APPENDIX A
CITY OF LOS ANGELES
INFORMATION STATEMENT
As of June 30, 2017

Certain statements included or incorporated by reference in this Appendix A constitute "forward-looking statements." Such forward-looking statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from the results, performance or achievements expressed or implied by such forward-looking statements. No assurance is given that actual results will meet City forecasts in any way, regardless of the level of optimism communicated in the information. The City has no plans to issue any updates or revisions to those forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based, occur, do not occur, or change. In addition, in some cases numbers in tables do not sum to the total due to rounding.

Table of Contents

INTRODUCTION

This Introduction is an introduction to certain recent developments and the City's current financial condition; it is not a summary of this Official Statement, and is qualified by the more complete and detailed information contained in this entire Official Statement and the documents summarized or described in this Official Statement. Prospective investors must review this entire Official Statement, including the cover page and appendices, before they make an investment decision.

The City of Los Angeles (the "City") is the second most populous city in the United States with an estimated 2017 population of 4.04 million persons. Los Angeles is the principal city of a metropolitan region stretching from the City of Ventura to the north, the City of San Clemente to the south, the City of San Bernardino to the east, and the Pacific Ocean to the west.

Los Angeles continues to benefit from the steady expansion of the economy with its eighth year of growing revenues. Bolstered by this growth, the 2017-18 Adopted Budget adheres to the City's Financial Policies while funding key investments.

The Adopted Budget meets or exceeds three of the four-primary budgetary financial policies: maintaining a General Fund reserve of at least 5% (the anticipated July 1, 2017 Reserve Fund is 5.12% of the General Fund); appropriating at least 1% of General Fund revenues for capital improvements (1.28%); and using one-time revenues for one-time expenditures. The Adopted Budget nearly complies with the fourth policy, allocating most of the above-average growth in certain tax revenues to the budget stabilization fund or capital investment; over $75 million of the $83 million in growth was appropriated for these purposes.

Other key features of the 2017-18 Adopted Budget include:

- After two years of exceeding budgeted liability payouts, an additional $40 million is proposed for liability claims.
- The annual appropriations for various legal settlements are met, including those related to gang injunctions and the accessibility of sidewalks and affordable housing units.
- The Adopted Budget implements changes approved by City, County and State voters in recent elections. The Adopted Budget adds staffing and anticipates funding to implement housing programs for the homeless pursuant to the adoption of a county-wide sales tax for that purpose (Measure H); includes a spending plan for street and infrastructure improvements, consistent with the adoption of an additional county-wide sales tax for transportation (Measure M); and establishes a Department of Cannabis Regulation (Local Measure M).
- The Adopted Budget includes funding for service improvements, including funding to enable the Planning Department to update all community plans every six years; increased quality-of-life investment in graffiti abatement, tree trimming, alley repair, and cleaning streets, alleys, and homeless encampments; and public safety investments to hire firefighters and police officers, and to continue the implementation of the Police Department's Body Worn Video Camera System.

The Adopted Budget also addresses many challenges including the need to fund increased employee-related costs of more than $192 million and a lower-than-projected power revenue transfer to reflect a recent settlement. The Adopted Budget addresses these challenges mainly through ongoing solutions, particularly revenue growth and departmental reductions.

The City's efforts to maintain a balanced budget during the fiscal year will be tested by the same challenges it managed in Fiscal Year 2016-17. Despite an increase in appropriations for liabilities, based on spending over the last two years and a review of pending cases, this amount could still fall short of the actual Fiscal Year 2017-18 need; the City is also considering issuing up to $60 million in judgment obligation bonds to reimburse the Reserve Fund for prior payments for litigation. In addition, certain existing General Fund revenues may be impacted based on policy changes that the Council may consider, in particular revenue from short-term rentals.

In the longer term, the City believes there are other factors on the horizon that could make the next several fiscal years challenging. These challenges include threats from the Federal government that could restrict the City's future access to Federal funding on which the City relies to fight poverty, protect communities, and maintain and develop infrastructure. At the same time, the City's Fire and Police Pension Plan has recently followed pensions systems nationwide and reduced its assumed investment rate of return from 7.50% to 7.25%. In conjunction with changes to various other economic and demographic assumptions, this change will likely increase the City's required contribution to that system in Fiscal Year 2018-19 by approximately $84 million. In July, the Los Angeles City Employees' Retirement System is also going to review, and likely reduce, its assumed investment rate of return, which would increase the City's contribution to that system by an estimated $54 million in Fiscal Year 2018-19 if the assumed investment rate is reduced to 7.25%. Further complicating the City's outlook are labor agreements which expire in 2018. Thus, while it is encouraging that the most recent Budget Outlook prepared in connection with the Adopted Budget shows the elimination of structural deficits by Fiscal Year 2020-21, any one of these challenges could extend the structural deficit. (See "**BUDGET AND FINANCIAL OPERATIONS—General Fund Budget Outlook**," herein.)

A number of large infrastructure projects the City has considered pursuing could result in major long-term commitments of funds. The City has a large backload of needed street repairs, currently estimated at over $3 billion. The City has also sought funding from the Army Corps of Engineers for restoration of the Los Angeles River, which could cost in excess of $1.5 billion and require substantial matching funds from the City. In addition, the City is considering major improvements to its Civic Center, with estimates ranging from $300 million to $500 million, and expanding its Convention Center at a currently estimated cost of $470 million. These expenditures are considered long-term projects that would be pursued only if an acceptable funding framework is first established.

The City is also exposed to major costs associated with compliance with the Clean Water Act ("CWA"), which regulates the discharges of pollutants into the waters of the United States by establishing quality standards. The City is responsible for helping to ensure that up to 192 pollutants in five bodies of water do not exceed certain maximum levels. The Los Angeles Regional Water Quality Control Board estimates that the City's share of the costs of projects required to meet these requirements in the next five years is approximately $2.1 billion, and approximately $7.4 billion to meet its requirements over the next 25 years. In addition, non-compliance with these requirements within certain deadlines could expose the City to enforcement action, including substantial civil penalties and fines, and third-party lawsuits. The

City is exploring various options to address funding for the projects necessary to satisfy the current Total Maximum Daily Load of regulated pollutants, including development of new sources of funding, most of which require voter approval. Without such revenue sources, these costs would be obligations of the City's General Fund and could have a material adverse impact on the General Fund. See **"OTHER MATTERS—Clean Water Compliance,"** herein.

On May 31, 2017, the City agreed to settle three class action lawsuits that were consolidated before a single judge in Los Angeles Superior Court. The lawsuits alleged that the City's electric rates violate Article XIII-C of the California Constitution because they exceed the cost of providing electric service, as evidenced by the City's long-standing practice of transferring revenue from the Los Angeles Department of Water and Power ("DWP") to the City. The settlement is subject to court approval. The settlement will limit the annual amount of revenue transferred from the Department of Water and Power's ("DWP") to the City to 8% of the retail operating revenues of the 2008 Electric Rate Ordinance on a go forward basis. This is estimated to be roughly $240 million annually. The annual transfers represented 4.2% of Fiscal Year 2017-18 General Fund Revenues. See, "**MAJOR GENERAL FUND REVENUE SOURCES—Power Transfers to General Fund**." The Fiscal Year 2017-18 Adopted Budget took into account and the Budget Outlook the potential revenue reduction from the Department of Water and Power's Revenue Fund. No refund of prior transfers is required from the City's General Fund.

HISTORIC, ECONOMIC AND DEMOGRAPHIC INFORMATION

Founded in 1781, Los Angeles was for its first century a provincial outpost under successive Spanish, Mexican and American rule. The City experienced a population boom following its linkage by rail with San Francisco in 1876. Los Angeles was selected as the Southern California rail terminus because its natural harbor seemed to offer little challenge to San Francisco, home of the railroad barons. But what the region lacked in commerce and industry, it made up in temperate climate and available real estate, and soon tens and then hundreds of thousands of people living in the Northeastern and Midwestern United States migrated to new homes in the region. Agricultural and oil production, followed by the creation of a deep-water port, the opening of the Panama Canal, and the completion of the City-financed Owens Valley Aqueduct to provide additional water, all contributed to an expanding economic base. The City's population climbed to 50,000 persons in 1890, and then swelled to 1.5 million persons by 1940. During this same period, the motor car became the principal mode of American transportation, and the City developed as the first major city of the automotive age. Following World War II, the City became the focus of a new wave of migration, with its population reaching 2.4 million persons by 1960.

The City and its surrounding metropolitan region have continued to experience growth in population and in economic diversity. The City's 470 square miles contain 11.5% of the area and about 39% of the population of the County of Los Angeles, California (the "County"). Tourism and hospitality, professional and business services, direct international trade, entertainment (including motion picture and television production), and wholesale trade and logistics all contribute significantly to local employment. Emerging industries are largely technology driven, and include biomedical technology, digital information technology, environmental technology and aerospace. The County is a top-ranked county in manufacturing in the nation. Important components of local industry include apparel, computer and electronic components, transportation equipment, fabricated metal, and food processing. Fueled by trade with the Pacific Rim countries, the Ports of Los Angeles and Long Beach combined are the busiest container ports in the nation. As home to the film, television and recording industries, as well as important cultural facilities, the City serves as a principal global cultural center.

Although the economic and demographic information provided below has been collected from sources that the City considers to be reliable, the City has made no independent verification of the information provided by non-City sources and the City takes no responsibility for the completeness or accuracy thereof. The current state of the economy of the City, State of California (the "State") and the United States of America may not be reflected in the data discussed below, because more up-to-date information is not publicly available. This information is provided as general background.

Additional information on economic highlights for the City was prepared by Beacon Economics, and is available on the City's web site at http://cao.lacity.org/debt/Beacon%20Report%20Comparative%20Analysis%20June%202017.pdf. This report is not incorporated by reference.

Population

The table below summarizes City, County, and State population, estimated as of January 1 of each year.

Table 1
CITY, COUNTY AND STATE POPULATION STATISTICS

	City of Los Angeles	Annual Growth Rate[1]	County of Los Angeles	Annual Growth Rate[1]	State of California	Annual Growth Rate[1]
2000[1]	3,694,742	-	9,519,330	-	33,873,086	-
2005[1]	3,769,131	0.40%	9,816,153	0.62%	35,869,173	1.18%
2010[1]	3,792,621	0.12	9,818,605	0.00	37,253,956	0.77
2015[1]	3,972,348	0.95	10,150,617	0.68	38,915,880	0.89
2016	3,999,237	0.68	10,182,961	0.32	39,189,035	0.70
2017	4,041,707	1.06	10,241,278	0.57	39,523,613	0.85

(1) For five-year time series, figures represent average annual growth rate for each of the five years.

Sources: State of California, Department of Finance, E-4 Population Estimates for Cities, Counties and the State, 2001-2010, with 2000 and 2010 Census Counts, Sacramento, California, November 2012. State of California, Department of Finance, E-4 Population Estimates for Cities, Counties, and the State, 2011-2017, with 2010 Census Benchmark. Sacramento, California, May 2017.

Industry and Employment

The following table summarizes the average number of employed and unemployed residents of the City and the County, based on the annual "benchmark," an annual revision process in which monthly labor force and payroll employment data, which are based on estimates, are updated based on detailed tax records. The "benchmark" data is typically released in March for the prior calendar year.

Table 2
ESTIMATED AVERAGE ANNUAL EMPLOYMENT AND UNEMPLOYMENT OF RESIDENT LABOR FORCE(1)

Civilian Labor Force	2012	2013	2014	2015	2016
City of Los Angeles					
Employed	1,759,300	1,801,000	1,845,900	1,875,700	1,920,200
Unemployed	229,400	207,300	207,300	142,100	113,000
Total	1,988,700	2,008,200	2,008,200	2,017,8000	2,033,200
County of Los Angeles					
Employed	4,378,400	4,482,100	4,593,900	4,668,200	4,778,800
Unemployed	536,900	485,000	412,900	332,400	264,500
Total	4,915,300	4,967,000	5,006,800	5,000,600	5,043,300
Unemployment Rates					
City	11.5%	10.3%	8.7%	7.0%	5.6%
County	10.9	9.8	8.2	6.6	5.2
State	10.4	8.9	7.5	6.2	5.4
United States	8.1	7.4	6.2	5.3	4.9

(1) March 2016 Benchmark report as of June 16, 2017; not seasonally adjusted.

Note: Based on surveys distributed to households; not directly comparable to Industry Employment data reported in Table 3.

Sources: California Employment Development Department, Labor Market Information Division for the State and County; U.S. Bureau of Labor, Department of Labor Statistics for the U.S.

The California Employment Development Department has reported preliminary unemployment figures for May 2017 of 4.2% statewide, 4.0% for the County, and 4.3% for the City (not seasonally adjusted).

The table on the following page summarizes the California Employment Development Department's estimated average annual employment for the County, which includes full-time and part-time workers who receive wages, salaries, commissions, tips, payment-in-kind, or piece rates. Separate figures for the City are not maintained. Percentages indicate the percentage of the total employment for each type of employment for the given year. For purposes of comparison, the most recent employment data for the State is also summarized.

Table 3
LOS ANGELES COUNTY
ESTIMATED INDUSTRY EMPLOYMENT AND LABOR FORCE[1]

	County				State of California	
	2000	% of Total	2016	% of Total	2016	% of Total
Agricultural	7,700	0.2%	5,300	0.1%	426,700	2.5%
Mining and Logging	3,400	0.1	3,600	0.1	24,500	0.1
Construction	131,500	3.2	133,100	3.0	774,100	4.6
Manufacturing	616,300	14.9	360,400	8.2	1,305,600	7.7
Trade, Transportation and Utilities	784,900	19.0	829,900	18.9	2,990,200	17.7
Information	244,300	5.9	230,900	5.3	523,100	3.1
Financial Activities	223,400	5.4	219,800	5.0	822,900	4.9
Professional and Business Services	589,700	14.3	605,200	13.8	2,530,800	15.0
Educational and Health Services	464,900	11.2	767,400	17.5	2,537,400	15.0
Leisure and Hospitality	345,000	8.3	510,500	11.6	1,897,300	11.2
Other Services	140,200	3.4	153,400	3.5	556,900	3.3
Government	581,400	14.1	576,300	13.1	2,514,600	14.9
Total[2]	4,132,500	100.0%	4,395,700	100.0%	16,904,100	100.0%

(1) The California Economic Development Department has converted employer records from the Standard Industrial Classification coding system to the North American Industry Classification System.

Note: Based on surveys distributed to employers; not directly comparable to Civilian Labor Force data reported in Table 2.

Source: California Employment Development Department, Labor Market Information Division. Based on March 2015 Benchmark report released March 3, 2017.

Major Employers

The top 25 major non-governmental employers in the County are listed in the table below. The employees of these non-governmental employers represent approximately 6.4% of the labor force (based on total employment in 2016). In addition, government employment represents approximately 13.1% of the labor force (see Table 3 – Estimated Industry Employment and Labor Force).

Table 4
LOS ANGELES COUNTY
2016 MAJOR NON-GOVERNMENTAL EMPLOYERS

Employer	Product/Service	Employees
Kaiser Permanente	Nonprofit health care plan	36,987
University of Southern California	Private university	18,971
Northrop Grumman Corp.	Defense contractor	16,619
Target Corp.	Retailer	15,000
Ralphs/Food 4 Less (Kroger Co. Division)	Grocery retailer	13,500
Bank of America Corp	Banking and financial services	13,000[(1)]
Providence Health & Services Southern California	Health care	13,000
Walt Disney Co.	Entertainment	12,500
Albertsons/Vons/Pavilions	Grocery retailer	12,400[(1)]
Cedars-Sinai Medical Center	Medical center	11,625
AT&T Inc.	Telecommunications, DirecTV	11,500[(1)]
UPS	Logistics, transportation and freight	10,800
Home Depot	Home improvement specialty retailer	10,600[(1)]
Boeing Co.	Aerospace and defense, commercial jetliners, space and security systems	9,500[(1)]
Wells Fargo Bank, N.A.	Diversified financial services	9,248
ABM Industries Inc.	Facility services, energy solutions, commercial cleaning, maintenance and repair	8,500[(1)]
California Institute of Technology	Private university, operator of Jet Propulsion Laboratory	8,291
FedEx Corp.	Shipping and logistics	7,900[(1)]
Edison International	Electric utility	7,600[(1)]
Allied Universal	Security professionals	6,600
Dignity Health	Health care	6,100
SoCalGas	Natural gas utility	5,600
Costco Wholesale	Membership chain of warehouse stores	5,527
Warner Bros. Entertainment Inc.	Entertainment	5,400[(2)]
Amgen Inc.	Biotechnology	5,300

[(1)] Business Journal estimate.

[(2)] Information provided by City of Burbank.

Source: Los Angeles Business Journal, Weekly Lists, originally published August 29, 2016.

Table 5
LOS ANGELES COUNTY
2016 LARGEST PUBLIC SECTOR EMPLOYERS

Employers	Employees
Los Angeles County	108,093
Los Angeles Unified School District	59,823
US Government - Federal Executive Board[(1)]	47,200
University of California, Los Angeles	46,220
City of Los Angeles[(2)]	32,576
State of California[(3)]	28,900
Los Angeles County Metropolitan Transportation Authority	9,892
Los Angeles Department of Water and Power (LADWP)	9,335
Los Angeles Community College District	6,909
Long Beach Unified School District	6,515
California State University, Northridge	6,326
City of Long Beach	5,286
California State University, Long Beach	3,790
Los Angeles World Airports (LAWA)	3,439
Pomona Unified School District	2,926
Montebello Unified School District	2,579
Cal Poly Pomona	2,572
California State University, Los Angeles	2,422
Compton Unified School District	2,240
City of Santa Monica	2,203
William S. Hart Union High School District	2,192
City of Pasadena	2,106
Glendale Unified School District	2,018
Santa Monica Community College District	1,958
Mt. San Antonio Community College District	1,923

(1) Excludes law enforcement and judiciary employees.

(2) Excludes proprietary departments (Airports, Harbor and Water and Power).

(3) Excludes education employees.

Source: Los Angeles Business Journal, Weekly Lists, originally published August 29, 2016.

Personal Income

The U.S. Census Bureau defines personal income as the income received by all persons from all sources, and is the sum of "net earnings," rental income, dividend income, interest income, and transfer receipts. "Net earnings" is defined as wages and salaries, supplements to wages and salaries, and proprietors' income, less contributions for government social insurance, before deduction of personal income and other taxes.

The following table summarizes the latest available estimate of personal income for the County, State and United States.

Table 6
COUNTY, STATE AND U.S.
PERSONAL INCOME

Year and Area	Personal Income (thousands of dollars)	Per Capita Personal Income[1] (dollars)
2012		
County[3]	$ 486,733,508	$ 48,818
State[2]	1,838,567,162	48,312
United States[2]	13,904,485,000	44,267
2013		
County[3]	$ 483,578,594	$ 48,140
State[2]	1,861,956,514	48,471
United States[2]	14,068,960,000	44,462
2014		
County[3]	$ 512,846,779	$50,730
State[2]	1,977,923,740	50,988
United States[2]	14,801,624,000	46,414
2015		
County[3]	$ 544,324,900	$53,521
State[2]	2,103,669,473	53,741
United States[2]	15,463,981,000	48,112
2016		
County[3]	n/a	n/a
State[2]	$ 2,197,492,012	$55,987
United States[2]	16,017,781,445	49,571

(1) Per capita personal income was computed using Census Bureau midyear population estimates. Per capita personal income is total personal income divided by total midyear population. Estimates for 2012 to 2016 reflect Census Bureau midyear population estimates as of Decembe 2016. Estimates for 2012 to 2015 reflect county population estimates as of March 2016.

(2) Last updated: March 28, 2017—new estimates for 2016; revised estimates for 2012- 2015.

(3) Last updated: November 17, 2016 – new estimates for 2015; revised estimates for 2012 - 2014.

Source: U.S. Bureau of Economic Analysis, "Table SA1 Personal Income Summary".

Retail Sales

As the largest city in the County, the City accounted for $44.0 billion (or 29.2%) of the total $151.0 billion in County taxable sales for 2015. The following table sets forth a history of taxable sales for the City for calendar years 2011 through 2015, 2015 being the last full year for which data is currently available. The State Board of Equalization reports total retail and food services sales for 2015 of $33,972,239,246, with total sales from all outlets was $44,046,697,725, an increase of 1.4%.

Table 7
CITY OF LOS ANGELES
TAXABLE SALES
(in thousands)

	2011	2012	2013	2014	2015
Motor Vehicle and Parts Dealers	$3,224,150	$3,662,657	$3,983,625	$4,158,168	$ 4,616,450
Home Furnishings and Appliance Stores	1,609,905	1,676,926	1,683,805	1,725,981	1,826,089
Bldg. Materials and Garden Equip. and Supplie	1,834,117	1,942,915	2,086,608	2,179,954	2,335,497
Food and Beverage Stores	2,199,481	2,322,695	2,444,701	2,582,338	2,718,199
Gasoline Stations	4,952,984	5,090,496	4,954,380	4,822,894	4,252,397
Clothing and Clothing Accessories Stores	2,715,953	2,884,984	3,032,886	3,102,222	3,190,617
General Merchandise Stores	2,660,830	2,759,578	2,873,530	2,899,454	2,725,354
Food Services and Drinking Places	6,049,187	6,564,652	6,946,625	7,534,764	8,194,963
Other Retail Group	3,599,674	3,716,658	3,943,616	3,969,898	4,112,670
Total Retail and Food Services	28,846,283	30,621,561	31,949,776	32,975,674	33,972,239
All Other Outlets	9,011,361	9,502,364	9,806,938	10,480,659	10,074,458
TOTAL ALL OUTLETS	$37,857,643	$40,123,926	$41,756,714	$43,456,334	$44,046,697
Year-over-year growth	8.7%	6.0%	4.1%	4.1%	1.4%

Source: California State Board of Equalization, Research and Statistics Division.

The City experienced a 2.2% increase in sales tax receipts during Fiscal Year 2015-16 (excluding additional receipts from the restoration of the 1% local tax rate), estimates 2.8% growth in Fiscal Year 2016-17 (again, excluding additional receipts from the restoration of the 1% local tax rate) and projects 1.7% growth in taxable sales for the Fiscal Year 2017-18 Adopted Budget. See **"MAJOR GENERAL FUND REVENUE SOURCES—Sales Tax,"** herein.

Increase in Local Minimum Wage

An Ordinance was adopted by the City Council on June 10, 2015, establishing a citywide minimum wage. The Ordinance requires employers with 26 or more employees to pay employees (who are not otherwise exempt under law) working within the City a minimum wage of $10.50 per hour starting on July 1, 2016 and increasing each year until July 1, 2020, when the minimum wage will be $15.00 per hour. Employers with 25 or fewer employees have an additional year before each step increase takes effect (for example, a minimum wage of $10.50 per hour would be required starting on July 1, 2017). Starting on July 1, 2022 and annually thereafter, the wage rate will be adjusted by the applicable Consumer Price Index to be effective the first of July of the applicable year. This Ordinance is expected to have minimal impact on City expenses.

On April 4, 2016, Governor Brown signed a bill that makes similar changes to the statewide minimum wage, which increased from $10 per hour to $10.50 per hour on January 1, 2017, then up to $11 per hour on January 1, 2018. From there it will increase by $1 annually until reaching $15 per hour on January 1, 2022. Employers in the City will remain under the accelerated schedule of the City's ordinance or whichever standard that is most beneficial to the employee.

