-Bond Counsel have expressed no opinion regarding any impact of ownership of, receipt of interest on, or disposition of the 2002 Bonds other than as expressly described above. Prospective purchasers of the 2002 Bonds should be aware that, in addition to the possible tax consequences, ownership of, receipt of interest on, or disposition of the 2002 Bonds may be affected by the following federal income tax provisions: (i) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the 2002 Bonds or, in the case of a financial institution, a portion of a holder's interest expense allocable to interest on the 2002 Bonds, (ii) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) of the Code reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the 2002 Bonds, (iii) interest on the 2002 Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code,

(iv) passive investment income, including interest on the 2002 Bonds, may be subject to federal income taxation under Section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25 percent of the gross receipts of such Subchapter S corporation is passive investment income, and (v) Section 86 of the Code requires recipients of certain social security and certain railroad retirement benefits to take into account, in determining the taxability of such benefits, receipts or accruals of interest on the 2002 Bonds. The presence of any such effect, as well as the magnitude thereof, depends on the specific factual situation with respect to each particular Bondholder.

LEGAL MATTERS

O'Melveny & Myers LLP and Webster & Anderson, Oakland, California, Co-Bond Counsel, will render an opinion substantially in the form set forth in Appendix E to this Official Statement. Copies of such approving opinion will be available at the time of delivery of the 2002 Bonds. Certain legal matters will be passed upon for the Port by the Port Attorney; and for the Underwriters by Orrick, Herrington & Sutcliffe LLP and HTB Law Group, Oakland, California, Co-Underwriters' Counsel.

LITIGATION

There are several lawsuits and claims pending against the Port, including a number of personal injury, contract and employment claims. The aggregate amount of pending lawsuits and uninsured claims against the Port of which the Port Attorney is presently aware, if concluded adversely to the Port, would not, in the opinion of the Port Attorney, have a material adverse effect on the Port's financial condition.

ENFORCEABILITY OF REMEDIES

The remedies available to the owners of the 2002 Bonds upon an Event of Default under the Indenture are in many respects dependent upon regulatory and judicial actions that are in many instances subject to discretion and delay. Under existing laws and judicial decisions, the remedies provided for in the Indenture may not be readily available or may be limited. Legal opinions to be delivered concurrently with the delivery of the 2002 Bonds will be qualified to the extent that the enforceability of certain legal rights related to the 2002 Bonds is subject to limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the enforcement of creditors' rights generally and by equitable remedies and proceedings generally.

RATINGS

The 2002 Bonds will be rated "AAA" by Standard & Poor's Ratings Services, "Aaa" by Moody's Investor Service and "AAA" by Fitch Ratings, Inc. on the basis of the Policy to be issued by the Bond Insurer simultaneously with the delivery of the Bonds. Such ratings express only the views of the rating agencies and are not a recommendation to buy, sell or hold the 2002 Bonds. An explanation of the significance of each of the ratings may be obtained from the rating agency furnishing the same. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the rating agencies, or any of them, if, in their or its judgment, circumstances so warrant. Any downward revision or withdrawal of the ratings may have an adverse effect on the market price or marketability of the 2002 Bonds. The Board has assumed no responsibility either to contest any proposed change in or withdrawal of any such rating subsequent to the date hereof.

UNDERWRITING

The 2002 Bonds are being purchased from the Port by Salomon Smith Barney Inc., Goldman, Sachs & Co., A.G. Edwards & Sons, Inc., Loop Capital Markets, LLC, Henderson Capital Partners, LLC, M.R. Beal and Company, and Ramirez & Co., Inc. at a price of $621,418,867.80 (which is the par amount of the 2002 Bonds plus a net original issue premium of $4,907,300.35, less an underwriters' discount of $3,488,432.55), subject to the terms of a Purchase Contract between the Port and Underwriters. The Purchase Contract provides that the Underwriters shall purchase all of the 2002 Bonds if any are purchased, and that the obligation to make such purchase is subject to certain terms and conditions set forth in the Purchase Contract, the approval of certain legal matters by counsel, and certain other conditions. The initial public offering prices set forth on the cover hereof may be changed from time to time by the Underwriters. The Underwriters may offer and sell the 2002 Bonds into unit investment trusts or money market funds at prices lower than the public offering prices stated on the cover hereof.

CONTINUING DISCLOSURE

The Port has covenanted for the benefit of the owners and Beneficial Owners of the 2002 Bonds to provide certain financial information and operating data relating to the Port (the "Annual Report") by not later than 240 days following the end of its fiscal year (presently June 30), commencing with the report for Fiscal Year 2002, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the Port with each Nationally Recognized Municipal Securities Information Repository. The notices of material events will be filed by the Trustee with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in APPENDIX F to this Official Statement. These covenants have been made in order to assist the Underwriters in complying with S.E.C. Rule 15c2-12(b)(5). See APPENDIX F—"FORM OF CONTINUING DISCLOSURE CERTIFICATE." The Port has never failed to comply in all material respects with any previous undertakings pursuant to said Rule.

FINANCIAL ADVISORS

Fullerton & Friar, Inc. and Montague DeRose and Associates LLC have acted as financial advisors to the Port in connection with the issuance of the 2002 Bonds.

FEASIBILITY CONSULTANTS

The Feasibility Report prepared by Ricondo & Associates, Inc., Booz Allen Hamilton Inc. and Jones Lang LaSalle Americas, Inc., who are recognized experts in the fields of aviation, maritime and real estate consulting, respectively, has been included as APPENDIX A to this Official Statement with the consent of such consultants. The Port and the Underwriters have relied upon the analyses and conclusions contained in the Feasibility Report in preparing this Official Statement and selling the 2002 Bonds. Pursuant to the terms of its engagement with Booz Allen Hamilton Inc., the Port has agreed to indemnify Booz Allen Hamilton Inc. for certain claims or liabilities, including certain claims or liabilities under the federal securities laws that may arise from the inclusion of the Feasibility Report (and the analyses and conclusions of Booz Allen Hamilton Inc. stated therein) in this Official Statement. Ricondo & Associates, Inc. is retained by the Port to perform other financial and consulting services to the Port and, in particular, to the Airport.

FINANCIAL STATEMENTS

The audited consolidated financial statements of the Port for Fiscal Years 2001 and 2000 are included as APPENDIX B-1 to this Official Statement. The financial statements referred to in the preceding sentence have been audited by PricewaterhouseCoopers LLP and Yano & Associates, independent certified public accountants (the "Auditors"), whose report with respect thereto also appears in APPENDIX B-1. Certain unaudited unconsolidated financial information with respect to the Port for the nine months ended March 31, 2002 is attached hereto as APPENDIX B-2. Results through March 31, 2002 are not necessarily indicative of results for the full fiscal year.

MISCELLANEOUS

The purpose of this Official Statement is to supply information to purchasers of the 2002 Bonds. The summaries provided in this Official Statement, the Appendices attached hereto and the documents referred to herein do not purport to be comprehensive or definitive and all references to the documents summarized are qualified in their entirety by reference to each such document. All references to the 2002 Bonds are qualified in their entirety by reference to the form thereof and the information with respect thereto included in the aforesaid documents. Copies of these documents are available for inspection during the period of the offering at the offices of the Underwriters and thereafter at the principal office of the Trustee.

Statements in this Official Statement, including matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Port or the Underwriters and the purchasers of the 2002 Bonds. The Board has authorized the distribution of this Official Statement.

PORT OF OAKLAND, CALIFORNIA

By /s/ Tay Yoshitani
Executive Director

APPENDIX A

PORT OF OAKLAND, CALIFORNIA
REVENUE BONDS, 2002 SERIES L&M

FEASIBILITY REPORT

Ricondo & Associates, Inc.
36 East Fourth Street, Suite 1206
Cincinnati, Ohio 45202

Booz Allen Hamilton Inc.
8283 Greensboro Drive
McLean, Virginia 22102

Jones Lang LaSalle Americas, Inc.
1 Front Street, Suite 1200
San Francisco, California 94111

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RICONDO & ASSOCIATES, INC.
36 EAST FOURTH STREET, SUITE 1206
CINCINNATI, OH 45202

BOOZ ALLEN HAMILTON INC.
8283 GREENSBORO DRIVE
McLEAN, VA 22102

JONES LANG LASALLE
AMERICAS, INC.
1 FRONT STREET, SUITE 300
SAN FRANCISCO, CA 94111

July 17, 2002

Board of Port Commissioners
Port of Oakland
530 Water Street
Oakland, CA 94607

Re: Port of Oakland Revenue Bonds
2002 Series L and 2002 Series M

Dear Commissioners:

This report sets forth assumptions, projections, and findings relating to the aviation, maritime, and commercial real estate activity at the Port of Oakland (the Port), performed by Ricondo & Associates, Inc. (R&A), Booz Allen Hamilton Inc. (Booz Allen), and Jones Lang LaSalle Americas, Inc. (JLL) in connection with the issuance by the Port of approximately $600 million of Revenue Bonds, 2002 Series L and 2002 Series M (the 2002 Bonds). This report is intended for inclusion in the Official Statement for the 2002 Bonds as Appendix A.

The Port has developed a detailed Capital Improvement Program (CIP) which includes approximately $1.23 billion in projects that extend through FY 2007. The Port has authorized the issuance of the 2002 Bonds to finance in part certain aviation, maritime, and support projects included in the Port's CIP and to refund approximately $150 million of existing commercial paper notes (the proceeds of which remain available to fund the costs of the projects in the CIP). The balance of project costs not funded by the proceeds of the 2002 Bonds will be funded by a combination of additional parity bonds to be issued by the Port; additional commercial paper; federal, state, and local grants; passenger facility charges (for a portion of costs for certain aviation projects); customer facility charges; Port funds, including investment earnings, generated by aviation, maritime, and commercial real estate activities; proceeds from the sale of lands; and third-party funds.

In general, the Port's CIP includes the following major projects:

- Aviation Division - Approximately $671.2 million of the total CIP are aviation-related projects. The Aviation Division projects will be funded from proceeds of the 2002 Bonds, federal grants, passenger facility charges, customer facility charges, Port cash, third-party funds, future commercial paper, and future additional bonds and include, among others, expansion of Terminal 2 concourse and gates, expansion of the security checkpoints in both Terminal 1 and Terminal 2, construction of a parking structure, rental car facilities, roadway improvements, additional aircraft parking aprons, and taxiway improvements. In addition, several infrastructure projects are being undertaken as well as several projects that will minimize disruptions during the construction phasing period of the major components of the Aviation Division CIP.

- Maritime Division - Approximately $479.8 million of the CIP are maritime-related projects. The Maritime Division projects will be funded from proceeds of the 2002 Bonds, Port cash, future commercial paper, and future additional bonds and include an upgrade of existing terminals, completion of two new cargo terminals in the Middle Harbor area, and the Port's 50 feet dredging program.

- Commercial Real Estate Division - Approximately $27.4 million of the CIP are commercial real estate related projects. The Commercial Real Estate Division projects are expected to be paid from funds derived from the sale of Port lands or an amount equal to such funds. The Commercial Real Estate projects included in the CIP include infrastructure improvements associated with the further development of Jack London Square, construction of additional floors at the Washington Street Garage, streetscape and related improvements to the Hegenberger Road corridor, pier replacements, security upgrades and other facility improvements.

- Support Projects - Approximately $51.3 million of the total CIP are support related projects that are anticipated to be funded with the proceeds of the 2002 Bonds and future additional bonds. These projects include purchases of miscellaneous capital equipment relating to the Port's non-revenue departments, construction of a harbor maintenance facilities complex, purchase of an information assets management system, and the purchase and training of engineering project cost software.

Business activity, revenues, and costs for the Aviation, Maritime, and Commercial Real Estate Divisions are driven by various sets of parameters. Aviation activity is dependent to a great extent on the underlying economic strength of the Air Trade Area served by the Oakland International Airport (the Airport) due to the Airport's primary origin-destination (O&D) role, while commercial real estate activity is more dependent on the strength of the local Oakland area business environment. Maritime operations at the Port are highly dependent upon its strategic location, rail access, and on international trade activities, particularly with the Pacific Rim countries. The local economy plays an important, but less significant, role for maritime activities than for aviation and commercial real estate activities. In view of these differences, and to clearly indicate the unique characteristics of each activity, this report is organized as described below:

- Chapter 1 - Provides an introduction to the Port's organization and operations.

- Chapter 2 - Provides analyses of the Aviation Division, including the underlying economic base of the local area served by the Airport, historical and projected aviation activity levels, and a description of the aviation-related CIP projects.

- Chapter 3 - Provides analyses of the Maritime Division, including the underlying strength of Oakland's geographical location, its rail access, and role in international trade in comparison to alternative ports, historical and projected marine activity, and a description of maritime-related CIP projects.

- Chapter 4 - Provides analyses of the Commercial Real Estate Division, including the strength of the local office, industrial, and retail markets; existing and projected occupancy of Port properties; and descriptions of existing facilities and commercial real estate-related CIP projects.

- Chapter 5 - Provides historical and projected revenues and operation and maintenance expenses for the Aviation, Maritime, and Commercial Real Estate Divisions, with consideration for the impacts of the CIP projects planned by each operating division. In addition, debt service coverage calculations (net revenues available for coverage divided by parity debt service) reflecting the Port's existing debt service, estimated debt service on the 2002 Bonds, as well as debt service on the additional bonds projected to be required to complete the funding of the CIP, are presented in this chapter.

On the basis of the assumptions and analyses described in this report, key findings for FY 2003 through FY 2011 (the projection period) are summarized below:

Aviation Division

- In FY 2001, the Aviation Division generated approximately 52.3 percent of the Port's total operating revenues, 65.3 percent of total Port general operating expenses, and 46.4 percent of gross margin available for indirect charges and debt service.

- The economic base of the Oakland Air Trade Area, as defined in this report, is strong and diversified, and is able to continue to support growth in the demand for air transportation services at the Airport during the projection period.

- The Oakland Air Trade Area is expected to remain an important center of both commercial passenger and air cargo activity on the West Coast and in the San Francisco Bay Area.

- The Airport is expected to continue its role of serving primarily O&D passengers, with the majority of its passenger activity being nonstop jet service to its major short- to medium-haul markets. The Airport is expected to continue to enjoy the benefits of Southwest Airlines' operations at the Airport, including high frequency, low-fare service to the Airport's top O&D markets. Total enplanements are expected to increase at an annual compounded growth rate of 3.8 percent during the projection period as compared to the 2.9 percent growth projected for the nation during this same time period.

- Aviation-related CIP projects, as described in this report, will meet the existing and projected demands at the Airport during the projection period. Total debt service, including estimates for the 2002 Bonds and the future additional bonds, is anticipated to result in an acceptable level of rates and charges to the users of Airport facilities.

- R&A has prepared the analysis and findings related to aviation activities. As indicated in this report, certain data and assumptions were provided by the Port, and were reviewed by R&A as to their reasonableness and reliability.

Maritime Division

- In FY 2001, the Maritime Division generated approximately 39.5 percent of the Port's total operating revenues, 17.3 percent of total Port general operating expenses, and 49.6 percent of gross margin available for indirect charges and debt service.

- The Port's maritime traffic has grown at an average 2.7 percent per annum from CY 1992 to CY 2001, while the Port's share of the U.S. West Coast container market has decreased from 15 percent in 1992 to 11 percent in 2001. This decrease in market share has mainly been a result of significant intermodal growth at the Ports of Los Angeles and Long Beach.

- The Port serves a strong local cargo market driven by a large local population for import cargoes and an agricultural base producing export cargoes. While the container carriers have been focused on reducing the number of ports served by a particular vessel, all major carriers interviewed indicated an intention to continue their respective service at the Port. The analysis supports this finding by comparing the alternative costs for carriers to serve the local market by truck or rail from a competing port relative to direct vessel calls to the Port.

- The ports along the West Coast are investing heavily in infrastructure, which is expected to increase the amount of total terminal acreage among these ports by over 37 percent in the next two years. These new, larger terminals may attract additional discretionary cargo as carriers attempt to lower per unit costs. The ability of the Port to compete with these new terminals and capture additional discretionary cargo will be dependent upon being able to accommodate the newly formed alliances at larger terminals, larger vessels, and being able to offer competitive rail access from Oakland.

- Based on a number of assumptions described in this report, the most likely forecast for cargo growth for the Port's existing cargo base is a growth of 4.0 percent per annum.

- Booz Allen has prepared the analysis and findings related to maritime activities. Booz Allen has relied upon assumptions, data and information provided by the Port, as well as public and third party information, and industry interviews. In performing this assignment, Booz Allen is obligated, by its agreement with the Port, to advise the Port if it discovers material errors of fact or forms material disagreements with opinions or forecasts in the material provided by the Port. Booz Allen has not advised the Port of any such material errors of fact or material disagreements. Not withstanding the foregoing, Booz Allen does not assume responsibility for the accuracy of the data, information, and assumptions used to develop the financial forecasts, whether received from the Port or other reliable sources.

Commercial Real Estate Division

- In FY 2001, the Commercial Real Estate Division, including Oakland Portside Associates (OPA), generated approximately 8.2 percent of the Port's total operating revenues, 17.4 percent of Port operating expenses, and 4.0 percent of gross margin available for indirect charges and debt service.

- The Commercial Real Estate Division manages and leases property in Jack London Square, Embarcadero Cove, and the Airport Business Park and Distribution Center; including hotel, retail, office, industrial, and distribution properties.

- The Commercial Real Estate Division's revenues and expenses should be relatively stable going forward, because the majority of the properties are leased under long-term land development leases, with the tenants being primarily responsible for all expenses and operating costs. The cash flow projections contained herein do not include any revenue from potential new projects to be undertaken by the Commercial Real Estate Division or ground lessees, but do include projects that the Port has committed to or that are underway, such as the Homewood Suites Development, the Waterfront Plaza Hotel Expansion Project and the Embarcadero Executive Inn Expansion Project.

- The Commercial Real Estate projects in the CIP are focused on infrastructure improvements, support of the Airport expansion program, and requirements to support specific revenue generating projects. The Commercial Real Estate projects in the CIP also provide for key environmental and planning work necessary to allow other potential projects to proceed.

- JLL has prepared the analysis and findings related to commercial real estate activities. As indicated in this report, certain data and assumptions were provided by the Port, and were reviewed by JLL as to their reasonableness and reliability.

Financial Results

The Port's aggregate net revenues have always exceeded debt service coverage requirements, with a coverage ratio of 2.62X in FY 2001. Including the 2002 Bonds and anticipated additional bonds for the CIP as currently contemplated, the Port's debt service coverage ratio is estimated to range from a low of 1.44X to a high of 2.09X from FY 2002 through FY 2011. Projected debt service coverage indicates the financial feasibility of the Port's planned developments and acquisitions examined in this report.

R&A prepared the financial results based on the analysis and findings prepared by R&A (Aviation), Booz Allen (Maritime) and JLL (Commercial Real Estate). This report has been prepared on a professional efforts basis and reflects the consulting team's findings based on information available. This report should be read in its entirety for an understanding of the forecasts and the underlying assumptions.

The techniques used in this report are consistent with industry practices for similar studies in connection with port and airport revenue bond sales. While R&A, Booz Allen, and JLL believe the approach and assumptions utilized in this report to be reasonable, some assumptions regarding future trends and events inevitably will not materialize and unanticipated events or circumstances may occur. Future decisions, actions, and policies of the Board of Port Commissioners and staff may also impact demand for facilities, revenues, and expenses. The actual financial results achieved will vary from those forecast, and variations may be material, particularly as they relate to possible additional terrorist attacks, war, or dramatic changes in the U.S. or Global Economy. This report contains statements describing the assumptions applied in developing any such forecasts, and we have drawn attention to these uncertainties. This report is dated as of the date hereof, and we have no responsibility or obligation to update this report or to revise the associated financial forecasts because of events or circumstances occurring after the date of this report.

Sincerely,

Ricondo & Associates, Inc.

RICONDO & ASSOCIATES, INC.

Booz Allen Hamilton Inc.

BOOZ ALLEN HAMILTON INC.

Jones Lang LaSalle

JONES LANG LASALLE AMERICAS, INC.

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1. INTRODUCTION

INTRODUCTION

The City of Oakland (the "City") has operated the public harbor since 1852 and the Airport since 1927. The Port was created as an autonomous department of the City under the exclusive control and management of the Board of Directors (the "Board") in 1927 by an amendment to the City's Charter (the "Charter").

The Board consists of seven members appointed for four-year staggered terms by the City Council upon nomination by the Mayor. The Port is an independent department of the City and its Board has the power under the Charter to fix, alter, change, or modify rates, tolls, fees, rentals, and charges for the use of Port facilities and any services provided in connection therewith.

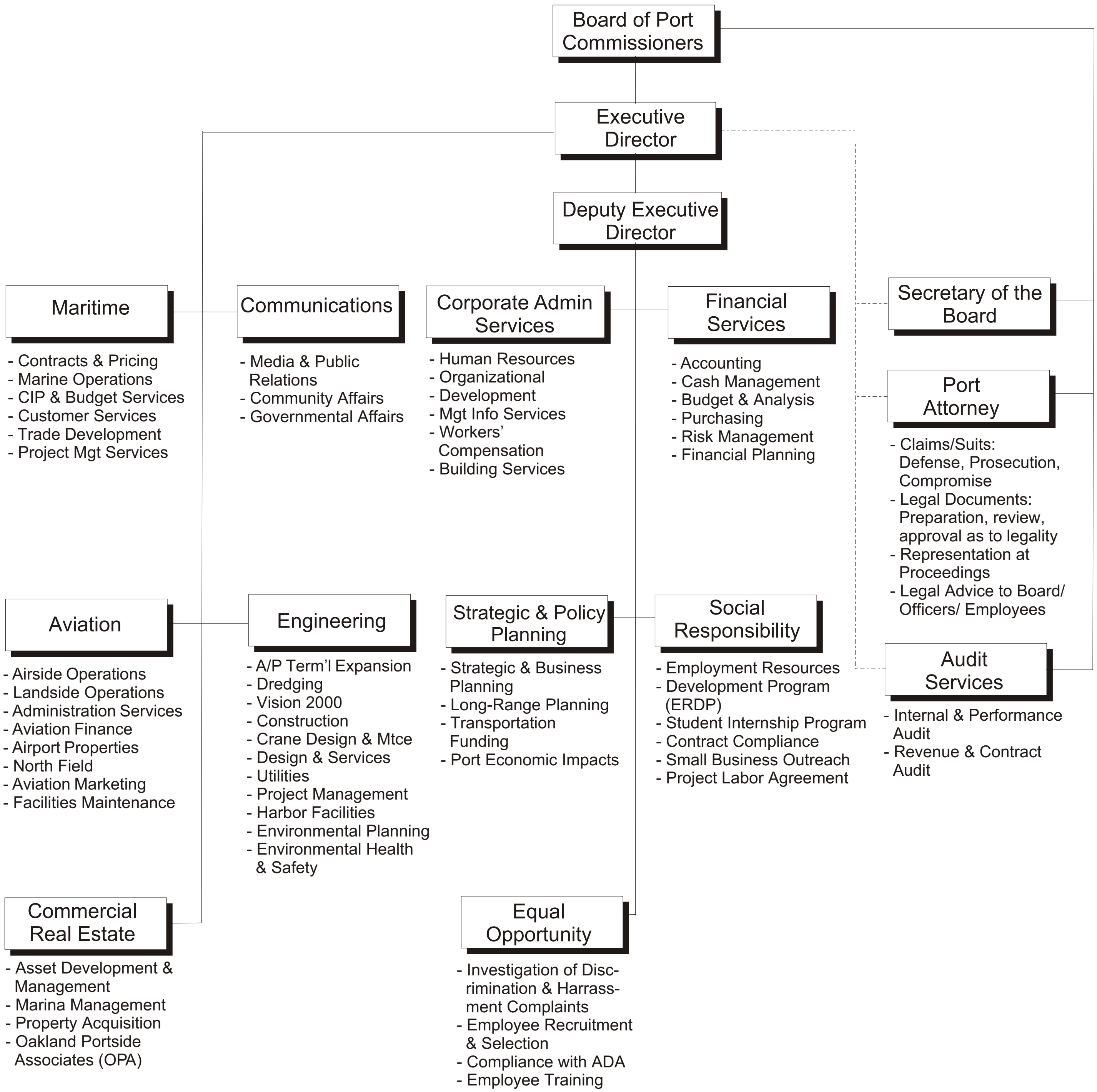
The Port's administrative staff is headed by the Port's Executive Director. Reporting to both the Board and the Executive Director are the Port Attorney, the Port Auditor, and the Secretary of the Board. Reporting directly to the Executive Director are the Deputy Executive Director, Director of Communications, Director of Maritime, Director of Aviation, Director of Commercial Real Estate, and the Director of Engineering. There are five division directors, who report directly to the Deputy Executive Director: Corporate Administrative Services, Financial Services, Strategic & Policy Planning, Social Responsibility, and Equal Opportunity. The Port's organizational structure is depicted on **Exhibit 1.1**.

The Port's operations include the following three revenue-producing divisions:

- Aviation Division - This division operates the Airport which has approximately 2,580 acres of land consisting of airfield, commercial passenger terminal facilities, aircraft maintenance support facilities, and corporate/general aviation facilities.

- Maritime Division - This division is a "nonoperating" or landlord port; the Port owns seaport facilities which are managed and operated by the private sector under lease, license, and other agreements. The Port has four major terminal areas totaling 27 active berths with 848 acres of developed terminal, 85 acres of Port-owned intermodal rail terminal, approximately 100 acres of container storage areas, and 41 ship-to-shore container gantry cranes.

- Commercial Real Estate Division - This division manages and leases Port property, including retail facilities in Jack London Square, a commercial waterfront development along the Oakland Estuary. In addition to Jack London square waterfront area, the division has approximately 86 lease and license agreements in effect. In March 2002, the Port sold certain assets located at Jack London Square (the "JLS Transaction") to Jack London Square Partners. As a result of the JLS Transaction, Oakland Portside Associates ("OPA"), a partnership controlled by the Port that was formed for the purpose of undertaking the development and asset management of a significant portion of the Jack London Square project will be restructured. This restructuring is not anticipated to have any financial impact on the Port.



Prepared by: Ricondo & Associates, Inc.

Exhibit 1.1

Port of Oakland Organization Chart

The following table presents the FY 2001 operating income for the Port based on the Consolidated Financial Statements for the Port and OPA.[1]

FY 2001 NET OPERATING INCOME
(in thousands)

	Aviation	Maritime	Commercial Real Estate *	Total Port
Operating Revenues	$103,141	$77,806	$16,223	$197,170
General Operating Expenses	40,374	10,690	10,795	61,859
OPERATING INCOME AVAILABLE FOR INDIRECT EXP & DEBT SVC	$62,767	$67,116	$5,428	$135,311
Indirect Expenses	26,386	11,446	4,551	42,383
OPERATING INCOME AVAILABLE FOR DEBT SERVICE	$36,381	$55,670	$877	$92,928

* Includes net OPA revenues.

Sources: Port of Oakland
Compiled by Ricondo & Associates, Inc.

As shown in the table, in FY 2001 the Aviation Division generated approximately 52.3 percent of the Port's total operating revenues, and 65.3 percent of the Port's total general operating expenses. As a result, Aviation operating income available for indirect expenses and debt service is approximately 46.4 percent of total Port operating income available for indirect expenses and debt service.

In FY 2001, the Maritime Division generated approximately 39.5 percent of the Port's total operating revenues and 17.3 percent of the Port's total general operating expenses. As a result, the Maritime Division's operating income available for indirect expenses and debt service is approximately 49.6 percent of the Port's total operating income available for indirect expenses and debt service.

The above table also includes the Commercial Real Estate Division and OPA which together generated approximately 8.2 percent of the Port's total operating revenues and 17.4 percent of total Port general operating expenses. As a result, the Commercial Real Estate Division's operating income available for indirect expenses and debt service is approximately 4.0 percent of the Port's total operating income available for indirect expenses and debt service.

The remainder of this report discusses the principal business focus, historical and projected activity, Capital Improvement Program, and financial analyses for the Aviation, Maritime, Commercial Real Estate divisions and the Port in total.

[1] The Port's Fiscal Year is the period ending June 30th.

2. AVIATION DIVISION

2.1 PRINCIPAL BUSINESS FOCUS

2.1.1 REGIONAL PERSPECTIVE

The Airport is one of three primary commercial service airports that serve the air traveling needs of the San Francisco-Oakland-San Jose Consolidated Metropolitan Statistical Area (CMSA). The CMSA, presented in **Exhibit 2.1**, consists of a 10-county area (Alameda, Contra Costa, San Francisco, Marin, San Mateo, Santa Clara, Sonoma, Napa, Solano, and Santa Cruz), comprising the six primary metropolitan statistical areas (PMSAs) of Oakland, San Francisco, San Jose, Santa Rosa, Vallejo-Fairfield-Napa, and Santa Cruz-Watsonville. The CMSA is also described as the San Francisco Bay Area (the Bay Area).

As measured by population, the Bay Area is the fifth largest consolidated market in the United States, with approximately 7 million people in 2000. There are only four CMSAs (New York-Northern New Jersey-Long Island, Los Angeles-Riverside-Orange County, Chicago-Gary-Kenosha and Washington-Baltimore) that represent larger markets for air transportation, as presented in the following table:

Rank	Consolidated Metropolitan Statistical Area	Population [1]
1	New York-Northern New Jersey-Long Island	21,199,865
2	Los Angeles-Riverside-Orange County	16,373,645
3	Chicago-Gary-Kenosha	9,157,540
4	Washington-Baltimore	7,608,070
5	**SAN FRANCISCO BAY AREA**	**7,039,362**
6	Philadelphia-Wilmington-Atlantic City	6,188,463
7	Boston-Worcester-Lawrence	5,819,100
8	Detroit-Ann Arbor-Flint	5,456,428
9	Dallas-Fort Worth	5,221,801
10	Houston-Galveston-Brazoria	4,669,571

[1] As of April 1, 2000.

Sources: U.S. Census Bureau, 2000 Census.
Compiled by Ricondo & Associates, Inc.

The Bay Area population is one of the more affluent in the United States. As measured against the 10 metropolitan areas listed above, the Bay Area ranks first in Effective Buying Income (EBI), as presented in the following table:

Rank	Consolidated Metropolitan Statistical Area	EBI Per Household [1]
1	**SAN FRANCISCO BAY AREA**	**$68,975**
2	New York-Northern New Jersey-Long Island	$61,631
3	Washington-Baltimore	$61,502
4	Boston-Worcester-Lawrence	$60,493
5	Chicago-Gary-Kenosha	$59,897

[1] As of December 31, 2000.

Sources: Sales and Marketing Management, Survey of Buying Power, 2001
Compiled by Ricondo & Associates, Inc.

Prepared by: Ricondo & Associates, Inc.

Exhibit 2.1

north

Not To Scale

San Francisco Bay Area

Historically, the Airport and San Jose International Airport (SJC) serve origin and destination (O&D) travel to short to medium-haul markets, including the high demand for travel in the West Coast corridor (California, Oregon, and Washington). International air traffic, connecting, and nonstop travel to major long-haul markets (e.g., New York, Boston, and Washington D.C.) are served primarily at San Francisco International Airport (SFO). The following table presents the historical shares of domestic O&D passengers for the three airports serving the Bay Area:

Calendar	Percent Share of Domestic O&D			
Year	OAK	SFO	SJC	Bay Area
1991	20%	63%	17%	100%
1992	20%	63%	17%	100%
1993	22%	59%	19%	100%
1994	22%	56%	22%	100%
1995	24%	54%	22%	100%
1996	23%	54%	23%	100%
1997	21%	56%	23%	100%
1998	21%	55%	24%	100%
1999	21%	54%	25%	100%
2000	22%	52%	26%	100%
2001	27%	46%	27%	100%

Sources: O&D Survey of Airline Passenger Traffic, U.S. DOT Table 8
Compiled by Ricondo & Associates, Inc.

As the table presents, the shares of domestic O&D passengers served by the three airports were constant in calendar year 1991 and calendar year 1992. The increases in market share at the Airport from calendar year 1993 through calendar year 1995 are primarily the result of continued expansion by Southwest Airlines (Southwest) at the Airport during this period. The expansion by Southwest, a low-fare carrier, resulted in the Airport capturing a higher percentage of the Bay Area's passengers, particularly pleasure/leisure travelers. After reaching 24 percent in calendar year 1995, the Airport's share of domestic O&D traffic declined slightly over the next two years, losing market share primarily to SJC. This loss in O&D market share is predominately a result of the economic growth around SJC, and the initiation of service at SJC by Southwest in calendar year 1994. The Airport's overall share remained relatively constant over the period from calendar year 1991 through calendar year 2000.

Between calendar year 2000 and calendar year 2001, the Airport's share of domestic O&D passengers among Bay Area airports increased from 22 percent to 27 percent. SJC's share increased slightly from 26 percent to 27 percent, and SFO's market share declined from 52 percent of overall O&D passengers to 46 percent. The Airport's relatively large increase in market share is due to a number of factors including:

- Southwest ceased operations at SFO in calendar year 2001, citing congestion and other factors, and consolidated its Bay Area operations at SJC and the Airport. As a result, Southwest introduced new markets at the Airport in 2001 and increased the number of daily departures to other markets already served from the Airport.

- Several new airlines initiated service at the Airport in 2001, including Aloha Airlines (Aloha) and low-fare, start-up JetBlue Airways (JetBlue). In some markets, particularly newly served long-haul markets (e.g., Oakland to New York and Oakland to Washington, D.C), major airlines have responded with service and price competition.

- The terrorist attacks of September 11, 2001 significantly affected air travel demand in the United States and at Bay Area airports. Nationwide, major airline hubs and large hub airports experienced steep declines in aviation activity levels. Southwest was one of few carriers in the nation to maintain service levels, despite a decline in passenger levels. As a result, activity levels at the Airport and at SJC remained relatively stable in the months following September 11th, given the dominance of Southwest at each airport. United Airlines (United), SFO's dominant domestic carrier, was one of several major airlines to experience significant losses following September 11th, and consequently reduced service levels considerably at SFO. International markets experienced significant declines following September 11th, as more travelers chose not to travel to international destinations and others shifted to domestic travel. As a result, SFO experienced pronounced declines in the number of domestic and international air travelers, and its recovery has been slower on the whole, compared with the Airport. Immediately following September 11th, to attract back air passengers, airlines reduced airfares. In many cases, airports served by low-fare airlines benefited from already low fares.

- Additionally, prior to September 11th, economic indicators in the nation, and particularly in the Bay Area, were beginning to show signs of a recession. Historically, there has been a strong correlation between air travel demand and the economy; people tend to spend more on air travel when they have more disposable income. During recessions, airports served by low-fare airlines, such as the Airport, generally are typically better off than large hub airports served by one or more major airlines.

2.1.2 AIRPORT PERSPECTIVE

Due to its central location within the Bay Area, the Airport serves the eastern Bay Area counties of Alameda and Contra Costa (Oakland PMSA), and the northern Bay Area counties of Sonoma (Santa Rosa-Petaluma PMSA), Napa and Solano (Vallejo-Fairfield-Napa PMSA). In recent decades, based on data provided by the California Department of Finance, Demographic Research Unit, the highest growth in population in the Bay Area has occurred in its eastern and northern counties. As the population center continues to shift to Contra Costa and Alameda counties, the Airport is well situated to serve this growing population base. Among the 323 metropolitan areas in the United States, the Oakland PMSA ranked 21st in population during calendar year 2000, compared to 29th for the San Francisco PMSA and 31st for the San Jose PMSA.

The following discussion presents selected events that establish an historical context of aviation activities and air service trends that have occurred at the Airport:

- During the years prior to airline deregulation in 1978, the Airport had little control over how its air travel market was served or which airlines served it. As a result, the Airport experienced difficulty in providing a reasonable level of air service for its air trade area prior to deregulation.

- Following airline deregulation, World Airways initiated air service at the Airport in 1979, with service from the Airport to Honolulu, Newark, and Baltimore/Washington (with connecting service to London and Frankfurt). People Express also served the Newark market from the Airport for a brief period in 1985. However, both World Airways and People Express discontinued service at the Airport in FY 1986, moving their respective operations to SFO. People Express later ceased operations altogether. Additionally, US Airways eliminated service to certain west coast markets in May 1991, including Oakland, San Jose, Portland, Burbank, and Orange County.

- Southwest initiated service at the Airport in the last month of FY 1989, offering low-fare, high-frequency service to three of the Airport's top O&D markets. Since then, enplanements for Southwest have increased from 474,565 in FY 1990 (19.3 percent of total Airport enplanements) to 3.7 million in FY 2001 (65.4 percent of total Airport enplanements). As of May 2002, Southwest offered nonstop service to 15 of the Airport's top 20 O&D markets.

- United reduced its service at the Airport in late FY 1996 and FY 1997, primarily with respect to its flights to Los Angeles. This reduction in service was predominately due to increased competition on several of United's routes by Southwest. Although United has reduced its service at the Airport in recent years, United had the second-highest number of enplanements at the Airport in FY 2001 (586,900), or 10.4 percent of total Airport enplanements.

- Aloha began scheduled service to Hawaii in mid-FY 2000, consisting initially of one daily nonstop flight to both Honolulu and Kahului.

- In terms of long-term growth, passenger activity at the Airport increased from approximately 3.0 million enplanements in FY 1991 to approximately 5.7 million in FY 2001. This increase represents an annual compounded growth rate of 6.6 percent during this period, compared to 3.9 percent for the nation. With the exception of decreases in FY 1997 and FY 1998, the Airport's share of U.S. enplaned passengers steadily increased from 0.670 percent in FY 1991 to 0.902 percent in FY 2001, reflective of the higher annual compounded growth rate experienced at the Airport than that for the nation during the past 10 years. A detailed discussion of the Airport's historical enplanement growth between FY 1991 and FY 2001 is presented in Section 2.3 (*Air Traffic*).

- The Airport serves predominately domestic traffic on short to medium haul routes. However, nonstop service from the Airport to longer haul markets has been initiated recently, especially to the East Coast. Within the past three years, 13 daily nonstop flights have been initiated from the Airport to the East Coast: seven flights to New York, four flights to Washington D.C., and two flights to Atlanta.

2.2 ECONOMIC BASE FOR AIR TRANSPORTATION

The socioeconomic and demographic characteristics of an airport's air trade area (i.e., the geographical area served by an airport) are key factors in the demand for air transportation. This relationship is particularly relevant for the Airport, where the principal passenger activity is O&D, meaning that passengers either begin or end their trips at the Airport. As a result, the major portion of demand for air travel at the Airport is influenced more by the local characteristics of the area served than by individual air carrier decisions regarding hub and service patterns in support of connecting activity. This section describes the economic base of the Airport's air trade area (described below) and highlights the region's strong and diversified economic base, which is capable of supporting continued increases in air travel demand.

2.2.1 AIR TRADE AREA

Exhibit 2.2 presents the Association of Bay Area Governments (ABAG) Region and its relation to the State of California. The ABAG Region includes the following nine counties: Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano, and Sonoma. The ABAG Region excludes the Bay Area County of Santa Cruz. Based on the most recent survey, conducted in 1995, by the Metropolitan Transportation Commission (MTC), approximately 74 percent of residents from the ABAG Region utilizing the Airport were from Alameda and Contra Costa counties. Therefore, for purposes of this analysis, Alameda and Contra Costa counties, which comprise the Oakland PMSA, are considered the Airport's primary air trade area (hereinafter defined as the Air Trade Area).

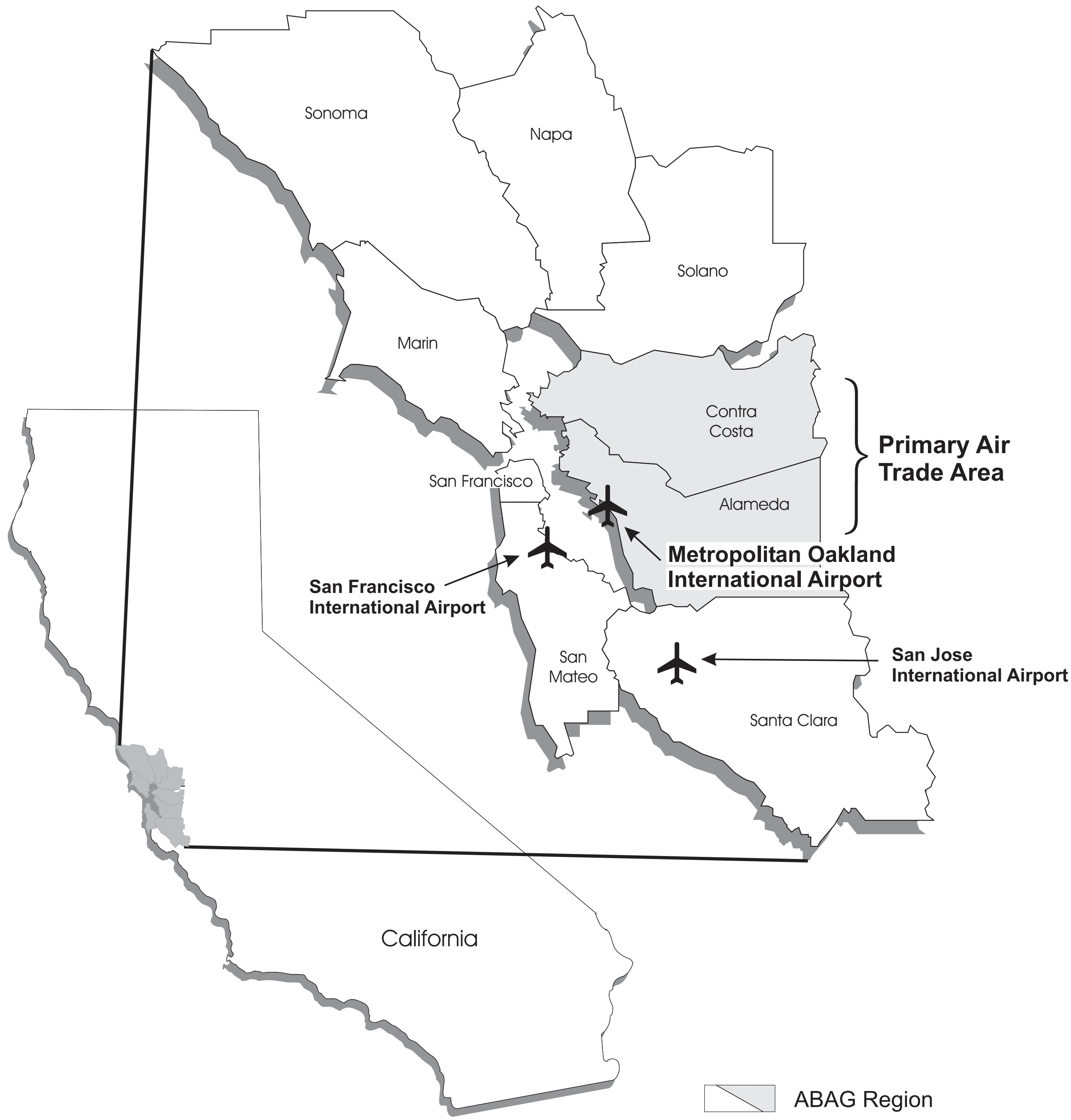
It is the economic strength and diversity of the Oakland PMSA that provides the primary base for supporting air transportation at the Airport. Therefore, only the socioeconomic and demographic data for the Air Trade Area were analyzed in comparison to the ABAG Region, the State of California, and the United States.

2.2.2 POPULATION

Table 2.1 presents historical and projected population for the Air Trade Area, the ABAG Region, the State of California, and the United States. As the table presents, population growth in the Air Trade Area between 1980 and 1990 was 1.7 percent annually, almost twice the rate of growth experienced in the United States (0.9 percent). During this same period, population growth in the State of California averaged 2.3 percent annually, primarily due to the increases in population experienced in other areas of the State (e.g., Southern California). Population growth in the ABAG Region between 1980 and 1990 was slightly lower than the growth experienced in the Air Trade Area (1.5 percent versus 1.7 percent). Within the ABAG Region, the highest growth in population occurred in Solano and Sonoma counties.

Between 1990 and 2000, the Air Trade Area's population grew at a faster rate (1.5 percent) compared with the ABAG Region (1.3 percent), the State of California (1.4 percent), and the United States (1.0 percent).

Estimates of population growth for 2010 for the Air Trade Area, ABAG Region, the State of California, and the United States are also presented in Table 2.1. As shown, the population of the Air Trade Area and the ABAG Region are projected to grow at similar annual compounded rates through the ten-year projection period. The population of the State of California is expected to grow slightly faster compared with the rates projected for the ABAG Region and Air Trade Area, while the United States is expected to grow at a slower pace.



Prepared by: Ricondo & Associates, Inc.

Exhibit 2.2

north

Not To Scale

Primary Air Trade Area and ABAG Region

TABLE 2.1

Port of Oakland
Aviation Division
Feasibility Report

HISTORICAL AND PROJECTED RESIDENT POPULATION

	Historical			Projected	Annual Compounded Growth			
	For Year Ending July 1			For Year Ending July 1	Historical			Projected
COUNTY	1980	1990	2000	2010	1980-1990	1990-2000	1980-2000	2000-2010
Alameda County	1,109,500	1,282,400	1,466,900	1,671,200	1.5%	1.4%	1.4%	1.3%
Contra Costa County	658,500	810,300	963,000	1,071,400	2.1%	1.7%	1.9%	1.1%
Marin County	222,700	231,200	250,100	263,500	0.4%	0.8%	0.6%	0.5%
Napa County	99,300	111,700	125,800	143,900	1.2%	1.2%	1.2%	1.4%
San Francisco County	680,500	723,900	787,500	787,500	0.6%	0.8%	0.7%	0.0%
San Mateo County	588,100	652,100	717,900	794,600	1.0%	1.0%	1.0%	1.0%
Santa Clara County	1,300,200	1,502,200	1,709,500	1,987,800	1.5%	1.3%	1.4%	1.5%
Solano County	237,200	345,700	400,300	485,500	3.8%	1.5%	2.7%	1.9%
Sonoma County	301,400	392,000	464,800	557,300	2.7%	1.7%	2.2%	1.8%
Air Trade Area	1,768,000	2,092,700	2,429,900	2,742,600	1.7%	1.5%	1.6%	1.2%
ABAG Region	5,197,400	6,051,500	6,885,800	7,762,700	1.5%	1.3%	1.4%	1.2%
State of California	23,782,000	29,976,000	34,480,000	40,262,400	2.3%	1.4%	1.9%	1.6%
United States	227,225,000	249,464,000	275,130,000	299,862,000	0.9%	1.0%	1.0%	0.9%

Sources: U.S. Department of Commerce, Bureau of the Census, Population Estimates Program (historical - U.S.) and Population Projections Program (projected - U.S.)
California Department of Finance, Demographic Research Unit (historical and projected - California and California counties)
Compiled by Ricondo & Associates, Inc.

2.2.3 INCOME

One measure of the relative income of an area is its Effective Buying Income (EBI). EBI is a composite measurement of market potential and indicates the general ability to purchase an available product or service. EBI is essentially disposable personal income, and includes personal income less personal taxes (federal, state, and local), non-tax payments including fines and penalties, and personal contributions for social insurance. **Table 2.2** presents historical EBI per household between 1995 and 2000 and projected EBI for 2005 for the Air Trade Area, the ABAG Region, the State of California, and the United States. EBI per household in the Air Trade Area increased in each year from 1995 through 2000, at an annual compounded growth rate of 5.4 percent. Annual growth in EBI per household in the ABAG Region was 6.2 percent over the same period. EBI among households in the State of California and in the United States grew at lower rates compared with the Air Trade Area, 5.1 percent and 3.9 percent, respectively. As projected in the *2001 Sales and Marketing Management* magazine, the EBI per household for 2005 for the Air Trade Area is expected to remain lower than the ABAG Region, but higher than both the State of California and the United States.

An additional measure of the market potential for air transportation demand is the percentage of households in the higher income categories. As personal income increases, air transportation becomes more affordable and can be used more frequently. Table 2.2 presents this distribution of EBI per household by income categories for 2000. As presented, the Air Trade Area has a higher percentage of households in the highest income category (54.3 percent) compared with the State of California (44.3 percent) and the United States (38.2 percent). The ABAG Region has the largest share of households in the highest income category with approximately 57.5 percent of total households. Of the 323 metropolitan areas in the United States, the San Francisco, San Jose, and Oakland metropolitan areas ranked 12th, 17th and 18th, respectively, in the number of households having an EBI of more than $150,000.

2.2.4 EMPLOYMENT

Table 2.3 presents the civilian labor force for the Air Trade Area, the ABAG Region, the State of California, and the United States between 1991 and 2001. As the table presents, the civilian labor force in the Air Trade Area increased from 1,112,000 workers in 1990 to 1,265,000 workers in 2000, representing an annual compounded growth rate of 1.3 percent. This rate of growth was less than the annual compounded growth experienced for the ABAG Region (1.5 percent) and the State of California (1.4 percent), and slightly higher compared with the growth experienced in the United States (1.2 percent).

Average annual unemployment rates between 1991 and 2001 are also presented in Table 2.3. As shown, unemployment rates for the Air Trade Area were consistently below those for the State of California and the nation, and were comparable to the rates experienced for the ABAG Region.

Table 2.4 presents an analysis of nonagricultural employment trends by major industry groups for 1990 and 2000, both for the Air Trade Area and the United States. Total nonagricultural employment in the Air Trade Area increased from 879,500 workers in 1990 to 1,046,300 workers in 2000. The annual compounded rate of increase in Air Trade Area nonagricultural workers during this time period was slightly lower (1.8 percent) than the annual compounded growth experienced in the United States (1.9 percent).

Each of the industry groups in the Air Trade Area experienced positive growth from 1990 to 2000. The Air Trade Area's services sector experienced the highest annual compounded growth, at 3.8 percent, followed by the construction industry with 3.5 percent. The services and construction industries also experienced strong growth in the nation over the study period. While manufacturing declined at an annual compounded rate of 0.3 percent nationwide during the study period, it increased by 0.9 percent in the Air Trade Area. However, employment growth in the transportation, trade, financial, and government sectors was lower than the growth experienced in the United States.

TABLE 2.2

Port of Oakland
Aviation Division
Feasibility Report

EFFECTIVE BUYING INCOME PER HOUSEHOLD

Year	EBI Per Household: Air Trade Area	ABAG Region	State of California	United States
Historical				
1995	$48,582	$51,028	$43,427	$40,598
1996	$50,072	$53,003	$44,430	$42,191
1997	$52,163	$55,814	$46,379	$43,956
1998	$53,930	$58,306	$47,771	$45,504
1999	$57,181	$61,782	$50,344	$47,373
2000	$63,261	$69,088	$55,662	$49,252
Projected				
2005	$75,948	$85,299	$64,654	$58,001
Annual Compounded				
1995-2000	5.4%	6.2%	5.1%	3.9%
2000-2005	3.7%	4.3%	3.0%	3.3%

Area	Percentages of Households in Income Categories (2000 EBI): Less Than $20,000	$20,000-$34,999	$35,000-$49,999	$50,000 or more
Air Trade Area	15.8%	15.3%	14.6%	54.3%
ABAG Region	14.0%	14.3%	14.2%	57.5%
State of California	20.4%	19.1%	16.2%	44.3%
United States	24.4%	20.7%	16.8%	38.2%

Sources: Sales & Marketing Management, Survey of Buying Power, 1995-2001.
Compiled by Ricondo & Associates, Inc.

TABLE 2.3

Port of Oakland
Aviation Division
Feasibility Report

CIVILIAN LABOR FORCE AND UNEMPLOYMENT RATES

	Civilian Labor Force (000)			
Year	Air Trade Area	ABAG Region	State of California	United States
1991	1,112	3,265	15,178	126,346
1992	1,129	3,311	15,335	128,105
1993	1,130	3,350	15,340	129,200
1994	1,137	3,361	15,450	131,056
1995	1,138	3,358	15,412	132,304
1996	1,140	3,402	15,512	133,943
1997	1,172	3,518	15,947	136,297
1998	1,188	3,582	16,337	137,673
1999	1,210	3,634	16,597	139,368
2000	1,246	3,757	17,091	140,863
2001	1,265	3,791	17,362	141,815
Annual Compounded Growth 1991 - 2001	1.3%	1.5%	1.4%	1.2%

	Unemployment Rates			
Year	Air Trade Area	ABAG Region	State of California	United States
1991	5.4%	5.3%	7.7%	6.8%
1992	6.5%	6.5%	9.1%	7.5%
1993	6.5%	6.5%	9.4%	6.9%
1994	6.1%	6.0%	8.6%	6.1%
1995	5.7%	5.5%	7.8%	5.6%
1996	4.9%	4.4%	7.2%	5.4%
1997	4.3%	3.8%	6.3%	4.9%
1998	3.9%	3.5%	5.9%	4.5%
1999	3.3%	3.0%	5.2%	4.2%
2000	2.9%	2.5%	4.9%	4.0%
2001	4.0%	4.0%	5.3%	4.8%

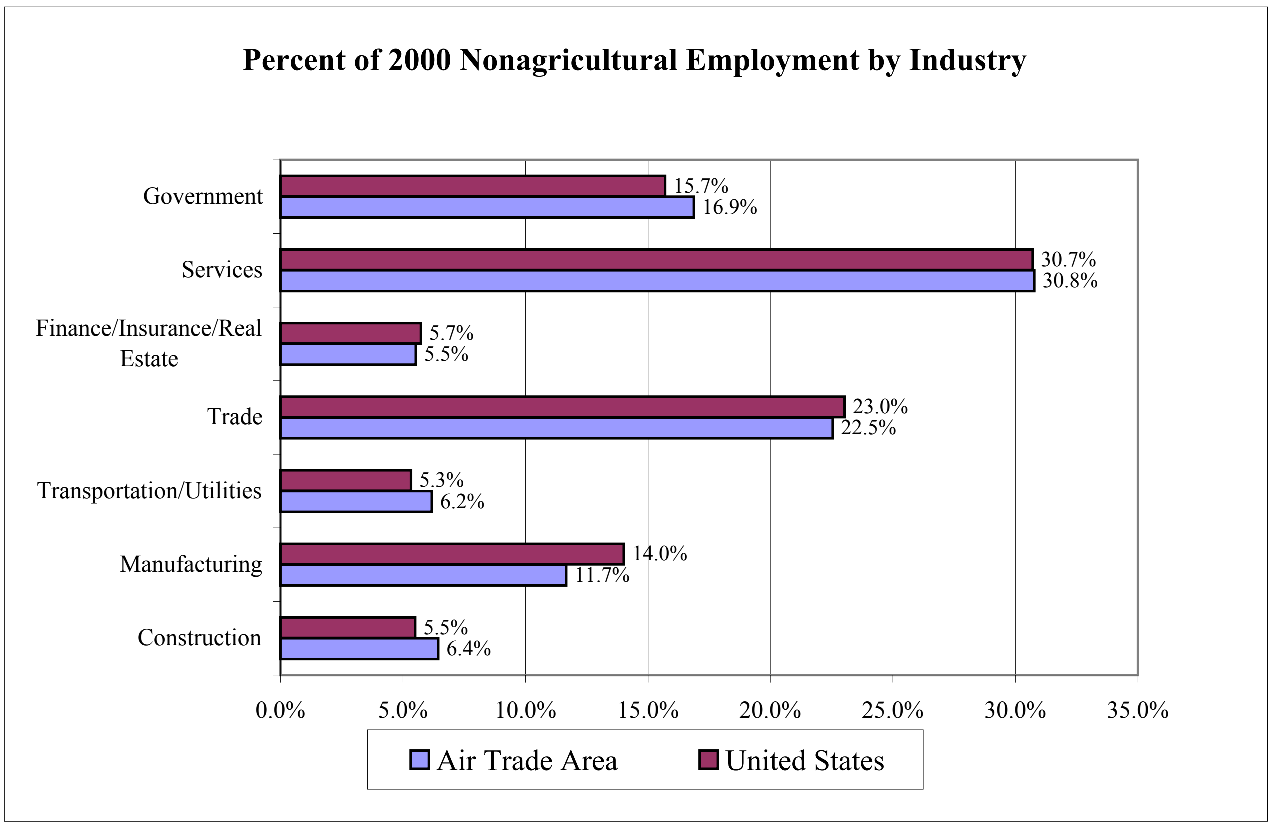
Sources: California Employment Development Department
U.S. Department of Labor, Bureau of Labor Statistics
Compiled by Ricondo & Associates, Inc.

TABLE 2.4

Port of Oakland
Aviation Division
Feasibility Report

EMPLOYMENT TRENDS BY MAJOR INDUSTRY DIVISION

	Air Trade Area Nonagricultural Employment (000) [1]			United States Nonagricultural Employment (000) [1]		
Industry	1990	2000	Annual Compounded Growth	1990	2000	Annual Compounded Growth
Construction [2]	47.7	67.4	3.5%	5,829	7,241	2.2%
Manufacturing	111.0	122.0	0.9%	19,076	18,469	-0.3%
Transportation/Utilities	58.3	64.6	1.0%	5,777	7,019	2.0%
Trade	217.5	235.9	0.8%	25,774	30,331	1.6%
Fin/Ins/Real Estate	55.8	57.8	0.4%	6,709	7,560	1.2%
Services	221.1	322.0	3.8%	27,934	40,460	3.8%
Government	168.1	176.6	0.5%	18,304	20,681	1.2%
Total	879.5	1,046.3	1.8%	109,403.0	131,761.0	1.9%



[1] Average annual figures presented.
[2] Includes mining employment.

Sources: California Employment Development Department, Labor Market Information.
US. Department of Labor, Bureau of Labor Statistics
Compiled by Ricondo & Associates, Inc.

The distribution of nonagricultural employment by industry within the Air Trade Area is similar to that of the United States. The strong distribution of employment by industry within the region reflects the Air Trade Area's diversified economic base. As a result, the region is generally more resilient to periodic economic downturns.

The diversity of the Air Trade Area is further illustrated in **Table 2.5**, which presents the major employers in the Air Trade Area. As shown, the largest employers in the Air Trade Area represent a wide range of industries. There are approximately 45 companies in the Air Trade Area with 1,500 or more employees. The largest employers in the Air Trade Area include the University of California at Berkeley, Pacific Bell, the U.S. Postal Service, Contra Costa County, Lawrence Livermore National Laboratory, Alameda County, and Pacific Bell/Cingular Wireless.

2.2.5 ECONOMIC BASE

This section provides greater detail on historical employment trends and local characteristics of the primary industry groups identified in the previous section.

(1) Construction

Employment in the construction industry in the Air Trade Area increased at an annual compounded rate of 3.5 percent between 1990 and 2000, compared with the 2.2 percent annual increase experienced in the nation during the same period. In 2000, the construction industry accounted for approximately 67,400 employees in the Air Trade Area (6.4 percent of total nonagricultural employment).

Table 2.6 presents building permit valuation for both residential and nonresidential development for the Air Trade Area, the ABAG Region, and the State of California between 1991 and 2001. As shown in the table, building permit valuation in the Air Trade Area increased at an annual compounded rate of 8.0 percent during this ten-year period. The ABAG Region experienced similar growth in building permit valuations over the study period. Building permit valuations in the State of California grew at a slightly slower pace of 6.3 percent over the same period.

(2) Manufacturing

Employment in the Air Trade Area's manufacturing industry increased at an annual compounded rate of 0.9 percent between 1990 and 2000, compared with the 0.3 percent annual decrease experienced nationwide during this same period. Manufacturing accounts for approximately 11.7 percent of total nonagricultural employment in the Air Trade Area. The Air Trade Area has the most diversified manufacturing sector in Northern California, with activity represented in transportation equipment manufacturing, food processing, fabricated metal products, non-electrical machinery, computer hardware and stone-clay-glass products, among others.

TABLE 2.5

Port of Oakland
Aviation Division
Feasibility Report

MAJOR EMPLOYERS IN THE AIR TRADE AREA

Employer	Product or Service
8,000 Employees or More	
University of Califorinia	Education
Contra Costa County	County Government
Bank of America	Banking and Financial Services
U.S. Postal Service, Oakland District	Postal Services and Products
Pacific Gas & Electric	Public Utility
Alameda County	County Government
6,001-8,000 Employees	
Oakland Unified School District	Public Education
Safeway Inc.	Retail Grocery Stores
Pacific Bell / Cingular Wireless	Telecommunications
Chevron Texaco Corporation	Energy, oil and gas
4,001-6,000 Employees	
HMT Technologies	Computer Hardware Manufacturer
Lawrence Livermore National Laboratory	Research & Development
Kaiser Permanente	Health Care
New United Motor Manufacturing, Inc.	Automobile Manufacturing
City of Oakland	City Government
2,001-4,000 Employees	
Wells Fargo & Co.	Financial Services
Hayward Unified School District	Education
AT&T	Telecommunications
Lawrence Berkeley National Laboratory	Research & Development
Alta Bates/Summit Medical Center	Health Care/Hospital
Mount Diablo Unified School District	Public Education
Fremont Unified School District	Education
California State University - Hayward	Educational Institution
West Contra Costa Unified School District	Public Education
PeopleSoft, Inc.	Computer Software
Providian Financial	Financial Services
Federal Express Corporation	Airborne Delivery
John Muir/Mount Diablo Health System	Health Care
Bay Area Rapid Transit (BART)	Public Transit
Fairview Elementary School	Elementary School District
Mervyns	Department Store
AC Transit	Public Bus Line
U.S. Coast Guard	Military
San Ramon Valley Unfied School District	K-12 Education
2,000 Employees or Less	
Ross Stores Inc.	Apparel, Footwear, Accessories Retailer
Longs Drug Store	Retail Drug Store
Clorox Company	Household Goods Manufacturer/Marketer
American Protective Services Inc.	Contract Security Services
United Airlines	Air Transportation
Lam Research Corporation	Semiconductor Equipment Manufacturer
ABM Industries Inc.	Facilities Services
East Bay Municipal Utility District	Water and Wastewater Utility
Southwest Airlines	Air Transportation
Berkeley Unified School District	Public School District

Source: San Francisco Business Times Book of Lists, 2000
Economic Development Alliance for Business
Compiled by Ricondo & Associates, Inc.

TABLE 2.6

Port of Oakland
Aviation Division
Feasibility Report

BUILDING PERMIT VALUATION ($000)

Year	Air Trade Area	ABAG Region	State of California
1991	$1,655,340	$5,076,614	$24,602,543
1992	$2,006,486	$5,320,963	$22,606,627
1993	$1,725,016	$4,834,537	$20,510,439
1994	$1,911,557	$5,363,430	$22,741,534
1995	$1,990,635	$5,527,786	$22,033,356
1996	$2,573,202	$7,185,502	$24,872,815
1997	$3,214,424	$9,441,209	$31,021,894
1998	$3,528,483	$10,279,508	$36,951,678
1999	$3,470,437	$10,883,216	$42,365,569
2000	$3,929,825	$13,627,807	$46,766,664
2001	$3,572,572	$11,220,058	$45,384,974
Annual Compounded Growth			
1991-1996	9.2%	7.2%	0.2%
1996-2001	6.8%	9.3%	12.8%
1991-2001	8.0%	8.3%	6.3%

Sources: Construction Industry Research Board
Compiled by Ricondo & Associates, Inc.

(3) Transportation/Utilities

Employment in the Air Trade Area's transportation/utilities industry increased at an annual compounded rate of 1.0 percent between 1990 and 2000, compared with 2.0 percent annual growth experienced nationwide during this same period. In 2000, the transportation/utilities sector employed approximately 64,600 people, or approximately 6.2 percent of total nonagricultural employment, in the Air Trade Area. The Air Trade Area is well served by an extensive transportation network, which includes the following elements:

- Oakland International Airport – The Port of Oakland operates the Airport, which is located approximately nine miles from downtown Oakland. In FY 2001, the Airport enplaned and deplaned approximately 11.4 million air passengers. Scheduled domestic air service is provided by 12 commercial airlines, and international service is provided by one airline. In addition to air passenger airline activity, the Airport enplaned and deplaned approximately 695,303 tons of cargo in FY 2001, and is served by four all-cargo carriers. Approximately 10,500 people are employed at the Airport.

- Maritime Facilities - The Port of Oakland is the fourth largest container port in the U.S. (in terms of number of containers) and the twenty-eighth largest container port in the world. The Port covers 19 miles of waterfront and contains 848 acres of developed terminals and support area. In calendar year 2001, the maritime facilities of the Port handled 22.9 million revenue tons of waterborne commerce, and more than 21.2 million revenue tons of containerized cargo. The Port loads and discharges a majority of the containerized goods bound to and through the Northern California area. The Port facilities include 17 deepwater ship berths; 31 container cranes, and ten marine terminals. Approximately $479.8 million in maritime projects are planned, including new terminals, intermodal rail infrastructure improvements and dredging channels and shipping berths from 42 feet to 50 feet.

- AC Transit - Local and regional bus service is provided by the Alameda-Contra Costa Transit District (AC Transit). AC Transit is the third largest bus-only transit system in California and the 4th largest in the nation. AC Transit serves 14 cities and 9 unincorporated areas in the Air Trade Area with 153 bus routes. The AC Transit bus system connects with 9 other public and private bus systems, 21 Bay Area Rapid Transit (BART) stations, 6 Amtrak stations, and 3 ferry terminals. There are 815 buses in the AC Transit fleet, all of which are handicap accessible. The average weekday ridership totals 230,000, with annual totals of 67,400,000. AC Transit employs approximately 2,500 workers including bus drivers, maintenance, clerical/support, and management staff. The annual operating budget for AC Transit's fiscal year 2001-2002 was $244 million.

- BART - Headquartered in the Air Trade Area, BART provides high-speed rail service to Alameda, Contra Costa, and San Francisco counties. Eight stations in Oakland provide easy access to Amtrak. BART employs approximately 3,350 people in the region.

- Highway Infrastructure - There are five major highways that serve the Air Trade Area: Interstates 80, 580, 680 and 880; and California State Highway 24.

- Rail - Two major freight rail companies, the Union Pacific Railroad and Burlington Northern Santa Fe Railway Company, operate in Oakland and other East Bay communities. In addition, Amtrak provides passenger rail service through its Oakland and Emeryville stations.

(4) Trade

Employment in the wholesale and retail trade sector in the Air Trade Area increased at an annual compounded rate of 0.8 percent between 1990 and 2000, compared with 1.6 percent annual growth experienced in the U.S. during this same period. In 2000, the trade sector accounted for approximately 22.5 percent of total nonagricultural employment in the Air Trade Area.

One indicator of growth in the trade sector is retail sales, which consists of all net sales (gross sales minus refunds and allowances for returns). As presented in **Table 2.7**, retail sales per household increased 10.8 percent annually in the Air Trade Area between 1995 and 2000, compared with annual increases of 8.1 percent, 7.7 percent, and 7.4 percent, for the ABAG Region, State of California, and the U.S., respectively, during this same period. Consumer confidence in a strong economy, increased consumer spending and low inflation levels combined with the lowest interest rate in years contributed to strong retail sales and higher trade employment figures in California. Although annual growth is expected to slow, retail sales per household are expected to remain strong over the forecast period from 2000 through 2005. The Air Trade area is expected to continue to outpace the ABAG Region, State of California, and the U.S.

(5) Finance/Insurance/Real Estate

Employment in the Air Trade Area's finance/insurance/real estate (FIRE) industry remained relatively constant between 1990 and 2000, growing at an annual compounded rate of 0.4 percent, compared with 1.2 percent annual growth experienced nationwide during this same period. The FIRE industry accounted for approximately 5.5 percent of total nonagricultural employment in the Air Trade Area in 2000.

Table 2.8 presents total bank deposits for the Air Trade Area, the ABAG Region, the State of California, and the United States between 1994 and 2001. In the Air Trade Area, total bank deposits increased at an annual compounded rate of 5.0 percent during this period, compared to a 6.1 percent annual increase in the ABAG Region, a 4.0 percent annual increase in the State of California, and a 4.6 percent annual increase for the United States.

(6) Services

Employment in the services industry increased at an annual compounded rate of 3.8 percent in the Air Trade Area and in the United States between 1990 and 2000. The services industry represents the largest nonagricultural employment category in the Air Trade Area, accounting for 30.8 percent of nonagricultural employment in 2000.

The services sector is expected to continue to experience strong growth over the next decade, particularly as more technology-related companies locate to or expand in the Air Trade Area. The Air Trade Area has been actively recruiting firms to the region and has developed strong networks of technology companies. More than 300 technology-related firms are located in Oakland. The Oakland Metropolitan Chamber of Commerce recently developed the East Bay Tech.net, a forum for technology-related companies interested in relocating to the East Bay (defined as Alameda, Berkeley, Emeryville, Oakland, and San Leandro). Oakland has also been recognized in various business publications as one of the top cities for high technology companies. The Economic Development Alliance for Business assists companies with financing, site location and other business assistance needs.

TABLE 2.7

Port of Oakland

Aviation Division

Feasibility Report

RETAIL SALES PER HOUSEHOLD

Year	Air Trade Area	ABAG Region	State of California	United States
Historical				
1995	$25,026	$23,061	$25,688	$24,120
1996	$26,446	$24,493	$27,505	$24,992
1997	$26,725	$24,378	$28,015	$25,437
1998	$27,994	$25,272	$29,313	$26,544
1999	$35,696	$31,127	$32,750	$33,113
2000	$41,745	$34,092	$37,257	$34,450
Projected				
2005	$52,259	$39,992	$45,625	$39,507
Annual Compounded Growth				
1995 - 2000	10.8%	8.1%	7.7%	7.4%
2000 - 2005	4.6%	3.2%	4.1%	2.8%

Sources: Sales & Marketing Management, Survey of Buying Power, 1995-2001.
Compiled by Ricondo & Associates, Inc.

TABLE 2.8

Port of Oakland
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TOTAL BANK DEPOSITS

	Total Bank Deposits ($000,000)			
Fiscal Year [1]	Air Trade Area	ABAG Region	State of California	United States
Historical				
1994	$28,499	$105,673	$373,286	$3,156,060
1995	$28,626	$103,365	$372,118	$3,214,689
1996	$29,734	$114,211	$373,413	$3,328,215
1997	$32,618	$123,233	$394,074	$3,496,673
1998	$32,418	$129,527	$410,876	$3,657,788
1999	$35,631	$140,202	$427,822	$3,783,501
2000	$38,687	$152,914	$453,772	$4,003,707
2001	$40,105	$159,492	$492,044	$4,326,154
Annual Compounded Growth				
1994-2001	5.0%	6.1%	4.0%	4.6%

[1] Fiscal Year Ending June 30.

Sources: Federal Deposit Insurance Corporation (FDIC) Web Site
Compiled by Ricondo & Associates, Inc.

Many technology firms are relocating to the Air Trade Area from other parts of the ABAG Region, including San Francisco and the Silicon Valley, due to the comparatively lower cost of doing business in the East Bay. In general, the Air Trade Area has lower commercial real estate, lower housing costs, a skilled workforce, a strong transportation network, telecommunications infrastructure, as well as proximity to university and national research and development centers.

The Silicon Valley, including San Francisco and the East Bay, has been the leading recipient of venture capital in the United States in recent years. In 2001, the Silicon Valley attracted more than $12.1 billion in venture capital distributed among 1,000 deals, according to the most recent PricewaterhouseCoopers *MoneyTree Survey.* During the fourth quarter of 2001, 229 venture capital deals worth approximately $2.5 billion were negotiated in Silicon Valley compared to 206 venture capital deals valued at $2.23 billion during the fourth quarter of 2000. Considerably fewer deals were negotiated in the fourth quarter of 2001 compared with two years earlier when 431 deals valued at over $6.66 billion were negotiated in the fourth quarter. Despite a slowdown in venture capital investments in the Silicon Valley Region and in the U.S. over the two years, the Silicon Valley Region continues to account for the largest share of venture capital funding in the nation. While the number and value of venture capital deals in Silicon Valley declined significantly between the 1999 and 2001, the region's share of total venture capital investments in the U.S. remained flat over this period (at approximately 33.1 percent).