On April 20, 2016, the Council approved amending the City's Minimum Wage Ordinance to require employers to provide sick time benefits of 48 hours per year to employees, compared to the 24 hours per year provided under State law. This sick time benefits policy became operative on July 1, 2016 for all employers.

Land Use

The following table, derived from data maintained by the Los Angeles County Assessor, indicates various land uses within the City based on assessed valuation and the number of parcels.

Table 8
CITY OF LOS ANGELES
ASSESSED VALUATION AND PARCELS BY LAND USE

	2016-17 Assessed Valuation[1]	% of Total	No. of Parcels	% of Total
Non-Residential				
Commercial Office	$ 75,542,910,433	14.73%	35,812	4.58%
Vacant Commercial	2,176,967,394	0.42	1,268	0.16
Industrial	37,514,403,008	7.31	20,087	2.57
Vacant Industrial	1,778,693,952	0.35	4,100	0.52
Recreational	1,871,041,690	0.36	791	0.10
Government/Social/Institutional	3,341,865,167	0.65	3,769	0.48
Miscellaneous	394,530,383	0.08	2,814	0.36
Subtotal Non-Residential	$122,620,412,027	23.91%	68,641	8.78%
Residential				
Single Family Residence	$270,538,916,563	52.75%	493,648	63.16%
Condominium/Townhouse	34,573,833,215	6.74	86,333	11.05
Mobile Homes and Lots	111,167,270	0.02	3,312	0.42
Mobile Home Park	170,254,291	0.03	90	0.01
2-4 Residential Units	27,188,373,624	5.30	74,205	9.49
5+ Residential Units/Apartments	54,638,597,855	10.65	34,797	4.45
Vacant Residential	3,007,978,507	0.59	20,590	2.63
Subtotal Residential	$390,229,121,325	76.09%	712,975	91.22%
Total	$512,849,533,352	100.00%	781,616	100.00%

(1) Local Secured Assessed Valuation, excluding tax-exempt property.

Source: California Municipal Statistics, Inc.

Residential Value and Construction Activity

The following table indicates the array of assessed valuation for single-family residential properties in the City.

Table 9
CITY OF LOS ANGELES
PER PARCEL 2016-17 ASSESSED VALUATION OF SINGLE FAMILY RESIDENTIAL PROPERTIES

	No. of Parcels	2016-17 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential Properties	493,648	$270,538,916,563	$548,040	$349,525

2016-17 Assessed Valuation	No. of Residential Parcels [(1)]	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
$0 - $49,999	9,215	1.867%	1.867%	$ 342,374,110	0.127%	0.127%
$50,000 - $99,999	32,124	6.507	8.374	2,472,391,536	0.914	1.040
$100,000 - $149,999	26,997	5.469	13.843	3,459,260,595	1.279	2.319
$150,000 - $199,999	34,412	6.971	20.814	6,401,905,244	2.366	4.685
$200,000 - $249,999	42,013	8.511	29.325	9,571,149,582	3.538	8.223
$250,000 - $299,999	46,825	9.486	38.810	12,919,064,325	4.775	12.999
$300,000 - $349,999	55,425	11.228	50.038	18,911,287,125	6.990	19.989
$350,000 - $399,999	50,126	10.154	60.192	18,853,391,120	6.969	26.958
$400,000 - $449,999	31,524	6.386	66.578	13,536,783,888	5.004	31.961
$450,000 - $499,999	22,023	4.461	71.039	10,691,659,971	3.952	35.913
$500,000 - $549,999	18,842	3.817	74.856	9,948,500,632	3.677	39.591
$550,000 - $599,999	14,799	2.998	77.854	8,604,671,364	3.181	42.771
$600,000 - $649,999	13,894	2.815	80.669	8,890,228,734	3.286	46.057
$650,000 - $699,999	12,431	2.518	83.187	8,454,497,134	3.125	49.182
$700,000 - $749,999	9,111	1.846	85.823	6,659,257,233	2.461	51.644
$750,000 - $799,999	8,837	1.790	86.023	6,625,823,534	2.449	54.093
$800,000 - $849,999	6,854	1.388	88.211	5,722,445,724	2.115	56.208
$850,000 - $899,999	6,784	1.374	89.585	5,936,678,400	2.194	58.402
$900,000 - $949,999	6,038	1.223	90.808	5,602,557,554	2.071	60.473
$950,000 - $999,999	4,700	0.952	91.761	4,612,749,200	1.705	62.178
$1,000,000 and greater	40,674	8.239	100.000	102,322,239,558	37.822	100.000
Total	493,648	100.000%		$270,538,916,563	100.000%	

(1) Improved single-family residential parcels. Excludes condominiums and parcels with multiple family units.

Source: California Municipal Statistics, Inc.

The table below provides a summary of building permits issued by the City by calendar year.

Table 10
CITY OF LOS ANGELES
RESIDENTIAL BUILDING PERMIT VALUATIONS AND NEW UNITS

	2012	2013	2014	2015	2016
Valuation[(1)]	$3,671	$4,246	$6,416	$6,808	$6,822
Residential[(2)]	1,407	1,732	2,668	3,385	3,359
Non-Residential[(3)]	593	605	968	880	729
Miscellaneous Residential[(4)]	17	48	18	28	25
Miscellaneous Non-Residential[(5)]	29	31	18	40	56
Number of Residential Units:					
Single family[(6)]	1,059	1,254	1,852	2,246	2,393
Multi-family[(7)]	5,615	7,136	9,607	13,246	11,495
Subtotal Residential Units	6,674	8,390	11,459	15,492	13,888
Number of Non-Residential Units[(8)]	89	0	326	613	97
Miscellaneous Residential Units[(9)]	477	536	274	392	672
Miscellaneous Non-Residential Units[(10)]	405	323	267	736	1,036
Total Units	7,645	9,249	12,326	17,234	15,693

(1) In millions of dollars. “Valuation” represents the total valuation of all construction work for which the building permit is issued.

(2) Valuation of permits issued for Single-Family Dwellings, Duplexes, Apartment Buildings, Hotel/Motels, and Condominiums.

(3) Valuation of permits issued for Special Permits, Airport Buildings, Amusement Buildings, Churches, Private Garages, Public Garages, Gasoline Service Stations, Hospitals, Manufacturing Buildings, Office Buildings, Public Administration Buildings, Public Utilities Buildings, Retail Stores, Restaurants, School Buildings, Signs, Private Swimming Pools, Theater Buildings, Warehouses, Miscellaneous Buildings/Structures, Prefabricated Houses, Solar Heaters, Temporary Structures, Artists-in-Residence, Foundation Only, Grade – Non-Hillside, Certificates of Occupancy – Use of Land, Grading – Hillside.

(4) Valuation of permits issued for “Additions Creating New Units – Residential” and “Alterations Creating New Units – Residential.”

(5) Valuation of permits issued for “Additions Creating New Units – Commercial” and “Alterations Creating New Units – Commercial.”

(6) Number of dwelling units permitted for Single-Family Dwellings and Duplexes.

(7) Number of dwelling units permitted for new Apartment Buildings, Hotel/Motels, and Condominiums.

(8) Number of dwelling units permitted for Airport Buildings, Amusement Buildings, Churches, Private Garages, Public Garages, Gasoline Service Stations, Hospitals, Manufacturing Buildings, Office Buildings, Public Administration Buildings, Public Utilities Buildings, Retail Stores, Restaurants, School Buildings, Signs, Private Swimming Pools, Theater Buildings, Warehouses, Miscellaneous Buildings/Structures Prefabricated Houses, Solar Heaters, Temporary Structures, Artists-in-Residence.

(9) Number of dwelling units added includes “Addition Creating New Units – Residential” and “Alterations Creating New Units - Residential.”

(10) Number of dwelling units added includes “Additions Creating New Units – Commercial” and “Alterations Creating New Units - Commercial.”

Source: City of Los Angeles, Department of Building and Safety.

Commercial Real Estate Markets in Los Angeles

The following table shows the most recent information available regarding vacancy rates for commercial property in the City and the County.

Table 11
CITY OF LOS ANGELES AND COUNTY OF LOS ANGELES
COMMERCIAL PROPERTY VACANCY RATES[1]

Year and Area	Retail	Office	Warehouse	R&D
2012				
City	6.2%	16.6%	8.1%	6.1%
County	6.3	16.3	8.4	5.9
2013				
City	5.5	16.5	7.0	4.9
County	6.1	16.4	7.5	5.1
2014				
City	5.4	16.2	6.4	5.2
County	6.1	17.0	6.9	4.7
2015				
City	4.9	15.4	5.8	4.4
County	6.2	15.5	6.2	3.8
2016				
City	5.0	14.0	5.7	4.3
County	6.2	14.0	6.0	3.2

(1) Vacancy rates are annual averages

Source: REIS, Beacon Economics.

Seismic Considerations

The City is subject to unpredictable and significant seismic activity. A number of known faults run through the City, and the City lies near the San Andreas Fault, which is the boundary between the Pacific and North American tectonic plates. The complex Los Angeles fault system interacts with the alluvial soils and other geologic conditions in the hills and basins of the area. This interaction poses a potential seismic threat for every part of the City, regardless of the underlying geologic and soils conditions. In addition, there are likely to be unmapped faults throughout the City. The most recent major earthquake, the Northridge earthquake in 1994, occurred along a previously unmapped blind thrust fault. The City generally does not maintain earthquake insurance coverage; see **"BUDGET AND FINANCIAL OPERATIONS—Risk Retention Program"** herein.

Education

The Los Angeles Unified School District ("LAUSD"), one of the largest employers in the City, administers public instruction for kindergarten through 12th grade ("K-12"), adult, and occupational schools in the City and all or significant portions of a number of smaller neighboring cities and unincorporated areas. The LAUSD, which now encompasses approximately 710 square miles (making it significantly larger than the City at 470 square miles), was formed in 1854 as the Common Schools for the City of Los Angeles, and became a unified school district in 1960. The LAUSD is governed by a seven-member Board of Education, elected by district to serve alternating four-year terms.

There are many public and private colleges and universities located in the City. Major colleges and universities located within the City include the University of California at Los Angeles, the University of Southern California, California State University at Los Angeles, California State University at Northridge, Occidental College and Loyola Marymount University. There are seven community colleges located within the City operated by the Los Angeles Community College District.

MUNICIPAL GOVERNMENT

The City is a charter city originally incorporated in 1850. Under the State Constitution, charter cities such as the City are generally independent of the State Legislature in matters relating to municipal affairs. Charter cities, however, are subject to State Constitutional restrictions; see **"LIMITATIONS ON TAXES AND APPROPRIATIONS"**. The most recent charter was adopted in 1999, became effective July 1, 2000, and has been amended a number of times by voter approval. In an amendment approved by voters in 2015 (Charter Amendment 1), the City's primary and general election dates were moved to June and November of even-numbered years, beginning in 2020, in order to align them with federal and state elections. The measure also extended the terms of officials elected in 2015 and 2017; these candidates were given five and a half-year terms instead of the customary four to transition to the new election dates.

The City is governed by the Mayor and the Council. The Mayor is elected at-large for a four-year term. As executive officer of the City, the Mayor has the overall responsibility for administration of the City. The Mayor recommends and submits the annual budget to the Council and passes upon subsequent appropriations and transfers, approves or vetoes ordinances, and appoints certain City officials and commissioners. He supervises the administrative process of local government and works with the Council in matters relating to legislation, budget, and finance. As prescribed by the Charter and City ordinances, the Mayor operates an executive department, of which he is the ex-officio head. The current Mayor, Eric Garcetti, assumed office on July 1, 2013 and was elected to a second term on March 7, 2017, which will end in 2022 due to the change in election dates.

The Council, the legislative body of the City, is a full-time council and enacts ordinances subject to the approval of the Mayor. The Council may override the veto of the Mayor by a two-thirds vote. The Council orders elections, levies taxes, authorizes public improvements, approves contracts, adopts zoning and other land use controls, and adopts traffic regulations. The Council adopts or modifies the budget proposed by the Mayor. It authorizes the number of employees in budgetary departments, creates positions and fixes salaries. The Council consists of 15 members elected by district for staggered four-year terms.

The other two elective offices of the City are the Controller and the City Attorney, both elected for four-year terms. The Controller is the chief accounting officer for the City. The current Controller, Ron Galperin, assumed office on July 1, 2013, and was elected to a second term on March 7, 2017, which will end in 2022 due to the change in election dates.

The City Attorney is attorney and legal advisor to the City and to all City boards, departments, officers, and entities, and prosecutes misdemeanors and violations of the Charter and City ordinances. The current City Attorney, Mike Feuer, assumed office on July 1, 2013, and was elected to a second term on March 7, 2017, which will end in 2022 due to the change in election dates.

All citywide elected officials are subject to term limits of two four-year terms, while Council members are subject to term limits of three four-year terms.

The City Administrative Officer ("CAO") is the chief fiscal advisor to the Mayor and Council and reports directly to both. The CAO is appointed by the Mayor, subject to Council confirmation. On February 1, 2017, the Mayor appointed Richard H. Llewellyn, Jr. as Interim City Administrative Officer with the departure of the former CAO, Miguel A. Santana, who had served as CAO since August 2009 and resigned effective January 16, 2017, pending a search for a permanent replacement. The new CAO will be appointed by the Mayor and confirmed by the Council.

The City Treasurer (the "Treasurer") receives, invests and is the custodian of the City's funds and those of affiliated entities. The Treasurer also serves as the City's Investment Officer. The Treasurer is appointed by the Mayor and confirmed by the Council. On July 1, 2011, the Office of the Treasurer was consolidated into the Office of Finance. Claire Bartels, the Director of Finance, also serves as the City Treasurer.

The City has 38 departments and bureaus for which operating funds are annually budgeted by the Council. In addition, three departments (the Department of Water and Power ("DWP"), the Harbor Department, and the Department of Airports) and one state-chartered public agency (the Housing Authority of the City) are under the control of boards appointed by the Mayor and confirmed by the Council. The City obtains water and electricity from DWP, the largest municipally-owned utility in the nation. Two departments, the Los Angeles City Employees' Retirement System and the Fire and Police Pension System, are under the control of boards whose membership is comprised of Mayoral appointees and representatives elected by system members.

Public services provided by the City include police; fire and paramedics; residential refuse collection and disposal, wastewater collection and treatment, street maintenance, traffic management, storm water pollution abatement, and other public works functions; enforcement of ordinances and statutes relating to building safety; public libraries; recreation and parks; community development; housing and aging services; and planning.

BUDGET AND FINANCIAL OPERATIONS

Fiscal Year 2015-16 Results

The City's Comprehensive Annual Financial Report (the "CAFR") for the Fiscal Year Ended June 30, 2016 reported a growth in the City's total General Fund balance of approximately $67.5 million. See the https://emma.msrb.org/ES1191215.pdf, which is incorporated by reference.

The following two tables summarize financial information for the General Fund contained in the City's audited Basic Financial Statements prepared in accordance with generally accepted accounting principles ("GAAP") for the periods indicated.

Table 12
BALANCE SHEETS FOR THE GENERAL FUND
For Fiscal Years Ending June 30
($ in thousands)

	2012	2013	2014	2015	2016
Assets					
Cash and Pooled Investments[1]	$1,235,260	$ 791,293	$1,014,481	$1,084,125	$1,135,914
Taxes Receivable	536,069	533,711	479,482	554,084	749,917
Accounts Receivable	184,312	187,230	128,136	131,040	124,661
Special Assessments Receivable	4,598	4,816	4,518	4,417	3,691
Investment Income Receivable	6,122	5,401	4,815	7,123	7,376
Intergovernmental Receivable	47,152	54,548	155,448	135,042	125,862
Loans Receivable	-	-	-	1	-
Due from Other Funds	44,229	86,632	43,625	50,870	109,640
Inventories	19,815	17,875	18,643	20,694	36,045
Prepaid Items and Other Assets	-	17,051	14,569	13,297	10
Advances to Other Funds	11,319	8,189	9,934	8,155	8,155
Total Assets	$2,088,876	$1,706,746	$1,873,651	$2,008,848	$2,301,271
Liabilities:					
Accounts, Contracts and Retainage Payable	$ 56,764	$ 54,078	$ 63,347	$ 69,758	$ 77,061
Obligations Under Securities Lending Transactions[2]	-	6,879	2,580	12,703	36,108
Accrued Salaries and Overtime Payable	121,845	130,168	122,028	154,873	182,250
Accrued Compensated Absences Payable	10,124	15,433	17,182	15,654	17,733
Estimated Claims and Judgments Payable	28,189	30,269	35,015	39,922	54,364
Intergovernmental Payable	776	12	353	876	397
Due to Other Funds	47,967	71,740	98,113	47,891	84,503
Unearned Revenue	-	-	24	19	10
Deposits and Advances	24,007	23,316	23,612	28,349	24,793
Deferred Revenue and Other Credits[3]	528,669	576,749	-	-	-
Advances from Other Funds	35,728	29,852	22,436	47,304	32,775
Notes Payable	601,541	-	-	-	-
Other Liabilities	61,582	45,634	43,843	53,246	71,264
Total Liabilities	$1,517,192	$ 984,130	$ 428,533	$ 470,595	$ 581,258
Deferred Inflows of Resources[3]					
Unavailable Real Estate Tax	-	-	$ 29,884	$ 53,497	$ 55,325
Taxes Other than Real Estate	-	-	269,310	314,960	417,584
Receivables from Other Government Agencies	-	-	154,739	132,692	120,010
Other Deferred Inflows of Resources	-	-	95,114	91,555	98,729
Total Deferred Inflows of Resources	-	-	$ 549,047	$ 592,704	$ 691,648
Fund Balances					
Nonspendable[4]	$ 31,134	$ 43,115	$ 43,146	42,146	$ 44,210
Restricted[5]	-	69,712	-	-	-
Committed	-	-	-	2,457	1,296
Assigned[6]	267,645	242,643	230,717	253,388	392,418
Unassigned[7]	272,905	367,146	622,208	647,558	590,441
Total Fund Balances	$ 571,684	$ 722,616	$ 896,071	$ 945,549	$1,028,365
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$2,088,876	$1,706,746	$1,873,651	$2,008,848	$2,301,271

(1) Includes securities held under securities lending transactions, offset by the Liability "Obligations Under Securities Lending Transactions." Fiscal Year 2011-12 includes funds set-aside for repayment of TRANS maturing in the subsequent fiscal year, offset by the liability of Notes Payable.

(2) The program was temporarily halted in Fiscal Year 2011-12, until the contract for agent was renewed in December 2012.

(3) GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities," established new accounting and financial reporting standards that, among other things, reclassify certain items of unavailable revenue that were previously reported as liabilities as deferred inflows of resources. The City adopted GASB Statement No. 65 for fiscal year 2014.

(4) Includes inventories and certain advances to other funds.

(5) In Fiscal Year ended June 30, 2013, this represents the City's Budget Stabilization Fund. This fund was reported as part of the Unassigned Fund Balance in all other years.

(6) Includes encumbrances, various revolving funds, and certain net receivables.

(7) Primarily consists of the City's Reserve Fund and, except for Fiscal Year 2013, the Budget Stabilization Fund.

Source: City of Los Angeles, Comprehensive Annual Financial Reports.

Table 13
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE GENERAL FUND
For Fiscal Years Ending June 30
($ in thousands)

	2012	2013	2014	2015	2016
Revenues:					
Property Taxes	$1,470,799	$1,565,457	$1,662,364	$1,733,508	$1,808,486
Sales Taxes	328,059	343,628	357,255	372,782	437,775
Utility Users Taxes	634,629	623,794	631,492	637,318	614,814
Business Taxes	438,969	447,983	476,908	500,774	507,635
Other Taxes	392,686	451,304	522,341	552,549	586,375
Licenses and Permits	26,241	23,909	22,417	22,604	32,728
Intergovernmental	7,182	11,939	11,640	39,284	20,691
Charges for Services	510,401	532,512	543,882	617,481	318,462[1]
Services to Enterprise Funds	245,853	252,178	253,414	273,171	317,265
Fines	147,780	162,930	167,474	156,006	152,304
Special Assessments	1,922	1,732	2,441	1,259	1,869
Investment Earnings	21,456	16,710	19,059	20,736	38,891
Change in Fair Value of Investments[2]	-	(18,002)	-	-	-
Other	91,357	104,973	118,571	79,816	55,742
Total Revenues	$4,317,334	$4,521,047	$4,789,258	$5,007,288	$4,893,037
Expenditures:					
Current:					
General Government	$1,257,198	$1,219,179	$1,263,431	$1,333,453	$1,316,146
Protection of Persons and Property	2,279,987	2,403,195	2,562,058	2,771,591	2,797,742
Public Works	165,025	176,240	180,714	170,510	112,473
Health and Sanitation	146,270	145,768	146,422	174,136	131,438
Transportation	107,803	98,446	106,494	110,336	105,354
Cultural and Recreational Services	46,592	51,991	50,943	54,992	57,815
Community Development	30,544	32,303	36,758	43,966	2,391
Capital Outlay	17,751	25,395	27,025	29,540	46,467
Debt Service: Interest	1,152	2,062	1,939	1,472	4,339
Debt Service: Cost of Issuance	940	955	907	927	807
Total Expenditures	$4,053,262	$4,155,534	$4,376,691	$4,690,923	$4,574,972
Excess (Deficiency) of Revenues Over Expenditures	$ 264,072	$ 365,513	$ 412,567	$ 316,365	$ 318,065
Other Financing Sources (Uses)					
Transfers In	$ 270,660	$ 307,458	$ 294,383	$ 302,147	$ 349,928
Transfers Out	(486,336)	(520,098)	(534,263)	(573,493)	(600,527)
Total Other Financing Sources (Uses)	(215,676)	(212,640)	(239,880)	(271,346)	(250,599)
Net Change in Fund Balance	48,396	152,873	172,687	45,019	67,466
Fund Balances, July 1	520,058	571,683	722,616	898,479[3]	945,549
(Decrease) Increase in Reserve for Inventories	3,230	(1,940)	768	2,051	15,350
Fund Balances, June 30	$ 571,684	$ 722,616	$ 896,071[3]	$945,549	$1,028,365

(1) Reduction in these revenues for Fiscal Year 2015-16 reflect changes in reporting of certain inter-fund reimbursements for expenditures that were front-funded by the General Fund and recognized as revenues in prior fiscal years.

(2) Typically, any losses due to fair market valuation is netted out of interest earnings. Losses were reported separately in Fiscal Year 2012-13 so as to avoid reporting negative investment earnings.

(3) In compliance with GASB implementation guidelines on fund categories, certain funds were reassigned from Special Revenue Fund type to General Fund type, thereby resulting in the differences in fund balances.

Source: City of Los Angeles, Comprehensive Annual Financial Reports.

City's Budgetary Process

The City's fiscal year extends from July 1 through June 30. Under the City Charter, the Mayor is required each year to submit to the Council a Proposed Budget by April 20. The Proposed Budget is based on the Mayor's budget priorities, and includes estimates of receipts from the City's various revenue sources.

The Mayor's Proposed Budget is reviewed by the Council's Budget and Finance Committee, which reports its recommendations to the full Council. The Council is required by City Charter to adopt the Mayor's Proposed Budget, as modified by the Council, by June 1. The Mayor has five working days after adoption to approve or veto any items modified by the Council. The Council then has five working days to override by a two-thirds vote any items vetoed by the Mayor. The City is not aware that it has ever failed to meet these City Charter deadlines.