In general, venture capital investment is expected to continue to be strong in the Air Trade Area. According to the Economic Development Alliance for Business, the East Bay is the third largest market for venture capital funding in the nation. A number of venture capital firms have located to the East Bay in recent years and the Air Trade Area has experienced steady growth in emerging industries – including biotechnology, medical devices, and multi-media. The strong relationships between industry and educational and research laboratories in the East Bay are expected to continue to promote innovation throughout the region.

(7) Government

Employment in the government sector increased at an annual compounded rate of 0.5 percent in the Air Trade Area between 1990 and 2000, compared with the 1.2 percent annual growth experienced nationwide during the same time period. The high concentration of jobs in the government sector, 16.9 percent, is primarily due to the large concentration of federal and state employees in the Air Trade Area, as well as the presence of two large public universities and other educational institutions in the Air Trade Area (discussed below).

(8) Other

<u>*Higher Education/Research & Development Infrastructure*</u>

The Air Trade Area is a nationwide leader in research and development activities as a result of the strong university system and national laboratories located in the Air Trade Area. Collaboration between the universities and laboratories and small and large companies in the region have been important to technology transfer and industry development.

A number of colleges and universities located in the Air Trade Area provide post-secondary education. The availability and quality of these educational institutions are important in stimulating growth and development of the region's economy. Companies throughout the ABAG Region and the State depend on the resources and expertise provided by these institutions. The largest university in the Air Trade Area, the University of California at Berkeley, has an undergraduate enrollment of approximately 31,000 students. Other universities and colleges in the Air Trade Area include Armstrong University, California College of Arts and Crafts, California State University at Hayward, Holy Names College, John F. Kennedy University, Mills College, Saint Mary's College, and Samuel Merritt College of Nursing. Community colleges include Chabot College, Contra Costa College, Diablo Valley College, Los Medanos College, Ohlone College, and Peralta Community College, which includes College of Alameda, Merritt College, Laney College, and Vista College.

Three premier national research laboratories are located in the Air Trade Area. These laboratories stimulate partnerships with local companies and promote the development of new businesses throughout the region.

- The Lawrence Livermore National Laboratory is among the world's most sophisticated research facilities. The $4 billion facility promotes research in biotechnology, environmental science, computer science, lasers and optics, energy, non-destructive evaluation, electronic packaging, precision engineering, and instrumentation.

- Sandia National Laboratory is operated by Lockheed Martin for the U.S. Department of Energy. The lab promotes research of alternative energy sources, combustion technology, arms control and verification, radiation-hardened electronics, advanced materials, information sciences, microelectronics, environmental sciences, and biomedicine.

- Lawrence Berkeley National Laboratory is operated by the University of California for the U.S. Department of Energy. The lab promotes research in the areas of conservation, renewable energy, environmental remediation, material sciences, biotechnology, computer science, and nuclear medicine.

In addition to the national laboratories, several other research and development (R&D) entities are located in the ABAG Region, further promoting cooperative research and development relationships between the public and private sector. These R&D centers include Stanford Linear Accelerator Center, NASA Ames Research Center, Stanford University Office of Technology Licensing Program, and the University of California Office of Technology Transfer.

Health Care

The Air Trade Area has a strong concentration of health care facilities, including: Alta Bates Medical Center, which provides an Alzheimer's Disease Center, a cardiac surgery program, a burn center, inpatient oncology services, and an acute medical/surgical and critical care facility; Summit Medical Center, which is a pioneer in the use of microsurgery to reattach severed limbs and a major referral center for reimplantation; Kaiser Permanente Medical Center; and Highland General Hospital. Other major hospitals in the Air Trade Area include Alameda Hospital, Children's Hospital Oakland, Eden Hospital, Everett A. Gladman Memorial, Humana Hospital, St. Rose Hospital, Valley Memorial Hospital, Veterans Administration Hospital, and Washington Hospital. Kaiser Permanente's national corporate offices and their California division headquarters are located in Oakland.

Cultural and Recreational

In addition to a strong economic base, the Air Trade Area benefits from strong recreational and cultural resources that contribute to the quality of life in the region. The Air Trade Area includes the East Bay Region Park District, a system of over 50 parks and 20 regional hiking trails that covers more than 75,000 acres. The East Bay is also located in close proximity to Northern California's wine country and national parks. Oakland is home to the East Bay Symphony, the Oakland Ballet, the Oakland Zoo, various theatre companies, and the Oakland Museum of California. Oakland is also home to three professional sports teams - the Oakland Athletics baseball team, the Golden State Warriors basketball team, and the Oakland Raiders football team.

2.2.6 SUMMARY

The Air Trade Area consists of a diversified and stable economy, expected to support the projected growth in activity at the Airport and at the Port. Continued growth in all nonagricultural employment categories, as well as continued population expansion, growth in EBI per household, and household retail sales are further evidence that the local economy will continue to drive demand for air transportation at the Airport and for efficient movement of goods. Following is a summary of the socioeconomic trends in the Air Trade Area:

- Population growth in the Air Trade Area was higher than the growth rate experienced in the United States between 1980 and 1990 and between 1990 and 2000. Through 2010, population growth in the Air Trade Area is expected to continue to outpace the United States population growth.

- Between 1995 and 2000, the Air Trade Area's EBI per household increased at a faster pace compared with EBI per household for the United States. Projections for 2005 indicate that EBI per household in the Air Trade Area and in the United States will continue to grow.

- All of the nonagricultural employment categories experienced growth between 1990 and 2000 in the Air Trade Area, with a composite industrial mix similar to that of the nation, on a percentage basis.

- The Air Trade Area offers a variety of cultural, recreational, and educational resources and activities.

The economic base of the Air Trade Area is strong and diversified, and is capable of supporting growth in the demand for air transportation services at the Airport over the projection period.

2.3 AIR TRAFFIC

This section describes historical and projected air traffic activity at the Airport and the key factors affecting these activity levels. In particular, this section discusses the role of the Airport in the Bay Area, the airlines serving the Airport, historical Airport activity, and projected Airport activity.

2.3.1 ROLE OF THE AIRPORT

The Airport, SFO, and SJC provide commercial passenger service for the Bay Area. Both the Airport and SJC serve predominately domestic traffic on short to medium-haul routes. However, nonstop service from the Airport to longer haul markets such as Atlanta, Detroit, New Orleans, New York, northern New Jersey and Washington, D.C. has been initiated recently. SFO is considered the Bay Area's international gateway, serving as the primary point of departure and arrival for international passengers traveling between Pacific Rim countries and the United States. In addition, SFO is a major domestic hub and the principal Northern Pacific gateway for United.

The Airport serves as a major origin and destination point for major markets throughout the United States. This role is evident as measured by the Airport's high percentage of O&D traffic, as approximately 92 percent of the Airport's passengers originate their travel at the Airport. The Airport's strong O&D passenger base is supported by the presence of low-fare carriers at the Airport, including Southwest, Alaska, America West, JetBlue, and Spirit. Southwest, Alaska, and America West provide high frequency, low-fare service to densely populated markets located along the West Coast corridor, whereas JetBlue and Spirit provide low fare service from the Airport to New York and Washington and to Detroit, respectively. The initiation of service by Southwest at the Airport in late FY 1989 has been a positive factor in activity growth at the Airport. As shown later in this section, total Airport enplanements increased at an annual compounded growth rate of 6.6 percent between FY 1991 and FY 2001, compared to 3.5 percent nationwide during this same period. In addition to service by low-fare carriers, the Airport's service is also augmented by service by traditional hub-and-spoke carriers such as American, Continental, Delta, and United.

Air cargo (mail, freight, and express) also plays an important role at the Airport. In addition to air cargo carried by the passenger airlines, the Airport is served by four all-cargo carriers, including ABX Air (the airline subsidiary of Airborne Express), Ameriflight, FedEx, and United Parcel Service. The handling of air cargo became a major activity at the Airport when FedEx built a $30 million regional distribution center at the Airport in FY 1988. Since that time, FedEx has operated a regional sorting facility at the Airport which receives and distributes packages from several west coast markets. In addition, FedEx has designated the Airport as its Pacific gateway for air cargo at the Airport. United Parcel Service also maintains a mini-hub sorting facility at the Airport. Enplaned and deplaned air cargo increased from 231,597 tons in FY 1991 to 695,303 tons in FY 2001, an annual compounded growth rate of 11.6 percent during this period. The Airport was ranked 26th worldwide and 13th nationwide in total cargo handled in CY 2001.[1]

2.3.2 AIRLINES SERVING THE AIRPORT

As of May 2002, the Airport has scheduled passenger service provided by 12 domestic air carriers, one international air carrier, and two charter airlines. As discussed above, four all-cargo carriers provide scheduled cargo service at the Airport. Scheduled passenger service is provided at the Airport by six of the nation's eight major airlines, which represent the largest group of airlines in terms of their total revenues. These airlines include America West, American, Continental, Delta, Southwest, and United.[2] **Table 2.9** lists the airlines serving the Airport as of May 2002.

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[1] *ACI Traffic Data 2001 (preliminary)*, Airports Council International.
[2] Northwest and US Airways are major U.S. airlines currently not serving the Airport.

TABLE 2.9

Port of Oakland
Aviation Division
Feasibility Report

AIRLINES SERVING THE AIRPORT [1]

Domestic Air Carriers (12)

Alaska Airlines
Aloha Airlines
America West Airlines
American Airlines
American Eagle
Continental Airlines
Delta Air Lines
JetBlue Airways
SkyWest Airlines
Southwest Airlines
Spirit Airlines
United Airlines

International Air Carriers (1)

Mexicana Airlines

Scheduled Charters (2)

Allegro Air
Ryan International

All Cargo Carriers (4)

ABX Air
Ameriflight
FedEx
United Parcel Service

[1] As of May 31, 2002.

Sources: Port of Oakland
Compiled by Ricondo & Associates, Inc.

Table 2.10 presents the historical air carrier base at the Airport since FY 1992. As shown, the Airport has had the benefit of a large and relatively stable air carrier base during the years shown, which has helped promote competitive pricing and scheduling diversity in the Airport's major markets. Specific points concerning the Airport's historical air carrier base are presented below:

- Six of the 13 passenger airlines currently serving the Airport have been operating there for each of the years shown. **Southwest** (65.4 percent share of Airport enplanements in FY 2001) provides nonstop service to Albuquerque, Boise, Burbank, Chicago, Kansas City, Las Vegas, Los Angeles, Nashville, New Orleans, Ontario, Orange County, Phoenix, Portland, Reno/Tahoe, Salt Lake City, San Diego, Seattle, and Spokane; **United** (10.4 percent share) provides nonstop service to Chicago, Denver, Los Angeles, and Washington, D.C. , the only carrier to fly nonstop from Washington, D.C. to all three Bay Area airports; **Alaska** (9.1 percent share) provides nonstop service to Orange County, Portland, and Seattle; **American** (4.4 percent share) provides nonstop service to Dallas, Los Angeles, and New York; **America West** (3.4 percent share) provides nonstop service to Las Vegas and Phoenix; and **Delta** (1.7 percent share) provides nonstop service to Atlanta and Dallas.

- **Mexicana** initiated international service at the Airport in FY 1997. In recent years, **Aloha** began service at the Airport in FY 2000 with nonstop service to Honolulu and Kahului, adding nonstop service to Las Vegas in FY 2001. **Continental** also initiated service at the Airport in FY 2000, with nonstop service to Houston and New York (Newark). In FY 2001, **JetBlue** and **Spirit** initiated low-fare service at the Airport, with nonstop service to New York (JFK) and Detroit, respectively. JetBlue currently operates four nonstop flights between the Airport and New York (JFK) and two nonstop flights to Washington, D.C., with nonstop service to its west coast base at Long Beach anticipated in September 2002. The regional/commuter carriers **American Eagle** and **SkyWest** (d/b/a both the Delta Connection and United Express) initiated regional jet service at the Airport in FY 2002, with nonstop flights to Los Angeles (American Eagle and United Express) and Salt Lake City (the Delta Connection).

- **Corsair International, Martinair Holland, Northwest**, **TAESA**, and **Tower Air** discontinued service at the Airport during the years shown. None of these airlines accounted for more than 1.5 percent of enplaned passengers during any fiscal year of service at the Airport.

Over the next two years, Alaska plans to consolidate its heavy maintenance operations at the Airport. The carrier currently operates a heavy maintenance line at the Airport for its fleet of MD-80s and at Seattle-Tacoma International Airport for its fleet of B-737s. With two heavy-check lines in operation, Alaska will increase its staffing at the Airport from approximately 220 employees to approximately 350 employees.

2.3.3 HISTORICAL AIRPORT ACTIVITY

The following sections review the Airport's historical activity in terms of passenger activity, air service, aircraft operations, and aircraft landed weight.

TABLE 2.10

Port of Oakland
Aviation Division
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HISTORICAL COMMERCIAL PASSENGER AIR CARRIER BASE [1]

	FISCAL YEAR										
Airline	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002 [2]
Alaska	●	●	●	●	●	●	●	●	●	●	●
America West	●	●	●	●	●	●	●	●	●	●	●
American	●	●	●	●	●	●	●	●	●	●	●
Delta	●	●	●	●	●	●	●	●	●	●	●
Southwest	●	●	●	●	●	●	●	●	●	●	●
United	●	●	●	●	●	●	●	●	●	●	●
Mexicana						●	●	●	●	●	●
Aloha									●	●	●
Continental									●	●	●
JetBlue										●	●
Spirit										●	●
American Eagle											●
SkyWest											●
<u>Airlines No Longer Serving the Airport</u>											
Tower Air					●	●	●				
Corsair International				●	●	●	●	●	●	●	●
TAESA			●	●	●	●	●	●			
Northwest		●	●								
Martinair Holland	●	●	●	●	●	●	●	●	●	●	

[1] For those airlines that were party to a merger or acquisition, only the surviving entity is presented in this table

[2] As of May 31, 2002.

Note: Martinair Holland served the Airport seasonally from April through October with two weekly flights to Amsterdam

Sources: Port of Oakland
Compiled by Ricondo & Associates, Inc.

Passenger Activity

Table 2.11 presents historical data on enplaned passengers at the Airport and the nation between FY 1991 and FY 2001. As shown, passenger activity at the Airport increased from approximately 3.0 million enplanements in FY 1991 to approximately 5.7 million in FY 2001. This increase represents an annual compounded growth rate of 6.6 percent during this period, compared to 3.5 percent for the nation. With the exception of decreases in FY 1997 and FY 1998, the Airport's share of U.S. enplaned passengers steadily increased from 0.670 percent in FY 1991 to 0.902 percent in FY 2001, reflective of the higher annual compounded growth rate experienced at the Airport than that for the nation during the past 10 years. Additional details concerning the Airport's historical enplanement growth between FY 1991 and FY 2001 are discussed below:

- **FY 1991 – FY 1996.** Passenger activity at the Airport increased from approximately 3.0 million enplanements in FY 1991 to approximately 4.9 million in FY 1996. This increase represents an annual compounded growth rate of 10.6 percent during this period, compared to 4.6 percent nationwide.

  - The presence of Southwest at the Airport was the primary factor contributing to this significant growth in enplanements during this period. Southwest's initiation of low-fare service at the Airport in the last month of FY 1989 provided the "Southwest Effect" at the Airport. It is generally recognized that Southwest stimulates traffic at an airport it serves due to its low fares and high frequency of service. Passenger increases at an airport Southwest services are typically due to the stimulation of previously untapped passenger markets and the diversion of passengers from nearby facilities it does not serve, rather than the diversion of passengers from existing airlines serving the same facility.

  - As shown in **Table 2.12**, Southwest more than doubled its daily nonstop flights at the Airport by Fiscal-Year-End (FYE) 1991 from FYE 1990 levels, increasing its activity at the Airport from 23 daily flights to 50 daily flights during this period. As also shown, Southwest again more than doubled its daily nonstop flights by FYE 1996 from FYE 1991 levels to 106 daily flights. Southwest's passenger activity at the Airport increased accordingly during this latter period, from approximately 0.9 million in FY 1991 to 3.0 million in FY 1996, an annual compounded growth rate of 27.0 percent. As a result, its share of enplanements at the Airport increased from 30.7 percent in FY 1991 to 61.2 percent in FY 1996.

  - In FY 1995, United and Alaska began matching fares with Southwest in certain markets at the Airport, resulting in a 20.5 percent increase in enplanements at the Airport during that year.

- **FY 1997 – FY 1998.** Enplanements at the Airport decreased 5.6 percent in FY 1997 and 2.0 percent in FY 1998, compared to increases of 3.8 percent and 2.0 percent nationwide during these same years. The decrease in enplanements at the Airport during this period was primarily due to a reduction in service by United at the Airport during these years. In late FY 1996, United eliminated its shuttle service from the Airport to Seattle, Ontario, and Burbank. In late FY 1997, United further reduced its service at the Airport, primarily to Los Angeles. This reduction of service resulted in United's enplanements at the Airport to decrease from approximately 790,000 in FY 1996 to approximately 560,000 in FY 1998. As a result, its share of enplanements at the Airport decreased from 16.0 percent in FY 1996 to 12.2 percent in FY 1998.

TABLE 2.11

Port of Oakland
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HISTORICAL ENPLANEMENTS

Fiscal Year	Airport Enplanements	Airport Growth	United States [1] Enplanements	United States [1] Growth	Airport Market Share
1991	2,988,306	-	445,900,000	-	0.670%
1992	3,085,138	3.2%	464,700,000	4.2%	0.664%
1993	3,542,438	14.8%	470,400,000	1.2%	0.753%
1994	3,835,342	8.3%	511,300,000	8.7%	0.750%
1995	4,620,362	20.5%	531,100,000	3.9%	0.870%
1996	4,947,586	7.1%	558,100,000	5.1%	0.887%
1997	4,670,652	-5.6%	579,100,000	3.8%	0.807%
1998	4,576,149	-2.0%	592,100,000	2.2%	0.773%
1999	4,757,593	4.0%	613,300,000	3.6%	0.776%
2000	5,060,240	6.4%	640,500,000	4.4%	0.790%
2001	5,659,448	11.8%	627,500,000	-2.0%	0.902%
2001 (9 months)	4,090,843	-	N/A	-	-
2002 (9 months)	4,133,234	1.0%	N/A	-	-
Annual Compounded Growth					
1991-2001		6.6%		3.5%	

[1] U.S. enplanements are estimated by the FAA for FY 2001.

Sources: Port of Oakland (Airport)
FAA (United States)
Compiled by Ricondo & Associates, Inc.

TABLE 2.12

Port of Oakland
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NONSTOP SERVICE BY SOUTHWEST

	Daily Nonstop Flights (Fiscal-Year-End)													
	FY 1989 [1]	FY 1990	FY 1991	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002 [2]
Ontario	5	5	9	12	13	13	15	13	12	13	12	12	14	13
Phoenix	3	3	4	4	4	4	4	3	3	3	4	4	6	6
San Diego	5	6	10	11	11	11	11	11	11	11	11	10	15	14
Burbank		9	12	11	13	13	15	15	16	15	14	14	14	13
Los Angeles			9	10	17	19	24	24	24	24	23	24	23	21
Reno/Lake Tahoe			6	5	5	5	7	7	7	6	6	6	6	6
Las Vegas				2	2	2	5	7	7	7	8	8	10	10
Orange County						7	7	7	7	7	7	7	8	8
Portland						3	5	6	6	6	6	6	6	6
Seattle						3	8	7	7	7	7	7	7	7
Spokane						1	2	1	1	1	1	1	1	1
Salt Lake City							3	4	3	3	3	3	4	4
Tucson								1	1	1	1	0	0	0
Kansas City									1	1	2	2	2	2
Nashville									1	1	1	1	1	1
Boise										1	1	1	1	1
Albuquerque											2	2	2	2
Chicago Midway														3
New Orleans														1
Total	13	23	50	55	65	81	106	106	107	107	109	108	120	119

[1] Southwest initiated service at the Airport during the last month of FY 1989.

[2] Scheduled through June 30, 2002.

Sources: Official Airline Guide
Compiled by Ricondo & Associates, Inc.

- **FY 1999 – FY 2000.** Passenger activity at the Airport increased from approximately 4.6 million in FY 1998 to approximately 5.1 million in FY 2000. This increase represents an annual compounded growth rate of 5.2 percent during this period, compared to 4.0 percent nationwide. Enplanements for Southwest at the Airport steadily increased from approximately 3.0 million in FY 1998 to approximately 3.4 million in FY 2000. Contributing to this increase was Southwest initiating service from the Airport to Boise in late FY 1998 and to Albuquerque, a primary O&D market for the Airport, in early FY 1999.

- **FY 2001.** Enplanements at the Airport increased 11.8 percent in FY 2001 from FY 2000 levels, compared to a 2.0 percent decrease in enplanements nationwide. This significant growth in enplanements at the Airport was primarily due to the following factors:

  - Continued passenger growth by Southwest during this period, including the results of Southwest's decision to eliminate its service at SFO in March 2001 and shift most of its West Coast corridor routes serving the Bay Area to the Airport, as well as some to SJC. This relocated service at the Airport included one additional flight to Las Vegas and Orange County, two additional flights to Phoenix, and four additional flights to San Diego.

  - FY 2001 was the first full year of service at the Airport for Continental and Aloha; JetBlue initiated service at the Airport in early FY 2001; and American initiated new service to Los Angeles from the Airport in early FY 2001.

  - Spirit initiated service at the Airport in the last month of FY 2001 and, therefore, its impact to passenger traffic at the Airport was minimal during this period.

On September 11, 2001 terrorists attacked the World Trade Center in New York and the Pentagon in Washington, D.C. using hijacked commercial aircraft as weapons. As a result, airports nationwide were ordered closed by the FAA until September 13, 2001. According to the FAA, aviation activity nationwide was already in a weakened state even before the events of September 11 and headed toward one of its worst years in over a decade. Also according to the FAA, domestic passenger demand began to decline in February 2001 and air carrier finances turned negative in the first quarter of 2001, primarily due to the declining high-yield business traffic and rapidly escalating labor costs. As a result, the FAA has estimated that domestic passenger traffic nationwide will decrease 7.2 percent in CY 2001 from CY 2000 levels; and projects an additional 6.0 percent decrease in CY 2002.[3]

Similar to airports nationwide, passenger activity at the Airport was negatively affected by the events of September 11. During the first two months of FY 2002 (July and August 2001), approximately 1.2 million passengers were enplaned at the Airport, which represented a 19.1 percent increase over passenger levels during a similar period in FY 2001. As also shown in Table 2.11, however, Airport enplanements during the first nine months of FY 2002 were only 1.0 percent higher than that during a similar period in FY 2001. Since the events of September 11, activity at the Airport has rebounded better than the industry average, primarily due to the initiation of additional daily nonstop flights following September 11:

[3] *FAA Aerospace Forecasts, Fiscal Years 2002 – 2013*, FAA, March 2002.

- **September 2001.** Continental added a third flight to Houston.
- **October 2001.** Delta initiated three flights to Salt Lake City using regional jets; and Southwest initiated one flight to New Orleans.
- **February 2002.** American reinstated its nonstop service to Los Angeles with six flights using regional jets.
- **March 2002.** American initiated two flights to New York (JFK); and JetBlue added a third flight to New York (JFK).
- **April 2002.** Southwest introduced three flights to Chicago Midway.
- **May 2002.** JetBlue added a fourth flight to New York (JFK); and JetBlue and United both initiated two flights to Washington, D.C. With this additional service, the Airport currently has 13 daily nonstop flights to the East Coast: seven flights to New York, four flights to Washington, D.C., and two flights to Atlanta. All of this East Coast service has been added within the past three years. In addition, Spirit reinstated two flights to Detroit in May 2002, including nightly red-eye service.

Table 2.13 presents historical enplanements by airline at the Airport between FY 1997 and FY 2001. As shown, Southwest accounted for 65.4 percent of enplanements at the Airport in FY 2001, with the other five major airlines and Alaska accounting for an additional 30.8 percent of enplanements during this same period. As also shown, Southwest's share of enplanements at the Airport was 61.9 percent in FY 1997 and ranged between 65.3 percent and 67.9 percent during the following four years. Due to increased competition from Southwest and a restructuring of United Shuttle at the Airport, United's share of enplanements at the Airport steadily decreased from 13.6 percent in FY 1997 to 10.4 percent in FY 2001.

(2) Air Service

An important airport characteristic is the distribution of its O&D markets, which is a function of air travel demands and available services and facilities. This is particularly true for the Airport, as it services primarily O&D passengers. **Table 2.14** presents historical data on the Airport's primary (i.e., top 20) O&D markets for FY 1996 and FY 2001. As shown, the Airport's top 20 O&D markets constituted approximately 89 percent of the total domestic O&D traffic at the Airport in FY 1996 and approximately 83 percent in FY 2001. As also shown, the Airport served primarily short- to medium-haul markets in FY 1996 and FY 2001, with an average stage length (i.e., passenger trip distance) of 651 and 813 miles during these fiscal years, respectively. The average stage length for the Airport has historically been lower than that for the nation, reflecting the strong local demand for service to major California and other western U.S. markets. With New York increasing its ranking from 18th ranking in FY 1996 to 11th in FY 2001, and Baltimore entering into the Airport's top 20 O&D markets in FY 2001, the Airport's average stage length was more in line with that for the nation during this period compared to FY 1996 (only 3.1 percent lower than that for the nation in FY 2001, compared to 18.5 percent lower in FY 1996).

Nonstop scheduled air service available from the Airport is presented in **Table 2.15**. As shown, 28 cities are served with a total of 210 daily nonstop flights. Nineteen of the Airport's top 20 O&D markets are served with daily nonstop service, including each of the Airport's top 16 O&D markets. Los Angeles, the largest O&D market for the Airport, is provided 39 daily nonstop flights. Other markets with more than 10 daily nonstop flights include Burbank, Las Vegas, Ontario, Orange County, Phoenix, Portland, San Diego, and Seattle. In addition to the Airport's domestic service, scheduled international service is provided by Mexicana to Guadalajara, Mexico. The tour operator

TABLE 2.13

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HISTORICAL ENPLANEMENTS BY AIRLINE

	FY 1997		FY 1998		FY 1999		FY 2000		FY 2001	
Airline [1]	Enplanements	Share	Enplanements	Share	Enplanements	Share	Enplanements	Share	Enplanements	Share
Southwest	2,890,754	61.9%	2,990,455	65.3%	3,194,894	67.2%	3,436,583	67.9%	3,701,553	65.4%
United	636,925	13.6%	556,317	12.2%	563,859	11.9%	590,275	11.7%	586,900	10.4%
Alaska	528,454	11.3%	491,389	10.7%	509,735	10.7%	541,848	10.7%	514,067	9.1%
American	123,515	2.6%	141,845	3.1%	150,912	3.2%	156,139	3.1%	246,935	4.4%
America West	147,514	3.2%	125,812	2.7%	120,516	2.5%	135,483	2.7%	192,194	3.4%
Continental	--	--	--	--	--	--	3,108	0.1%	103,397	1.8%
Delta	206,638	4.4%	187,112	4.1%	89,031	1.9%	88,417	1.7%	94,016	1.7%
Aloha	--	--	--	--	--	--	22,712	0.4%	90,020	1.6%
JetBlue	--	--	--	--	--	--	--	--	56,251	1.0%
Mexicana	441	0.0%	1,426	0.0%	14,437	0.3%	35,014	0.7%	39,713	0.7%
Spirit	--	--	--	--	--	--	--	--	5,491	0.1%
Other [2]	136,411	2.9%	81,793	1.8%	114,209	2.4%	50,661	1.0%	28,911	0.5%
Airport Total	4,670,652	100.0%	4,576,149	100.0%	4,757,593	100.0%	5,060,240	100.0%	5,659,448	100.0%

[1] For those airlines that were party to a merger or acquisition, only the surviving entity is presented in this table

[2] Consists of airlines no longer serving the Airport and charters.

Sources: Port of Oakland
Compiled by Ricondo & Associates, Inc

TABLE 2.14

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PRIMARY DOMESTIC O&D PASSENGER MARKETS

FY 1996						FY 2001					
Rank	Market	Nonstop Service [1]	Trip Length [2]	Total O&D Passengers	Percent of Total	Rank	Market	Nonstop Service [1]	Trip Length [2]	Total O&D Passengers	Percent of Total
1	Los Angeles	●	SH	1,719,160	19.3%	1	Los Angeles	●	SH	1,614,250	15.6%
2	Burbank	●	SH	926,520	10.4%	2	Burbank	●	SH	877,840	8.5%
3	Seattle	●	MH	727,390	8.2%	3	San Diego	●	SH	806,010	7.8%
4	Orange County	●	SH	716,880	8.1%	4	Orange County	●	SH	756,910	7.3%
5	San Diego	●	SH	647,910	7.3%	5	Seattle	●	MH	716,980	6.9%
6	Ontario	●	SH	606,880	6.8%	6	Las Vegas	●	SH	655,510	6.3%
7	Las Vegas	●	SH	497,330	5.6%	7	Ontario	●	SH	650,040	6.3%
8	Portland	●	SH	419,780	4.7%	8	Portland	●	SH	454,920	4.4%
9	Phoenix	●	MH	346,190	3.9%	9	Phoenix	●	MH	426,010	4.1%
10	Salt Lake City	●	SH	284,140	3.2%	10	Salt Lake City	●	SH	255,710	2.5%
11	Reno/Tahoe	●	SH	235,780	2.6%	11	New York	●	LH	203,870	2.0%
12	Chicago	●	LH	123,620	1.4%	12	Reno/Tahoe	●	SH	178,910	1.7%
13	Spokane	●	MH	103,030	1.2%	13	Dallas	●	MH	159,300	1.5%
14	Dallas	●	MH	97,800	1.1%	14	Albuquerque	●	MH	150,280	1.5%
15	Denver	●	MH	96,320	1.1%	15	Chicago	●	LH	150,200	1.5%
16	Tucson		MH	81,450	0.9%	16	Denver	●	MH	134,010	1.3%
17	Albuquerque	●	MH	73,330	0.8%	17	Baltimore		LH	126,380	1.2%
18	New York	●	LH	71,140	0.8%	18	Houston	●	MH	114,990	1.1%
19	Houston	●	MH	58,820	0.7%	19	Kansas City	●	MH	91,500	0.9%
20	Boise	●	SH	50,340	0.6%	20	Spokane	●	MH	85,060	0.8%
Total - Top 20 Markets				7,883,810	88.6%	Total - Top 20 Markets				8,608,680	83.1%
Total - All Other Markets				1,018,180	11.4%	Total - All Other Markets				1,745,360	16.9%
Total - All Markets				8,901,990	100.0%	Total - All Markets				10,354,040	100.0%
Average Stage Length [3]						Average Stage Length [3]					
Airport				651 miles		Airport				813 miles	
United States				799 miles		United States				839 miles	

[1] May 2002.

[2] (SH) Short Haul = 1 to 600 miles
(MH) Medium Haul = 601 to 1,800 miles
(LH) Long Haul = over 1,800 miles

[3] Average passenger trip distance for all of the Airport's O&D markets.

Sources: USDOT Origin & Destination Survey of Airline Passenger Traffic
Compiled by Ricondo & Associates, Inc.

TABLE 2.15

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NONSTOP MARKETS

Market	Daily Nonstop Flights	Number of Airlines	Airline
Albuquerque	2	1	Southwest
Atlanta	2	1	Delta
Boise	1	1	Southwest
Burbank	14	1	Southwest
Chicago	6	2	Southwest (3 MDW), United (3 ORD)
Dallas	8	2	American (4), Delta (4)
Denver	5	1	United
Detroit	2	1	Spirit
Guadalahara, Mexico	2	1	Mexicana
Honolulu	1	1	Aloha
Houston	3	1	Continental
Kahului	1	1	Aloha
Kansas City	2	1	Southwest
Las Vegas	13	3	Aloha (2), America West (1), Southwest (10)
Los Angeles	39	5	American (6), American Eagle (6), SkyWest (4), Southwest (22), United (1)
Nashville	1	1	Southwest
New Orleans	1	1	Southwest
New York	7	3	American (2 JFK), Continental (1 EWR), JetBlue (4 JFK)
Ontario	14	1	Southwest
Orange County	14	2	Alaska (6), Southwest (8)
Phoenix	13	2	America West (7), Southwest (6)
Portland	11	2	Alaska (5), Southwest (6)
Reno/Tahoe	6	1	Southwest
Salt Lake City	7	2	SkyWest (3), Southwest (4)
San Diego	15	1	Southwest
Seattle	15	2	Alaska (8), Southwest (7)
Spokane	1	1	Southwest
Washington, D.C.	4	2	JetBlue (2), United (2)
Total Daily Flights	210		

Sources: Official Airline Guide (May 2002).
Compiled by Ricondo & Associates, Inc.

Suntrips consolidated its Bay Area operation at the Airport in February 2002, offering flights to resort destinations such as Cancun/Cozumel, Los Cabos, Puerto Vallarta, and Hawaii.

(3) Aircraft Operations

Table 2.16 presents historical operations (take-offs and landings) at the Airport by major user group between FY 1991 and FY 2001. As shown, total operations at the Airport ranged from a high of approximately 533,600 in FY 1996 to a low of approximately 413,900 in FY 1991. Specific points concerning trends in operational activity by major user group at the Airport are discussed below:

- **Passenger Airlines.** Passenger airline activity at the Airport increased from approximately 93,300 operations in FY 1991 to approximately 124,000 in FY 2001. This increase represents an annual compounded growth rate of 2.9 percent, compared to 2.1 percent experienced by air carriers nationwide. Passenger airline operations were relatively stable between FY 1991 and FY 1994; however, significant growth occurred in FY 1995 (24.9 percent growth from FY 1994 levels) and in FY 1996 (13.0 percent growth from FY 1995 levels), primarily due to continued expansion by Southwest and Alaska during this period. Passenger airline activity at the Airport decreased each year between FY 1997 and FY 2000 from the previous year's levels, from approximately 135,100 operations in FY 1996 to approximately 112,600 in FY 2000. These annual decreases were primarily due to the elimination of service by United to Burbank, a reduction in United's service to Los Angeles, and Delta's elimination of nonstop service to Salt Lake City during this period. Passenger airline operations increased 10.1 percent in FY 2001 from FY 2000 levels. This increase was primarily due to FY 2001 being the first full year of service at the Airport for Continental and Aloha, the initiation of service by JetBlue at the Airport in early FY 2001, and new service to Los Angeles from the Airport by American in early FY 2001. As discussed earlier, Spirit initiated service at the Airport in the last month of FY 2001 and, therefore, its impact to aircraft activity at the Airport was minimal during this period.

- **General Aviation.** General aviation activity at the Airport, which includes activity by other air taxi operators (for-hire charters, fixed base operators, etc.), averaged approximately 336,000 operations between FY 1991 and FY 2000. Operations by this major user group decreased 24.0 percent in FY 2001 from FY 2000 levels, primarily due to the closing of runways at the Airport during certain times for construction, which limited some touch and go training activity at the Airport. As a result, "local" general aviation activity at the Airport decreased from approximately 131,200 operations in FY 2000 to approximately 80,800 in FY 2001.[4] By mid-FY 2001, monthly operations for local general aviation were nearly one-half those in previous months. Another key factor affecting general aviation activity levels was the FAA's initiation of a new operations counting policy at the Airport, which made the counting more accurate yet reduced general aviation operations at the Airport in FY 2001 from previous years.

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[4] As defined by the FAA, "local" aircraft operations are performed by aircraft that operate within sight of an airport or are known to be operating in local practice areas within a 20-mile radius of an airport.

TABLE 2.16

Port of Oakland
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HISTORICAL AIRCRAFT OPERATIONS

Fiscal Year	Passenger Airlines	General Aviation [1]	All-Cargo Carriers	Military	Airport Total
1991	93,256	294,275	25,640	715	413,886
1992	84,508	307,517	26,162	927	419,114
1993	90,164	302,489	25,094	827	418,574
1994	95,704	358,914	27,782	874	483,274
1995	119,498	327,255	29,604	833	477,190
1996	135,054	366,066	31,102	1,402	533,624
1997	121,286	317,533	32,208	1,318	472,345
1998	115,842	365,251	35,246	964	517,303
1999	113,532	358,305	34,482	849	507,168
2000	112,596	362,167	30,924	664	506,351
2001	124,022	275,250	28,478	380	428,130
2001 (9 months)	90,932	209,446	22,094	295	322,767
2002 (9 months)	95,920	169,111	19,008	343	284,382
% Change	5.5%	-19.3%	-14.0%	16.3%	-11.9%
Annual Compounded Growth					
1991 - 2001	2.9%	-0.7%	1.1%	-6.1%	0.3%

[1] Also includes activity by other air taxi operators (representing approximately 18 percent of the total combined activity between FY 1991 and FY 2001).

Sources: Port of Oakland
Compiled by Ricondo & Associates, Inc.

- **All-Cargo Carriers**. Activity by all-cargo carriers at the Airport was relatively stable between FY 1991 and FY 2001, ranging from a high of approximately 35,200 operations in FY 1998 to a low of approximately 25,100 in FY 1993. Operations by all-cargo carriers at the Airport decreased each year between FY 1999 and FY 2001, from approximately 35,200 operations in FY 1998 to approximately 28,500 in FY 2001. These decreases were primarily due to a reduction of service by Burlington Air Express at the Airport in FY 1999 and its eventual elimination of service in early FY 2000, as well as the elimination of service by Airpac in late FY 2000. As discussed earlier, the Airport serves as FedEx's Pacific gateway for air cargo, and is operated as a mini-hub sorting facility by United Parcel Service.

- **Military**. Between FY 1991 and FY 2000, military activity at the Airport typically ranged between 800 to 1,000 operations. However, the Airport experienced approximately 1,300 to 1,400 military operations in FY 1996 and FY 1997, primarily due to the closure of the Alameda Naval Air Station. Military activity at the Airport decreased from its normal levels to approximately 400 operations in FY 2001. Similar to general aviation, local military training activity decreased from approximately 200 operations in FY 2000 to approximately 20 in FY 2001 due to the closing of runways at the Airport during certain times for construction.

Table 2.16 also presents a comparison of operations by major user group for the first nine months of FY 2002 and FY 2001. Due to the events of September 11, total operations at the Airport during the first nine months of FY 2002 were 11.9 percent below those during a similar period in FY 2001. The events of September 11 particularly affected general aviation and all-cargo activity at the Airport, with decreases of 19.3 percent and 14.0 percent, respectively, during these periods. Operations by passenger airlines, however, increased 5.5 percent during these periods due to the initiation of new and additional flights at the Airport following September 11, as discussed earlier.

(4) Landed Weight

Table 2.17 presents the share of landed weight by passenger airlines and all-cargo carriers at the Airport between FY 1997 and FY 2001. As shown, Southwest accounted for 41.9 percent of landed weight at the Airport in FY 2001, with the other five major airlines and Alaska accounting for an additional 23.0 percent of landed weight during this same period. As also shown, Southwest's share of landed weight at the Airport ranged from a high of 42.8 percent in FY 2000 to a low of 40.3 percent in FY 1997. As also shown, the all-cargo carriers accounted for 31.0 percent to 34.3 percent of the Airport's total landed weight between FY 1997 and FY 2001.

Table 2.18 presents a comparison of passenger airline and all-cargo carrier landed weight at the Airport for the first nine months of FY 2001 and FY 2002. As shown, landed weight for passenger airlines increased 3.8 percent during the first nine months of FY 2002 compared to a similar period in FY 2001. This increase in passenger airline landed weight was the result of new and additional flights at the Airport following September 11. As also shown, landed weight by all-cargo carriers decreased 11.6 percent during this same period, reflecting the impacts of September 11 on this group's activity at the Airport.

TABLE 2.17

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HISTORICAL LANDED WEIGHT BY AIRLINE (000 lbs)

	FY 1997		FY 1998		FY 1999		FY 2000		FY 2001	
Airline [1]	Landed Weight	Share	Landed Weight	Share	Landed Weight	Share	Landed Weight	Share	Landed Weight	Share
Passenger Airlines										
Southwest	4,232,827	40.3%	4,278,149	40.8%	4,365,296	42.1%	4,406,288	42.8%	4,633,498	41.9%
United	1,032,617	9.8%	750,335	7.2%	797,036	7.7%	837,019	8.1%	853,764	7.7%
Alaska	941,611	9.0%	876,580	8.4%	867,193	8.4%	809,707	7.9%	768,671	7.0%
American	167,466	1.6%	196,628	1.9%	195,458	1.9%	198,318	1.9%	377,458	3.4%
America West	205,324	2.0%	190,765	1.8%	183,278	1.8%	212,285	2.1%	253,609	2.3%
Delta	337,295	3.2%	311,669	3.0%	148,536	1.4%	136,625	1.3%	148,252	1.3%
Continental	--	--	--	--	--	--	3,740	0.0%	138,714	1.3%
Aloha	--	--	--	--	--	--	35,545	0.3%	136,576	1.2%
JetBlue	--	--	--	--	--	--	--	--	55,599	0.5%
Mexicana	618	0.0%	1,419	0.0%	19,966	0.2%	41,592	0.4%	53,658	0.5%
Spirit	--	--	--	--	--	--	--	--	5,980	0.1%
ALL-CARGO	3,259,295	31.0%	3,580,487	34.2%	3,554,195	34.3%	3,501,350	34.0%	3,539,511	32.0%
Other [2]	322,020	3.1%	296,354	2.8%	236,401	2.3%	119,804	1.2%	93,370	0.8%
Airport Total	10,499,073	100.0%	10,482,387	100.0%	10,367,359	100.0%	10,302,273	100.0%	11,058,660	100.0%

[1] For those airlines that were party to a merger or acquisition, only the surviving entity is presented in this table.

[2] Consists of airlines no longer serving the Airport and charters.

Sources: Port of Oakland
Compiled by Ricondo & Associates, Inc.

Table 2.18
Landed Weights - First Nine Months of FY 2001 and FY 2002

	Thousand Pounds		
Fiscal Year	Passenger Airlines	All Cargo Carriers	Airport Total
2001 (9 months)	5,520,274	2,741,277	8,261,551
2002 (9 months)	5,735,441	2,415,832	8,151,273
% Change	3.9%	-11.9%	-1.3%

Sources: Port of Oakland
Compiled by Ricondo & Associates, Inc.

2.3.4 PROJECTED AIRPORT ACTIVITY

Projections of aviation demand were prepared on the basis of local socioeconomic and demographic factors, the Airport's historical shares of U.S. enplanements, and anticipated trends in air carrier usage of the Airport. These projections are based on a number of underlying assumptions, including:

- In the short-term, activity at the Airport will continue to recover from the events of September 11. New and additional service inaugurated at the Airport following September 11 will provide a strong base for increased activity.

- Long-term activity at the Airport is assumed to increase as a result of expected growth in population and continued strong economic conditions in the Air Trade Area. No additional terrorist attacks in the United States are assumed to occur during the projection period.

- The Airport will continue to provide nonstop service to a high percentage of its primary O&D markets. The composition of its air carrier base will also continue to foster competitive pricing and scheduling diversity.

- Low-fare service will continue to be a viable component of air service at the Airport, providing a niche of air travel demand that will continue during the projection period.

- With 12 gates and approximately 9.5 aircraft turns per gate, Southwest's activity at the Airport is currently constrained. The Airport intends to begin construction of seven new gates in FY 2003 with completion expected in FY 2005 (2 which are replacement of gates in Terminal 2 that will have to be closed due to construction of the new concourse, resulting in a net gain of five additional gates). Of these five additional gates, Southwest will occupy three, resulting in capacity for approximately 350,000 additional enplanements in that fiscal year beyond normal growth. Beyond meeting this constrained demand, no material changes in Southwest's activity at the Airport is expected during the projection period.

- Airline consolidation/mergers that may occur during the projection period are not likely to negatively impact passenger activity levels at the Airport due to its high percentage of O&D passengers. New airline alliances, should they develop, will be restricted to code sharing and joint frequent flyer programs, and should not reduce airline competition at the Airport.

- The Airport will continue its role in the Bay Area in serving O&D passengers in short to medium-haul markets. Continued growth in medium and long-haul markets will also occur in southern, Midwestern, and eastern U.S. markets during the projection period.

- The Airport will continue to serve as FedEx's Pacific gateway for air cargo, as well as a mini-hub sorting facility by United Parcel Service.

- The price of aviation fuel has steadily increased in recent years, requiring some passenger airlines to implement a surcharge to their pricing structure. However, fuel prices are not anticipated to negatively impact air travel demand in the long term due to competitive market pressures.

- Economic disturbances will occur in the projection period causing year-to-year traffic variations; however, a long-term increase in nationwide traffic is expected to occur.

Many of the factors influencing aviation demand cannot necessarily or readily be quantified. As a result, the projection process should not be viewed as precise. Actual future traffic levels at the Airport may differ from projections presented herein because of unforeseen events.

(1) Enplanement Projections

Table 2.19 presents historical and projected enplanements at the Airport. As shown, passenger activity is expected to increase from approximately 5.7 million enplanements in FY 2001 to approximately 8.2 million in FY 2011. This increase represents an annual compounded growth rate of 3.8 percent during this period, compared to 2.9 percent projected for the nation by the FAA, and reflects Airport activity rebounding from the impacts of September 11 better than the industry average. It is projected by the FAA that enplanements nationwide will recover from the impacts of September 11 by the end of federal FY 2003 (12 months ending September 30). As also shown, enplanements at the Airport between FY 2003 and FY 2011 are projected to increase at an annual compounded growth rate of 3.9 percent, comparable to the 3.8 percent growth projected nationwide by the FAA. The strong growth and recovery anticipated in FY 2003 for the Airport reflect the new and additional service provided to New York, Washington, D.C., New Orleans and other cities following September 11, as well as the impacts of Southwest's decision to eliminate its service at SFO in March 2001 and shift most of its West Coast corridor routes to the Airport.

(2) Operations Projections

Table 2.20 presents historical and projected aircraft operations for passenger airlines, general aviation, all-cargo carriers, and military. As shown, total aircraft activity at the Airport is projected to increase from approximately 428,100 operations in FY 2001 to 458,200 in FY 2011. This increase represents an annual compounded growth rate of 0.7 percent during this period, compared to 1.4 percent projected for the nation by the FAA. Similar to enplanements, the FAA projects operations nationwide will recover from the impacts of September 11 by the end of federal FY 2003. As also shown in Table 2.20, operations at the Airport are expected to increase at an annual compounded growth rate of 1.7 percent between FY 2003 and FY 2011, comparable to the 1.8 percent growth projected nationwide by the FAA.

TABLE 2.19

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ENPLANEMENT PROJECTIONS

Fiscal Year	Passenger Airlines
Historical	
1991	2,988,306
1992	3,085,138
1993	3,542,438
1994	3,835,342
1995	4,620,362
1996	4,947,586
1997	4,670,652
1998	4,576,149
1999	4,757,593
2000	5,060,240
2001	5,659,448
Projected	
2002	5,722,000
2003	6,001,700
2004	6,246,400
2005	6,850,700
2006	7,059,500
2007	7,261,800
2008	7,473,300
2009	7,693,800
2010	7,930,300
2011	8,178,200
Annual Compounded Growth	
1991 - 2001	6.6%
2001 - 2002	1.1%
2002 - 2003	4.9%
2003 - 2011	3.9%
2001 - 2011	3.8%

Sources: Port of Oakland (historical)
Ricondo & Associates, Inc. (projected)

TABLE 2.20

Port of Oakland

Aviation Division
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OPERATIONS PROJECTIONS

Fiscal Year	Passenger Airlines	General Aviation [1]	All-Cargo Carriers	Military	Total
Historical					
1996	135,054	366,066	31,102	1,402	533,624
1997	121,286	317,533	32,208	1,318	472,345
1998	115,842	365,251	35,246	964	517,303
1999	113,532	358,305	34,482	849	507,168
2000	112,596	362,167	30,924	664	506,351
2001	124,022	275,250	28,478	381	428,131
Projected					
2002	130,800	222,100	24,500	500	385,200
2003	135,000	229,500	26,400	500	398,900
2004	138,200	232,300	27,200	500	405,900
2005	149,200	235,100	27,800	500	420,500
2006	151,400	238,800	28,600	500	427,400
2007	153,400	241,500	29,400	500	433,100
2008	155,400	244,300	30,000	500	438,700
2009	157,600	247,100	30,800	500	444,700
2010	159,800	250,800	31,600	500	451,600
2011	162,400	253,600	32,600	500	458,200
Annual Compounded Growth					
1996 - 2001	-1.7%	-5.5%	-1.7%	-22.9%	-4.3%
2001 - 2002	5.5%	-19.3%	-14.0%	31.2%	-10.0%
2002 - 2003	3.2%	3.3%	7.8%	0.0%	3.6%
2003 - 2011	2.3%	1.3%	2.7%	0.0%	1.7%
2001 - 2011	2.7%	-0.8%	1.4%	2.8%	0.7%

[1] Also includes activity by other air taxi operators (representing approximately 18 percent of the total combined activity between FY 1991 and FY 2001).

Sources: Port of Oakland (historical)
Ricondo & Associates, Inc. (projected)

Passenger airline activity at the Airport is projected to increase from approximately 124,000 operations in FY 2001 to 162,400 in FY 2011. With the new and additional service provided at the Airport since September 11, strong growth in passenger airline operations is expected through FY 2003. During the remainder of the projection period, however, it is anticipated that passenger aircraft activity will increase at an annual compounded growth rate of 2.3 percent, slightly below the 2.6 percent growth rate projected for the nation by the FAA. In general, the passenger airline projections were developed based on historical relationships among enplaned passengers, load factors, and average seating capacities of aircraft utilized at the Airport. Specifically, projections of operations for the Airport's passenger airlines were based on the following factors:

- Average seats per departure for passenger airlines at the Airport ranged from 131 to 135 seats between FY 1996 and FY 2001, compared to 137 to 143 seats nationwide during this same period. This lower average seat size for the Airport was due to the high percentage of smaller jet aircraft such as the B-737s operated by a majority of the Airport's airlines including Southwest, United, Alaska, and America West. Average seats per departure for the Airport are projected to increase at a level less than that projected for the nation (0.50 seats each year for the Airport versus 0.75 seats each year for the nation). It is anticipated that the Airport will continue its role of providing high frequency flights by smaller jet aircraft to short and medium-haul markets; however, continued growth in medium and long-haul markets will also occur during the projection period, resulting in increases in average aircraft seat size.

- Passenger load factors at the Airport were approximately 59 percent each year between FY 1996 and FY 1998. Load factors steadily increased each year thereafter to approximately 69 percent in FY 2001. Average load factors at the Airport are expected to continue to increase in line with levels projected nationwide by the FAA, reaching approximately 73 percent in FY 2011.

As discussed earlier, general aviation operations at the Airport during the first nine months of FY 2002 were 19.3 percent below that for a similar period in FY 2001. It was assumed this relationship would continue through the end of FY 2002, with subsequent recovery in FY 2003 and normal growth thereafter in line with growth projected nationwide by the FAA. General aviation activity at the Airport is expected to decrease from approximately 275,300 operations in FY 2001 to 222,100 operations in FY 2002, recover to approximately 229,500 operations in 2003, and then increase to approximately 253,600 operations in 2011, an annual compounded growth rate of 1.3 percent between FY 2003 and FY 2011.

As also discussed earlier, all-cargo activity at the Airport during the first nine months of FY 2002 was 14.0 percent below that for a similar period in FY 2001. Similar to general aviation operations, this relationship was assumed to continue through the end of FY 2002. As a result, all-cargo activity at the Airport is expected to decrease from approximately 28,500 operations in FY 2001 to 24,500 operations in FY 2002. Thereafter, projected growth in all-cargo operations at the Airport is expected to be in line with growth projected nationwide for air carriers by the FAA, however, all-cargo operations will not reach pre-September 11 levels until the FY 2005 to FY 2006 period. The Airport will continue its importance to carriers such as FedEx and United Parcel Service in their system-wide air cargo operations.

Future military activity at the Airport will be influenced by U.S. Department of Defense policy, which largely dictates the level of military activity at an airport. Military activity at the Airport is projected to remain constant at approximately 500 operations each year during the projection period, comparable to its average activity level for FY 2000 and FY 2001.

(3) Passenger Airline and All-Cargo Landed Weight Projections

Table 2.21 presents historical and projected passenger airline and all-cargo carrier landed weight at the Airport. As shown, passenger airline landed weight is projected to increase from 7,519,149 thousand pounds in FY 2001 to 10,335,116 thousand pounds in FY 2011. This increase represents an annual compounded growth rate of 3.2 percent during this period. As also shown, all-cargo landed weight at the Airport is projected to increase from 3,539,511 thousand pounds in FY 2001, decrease to 3,127,714 thousand pounds in FY 2002, recover to 3,304,727 in FY 2003, and then increase to 4,129,465 thousand pounds in FY 2011. This increase represents an annual compounded growth rate of 2.8 percent between FY 2003 and FY 2011, and represents the continued importance of air cargo anticipated at the Airport at least through the projection period.

TABLE 2.21

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LANDED WEIGHT PROJECTIONS (000 lbs.)

Fiscal Year	Passenger Airlines	All-Cargo Carriers	Airport Total
Historical			
1996	7,497,913	2,962,980	10,460,893
1997	7,239,778	3,259,295	10,499,073
1998	6,901,900	3,580,487	10,482,387
1999	6,813,164	3,554,195	10,367,359
2000	6,800,923	3,501,350	10,302,273
2001	7,519,149	3,539,511	11,058,660
Projected			
2002	7,803,351	3,127,714	10,931,065
2003	8,113,636	3,304,727	11,418,363
2004	8,367,093	3,409,942	11,777,035
2005	9,099,070	3,490,345	12,589,415
2006	9,300,212	3,596,119	12,896,331
2007	9,490,926	3,702,192	13,193,117
2008	9,683,409	3,783,340	13,466,749
2009	9,890,213	3,889,972	13,780,185
2010	10,098,963	3,996,902	14,095,865
2011	10,335,116	4,129,465	14,464,581
Annual Compounded Growth			
1996 - 2001	0.1%	3.6%	1.1%
2001 - 2002	3.8%	-11.6%	-1.2%
2002 - 2003	4.0%	5.7%	4.5%
2003 - 2011	3.1%	2.8%	3.0%
2001 - 2011	3.2%	1.6%	2.7%

Sources: Port of Oakland (historical)
Ricondo & Associates, Inc. (projected)

2.4 AVIATION PROJECTS IN THE CAPITAL IMPROVEMENT PROGRAM

This section presents a review of existing Airport facilities and a description of the major projects included in the aviation portion of the Capital Improvement Program (the "CIP").

2.4.1 EXISTING AVIATION FACILITES

The Airport is located approximately 10 miles south of downtown Oakland on approximately 2,580 acres of land. A portion of this land (180 acres) is considered wetland and there are environmental constraints on future development.

Exhibit 2.3 illustrates the existing facilities at the Airport. As shown, the Airport's facilities consist generally of the airfield (i.e., runways and taxiways), passenger terminal facilities, air-cargo facilities, aircraft maintenance support facilities, and corporate/GA facilities, all of which are described in greater detail in the following paragraphs.

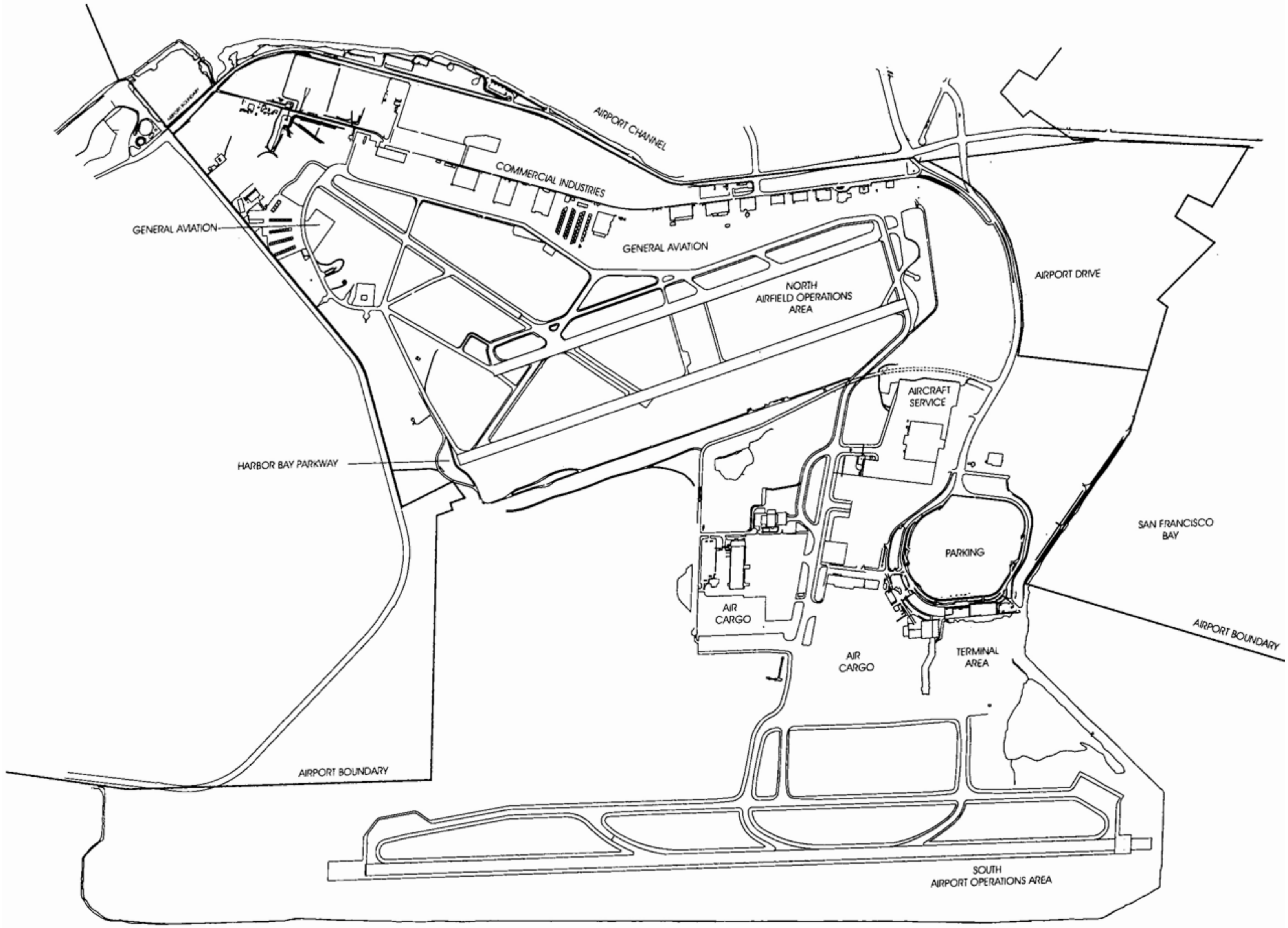
(1) Airfield

The Airport has four runways, one used primarily by commercial air carriers and located at the south side of the Airport (the South Airport), and three at the north side of the Airport (the North Airport) used by corporate/GA operators. The North and South Airports are operated as independent and separate facilities. Each has its own FAA air traffic control tower and the 1.5-mile separation between them permits independent, simultaneous flight operations. South Airport's Runway 11/29 is an asphalt 10,000 foot by 150-foot Transport Runway. Runway 11/29 has precision ILS approach systems for each direction with clear over-water approaches at each end.

The North Airport runways are used primarily for corporate/GA activity and are composed of parallel Transport Runways 9L/27R and 9R/27L and a General Utility Runway, 15/33. Runway 9L/27R is 5,452 feet by 150 feet, Runway 9R/27L is 6,212 feet by 150 feet, and Runway 15/33 is 3,366 feet by 75 feet. All three runways are of asphalt composition. Runway 27R has a precision ILS approach; and Runway 9R/27L is approved for non-precision approaches. Runways 9L/27R and 9R/27L are also alternate air carrier runways.

A system of taxiways connects the runways to the general aviation apron areas and the passenger terminal apron. Taxiway B extends from Runway 11/29's parallel taxiway to the North Airport area.

The airfield area also includes clear zones at the runway ends and required safety areas along taxiways and runways. All runways are paved, marked, and lighted.



Source: OAK ALP.
Prepared by: Ricondo & Associates, Inc.

Exhibit 2.3

EXISTING AIRPORT FACILITIES

North

Not To Scale

(2) Passenger Terminal Facilities

The passenger terminal area includes two terminal buildings, a terminal apron, and a roadway and parking system. The passenger terminal facilities consist of two separate buildings (Terminal 1 and Terminal 2).

- Terminal 1 - This terminal, completed in 1962, originally accommodated all of the commercial passenger traffic at the Airport. The terminal consists of approximately 281,426 square feet and contains 16 aircraft gates, which are furnished with loading bridges. The building contains ticket counters, airline offices, baggage claim and makeup areas, car rental counters, various concessions such as food, beverage, news, and gift, and Airport administrative offices. In 2001, the Port added two additional gates to the existing concourse building.

  Also included in Terminal 1 is a 28,425 square foot International Arrivals Building (with two aircraft positions, served with loading bridges), which provides customs and immigration facilities with an inspection capacity of 500 passengers per hour, capable of accommodating B-747 passenger loads.

- Terminal 2 - This terminal, consisting of 84,222 square feet, was completed in 1985 and is located approximately 300 feet east of Terminal 1. A covered curbside walkway connects the two buildings, as does an interior corridor connecting the secured areas of each terminal. Southwest Airlines is the only airline tenant in Terminal 2, utilizing all eight aircraft gates. In addition to airline space, Terminal 2 contains car rental counters, a bar/restaurant, and news and gift shops.

Other than upgrades to restroom remodeling, food and retail concessions facility remodeling, and security checkpoint modifications, the latest improvements to the terminal facilities were completed in 1995 and 1996. These improvements included the above-mentioned interior connector between Terminal 1 and Terminal 2, which allowed the Airport to have maximum flexibility regarding the placement of airlines within the complex and provided additional passenger convenience, and accessibility improvements to Terminal 1 conforming to the requirements of the Americans with Disabilities Act.

The terminal apron area consists of approximately 243,130 square yards of asphaltic concrete, with concrete aircraft parking areas at each gate. The Airport recently completed the construction of 13 aircraft positions of remote aircraft parking apron for use by both passenger and cargo aircraft.

Two one-way roads serve the landside portions of Terminal 1 and 2. The inner roadway is intended for passenger loading and unloading and is three lanes wide in front of Terminal 1 and four lanes wide in front of Terminal 2. The outer roadway is two lanes wide and is intended for through traffic, commercial vehicles, AirBART, and exit from the Airport. The Airport is constructing curbside improvements that will add a third curb thoroughfare intended to segregate commercial vehicle traffic from private vehicles. The project is expected to be completed by Fall 2002.

Currently, there are approximately 6,475 public parking spaces located at grade-level in front of the passenger terminal area. These consist of 1,172 short-term, 3,363 long-term, and 1,940 economy spaces. In addition there is an overflow lot with an approximate capacity of 1,300 spaces. As a result of federal regulations put into place after September 11, 2001, 400 parking spaces that existed within 300 feet of the Airport's Terminals are no longer available. These lost spaces will ultimately be converted into a third curbside lane in front of the terminals. In addition to the Airport's on-Airport parking spaces, there are approximately 4,200 off-Airport parking spaces.

A shuttle bus operates daily between the AirBART Oakland-Alameda Coliseum/Airport Station and the passenger terminal area. The Airport is currently the only Bay Area airport with a direct connection to the BART railway system. The BART railway system is anticipated to be extended to serve SFO in Fall 2002. BART, the City of Oakland, and the Port are developing a BART-Oakland International Airport Connector to improve transit access between BART's regional rail system at the Coliseum BART Station and Oakland International Airport. The system will be an aerial guideway over the 3.2-mile distance between the Coliseum BART Station and Oakland International Airport for use by automated vehicles that would be independent of local street traffic. The $232 million project is funded in part by voter approved Measure B funds (approximately $73 million), and a number of other funding sources including the State Transportation Improvement Program (STIP), regional bridge tolls, and the City of Oakland. The Airport will fund $25 million of the project costs. The system is expected to be put into service in 2008.

(3) Air-Cargo Facilities

Air-cargo activity at the Airport is performed by companies providing standardized cargo services centered around express; freight and mail, such as FedEx, Airborne, Ameriflight, and UPS; and passenger airlines using excess baggage hold capacity. Overall, air cargo activities occupy over 95 acres of land at the Airport. With over 700,000 tons of cargo in 2000, the Airport ranks as the 26th busiest cargo airport in the world.

The greatest amount of air-cargo activity is located at the 239,000 square foot FedEx sort facility, built at a cost of approximately $30 million. An additional 17,280 square foot facility has been converted for FedEx's international clearance location. Encompassing almost 64 acres, this facility is the FedEx hub for all of its West Coast operations including direct services from Japan. Approximately one-fifth of FedEx's system volume is handled through this center.

UPS established a 39,600 square foot sort facility at a cost of approximately $1 million, and the U.S. Postal Service occupies 44,000 square feet of warehouse space along with 72,600 square feet of apron and vehicle parking space on both North and South Airports combined. A limited amount of air-cargo activity is handled at the North Airport.

Other air-cargo activity is located on the south and north sides of the Airport. The air-cargo buildings consist of approximately 86,463 square feet and are surrounded by approximately 125,000 square yards of apron space.

(4) Support Facilities

In addition to passenger and air-cargo related facilities, the South Airport contains other types of aviation and nonaviation facilities which are described as follows:

- The largest ***aviation-related facility*** in the passenger terminal area is the 39.5-acre apron, ramp, and maintenance hangar complex leased by United Airlines. The hangar located in this area is approximately 309,910 square feet within which United's worldwide widebody aircraft fleet is maintained. It is capable of simultaneously housing four B-747 or six DC-10 aircraft and is used as a primary heavy maintenance facility for all of the airline's wide body aircraft. To date, United has invested approximately $40 million in upgrading this facility. United has an option to lease an additional 5.7 acres adjacent to its existing facility, which may be used for ancillary services such as an aircraft painting facility or an upholstery shop.

Additionally, this area also includes a 28,000 square foot airline-catering building leased to LSG Sky Chefs, which is planned to be demolished and relocated.

- ***Nonaviation-related facilities*** in the passenger terminal area consist of a 90,616 square foot service facility operated by Avis Rent-A-Car System.

(5) Corporate/General Aviation (GA) Facilities

Facilities and services for corporate/GA aircraft are provided at the North Airport on approximately 980 acres. This area consists of the airfield that was described earlier in this section, the aircraft ramp area, and the commercial/industrial area. The North Airport is used extensively by cargo services and corporate aircraft.

- The ***aircraft ramp area*** is approximately 100 acres, including all property with direct access to the North Airport runways. The aprons have been constructed in stages as the Airport evolved over the years, with various sections of the ramp built for differing load standards, depending on the requirement at the time of construction.

  There are ten large aircraft hangars located at the North Airport. Hangars 1 through 5 were constructed in the 1920s, Hangars 7 through 9 in the early 1940s, and Hangar 6 in 1958. The newest hangar, Hangar 10, completed in 1996, is a 57,000 square foot facility located on an infield 1.3-acre site. Built by Chevron, the $9.8 million facility is Chevron's corporate aviation headquarters. Currently, Alaska Airlines conducts fleet maintenance in Hangar 6, a 82,755 square foot facility on approximately 8 acres of apron. Hangar 6, renovated at a cost of over $2.7 million, is one of two Alaska facilities capable of maintaining its fleet of MD-80s.[5] Alaska announced plans to relocate 120 maintenance personnel from its Seattle base to the Airport and future plans to expand its Hangar 6 maintenance facilities into a 176,000 square foot right of first refusal expansion area. Also located on the apron area are 84 T-hangars housing general aviation aircraft.

- The ***commercial/industrial area*** extends the length of the Airport along Earhart Road, paralleling the ramp area. This area contains numerous office and industrial buildings dating back to the 1940s. The primary tenants of this area include the FAA, U.S. Postal Service, Sierra Academy of Aeronautics, Trans-Box System, Rolls Royce Engine Services, and Kaiser Air. Rolls Royce employs approximately 530 technicians and is the second largest Allison engine repair shop in the world. Rolls Royce is currently expanding it's facility with the construction of a 70,000 square foot building. Sierra Academy of Aeronautics has approximately 825 students at any one time. Curriculums offered are for aircraft mechanics, dispatchers, flight engineers, and pilots. Sierra Academy recently exercised rights to provide secondary fueling services at the Airport.

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[5] Alaska's Boeing fleet is maintained at Seattle-Tacoma International Airport.

2.4.2 AVIATION PROJECTS IN THE CAPITAL IMPROVEMENT PROGRAM

The Port recognizes the need to continue maintaining and upgrading its aviation facilities to keep pace with increased passenger and cargo demands. The Aviation Division's projects in the CIP are being undertaken because the Airport's terminal and landside facilities are presently operating at or above their design capacities. The CIP comprises projects designed to meet the Airport's projected needs, while providing the flexibility to meet additional long-term requirements at both the North Airport and South Airport. Key elements of the CIP projects include, among others, construction of a new Airport entrance roadway, a structured public parking facility, new rental car facilities, the expansion of Terminal 2, the expansion of the security checkpoints in both terminals, new aircraft parking areas at the South Airport to accommodate passenger aircraft remote parking and air cargo operations, and the construction of aprons at the North Airport to facilitate operations by several cargo carriers.

The Port has undertaken numerous planning efforts related to the CIP projects and has refined its cost estimates and is in the process of schematic design. In addition to those projects and costs identified in the CIP, the Aviation Division has also identified a number of major future capital projects that support the long-term growth of the Airport. These future capital projects primarily include various projects associated with the long-term redevelopment of Terminals 1 and 2, apron areas, and the terminal roadway access. The Port will not proceed with these future capital projects other than those identified within the CIP, and adequate funding is available. Any future capital projects will be the subject of additional feasibility studies and analysis of the Port's ability to maintain its debt service rate covenant and the Port's overall financial situation.

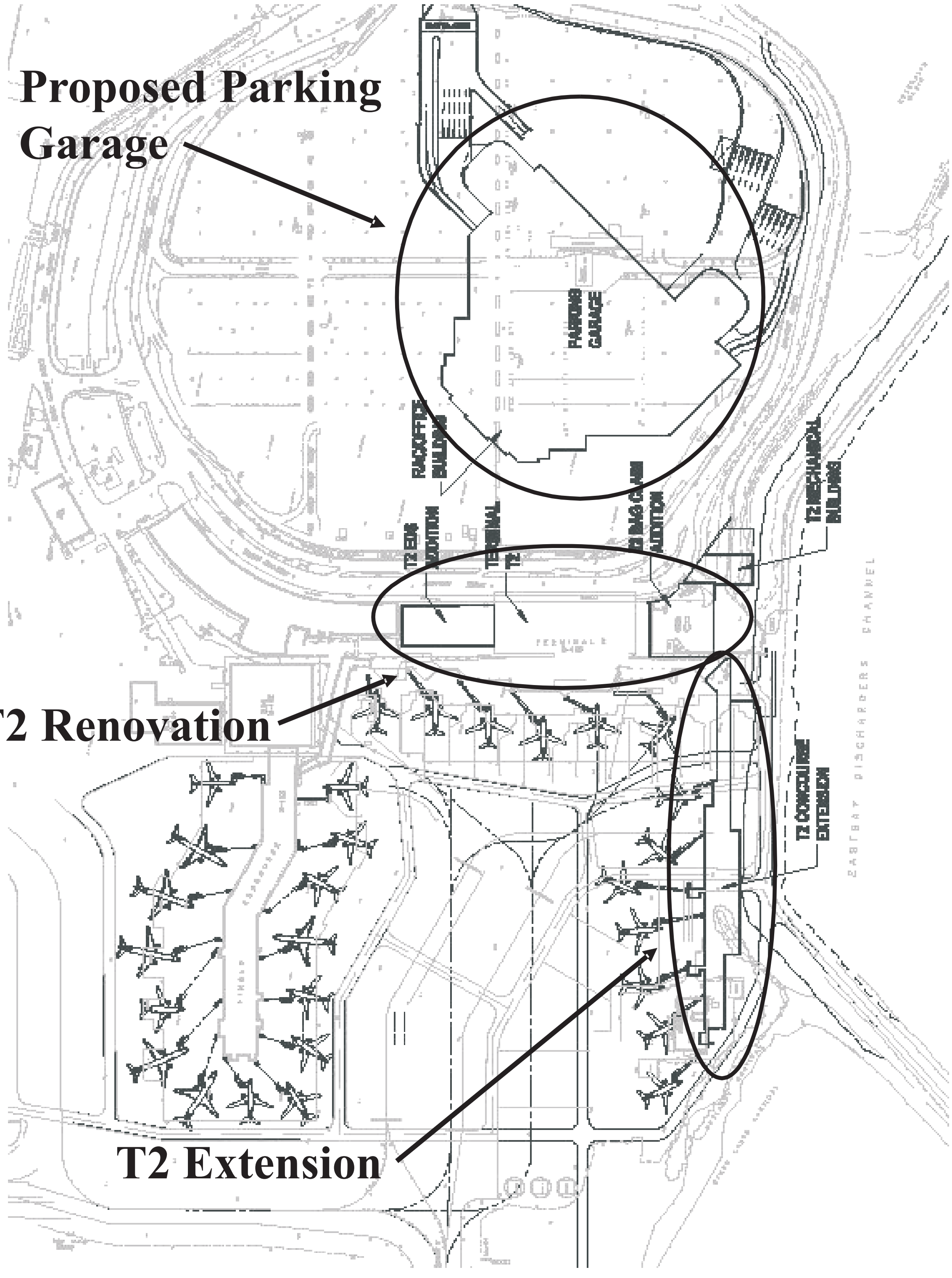
The Aviation Division's projects included in the CIP includes the construction of approximately $671.2 million of projects identified in the CIP. The financial analysis in Chapter Five of this report includes debt service requirements for the CIP (i.e., projects funded from the Series 2002 Bonds as well as estimates of debt service for the remaining CIP projects assumed to be financed with proceeds from additional bonds). **Exhibit 2.4** presents the location of the major components of the Aviation Division's CIP projects.

The Aviation Division's projects included in the CIP and related cost estimates are presented in **Table 2.22** and described below in greater detail. As mentioned previously, the analysis presented in Chapter Five of this report assumes completion of all of the Aviation Division's projects in the CIP and, therefore, includes estimates of future debt service requirements and resulting fees, charges, and cash flow.

(1) South Airport Projects

The total cost for South Airport projects included in the CIP is estimated to be approximately $622.8 million. Major elements of the CIP projects for South Airport are described below:

- Terminal - The Port intends to construct a two story 800 linear-foot concourse that will provide 7 gates (2 which are replacement of gates in Terminal 2 that will have to be closed due to construction of the new concourse) and typical concourse amenities. The concourse will extend from the existing Terminal 2 facility. The existing Terminal 2 Building will be renovated to provide capacity for enhanced passenger and baggage screening functions. The Airport will provide a prepared site for the construction of Southwest's provisioning building, a replacement necessitated by the Terminal 2 concourse extension construction. In the near term, various facility improvements will be put in service at the Airport throughout the next year, including additional restrooms in Terminal 1, expansion of the security checkpoints in both terminals, and improvements in building temperature control. Additionally, the Airport is constructing a charter carrier ticketing facility within the existing Terminal 1 infrastructure.



Source: Port of Oakland
Prepared by: Ricondo & Associates, Inc.

Exhibit 2.4

north

Not To Scale

Aviation Projects in the Capital Improvement Program

TABLE 2.22

Port of Oakland
Aviation Division
Feasibility Report

AVIATION PROJECTS IN THE CAPITAL IMPROVEMENT PROGRAM (000's)

Project Description	Total Cost
NORTH AIRPORT	
Utilities and Roadway Infrastructure	$6,121
Taxiway and Apron Overlays	16,808
Airport Facilities Service Building	8,448
Rental Car Consolidated Interim Facilities	17,069
	$48,446
SOUTH AIRPORT	
Terminal Improvements (Ticketing, Offices, Restrooms)	$16,124
Terminal Systems Improvements	7,235
Utility Improvements	1,445
Airfield - Aprons and Taxiway Improvments	10,381
Roadway Upgrades	3,689
Environmental and Planning	9,585
Terminal 2 Renovation and Concourse Extension	139,335
Parking Garage	205,077
Surface Parking Lots	21,231
	$414,102
AIRPORT - GENERAL AREAS	
Airport Roadway Project	$35,704
Bart Connector Project	25,000
Interim Airport Improvements	113,715
Sound Insulation Program	13,370
Mitigation/Wetland Programs	396
Miscellaneous Capital Projects/Equipment	20,504
	$208,689
TOTAL	$671,237

Source: Port of Oakland

In November 2001, Congress enacted legislation requiring the screen checking of all outbound baggage. In order to comply with certain aspects of these requirements, the Airport must expand its outbound baggage processing area by 22,300 square feet. The expanded baggage area will be constructed on the current area known as the VIP parking lot adjacent to Terminal 2, and 2,000 square feet in the area currently used for airline ticket offices. The displaced airline ticket offices will be relocated to other parts of Terminal 2. Further, changes in security requirements and passenger behavior since September 11 have resulted in substantial queuing at the Airport ticket counters during peak periods. In order to alleviate this queuing and to enhance airport security by reducing congestion in the passenger check-in area, additional ticket counters and check-in stations will be constructed in Terminal 2. The Port plans to construct 12 new ticket counters, 2,200 square feet of new airline ticket office space and 12 new curbside check-in stations outside of Terminal 2.

Heightened security requirements and procedures also have resulted in substantial queuing at the Airport's passenger security checkpoints. The Port plans to add five new security checkpoint positions in Terminal 2, for a total of 10 security checkpoint positions. Because the security checkpoint positions and office space will be constructed in the footprint of the current passenger baggage claim area, the Port intends to replace the existing passenger baggage claim area in an area adjacent to Terminal 2.

- <u>Field and Ramp</u> - Improvements and expansion to the South Airport's field and ramp area includes such projects as improvements to airfield lighting systems, construction of overnight aircraft parking aprons and hydrant fueling on the north side of Taxiway W, construction of new apron areas adjacent to Terminal 2, and continuation of the Port's noise insulation program.

- <u>Ground Access and Parking</u> - A third vehicular traffic roadway and curb segment is being constructed in front of the Airport terminals. This project will provide a dedicated passenger staging curb and lanes for rental car and ground transportation traffic. The existing roadways will then be dedicated for private vehicle traffic.

  Additionally, improvements have been made to 98th Avenue, which is a six-lane limited access road and serves as the primary entrance to the Airport. The project will provide an arterial roadway from 98th Avenue through the Airport to Bay Farm Island in Alameda. Most of Airport Drive will be widened from 2 to 3 lanes in each direction.

  The Airport is also constructing a 6,000 stall parking structure for rental car pick-up and return and for public parking purposes. The Airport is developing a 4,100 stall surface off-site parking lot. This lot will provide replacement parking for stalls that will be lost during the planned construction of the parking garage and rental car center and later used as an economy lot.

- Rental Car Facilities – Temporary rental car facilities are being constructed while the terminal, roadway, and parking areas are being reconstructed. Upon completion of the parking structure, the rental car companies will use the first two levels of the garage for rental car pick-up and return.

- Other Improvements – Other Improvements include improvements to utility infrastructure, general terminal refurbishment, and capital equipment purchases.

(2) North Airport

Improvements planned for the North Airport total approximately $48.4 million. Major projects include the construction of an Airport services building, construction of an infield roadway to the proposed future air cargo center, an overlay of Runway 9R/27L, and reconstruction or replacement of the apron near the postal service and Taxiway D, construction of the interim rental car facilities, as well as minor utility work.

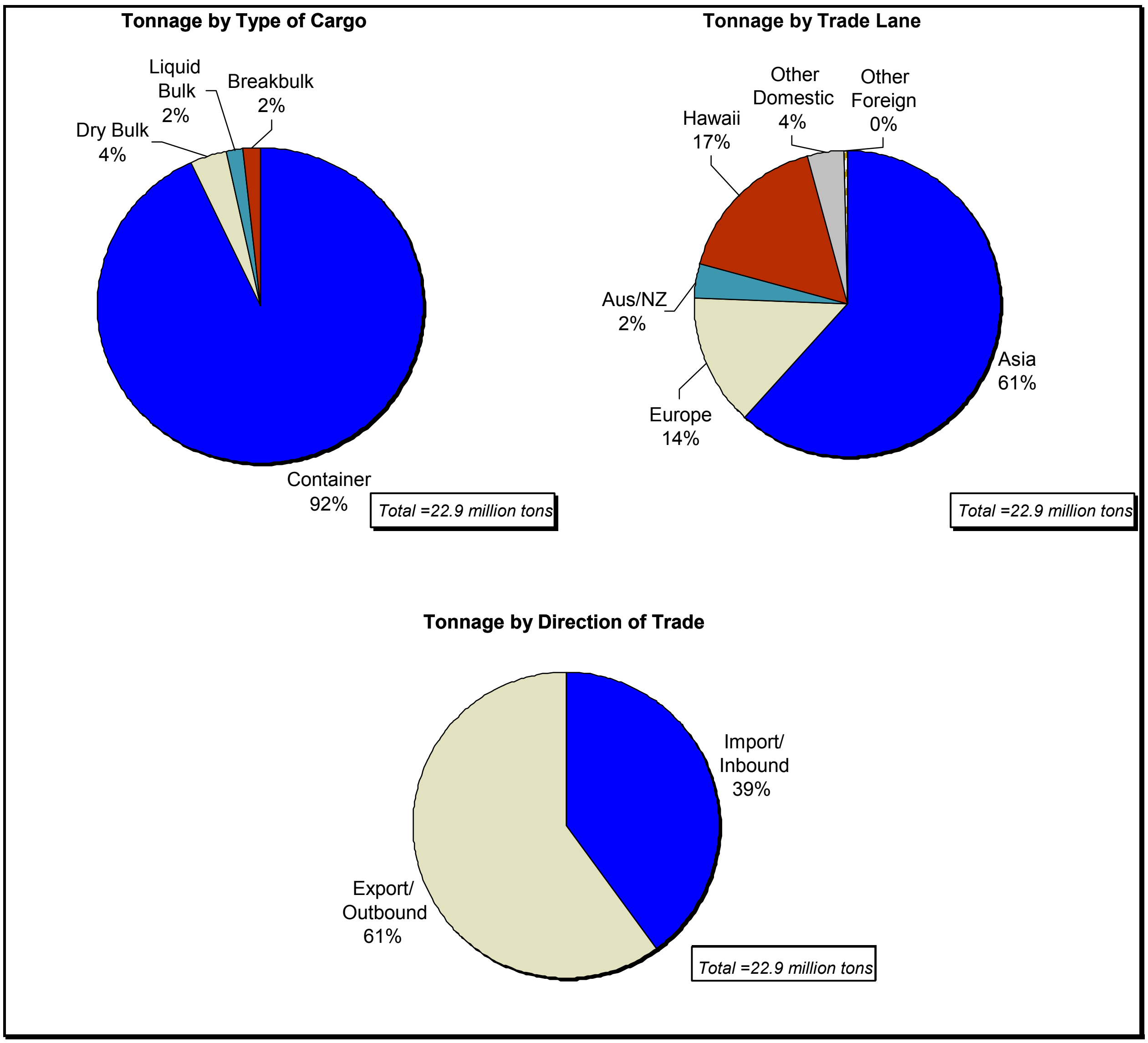
3. MARITIME DIVISION

3.1 PRINCIPAL BUSINESS FOCUS

The Maritime Division of the Port designs, constructs, and maintains marine transportation facilities, which are managed and operated by the private sector under lease or other contractual arrangements. The marine transportation facilities of the Port serve as the critical link between ocean carriers and truck and rail connections for both international and domestic waterborne trade. The Port serves as the principal ocean gateway for Northern California, and is one of four major gateways along the West Coast of North America. Ocean gateways typically serve a significant local population base as well as facilitate cargo movement to and from inland production and consumption points. Other West Coast gateways include the Southern California ports of Los Angeles and Long Beach, the Pacific Northwest ports of Seattle and Tacoma, Washington, and the northernmost gateway, Vancouver, Canada.

The maritime facilities of the Port handled 22.9 million revenue tons of waterborne commerce in CY 2001. The type and flow of this cargo is profiled in **Exhibit 3.1**. The Port handles containerized cargo, break-bulk cargo, and bulk cargo. Containerized cargo represent 92 percent of all cargo handled by the Port. In CY 2000 (most recent data available), the Port was the fourth largest container port in the United States and the twenty-eighth largest in the world. Within the U.S., the Port trails only the West Coast ports of Long Beach and Los Angeles, and the East Coast port of New York/New Jersey.

The primary direction of trade at the Port is export or outbound, representing 61 percent of cargo handled. The Port's level of exports relative to imports has been constant over time which is unique compared to other U.S. West Coast ports. Since the mid-1990s, other West Coast ports have seen increases in import cargoes, driven in part by the strengthened U.S. dollar. Trends for West Coast ports are presented in further detail in Section 3.3.



Source: Port of Oakland

Exhibit 3.1

Prepared by: Booz Allen Hamilton Inc.

PROFILE OF MARITIME TRAFFIC BY REVENUE TONS CY 2001

3.2 CURRENT SITUATION FOR THE PORT

This section addresses the historical development of the Port of Oakland, its current cargo mix, and recent developments at the Port in terms of its business focus.

3.2.1 HISTORICAL TRENDS FOR THE PORT

Containerization and containerized transport of cargo started in the United States in the late 1950s, when containers were first carried on the deck of converted tankers. After carriers started providing ocean transport service for containerized freight, related and supporting infrastructure, such as container ports, started developing. In the 40 years since the birth of containerization, the transportation industry has witnessed a slow but steady evolution from small converted vessels to large special-purpose vessels capable of carrying thousands of containers. The Port was the first on the West Coast, and one of the first in the U.S., to build specialized container-handling facilities. The first container facility at the Port was opened in CY 1962. From CY 1962 to CY 1970, the Port was the leading container port on the West Coast. From CY 1968 to CY 1974, the competing ports of Los Angeles, Long Beach, and Seattle made significant investments in container port facilities and gained parity with the Port.

From the mid-1970s to the mid-1980s, intermodal transportation developments came to the forefront. These developments included rail unit trains and double-stacked train service, and on-dock or near-dock rail access. During this period, the Port lacked competitive rail routes and service offerings and was unable to develop new facilities due to land constraints and limited channel depths. The tonnage handled at the Port continued to grow but at a lesser rate than that of the total West Coast market. Most of the growth at the other ports resulted from intermodal cargo destined for the U.S. interior and East Coast. This intermodal cargo could move over any West Coast port, but migrated to the port with the lowest cost and the most efficient intermodal connections. Los Angeles and Long Beach established themselves as the lowest cost and most efficient ports on the West Coast, thus they began to gain market share. Consequently, the Port lost its premier position in the trade.

The major ocean carrier customers served by the Port are shown in **Exhibit 3.2**. Most container carriers that serve the U.S. West Coast trades call at the Port.

3.2.2 AMOUNT AND TYPE OF CARGO

In CY 2001, the Port handled 22.9 million revenue tons of maritime traffic. The Port's cargo volumes by major commodity type from CY 1992 to CY 2001 are presented in **Table 3.1**. Overall, maritime traffic at the Port grew an average 2.7 percent per annum (Annual Compounded Growth) from CY 1992 to CY 2001. Container traffic, which makes up 92 percent of the Port's total volume at 21.2 million tons in CY 2001, exhibited the strongest gains in terms of absolute cargo and percentage increases. The CY 1992 to CY 2001 containerized traffic in revenue tons is presented in **Table 3.2**. Container traffic increased from 16.3 million tons in CY 1992 to 19.4 million tons in CY 1996 and, as noted, 21.2 million tons in CY 2001. Over the 10-year period, this represents average annual growth of 3.0 percent. Most of this growth occurred from CY 1992 to CY 1996 with container revenue tons increasing at a rate of 3.7 percent, however growth tempered from CY 1996 to CY 2001 to 1.7 percent. The Port's volume declined over the last year, corresponding to world economic changes and in line with the experience of other West Coast ports except for Los Angeles, which gained volume due to a diversion of carriers from Long Beach.

	2001 CY Oakland TEUs[1] (in 000s)	Trade Routes Served Directly				
		Asia	Europe	Hawaii	Latin America	Aust/ NZ
Maersk-Sealand	180.4	X	X		X	X
Matson Navigation Company	147.5			X		
American President Lines (APL)	145.0	X	X	X	X	X
Hanjin Shipping Company	80.0	X	X			
CSX	64.7	X		X		
Evergreen/Lloyd Triestino[2]	64.6	X				
K-Line	63.0	X	X			
Hapag Lloyd	44.5	X	X	X		
Hyundai Merchant Marine	41.4	X				
Yang Ming Marine Transport	40.5	X	X			
China Ocean Shipping Company (COSCO)	39.5	X	X			
Mitsui-OSK Lines	39.1	X				X
DSR-Senator Lines	37.4	X			X	
OOCL	36.4	X	X			
NYK Lines	34.2	X				
P&O/NedLloyd	24.6	X	X		X	X
Australia-New Zealand Direct Line	23.9	X	X			
China Shipping Lines	19.9	X				
Italia	17.0		X		X	
Wan Hai Lines	16.1	X				
Norasia	14.5	X				
CMA-CGM	14.0	X				X
All Others[3]	56.8					

Note: (1) TEU is a twenty-foot equivalent unit (1 20' container = 1 TEU, 1 40' container = 2 TEUs)

(2) Evergreen has stated that it intends to make its China Pacific South Service an Oakland first port of call and is currently negotiating the final terms of a new marine terminal agreement

(3) Includes four new carriers that commenced activity at the Port in 2001: Columbus Line, Mediterranean Bulk, Trans Pacific Lines, and Valuship

Source: Port of Oakland

Exhibit 3.2

Prepared by: Booz Allen Hamilton Inc.

MAJOR OCEAN CARRIERS SERVING THE PORT OF OAKLAND

(Volumes in Loaded Twenty Foot Equivalent Units TEUs)

Table 3.1
PORT OF OAKLAND CARGO HANDLED BY MAJOR TYPE
(REVENUE TONS IN THOUSANDS)

Year	Container	Break Bulk	Bulk	Total
CY 1992	16,333	380	1,388	**18,101**
CY 1993	17,034	312	1,233	**18,579**
CY 1994	19,393	446	1,138	**20,977**
CY 1995	20,390	522	1,383	**22,295**
CY 1996	19,446	194	1,779	**21,419**
CY 1997	19,132	421	1,681	**21,234**
CY 1998	19,612	646	1,722	**21,980**
CY 1999	21,826	505	1,377	**23,708**
CY 2000	22,814	213	1,475	**24,502**
CY 2001	21,215	379	1,345	**22,939**
Average Compounded Growth (92-01)	**2.9%**	**0.0%**	**-0.4%**	**2.7%**

Source: Port of Oakland

Table 3.2
CONTAINERIZED CARGO HANDLED AT PORT OF OAKLAND
(REVENUE TONS IN THOUSANDS)

Calendar Year	Revenue Tons in Thousands
1992	16,333
1993	17,034
1994	19,393
1995	20,390
1996	19,446
1997	19,132
1998	19,612
1999	21,826
2000	22,814
2001	21,215
Average Compounded Growth	
1992-1996	3.7%
1996-2001	1.7%
1992-2001	2.9%

Source: Port of Oakland

Break-bulk cargoes, which made up only 0.4 million revenue tons of cargo in CY 2001, have been essentially unchanged over the past several years, although this masks the volatility in year-to-year cargo levels. Break-bulk cargo includes general cargo such as automobiles, steel, and forest products, and is typically handled at the Burma Road Terminal, as well as at the Port's container terminals. Since the break-bulk and bulk tonnage is incidental to the Port's business, this report focuses only on the main container cargo traffic. A total of 1,345 tons of dry-bulk and liquid-bulk is handled at private facilities within the port

3.2.3 OVERSEAS TRADE AREAS

The Port's major trading markets profiled in **Table 3.**3, illustrate how integral the Asian markets are to the Port of Oakland. Asian trade has grown from 12.2 million tons in CY 1992 to 14.2 million tons in CY 2001, and in CY 2001, comprised 62 percent of the Port's total cargo. This represents an average annual growth rate of 1.0 percent, although CY 2001 saw a decrease of 9 percent due to a global economic slowdown. Trade with Europe and Australia/New Zealand, the Port's two fastest growing trade partners, increased from 2.1 million tons in CY 1992 to 4.0 million tons in CY 2001. European trade grew at an average 6.8 percent per annum over the last 10 years and accounted for 14 percent of the Port's total volumes in CY 2001. The Hawaiian trade – 17 percent of the Port's cargo – increased from 1.5 million tons in CY 1992 to 3.9 million tons in CY 2001. This represents an annual growth rate of 10.9 percent. Other foreign and domestic trade accounted for 4 percent of total trade in CY 2001.

3.2.4 ORIGIN AND DESTINATION POINTS OF OAKLAND CARGO

The Port has a strong local cargo market, which is a result of both a strong manufacturing sector, which primarily contributes to exports, and a large local population base, which attracts imports. The agricultural market for exports includes fruits, vegetables, and other agricultural goods grown in Northern California and are exported through the Port of Oakland. In addition, the Oakland/San Francisco metropolitan area has a significant population, which provides for a strong import cargo base. The population in the San Francisco metropolitan area is the fifth largest in the U.S. and the second largest on the U.S. West Coast. As of 2000 (Most recent data available), per capita personal income was the highest in the nation. As illustrated earlier in **Exhibit 3.2**, the Port has been successful at attracting the major ocean carriers in the transpacific trades. A strong local cargo market is critical in attracting and retaining frequent ocean carrier service to a port. Major ocean carriers are also attracted to ports that competitively handle cargo to be transported beyond the local area.

3.2.5 RECENT DEVELOPMENTS AT THE PORT

Until recently, the Port of Oakland marine terminal area was locked in by the surrounding bay, City of Oakland, and military facilities, prohibiting the Port from expanding its terminals and significantly growing its volume base. Recent land acquisitions have allowed the Port to develop terminal expansion projects and build a new rail facility within the Port's boundaries. The Port has obtained the capability to more than double its total acreage through the acquisition and/or lease of land previously occupied by the U.S. military. Within the immediate Port area, the Fleet and Industrial Supply Center, Oakland (FISCO), has been acquired for expansion by the Port. This FISCO property has been developed into a new marine terminal (Hanjin) and the Joint Intermodal Terminal (JIT) terminal, and is the site for a marine terminal, with Phase 1 expected to be completed in August 2002. Expansion into a site formerly occupied by the Oakland Army Base is a potential expansion opportunity for the Port.

The Port is located on a natural bay with inadequate depths for shipping. Therefore, the Port has maintained a dredging program since the early 1900s and continues it today. The Deepening Project is required to deepen and maintain federally authorized navigation channels and berths along the Port's terminals and to accommodate the latest generation of container ships. The total cost of the Deepening Project is approximately $293.2 million, of which the federal government is expected to contribute approximately $145.9 million and the Port will contribute the balance. The Port's share of the cost is included in the CIP.

Table 3.3
TOTAL CARGO TONS HANDLED BY TRADE AREA
(REVENUE TONS IN THOUSANDS)

Year	Asia	Europe	Aus/ NZ	Other Foreign	Hawaii	Other Domestic[1]	Inland Waterways[2]	Total
CY 1992	12,925	1,747	315	94	1,529	396	1,095	**18,101**
CY 1993	13,447	1,913	350	123	1,352	367	1,027	**18,579**
CY 1994	15,885	1,777	404	179	1,433	412	889	**20,977**
CY 1995	16,975	1,810	316	89	1,627	489	989	**22,295**
CY 1996	14,821	1,781	296	136	2,583	472	1,330	**21,419**
CY 1997	15,812	2,058	349	52	1,359	435	1,169	**21,234**
CY 1998	15,716	2,047	392	40	2,208	260	1,317	**21,980**
CY 1999	16,462	1,907	378	46	3,312	310	1,293	**23,708**
CY 2000	15,595	2,529	543	39	4,189	514	1,093	**24,502**
CY 2001	14,156	3,159	824	33	3,430	440	897	**22,939**
Average Annual Growth (92-01)	**1.0%**	**6.8%**	**11.3%**	**-11.0%**	**9.4%**	**1.2%**	**-2.2%**	**2.7%**

Note: (1) Other Domestic includes Guam and Former U.S. Trust territories including Micronesia, Marshall Islands, Northern Mariana Islands, and Palau. Traffic is dominated by Guam and primarily consists of U.S. Military cargo.
(2) Represents Port operations, including two privately owned bulk facilities and vessel fueling operations.
Source: Port of Oakland

3.3 CURRENT SITUATION FOR WEST COAST PORTS

The Port competes with other West Coast terminals for intermodal volumes. This section presents the current situation of the Port versus its West Coast counterparts.

3.3.1 TRENDS IN WEST COAST MARKET SHARE

Over the past decade (CY 1992 to CY 2001), the Port's market share has decreased relative to that of other major West Coast ports. **Table 3.4** compares the market share of major West Coast ports for CY 1992 and CY 2001. The Port's West Coast market share was 15 percent of all TEUs (Twenty-foot Equivalent Units) in CY 1992, decreasing to 11 percent in CY 2001. The ports of Los Angeles and Long Beach (LA/LB) have increased their aggregate share to approximately 61 percent of major West Coast containerized cargo traffic (including Canadian ports). This is a 12 percent gain from 1992, largely due to an increased import intermodal cargo as a result of the Asian economic crisis. The crisis reduced the value of foreign imports, making them more attractive to U.S. buyers.

Meanwhile, aggregate market share at the ports of Seattle and Tacoma declined from 26 percent of major West Coast ports to 19 percent in the same period while the Port of Vancouver increased its share to approximately 7 percent of TEUs in CY 2001 from 5 percent in CY 1992. The loss in share for the Pacific Northwest (PNW) can be attributed to several factors. Initially, these ports were used as a diversion from congested ports and rail services in Southern California. Eventually, the ports in Southern California were able to expand and use their new capacity to win back volumes. A second problem for the PNW ports is that many carriers operate their own terminals in LA/LB. Cost per container decreases with increased volumes. The carriers are now filling their excess capacity at their own terminals in LA/LB where they will benefit from the improved intermodal connection provided by the Alameda Corridor (a dedicated rail corridor that eliminates at-grade rail crossings for a portion of the rail trackage through downtown Los Angeles). Finally, the ultimate customers are now choosing LA/LB for distribution centers due to the large local population. The PNW ports have not been successful at luring distribution centers for major U.S. retailers.

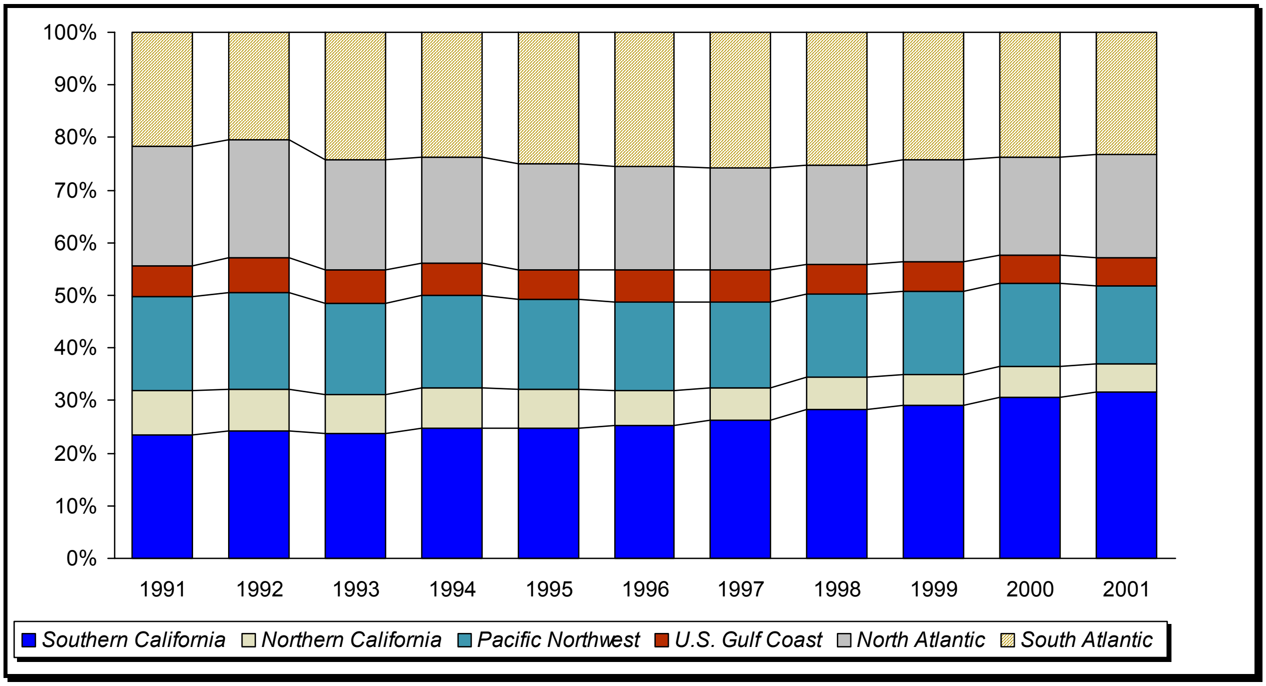
Mitigating the Port's loss of market share in the 1990s was diversion of several carriers from the Port of San Francisco, including Blue Star and Columbus Line in CY 1993, Cosco in CY 1994, and Evergreen in CY 1995. The Port of San Francisco volumes dropped 98 percent, from 224,000 TEUs in 1991 to 5,550 TEUs in 1996. However, San Francisco's volumes were only 20 percent of the Port's volumes in 1991, and only a 2-percent share of the entire West Coast volumes in the same year. In addition to diversion from San Francisco, several carriers deployed new vessels, increasing port calls and tonnage handled at the Port. In addition, a new carrier, China Shipping, has introduced service to the Port.

The Northern California port region, which includes Oakland and San Francisco, has lost market share to the Southern California ports. **Exhibit 3.3** compares the volumes of port regions during the 1990s. The main growth in the North American port region has been in the Southern California ports and South Atlantic ports. The reason for growth in Southern California has been the ability of those ports (primarily LA/LB) to build large facilities dedicated to specific carriers, and the beneficial impact of excellent rail connections to the Midwest for intermodal cargo. Growth for South Atlantic ports has been buoyed by relocation of manufacturing due to less expensive labor costs, population increases, and improved port infrastructure including rail connectivity.

Table 3.4
COMPARISON OF CONTAINER HANDLING ACTIVITY AT MAJOR WEST COAST PORTS
(THOUSANDS OF TEUs*)

Port	CY 1992	% Major West Coast	CY 2001	% Major West Coast
Los Angeles – Long Beach	4,119	49%	9,646	61%
Seattle – Tacoma	2,206	26%	3,054	19%
Oakland	**1,291**	**15%**	**1,644**	**11%**
San Francisco	152	2%	35	0%
Portland	217	3%	279	2%
Vancouver	450	5%	1,147	7%
Total	8,435	100%	15,805	100%

Source: American Association of Port Authorities
Note(*): Includes loaded and empty containers
Ports with less than 150,000 TEUs are excluded



Volumes (Million TEUs)

	Southern California	Northern California	Pacific Northwest	U.S. Gulf Coast	North Atlantic	South Atlantic
1992	4.13	1.39	3.14	1.14	3.83	3.48
1993	4.40	1.39	3.20	1.19	3.91	4.51
1994	5.10	1.56	3.62	1.22	4.15	4.87
1995	5.41	1.59	3.77	1.19	4.44	5.44
1996	5.76	1.52	3.83	1.36	4.50	5.79
1997	6.47	1.56	4.04	1.49	4.82	6.34
1998	7.50	1.59	4.20	1.48	5.03	6.67
1999	8.25	1.70	4.54	1.59	5.49	6.92
2000	9.50	1.83	4.83	1.70	5.79	7.31
2001	9.66	1.68	4.48	1.65	6.01	7.14

Note: *Pacific Northwest and North Atlantic include Canadian Volumes;*
Baltimore is the southernmost North Atlantic Port; Excludes Pacific Islands volumes
Volumes include loaded and empty containers

Source: American Association of Port Authorities

Exhibit 3.3

Prepared by: Booz Allen Hamilton Inc.

North American Containerport Activity (1992-2001)

3.3.2 WEST COAST INTERMODAL RAIL CARRIERS AND DISCRETIONARY CARGO

Over the past decade, the number of U.S. Class I railroads has been reduced from 14 to 8, with the number serving the Western U.S. falling from 4 to 2. A desire for overall economies of scale and reduced regulation from the Staggers Act drove this consolidation and acquisition. Currently, the Port and its U.S. West Coast competitors are served by two railroads, the Union Pacific (UP) and the Burlington Northern Santa Fe (BNSF), while the Port of Vancouver is served by two Canadian railroads (Canadian Pacific and Canadian National) and one U.S. carrier, the BNSF.

The U.S. mini-landbridge (MLB) is used for shipping intermodal import cargo from the Far East, through rail connections at West Coast ports, on to the Midwest and to East Coast. The alternative route is through the Panama Canal. The volumes on the MLB have increased at tremendous rates over the last decade. The reason can be explained as follows:

- The MLB offers shorter transit times and lower rates to the Midwest and East – this became important as the cargo value of Asian imports grew over the same time period, making quicker transit times more desirable

- Double-stack trains were also developed in this time period – the double-stack train allows one rail car to carry two containers, as opposed to only one

- Recently, on-dock rail at West Coast terminals have reduced the switching cost from ship to rail – eliminating transport by trucks (dray) over local streets and highways

- The MLB also offers opportunity for domestic and empty backhauls, helping increase the overall efficiency of the transportation system.

This increased volume may be coming at a greater cost than originally thought. Track congestion and terminal capacity issues have become serious problems for Class I railroads across the country, particularly on the MLB routes. This increased congestion is causing some railroads to rethink the marketing and growth of the intermodal landbridge. However, the volume of containers headed east out of West Coast ports via the MLB is still very significant and an important source of business for all West Coast ports.

This intermodal cargo is "discretionary" in that it can move via any West Coast port. There are several factors that determine the routing for discretionary cargo. In general, the considerations are shipper's cost (as part of the logistics chain) and transit time. Ideally, ocean shippers want to ship this discretionary cargo through the port with the lowest cost per unit while maintaining reliable transit times. An ocean shipper's cost per unit includes any extra costs from steaming to a different port, the size and scale of the port used, what facilities are offered by the port (on-dock or off-dock rail), and the railroad carrier's charges. Time issues include speed of delivery to a double-stack train, rail connections into and out of the port, and time of haul, which is affected by distance, grade, interchanges, and congestion.

Until the establishment of the new rail intermodal terminal (discussed in the following paragraph), only the UP had a rail intermodal yard within the Port. The BNSF intermodal yard was located in Richmond, California, over 12 miles away. Shippers and carriers were required to dray, or truck, BNSF intermodal cargo over sometimes-congested external roads and highways. The UP intermodal cargo is transferred across internal local roads within the Port area, even as close as across the street. This lack of drayage gave UP intermodal cargo a distinct advantage. Recently, UP has completed a yard reconfiguration and upgrade of its on-site facility. These upgrades include automated gate systems and improvement of processes to increase turn times.

Recognizing the importance of carrier competition within the Port, Phase 1 of the JIT was recently completed as part of the maritime projects in the Capital Improvement Plan and Vision 2000. Phase I of the JIT opened in March 2002, is directly adjacent to the UP intermodal railyard. The JIT provides access for the BNSF within the Port, reducing the time and cost requirements of the 12-mile dray to Richmond. Although the JIT was not built specifically for the BNSF (the Port envisions use of the JIT by the UP as well), it will provide direct competition between the BNSF and the UP.

The direct competition between the UP and the BNSF would not be possible if the BNSF did not have access to the UP-owned tracks into and out of the Port. As a condition of the UP/SP merger in 1996, the BNSF is allowed trackage rights, or paid access, to the UP tracks. This allows BNSF trains to access the JIT terminal.

West Coast ports are served via three rail corridors. The "Northern Corridor" extends from the PNW through Washington State, Montana, and North Dakota, and the Midwest and Chicago. The "Central Corridor" extends from NC through Nevada, Utah, and Colorado. The "Southern Corridor" extends from PSW through New Mexico, Arizona, and Texas and to the Midwest and Chicago. The "Central Corridor" is UP/SP trackage that travels east out of the Port toward intermodal destinations in the Midwest. This allows the UP to have both a southern and a central corridor and a good alternative to the congested southern corridor. In addition, The "Central Corridor" connects with BNSF-owned tracks in Denver, Colorado, and is occasionally used by BNSF for a paid access fee. The "Central Corridor" is a longer distance from the West Coast to Chicago than through the "southern corridor" as well as a steeper grade. Therefore, it is not as critical for discretionary traffic, which typically utilizes the cheapest, quickest route.

Both railroads now have terminal access within the Port and adequate North/South routes, and access to all rail corridors for intermodal movements to the Midwest. These conditions will not automatically bring large increases of inbound discretionary cargo, but are necessary for the potential of increased inbound discretionary cargo.

All-water services have re-emerged in the past few years, after almost all services were discontinued and replaced with intermodal connections from the West Coast. West Coast intermodal connections cut 7 to 10 days transit time to the East Coast from traditional all-water services. However, after suffering from operational problems, such as intermodal congestion and labor work stoppages and slowdowns, shippers have sought an alternative routing option. After suffering from the major intermodal gridlock of 1997 to 1998, major retailers such as Home Depot, Walmart, Michaels, Best Buy, Kmart, and several others have developed East Coast distribution centers near port facilities to avoid further kinks in their supply chains and take advantage of less land and lower labor costs. Although the all-water routing transit takes longer, shippers are becoming more willing to sacrifice inventory-carrying costs for reliability of service and lower freight rates. All-water freight rates were as much as $300-500 per forty-foot-equivalent unit (FEU) less than for intermodal service through the West Coast; however, this spread has narrowed with the recent erosion of east-bound Pacific freight rates in the past year. For the most part, West Coast ports have admitted that this cargo is permanently lost, but major capacity expansion on the West Coast is expected to ease congestion—helping to regain a small portion of the cargo lost to all-water service.

3.3.3 WEST COAST SHIP ROUTING

The optimization of ocean routes, which includes the number and sequence of port calls, has become a major consideration for ocean carriers and ports. Several factors are competing as carriers continuously evaluate ocean routes and port rotations with the aim of developing the best economics while meeting the needs of shippers. The overall impact of reducing the number of port calls and consolidating cargo at single ports has to be weighed against increased demands placed on port infrastructure from a single port discharge and inland transportation costs to the ultimate cargo destination.

Typically, carriers in the Transpacific trade split the West Coast port rotations into a southern service and a northern service. The southern service generally calls at Los Angeles or Long Beach in Southern California and then proceeds to the Port for a Northern California call. A northern service will call at Seattle or Tacoma, followed by a port call at Portland, Oregon, or Vancouver. Several vessel deployments, however, are calling at a port in Southern California and a port in the Pacific Northwest, bypassing the Port.

In the transpacific trade, the first port of call is generally where the carrier discharges the inbound import cargo and conveys it to an inland transportation service provider for delivery to customers beyond the local area. This occurs at the first port of call because the import discretionary cargo is generally time-sensitive cargo, and this provides the quickest service routing. The designation as the first port of call, therefore, is important to a port in capturing a significant share of the discretionary cargo. Similarly, the second or last port of call has less of a chance of capturing discretionary import cargo, as the transit time would be longer and less competitive. Being designated as a second or last port of call, however, does have an advantage for discretionary export cargo. Shippers have additional time to consolidate and ship cargoes to the second port of call because of the later sailing date to the final destination. In Addition, putting cargo on board "just-in-time" for the vessel's departure reduces the total transit time and lowers inventory-carrying costs, which is particularly important for high-value cargo.

The significant majority of carriers in the transpacific trade designate the Port, as the second or last port of call, after first calling at the Port of Los Angeles or Long Beach. This has limited the Port's ability to attract discretionary import cargo; however, being the last port of call contributes to its success in attracting discretionary export cargo. Historically, the larger population in the Los Angeles/Long Beach metropolitan area and the superior rail service has driven this decision by the carriers. The Port has been successful in establishing 2 to 3 first ports of call principally for carriers offering an "all-water pendulum service," which includes a call at a Northern and Southern California port en route from Asia to the U.S. East Coast through the Panama Canal. In the past, one shipper offered an Oakland first port of call for a specific customer. This first port of call was eliminated as a result of the inability to attract additional cargo on the service for other customers serving Oakland and the inland area.

The Port is well positioned to serve as a gateway to the emerging trading partners in China and Southeast Asia. Significant growth in these emerging markets may force carriers into rethinking their transpacific routes and service offerings. The Port's geographic position may serve as an advantage to serving these newer markets. In terms of distance, the Port is further from Asia than ports in the Pacific Northwest, but closer to Asia than ports in Southern California. The distances between major gateway ports along the West Coast and the Asian trading ranges are indicated in **Table 3.5**.

The Southeast Asian Port range is geographically positioned to trade with either the U.S. West Coast or the U.S. East Coast through an all-water routing via the Suez Canal. While the ocean distance between Southeast Asia and the West Coast is shorter, the total distance—if a landbridge connection to the U.S. East Coast is added—is similar to direct calls on the U.S. East Coast through the Suez Canal. Since there is no time spent in a ship-to-rail exchange, the Suez route is, on average, slightly faster than a West Coast routing. The Suez transit carries with it expensive toll charges, but these are more than offset by the cost of intermodal moves across the U.S., to local East Coast markets. Therefore, all-water service via the Suez Canal has become a viable option, as it is quicker and less expensive than a land bridge routing over U.S. West Coast ports. Carriers are now offering this service on a more frequent basis. While the carriers we interviewed do not expect this to result in a significant diversion of trade with the U.S. West Coast, it will likely moderate overall growth along the U.S. West Coast by diminishing intermodal moves to the U.S. East Coast from Southeast Asia. The impact on the Port is expected to be minimal during the forecast period, as Southeast Asian cargo destined to the East Coast represents a small percentage of total cargo.

Table 3.5
DISTANCE BETWEEN GATEWAY PORTS AND MAJOR ASIAN TRADING RANGES
(NAUTICAL MILES)

Port Range	Southern California	Northern California	Pacific Northwest
Northeast Asia (ex. Japan)	4,985	4,682	4,391
China (ex. Hong Kong)	6,380	6,044	5,768
Southeast Asia (ex. Singapore)	7,394	6,817	6,511

Source: Defense Mapping Agency, Pub 151, Distance Between Points

3.4 OUTLOOK FOR MARITIME TRADE AT THE PORT

This section discusses the principal trading partners of the Port and the outlook for the future. This section also presents the outlook for the Port as a secondary port of call. Finally, this section describes current and future trends in the shipping industry and their likely impact on the Port.

3.4.1 TRADE OUTLOOK FOR THE PORT

In order to project future trade volumes at the Port, Booz Allen first obtained a forecast for U.S. West Coast port traffic from DRI-WEFA. This forecast was checked for reasonableness against a variety of sources including: Port employees and customer interviews, independent analyses, other public information sources including IMF, U.S. BEA, and container trade specific sources such as Drewry Shipping Consultants, Journal of Commerce, and Containerization International. Booz Allen then adjusts the U.S. West Coast forecast for Oakland. This section presents a discussion of trade outlook and macro economic factors. Section 3.7 discusses our actual forecast in detail.

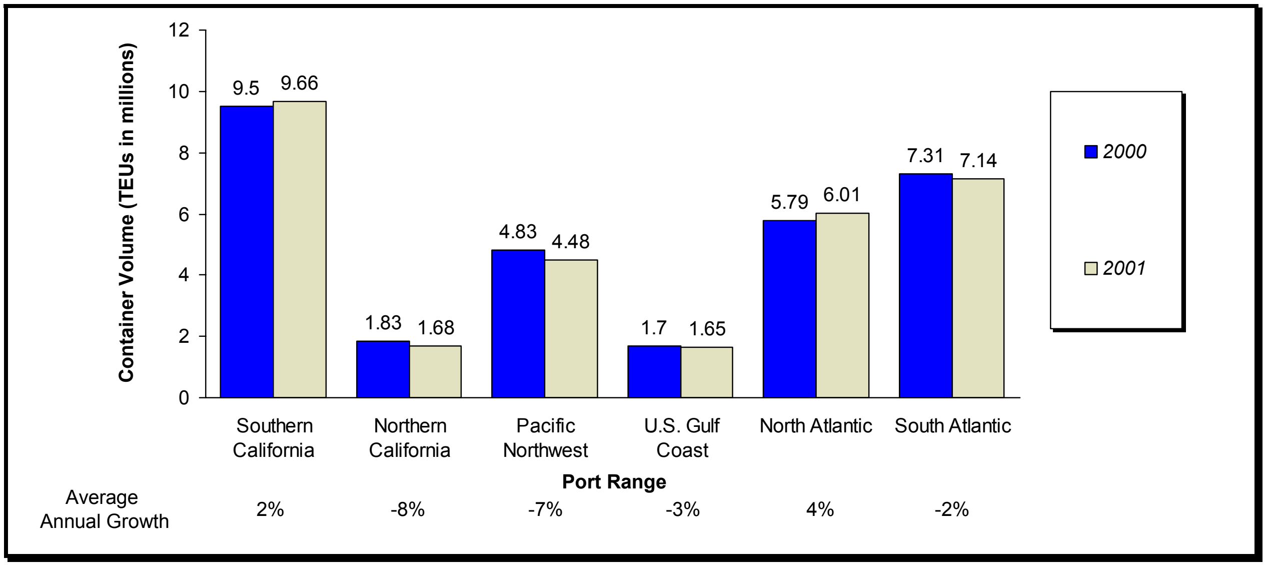
Short-term Outlook

From CY 2000 to CY 2001, the U.S. container trade has declined by 1.1 percent. As shown in **Exhibit 3.4**, nearly all U.S. ports in all coastal ranges (excluding the North Atlantic and Southern California port ranges) experienced declines of 2 to 8 percent from a situation of sustained growth in 2000. These declines continued into early 2001. The reasons for this shift in volume trends include: the economic downturn in both the Japanese and U.S. economies, the aftermath of September 11 attacks, and the shift in U.S. consumer spending confidence. The impact of the decline was more dramatic in Washington and Northern California ports, where volumes dropped by 11 percent and 8 percent, respectively. Oakland suffered a 7-percent decline in cargo during the same period. Southern California ports realized a small gain of 2 percent, led by the Port of Los Angeles, which experienced a growth of 7 percent from 2000 to 2001.

Shipping volumes have been volatile in the early months of 2002—demonstrated by weaker year-on-year volumes in January and March and a significantly stronger February when compared to 2001. The ports of Los Angeles and Long Beach have experienced volume surges from inbound loaded containers of 37 and 23 percent, respectively, in February, with the whole West Coast improving 22 percent. In contrast, the West Coast had 4 percent and 3 percent decline in January and March. While February is traditionally a slow month for transpacific trade, these volume surges are the strongest indication of a recovery in eastbound volumes this year.

It remains unclear whether the surge in volumes in February was a one-time volume swing or a trend reversal. Five potential factors may be contributing to the recent growth of eastbound volumes: (1) replenishment of inventories by importers, (2) shippers advancing shipments because of the possibility of labor actions at West Coast ports, (3) shippers advancing shipments as they near the May contract negotiation period, (4) shippers increasing output to make up for lost production during the Chinese New Year, and (5) a potential broader economic recovery. It is highly likely that all five factors played a role in this recent surge.

Recently, all West Coast ports reported strong growth in May. The Port's volumes grew 7% over May 2001 while Los Angeles and Long Beach grew by 27 and 14 percent respectively compared to May 2001. It is unsure that this increase is due to improvements in the U.S. Economy (as surge is more attributable to imports), or shippers pre-shipping due to the labor negotiations (See Section 3.4.7). This recent surge seems to be an indication of an upward trend in monthly container volumes for West Coast ports.



Note: Volumes include loaded and empty containers
Source: American Association of Port Authorities

Prepared by: Booz Allen Hamilton Inc.

Exhibit 3.4

U.S. Container Volumes CY 2000- CY2001 by Port Range

Expectations among economists for economic recovery has been consistent Their predictions are of a rebound to occur in the third or fourth quarter of CY 2002, supported by recent economic data and reports of a strengthening economy throughout the business press. As of December 2001, Drewry Shipping Consultants were forecasting 0 percent cargo growth for the eastbound transpacific trade for the first half of 2002 compared to the same period the previous year, and less than 1 percent decline in westbound volumes. For the second half of the year they forecasted a 2 percent and a 0 percent growth in eastbound and westbound volumes, respectively. Since then, transpacific carriers and other West Coast ports have begun to upgrade earlier forecasts of 1 to 3 percent cargo growth in CY 2002, and are now predicting 5 percent growth by year end. This upgrade is further supported by the recent increases in capacity (8 percent on average) by almost all of the alliances.

Long-term Outlook

While the short-term outlook among DRI/WEFA, IMF and Drewry Shipping Consultant economists contains some uncertainty regarding when trade levels will turn upward, the long-term outlook is consistently positive. In order to understand the long-term outlook for trade in Oakland, a wider look at the transpacific trade and established trends such as shifts in sourcing and the economic outlook for individual countries is necessary. The transpacific trade accounts for 11 million TEUs a year—7.3 million eastbound and 3.7 westbound including Canada and Mexico. It is a diverse trade, encompassing mature economies, such as Japan, Korea, and Taiwan, as well as developing nations in Indochina. As illustrated in **Exhibit 3.5**, Drewry Shipping Consultants have projected that transpacific containerized trade will remain volatile for the next five years, ranging from 7.8 percent to 3.7 percent on eastbound trade lanes and 8.8 percent to –1.1 percent on westbound trades.

China also is central to many economists' projections for trade, as there is a drastic shift occurring in the Asian manufacturing base to China, combined with its recent entrance into the World Trade Organization. Additionally, the majority of foreign direct investment in Asia is going to China to fuel this manufacturing base, at the expense of Taiwan and other Southeast Asian economies. This growth in manufacturing, combined with its huge potential customer base is expected to sustain double-digit growth figures in trade over the next five years. Drewry Shipping consultants estimate that 55 percent of North American imports and 30 percent of exports will involve the Chinese market, leading to an increase in the number of direct vessel calls to China. Trade growth in China has remained buoyant through recent declines in the general market due to the concentration of consumer good production, which has fared better than the corporate-related trades (i.e., semiconductors, electronics) that have ravished trading levels in South Korea, Taiwan, Thailand, and Malaysia.

In contrast, trade with Japan, which accounted for 25 percent of North American imports, has suffered dramatically as a result of the Japanese recession, declining by 12 to 15 percent. Exports to the Japanese markets have also slipped slightly, but still account for 30 percent of the total westbound trade. This shift has impacted the northern ports on the West Coast more dramatically than Los Angeles and Long Beach, which are more geographically advantaged to serve the Southeast Asian markets. However, Japanese and Korean cargo are high-value commodities and remain an important first and last call for the majority of the Asian services. This bodes well for Oakland, which has securely fixed itself in most U.S. port call rotations. This is due largely to the relatively high volume of exports from the Northern California region to Asia play a significant role in equipment repositioning back to Asian load centers.

Year	GDP Growth US/MEX/CAN	Eastbound TEUs (000s)	Eastbound Year-on-year Growth	E/W ratio	GDP Growth SE Asia/Far East	Westbound TEUs (000s)	Westbound Year-on-year Growth
1995	N/A	4,100	N/A	1.2	N/A	3431	N/A
1996	3.3%	4,141	1.0%	1.2	6.8%	3444	0.4%
1997	4.0%	4,765	15.1%	1.3	4.7%	3538	2.7%
1998	6.4%	5,629	18.1%	1.8	0.6%	3150	-11.0%
1999	4.2%	6,338	12.6%	1.9	4.3%	3394	7.7%
2000	5.1%	7,241	14.2%	1.9	5.2%	3733	10.0%
2001	1.5%	7,410	2.3%	2.0	3.3%	3709	-0.6%
2002F	2.9%	7,856	6.0%	2.2	4.3%	3641	-1.8%
2003F	2.7%	8,470	7.8%	2.2	6.2%	3939	8.2%
2004F	2.7%	8,946	5.6%	2.2	6.2%	4057	3.0%
2005F	2.7%	9,436	5.5%	2.1	6.3%	4416	8.8%
2006F	2.7%	9,789	3.7%	2.2	4.6%	4369	-1.1%

Source: Drewry Shipping Consultants Ltd.

Exhibit 3.5

Prepared by: Booz Allen Hamilton Inc.

Transpacific Trade: Forecast Directional Containerized Cargo Volumes

Japan is currently in a period of recession and faces risk from two fronts: the uncertainty of progress on reform, particularly within its banking system, and an economic slowdown worldwide. Japan's GDP growth rate has been extremely low and dropped from +1.7% in CY 2000 to -0.5% for CY 2001. While the Japanese government is considering large reform measures, it is still unclear whether these efforts will be sufficient to jump-start the Japanese economy. As long as Japan continues to struggle with its economy, Asia will have difficulty recovering from its economic woes. Container trade growth between Japan and the U.S. is projected at 1.4 percent annually through CY 2002.

Economic projections are for a 1 percent contraction in Japan's GDP for the next year, however, the GDP has spiked in the 1st Quarter of 2002, rising 1.6 percent. The Japanese economy, still the world's second largest, remains the world's biggest creditor country, owning about $1 trillion in foreign assets and currency reserves totaling nearly $400 billion. Its workforce is highly educated and trained, its manufacturing firms are efficient, and it plays a significant role in the information technology markets. However, national debt is now $6 trillion, its population is aging, the labor markets are extremely inflexible, the networks of interlocking corporate relationships and its banking sector are burdened with hundreds of billions of dollars in bad debt. Nearly a dozen economic stimulus packages have yielded little or no results except to run up budget deficits, and the Bank of Japan's zero interest policy, in force since late 1999, has failed to stimulate the economy. The likely scenario is for Japanese trade to remain flat or a experience a slight decline.

3.4.2 OAKLAND AS A SIGNIFICANT WEST COAST PORT

An important consideration for the Port is whether carriers would consider abandoning the Port and service local customers via truck or rail from another U.S. port. Carriers that offer services that "straddle" the Port with a sailing rotation, including calls on ports in Southern California and the Pacific Northwest, prompt such a concern. This option was tested through interviews with major carriers calling at the Port and an analysis of the economic implications of this decision. Both the interviews and the economic analysis indicate that it is unlikely that the Port would be eliminated as a major U.S. West Coast port of call for three primary reasons:

- The Port provides access to a significant local population, the second largest population center along the U.S. West Coast. It also serves a large local manufacturing base and agricultural areas in Central and Northern California.
- The costs to supply this local population from an alternate port of call via trucks or rail are significantly higher than calling directly at the Port.
- Competing ports lack of sufficient intermodal capacity to supply the Bay Area market via rail.

To evaluate the impact of bypassing the Port, a typical vessel was assumed to make a single port call in Southern California versus the same vessel making a voyage with two port calls at both a Southern and a Northern California port. **Exhibit 3.6** compares the cost of a voyage making a single port call to the same vessel making a voyage with two port calls. The Port is located along the great circle sailing route from Asia to Southern California, and therefore a diversion into the Port increases the ocean voyage distance by 65 miles, or 3 hours of additional steaming. The extra steaming costs at sea, along with additional port costs in Oakland, increase the voyage cost by $56,562 over the voyage with a single port call. In order to continue to service the local market, cargo ultimately destined for Oakland would have to be transferred by truck from Southern California to Oakland. It was assumed that 80 percent of the cargo delivered to the Port remains in the local market. In other words, on a typical container ship discharging 837 containers in the Port, 626 (80 percent) would remain in the local area. The inland trucking costs to the Port would be approximately $450 per container over the cost of a local dray, resulting in total inland transportation costs of $281,700. Compared to the additional two-port voyage cost of $56,562, avoiding the Port would cost a carrier over $225,000 per voyage. Beyond the additional cost, it is questionable whether the ports on the West Coast and the existing inland infrastructure would have the capacity to handle significant diversions of the Port's cargo.

3.4.3 INCREASING SHIP SIZE AND DREDGING PROGRAM

Carriers are reducing unit costs by using of increasingly larger container ships. As ships get larger, the unit or slot carrying capacity increases at a faster rate than the operating costs. The trend toward larger container ships started in the mid-1980s, and has increased significantly in the last several years. Ships remaining capable of transiting the Panama Canal with increased cargo carrying capacity are referred to as "Panamax". At the end of CY 2001, approximately 295 container ships are unable to transit the Panama Canal due to their larger sizes. These vessels are referred to as "Post-Panamax" and are being deployed on major East-West trade routes. In order to retain and attract the ocean carriers that are operating these larger vessels, ports will be required to offer deeper channels and expanded port facilities. The profile of the existing and projected container ship fleet capacity is included as **Exhibit 3.7.** At the end of CY 2000, 44 percent of the world container fleet required channels deeper than 39 feet. By CY 2005, based on current orders placed by major carriers, this will increase to 49 percent of the world fleet.

Ports will require increased channel depths as evidenced by the profile of ships calling on the West Coast. The largest vessel currently calling at the Port is the Hyundai National. The Hyundai National is capable of carrying over 6,479 TEUs and will load to 46 feet at its deepest draft. The Port experiences a daily tidal cycle and limited water depth at low tide, therefore is only able to accommodate larger vessels during high tides. However, to take advantage of tidal cycles, carriers incur vessel delays, increasing costs and limiting operational flexibility. To operate without these constraints, vessels carry less cargo, which reduces the vessels load and consequently its draft requirement. This tactic reduces their capability to generate revenue. The Port's plans for deepening the channel are discussed in Section 3.8. Interviews with Port customers indicated that the current depth does not pose any problems, as the Port is currently a last call or outbound port. Typically, there is less full outbound cargo and more empty containers in the transpacific service, resulting in lesser depth requirements. If the Port seeks to attract more inbound cargo, the deeper channels are necessary to accommodate these inbound vessels with deeper drafts.

In addition to requiring deeper channels, large container vessels typically require larger gantry cranes capable of extending over the increased width of the vessel. The Port currently owns 41 gantry cranes, of which there are 27 that are capable of servicing post-Panamax vessels. Ten new post-Panamax gantry cranes have been delivered between April 2001 and June 2002. In discussing its ongoing capital requirements, the Port has noted that it will need to replace existing Panamax cranes with post-Panamax cranes. There are currently four new post-Panamax cranes included in the CIP.

3.4.4 CARRIER ALLIANCES, ACQUISITIONS, AND DEREGULATION

To achieve economies of scale in operations, carriers, including many of the Port's current customers, have entered into alliances. Alliances have emerged as a means for shipping companies to meet cost-reduction objectives while reducing the need for substantial capital outlays and spreading associated risks. While consortiums have been in place for many years, carriers have recently extended this concept to include vessel and equipment sharing.

Alliances have several implications for ports. First, with carriers working together, they will have increased bargaining power as they control larger blocks of cargo. These larger cargo blocks mean the stakes for a port gaining or losing a single customer—or in this case, an alliance—are substantially increased. Also, as a result of alliances, carriers are slowly evaluating the benefits of terminal sharing or consolidation.

	Oakland Call	By-Pass Oakland
Ship Route	Asia-LA/LB-OAK-Asia	Asia-LA/LB-Asia
Route Distance	12,979 miles	12,914 miles
Costs[1]	Vessel: $1,502,181 Bay Transit: $20,427 Port Costs: $8,658 Total: $1,531,266	Vessel: $1,474,704
Local Containers to Oakland Per Ship[2]	626	626
Delivery Method	Truck from OAK to Bay Area	Truck from LA/LB to Bay Area
Estimated Delivery Costs Per Box[3]	$100	$550
Total Delivery Costs	$62,600	$344,300
Total Cost	**$1,593,866**	**$1,819,004**

Cost Savings by Using The Port for Bay Area Delivery	**$225,138**

Source: Interviews with Port Users
Note: (1) LA/LB port costs are identical and have been taken out in teach scenario
(2) Based on 837 average moves per vessel – 80% Local
(3) This cost may fall to zero if the carrier does not have to pay for the container's delivery. This would improve the already strong economics of calling n Oakland

Exhibit 3.6

Prepared by: Booz Allen Hamilton Inc.

FINANCIAL RESULTS OF ELIMINATING THE PORT VESSEL CALL WITH SUBSTITUTE OVERLAND SERVICE TO SHIPPERS

Vessel Size Ranges		Channel Draft Depth Range (Ft.)	TEU Range	Percentage of Fleet by TEU Capacity		
				1998	2000	2005
Shallow Draft	Feeder/Handy	<35	100 - 999	12%	9%	8%
		35 - 37	1,000 - 1,999	27%	25%	23%
Deep Draft	Panamax	37 - 39	2,000 - 2,999	22%	22%	20%
		39 - 41	3,000 - 3,999	17%	15%	13%
	Post-Panamax	41 - 52	4,000 - 7,000	22%	29%	36%
		Total Capacity (000s of TEUs)		4,032	5,081	6,825
		Five Year Annual Growth Rate				8%

Source: Drewry Shipping Consultants Ltd.

Exhibit 3.7

Prepared by: Booz Allen Hamilton Inc.

PROJECTION OF THE WORLD CONTAINER SHIP FLEET DISTRIBUTION BY CHANNEL DEPTH REQUIREMENT

Carriers at the Port that are participating in alliances represent a significant percentage of the containerized cargo handled at the Port. As shown in **Exhibit 3.8,** four alliances represented 56 percent of the Port's container activity in CY 2001.[1] The carrier members of these alliances are illustrated in **Exhibit 3.9.** Two large independent carriers, Evergreen and Matson, accounted for an additional 17 percent of the Port's volume. While the degree of asset integration and equipment sharing varies among Alliances, several trends appear to be emerging. Those trends are vessel and equipment sharing, optimization of trading routes, and, to varying degrees, consolidation of marine terminals.

Based on interviews with carriers, alliance operating arrangements are fairly consistent. The carriers work through committees to determine port calls, scheduling, and other operational issues. While maintaining control over their own vessels, alliance members contribute vessels to an agreed asset pool and receive an allocation of container slots based upon their contribution. This asset pool can include worldwide trade routes or be limited to specific trading areas. Alliance members are responsible for obtaining cargo to satisfy their agreed allocation. Vessel sharing allows carriers to offer more extensive service options and optimize the utilization of larger vessels. For example, a carrier initiating a new competitive service between the West Coast and Asia would require four to six vessels, depending on the size and speed of the ships. An alliance, or group of carriers, however, could initiate this service by agreeing to provide a few vessels each to reach the four to six vessels needed. In addition to sharing vessels, some alliances have agreed to share container chassis and other assets.

Acquisitions among carriers have become more frequent as the industry continues to consolidate. **Exhibit 3.10** shows acquisitions in the shipping industry since 1996. The Maersk acquisition of Sealand Service Inc. in 1999 is the largest to date. Interestingly, a major component of that purchase was the acquisition of all of Sealand's North American terminals and terminals in several overseas locations. This indicates a move on the part of a few large carriers toward vertical integration of operations capabilities, meaning that the carrier, rather than a third party terminal operator, controls the movement of the cargo through a terminal. With the opening of the Hanjin Terminal operated by Total Terminals Inc., three of the four largest carriers serving the Port all operate their own terminals (Maersk/Sealand, APL and Hanjin). Matson, the remaining fourth largest carrier, is currently served at it's own terminal, but will move to the new SSAT terminal upon completion of that terminal.

Combining vessels and service offerings leads to the potential of shared or adjacent terminals which may result in greater economies of scale in terminal operations. At the minimum, calling at the same or adjacent terminal eliminates the need to dray containers between terminals.

Higher container throughput levels generally lower the per-unit costs for each container. Accommodating an alliance at a single terminal generally requires significant acreage, and thus a high level of throughput to keep costs down. This has had and will continue to have significant implications for the split of cargo between West Coast ports if carriers route their discretionary cargo through larger or more expensive in order to reduce per-unit costs.

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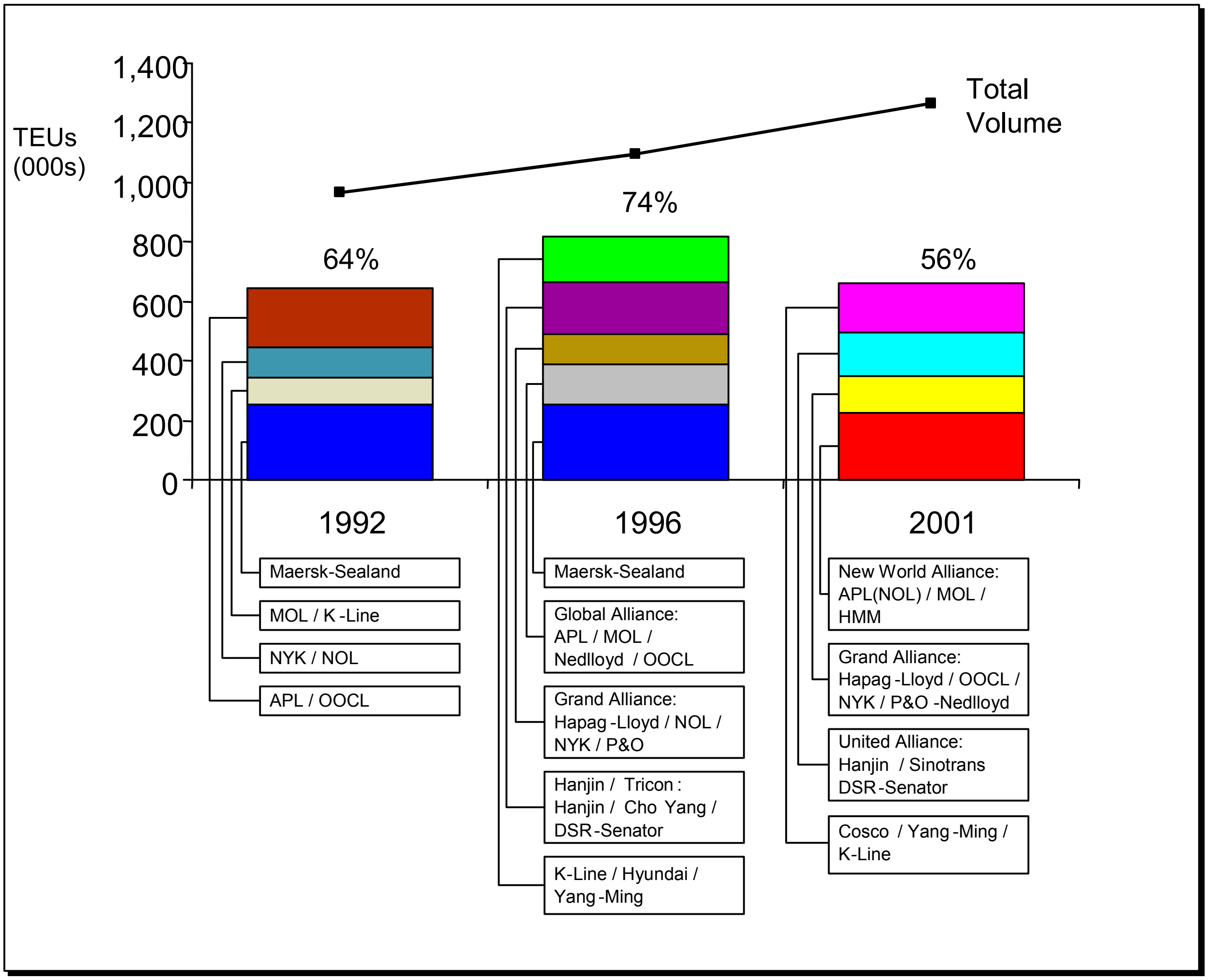
[1] Maersk finalized its acquisition of Sea-Land Services in December 1999 and the merged entity is technically no longer an alliance. Adjusting for this merger, total cargo controlled by alliances is reduced to 56% of total.



Note: Maersk-Sealand is no longer an alliance since the acquisition in 1999. They are now considered a single-entity company. Maersk/Sealand, Evergreen and Matson (all single-entity companies) comprise an additional 34% of the Port's total cargo base.
Source: Port of Oakland

Exhibit 3.8

Prepared by: Booz Allen Hamilton Inc.

OAKLAND CONTAINER VOLUMES OF ALLIANCE CARRIERS (LOADED TEUs)

	FY 2001 Volume in Loaded TEUs
New World Alliance APL/NOL Mitsui OSK Lines Hyundai Merchant Marine	225,500
United Alliance Hanjin DSR-Senator Sinotrans	122,000
Cosco/"K" Line/Yang Ming	143,000
Grand Alliance P&O/Nedlloyd NYK Lines Hapag Lloyd OOCL	139,700

Source: Port of Oakland

Exhibit 3.9

Prepared by: Booz Allen Hamilton Inc.

CARRIER ALLIANCES SERVING OAKLAND
(Volumes in Loaded TEUs)

Company Acquired	Purchaser	Date
FMG	TMM	1996
CGM	CMA	Nov 1996
DSR - Senator Lines	Hanjin Shipping	1997
Lykes Lines	CP Ships	July 1997
Contship Container Lines	CP Ships	Oct 1997
APL	NOL	Nov 1997
Blue Star Line	P&O Nedlloyd	Feb 1998
Ivaran Lines	CP Ships	May 1998
SCL	Safmarine**	July 1998
South Seas Steamship Co	Hamburg Sud	Aug 1998
Lloyd Triestino	Evergreen	1998
Italia di Navigazione	D'Amico	Aug 1998
ANZDL	CP Ships	Oct 1998
Alianca	Hamburg Sud	Aug 1998
ANL*	CMA-CGM	Dec 1998
Safmarine Container Lines	Maersk	Jan 1999
Tasman Express Line	P&O Nedlloyd	1999
Barbican Line (part)	Hamburg Sud	1999
Barbican Line (part)	Safmarine	1999
Grupo Libra*	CSAV	1999
Montemar*	CSAV	1999
Transroll	Hamburg Sud	July 1999
South Pacific Container Line	Hamburg Sud	July 1999
Sea-Land	Maersk	Aug 1999
Crowley American Transport (part)	Hamburg Sud	Aug 1999
Norasia	CSAV	May 2000
Farrell Lines	P&O Nedlloyd	June 2000
Kent Line International	Tropical Shipping	Feb 2001
CCNI	CSAV	June 2001

Source: Boxfile/Drewry Shipping Consultants, Ltd.
Note(*): Liner interests only
Note(**): Purchase of 25% of company not already owned

Exhibit 3.10

Prepared by: Booz Allen Hamilton Inc.