The Adopted Budget is subject to revision throughout the fiscal year to reflect any changes in revenue and expenditure projections. During the fiscal year, the City monitors its revenues, expenditures and reserve estimates. As instructed by the Mayor and Council, the City Administrative Officer issues interim financial status reports as deemed necessary, which recommend budgetary adjustments throughout the year. Additional information concerning the City's financial condition may be found on the website of the City Administrative Officer at http://cao.lacity.org/budget/FSR.htm; such information is not incorporated as part of this Official Statement.

Fiscal Year 2016-17 Adopted Budget and Financial Status Reports

The Council adopted the Fiscal Year 2016-17 Adopted Budget on May 25, 2016, which the Mayor signed on June 2, 2016. The Adopted Budget appropriated $5.58 billion in projected General Fund revenue, representing a $242 million increase from the prior year's actual receipts (4.5%).

Over the course of the fiscal year, the CAO released four Financial Status Reports, identifying significant revenue and expenditure challenges and making various recommendations to address them. The most recent Financial Status report, the "Year-End (Fourth) Financial Status Report," was released on May 31, 2017, and identified a $20.8 million deficit that would occur without corrective action. Various transfers and other actions were recommended as part of that report to close the deficit. The report stated that while the Reserve Fund had dropped to 4.90%, below the 5% policy level, bolstered by revenues that are projected to exceed the 2016-17 Adopted Budget level, the Reserve Fund it expected to end the fiscal year above 5%. During the presentation of the "Year-End Financial Status Report" to the Budget and Finance Committee, the CAO stated that recent data suggests that Fiscal Year 2016-17 receipts appeared lower than included in that report, and that the Office would report again if additional actions are required during this Fiscal Year, including transfers from the Reserve Fund.

Fiscal Year 2017-18 Adopted Budget

By Charter, the Mayor presents and the Council adopts a balanced budget with no deficit. The Mayor released his 2017-18 Proposed Budget on April 20, 2017. The City Council's Budget and Finance Committee held hearings on the Budget between April 26 and May 12. The City

Council deliberated on the budget on May 17 and May 18, and adopted the budget on May 24. The Mayor signed the budget on May 25, 2017.

The table below illustrates how the assumptions behind the budget gap projected for Fiscal Year 2017-18 in the 2016-17 General Fund Budget Outlook were subsequently adjusted to reflect actual budgeted expenditures and revenues in developing and balancing the Fiscal Year 2017-18 Adopted Budget. The $85 million budget gap reported in the Outlook reflected the difference between projected Fiscal Year 2017-18 expenditures required to maintain service levels and ongoing revenues. As illustrated, the gap between actual expenditures and ongoing revenues in the Fiscal Year 2017-18 Adopted Budget was $110 million. This gap was closed through one-time solutions, including $65 million in revenues and $45 million in expenditure reductions.

Table 14
CLOSING THE FISCAL YEAR 2017-18 BUDGET GAP
($ in millions)

	2016-17 Outlook Projections for the 2017-18 Budget[1]	2017-18 Adopted Budget	Change from Outlook to Budget
Revenue			
2016-17 Revenue Budget	$5,576	$5,576	$ -
Less one-time 2016-17 Revenue	(125)	(125)	-
Add 2017-18 New Ongoing Revenue	160	310	150
Total - 2017-18 Ongoing Revenue	**$5,611**	**$5,761**	**$ 150**
Expenditures			
2016-17 Base Expenditures	$5,576	$5,576	$ -
Expenditure Adjustments to Maintain Service Levels	120	263	143
New Expenditures	-	37	37
Ongoing Reductions	-	(5)	(5)
Total – 2017-18 Expenditures	**$5,696**	**$5,871**	**$ 175**
Budget Gap: 2017-18 Expenditures above Ongoing Revenue	**$ (85)**	**$ (110)**	**$ (25)**
One-Time Solutions			
Revenue Increases	$ -	$ 65	$ 65
Expenditure Reductions	-	45	45
Solutions Identified	**$ -**	**$ 110**	**$ 110**

(1) The 2016-17 Outlook was published on June 21, 2016.

Source: City of Los Angeles, Office of the City Administrative Officer.

While the Fiscal Year 2017-18 Adopted Budget is balanced, as in every year, budget adjustments may be required throughout the year. In particular, despite an increase in appropriations for liabilities, based on spending over the last two years and a review of pending cases, the amount budgeted could still fall short of the actual Fiscal Year 2017-18 needs. In addition, revenue projections rely on some policy decisions by the Council and Mayor that have yet to be finalized. The Adopted Budget includes $20 million in the Unappropriated Balance – Reserve for Mid-Year Adjustments, which will be available to address these and other potential issues that may arise. See **"BUDGET AND FINANCIAL OPERATIONS—Budgetary Reserves and Contingencies,"** herein.

The following table presents the Fiscal Year 2017-18 Adopted Budget and the adopted budgets for the preceding fiscal years. These budgets include the General Fund and most special revenue funds, but exclude those operations not under the direct control of the Council (i.e., Airports, Harbor, Water and Power departments, and the Los Angeles City Employees' Retirement and Fire and Police Pensions systems).

Table 15
CITY OF LOS ANGELES ADOPTED BUDGET
(ALL BUDGETED FUND TYPES)

Revenues	Adopted Budget 2013-14	Adopted Budget 2014-15	Adopted Budget 2015-16	Adopted Budget 2016-17	Adopted Budget 2017-18
General Fund					
Property Taxes [1]	$ 1,549,568,000	$ 1,644,811,000	$1,765,230,000	$1,786,069,000	$1,833,755,000
Property Tax – Ex-CRA Tax Increment	55,434,000	48,023,000	52,580,000	54,594,000	74,168,000
Other Taxes [2]	1,896,692,000	1,958,030,000	2,080,875,000	2,220,813,000	2,327,666,000
Licenses, Permits, Fees and Fines [3]	1,033,987,064	1,040,330,401	1,077,604,212	1,119,258,885	1,247,823,015
Intergovernmental [4]	253,000,000	261,000,000	275,300,000	291,000,000	242,500,000
Other General Fund [5]	63,590,260	172,604,670	141,191,911	85,000,457	76,586,999
Interest	14,621,000	13,491,000	17,600,000	19,700,000	23,957,000
Total General Fund Revenue	$4,866,892,324	$5,138,290,071	$5,410,381,123	$5,576,435,342	$5,826,456,014
Special Purpose Funds					
Charges For Services and Operations [6]	$ 1,217,506,209	$ 1,291,885,009	$1,312,020,696	$1,310,678,984	$1,553,096,303
Transportation Funds [7]	322,539,834	335,198,972	331,549,770	310,349,969	348,512,507
Intergovernmental [8]	82,637,744	80,068,557	82,564,920	64,738,943	62,993,402
Special Assessments [9]	81,894,536	85,018,351	98,396,818	86,915,551	89,023,545
Other Special Funds	425,437,766	460,786,211	464,886,212	593,398,260	596,095,723
Available Balances	527,905,446	582,806,097	745,236,659	711,949,569	693,324,603
Total Special Fund Revenue	$2,657,921,535	$2,835,763,197	$3,034,655,075	$3,078,031,276	$3,343,046,083
City Levy for Bond Redemption and Interest	160,695,451	148,889,669	137,526,468	122,494,656	122,623,642
Total Receipts	$7,685,509,310	$8,122,942,937	$8,582,562,666	$8,776,961,274	$9,292,125,739
Appropriations by Funding Source					
General Fund					
Fire Department	$ 543,309,266	$ 558,262,567	$ 620,197,506	$ 627,145,936	$ 639,273,170
Police Department	1,266,367,842	1,293,469,105	1,388,767,435	1,435,223,677	1,517,200,993
Other Budgetary Departments	948,968,478	1,039,190,694	1,093,424,363	826,906,870	1,178,595,853
Tax and Revenue Anticipation Notes [10]	955,905,263	1,047,447,674	1,077,985,098	1,095,628,745	1,114,644,814
Capital Finance Administration [11]	213,368,640	218,722,586	214,208,074	205,223,909	209,459,534
Human Resources Benefits	600,430,000	615,138,916	611,491,371	629,485,100	682,788,227
Other General Fund Appropriations	338,542,835	366,058,529	404,307,276	756,821,105	484,493,423
Total General Fund	$4,866,892,324	$5,138,290,071	$5,410,381,123	$5,576,435,342	$5,826,456,014
Special Purpose Funds					
Budgetary Departments	$ 922,678,331	$ 908,106,365	$ 962,208,445	$ 995,115,656	$1,090,933,010
Appropriations to Proprietary Departments	83,472,204	93,818,332	102,643,144	106,556,869	102,313,802
Capital Improvement Expenditure Program	176,855,922	199,725,825	266,516,882	254,041,522	343,304,288
Wastewater Special Purpose Fund	464,477,897	463,170,037	464,501,463	490,986,961	521,469,820
Appropriations to Special Purpose Funds	1,010,437,181	1,170,942,638	1,238,785,141	1,231,330,268	1,285,025,163
Total Special Funds	$2,657,921,535	$2,835,763,197	$3,034,655,075	$3,078,031,276	$3,343,046,083
Bond Redemption and Interest Funds					
General City Bonds	$ 160,695,451	$ 148,889,669	$ 137,526,468	$ 122,494,656	$ 122,623,642
Total (All Purposes)	$7,685,509,310	$8,122,942,937	$8,582,562,666	$8,776,961,274	$9,292,125,739

(1) Property taxes include all categories of the City allocation of 1% property tax collections such as secured, unsecured, State replacement, redemptions and penalties, supplemental receipts and other adjustments and is net of refunds and County charges. Also included are property taxes remitted to the City as replacement revenue for both State Vehicle License Fees and sales and use taxes. See "MAJOR GENERAL FUND REVENUE SOURCES" for a discussion of the State reallocation of revenues known as the "triple flip."

(2) Other taxes include Utility Users Tax, Business Tax, Sales Tax, Transient Occupancy Tax, Documentary Transfer Tax, Parking Occupancy Tax, and Residential Development Tax.

(3) Also includes State Vehicle License Fees, Parking Fines and Franchise Income.

(4) Intergovernmental revenues include proprietary departments' transfers.

(5) Other General Fund receipts could include grant receipts, tobacco settlement, transfers from the Special Parking Revenue Fund, Telecommunications Development Account Fund, Reserve Fund, and the Budget Stabilization Fund.

(6) Major revenue sources include the Sewer Construction and Maintenance Fund, the Convention Center Revenue Fund, the Special Parking Revenue Fund, the Zoo Enterprise Fund, the Building and Safety Fund, and refuse collection fee revenues.

(7) Revenue sources include the Special Gas Tax Street Improvement Fund, the Proposition A Local Transit Improvement Fund, and the Proposition C Anti-Gridlock Transit Improvement Fund.

(8) Intergovernmental receipts include the Community Development Block Grant, the Local Public Safety Fund, and the Workforce Development Trust Fund.

(9) Special Assessments include the Street Lighting Maintenance Assessment Fund and the Stormwater Pollution Abatement Fund.

(10) A significant portion of the City's TRAN proceeds are used to prepay the annual contribution to the Los Angeles City Employees' Retirement System and Fire and Police Pension System. The budget line item for TRAN repayment is primarily for principal for this portion of the program, and is made in lieu of direct appropriations for contributions to the two retirement systems. See "FINANCIAL OPERATIONS – Retirement and Pension Systems," herein. Interest due on the TRAN is also included in this line item.

(11) This fund is used to make lease payments on various lease revenue bonds, certificates of participation and commercial paper notes.

Source: City of Los Angeles, Office of the City Administrative Officer.

General Fund Budget Outlook

As part of its budget planning, the CAO prepares a multi-year Budget Outlook, based on the existing budget, known major future expenditure commitments and projections of other revenues and expenditures, to identify future budget challenges, including whether a budget gap is likely to occur. This planning tool helps the City identify potential budgetary pressures and allows for earlier implementation of budget adjustments, either through the annual budget process or through interim action. The Budget Outlook is updated in connection with the City's budget process and, at times, with its periodic financial status reports.

The City's most recent Budget Outlook, prepared in connection with the Fiscal Year 2017-18 Adopted Budget, shows that, without corrective action, the City would face a budget gap of $98.2 million in Fiscal Year 2018-19, $123.3 million in Fiscal Year 2019-20, and $63.0 million in Fiscal Year 2020-21. The Budget Outlook projects a modest surplus of $16.5 million in Fiscal Year 2021-22.

Included in these assumptions are the following: the size of the workforce will remain flat after Fiscal Year 2017-18, with no major increases to City services; and each year's shortfall will be solved by ongoing rather than one-time solutions. Potential expenditures tied to the outcome of major litigation (see **"LITIGATION"**) were not incorporated in this Budget Outlook.

The primary risk to adversely impact the Budget Outlook is the likely increase to the City's required contribution to its two General Fund supported pension systems as a result of their boards' review and adoption of their triennial experience studies. On June 1, 2017, the board that oversees the Fire and Police Pension Plan adopted new economic and demographic assumptions, including a reduction in the assumed rate of investment return from 7.50% to 7.25%. These assumption changes are projected to increase the City's contribution to that system by $84 million in Fiscal Year 2018-19 based on current payroll assumptions. The board that oversees the City Employees' Retirement System is scheduled to consider new economic assumptions on July 11, 2017, and is also likely to reduce the assumed rate of investment return for that system. The estimated impact of a change to 7.25% would be an increased City contribution of $54 million in Fiscal Year 2018-19 based on current payroll assumptions. The assumption changes in the experience studies are among several factors that determine the City's actual contribution to each system, which will be calculated as part of the Fiscal Year 2018-19 budget development process.

An additional risk to the Budget Outlook is the uncertainty regarding the development of new labor agreements with City workers. Many existing agreements will expire in 2018 and will need to be renegotiated. The Budget Outlook only accounts for currently negotiated salary increases in future years. These costs will be incorporated in future Budget Outlooks.

The Budget Outlook is constantly changing, and does not include all potential revenues and expenditures. Even though budget deficits are currently projected, as they have been in prior years, these budgets must be balanced when enacted, as required by the City's Charter. The City generally accomplishes such balancing through a combination of revenue increases, expenditure reductions, and transfers from reserves.

Table 16
GENERAL FUND BUDGET OUTLOOK
($ in millions)

	Adopted 2017-18	2018-19	2019-20	2020-21	2021-22
Estimated General Fund Revenue:					
General Fund Base[1]	$5,576.4	$5,826.5	$5,928.1	$6,103.9	$6,281.7
Revenue Growth[2]					
Property Related Taxes[3]	84.2	83.7	85.4	88.8	92.5
Sales and Business Taxes[4]	25.3	24.4	24.0	24.7	25.8
Utility Users Tax[5]	27.2	1.4	9.4	4.7	6.0
License, Permits and Fees[6]	123.5	(15.3)	40.3	41.8	43.4
Other Fees, Taxes and Transfers[7]	6.0	31.6	16.7	17.8	19.2
SPRF Transfer[8]	10.3	(15.1)	-	-	-
Transfer from the Budget Stabilization Fund[9]	-	-	-	-	-
Transfer from Reserve Fund[10]	(26.4)	(9.1)	-	-	-
Total Revenue	**$5,826.5**	**$5,928.1**	**$6,103.9**	**$6,281.7**	**$6,468.6**
General Fund Revenue Increase (Decrease) %	***4.5%***	***1.7%***	***3.0%***	***2.9%***	***3.0%***
General Fund Revenue Increase (Decrease) $	***250.1***	***101.6***	***175.8***	***177.8***	***186.9***
Estimated Expenditures:					
General Fund Base [11]	$5,576.4	$5,826.5	$6,026.3	$6,227.2	$6,344.7
Incremental Changes to Base:[12]					
Employee Compensation Adjustments[13]	120.0	113.5	70.2	41.8	52.5
Police Sworn Overtime[14]	31.0	-	-	-	-
City Employees Retirement System[15]	(8.6)	44.3	22.5	12.4	15.4
Fire and Police Pensions[15]	18.7	3.8	44.3	1.3	(22.3)
Workers Compensation Benefits[16]	18.2	14.8	5.0	8.0	13.0
Health, Dental and Other Benefits[17]	36.7	42.1	46.0	50.5	54.2
Debt Service[18]	6.8	5.4	(2.0)	(5.1)	(4.4)
Delete Resolution Authorities[19]	(39.4)	-	-	-	-
Add New and Continued Resolution Authorities[19]	48.6	-	-	-	-
Delete One-Time Costs[20]	(46.3)	(30.8)	-	-	-
Add One-Time Costs[20]	45.0	-	-	-	-
Comprehensive Homeless Strategy[21]	(23.4)	-	-	-	-
Unappropriated Balance[22]	47.2	(43.8)	-	-	-
New Facilities[23]	-	-	-	-	-
City Elections[24]	(19.0)	(0.3)	3.0	10.7	(10.7)
CIEP – Municipal Facilities & Physical Plant[25]	6.2	(7.3)	-	-	-
CIEP – Sidewalks[26]	(9.6)	11.5	0.7	1.0	-
CIEP – Pavement Preservation[27]	(17.8)	17.1	3.0	3.0	3.1
Appropriation to the Reserve Fund[28]	-	-	-	-	-
Appropriation to the Budget Stabilization Fund[29]	-	-	-	-	-
Net - Other Additions and Deletions[30]	35.8	29.5	8.2	(6.1)	6.6
Subtotal Expenditures	**$5,826.5**	**$6,026.3**	**$6,227.2**	**$6,344.7**	**$6,452.1**
Expenditure Growth (Reduction) %	***4.5%***	***3.4%***	***3.3%***	***1.9%***	***1.7%***
Expenditure Growth (Reduction) $	***250.1***	***199.8***	***200.9***	***117.5***	***107.4***
TOTAL BUDGET GAP[31]	**$ -**	**$ (98.2)**	**$ (123.3)**	**$ (63.0)**	**$ 16.5**
Incremental Increase(Decrease) % in Gap			*25.6%*	*(48.9%)*	*(126.7%)*
Incremental Increase(Decrease) $ in Gap		*(98.2)*	*(25.1)*	*60.3*	*79.5*

Revenue:

(1) General Fund (GF) Base: The revenue base for each year represents the prior year's estimated revenues.

(2) Revenue Growth: Revenue projections reflect the consensus of economists that economic recovery will continue and individual economically-sensitive revenues may grow up to 6%. The amounts represent projected incremental change to the base. Any one-time receipts are deducted from the estimated revenue growth for the following fiscal year.

The total projected revenue assumes above average growth in 2017-18 attributed to one-time transfers and new on-going revenue. Average growth is assumed thereafter.

(3) Property tax growth is projected at 6.0% for 2017-18 with average growth for subsequent fiscal years. Documentary Transfer and Residential Development Taxes are volatile revenues and have realized large increases in recent years following large declines. Moderate growth for 2017-18 is assumed with leveling sales volume and increasing prices. Steady growth in outgoing years is assumed as home prices are restrained by affordability.

(4) Business tax is projected to experience steady growth tempered by the final year of the phased in reduction to the top business tax rate from 2015-16 through 2017-18. Sales tax growth through 2017-18 is based on available economic forecasts. Outgoing years reflect average growth. Pending the formation of recreational cannabis policy, no assumptions are made for new tax revenue from recreational cannabis

($ in millions)

activity or for any associated decrease in revenue from medical cannabis activity which should impact 2018-19 and onward.

(5) Electricity users tax assumes increased growth through 2020-21 consistent with estimates provided by the Department of Water and Power, reflecting current assumptions on rate increases and electricity consumption. The 2017-18 estimate has been adjusted to account for the impact of customer credits against overbillings. The final year of revenue is consistent with historical growth.

The 2017-18 decline in gas users tax revenue is based on natural gas prices determined by the futures market. The subsequent years reflect the ongoing forecast of decreasing natural gas prices.

The decline in communications users tax revenue has slowed with the implementation of AB1717 in 2016-17, which recovers lost revenue from the prepaid wireless market. However, this added revenue is insufficient to offset aggressive plan pricing in the postpaid wireless market and out-of-City sales leakage in the prepaid wireless market.

(6) The projected revenue growth in this category is dependent on policy decisions to increase departmental fees and collect full overhead cost reimbursements. The assumed 3% growth is within range of the historical average. The 2017-18 amount reflects new ongoing revenue from LAPD's contract with Los Angeles County Metropolitan Transportation Authority for security services, billboard leasing and relocation agreements, linkage fees, and as-needed and part-time related cost recovery. For 2017-18, reimbursements to the General Fund are based on Cost Allocation Plan 39, which is published by the Controller.

(7) Increases in 2017-18 reflect growth in the Transient Occupancy Tax and Parking Occupancy Tax. Transient Occupancy Tax growth assumes ongoing receipts from a tax collection agreement between the City and short term rentals. In outgoing years, steady growth is assumed in the tax revenues. The Power Revenue Transfer estimates for 2017-18 through 2020-21 are provided by the Department of Water and Power and are consistent with the terms of the proposed settlement agreement.

(8) Revenue from the Special Parking Revenue Fund (SPRF) represents the projected surplus that may be available to transfer to the General Fund after accounting for debt service and other expenditures associated with the maintenance, upgrades, and repairs of parking structures, meters, and related assets. The annual base-level surplus is $23.5 million. Any amounts above this are considered one-time receipts and deducted from the estimated revenue growth for the following fiscal year. The transfer in 2017-18 is $15.1 million above the base-level transfer, or $10.3 million more than the 2016-17 transfer.

(9) Transfers from the Budget Stabilization Fund (BSF) are subject to an available balance in the BSF and to restrictions set forth in the BSF ordinance. BSF transfers are considered one-time receipts and are deducted from the estimated revenue growth for the following fiscal year. No transfers from the BSF are assumed.

(10) The transfer from the Reserve Fund in 2017-18 of $9.1 million is a reduction of $26.4 million from the transfer included in the 2016-17 Budget. No transfer is assumed in subsequent years. The 2017-18 Reserve Fund balance is 5.12%.

Estimated General Fund Expenditures:

(11) General Fund Base: Using the 2016-17 General Fund budget as the baseline year, the General Fund base carries over all estimated General Fund expenditures from the prior year to the following fiscal year.

(12) The 2017-18 incremental changes reflect funding adjustments to the prior fiscal year General Fund budget. The Four-Year Outlook expenditures included for subsequent years are limited to those obligatory and major expenses known at this time and are subject to change. Amounts represent projected incremental changes to the base.

(13) Employee Compensation Adjustments: The 2017-18 amount includes employee compensation adjustments consistent with existing labor agreements, full funding for partially financed positions from the prior year, and one less working day in 2017-18. Fiscal years 2018-19 through 2021-22 reflect restoration of one-time salary reductions from the prior year, changes in the number of working days, and existing labor agreements with City bargaining units.

(14) Police Sworn Overtime: For 2017-18, the City will fund Police Sworn Overtime at $121 million, including $41 million for the policing of Los Angeles County Metropolitan Transportation Authority's critical infrastructure and bus/rail lines. The forecast assumes that these expenditures will be ongoing through 2021-22.

(15) City Employment Retirement System (LACERS) and Fire & Police Pensions (LAFPP): The contributions are based on information commissioned or requested by the CAO from the departments' actuaries and include the employee compensation adjustment assumptions noted above. The LACERS contribution rate is a combination of the Tier 1 and Tier 3 rates, and Tier 3 payroll assumptions. In the summer of 2017, the boards of commissioners for LACERS and LAFPP are expected to review and adopt experience studies that may include proposed reductions to the assumed investment rate of return of 7.50%. The impacts of the potential reductions on the City contribution are not included in this Outlook.

LACERS and LAFPP

Assumptions	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**
LACERS					
6/30th Investment Returns	7.50%	7.50%	7.50%	7.50%	7.50%
Combined Contribution Rate	27.07%	27.40%	27.89%	28.12%	28.38%
Pensions					
6/30th Investment Returns	7.50%	7.50%	7.50%	7.50%	7.50%
Combined Contribution Rate	44.26%	43.12%	44.48%	43.83%	41.54%

(16) Workers' Compensation Benefits (WC): The projection is based on a March 2017 actuarial analysis that projects annual medical inflation of 3% and a 7% annual cost increase in permanent disability costs. The State Assessment Fee is projected to be $7.5 million. Projections for 2018-19 and beyond are based solely on actuarial analysis.

(17) Health, Dental, and Other Benefits: The projection incorporates all known cost-sharing provisions adopted into labor agreements for the

Table 16
GENERAL FUND BUDGET OUTLOOK
($ in millions)

civilian and sworn populations. Net enrollment is projected to increase at an average 1% rate for the civilian and sworn populations. Rate increase assumptions are consistent with historical trends. The projection has also been updated to reflect a delay in implementation of the Affordable Care Act's "Cadillac Tax" to 2020.

(18) Debt Service: The debt service amounts include known future payments from the Capital Finance and Judgment Obligation Bonds budgets. Debt service payments for Judgment Obligation Bonds under consideration are not included in the Outlook.

(19) Resolution Authorities: The deletion line reflects the practice of deleting resolution authority positions, which are limited-term and temporary in nature each year. Funding for these positions is reviewed on a case-by-case basis and renewed if appropriate. Continued or new resolution positions are included in the "Add New and Continued Resolution Authorities" line. Funding is continued in subsequent years to provide a placeholder for continuation of resolution authority positions for various programs and incorporated into the beginning General Fund base of subsequent years.

(20) One-time Costs: The deletion line reflects the practice of deleting programs and costs that are limited-term and temporary in nature each year. Funding for these programs and expenses is reviewed on a case-by-case basis and continued if appropriate. Continued and new one-time funding is included in the "Add One-Time Costs" line. The funding for one-year projects is deleted in 2018-19. The remaining balance is for multiyear projects that are not anticipated to become part of the General Fund base.

(21) Comprehensive Homeless Strategy: This amount represents a reduction to the General Fund appropriation for homelessness-related services and expenditures that were identified as one-time and funded with one-time revenues in 2016-17 to initiate the City's Comprehensive Homeless Strategy. The reduction in funding is expected to be offset by an increase in funding to the Los Angeles Homeless Services Authority (LAHSA) from Measure H proceeds for homelessness-related services within the City.

(22) Unappropriated Balance (UB): In 2018-19, one-time UB items are eliminated and only ongoing items are continued to provide a placeholder for various ongoing and/or contingency requirements in the future.

(23) New Facilities: No new facilities are projected beyond those accounted for in the Capital Improvement Expenditure Program

(24) Elections: Charter Amendment 1 changed the City's election dates from March and May of odd-numbered years to June and November of even-numbered years to align City elections with Federal and State elections. Therefore, no elections will be held in 2018-19. Beginning in 2019-20, elections will be paid on a reimbursement basis to the County although the City will retain responsibility to perform limited functions related to the elections. Funding is provided annually for the costs of the City's work on the elections. The 2020-21 amount also includes the estimated reimbursement to the County for a June 2020 primary election and November 2020 general election.

(25) Capital Improvement Expenditure Program (CIEP) – Municipal Facilities and Physical Plant: The 2017-18 Adopted Budget includes a $7.3 million increase in funding for municipal facilities related capital projects and a $1.1 million reduction for physical plant. Some of these project expenditures are one-time and deleted in 2018 19.

(26) CIEP – Sidewalk: Pursuant to the pending settlement in the case of Willits v. City of Los Angeles, the City is responsible for investing $31 million annually for sidewalk improvements for the next 30 years, with adjustments of 15.3% every five years to account for inflation and material price increases. The 2017-18 decrease of $9.6 million in General Fund appropriations reflects the availability of additional special funds to meet the $31 million obligation. The 2018-19 increase of $11.5 million reflects the assumption that the General Fund portion will be increased to $25.2 million annually, with the balance of the investment covered by other sources of funds. The General Fund appropriation will increase slightly in future years to meet the full $31 million investment as other funds from proprietary departments are expected to decrease as sidewalk repairs are completed at their facilities.

(27) CIEP – Pavement Preservation Program: Total Pavement Preservation Program funding is reduced in 2017-18 to reflect one-time efficiencies included in the Budget consistent with the expectation of the repair of 2,400 lane miles. Funding in 2017-18 is included in the departments' budgets. It is assumed that the program will be continued through 2021-22 at 2,400 lane miles per year. To meet this level in 2018-19, an additional $17.1 million will be required. This cost will increase by approximately $3 million annually in subsequent years.

(28) Appropriation to the Reserve Fund: In certain years, a General Fund appropriation to the Reserve Fund has been budgeted to strengthen the status of the Reserve Fund. The CAO recommends increasing the combined balances of the Reserve Fund and the Budget Stabilization Fund to 10% of budgeted General Fund revenues.

(29) Appropriation to the Budget Stabilization Fund (BSF): Per the policy, if the combined annual growth for seven General Fund tax revenue sources exceeds 3.4% for a given year, the excess shall be deposited into the BSF. The appropriation may be reduced (1) to maintain the Reserve Fund at 5%; (2) to comply with the City's CIEP policy; (3) if a fiscal emergency is declared; or (4) the policy is suspended by the City Council and the Mayor. For 2017-18, the combined annual ongoing growth in the seven General Fund tax revenue sources is 5.5%. However, the appropriation to BSF is reduced in order to comply with the City's CIEP policy.

(30) Net – Other Additions and Deletions: The 2017-18 amount includes ongoing changes and new regular positions added to the base budget. Among the significant increases are appropriations of $12.6 million to Recreation and Parks, $9.9 million to the Library, and $10.9 million for hotel development incentive agreements. The remaining balance reflects new and increased ongoing costs to a variety of departmental programs. Subsequent years include projected expenditures for the restoration of one-time expenditure reductions, hotel development incentive agreements, LAPD and LAFD radio replacement, the Body Worn Camera Program, and LAPD vehicles.

(31) Total Budget Gap: The Total Budget Gap reflects the projected surplus (deficit) in each fiscal year included in the Outlook.

Source: City of Los Angeles, Office of the City Administrative Officer.

Budgetary Reserves and Contingencies

The City maintains a number of budgetary reserves and other funds designed to help manage its risks and ensure sufficient resources to meet contingencies. These funds represent a major component of what is reported as Fund Balance at year-end in the City's financial reports. (See the footnotes for "Table 12—Balance Sheets for the General Fund," herein.)

The City maintains a Reserve Fund, which was created by the Charter. The City may transfer moneys from the Reserve Fund as part of the Adopted Budget or throughout the fiscal year for unanticipated expenditures, or may transfer funds from the Reserve Fund as a loan to other funds. The City also transfers moneys to the Reserve Fund from time to time throughout the year. All unencumbered cash amounts in the General Fund revert to the Reserve Fund at the end of the fiscal year; some of those funds will be reappropriated at the beginning of the following fiscal year (primarily for General Fund capital projects).

In March 2011, voters approved a provision in the City's Charter to formalize financial policies previously adopted by the Mayor and Council and established a minimum balance equal to 2.75% of General Fund revenue that must be kept in reserves for emergencies. The measure amended Section 302 of the Charter to require the Reserve Fund accounts described below.

The Reserve Fund is composed of two accounts—a Contingency Reserve Account and an Emergency Reserve Account. Amounts in the Emergency Reserve Account, representing 2.75% of General Fund revenues, are restricted for funding an "urgent economic necessity" upon a finding by the Mayor and Council of such necessity and are expected to be replenished in the subsequent fiscal year except in the case of a catastrophe. The balance of the available Reserve Fund is allocated to the Contingency Reserve Account, and is available to address unexpected expenditures relating to existing programs or revenue shortfalls upon authorization by the Mayor and Council. The Reserve Fund in the Comprehensive Annual Financial Report is reported as part of the Unassigned Fund Balance. See **"BUDGET AND FINANCIAL OPERATIONS—GAAP-Fiscal Year 2015-16 Results,"** above.

The following table summarizes the estimated Reserve Fund balances as of July 1 as contained in the Adopted Budget for the past 10 fiscal years, and the actual Reserve Fund balances on such dates. A number of factors affect the actual balance, including final expenditures and revenues for the preceding fiscal year, and the reversion of unencumbered funds at year end.

Table 17
HISTORICAL RESERVE FUND BALANCE AS OF JULY 1
Adopted Budget and Actual
($ in millions)

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Adopted Budget										
Emergency Reserve	$125.2	$121.0	$120.3	$120.6	$125.1	$133.8	$141.3	$148.8	$153.4	$160.2
Contingency	67.5	122.5	6.9	56.6	92.9	127.3	142.8	164.6	181.5	138.1
	$192.7	$243.5	$127.2	$177.2	$218.0	$261.1	$284.1	$313.4	$334.9	$298.3
Reserve Fund Balance as % of the General Fund	4.23%	5.53%	2.91%	4.04%	4.79%	5.37%	5.53%	5.79%	6.01%	5.12%
Actual										
Emergency Reserve	$125.2	$121.0	$120.3	$120.6	$125.1	$133.8	$141.3	$148.8	$153.4	NA
Contingency	40.5	31.9	51.2	77.1	108.0	192.9	241.7	308.9	180.9	NA
	$165.8	$152.9	$171.5	$197.7	$233.1	$326.7	$383.0	$457.7	$334.2	NA
Reserve Fund Balance as % of the General Fund	3.64%	3.47%	3.92%	4.51%	5.12%	6.71%	7.45%	8.46%	5.99%	NA

Source: City of Los Angeles, Office of the City Administrative Officer.

In addition, the City budgets a number of other funds that can be used to finance contingencies as they arise, the most important of which are the Budget Stabilization Fund and the Unappropriated Balance.

The City created the Budget Stabilization Fund for the purpose of setting aside revenue during periods of robust economic growth or when revenue projections are exceeded, to help smooth out years when revenue is stagnant or is in decline. According to the ordinance creating the fund, annual revenue growth in excess of 3.4% of the total of seven economically sensitive General Fund tax revenue sources (property, utility users, business, sales, transient occupancy, documentary transfer, and parking occupancy taxes) is to be deposited into the Fund. The Ordinance also permits the excess revenue to be appropriated to meet the City's General Fund capital investment and Reserve Fund policies. The overall growth of these seven tax revenues in the 2017-18 Adopted Budget was 5.5%. The value of the funds in excess of 3.4% was $83 million. Consistent with the Budget Stabilization Fund Ordinance, $75 million of those funds were appropriated for capital expenditures, and an additional $422,000 was transferred to the Budget Stabilization Fund. The 2017-18 Adopted Budget falls just shy of compliance with the policy as the balance of the excess revenue was used for other budgetary purposes. However, it should be noted that one of those other budgetary purposes includes appropriating $20 million for the Reserve for Mid-Year Adjustments within the Unappropriated Balance. The 2017-18 Adopted Budget includes a Budget Stabilization Fund of $95.1 million to begin the year, plus an additional $1.2 million in interest for a projected June 30, 2018 balance of $96.3 million.

The Unappropriated Balance was created by the Charter, which requires that an amount be included in the budget to be available for appropriations later in the fiscal year to meet contingencies as they arise. The amount and types of items identified in the Unappropriated Balance vary each year depending on the specific challenges and risks identified.

The table below contains a five-year history of the City's Reserve Fund balances, as well as the balance in the Budget Stabilization Fund and certain accounts related to contingencies in the Unappropriated Balance as of July 1. This balance is reported as of the beginning of the fiscal year to avoid overstating the balance as a result of year-end reversions, many of which are reappropriated as of July 1, and to account for any transfers made as part of an Adopted Budget.

Table 18
GENERAL FUND RESERVES
As of July 1st of the Fiscal Year
($ in millions)

	2013-14	2014-15	2015-16	2016-17	Adopted Budget 2017-18
Emergency Reserve	$ 133.8	$ 141.3	$ 148.8	$ 153.4	$ 160.2
Contingency Reserve	192.8	241.7	308.9	180.9	138.1
Total Reserve Fund	$ 326.7	$ 383.0	$ 457.7	$ 334.4	$ 298.3
% of General Fund Revenues	6.71%	7.45%	8.46%	5.99%	5.12%
Budget Stabilization Fund	69.5	64.1	91.7	93.7	95.1
Reserves In Unappropriated Balance(1)	21.0	20.7	17.0	15.0	20.0
Total General Fund Reserves	$ 417.2	$ 467.8	$ 566.4	$ 442.9	$ 413.3
% of General Fund Revenues	8.57%	9.10%	10.47%	7.94%	7.09%
Budgeted General Fund Revenues	$4,866.9	$5,138.3	$5,410.4	$5,576.4	$5,826.5

(1) Budget accounts within the Unappropriated Balance identified as reserves.

Source: City of Los Angeles, Office of the City Administrative Officer.

Financial Management Policies

The City has adopted comprehensive Financial Policies for the City of Los Angeles (the "Financial Policies"). These include a Reserve Fund policy setting forth the goal that the City maintain a budget-based Reserve Fund of 5% of General Fund revenues. The City's Reserve Fund policy addresses budget-based reserves, and does not set specific goals for GAAP-based year-end fund balances.

Another component of the Financial Policies requires that one-time revenues only be used for one-time expenditures. The Fiscal Year 2017-18 Adopted Budget meets this policy by allocating all one-time revenues totaling $65 million towards one-time expenditures, which total $108 million.

The Financial Policies also call for the City to annually budget 1% of General Fund revenues to fund capital or infrastructure improvements. The Fiscal Year 2017-18 Adopted Budget includes $74.60 million in appropriations for infrastructure, representing 1.28%.

Subsequent to the adoption of the Financial Policies, the City established the Budget Stabilization Fund (BSF). The implementing ordinance includes a policy that all ongoing tax growth above 3.4% must be transferred into this Fund, unless it is required to be used instead to fund capital infrastructure or restore the Reserve Fund above 5%. The 2017-18 Adopted Budget falls just short of compliance with this policy by appropriating approximately $75 million of the $83 million in tax growth above 3.4% for infrastructure ($74.60 million) and the Budget Stabilization fund ($0.42 million).

These Financial Policies, available on the City's website at http://cao.lacity.org/debt/index.htm, are subject to change, and are not incorporated as part of this Official Statement.

Risk Retention Program

Because of its size and its financial capacity, the City has long followed the practice of directly assuming most insurable risks without procuring commercial insurance policies. The extent and variety of City exposure is such that the cost of the premiums outweighs the benefits of such coverage. The City administers, adjusts, settles, defends and pays claims from budgeted resources. The City is self-insured for workers' compensation as permitted under State law. The City procures commercial insurance when required by bond or lease financing covenants and for other limited purposes.

The City's CAFR provides estimates of potential liabilities. Under the pronouncement of the Governmental Accounting Standards Board ("GASB"), the City is required to accrue liabilities arising from claims, litigation and judgments when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The City's CAFR discloses and takes into account estimates of such potential liabilities. As reported in the City's CAFR (Note 4 (P): Risk Management—Estimated Claims and Judgments Payable), the City, as of June 30, 2016, estimated the amount of tort and non-tort liabilities to be "probable" of occurring at approximately $607.8 million. Of this amount, approximately $229.5 million was estimated to be payable in Fiscal Year 2016-17. In addition, and as also reported in the City's CAFR, the City Attorney, as of June 30, 2016, estimated that certain other pending lawsuits and claims have a "reasonable possibility" of resulting in additional liability totaling $30.0 million. See **"LITIGATION"** herein for a discussion of certain recently completed, pending or threatened litigation matters involving the City.

The City generally does not maintain earthquake insurance coverage. Instead, the City relies on its general reserves as well as the expectation that funds will be available from the Federal Emergency Management Agency ("FEMA") to manage earthquake and other major natural disaster risk. The City has received a waiver from the requirement under federal law that it acquire earthquake insurance on facilities that were the beneficiaries of prior FEMA grants. **There is no guarantee that sufficient City reserves or FEMA assistance would be available in the event of a natural disaster.** See **"HISTORIC, ECONOMIC AND DEMOGRAPHIC INFORMATION—Seismic Considerations,"** herein.

Funds are budgeted annually to provide for claims and other liabilities based both on the City's historical record of payments and an evaluation of known or anticipated claims. The Fiscal Year 2017-18 Adopted Budget provides funding of $89.1 million for these liabilities, of which $80 million is dedicated to liabilities that must be paid from the General Fund. The 2017-18 Adopted Budget also includes an additional $20 million in the Unappropriated Balance, Reserve for Extraordinary Liabilities, which is also available for this purpose. From time to time, the City may issue judgment obligation bonds to finance larger judgments or settlements, as it did in Fiscal Year 2008-09 and Fiscal Year 2009-10. In addition, the City has filed for a validation judgment in connection with the potential issuance of $60 million of judgment obligation bonds in Fiscal Year 2017-18, although final Council approval will be required to actually issue these bonds. See **"BONDED AND OTHER OBLIGATIONS—Judgment Obligation Bonds,"** herein.

The City's recent claims payment experience for the General Fund is listed in the table below.

Table 19
LIABILITY CLAIMS PAID [1]
($ in millions)

Fiscal Year	Budget	Claims Paid
2012-13	$47.5	$55.2
2013-14	47.5	55.5
2014-15	47.5	68.8
2015-16	53.5	109.0[2]
2016-17	59.7	199.1[3]
2017-18 (Adopted)	80.0[4]	N/A

(1) General Fund only. Does not include Workers' Compensation claims paid by the City; see Table 20. Also does not include claims paid in connection with Fair Labor Standards Act disputes and other labor matters, which are paid out of departmental operating budgets.

(2) Increase in payments in Fiscal Year 2015-16 are attributed in part to settlements entered into by the City for wrongful conviction and imprisonment suits.

(3) Estimated. Of this amount, $57.8 million was budgeted and paid from dedicated accounts that were established for extraordinary liabilities related to sidewalks and the communications users' tax. Other increases in payments in Fiscal Year 2016-17 are attributed in part to settlements entered into by the City related to the accessibility of public housing and dangerous conditions.

(4) Excludes $20 million budgeted in the Unappropriated Balance.

Source: City of Los Angeles, Office of the City Administrative Officer.

Workers' Compensation, Employee Health Care and Other Human Resources Benefits

The City appropriates funds to a Human Resources Benefits Fund to account for various programs to provide benefits to its employees, in addition to retirement and other post-employment benefits as described below. The Fund is administered by the Personnel Department, and does not account for retirement or other post-employment benefits. Total benefits expenditures are shown in the following table.

Table 20
HUMAN RESOURCES BENEFITS[1]
($ in thousands)

	2013-14	2014-15	2015-16	Estimated 2016-17	Adopted 2017-18
Workers' Compensation/Rehabilitation	$149,886	$161,500	$169,601	$173,500	$176,000
Contractual Services	21,730	26,480	21,141	22,980	23,230
Civilian FLEX Program[2]	225,135	227,017	235,918	257,029	276,415
Supplemental Civilian Union Benefits	3,940	4,094	4,318	4,249	4,607
Police Health and Welfare Program	124,360	129,359	134,340	139,752	145,526
Fire Health and Welfare Program	45,180	46,437	47,037	48,598	52,523
Unemployment Insurance	4,678	5,000	2,989	3,150	2,900
Employee Assistance Program	1,193	1,250	1,463	1,388	1,587
Total	$576,102	$601,137	$616,807	$650,646	$682,788

(1) Cash basis.

(2) Reflects all civilian health, dental, union supplemental benefit and life insurance subsidies.

Source: City of Los Angeles, Office of the City Administrative Officer.

Labor Relations

In 1971, the City adopted an employee relations ordinance under the provisions of the Meyers-Milias-Brown Act ("MMBA"). Under the MMBA, management must bargain with recognized employee organizations on terms and conditions of employment, including wages, hours, and other working conditions. The CAO is the formal management representative on employee relations matters, representing the Mayor and Council in negotiations with recognized employee organizations. The CAO receives direction from the Executive Employee Relations Committee ("EERC"), consisting of the Mayor, the President of the Council, the President Pro-Tempore of the Council and the chairpersons of the Council's Budget and Finance, and Personnel and Animal Welfare Committees. Formal Memoranda of Understanding ("MOUs") are executed between the City and the employee organizations incorporating the negotiated wages and working conditions for each bargaining unit. For expired contracts, the terms continue to be observed during negotiations of a new contract, unless a provision has a specific termination date.

There are 41 individual MOUs, affecting about 36,400 full-time City employees (these bargaining units include employees of the Airport and Harbor departments, but exclude DWP employees) that are represented by 22 labor unions/employee associations. The remaining approximately 800 employees are not represented. The vast majority of employees that are members of the Los Angeles City Employees' Retirement System ("LACERS") are considered to be "civilian" employees. Employees that are members of the City of Los Angeles Fire and Police Pension Plan ("LAFPP") are considered to be "sworn" or "safety" employees. See **"BUDGET AND FINANCIAL OPERATIONS—Retirement and Pension Systems—Los Angeles City Employees' Retirement System ("LACERS"),"** herein.

Between Fiscal Years 2007-08 and 2014-15, the CAO, at the direction of the EERC, worked with labor unions to reduce the City's labor expenses to address short-term financial concerns and to create a more sustainable, long-term workforce. The adopted staffing level for

Fiscal Year 2017-18 is 33,375, 10.2% below its peak of 37,173 in Fiscal Year 2007-08. This represents an increase of 0.8% from Fiscal Year 2016-17.

Among the measures taken to control employee related costs were changing active civilian employee healthcare benefits. To offset the increasing costs associated with health insurance for active employees, several bargaining units have agreed to have their members pay a portion of their monthly health care premium. Effective January 2017, a total of 17 bargaining units began contributing 10% of their health care premium. One additional bargaining unit has agreed to begin contributing 10% of their health care premium effective January 2017. These bargaining units represent about a third of the City's full-time civilian workforce.

Multi-year agreements are currently in place with the Los Angeles Police Protective League; the United Firefighters of Los Angeles City; the 19 bargaining units that comprise the "Coalition of LA City Unions" (which includes 17 full-time and two part-time bargaining units); and the five bargaining units represented by the Engineers and Architects Association. The agreements provide for salary increases as shown on the table below.

The following table summarizes the membership and status of the largest unions and employee associations.

Table 21
STATUS OF LABOR CONTRACTS
LARGEST EMPLOYEE ORGANIZATIONS
(As of December 1, 2016)

Organization	Full-Time Employees Represented[1]	Number of Bargaining Units	Status of Memorandum of Understanding	Cost of Living Adjustment[2]
Los Angeles Police Protective League	9,799	1	Contract expires 6/30/18	4% on 6/26/16 2% on 7/9/17 2% on 1/7/18
United Firefighters of Los Angeles City	3,221	1	Contract expires 6/30/19	4% effective 6/26/16 2% effective 7/9/17 2% effective 1/7/18 2% effective 7/8/18
Coalition of LA City Unions[3]	15,393	17	Contracts expire 6/30/18	2% on 7/9/17 2.75% step on 1/7/18 Salaries restructured
Engineers and Architects Association	4,839	4	Contracts expire 6/22/19	1.5% increase effective 12/13/15. 2.25% effective 6/26/16 2.25% effective 6/25/17 2.25% effective 6/24/18
Municipal Construction Inspectors Association	859	1	Contract expires 6/22/19	3% effective 11/13/16 2% effective 6/25/17 1.5% effective 12/10/17 2% effective 6/10/18 2% effective 6/23/19 Salaries restructured

(1) Total employees in all departments except DWP.