LINER INDUSTRY CONSOLIDATION 1996-2001

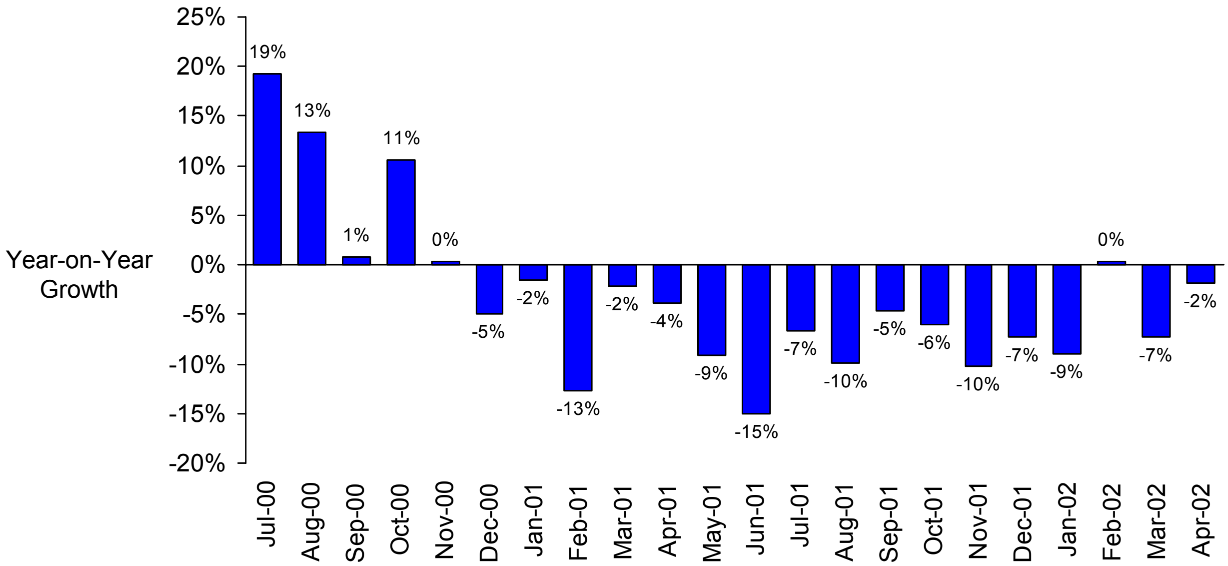
Joint terminal usage by alliances is an ever-changing issue that the Port must continually monitor. Carriers typically have lease agreements for their existing facility and may be unable to leave their present terminals to consolidate operation. Additionally, some carriers are reluctant to give up their own terminal operations, as this remains one of the last distinct service offerings, and they believe an owned terminal can offer a competitive advantage. Terminal sharing poses the greatest risk to the Southern California and Pacific Northwest ports, where alliance members are often located in different ports that serve the same area (i.e. Long Beach and Los Angeles). These ports compete for carriers and face the risk of losing potential revenue if a tenant moves its operations to an adjacent port to join other members of an alliance. The Port has an advantage in serving Alliances in that all carriers serving the Bay Area call at Oakland and the Port's terminals are located in proximity to one another. For the purposes of our projections, we have assumed there are no shifts in volume as a result of carrier alliance shifts. However, the Port must plan terminal expansion in order to accommodate the increasing size of alliances.

Finally, deregulation has had an impact on the liner shipping industry. U.S. deregulation of the maritime industry officially took place on May 1, 1999, with the passage of the Ocean Shipping Reform Act. The primary focus of this legislation was to allow confidential contracting between shippers and carriers, therefore instilling a market approach to industry pricing. Confidential contract negotiations have becomethe norm in the industry; forcing carriers to set their prices not knowing competitors' rates and driving increased competition and efficiencies for shippers. In an effort to gain maximum leverage in pricing and service for cargo they feed shipped, large shippers are distributing shipments to fewer carriers. Large carriers offering global solutions for large shippers serving global markets have a distinct advantage over niche or regional carriers in this contract setting. For ports, this means more volume for selected carriers or groups and more difficulty for regional or niche clients, resulting in rate pressure and continued consolidation regarding terminal use and operations. The Port currently serves 18 of the 20 largest global carriers and appears relatively insulated against losing cargo as a result of future consolidation within the industry.

3.4.5 IMPACTS OF SEPTEMBER 11 ON PORT VOLUMES

On September 11, 2001, terrorist attacks in the U.S. disrupted the marine transportation systems. Ports were completely shut down on the day of the attacks. While the Port of New York remained closed for several weeks, other ports were able to return to business within a couple of days. The only major change to security procedures at the Port is that the U.S. Coast Guard now boards selected vessels before they enter San Francisco Bay. Ships transiting to Oakland pass under the Golden Gate Bridge, viewed by some as a potential target for future terrorist attacks, perhaps increasing the likelihood of additional security measures being implemented at the Port. This section discusses the impacts on Port volumes and security implications for the Port.

The Port experienced a reduction in year-on-year volumes prior to the attacks due to the larger U.S. economic slowdown. **Exhibit 3.11** shows the year-on-year change from 2000 for the Port of Oakland volumes. The decline in imports and exports for the year overall led to an overall decline in volumes at the Port over the previous year. Declines in October and November (post-attacks) were as great as declines in February and June. Therefore, the Port experienced greater effects from the slowdown than from the attacks and post-attacks effects. These volumes also reflect changes in service by carriers, but overall show a decreasing trend for the Port. We assume no further terrorist attacks which impact the volume or process of U.S. international trade.



Note: Volume includes loads, empties, restows, and shifts
Source: Port of Oakland

Exhibit 3.11

Prepared by: Booz Allen Hamilton Inc.

MONTHLY CONTAINER VOLUMES IN 2001

3.4.6 PORT SECURITY INITIATIVES

Port security concerns have escalated significantly in light of the September 11 terrorist attacks on the United States. Prior to the attacks, security at seaports mainly involved measures to prevent thefts, drug trafficking, and illegal immigration. The use of transportation vehicles as a weapon of mass destruction in the September 11, 2001 terrorist attacks on the United States has raised the awareness of the vulnerability of United States seaports. Federal and state legislation, stricter enforcement of U.S. Coast Guard and Customs regulations, and at security enhancements at the local level has taken on increased priority.

At the national level, legislation is being developed to create a national port security policy and provide for port security standards. The Port, Maritime and Rail Security Act has passed, providing an initial funding mechanism for vulnerability assessments, security training, and infrastructure improvements. The Port of Oakland was recently provided with a port security grant of $4,867,071 to help pay for necessary security infrastructure improvements. Additionally, the U.S. Coast Guard has begun a national port vulnerability assessment program and is in the process of issuing the "Security Guidelines for Waterfront Facilities," which are terminal-specific and identify three levels of security. The document will provide security guidelines for identification procedures for port employees and truckers, access controls, internal security, perimeter security, lighting, security alarms, video surveillance; communication systems, training and security awareness, and security plans. The Port has begun enforcement of preliminary U.S. Coast Guard guidelines that were established on May 1, 2002.

Investments in identification and background investigation of employees and truckers could have a significant operational and financial impact on the ports. Balancing security and cost-effective port operations will be a significant challenge for ports. It is conceivable that the security procedures initiated at a particular port or terminal may adversely affect vessel or cargo service levels enough to constitute a competitive disadvantage. At this time it is impossible to say if these additional security expenditures and procedures will result in the Port of Oakland having an advantage or disadvantage relative to competing ports

To address security concerns, the Port's maritime division has established a Port Security Committee consisting of terminal operators, maritime service firms (trucking, tugs, pilots) and representatives from the U.S. Coast Guard and U.S. Customs Commission. To date, the Port and its tenants have spent approximately $300,000 on security issues that have mainly included a survey for increased security enhancements and additional guard watches. In addition, the Port has received a request from the City to provide round the clock armed police presence projected to cost the Port and its tenants approximately $600,000 annually. This requirement is not mandated under current security guidelines and is currently being considered.

It is unclear what security measures will be required to be taken, or how security investments will be paid for. The Port will pursue federal and state grants to pay for all or a portion of the mandated security costs. The recent security grant is only one-third of the Port's total request and therefore the Port will only implement those programs covered by the grant. Therefore, for the purposes of the feasibility analysis, no additional costs or significant impacts on container inspections for security measures were assumed.

3.4.7 IMPLICATIONS OF CURRENT LABOR SITUATION

Historically, port authorities on the West Coast have served in a landlord and infrastructure-provider role to private terminal and warehouse operating companies who perform all cargo related activities in the port. These private terminal operating and stevedoring companies (stevedoring is the act of loading/unloading ships) source their labor from the International Longshore and Warehousing Union (ILWU). This union represents 10,500 members working in ports in Washington, Oregon, and California.

The private American flag operators, foreign flag operators, and stevedore and terminal companies—accounting for nearly 70 private companies—that operate in California, Oregon, and Washington ports have formed the Pacific Maritime Association (PMA). The principal purpose of the PMA is negotiating and administering maritime labor agreements with the ILWU. The labor agreements the PMA negotiates on behalf of its members cover wages, employee benefits, and conditions of employment for longshoremen, marine clerks, walking bosses, and foremen.

The current 1999-2002 labor agreement between the ILWU and the PMA expired on July 1, 2002. Negotiations concerning a replacement contact began on Monday May 13, 2002, and are expected to last several months. Both the ILWU and the OMA expect negotiations to be difficult but believe they will result in a successful contract. The primary points of contention involve PMA's demand for productivity improvements, primarily in the form on technology introduction, which has resulted in the ILWU that demanding guarantees that its 10,500 members covered by the contract will be retrained if necessary. The PMA has been pushing this agenda for several years and ultimately gave in during the last contract negotiation. It remains to be seen how hard they hold to their demands through the negotiation process. Currently, both parties agreed to extend the existing contract on a day-to-day basis, which requires the parties to agree at the end of each day to extend the contract for another day. A strike appears unlikely, as the ILWU hasn't even drawn up a strike ballot yet.

Historically, where a contract has not been agreed upon by the deadline, there have been labor stoppages, slowdowns, or occasionally a temporary working agreement is put in place to prevent any disruptions. These labor strikes have been infrequent in the past. Additionally, the Port is relatively insulated from risks associated with a strike or work stoppage. First, nearly all of the carriers remain obligated to their Minimum Annual Guarantees that are a significant portion of the Port's revenues (See Section 5.5). Second, all ports on the West Coast will suffer the same fate in that they would all be shut down, leaving shippers and carriers with few options to serve the West Coast market. To hedge their risks, shippers will pre-ship inventories before potential stoppages and increase volumes after a stoppage to refill the depleted inventories. However, during a stoppage, major shippers such as Wal-Mart, Home Depot, Toys R Us, Nike, Hasbro hedge the risk of disruption by advancing shipments through East Coast ports. Most major shippers have distribution centers in the Southeast to establish an East and West Coast option to reduce risk of disruption of their supply chains in the event of congestion, labor stoppages, or other operational problems. The West Coast option offers significant advantages in serving West Coast populations and the Midwest through intermodal connections. Historically, volumes re-routed during a work stoppage would return to the West Coast ports once operations return to normal. For the purposes of this feasibility analysis, we assume that historic labor productivity levels continue at West Coast ports and no labor strikes or slow-downs occur during the study period.

3.5 COMPETITIVE ASSESSMENT

Competitive issues will impact the future market performance of the Port. This section will briefly address the competitive environment faced by the Port. The Port's main competitors are the Southern California ports of Los Angeles and Long Beach and the Pacific Northwest ports of Seattle, Tacoma and Vancouver. The Southern California ports are Port's primary competitors mainly due to close proximity and their dominant market share of intermodal import cargo. The Port's strengths and weaknesses will be discussed relative to these main competitors.

3.5.1 COMPETING WEST COAST PORTS

The Southern California ports of Los Angeles and Long Beach together form the largest port complex, in the United States. In CY 2001, the two ports handled an estimated 9.6 million TEUs of container cargo, for a 61 percent share of the major West Coast container market. The very large population of Southern California, effective intermodal connections to U.S. inland destinations, and large individual terminals give Los Angeles and Long Beach an advantage.

The Pacific Northwest ports of Seattle and Tacoma handled an estimated 3.1 million TEUs of container cargo in CY 2001 for a 19 percent share of the major West Coast container market. Seattle and Tacoma benefit from superior rail service, allowing a high percentage of their volumes attributable to shipping imports discretionary cargo to and exports from east of the Mississippi River. The ports of Seattle and Tacoma are also closer to Asian markets via ocean routes, particularly those in Northeast Asia. However, the lack of a large local population, local distribution centers, and port operators not directly associated with ocean carriers overcomes their geographic and rail advantages.

The Port of Vancouver is Canada's largest deep-sea port. While it primarily handles bulk cargo (81 percent of total tonnage), Vancouver had captured 7 percent of the major West Coast container market, or approximately 1.1 million TEUs in CY2001. Their container volume at Vancouver has seen a 27% and 9% annual growth in 1999 and 2000, respectively, due to opening of Deltaport, a new state-of-the-art container terminal.

3.5.2 FACILITY DEVELOPMENT

One factor that influences a port's competitive position is the facilities that it offers to the marketplace. The size, adequacy, productivity, and intermodal connectivity of the facilities are each important factors to customers. For discretionary cargo, ocean carrier customers will select the port, in part, on the basis of its facilities.

(1) Land/Terminal Area

Ports along the West Coast have made, and are planning to continue to make, substantial investments in infrastructure. **Exhibit 3.12** indicates that existing land available to carriers on the West Coast will increase by over 37 percent by 2003. Much of this development is already underway, with significant new land and terminals expected to be available in Southern California within the next two years. Typical project durations are 3 to 4 years. In Los Angeles, filling in the harbor area using dredge spoils created new land. This had the additional benefit of deepening shipping channels. The Port of Long Beach has acquired land from Union Pacific and the U.S. Navy through closure of the Long Beach Naval Base and Shipyard. The Ports of Seattle and Tacoma are acquiring and reclaiming land adjacent to each terminal.

Port	Existing Container Acres	Existing Terminals	Planned Expansion Acres[1]	% Increase
Long Beach	839	8	535	64%
Los Angeles	955	7	484	51%
OAKLAND	**577**	**9**	**197**	**34%**
Portland	125	1	-	0
Seattle	453	5	118	26%
Tacoma	300	4	20	6%
Vancouver	248	3	-	0
Total	3,495	37	1,354	**39%**

Source: Port of Oakland, Port Authority development plan descriptions
Note: (1): May not include total land available for future expansion projects, planned expansion through approximately 2003. (Projects completed or under way -Typical duration is 3-4 years)

Exhibit 3.12

Prepared by: Booz Allen Hamilton Inc.

WEST COAST CONTAINER TERMINAL CAPACITY: EXISTING AND PLANNED

(2) Channel/Port Depth

Ports along the West Coast vary in their ability to accommodate larger vessels, which require increased channel depths. The Port of Long Beach has main channel depths to 60 feet MLLW (defined earlier), primarily the result of land subsidence in the area. Subject to regulatory approval, individual berth depths matching the main channel depths are feasible. Depths along major container terminals in Long Beach vary from 42 to 47 feet MLLW. The Port of Los Angeles currently has channel depths to 45 feet and is planning to increase to 53 feet MLLW, driven by the need to generate additional landfill for new cargo berths and the desire to accommodate larger ships. However, Los Angeles does not have a formal deepening project that is underway. Ports in the Pacific Northwest offer virtually no draft restrictions, owing to the natural depths in Puget Sound. See Section 3.4.3 for further discussion.

(3) Rail Access: On-Dock vs. Near Dock

The capability of ports to handle the movement of containers between vessels, marine terminals, and rail connections varies along the West Coast, with some ports offering on-dock rail access and others offering near-dock or off-dock rail access. Within the U.S., containers are not handled directly from vessel to rail car, so all intermodal movements require at least one additional handling or lift, either within the yard or to a near-dock or off-dock facility. On-dock rail, while not eliminating this additional handling, permits a carrier to maintain control of the movement from vessel to rail loading. On-dock rail, however, increases the required size of marine terminals**.** Currently, 13 West Coast terminals have existing or planned on-dock rail, and these terminals average in excess of 125 acres in total area as indicated in **Exhibit 3.13**. Near-dock intermodal yards can be immediately adjacent to marine terminals, allowing containers to move directly between marine terminal and trains without passing over public streets, or may require a “dray” over public streets to an intermodal yard.

The ports of Los Angeles and Long Beach have a combination of on-dock, near-dock and off-dock, rail facilities. The Port of Long Beach currently has, or will have in the near future, four terminals with on-dock rail capability. In Addition, Long Beach plans to expand its existing near-dock intermodal yard. Both ports have participated in the development and operation of a major off-dock yard: the Intermodal Container Transfer Facility (ICTF) in Carson, California.

The Port of Portland has on-dock rail capability at Terminal 6, its container-handling facility. This, in fact, was the first facility to offer this capability along the U.S. West Coast.

The rail capabilities vary within the ports of Tacoma and Seattle. The Port of Tacoma operates two near-dock yards, the North and South Intermodal yards, adjacent to its marine terminals. The intermodal yards can be accessed directly from the marine terminals without proceeding on publicly owned and maintained streets. In Addition, on-dock capability is expected to be added to its newest terminal expansion, the West Blair Terminal. The Port of Seattle has off-dock intermodal rail facilities operated by BNSF and UP. It is also planning on expanding its existing on-dock capability at one major terminal and adding on-dock capability to another.

Further north, the Port of Vancouver offers on-dock rail capability at each of its major marine terminals.

	Near-Dock Rail Capacity?	On-Dock Rail Capacity	
		Number of Terminals	Average Terminal Size (Acres)
Los Angeles	Yes	3	159
Long Beach	Yes	4	122
Portland	Yes	1	125
Oakland	Yes	0	Not Applicable*
Tacoma	Yes	0	Not Applicable*
Seattle	Yes	2	144
Vancouver, BC	Yes	3	83
All Above Ports		**13**	**125**

Source: Port Authority Websites
Note(*): Not applicable, as Oakland and Tacoma do not have on-dock rail facilities

Exhibit 3.13

Prepared by: Booz Allen Hamilton Inc.

EXISTING OR PLANNED INTERMODAL RAIL CAPABILITIES AT MAJOR WEST COAST PORTS

3.5.3 PORT COSTS AND PRODUCTIVITY

Based upon interviews with major carriers, the Port is regarded as a relatively labor-productive port, with a relatively stable work force. Container handling capability, as measured by the ability of the labor force to transfer containers between ship and terminals, is comparable with that of other major ports along the West Coast.

Interviews with major carriers also suggested that Port usage costs, on a per-terminal basis, are thought to be about average as compared to other West Coast gateway ports. These costs are generally considered lower than or on par with those in Southern California, but higher than those in the Pacific Northwest. However, terminal charges on a per-container basis are higher for some carriers at Oakland than in other West Coast ports. This is largely a result of the lower relative volumes these carriers ship through the Port which, when divided into fixed terminal operating expenses, result in higher charges on a per-unit basis. In addition, land value is more expensive in Oakland, leading to a premium on the per-container charge by the Port. For the purposes of this study, we assume the Port continues it's participation in the California Association of Port Authorities (CAPA) and that there are no material changes to CAPA's rate setting structure

3.5.4 INLAND CONNECTIVITY AND COSTS

(1) Rail Connectivity

Although competition between rail carriers within the Port is important, the frequency, quality, and comparative rates of service over the other West Coast ports are the crucial determinants in attracting discretionary cargo. The key discretionary cargo targeted by the Port originates in Asia and is destined for the U.S. Midwestern and the Eastern United States. The three West Coast port regions are the Pacific Northwest (PNW), Northern California (NC), and the Pacific Southwest (PSW).

When looking at the rail component of the intermodal chain, the PNW has the best competitive position, as the "Northern Corridor" service is the shortest landbridge distance to Chicago, thus serving a significant portion of the cargo destined east of the Mississippi. After the "Northern Corridor," the "Central Corridor" and the "Southern Corridor" are relatively close in total distance, but, the "Central Corridor" crosses higher elevations and more interchanges, requiring longer transit times and higher costs. Public rates listed by the BNSF suggest that the Northern Corridor is roughly $40 per container less than the Southern Corridor. In reality, the carriers serving these ports all negotiate their own rates, thus making these public rates relatively useless; however, the differences in costs does provide some insight into the competitive position of PNW ports versus Northern California and Southern California ports.

Congestion along rail routes, particularly at rail terminals near a port, increases delays and ultimately raises transportation costs, reducing the competitiveness of a port. More than half of the carriers interviewed voiced this as their primary concern with respect to the Ports of Los Angeles and Long Beach. Congestion is a less significant issue on the "Northern" and "Central" corridors, but still a concern to the railroads and shippers.

It is reasonable that improved competition between the UP and the BNSF might increase intermodal activity through the Port. UP's reconfigured yard should improve efficiencies and reduce costs. The JIT eliminates the 12-mile dray for BNSF cargo, now providing oceans carriers with a choice of a railroad with access within the Port area. The JIT allows BNSF users easier access to its expansive intermodal network, allowing improved service to destinations in the Midwest and East. The recently improved ongoing carrier competition may also bring rail costs in line with those of the LA/LB, a critical component in luring discretionary cargo to the Port.

Recently, ocean carriers have been renegotiating contracts, and it appears the JIT may be achieving the desired effect. At least one carrier has indicated they have been able to negotiate equalized rates for intermodal cargo from either LA/LB or Oakland to the Midwest. In addition, one carrier has begun a first call service from Asia.

(2) Intermodal Truck Connectivity

Congestion of local and interstate highways is a concern of every West Coast port. Adequate access allows trucks to easily pick up or drop off local cargo. Each port has its own concerns regarding local road and highway infrastructure. Local road congestion is a competitive disadvantage only when a dray is required to a local intermodal yard. Prior to completion of Phase I of the JIT, such a dray was required for BNSF cargo. Therefore, the truck access to the Port is now primarily a issue for local traffic and no longer impacts intermodal volumes. Our interviews with Port users suggest that the trucking facilities into and out of the Port are adequate, taking into account the current levels of traffic in the Bay Area.

3.5.5 REGULATORY ENVIRONMENT

The Port is situated on San Francisco Bay, one of the more environmentally sensitive and ecologically diverse regions in California and the nation. Projects, particularly those impacting the environment, are scrutinized by numerous federal, state, and local agencies. In some areas, such as dredging and landfill, the Port works with a state agency that regulates only San Francisco Bay. That agency, the Bay Conservation and Development Commission (BCDC), sets local criteria that while consistent with the needs of the local environment, place the Port at a competitive disadvantage vis a vis other California ports with less-restrictive dredging, landfill, and mitigation requirements.

The Port is aware of the length of time required to review and approve projects and has worked with appropriate regulatory agencies to develop a more efficient process. The ability to initiate and complete projects in a timely manner is critical, given competing ports' ability to execute projects in a shorter time frame.

3.5.6 PORT CONGESTION/CAPACITY

Upon turnover of the FISCO property, the Port has implemented a plan to build two new large terminals, and reconfigure the existing terminals into a fewer number of terminals, but larger individual terminals. This is important, in that the Port now has additional capacity. The Port must continue to increase the size of the individual terminals in order to keep pace with the large terminals in Los Angeles/Long Beach (See Exhibit 3.13 for average terminal size estimates).

3.6 MARKETING STRATEGIES OF THE PORT

Ports throughout the U.S. and, in fact, around the world, compete for business from shippers and ocean carriers. While a port is typically able to attract and retain local origin and destination cargo, competition to attract discretionary cargo, which has the option to move through multiple gateways in North America, is particularly intense. Attracting additional cargo benefits not only a port, but also its local community as a result of direct and indirect jobs linked to trade. The Port has initiated a number of marketing strategies, with the goal of maintaining and improving its competitive position among competing ports.

3.6.1 CARRIER- AND ISSUE-SPECIFIC MARKETING

The Port's carrier-based marketing approach is a refinement of traditional trade development-based port marketing philosophies. While many ports aggressively promote shipper-based marketing programs with a large marketing staff and a network of domestic and international representation offices, the Port has chosen to focus its marketing efforts on specific issues with targeted carriers to effect change beneficial to both the carrier and the Port.

Recent marketing efforts include offering support and incentives to a carrier to initiate a new intermodal service through the Port and presentations to encourage several carriers to increase their current intermodal cargo volumes. Other programs include vessel routings, which feature the Port as a first inbound port of call, and assistance with specific commodity groups such as cotton, meat products, and refrigerated cargoes.

3.6.2 INTERMODAL INCENTIVES

For all practical purposes, the Port now stands as the only significant container port for Northern California. As such, it will benefit from the majority of the waterborne trade conducted by local markets. The greatest potential for growth, however, is in capturing a larger portion of the discretionary intermodal cargo that flows through West Coast ports. As an incentive to use the Port as an intermodal gateway, the Port has negotiated volume incentives (wharfage discounts) for intermodal cargo with some carriers.

3.6.3 ROAD VACATION/ALLOWANCE FOR HEAVY VEHICLES

In 1986, the Port and the City of Oakland worked together to create a Heavyweight Container Permit Program. This program was a first among U.S. West Coast ports, and allowed the movement of otherwise overweight truck/trailer combinations on specific routes through the Port using specialized equipment. After witnessing the success of this program, other ports have initiated similar programs, reaching parity with the Port.

The Port has recognized the need to maintain maximum efficiency of streets linking marine terminals, rail yards, inspection, transloading, and other freight support facilities within the Port. The Street Vacation and continued public access program entails agreeing to maintain designated roads in the Port while providing public access to all places of business, employment, and the public waterfront. By classifying the roads as private roads operated by the Port, state limitations on heavy weight movements would no longer be in effect, allowing the Port to establish criteria consistent with the local needs of carriers and other Port customers while maintaining appropriate levels of safety. Additionally, Port-controlled roads would allow for maximum operational flexibility between the terminals as unlicensed cargo-handling equipment will be able to move cargo over the private roads as necessary. There may be additional opportunity for minor vacation allowances.

3.6.4 PROVIDE NECESSARY INFRASTRUCTURE

The Port realizes that proper infrastructure is required to retain current clients, to secure additional business from them, and to attract new carriers. Interviews with current Port users suggested that the Port has lagged in providing infrastructure improvements in the past. However, all users interviewed were pleased about the completion of the JIT and the other improvements being completed at the Port. A detailed discussion of the Maritime projects in the Port's Capital Improvement Program is discussed in Section 3.8.

3.7 CARGO PROJECTIONS

Trade growth between the U.S. and trading partners for the Southern Pacific (California) ports has been estimated by DRI/WEFA and is summarized in **Table 3.6**. DRI/WEFA, along with other leading economists, believes that growth in imports to the U.S. will exceed exports. However, the Port has not experienced import growth at the same rate as the other Southern Pacific U.S. ports. **Table 3.7** examines the historical growth of the Port compared to its competition by import and export share. For the purposes of the feasibility analysis, Booz Allen assumes that the Port's import growth rate will be roughly half that of California ports overall, based on the historical relative growth rates between Oakland and California for year-on-year growth. Since Oakland is projected to grow at half the California port rate for imports, it is projected to continue to lose market share to LA/LB going forward. Overall, U.S. trade through the Port is projected in the feasibility analysis to increase at 3.8 percent annually from CY 2002 to CY 2010, consisting of a 2.9 percent increase in imports and a 4.4 percent increase in exports.

The carriers calling at the Port have had different experiences with cargo growth over the past few years. Some, like Hyundai Merchant Marine, have changed vessel sailing patterns and have routed discretionary cargo to other ports such as Los Angeles. Carrier acquisitions have greatly influenced volumes as smaller regional carriers are consolidated with larger global carriers. The Maersk-Sealand acquisition created a company twice as large as any other shipping company in terms of volume. Other carriers such as Evergreen, Hanjin and COSCO have seen very large increases in throughput.

To quantify the impact of changes in the Port's competitive environment, container volume forecasts through FY2012 have been developed. These forecasts combine macroeconomic trends of the U.S.—specifically the West Coast—and U.S. foreign trading partners, with carrier insights on growth expectations of volumes in individual ports. Information regarding carriers was derived from interviews and analysis.

The primary assumptions are: (1) improved intermodal connections spur moderate growth, (2) the two new cargo terminals and the terminal shuffle will increase capacity and provide for growth in services, and (3) there will be moderate recovery from the economic slowdown meaning it will take 2-3 years for the Port to recover to volume levels achieved before the slowdown.

The results of our forecast are presented in **Exhibit 3.14**. These forecasts are shown in terms of loaded TEUs, from which the Port derives the vast majority of its usage revenues.

Given this set of circumstances, it is projected that the existing base of total loaded TEUs will grow at 4.0 percent per annum. This is based on the forecasted growth in trade with the markets currently served by the Port. Under this scenario, current loaded TEUs will climb from nearly 1,265,400 in CY 2001 to over 1,700,000 in CY 2012. Included in this trend are the volume decrease in CY 2001 and an expected decrease in CY 2002 based on year-to-date results. This cargo traffic projection, along with assumed tariff increases, is the primary driver in maritime revenue projections presented in Chapter 5. It is reasonable to project a higher growth rate (4 percent) than the Port's historical growth rate over the last decade (3 percent) as the Port's new rail connections, bigger terminals, and deeper drafts will better accommodate growth among its carriers, particularly new intermodal growth. In addition, during the past decade, the Port was able to sustain growth at or greater than 4% from 1992 to1996, and then again from 1998 to 2001. A major carrier opening a large terminal in LA/LB temporarily drew cargo away from Oakland offsetting the growth trend in 1996 and the global economic slowdown (See Section 3.4.1) offset the growth trend in FY 2002.

Table 3.6
PROJECTED GROWTH RATES FOR U.S. SOUTHERN PACIFIC (CALIFORNIA) PORTS AND OAKLAND BETWEEN U.S. AND MAJOR TRADING PARTNERS
(2004–2010)

	California Ports	Oakland	California Ports	Oakland
Major Trade Partners (International)	**Imports**	**Imports**	**Exports**	**Exports**
Asia	6.9%	3.5 %	4.7 %	4.7 %
Europe	4.9 %	2.5 %	4.6 %	4.5 %
Australia/New Zealand	4.9%	2.5 %	4.3 %	4.2 %
Total U.S. Trade	**6.6%**	**2.9 %**	**4.7%**	**4.4 %**

Note: (1) Import growth rates for Oakland were assumed to be 48 percent of the growth rates for California ports based on an assessment of historic year-on-year growth from CY 1996 to CY 2001
(2) Total values for are volume weighted
Source: California Ports: DRI-WEFA
Oakland: Booz Allen Hamilton

Table 3.7
OAKLAND VS. CALIFORNIA PORTS GROWTH BY TYPE
(1995-2001)

Imports

Loaded TEUs (Millions)	CY 1996	CY 1997	CY 1998	CY 1999	CY 2000	CY 2001		AAG (96-01)
California Ports	3.20	3.67	4.27	4.75	5.45	5.57		11.7%
Oakland	0.36	0.40	0.46	0.47	0.50	0.47		5.5%

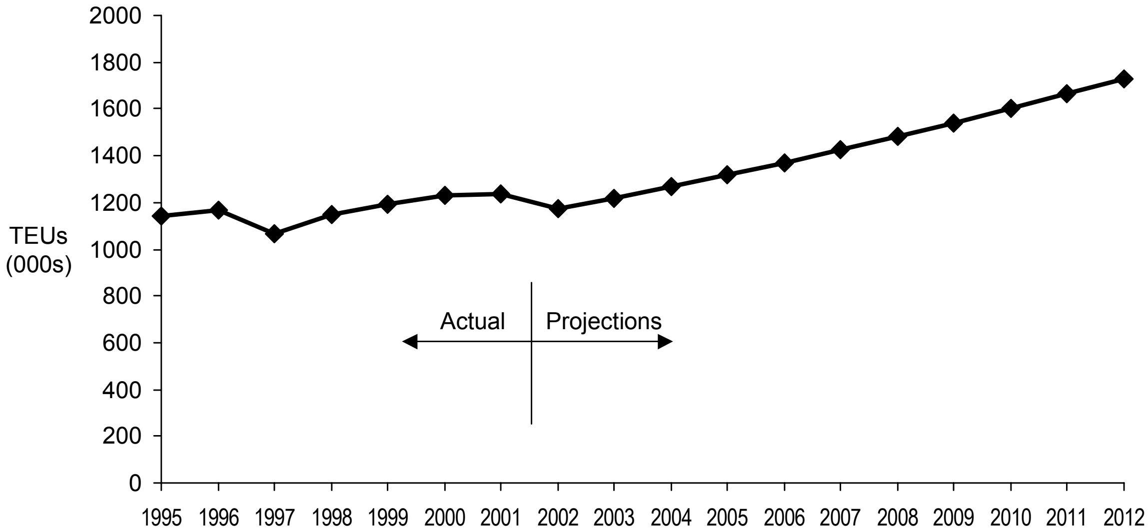
Exports

Loaded TEUs (Millions)	CY 1996	CY 1997	CY 1998	CY 1999	CY 2000	CY 2001		AAG (96-01)
California Ports	2.70	2.75	2.52	2.60	2.85	2.72		0.1%
Oakland	0.78	0.77	0.75	0.79	0.82	0.73		-1.3%

Total

Loaded TEUs (Millions)	CY 1996	CY 1997	CY 1998	CY 1999	CY 2000	CY 2001		AAG (96-01)
California Ports	5.9	6.42	6.79	7.35	8.3	8.29		7.0%
Oakland	1.14	1.17	1.21	1.26	1.32	1.2		1.0%

Source: American Association of Port Authorities



Source: Booz Allen Hamilton

Exhibit 3.14

Prepared by: Booz Allen Hamilton Inc.

OAKLAND LOADED TEU PROJECTIONS (THOUSANDS OF TEUs)

3.8 MARITIME PROJECTS IN THE CAPITAL IMPROVEMENT PROGRAM

The Maritime Division projects in the Port 's Capital Improvement Program (CIP) are designed to provide the facilities necessary to retain the Port's existing cargo base and potentially to attract new carrier activity to the Port. The CIP is consistent with the marketing strategies contained in Section 3.6, which are designed to attract new carrier activity to the Port. Section 3.8.1 describes the existing maritime port facilities. Section 3.8.2 describes the Maritime-related components of the Capital Improvement Program.

3.8.1 EXISTING FACILITIES

The maritime facilities of the Port are located in four main terminal areas—the Outer Harbor, Seventh Street, Middle Harbor, and Inner Harbor. In these four terminal areas, there are 848 acres of developed terminals including container storage, rail yards, and container storage areas. Developed terminals at the Port include 27 deepwater berths. The facilities are organized into 10 container terminals, outfitted with a total of 41 rail-mounted container cranes and two break-bulk terminals.[2] Four cranes are out of service and scheduled to be removed by December 2002. The Port's facilities are shown on the map in **Exhibit 3.15**.

The Outer Harbor area contains the Maersk-Sealand Terminal (Berths 20, 21, 22 and 24), the Yusen Terminal, the Transbay Container Terminal, and one break-bulk terminal, the Burma Road Terminal (currently used by Caltrans). The Seventh Street area includes the Matson Terminal, the TraPac Terminal, and the Ben E. Nutter Container Terminal. The Middle Harbor contains the American President Lines facility, the new Hanjin Terminal, and the future site of the SSA Terminal. The Inner Harbor contains the Howard Terminal and another break-bulk terminal, the Ninth Avenue Terminal, which is not currently operating.

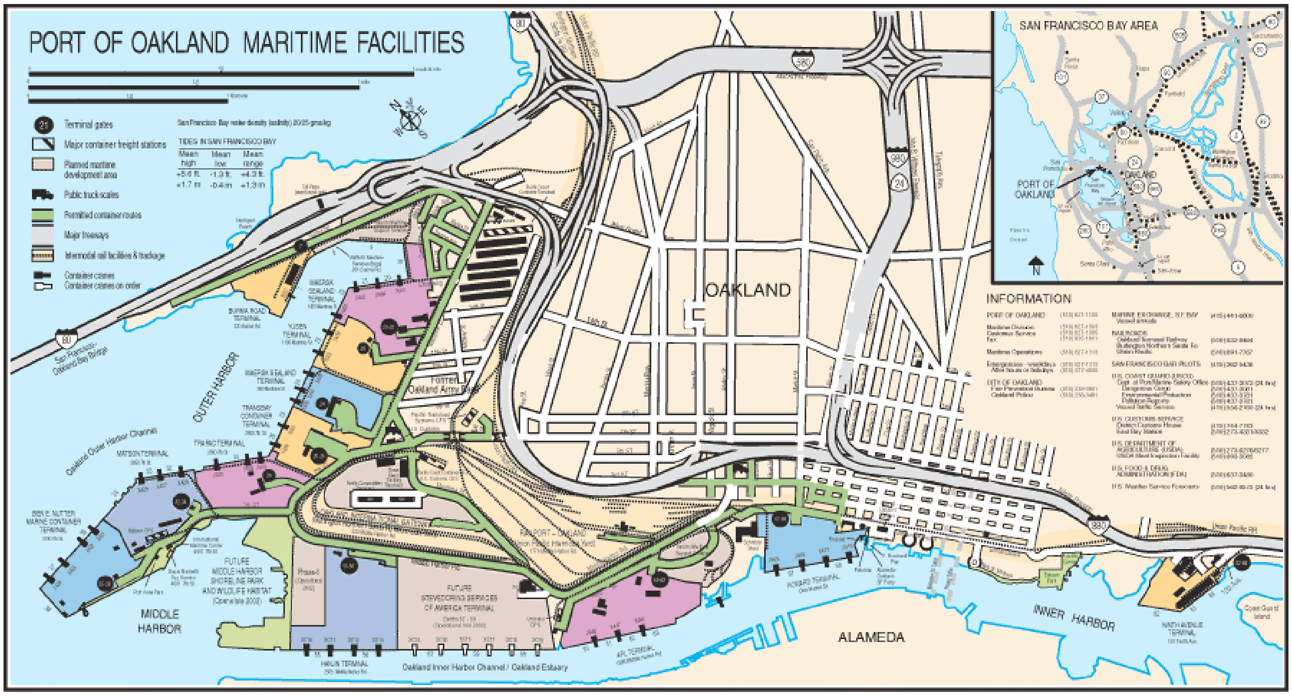
3.8.2 MARITIME PROJECTS IN THE CAPITAL IMPROVEMENT PROGRAM

The Maritime Division projects in the CIP require a total investment of approximately $480 million. The Maritime Division projects are to be funded by the Port, through internally generated cash flow, debt, and various external sources. The Maritime Division projects in the CIP are divided into four major initiatives designed to improve the competitiveness of the Port. The major projects to be undertaken by the Port are summarized in **Table 3.8**. The four major Port initiatives are upgrading and expansion of existing terminal facilities terminals, construction of an additional marine terminal in the Middle Harbor area, deepening of the Oakland ship channel and berths, and engineering/planning costs for the Oakland Army Base (OAB). Each of these projects will be discussed further in this section.

(1) Expand and Upgrade Facilities

This project mainly involves the renovation of the Port's Outer Harbor Terminal Complex. One wharf located at the current Maersk/Sealand berths 20, 21, 22 is expected to be completely reconstructed. Following this renovation, other terminals will require varying degrees of construction to allow for current terminals to be reconfigured into contiguous 100+ acre facilities. These newly configured terminals will be equipped with existing and new post-Panamax cranes designed to meet the requirements of large post-Panamax vessels being deployed by carriers.

[2] The Burma Road terminal is not presently used for ship calls pending CALTRANS reconstruction of the Bay Bridge. The facility will be utilized as a staging area for construction materials. The Ninth Avenue Terminal has reached the end of its economic viability to support break-bulk vessel operations. Portions of these terminals continue to be used for cargo storage and truck terminal operations.



Source: Port of Oakland (Please view www.portofoakland.com for additional maps of their maritime facilities)

Exhibit 3.15

Prepared by: Port of Oakland

EXISTING MARITIME FACILITIES

Table 3.8
MARITIME PROJECTS
2002- 2007

Major Projects	Total Funds Required ($ Millions)
Outer Habor: Berth 22-26	77.0
7th Street Harbor: Berth 32-33	69.0
Middle Harbor: APL Terminal	77.0
Vision 2000: Hanjin, Berths 55-56 SSAT, Berths 57-59 JIT, Phase I Maritime Support Area New Middle Harbor Park	 6.8 46.5 6.2 14.5 27.1
Other Maritime Area: 50 feet Dredging Oakland Area Base*	 147.3 8.4
Total	479.8

Note(*): Planning, Preliminary Design, Environmental, and Legal Costs Only
Source: Port of Oakland

(2) New Container Terminal Construction

The Port has developed one 90+-acre container terminal and is currently developing a second 150-acre facility in phased construction. Phase 1 of the first terminal is operated by Hanjin Shipping Company and received its first cargo shipment on June 4, 2001, and its first ship call on June 18, 2001. Four new post-Panamax cranes turned over to Hanjin on April 18, 2001, serve this terminal. A second phase will add 30 additional acres to the new facility is scheduled to be completed by January 2003. SSA Terminals Ltd. is designated to operate a second terminal expected to be completed in August 2002.

(3) Channel Deepening

The U.S. Army Corps of Engineers (COE) completed the deepening of the Port's Inner and Outer Harbor channels to 42 feet MLLW in July 1998. While this is sufficient, with tidal restrictions, to handle any of the vessels currently calling at the Port, the newest generation of vessels now in operation requires even deeper channels for fully loaded operations. Most of the carriers serving the Pacific trades have on order or plan to order even larger post-Panamax vessels, which will require deepening the channel to 50 feet MLLW. A new deepening project began in September 2001 and is expected to be complete by 2006, however, this schedule is subject to federal annual appropriations.

In July 2001, the Port and the federal government entered into a Project Cooperation Agreement, which specifies the details of cost sharing between the Port and the federal government. The total project authorization in 1999 was $252 million, with the funding split $128 by the federal government and $124 million by the Port. The latest cost estimate has grown to $293 million with federal share increasing to $146 million and the Port’s share increasing to $147 million. The Port makes payments by the first of the government fiscal year with $6.1 million deposited for FY 2002. Payment of the federal share is dependent upon federal appropriations by Congress. In U.S. Government FY 2001, the Port received $4 million to commence construction and $10 million in 2002 to continue the program. The Port is budgeted to receive another $5 million in 2003, however, this is subject to approval by Congress. The administrators of the program, the U.S. Army Corps of Engineers, has requested that projects not started be put on hold in anticipation of a lower overall budget in 2003. There can be no assurance as to the level of funding applied to the dredging program in 2003 and beyond.

The revenue and expense projections presented in Chapter 5 are considered reasonable as long as the Port continues to make progress towards implementing the deepening project, even if the plan experiences short-term setbacks due to delays in federal funding. Delays beyond 2008 could impact the Port’s plan for increased intermodal activity. Until then, the Port can compensate for inadequate depth with its tidal activity. However, scheduling vessel services around tidal activity leads to costly delays to the ocean carriers.

(4) Oakland Army Base/Terminal Realignment

The Port intends to expand and improve its existing Port facilities by accepting conveyance of a portion of the Oakland Army Base (OAB) including Maritime Street from the City of Oakland. Negotiations are ongoing among the U.S. Army, the Port, the City of Oakland Redevelopment Agency and the Oakland Base Re-Use Authority. If acquired, this new property is expected to be developed and operated as part of the existing commercial Port facility.

Development plans for the Port's portion of land includes a new terminal, realigning and expanding all existing terminals, and further enhancing rail connections not included in the current CIP. The Port has planned a phased approach to this land construction, developing the new land only when it is needed and when the revenue projections support the development costs. The current agreement under consideration includes conveyance of 184 acres of land and buildings.

Since the parties have not concluded their agreement, none of the initial costs, the interim costs, the development costs or any revenues from the future development of the OAB property anticipated as a result of an agreement between the Port and the City are currently included in the Port's CIP or in the Feasibility Report. The costs of any development at the OAB would be included in a future capital program, subject to feasibility and cost analyses performed in conjunction with any future program.

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4. COMMERCIAL REAL ESTATE

4.1 PRINCIPAL BUSINESS FOCUS

4.1.1 ROLE OF COMMERCIAL REAL ESTATE

The Commercial Real Estate ("CRE") Division manages all of the Port's commercial real estate that is not used or intended to be used for maritime or aviation purposes. This division also provides real estate services to other Port divisions when appropriate.

On April 24, 2001, the Board selected Jack London Square Partners, LLC, a Delaware limited liability company ("Jack London Square Partners") as master developer for Jack London Square, a mixed-use waterfront commercial development on land owned by the Port.

On March 29, 2002, the Port closed the transaction referred to as the JLS Transaction with Jack London Square Partners. The JLS Transaction is comprised of four elements: $17.2 million paid to the Port for the sale of four buildings in Jack London Square; 66-year ground leases of the underlying land to Jack London Square Partners; the right to ground lease and develop additional sites in and around Jack London Square; and Asset Management and Operating Agreements. The four buildings sold are identified as follows:

- 66 Franklin Street
- 98 Embarcadero (The Pavillion or Barnes and Noble Building)
- 70 Washington Street (Water Street II)
- 409-439 Water Street (Water Street I Retail)

As a result of the JLS Transaction, Oakland Portside Associates ("OPA"), a partnership that was formed and controlled by the Port for the purpose of undertaking the development and asset management of a significant portion of Jack London Square, will be restructured; this restructuring will have no financial impact.

The Cash Flows prepared for this Feasibilty Report include actual results for the Fiscal Year ending June 30, 2001; the forecast for the Fiscal Year Ending June 30, 2002; the budget for Fiscal Year ending June 30, 2003; and Jones Lang LaSalle's projections beginning with the Fiscal Year Ending June 30, 2004. The Jones Lang LaSalle projections reflect the impact of the JLS Transaction. Certain sections of this Feasibility Report will discuss historic and forecasted revenue and expenses for the Commercial Real Estate Division. Historic revenue and expense figures reflect the "pre" JLS Transaction situation.

The activities of the Commercial Real Estate Division span over a 10-mile length of shoreline. For the purpose of this Feasibility Report, the activities have been grouped into Revenue Centers as shown on **Table 4.1**.

Table 4.1

Port of Oakland
Commercial Real Estate Division
Feasibility Report

COMMERCIAL REAL ESTATE REVENUE CENTERS

Revenue Center	Number of Agreements	Total Acreage	Types of Uses
Jack London Square (Includes OPA) (1) (2)	36	20.3	O, H, R, E, P, RS
Parking	3	12.7	
Marinas(3)	5	6	M
Embarcadero Cove	16	10	O, R, H, I, M
Airport Business Park	13	628.2(4)	O, R, I, H
Distribution Center	2	27	D
Other Areas	21	137	O, R, I
Vacant Land			
Undeveloped/Developable	N/A	105	N/A
Environmentally Sensitive(5)	N/A	78	N/A
Totals	**96**	**1,024.2**	

O	Office	RR	Railroad
I	Industrial	M	Marinas - Recreational Boat Berthing
H	Hotel	D	Distribution Terminal
R	Retail	P	Parking
E	Entertainment	RS	Restaurants

Issues:
(1) Includes the Port Building, Parking Garage, Scott's, Il Pescatore, Kincaids, Yoshi's, JL Cinema, Jack's Bistro, WFP Hotel, Heinhold's, Cost Plus, Oakland TeleCard, Fire Station, BofA ATM, PacBell Mobile, and Dockside
(2) Ground leases for 66 Franklin, 98 Embarcadero, 70 Washington, and 409-439 Water Street
(3) The 5 marinas have 495 berths of which approximately 93% were occupied as of July 2002.
(4) Includes 565 acres leased to East Bay Regional Parks District for nominal rents.
(5) Includes 72 acres in the Business Park/Distribution Center and 6 acres in Embarcadero Cove

Source: Port of Oakland

In FY 2001, the CRE properties generated revenues of approximately $19.1 million: $12.2 million generated by the Commercial Real Estate Division and $6.9 million generated by OPA. Approximately 45 percent of OPA revenues were derived from rental payments received by OPA from the Port for the rental of office space. Due to the elimination of intercompany transactions between the Port and OPA required by Generally Accepted Accounting Principles (GAAP), the Port's Consolidated Financial Statements for the fiscal year ended June 30, 2001 show Commercial Real Estate revenue at $16,122,567 (excluding utility sales). The Commercial Real Estate Division's direct operating expenses were $6.7 million and OPA's direct operating expenses were $3.0 million for FY 2001. This resulted in a net operating income of approximately $6.47 million. By comparison, and including the impacts of the JLS transaction, consolidated gross income for FY 2003 is budgeted to be $12.1 million (excluding utility sales), with direct operating expenses of $9.45 million, resulting in a net operating income of approximately $2.65 million.

CRE's revenues and expenses going forward are expected to be relatively stable, because the majority of the properties are leased under long-term land development leases with the tenants primarily responsible for all expenses and operating costs. Fifty-nine percent of the existing agreements have an average lease term of 30 years and provide 67% of the revenue for the Commercial Real Estate Division. Most of the leases are for ground rental only, but many include improvements owned or constructed by the Port.

To manage and maintain these properties, the Commercial Real Estate Division employs 17 people and draws upon Port administrative services (e.g., legal & finance), as needs dictate. The Commercial Real Estate Division strives to achieve maximum net income consistent with the productive use of the real estate under its control, with a balanced mix of industrial, commercial, and recreational land uses.

The Commercial Real Estate Division seeks to manage and develop its properties in a manner consistent with the public role of the Port. This approach reflects a trade-off between short-term income production and the Port's broader mission of public service and balanced land use strategies.

4.1.2 EXISTING REVENUE CENTERS

As noted above, properties managed by the Commercial Real Estate Division represent a variety of land uses and activities. For the purposes of this Feasibility Report, the properties are categorized into seven Revenue Centers.

(1) Jack London Square Retained Assets

Following the JLS Transaction, the Port has retained ownership of the properties known as the Port Building, Parking Garage, Scott's, Il Pescatore, Kincaids, Yoshi's, JL Cinema, Jack's Bistro, Waterfront Plaza Hotel, Heinhold's, Cost Plus, Oakland TeleCard, Fire Station, BofA ATM, PacBell Mobile, and Dockside (collectively the "Retained Assets"). The Port's revenue from the Retained Assets is based on building rent or ground rent received from the individual tenants.

Rental revenue from the Jack London Square Retained Assets and OPA is projected to be $6,862,872 in FY 2003, increasing to $7,278,403 in FY 2008.

(2) JLS Ground Leases

As previously discussed, the JLS Transaction has the following components:

1. $17.2 million paid to the Port for the sale of four buildings in Jack London Square;
2. 66-year leases from March 29, 2002 for the land on which the four buildings sit;
3. the right to ground lease and develop offices, restaurants and shops on additional sites;
4. Asset Management and Operating Agreements.

The only components reflected in the cash flows prepared for this Feasibility Report are item (2) and (4) noted above. Item (1) from above is not reflected in the cash flows because it was a one-time event. Item (3) noted above reflects potential future ground leases for certain parcels that (as currently contemplated) could accomodate the following development:

- Site F1: 117,600 SF of office, 21,000 SF of retail, and 154 parking stalls
- Site F2: 138,000 SF of office, 20,000 SF of retail, and 464 parking stalls
- Site F3: 240 room hotel
- Site G: 820 parking stalls and 35,000 SF of retail
- Site D: 39,000 SF of office and 28,000 SF of retail
- Site C: 26,000 SF of office and 15,000 SF of retail

The cash flow projections in this Feasibility Report are limited to those projects that are committed, or for which reasonable, market-based projections can be made. The timing related to the ground lease of Sites F1, F2, F3, G, D, and C to the developer, the development of these parcels, and the resulting ground lease income that would flow to the Port as a result of the ground leases and development, cannot be reasonably estimated at this point in time due to the longer term nature of the redevelopment of Jack London Square.

The revenue to the Port from the JLS Ground Leases is based on the Ground Leases by and between the Port of Oakland and Jack London Square Partners. The key terms and conditions of the Ground Leases are summarized as follows:

Properties:
- 66 Franklin Street
- 98 Embarcadero (The Pavillion or Barnes and Noble Building)
- 70 Washington Street (Water Street II)
- 409-439 Water Street (Water Street I Retail)

Base Rent:
- 66 Franklin Street: $142,626 per annum ($11,886 per month)
- 98 Embarcadero: $63,958 per annum ($5,330 per month)
- 70 Washington Street: $125,163 per annum. ($10,430 per month)
- 409-439 Water Street: $20,822 per annum ($1,735 per month)

Base Rent Adjustment:
The base rent will be adjusted every five years at a fixed rate of 2.0 % per year.

Participation Rent:
5% of annual Net Operating Income, paid quarterly. Net Operating Income is defined to include industry standard expense categories set forth in the lease agreements.

Rental revenue from the JLS Ground Leases is projected to be $352,569 in FY 2003 (comprising $352,569 in base rent and $0 in participation rent), increasing to $529,813 ($389,265 in base rent and $140,548 in participation rent) in FY 2008.

(3) Marinas

Rental revenue from the Marinas in FY 2001 was $1,269,375. In August 2001, The Port's Board of Commissioners approved the solicitation of Requests for Qualifications related to the transfer of the operation of Port owned and operated marinas to a private party. We have been informed that there is no signed agreement in place to transfer the operation of the marinas; therefore, our projections do not make any allowance for this proposed transfer. However, going forward, a portion of the marina revenue will be impacted by the temporary loss of approximately 50 percent of the marina berths due to work by the California Department of Transportation (CalTrans). CalTrans is expected to reimburse the Port for the majority of the lost revenue. As a result, revenues in 2004 have been estimated at 85% of the 2003 budget. Therefore, rental revenue from the Marinas is projected to be $1,433,988 in FY 2003, decreasing to $1,249,362 in FY 2004 and then increasing to $1,379,062 by FY 2008.

(4) Embarcadero Cove

Embarcadero Cove is comprised of properties that lie along the waterfront of the Oakland Estuary, south of the Lake Merritt Channel to 23rd Avenue. Embarcadero Cove includes a public fishing pier, offices, two hotel/motels and several restaurants. One of the hotels, the Embarcadero Executive Inn, is undergoing an expansion with an expected completion date of November 2002. A third hotel, Homewood Suites by Hilton, opened in February 2002.

Rental revenue from the Embarcadero Cove area is projected to be $1,263,227 in FY 2003, increasing to $1,362,835 in FY 2008. The majority of the properties, many of which are subject to various land use restrictions discussed in Section 4.2.1(2), are leased by the Port under long-term land development arrangements, whereby the tenant is responsible for the development of and operating costs of its facilities, subject to a reversion to the Port at the expiration or termination of the lease. In many instances, the Port shares in the gross revenue of these activities above minimum annual guaranteed amounts.

(5) Oakland Airport Business Park

The Port owns 628.2 acres in the Airport Business Park; however, 565 acres are leased at a nominal rent to the East Bay Regional Park District, which provides recreational facilities to the Oakland community. A portion of the remaining Port property is leased to the Oakland Airport Hilton Hotel, which contains 373 rooms and has an average occupancy rate of 80 percent. The Port also owns the 23 acre site formerly improved with the Ramada Hotel. The site is in escrow with an anticipated closing date of December 2002. Other recent and pending land sale activity includes the 2.4 acre Hegenberger Annex site which closed in the first quarter of CY 2002, and the 14 acre Hegenberger/Pardee site, with an anticipated close of escrow in the third quarter of CY 2002. However, land sales revenue is not included in the revenue projections. Rental revenue from the Airport Business Park is projected to be $1,057,46 in FY 2003, increasing to $1,179,663 in FY 2008.

(6) Oakland Airport Distribution Center

There are 131 acres adjacent to the Business Park that have been set aside as a distribution center for distribution and warehousing firms, especially those related to air cargo operations. United Parcel Service (UPS) leases 27 acres of this property for a major distribution terminal. The remaining 104 acres were subject to a court-ordered consent decree entered into in connection with the settlement of environmental litigation. That consent decree provided that approximately 70 percent of such land be set aside as permanent wetlands and the remaining 30% is available for sale and development. Rental revenue from the Airport Distribution Center is projected to be $226,014 in FY 2003, increasing to $257,325 in FY 2008.

(7) Other Areas

This includes a variety of industrial uses in the area between Oak Street and Ninth Avenue. It also includes an area known as the “Pardee Parking Lot”, which will be developed as a parking area to serve the airport during the development of a new parking garage and rental car facility. Based on information provided by the Port, the Pardee Parking Lot will generate $1.7 million net to CRE beginning in FY 2004 through FY 2008. This is described more in detail in the Aviation section of this report. Rental revenue from the Other Areas is projected to be $931,684 in FY 2003, increasing to $2,535,136 in FY 2008, but decreasing to $843,487 in 2009.

(8) Utility Sales

CRE receives allocated income from Utility Sales, projected to be $109,134 in FY 2003, increasing to $144,962 in FY 2008.

Table 4.2 presents anticipated revenues by revenue center for the Commercial Real Estate Division in FY 2003.

Table 4.2

Port of Oakland
Commercial Real Estate Division
Feasibility Report

COMMERCIAL REAL ESTATE REVENUE (FY 2003)

Revenue Center	**Anticipated Fiscal Year 2003**
Jack London Square (Including OPA Retained Assets)	$6,862,872
JLS Ground Leases	352,572
Marinas	1,433,988
Embarcadero Cove	1,263,227
Business Park	1,057,465
Distribution Center	226,014
Other Areas	931,684
Utility Sales	109,134
TOTAL	**$12,236,956**

4.2 OUTLOOK FOR COMMERCIAL REAL ESTATE

In view of the extensive properties involved, the Commercial Real Estate Division's current Business Plan has identified specific short and longer term objectives.

- *Short-term objectives* relate to Commercial Real Estate's on-going management (and reletting, as leases expire) of currently developed facilities, as well as the marketing of other properties available for immediate development.

- *Longer-term objectives* include working with the chosen developers for Jack London Square and the Ninth Avenue Terminal area. The sale or leasing of other available undeveloped properties for third-party development with private capital are also longer term objectives.

These objectives reflect consideration of not only opportunities and constraints within the local commercial real estate market, but also factors such as overall Port land use strategies, certain land use restrictions discussed below and the role of real estate in supporting the overall public and business strategies of the Port. Factors influencing Commercial Real Estate's activities, therefore, include a combination of national and international development trends related to the Port's maritime and aviation activities, as well as regional and local influences.

The following section focuses on additional factors particularly relevant to Commercial Real Estate's outlook, including consideration of existing properties and vacancies, and those factors impacting future leasing activities.

4.2.1 FACTORS INFLUENCING LEASING ACTIVITIES

In addition to national and international aviation and maritime factors influencing the Port's real estate activities (discussed elsewhere in this report), the Port's real estate activities are influenced by competitive factors in the local market, as well as certain policies and goals underlying the use of Port properties.

(1) Local and Regional Factors

The vitality of the Bay Area commercial real estate market depends on regional population and income trends, the strength of the employment base, and general economic conditions. As the fifth-largest CMSA in the United States, the San Francisco, Oakland and San Jose area is home to over 7.0 million people. These three principal cities and their surrounding suburbs are among the most affluent communities in California. The City of Oakland is home to approximately 402,100 persons, or approximately 5 percent of the Bay Area's total, while the 2.7 million residents of the East Bay (Alameda and Contra Costa Counties) represent approximately 29 percent of the urban areas' population.

The calendar years 2000 and 2001 brought changes in the Bay Area real estate market. The national and regional recession caught up with the Oakland Metropolitan Area, where the regional economy was near the brink of recession by year-end 2001. The overall office vacancy rate increased to 14.9% by the end of the fourth quarter of calendar year 2001 as companies in the area either downsized or ceased operations. By the end of 2001, market activity in all of the submarkets had slowed as tenant demand tumbled. Despite the rising vacancy rate, the Oakland Metropolitan Area ranked as the healthiest region in the Bay Area, attributable to the diverse tenant base and the fact that people still regarded the Oakland-East Bay as a more affordable area for both businesses and housing. The area has a long-term advantage due to lower costs and advantageous location, with BART connections and proximity to the Oakland International Airport. Also, the diversity of Oakland's economy is a further advantage. Health care and biotech offer other avenues of growth. Kaiser Permanente, Chiron and Bayer are expanding. The Lawrence Livermore and Berkeley labs are gaining expanded funding for research.

The core submarkets like Downtown Oakland and Downtown Berkeley held steady throughout 2001. South Richmond was the only submarket that managed to turn out a positive absorption figure through several significant lease transactions. Though the rest of the sub-markets softened considerably, Emeryville was the main contributor to the Oakland/East Bay area's rising vacancy. Emeryville's overall vacancy vaulted up to 31.7% from 2.2% in 2001. New inventory was added to the Oakland East Bay market at the same time that companies downsized or went out of business when the technology boom ended.

In the *retail sector*, the year-end 2001 vacancy rate reached 4.8%, up slightly from the 3.8% recorded at year-end 2000. The rate is projected to remain in the 5% range for the next three years. Average asking and effective rents are forecast at $21.87 per square foot and $20.91 per square foot, respectively, each up approximately 9%, from one year earlier. These are among the highest rates of gain ever. Jack London Square has been a prime beneficiary of these trends. With the completion of the cinema complex as a key factor, leasing in Jack London Square has increased over the last three years.

In the *office sector*, the Jack London Square Class "A" submarket has fared better than most submarkets in the Bay Area in light of the overall slowdown in commercial real estate activity. The current overall vacancy rate in this submarket, including sublease space, is approximately 6.4%, and the direct vacancy rate in this submarket is approximately 4% against a total inventory of 8.2 million square feet. Average asking rents range from $2.25 to $3.50 per square foot per month on a full service basis. The direct vacancy rate has actually declined significantly, from 9% at the end of the third quarter of 1999, to 6% at the end of the second quarter of 2000, to the current rate of 4%.

In the *industrial sector*, the I-80/880 corridor industrial market remained very tight in 2001. With a vacancy rate of slightly over 3% for the entire East Oakland Bay market, and competitive rental rates, competition for industrial space along the I-80/880 corridor and throughout the East Bay market is expected to persist. Oakland's port activities, Oakland International Airport, an excellent regional roadway system and high-technology market make Oakland an extremely attractive location. The Port's maritime and air cargo facilities continue to attract industries and the demand for warehousing and distribution facilities is particularly strong in the Port's maritime areas.

Due in part to rising land values in the East Bay, some industrial properties near the waterfront are being converted to other uses. Mixed office and light industrial space has been created from old warehouse and heavy industry buildings, and is often taken by start-up high-tech firms. Some structures have also been converted to live/work spaces and retail outlets. Most industrial buildings in the Port area are still being used for industrial purposes; however, if companies continue moving away from the urban area in search of lower rents, these facilities may be sought for alternatives uses.

Target Markets

There are a number of potential resources that the Port can draw upon to stimulate property development. Maritime's increased volume of import/export volume has driven up the demand for distribution and light industrial space in Oakland. New development slated for Jack London Square including the expansion of the Waterfront Plaza Hotel, the addition of theme restaurants, and increased retail and entertainment, would build upon the Square's strengths.

Competition

The Harbor Bay Business Park in Alameda, abutting Oakland International Airport, is targeting high technology, biomedical and financial tenants, offering advanced telecommunications facilities as major marketing incentives. Emeryville has also attracted a number of start-up biomedical firms. Despite the economic slowdown, some 40 new commercial development and rehab projects are currently planned or underway in Oakland. The larger planned projects are: Shorenstein (480,000 square feet); The Hernon Group (177,000 square feet); Simeon Properties (1.6 million square feet and a 300-room hotel; this is a Port of Oakland Commercial Real Estate land sale; see Section 4.2.2); Forest City Residential West (100,000 square feet retail and 2,100 residential units); Holliday Development (3 million square feet and 250 live/work units); Opus West (2.8 million square feet); and Catellus Development (1.3 million square feet and 500 residential units in Alameda). Completion dates for these larger projects extend beyond 2005.

(2) Port Factors

In addition to local and regional factors impacting the Port's real estate activities, a number of factors specific to the Port are also important:

- The uses of Port properties must be consistent with any restrictions contained in the Oakland City Charter, the General Plan of the City of Oakland and the original instruments conveying the properties to the Port. For example, a large portion of Port property is limited by use restrictions contained in Tideland Trust Grants conveying the property from the State of California to the Port. In general terms, these limitations restrict the use of Port properties to commerce, trade, recreation and navigation, which preclude alternative use possibilities such as residential and other types of uses not directly supportive of the seaport and airport. Similar use restrictions on Port property are imposed by the Oakland City Charter and the General Plan of the City of Oakland.

- The land leases typically used by the Port require the lessee (developer) to secure private financing to complete the development. Additionally, the Port's land leases are not subordinated to the developer's construction debt. In the event the lender forecloses on the developer, the lease remains in place and the lender becomes obligated to the Port by the terms of the lease. The lease payments are triple net to the Port and often provide for a participation in project revenue.

- During the development process the developer and the Port jointly assess any environmental risks. These risks are quantified and agreement is reached regarding respective obligations.

Collectively, these factors help to ensure that all Port properties are developed in a manner consistent with the Port's public and operating responsibilities.

4.2.2 PROJECTIONS OF COMMERCIAL REAL ESTATE ACTIVITY

In light of the above factors, the Port's growth is expected to be focused on selected new developments on currently available Port property in the short-term. Since the Port's costs for carrying undeveloped properties are minimal (i.e., no mortgage debt and no real estate taxes), the Port is well positioned to wait for prudent developments, consistent with its overall development strategies and goals.

The projections of Commercial Real Estate expenses and revenues presented in Section 5.6 were developed based on the conditions and trends discussed above and the specific management activities and Business Plan of the Commercial Real Estate Division. The future programs and projects included in the projections were limited to those which have been committed or which are an extension of the leasing and management activities of the Port. These include the following:

- ***Homewood Suites -*** The CRE Division has signed a Lease Agreement with Homewood Suites for the development of a three-story, 118-room extended stay hotel on Embarcadero near the Ninth Avenue Terminal. The hotel contains two main buildings separated by a 50 foot view/public access corridor. A 12 foot high pedestrian bridge connects the two buildings at the second floor. The project will provide extensive public improvements along the shoreline. Construction started in March 2001 and the hotel opened in February 2002.
- ***Waterfront Plaza Hotel Expansion Project -*** The CRE Division has signed a Supplemental Lease Agreement with the Waterfront Plaza Hotel for the expansion of its hotel facilities in Jack London Square. The expansion project will involve the demolition of the existing 5,280 square foot Water Street III building and the construction of a 40,194 square foot, five-story building. The expansion will contain retail and meeting rooms on the ground level and 63 new hotel guest rooms on the upper levels. Construction is expected to commence in Spring 2003 with completion in Spring 2004.
- ***Embarcadero Executive Inn Expansion Project -*** The CRE Division has signed a Supplemental Lease Agreement with Embarcadero Executive Inn for the expansion of its hotel facilities on Embarcadero Street near 16th Avenue. The expansion project will involve the construction of a three-story, 64,000 square foot building. A 50 foot view/public access corridor will separate the new expansion building from the existing hotel building. The project will also provide extensive public access improvements along the shoreline, both within and outside the leased area, including a new public access observation pier. Construction commenced in November 2001 and is expected to be completed in November 2002.

While the projections are limited to including those projects that are committed, there are significant planning activities underway that may lead to other development as market conditions permit.

The CRE Division has executed a Purchase and Sale Agreement with Simeon Commercial Properties for a 23 acre site in the Oakland Airport Business Park. Simeon intends to develop up to 1.3 million square feet of Class "A" office space, a 300 room hotel, and approximately 50,000 square feet of commercial space. The proposed project is currently in the land use entitlement process with the close of escrow currently scheduled for December 2002. Other recent and pending land sale activity includes the 2.4 acre Hegenberger Annex site which closed in the first quarter of calender year 2002, and the 14 acre Hegenberger/Pardee site with an anticipated close of escrow in the third quarter of calender year 2002. Please note that land sales revenue is not included in the revenue projections.

The Ninth Avenue Terminal area, located between Embarcadero Cove and Jack London Square, is also the subject of an agreement for future development. The primary assessment of this area is occurring as part of the Estuary Plan, a multi-agency planning effort addressing the redevelopment of the Oakland waterfront. The CRE Division recently entered into an Exclusive Negotiating Agreement with Oakland Harbor Partners LLC concerning this area.

4.3 COMMERCIAL REAL ESTATE PROJECTS IN THE CAPITAL IMPROVEMENT PROGRAM

This section summarizes the Commercial Real Estate Division's projects in the Capital Improvement Program (CIP). It is anticipated that Commercial Real Estate Division's projects in the CIP will be funded primarily by land sales and/or development. No revenue bond proceeds will be used to finance these projects.

In general, the Commercial Real Estate Division's capital funding needs differ from other Port divisions due to the predominance of ground leasing and in some cases land sales. The end-user, not the Port, is typically responsible for the capital development costs associated with buildings. In contrast, the Maritime and Aviation Divisions frequently develop and finance major improvements for the ultimate users thereof. The Commercial Real Estate Division may engage in further development of parking facilities and other supportive infrastructure necessary to permit development to occur, as well as the projects detailed in the Extended CIP.

4.3.1 COMMERCIAL REAL ESTATE PROJECTS IN THE CAPITAL IMPROVEMENT PROGRAM

The capital projects anticipated for the Commercial Real Estate Division over the next 5 years are expected to total $27.4 million and are presented in **Table 4.3**. Major projects are identified below.

- JLS Master Development – This includes infrastructure improvements associated with the redevelopment of Jack London Square.

- Infrastructure and Facility Improvements Including Pier Replacements, Security and Other Similar Items (West End Project, JLS) – The CIP contains a number of basic improvements including repair and/or replacement of the pier for the presidential yacht Potomac, CCTV security upgrades, re-roofing, and similar items.

- JLS Parking Improvements – This includes the construction of additional floors at the Washington Street Garage.

- Airport Gateway Improvements – This includes streetscape and related improvements to the Hegenberger Road corridor.

4.3.2 SUMMARY

The capital projects included above are those that are part of overall ongoing facility improvement (infrastructure and equipment), for which there are commitments in place (subject to some approvals and reasonable contingencies) and/or for which there is clear market-driven support. The program also includes provision to pursue the early stage costs of several promising developments without commitment to significant capital expenditures until the projects are further planned and feasibility established. The Commercial Real Estate Division intends to fund its capital improvements through land sales and/or land leases and development agreements.

Overall, the Port's CRE portfolio enjoys rental rates and occupancy rates that compare favorably to the overall Oakland East Bay market. As presented, however, the projections contained herein do not include any revenue from potential new projects undertaken by the Commercial Real Estate Division, but do include the projects to which the Port has committed or which are an extension of existing Port activities, such as the Homewood Suites by Hilton, Waterfront Plaza Hotel expansion, and the Embarcadero Inn Expansion.

TABLE 4.3

Port of Oakland
Commercial Real Estate Division
Feasibility Report

COMMERCIAL REAL ESTATE PROJECTS IN THE CAPITAL IMPROVEMENT PROGRAM (000's)

Project Description	Total Cost
Jack London Square	$21,278
Embarcadero Cove	983
Business Park	3,462
Oak to 9th District	1,053
Miscellaneous	591
TOTAL	$27,367

Source: Port of Oakland

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5. FINANCIAL ANALYSIS

5.1 PORT FINANCIAL STRUCTURE

This section discusses Port accounting practices, including the cost center structure utilized for airline rate-setting purposes, the requirements and provisions of the Trust Indenture, and certain portions of the Airline Operating Agreement and Space/Use Permit.

5.1.1 PORT OF OAKLAND

The Port is an autonomous department of the City and is under the control and management of a seven-member Board appointed by the City Council. The Board appoints the Executive Director to administer operations of the Port. The Port prepares and controls its own budget, administers and controls its financial activities, and is responsible for all Port construction and operations. The accounting and financial reporting policies of the Port conform to generally accepted accounting principles for local governmental units as set forth by the Governmental Accounting Standards Board. The Port is required by City Charter to deposit its operating revenues in the City treasury in a separate fund. The City treasurer is responsible for investing and managing such funds.

The Port makes payments to the City under four types of agreements for the following:

(1) Special Services and ARFF Special Services are treated as a cost of Port operations (pursuant to City Charter Section 717(3) Third) and have priority over certain other expenditures of Port revenues, including debt service reserves. These are included as operating expenses in the Port's budget.

(2) Treasury Management expenses of approximately $250,000 per year are charged to the Port by the City for Treasury management of the Port Revenue Fund. In prior years the Port has disputed certain charges requested by the City for these services. During Fiscal Year 2001, the Port and the City resolved this dispute, with the Port recovering substantially all of the $1,350,047 claimed as the City's cumulative over-billings for Fiscal Years 1996-2001. The Port has provided nominal accruals for any potential liabilities to the City and is involved in negotiations with the City to resolve this issue and to formalize an agreement as to these charges for future years.

(3) General Services include reimbursement to the City for police and fire costs the Port incurs on City-owned lands in the Port area that are unleased and developable. General Service fire costs are based on a proration of the cost of each fire station serving the Port area and exclude non-structural areas of the Airport. Other General Services payments are based on the actual cost of the services (such as public street cleaning, and maintenance) that are provided to Port property.

(4) Lake Merritt payments reimburse the City for maintenance expenditures made from City funds for Lake Merritt tideland trust purposes.

General Services and Lake Merritt payments were negotiated in 1991 to be capped at $1.2 million per year, cumulatively, increasing only for inflation, and are budgeted at $1.8 million in FY 2003. In accordance with the City Charter, General Services and Lake Merritt payments are subject to determination by the Board that a surplus exists.

5.1.2 ACCOUNTING STRUCTURE

The Aviation, Maritime, and Commercial Real Estate divisions of the Port are responsible for negotiating lease, use, and preferential assignment agreement terms and conditions with their respective tenants and providing the Finance Department with the information necessary to invoice these tenants. The Port's Finance Department is responsible for tenant and customer billings, budget preparation, funds management, debt management, investments, financial statements, tenant audit, procurement, insurance, and any required accounting and financial activities.

The Port's departmental organization consists of three revenue-producing divisions (Aviation, Maritime, and Commercial Real Estate) consisting of six departments (South Airport, North Airport, Aviation Marketing, Aviation Facilities Maintenance, Maritime, and Commercial Real Estate) along with eleven support divisions consisting of 30 additional departments for budget classification and financial tracking purposes. The six departments that comprise the three revenue-producing divisions are briefly described below:

- South Airport - The South Airport is the commercial air carrier portion of the Airport and consists of Terminal 1 and Terminal 2, the related parking facilities, FedEx and other air-cargo facilities, the United Airlines maintenance hangar, and the air carrier runway and taxiways.

- North Airport - The North Airport is the northern portion of the Airport that consists of corporate/general aviation facilities, Alaska Airlines maintenance hangar, various T-hangars, and three corporate/general aviation runways and associated taxiways.

- Aviation Marketing - Aviation Marketing is responsible for market identification and strategy development, market positioning and image, advertising, promotion, event planning, media relations, community relations, and the production of collateral sales material for the Aviation Division.

- Aviation Facilities Maintenance - Aviation Facilities Maintenance maintains facilities and performs minor construction at North Airport, South Airport, and certain facilities within the Airport Business Park and Distribution Center.

- Maritime - The Maritime department designs, constructs, and maintains marine transportation facilities that are managed and operated by the private sector under lease or other contractual arrangements. The Maritime department is also responsible for pricing, lease and use agreement negotiation and development, wharfinger operations, and intermodal planning analysis. In addition to operations, the department is also responsible for market research and the marketing and solicitation of both ocean carriers and importers/exporters.

- Commercial Real Estate - The Commercial Real Estate department manages, leases, and develops approximately 1,024 acres of land located along Oakland's waterfront, including office and retail facilities in Jack London Square, OPA operations, the Port's commercial waterfront development along the Oakland Estuary, and other Port properties not managed by the Aviation or Maritime divisions.

In order to maintain a basis for, and to set tenant rates at the South Airport, the Aviation Division has developed a cost-center structure for the South Airport to collect direct and allocated indirect costs. The cost centers include terminal, field and ramp, contract fueling, ground access, leased area, cargo area, and other airport rentals. Of these seven cost centers, the terminal, field and ramp, and contract fueling are airline-responsible cost centers utilizing a residual rate-setting approach. The remainder are Port cost centers and are supported from revenues derived from multiple sources including, in some cases, additional airline revenues. The seven cost centers are further described below:

(1) Airline Cost Centers

- Terminal – The Terminal cost center consists of the passenger terminal buildings (i.e., Terminal 1 and Terminal 2), the roadway area immediately in front of the terminals, and the aircraft parking and maneuvering areas adjacent to the terminal. The international arrivals building (IAB) is designated as an area within Terminal 1 where U.S. Customs and Immigration services for arriving international flights are provided. The IAB is considered a sub-cost center of the Terminal cost center. Terminal revenues include airline terminal rent, loading bridge fees, rental car concessions, terminal concession fees, and other miscellaneous terminal revenues.

- Field and Ramp - Field and Ramp consists of areas and facilities provided for the landing, takeoff and taxiing of aircraft, aircraft parking areas, areas required for approach and clear zones, airfield access and related roadways, and aviation easements. Revenues included in the Field and Ramp cost center include landing fees, plane storage fees, catering, handling, and fuel resale revenues.

- Contract Fueling - Contract Fueling at the Airport is operated by the Oakland Fuel Facilities Corporation, which is a consortium established by the airlines to dispense jet fuel at the Airport. Contract Fueling consists of areas and facilities provided by the Port for the delivery and storage of aviation and ground vehicle fuel by the air carriers serving the South Airport. Contract fueling revenues consist of reimbursement from the airlines for the use of delivery and storage facilities at the Airport.

(2) Port Cost Centers

- Ground Access - Ground Access consists of areas and facilities accommodating ground transportation, including South Airport public access roadways (other than those which are part of the Terminals), auto parking facilities and the AirBART system.

- Leased Area - Leased Area consists of areas and facilities provided primarily for the rental car facilities and storage areas.

- Cargo Area - Cargo Area consists of areas and facilities leased or provided specifically for air cargo activities.

- Other Airport Rentals - Other Airport Rentals consists of areas and facilities for the hangars at the South Airport.

Maritime, Commercial Real Estate, and OPA operations are treated as individual cost centers and are further discussed in Sections 5.5 and 5.6.

5.1.3 TRUST INDENTURE

Port revenue Bonds (defined hereafter to include the 2002 Bonds and other parity bonds) will be used to finance a portion of the Port's CIP and will be issued pursuant to the Trust Indenture dated April 1, 1989 as amended and supplemented from time to time including by the Twelfth Supplemental Indenture dated as of July 1, 2002. Key aspects of the Trust Indenture as they pertain to this report are summarized below. The capitalized terms are as defined in the Trust Indenture.

- Pledged Revenues as defined in the Trust Indenture include all income, receipts, earnings and revenues received by, held by, accrued to or entitled to be received by the Board or any successor hereto from the operation and/or ownership of the Port or any of the Port Facilities (as defined in the Trust Indenture) or activities and undertakings related thereto or from any other facilities wherever located with respect to which the Board receives payments and from the investment of amounts held in the Port Revenue Fund. Specifically excluded from Pledged Revenues are (1) any amounts received by the Board from ad valorem taxes, (2) gifts, grants, Passenger Facility Charges, and Customer Facility Charges that are restricted by their terms to purposes inconsistent with the payment of debt service on the Bonds, (3) insurance proceeds to the extent the use of such proceeds are restricted by the terms of the policy under which they are paid to a use inconsistent with the payment of debt service on the Bonds, and (4) Special Facilities Revenues (as defined in the Trust Indenture).

- Operation and Maintenance Expenses mean, for any given period, the total operation and maintenance expenses of the Board as determined in accordance with generally accepted accounting principles as modified from time to time, excluding any operation and maintenance expenses payable from moneys other than Pledged Revenues (as defined in the Trust Indenture).

- In Section 4.02 of the Trust Indenture, the Port covenants and agrees that all Pledged Revenues, when and as received, will be deposited by the Board pursuant to Article VI of the City's Charter in the Port Revenue Fund in the City Treasury and will be accounted for through the Port Revenue Fund (as defined in the Trust Indenture).

- The rate covenant contained in Section 5.04(b) of the Trust Indenture requires the Board to establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with the Port and for services rendered in connection therewith, so that during each Fiscal Year the Net Revenues will be equal to 125% of actual debt service becoming due and payable by the Board on the outstanding Bonds in such year less (1) amounts paid from the proceeds of other borrowings and (2) debt service paid in such year from Capitalized Interest (as defined in the Trust Indenture). For any given period, Net Revenues means the Revenues (as defined in the Trust Indenture) for such period less the Operation and Maintenance Expenses for such period.

- Section 2.11 of the Trust Indenture sets forth conditions under which one or more of a series of Bonds (other than the initial Bonds issued under the Trust Indenture in 1989) may be issued. For specific requirements of Section 2.11 of the Trust Indenture, see Section 5.7.2 of this report.

Certain provisions of the Trust Indenture are summarized in further detail in Appendix C of the Official Statement.

5.1.4 PORT ORDINANCE NO. 3634

Port Ordinance No. 3634 establishes the current charges for use of Airport facilities. It also contains a provision for the charging for aviation fuel at the Airport along with setting forth certain regulations concerning the use of the facilities. The ordinance affords the Aviation Division significant flexibility with respect to Airport operations and rate-setting alternatives. The ordinance can be revised or amended whenever the Board deems necessary or prudent.

Generally, the Port sets rates and charges in airline-supported cost centers based on the residual revenue requirement after applying nonairline revenues received against all costs applicable to the individual cost centers. Rates and charges set in other cost centers are not always based solely on cost recovery, but include consideration of charges imposed by other California airports and are sometimes compared to similar services in off-Airport businesses.

The Port and the airlines agreed in September 2000 on the terms of a new 10-year Airline Operating Agreement and Space/Use Permit (the Airline Operating Agreement) that may be canceled with respect to any airline by either the airline or the Port upon 30 days' written notice. These agreements require that the airlines pay annual rates, fees, and charges in accordance with the then current Port Ordinance No. 3634.

5.2 CONSOLIDATED FINANCING PLAN

The CIP described in Chapters 2, 3, 4, and 5 of this report is anticipated to be funded from a variety of sources including federal and state grants, Passenger Facility Charges (PFCs), Customer Facility Charges (CFCs), ISTEA, TEA-21, and certain state and local funds, third-party financing, Port funds, commercial paper proceeds, other parity funds, and the proceeds (together with investment earnings) from the 2002 Bonds and Additional Bonds.

Table 5.1 presents the project costs and the estimated funding sources for the CIP as of March 31, 2002.[1] A description of estimated funding sources for the CIP is presented in greater detail in the following paragraphs.

5.2.1 AIP GRANTS

The FAA Airport Improvement Program (AIP) provides Federal discretionary and entitlement grants for eligible airport projects. The entitlement funds are based upon annual Congressional appropriations levels.

As shown in Table 5.1, for the period from FY 2002 to FY 2007 total AIP grants for the Airport are anticipated to be approximately $38.2 million consisting of $27.6 million in AIP entitlement funds and $10.6 million in AIP Discretionary Funds. The Airport has received approximately $4 million in discretionary grants in the last two years and is anticipating the receipt of approximately $7 million in discretionary funds in FY 2003. The AIP grants will be applied to the grant-eligible portion of certain airfield and apron related projects.

5.2.2 PASSENGER FACILITY CHARGES

In accordance with the Aviation Safety and Capacity Expansion Act of 1990, the Port has filed 11 applications with the FAA to impose passenger facility charges, providing for total PFC collection authority of $175 million to fund various projects at the Airport. The Port's eleventh PFC application approval provided authority to collect $7 million in PFC revenues at the $4.50 per enplanement level (beginning January 1, 2003). At the end of calendar year 2001, the Port had collected $130 million of the total amount of PFCs that have been approved.

The financial plan assumes that approximately $150.6 million in PFC revenues will be approved and available to fund the costs of certain PFC-eligible projects currently in the CIP. Assuming such FAA approvals occur, a portion of available PFC revenues may be used to repay commercial paper notes or 2002 Bonds, the proceeds of which are applied to fund Aviation projects. Essentially, all PFC revenues received by the Port through Fiscal Year 2007 are expected to be applied either to project costs on a pay-as-you-go basis or to repay commercial paper notes or 2002 Bonds. The Port could also decide to issue PFC-backed revenue bonds secured by a lien on PFCs to finance PFC-eligible projects.

The Port does not presently have all of the FAA approvals it would need in order to apply the projected amount of PFCs toward the cost of the eligible aviation projects in the CIP. The Port plans to file the additional PFC applications that will be required to enable such PFC funds to be available for the CIP and expects to receive approval of such applications on a timely basis. There can be no assurance that such applications will be approved. If the Port does not obtain the necessary approvals for additional PFC revenues, the Port expects to fund the cost of the PFC-eligible projects in the CIP from other sources.

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[1] The Port "locked in" its CIP on March 31, 2002 to control the costs of the CIP and to evaluate its financial feasibility therein. No material changes have occurred to the Port's CIP between March 31, 2002 and the date of this report.

TABLE 5.1

Port of Oakland
Feasibility Report

CAPITAL IMPROVEMENT PROGRAM SUMMARY BY DIVISION (000's) [1]

Revenue Division	Total CIP Costs	AIP Entitlement Grants	AIP Discretionary Grants	PFC Pay-as-you-go	Rental Car CFCs	Other Funds [2]	Port Cash	Commercial Paper	Series 2000 Revenue Bonds	Series 2002 and Future Revenue Bond Proceeds
Aviation	$671,237	$27,589	$10,608	$150,600	$11,961	$0	$136,304	$84,544	$0	$249,630
Maritime	479,849	0	0	0	0	1,141	134,610	71,636	20,398	252,064
Commercial Real Estate	27,367	0	0	0	0	27,367	0	0	0	0
Support	51,324	0	0	0	0	0	0	0	0	51,324
TOTAL	$1,229,776	$27,589	$10,608	$150,600	$11,961	$28,508	$270,914	$156,180	$20,398	$553,018

[1] As of March 31, 2002

[2] Includes ISTEA and TEA-21 funds (Maritime) and funds generated from the sale of Port lands (Commercial Real Estate).

Sources: Port of Oakland
Fullerton and Friar, Inc.

5.2.3 CUSTOMER FACILITY CHARGES

Under Section 1936 of the California Civil Code (the CFC Code), the Port, along with other airports in California, may collect a single fixed CFC of up to $10 on each contract rental from rental car companies that operate concessions at the Airport. CFC revenues are to be used only to finance the design and construction of consolidated airport car rental facilities and the design, construction and provision of a common use transportation system that moves passengers between airport terminals and those consolidated car rental facilities, including debt service and other financing costs on bonds issued to finance such projects.

Effective April 2002, the rental car companies operating at the Airport are required to collect a $10-per-transaction CFC from their rental customers. The revenue from CFCs, projected at approximately $8.0 million per year, will fund, in part, the costs associated with the construction of the interim rental car facility at the North Airport, the debt service on the cost of the long-term consolidated rental car facilities to be located in the planned parking garage, and the reimbursement of costs incurred for common busing system between the terminals and the consolidated interim rental car facility at the North Airport. The imposition of CFC would terminate once the debt obligations relating to any facilities financed with such CFC are repaid.

During the construction of the parking garage and other rental car facilities at the Airport, approximately $11.9 million of CFCs are anticipated to be used as a funding source to directly offset construction costs. Following the completion of parking garage and other rental car facilities in FY 2006, CFC revenues will be treated as a revenue source to directly offset the debt service on these facilities.

5.2.4 ISTEA, TEA-21 , AND STIP GRANTS

The Transportation Equity Act for the Twenty-First Century ("TEA-21") and its predecessor, the Intermodal Surface Transportation Efficiency Act of 1991 ("ISTEA"), are the primary sources of federal grant funding for intermodal transportation projects. State grants are generally made through the State Transportation Improvement Program ("STIP"). Grants under these programs have been and are being made for the improvement and construction of highways and roadways, transit projects, non-motorized (e.g. bike trails) projects and freight movement projects, with an emphasis on intermodal transportation projects and facilities. The Port expects to receive $1.1 million of such funds, which it intends to apply toward the remaining costs related to the JIT gate complex.

5.2.5 THIRD PARTY FINANCING AND OTHER FUNDS

The financial plan assumes that funding for the Commercial Real Estate projects in the CIP will be provided from sources to be developed by the Commercial Real Estate Division, including the sale of Port-owned land or amounts equal to the proceeds of such sales, and not from bond proceeds or other internally generated funds. Such possible sources include proceeds from the sale of certain real estate assets and investments made by third party developers.

In March 2002, the Port sold certain assets located at Jack London Square to Jack London Square Partners for $17.2 million, the proceeds of which will be used to fund future Commercial Real Estate projects. The remaining $10.2 million of the costs for Commercial Real Estate projects in the CIP are expected to be funded by third parties or through the sale of excess property.

5.2.6 PORT FUNDS

The Port also intends to apply toward the cost of the CIP the amounts it generates from operations after the payment of all of its operating expenses, debt service and other payment obligations. The Port presently projects that approximately $270.9 million of such funds will be available toward the CIP.

5.2.7 COMMERCIAL PAPER

The Port established a $150 million subordinated commercial paper program in FY 1999. In September 1999, the Port increased the authorized amount of its commercial paper program to $300 million. As of July 2, 2002, the Port had $300 million of commercial paper notes outstanding to fund the cost of certain projects in the CIP and various prior projects. In connection with the issuance of the 2002 Bonds, the Port intends to refinance approximately $150 million of the outstanding commercial paper such that approximately $150 million in commercial paper notes will remain outstanding. Following this refinancing of the commercial paper, the Port intends to continue funding the construction of a portion of the CIP with the proceeds of its commercial paper until the $300 million authorized amount is again outstanding. This future issuance of approximately $150 million of commercial paper will provide approximately $136 million of funding for the costs of the CIP; the remainder is expected to be applied toward capitalized interest on the commercial paper. In addition to the approximately $136 million estimated to be available from the proceeds of future issuances of commercial paper, the Port already issued and spent approximately $20 million of commercial paper on costs of the CIP prior to the issuance of the 2002 Bonds. Hence, the total amount of commercial paper proceeds available to fund the costs of the CIP is projected to be approximately $156 million. The Port's financial plan for the CIP contemplates that the commercial paper will remain outstanding through the construction period for the various projects in the CIP.

5.2.8 REVENUE BOND PROCEEDS

The Port anticipates that the costs of the CIP not funded from one of the above sources will be funded from the proceeds of additional revenue bonds to be issued during the construction period. In total, approximately $553.0 million in project costs are anticipated to be funded from the proceeds of revenue bonds. Of this total, approximately $494 million in project costs will be funded from the proceeds of the 2002 Bonds. Based on the various current estimates and assumptions related to the CIP and the Port's operations, the Port projects that, after the issuance of the 2002 Bonds, the Port will require approximately $59 million of additional revenue bond proceeds to complete the funding of the CIP. Such bonds may be issued as funds are required.

The estimated principal amount of bonds represents the amount of bonds projected to be required to complete the funding of the CIP, after taking into account the amounts projected to be available from other funding sources during the construction period. It is based on the total estimated cost of the projects in the CIP (which includes a construction contingency, an estimate for inflation during the construction period and an allowance for engineering and overhead), capitalized interest, debt service reserve requirements, and costs of issuance. All bonds are assumed to be issued at par with a final maturity of 30 years. The 2002 Bonds are assumed to be issued at an interest rate of 6.0 percent. Amounts in the Debt Service Reserve Fund for the Series 2002 Bonds are assumed to be invested at a rate of 6.0 percent, while other bond proceeds are assumed to be invested at a rate of 4.0 percent. For the purposes of these projections, future revenue bonds are assumed to be sold at a rate of 6.5 percent. Interest on future bond issues is assumed to be capitalized to the completion date of individual projects following the sale of each issue. Amounts in the Debt Service Reserve Fund for each future issue are assumed to be invested at a rate of 5.5 percent. Other bond proceeds are assumed to be invested at a rate of 4.0 percent. **Table 5.2** presents existing and estimated debt service requirements resulting from the issuance of the Series 2002 Bonds and the assumed additional parity bonds.

TABLE 5.2

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DEBT SERVICE AND OTHER OBLIGATIONS [1]

	Actual	Anticipated	Budget	Projected							
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
AVIATION DIVISION											
Existing Debt Service	$7,000,854	$7,037,459	$6,990,656	$7,237,786	$7,318,127	$7,321,127	$7,324,593	$7,364,623	$7,360,883	$7,362,864	$10,323,134
Commercial Paper	0	43,989	319,613	822,605	1,568,862	2,596,426	3,181,818	3,727,007	3,727,007	3,727,007	3,754,161
Series 2002 L&M	0	0	322,451	2,764,697	5,679,131	15,515,413	18,589,664	24,804,361	24,999,896	26,044,524	26,044,524
Future Debt Service	0	0	0	0	0	0	0	0	0	0	0
Mitsubishi Bank Note (Airport Loading Bridges)	27,107	0	0	0	0	0	0	0	0	0	0
GE Capital Lease (Airport Buses)	844,937	844,937	844,937	844,937	844,937	352,039	0	0	0	0	0
TOTAL AVIATION DIVISION	$7,872,898	$7,926,385	$8,477,656	$11,670,025	$15,411,057	$25,785,006	$29,096,075	$35,895,991	$36,087,786	$37,134,395	$40,121,819
MARITIME DIVISION											
Existing Debt Service	$28,912,407	$31,996,217	$52,100,656	$49,014,205	$47,985,858	$54,758,298	$54,722,022	$54,463,023	$54,463,140	$54,432,444	$55,580,314
Commercial Paper	0	1,813,640	3,863,373	4,137,148	5,007,067	6,014,686	6,476,563	6,743,265	6,743,265	6,743,265	6,743,265
Series 2002 L&M	0	0	(0)	2,205,681	7,298,461	9,900,105	15,892,643	18,835,184	20,486,428	21,311,862	21,371,930
Future Debt Service	0	0	0	0	0	500,136	4,880,984	5,001,746	6,146,262	6,146,262	6,146,262
Special Facility Debt Service	4,143,142	4,139,767	4,137,537	4,133,239	4,116,386	4,101,888	4,097,287	4,095,660	4,088,670	4,078,002	4,073,375
TOTAL MARITIME DIVISION	$33,055,549	$37,949,623	$60,101,565	$59,490,273	$64,407,771	$75,275,112	$86,069,499	$89,138,878	$91,927,765	$92,711,834	$93,915,146
COMMERCIAL REAL ESTATE											
Existing Debt Service	$1,763,677	$1,758,342	$1,412,105	$4,250,622	$5,199,169	$5,224,755	$5,258,346	$5,480,240	$5,484,412	$5,508,038	$1,403,078
Commercial Paper	0	0	0	0	0	0	0	0	0	0	0
Series 2002 L&M	0	0	0	0	0	0	0	0	0	0	0
Future Debt Service	0	0	0	0	0	0	0	0	0	0	0
DBW Debt Service	501,906	962,000	962,000	950,000	950,000	960,000	903,000	795,000	806,000	742,000	691,000
OPA Interest Expense	0	0	0	0	0	0	0	0	0	0	0
TOTAL COMMERCIAL REAL ESTATE	$2,265,583	$2,720,342	$2,374,105	$5,200,622	$6,149,169	$6,184,755	$6,161,346	$6,275,240	$6,290,412	$6,250,038	$2,094,078
TOTAL DEBT SERVICE	$43,194,029	$48,596,349	$70,953,327	$76,360,920	$85,967,997	$107,244,873	$121,326,920	$131,310,109	$134,305,962	$136,096,267	$136,131,043
DEBT SERVICE BY TYPE											
Existing Debt Service	$37,676,938	$40,792,018	$60,503,417	$60,502,613	$60,503,154	$67,304,180	$67,304,961	$67,307,886	$67,308,435	$67,303,346	$67,306,526
Commercial Paper	0	1,857,628	4,182,986	4,959,753	6,575,929	8,611,112	9,658,380	10,470,272	10,470,272	10,470,272	10,497,426
Series 2002 L&M	0	0	322,451	4,970,378	12,977,592	25,415,518	34,482,308	43,639,545	45,486,324	47,356,386	47,416,454
Future Debt Service	0	0	0	0	0	500,136	4,880,984	5,001,746	6,146,262	6,146,262	6,146,262
DBW Debt Service	501,906	962,000	962,000	950,000	950,000	960,000	903,000	795,000	806,000	742,000	691,000
Mitsubishi Bank Note (Airport Loading Bridges)	27,107	0	0	0	0	0	0	0	0	0	0
GE Capital Lease (Airport Buses)	844,937	844,937	844,937	844,937	844,937	352,039	0	0	0	0	0
Special Facility Debt Service	4,143,142	4,139,767	4,137,537	4,133,239	4,116,386	4,101,888	4,097,287	4,095,660	4,088,670	4,078,002	4,073,375
TOTAL DEBT SERVICE	$43,194,029	$48,596,349	$70,953,327	$76,360,920	$85,967,997	$107,244,873	$121,326,920	$131,310,109	$134,305,962	$136,096,267	$136,131,043

[1] Includes non-parity debt and obligations payable from other sources

Sources: Port of Oakland
Fullerton & Friar, Inc. (Series 2002 L&M and Future Debt Service)
Prepared by Ricondo & Associates, Inc.

5.3 CLASSIFICATION OF PORT OPERATING EXPENSES

For financial statement purposes, expenses of the Port's 39 departments are allocated to five categories: General Operating, Maintenance, Advertising and Promotion, Administrative, and Cost-of-Utility Sales. **Table 5.3** presents the Port's operating expenses by department (operating expenses for Engineering's multiple departments have been consolidated into a single Engineering line item) for FY 2001 and projections through FY 2011. In order to categorize operating expenses the Port first allocates all Nondepartmental, Human Resources, Purchasing and approximately 50 percent of the Port's Equal Opportunity and Social Responsibility operating expenses to each of the remaining departments. Operating expenses for each department are then classified within each of the above mentioned categories of expense. These five categories of expense are further described below:

- General Operating - This category includes direct operating expenses for the North Airport, South Airport, Maritime, and Commercial Real Estate departments; their allocated portion of Nondepartmental, Human Resources, Purchasing and Equal Opportunity, Social Responsibility operating expenses; and directly assignable utility expense (Port use utilities) for each of the departments.

- Maintenance - This category includes direct and allocated expenses of the Engineering Construction, Design, Services, Airport Facilities, Harbor Facilities, Environmental Planning, and Project Planning and Programming departments. Expenses directly attributable to the four revenue-producing departments are assigned to those departments with remainder being allocated based on the percentages of direct maintenance expense.

- Advertising and Promotion - This category of expense includes direct and allocated expenses of the Aviation Marketing, Public Affairs, and Governmental Affairs departments. Aviation marketing expense is allocated between the North Airport and South Airport. Public Affairs and Governmental Affairs are allocated to the revenue-producing divisions based on the amount of revenue generated by each division.

- Administrative - This category of expense includes direct and allocated expenses from a number of departments, including the Board of Port Commissioners, Executive Office, Port Attorney, Building Services, Strategic and Policy Planning, Social Responsibility, Finance, Communications, Risk Management, Management Information Systems, Engineering Administration, and half of the direct and allocated expenses of the Equal Opportunity and Social Responsibility departments. Expenses are assigned to each revenue-producing department on a direct basis when possible, with the remaining expense being allocated on the basis of revenue generated.

- Cost-of-Utility Sales - This category of expense includes the cost of utilities which are tracked on a direct basis and assigned to each revenue-producing department.

TABLE 5.3

Port of Oakland
Feasibility Report

PORT OPERATING EXPENSE PROJECTIONS

	Actual	Anticipated	Budget	Projected							
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
OPERATING EXPENSES BY DEPARTMENT											
Board of Port Commissioners	$225,515	$185,500	$234,969	$246,248	$258,067	$270,455	$283,436	$297,041	$311,299	$326,242	$341,901
Executive Office	1,458,486	1,669,440	1,611,140	1,688,475	1,769,522	1,854,459	1,943,473	2,036,759	2,134,524	2,236,981	2,344,356
Air Traffic Promotion	2,811,267	2,877,750	3,140,825	3,291,585	3,449,581	3,615,161	3,788,688	3,970,545	4,161,131	4,360,866	4,570,187
South Airport	30,741,510	39,758,463	41,431,007	43,391,847	45,445,659	48,596,860	50,897,196	52,013,087	54,475,828	57,055,397	59,757,348
Airport Facilities	7,720,969	1,282,011	8,854,580	9,279,600	9,725,021	10,191,822	10,681,029	11,193,718	11,731,017	12,294,106	12,884,223
North Airport	1,346,689	1,683,904	2,812,407	2,952,921	3,100,457	3,255,366	3,418,016	3,588,795	3,768,109	3,956,383	4,154,068
Maritime	6,395,334	6,097,286	7,139,578	7,427,138	7,726,530	8,038,248	8,362,810	8,700,754	9,052,640	9,419,054	9,800,605
Commercial Real Estate	6,703,389	7,092,032	8,132,106	9,723,522	9,967,854	10,320,909	10,568,322	10,824,804	11,088,252	11,362,245	11,640,304
Oakland Portside Associates (OPA)	2,999,130	2,898,000	1,320,987	0	0	0	0	0	0	0	0
Building Services	1,290,388	1,159,043	1,238,659	1,298,115	1,360,424	1,425,724	1,494,159	1,565,879	1,641,041	1,719,811	1,802,362
Strategic & Policy Planning	824,244	704,330	893,366	936,248	981,187	1,028,284	1,077,642	1,129,369	1,183,579	1,240,390	1,299,929
Engineering	8,551,564	12,910,781	10,304,203	10,798,805	11,317,147	11,860,370	12,429,668	13,026,292	13,651,554	14,306,829	14,993,557
Office of Equal Opportunity	1,059,875	897,518	539,393	565,284	592,417	620,854	650,654	681,886	714,616	748,918	784,866
Finance	1,519,044	3,960,118	11,586,118	12,142,252	12,725,080	13,335,884	13,976,006	14,646,854	15,349,903	16,086,699	16,858,860
Management Information Systems	2,309,090	2,585,706	3,452,561	3,618,284	3,791,962	3,973,976	4,164,727	4,364,633	4,574,136	4,793,694	5,023,792
Human Resources	1,616,514	1,845,949	1,895,127	1,986,093	2,081,426	2,181,334	2,286,038	2,395,768	2,510,765	2,631,281	2,757,583
Risk Management	665,017	1,736,519	3,033,830	3,179,454	3,332,068	3,492,007	3,659,623	3,835,285	4,019,379	4,212,309	4,414,500
Port Attorney	2,230,296	4,149,517	5,379,064	5,637,259	5,907,848	6,191,424	6,488,613	6,800,066	7,126,469	7,468,540	7,827,030
Port Communications	2,058,450	3,211,579	3,388,447	3,551,092	3,721,545	3,900,179	4,087,388	4,283,582	4,489,194	4,704,676	4,930,500
Admin/Organizational Development	1,171,062	1,552,979	1,754,228	1,838,431	1,926,676	2,019,156	2,116,076	2,217,647	2,324,094	2,435,651	2,552,562
Employment Resources Development	398,435	954,295	1,996,014	2,091,823	2,192,230	2,297,457	2,407,735	2,523,306	2,644,425	2,771,358	2,904,383
Nondepartmental	13,804,212	12,726,100	12,726,100	13,107,883	13,501,119	13,906,153	14,323,338	14,753,038	15,195,629	15,651,498	16,121,043
Cost of Utility Sales	6,341,521	8,183,574	5,488,761	5,653,424	5,823,027	5,997,717	6,177,649	6,362,978	6,553,868	6,750,484	6,952,998
TOTAL OPERATING EXPENSES BY DEPARTMENT [1]	$104,242,000	$120,122,394	$138,353,470	$144,405,781	$150,696,845	$158,373,798	$165,282,286	$171,212,089	$178,701,452	$186,533,410	$194,716,956
OPERATING EXPENSES BY CATEGORY											
General Operating Expenses	$61,858,682	$72,711,851	$73,329,429	$76,458,733	$79,692,431	$84,171,387	$87,734,681	$90,165,216	$93,994,036	$97,996,637	$102,174,114
Maintenance	17,508,590	9,819,122	16,192,504	16,954,394	17,752,394	18,588,224	19,463,685	20,380,664	21,341,141	22,347,186	23,400,972
Advertising and Promotion	5,574,901	6,815,894	7,252,884	7,589,584	7,942,102	8,311,188	8,697,625	9,102,237	9,525,884	9,969,468	10,433,934
Administrative	12,958,306	22,591,956	36,089,895	37,749,649	39,486,894	41,305,285	43,208,650	45,200,997	47,286,528	49,469,639	51,754,942
Cost of Utility Sales	6,341,521	8,183,574	5,488,761	5,653,424	5,823,027	5,997,717	6,177,649	6,362,978	6,553,868	6,750,484	6,952,998
TOTAL OPERATING EXPENSES BY CATEGORY [1]	$104,242,000	$120,122,397	$138,353,473	$144,405,784	$150,696,848	$158,373,801	$165,282,289	$171,212,093	$178,701,456	$186,533,414	$194,716,960

[1] Differences between totals are due to rounding.

Sources: Port of Oakland (FY 2001 through FY 2003)
Ricondo & Associates, Inc. (FY 2004 through FY 2011)

5.4 AVIATION DIVISION

In FY 2001 the Aviation Division of the Port generated operating revenues of $103.1 million. This represented 52.3 percent of the total operating revenues of the Port. After general operating expenses of $40.4 million, the Aviation Division contributed a gross operating margin of $62.8 million. This gross margin (before depreciation and amortization) represented 46.4 percent of the Port's total gross margin available for indirect expenses and debt service.

5.4.1 AVIATION OPERATING EXPENSES

Estimates of future Aviation Division operating expenses are based on a review of historical trends, Port policy, staffing requirements, facility improvements and expansions, and activity increases. General operating expenses for the Aviation Division are assigned by functional category. These functional categories are more fully described below:

- Personnel Services - Salaries and fringe benefits of the Airport staff.
- Contractual Services - Expenses related to consulting services to perform studies or analysis for the Port and management contracts such as AirBART, parking, janitorial, and security services.
- Supplies – Expenses associated with office supplies, printing materials, and cleaning supplies, as well as expenses related to maintenance and repair of buildings, grounds, and equipment.
- General and Administrative – Includes expenses for the following expense items:
    - Telephone, postage, and courier services
    - Marketing, employee training, and industry activity expenses
    - Insurance coverage and claims
    - Conference fees, employee travel, membership dues, reference materials, and industry related publications
    - Marketing and promotions, miscellaneous employee functions, presentations, exhibits, displays, parking validations, brochures, and other publications
    - Real estate taxes and other property costs
- Departmental Charges/(Credits) - Includes the direct labor, benefits, and overhead credits for labor and equipment costs associated with the CIP and interdepartmental transfers.
- Port Use Utilities - Electricity, water, and sewage costs that are attributable to Port-use of the Airport.

(1) South Airport

Estimates of future South Airport general operating expenses are depicted in **Table 5.4** and are based on a review of historical trends, the anticipated impacts of inflation, staffing requirements, facility improvements and expansions, and activity increases. In FY 2001 the South Airport's general operating expenses comprised approximately 60.0 percent of total Port general operating expenses. Personnel services, contractual services, and supplies represented over 78.1 percent of total general operating expenses for South Airport in FY 2001, and are described in greater detail below.

Personnel services accounted for approximately $11.7 million in expenses at the South Airport in FY 2001, and are budgeted at $16.0 million in FY 2003. South Airport has approximately 162 employees assigned directly to it, making it the largest department of the Port. As a result, personnel services for the South Airport are larger than any other department, accounting for approximately 26.8 percent of total personnel services at the Port. Historically, personnel service expenses for the South Airport have increased at an annual compounded growth rate of 6.0 percent from FY 1996 to FY 2001. Due to the planning and design associated with the Airport's terminal building and parking garage, as well as increased personnel for security, future personnel services are projected to increase by more than 36 percent from FY 2001 to FY 2003. Beyond this incremental increase, increases in personnel services expenses were based on an annual compounded growth rate of 5.0 percent.

Contractual Services at South Airport consists primarily of the parking lot, AirBART, and security services expense.

- Parking lot expense was approximately 45.5 percent of contractual services in FY 2001. The parking lot is operated by Five Star Parking under a management contract. According to the terms of this contract, the Port is required to reimburse the operator actual approved operating expenses plus a management fee of $365,700 per year, which includes insurance, supplies, workers compensation insurance, etc. Parking expenses are expected to increase incrementally with the completion of a new parking garage in FY 2006. In addition to incremental expense increases, parking expenses are expected to increase with inflation during the projection period.

- Also included in contractual services are the costs to operate the shuttle buses between the Airport and the Oakland-Alameda County Coliseum BART station (budgeted at approximately $1.04 million in FY 2003). There are currently three buses operating at the Airport which leave approximately every 15 minutes beginning at 6:00 a.m. and ending at midnight. Through FY 2007, AirBART operating expenses are expected to remain relatively stable, increasing with inflation. Beginning in FY 2008, with the opening of the new BART connector, the operating expenses associated with the AirBART shuttle buses are assumed to be eliminated.

- Included within contractual services is the Airport police and security services. As a result of increased security requirements from the September 11th terrorist attacks, security expenses at the Airport are anticipated to increase by nearly $7 million from FY 2001 to budget FY 2003. The additional expense, resulting from the terrorist attack of September 11, 2001, is a combination of an increased presence by the Oakland Police Department and Alameda County Sheriff at the security checkpoints in both Terminal 1 and Terminal 2 and a requirement by the FAA that there be more security at locations immediately adjacent to the terminal complex, including close in parking, certain access areas and general patrolling of the airport complex. Beyond these anticipated increases

TABLE 5.4

Port of Oakland
Aviation Division
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SOUTH AIRPORT OPERATING EXPENSES

	Actual	Anticipated	Budget	Projected							
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GENERAL OPERATING EXPENSES											
Personnel Services	$11,704,341	$13,156,912	$15,993,267	$16,792,930	$17,632,577	$18,913,122	$19,858,778	$20,332,893	$21,349,538	$22,417,015	$23,537,866
Contractual Services	16,434,115	24,554,437	23,326,000	24,375,670	25,472,575	27,195,128	28,418,909	28,955,297	30,258,285	31,619,908	33,042,804
Supplies	800,560	1,025,211	994,150	1,043,858	1,096,050	1,175,650	1,234,432	1,263,903	1,327,099	1,393,454	1,463,126
General & Administrative	1,863,005	1,287,903	1,413,590	1,484,270	1,558,483	1,636,407	1,718,227	1,804,139	1,894,346	1,989,063	2,088,516
Dep't (Credits) Charges	(60,511)	(266,000)	(296,000)	(304,880)	(314,026)	(323,447)	(333,151)	(343,145)	(353,439)	(364,043)	(374,964)
Subtotal - Direct G&O Expenses	$30,741,510	$39,758,463	$41,431,007	$43,391,847	$45,445,659	$48,596,860	$50,897,196	$52,013,087	$54,475,828	$57,055,397	$59,757,348
ALLOCATED INDIRECT EXPENSES											
Port Use Utilities	3,278,455	4,017,805	2,460,751	2,578,867	2,702,653	2,832,380	2,968,335	3,110,815	3,260,134	3,416,620	3,580,618
Nondepartmental	2,157,514	2,207,082	2,207,082	2,273,294	2,341,493	2,411,738	2,484,090	2,558,613	2,635,371	2,714,432	2,795,865
Human Resources, Purchasing, 1/2 Equal Opportunity	874,238	945,627	916,382	959,585	1,004,838	1,052,240	1,101,892	1,153,901	1,208,380	1,265,448	1,325,226
Subtotal - Indirect G&O Expenses	$6,310,208	$7,170,514	$5,584,215	$5,811,747	$6,048,985	$6,296,358	$6,554,316	$6,823,329	$7,103,885	$7,396,500	$7,701,709
TOTAL GENERAL OPERATING EXPENSES	37,051,718	46,928,977	47,015,222	49,203,594	51,494,644	54,893,218	57,451,512	58,836,416	61,579,713	64,451,897	67,459,057
MAINTENANCE	7,450,573	3,436,693	8,905,877	9,324,917	9,763,817	10,223,523	10,705,027	11,209,365	11,737,628	12,290,953	12,870,535
ADVERTISING & PROMOTION	4,146,803	5,069,896	5,394,945	5,645,393	5,907,609	6,182,147	6,469,593	6,770,557	7,085,680	7,415,633	7,761,119
ADMINISTRATIVE	5,435,318	9,200,019	14,770,724	15,449,969	16,160,925	16,905,088	17,684,024	18,499,373	19,352,855	20,246,269	21,181,501
COST OF UTILITY SALES	3,867,588	4,991,025	3,347,504	3,447,929	3,551,367	3,657,908	3,767,645	3,880,674	3,997,095	4,117,008	4,240,518
TOTAL SOUTH AIRPORT OPERATING EXPENSES [1]	$57,952,000	$69,626,610	$79,434,272	$83,071,802	$86,878,361	$91,861,884	$96,077,800	$99,196,385	$103,752,970	$108,521,758	$113,512,729
ALLOCATION TO AIRPORT COST CENTERS [2]											
Terminal	$18,928,626	$21,877,553	$26,237,554	$27,565,625	$29,050,446	$29,478,716	$30,829,577	$32,733,582	$34,484,394	$35,916,870	$37,693,620
Fueling	1,097,699	519,803	692,157	725,474	718,452	686,310	706,579	740,848	773,059	801,479	847,020
Field and Ramp	12,916,416	13,634,804	16,413,996	17,602,510	18,387,480	18,594,089	19,308,901	20,278,733	21,191,487	22,079,942	23,156,572
Ground Access	16,421,842	21,729,335	25,106,107	25,803,060	27,241,210	31,673,576	33,471,268	33,062,749	34,490,938	36,495,968	38,051,026
Leased Area	975,130	857,688	873,162	902,303	915,703	920,779	947,891	981,198	1,014,358	1,047,035	1,086,405
Cargo	2,465,229	3,198,104	3,269,418	3,364,966	3,308,551	3,167,005	3,219,252	3,319,637	3,410,704	3,488,014	3,618,453
Maintenance Hangar	2,646,436	3,653,411	3,218,755	3,321,304	3,298,989	3,205,026	3,270,845	3,560,411	3,664,019	3,754,191	3,897,216
Marketing/Public Affairs	3,733,326	3,990,208	3,508,648	3,668,555	3,835,881	4,010,977	4,194,206	4,385,952	4,586,614	4,796,612	5,016,385
Other	(79,544)	165,701	114,472	118,004	121,646	125,403	129,277	133,273	137,394	141,645	146,030
TOTAL SOUTH AIRPORT OPERATING EXPENSES [1]	$59,105,160	$69,626,608	$79,434,270	$83,071,800	$86,878,359	$91,861,882	$96,077,798	$99,196,383	$103,752,968	$108,521,756	$113,512,727

[1] Differences between totals are due to rounding.

[2] Expenses by cost center for FY 2001 reflect adjustments made by the Aviation Division for the purposes of calculating airline rates and charges and therefore do not tie to total South Airport operating expenses.

Sources: Port of Oakland (FY 2001 through FY 2003)
Ricondo & Associates, Inc. (FY 2004 through FY 2011)

in FY 2003, future security expenses are projected to increase proportionately with the expansion of the Airport's terminal building and inflationary effects.

- In FY 1997 the City began providing Aircraft Rescue and Fire Fighting (ARFF) services at the Airport. Expenses pertaining to these services encompass approximately $3.7 million in FY 2001, and are included in future contractual services projections.

Supplies represent costs for supplies needed for day to day maintenance and operation of the Airport, including janitorial, passenger restroom, and other general supplies. In FY 2001, supplies were $800,560. Historically, supplies have increased at an annual compounded growth rate of 5.8 percent from FY 1996 to FY 2001. Future increases in supplies were assumed to increase incrementally with the expansion of the terminal building and construction of a new parking garage. As a result, future expenses for supplies were increased at an annual compounded growth rate of 6.0 percent.

South Airport's operating expenses for FY 2001, anticipated FY 2002, budget FY 2003, and projected FY 2004 through FY 2011 are presented in Table 5.4 by functional category. Also presented in the table are the distributions of South Airport's operating expenses to the cost centers described earlier. As shown, operating expenses are projected to increase from approximately $59.1 million in FY 2001 to approximately $113.5 million in FY 2011, representing an annual compounded growth rate of 6.7 percent from FY 2001 to FY 2011.

(2) North Airport

Estimates of future North Airport general operating expenses are depicted in **Table 5.5** and are based on a review of historical trends, the anticipated impacts of inflation, staffing requirements, facility improvements and expansions, and activity increases. Personnel services and contractual services represent the primary general operating expense categories at North Airport.

Personnel services are anticipated to increase from $560,012 in FY 2001 to approximately $789,000 in FY 2011. Currently, there are seven employees at the North Airport; there are no staffing changes anticipated in the future. Future increases in personnel services expenses were based on an annual compounded growth rate of 4.8 percent.

Contractual services at North Airport primarily represent costs associated with City ARFF services and security patrol. In FY 2001, contractual services were $757,749, and are projected to increase to approximately $2.3 million in FY 2003 due to additional security expenses at the North Airport. Beyond FY 2003, future increases in contractual services were based on an annual compounded growth rate of 5.0 percent.

5.4.2 AVIATION REVENUE

Table 5.6 presents the revenues for the Aviation Division. As shown in the table, Aviation revenues were approximately $103.1 million in FY 2001, and are projected to increase to $203.8 million in FY 2011. Overall, this growth in Aviation revenues between FY 2001 and FY 2011 represents an annual compounded growth rate of 7.1 percent. In FY 2001, total revenues for the Aviation Division represented approximately 52.3 percent of the Port's total revenues.

TABLE 5.5

Port of Oakland
Aviation Division
Feasibility Report

NORTH AIRPORT OPERATING EXPENSES

	Actual 2001	Anticipated 2002	Budget 2003	Projected 2004	2005	2006	2007	2008	2009	2010	2011
GENERAL OPERATING EXPENSES											
Personnel Services	$560,012	$767,604	$534,077	$560,781	$588,820	$618,261	$649,174	$681,633	$715,714	$751,500	$789,075
Contractual Services	757,749	889,300	2,251,500	2,364,075	2,482,279	2,606,393	2,736,712	2,873,548	3,017,225	3,168,087	3,326,491
Supplies	3,926	3,000	4,650	4,836	5,029	5,231	5,440	5,657	5,884	6,119	6,364
General & Administrative	22,722	21,000	19,180	20,139	21,146	22,203	23,313	24,479	25,703	26,988	28,338
Dep't (Credits) Charges	2,280	3,000	3,000	3,090	3,183	3,278	3,377	3,478	3,582	3,690	3,800
Subtotal - Direct G&O Expenses	$1,346,689	$1,683,904	$2,812,407	$2,952,921	$3,100,457	$3,255,366	$3,418,016	$3,588,795	$3,768,109	$3,956,383	$4,154,068
ALLOCATED INDIRECT EXPENSES											
Port Use Utilities	$1,115,086	$1,366,558	$836,964	$877,138	$919,241	$963,365	$1,009,606	$1,058,067	$1,108,855	$1,162,080	$1,217,859
Nondepartmental	843,204	862,576	862,576	888,453	915,107	942,560	970,837	999,962	1,029,961	1,060,859	1,092,685
Human Resources, Purchasing, 1/2 Equal Opportunity	16,811	18,184	17,621	18,452	19,322	20,234	21,189	22,189	23,236	24,334	25,483
Subtotal - Indirect G&O Expenses	$1,975,101	$2,247,317	$1,717,161	$1,784,044	$1,853,670	$1,926,158	$2,001,631	$2,080,218	$2,162,051	$2,247,273	$2,336,028
TOTAL GENERAL OPERATING EXPENSES	3,321,790	3,931,221	4,529,568	4,736,964	4,954,127	5,181,524	5,419,647	5,669,013	5,930,160	6,203,656	6,490,095
MAINTENANCE	1,980,532	490,956	2,428,876	2,543,159	2,662,859	2,788,234	2,919,553	3,057,100	3,201,171	3,352,078	3,510,146
ADVERTISING & PROMOTION	166,112	203,089	216,110	226,142	236,646	247,643	259,158	271,214	283,837	297,054	310,894
ADMINISTRATIVE	1,491,553	2,905,775	4,282,501	4,479,706	4,686,126	4,902,196	5,128,372	5,365,130	5,612,970	5,872,416	6,144,016
COST OF UTILITY SALES	1,848,013	2,384,814	1,599,506	1,647,491	1,696,916	1,747,824	1,800,258	1,854,266	1,909,894	1,967,191	2,026,207
TOTAL NORTH AIRPORT OPERATING EXPENSES	$8,808,000	$9,915,856	$13,056,561	$13,633,463	$14,236,674	$14,867,421	$15,526,988	$16,216,722	$16,938,032	$17,692,395	$18,481,358

Sources: Port of Oakland (FY 2001 through FY 2003)
Ricondo & Associates, Inc. (FY 2004 through FY 2011)

TABLE 5.6

Port of Oakland
Aviation Division
Feasibility Report

AVIATION DIVISION REVENUE PROJECTIONS

(PAGE 1 OF 2)

	Actual	Anticipated	Budget	Projected							
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
AIRLINE RENT / LOADING BRDG / LANDING FEES											
Terminal Rentals	$10,709,044	$11,481,250	$13,547,039	$14,401,958	$18,202,426	$21,282,883	$23,665,017	$26,900,964	$29,911,454	$31,485,730	$32,787,220
Loading Bridge and 400 Hertz Power	508,719	672,820	687,961	801,373	821,472	842,376	864,115	886,724	910,237	934,691	960,123
Landing Fees	11,798,955	12,329,786	13,590,000	15,988,564	18,350,128	19,653,349	20,441,975	21,284,879	22,275,262	23,234,491	24,181,618
	$23,016,718	$24,483,856	$27,825,000	$31,191,895	$37,374,026	$41,778,607	$44,971,107	$49,072,567	$53,096,953	$55,654,912	$57,928,961
TERMINAL											
Car Rentals	$8,756,682	$8,643,400	$9,537,000	$10,025,099	$11,104,914	$11,557,810	$12,007,906	$12,481,213	$12,977,966	$13,510,665	$14,072,337
Restaurant and Bar	1,807,583	1,843,358	2,638,411	2,745,983	3,011,640	3,103,431	3,192,364	3,285,342	3,382,276	3,486,244	3,595,223
Newstand & Gift Shop	1,181,258	1,184,439	1,535,624	1,598,234	1,752,853	1,806,278	1,858,039	1,912,155	1,968,573	2,029,085	2,092,514
Advertising Commission	227,029	226,016	220,000	265,833	265,833	265,833	265,833	265,833	265,833	265,833	265,833
Limousine and Cab	435,871	358,000	625,000	669,997	756,859	803,325	851,136	902,203	956,687	1,015,678	1,078,850
Utility Sales	560,863	677,137	586,558	604,155	622,279	640,948	660,176	679,981	700,381	721,392	743,034
Telephone	168,909	315,978	108,000	108,000	108,000	108,000	108,000	108,000	108,000	108,000	108,000
Terminal Use Fee [1]	1,171	1,000	1,000	1,000	1,097	1,130	1,163	1,196	1,232	1,270	1,309
Security Screening [1]	480	1,000	1,000	1,000	1,097	1,130	1,163	1,196	1,232	1,270	1,309
Secondary Use of Loading Bridges [1]	191,671	338,000	235,000	352,000	380,017	385,621	390,715	395,809	401,412	407,016	413,638
Nonairline Space Rentals	435,882	325,000	325,000	361,042	390,765	410,303	430,818	452,359	474,977	498,726	523,662
Filming	5,200	0	2,000	0	0	0	0	0	0	0	0
Miscellaneous	215,646	230,998	454,000	486,686	549,783	583,535	618,265	655,360	694,938	737,788	783,677
	$13,988,245	$14,144,327	$16,268,593	$17,219,028	$18,945,136	$19,667,344	$20,385,577	$21,140,647	$21,933,506	$22,782,965	$23,679,386
IAB											
Restaurant and Bar	$25,073	$25,350	$26,589	$27,673	$30,351	$31,276	$32,172	$33,109	$34,086	$35,134	$36,232
Newstand & Gift Shop	16,385	16,566	17,376	18,084	19,834	20,438	21,024	21,636	22,275	22,959	23,677
Nonairline Space Rentals	138,734	23,000	23,000	23,000	23,000	23,000	23,000	33,000	33,000	33,000	33,000
Custom Room Fee [1]	322,820	358,000	542,000	564,098	618,671	637,528	655,797	674,897	694,810	716,168	738,555
	$503,012	$422,916	$608,965	$632,856	$691,856	$712,242	$731,993	$762,642	$784,170	$807,261	$831,464
CONTRACT FUELING											
Fueling Revenues	$1,557,940	$1,404,000	$2,124,000	$1,809,308	$1,812,586	$1,780,828	$1,801,542	$1,840,943	$1,872,674	$1,901,348	$2,326,374
Utility Sales	91,155	110,053	95,331	98,191	101,137	104,171	107,296	110,515	113,830	117,245	120,763
	$1,649,095	$1,514,053	$2,219,331	$1,907,499	$1,913,723	$1,884,999	$1,908,838	$1,951,457	$1,986,504	$2,018,593	$2,447,136
FIELD AND RAMP											
Plane Storage [1]	$507,715	$494,000	$403,000	$415,171	$427,709	$440,626	$453,932	$467,641	$481,764	$496,313	$511,302
Inflight Catering	600,064	360,000	596,000	613,880	632,296	651,265	670,803	690,927	711,655	733,005	754,995
Ground Handling	1,061,390	748,200	696,000	724,118	753,373	783,809	815,475	848,420	882,696	918,357	955,459
Cargo Handling	187,782	192,000	68,000	70,747	73,605	76,579	79,673	82,892	86,240	89,725	93,349
Utility Sales	11,347	13,699	11,867	12,223	12,590	12,967	13,356	13,757	14,170	14,595	15,033
	$2,368,298	$1,807,899	$1,774,867	$1,836,139	$1,899,573	$1,965,246	$2,033,240	$2,103,637	$2,176,526	$2,251,995	$2,330,138
GROUND ACCESS											
Ready Lot	$257,859	$210,720	$158,000	$164,442	$180,351	$0	$0	$0	$0	$0	$0
Rent Car CFC	0	0	0	0	0	7,927,505	7,974,551	8,023,009	8,072,921	8,124,330	8,177,281
Parking Lot	33,234,439	32,500,000	33,173,940	32,723,438	38,790,724	52,155,653	58,726,514	59,978,927	62,964,325	69,824,372	71,296,115
Tenant/Employee Parking	810,329	912,640	1,289,000	1,340,560	1,394,182	1,449,950	1,507,948	1,568,266	1,630,996	1,696,236	1,764,086
Air BART	1,291,900	1,324,800	1,750,000	1,839,564	2,037,706	2,120,810	2,203,401	0	0	0	0
Trip Fees	501,407	453,560	842,000	885,093	980,428	1,020,413	1,060,151	1,101,938	1,145,795	1,192,826	1,242,415
Utility Sales	1,548	1,869	1,619	1,667	1,718	1,769	1,822	1,877	1,933	1,991	2,051
	$36,097,482	$35,403,589	$37,214,559	$36,954,765	$43,385,108	$64,676,099	$71,474,387	$70,674,016	$73,815,970	$80,839,755	$82,481,947
LEASED AREAS											
Land and Buildings	$360,095	$286,790	$335,000	$335,000	$335,000	$335,000	$335,000	$335,000	$335,000	$335,000	$335,000
Automotive Fuel	8,416	0	0	0	0	0	0	0	0	0	0
Utility Sales	424,077	511,994	443,505	456,810	470,515	484,630	499,169	514,144	529,568	545,456	561,819
	$792,588	$798,784	$778,505	$791,810	$805,515	$819,630	$834,169	$849,144	$864,568	$880,456	$896,819

TABLE 5.6

Port of Oakland
Aviation Division
Feasibility Report

AVIATION DIVISION REVENUE PROJECTIONS

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	Actual	Anticipated	Budget	Projected							
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
CARGO AREA											
Land, Buildings, and Apron	$5,907,572	$5,732,042	$5,875,000	$5,992,500	$6,112,350	$6,234,597	$6,359,289	$6,486,475	$6,616,204	$6,748,528	$6,883,499
Utility Sales	1,165,602	1,407,247	1,219,002	1,255,572	1,293,239	1,332,036	1,371,997	1,413,157	1,455,552	1,499,218	1,544,195
	$7,073,174	$7,139,289	$7,094,002	$7,248,072	$7,405,589	$7,566,633	$7,731,286	$7,899,632	$8,071,756	$8,247,747	$8,427,694
OTHER SOUTH AIRPORT REVENUES											
United Hangar	$3,436,558	$3,363,380	$3,451,000	$3,554,530	$3,661,166	$3,771,001	$3,884,131	$5,000,655	$5,150,674	$5,305,195	$5,464,351
United Hangar Utility Sales	2,121,745	2,561,611	2,218,949	2,285,517	2,354,082	2,424,705	2,497,446	2,572,369	2,649,541	2,729,027	2,810,898
Utility Sales - 400 HZ Power	135,839	169,012	101,038	104,069	107,191	110,407	113,719	117,131	120,645	124,264	127,992
Miscellaneous	98,002	0	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
	$5,792,144	$6,094,004	$5,771,986	$5,945,116	$6,123,440	$6,307,113	$6,496,296	$7,691,155	$7,921,860	$8,159,485	$8,404,240
TOTAL SOUTH AIRPORT	$91,280,756	$93,504,269	$99,555,808	$103,727,181	$118,543,965	$145,377,912	$156,566,893	$162,144,898	$170,651,813	$181,643,168	$187,427,786
NORTH AIRPORT											
Landing Fees	$11,466	$12,000	$12,000	$12,511	$13,041	$13,644	$14,212	$14,808	$15,427	$16,128	$16,798
Plane Storage	290,307	175,000	103,000	107,384	111,939	117,112	121,989	127,105	132,419	138,434	144,179
Cargo/Ground Handling	408,386	321,840	3,000	3,120	3,245	3,375	3,510	3,650	3,796	3,948	4,106
Fueling	1,359,552	1,307,904	1,515,000	1,564,153	1,614,667	1,672,880	1,725,630	1,780,550	1,836,977	1,901,773	1,961,465
Land and Buildings	2,031,270	2,081,443	2,958,000	3,083,912	3,214,716	3,363,268	3,503,334	3,650,271	3,802,871	3,975,608	4,140,593
Hangar and Hangar Areas	3,882,133	4,013,847	4,414,000	4,502,280	4,592,326	4,684,172	4,777,856	4,873,413	4,970,881	5,070,299	5,171,705
T-Hangars/Port A Ports	356,849	366,000	380,000	387,600	395,352	403,259	411,324	419,551	427,942	436,501	445,231
Parking Revenue - Tenant/Employee	3,840	1,000	1,000	1,020	1,040	1,061	1,082	1,104	1,126	1,149	1,172
Cargo Building & Apron	1,180,451	873,164	1,067,000	1,099,010	1,131,980	1,165,940	1,200,918	1,236,945	1,274,054	1,312,275	1,351,644
Miscellaneous	14,617	0	0	0	0	0	0	0	0	0	0
Utility Sales	2,320,981	2,889,129	2,504,957	2,580,106	2,657,509	2,737,234	2,819,351	2,903,932	2,991,050	3,080,781	3,173,205
TOTAL NORTH AIRPORT	$11,859,852	$12,041,327	$12,957,957	$13,341,096	$13,735,815	$14,161,945	$14,579,206	$15,011,329	$15,456,543	$15,936,896	$16,410,095
TOTAL AVIATION REVENUE	$103,140,608	$105,545,596	$112,513,765	$117,068,277	$132,279,780	$159,539,857	$171,146,099	$177,156,228	$186,108,356	$197,580,063	$203,837,880

[1] Represent airline revenues which are credited against the terminal rental and landing fee requirements.

Sources: Port of Oakland (FY 2001 - FY 2003)
Ricondo & Associates Inc. (FY 2004 - FY 2011)

In general, projections of Aviation revenue were based on the following factors and assumptions:

- Airline terminal, landing fee, and loading bridge revenues were calculated based on the Port's existing rate-setting methodology which sets rates in the airline cost centers on a residual basis. As such, airline revenues are a function of the projected O&M expenses, debt service, and nonairline revenues anticipated for the Terminal and Field and Ramp cost centers.

- Terminal concession revenues were projected based on a review of the Airport's historical concession revenues per enplanement and projected growth in Airport enplanements. In addition, certain terminal concession revenues were assumed to increase based on an underlying increase of between 1 to 2 percent annually.

- Parking revenues at the Airport were projected based on a review of historical parking revenues per enplanement, the anticipated changes in parking spaces during and after construction of the parking garage, and assumed increases in parking rates following the completion of the garage.

- Other activity-based revenues at the Airport including ground handling revenues, fueling revenues, ground transportation trip fees, AirBART revenues, and plane storage revenues where projected based on a review of historical revenue growth, projected activity levels, and current lease term and provisions.

- Revenues generated from the various ground and building leases at the Airport were projected based on a review of tenant lease terms, historical growth rates, and provisions and an underlying assumption ranging from 2 to 3 percent annually.

The following paragraphs present the assumptions used to project Aviation revenues for South Airport and North Airport in greater detail.

(1) South Airport

Estimates of future South Airport revenues reflect current and anticipated future agreement provisions, anticipated passenger growth, the impact of the CIP, and inflationary growth. As presented in Table 5.6 South Airport's revenues are projected to increase from $91.3 million in FY 2001 to $187.4 million in FY 2011, representing an annual compounded growth rate of 7.5 percent. South Airport revenues can be further broken down into airline and nonairline revenues. Airline revenues currently represent approximately 25.2 percent of total Aviation revenues, while nonairline revenues account for the remaining 74.8 percent of total Aviation revenues. Airline and nonairline revenues for South Airport are further described below.

Airline Charges

Airline charges paid each year by the airlines operating at the Airport include terminal rentals, loading bridge payments, and landing fees. The airlines serving the Airport operate under the terms of the Airline Operating Agreement, which provides for review and adjustment of the rates and charges on an annual basis. This arrangement also provides the Port with the ability to adjust rates and charges throughout the year if necessary. Key points contained in these agreements are listed below:

- The premises are occupied by the airlines exclusively (ticket counter, offices, operations space, baggage makeup and baggage service), preferentially (holdrooms and gates), or jointly (baggage claim). Since airline rates are established through Port Ordinance No. 3634, and does not require a majority-in-interest vote from the airlines, the Port can adjust or expand these space assignments as needed.

- The Port sets rates and charges each calendar year, and are established for the airline cost centers on a residual basis (i.e., airline rates are established to recover the cost center's net requirement).

- The Airline Operating Agreements and Space Use Permits are cancelable by either party on 30 days written notice.

For the purposes of calculating airline rates and charges at the Airport, the terminal rental and landing fee rate calculations combine airfield operating expenses, capital amortization expenses, debt service, and debt service coverage; less nonairline revenues for each respective cost center. This net requirement is then divided by leased airline terminal space or total airline landed weight to determine the terminal rental and landing fee rates. For Calendar Year 2002, the landing fee is $1.14 per thousand pounds landed weight, while the terminal rental rate is $76.40 per square foot.

The Airport also charges for the use of the 24 Port-owned loading bridges at the Airport. The loading bridge fee is calculated based on the sum of janitorial and maintenance expenses and depreciation for the loading bridges, divided by the number of loading bridges. For Calendar Year 2002, the loading bridge fee is established at $30,583 per loading bridge.

In addition to the terminal rental, loading bridge fee, and landing fee, there are other fees that the airlines are required to pay to the Port. Similar to nonairline revenues, these fees are credited against the terminal rental and landing fee requirements. The additional fees are as follows:

- <u>Secondary Use of Loading Bridges</u> - The Port receives revenue for the secondary use of the loading bridges, for those airlines that are not preferentially assigned to a loading bridge or holdroom on a per passenger basis. Tenants that are assigned the use of a ticketing unit are charged $111.80 per enplaning operation for the holdroom and loading bridge when they use a second hold room and loading bridge. All other tenant operators are assessed a holdroom and loading bridge charge of $0.86 per enplaned passenger.

- <u>Terminal Use Fee</u> - $1.09 per enplaned passenger fee is assessed to non-tenants.

- <u>Holdroom and Loading Bridge Fee</u> - $1.08 per enplaned passenger fee is assessed to non-tenants.

- <u>Baggage Claim Area Charge</u> - $0.59 per deplaned passenger is assessed to non-tenants.

- <u>Security Fee</u> - $40.00 per operation fee is assessed to non-tenants.

- <u>Custom Room Use Fee</u> - $7.00 per international deplaning passenger is charged to airlines with international service for the use of international passenger handling facilities at the Airport.

- <u>Plane Storage Fees</u> - These fees consist of fees for overnight parking of aircraft at the Airport. Port Ordinance 3634 provides daily and monthly rates which are to be assessed to aircraft parking for 8 hours or more according to the size of the aircraft. Plane storage fees were also projected to increase with projected air carrier operations, as well as with inflation.

As shown on Table 5.6, terminal rentals, landing fees, and loading bridge charges are projected to increase from $23.0 million in FY 2001 to approximately $57.9 million in FY 2011.

Increases in these airline revenues are largely due to the expansion of Terminal 2 which is scheduled to be completed in FY 2004.

The passenger airline cost per enplanement for FY 2001 through FY 2011 is presented in **Table 5.7**. Based on the estimates and calculations described in the previous sections, the passenger airline cost per enplanement is projected to increase from $3.52 in FY 2001 to $6.42 in FY 2011. This increase is primarily the result of anticipated future debt service requirements of the Aviation CIP in the airline rate base.

Terminal (excluding airline terminal revenue)

Terminal revenues (excluding airline terminal revenue) were approximately $14.0 million in FY 2001, and are projected to increase to approximately $23.7 million in FY 2011, representing an annual compounded growth rate of 5.4 percent.

Terminal revenues consist primarily of revenues generated from concessionaires. Total concession revenue at South Airport has increased steadily from FY 1996 to FY 2001, primarily in car rental, restaurant and bar, and newstand and gift shop concessions. Future concession terminal revenues are anticipated to increase incrementally with the terminal expansion, anticipated passenger activity, and inflation. A description of each of these terminal concessions is presented as follows:

- Car Rentals - There are currently seven car rental operators on-Airport: Avis, Budget, Dollar, Enterprise, Hertz, National and Thrifty. For their existing facilities, the car rental companies operate at the Airport on a holdover basis and pay the Airport 9.5 percent of gross receipts or $2,500 per month, whichever is greater. On January 7, 2002, the Port entered into new agreements with the current car rental companies plus an additional rental car operator to finance and operate interim rental car facilities that will be operational during the construction of permanent rental car facilities and a parking garage. The interim facility is expected to be operational by mid-2003. The agreements include an 8-year ground lease for 14.5 acres and a 5-year concession agreement, including a concession fee of 9.5 percent of gross receipts in addition to the ground lease rental payments. The current "holdover" agreements will terminate and the new license and concession agreement will commence when operations begin at the new interim facility. Future car rental concessions are anticipated to grow with passenger activity levels and inflationary impacts.

- Restaurant and Bar - ATS/CA1 operates the restaurant and bar concession at the Airport under a lease that expires May 31, 2008, with rental adjustments occurring on July 1 of each year. Under the current agreement, the Airport receives a minimum annual guarantee plus a percentage of gross sales over an established sales threshold. The restaurant and bar concession is anticipated to grow from existing levels of approximately $0.32 per enplanement in FY 2001 to approximately $0.44 per enplanement in FY 2003 as a result of expanded restaurant and bar concessions within the terminal. In addition to this incremental increase, restaurant and bar concession revenue is projected to increase with passenger activity levels and inflation in the future.

TABLE 5.7

Port of Oakland
Aviation Division
Feasibility Report

PASSENGER AIRLINE COST PER ENPLANEMENT [1]

	Actual	Anticipated	Budget	Projected							
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Terminal Rentals	$10,709,044	$11,481,250	$13,547,039	$14,401,958	$18,202,426	$21,282,883	$23,665,017	$26,900,964	$29,911,454	$31,485,730	$32,787,220
Loading Bridge Payments	508,719	672,820	687,961	801,373	821,472	842,376	864,115	886,724	910,237	934,691	960,123
Passenger Carrier Landing Fees [1]	7,916,423	8,742,740	9,671,913	11,360,075	13,155,139	14,188,455	14,723,396	15,308,487	16,001,916	16,660,711	17,301,002
Plane Storage	109,234	123,186	127,120	130,126	140,369	142,449	144,345	146,241	148,323	150,406	152,862
Terminal Use Fee	1,171	1,000	1,000	1,000	1,097	1,130	1,163	1,196	1,232	1,270	1,309
Security Screening	480	1,000	1,000	1,000	1,097	1,130	1,163	1,196	1,232	1,270	1,309
Custom Room Fee	322,820	358,000	542,000	564,098	618,671	637,528	655,797	674,897	694,810	716,168	738,555
Secondary Use of Loading Bridges	191,671	338,000	235,000	352,000	380,017	385,621	390,715	395,809	401,412	407,016	413,638
Utilities	135,839	169,012	101,038	104,069	107,191	110,407	113,719	117,131	120,645	124,264	127,992
TOTAL PASSENGER AIRLINE REVENUES	$19,895,401	$21,887,008	$24,914,070	$27,715,699	$33,427,479	$37,591,978	$40,559,429	$44,432,645	$48,191,261	$50,481,525	$52,484,011
ENPLANEMENTS	5,659,448	5,722,000	6,001,700	6,246,400	6,850,700	7,059,500	7,261,800	7,473,300	7,693,800	7,930,300	8,178,200
AIRLINE COST PER ENPLANEMENT	$3.52	$3.83	$4.15	$4.44	$4.88	$5.33	$5.59	$5.95	$6.26	$6.37	$6.42
PRESENT VALUE (FY 2002)	$3.52	$3.83	$4.03	$4.18	$4.47	$4.73	$4.82	$4.98	$5.09	$5.03	$4.92

[1] Does not include landing fee revenues derived from the cargo airlines or other miscelleous airlines.

Source: Ricondo & Associates, Inc.

- Newsstand - The newsstand concession is also operated by ATS/CA1. The newsstand lease expires May 31, 2008, with rental adjustments occurring on July 1 of each year. This concession is currently meeting its guaranteed minimums. Newsstand concession revenue is anticipated to grow from existing levels of approximately $0.21 per enplanement in FY 2001 to approximately $0.26 per enplanement in FY 2011 due to the expansion of the terminal building. In addition to this incremental increase, newsstand concession revenue is projected to increase with passenger activity levels and inflationary impacts in the future.

- Advertising Commission - Interspace Airport Advertising, Inc. operates the advertising concession at the Airport. They are responsible for installing and maintaining the advertising displays located in the public areas of Terminals 1 and 2. Under the current agreement, Interspace agrees to pay the Airport 50 percent of gross revenue. Interspace's program serves local and national advertising accounts. Future advertising commission revenue was projected to increase proportionately with the increase in public space associated with the expanded terminal building and the impacts of inflation.

- Limousine and Cab - There are several limousine and cab operators at the Airport. In accordance with Port Ordinance No. 3634, limousine operators pay a $75.00 per vehicle annual fee for up to five vehicles, or a total of $400.00 for six or more vehicles. Limousine and cab concession revenue is anticipated to grow with passenger activity levels and inflationary impacts in the future.