(2) Adjustments for the term covered by the specific MOU. Also includes certain "step increases" for variation in pay based on longevity.

(3) Includes Service Employees International Union, Local 721, American Federation of State, County and Municipal Employees, Laborers' International Union of North America Local 777, Los Angeles/Orange County Building & Construction Trades Council, IUOE Local 501, and the Teamsters, Local 911.

Source: City of Los Angeles, Office of the City Administrative Officer.

The table below shows total authorized City staffing for all departments except Airports, Harbor, DWP, LACERS, and LAFPP. The Los Angeles Police Department ("LAPD") represents the single largest department in terms of authorized positions.

Table 22
AUTHORIZED CITY STAFFING[1]

	2013-14	2014-15	2015-16	2016-17	2017-18
Sworn					
Police	10,480	10,480	10,522	10,545	10,547
Fire	3,234	3,232	3,292	3,350	3,350
Subtotal Sworn	13,714	13,712	13,814	13,895	13,897
Civilian					
Police	3,226	3,227	3,313	3,330	3,335
Fire	310	342	342	379	383
All Others	14,643	14,594	15,107	15,501	15,760
Subtotal Civilian	18,179	18,163	18,762	19,210	19,478
Total	31,893	31,875	32,576	33,105	33,375

(1) As authorized in the Adopted Budget. Includes permanent ("regular") positions and excludes temporary personnel (also referred to as "resolution authority positions"), which total 1,924 for Fiscal Year 2017-18. Also excludes personnel of the departments of Airports, Harbor, DWP, LACERS and LAFPP.

Source: City of Los Angeles, Office of the City Administrative Officer.

Retirement and Pension Systems

General

The City has three single-employer defined benefit pension plans created by the City Charter: the Los Angeles City Employees' Retirement System ("LACERS"), the City of Los Angeles Fire and Police Pension Plan ("LAFPP") and, for employees of DWP, the Water and Power Employees' Retirement, Disability and Death Benefit Insurance Plan (the "Water and Power Plan"). Both LACERS and LAFPP (collectively, the "Pension Systems" herein) are funded primarily from the City's General Fund, while the Water and Power Plan is funded by that department's proprietary revenues.

The Pension Systems provide retirement, disability, death benefits, post-employment healthcare and annual cost-of-living adjustments to plan members and beneficiaries. As required by the City Charter, the actuarial valuations for both Pension Systems are prepared on an annual basis and the applicable actuary recommends contribution rates for the fiscal year beginning after the completion of that actuarial valuation. When approved by the respective boards of administration of the Pension Systems, these become the City's contribution rates for such years.

The Pension Systems' annual valuations determine the contribution rate, as a percentage of covered payroll, needed to fund the normal retirement costs accrued for current employment and to amortize any unfunded actuarial accrued liability ("UAAL"). The UAAL represents the difference between the present value of estimated future benefits accrued as of the valuation date and the actuarial value of assets currently available to pay these liabilities. The valuation for each plan is an estimate based on relevant economic and demographic assumptions, with the goal of determining the contributions necessary to sufficiently fund over time the benefits for currently active, vested former members and retired employees and their beneficiaries. In addition, various actuarial assumptions are used in the valuation process, including the assumed rate of earnings on the assets of the plan in the future, the assumed rates of general inflation, salary increases, inflation in health care costs, assumed rates of disability, the assumed retirement ages of active employees, the assumed marital status at retirement, and the post-employment life expectancies of retirees and beneficiaries. As plan experience differs from adopted assumptions, the actual liabilities will be more or less than the liabilities calculated based on the assumptions. The contribution rates in the following year's valuations are adjusted to take into account actual plan performance in the current and prior years. In addition, each plan performs an experience study every three years and further adjusts its assumptions accordingly.

The valuations incorporate a variety of actuarial methods, some of which are designed to reduce the volatility of contributions from year to year. When measuring the value of assets for determining the UAAL, many pension plans, including the Pension Systems, "smooth" market value gains and losses over a period of years to reduce volatility. These smoothing methodologies result in an actuarial value of assets that are lower or higher than the market value of assets. As discussed below, both Systems amended their smoothing methodologies to address extraordinary losses or gains in the market value of assets.

Both Pension Systems have adopted asset allocation plans to guide their investments in stocks, bonds, real estate, alternatives and cash equivalents over a three- to five-year period. The asset allocations of the Pension Systems are summarized further below. Market value investment returns for the past 10 fiscal years are shown in the table below. Any return below the actuarial assumed rate of return (currently 7.5% for both LACERS and LAFPP) represents an actuarial investment loss, while any return above the assumed rate of return represents an actuarial investment gain.

Table 23
LOS ANGELES PENSION SYSTEMS
HISTORICAL MARKET VALUE INVESTMENT RETURNS

Fiscal Year	LACERS	LAFPP
2006-07	19.5%	18.5%
2007-08	(5.7)	(4.7)
2008-09	(19.5)	(20.0)
2009-10	12.9	13.7
2010-11	22.6	22.1
2011-12	1.1	1.9
2012-13	14.3	13.0
2013-14	18.4	17.9
2014-15	2.8	4.2
2015-16	0.5	1.2

Source: City of Los Angeles, the respective Pension Systems.

The City has never issued pension obligation bonds to fund either of its Pension Systems. The City does pre-pay its annual contributions out of the proceeds of its annual issuance of tax and revenue anticipation notes.

This section, **"Retirement and Pension Systems,"** and the following section, **"Other Post-Employment Benefits,"** contain certain information relating to LACERS and LAFPP. The information contained in these sections is primarily derived from information produced by

LACERS and LAFPP and their independent actuaries. The City has not independently verified the information provided by LACERS and LAFPP. The comprehensive annual financial reports of the individual Pension Systems, actuarial valuations for retirement and health benefits, and other information concerning LACERS and LAFPP are available on their websites, at www.lacers.org/aboutlacers/reports/index.html and https://www.lafpp.com/about/financial-reports, respectively. Information set forth on such websites is not incorporated by reference herein. For additional information regarding the Pension Systems, see also Note 5 in the "Notes to the City's Basic Financial Statements" in the City's Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2016.

Investors are cautioned that, in considering information on the Pension Systems, including the amount of the UAAL for retirement and other benefits, the funded ratio, the calculations of normal cost, and the resulting amounts of required contributions by the City, this is "forward looking" information. Such "forward looking" information reflects the judgment of the boards of the respective Pension Systems and their respective actuaries as to the value of future benefits over the lives of the currently active employees, vested terminated employees, and existing retired employees and beneficiaries. These judgments are based upon a variety of assumptions, one or more of which may prove to be inaccurate and/or be changed in the future.

On November 8, 2016, Los Angeles voters approved a Charter amendment that enrolls new Airport Peace Officers into LAFPP and allows current officers to voluntarily transfer into LAFPP from LACERS. Officers electing to transfer into LAFPP must each pay the full costs associated with all prior LACERS years of service, so as not to burden the General Fund; according to an independent actuarial analysis, the Airport Department's annual cost of providing future retirement benefits for current and new officers joining LAFPP will be 14% to 19% higher than if these same officers were with LACERS. The actual annual cost increase will depend on the number of officers joining LAFPP.

Subsequent to the adoption of the Charter Amendment, the City adopted an ordinance providing an enhanced benefit for Airport Peace Officers that remain in LACERS. As a result of the enhanced benefit, the contribution rate to LACERS was recalculated and adopted by the Board on March 14, 2017; the entire portion of the enhanced benefit for Airport Peace Officers will be borne exclusively by the Airports Department.

Los Angeles City Employees' Retirement System ("LACERS")

LACERS, established in 1937 under the Charter, is a contributory plan covering most City employees except uniformed fire and police personnel and employees of the Department of Water and Power. As of June 30, 2016, the date of its most recent actuarial valuation, LACERS had 24,446 active members, 18,357 retired members and beneficiaries, and 6,895 inactive members. The number of retired members was significantly increased, and the number of active members significantly decreased, as a result of the City's Early Retirement Incentive Program in Fiscal Year 2009-10. LACERS is funded pursuant to the Entry Age Cost Method, which is designed to produce stable employer contributions in amounts that increase at the same rate as the employer's payroll (i.e., level percent of payroll).

A number of assumptions are made in calculating the actuarial valuation of retirement benefits. The following are some of the key assumptions used by LACERS' actuary, The Segal Company, in preparing LACERS' actuarial report as of June 30, 2016.

Table 24
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
ACTUARIAL ASSUMPTIONS
As of June 30, 2016

Investment rate of return	7.50%
Inflation rate	3.25%
Real across-the-board salary increase	0.75%
Projected salary increases	Ranges from 4.4% to 10.5%, based on service
Cost of living adjustments for pensioners	3.00% for Tier 1; 2.00% for Tier 3

Source: Los Angeles City Employees' Retirement System Actuarial Valuation and Review of Retirement and Health Benefits as of June 30, 2016.

As part of the last triennial experience study dated October 8, 2014 for the three-year period from July 1, 2011 through June 30, 2014, LACERS adopted various actuarial assumptions, including reducing the assumed investment return from 7.75% to 7.50% and reducing the inflation rate from 3.50% to 3.25%. The LACERS Board is anticipated to consider a new triennial experience study on July 11, 2017. The Board will review economic assumptions that will be included in the June 30, 2017 valuation. The Board is likely to reduce the assumed rate of investment return for the system from 7.50% to 7.25%, or lower. The estimated impact of a change to 7.25% would be an increased City contribution of $54 million in Fiscal Year 2018-19 based on current payroll assumptions. The Board is also expected to review the demographic assumptions later in the year that will be incorporated into the June 30, 2018 valuation. Likewise any changes to the demographic assumptions will subsequently impact the 2019-20 contribution.

LACERS' Board uses a market value corridor of 40%. A "corridor" is used in conjunction with asset smoothing, in order to keep the actuarial value of assets within a certain percentage of the market value of assets. For example, if a system has a 40% corridor, the actuarial value of assets must be between 60% and 140% of the market value of assets. Market losses and gains are recognized under a seven-year asset smoothing period, where only 1/7 of annual market gains or losses are recognized in the actuarial value of assets each year. The remaining gains or losses are spread equally over the next six years.

To limit future fluctuations in asset values due to large unrecognized gains reflecting several years of fairly large annual market gains and losses from a volatile market, the LACERS Board adopted a one-time adjustment, as of June 30, 2014, to its current asset smoothing policy by combining the unrecognized gains and losses of the prior years into one layer and spreading it evenly over six years. As of June 30, 2016, there was a total unrecognized net loss of $747 million. The following table shows the original market gains and losses, and the unrecognized gains and losses as of June 30, 2016.

Table 25
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
CALCULATION OF UNRECOGNIZED RETURN DUE TO ASSET SMOOTHING
As of June 30, 2016

Year Ended June 30	Original Market Gain (Loss)	Portion Not Recognized	Amount Not Recognized
2013	$ (81,571,421)	3/6	$ (40,785,711)[(1)]
2014	1,246,285,581	4/7	712,163,189
2015	(707,760,540)	5/7	(505,543,243)
2016	(1,065,023,569)	6/7	(912,877,345)
Total unrecognized return (loss)			$ (747,043,110)

(1) Valuation as of June 30, 2016 recognizes 1/6 of $81,571,421 combined net deferred loss as of June 30, 2013, with the balance to be recognized over the next three years.

Source: Los Angeles City Employees' Retirement System Actuarial Valuation and Review of Retirement and Health Benefits as of June 30, 2016.

LACERS amortizes components that contribute to its UAAL over various periods of time, depending on how the unfunded liability arose, layering separate, fixed amortization periods. Under current funding policy, actuarial losses and gains are amortized over fixed 15-year periods. Liabilities or surpluses due to assumption changes are funded or credited over 15 and 20 years for retiree health care benefits and retirement benefits, respectively. Liabilities caused by future early retirement incentives will be funded over five years; other benefit changes will be amortized over 15 years.

The table below shows the actuarial value of the City's liability for retirement benefits (excluding retiree health care and other post-employment benefits), the actuarial value of assets available for retirement benefits, and two indicators of funding progress for LACERS, the funded ratio and the ratio of UAAL to annual payroll.

Table 26
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS FOR RETIREMENT BENEFITS
ACTUARIAL VALUE BASIS
($ in thousands)[1]

Actuarial Valuation As of June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL[2]	Funded Ratio[3]	Covered Payroll[4]	Unfunded AAL as a Percentage Of Covered Payroll[5]
2007	$ 8,599,700[6]	$10,526,874	$1,927,174	81.7%	$1,896,609	101.6%
2008	9,438,318	11,186,404	1,748,085	84.4	1,977,645	88.4
2009	9,577,747	12,041,984	2,464,237	79.5	1,816,171	135.7
2010	9,554,027	12,595,025	3,040,998	75.9	1,817,662	167.3
2011	9,691,011	13,391,704	3,700,693	72.4	1,833,392	201.9
2012	9,934,959	14,393,959	4,458,999	69.0	1,819,270	245.1
2013	10,223,961	14,881,663	4,657,702	68.7	1,846,970	252.2
2014	10,944,751	16,248,853	5,304,103	67.4	1,898,064	279.5
2015	11,727,161	16,909,996	5,182,835	69.4	1,907,665	271.7
2016	12,439,250	17,424,996	4,985,746	71.4	1,968,703	253.3

(1) Table includes funding for retirement benefits only. Other Post-Employment Benefits (OPEB) are not included.

(2) Actuarial Accrued Liability minus Actuarial Value of Assets, commonly referred to as UAAL. Positive numbers represent a funded ratio less than 100%.

(3) Actuarial value of assets divided by Actuarial Accrued Liability.

(4) Annual payroll for members of LACERS.

(5) UAAL divided by covered payroll.

(6) Valuation value of assets is after excluding $5,269,481 of discounted Harbor Port Police assets transferred to LAFPP in October 2007.

Source: Los Angeles City Employees' Retirement System Actuarial Valuation and Review of Retirement and Health Benefits as of June 30, 2016.

The actuarial value of assets is different from the market value of assets as gains and losses are smoothed over a number of years. The following table shows the funding progress of LACERS based on the market value of the portion of system assets allocated to retirement benefits.

Table 27
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS FOR RETIREMENT BENEFITS
MARKET VALUE BASIS
($ in thousands)[1]

Actuarial Valuation As of June 30	Market Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Liability[2]	Funded Ratio (Market Value)[3]	Covered Payroll[4]	Unfunded Liability as a Percentage Of Covered Payroll (Market Value)[5]
2007	$ 9,708,718	$10,526,874	$ 818,156	92.2%	$1,896,609	43.1%
2008	9,059,551	11,186,404	2,126,853	81.0	1,977,645	107.5
2009	7,122,911	12,041,984	4,919,073	59.2	1,816,171	270.9
2010	7,804,223	12,595,025	4,790,802	62.0	1,817,662	263.6
2011	9,186,697	13,391,704	4,205,007	68.6	1,833,392	229.4
2012	9,058,839	14,393,959	5,335,120	62.9	1,819,270	293.3
2013	10,154,486	14,881,663	4,727,177	68.2	1,736,113	272.3
2014	11,791,079	16,248,853	4,457,774	72.6	1,802,931	247.3
2015	11,920,570	16,909,996	4,989,426	70.5	1,835,637	271.8
2016	11,809,329	17,424,996	5,615,667	67.8	1,968,703	285.2

(1) Table includes funding for retirement benefits only. Other Post-Employment Benefits (OPEB) are not included.

(2) Actuarial Accrued Liability minus Market Value of Assets. Positive numbers represent a funded ratio less than 100%.

(3) Market value of assets divided by actuarial accrued liability.

(4) Annual payroll for members of LACERS.

(5) Unfunded liability divided by covered payroll.

Source: Calculated based on data from Los Angeles City Employees' Retirement System Actuarial Valuation reports.

The table below summarizes the City's payments to LACERS over the past five years, including the proposed payment for Fiscal Year 2017-18. This table includes costs for retirement, as well as for retiree health care (see **"BUDGET AND FINANCIAL OPERATIONS —Other Post-Employment Benefits"**), and other miscellaneous benefits.

Table 28
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
SOURCES AND USES OF CONTRIBUTIONS
($ in thousands)[1]

	2013-14	2014-15	2015-16	2016-17	Adopted Budget 2017-18
Sources of Contributions					
Contributions for Council-controlled Departments	$367,772	$411,509	$434,639	$459,400	$450,813
Airport, Harbor Departments, LACERS, LAFPP	83,759	94,209	103,120	106,766	102,214
Total	$451,531	$505,718	$537,759	$566,166	$553,027
Percent of payroll – Tier 1	25.33%	26.56%	28.75%	28.16%	27.22%
Percent of payroll – Tier 2	18.32%	19.63%	26.42%		
Percent of payroll – Tier 3				24.96%	24.64%
Uses of Contributions					
Current Service Liability (Normal cost)	$185,217	$193,769	$190,777	$206,982	$214,403
UAAL	265,081	305,891	363,929	366,172	359,542
Adjustments[2]	1,233	6,058	(16,947)[4]	(6,988)[5]	(20,918)[6]
Total	$451,531	$505,718	$537,759	$566,166	$553,027

(1) Includes funding for OPEB.

(2) Includes the excess benefit plan, the family death benefit plan, and the limited term plan fund. Beginning with the 2014-15 payment, the true-up obligation for the prior year is also reflected in this line item.

(3) Payment for a 2013-14 true-up in the amount of $5,191,511 (all agencies) was made in 2014-15.

(4) Adjustments for 2015-16 include the 2014-15 true-up which consists of an $18,052,498 credit (all agencies), which is partially offset by $1,105,000 in excess benefit, family death and limited term plan costs.

(5) Adjustments for 2016-17 include the 2015-16 true-up, which consists of a $24,031,072 credit (all agencies) and which is partially offset by a $15,854,076 one-time lump sum payment for the retroactive upgrade of past Tier 2 members to Tier 1, and $1,189,000 in excess benefit, family death and limited term plan costs.

(6) Adjustments for 2017-18 include the 2016-17 true-up which consists of a $22,341,265 credit (all agencies) and $1,423,000 in excess benefit family death, and limited term plan costs. The entire portion of the City's contribution attributed to the enhanced benefit for the Airport Peace Officers who remain in LACERS will be borne exclusively by the Airports Department. As a result, the final contribution obligation for all agencies has been adjusted accordingly

Source: City of Los Angeles, Office of the City Administrative Officer.

In 2012, the City Council adopted a new civilian retirement tier ("Tier 2"), which applied to all employees hired on or after July 1, 2013. Subsequently, as part of an agreement with the Coalition of Los Angeles City Unions, both the City and the Coalition agreed to transfer all Tier 2 employees into Tier 1 effective February 21, 2016. Any new employee hired into a position eligible for LACERS members on or after February 21, 2016 will, unless eligible for Tier 1 membership under specific exemptions, be enrolled in a new Tier 3.

The following table includes a summary of the major plan design changes from Tier 1 to Tier 3.

Table 29
COMPARISON OF LACERS TIER I AND TIER III PLAN DESIGNS

Plan Feature	Tier I	Tier III
Normal Retirement (Age / Years of Service ("YOS"))	60 / 10 70 / Any	63 / 30 60 / 10
Early, Unreduced Retirement Eligibility	55 / 30	55 / 30
Normal and Early, Unreduced Benefit Factor	2.16%	1.5% @ 60 / 10 2.0% @ 60 / 30 2.0% @ 55 / 30 2.1% @ 63 / 30
Compensation Used to Determine Retirement Allowance	Highest consecutive 12 months, including most bonuses	Last 36 months prior to retirement, including most MOU bonuses
Maximum Benefit	100%	80%
Employee Contribution Base	6%	7%
Early Retirement Incentive Program Employee Contribution	1% Until 2026 or when ERIP debt is paid, whichever is sooner	N/A
Other Post-Employment Benefits (OPEB), e.g., retiree healthcare Employee Contribution	4%	4%
Maximum Annual COLA	3%	2%
COLA Bank	Yes	No
Survivor Continuance	50%	50%
Death Benefit	$2,500	$2,500
Retiree Health Subsidy	Eligible at 55 / 10 Subsidy two-party Kaiser rate Vesting 40% at 10 Years of Service (YOS), 100% at 25 YOS	Eligible at 55 / 10 Subsidy two-party Kaiser rate Vesting 40% at 10 YOS, 100% at 25 YOS
Disability Retirement	More than 5 YOS Maximum 1.43% per YOS and 33% of final compensation Less than 5 YOS, return contributions	More than 5 YOS Maximum 1.43% per YOS and 33% of final compensation Less than 5 YOS, return contributions
Government Service Buyback	Member contribution	Full actuarial cost, maternity and military leave time exempted

Source: City of Los Angeles, Office of the City Administrative Officer

The following table sets forth LACERS' investments and asset allocation targets.

Table 30
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
ASSET CLASS MARKET VALUE AND ALLOCATION
($ in million)
As of December 31, 2016

Asset Class	Market Value	Market Value to Total Fund (%)	Target (%)
U.S. Equity	$ 3,917	26.4%	24.0%
Non-U.S. Equity	4,321	29.2	29.0
Fixed Income Securities	2,676	18.1	19.0
Credit Opportunities	723	4.9	5.0
Real Assets	1,529	10.3	10.0
Private Equity	1,515	10.2	12.0
Cash	134	0.9	1.0
Total Portfolio	$14,814	100.0%	100.0%

Source: LACERS Portfolio Performance Review for the Quarter Ending December 31, 2016.

Fire and Police Pension Plan ("LAFPP")

The LAFPP, established in 1899 and incorporated into the Charter in 1923, represents contributory plans covering uniformed fire, police, Department of Harbor police and some Department of Airport police. As of June 30, 2016, the date of its most recent actuarial valuation, the LAFPP had 13,050 active members, 12,819 retired members and beneficiaries, and 128 vested former members. The LAFPP is funded pursuant to the Entry Age Cost Method, which is designed to produce stable employer contributions in amounts that increase at the same rate as the employer's payroll (i.e., level percent of payroll).

Within the LAFPP, there is a Deferred Retirement Option Plan ("DROP"). This voluntary plan allows members to retire for pension purposes only, after they are eligible to retire and have completed at least 25 years of service. A member entering DROP continues to work and receive salary and benefits as an active employee, but stops accruing additional salary and service credits for retirement purposes. While in DROP, the member's retirement benefit is deposited into an interest-bearing account that is distributed to the member when he or she leaves City service. Participation in DROP is limited to a maximum of five years. As of June 30, 2016, 1,243 active members participated in DROP.

Six tiers of benefits are provided, depending on the date of the member's hiring. For Tier 1, any UAAL is amortized over a fixed term ending on June 30, 2037. For Tiers 2, 3, and 4, level percent of payroll amortization with multiple layers is used as a percent of total valuation payroll from the respective employer (i.e., City or Harbor Port Police). For Tiers 5 and 6, level percent of payroll with multiple layers is used as a percent of combined payroll for these tiers from the respective employer. A Charter amendment adopted by City voters on March 8, 2011 provided the LAFPP Board with greater flexibility to establish amortization policies. Under the LAFPP Board's actuarial funding policy, actuarial gains or losses are amortized over 20 years; changes in actuarial assumptions and cost methods are amortized over 20 years; plan amendments are amortized over 15 years; and actuarial funding surpluses are amortized over 30 years. That same Charter amendment created a new tier of retirement benefits (Tier 6) for sworn employees hired after July 1, 2011.