- Telephone - The telephone concession at the Airport represents revenues generated from the pay telephones in the two terminal buildings and is operated by American Telephone & Telegraph Company (AT&T), and Pacific Telephone Company. The Airport receives between 10 and 26 percent of gross revenues, which varies by local, long-distance, and credit card calls. The agreements with these companies are on a month-to month basis. Future concession revenue generated from telephones is projected to increase with passenger activity and inflationary impacts.

The remainder of terminal revenues consist of utility sales, nonairline space rentals, and miscellaneous. Each of these revenue sources are discussed in greater detail in the following paragraphs.

- Utility Sales - Utility sales revenues are generated from the reimbursements made by tenants to the Port for the use of cost-of-sale utilities in the facilities they occupy. Historically, utility revenues have increased at an annual compounded growth rate of approximately 16.1 percent from FY 1996 to FY 2001. Cost-of-sale utility expenses have been projected at an annual compounded growth rate of 3.0 percent, therefore, the revenues generated from this source are also anticipated to increase at a 3.0 percent growth rate.

- Nonairline Space Rentals - Nonairline space rentals within the terminal consist primarily of space rent generated from the car rental companies. Other nonairline space rent is also generated from the FAA, ground handling companies, and miscellaneous tenants. Historically, nonairline space rental revenues have increased at an annual compounded growth rate of approximately 4.3 percent from FY 1996 to FY 2001. Nonairline space rentals are assumed to increase proportionately with the projected increases in terminal rental rates.

- Miscellaneous - Miscellaneous revenue within the terminal building consists of revenue generated from the passenger convenience services such as luggage carts, business service center, automatic teller machines, identification badges, mail boxes, and other miscellaneous revenues. Future revenues generated from miscellaneous sources are projected to increase with passenger activity and inflationary impacts.

Contract Fueling

In FY 2001, Contract Fueling revenues were $1.6 million in FY 2001, and are budgeted to be approximately $2.1 million in FY 2003. Contract Fueling at the Airport is operated by the Oakland Fuel Facilities Corporation and consists of the reimbursement from the airlines for the use of delivery and storage facilities at the Airport. For this reason, future revenues generated from contract fueling are projected to change with operating expenses, debt service, and capital expenditures associated with these facilities. As shown in Table 5.6, future contract fueling revenues are projected to increase to approximately $2.3 million by FY 2011.

Field and Ramp (excluding airline landing fees)

Field and ramp revenues (excluding airline landing fees) at the Airport consist of plane storage fees, inflight catering fees, ground handling fees, and cargo handling fees. As discussed previously, plane storage fees are airline revenues derived from overnight aircraft parking fees at the Airport. The inflight catering and ground/cargo handling fees are discussed in greater detail in the following paragraphs.

- <u>Inflight Catering</u> - LSG Sky Chefs operates the inflight catering service at the Airport. The agreement with LSG Sky Chefs expires on December 31, 2002. LSG Sky Chefs currently pays the Airport the greater of 8.00 percent of gross revenues for on-Airport deliveries or $17,944 per month. In addition, LSG Sky Chefs pays 3.0 percent of gross sales delivered to off-Airport locations and 10 percent of other gross airline sales. Future inflight catering revenues are projected to increase due to rental adjustments associated with capital improvements to Building M-111 or another facility located at the Airport, as well as anticipated growth in enplanements and inflation.

- <u>Ground/Cargo Handling</u> - There are currently ten ground handling companies operating at the Airport, and four equipment maintenance operators offering maintenance services for aircraft. The Airport receives 10 percent of the gross revenues collected by the ground handlers, equipment maintenance, and passenger service providers. Beyond FY 2003, future ground/cargo handling fees are projected to increase with the anticipated growth in operations and inflation.

In FY 2001, field and ramp revenues were approximately $2.4 million. Following the anticipated decreases in ground/cargo handing revenues in FY 2002 and FY 2003, field and ramp revenues are projected to gradually increase, reaching their previous levels of approximately $2.3 million in FY 2011.

Ground Access

Revenues generated in the ground access cost center from the ready lot, parking lot, parking meters, tenant/employee parking, AirBART, and trip fees. Each of these revenue sources is discussed in greater detail below.

- <u>Rental Car Ready Lot / CFCs</u> - Revenues generated from the ready lot consist of ground rentals on the ready lots for the Airport's seven car rental companies. In general, the car rental companies are currently charged $34.00 per month per parking space and $0.2045 per square foot of land for other facilities within the ready lot areas. Historically, ready lot revenues have remained relatively constant from FY 1996 to FY 2001. Ready lot revenues were assumed to be eliminated in FY 2006 and replaced by CFC revenues. As discussed previously in Section 5.2.3, beginning in FY 2006, CFCs are to be used to offset the debt service payments and ground rent associated with the construction of the new rental car facilities and the rental car portion of the new parking garage. Rental car CFC collections are projected to increase from approximately $7.9 million in FY 2006 to approximately $8.2 million in FY 2011 (see Table 5.6).

- Parking Lot - The parking lot is operated by Five Star Parking, a parking management company, under a management contract. On-Airport parking fees are generated by hourly short-term, daily long-term, and economy lots. Current parking rates at the Airport (including a 10 percent tax from the City of Oakland) are $25.00 per day for the hourly lot, $18.00 per day for the long-term lot, $15.00 per day for the economy lot, and $30.00 per day for valet parking. As part of the Aviation CIP, a 6,000 space parking garage will be constructed at the Airport. Of this total, approximately 4,200 spaces will be used for public spaces and 1,800 will be used as a ready lot for the rental car companies. Parking lot revenues were assumed to decrease during construction of the parking garage from FY 2003 to FY 2005 due to an overall reduction in available spaces and other construction disruptions, and then increase following completion of the garage in FY 2006. In general, the following assumptions were made in projecting future parking lot revenues at the Airport:

  - Throughout the projection period, the number of exits per space were projected to increase based on increases in local passenger activity.

  - At the opening of the new parking garage (FY 2006) the number of short-term exits per space in the garage were assumed to be 1,500 per space, which is comparable to historical levels. Short-term parking rates associated with the garage were assumed to increase, reflecting a 25 percent increase in short-term parking rates in FY 2006.

  - The number of exits per space for the long-term garage were assumed to be 130 in FY 2006, which is comparable to, but slightly lower than, the levels experienced by the long-term surface lots in FY 2001. Long-term parking rates associated with the garage were assumed to increase, reflecting a 20 percent increase in long-term parking rates in FY 2006.

  - In order to maintain auto parking capacity during the construction of the garage, the Airport will be constructing a remote parking lot with shuttle service which will provide for 4,100 auto parking spaces. As such, the number of exits per space for this remote lot was assumed to be 150 in FY 2003, which is comparable to the levels experienced by the long-term surface lots in FY 2001. The parking revenue per space for the remote lot was assumed to be $20 per exit, which is slightly lower than the revenue per exit that the economy park lot currently generates.

  - In FY 2010, all parking rates were assumed to be increased by 10 percent.

  Overall, parking revenue is anticipated to grow from existing levels of approximately $5.87 per enplanement in FY 2001 to approximately $7.39 per enplanement in FY 2006, when the new parking garage is anticipated to open, and then to approximately $8.72 per enplanement in FY 2011. As shown in Table 5.6, parking revenues are projected to reach approximately $71.3 million in FY 2011.

- Tenant/Employee Parking - There are 850 tenant/employee parking spaces at the Airport, for which the tenants' employees were charged $30.00 per month in 2001. Future tenant/employee parking revenues are projected to increase at an annual compounded growth rate of 4.0 percent.

- AirBART - Revenues generated from AirBART represent revenues generated from the shuttle bus that operates daily between the AirBART Oakland-Alameda County Coliseum/Airport station and the Airport. The charges to ride the shuttle are $2.00 regular fare and $0.50 for senior citizens, handicapped, and children under the age of 12. Through FY 2007, AirBART revenues are expected to increase based on anticipated local passenger activity and inflation. Once the BART connector project is completed in FY 2008, it is anticipated that the existing revenues generated from AirBART will be eliminated.

- Trip Fees - Trip fees at the Airport represent revenues generated from parking, car rental, off-Airport hotel operators, limousines, and taxicabs. Pursuant to Port Ordinance 3634, these off-Airport operators are charged a $50.00 per vehicle transponder fee, as well as the following trip fees to operate at the Airport:

  — Off-Airport parking lot operators pay $1.00 per on-Airport trip
  — Off-Airport rental car companies pay $1.00 per on-Airport trip
  — Ground transportation operators of vans, minibuses, or buses pay $1.00 per on-Airport trip
  — Hotel courtesy shuttle operators pay $0.50 per on-Airport trip

  Future revenues generated from trip fees are expected to increase based on anticipated increased local passenger activity and with inflation.

In FY 2001, ground access revenues were approximately $36.1 million and are projected to increase to approximately $82.5 million in FY 2011, representing an annual compounded growth rate of 8.6 percent.

Leased Areas

Revenues from leased areas include revenues generated from land and building rentals and utility reimbursements. The primary tenants paying land and building rentals at the Airport include Avis, Hertz, and National for rental car service facilities and Southwest Airlines for storage facilities.

For projection purposes, land and building rental revenues are anticipated to remain constant throughout the projection period, while utility sales revenues where projected to increase at an annual compounded growth rate of 3.0 percent. As shown in Table 5.6, total leased area revenues are projected to increase from $792,588 in FY 2001 to approximately $897,000 in FY 2011.

Cargo Area

Cargo area revenues include revenue generated from the airlines (Alaska, Southwest, United, and Delta) and all-cargo carriers (FedEx, United Parcel Service and United States Postal Service) at the Airport for rent on buildings, land, and apron. Rents received from the cargo sorting facilities for FedEx and United Parcel Service generate approximately 90 percent of the cargo building and apron rental revenue associated with the South Airport.

Land and building rentals paid by the tenants are charged on a per square foot basis. Tenants occupying the cargo facilities at the Airport either pay land or building rentals, or both, as follows:

- <u>Land and Building Rentals</u> - (FedEx, United Parcel Service and USPS)
- <u>Building Rentals</u> – Alaska Airlines, Delta Air Lines, Southwest Airlines, Trans Oak Inc., and United Airlines.
- <u>Land Rentals</u> - Burlington Air Express

Also included in the cargo area revenues are utility fees the tenants reimburse to the Airport for their pro rata use of the utilities. In addition, aircraft apron fees imposed on Burlington Air Express, FedEx and United Parcel Service for parking aircraft on the cargo apron are included in cargo area revenues.

Historically, cargo area revenues have increased at an annual compounded growth rate of 15.9 percent from FY 1996 to FY 2001. This historical growth was primarily due to increased cargo area land and building rental rates in FY 2001, and increased utility sales revenues that occurred from the California energy crisis in FY 2001. Future cargo area revenues are projected to increase at an annual compounded growth rate of 2.0 percent. Cargo area revenues are projected to increase from $7.1 million in FY 2001 to approximately $8.4 million in FY 2011.

Other

Other revenues at the Airport consist primarily of rents paid by United Airlines. United currently leases the largest hangar at the Airport for use as a heavy maintenance facility. The hangar is currently the only maintenance hangar used by United for maintenance on its B-747 aircraft. The original lease expired on December 31, 1997, and was subsequently renewed for another 10 year option, with one remaining 10-year option. Under the terms of their lease, United is obligated to pay a percentage rental on the gross revenues from contract aircraft maintenance work at the facility. As shown on Table 5.6, other revenues are projected to increase from approximately $5.8 million in FY 2001 to approximately $8.4 million in FY 2011, representing an annual compounded growth rate of 3.8 percent.

(2) North Airport

North Airport revenues consist primarily of revenues generated from corporate/general aviation users at the Airport, cargo tenants, and Alaska Airlines. Estimates of future North Airport revenues reflect current and anticipated future agreement provisions, anticipated growth in operations, the impact of the CIP, and inflationary growth. As shown in Table 5.6, North Airport revenues are projected to increase from approximately $11.9 million in FY 2001 to approximately $16.4 million in FY 2011, representing an annual compounded growth rate of 3.3 percent. North Airport revenues are described in greater detail in the following paragraphs.

- ***Landing fees*** - A commercial Operator Fee is collected from fixed base operators (FBOs) and other aviation-related tenants at the North Airport. These tenants include Ameriflight, Louis B. Fields, KaiserAir, and the Sierra Academy of Aeronautics.

Pursuant to Port Ordinance No. 3634, landing fees are collected for the Port by the FBO, Kaiser Air, for based and non-based airines and commercial aircraft as follows:

— $14.25 per landing for aircraft having a maximum gross landing weight of less than 12,500 pounds

— $1.14 per 1,000 pounds for aircraft having a maximum gross landing weight 12,500 pounds or more

- ***Plane storage*** - These fees consist of fees for overnight parking of aircraft at North Airport. Port Ordinance 3634 sets the daily and monthly rates which are assessed to aircraft parking according to the size of the aircraft.

- ***Fueling fees*** - Fuel fees at the Airport consist of fuel flowage fees and fuel tank storage fees. Fuel flowage fees are charged based on a rate of $0.15 per gallon for self-fuelers and the higher of $0.15 or 19 percent of gross margin for retail fuelers, while fuel tank storage fees are charged at a rate of $0.025 per gallon for aviation fuel and $0.0125 per gallon for jet fuel. Future fuel fees were projected to increase with growth in general aviation operations.

- ***Land and building rentals*** - A number of tenants currently rent space for facilities at the Airport in the form of land and/or building rentals. In general, monthly land and building rentals range from $0.039 per square foot to $1.21 per square foot based on the type of use and level of finish (i.e., paved/unpaved, storage, hangar, office, warehouse, etc.). Land and building rental revenue is projected to increase in FY 2003 due the construction of new rental car maintenance facilities.

- ***Hangars*** - Alaska Airlines, Safeway, Kaiser Air, Sierra Academy of Aeronautics, and Pacific Gas & Electric all lease hangars from the Airport. The largest of these hangars is Alaska Airlines' heavy maintenance hangar. Based on the terms of an agreement with Alaska, Alaska is required to pay the Airport $997,290 annually. Future hangar revenues were projected to increase every 30 months at an annual compounded growth rate of 2.0 percent.

- ***T-Hangars*** - There are approximately 90 T-Hangars located at the North Airport. In accordance with Port Ordinance 3634, monthly fees for storage of aircraft in a T-Hangar range from $258 to $405.

- Historically, T-hangar revenue has increased at an annual compounded growth rate of 4.5 percent from FY 1996 to FY 2001. For projection purposes, T-hangar revenue is projected to grow at an annual compounded growth rate of 2.0.

- ***Cargo Building & Apron*** - Cargo building and apron rent includes revenue generated from cargo carriers and cargo handlers at the Airport, including Airborne Express, Air General, Air General, Transbox Systems, and the United States Postal Service.

- ***Utilities*** - Electricity is provided to all of the tenants separately on a metered basis. Therefore, in addition to the monthly and per square foot rates, the tenants also reimburse the Airport for their use of utilities. Utility revenues are projected to increase due to inflationary impacts in the future.

- ***Miscellaneous*** **-** Included in this category are miscellaneous rentals and commercial operating fees for a courier service, permitting access to the apron.

5.4.3 AVIATION DIVISION GROSS MARGIN

Table 5.8 combines projected general operating expenses and revenues for South Airport and North Airport to present the Aviation Division's gross margin. This gross margin is available to pay indirect expenses and debt service. As shown, the gross margin for the Aviation Division is projected to increase from approximately $62.8 million in FY 2001 to approximately $129.9 million in FY 2011, representing an annual compounded growth rate of 7.6 percent.

TABLE 5.8

Port of Oakland
Aviation Division
Feasibility Report

AVIATION DIVISION GROSS MARGIN

	Actual	Anticipated	Budget	Projected							
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
REVENUES											
South Airport Operating Revenues	$91,280,756	$93,504,269	$99,555,808	$103,727,181	$118,543,965	$145,377,912	$156,566,893	$162,144,898	$170,651,813	$181,643,168	$187,427,786
North Airport Operating Revenues	11,859,852	12,041,327	12,957,957	13,341,096	13,735,815	14,161,945	14,579,206	15,011,329	15,456,543	15,936,896	16,410,095
Total Aviation Division Revenues	$103,140,608	$105,545,596	$112,513,765	$117,068,277	$132,279,780	$159,539,857	$171,146,099	$177,156,228	$186,108,356	$197,580,063	$203,837,880
LESS: GENERAL OPERATING EXPENSES											
South Airport	$37,051,718	$46,928,977	$47,015,222	$49,203,594	$51,494,644	$54,893,218	$57,451,512	$58,836,416	$61,579,713	$64,451,897	$67,459,057
North Airport	3,321,790	3,931,221	4,529,568	4,736,964	4,954,127	5,181,524	5,419,647	5,669,013	5,930,160	6,203,656	6,490,095
Total Aviation Division G&O Expenses	$40,373,507	$50,860,199	$51,544,790	$53,940,559	$56,448,770	$60,074,742	$62,871,160	$64,505,428	$67,509,873	$70,655,553	$73,949,153
GROSS MARGIN AVAILABLE FOR INDIRECT EXP & DEBT SERVICE	$62,767,101	$54,685,397	$60,968,975	$63,127,718	$75,831,010	$99,465,115	$108,274,939	$112,650,800	$118,598,482	$126,924,510	$129,888,728
AS A PERCENT TO AVIATION REVENUE											
General Operating Expenses	39.1%	48.2%	45.8%	46.1%	42.7%	37.7%	36.7%	36.4%	36.3%	35.8%	36.3%
Gross Margin	60.9%	51.8%	54.2%	53.9%	57.3%	62.3%	63.3%	63.6%	63.7%	64.2%	63.7%

Sources: Port of Oakland (FY 2001 through FY 2003)
Prepared by Ricondo & Associates, Inc.

5.5 MARITIME DIVISION

In FY 2001, the Maritime Division of the Port generated operating revenues of $77.8 million, representing 39.5 percent of the total revenues of the Port. After general operating expenses of $10.7 million, the Maritime Division contributed operating a gross operating margin of $67.1 million. This gross margin (before depreciation and amortization) represented 49.6 percent of the Port's total gross margin available for indirect expenses and debt service.

This section addresses the estimated future financial performance of the Maritime Division, and includes information on current and future revenues and expenses to develop estimates of future operating income.

5.5.1. MARITIME OPERATING REVENUES

The primary means of generating revenue for the Maritime Division is the assessment of charges to customers of the Port for use of its facilities. In some instances, the Port enters into long-term rental agreements with larger customers that have provisions for flat charges for use of an entire terminal. In other instances, standard port charges or discounted port charges are applied to customers. Standard port charges include dockage (an assessment for use of a berth or dock), wharfage (an assessment for passing cargo over the wharf and through the marine terminal), storage and demurrage (assessment for cargo remaining on the terminal beyond the allowable free time), and hourly charges for use of Port-owned container cranes to support cargo operations.

The terms and conditions for use of the Maritime facilities are generally established through any of several types of agreements. Such agreements include the financial terms for using Port facilities, including a fixed or minimum guaranteed level of revenue and the application of standard or discounted port charges.

(1) Use Agreements and Leases

The Port enters into several different types of use agreements or leases with its various maritime customers. The major types of agreements include:

- Preferential assignments
- Leases
- Terminal use agreements
- Management agreements

Preferential assignments are agreements between the Port and its principal customers. As preferential assignments address the use of an entire terminal, these agreements are generally entered into with the Port's larger customers. These assignments tend to be long-term in nature and are structured to reward higher levels of cargo throughput and facility utilization. In FY 2001, the Port's top five customers in terms of revenue operated under preferential assignments.

Preferential assignments allow a customer preferential use of a port facility. While allowing preferential assignees to operate and manage a terminal for their primary use, the Port reserves the right to assign "secondary" use of the facility.

The revenue streams generated by preferential assignees generally reflect a Minimum Annual Guarantee (MAG) for use of the facility and some form of revenue sharing of activity beyond the cargo activity levels specified by the MAG. The MAG is structured to provide the Port with a return on the fair market value of the land and the cost of improvements. In order to generate enough revenue to meet the MAG, a breakpoint of terminal activity is established. In most cases, once a preferential assignee reaches this activity breakpoint, standard port charges are assessed at discounted rates. The Port refers to this as revenue sharing. Revenue sharing is based on a negotiated percentage stipulated in each of the agreements.

The MAG revenue from preferential agreements is assumed to be guaranteed revenue to the Port. Revenues above the MAG are variable and depend on the activity levels of the various assignees. Preferential assignee activity levels are typically above the breakpoint activity level associated with the MAG to take advantage of discounted port charges. Also, adjustments to the MAG reflecting changes in land values are common in preferential agreements and usually occur at five-year intervals.

Leases are agreements to pay to the Port specific monthly, quarterly, or yearly rental payments in return for exclusive use of all or some portion of a facility or property. Examples of leases are the agreements held by Matson and those for non-marine terminal portions of the American President Lines and Maersk/Sealand facilities. Leases are generally long-term with fixed revenues, although adjustments may be stipulated by the Port to reevaluate the fixed-revenue portion of the lease based on changes in land value. The expiration of a lease presents the Port with opportunities to adjust rents and reconfigure terminals and operations, each of which can have a positive impact upon the Port.

The current major maritime agreements of the Port are shown in **Exhibit 5.1**.

Assignee and Terminal Facility	Minimum Per Year (000s)	Expiration Year
American President Lines[(1)] (Berths 60/61/62/63)	$5,163	2008
Hanjin/Total Terminals LLC.[(2)] (Berth 55/56)	$11,288	2016
International Transportation Service (Operated under the name of TransBay Container Terminal)[(3)]	$5,708	2003
Maersk Pacific Ltd. (Berths 20/21/22/24)	$14,073	2004
Marine Terminals Corp. [(4)] (Berths 35 and 37)	$2,666	2004
SSA Terminals LLC.[(5)] (Matson Terminal)	$1,847	2008
SSA Terminals LLC [(5)] (Howard Terminal)	$4,200	2007
Yusen Terminal, Inc. [(5)] (NYK, NOL, Hapag Lloyd, P&O)	$8,097	2007
Trans Pacific Container Service Corp. (Mitsui O.S.K. @ Berth 30)	$6,018	2019

Note (1): Agreement will terminate on the new agreement commencement date. See "Pending Agreements"

Note (2): Agreement commenced June 18, 2001 and includes a portion of a 3-year revenue delay and 30 acres to be added by January 1, 2003 with an increase in MAG

Note (3): Agreement provides for three consecutive 5-year options and includes 5 acres to be added to the terminal by January 1, 2003 with an increase in MAG.

Note (4): Agreement is expected to be replaced with a new agreement. See "Pending Agreements"

Note (5): Agreement will terminate upon commencement of new agreement with SSA Terminals Ltd. The new agreement to commence effective August 1,2002 subject to substantial completion of improvements currently being undertaken by the Port. The agreement provides for two consecutive 5-year options and a MAG of $20,885,263.

Source: Port of Oakland

Exhibit 5.1

Prepared by: Booz Allen Hamilton, Inc.

MARITIME CONTRACT AGREEMENTS
FY2001

Terminal use agreements (TUAs) are entered into with ocean carriers that use a public container terminal at the Port. TUAs grant a carrier a discount from regular tariff dockage and wharfage charges in return for a commitment to call at the Port for a specified time frame.[2] The TUAs are structured to provide incentives to carriers to pass greater volumes of cargo through the Port. The current TUAs that the Port has with maritime customers are presented in **Exhibit 5.2**.

TUAs are generally five years in duration. Many of the recently negotiated TUAs are with large container carriers such as China Shipping and COSCO and have minimum annual guarantees.

Although large users occupy the majority of the Port's facilities under long-term agreements, the Port also maintains public container terminals for use by any carrier. To ensure efficient management and utilization of these facilities, the Port maintains management agreements with the terminal operators of each of the public facilities. The terminal operators are compensated by a fee based on a percentage of the revenues accruing from the standard port charges. The terminal agreements have minimum performance standards guaranteed by the terminal operator, and have incentives for the operator to induce greater levels of tonnage throughput.

The Port has management agreements with Marine Terminals Corporation for operation of the Ninth Avenue and Ben E. Nutter Terminals and with SSA Terminals LLC for operation of the Howard Public Container Terminal. The Port is in the process of converting these terminals into a more private structure. Evergreen is currently in negotiations to operate the Ben. E. Nutter terminal, and the SSA Terminals LLC will move the Howard Terminal users to Berths 57-59, vacating the Howard terminal. Under present planned terminal changes, the port will no longer have a public use terminal the end of this year—all terminals have successfully been converted to preferential use agreements.

The estimated FY 2001 Maritime revenue of the Port, broken down by type of user agreement, is shown in **Exhibit 5.3**.[3] The two largest portions of revenue are generated from fixed or guaranteed sources.

The pricing objective of the Port is to generate an annual return for the fair market value of the land and berth area, as well as capital improvements funded by the Port. This policy is used in negotiating primary use agreements, leases, and management agreements. The primary pricing component reflects a specified return for the fair market value of the land[4] and standard terminal improvements, and coverage considerations. An ancillary pricing component reflects a depreciated value approach. This approach is applied to supporting assets such as warehouses or offices, and to any new improvements to an existing terminal, and includes provisions for coverage.

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[2] Terminal use agreements also contain the commitment to call at a specified port terminal, although changes are sometimes permitted.

[3] The Revenue from management agreements is included in the terminal use agreements of the particular ocean carrier served, or is part of unsecured tariff revenues.

[4] Currently set at 10 percent by the Board of Port Commissioners.

Ocean Carrier	Term	Expiration Date
China Shipping Line[(1)]	3	2003
China Ocean Shipping (Group) Company[(2)]	5	2004
Evergreen Marine Corp. (Taiwan) Ltd.[(3)]	5	2005
Italia Line / Med. Bulk[(2)]	5	2004
Yang Ming Marine Transport Corporation[(1)]	5	2006

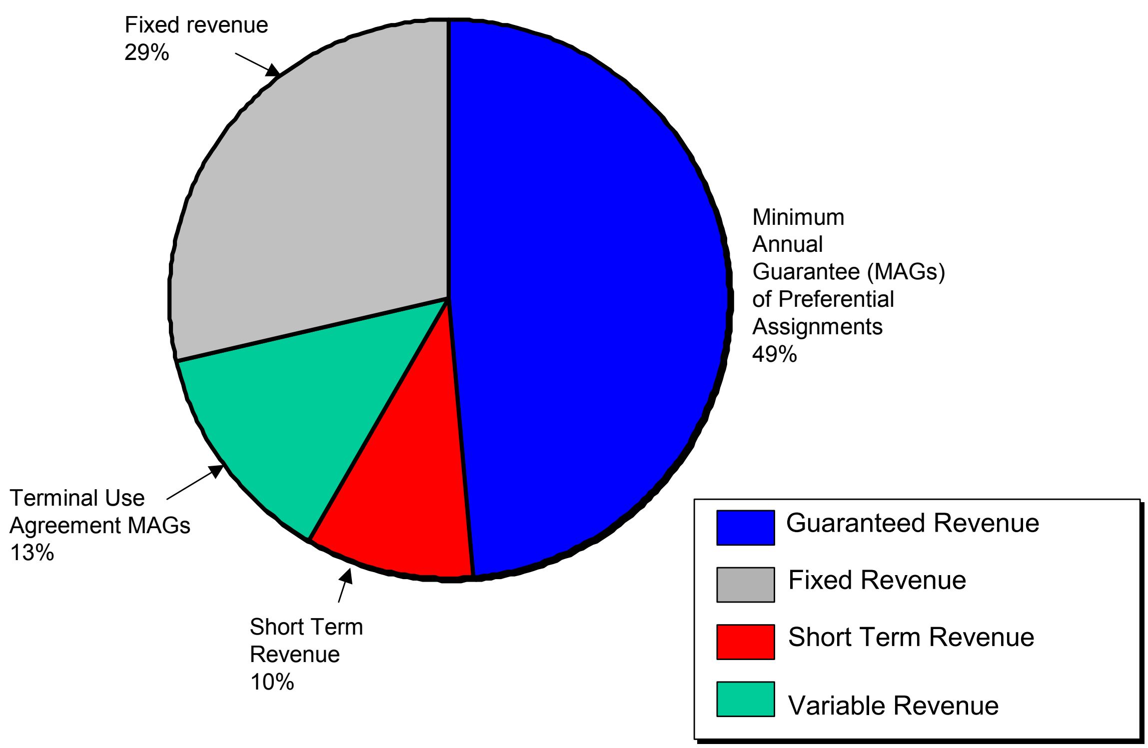
Note (1): Agreement was suspended by authorization of the Board on June 18, 2002 because the carrier is not deploying vessels to Oakland, but continues to bring cargo on other lines through solo charter agreements. If the agreement is reinstated, it will terminate upon Evergreen Marine Corp. Ltd.'s new agreement commencement date.
Note (2): Agreement will terminate upon commencement date of a new agreement with SSA Terminals LLC.
Note (3): Agreement will terminate on the commencement of a new agreement with Evergeen. See "Pending Agreements"

Source: Port of Oakland

Exhibit 5.2

Prepared by: Booz Allen and Hamilton, Inc.

TERMINAL USE AGREEMENTS FY2002



Source: Port of Oakland

Exhibit 5.3

Prepared by: Booz Allen and Hamilton, Inc.

MARITIME REVENUE BREAKDOWN BY TYPE OF AGREEMENT FY2001

(2) Pending New Agreements

<u>*Evergreen Marine Corporation (Taiwan) Ltd. ("Evergreen")*</u>: The Port and Evergreen have executed a letter of intent (the "Evergreen LOI") memorializing their understanding of the general terms of a new preferential assignment agreement for the Ben E. Nutter Terminal. The proposed assignment would be a ten-year agreement with two additional five-year options. The rates and assumptions that will be used to calculate the MAG under the agreement have been agreed to in the Evergreen LOI. Rate escalations have also been agreed upon, but MAG and breakpoint escalations are still under negotiation. Evergreen would be subject to a MAG of $8,506,000. Our Report assumes that the Evergreen MAG will be received.

The MAG may increase due to transfers of existing Port customers to the Evergreen (Nutter) Terminal. If such a transferred carrier subsequently leaves the Evergreen Terminal, then the adjusted MAG will be decreased by the same amount by which it was increased. An increase or decrease in the Evergreen Terminal MAG would be expected to cause a corresponding adjustment in the MAG for use of the Port facility that was vacated or to which a customer is transferred.

The MAG may decrease due to the transfer of a designated primary user to another Port facility. A decrease in the Evergreen Terminal MAG would cause a corresponding adjustment in the MAG for use of the Port facility to which the customer was transferred. Discontinuance of activity not only from the Evergreen Terminal but also from the entire Port by a designated primary user could significantly decrease the Evergreen Terminal MAG.

<u>*American President Lines ("APL")*</u>: The Port and APL have provided details of their understandings of the general terms of a new preferential assignment agreement for the APL Terminal. The Port and APL are negotiating the specific improvements to be constructed at the terminal for the specified $45 million in funding authorized by the Port. During construction, APL would be subject to a MAG ranging from $6.8 million to $9.6 million depending on the percentage of construction completion. If the proposed agreement is not finalized, APL has exercised one of their seven-year options under the existing agreement and will negotiate the corresponding MAG with the Port. Our Report assumes construction will be completed and the APL MAG will reach $9.6 million.

(3) Incremental Revenues from New Capacity

As indicated in Chapter Three, the Port's Capital Improvement Program comprises several types of projects, many of which will provide increased capacity for the Port. Such expansion projects will produce incremental revenues to the Port as they become utilized. For revenue and expense projections, we have assumed that these projects will be completed as scheduled. See Section 3.8 for further discussion of the CIP program.

(4) Maritime Revenue Forecast

The forecast of Maritime revenues was developed on a facility-by-facility basis, where each current facility/carrier arrangement was examined and projected forward, while adjusting for the anticipated capital improvements and the incremental revenue derived from carriers relocating to new terminals and the subsequent reconfiguration of the older terminals. Projections concentrated on carrier's growth potential as identified in interviews and by trade route analysis, and tariff increases instituted by the Port.

In preparing our report and analysis, we have relied on a series of assumptions as follows:

- The Port of Oakland's loaded TEU container volumes increase at a rate of 4.1 percent in FY 2003, 3.9 percent in FY 2004, and 4.0 percent thereafter. Included in these growth rates are volumes of 65,000 lifts at the JIT in FY 2003.

- The Port realizes container terminal price increases of 0 percent in FY 2002, 1.5 percent in FY 2003, and 2.5 percent annually thereafter for existing contracts.

- Bulk terminal revenues are realized through space assignments at Burma Road. These revenues increase at 2.5 percent per year and have no associated volume projection.

- The Port successfully negotiates the APL, Maersk-Sealand, TraPac, and Evergreen contracts with the terms and rate levels it has provided to Booz Allen.

- All other terminal use agreements and contracts are renewed upon expiration at comparable terms and rates.

- Existing available land is leased as space assignments at current utilization levels and rates. New land is developed through completion of the Vision 2000 program and is assumed to come on line at existing utilization levels and rates.

- Historical labor productivity levels continue at all West Coast ports.

- There are no further terrorists attacks that impact the volume or process of U.S. international trade.

- No additional costs for maritime security are borne by the Port of Oakland.

- There are no labor strikes or slowdowns during the study period.

- The port's dredging program continues on schedule, however, a short-term delay out to 2008 will not impact these projections.

- There are no major changes to the relative cost positions of competing U.S. ports in the study period.

- The Port completes the following capital improvements on the following schedule:
  - In FY 2003, integrates Yusen terminal into Maersk/Sealand terminals
  - In FY 2004, develops terminal enhancements for APL
  - In FY 2004, develops 40 acres for the Ben E. Nutter terminal
  - In FY 2004, develops terminal enhancements for Berth 22
  - In FY 2005, develops remaining Phase of SSA Terminals LLC terminal

- Tenants at the Howard terminal move to the SSAT terminal in FY 2003. After FY 2003, the terminal area is assumed to be leased as space assignment land at existing utilization levels and rates.

Table 5.9 is the result of a detailed analysis of the Port's revenue sources and of how the varying revenue sources are affected by changes in cargo activities and Port pricing. Table 5.9 forecasts that the Port's Maritime revenues will grow at an annual average growth rate of 7.9 percent per annum over the planning horizon from approximately $77.8 million in FY 2001 to over $166.5 million in FY 2011. This large annual increase is primarily attributable to two factors. First, the assumed completion of the new SSA Terminals LLC terminal and the successful completion of the Hanjin terminal will allow two large alliances to grow as necessary and introduce new services to the Port. It will also allow users who currently operate under TUAs to enter into preferential arrangements for terminal space as the older terminals are reconfigured and new space is available. With such a change in status, the Port has historically been able to charge a premium given the improved arrangement for the operator. Our revenue projections assume that the Port will be able to negotiate rates comparable to prevailing current market rates. Second, these revenue projections include the recently opened JIT, which is entirely new source of revenue for the Port.

The final revenue component reflects revenues from miscellaneous sources. These sources represent approximately 8 percent of total Maritime Division revenues and include revenues from space assignments, bunkering activities, utility charges, and minor terminal operations. Revenue growths from these miscellaneous sources were anticipated to reflect tariff increases as well as miscellaneous future space assignments. One important assumption concerning space assignments is that current Howard terminal users will move to the new SSA Terminals LLC terminal when completed, leaving the Howard terminal vacant. The Port is currently debating the future use of this area. Our projection has assumed the land will at least bring space assignment revenue at historical utilization levels and rates.

This revenue forecast thus reflects both *micro* and *macro* influences. *Macro* considerations, reflecting market outlooks and competitive developments, are present in the cargo forecast, which in turn is used as a key input to the specific customer agreements, or *micro* components of the Port's revenue sources.

5.5.2. MARITIME OPERATING EXPENSES

The Maritime Division's operating expenses include direct expenses to support its operations and activities, and allocated general and administrative expenses. As discussed in Section 5.3.7, for accounting and reporting purposes, the Port allocates certain general operating expenses across all business units (i.e. utilities, non-departmental, and human resources). In FY 2001, the direct operating expenses of the Maritime Division were $6.4 million. The direct expenses of maritime operations include staff salaries and benefits, contractual expenses, supplies, communications, travel, promotion, membership dues, property costs, and other costs. Because the Port functions as a landlord rather than an operating entity, growth in these costs are linked principally to inflation rather than incremental activity changes.

The projected operating expenses of maritime operations are presented in **Table 5.10**. These expenses are projected to increase from their estimated level of $22.1 million in FY 2001 to $44.8 million in FY 2011.

5.5.3 PROJECTED MARITIME GROSS MARGIN

An evaluation of future revenues and future expenses indicates that the Maritime Division's Gross Margin will continue to grow and be a significant contributor to the Port's financial position. **Table 5.11** presents the forecast of the Maritime Division's Gross Margin. Table 5.11 indicates that the Maritime Division Gross Margin is projected to increase at a rate of 8.5 percent per annum and be in excess of $151.3 million in FY 2011.

TABLE 5.9

Port of Oakland
Maritime Division
Feasibility Report

MARITIME DIVISION REVENUE PROJECTIONS

	Actual	Anticipated	Budget	Projected							
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
CURRENT TERMINAL REVENUE											
Maersk/Sealand (Includes CSX)	$14,160,400	$13,655,200	$0	$0	$0	$0	$0	$0	$0	$0	$0
Yusen – NYK,OOCL,Hapag Lloyd, P&O Nedlloyd	8,363,200	9,093,000	2,199,500	0	0	0	0	0	0	0	0
TBCT – K-Line	6,210,500	6,139,800	7,253,700	7,145,518	7,432,224	7,732,828	8,048,905	8,382,670	9,989,803	10,391,179	10,812,725
TRAPAC – MOL	7,165,300	7,326,650	7,308,000	7,525,581	0	0	0	0	0	0	0
Matson	1,847,500	1,847,500	615,800	0	0	0	0	0	0	0	0
APL/NOL	8,145,700	10,232,000	8,040,400	10,708,069	10,764,117	11,069,660	11,385,249	11,711,732	14,984,733	15,406,954	15,842,774
Hanjin (Berth 55/56)	298,100	9,352,500	19,491,300	13,709,475	21,504,300	21,000,931	23,274,525	19,182,000	20,016,000	20,016,070	20,016,139
Ben Nutter Terminal	16,340,500	12,173,800	10,758,100	12,182,723	0	0	0	0	0	0	0
Howard Terminal (As Existing)	8,043,100	5,624,900	565,300	0	0	0	0	0	0	0	0
Subtotal Current Terminals	$70,574,300	$75,445,350	$56,232,100	$51,271,365	$39,700,641	$39,803,419	$42,708,679	$39,276,402	$44,990,536	$45,814,203	$46,671,638
CIP PROGRAM IMPACTS											
JIT (Plus Connected Activity)	$0	$885,000	$2,114,000	$1,771,006	$1,890,461	$2,109,788	$2,198,976	$2,263,701	$2,360,928	$2,463,277	$2,570,978
SSAT Terminal (Berth 57/58)	0	0	11,797,500	24,528,466	25,337,482	27,084,378	29,081,114	30,473,929	31,944,807	33,496,968	35,134,603
New Maersk (Berths 22,23, & 24)	0	0	16,483,400	22,079,154	22,968,902	23,894,532	24,857,491	25,859,284	26,901,479	27,985,706	29,113,660
New Trapac (Includes Acreage from Matson)	0	0	0	0	11,201,148	11,532,901	11,876,380	12,232,731	12,602,018	12,984,712	13,381,336
New Nutter (Includes Acreage from Matson)	0	0	0	0	16,031,391	16,883,884	17,715,279	18,588,919	19,504,788	20,464,767	21,470,772
New Space Assignments (Howard)	0	0	0	2,627,100	2,627,100	2,758,455	2,758,455	2,896,378	2,896,378	3,041,197	3,041,197
Empty Containers (TEUs)	0	0	762,200	0	0	0	0	0	0	0	0
Subtotal CIP Impacts	$0	$885,000	$31,157,100	$51,005,726	$80,056,484	$84,263,939	$88,487,694	$92,314,942	$96,210,398	$100,436,627	$104,712,546
SPACE ASSIGNMENTS											
Outer Harbor (Includes Burma Road,Caltrans)	$2,669,400	$3,047,300	$5,805,400	$4,161,643	$4,161,643	$4,394,725	$4,394,725	$4,639,461	$4,639,461	$4,896,434	$4,896,434
Inner Harbor	843,600	837,100	2,998,200	788,130	788,130	827,537	827,537	868,913	868,913	912,359	912,359
New Space Assignments (From V2K - Inner Harbor)	0	0	0	4,050,113	4,396,744	4,827,296	5,038,012	5,511,163	5,511,163	5,786,721	5,786,721
Middle Harbor (Including Roundhouse)	994,100	1,079,700	1,737,100	580,881	580,881	609,925	609,925	640,421	640,421	672,442	672,442
HTC	1,215,000	1,159,600	1,177,900	1,094,625	1,094,625	1,149,356	1,149,356	1,206,824	1,206,824	1,267,165	1,267,165
7th Street	648,700	516,800	377,700	317,879	278,144	250,330	250,330	262,846	262,846	275,989	275,989
Other	133,600	137,500	140,200	0	0	0	0	0	0	0	0
Subtotal Space Assignements	$6,504,400	$6,778,000	$12,236,500	$10,993,271	$11,300,167	$12,059,169	$12,269,884	$13,129,630	$13,129,630	$13,811,111	$13,811,111
Utility Sales	$727,500	$1,095,694	$938,618	$608,700	$608,700	$608,700	$1,197,530	$1,233,456	$1,270,460	$1,308,573	$1,347,831
Subtotal Other Revenue	$727,500	$1,095,694	$938,618	$608,700	$608,700	$608,700	$1,197,530	$1,233,456	$1,270,460	$1,308,573	$1,347,831
TOTAL MARITIME DIVISION REV	$77,806,200	$84,204,044	$100,564,318	$113,879,062	$131,665,992	$136,735,227	$144,663,788	$145,954,430	$155,601,024	$161,370,514	$166,543,126

Sources: Port of Oakland (FY 2001- FY 2003)
Booz Allen & Hamiton (FY 2004 - FY 2011)

TABLE 5.10

Port of Oakland
Maritime Division
Feasibility Report

MARITIME OPERATING EXPENSES

	Actual	Anticipated	Budget	Projected							
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GENERAL OPERATING EXPENSES											
Personnel Services	$2,948,985	$3,487,994	$3,599,817	$3,761,809	$3,931,090	$4,107,989	$4,292,849	$4,486,027	$4,687,898	$4,898,854	$5,119,302
Contractual Services	707,955	679,144	1,602,218	1,650,285	1,699,793	1,750,787	1,803,310	1,857,410	1,913,132	1,970,526	2,029,642
Supplies	35,983	28,050	67,550	70,252	73,062	75,985	79,024	82,185	85,472	88,891	92,447
General & Administrative	2,702,411	1,902,098	1,869,993	1,944,793	2,022,584	2,103,488	2,187,627	2,275,132	2,366,138	2,460,783	2,559,215
Dep't (Credits) Charges	0	0	0	0	0	0	0	0	0	0	0
Subtotal - Direct G&O Expenses	$6,395,334	$6,097,286	$7,139,578	$7,427,138	$7,726,530	$8,038,248	$8,362,810	$8,700,754	$9,052,640	$9,419,054	$9,800,605
ALLOCATED INDIRECT EXPENSES											
Port Use Utilities	$589,847	$722,868	$442,729	$463,980	$486,251	$509,591	$534,051	$559,686	$586,551	$614,705	$644,211
Nondepartmental	3,578,721	3,660,940	3,660,940	3,770,768	3,883,891	4,000,408	4,120,420	4,244,033	4,371,354	4,502,494	4,637,569
Human Resources, Purchasing, 1/2 Equal Opportunity	126,093	136,389	132,171	138,402	144,929	151,766	158,928	166,429	174,287	182,517	191,139
Subtotal - Indirect G&O Expenses	$4,294,661	$4,520,197	$4,235,840	$4,373,150	$4,515,071	$4,661,765	$4,813,399	$4,970,147	$5,132,191	$5,299,717	$5,472,919
TOTAL GENERAL OPERATING EXPENSES	10,689,995	10,617,483	11,375,418	11,800,288	12,241,601	12,700,013	13,176,209	13,670,901	14,184,831	14,718,771	15,273,525
MAINTENANCE	4,604,166	3,436,693	3,724,276	3,899,511	4,083,051	4,275,291	4,476,647	4,687,553	4,908,462	5,139,853	5,382,224
ADVERTISING & PROMOTION	1,089,769	1,332,355	1,417,777	1,483,595	1,552,504	1,624,652	1,700,192	1,779,285	1,862,098	1,948,809	2,039,602
ADMINISTRATIVE	5,219,216	9,250,165	15,011,959	15,702,183	16,424,629	17,180,813	17,972,329	18,800,842	19,668,099	20,575,930	21,526,248
COST OF UTILITY SALES	532,854	687,635	461,200	475,036	489,287	503,965	519,084	534,657	550,697	567,218	584,234
TOTAL MARITIME OPERATING EXPENSES	$22,136,000	$25,324,331	$31,990,630	$33,360,613	$34,791,071	$36,284,736	$37,844,462	$39,473,238	$41,174,188	$42,950,580	$44,805,832

Sources: Port of Oakland (FY 2001 through FY 2003)
Booz Allen & Hamilton, Inc. (FY 2004 through FY 2011 - Direct G&O Expenses)
Ricondo & Associates, Inc. (FY 2004 through FY 2011 - Allocated Indirect Expenses)

TABLE 5.11

Port of Oakland
Maritime Division
Feasibility Report

MARITIME DIVISION GROSS MARGIN

	Actual	Anticipated	Budget	Projected							
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total Maritime Division Revenues	$77,806,200	$84,204,044	$100,564,318	$113,879,062	$131,665,992	$136,735,227	$144,663,788	$145,954,430	$155,601,024	$161,370,514	$166,543,126
General Operating Expenses	10,689,995	10,617,483	11,375,418	11,800,288	12,241,601	12,700,013	13,176,209	13,670,901	14,184,831	14,718,771	15,273,525
GROSS MARGIN AVAILABLE FOR INDIRECT EXP & DEBT SERVICE	$67,116,205	$73,586,560	$89,188,900	$102,078,774	$119,424,391	$124,035,214	$131,487,578	$132,283,529	$141,416,193	$146,651,743	$151,269,601
AS A PERCENT TO MARITIME REVENUE											
General Operating Expenses	13.7%	12.6%	11.3%	10.4%	9.3%	9.3%	9.1%	9.4%	9.1%	9.1%	9.2%
Gross Margin	86.3%	87.4%	88.7%	89.6%	90.7%	90.7%	90.9%	90.6%	90.9%	90.9%	90.8%

Sources: Port of Oakland (FY 2001- FY 2003)
Booz Allen & Hamilton, Inc. (Operating Revenues and General Operating Expenses FY 2004 through FY 2011)
Prepared by Ricondo & Associates, Inc.

5.6 COMMERCIAL REAL ESTATE DIVISON

The Commercial Real Estate Division of the Port generated consolidated operating revenues of $16.1 million in FY 2001 (excluding $101,000 of allocated utility sales), representing 8.2 percent of the total operating revenues of the Port in FY 2001.

This section of this chapter addresses the estimated future financial performance of the Commercial Real Estate Division and includes discussions regarding current and future revenues and expenses to develop estimates of future operating income.

5.6.1 COMMERCIAL REAL ESTATE OPERATING EXPENSES

Estimates of future operating expenses for the Commercial Real Estate Division are based on a review of historical trends and expenses, the anticipated impacts of inflation, the provisions of existing real estate leases, staffing requirements, and facility improvements/ developments, resulting in an annual growth rate of approximately 3.0 percent for the majority of the expenses.

Direct operating expenses for the Commercial Real Estate Division are assigned by functional categories including the following:

- Personnel Services – Contains the salary and fringe benefits for the assumed stabilized staff assigned to Commercial Real Estate. These analyses reflect no change in the number of assumed staff members during the projection period.

- Contractual Services – Third parties are under contract to provide certain services. Major activities included in these categories are security service for Jack London Square and the Marinas, professional real estate advisory services, operational expenses for the parking activities in Jack London Square through a management agreement, and the Port's pro-rata share of the cost to perform Jack London Square common area maintenance.

- Promotion – The major elements of the Commercial Real Estate promotional program include advertising specific real estate properties and business lunches and dinners; the Oakland/ Alameda/ San Francisco Ferry Service, which is subsidized by the Metropolitan Transportation Commission (MTC); and the Port's pro-rata share of the promotional expense for the Jack London Waterfront.

- Remaining Expenses – The remainder of the direct operating expenses in the Commercial Real Estate Division include general and office supplies, computer software and courier services; local travel and automobile allowance, fares, lodging and meals; membership fees in professional organizations, conferences and seminar fees, and subscriptions to professional publications; leasing brokerage commissions; bad debt expenses; and miscellaneous expenditures.

Table 5.12 summarizes estimated direct operating expenses for Commercial Real Estate. As shown, direct operating expenses were approximately $9.7 million in FY 2001 and projected to be $10.0 million in FY 2002. Direct operating expenses are projected to decrease to $9.5 million in FY 2003.

TABLE 5.12

Port of Oakland
Commercial Real Estate Division
Feasibility Report

COMMERCIAL REAL ESTATE OPERATING EXPENSES

	Actual 2001	Anticipated 2002	Budget 2003	Projected 2004	2005	2006	2007	2008	2009	2010	2011
GENERAL OPERATING EXPENSES											
Personnel Services	$1,717,894	$1,789,447	$1,588,795	$1,685,747	$1,728,106	$1,789,315	$1,832,208	$1,876,674	$1,922,347	$1,969,849	$2,018,056
Contractual Services	4,076,559	4,616,137	5,628,792	6,316,910	6,475,641	6,705,004	6,865,736	7,032,360	7,203,510	7,381,510	7,562,152
Supplies	34,786	16,600	17,315	17,831	18,279	18,926	19,380	19,851	20,334	20,836	21,346
General & Administrative	1,298,968	902,448	897,300	1,703,130	1,745,927	1,807,766	1,851,102	1,896,026	1,942,171	1,990,162	2,038,866
Dep't (Credits) Charges	(424,818)	(232,600)	(96)	(96)	(98)	(102)	(104)	(107)	(109)	(112)	(115)
Oakland Portside Associates (OPA)	2,999,130	2,898,000	1,320,987	0	0	0	0	0	0	0	0
Subtotal - Direct G&O Expenses	$9,702,519	$9,990,032	$9,453,093	$9,723,522	$9,967,854	$10,320,909	$10,568,322	$10,824,804	$11,088,252	$11,362,245	$11,640,304
ALLOCATED INDIRECT EXPENSES											
Port Use Utilities	600,793	736,283	450,945	472,590	495,274	519,048	543,962	570,072	597,436	626,112	656,166
Nondepartmental	412,002	421,468	421,468	434,112	447,135	460,549	474,366	488,597	503,255	518,352	533,903
Human Resources, Purchasing, 1/2 Equal Opportunity	79,865	86,387	83,715	87,662	91,796	96,126	100,662	105,413	110,390	115,603	121,064
Subtotal - Indirect G&O Expenses	$1,092,660	$1,244,137	$956,127	$994,364	$1,034,205	$1,075,723	$1,118,990	$1,164,082	$1,211,080	$1,260,068	$1,311,133
TOTAL GENERAL OPERATING EXPENSES	10,795,179	11,234,169	10,409,220	10,717,886	11,002,060	11,396,632	11,687,312	11,988,886	12,299,332	12,622,313	12,951,437
MAINTENANCE	3,473,319	2,454,781	1,133,475	1,186,808	1,242,668	1,301,176	1,362,458	1,426,647	1,493,880	1,564,303	1,638,068
ADVERTISING & PROMOTION	172,217	210,553	224,052	234,454	245,343	256,745	268,683	281,182	294,269	307,972	322,320
ADMINISTRATIVE	812,219	1,235,997	2,024,711	2,117,790	2,215,215	2,317,188	2,423,926	2,535,653	2,652,604	2,775,025	2,903,176
COST OF UTILITY SALES	93,066	120,099	80,551	82,968	85,457	88,020	90,661	93,381	96,182	99,068	102,040
TOTAL CRE OPERATING EXPENSES	$15,346,000	$15,255,599	$13,872,010	$14,339,905	$14,790,742	$15,359,761	$15,833,039	$16,325,748	$16,836,266	$17,368,681	$17,917,041

Sources: Port of Oakland (FY 2001 through FY 2003)
Jones Lang LaSalle (FY 2004 - FY 2011 - Direct G&O Expenses)
Ricondo & Associates, Inc. (FY 2004 through FY 2011 - Allocated Indirect Expenses)

Prior to the allocation of expenses based on functional categories, expenses were analyzed by Revenue Center based on expense categories. The expense categories utilized for the office and retail holdings included expenses incurred in maintaining and operating the buildings. These include repairs and maintenance, janitorial, landscaping, utilities, common area/garage, and security service. Some of the operating expenses are passed back to the tenants, especially in the case of retail tenants.

A significant portion of the expenses charged to the Commercial Real Estate Division includes Allocated Indirect Items (including Port Use Utilities, Nondepartmental, Human Resources, and Purchasing), Maintenance, Advertising & Promotion, and Administrative. These are separate from direct operating expenses and have been allocated to Commercial Real Estate by Ricondo & Associates pursuant to the Port's indirect allocation methodology.

5.6.2 COMMERCIAL REAL ESTATE REVENUES

In FY 2001, the CRE properties generated revenues of approximately $16.2 million, including utility sales. By comparison, and including the impacts of the JLS transaction which involved the sale of 4 revenue producing properties, gross income for FY 2003 is projected to be $12.2 million.

Table 5.13 presents projected revenues for the Commercial Real Estate division. A summary of the revenue sources for FY 2003 is shown below:

Revenue Center	**Fiscal Year 2003**
Jack London Square Retained Assets (Including OPA retained assets)	$6,862,872
JLS Ground Leases	352,572
Marinas	1,433,988
Embarcadero Cove	1,263,227
Business Park	1,057,465
Distribution Center	226,014
Other Areas	931,684
Utility Sales	109,134
TOTAL	**$12,236,956**

TABLE 5.13

Port of Oakland
Commercial Real Estate Division
Feasibility Report

COMMERCIAL REAL ESTATE DIVISION REVENUE PROJECTIONS

	Actual	Anticipated	Budget	Projected							
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Jack London Square [1]	$7,481,358	$6,910,262	$5,409,016	$6,766,744	$6,878,713	$6,963,914	$7,163,008	$7,278,403	$7,413,703	$7,503,530	$7,466,546
Ground Leases [2]	0	0	352,572	352,569	352,569	352,569	352,569	389,265	389,265	389,265	389,265
Ground Leases Participation Rent [3]	0	0	0	140,190	138,393	154,381	142,904	140,548	161,464	149,516	167,171
Marinas	1,269,375	1,433,988	1,433,988	1,249,362	1,280,596	1,312,611	1,345,426	1,379,062	1,413,538	1,448,877	1,485,099
Embarcadero Cove	1,218,169	1,144,345	1,263,227	1,265,251	1,290,556	1,316,367	1,336,113	1,362,835	1,390,092	1,417,894	1,446,252
Business Park	1,089,435	852,672	1,057,465	1,066,663	1,129,663	1,145,663	1,162,663	1,179,663	1,197,663	1,233,593	1,270,601
Distribution Center	222,355	222,885	226,014	257,325	257,325	257,325	257,325	257,325	257,325	257,325	257,325
Other Areas (Includes "Pardee" Parking Lot)	914,187	914,322	931,684	2,502,549	2,510,575	2,518,681	2,526,867	2,535,136	843,487	851,922	860,441
OPA Consolidated Revenue [4]	3,927,688	3,296,797	1,453,856	0	0	0	0	0	0	0	0
Utility Sales	101,119	125,872	109,134	131,328	134,611	137,977	141,426	144,962	148,586	152,300	156,108
TOTAL CRE REVENUE	$16,223,686	$14,901,143	$12,236,956	$13,731,981	$13,973,001	$14,159,487	$14,428,302	$14,667,198	$13,215,123	$13,404,222	$13,498,807

[1] After 2002, includes gross Income from Port Building, Parking Garage, Scott's, Il Pescatore, Kincaids, Yoshi's, JL Cinema, Jack's Bistro, WFP Hotel, Heinhold's, Cost Plus, Oakland TeleCard, Fire Station, BofA ATM, PacBell Mobile, and Dockside

[2] Ground Rent from 70 Washington, 66 Franklin, WSI, and The Pavillion

[3] 5% of NOI from above buildings

[4] Excludes Port rent and expense reimbursements in the Port Building.

Sources: Port of Oakland (FY 2001 through FY 2003)
Jones Lang LaSalle (FY 2004 through FY 2011)

With regard to the revenue centers, excluding the office and retail holdings, revenues were projected based on the terms of the existing agreements, as most of these agreements are long-term land leases. With regard to the office and retail properties, revenues were projected based on the terms of the existing agreements and certain market-based assumptions, summarized as follows:

- Market rents of $2.00 to $2.50 per square foot per month for office space and $1.50 to $1.85 per square foot per month for retail space have been projected based on recent leasing activity at the property as well as in the area.

- For Lease Term projections, tenants with five-year leases are assumed to renew with a five-year term and tenants will 10-year leases are assumed to renew with 10-year terms.

Based on the long-term historic growth trends for office rents in Oakland, the market office rents have been assumed to be flat in the first year of our analysis and then increase at a rate of 3 percent per annum. Retail sales and market rent levels are assumed to remain flat in fiscal year 2003 and increase by 2 percent per annum thereafter.

5.6.3 PROJECTED COMMERCIAL REAL ESTATE GROSS MARGIN

Table 5.14 combines projected expenses and revenues for the Commercial Real Estate Division to present Commercial Real Estate's gross margin.

TABLE 5.14

Port of Oakland
Commercial Real Estate Division
Feasibility Report

COMMERCIAL REAL ESTATE DIVISION GROSS MARGIN

	Actual	Anticipated	Budget	Projected							
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total CRE Division Revenues	$16,223,686	$14,901,143	$12,236,956	$13,731,981	$13,973,001	$14,159,487	$14,428,302	$14,667,198	$13,215,123	$13,404,222	$13,498,807
General Operating Expenses	10,795,179	11,234,169	10,409,220	10,717,886	11,002,060	11,396,632	11,687,312	11,988,886	12,299,332	12,622,313	12,951,437
GROSS MARGIN AVAILABLE FOR INDIRECT EXP & DEBT SERVICE	$5,428,507	$3,666,974	$1,827,736	$3,014,095	$2,970,941	$2,762,855	$2,740,990	$2,678,312	$915,791	$781,909	$547,369
AS A PERCENT TO CRE REVENUE											
General Operating Expenses	66.5%	75.4%	85.1%	78.1%	78.7%	80.5%	81.0%	81.7%	93.1%	94.2%	95.9%
Gross Margin	33.5%	24.6%	14.9%	21.9%	21.3%	19.5%	19.0%	18.3%	6.9%	5.8%	4.1%

Sources: Port of Oakland (FY 2001 through FY 2003)
Jones Lang LaSalle (Operating Revenues and General Operating Expenses FY 2004 through FY 2011)
Prepared by Ricondo & Associates, Inc.

5.7 CONSOLIDATED APPLICATION OF REVENUES

5.7.1 DEBT SERVICE COVERAGE

In Section 5.04 of the Trust Indenture, the Board has agreed to maintain certain rate covenants. Sections 5.04(a) and (b) require the Board to:

> "…establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with the Port and for services rendered in connection therewith, so that Pledged Revenues in each Fiscal Year will be at least sufficient to pay the following amounts:
>
> (1) the interest on and principal of the Outstanding Bonds as the same become payable by the Board in such year;
> (2) all other payments required for compliance with the terms of this Indenture and of any Supplemental Indenture including, but not limited to, the required deposits to any Reserve Fund, which may be established;
> (3) all other payments necessary to meet ongoing legal obligations to be paid at that time from Pledged Revenues; and
> (4) all current Operation and Maintenance Expenses of the Port.
>
> and to "…establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with the Port and for services rendered in connection therewith, so that during each Fiscal Year the Net Revenues will be equal to 125% of actual debt service becoming due and payable by the Board on Outstanding Bonds in such year less (1) amounts paid from the proceeds of other borrowings and (2) debt service paid in such year from Capitalized Interest."
>
> For any given period, Net Revenues means the Revenues for such period less the Operation and Maintenance Expenses for such period.

Table 5.15 presents the calculation of Port revenue bond debt service coverage for the ten-year period from FY 1999 to FY 2009 based on the requirements of Section 5.04 of the Trust Indenture. As shown, net revenues provide a coverage ratio that is higher than 1.25 times the revenue bond debt service funding requirement in each year of the forecast period.

Table 5.16 indicates the status of the Port's Revenue Fund for FY 2001 and projected cash flow for the projection period. This cash flow provides for the Port's current cash reserve policy, but does not include future capital expenditures beyond the CIP.

The Port expects that future capital projects will be required upon completion of the CIP as a result of increases in traffic, planned development, on-going maintenance and rehabilitation of existing facilities. If and when the Port undertakes additional capital improvement projects, the Port's share of the net cost of such projects (after allowing for grants, PFCs, and additional sources of revenue) may be funded from Port cash and/or the proceeds of bonds.

TABLE 5.15

Port of Oakland
Feasibility Report

CONSOLIDATED APPLICATION OF REVENUES & COVERAGE TEST

	Actual	Anticipated	Budget	Projected							
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
REVENUES											
South Airport	$91,280,756	$93,504,269	$99,555,808	$103,727,181	$118,543,965	$145,377,912	$156,566,893	$162,144,898	$170,651,813	$181,643,168	$187,427,786
North Airport	11,859,852	12,041,327	12,957,957	13,341,096	13,735,815	14,161,945	14,579,206	15,011,329	15,456,543	15,936,896	16,410,095
Maritime	77,806,200	84,204,044	100,564,318	113,879,062	131,665,992	136,735,227	144,663,788	145,954,430	155,601,024	161,370,514	166,543,126
Commercial Real Estate / OPA [1]	15,595,998	14,901,143	12,236,956	13,731,981	13,973,001	14,159,487	14,428,302	14,667,198	13,215,123	13,404,222	13,498,807
TOTAL OPERATING REVENUES	$196,542,806	$204,650,783	$225,315,039	$244,679,320	$277,918,773	$310,434,571	$330,238,188	$337,777,856	$354,924,502	$372,354,799	$383,879,813
Investment Earnings	5,243,726	4,977,685	4,961,689	6,713,217	7,440,571	8,570,435	9,636,450	10,115,039	10,179,026	10,231,026	10,286,026
Miscellaneous Income [2]	5,165,760	0	0	0	0	0	0	0	0	0	0
TOTAL REVENUES	$206,952,292	$209,628,468	$230,276,728	$251,392,538	$285,359,344	$319,005,006	$339,874,638	$347,892,895	$365,103,528	$382,585,826	$394,165,839
EXPENSES											
South Airport	$57,952,000	$69,626,610	$79,434,272	$83,071,802	$86,878,361	$91,861,884	$96,077,800	$99,196,385	$103,752,970	$108,521,758	$113,512,729
North Airport	8,808,000	9,915,856	13,056,561	13,633,463	14,236,674	14,867,421	15,526,988	16,216,722	16,938,032	17,692,395	18,481,358
Maritime	22,136,000	25,324,331	31,990,630	33,360,613	34,791,071	36,284,736	37,844,462	39,473,238	41,174,188	42,950,580	44,805,832
Commercial Real Estate / OPA	15,346,000	15,255,599	13,872,010	14,339,905	14,790,742	15,359,761	15,833,039	16,325,748	16,836,266	17,368,681	17,917,041
TOTAL OPERATING EXPENSES	$104,242,000	$120,122,397	$138,353,473	$144,405,784	$150,696,848	$158,373,801	$165,282,289	$171,212,093	$178,701,456	$186,533,414	$194,716,960
NET REVENUES	$102,710,292	$89,506,071	$91,923,256	$106,986,754	$134,662,496	$160,631,205	$174,592,349	$176,680,802	$186,402,072	$196,052,412	$199,448,879
DEBT SERVICE											
Existing Revenue Bond Debt Service	$37,676,938	$40,792,018	$60,503,417	$60,502,613	$60,503,154	$67,304,180	$67,304,961	$67,307,886	$67,308,435	$67,303,346	$67,306,526
Series 2002 L&M	0	0	322,451	4,970,378	12,977,592	25,415,518	34,482,308	43,639,545	45,486,324	47,356,386	47,416,454
Future Revenue Bond Debt Service	0	0	0	0	0	500,136	4,880,984	5,001,746	6,146,262	6,146,262	6,146,262
DBW Debt Service	501,906	962,000	962,000	950,000	950,000	960,000	903,000	795,000	806,000	742,000	691,000
Mitsubishi Bank Note (Airport Loading Bridges)	27,107	0	0	0	0	0	0	0	0	0	0
GE Capital Lease (Airport Buses)	844,937	844,937	844,937	844,937	844,937	352,039	0	0	0	0	0
Special Facility Debt Service	4,143,142	4,139,767	4,137,537	4,133,239	4,116,386	4,101,888	4,097,287	4,095,660	4,088,670	4,078,002	4,073,375
City of Oakland Payments (Knight Property)	0	0	0	0	0	0	0	0	0	0	0
Commercial Paper	0	1,857,628	4,182,986	4,959,753	6,575,929	8,611,112	9,658,380	10,470,272	10,470,272	10,470,272	10,497,426
NET REMAINING REVENUES	$59,516,262	$40,909,721	$20,969,929	$30,625,834	$48,694,498	$53,386,333	$53,265,429	$45,370,693	$52,096,110	$59,956,145	$63,317,836
PARITY REVENUE BOND COVERAGE											
Net Revenues	$102,710,292	$89,506,071	$91,923,256	$106,986,754	$134,662,496	$160,631,205	$174,592,349	$176,680,802	$186,402,072	$196,052,412	$199,448,879
LESS: Special Facility Revenues	4,104,767	4,139,767	4,137,537	4,133,239	4,116,386	4,101,888	4,097,287	4,095,660	4,088,670	4,078,002	4,073,375
Net Revenues Available for Coverage	$98,605,525	$85,366,304	$87,785,719	$102,853,515	$130,546,110	$156,529,318	$170,495,062	$172,585,142	$182,313,403	$191,974,410	$195,375,504
REVENUE BOND DEBT SERVICE	$37,676,938	$40,792,018	$60,825,868	$65,472,991	$73,480,746	$93,219,834	$106,668,253	$115,949,177	$118,941,021	$120,805,993	$120,869,242
PARITY REVENUE BOND COVERAGE	2.62	2.09	1.44	1.57	1.78	1.68	1.60	1.49	1.53	1.59	1.62

[1] FY 2001 includes only $3.3 million of Pledged OPA Revenues.

[2] Represents income from legal settlements from previous years' hazardous material litigation.

Sources: Port of Oakland (FY 2001 through FY 2003)
Fullerton & Friar (Future Debt Service)
Prepared by Ricondo & Associates, Inc.

TABLE 5.16

Port of Oakland
Feasibility Report

STATUS OF THE PORT'S REVENUE FUND

	Actual	Anticipated	Budget	Projected							
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GENERAL FUND (Incl. Working Capital Fund)											
BEGINNING BALANCE	$25,200,000	$19,670,576	$5,000,000	$10,000,000	$15,000,000	$20,000,000	$20,000,000	$20,000,000	$20,000,000	$20,000,000	$20,000,000
DEPOSIT: Revenues	206,952,292	209,628,468	230,276,728	251,392,538	285,359,344	319,005,006	339,874,638	347,892,895	365,103,528	382,585,826	394,165,839
DEPOSIT: Other Reimbursements	0	0	20,517,000	0	0	0	0	0	0	0	0
EXPEND: Debt Service/Commercial Paper	43,194,029	48,596,349	70,953,327	76,360,920	85,967,997	107,244,873	121,326,920	131,310,109	134,305,962	136,096,267	136,131,043
EXPEND: Expenses	104,242,000	120,122,397	138,353,473	144,405,784	150,696,848	158,373,801	165,282,289	171,212,093	178,701,456	186,533,414	194,716,960
EXPEND: Port Funded Projects	81,138,045	51,595,248	32,208,044	22,869,295	40,908,115	50,426,713	50,401,868	42,629,468	49,159,940	56,977,150	60,294,893
TRANSFER: Port Bond Reserve Fund	0	0	0	0	0	0	0	0	0	0	0
TRANSFER: Operating Reserve	1,578,217	1,985,050	2,278,884	756,539	786,383	959,619	863,561	741,225	936,170	978,995	1,022,943
TRANSFER: Port Working Capital Fund	0	0	0	0	0	0	0	0	0	0	0
EXPEND: City Payment	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
ENDING BALANCE	$19,670,576	$5,000,000	$10,000,000	$15,000,000	$20,000,000	$20,000,000	$20,000,000	$20,000,000	$20,000,000	$20,000,000	$20,000,000
PORT BOND RESERVE FUND											
BEGINNING BALANCE	$30,000,000	$30,000,000	$30,000,000	$30,000,000	$30,000,000	$30,000,000	$30,000,000	$30,000,000	$30,000,000	$30,000,000	$30,000,000
DEPOSIT from Revenue Fund	0	0	0	0	0	0	0	0	0	0	0
ENDING BALANCE	$30,000,000	$30,000,000	$30,000,000	$30,000,000	$30,000,000	$30,000,000	$30,000,000	$30,000,000	$30,000,000	$30,000,000	$30,000,000
PORT OPERATING RESERVE FUND											
BEGINNING BALANCE	$11,452,033	$13,030,250	$15,015,300	$17,294,184	$18,050,723	$18,837,106	$19,796,725	$20,660,286	$21,401,512	$22,337,682	$23,316,677
DEPOSIT from Revenue Fund	1,578,217	1,985,050	2,278,884	756,539	786,383	959,619	863,561	741,225	936,170	978,995	1,022,943
ENDING BALANCE	$13,030,250	$15,015,300	$17,294,184	$18,050,723	$18,837,106	$19,796,725	$20,660,286	$21,401,512	$22,337,682	$23,316,677	$24,339,620
PORT WORKING CAPITAL FUND											
BEGINNING BALANCE	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000
DEPOSIT from Revenue Fund	0	0	0	0	0	0	0	0	0	0	0
ENDING BALANCE	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000

Sources: Port of Oakland (FY 2001 through FY 2003)
Prepared by Ricondo & Associates, Inc.

5.7.2 TESTS FOR ISSUANCE OF BONDS

As a condition to the issuance of any Series of Bonds (unless the Bonds are being issued for refunding purposes, as Notes, or for completing a Project), the Trust Indenture requires that certain criteria be met. Specifically, Section 2.11(b) of the Trust Indenture requires the receipt by the Port of a certificate of a Consultant showing that:

(1) "the Net Revenues for any 12 consecutive months out of the 18 consecutive months immediately preceding the issuance of the proposed Series or the first issuance of Bonds constituting part of a Program were at least equal to 125% of Maximum Annual Debt Service for all Bonds Outstanding and Bonds Authorized immediately preceding the issuance of the proposed Series or Implementation of such Program;

(2) for each Fiscal Year during the period from the date of delivery of such certificate until the last Estimated Completion Date, the Consultant estimates that the Board will be in compliance with Sections 5.04(a) and (b) (described above in Section 5.7.1 of this report) of this Indenture;

(3) the estimated Net Revenues for each of the three Fiscal Years immediately following the last Estimated Completion Date for the Specified Projects to be financed with the proceeds of such Bonds, as certified to the Consultant by an Authorized Board Representative, will be at least equal to 125% of Maximum Annual Debt Service for all Bonds which will be Outstanding and all Bonds which will be Authorized after the issuance of such proposed Bonds or Implementation of such Program."