A number of assumptions are made in calculating the actuarial valuation of retirement benefits. The following are some of the key assumptions used by the LAFPP actuary, The Segal Company, in preparing LAFPP's actuarial report.

Table 31
LOS ANGELES FIRE AND POLICE PENSION PLAN
Actuarial Assumptions
As of June 30, 2016

Investment rate of return	7.50%
Inflation rate	3.25%
Real across-the-board salary increase	0.75%
Projected salary increases	Ranges from 4.75% to 11.5% based on service
Cost of living adjustments (pensioners)	3.25% for Tiers 1 and 2 and 3.00% for Tiers 3, 4, 5 and 6.

Source: LAFPP Actuarial Valuation and Review of Pension and Other Postemployment Benefits (OPEB) as of June 30, 2016.

The LAFPP Board adopted a new triennial experience study on June 1, 2017, which adjusted both economic and demographic assumptions, including a reduction in the assumed rate of investment return from 7.50% to 7.25%. These new assumptions will be reflected in the June 30, 2017 valuation, which will impact the 2018-19 contribution, and are projected to increase the City's contribution to that system by $84 million in Fiscal Year 2018-19 based on current payroll assumptions.

Similar to LACERS, LAFPP has adopted various asset smoothing methods. Generally, market gains or losses are recognized over seven years, so that approximately 1/7 of market losses or gains are recognized each year in the actuarial valuation. Effective July 1, 2008, LAFPP adopted a 40% market corridor, so that the actuarial value of assets must be between 60% and 140% of the market value of assets. If the actuarial value falls below 60% or rises above 140% of market value, the system must recognize the excess returns or losses, respectively, in that year without smoothing. Based on its actuary's recommendation, the LAFPP also adopted an ad hoc adjustment, effective July 1, 2013, combining deferred gain and loss layers representing a net deferred investment gain of $77.3 million as of June 30, 2013 into a single six-year smoothing layer in to order to reduce year-to-year contribution rate volatility, similar to the adjustment adopted by LACERS.

Table 32
LOS ANGELES FIRE AND POLICE PENSION PLAN
CALCULATION OF UNRECOGNIZED RETURN DUE TO ASSET SMOOTHING
As of June 30, 2016

	Original Market Gain (Loss)	Portion Not Recognized	Amount Not Recognized	
Market value of assets (for Retirement and Health Subsidy Benefits)				$18,539,679,980
Calculation of unrecognized return[1]				
Year ended June 30, 2016	$(1,240,953,883)	6⁄7	$(1,063,674,757)	
Year ended June 30, 2015	(643,447,599)	5⁄7	(459,605,428)	
Year ended June 30, 2014	1,571,818,656	4⁄7	898,182,089	
Combined Net Deferred Gain as of June 30, 2013[2]	77,259,408	3⁄6	38,629,704	
Total unrecognized return (loss)				(586,468,392)
Final actuarial value of assets:				$19,126,148,372
Actuarial value as a percentage of market value:				103.2%
Market value of retirement assets				$17,104,276,335
Valuation value of retirement assets:				$17,454,338,395
Deferred return recognized in each of the next 6 years (for Retirement and Health Subsidy Benefits)				
Amount recognized on June 30, 2017				$(31,778,122)
Amount recognized on June 30, 2018				(31,778,122)
Amount recognized on June 30, 2019				(31,778,122)
Amount recognized on June 30, 2020				(44,654,689)
Amount recognized on June 30, 2021				(269,200,210)
Amount recognized on June 30, 2022				(177,279,127)
Subtotal				$(586,468,392)

(1) Total return minus expected return on a market value basis. Effective with the calculation for period ended June 30, 2015, both actual and expected returns on market value have been adjusted to exclude administrative expense paid during the plan year.

(2) Net deferred unrecognized investment gains as of June 30, 2013 have been combined into a single layer to be recognized over the six-year period effective July 1, 2013.

Source: LAFPP Actuarial Valuation and Review of Pension and Other Post-Employment Benefits (OPEB) as of June 30, 2016.

The table below shows the actuarial value of the City's liability for retirement benefits (excluding retiree health care and other post-employment benefits), the actuarial value of assets available for retirement benefits, and two indicators of funding progress for LAFPP, the funded ratio and the ratio of UAAL to annual payroll.

Table 33
LOS ANGELES FIRE AND POLICE PENSION PLAN
SCHEDULE OF FUNDING PROGRESS FOR RETIREMENT BENEFITS
ACTUARIAL VALUE BASIS
($ in thousands) [(1)]

Actuarial Valuation As of June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL[(2)]	Funded Ratio[(3)]	Covered Payroll[(4)]	Unfunded AAL as a Percentage Of Covered Payroll[(5)]
2007	$13,215,668	$13,324,089	$ 108,421	99.2%	$1,135,592	9.5%
2008	14,153,296	14,279,116	125,820	99.1	1,206,589	10.4
2009	14,256,611	14,817,146	560,535	96.2	1,357,249	41.3
2010	14,219,581	15,520,625	1,301,044	91.6	1,356,986	95.9
2011	14,337,669	16,616,476	2,278,807	86.3	1,343,963	169.6
2012	14,251,913	17,030,833	2,778,920	83.7	1,341,914	207.1
2013	14,657,713	17,632,425	2,974,712	83.1	1,367,237	217.6
2014	15,678,480	18,114,229	2,435,749	86.6	1,402,715	173.6
2015	16,770,060	18,337,507	1,567,447	91.5	1,405,171	111.5
2016	17,645,338	18,798,510	1,153,172	93.9	1,400,808	82.3

(1) Table includes funding for retirement benefits only. Other post-employment benefits not included.

(2) Actuarial Accrued Liability minus Actuarial Value of Assets, commonly referred to as UAAL. Positive numbers represent an actuarial deficit.

(3) Actuarial value of assets divided by actuarial accrued liability.

(4) Annual payroll against which UAAL amortized.

(5) UAAL divided by covered payroll.

Source: The Fire and Police Pension System Actuarial Valuations.

The following table shows the funding progress of LAFPP based on the market value of the portion of system assets allocated to retirement benefits.

Table 34
LOS ANGELES FIRE AND POLICE PENSION PLAN
SCHEDULE OF FUNDING PROGRESS FOR RETIREMENT BENEFITS
MARKET VALUE BASIS
($ in thousands) [(1)]

Actuarial Valuation As of June 30	Market Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) Liability[(2)]	Funded Ratio (Market Value)[(3)]	Covered Payroll[(4)]	Unfunded Liability as a Percentage Of Covered Payroll (Market Value)[(5)]
2007	$14,766,110	$13,324,089	$(1,442,021)	110.8%	$1,135,592	(0.1)%
2008	13,622,037	14,279,116	657,079	95.4	1,206,589	54.5
2009	10,379,786	14,817,146	4,437,360	70.1	1,357,249	326.9
2010	11,535,936	15,520,625	3,984,688	74.3	1,356,986	293.6
2011	13,564,904	16,616,476	3,051,572	81.6	1,343,963	227.1
2012	13,268,687	17,030,833	3,762,146	77.9	1,341,914	280.4
2013	14,729,976	17,632,425	2,902,449	83.5	1,367,237	212.3
2014	16,989,705	18,114,229	1,124,525	93.8	1,402,715	80.2
2015	17,346,554	18,337,507	990,953	94.6	1,405,171	70.5
2016	17,104,276	18,798,510	1,694,234	91.0	1,400,808	120.9

(1) Table includes funding for retirement benefits only. Other post-employment benefits not included.

(2) Actuarial Accrued Liability minus Market Value of Assets. Positive numbers represent a deficit.

(3) Market value of assets divided by actuarial accrued liability.

(4) Annual payroll against which liability is amortized.

(5) UAAL divided by covered payroll.

Source: The Fire and Police Pension System Actuarial Valuations.

The table below summarizes the General Fund's payments to LAFPP over the past five fiscal years. This table includes costs for retirement, retiree health care (see **"BUDGET AND FINANCIAL OPERATIONS —Other Post-Employment Benefits"**), and other miscellaneous benefits.

Table 35
LOS ANGELES FIRE AND POLICE PENSION PLAN
SOURCES AND USES OF CONTRIBUTIONS
($ in thousands)

	2013-14	2014-15	2015-16	2016-17	Adopted Budget 2017-18
General Fund	$575,941	$624,974	$623,415	$616,235	$634,905
Percent of payroll	44.40%	47.94%	46.51%	44.54%	44.26%
Current Service Liability	$302,040	$306,625	$306,841	$319,458	$332,409
UAAL/(Surplus)	273,901	318,349	303,580	283,355	288,567
Administrative Costs[(1)(2)]	-	-	12,994	13,422	13,929
Total	$575,941	$624,974	$623,415	$616,235	$634,905

(1) Beginning in 2015-16, administrative expenses are separately identified in the contribution rate in conjunction with Governmental Accounting Standards Board (GASB 67) reporting. These costs are inclusive of Health and Pension administrative costs.

(2) Excess Benefit Plan costs are now credited as part of the Annual Required Contribution (i.e., the costs are included in the contribution rate).

Source: City of Los Angeles, Office of the City Administrative Officer.

The following table sets forth the LAFPP's investments and asset allocation targets as of March 31, 2017.

Table 36
LOS ANGELES FIRE AND POLICE PENSION PLAN
ASSET CLASS BY MARKET VALUE AND ALLOCATION
($ in millions)
As of March 31, 2017

	Market Value	Percent Allocation	Target (%)
Domestic Large Cap Equity	$ 5,181.0	25.69%	23.0%
Domestic Small Cap Equity	1,381.7	6.85	6.0
International Developed Markets	3,210.0	15.92	16.0
International Emerging Markets	847.9	4.20	5.0
Domestic Bonds	3,283.3	16.28	17.0
High Yield Bonds	526.0	2.61	3.0
Unconstrained Fixed Income	378.8	1.88	2.0
Real Estate	2,003.0	9.93	10.0
Private Equity	1,793.2	8.89	12.0
Commodities	857.8	4.25	5.0
Cash House Accounts	703.7	3.49	1.0
Total	$20,166.6	100.00%	100.0%

Source: Los Angeles Fire and Police Pension Plan March 31, 2017 Total Portfolio Report.

Other Post-Employment Benefits

Retired members and surviving spouses and domestic partners of LACERS and LAFPP members are eligible for certain subsidies toward their costs of medical insurance and other benefits. These benefits are paid by the respective retirement system. These retiree health benefits are accounted for as “Other Post-Employment Benefits” (“OPEB”).

The City began making payments to its Pension Systems to pre-fund its OPEB obligations in Fiscal Year 1989-90, in an amount then determined by the Pension Systems and their actuaries. For the five years beginning Fiscal Year 2007-08, less than the Annual Required Contribution was contributed to the LAFPP, primarily reflecting the phasing in of increases in assumed medical cost. The calculations of OPEB funding requirements are made by the same actuaries that perform the analysis of the Pension Systems’ retirement benefits, and generally rely on the same actuarial assumptions, other than those assumptions such as medical inflation specific to OPEB.

As of June 30, 2016, the unfunded healthcare benefits liabilities of LACERS and the LAFPP are as follows:

Table 37
LOS ANGELES CITY EMPLOYEE’S RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS FOR OTHER POST-EMPLOYMENT BENEFITS
($ in thousands)

Actuarial Valuation As of June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL[1]	Funded Ratio[2]	Covered Payroll[3]	Unfunded AAL as a Percentage of Covered Payroll[4]
2007	$1,185,544	$1,730,400	$544,856	68.5%	$1,896,609	28.7%
2008	1,342,920	1,928,043	585,123	69.7	1,977,645	29.6
2009	1,342,497	2,058,177	715,680	65.2	1,816,171	39.4
2010	1,425,726	2,233,874	808,148	63.8	1,817,662	44.5
2011	1,546,884	1,968,708	421,824	78.6	1,833,392	23.0
2012	1,642,374	2,292,400	650,027	71.6	1,819,270	35.7
2013	1,734,733	2,412,484	677,751	71.9	1,846,970	36.7
2014	1,941,225	2,662,853	721,628	72.9	1,898,064	38.0
2015	2,108,925	2,646,989	538,065	79.7	1,907,665	28.2
2016	2,248,753	2,793,689	544,935	80.5	1,968,703	27.7

(1) Actuarial Accrued Liability minus Actuarial Value of Assets, commonly referred to as UAAL. Positive numbers represent an actuarial deficit.

(2) Actuarial value of assets divided by Actuarial Accrued Liability.

(3) Annual payroll against which UAAL amortized.

(4) UAAL divided by covered payroll.

Source: The City of Los Angeles City Employees’ Retirement System Actuarial Valuations.

Table 38
OTHER POST-EMPLOYMENT BENEFITS
FIRE AND POLICE PENSION PLAN
($ in thousands)

Actuarial Valuation As of June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL[1]	Funded Ratio[2]	Covered Payroll[3]	Unfunded AAL as a Percentage of Covered Payroll[4]
2007	$ 687,096	$1,656,653	$ 969,557	41.47%	$1,135,592	85.38%
2008	767,647	1,836,840	1,069,193	41.79	1,206,589	88.61
2009	809,677	2,038,659	1,228,982	39.72	1,357,249	90.55
2010	817,276	2,537,825	1,720,549	32.20	1,356,986	126.79
2011	882,890	2,557,607	1,674,716	34.52	1,343,963	124.61
2012	927,362	2,499,289	1,571,927	37.11	1,341,914	117.14
2013	1,013,400	2,633,793	1,620,393	38.48	1,367,237	118.52
2014	1,200,874	2,783,283	1,582,409	43.15	1,402,715	112.81
2015	1,344,333	2,962,703	1,618,370	45.38	1,405,171	115.17
2016	1,480,810	3,079,670	1,598,860	48.08	1,400,808	114.14

(1) Actuarial Accrued Liability minus Actuarial Value of Assets, commonly referred to as UAAL. Positive numbers represent an actuarial deficit.

(2) Actuarial value of assets divided by actuarial accrued liability.

(3) Annual payroll against which UAAL amortized.

(4) UAAL divided by covered payroll.

Source: The Fire and Police Pension Plan System Actuarial Valuations.

Historically, plan members did not contribute towards healthcare subsidy benefits; all such costs were funded from the employer's contribution and investment returns thereon. The City negotiated bargaining agreements that require a 4% active employee contribution toward retiree healthcare for its entire civilian workforce and the option of a 2% active employee contribution toward retiree healthcare for its sworn workforce hired before July 1, 2011. Sworn employees hired after July 1, 2011, are members of Tier 6 which requires a 2% contribution toward retiree healthcare. Employees who contribute to retiree healthcare benefits are vested in future subsidy increases authorized by the retirement boards. For those sworn employees that opted not to make an additional contribution toward retiree healthcare, their retiree health subsidy has been frozen and cannot surpass the maximum subsidy level in effect as of July 1, 2011.

One lawsuit is pending challenging the City's actions relative to freezing OPEB benefits for sworn employees. See **"LITIGATION"**.

Projected Retirement and Other Post-Employment Benefit Expenditures

The table below illustrates the City's projected contributions to LACERS for the next four fiscal years based on information from the City actuary. In general, the illustrations assume no change to the actuarial assumptions used by LACERS' actuary for the actuarial valuation as of June 30, 2016. The following assumes a rate of return of 7.5% for future years. These contributions illustrate the projected cost of both pension and OPEB under the existing assumptions. New illustrations that incorporate the adoption of the 2017 triennial experience study for LACERS will not be available until 2018.

Table 39
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
PROJECTED CONTRIBUTIONS
($ in thousands)

	Adopted Budget 2017-18	Projection 2018-19	Projection 2019-20	Projection 2020-21	Projection 2021-22
LACERS					
Contributions for Council-controlled Departments[1][2]	$450,813	$495,120	$517,582	$529,933	$545,287
Percentage of payroll[3]	27.07%	27.40%	27.89%	28.12%	28.38%
Incremental Change	$(8,587)	$44,307	$22,462	$12,351	$15,354
% Change	(2%)	10%	5%	2%	3%

(1) Includes the General Fund and various special funds.

(2) Assumes 7.50% return on investment.

(3) Reflects combined rates for all benefit tiers.

Source: City of Los Angeles, Office of the City Administrative Officer, based on information from the system's actuary.

The table below illustrates the City's projected contributions to LAFPP, including the projected cost of pension and other post-employment benefits, for the next four fiscal years, based on an illustration provided by LAFPP's actuary that assumes a rate of return of 7.5% for future years. New illustrations that incorporate the adoption of the 2017 triennial experience study for LAFPP will not be available until 2018.

Table 40
LOS ANGELES FIRE AND POLICE PENSION PLAN
PROJECTED CONTRIBUTIONS[1]
($ in thousands)

	Adopted Budget 2017-18	2018-19	2019-20	2020-21	2021-22
General Fund	$634,905	$638,656	$682,914	$684,194	$661,927
Percentage of Payroll	44.26%	43.12%	44.48%	43.83%	41.54%
Incremental Change	$18,670	$3,751	$44,258	$1,280	$(22,267)
% Change	3%	1%	7%	0%	(3%)

(1) Assumes 7.50% return on investment.

Source: City of Los Angeles, Office of the City Administrative Officer, based on information from the system's actuary.

City Treasury Investment Practices and Policies

The Treasurer invests available cash for the City, including that of the proprietary departments, as part of a pooled investment program that combines general receipts with special funds for investment purposes and allocates interest earnings on a pro-rata basis when the interest is earned, and distributes interest receipts based on the previously established allocations. The Treasurer also maintains a limited number of special pools established for specific purposes.

The City's General Pool is further divided into a core pool and a reserve pool. The core or liquidity portion is targeted at the City's net liquidity requirements for six months. All investments in the core section of the portfolio have maturities of one year or less. The balance of the General Pool not required for the City's six-month liquidity requirement is invested in the reserve portfolio. The reserve portfolio holds investments ranging from one to five years.

Table 41
POOLED INVESTMENT FUND
GENERAL POOL
Investments as of March 31, 2017

Description	Par Value	Market Value	Percent of Total Funds (Market Value)	Average Days
Bank Deposits[(1)]	$ 81,129,056	$ 81,129,056	0.96%	1
BNYM Sweep Accounts	-	-	-	-
LAIF (State of California)	-	-	-	-
Subtotal Cash and Overnight Investments	$ 81,129,056	$ 81,129,056	0.96%	1
CDARS [(2)]	$ -	$ -	0.00%	-
Commercial Paper	1,577,714,000	1,575,042,422	18.71	60
Negotiable Certificates of Deposit	-	-	0.00	-
Corporate Notes	125,000,000	125,052,250	1.49	234
U.S. Federal Agencies	65,202,000	65,147,122	0.77	44
U.S. Treasuries	0	0	0.00	-
Subtotal: Pooled Investments	$1,767,916,000	$1,765,241,794	20.97%	72
Total Short Term Core Portfolio	$1,849,045,056	$1,846,370,850	21.93%	69
Money Market Funds	$ -	$ -	-	-
Commercial Paper	-	-	-	-
Negotiable Certificates of Deposit	-	-	-	-
Corporate Notes	1,239,105,000	1,241,090,586	14.74%	999
Asset-Backed Securities	12,000,000	11,920,080	0.14	1,537
U.S. Federal Agencies	669,830,000	667,925,487	7.93	934
U.S. Treasuries	4,650,000	4,650,426,100	55.25	1,024
Total Long-Term Reserve Portfolio	$6,570,935,000	$6,571,362,253	78.07%	1,011
Total Cash and Pooled Investments	$8,419,980,056	$8,417,733,104	100.00%	804

	Short-Term Core Portfolio	Long-Term Reserve Portfolio	Consolidated
Average Weighted Maturity	69 Days	2.8 Years	2.2 Years
Effective Yield	0.95%	1.52%	1.40%

(1) Collected balance for Wells Fargo Active Accounts.

(2) Certificate of Deposit Account Registry Service, which provides capital to community banks that lend and provide services in economically distressed areas. Deposits are insured through FDIC.

Source: City of Los Angeles, City Treasurer.

The City's treasury operations are managed in compliance with the California Government Code and according to the City's Statement of Investment Policy (the "Investment Policy"), which sets forth liquidity parameters, maximum maturities and permitted investment vehicles, which include U.S. Treasuries, U.S. Government Agencies and corporate notes.

Additionally, daily investment activity is reviewed independently by an outside investment advisor to ensure that all security transactions are in accordance with all policies as delineated above.

The Treasurer does not invest in structured or range notes, securities that could result in zero interest accrual if held to maturity, variable rate, floating rate or inverse floating rate investments, or mortgage-derived interest or principal-only strips, among other instruments prohibited by State law and the City's Investment Policy.

The Investment Policy permits the Treasurer to engage custodial banks to enter into short-term arrangements to loan securities to various brokers. Cash and/or securities (United States Treasuries and Federal Agencies only) collateralize these lending arrangements, the total value of which is at least 102% of the market value of securities loaned out. The securities lending program is limited to a maximum of 20% of the market value of the Treasurer's pool by the City's Investment Policy and the California Government Code.

Capital Program

The City annually budgets capital improvements in a number of special purpose funds, as well as the General Fund. The table below represents the expenditures toward capital improvements by revenue type. This table excludes the expenditure of proceeds of general obligation bonds, MICLA, and grants.

Table 42
CAPITAL IMPROVEMENT EXPENDITURE PROGRAM[1]
($ in thousands)

	2013-14	2014-15	2015-16	Estimated 2016-17	Adopted 2017-18
General Fund[2]	$8,286	$9,190	$14,185	$12,573	$25,949
Special Gas Tax Street Improvement Fund	6,815	10,378	6,155	686	2,056
Stormwater Pollution Abatement Fund	296	1,050	1,329	6,651	1,883
Sewer Construction and Maintenance Fund	116,330	138,640	199,354	244,478	323,100
Park and Recreational Sites and Facilities Fund	256	(47)	1,160	4,537	2,500
Street Lighting Maintenance Assessment Fund	-	-	1,391	-	-
Local Transportation Fund[3]	612	1,692	1,559	1,595	-
Measure R Local Return Fund	3,728	394	1,599	-	-
Measure M Local Return Fund	-	-	-	-	13,688
Other	1,076	2,380	-	-	0
Total[4]	$137,399	$163,677	$226,732	$270,520	$369,176

(1) Cash basis.
(2) General Fund reflects Municipal and Physical Plant Facilities funding only. For Fiscal Year 2016-17, excludes $67.5 million in funding provided in the Public Works Street Services Budget for street resurfacing and sidewalk repair and $9.5 million in physical plant projects that are included when evaluating the City's policy of allocating at least 1% of its General Fund to capital projects.
(3) Funded by portion of State sales tax dedicated towards this purpose.
(4) Totals may not add due to rounding.

Source: City of Los Angeles, Office of the City Administrative Officer.

MAJOR GENERAL FUND REVENUE SOURCES

Following is a discussion of the City's principal General Fund revenue sources. See **"LIMITATIONS ON TAXES AND APPROPRIATIONS"** herein. The following represents the revenues for Fiscal Year 2015-16 and projected revenues for 2016-17 and 2017-18, as contained in the Fiscal Year 2017-18 Adopted Budget.