Table 5.15 demonstrates that the Port will be in compliance with this requirement upon the issuance of the 2000 Series Bonds and based on the assumption that Maximum Annual Debt Service equals actual debt service due for the projection period ending FY 2011.[5]

[5] In Table 5.16 annual debt service for the three years following completion of the CIP is actual debt service payments required so that cash flow can be considered. Actual debt service is considered to be equivalent to Maximum Annual Debt Service. For actual compliance with tests for the issuance of Bonds, see the separate Port/Consultant Certifications.

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APPENDIX B-1

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED

JUNE 30, 2001 AND JUNE 30, 2000

AND INDEPENDENT AUDITORS' REPORT

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PRICEWATERHOUSECOOPERS

Port of Oakland

(A Department of the City of Oakland)
Consolidated Financial Statements
for the years ended June 30, 2001 and 2000
(With Independent Accountants' Report Thereon)

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Port of Oakland
(A Department of the City of Oakland)
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PRICEWATERHOUSECOOPERS

Yano Accountancy Corporation

PricewaterhouseCoopers LLP
333 Market Street
San Francisco CA 94105-2119
Telephone (415) 498 5000
Facsimile (415) 498 7100

Report of Independent Accountants

Board of Port Commissioners
of the City of Oakland

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, statements of equity, and statements of cash flows present fairly, in all materials respects, the financial position of the Port of Oakland (the Port), a department of the City of Oakland, at June 30, 2001 and 2000, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Port's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, the Port changed its method of accounting for Grants from Government Agencies and Passenger Facility Charges effective July 1, 2000 as required by the Government Accounting Standards Board Statement No. 33.

PricewaterhouseCoopers LLP

Yano Accountancy Corporation

September 28, 2001

Port of Oakland
(A Department of the City of Oakland)
Consolidated Balance Sheets
June 30, 2001 and 2000
(dollar amounts in thousands)

	2001	2000
Assets		
Current assets		
Cash and cash equivalents:		
Undesignated	$ 8,196	$ 27,734
Designated	43,989	43,110
Accounts receivable (less allowance for doubtful accounts $2,694 in 2001 and $324 in 2000)	45,280	29,890
Restricted accounts receivable:		
Passenger Facility Charges	2,913	2,353
Restricted deposits with fiscal agent for current debt service	282	270
Accrued interest receivable	4,235	9,027
Prepaid expenses and other current assets	14,791	8,322
Total current assets	119,686	120,706
Restricted cash and investments:		
Bond funds	263,761	410,455
Passenger facility charges	54,093	45,794
	317,854	456,249
Property, plant and equipment:		
Buildings, structures and improvements	1,050,911	858,285
Container cranes	112,331	95,690
Other equipment	32,729	32,328
	1,195,971	986,303
Less accumulated depreciation	(401,961)	(374,620)
	794,010	611,683
Land	206,718	186,552
Construction in progress	329,373	288,714
	1,330,101	1,086,949
Deferred charges and other assets	23,370	23,526
Total assets	$ 1,791,011	$ 1,687,430
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 51,239	$ 40,769
Liability to City of Oakland	13,009	10,263
Deferred income - current portion	577	119
Total current liabilities	64,825	51,151
Payables from restricted assets:		
Accounts payable and accrued expenses	20,002	27,543
Accrued interest payable	10,173	11,402
Current maturities of long-term debt	15,796	14,634
Retentions on construction contracts	24,334	16,392
Total payables from restricted assets	70,305	69,971
Long-term liabilities:		
Long-term debt	1,003,023	999,887
Long-term accrued interest	16,860	14,329
Deferred income	4,058	4,316
Environmental liabilities and other	22,504	22,991
Total long-term liabilities	1,046,445	1,041,523
Commitments and contingencies (Notes 9 and 10)		
Equity:		
Grants from government agencies	104,500	108,514
Passenger Facility Charges	91,107	94,389
Reserved retained earnings:		
Grants from Government Agencies	32,082	-
Passenger Facility Charges	18,840	-
Port equity:		
City of Oakland	(58,477)	(58,477)
Appraisal surplus	3,004	3,004
Retained earnings	418,380	377,355
Total equity	609,436	524,785
Total liabilities and equity	$ 1,791,011	$ 1,687,430

The accompanying notes are an integral part of these consolidated financial statements.

Port of Oakland
(A Department of the City of Oakland)
Consolidated Statements of Operations
For the years ended June 30, 2001 and 2000
(dollar amounts in thousands)

	2001	2000
Operating revenues		
South airport	$ 91,281	$ 72,015
North airport	11,860	9,556
Maritime	77,806	76,431
Commercial real estate	16,223	14,723
Total operating revenues	197,170	172,725
Operating expenses		
South airport	57,952	47,337
North airport	8,808	5,702
Maritime	22,136	23,025
Commercial real estate	15,346	14,766
Total operating expenses	104,242	90,830
Operating income before depreciation and amortization	92,928	81,895
Depreciation and amortization		
Aviation	15,352	13,977
Maritime	15,973	15,453
Commercial real estate	5,510	5,470
Total depreciation and amortization	36,835	34,900
Operating income	56,093	46,995
Nonoperating income (expense)		
Interest income	5,763	7,160
Interest expense	(32,086)	(31,309)
Other income/(expense)	3,959	179
Total nonoperating expense	(22,364)	(23,970)
Net income before restricted nonoperating income	33,729	23,025
Restricted nonoperating income (Note 2)		
Grants from Government Agencies	32,082	-
Passenger Facility Charges	18,840	-
Total restricted nonoperating income	50,922	-
Net income	$ 84,651	$ 23,025

The accompanying notes are an integral part of these consolidated financial statements.

Port of Oakland
(A Department of the City of Oakland)
Consolidated Statements of Equity
For the years ended June 30, 2001 and 2000
(dollar amounts in thousands)

	Grants from Government Agencies	Passenger Facility Charges	Reserved Retained Earnings: Grants from Government Agencies	Reserved Retained Earnings: Passenger Facility Charges	Port Equity: City of Oakland	Port Equity: Appraisal Surplus	Port Equity: Retained Earnings	Total Equity
Balance, July 1, 1999	$ 108,166	$ 82,934	$ -	$ -	$ (58,477)	$ 3,004	$ 348,057	$ 483,684
Net income							23,025	23,025
Grants from Government Agencies	3,896							3,896
Passenger facility charges		14,180						14,180
Depreciation transfer	(3,548)	(2,725)					6,273	-
Balance, June 30, 2000	108,514	94,389	-	-	(58,477)	3,004	377,355	524,785
Net income			32,082	18,840			33,729	84,651
Depreciation transfer	(4,014)	(3,282)					7,296	-
Balance, June 30, 2001	$ 104,500	$ 91,107	$ 32,082	$ 18,840	$ (58,477)	$ 3,004	$ 418,380	$ 609,436

The accompanying notes are an integral part of these consolidated financial statements.

Port of Oakland
(A Department of the City of Oakland)
Consolidated Statements of Cash Flows
For the years ended June 30, 2001 and 2000
(dollar amounts in thousands)

	2001	2000
Cash flows from operating activities		
Operating income	$ 56,093	$ 46,995
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	36,835	34,900
Amortization of debt costs	1,179	2,903
Amortization of deferred income	(1,589)	(1,296)
Deferred income	1,789	659
Other	1,451	(1,357)
Net effect of changes in:		
Accounts receivable	(15,951)	(9,165)
Prepaid expenses and other current assets	(13,912)	914
Other assets	-	(680)
Accounts payable, accrued expenses and current liability to City of Oakland	5,674	3,084
Environmental liabilities and other	(487)	(2,372)
Net cash provided by operating activities	71,082	74,585
Cash flows from capital and related financing activities		
Long-term debt:		
New borrowings	477,890	1,810,102
Repayments/refundings	(473,592)	(1,366,116)
Deposits with fiscal agents - net	(12)	(34,703)
Grants from government agencies	32,082	3,896
Bond issuance costs paid	(232)	(7,108)
Unexpended bond proceeds:		
Purchase of investments restricted for construction	(24,602)	(409,946)
Proceeds from sale of investments restricted for construction	187,366	76,071
Interest paid on debt - net of capitalized interest	(30,784)	(23,690)
Property, plant and equipment additions	(275,851)	(182,512)
Proceeds from sale of land and property	7,485	1,664
Retentions on construction contracts	7,942	12,916
Passenger Facility Charges	18,840	14,180
Net cash used in capital and related financing activities	(73,468)	(105,246)
Cash flows from investing activities		
Interest on investments - net of capitalized interest	10,555	2,060
Passenger Facility Charges invested	(26,828)	(8,045)
Net cash used in investing activities	(16,273)	(5,985)
Net (decrease) increase in cash and cash equivalents	(18,659)	(36,646)
Cash and cash equivalents, beginning of year	70,844	107,490
Cash and cash equivalents, end of year	$ 52,185	$ 70,844

The accompanying notes are an integral part of these consolidated financial statements.

1. Organization

The Port of Oakland, California (the Port) was established in 1927 by the City of Oakland (the City) and is a discretely presented department of the City accounted for as a public enterprise fund. Operations include the Oakland International Airport (OAK); the Port of Oakland maritime facilities; commercial real estate, which includes Oakland Portside Associates, a California limited partnership (OPA) and 19 miles of the waterfront; and the Port of Oakland Public Benefit Corporation, a nonprofit benefit corporation (Port-PBC). The Port is governed by a seven-member Board of Port Commissioners (Board) whose members are appointed by the City Council, upon nomination by the Mayor. The Board appoints an Executive Director to administer operations. The Port prepares and controls its own budget, administers and controls its fiscal activities, and is responsible for all Port construction and operations. The Port is required by City charter to deposit its operating revenues in the City treasury. The City treasurer is responsible for investing and managing such funds.

2. Significant Accounting Policies

Principles of Consolidation

The consolidated department financial statements include the Port and its subsidiaries, consisting of OPA and Port-PBC. All significant intercompany transactions are eliminated in consolidation.

Basis of Accounting

The Port is accounted for as an enterprise fund and its financial statements are presented on the accrual basis of accounting. Under this method, revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Government Accounting Standards Board (GASB) Statement No. 20

As required under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Port will continue to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements. The Port has elected under GASB Statement No. 20 to not apply all FASB Statements and Interpretations issued after November 30, 1989, due to the governmental nature of the Port's operations.

Government Accounting Standards Board (GASB) Statement No. 33

As required by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, effective July 1, 2000 the Port changed its method of accounting for Grants from Government Agencies (Grants) and Passenger Facility Charges (PFCs) from capital contributions to restricted non-operating revenues. In accordance with GASB No. 33, Grants and PFCs are required to be included in the determination of net income resulting in an increase in net revenue of $32,082 and $18,840, respectively, for the year ended June 30, 2001. For the year ended June 30, 2000, the change in accounting principle would have resulted in net revenue from Grants and PFC's of $3,896 and $14,180, respectively, and an equity reclassification from Grant's and PFCs to reserved retained earnings of the same amounts.

(dollar amounts in thousands)

Cash and Cash Equivalents

The Port considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Restricted cash and investments are not considered cash equivalents. The Port's cash and investments in the City treasury are, in substance, demand deposits and are considered cash equivalents, except for restricted cash and investments comprised mainly of passenger facility charges and unclaimed bonds.

Investments

The Port applies the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, which requires investments to be recorded at fair value with the difference between cost and fair value recorded as an unrealized gain/loss. Investments are stated at fair value based upon quoted market prices.

Restricted Cash and Investments and Related Liabilities

Assets whose use is restricted to specific purposes by bond indenture or otherwise, and related liabilities are segregated on the balance sheet. These assets and liabilities are primarily restricted for construction and debt service purposes.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Interest costs applicable to qualifying assets are capitalized as part of the cost of the assets. Interest earned on temporary investments of the proceeds from qualifying tax-exempt debt is offset against interest costs capitalized. Depreciation expense is calculated using the straight-line method over the following estimated useful lives of the assets.

Buildings, structures and improvements	5 to 50 years
Container cranes	25 years
Other equipment	5 to 10 years

Depreciation expense on assets acquired with capital grant funds or passenger facility charges is transferred to grants from government agencies or passenger facility charges, respectively, after being charged to operations.

Tenant improvements which revert to the Port at the end of the lease term are recorded in an appropriate asset account, with an offsetting credit to deferred income. The asset is depreciated over its useful life, not less than the term of the lease, and the deferred income is amortized over the term of the lease, including renewal options.

Deferred Charges

Bond issuance costs are deferred and amortized principally on the straight-line method over the lives of the related bond issues.

Maritime Volume Discounts

The Maritime Division offers volume discounts to customers with long-term contracts. Included in accounts payable and accrued expenses were volume discounts of $6,377 and $7,694 at June 30, 2001 and 2000, respectively.

Compensated Absences

The Port accrues employee benefits, including accumulated vacation and sick leave, as a liability in the period the benefits are earned. Accrued benefits are recorded as a current liability for financial statement presentation.

Environmental Liabilities

The Port accrues for environmental liabilities based upon the FASB Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*, which requires the accrual of a liability if (a) information available prior to issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and (b) the amount of the loss can be reasonably estimated.

Equity

Grants from Government Agencies

Grants, which are restricted for the acquisition or construction of capital assets, are recorded when entitlements to such funds are earned under the appropriate grant terms. As required by GASB Statement No. 33, effective July 1, 2000, the Port changed its method of accounting for Grants from Government Agencies to include such grants in the determination of net income. For the year ended June 30, 2000, Grants from Government Agencies were recorded as grant equity with depreciation expense on that portion of asset costs paid from grant proceeds being transferred from grant equity to retained earnings.

Passenger Facility Charges (PFC) Program

The Port of Oakland, California (the Port), as authorized by the Federal Aviation Administration (FAA) pursuant to the Aviation Safety and Capacity Expansion Act of 1990 (the Act), imposes a Passenger Facility Charge (PFC) of up to $3 (in actual dollars) per enplaning passenger at the OAK. Under the Act, air carriers are responsible for the collection of PFC charges and are required, by the Act, to remit PFC revenues to the Port in the following month after they are recorded by the air carrier. The Port has been approved by the FAA to impose PFCs from September 1, 1992 and this authority is expected to expire January 31, 2002. The Port has submitted PFC application number ten. Upon approval from the FAA, this will extend authority to impose PFC's from February 1, 2002 to approximately October 2003.

PFC revenues, including any interest earned thereon, are restricted for use solely to finance allowable costs of new airport planning and development projects as defined and authorized by the FAA. PFC revenues may be used to pay debt service and related expenditures associated with these projects. While the statute permits PFC revenues to be used to pay debt service and related expenditures associated with these projects, to date the Port has not requested such approval.

PFC revenues and expenditures are recorded on the accrual basis. Revenues represent amounts earned from enplaning passengers on air carriers. PFC expenditures represent Port expenditures for projects that have been authorized by the FAA under the Act. They are recorded when they are incurred, as capital expenditures.

The Port prepares quarterly reports of PFC amounts earned and expended on the accrual basis and submitted to the FAA and to the airlines. Cash transfers are made to the General Fund from the Restricted PFC Fund and represent reimbursements to the Port. Cash receipts and General Fund reimbursements do not match reported PFC revenues and expenditures due to the effect of accruals.

City of Oakland

Port equity-City of Oakland represents amounts paid for interest payments to the City for certain general obligation bonds issued by the City for the benefit of the Port (see Note 8). The reduction in net equity resulting from the Port's accumulation of previously paid obligations to the City has been identified as a separate component of equity.

Appraisal Surplus

This component of equity represents the opening value capitalized by the Port upon its creation in 1927.

Allocation of Expenses to the Port Businesses

The Port allocates to each of its operating businesses (maritime, aviation and commercial real estate) expenses directly related to those operations. In addition, the Port annually allocates indirect costs to those businesses based on a cost allocation plan. Allocated indirect costs include general operating expenses, maintenance, advertising and promotion, administrative expenses, depreciation and amortization, and interest expense.

Use of Estimates

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

Recently Issued Accounting Pronouncements

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements - Management's Discussion & Analysis - for State and Local Governments*. GASB Statement No. 34 is effective for the fiscal year beginning after June 15, 2001. GASB Statement No. 34 establishes new financial reporting requirements for state and local governments in order to make annual reports more comprehensive and easier to understand and use. GASB Statement No. 34 establishes that basic financial statements and required supplementary information should consist of Management's discussion and analysis (MD&A), as well as basic financial statements with notes essential to the user's understanding of the basic financial statements and required supplementary information other than MD&A. In particular, capital assets, including infrastructure assets, should be reported in the statement of net assets. The Port is in the process of evaluating the impact of this pronouncement on its financial statements.

In June 2001, FASB issued Statement No. 143, *Accounting for Asset Retirement Obligations*. FASB Statement No. 143 is effective for the fiscal years beginning after June 15, 2002. FASB Statement No. 143, addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. FASB Statement No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The impact of this pronouncement on the Port's financial statements has yet to be determined.

In August 2001, FASB issued statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* FASB Statement No. 144 is effective for the fiscal years beginning after December 15, 2001. This statement supersedes FASB Statement No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of,* and the accounting and reporting provisions of APB Opinion No. 30, *Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*, for the disposal of a segment of a business. FASB Statement No. 121 did not address the accounting for a segment of a business accounted for as a discontinued operation under APB Opinion No. 30, accordingly two accounting models existed for long-lived assets to be disposed of. FASB Statement No. 144, establishes a single accounting model, based on the framework established in Statement No. 121, for long-lived assets to be disposed of by sale. In addition, FASB Statement No. 144 resolves significant implementation issues related to Statement No. 121. The impact of this pronouncement on the Port's financial statements has yet to be determined.

(dollar amounts in thousands)

Reclassifications

Certain 2000 amounts have been reclassified to conform to the classifications used in the 2001 financial statements. Such reclassifications had no effect on net income or retained earnings, as previously reported.

3. Cash, Investments and Deposits

The Port's cash, investments and deposits consist of the following at June 30, 2001 and 2000:

	2001	2000
Cash and investments		
Cash and investments, with City of Oakland:		
Undesignated	$ 5,907	$ 26,090
Designated	43,989	43,110
Cash on hand	3	3
Cash in bank accounts:		
Undesignated	2,286	1,641
Total cash and investments	52,185	70,844
Restricted deposits with fiscal agents for current debt service	282	270
Restricted cash and investments		
Sinking fund and reserve deposits with fiscal agents	77,813	68,746
Unexpended bond proceeds restricted for construction	172,070	335,669
Deposits in escrow	12,052	4,204
Cash and investments with City of Oakland:		
Passenger facility charges	54,093	45,794
Other	1,826	1,836
Total restricted cash and investments	317,854	456,249
	$370,321	$527,363

Cash and Investments with City of Oakland

Pursuant to City Charter, Port operating revenues and PFCs are deposited in the City treasury. These funds are commingled in a citywide pool and invested by the City pursuant to the investment policy adopted by the City Council and guidelines specified in the California Government Code. Authorized investments include federal agency obligations, bankers' acceptances rated A1 or P1, corporate notes and deposit notes rated no lower than A- or A3, negotiable certificates of deposit rated no lower than A- or A3, repurchase agreements, certificates of deposit rated no lower than A- or A3, state and local agency investment funds, reverse repurchase agreements and money market mutual funds. The Port receives interest allocation from investment earnings of the City based on the average daily balance on deposit and the earnings of the investments. All investments deposited in the City treasury are insured or registered, or held by the City or its agent in the City's name.

(dollar amounts in thousands)

Designated Cash and Investments

The Board designates certain amounts of cash and investments to be used, if necessary, for debt service, capital improvements and anticipated working capital needs.

Restricted Cash and Investments

Port bond resolutions authorize the investment of restricted cash, including deposits, with fiscal agents for both debt service and construction funds. Authorized investment securities are specified in various bond indentures. All indentures permit investments in U.S. Treasury obligations and bank certificates of deposit. Certain indentures also permit investments in federal agency obligations, certain state and secured municipal obligations, long-term and medium-term guaranteed corporate debt securities in the two highest rating categories, commercial paper rated prime, repurchase agreements, certain money market mutual funds, and certain guaranteed investment contracts.

Investments

GASB Statement No. 3 requires that governmental entities categorize their invested funds to give an indication of the credit risk assumed by the entity based on where and in whose name the investments are held. Funds deposited in the City's investment pool and mutual funds cannot be categorized under GASB Statement No. 3 because they are not evidenced by securities that exist in physical or book entry form.

The carrying amount of Port cash and investment funds, which approximates market value, is as follows at June 30, 2001 and 2000:

	2001	2000
Restricted bond proceeds:		
Government securities money market mutual funds	$ 2,179	$ 3,683
U.S. Treasury obligations	29,113	19,640
Guaranteed investment contracts	218,873	381,360
Cash and interest-bearing deposits with the City	105,814	116,830
Cash on hand and at bank	14,341	5,850
	$370,320	$527,363

Deposits

The carrying amount of Port deposits with banks and cash on hand was $2,289 and $1,644 at June 30, 2001 and 2000, respectively. Bank balances of $601 and $301 at June 30, 2001 and 2000, respectively, are insured or collateralized with securities held by the pledging financial institution's trust departments in the Port's name.

(dollar amounts in thousands)

4. Long-Term Debt

Long-term debt consists of the following at June 30, 2001 and 2000:

	Interest Rate	Calendar Maturity Year	Original Amount	Balance Outstanding June 30, 2001 Long-Term Portion	Current Portion	Total	Balance Outstanding June 30, 2000
Parity Bonds							
1990 Revenue Bonds Series D	6.125-8.00%	2003	$ 30,360	$ 10,785	$ 8,790	$ 19,575	$ 27,575
1992 Revenue Bonds Series E	5.00-6.50%	2022	150,975	135,335	2,980	138,315	141,130
1993 Revenue Bonds Series F	2.75-5.75%	2009	75,342	30,612	860	31,472	32,297
1997 Revenue Bonds Series G	3.60-6.00%	2025	85,000	82,270	490	82,760	83,395
1997 Revenue Bonds Series H	3.60-5.50%	2015	77,995	74,905	690	75,595	76,240
1997 Revenue Bonds Series I	5.40-5.60%	2019	84,820	84,820	-	84,820	84,820
1997 Revenue Bonds Series J	5.50%	2026	14,845	14,845	-	14,845	14,845
2000 Revenue Bonds Series K	5.00-5.88%	2030	400,000	400,000	-	400,000	400,000
Total Parity Bonds			919,337	833,572	13,810	847,382	860,302
Dept. of Boating and Waterways (DBW) loans							
Small Craft Harbor Revenue Bonds, Series A-D	4.50%	2009	4,000	1,297	195	1,492	1,656
Small Craft Harbor Revenue Bonds, Series 1981	4.50%	2010	1,500	966	86	1,052	1,129
Small Craft Harbor Revenue Bonds, Series 1982	4.50%	2019	1,000	872	31	903	934
Small Craft Harbor Revenue Bonds, Series 1983	4.50%	2020	370	350	12	362	352
1991 Marina Planning Loan	4.70%	2002	99	12	11	23	34
Small Craft Harbor Revenue Bonds, Series 1993	4.50%	2029	7,176	7,250	128	7,378	6,500
Total DBW loans			14,145	10,747	463	11,210	10,605
Mitsubishi note	9.00%	2000	2,599	-	-	-	27
Special Facilities Revenue Bonds - 1992 Series A	5.00-6.80%	2019	53,000	46,500	1,000	47,500	48,500
GE Capital Tax Exempt Loan	4.89%	2005	5,000	2,654	696	3,350	4,014
Commercial Paper, 1998 Series A Notes	2.40-4.10%	2003	-	85,340	-	85,340	80,940
Commercial Paper, 1998 Series B Notes	2.35-5.15%	2003	-	33,780	-	33,780	19,480
Total			$ 994,081	$ 1,012,593	$ 15,969	$ 1,028,562	$ 1,023,868
Unamortized Bond Discount/Premium				(9,570)	(173)	(9,743)	(9,347)
Total Long Term Debt				$ 1,003,023	$ 15,796	$ 1,018,819	$ 1,014,521

(dollar amounts in thousands)

Bond Premium and Discount

The Port amortizes the original issue discount or premium over the life of each bond issue. The unamortized amount for each Port issue is as follows:

Bond Issue	2001 Discount (Premium)	2000 Discount (Premium)
1990 Series D	$ (2)	$ (2)
1992 Series E	1,059	1,005
1992 Series A Special Facilities	193	201
1993 Series F	-	68
1997 Series G	3,297	3,083
1997 Series H	1,771	1,791
1997 Series I	2,760	2,731
1997 Series J	514	485
Taxable Commercial Paper, 1998 Series C Notes	-	-
2000 Series K	153	(15)
Total	$ 9,745	$ 9,347

The Port's required debt service payments for long-term debt for fiscal years ending June 30 are as follows:

Fiscal Year Ending	Principal	Interest	Total
2002	$ 135,090	$ 50,554	185,644
2003	17,490	49,518	67,008
2004	15,507	51,483	66,990
2005	14,811	52,184	66,995
2006	21,534	51,767	73,301
Thereafter	824,130	634,442	1,458,572
	$1,028,562	$889,948	$1,918,510

Net interest costs of $6,591 and $3,883 were capitalized in fiscal 2001 and 2000, respectively, following the capitalization of interest revenue of $21,114 and $6,495 for fiscal 2001 and 2000, respectively. Total interest costs amounted to $27,705 and $10,378 for fiscal 2001 and 2000, respectively.

Priority of Payment

The 1990 Series D Bonds, the 1992 Series E Bonds, the 1993 Series F Bonds, and the 1997 Series G, Series H, Series I, Series J and 2000 Series K Bonds (collectively, the Parity Bonds) are payable solely from "Pledged Revenues." The 1989 Indenture and the Supplemental Trust Ninth Indenture, dated February 1, 1997 (the Ninth Supplemental Trust Indenture) define

Pledged Revenues as substantially all revenues and other cash receipts of the Port, including amounts held in the Port Revenue Fund and the lesser of OPA's net revenues or $3,300, but excluding amounts received from certain taxes, certain insurance proceeds and special facilities revenues. Pledged Revenues do not include cash received from PFCs unless projects included in a financing are determined to be PFC eligible, in which case PFCs can be pledged for debt service on the bonds. Currently, the Port has not included any of these types of projects in a bond issuance. In addition, payment of bond principal and interest on the Parity Bonds when due is guaranteed by municipal bond insurance policies.

The Port has covenants to achieve: Pledged Revenues sufficient to pay the sum of principal and interest on the outstanding Parity Bonds as they become due and payable in each year; all payments for compliance with terms of the Indenture and Supplemental Indentures, including but not limited to required deposits to any Reserve Fund; all other payments necessary to meet ongoing legal obligations of the Port payable from Pledged Revenues; and all current Operation and Maintenance Expenses (as defined).

The Port has covenanted in the 1989 Indenture to achieve in each fiscal year Net Revenues (as defined) of at least 125% of the actual debt service (as defined) becoming due on the outstanding Parity Bonds less debt service paid in such year from the proceeds of other borrowings. For the year ended June 30, 2001, Net Revenues exceeded this requirement.

The Port has also covenanted in the 1989 Indenture not to issue any additional obligations payable from or secured by Pledged Revenues, which would rank superior to the 1989 Bonds and any outstanding bonds (as defined) under the Ninth Supplemental Trust Indenture. The 1990 Bonds, 1992 Bonds, 1993 Bonds, 1997 Bonds and 2000 Bonds have been issued at parity. Additional bonds may be issued on a parity or subordinate basis with the outstanding bonds subject to debt service coverage ratios and other requirements.

The California Department of Boating and Waterways (DBW) and the Port entered into a loan and operation contract on February 21, 1994, amended on February 20, 1995, September 11, 1995 and September 16, 1996 whereby DBW agreed to make a construction loan to the Port in the amount of $7,176. The purpose of the loan is to develop the boating facilities of the Jack London Square marinas. The loan bears compound interest at the rate of 4.5% per annum and will be paid over twenty-eight years. As of June 30, 2001, $192 of accrued interest has been added to the loan due to the construction period drawdowns. The current balance of the loan is $7,378 and the repayment of the loan will begin August 1, 2001.

DBW loans were issued pursuant to various resolutions of the Board and are currently subordinate to the Parity Bonds.

(dollar amounts in thousands)

Parity Bonds

The Parity Bonds have maturity dates, interest rates and aggregate principal amounts as shown below:

Bond Description	Maturity Dates	Interest Rates	Original Amounts	Principal Balance Outstanding June 30, 2001
1990 Series D:				
Current Interest Serial	1991-2000	6.125-8.00%	$ 10,785	$ -
Current Interest Term	2001-2002	7.00%	18,190	18,190
Capital Interest Term	2003	6.50%	1,385	1,385
			30,360	19,575
1992 Series E:				
Serial	1996-2007	5.00-6.40%	37,910	25,250
Term	2016	6.50%	54,525	54,525
Term	2022	6.40%	58,540	58,540
			150,975	138,315
1993 Series F:				
Current Interest Serial	1994-2001	2.75-4.75%	44,730	860
Capital Appreciation Serial	2003-2009	5.30-5.75%	30,612	30,612
			75,342	31,472
1997 Series G:				
Serial	1997-2011	3.60-6.00%	25,085	22,845
Term	2017	5.50%	14,725	14,725
Term	2025	5.38%	45,190	45,190
			85,000	82,760
1997 Series H:				
Serial	1997-2011	3.60-5.50%	34,085	31,685
Term	2015	5.50%	43,910	43,910
			77,995	75,595
1997 Series I:				
Term	2017	5.40%	46,530	46,530
Term	2019	5.60%	38,290	38,290
			84,820	84,820
1997 Series J				
Term	2026	5.50%	14,845	14,845
2000 Series K				
Current Interest Serial	2005-2015	5.00-5.375%	5,825	5,825
Current Interest Serial	2005-2022	5.25-5.875%	204,340	204,340
Current Interest Term	2023-2029	5.75%	161,050	161,050
Current Interest Serial	2030	5.875%	28,785	28,785
			400,000	400,000
Grand total			$ 919,337	$ 847,382

The Current Interest Serial and Term Bonds pay interest semiannually. Interest accrues on the Capital Appreciation Serial and Term Bonds and is compounded semiannually but is not paid until maturity or early redemption. Maturity dates for Current Interest Term Bonds shown in the table above reflect mandatory sinking fund redemptions.

(dollar amounts in thousands)

The 1992, 1997 and 2000 Bonds may be redeemed at the Port's option at specified premiums or at par prior to maturity. The 1990 and 1993 Bonds are not subject to optional redemption prior to maturity.

Maturity dates for the 1990 Bonds, 1992 Bonds, 1993 Bonds, 1997 and 2000 Bonds shown in the table above reflect mandatory sinking fund redemptions prior to their respective maturity dates.

Special Facilities Revenue Bonds, 1992 Series A

The Port issued the 1992 Series A Bonds (Special Facilities Bonds) pursuant to a Trust Indenture dated as of June 1, 1992. The Special Facilities Bonds were issued to finance the design and construction of certain facilities and improvements on premises situated in the Seventh Street Marine Terminal area.

The Bonds are limited obligations of the Port payable from and collateralized by the Bond Payment Obligation (as defined) derived by the Port under the Nonexclusive Preferential Assignment Agreement (the Agreement) between the Port and Mitsui O.S.K. Lines, Ltd. (MOL). MOL's rights and obligations under the Agreement have been assigned to and assumed by Trans Pacific Container Service Corp. (TraPac), an affiliate of MOL. TraPac's obligations under the Agreement, including its obligation to make payments sufficient to pay the principal and interest on the Bonds, have also been guaranteed by MOL.

Principal and interest on the Bonds when due is also collateralized by an irrevocable direct-pay letter of credit expiring July 1, 2002 issued by The Industrial Bank of Japan, Ltd., Los Angeles Agency.

If the letter of credit expires or terminates without being replaced or renewed, the Bonds will be subject to mandatory redemption prior to such expiration or termination.

The 1992 Series A Special Facilities Revenue Bonds have maturity dates, interest rates and aggregate principal amounts as shown below:

Bond Description	Maturity Dates	Interest Rates	Original Amounts	Principal Balance Outstanding June 30, 2001
1992 Series A:				
Serial Bonds	1995-2003	5.00-6.40%	$ 8,050	$ 2,550
Term Bonds	2007-2019	6.70-6.80%	44,950	44,950
			$ 53,000	$ 47,500

The Bonds maturing on or before January 1, 2002 are not subject to optional redemption. The Bonds maturing on and after January 1, 2003 are subject to optional redemption. The Term Bonds maturing on January 1, 2007, 2012 and 2019 are subject to mandatory sinking fund redemption.

(dollar amounts in thousands)

GE Capital Tax Exempt Loan

The Port entered into a tax-exempt financing agreement with GE Capital for the purchase of five 40-foot Gillig AirBART shuttle buses and fifteen 35-foot Gillig parking lot shuttle buses. The loan is for $5,000 effective November 9, 1998 at the rate of 4.89% for a seven year term. GE Capital is the lien holder on the buses' title. Bay Area Rapid Transit has agreed to share the costs and revenues of the AirBART shuttle service, including the debt service payments.

Commercial Paper

The Board authorized a $300,000 Commercial Paper program in September 1998. The maximum maturity of the notes is 270 days and the maximum interest rate is 12%. The notes will be issued in three series: tax exempt AMT, tax exempt non-AMT and taxable. $150,000 of the Notes is backed as to credit and liquidity by an irrevocable letter of Credit issued jointly by Commerzbank AG and The Bank of Nova Scotia for a 5-year period beginning October 14, 1998. The Port also signed a second letter of credit for an additional $150,000 with Bank of America on September 1, 1999 for a three-year period ending September 16, 2002. As of June 30, 2001, the Port had $119 outstanding under the commercial paper program. This will allow the Port to refinance the borrowings on a long-term basis. These borrowings have been classified as noncurrent because of the credit agreement and the Port's intention and ability to refinance these obligations on a long-term basis.

5. Leases

A major portion of the Port's property, plant and equipment is held for lease. Leased assets include maritime facilities, aviation facilities, office and commercial space, and land. All leases are classified as operating leases.

Certain maritime facilities are leased under agreements which provide the tenants with preferential, but nonexclusive, use of the facilities. Certain leases provide for rentals based on gross revenues of the leased premises or, in the case of marine terminal facilities, on annual usage of the facilities. Such leases generally provide for minimum rentals, and certain preferential assignments provide for both minimum and maximum rentals.

A summary of revenues from long-term leases for years ended June 30 is as follows:

	2001	**2000**
Minimum noncancelable rentals, including preferential assignments	$75,683	$71,740
Contingent rentals in excess of minimums	11,133	19,097
Secondary use of facilities leased under preferential assignments	2,910	2,174
	$89,726	$93,011

(dollar amounts in thousands)

Minimum future rental revenues for years ending June 30 under noncancelable operating leases having an initial term in excess of one year are as follows:

2002	$ 83,787
2003	82,588
2004	80,345
2005	70,674
2006	61,878
Thereafter	401,563
	$780,835

The property on lease at June 30 consists of the following:

	2001	2000
Land	$ 81,937	$ 92,979
Cranes	112,331	95,690
Buildings and other facilities	836,682	612,981
Total value of leased property	1,030,950	801,650
Less accumulated depreciation	(312,480)	(256,953)
	$ 718,470	$544,697

6. Retirement Plans

Public Employees' Retirement System Plan Description

All full-time and certain other qualifying employees of the Port are eligible to participate in the Public Employees' Retirement Fund (the Fund) of the State of California's Public Employees' Retirement System (CALPERS). The Fund is an agent multiple-employer defined benefit retirement plan that acts as a common investment and administrative agent for various local and state governmental agencies within the State of California. Port employees are included on a cost-sharing basis with City employees in the City of Oakland miscellaneous unit (the City Unit) of CALPERS. The Fund provides retirement, disability and death benefits based on the employee's years of service, age and final compensation. Employees vest after five years of service and may receive retirement benefits at age 50. These benefit provisions and all other requirements are established by State statute and City ordinance. CALPERS issues a separate comprehensive annual financial report. Copies of CALPERS' annual financial report may be obtained from the CALPERS Executive Office, 400 P Street, Sacramento, California 95814.

The Port's payroll that is reported to CALPERS, for employees participating in the Fund, was $45,854 and $41,193 for the years ended June 30, 2001 and 2000, respectively. The Port's payroll for all employees was $43,205 and $39,627 in fiscal 2001 and 2000, respectively.

Port employees have an obligation to contribute 7.0% of their annual salary to the Fund. However, the Port has elected to pay such employees' contributions. The Port is required to contribute the remaining amounts necessary to fund the benefits for its employees, using the actuarial basis recommended by the CALPERS actuaries and actuarial consultants and adopted by the Board of Administration. The Port's employer contribution to the Fund was 0% of payroll for covered employees in fiscal 2001. Based upon the passage of recent legislation, the Port has exercised its option to include the employer member paid contributions as compensation for purposes of calculating the CALPERS contribution for fiscal years 2001 and 2000. The above covered payroll includes these amounts.

Retiree Medical Program

The Port provides a benefit whereby retirees may opt to receive employer paid medical insurance through CALPERS. The Port paid $486 to CALPERS in fiscal year ended June 30, 2000. On July 1, 2001, the Port expanded its retiree medical program to include dental and vision insurance.

7. Deferred Compensation Plan

The Port offers its permanent employees a deferred compensation plan established in accordance with California Government Code Section 53213 and Internal Revenue Code Section 457. The plan permits such employees to defer receipt of a portion of their salaries until future years. Deferred compensation is not available to employees until termination, retirement, death, disability, or financial emergency in accordance with the terms of the plan.

On August 16, 1997, federal legislation was passed requiring that all amounts deferred under a Section 457 plan must be held in trust or custodial accounts described in Section 401(f) of the Internal Revenue Code for the exclusive benefit of participants and their beneficiaries. This trust requirement has been satisfied and deferred compensation plan assets ($37,111 and $42,303 at June 30, 2001 and 2000) are currently held with Norwest Bank Colorado, NA.

8. Agreements with City of Oakland

The Port makes payment to the City under four types of agreements for the following: various administrative, personnel, south airport police security and financial services (Special Services); police, fire, public street cleaning and maintenance, and similar services (General Services) provided by the City to the Port; and Lake Merritt payments.

Special Services

Payments for Special Services are treated as a cost of Port operations pursuant to City Charter Section 717(3) Clause Third and have priority over certain other expenditures of Port revenues. Special Services to the City totaled $7,549 and $6,236 in 2001 and 2000 and are included in "Operating Expenses." At June 30, 2001, $9,078 was accrued as a current liability for these payments.

General Services and Lake Merritt

Payments for General Services to the City are payable only to the extent the Port determines annually that surplus monies are available. For the year-ended June 30, 2001, the Port has accrued approximately $589 of payments for General Services. Additionally, subject to certain conditions, the Port accrued approximately $1,000 to reimburse the City for net City expenditures for Lake Merritt tideland trust purposes in the 2001 fiscal year. Subject to adequate documentation from the City, and subject to availability of surplus monies, the Port will continue to reimburse the City annually for general services and Lake Merritt tideland trust properties.

Negotiations with the City

The Port has leased certain property to the City under a 66-year lease. The terms of the Amended and Restated Lease between the Port and the City commences when the Port delivers a completed golf course to the City to replace the City's golf course which was destroyed when the Port used the site as a dredge disposal site. Pursuant to the First Supplemental Agreement, dated as of July 1, 2000, the City agreed to release approximately 4 acres from the premises covered by the Amended and Restated Lease in exchange for a payment of $2,500 from the Port. The 4 acres were released from the lease and payment was made in September 2001.

Deferred Rent

In November 1994, the City of Oakland Redevelopment Agency (Agency), a blended department of the City, entered into an agreement with OPA to assist OPA in the development of one project located on one parcel of land OPA leases from the Port. The related tenant lease requires OPA to incur approximately $5,145 in tenant improvements to be financed by $2,000 in prepaid rent from the Agency, $300 by the tenant, and $2,845 paid by OPA. At June 30, 2001, deferred rent was $1,709 and was classified as a current liability.

9. Commitments

Capital Improvement Program

The Port anticipates spending $1.6 billion (in actual dollars) over the next five years for its capital improvement program. The most significant projects include the development and construction of new container terminals, 50-foot deepening of the channel, roadway improvements, a new airport terminal, and a new airport parking garage and surface parking lots.

(dollar amounts in thousands)

As of June 30, 2001, the Port had firm commitments for the acquisition and construction of assets as follows:

Maritime	$ 178,702
Aviation	165,094
Commercial real estate	3,653
Total	$ 347,449

The most significant projects for which the Port has contractual commitments are aircraft runway, taxiway and parking improvements of $40,730; airport terminal expansion of $43,559; airport roadways of $48,994; and new maritime terminals and cranes (including mitigation) of $151,656.

Measure B – Alameda County

The voters of Alameda County approved Measure B on November 4, 1986 which authorized a one-half percent (½%) sales tax increase to finance certain transportation projects within Alameda County. The Airport Roadway, beginning at the I-880/98th Avenue interchange in the City of Oakland and ending at the Harbor Bay Parkway/Maitland Avenues in City of Alameda, was one of the projects. The project covers the design and construction of a roadway from the I-880/98th Avenue interchange in the City of Oakland through the Oakland Airport to Harbor Bay Parkway in the City of Alameda. The roadway improvements will accommodate projected traffic growth at the Oakland Airport and Harbor Bay Business Park.

The total estimated cost of the project is $114,748. Alameda County Transit Authority (ACTA), the agency responsible for the project, will fund $66,500 from the sales tax surcharge and $7,400 from state funding. Per an agreement, the remaining $40,848 is to be funded as follows: Port of Oakland $31,145, City of Alameda $9,264 and City of Oakland $439.

The Port's share of the cost is to be provided by contributions of $11,598 in property and $19,547 in services or cash. The Port will receive 100% of any savings, up to $9,363, if the project costs less than the estimate. The Final Environment Impact Report has been approved. Contracts required to complete the project have been let for a total of $65,036 (including change orders). To date, $58,652 has been spent on the project.

10. Contingencies

Environmental

The Port is required to comply with a number of federal, state and local laws and regulations designed to protect human health, safety and the environment. In conforming to these laws and the implementing regulations, the Port has instituted a number of compliance programs and procedures.

(dollar amounts in thousands)

It is the Port's intent that its environmental compliance programs be compliant with regulatory and legal requirements while effectively managing financial resources. The Port's financial statements include liabilities, established and adjusted periodically, based on new information, in accordance with applicable generally accepted accounting principles in the United States of America, for the estimated costs of compliance with environmental laws and regulations and remediation of known contamination.

As future development planning is undertaken, the Port evaluates its overall provisions for environmental liabilities in conjunction with the nature of future activities contemplated for each site and accrues for a liability, if necessary. It is, therefore, reasonably possible that in future reporting periods current estimates of environmental liabilities could materially change causing expense to the Port.

The Port's management believes the total environmental accrual provides for all significant sites containing hazardous substances and petroleum products that are currently considered probable to require investigation and remediation and for which the potential liability can be estimated.

A summary of the environmental liability accounts, included within the "Environmental liabilities and other" section of the Consolidated Balance Sheet at June 30, is as follows:

	2001	2000
Environmental remediation	$ 10,162	$ 9,558
Miscellaneous compliance	1,606	4,454
Total environmental liabilities	$ 11,768	$ 14,012

The Port is presently responsible for remediation and clean-up of three major sites; namely, Keep On Trucking, Seabreeze and Ringsby. The accrued liability associated with these three sites at June 30, 2001, amount to $4,580, $1,148 and $1,456, respectively. These amounts are included in the environmental remediation liability amount of $10,162 above. The three sites were all the subject of litigation with parties responsible for the contamination, which resulted in the establishment of a fund from which the Port could meet its regulatory obligations. The remediation of all three sites is currently in the planning phase.

Airport Development Project

Petitioners brought suit against the Port of Oakland under the California Environmental Quality Act ("CEQA") challenging the 1997 approval and 1999 re-approval of the Port's short-term program of improvements to the Metropolitan Oakland International Airport. Petitioners claimed that the Port's Environmental Impact Report ("EIR") and Supplemental Environmental Impact Report ("SEIR") for the Airport Development Program did not meet legal requirements. The suits sought equitable relief and attorneys' fees. The trial court found the EIR inadequate in certain respects, awarded Petitioners attorneys' fees and found the SEIR adequate.

Various appeals and cross-appeals were filed by the parties. The Port negotiated settlement on certain appeals and cross-appeals and some were dismissed. The Court of Appeal ruled in part for Petitioners and in part for the Port. The Port filed a Petition for Rehearing in the Court of Appeal, however, on September 26, 2001, the Port's petition for rehearing was denied. The Court of Appeal did, however, modify its order to only require the Port to prepare a new SEIR, instead of a completely new EIR. The trial court was ordered to determine whether portions of the Airport Development Program ("ADP") are severable and may proceed pending the additional environmental review required pursuant to the Court of Appeal's mandate.

The Port has filed a petition for review with the California Supreme Court. The California Supreme Court is likely to act to accept or reject review of the petition within the next several weeks. If the Supreme Court decides to accept review of the petition, its final disposition of the case is likely to occur sometime between December 2002 and August 2003, assuming the parties do not settle.

If the California Supreme Court rejects review of the Petition, the Court of Appeal's judgment will become final. The case will be remanded to the trial court to carry out the Court of Appeal's orders. The implementation of those orders, however, could be affected by any settlement the parties reach.

The Port has reached a Phase One Settlement Agreement with the Petitioners that will allow the Port to immediately proceed with twelve (12) critical path ADP projects. Many of these critical path projects are needed for upgraded airport security purposes under President Bush's September 14, 2001 declaration of emergency. CEQA exempts projects that are implemented to prevent or mitigate an emergency. The Phase One Agreement became final on November 14, 2001. The parties have agreed to immediately seek resolution of all other issues in the litigation and complete their Phase Two Settlement negotiations by the end of December of this year.

Management does not believe that the matters described above, with respect to the EIR decision, will impact the carrying value of the construction in progress relating to the aviation capital improvement program. However, it is reasonably possible that, in future reporting periods circumstances could change resulting in the impairment of certain construction in progress assets.

Litigation

As of June 30, 2001, the Port was a defendant in various lawsuits arising in the normal course of business. In the opinion of the Port's management, the ultimate disposition of these suits and the matters discussed above will not have a material adverse effect on the Port's financial position or results of operations.

(dollar amounts in thousands)

Insurance

Workers' Compensation

The Port is exposed to risk of loss related to injuries to employees. The Port is self-insured and self-administered for workers' compensation up to a maximum of $350 per accident. Effective February 7, 1997, the Port carries commercial insurance for claims in excess of $350.

Claim expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses are based on actuarial estimates and include an estimate of claims that have been incurred but not reported. Changes in the reported liability follows:

Workers' compensation liability at June 30, 1999	$ 3,000
Current year claims and changes in estimates	830
Claim payments	(830)
Workers' compensation liability at June 30, 2000	3,000
Current year claims and changes in estimates	854
Claim payments	(854)
Workers' compensation liability at June 30, 2001	$ 3,000

General Liabilities

The Port maintains general liability insurance in excess of specified deductibles. For the airport, coverage is provided in excess of $100 in the aggregate up to a maximum of $200,000. For the harbor area, coverage is provided in excess of $100 per occurrence up to an aggregate amount of $150,000. Liabilities are recorded as accrued expenses when it is determined that a loss to the Port is probable and the amount is estimable.

APPENDIX B-2

UNAUDITED UNCONSOLIDATED FINANCIAL RESULTS

FOR THE NINE MONTHS ENDED MARCH 31, 2002

ASSETS

	March 31, 2002
CURRENT ASSETS:	
Cash and cash equivalents:	
Undesignated	$22,689,861
Designated	43,989,000
Accounts receivable (less allowance: 03/02 $2,694,414; 06/01 $2,694,414)	39,394,536
Restricted deposits with fiscal agent for current debt service	20,359,518
Accrued interest receivable	10,895,860
Prepaid expenses and other assets	12,648,634
Total current assets	149,977,409
RESTRICTED CASH AND INVESTMENTS:	
Bond funds (Includes $6,122,532 Mitsui Berth 30 financing)	114,646,475
Passenger facility charges	49,668,548
Total restricted cash and investments	164,315,023
PROPERTY, PLANT AND EQUIPMENT:	
Buildings, structures and improvements	1,104,104,464
Container cranes	112,860,352
Other equipment	34,141,950
	1,251,106,766
Less accumulated depreciation	(420,335,467)
	830,771,299
Land	207,898,021
Construction in progress	480,197,752
Total property, plant and equipment	1,518,867,072
INVESTMENT IN OAKLAND PORTSIDE ASSOCIATES	22,996,987
DEFERRED CHARGES AND OTHER ASSETS	(8,268,024)
	$1,847,888,467

LIABILITIES AND EQUITY

	March 31, 2002
CURRENT LIABILITIES:	
Accounts payable and accrued expenses	$43,734,582
Liability to City of Oakland	17,834,793
Deferred income - current portion	128,595
Payable from restricted assets:	
Accrued interest payable	20,414,685
Current maturities of long-term debt	16,893,590
Retentions on construction contracts	38,536,598
Total current liabilities	137,542,843
LONG-TERM LIABILITIES:	
Long term debt	1,017,262,477
Long-term accrued interest	18,865,062
Deferred income	2,197,794
Environmental liabilities and other	21,060,283
Total long-term liabilities	1,059,385,616
EQUITY:	
Grants from government agencies	166,480,887
Passenger facility charges	120,685,455
Port equity:	
City of Oakland	(58,477,544)
Appraisal surplus	3,004,335
Retained earnings	419,266,875
Total equity	650,960,008
	$1,847,888,467

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APPENDIX C

SUMMARIES OF THE TRUST INDENTURE, AND THE TWELFTH SUPPLEMENTAL TRUST INDENTURE

DEFINITIONS

The following are definitions of certain terms used in this Official Statement including the summaries of the Indenture and the Twelfth Supplemental Trust Indenture.

"Accreted Value" means (i) with respect to any Capital Appreciation Bonds, as of any date of calculation, the sum of the amount set forth in a Supplemental Indenture as the amount representing the initial principal amount of such Bond plus the interest accumulated, compounded and unpaid thereon as of the most recent compounding date, or (ii) with respect to Original Issue Discount Bonds, as of the date of calculation, the amount representing the initial public offering price of such Bonds plus the amount of the discounted principal which has accreted since the date of issue; in each case the Accreted Value shall be determined in accordance with the provisions of the Supplemental Indenture authorizing the issuance of such Bond.

"Authorized" means, with respect to any Program which has been Implemented and not terminated, the Authorized Amount less the amounts which are Outstanding at the time of calculation.

"Authorized Amount" means, when used with respect to a Program, the maximum Principal Amount of Bonds which is then authorized by the Board to be Outstanding at any one time under the terms of such Program.

"Authorized Board Representative" means the Executive Director, Deputy Executive Director or Chief Financial Officer of the Board or such other officer or employee of the Board or other person which other officer, employee or person has been designated by the Board as an Authorized Board Representative by written notice delivered by the Executive Director, Deputy Executive Director or the Chief Financial Officer to the Trustee.

"Balloon Indebtedness" means, with respect to any Series of Bonds, twenty-five percent (25%) or more of the principal of which matures on the same date or within a Fiscal Year, that portion of such Series which matures on such date or within such Fiscal Year; provided, however, that to constitute Balloon Indebtedness the amount of Bonds of a Series maturing on a single date or within a Fiscal Year must equal or exceed 150% of the amount of such Series which matures during any preceding Fiscal Year. For purposes of this definition, the principal amount maturing on any date shall be reduced by the amount of such Bonds, scheduled to be amortized by prepayment or redemption prior to their stated maturity date. A Commercial Paper Program and the Commercial Paper constituting part of such program shall not be Balloon Indebtedness.

"Board" means the Board of Port Commissioners of the City of Oakland, California, and any successor to its function.

"Bond" or "Bonds" means the debt obligations of the Board issued under the Indenture, including the 2002 Bonds.

"Bond Counsel" means a firm or firms of attorneys which are nationally recognized as experts in the area of municipal finance and which are familiar with the transactions contemplated under the Indenture and which are acceptable to the Board.

"Bondholder," "holder," "owner" or "registered owner" means the person in whose name any Bond or Bonds are registered on the books maintained by the Registrar and includes any Credit Provider or Liquidity Provider to which a Repayment Obligation is then owed, to the extent that such Repayment Obligation is deemed to be a Bond under the provisions of the Indenture. For so long as the 2002 Bonds are Book Entry Bonds, the Bondholders shall be DTC or its nominee.

"Book-Entry Bonds" means Bonds held by DTC (or its nominee) as the registered owner thereof pursuant to the terms and provisions of the Twelfth Supplemental Trust Indenture.

"Business Day" means a day on which banks located in New York, New York, in California and in the City in which the principal corporate trust office of the Trustee is located are open.

"Capital Appreciation Bonds" means Bonds all or a portion of the interest on which is compounded and accumulated at the rates and on the dates set forth in a Supplemental Indenture and is payable only upon redemption or on the maturity date of such Bonds. Bonds which are issued as Capital Appreciation Bonds, but later convert to Bonds on which interest is paid periodically shall be Capital Appreciation Bonds until the conversion date and thereafter shall no longer be Capital Appreciation Bonds, but shall be treated as having a principal amount equal to their Accreted Value on the conversion date.

"Capitalized Interest" means the amount, if any, of the proceeds received upon issuance of Bonds, which is used to pay interest on the Bonds.

"Commercial Paper" means notes of the Board with a maturity of not more than 270 days from the date of issuance and which are issued and reissued from time to time pursuant to a Program adopted by the Board.

"Commercial Paper Program" means a Program authorized by the Board pursuant to which Commercial Paper shall be issued and reissued from time to time, up to the Authorized Amount of such Program.

"Consultant" means any independent consultant, consulting firm, engineer, architect, engineering firm, architectural firm, accountant or accounting firm or other expert recognized to be well-qualified for work of the character required and retained by the Board to perform acts and carry out the duties provided for such consultant in the Indenture.

"Costs" or "Costs of the Project" means all costs of planning, developing, financing, constructing, installing, equipping, furnishing, improving, acquiring, enlarging and/or renovating a Project and placing the same in service.

"Costs of Issuance" means all costs and expenses incurred by the Board in connection with the issuance of the 2002 Bonds.

"Credit Facility" means a policy of municipal bond insurance, a letter of credit, surety bond, line of credit, guarantee, standby purchase agreement or other financial instrument which obligates a third party to make payment of or provide funds to the Trustee for the payment of the principal of and/or interest on specified Bonds whether such obligation is to pay in the first instance and seek reimbursement or to pay only if the Board fails to do so and such term includes any such instrument which is used to fund a Reserve Fund or provide security in lieu of a Reserve Fund.

"Credit Provider" means the party obligated to make payment on the Bonds under a Credit Facility.

"Customer Facility Charge" shall mean a customer facility charge authorized to be imposed by the Port in accordance with §1936 of the California Civil Code.

"DTC" means The Depository Trust Company, a limited-purpose trust company organized under the laws of the State of New York, and its successors and assigns.

"Estimated Completion Date" means the estimated date upon which a Specified Project will have been substantially completed in accordance with the plans and specifications applicable thereto or the estimated date upon which a Specified Project is expected to have been acquired and payment therefor made, in each case, as that date shall be set forth in a certificate of an Authorized Board Representative delivered to the Trustee at or prior to the time of issuance of the Bonds which are to finance such Project.

"Event of Default" shall mean any occurrence or event described in this Appendix C under "THE TRUST INDENTURE—Event of Default and Remedies."

"Fiscal Year" means the period of time beginning on July 1 of each given year and ending on June 30 of the immediately subsequent year, or such other similar period as the Board designates as its fiscal year.

"Government Obligations" means (1) United States Obligations (including obligations issued or held in book-entry form) and (2) Prerefunded municipal obligations meeting certain conditions, including the following: (a) the municipal obligations are not subject to redemption prior to maturity, or the trustee has been given irrevocable instructions concerning their calling and redemption; (b) the municipal obligations are secured by cash and/or United States Obligations; (c) the principal of and interest on the United States Obligations (plus any cash in the escrow fund) are sufficient to meet the liabilities of the municipal obligations; (d) the United States Obligations serving as security for the municipal obligations are held by an escrow agent or trustee; (e) the United States Obligations are not available to satisfy any other claims; and (f) the municipal obligations are rated in their highest rating category by Moody's and by S&P if S&P then maintains a rating on such obligations.

"Implemented" means, when used with respect to a Program, a Program which has been authorized and the terms thereof approved by a resolution adopted by the Board, and the conditions to issuance, as set forth in the Indenture, have been met.

"Indenture" or "Trust Indenture" means the Trust Indenture, dated as of April 1, 1989, between the Board and the Trustee, as supplemented and amended, including as supplemented and amended by the Twelfth Supplemental Trust Indenture.

"Investment Agreement" means an investment agreement or guaranteed investment contract (i) with or guaranteed by a national or state chartered bank or savings and loan, an insurance company or other financial institution whose unsecured debt is rated in the highest short-term rating category (if the term of the Investment Agreement is less than three years) or in either of the two highest long-term rating categories (if the term of the Investment Agreement is three years or longer) by S&P if S&P then maintains a rating on any of the 2002 Bonds to be secured thereby and maintains a rating on such debt and/or by Moody's if Moody's then maintains a rating on any of the 2002 Bonds to be secured thereby and maintains a rating on such debt or (ii) which investment agreement or guaranteed investment contract is fully secured by obligations described in item (1) or (2) of the definition of Permitted Investments (A) which are valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to the principal amount of the investment, (B) held by the Trustee (who shall not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Trustee, (C) subject to a perfected first lien in the Trustee, and (D) free and clear from all third-party liens.

"Liquidity Facility" means a letter of credit, line of credit, standby purchase agreement or other financial instrument which is available to provide funds with which to purchase Bonds.

"Liquidity Provider" means the entity which is obligated to provide funds to purchase Bonds under the terms of a Liquidity Facility.

"Maximum Annual Debt Service" means, at any point in time, with respect to all Bonds which are then Outstanding and all Bonds which are then Authorized, the maximum amount of principal and interest becoming due in the then current or any future Fiscal Year, calculated by using the following assumptions:

(i) in determining the principal due in each year, payment shall (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made on Bonds in accordance with any amortization schedule established by the governing documents setting forth the terms of such Bonds, including, as a principal payment, the Accreted Value of any Capital Appreciation Bonds or Original Issue Discount Bonds maturing or scheduled for redemption in such year; in determining the interest due in each year, interest payable at a fixed rate shall (except to the extent subsection (ii), (iii) or (iv) of this definition applies) be assumed to be made at such fixed rate and on the required payment dates;

(ii) if all or any portion or portions of an Outstanding Series of Bonds constitute Balloon Indebtedness, or if all or any portion or portions of a Series of Bonds then proposed to be issued would constitute Balloon Indebtedness (excluding Bonds which are part of a Program and to which subsection (viii) applies), then, for purposes of determining Maximum Annual Debt Service, each maturity which constitutes Balloon Indebtedness shall, unless provision (iii) below then applies to such maturity, be treated as if it were to be amortized over a term of 25 years commencing in the year the stated maturity of such Balloon Indebtedness occurs and with substantially level annual debt service payments; the interest rate used for such computation shall be that rate determined by a Consultant to be a reasonable market rate for 25-year fixed-rate Bonds issued under the Indenture on the date of such calculation;

(iii) any maturity which constitutes Balloon Indebtedness as described in provision (ii) above and for which the stated maturity date occurs within 12 months from the date such calculation is made, shall be assumed to become due and payable on the stated maturity date and provision (ii) above shall not apply thereto unless there is delivered to the entity making the calculation a certificate of an Authorized Board Representative stating that the Board intends to refinance such maturity and stating the probable terms of such refinancing and that the debt capacity of the Board is sufficient to successfully complete such refinancing; upon the receipt of such certificate, such Balloon Indebtedness shall be assumed to be refinanced in accordance with the probable terms set out in such certificate and such terms shall be used for purposes of calculating Maximum Annual Debt Service, provided that such assumption shall not result in an amortization period longer than or an interest rate lower than that which would be assumed under provision (ii) above;

(iv) if any of the Outstanding series of Bonds constitute Tender Indebtedness or if Bonds then proposed to be issued would constitute Tender Indebtedness (excluding Bonds which are part of a Program or which a Qualified Swap is in effect and to which subsection (viii), (ix), (xi), or (xii) applies), then, for purposes of determining Maximum Annual Debt Service, Tender Indebtedness shall be treated as if the principal amount of such Bonds were to be amortized over a term of 25 years commencing in the year in which such series is first subject to tender and with substantially level annual debt service payments; the interest rate used for such computation shall be that rate determined by a Consultant to be a reasonable market rate for 25-year fixed-rate Bonds issued under the Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Bonds bear interest which is or is not excluded from gross income for federal income tax purposes; with respect to all principal and interest payments becoming due prior to the year in which such Tender Indebtedness is first subject to tender such payments shall be treated as described in (i) above unless the interest during that period is subject to fluctuation, in which case the interest becoming due prior to such first tender date shall be determined as provided in (v), (vi) or (xii) below, as appropriate;

(v) if any Outstanding Bonds constitute Variable Rate Indebtedness (except to the extent subsection (ii) or (iii) relating to Balloon Indebtedness or (iv) relating to Tender Indebtedness or (xi) or (xii) relating to Qualified Swaps applies), the interest rate on such Bonds shall be assumed to be 100% of the rate quoted in The Bond Buyer 25 Revenue Bond Index for the last week of the month preceding the date of the calculation as certified by an Authorized Board Representative.

(vi) if Bonds proposed to be issued would be Variable Rate Indebtedness (except to the extent subsection (xi) or (xii) relating to Qualified Swaps applies), such Bonds shall be assumed to bear an interest rate equal to 100% of the rate quoted in The Bond Buyer 25 Revenue Bond Index for the last week of the month preceding the date of sale of such Bonds, as published in The Bond Buyer, as certified by an Authorized Board Representative;

(vii) with respect to any Commercial Paper Program which has been Implemented and not then terminated or with respect to any Commercial Paper Program then proposed to be Implemented, the principal and interest thereon shall be calculated as if the entire Authorized Amount of such Commercial Paper Program were to be amortized over a term of 25 years commencing in the year in which such Commercial Paper Program is Implemented and with substantially level annual debt service payments; the interest rate used for such computation shall be that rate determined by a Consultant to be a reasonable market rate for 25-year fixed-rate Bonds issued under the Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Bonds bear interest which is or is not excluded from gross income for federal income tax purposes;

(viii) with respect to any Program other than a Commercial Paper Program, then proposed to be Implemented, it shall be assumed that the full principal amount of such Authorized Bonds will be amortized over a term certified by an Authorized Board Representative to be the expected duration of such Program, but not to exceed 25 years, and commencing in the year such Program is Implemented and that debt service shall be paid in substantially level annual debt service payments over such assumed term; the interest rate used for such computation shall be that rate determined by a Consultant to be a reasonable market rate for fixed-rate Bonds of a corresponding term issued under the Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Bonds bear interest which is or is not excluded from gross income for federal income tax purposes;

(ix) with respect to any Program other than a Commercial Paper Program, which has been Implemented (a) debt service on Bonds then Outstanding as part of such Program shall be determined in accordance with such of the foregoing provisions of this definition as shall be applicable, and (b) with respect to the 2002 Bonds of such Program which are Authorized, it shall be assumed that the full principal amount of such Authorized Bonds will be amortized over a term certified by an Authorized Board Representative at the time of implementation of such Program to be the expected duration of such Program or, if such expectations have changed, over a term certified by an Authorized Board Representative to be the expected duration of such Program at the time of such calculation, but not to exceed 25 years from the date such Program is Implemented and it shall be assumed that debt service shall be paid in substantially level annual debt service payments over such assumed term; the interest rate used for such computation shall be that rate determined by a Consultant to be a reasonable market rate for fixed-rate Bonds of a corresponding term issued under the Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Bonds bear interest which is or is not excluded from gross income for federal income tax purposes;

(x) debt service on Repayment Obligations, to the extent such obligations constitute Bonds under the Indenture, shall be calculated as described under "—THE TRUST INDENTURE—Repayment Obligations" below;

(xi) for purposes of computing the Maximum Annual Debt Service of Bonds of a Series with respect to which a Qualified Swap is in effect, the interest payable thereon (a) except as provided in clause (b) of this sentence, shall be deemed to be the interest payable under the Qualified Swap in accordance with the terms thereof plus any amount required to be paid by the Board to the Qualified Swap Provider pursuant to the Qualified Swap or minus any amount required to be paid by the Qualified Swap Provider to the Board pursuant to the Qualified Swap, or (b) for purposes of computing the Maximum Annual Debt Service for any Reserve Fund created for a Series of Bonds and for purposes of any computation for the issuance of Additional Bonds as provided in the Indenture shall be deemed to be the amount accruing (1) at the fixed rate as provided in the Qualified Swap if the Qualified Swap provides that the Board's obligation thereunder is payable at a fixed rate or (2) at a variable rate determined in accordance with clause (v) or (vi) of the definition of Maximum Annual Debt Service if the Qualified Swap provides that the Board's obligation thereunder is payable at a variable rate;

(xii) for purposes of computing the Maximum Annual Debt Service of Qualified Swaps with respect to which no Bonds are presently Outstanding or of that portion of a Qualified Swap with respect to which the notional amount is greater than the principal amount of Outstanding Bonds to which such Qualified Swap relates for purposes of computation of the Maximum Annual Debt Service for a period after the date of computation, the interest payable thereon shall be deemed to be the net amount most recently paid, as of the date of computation, by the Board to the Qualified Swap Provider thereunder or (expressed negative number) by the Qualified Swap Provider to the Board thereunder; and

(xiii) if moneys or Permitted Investments have been irrevocably deposited with and are held by the Trustee or another fiduciary or Capitalized Interest has been set aside exclusively to be used to pay principal and/or interest on specified Bonds, then the principal and/or interest to be paid from such moneys, Permitted Investments, or Capitalized Interest or from the earnings thereon shall be disregarded and not included in calculating Maximum Annual Debt Service.

"Net Pledged Revenues" means Net Revenues.

"Net Proceeds" means insurance proceeds received as a result of damage to or destruction of Port Facilities or any condemnation award or amounts received from the sale of Port Facilities under the threat of condemnation less expenses (including attorneys' fees and any expenses of the Trustee) incurred in the collection of such proceeds or award.

"Net Revenues" means, for any given period, the Revenues for such period less the Operation and Maintenance Expenses for such period.

"Notes" means Bonds issued under the provisions of the Indenture which have a maturity of five years or less from their date of original issuance and which are not part of a Commercial Paper Program.

"OPA Revenues" means the operating and non-operating revenues and interest income of OPA, or any successor entity thereto controlled by the Board, for any Fiscal Year as determined in accordance with generally accepted accounting principles, as modified from time to time.

"Operation and Maintenance Expenses" means, for any given period, the total operation and maintenance expenses of the Board as determined in accordance with generally accepted accounting principles as modified from time to time, excluding any operation and maintenance expenses payable from moneys other than Pledged Revenues.

"Original Issue Discount Bonds" means Bonds which are sold at an initial public offering price of less than 95% of their face value and which are specifically designated as Original Issue Discount Bonds by the Supplemental Indenture under which such Bonds are issued.

"Outstanding" when used with respect to Bonds means all Bonds which have been authenticated and delivered under the Indenture, except: (a) Bonds cancelled or purchased by the Trustee for cancellation or delivered to or acquired by the Trustee for cancellation and, in all cases, with the intent to extinguish the debt represented thereby; (b) Bonds deemed to be paid in accordance with the Indenture; (c) Bonds in lieu of which other Bonds have been authenticated under the Indenture; (d) Bonds that have become due (at maturity or on redemption, acceleration or otherwise) and for the payment of which sufficient moneys, including interest accrued to the due date, are held by the Trustee or a Paying Agent; (e) Bonds which, under the terms of the Supplemental Indenture pursuant to which they were issued, are deemed to be no longer Outstanding; (f) Repayment Obligations deemed to be Bonds under the Indenture to the extent such Repayment Obligation arose under the terms of a Liquidity Facility and are secured by a pledge of Outstanding Bonds acquired by the Liquidity Provider; and (g) for purposes of any consent or other action to be taken by the holders of a specified percentage of Bonds under the Indenture, Bonds held by or for the account of the board or by any person controlling, controlled by or under common control with the Board, unless such Bonds are pledged to secure a debt to an unrelated party.

"Parity Bond" or "Parity Bonds" means any debt obligation of the Board issued under and in accordance with the provisions of the Indenture, including, but not limited to, bonds, notes, bond anticipation notes, commercial paper and other instruments creating an indebtedness of the Board, and obligations incurred through lease or installment purchase agreements or other agreements or certificates of participation therein and Repayment Obligations to the extent provided in the Indenture. In connection with Parity Bonds of a Series with respect to which a Qualified Swap is in effect or proposed to be in effect, the term "Parity Bonds" includes, collectively, both such Bonds and either such Qualified Swap or the obligations of the Board under such Qualified Swap, as the context requires, but the Qualified Swap Provider shall not be considered to be an owner of Parity Bonds for purposes of receiving notices, granting consents or approvals, or directing or controlling any actions, restrictions, rights, remedies or waivers under the Indenture, except as expressly provided in the Indenture.

"Participants" means the participants of DTC, which includes securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations.

"Passenger Facility Charges" means the passenger facility fees authorized to be imposed by the Port in accordance with 49 U.S.C. §§40117, et seq.

"Permitted Investments" means any of the following:

(1) Government Obligations;

(2) Obligations, debentures, notes or other evidences of indebtedness issued or guaranteed by any of the following instrumentalities or agencies of the United States of America: Federal Home Loan Bank System; Export-Import Bank of the United States; Federal Financing Bank; Government National Mortgage Association; Federal National Mortgage Association; Student Loan Marketing Association; Federal Farm Credit Bureau; Farmers Home Administration; Federal Home Loan Mortgage Corporation; and Federal Housing Administration.