Table 43
GENERAL FUND RECEIPTS[1]
($ in thousands)

	2015-16 Actual	Percent of Total	2016-17 Estimated	Percent of Total	2017-18 Adopted	Percent of Total
Property Tax[2]	$1,681,776	31.5%	$1,794,280	32.0%	$1,833,755	31.5%
Redirection of ex-CRA Tax Increment Monies	55,696	1.0	98,283	1.8	74,168	1.3
Licenses, Permits, Fees and Fines	887,442	16.6	898,591	16.0	1,046,994	18.0
Utility Users Tax	614,702	11.5	631,489	11.3	661,200	11.3
Business Tax	509,765	9.6	517,000	9.2	518,900	8.9
Sales Tax	417,541	7.8	520,020	9.3	528,670	9.1
Power Revenue Transfer	266,957	5.0	264,427	4.7	242,500	4.2
Parking Fines	147,884	2.8	140,900	2.5	140,900	2.4
Transient Occupancy Tax	230,818	4.3	264,000	4.7	282,100	4.8
Documentary Transfer Tax	198,438	3.7	211,697	3.8	219,096	3.8
Parking Occupancy Tax	111,144	2.1	110,000	2.0	112,900	1.9
Franchise Income	43,093	0.8	42,721	0.8	58,123	1.0
Interest	20,965	0.4	20,206	0.4	23,957	0.4
State Motor Vehicle License Fees	1,597	0.0	1,806	0.0	1,806	0.0
Tobacco Settlement	8,919	0.2	9,172	0.2	9,084	0.2
Grants Receipts	12,368	0.2	17,690	0.3	19,762	0.3
Transfer from Telecommunications Development Account	5,223	0.1	-	0.0	-	0.0
Residential Development Tax	4,366	0.1	4,800	0.1	4,800	0.1
Special Parking Revenue Transfer	56,072	1.1	28,342	0.5	38,633	0.7
Reserve Fund Transfer	60,313	1.1	35,496	0.6	9,108	0.2
Total General Receipts	$5,335,077	100.0%	$5,610,919	100.0%	$5,826,456	100.0%

(1) Cash basis.

(2) Fiscal Years 2015-16 and 2016-17 still include some property tax received in lieu of sales tax as part of "triple flip". All years include property tax in lieu of motor vehicle license fees. See Table 45. .

Source: City of Los Angeles, Office of the City Administrative Officer.

For purposes of this Appendix A and in the City's various budget documents, revenues are reported on a "cash" basis, meaning receipts are recognized when cash is received. This method differs from GAAP, which recognizes revenues on a "modified accrual" basis. The City's CAFR includes reporting of revenues based on GAAP. See the City's CAFR Note 1-D for a discussion of the basis for reporting.

In recent years, various changes in the way the State allocated property tax, sales tax and motor vehicle license fees have complicated the presentation of certain revenues, as discussed below under the relevant revenue sources. For example, on March 2, 2004, California voters approved Proposition 57, a bond act authorizing the issuance of up to $15 billion of Economic Recovery Bonds ("ERBs"), to fund the accumulated State budget deficit. These bonds were secured by a pledge of revenues from an increase in the State's share of the sales and use tax of one-quarter cent beginning July 1, 2004. The share of the tax allocated to local governments was reduced by the same amount and, in exchange, local governments received an increased share of the local property tax (and K-12 school districts and community colleges received a reduced share) until the ERBs were repaid. All education agency property tax reductions were offset by increased State aid. This shift in revenues between the State and local governments was known as the "Triple Flip." The State effectively retired all outstanding ERBs in August 2015.

As a result of a separate action, the State now supplements the City's property tax by an amount intended to backfill a portion of motor vehicle license fees ("VLF") lost as a result of the State's reduction in the fee. These various reallocations have affected the timing of the receipt by the City of the impacted revenues.

Property Tax

Property taxes, including various State replacements and the reallocation of tax increment from the dissolution of redevelopment, represent 32.8% of General Fund revenues in the Fiscal Year 2017-18 Adopted Budget. Under Article XIII A of the State Constitution (enacted in 1978 through the passage of Proposition 13) and its implementing legislation, *ad valorem* taxes on real property (other than taxes relating to certain voter-approved indebtedness) are limited to 1.0% of the "full cash value of property." Full cash value is generally defined as the valuation of real property as shown on the 1975-76 tax bill or, thereafter, as the appraised value of property when purchased or newly constructed after the 1975 assessment period. Real property valuation may be increased to reflect inflation, not to exceed 2.0% per year. (See **"LIMITATIONS ON TAXES AND APPROPRIATIONS"** herein.)

The assessed valuation of property is established by the County Assessor, and reported at 100% of the full cash value as of each January 1, except for public utility property, which is assessed by the State Board of Equalization.

Beginning in 1983, State law provided for the establishment of a "supplemental roll"; real property is reassessed at market value on the date property changes ownership or upon completion of new construction (known as the "floating lien date"). A supplemental tax is collected for the remainder of the tax year.

The County collects the *ad valorem* taxes. Taxes arising from the 1% levy are apportioned among local taxing agencies on the basis of a formula established by State law. Under this formula, the City receives a base year allocation plus an allocation on the basis of growth in assessed value (consisting of new construction, change of ownership and inflation). Taxes relating to voter-approved indebtedness are allocated to the relevant taxing agency. Beginning in Fiscal Year 1990-91 (with the adoption of new State legislation), the County deducts the pro-rata cost of collecting property taxes from the City's allocation.

The State Constitution and statutes provide exemption from reassessment for property upon certain changes of ownership, such as between spouses or certain intergenerational transfers, and from *ad valorem* property taxation for certain classes of property, such as local governments, churches, colleges, nonprofit hospitals, and charitable institutions. State law also allows exemptions from *ad valorem* property taxation at $7,000 of full value of owner-occupied dwellings and 100% of business inventories. Revenue losses to the City from the homeowner's exemption are replaced by the State.

A property owner may apply for a reduction of the property tax assessment for that owner's property. The most common type of appeal filed is known as a "Proposition 8" appeal, in which the property owner seeks a reduction in a particular year's assessment based on the current economic value of the property. The assessor may also adjust valuations based on Proposition 8 criteria independently, without a taxpayer appeal. Property owners may also appeal the Proposition 13 base assessment of a property. Although less frequently filed, such appeals, if successful, can permanently reduce the enrolled valuation of a property until it is sold.

All taxable real and personal property is classified as either "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" contains real property (land and improvements), certain taxable personal property (such as business equipment on business-owned property), and possessory interests (a leasehold on otherwise exempt government property). The "unsecured roll" contains taxable property that is not secured by the underlying real property, the majority of which is business equipment on leased or rented premises, and other taxable personal property such as boats and aircraft, as well as delinquent possessory interests. The balance of personal property has been exempted by State law from property taxes. At least 93% of the City's property tax is derived from property contained on the secured roll.

Property taxes on the secured roll are due in two installments; and become delinquent after December 10 and April 10, respectively, and a 10% penalty is added to delinquent taxes. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty of 1.5% per month to the time of redemption. If taxes are unpaid for a period of five years or more, title to the property passes to the State and is subject to sale by the County Tax Collector.

Property taxes on the unsecured roll become delinquent on August 31. A 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue on November 1. The taxing authority has four ways of collecting delinquent unsecured personal property taxes: (1) civil action against the taxpayer; (2) filing a certificate in the Office of the County Clerk specifying certain facts to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for recordation in the County Recorder's Office, to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the delinquent taxpayer.

The County did not elect to implement the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (commonly referred to as the "Teeter Plan"), whereby counties may opt to remit to local agencies the amount of uncollected taxes in exchange for retaining any subsequent delinquent payments, penalties and interest that would have been due to the local agency. As such, the City's property tax revenues reflect both reduced property tax revenue from uncollected taxes and increased revenue from the subsequent receipt of delinquent taxes, interest and penalty payments.

Recent assessed valuations within the City appear in the table below. The city assumed 6% growth in assessed value in its Fiscal Year 2017-18 Adopted Budget.

Table 44
ASSESSED VALUATION[1]

	2012	2013	2014	2015	2016
Land	$220,930,613,001	$232,778743,317	$248,792,504,198	$267,336,770,583	$285,423,529,738
Buildings and Structures	194,894,140,295	205,411,896,165	215,540,855,692	230,127,214,313	242,901,174,456
Business Personal Property	26,431,153,552	26,480,491,712	27,745,896,590	28,900,346,059	30,964,660,173
Gross Total[2]	$442,255,906,848	$464,671,131,194	$492,079,256,480	$526,364,330,955	$559,289,364,367
Less: Church, Welfare, etc.[3]	23,129,201,371	24,136,984,143	25,148,131,867	26,003,406,049	26,446,696,208
Revenue-Producing Valuations	419,126,705,477	440,534,147,051	466,931,124,613	500,360,924,906	532,842,668,159
Less: Homeowners' Exemptions[4]	2,629,356,346	2,588,592,473	2,545,252,570	2,502,725,568	2,454,777,939
Net Total Revenue-Producing Valuations[5]	$416,497,349,131	$437,945,554,578	$464,385,872,043	$497,858,199,338	$530,387,890,220
Change from Prior Year	2.5%	5.1%	6.0%	7.2%	6.5%

(1) As of January 1 of each year.

(2) Assessed values do not include Board of Equalization valued properties, such as utilities.

(3) Exemptions not reimbursed to local governments by the State.

(4) Exemptions reimbursed to local governments by the State.

(5) Valuations on which revenue is collected.

Source: County of Los Angeles, Office of the Assessor, Annual Reports.

The State Budget has resulted in various reallocations of property tax revenues, including the "Triple Flip" of property tax and sales tax and the "backfill" of VLF revenues with an increased allocation of property taxes. The table below summarizes those reallocations received as property tax.

Table 45
PROPERTY TAX REVENUES BY SOURCE[1]
($ in thousands)

	2013-14	2014-15	2015-16	Estimated 2016-17	Adopted 2017-18
1% Property Tax	$1,127,721	$1,190,885	$1,257,499	$1,317,905	$1,396,427
Vehicle License Fee Replacement	341,226	361,672	387,567	412,738	437,328
Sales Tax Replacement[2]	121,036	121,903	36,710	63,637	0
Total Property Tax	$1,589,983	$1,674,461	$1,681,776	$1,794,280	$1,833,755

(1) Cash basis. Excludes property taxes attributable to the dissolution of the Los Angeles Community Redevelopment Agency, projected to be $74.2 million in Fiscal Year 2017-18.

(2) Figures beginning in Fiscal Year 2015-16 reflect the phasing out of the Triple Flip.

Source: City of Los Angeles, Office of the City Administrative Officer.

The City's Fiscal Year 2017-18 Adopted Budget assumes 6.0% in growth in assessed valuation and Vehicle License Fee Replacement revenue. The Sales Tax Replacement revenue, otherwise known as the "triple flip" has been discontinued.

A list of the 20 largest taxpayers, based on secured assessed valuations within the City for Fiscal Year 2016-17, appears in the table below. The tax roll for the next fiscal year is typically released in summer.

Table 46
CITY OF LOS ANGELES
TWENTY LARGEST 2016-17 SECURED TAXPAYERS

Property Owner	Primary Land Use	2016-17 Secured Assessed Valuation	Percent of Secured AV	Cumulative Percent of Secured AV
Douglas Emmett LLC	Office Building	$ 2,762,607,488	0.54%	0.54%
Essex Portfolio LP	Apartments	1,432,627,587	0.28	0.87
FSP South Flower Street Associates LLC	Office Building	882,130,583	0.17	1.05
Rochelle H. Sterling	Apartments	828,892,242	0.16	1.23
Valero Energy Corporation	Petroleum	768,273,898	0.15	1.39
Phillips 66	Petroleum	766,142,466	0.15	1.55
Anheuser Busch Inc.	Industrial	750,203,814	0.15	1.70
One Hundred Towers LLC	Office Building	627,393,699	0.12	1.83
Century City Mall LLC	Office Building	626,748,247	0.12	1.96
Trizec 333 LA LLC	Office Building	616,101,720	0.12	2.09
Maguire Partners 355 S. Grand LLC	Office Building	576,181,858	0.11	2.21
APM Terminals Pacific Ltd.	Terminal Operations	563,984,203	0.11	2.33
Tishman Speyer Archstone Smith	Apartments	561,089,548	0.11	2.44
Olympic and Georgia Partners LLC	Hotel	546,297,546	0.11	2.56
Tesoro Corporation	Petroleum	532,151,225	0.10	2.67
Paramount Pictures Corp.	Industrial/Studio	522,377,487	0.10	2.78
LA Live Properties LLC	Commercial	522,324,161	0.10	2.88
Hines REIT West LA Portfolio LP	Office Building	521,083,615	0.10	2.99
Palmer Flower Street Properties	Apartments	507,787,516	0.10	3.10
Maguire Properties 555 W. Fifth	Office Building	505,490,491	0.10	3.01
Total		$15,419,889,394	3.01%	

Source: California Municipal Statistics, Inc.

Prior to Fiscal Year 2010-11, a portion of the property taxes collected in the City were allocated to redevelopment project areas as tax increment. As part of the State's Fiscal Year 2012 budget, legislation was approved to eliminate redevelopment agencies. This matter was the subject of litigation. On December 29, 2011, the California State Supreme Court ruled in favor of the legality of abolishing redevelopment. As a result, the City's Community Redevelopment Agency ("CRA/LA") was abolished as of February 1, 2012. The City decided not to serve as the successor agency, and the Governor appointed three individuals to serve as the "Designated Local Authority."

A portion of the funds previously allocated to LA/CRA will now be allocated to overlapping taxing jurisdictions. The amount of property tax funds available for distribution to taxing entities is subject to a legislatively mandated process. This process involves approval of a Recognized Obligation Payment Schedule ("ROPS") by the Successor Agency and then by a seven person county-wide Oversight Committee comprised of representatives of overlapping taxing jurisdictions. The ROPS lists all the enforceable obligations against tax increment and other funds of the former agency for a given six-month period. This ROPS is subject to further review by the State Department of Finance, who can reject any of the enforceable obligations that they find questionable. Based on the Department of Finance approved ROPS, the County

Auditor-Controller then remits to taxing entities any tax increment funds that are in excess of the amount needed to fund the enforceable obligations of the current six-month period. These receipts are reported separately from the property tax revenues reported in the “General Fund Receipts” table, above.

Utility Users Taxes

Utility users taxes represent 11.3% of General Fund revenues in the Fiscal Year 2017-18 Adopted Budget. The City imposes taxes on users of natural gas, electricity and communication services within the City’s limits. The tax is 9% of utility charges on taxable communication services, 10% for natural gas and residential electricity, and 12.5% for commercial and industrial electricity.

An exemption from the utility users tax is available to senior citizens over the age of 62 and to disabled individuals, provided that the combined adjusted gross income of all household members is below the “very low income” limitation for a family of two persons under the Section 8 housing programs. As provided by the State Constitution, insurance companies are exempt from the tax. In addition, County, State, Federal and foreign governments within the City are not subject to this tax, as the City has no authority to impose a tax on these entities. Exemptions account for approximately 10% of the total tax base.

Revenue estimates account for known impacts, such as from DWP rate increases, and market indicators, such as natural gas futures. Utility users tax receipts can be volatile, as they reflect not only power, gas and telephone rates, but also business activities and changing technologies. Both electricity and natural gas sales are sensitive to weather (warm winters and cool summers reduce demand). Communication users tax receipts have declined as consumers abandon landline communication and switch to cheaper voice and texting mobile communication plans.

The City’s electorate approved Proposition S on the February 5, 2008 election ballot. This measure replaced the prior telephone users tax ordinance with a modern communications tax ordinance. The measure reduced the rate of the City tax on users of communications services from 10% to 9%, and distributed the tax burden to a broader tax base than the prior ordinances, including private communication services, voice mail, paging services, text messaging and pay-phone usage. The new tax applies to all users of telephone services, whether traditional “land line,” wireless, or broadband telephone service to the extent permitted by federal law. Federal law currently prohibits the taxing of internet access (such as charges from internet service providers for access to the internet) and accordingly internet access is not taxed.

The City’s telephone users tax ordinance has been the subject of litigation challenging application of the tax to certain telecommunications services. See **“LITIGATION”**.

A portion of the gas users tax has also been challenged in *Lavinsky et al. v. City of Los Angeles* and in *Enquist et al. v. City of Los Angeles*, specifically the assessment of the gas users tax on certain charges and fees. See **“LITIGATION—9. Gas Tax Cases”**.

The table below shows the actual and budgeted receipts from the Utility Users Tax:

Table 47
UTILITY USERS TAX RECEIPTS[1]
($ in thousands)

	2013-14	2014-15	2015-16	Estimated 2016-17	Adopted 2017-18
Electric Users Tax	$331,307	$363,716	$360,305	$366,049	$407,000
Gas Users Tax	73,078	68,643	66,392	71,070	68,600
Communications Users Tax	223,052	207,032	188,006	194,370	185,600
Total	$627,437	$639,391	$614,702	$631,489	$661,200

(1) Cash basis.

Source: City of Los Angeles, Office of the City Administrative Officer.

Sales Tax

Sales tax receipts represent 9.1% of General Fund revenues in the Fiscal Year 2017-18 Adopted Budget. Sales and use taxes are collected on the total retail price of tangible personal property sold, unless specifically exempted. Included in the current County-wide tax rate is a sales tax collected by the State on behalf of cities (or, for unincorporated areas, on behalf of counties). The current local tax rate is 1%. Allocation of the 1% local component (often referred to as the "Bradley-Burns Sales Tax") is on the basis of "situs," or the point of sale. Additional sales taxes can be collected based on local voter approval. Included in the current County-wide rate are sales taxes collected for the Los Angeles County Metropolitan Transportation Authority for transportation purposes. A portion of those taxes is remitted to the City for deposit in four special revenue funds.

Statewide taxes decreased by 0.25%, effective January 1, 2017, after a four-year temporary increase to fund education. The combined tax rate within the City is currently 8.75%. On November 8, 2016, voters approved County Measure M, a fourth half-cent sales tax for the Los Angeles County Metropolitan Transportation Authority. On March 7, 2017, voters approved County Measure H, a ten-year, quarter-cent sales tax increase to fund homeless services. Expected implementation of both measures is July 1, 2017, which would increase the sales tax rate to 9.5%. Neither of these measures will impact City General Fund sales tax revenue; however, City programs for transportation and homelessness will receive special funding.

Effective July 1, 2004, the traditional Bradley-Burns Sales Tax was modified by a State budgetary change known as the Triple Flip, a complex revenue swap to secure the State's ERBs. The Triple Flip traded 0.25% of the 1% city share of the sales tax for an equal amount of property taxes from the countywide Education Revenue Augmentation Fund, and remained in effect until August 2015. The State's Board of Equalization reinstated the 1% tax rate on January 1, 2016. The City received the first revenues from the restored rate with the State's March 2016 remittance. Fiscal Year 2016-17 represents the first full year of the reinstated remittance of the 1% tax rate, resulting in an approximately $91.0 million boost in revenue from the prior year.

The components of the current sales taxes collected in the City are presented below.

Table 48
LOS ANGELES CITY
SALES TAX COMPONENTS
As of July 1, 2017

State Rate		
General Fund Portion	3.9375%	
Local Revenue Fund	1.5625%	To support local health program costs (1991 realignment) and public safety services (2011 realignment).
Local Public Safety	0.50%	For the Local Public Safety Fund, approved by the State voters in 1993 to support local criminal justice activities. The City receives approximately $30 million annually.
Total State Rate	**6.00%**	
Uniform Local Tax Rate (Statewide)		
County Transportation	0.25%	The County allocates a small portion of this to the City.
Local Point of Sale	1.00%	This is the City "Bradley-Burns" sales tax, allocated by point of sale. The City's full 1% share was restored with the end of the Triple Flip.
Total Uniform Local Rate	**1.25%**	
Optional Local Rates(1)		
Proposition A (LACMTA)	0.50%	Voter-approved measure to improve public transit and reduce traffic congestion.
Proposition C (LACMTA)	0.50%	Voter-approved measure to improve public transit and reduce traffic congestion.
Measure R (LACMTA)	0.50%	Voter-approved measure to improve public transit and reduce traffic congestion.
County Measure M (LACMTA)	0.50%	Voter-approved measure to improve public transit and reduce traffic congestion.
County Measure H (LA County)	0.25%	Voter-approved measure for homeless services.
Total Optional Local Rate	2.25%	
Total Sales Tax Rate	**9.50%**	

(1) State law permits optional voter approval of local tax rates. These rates are levied in 0.25% and 0.5% increments.

Source: City of Los Angeles, Office of the City Administrative Officer.

The following table shows the actual and budgeted General Fund receipts from the Sales Tax. After a two-year decline during Fiscal Years 2009-10 and 2010-11, totaling over 17%, the City has experienced steady growth in sales tax in subsequent years. Revenues through Fiscal Year 2014-15 reflect the reduction in receipts from the Triple Flip. Fiscal Year 2015-16 revenue growth reflects this restoration of the full 1% share of receipts for the fourth quarter. Fiscal Year 2016-17 revenue growth reflects the restoration of the full 1% share of receipts for the additional three quarters. Fiscal Year 2017-18 revenues are projected to increase by 1.7%.

Table 49
GENERAL FUND SALES TAX RECEIPTS
($ in thousands)

Fiscal Year	Receipts[1]
2013-14	$356,503
2014-15	371,031
2015-16	417,541
2016-17 (Estimated)[2]	520,020
2017-18 (Adopted)	528,670

(1) Cash basis.

(2) Reflects restoration of full 1% Bradley-Burns Sales Tax.

Source: City of Los Angeles, Office of the City Administrative Officer.

Business Tax

Business tax receipts represent 8.9% of General Fund revenues in the Fiscal Year 2017-18 Adopted Budget. The business tax is imposed on persons engaged in a business within the City. The tax rate formula, which is established by ordinance, varies based upon the type of business. Beginning in Fiscal Year 2005-06, a number of tax reform measures were implemented. These reforms included exemptions for small businesses, changes in the taxing methodology for entertainment production companies, reduced taxes on mutual funds and eliminating the gross receipts tax on new car dealers. More recently, the City reduced the top tax rate in February 2015, to be phased in over three years beginning in the 2016 tax period, with an estimated total reduction in annual receipts of $17.3 million the first year, $32.0 million the second year, and $47.3 million in the final year of the phase-in. The revenue estimate for Fiscal Year 2017-18 reflects a reduction of $15.3 million for the third year of implementation. In March 2017, voters approved City Measure M, which endorses the cultivation and sale of recreation cannabis within the City, enables the formation of cannabis policy and regulation, and decreases the business tax paid by medical cannabis businesses and implements a new business tax on recreational cannabis businesses. The impact of Measure M on business tax revenue will not occur until Fiscal Year 2018-19.

The table below shows receipts from the business tax. In years when the City extends tax amnesty to delinquent taxpayers, annual tax revenue is augmented with one time receipts. The most recent amnesty period was in Fiscal Year 2013-14, with $18 million in delinquent payments and penalties received.

Table 50
BUSINESS TAX RECEIPTS
($ in thousands)

Fiscal Year	Receipts[1]
2013-14	$475,397
2014-15	497,329
2015-16	509,765
2016-17 (Estimated)	517,000
2017-18 (Adopted)	518,900

(1) Cash basis.

Source: City of Los Angeles, Office of the City Administrative Officer.