(3) Direct and general long-term obligations of any state, which obligations are rated in either of the two highest rating categories by Moody's and by S&P if S&P then maintains a rating on such obligations;

(4) Direct and general short-term obligations of any state which obligations are rated in the highest rating category by Moody's and by S&P if S&P then maintains a rating on such obligations;

(5) Interest-bearing demand or time deposits (including certificates of deposit) or interests in money market portfolios issued by state banks or trust companies or national banking associations that are members of the Federal Deposit Insurance Corporation ("FDIC") or by savings and loan associations that are members of the Federal Savings and Loan Insurance Corporation ("FSLIC"), which deposits or interests must either be (a) continuously and fully insured by FDIC or FSLIC and with banks that are rated at least "P-1" or "Aa" by Moody's and at least "A-1" or "AA" by S&P if such banks are then rated by S&P or (b) fully secured by United States Obligations (i) which are valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to the principal amount of the deposits or interests, (ii) held by the Trustee (who shall not be the provider of the collateral) or by any Federal Reserve Bank or depositary acceptable to the Trustee, (iii) subject to a perfected first lien in the Trustee, and (iv) free and clear from all third-party liens;

(6) Long-term or medium-term corporate debt guaranteed by any corporation that is rated by both Moody's and S&P in either of their two highest rating categories;

(7) Repurchase agreements which are (a) entered into with banks or trust companies organized under state law, national banking associations, insurance companies or government bond dealers reporting to, trading with, and recognized as a primary dealer by, the Federal Reserve Bank of New York and which either are members of the Security Investors Protection Corporation or with a dealer or parent holding company that has an investment grade rating from Moody's and from S&P if S&P then maintains a rating on such institution and (b) fully secured by investments specified in Section (1) or (2) of this definition of Permitted Investments (i) which are valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at least equal to the amount invested in the repurchase agreements, (ii) held by the Trustee (who shall not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Trustee, (iii) subject to a perfected first lien in the Trustee and (iv) free and clear from all third-party liens;

(8) Prime commercial paper of a United States corporation, finance company or banking institution rated at least "P-1" by Moody's and at least "A-1" by S&P if S&P then maintains a rating on such paper;

(9) Shares of a diversified open-end management investment company (as defined in the Investment Company Act of 1940, as amended) or shares in a regulated investment company (as defined in Section 851(a) of the Code) that is (a) a money market fund that has been rated in one of the two highest rating categories by Moody's or S&P or (b) a money market fund or account of the Trustee or any state or federal bank that is rated at least "P-1" or "Aa" by Moody's if Moody's then maintains a rating on such bank and at least "A-1" or "AA" by S&P if S&P then maintains a rating on such bank, or whose one bank holding company parent is rated at least "P-1" or "Aa" by Moody's if Moody's then maintains a rating on such holding company and "A-1" or "AA" by S&P if S&P then maintains a rating on such holding company or that has a combined capital and surplus of not less than $50,000,000;

(10) Investment Agreements; and

(11) Any other type of investment in which the Board directs the Trustee to invest provided that there is delivered to the Trustee a certificate of an Authorizing Board Representative stating that each of the Rating Agencies then maintaining a rating on the applicable Bond has been informed of the proposal to invest in such investment and each of such Rating Agencies has confirmed that such investment will not adversely affect the rating then assigned by such Rating Agency to any of the applicable Bond.

"Pledged OPA Revenues" means OPA Revenues.

"Pledged Revenues" is defined in the Official Statement under "SECURITY AND SOURCES OF PAYMENT FOR THE 2002 BONDS—Pledged Revenues."

"Port" means all facilities and property, real or personal, wherever located, under the jurisdiction or control of the Board or in which the Board has other rights or from which the Board derives revenue.

"Port Facilities" or "Port Facility" means a specific facility or group of facilities or category of facilities which constitute or are part of the Port.

"Port Revenue Fund" is defined in the Official Statement under "SECURITY AND SOURCES OF PAYMENT FOR THE 2002 BONDS—Flow of Funds under the City Charter."

"Principal Amount" or "principal amount" means, as of any date of calculation, (i) with respect to any Capital Appreciation Bond, the Accreted Value thereof (the difference between the stated amount to be paid at maturity and the Accreted Value being deemed unearned interest), (ii) with respect to any Original Issue Discount Bond, the Accreted Value thereof, unless the Supplemental Indenture under which such Bond was issued shall specify a different amount, in which case, the terms of the Supplemental Indenture shall control and (iii) with respect to any other Bonds, the principal amount of such Bond payable at maturity.

"Program" means a Commercial Paper Program, auction bond program or other Program pursuant to which the Board authorizes the issuance of Bonds from time to time up to an Authorized Amount and sets forth the procedures under which such Bonds shall be issued and the terms of such Bonds.

"Project" means any and all facilities financed in whole or in part with proceeds of Bonds.

"Qualified Swap" means any financial arrangement (i) that is entered into by the Board with an entity that is a Qualified Swap Provider at the time the arrangement is entered into; (ii) which provides that the Board shall pay to such entity an amount based on the interest accruing at a fixed or a variable rate on an amount equal to the designated principal amount of Bonds Outstanding as described therein, and that such entity shall pay to the Board an amount based on the interest accruing on such principal amount at a variable or fixed rate of interest computed according to a formula set forth in such arrangement (which need not be the same as the actual rate of interest borne by such Bonds) or that one shall pay to the other any net amount due under such arrangement; and (iii) which has been designated in writing to the Trustee by the Board as a Qualified Swap with respect to such Bonds, and if entered into in connection with a new Series of Bonds has been approved in writing by S&P, and if entered into in connection with a particular Series of Bonds has been approved in writing by the insurer insuring payments of principal and interest on such Series of Bonds.

"Qualified Swap Provider" means with respect to a Qualified Swap a financial institution whose senior long term debt obligations, or whose obligations under a Qualified Swap are guaranteed by a financial institution whose senior long term debt obligations, are rated (at the time the subject Qualified Swap is entered into) at least A3, in the case of Moody's and A-, in the case of S & P, or the equivalent thereto in the case of any successor thereto, and which is approved in writing by any bond insurer insuring payment of principal of and interest on the Series of Bonds to which such Qualified Swap relates.

"Record Date" means, with respect to the 2002 Bonds, for a May 1 interest payment date the preceding April 15 and for a November 1 interest payment date the preceding October 15.

"Repayment Obligations" means an obligation arising under a written agreement of the Board and a Credit Provider pursuant to which the Board agrees to reimburse the Credit Provider for amounts paid through a Credit Facility to be used to pay debt service on any Bonds or an obligation arising under a written agreement of the Board and a Liquidity Provider pursuant to which the Board agrees to reimburse the Liquidity Provider for amounts paid through a Liquidity Facility to be used to purchase Bonds.

"Reserve Fund Insurance Policy" means an insurance policy, a letter of credit, surety bond or other financial instrument deposited in a Reserve Fund in lieu of or partial substitution for cash or securities.

"Reserve Fund Requirement" for the Series 2002 Bonds means an amount equal to the average annual debt service due with respect to the Series 2002 Bonds as of their date of issuance, or $42,028,232.34, provided that upon the redemption or defeasance of any Series 2002 Bonds in accordance with the Indenture, the Series 2002 Reserve Fund Requirement shall be modified to equal the average annual debt service due with respect to the Series 2002 Bonds then Outstanding, after taking into account such redemption or defeasance.

"Revenues" means the operating revenues and interest income of the Board, for any given period, as determined in accordance with generally accepted accounting principles, as modified from time to time, but excluding (i) Special Facilities Revenue, and (ii) any amounts paid to the Board pursuant to a Qualified Swap.

"Series" means Bonds designated as a separate Series by a Supplemental Indenture and, with respect to a Commercial Paper Program, shall mean the total Authorized Amount of such Program regardless of when or whether issued, unless portions thereof are, by Supplemental Indenture, designated as separate Series.

"Special Facilities Revenue" means the contractual payments derived by the Board from a Special Facility and all other income and revenues available to the Board from such Special Facility.

"Special Facility" means a facility which is designated as a Special Facility under the provisions of the Indenture.

"Special Obligations" means bonds or other debt instruments which are not secured by nor payable from the Pledged Revenues, but are payable from Special Facilities Revenues.

"Specified Project" means a Project or a group of alternative Projects which are described in a certificate of an Authorized Board Representative delivered to the Consultant preparing the Additional Bonds certificate described in the Indenture, the revenues and expenses of which Project or of the alternative Projects are to be taken into account by such Consultant in preparing said certificate.

"Subordinated Obligation" means any bond or other debt instrument issued or otherwise entered into by the Board which ranks junior and subordinate to the Bonds and which may be paid from moneys constituting Pledged Revenues only if all amounts of principal and interest which have become due and payable on the Bonds whether by maturity, redemption or acceleration have been paid in full and the Board is current on all payments required to be made to replenish all Reserve Funds. In connection with any Subordinated Obligation with respect to which a interest rate swap is in effect or proposes to be in effect, the term "Subordinated Obligation" includes, collectively, both such Subordinated Obligation and either such interest rate swap or the obligations of the Board under such interest rate swap, as the context requires. The term "Subordinated Obligations" also includes an interest rate swap or the obligations of the Board under such interest rate swap which has been entered into in connection with a Subordinated Obligation, as the context requires, although none of the Subordinated Obligations with respect to which such interest rate swap was entered into are outstanding.

"Supplemental Indenture" means any document supplementing or amending the Indenture or providing for the issuance of Bonds, including the Twelfth Supplemental Trust Indenture.

"Swap Termination Payment" means an amount payable by the Board or a Qualified Swap Provider, in accordance with a Qualified Swap, to compensate the other party to the Qualified Swap for any losses and costs that such other party may incur as a result of an event of default or the early termination of the obligations, in whole or in part, of the parties under such Qualified Swap.

"2002 Bonds" means the debt obligations of the Board issued under the Indenture and designated "Port of Oakland, California Revenue Bonds, 2002 Series L (AMT)" and "Port of Oakland, California Revenue Bonds, 2002 Series M (Non-AMT)."

"Tender Indebtedness" means any Bonds or portions of Bonds a feature of which is an option, on the part of the Bondholders, or an obligation, under the terms of such Bonds, to tender all or a portion of such Bonds to the Board, the Trustee, the Paying Agent or other fiduciary or agent or Credit Provider for payment or purchase and requiring that such Bonds or portions of Bonds be purchased if properly presented.

"Twelfth Supplemental Trust Indenture" means the Twelfth Supplemental Trust Indenture dated as of July 1, 2002, between the Board and the Trustee and which sets forth the terms of the 2002 Bonds.

"Trustee" means U.S. Bank, N.A., until a successor replaces it and, thereafter, means such successor.

"United States Obligations" means direct and general obligations of the United States of America, or obligations that are unconditionally guaranteed as to principal and interest by the United States of America, including (in the case of direct and general obligations and not guaranteed obligations) evidences of ownership of proportionate interests in future interest and/or principal payments of such obligations which meet certain limitations as set forth in the Indenture.

"Variable Rate Indebtedness" means any Bond or Bonds the interest rate on which is not, at the time in question, fixed to maturity.

THE TRUST INDENTURE

The following is a summary of certain provisions of the Trust Indenture. Such summary is only a brief description of certain provisions of such document and is qualified in its entirety by reference to the full text of the Indenture.

Grant to Secure the Bonds; Pledge of Pledged Revenues

To secure the payment of the Bonds and the performance and observance by the Board of all the covenants, agreements and conditions expressed or implied in the Indenture or contained in the Bonds, the Board pledges and assigns to the Trustee and grants to the Trustee a lien on and security interest in all right, title and interest of the Board in and to all of the following and provides that such lien and security interest shall be prior in right to any other pledge, lien or security interest created by the Board in the following: (a) the Pledged Revenues, (b) all moneys and securities (excluding moneys and securities on deposit in any Rebate Fund) held from time to time by the Trustee under the Indenture and moneys and securities held in any Construction Fund whether or not held by the Trustee, (c) earnings on amounts included in provisions (a) and (b) above and (d) any and all other funds, assets, rights, property or interests therein which may from time to time be sold, transferred, conveyed, assigned, pledged, mortgaged, granted or delivered to or deposited with the Trustee as additional security under the Indenture, for the equal and proportionate benefit and security of all Bonds, all of which, regardless of the time or times of their authentication and delivery or maturity, shall, with respect to the security provided by the Indenture, be of equal rank without preference, priority or distinction as to any Bond over any other Bond or Bonds, except as to the timing of payment of the Bonds. Any Reserve Fund created by a Supplemental Indenture and any other security or Credit Enhancement Facility provided for specific Bonds may, as provided by Supplemental Indenture, secure only such specific Bonds and shall not be included as security for all Bonds under the Indenture.

The Board represents and states under the Indenture that it has not previously created any charge or lien on or any security interest in the Pledged Revenues and the Board covenants under the Indenture that, until all the Bonds authorized and issued under the provisions of the Indenture and the interest thereon shall have been paid or are deemed to have been paid, it will not grant any prior or parity pledge of or any security interest in the Pledged Revenues or any of the other security which is pledged pursuant to the Indenture, or create or permit to be created any charge or lien thereon or any security interest therein ranking prior to or on a parity with the charge or lien of the Bonds from time to time Outstanding under the Indenture. The Board is permitted to encumber the Pledged Revenues with a pledge ranking junior and subordinate to the charge or lien of the Bonds.

Repayment Obligations

If a Credit Provider or Liquidity Provider advances funds to pay principal of or to purchase Parity Bonds, all or a portion of the Board's repayment obligation may be afforded the status of a Parity Bond under the Indenture. The Credit Provider or Liquidity Provider will be deemed to be the Bondholder, and such Parity Bonds will be deemed to have been issued as of the date of the Parity Bonds for which the Credit Facility or Liquidity Facility was originally provided. Interest on the Parity Bonds deemed to be held by the Credit Provider or Liquidity Provider shall be deemed to be payable semiannually at the rate of interest applicable to the repayment obligation. Payments of principal shall be deemed to be payable annually and amortized on a substantially level annual debt service basis over a period ending on the later of: (a) the earlier of (i) 25 years or (ii) the final maturity of the Parity Bonds for which the Credit Facility or Liquidity Facility was provided; and (b) the final maturity of the Repayment Obligation. Any amount that comes due on a Repayment Obligation by its terms, which is in excess of the amount treated as principal of and interest on a Parity Bond, shall be junior and subordinate to the Parity Bonds and shall constitute a Subordinated Obligation of the Board.

Obligations Under Qualified Swap

The obligation of the Board to make interest swap payments under a Qualified Swap with respect to a Series of Bonds shall be on a parity with the obligation of the Board to make payments with respect to such Series of Bonds and other Bonds under the Indenture, except as otherwise provided by a Supplemental Indenture and elsewhere in the Indenture, with respect to any Swap Termination Payments. Such interest swap obligations under a Qualified Swap shall be secured by a pledge of a lien on the Pledged Revenues on a parity with the Bonds of such

Series and all other Bonds, regardless of the principal amount, if any, of the Bonds of such Series remaining Outstanding.

In the event that a Swap Termination Payment or any other amounts other than as described in the preceding paragraph are due and payable by the Board under a Qualified Swap, such Swap Termination Payment and any such other amounts shall constitute a Subordinated Obligation under the Indenture.

Payment of Principal and Interest

Under the Indenture, the Board covenants and agrees that it will duly and punctually pay or cause to be paid from the Pledged Revenues the principal of, premium, if any, and interest on every Bond at the place and on the dates and in the manner in the Indenture, in the Twelfth Supplemental Trust Indenture and in the 2002 specified, and that it will faithfully do and perform all covenants and agreements in the Indenture and in the 2002 contained, provided that the Board's obligation to make payment of the principal of, premium, if any, and interest on the 2002 shall be limited to payment from the Pledged Revenues, the funds and accounts pledged therefor in the Indenture and any other source which the Board may specifically provide for such purpose and no Bondholder shall have any right to force payment from any other funds of the Board.

Rate Covenant

The Board will, at all times while any of the Bonds remain Outstanding, establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with the Port and for services rendered in connection therewith, so that Pledged Revenues in each Fiscal Year will be at least sufficient to pay the principal of and interest on the Outstanding Bonds as the same become due and payable, all other payments required for compliance with the Indenture and any Supplemental Indenture, all other payments to be paid from Pledged Revenues and all current Operation and Maintenance Expenses of the Port.

The Board further agrees that it will establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with the Port and for services rendered in connection therewith, so that during each Fiscal Year the Net Revenues will be equal to at least 125% of the actual debt service becoming due and payable by the Board on Outstanding Bonds in such year less (i) amounts paid from the proceeds of other borrowings and (ii) debt service paid in such year from Capitalized Interest.

If the Board violates either covenant set forth above, such violation shall not be a default under the Indenture and shall not give rise to a declaration of an Event of Default if, within 120 days after the date such violation is discovered, (1) the Board obtains recommendations from a Consultant as to the revision of rates, tolls, fees, rentals and charges necessary to produce Pledged Revenues sufficient to cure such violation and (2) the Board makes such revisions to rates, tolls, fees, rentals and charges and to Operation and Maintenance Expenses insofar as practicable.

Subordinated Obligations

The Board may, from time to time, incur indebtedness which is subordinate to the Bonds. Such indebtedness shall be incurred at such times and upon such terms as the Board shall determine, provided that any lien on or security interest granted in the Pledged Revenues or other assets securing the Bonds shall be specifically stated to be junior and subordinate to the lien on and security interest in such Pledged Revenues and other assets granted to secure the Bonds and the Board's obligations under the Indenture, and payment of principal of and interest on such subordinated obligations shall be permitted, provided that all deposits required to be made to the Trustee to be used to pay debt service on the Bonds or to replenish the Reserve Fund are then current.

Special Facilities and Special Obligations

The Board may, form time to time, (i) designate a separately identifiable existing facility or planned facility as a "Special Facility," (ii) incur debt primarily for the purpose of acquiring, constructing, renovating or improving or providing financing to a third party to acquire, construct, renovate or improve such facility, (iii) provide that the contractual payments derived from such Special Facility together with other income and revenues available to the Board from such Special Facility be "Special Facilities Revenue" and not included as Pledged Revenues and (iv) provide that the debt so incurred shall be a "Special Obligation" and the principal of and interest thereon shall be payable solely from the Special Facilities Revenue. The Board may from time to time refinance any such Special Obligations with other Special Obligations.

The Special Obligations shall be payable as to principal, redemption premium, if any, and interest solely from Special Facilities Revenue which shall include contractual payments derived by the Board under and pursuant to a contract relating to the Special Facility by and between the Board and another person, firm or corporation, either public or private, as shall undertake the operation of the Special Facility.

No Special Obligations shall be issued by the Board unless there shall have been filed with the Trustee a certificate of an Authorized Board Representative stating that the estimated Special Facilities Revenue of or pledged to the payment of obligations relating to the Special Facility will be at least sufficient to pay the principal of and interest on such Special Obligations when the same become due and payable, all costs of operating and maintaining such Special Facility not paid for by the operator thereof or by a party other than the Board and all sinking fund, reserve or other payments required by the resolution authorizing the Special Obligations as the same become due, the estimated Revenues and Net Pledged Revenues calculated without including the Special Facilities Revenue and without including any operation and maintenance expenses of the Special Facility so that the Board will be in compliance with the Indenture during each of the five Fiscal Years immediately following such disposition and no Event of Default then exists under the Indenture.

To the extent Special Facilities Revenue during any Fiscal Year shall exceed the amounts required to be paid for such Fiscal Year, such excess Special Facilities Revenue shall be deposited into the Port Revenue Fund and shall constitute Pledged Revenues.

At such time as the Special Obligations issued for a Special Facility including Special Obligations issued to refinance Special Obligations are fully paid or otherwise discharged, all revenues of the Board from such facility shall be included as Pledged Revenues.

Obligations Secured by Other Revenues

The Board may, from time to time, incur indebtedness payable solely from certain Revenues which do not constitute Pledged Revenues at such times and upon such terms and conditions as the Board shall determine, provided that such indebtedness shall specifically include a provision that payment of such indebtedness is neither secured by nor payable from Pledged Revenues. The Board may also, from time to time, incur indebtedness payable from and secured by both Pledged Revenues and certain Revenues which do not constitute Pledged Revenues at such times and upon such terms and conditions as the Board shall determine, provided that the conditions set forth in the Indenture for the issuance of indebtedness payable from and secured by Pledged Revenues are met.

Withdrawals from Port Revenue Fund

The Board, at least one Business Day prior to each payment date, shall withdraw from the Port Revenue Fund and pay to the Trustee the full amount required to make the interest and/or principal payments due on such payment date.

On any day on which the Trustee receives funds from the Board to be used to pay principal of or interest on Bonds, the Trustee shall, if the amount received is fully sufficient to pay all amounts of principal and interest then due or becoming due on the next payment date, deposit such amounts into the Debt Service Fund for the 2002 Bonds for which such payments were made. If, on any payment date, the Trustee does not have sufficient amounts in the Debt Service Fund to pay in full all amounts of principal and/or interest due on such date, the Trustee shall allocate the total amount which is available to make payment on such day as follows: first to the payment of interest then due on the 2002 Bonds and, if the amount available shall not be sufficient to pay in full all interest on the 2002 Bonds then due, then according to the amount of interest then due and second to the payment of principal then due on the

2002 Bonds and, if the amount available shall not be sufficient to pay in full all principal on the 2002 Bonds then due, then according to the Principal Amount then due on the 2002 Bonds.

If a Reserve Fund (or a Credit Facility provided in lieu thereof) has been used to make payments on Bonds secured thereby, then the Board may be required by Supplemental Indenture to replenish such Reserve Fund or reimburse the Credit Provider from Pledged Revenues provided that (1) no amount from Pledged Revenues may be used for such purpose until all payments of principal of and interest on all Bonds which have become due and payable shall have been paid in full, (2) the required payments to replenish any Reserve Fund or reimburse the Credit Provider shall be due in no less than 12 substantially equal monthly installments commencing in the month following any such withdrawal and (3) if the aggregate amount of payments due on any date to replenish the Reserve Fund exceeds the amount available for such purpose, the payments made to the Trustee for such purpose shall be deposited into the Reserve Fund.

Notwithstanding the foregoing, the Board may, by Supplemental Resolution, provide for different provisions and timing of deposits with the Trustee and different methods of paying principal of or interest on Bonds depending upon the terms of such Bonds and may provide for payment through a Credit Facility with reimbursement to the Credit Provider from the Debt Service Fund.

Maintenance and Operation of Port

The Board covenants in the Indenture that the Port shall at all times be operated and maintained in good working order and condition and that all lawful orders of any governmental agency or authority having jurisdiction in the premises shall be complied with (provided the Board shall not be required to comply with any such orders so long as the validity or application thereof shall be contested in good faith), and that all licenses and permits necessary to construct or operate any of the Port Facilities shall be obtained and maintained and that all necessary repairs, improvements, replacements of the facilities constituting the Port shall be made, subject to sound business judgment. The Board will, from time to time, duly pay and discharge, or cause to be paid and discharged, except to the extent the imposition or payment thereof is being contested in good faith by the Board, all taxes (if any), assessments or other governmental charges lawfully imposed upon the Port Facilities or upon any part thereof, or upon the Pledged Revenues, when the same shall become due, as well as any lawful claim for labor, materials or supplies or other charges which, if unpaid, might by law become a lien or charge upon the Pledged Revenues or the Port Facilities or any part thereof constituting the Port.

Insurance; Application of Insurance and Condemnation Proceeds

Subject, in each case, to the condition that insurance is obtainable at reasonable rates and upon reasonable terms and conditions:

(1) the Board will procure and maintain or cause to be procured and maintained commercial insurance or provide Qualified Self Insurance with respect to the facilities constituting the Port and public liability insurance in the form of commercial insurance or Qualified Self Insurance and, in each case, in such amounts and against such risks as are, in the judgment of the Board, prudent and reasonable taking into account, but not being controlled by, the amounts and types of insurance or self-insured programs provided by similar ports;

(2) the Board will procure and maintain reasonable fidelity insurance or bonds on the position of Chief Financial Officer and on any other employees of the Board who handle or are responsible for funds of the Board; and

(3) the Board will place on file with the Trustee annually within 120 days after the close of each Fiscal Year a certificate of an Authorized Board Representative containing a summary of all insurance policies and self-insured programs then in effect with respect to the Port and the operations of the Board.

"Qualified Self Insurance" means insurance maintained through a program of self insurance or insurance maintained with a fund, company or association in which the Board may have a material interest and of which the

Board may have control, either singly or with others. Each plan of Qualified Self Insurance shall be established in accordance with law, shall provide that reserves be established or insurance acquired in amounts adequate to provide coverage which the Board determines to be reasonable to protect against risks assumed under the Qualified Self Insurance plan, including any potential retained liability in the event of the termination of such plan of Qualified Self Insurance, and such self-insurance program shall be reviewed at least annually by a Consultant who shall deliver to the Board a report on the adequacy of the reserves established thereunder. If the Consultant determines that such reserves are inadequate, he shall make a recommendation as to the amount of reserves that should be established and maintained, and the Board shall comply with such recommendation unless it can establish to the satisfaction of and receive a certification from a Consultant that a lower amount is reasonable to provide adequate protection to the Board.

If, as a result of any event, a Port Facility or Port Facilities are destroyed or severely damaged, the Board shall create within the Port Revenue Fund a special account and credit the Net Proceeds received as a result of such event of damage or destruction into such account and such Net Proceeds shall, within a reasonable period of time taking into account any terms under which insurance proceeds are paid and any insurance restrictions upon the use or timing of the use of insurance proceeds, be used to (1) repair or replace the Port Facilities which were damaged or destroyed, (2) provide additional revenue-producing Port Facilities, (3) redeem Bonds or (4) create an escrow fund pledged to pay specified Bonds and thereby cause such Bonds to be deemed to be paid as provided in the Indenture.

Transfer of Port Facilities

The Board shall not, except as permitted below, transfer, sell or otherwise dispose of Port Facilities. For purposes of this section, any transfer of an asset over which the Board retains or regains substantial control shall not for so long as the Board has such control be deemed a disposition of Port Facilities.

The Board may transfer, sell or otherwise dispose of Port Facilities only if such transfer, sale or disposition complies with one or more of the following provisions:

(a) The property being disposed of is inadequate, obsolete or worn out; or

(b) The property proposed to be disposed of and all other Port Facilities disposed of during the 12-month period ending on the day of such transfer (but excluding property disposed of under (a) above), will not, in the aggregate, constitute a Significant Portion of the Port determined as described below and the proceeds are deposited into the Port Revenue Fund to be used as described below; or

(c) The Board receives fair market value for the property, the proceeds are deposited into the Port Revenue Fund to be used as described below and, prior to the disposition of such property, there is delivered to the Trustee a certificate of a Consultant to the effect that notwithstanding such disposition, but taking into account the use of such proceeds in accordance with the expectations of the Board as evidenced by a certificate of an Authorized Board Representative, the Consultant estimates that Board will be in compliance with the rate covenant set forth in the Indenture during each of the five Fiscal Years immediately following such disposition.

The term “Significant Portion” of the Port Facilities means Port Facilities which, if such facilities had been disposed of by the Board at the beginning of the Fiscal Year which includes the month of commencement of the 12-month period referred to in (b) above would have resulted in a reduction in Net Pledged Revenues for such Fiscal Year of more than 4% when the actual Net Pledged Revenues for such Fiscal Year are decreased by the Revenues directly attributable to such Port Facilities and increased by the expenses of the Board directly attributable to such Port Facilities.

Proceeds of the disposition of assets under (b) or (c) above shall be deposited into the Port Revenue Fund and used, within a reasonable period of time, not to exceed three years, to (1) provide additional revenue-producing Port Facilities, (2) redeem Bonds or (3) create an escrow fund pledged to pay specified Bonds and thereby cause such Bonds to be deemed to be paid as provided in the Indenture.

Investments

Moneys held by the Trustee in the funds and accounts created under any Supplemental Indenture shall be invested and reinvested as directed by the Board in Permitted Investments subject to the restrictions set forth in such Supplemental Indenture and subject to the investment restrictions imposed upon the Board by the laws of the State. Earnings on the various funds and accounts created under a Supplemental Indenture shall be deposited into the Port Revenue Fund, except that (i) during the continuation of an Event of Default earnings on such funds and accounts shall be deposited into the Debt Service Funds created under the respective Supplemental Indentures, (ii) earnings on the Construction Funds may, if so provided by Supplemental Indenture, be retained in such Construction Fund, and (iii) earnings on Reserve Funds may be retained in such fund if there is a deficiency therein.

Defeasance

The Bonds or portions thereof which have been paid in full or which are deemed to have been paid in full shall no longer be secured by or entitled to the benefits of the Indenture except for the purposes of payment from moneys or Government Obligations held by the Trustee or a Paying Agent for such purpose. When all Bonds have been paid in full or are deemed to have been paid in full, and all other sums payable under the Indenture by the Board, including all necessary and proper fees, compensation and expenses of the Trustee, the Registrar and the Paying Agent, have been paid or are duly provided for, then the right, title and interest of the Trustee in and to the Pledged Revenues and the other assets pledged to secure such Bonds shall thereupon cease, terminate and become void, and thereupon the Trustee shall cancel, discharge and release the Indenture.

A Bond shall be deemed to be paid when payment of the principal, interest and premium, if any, either (a) shall have been made or caused to be made in accordance with the terms of such Bond and the Indenture or (b) shall have been provided for by irrevocably depositing with the Trustee in trust and irrevocably setting aside exclusively for such payment, (i) moneys sufficient to make such payment and/or (ii) noncallable Government Obligations, maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys to make such payment; provided, however, that no deposit under clause (b)(ii) shall be deemed a payment of such Bond until proper notice of redemption of such Bond shall have been given or, in the event, under the terms of such Supplemental Indenture, the date for giving such notice of redemption has not yet arrived, until the Board shall have given the Trustee irrevocable instructions to give such notice of redemption when appropriate and to notify all holders of the affected Bond that the deposit required by (b)(ii) above has been made with the Trustee and that such Bond is deemed to have been paid and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal of and the applicable redemption premium, if any, on such Bond or (b) the maturity of such Bonds.

Events of Default and Remedies

Events of Default. Each of the following events is defined in the Indenture to constitute an "Event of Default":

(a) a failure to pay the principal of or premium, if any, on any of the Bonds when the same shall become due and payable at maturity or upon redemption;

(b) a failure to pay any installment of interest on any of the Bonds when such interest shall become due and payable;

(c) a failure to pay the purchase price of any Bond when such purchase price shall be due and payable upon an optional or mandatory tender date as provided in the Bond;

(d) a failure by the Board to observe and perform any covenant, condition, agreement or provision (other than as specified in paragraphs (a), (b) and (c) above) contained in the Bonds or in the Indenture on the part of the Board to be observed or performed, which failure shall continue for a period of 60 days after written notice, specifying such failure and requesting that it be remedied, shall have been given to the Board by the Trustee as provided in the Indenture, an extension of such period prior to its expiration has been granted; provided, however, that the Trustee or the Trustee and the holders of such principal amount of Bonds shall be deemed to have agreed to an extension of such period if corrective action is initiated by the Board within such period and is being diligently pursued;

(e) the occurrence of certain bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings instituted by or against the City or the Board;

(f) the occurrence of any other Event of Default as is provided in a Supplemental Indenture.

Acceleration; Other Remedies. Upon the occurrence and continuance of an Event of Default, the Trustee may at any time and the Trustee shall, upon the written request of holders of 25% or more of the Principal Amount of any Bonds which are then Outstanding and subject to acceleration, by written notice to the Board, declare such Bonds which are subject to acceleration to be immediately due and payable. All Bonds Outstanding under the Indenture shall be subject to acceleration unless, under the terms of the Supplemental Indenture providing for the issuance of such series of Bonds, a specific series is, for a specified period, which may include the entire term of such series, secured by a separate source or a Credit Facility and is not subject to acceleration during such period unless the Credit Provider consents to such acceleration or the terms of the Supplemental Indenture permit acceleration under specified conditions and such conditions have been met. In addition, if under the terms of a Supplemental Indenture, an Event of Default occurs as a result of a determination that interest on any Bonds issued thereunder is taxable for federal income tax purposes, then the applicable Bonds to which such determination of taxability applies may be declared due and payable without any requirement that other Bonds be accelerated as a result of such Event of Default.

If after the principal of the 2002 Bonds shall have been declared to be due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Board shall cause to be deposited with the Trustee a sum sufficient to pay all matured installments of interest upon all Bonds and the principal of any and all Bonds which shall have become due otherwise than by reason of such declaration and such amount as shall be sufficient to cover reasonable compensation and reimbursement of expenses payable to the Trustee, and all Events of Default other than nonpayment of the principal of Bonds which shall have become due by such declaration shall have been remedied, then the Trustee may, and at the request of the holders of a majority in Principal Amount of Bonds Outstanding which are subject to such acceleration the Trustee shall, waive the Event of Default and rescind or annul the acceleration and its consequences.

Upon the occurrence and continuance of any Event of Default, the Trustee in its discretion may, and upon the written direction of the holders of 25% or more of the Principal Amount of the applicable Bonds then Outstanding and receipt of indemnity to its satisfaction, shall:

(i) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Bondholders, and require the Board to carry out any agreements with or for the benefit of the Bondholders and to perform its or their duties under the Act or any other law to which it is subject and the Indenture, provided that any such remedy may be taken only to the extent permitted under the applicable provisions of the Indenture;

(ii) bring suit upon the applicable Bonds;

(iii) commence an action or suit in equity to require the Board to account as if it were the trustee of an express trust for the Bondholders; or

(iv) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Bondholders.

Bondholders' Right To Direct Proceedings. Holders of a majority in Principal Amount of the applicable Bonds then Outstanding shall have the right, at any time, by an instrument in writing executed and delivered to the Trustee, to direct the time, method and place of conducting all remedial proceedings available to the Trustee under the Indenture to be taken in connection with the enforcement of the terms of the Indenture or exercising any trust or power conferred on the Trustee by the Indenture; provided that such direction shall not be otherwise than in accordance with the provisions of the law and the Indenture and that there shall have been provided to the Trustee security and indemnity satisfactory to the Trustee against the costs, expenses and liabilities to be incurred as a result thereof by the Trustee.

Limitation on Right To Institute Proceedings. No Bondholder shall have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust or power under the Indenture, or any other remedy under the Indenture or on such Bonds, unless such Bondholder or Bondholders previously shall have given to the Trustee written notice of an Event of Default and unless also holders of 25% or more of the Principal Amount of the applicable Bonds then Outstanding shall have made written request of the Trustee so to do, after the right to institute such suit, action or proceeding shall have accrued, and shall have afforded the Trustee a reasonable opportunity to proceed to institute the same in either its or their name, and unless there also shall have been offered to the Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall not have complied with such request within a reasonable time shall be instituted, had and maintained in the manner provided in the Indenture and for the equal benefit of all Bondholders.

The Trustee

Standard of Care. If an Event of Default has occurred and is continuing, the Trustee shall exercise its rights and powers and use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of such person’s own affairs.

The Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except that: (1) the Trustee shall not be liable for any error of judgment made in good faith by an officer unless the Trustee was negligent in ascertaining the pertinent facts; and (2) the Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it from Bondholders or the Board in the manner provided in the Indenture.

Notice of Defaults. If (i) an Event of Default has occurred or (ii) an event has occurred which with the giving of notice and/or the lapse of time would be an Event of Default and, with respect to such events for which notice to the Board is required before such events will become Events of Default, such notice has been given, then the Trustee shall promptly, after obtaining actual knowledge of such Event of Default or event described in (ii) give notice thereof to each Bondholder. Except in the case of a default in payment or purchase of any Bond, the Trustee may withhold the notice if and so long as a committee of its officers in good faith determines that withholding such notice is in the interest of the Bondholders.

Bondholders’ Indemnity of Trustee. The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request or direction of any of the holders of the Bonds, unless such holders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which may be incurred by the Trustee in compliance with such request on direction.

Eligibility of Trustee. The Indenture shall always have a Trustee that is a trust company or a bank having the powers of a trust company and is organized and doing business under the laws of the United States or any state or the District of Columbia, is authorized to conduct trust business under the laws of the State of California, is subject to supervision or examination by United States, state or District of Columbia authority and has a combined capital and surplus of at least $100,000,000 as set forth in its most recent published annual report of condition.

Replacement; Successor Trustee by Merger. The Trustee may resign by notifying the Board in writing at least 60 days prior to the proposed effective date of the resignation. The holders of a majority in Principal Amount of the applicable Bonds may remove the Trustee by notifying the removed Trustee and may appoint a successor Trustee with the Board’s consent. The Board may remove the Trustee, by notice in writing delivered to the Trustee 60 days prior to the proposed removal date; provided, however, that the Board shall have no right to remove the Trustee during any time when an Event of Default has occurred and is continuing or when an event has occurred and is continuing or condition exists which with the giving of notice or the passage of time or both would be an Event of Default.

No resignation or removal of the Trustee shall be effective until a new Trustee has taken office and delivered a written acceptance of its appointment to the retiring Trustee and to the Board. Immediately thereafter, the retiring Trustee shall transfer all property held by it as Trustee to the successor Trustee, the resignation or removal of the retiring Trustee shall have all the rights, powers and duties of the Trustee under the Indenture.

If the Trustee resigns or is removed or for any reason is unable or unwilling to perform its duties under the Indenture, the Board shall promptly appoint a successor Trustee. If a Trustee is not performing its duties under the Indenture and a successor Trustee does not take office within 60 days after the retiring Trustee delivers notice of resignation or the Board delivers notice of removal, the retiring Trustee, the Board or the holders of a majority in Principal Amount of the applicable Bonds may petition any court of competent jurisdiction for the appointment of a successor Trustee.

If the Trustee consolidates with, merges or converts into, or transfers all or substantially all its assets (or, in the case of a bank or trust company, its corporate trust assets) to, another corporation and meets the qualifications set forth in the Indenture, the resulting, surviving or transferee corporation without any further act shall be the successor Trustee.

Accounting Records and Reports of the Trustee. The Trustee shall at all times keep, or cause to be kept, proper books of record and account in which complete and accurate entries shall be made of all transactions relating to the proceeds of the Bonds and all funds and accounts established pursuant to the Indenture. Such books and records and account shall be available for inspection by the Board on each Business Day during reasonable business hours and by any Bondholder, or his agent or representative duly authorized in writing, at reasonable hours and under reasonable circumstances. The Trustee shall annually, within a reasonable period after the end of the Fiscal Year, furnish to the Board and to each Bondholder who shall have filed his name and address with the Trustee for such purpose (at such Bondholder's cost) a complete financial statement (which need not be audited) covering receipts, disbursements, allocation and application of Bond proceeds, Pledged Revenues and any other moneys in any of the funds and accounts established pursuant to the Indenture or any Supplemental Indenture for the preceding year.

Amendments

Amendments Without Consent of Bondholders. The Board may, from time to time and at any time, without the consent of or notice to the Bondholders, execute and deliver Supplemental Indentures supplementing and/or amending the Indenture or any Supplemental Indenture as follows:

(a) to provide for the issuance of a series or multiple series of Bonds and to set forth the terms of such Bonds and the special provisions which shall apply to such Bonds;

(b) to cure any formal defect, omission, inconsistency or ambiguity in, or answer any questions arising under, the Indenture or any Supplemental Indenture, provided such supplement or amendment is not materially adverse to the Bondholders;

(c) to add to the covenants and agreements of the Board in the Indenture or any Supplemental Indenture other covenants and agreements, or to surrender any right or power reserved or conferred upon the Board, provided such supplement or amendment shall not adversely affect the interests of the Bondholders;

(d) to confirm, as further assurance, any interest of the Trustee in and to the Pledged Revenues or in and to the funds and accounts held by the Trustee or in and to any other moneys, securities or funds of the Board provided pursuant to the Indenture or to otherwise add additional security for the Bondholders;

(e) to evidence any change made in the terms of any series of Bonds if such changes are authorized by the Supplemental Indenture at the time the series of Bonds is issued and such change is made in accordance with the terms of such Supplemental Indenture;

(f) to comply with the requirements of the Trust Indenture Act of 1939, as from time to time amended;

(g) to modify, alter, amend or supplement the Indenture or any Supplemental Indenture in any other respect which is not materially adverse to the Bondholders;

(h) to provide for uncertificated Bonds or for the issuance of coupons and bearer Bonds or Bonds registered only as to principal;

(i) to qualify a Series of Bonds for a rating or ratings by Moody's and/or S&P;

(j) to accommodate the technical, operational and structural features of Bonds which are issued or are proposed to be issued or of a Program which has been authorized or is proposed to be authorized, including, but not limited to, changes needed to accommodate commercial paper, auction bonds, variable rate or adjustable rate bonds, discounted or compound interest bonds or other forms of indebtedness which the Board from time to time deems appropriate to incur;

(k) to accommodate the use of a Credit Facility or Liquidity Facility for specific Bonds or a specific series of Bonds;

(l) to comply with the requirements of the Code as are necessary, in the opinion of Co-Bond Counsel, to prevent the federal income taxation of the interest on the 2002 Bonds, including, without limitation, the segregation of Pledged Revenues into different funds.

Before the Board shall, without Bondholder consent, execute any Supplemental Indenture, there shall have been delivered to the Board an opinion of Co-Bond Counsel to the effect that such Supplemental Indenture is authorized or permitted by the Indenture, the Act and other applicable law, complies with their respective terms, will, upon the execution and delivery thereof, be valid and binding upon the Board in accordance with its terms and will not cause interest on any of the 2002 Bonds which is then excluded from gross income of the recipient thereof for federal income tax purposes to be included in gross income for federal income tax purposes.

<u>Amendments With Consent of Bondholders</u>. Except for any amendments described above and any amendments affecting less than all series of Bonds as described in the following paragraph, the holders of not less than 51% in aggregate Principal Amount of the applicable Bonds then Outstanding shall have the right from time to time to consent to and approve the execution by the Board of any Supplemental Indenture deemed necessary or desirable by the Board for the purposes of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in a Supplemental Indenture; provided, however, that, unless approved in writing by the holders of all such Bonds then Outstanding or unless such change affects less than all series of Bonds and the following paragraph is applicable, nothing herein contained shall permit, or be construed as permitting, (i) a change in the scheduled times, amounts or currency of payment of the principal of, interest on or Accreted Value of any Outstanding Bonds or (ii) a reduction in the principal amount or redemption price of any Outstanding Bonds or the rate of interest thereon; and provided that nothing contained in the Indenture, including the paragraph below, shall, unless approved in writing by the holders of all such Bonds then Outstanding, permit or be construed as permitting (iii) the creation of a lien (except as expressly permitted by the Indenture) upon or pledge of the Pledged Revenues created by the Indenture, ranking prior to or on a parity with the claim created by the Indenture, (iv) except with respect to additional security which may be provided for a particular series of Bonds, a preference or priority of any Bond or Bonds over any other Bond or Bonds with respect to the security granted therefor, or (v) a reduction in the aggregate Principal Amount of Bonds the consent of the Bondholders of which is required for any such Supplemental Indenture.

The Board may, from time to time and at any time execute a Supplemental Indenture which amends the provisions of an earlier Supplemental Indenture under which a series or multiple series of Bonds were issued. If such Supplemental Indenture is executed for one of the purposes set forth in "Amendment Without Consent of Bondholders," no notice to or consent of the Bondholders shall be required. If such Supplemental Indenture contains provisions which affect the rights and interests of less than all series of Bonds Outstanding for purposes other than those set forth under "Amendments Without Consent of Bondholders," then the holders of not less than 51% in aggregate Principal Amount of the applicable Bonds of all Series which are affected by such changes shall have the right from time to time to consent to any Supplemental Indenture deemed necessary or desirable by the Board for the purposes of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in such Supplemental Indenture and affecting only the 2002 Bonds of such series; provided, however, that, unless approved in writing by the holders of all the 2002 Bonds of all the affected series then Outstanding, nothing shall permit, or be construed as permitting, (i) a change in the scheduled times, amounts or currency of payment of the principal of, interest on or Accreted Value of any Outstanding Bonds of such series or (ii) a reduction in the principal amount or redemption price of any Outstanding Bonds of such series or the rate of interest thereon.

Rights of Credit Provider

The Indenture states that if a Credit Facility is provided for a Series of Bonds or for specific Bonds, the Board may by Supplemental Indenture provide to the Credit Provider (1) the right to make requests of, direct or consent to the actions of the Trustee or to otherwise direct proceedings under the Indenture to the same extent and in place of the owners of such Bonds which are secured by the Credit Facility, and (2) the right to act in place of the owners of such Bonds which are secured by the Credit Facility for purposes of removing a Trustee or appointing a Trustee.

Additional Bonds

The Indenture provides the Board with flexibility as to the nature and terms of any Additional Bonds. Additional Bonds may be issued under the terms of the Indenture on a parity with all other outstanding Bonds (with respect to the pledge of Pledged Revenues), including but not limited to bonds, notes, bond anticipation notes, commercial paper and other instruments creating an indebtedness of the Board, and obligations incurred through lease or installment purchase agreements or other agreements or certificates of participation in such agreements.

Additional Bonds may be issued under the Indenture on a parity with the 2002 Bonds and other Outstanding Bonds; provided that, among other things, there shall be delivered to the Trustee either:

(i) a certificate prepared by an Authorized Board Representative showing that the Net Revenues for any 12 consecutive months out of the 18 consecutive months preceding the issuance of the proposed Bonds or the first bonds of a commercial paper, auction bond or other debt incurrence program (a "Program") were at least equal to 125% of Maximum Annual Debt Service (as defined in the Indenture) for all Outstanding Bonds which will be Authorized after the issuance of the proposed Bonds or implementation of such program; or

(ii) a certificate prepared by a Consultant (as defined in the Indenture) showing that:

(1) the Net Revenues (as defined in the Indenture) for any 12 consecutive months out of the 18 consecutive months preceding the issuance of the proposed Bonds or the first issuance of bonds constituting part of a program were at least equal to 125% of Maximum Annual Debt Service (as defined in the Indenture) for all Bonds Outstanding and authorized immediately before the issuance of the proposed Bonds or implementation of such program;

(2) for each fiscal year during the period from the date of delivery of such certificate until the latest Estimated Completion Date (as defined in the Indenture) of the Specified Projects (as defined in the Indenture), the Consultant estimates that the Board will be in compliance with its rate covenants; and

(3) the estimated Net Revenues for each of the three fiscal years immediately following the last Estimated Completion Date for the Specified Projects will be at least equal to 125% of Maximum Annual Debt Service for all Parity Bonds

outstanding or authorized after the issuance of the proposed Additional Bonds or implementation of such program.

Neither of the certificates described above shall be required if:

(a) the Bonds being issued are for the purpose of refunding Outstanding Bonds and the Trustee receives a certificate of an Authorized Board Representative (as defined in the Indenture) showing that Maximum Annual Debt Service on all Bonds outstanding or bonds Authorized after the issuance of the refunding bonds will not exceed Maximum Annual Debt Service on all Bonds outstanding or authorized prior to the issuance of such Bonds; or

(b) the Bonds being issued as Notes and the Trustee receives a certificate prepared by an Authorized Board Representative showing that the principal amount of the proposed Notes being issued, together with the principal amount of any Notes then outstanding, does not exceed 10% of the Net Pledged Revenues for any 12 consecutive months out of the 18 months immediately preceding the issuance of the proposed notes, and the Trustee receives a certificate of an Authorized Board Representative showing that for each of the Fiscal Years during which such notes will be outstanding, the Board will be in compliance with its rate covenants under the Indenture; or

(c) the Bonds being issued are to pay costs of completing a project for which Bonds have previously been issued and the principal amount of Bonds being issued does not exceed the amount equal to 10% of the principal amount of Bonds originally issued for such Project and reasonably allocable to the Project to be completed, as shown in a certificate of an Authorized Board Representative, and the Trustee receives:

(1) a Consultant's certificate stating that the nature and purpose of such project have not materially changed, and

(2) a certificate of an Authorized Board Representative to the effect that (A) all of the proceeds (including investment earnings on amounts in the Construction Fund allocable to such Project) of the original Bonds issued to finance such project have been or will be used to pay Costs of the Project (as defined in the Indenture), and (B) the then estimated Costs of the Project exceed the sum of the Costs of the Project already paid plus moneys available in the Construction Fund established for the project (including unspent proceeds of bonds previously issued for such purpose).

The 2002 Bonds are being issued pursuant to subparagraph (ii) above.

THE TWELFTH SUPPLEMENTAL TRUST INDENTURE

The following is a brief summary of certain provisions of the Twelfth Supplemental Trust Indenture. Such summary is only a brief description of limited provisions of such document and is qualified in its entirety by reference to the full text of the Twelfth Supplemental Trust Indenture.

Terms of the 2002 Bonds

The Twelfth Supplemental Trust Indenture sets forth the terms of the 2002 Bonds, most of which terms are described earlier in the Official Statement under "DESCRIPTION OF THE 2002 BONDS."

Establishment of Funds

The Twelfth Supplemental Trust Indenture establishes the following funds and accounts: The Series 2002 Revenue Bonds Reserve Fund (the "Reserve Fund"), the Series L Revenue Bonds Construction Fund (the "Series L Construction Fund") and within the Series L Construction Fund, a Costs of Issuance Account, a Project Account and a Commercial Paper Repayment Account; the Series M Revenue Bonds Construction Fund (the "Series M Construction Fund") and within the Series M Construction Fund, a Costs of Issuance Account, a Project Account and a Commercial Paper Repayment Account; the Series L Revenue Bonds Debt Service Fund (the "Series L Debt Service Fund") and within the Series L Debt Service Fund, an Interest Account, a Principal Account and a

Redemption Account; and the Series M Revenue Bonds Debt Service Fund (the "Series M Debt Service Fund") and within the Series M Debt Service Fund, an Interest Account, a Principal Account and a Redemption Account.

The proceeds from the sale of the 2002 Bonds will be deposited into certain of the funds and accounts as set forth in the Official Statement under "ESTIMATED SOURCES AND USES OF BOND PROCEEDS."

Project Account. Amounts in each Project Account shall be invested in Permitted Investments as directed by an Authorized Board Representative and the earnings upon such funds will be credited to such account. Amounts in the Project Account in the Series L Construction Fund shall be disbursed from time to time, upon requisition of the Board, to pay the costs or to reimburse the Board for costs incurred in connection with the projects for which the Series L Bonds were issued. Amounts in the Project Account in the Series M Construction Fund shall be disbursed from time to time, upon requisition of the Board, to pay the costs or to reimburse the Board for costs incurred in connection with the projects for which the Series M Bonds were issued. Amounts in each Project Account may also be transferred from time to time to the Debt Service Fund for the same series of Bonds to pay qualifying amounts of capitalized interest coming due on such Bonds and may be expended only in accordance with the Tax Agreement executed by the Board with respect to such series of 2002 Bonds. While held by the Trustee, amounts in the Project Account will secure all Outstanding Bonds.

Commercial Paper Repayment Account. The proceeds of the 2002 Bonds deposited in each Commercial Paper Repayment Account will be disbursed by the Trustee to pay outstanding commercial paper notes of the Port to the extent the proceeds thereof were used to finance or refinance certain qualifying capital improvements. Within 120 days of the date of delivery of the 2002 Bonds, or earlier upon the request of an Authorized Board Representative, the Trustee will transfer any amounts remaining in each Commercial Paper Repayment Account to the Project Account for the same series and such Commercial Paper Repayment Account will be closed.

Costs of Issuance Account. The proceeds of the 2002 Bonds deposited in each Costs of Issuance Account will be disbursed by the Trustee, from time to time, to pay Costs of Issuance associated with the Series L Bonds or Series M Bonds, as applicable. The Trustee will make payments or disbursements from each Costs of Issuance Account upon receipt from the Board of a written requisition executed by an Authorized Board Representative, which states (i) that such amount is to be paid from such Costs of Issuance Account, (ii) the number of the requisition from such Account, (iii) the amount to be paid, the name of the entity to which the payment is to be made and (iv) describe the Costs of Issuance represented by such payment. On January 31, 2003, all amounts remaining on deposit in each Costs of Issuance Account will be transferred to the Project Account within the same Construction Fund and the Costs of Issuance Account will be closed.

Debt Service Funds. The Trustee shall deposit into the Interest Account in the Series L Debt Service Fund (i) amounts received from the Board to be used to pay interest on the Series L Bonds and if the Board enters into an interest rate swap agreement with respect to all or a portion of the Series L Bonds, to pay amounts due and payable to the provider of such agreement at such times as are provided in such interest rate swap agreement and (ii) if the Board enters into any interest rate swap agreement with respect to all or a portion of the Series L Bonds, any amounts received by the Board from the provider of such agreement. The Trustee shall deposit into the Interest Account in the Series M Debt Service Fund (i) amounts received from the Board to be used to pay interest on the Series M Bonds and if the Board enters into an interest rate swap agreement with respect to all or a portion of the Series M Bonds, to pay amounts due and payable to the provider of such agreement at such times as are provided in such interest rate swap agreement and (ii) if the Board enters into any interest rate swap agreement with respect to all or a portion of the Series M Bonds, any amounts received by the Board from the provider of such agreement. The Trustee shall also deposit into each Interest Account any other amounts deposited with the Trustee for deposit in such Interest Account or transferred from other funds and accounts for deposit therein. Earnings on the Interest Accounts shall be withdrawn and paid to the Board for deposit into the Port Revenue Fund, unless an Event of Default exists under the Indenture, in which event the earnings shall be retained in such accounts.

The Trustee shall deposit into each Principal Account amounts received from the Board to be used to pay principal on the applicable series of the 2002 Bonds. The Trustee shall also deposit into each Principal Account any other amounts deposited with the Trustee for deposit into such Principal Account or transferred from other funds and accounts for deposit therein. Earnings on the Principal Accounts shall be withdrawn and paid to the Board for deposit into the Port Revenue Fund, unless an Event of Default exists under the Indenture, in which event the earnings shall be retained in such accounts.

The Trustee shall deposit into each Redemption Account amounts received from the Board or from other sources to be used to pay the principal of, interest on and premium, if any, on the applicable series of the 2002 Bonds that are to be redeemed in advance of their maturity (except mandatory sinking fund redemptions). Earnings on the Redemption Accounts shall be retained in such account or paid to the Board for deposit into the Port Revenue Fund in accordance with instructions given to the Trustee by an Authorized Board Representative at the time of such deposit.

The Debt Service Funds shall be invested and reinvested in Permitted Investments as directed by the Board.

Reserve Fund. For a description of the Reserve Fund, reference is hereby made to the Official Statement under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE 2002 BONDS—Reserve Fund."

Rebate Fund

The Board agreed in the Twelfth Supplemental Trust Indenture to enter into the Tax Agreement and to create a Rebate Fund for the 2002 Bonds. The Rebate Fund will be established for the purpose of complying with certain provisions of the Code which require that the Board pay to the United States of America the excess, if any, of the amounts earned on certain funds held by the Trustee with respect to the 2002 Bonds over the amounts which would have been earned on such funds if such funds earned interest at a rate equal to the yield on the Bonds. Such excess is to be deposited into the Rebate Fund and periodically paid to the United States of America. The Rebate Fund while held by the Trustee is held in trust for the benefit of the United States of America and is neither pledged as security for nor available to make payment on the 2002 Bonds.

Provisions Relating to Insurer and Bond Insurance

Rights of Insurer. The Twelfth Supplemental Trust Indenture grants the Insurer the right to make requests of, to direct or consent to the actions of the Trustee, or to otherwise direct proceedings provided in the Trust Indenture and described under "THE TRUST INDENTURE – Events of Default and Remedies" to the same extent and in place of the owners of the 2002 Bonds. For such purposes, the Insurer will be deemed the exclusive owner of the 2002 Bonds. Such rights provided to the Insurer, however, will be disregarded (except with respect to the Insurer's rights as a result of a prior payment made under the Bond Insurance Policy) and will have no effect if the Insurer is in default of its payment obligations under the Bond Insurance Policy.

Acceleration Provisions. The 2002 Bonds will not be subject to acceleration under the Trust Indenture and no Event of Default will be waived, unless the Insurer has consented in writing delivered to the Trustee. In the event that the Insurer must make payments of principal of and any interest on the 2002 Bonds pursuant to the terms of the Bond Insurance Policy, and the 2002 Bonds are accelerated, the Insurer may, at any time and at its sole option, pay to the owners of the 2002 Bonds all or any portion of amounts due under the 2002 Bonds prior to their stated maturity dates.

Modifications. No amendment or supplement to the Twelfth Supplemental Trust Indenture or the Trust Indenture requiring the consent of owners of the 2002 Bonds may be adopted or executed without the prior written consent of the Insurer. Furthermore, without the consent of the owners of the 2002 Bonds and the Insurer, the Board may not modify, alter, amend or supplement the Twelfth Supplemental Trust Indenture or the Trust Indenture in any respect that may have a materially adverse impact on the owners of the 2002 Bonds or the Insurer.

Investments and Sureties. With respect only to the proceeds of the 2002 Bonds and their earnings on deposit in any of the funds or accounts established under the Twelfth Supplemental Trust Indenture, the term "Permitted Investments" will be limited to particular enumerated investments specified in the Twelfth Supplemental Trust Indenture. Subject to certain provisions of the Twelfth Supplemental Trust Indenture relating to the Reserve Fund, the Trustee will assess the market value of any investments, exclusive of accrued interest, in any fund or account relating to the 2002 Bonds as frequently as deemed necessary by the Insurer, but not less often than annually and not more frequently than monthly. Any credit instrument which is provided in lieu of cash deposited into the Reserve Fund (including any Reserve Fund Insurance Policy) will either be provided by the Insurer or otherwise meet the Insurer's requirements.

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APPENDIX D

BOOK-ENTRY SYSTEM

The Depository Trust Company, New York, New York ("DTC") will act as securities depository for the 2002 Bonds. The 2002 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the 2002 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation and Emerging Markets Clearing Corporation, as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has S&P's highest rating: AAA. The DTC Rules applicable to DTC's Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at *www.dtcc.com.*

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2002 Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2002 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the 2002 Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in Beneficial Ownership. DTC has no knowledge of the actual Beneficial Owners of the 2002 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the 2002 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2002 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents.

Beneficial Owners of the 2002 Bonds may wish to ascertain that the nominee holding the 2002 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, or in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.] Redemption notices shall be sent to DTC. If less than all of the 2002 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer of bonds as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2002 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payment of principal of and redemption premium, if any, and interest on the 2002 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Port or the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC or its nominee, the Trustee, or the Port, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividends to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Port or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2002 Bonds at any time by giving reasonable notice to the Port or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, the 2002 Bonds certificates are required to be printed and delivered.

The Port may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the 2002 Bonds certificates will be printed and delivered. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Port believes to be reliable, but the Port takes no responsibility for the accuracy thereof.

APPENDIX E

PROPOSED FORM OF APPROVING OPINION OF CO-BOND COUNSEL

Board of Port Commissioners of
the City of Oakland, California
530 Water Street
Oakland, California

Port of Oakland, California Revenue Bonds, 2002 Series L and Series M

Ladies and Gentlemen:

We have acted as Co-Bond counsel in connection with the issuance by the Board of Port Commissioners of the City of Oakland, California (the "Board") of $620,000,000 aggregate principal amount of its Revenue Bonds, 2002 Series L (AMT) (the "Series L Bonds") and its Revenue Bonds, 2002 Series M (Non-AMT) (the "Series M Bonds" and together with the Series L Bonds, the "Bonds"). In that connection, we have examined the Constitution and statutes of the State of California, Article VII of the Charter of the City of Oakland, California (the "Act"), copies of that certain Trust Indenture, dated as of April 1, 1989, as amended and supplemented (the "Indenture"), between the Board and U.S. Bank, N.A., as successor trustee (the "Trustee"), and a Twelfth Supplemental Trust Indenture dated as of July 1, 2002 (the "Twelfth Supplement"), between the Board and the Trustee. We have also made such other investigations of fact and law as we have deemed necessary to render this opinion. Except as otherwise indicated, capitalized terms used in this opinion and defined in the Indenture or the Twelfth Supplement will have the meanings given therein.

We have, with your approval, assumed that all items submitted to us as originals are authentic and that all items submitted as copies conform to the originals.

On the basis of such examination, our reliance upon the assumptions contained herein and our consideration of those questions of law we considered relevant, and subject to the limitations and qualifications in this opinion, we are of the opinion that:

1. The Bonds have been duly authorized and issued and constitute legally valid and binding obligations of the Board, enforceable in accordance with their terms and the terms of the Indenture and the Twelfth Supplement.

2. Each of the Indenture and the Twelfth Supplement has been duly adopted by the Board and constitutes the legally valid and binding obligation of the Board, enforceable against the Board in accordance with its terms, assuming due authorization, execution and delivery by the other party thereto.

3. The Bonds are limited obligations of the Board payable solely as to both principal and interest from and secured by a pledge of, lien on and security interest in (i) Pledged Revenues and (ii) certain funds and accounts established under the Indenture and the Twelfth Supplement. Neither the faith and credit nor the taxing power of the City of Oakland, the State of California or any public agency, other than the Board to the extent of the Pledged Revenues, is pledged to the payment of the principal of, or interest on, the Bonds. The Board has no power of taxation.

4. Under existing statutes, regulations, rulings and court decisions, the interest and original issue discount ("OID"), if any, on the Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"), except for interest on any Series L Bond for any period that such Series L Bond is (i) held by a "substantial user," within the meaning of Section 147(a)(i) of the Code, of the facilities financed or refinanced with proceeds of the Series L Bonds, or (ii) held by a "related person" of a "substantial user" within the meaning of Section 147(a)(2) of the Code. The Series L Bonds are specified "private activity" as defined in Section 141(c) of the Code, and, therefore, the interest on the

Series L Bonds will be treated as a specific item of tax preference for purposes of the Code's alternative minimum tax provisions. The Series M Bonds will not be "specified private activity bonds" as defined in Section 141(a) of the Code and, therefore, the interest and OID, if any, on the Series M Bonds will not be an item of tax preference for purposes of the Code's alternative minimum tax provisions, except to the extent provided in the following sentence. Interest on the Series M Bonds received by a corporation will be included in adjusted current earnings for purposes of computing its federal alternative minimum tax liability.

5. Interest on the Bonds is exempt from State of California personal income taxes.

The opinions set forth above are subject to (a) applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally (including, without limitation, fraudulent conveyance laws), (b) the effect of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing and the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law, and (c) limitations on the enforcement of legal remedies against public agencies in the State of California.

We express no opinion herein to the priority of any liens or security interests created by the Indenture. In addition, no opinion is expressed herein on the accuracy, completeness or sufficiency of the offering material relating to the Bonds.

In rendering the opinions regarding the Federal income tax treatment of interest on the Bonds in paragraph 4 above, we have relied upon representations and covenants of the Board in the Indenture, the Twelfth Supplement and the Tax and Nonarbitrage Certificates to be executed by the Board from time to time (based upon the forms we have reviewed) concerning the use of the facilities financed or refinanced with the proceeds of the Bonds, the investment and use of the proceeds of such Bonds, to the extent required, to the Federal government of certain earnings thereon. In addition, we have assumed that all such representations are true and correct and that the Board will comply with all such covenants. We express no opinion with respect to the exclusion of the interest on the Bonds from gross income under Section 103(a) of the Code in the event that any of such representations are untrue or the Board fails to comply with such covenants. Except as stated above, we express no other opinion as to any Federal tax consequences of the ownership of, receipt of interest on, or disposition of the Bonds.

We call attention to the fact that the opinions expressed herein may be affected by actions taken or omitted or events occurring or failing to occur after the date hereof. We have not undertaken to determine, or inform any person, whether any such actions are taken, omitted, occur or fail to occur.

Respectfully submitted,

APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by and through the Board of Port Commissioners of the City of Oakland (the "Port") in connection with the issuance of the Port of Oakland Revenue Bonds 2002 Series L and 2002 Series M (collectively, the "2002 Bonds") pursuant to a Trust Indenture dated as of April 1, 1989, as supplemented and amended, and as supplemented and amended by a Twelfth Supplemental Trust Indenture dated as of July 1, 2002 (together, the "Indenture"), by and between the Port and U.S. Bank, N.A., as trustee (the "Trustee"). The Port covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Port for the benefit of the Bondholders and Beneficial Owners and in order to assist the Participating Underwriters in complying with the Rule (as hereinafter defined).

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined herein, the following capitalized terms shall have the following meanings:

"*Annual Report*" shall mean any annual report provided by the Port pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"*Beneficial Owner*" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any 2002 Bonds, including persons holding such 2002 Bonds through nominees, depositories or other intermediaries, or (b) is treated as the owner of any 2002 Bonds for Federal income tax purposes.

"*Bondholders or Holders*" shall mean either the registered owners of the 2002 Bonds, or if the 2002 Bonds are registered in the name of The Depository Trust Company or other recognized securities depository, any applicable participant in its depository system.

"*Dissemination Agent*" shall mean the Port or any successor Dissemination Agent designated in writing by the Port and which has filed with the Port a written acceptance of such designation.

"*Listed Events*" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"*National Repository*" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are available on the internet at *www.sec.gov/info/municipal/nrmsir.htm*.

"*Participating Underwriter*" shall mean any of the original underwriters of the 2002 Bonds required to comply with the Rule in connection with the offering of the 2002 Bonds.

"*Repository*" shall mean each National Repository and each State Repository.

"*Rule*" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"*State Repository*" shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The Port shall, or shall cause the Dissemination Agent to, not later than 240 days after the end of the Port's fiscal year (which is currently June 30), commencing with the report for the 2002 fiscal year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than ten business days prior to said date, the Port shall provide the Annual Report to the Dissemination Agent (if other than the Port). The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Port may be submitted separately from the balance of the Annual Report if they are not available by that date. If the Port's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event.

(b) If the Port is unable to provide to the Repositories or to the Dissemination Agent (if other than the Port) an Annual Report by the date required in subsection (a), the Port shall send a notice to the Municipal Securities Rulemaking Board and each State Repository, if any, in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

1) determine each year (prior to the date for providing the Annual Report) the name and address of each National Repository and each State Repository, if any; and

2) (if the Dissemination Agent is other than the Port) file a report with the Port certifying that the Annual Report has been provided pursuant to the Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The Port's Annual Report shall contain or incorporate by reference the following, updated to incorporate information for the most recent fiscal or calendar year, as applicable (the tables referred to below are those appearing in the Official Statement dated July, 2002 and relating to the 2002 Bonds):

(a) the audited financial statements of the Port for the prior fiscal year, prepared in accordance with Generally Accepted Accounting Principles applicable to governmental entities. If the Port's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in the format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available;

(b) Table 1 - Parity Bonds Debt Service Schedule, but only in the event of an unscheduled redemption, defeasance or new issuance;

(c) Table 5 - Historical Enplanements by Airline;

(d) Table 6 - Historical Landed Weight by Airline;

(e) Table 7 - Air Cargo Volumes;

(f) Table 10 - Top Ten Individual Sources of Aviation Revenue;

(g) Table 11 – Containerized Cargo;

(h) Table 12 - Total Cargo Tons Handled By Trade Area;

(i) Table 17 - Top Ten Individual Sources of Maritime Revenue;

(j) Table 20 - Top Ten Sources of Commercial Real Estate Revenue;

(k) Table 24 - Historical Operating Results; and

(l) Table 25 - Historical Parity Bonds Debt Service Coverage.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the Port or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Port shall clearly identify each such other document so incorporated by reference.

SECTION 5. Reporting of Significant Events.

(a) This Section 5 shall govern the giving of notices of the occurrence of any of the following Listed Events, if material:

(1) Principal and interest payment delinquencies;

(2) Non-payment related defaults;

(3) Modifications to rights of the Bondholders;

(4) Giving of a notice of optional, contingent or unscheduled Bond calls;

(5) Defeasance of the 2002 Bonds or any portion thereof;

(6) Rating changes on the 2002 Bonds;

(7) Adverse tax opinions or events affecting the tax-exempt status of the 2002 Bonds;

(8) Unscheduled draws on debt service reserves established under the Indenture reflecting financial difficulties;

(9) Unscheduled draws on credit enhancements reflecting financial difficulties;

(10) Substitution of credit or liquidity providers, or their failure to perform; and

(11) Release, substitution or sale of property securing payment of the 2002 Bonds.

(b) Whenever a Listed Event occurs, the Port shall as soon as possible determine if such event would be material under applicable Federal securities laws.

(c) If the Port determines that a Listed Event would be material under applicable Federal securities laws, the Port shall promptly file a notice of such occurrence with the Dissemination Agent (if other than the Port) or the Municipal Securities Rulemaking Board and each State Repository, if any. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (a)(5) need not be given under this subsection any earlier than the notice (if any) of the underlying event given to Holders of affected 2002 Bonds pursuant to the Indenture.

SECTION 6. Termination of Reporting Obligation. The Port's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the 2002 Bonds. If such termination occurs prior to the final maturity of the 2002 Bonds, the Port shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. Dissemination Agent. The Port may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent (if other than the Port) shall be entitled to reasonable compensation for its services hereunder and reimbursement of its out-of-pocket expenses (including but not limited to attorneys' fees). The Dissemination Agent (if other than the Port) shall not be responsible in any manner for the content of any notice or report prepared by the Port pursuant to this Disclosure Certificate.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Port may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived, if the following conditions are satisfied:

(a) if the amendment or waiver is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, change in law (including rules or regulations) or the interpretation thereof, or change in the identity, nature, or status of the Port, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the 2002 Bonds, after taking into account any amendments or interpretations of the Rule as well as any change in circumstances; and

(c) the amendment or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interest of the Holders or Beneficial Owners of the 2002 Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type (or in the case of a change of accounting principles, on the presentation) of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the Port to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the Repositories in the same manner as for a Listed Event under Section 5(c).

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Port from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Port chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Port shall have no obligation under this Disclosure Certificate to update such information or to include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the Port to comply with any provision of this Disclosure Certificate, any Bondholder may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Port to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an event of default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the Port to comply with the Disclosure Certificate shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Port agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Port under this Section shall survive resignation or removal of the Dissemination Agent and payment of the 2002 Bonds.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Port, the Dissemination Agent, the Participating Underwriters and the Holders and Beneficial Owners from time to time of the 2002 Bonds, and shall create no rights in any other person or entity.

Dated: August ____, 2002

BOARD OF PORT OF COMMISSIONERS OF THE CITY OF OAKLAND

By: ____
Title: ____

Approved as to form and
legality this August ___, 2002.

____
Port Attorney
Port Resolution No. __________

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	Port of Oakland, California
Name of Bond Issue:	Port of Oakland Revenue Bonds 2002 Series L (AMT) and Port of Oakland Revenue Bonds 2002 Series M (Non-AMT).
Date of Issuance:	August __, 2002

NOTICE IS HEREBY GIVEN that the Port of Oakland, California (the "Port") has not provided an Annual Report with respect to the above-named Bonds as required by Section 9.10 of the Trust Indenture dated as of April 1, 1989 and a Twelfth Supplemental Trust Indenture dated as of July 1, 2002 between the Port and U.S. Bank, N.A. The Port anticipates that the Annual Report will be filed by _________________.

Date: ___________, ______

PORT OF OAKLAND, CALIFORNIA

By: ____
Authorized Signatory

APPENDIX G

SPECIMEN POLICY

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Financial Guaranty Insurance
Company, doing business in California
as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001

A GE Capital Company

Municipal Bond
New Issue Insurance Policy

Issuer:	**Policy Number:**
	Control Number: 0010001
Bonds:	**Premium:**

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to State Street Bank and Trust Company, N.A., or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date

Financial Guaranty Insurance
Company, doing business in California
as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001

A GE Capital Company

Municipal Bond
New Issue Insurance Policy

for payment of interest. “Nonpayment” in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal and interest Due for Payment on such Bond. “Notice” means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. “Business Day” means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date:

Authorized Representative

State Street Bank and Trust Company, N.A., acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer

Financial Guaranty Insurance
Company, doing business in California
as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001

A GE Capital Company

FGIC

Endorsement

To Financial Guaranty Insurance Company Insurance Policy

Policy Number:

Control Number: 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

Deborah M. Reif

President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

Authorized Officer
State Street Bank and Trust Company, N.A., as Fiscal Agent

Financial Guaranty Insurance
Company, doing business in California
as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001

A GE Capital Company

Mandatory California State Amendatory Endorsement
To Financial Guaranty Insurance Company Insurance Policy

Policy Number: **Control Number:** 0010001

SPECIMEN

The insurance provided by this Policy is not covered by the California Insurance Guaranty Association (California Insurance Code, Article 14.2).

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

Deborah M. Reif

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
State Street Bank and Trust Company, N.A., as Fiscal Agent

Financial Guaranty Insurance
Company, doing business in California
as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001

A GE Capital Company

FGIC

Mandatory California State Amendatory Endorsement

To Financial Guaranty Insurance Company Insurance Policy

Policy Number: **Control Number:** 0010001

SPECIMEN

Notwithstanding the terms and conditions in this Policy, it is further understood that there shall be no acceleration of payment due under such Policy unless such acceleration is at the sole option of Financial Guaranty.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

Deborah M. Reif

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
State Street Bank and Trust Company, N.A., as Fiscal Agent

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