Licenses, Permits, Fees and Fines

This category of revenues includes reimbursements to the General Fund from various special revenue and enterprise funds of the City, and charges for special services performed by City departments. Reimbursements include the costs of police, fire and other City services to the Airports and Harbor departments, and staff costs for the sewer construction and maintenance program. These revenues also include charges imposed as regulatory measures by City departments, and fees charged for paramedic ambulance services. Licenses, Permits, Fees and Fines receipts represent 18.0% of General Fund revenues in the Fiscal Year 2017-18 Adopted Budget. The Adopted Budget includes $12 million in revenue from billboard leasing and modernization agreements and $10 million from development linkage fee, both of which must be enacted to be realized. The Adopted Budget also includes reimbursements from the County Metropolitan Transit Authority (MTA) for police services on its bus and rail lines pursuant to a recently executed five-year contract between the MTA and the City.

The table below shows receipts from licenses, permits, fees and fines.

Table 51
LICENSES, PERMITS, FEES AND FINES RECEIPTS[1]
($ in thousands)

	2013-14	2014-15	2015-16	Estimated 2016-17	Adopted 2017-18
Ambulance Fees	$72,999	$76,789	$84,816	$78,475	$82,400
Services to Dept. of Airports	69,676	58,778	72,407	70,736	75,785
Services to Harbor Dept.	24,329	25,364	28,802	39,544	41,837
Services to DWP	19,203	19,018	26,540	33,806	32,853
Services to Sewer Program	82,689	79,548	54,760	68,355	95,137
Solid Waste Fee	38,871	46,499	81,255	68,368	58,309
Gas Tax Reimbursements	34,859	36,136	23,020	-	1,800
Services to Stormwater Fund	10,660	6,001	8,259	8,943	9,507
Special Funds Related Costs	195,944	136,953	169,102	203,361	235,236
MTA Reimbursement	-	-	-	4,063	56,470
One Time Reimbursements	68,153	39,022	28,785	13,532	9,983
Library Reimbursements	-	56,067	54,626	58,367	68,983
Recreation and Parks Reimbursements	-	33,803	36,162	36,384	43,951
State Mandated	19	28,901	7,275	3,270	2,500
Miscellaneous Taxes and Fees	5,603	5,983	7,273	7,937	8,300
Other Departmental Receipts	208,970	202,647	204,358	203,449	223,944
Total General Fund	$831,974	$851,507	$887,442	$898,591	$1,046,994

(1) Cash basis.

Source: City of Los Angeles, Office of the City Administrative Officer.

Documentary Transfer Tax

Documentary Transfer Tax receipts represent 3.8% of General Fund revenues in the Fiscal Year 2017-18 Adopted Budget. The documentary transfer tax is imposed on each transaction in which real property is sold that is evidenced by a recorded document. The City's tax rate is 0.45% of the value of real property transferred. This tax is in addition to the 0.11% tax ($1.10 per $1,000) levied by the County. This tax is tied to real estate market activity and is more volatile than other City revenues as it reflects both sales volume and sales price. The greatest impact is seen when the two components move together. This tax revenue declined 29% in Fiscal Year 2007-08, and another 31% in Fiscal Year 2008-09. Further contributing to the volatility of this revenue is the irregular pattern of business sales; monthly remittances can fluctuate from zero to amounts in excess of $10 million.

The Fiscal Year 2017-18 Adopted Budget assumes modest growth of 3.5%.

The table below presents receipts from this revenue source.

Table 52
DOCUMENTARY TRANSFER TAX RECEIPTS
($ in thousands)

Fiscal Year	Receipts[1]
2013-14	$181,463
2014-15	196,681
2015-16	198,438
2016-17 (Estimated)	211,697
2017-18 (Adopted)	219,096

(1) Cash basis.

Source: City of Los Angeles, Office of the City Administrative Officer.

Transient Occupancy Tax

Transient Occupancy Tax receipts represent 4.8% of General Fund revenues in the Fiscal Year 2017-18 Adopted Budget. The City imposes a tax for the privilege of occupancy in any hotel at the rate of 14% of the room charge. The tax is collected by hotel operators and remitted to the City monthly. This revenue is very sensitive to changing conditions that affect travel. In budgeting for this revenue, the City relies on industry data and forecasts of average room rates and hotel occupancy. Fiscal Year 2017-18 includes revenue of $33.7 million from the tax collection agreement between the City and the short-term rental website Airbnb.

The 14% tax rate is composed of two parts: a 13% General Fund tax and a 1% special tax to fund the Los Angeles Convention Visitors' Bureau (also known as L.A., Inc.). The table below presents General Fund receipts at the 13% portion of the tax rate.

Table 53
GENERAL FUND TRANSIENT OCCUPANCY (HOTEL) TAX RECEIPTS
($ in thousands)

Fiscal Year	Receipts[1]
2013-14	$184,382
2014-15	202,897
2015-16	230,818
2016-17 (Estimated)	264,000
2017-18 (Adopted)	282,100

(1) Cash basis.

Source: City of Los Angeles, Office of the City Administrative Officer.

Parking Fines

Parking Fine receipts represent 2.4% of General Fund revenues in the Fiscal Year 2017-18 Adopted Budget. The City receives revenues from parking fines; the schedule of fines is established by the Council. For budgeting purposes, parking fine revenue forecasts are based on the number of parking enforcement officers employed by the City's Department of Transportation (the "Transportation Department"), and estimates of average revenues per ticket based on historical trends, collection rates and average worker productivity.

The table below shows receipts from all parking fines.

Table 54
PARKING FINES RECEIPTS
($ in thousands)

Fiscal Year	Receipts[1]
2013-14	$161,146
2014-15	152,293
2015-16	147,884
2016-17 (Estimated)	140,900
2017-18 (Adopted)	140,900

(1) Cash basis.

Source: City of Los Angeles, Office of the City Administrative Officer.

Power Transfers to General Fund

Transfers from the Power Revenue Fund represent 4.2% of General Fund revenues in the Fiscal Year 2017-18 Adopted Budget. The City's Charter Section 344(b) provides that the Council may, by ordinance, direct that surplus money in the Power Revenue Fund be transferred to the Reserve Fund with the consent of the DWP Commissioners. The DWP Commissioners may withhold their consent if such transfer would have a material negative impact on DWP's financial condition in the year in which the transfer would be made. Historically, this transfer had equaled approximately 5% of the total operating revenue of the Power Revenue Fund in the preceding Fiscal Year. The transfer rate was increased to 7% beginning in Fiscal Year 2002-03. In Fiscal Years 2003-04, 2004-05, and 2008-09, additional supplemental transfers were also approved. The transfer rate was increased to 8% beginning with the Fiscal Year 2009-10.

The amount to be transferred is also affected by the Charter and the Power System's revenue bond covenants, which specify that a transfer may not be greater than the previous fiscal year's net income, nor may it result in a reduction of the Power System's surplus to less than 33-1/3% of the Power System's total outstanding debt. Variances can occur between the amount budgeted for transfer and the amount received, reflecting the variance between actual financial results of the Power System for the prior year from the results projected by the DWP at the time the budget is adopted. For example, the Adopted Budget for Fiscal Year 2009-10 projected a transfer of $232 million, while the actual transfer was $220 million. The estimated transfer amount is provided by the DWP at the time of budget adoption, and is based on the Power System financial plan for the fiscal year currently in progress. At the close of the fiscal year, but before December 31 in the following fiscal year, the Board of DWP Commissioners affirms or amends the transfer amount according to the audited financial statements. The transfer occurs in the latter half of the following year.

In March 2011, a Charter amendment (Measure J) was approved by over 80% of the voters. Measure J instituted three primary changes to the Power Revenue Fund transfer mechanism: (1) an early notification to the Council and Mayor by the DWP Commissioners in the event that the DWP would be unable to make the annual transfer "in whole or in part," (2) a requirement that such decision be supported by a finding that making the full transfer would have a "material negative impact on the DWP's financial condition in the year in which the transfer is to be made," backed by a detailed explanation of the basis for the finding and accompanied by all supporting financial information, and (3) analysis of that finding and the Department's report by the City Administrative Officer. The ballot argument in favor of the measure argued that it would "allow the City Council to create a more accurate budget" and "help avoid problems, such as when DWP unexpectedly withheld these funds in 2009, creating great fiscal uncertainty and threatening the City's credit rating."

The following table shows transfers from the Power Revenue Fund:

Table 55
TRANSFERS FROM POWER REVENUE FUND
($ in thousands)

Fiscal Year	Receipts[1]
2013-14	$253,000
2014-15	265,586
2015-16	266,957
2016-17 (Estimated)	264,427
2017-18 (Adopted)	242,500

[1] Cash basis.

Source: City of Los Angeles, Office of the City Administrative Officer.

Litigation challenging the long-standing practice of transferring a portion of surplus power revenues to the City's General Fund as a violation of new restrictions on taxation imposed by Proposition 26 has recently been settled. The settlement, which is subject to court approval, will limit the annual amount revenue transferred from the DWP to the City to 8% of the retail operating revenues of the 2008 Electric Rate Ordinance. This is estimated to be roughly $240 million annually. The reduced amount of revenues projected in the Fiscal Year 2017-18 Adopted Budget anticipated this impact, and no refund of prior transfers is required from the City's General Fund. See **"LIMITATIONS ON TAXES AND APPROPRIATIONS—Proposition 26," and "LITIGATION,"** herein.

Legislation Regarding Cannabis

On November 8, 2016, the voters of the State of California approved Proposition 64, the Adult Use of Marijuana Act ("AUMA"), which legalized the recreational use of cannabis and allowed local governments to regulate commercial cannabis activity in their jurisdictions. Following the passage of Proposition 64, the voters of the City approved Proposition M at a special election held on March 7, 2017. Proposition M called for the repeal of the City's existing medical marijuana ordinance (Proposition D, adopted in 2013) with a new ordinance providing for the enforcement, taxation, and regulation of cannabis and/or cannabis products within the City. Proposition M established a new City gross receipts tax rates on businesses who hold a State and applicable City license that are engaged in commercial cannabis activity

The City is in the beginning stages of an open and public conversation about how best to regulate all aspects of the cannabis industry. A portion of costs will be recoverable through fees charged for permits, licenses, inspections, and other services performed by City departments. The remainder of costs is not likely to be directly recoverable and will rely on revenues from taxation. Proposition M established City gross receipts tax rates on medical cannabis businesses (5%) and non-medical/"recreational" cannabis businesses (10%). These non-recoverable costs include increased costs to law enforcement, public health and education campaigns, activities City departments take to enforce regulations, community outreach, and costs related to policy study, data collection, and monitoring. Allowing and regulating marijuana businesses could increase consumer safety and decrease negative community and environmental impacts over time as licensed operators displace unlicensed activity.

Impact of State of California Budget

A number of the City's revenues are collected and subvened by the State (such as sales tax and motor-vehicle license fees) or allocated in accordance with State law (most importantly, property taxes). Therefore, State budget decisions can have an impact on City finances. Approximately 40% of the City's General Fund revenues are collected by the State or otherwise allocated by State law. During prior State fiscal crises, the State has often chosen to reallocate a portion of such revenues to assist in its own budget balancing.

The State's fiscal year begins on July 1 and ends on June 30. The State Constitution requires the Governor to submit a budget for each fiscal year to the Legislature by the preceding January 10 (the "Governor's Budget"). The Constitution requires the Legislature to pass a budget bill by June 15, although the Legislature has frequently failed to meet this deadline. Because more than half of the State's General Fund income is derived generally from the April 15 personal income tax, the Governor submits a "May Revision" to his proposed budget. The Legislature typically waits for the May Revision before making final budget decisions. Once the budget bill has been approved by a majority vote of each house of the Legislature, it is sent to the Governor for signature. Increases in taxes require approval of a two-thirds majority of each house.

The City has not identified any elements of the Fiscal Year 2017-18 State Budget Act that would materially and adversely impact the City's General Fund. Increases in the State gas tax will provide new special fund revenue for street improvements.

Information about the State budget is regularly available at various State-maintained websites. Text of the State budget may be found at the State Department of Finance website, www.govbud.dof.ca.gov. An impartial analysis of the budget is posted by the Office of the Legislative Analyst at www.lao.ca.gov. In addition, various State of California official statements, many of which contain a summary of the current and past State budgets, may be found at the website of the State Treasurer, www.treasurer.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the City, and the City takes no responsibility for the continued accuracy of the Internet addresses or for the accuracy or timeliness of information posted there, and such information is not incorporated herein by these references.

Information Regarding Federal Budget

While the federal government is currently funded through the Consolidated Appropriations Act of 2017 that expires on September 30, 2017, and provides level funding for the Consolidated Plan, the funding allocations for the current year have not yet been released by the Department of Housing and Urban Development (HUD). Further, the Trump Administration is seeking the elimination of the Community Development Block Grant (CDBG) and the HOME Investment Partnerships Program (HOME) in its proposed 2018 HUD Budget.

Additionally, the Trump Administration budget proposal includes Federal Emergency Management Administration (FEMA) and Department of Homeland Security grant program reductions (along with a 25% cost matching requirement). If approved, the reductions could impact the Emergency Management, Police, and Fire departments through the following grant programs: Emergency Management Performance Grant (EMPG), Urban Areas Security Initiative (UASI), Port Security, and State Homeland Security Grant Program (SHSGP).

The City is closely monitoring the federal appropriations process and any potential impacts to the City. Pursuant to Council instruction, the CAO recently released a report that identifies and categorizes all federal grants, loans, and other funding that the City currently receives.

LIMITATIONS ON TAXES AND APPROPRIATIONS

Article XIIIA of the California Constitution - Proposition 13

Article XIII A of the California Constitution limits the amount of *ad valorem* taxes on real property to 1% of “full cash value” as determined by the County Assessor, except that additional ad valorem taxes may be levied to pay debt service on local government indebtedness approved by the voters.

Article XIIIA defines “full cash value” to mean the County assessor’s valuation of real property as shown on the 1975-76 tax bill under full cash value or, thereafter, the appraised value of real property when purchased, newly constructed or when a change in ownership has occurred after the 1975 assessment period. The full cash value may be adjusted annually to reflect inflation at a rate, as determined by the consumer price index, not to exceed 2% per year, or may be reduced. Article XIIIA also permits the reduction of the “full cash value” base in the event of declining property values caused by damage, destruction or other factors.

See **“MAJOR GENERAL FUND REVENUE SOURCES —Property Tax”** herein.

Article XIIIB of the California Constitution - Gann Limit

In November 1979, California voters approved Proposition 4, known as the Gann Initiative, which added Article XIIIB to the California Constitution. In June 1990, Article XIIIB was amended by the voters through their approval of Proposition 111. Article XIIIB of the California Constitution limits the annual appropriations of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted annually for changes in the cost of living, population and services rendered by the governmental entity. The “base year” for establishing such appropriation limit is the 1986-87 fiscal year as a result of Proposition 111.

Appropriations subject to Article XIIIB include generally any authorization to expend during the fiscal year the “proceeds of taxes” levied by the State or other entity of local government, exclusive of certain limited funds. In addition to the proceeds of General Fund taxes, “proceeds of taxes” include, but are not limited to, all tax revenues and the proceeds to any entity of government from: (1) regulatory licenses, user charges and user fees to the extent such proceeds exceed the cost of providing the service or regulation; (2) the investment of tax revenues; and (3) certain State subventions received by local governments. Article XIIIB includes a requirement that if any entity's revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two fiscal years.

Appropriations subject to limitation pursuant to Article XIIIB generally do not include debt service on indebtedness approved according to law by a vote of the electors, or appropriations required to comply with mandates of courts, or the federal government or certain capital expenditures.

The table below sets forth the City's appropriations limit and appropriations subject to limitation. Pending before the state legislature as part of the proposed budget are proposed modifications to the appropriation limit calculation methodology. Impacts to the City relative to the proposed modifications are currently being reviewed. The data in the table below was calculated using the current, approved methodology.

Table 56
APPROPRIATIONS LIMITS AND APPROPRIATIONS SUBJECT TO LIMITATION

Fiscal Year	City Appropriations Limit	Appropriations Subject to Limitations	Amount Appropriations Are Under Limit
2012-13	$4,554,024,205	$3,332,937,466	$1,221,086,739
2013-14	4,786,591,114	3,545,476,762	1,241,114,352
2014-15	4,555,372,559	3,697,158,083	858,214,476
2015-16	4,780,745,648	3,803,672,985	977,072,663
2016-17	5,101,447,580	4,016,311,527	1,085,136,053
2017-18	5,345,761,720	4,095,495,596	1,250,266,124

Source: City of Los Angeles, Office of the City Administrative Officer.

Articles XIIIC and XIIID of the California Constitution - Proposition 218

In November 1996, the voters of the State approved Proposition 218, known as the "Right to Vote on Taxes Act." Proposition 218 added Articles XIIIC and XIIID to the California Constitution, which contain a number of provisions affecting the ability of the City to levy and collect both existing and future taxes, assessments, fees and charges.

Article XIIIC requires that all new local taxes or increases in existing local taxes be approved by the electorate before they become effective. Taxes for general governmental purposes of the City require majority voter approval and taxes for specific purposes, even if deposited in the City's General Fund, require two-thirds voter approval. The voter approval requirements of Proposition 218 reduce the flexibility of the Council to raise revenues for the General Fund, and no assurance can be given that the City will be able to impose, extend or increase such taxes in the future to meet any increased expenditure requirements.

Article XIIID contains provisions relating to how local agencies may levy and maintain "assessments" for municipal services and programs. "Assessment" is defined to mean any levy or charge upon real property for a special benefit conferred upon the real property. Article XIIID also contains several provisions affecting "property-related fees" and "charges," defined for purposes of Article XIIID to mean "any levy other than an ad valorem tax, a special tax, or an assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service." All new and existing property-related fees and charges must conform to requirements prohibiting, among other things, fees and charges which (i) generate revenues exceeding the funds required to provide the property-related service, (ii) are used for any purpose other than those for which the fees and charges are imposed, (iii) are for a service not actually used by, or immediately available to, the owner of the property in question, or (iv) are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. Further, before any property-related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. The City must then hold a hearing upon the proposed imposition or increase, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the City may not impose or increase the fee or charge. Fees for electrical and gas service are explicitly exempted from the definition of "property-related services" under Article XIII D. Property-related fees or charges for services other than sewer, water and refuse collection services may not be imposed or increased without majority approval by the property owners subject to the fee or charge or, at the option of the local agency, two-thirds voter approval by the electorate residing in the affected area.

In addition to the provisions described above, Proposition 218 removes many of the limitations on the initiative power in matters of reducing or repealing any local tax, assessment, fee or charge. No assurance can be given that the voters of the City will not, in the future, approve an initiative or initiatives that reduce or repeal local taxes, assessments, fees or charges currently constituting a substantial part of the City's General Fund.

Proposition 1A

Proposition 1A, proposed by the State Legislature in connection with the 2004-05 Budget Act and approved by the voters in November 2004, amended the State Constitution to impose limits on the State's ability to reallocate local revenue. The measure provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A also generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the State Legislature. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also provides that, if the State reduces the VLF rate below 0.65% of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A required the State, since July 1, 2005, to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates.

Proposition 1A may result in more stable City revenues depending on future actions by the State. However, Proposition 1A could also result in decreased resources being available for State programs. This reduction, in turn, could affect actions taken by the State to resolve budget difficulties. Such actions could include increasing State taxes, decreasing spending on other State programs or other action, some of which could be adverse to the City. The right of the State to redirect local revenues under Proposition 1A was exercised in Fiscal Year 2009-10.

Proposition 26

Proposition 26 was approved by the electorate at the November 2, 2010 election and amended California Constitution Articles XIIIA and XIIIC. Proposition 26 imposes a majority voter approval requirement on local governments such as the City with respect to certain fees and charges for general purposes, and a two-thirds voter approval requirement with respect to certain fees and charges for special purposes, unless the fees and charges are expressly excluded. Proposition 26 was designed to supplement tax limitations imposed by the voters in California Constitution Articles XIIIA, XIIIC and XIIID pursuant to Proposition 13, approved in 1978, Proposition 218, approved in 1996, and other measures. Proposition 26 expressly excludes from its scope a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable cost to the local government of providing the service or product.

Proposition 26 is subject to interpretation by California courts. Proposition 26 may be interpreted to limit fees and charges for electric utility services charged by governmental entities such as the City to preclude future transfers of electric utility generated funds to a local government's general fund, if applicable, and/or to require stricter standards for the allocation of costs among customer classes. On January 20, 2015, the California Court of Appeal, in *Citizens for Fair REU Rates v. City of Redding*, held that the City of Redding's municipally owned electrical utility's annual payment in lieu of tax (or "PILOT"), which is paid from the utility to the City of Redding, is a tax under the California Constitution, and that it is not "grandfathered in" as a tax that pre-existed Proposition 26. This decision overturned the trial court's ruling that the annual PILOT payment was "grandfathered in." On April 29, 2015, the California Supreme Court granted review of the Court of Appeal's decision in *Redding*. The *Redding* decision was depublished, and, as a result, it may not be cited or relied on as precedent by the California courts. The City cannot predict when a decision on *Redding* will be issued by the California Supreme Court and the City is unable to predict how Proposition 26 will ultimately be interpreted by the courts or what its future impact will be.

Litigation was filed challenging the City's transfer of surplus power revenues, which is a material source of City General Fund revenues, alleging that the City charges its electric utility customers fees that exceed the cost of providing electric utility service, in violation of Proposition 26. The City recently settled three class actions lawsuits challenging this practice. The settlement is subject to court approval. See **"MAJOR GENERAL FUND REVENUE SOURCES—Power Transfer to General Fund,"** and **"LITIGATION"**.

Future Initiatives

Article XIII A, Article XIII B, Article XIII C, Article XIII D, and Proposition 26 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time, other initiative measures could be adopted, which may place further limitations on the ability of the State, the City or local districts to increase revenues or to increase appropriations, which may affect the City's revenues or its ability to expend its revenues.

BONDED AND OTHER INDEBTEDNESS

Introduction

The City has issued or caused the issuance of a variety of bonded and other debt obligations as provided for under the State Constitution, judicial interpretation of the State Constitution, State statutes, and its own Charter powers. The following summarizes that indebtedness.

The CAO serves as the City's debt manager, by structuring debt issuances and overseeing the ongoing management of all General Fund and certain special fund debt programs. These include general obligation bonds; lease obligations; tax and revenue anticipation notes; wastewater system and solid waste resources fee (formerly sanitation equipment charge) revenue obligations; judgment obligation bonds; and special tax obligations, Mello-Roos bonds and certain special assessment obligations. Debt of the Housing + Community Investment Department and the City's three proprietary departments—Airports, Harbor, and Water and Power—are administered by staff of the respective department.

General Obligation Bonds

The City may issue general obligation bonds for the acquisition and improvement of real property, subject to two-thirds voter authorization of the bond proposition. An ad valorem tax on all taxable property to pay principal and interest on general obligation bonds is levied by the City and collected by the County on the secured and unsecured property tax bills within the City. (See **"MAJOR GENERAL FUND REVENUE SOURCES —Property Tax"**). The following summarizes the various voter authorizations for general obligation bonds that are currently outstanding. No adjustment has been made to account for the proposed refunding of certain outstanding general obligation bonds of the City or the initial issuance under Measure HHH.

Table 57
GENERAL OBLIGATION BONDS
As of November 1, 2016

Date of Election	Projects	Amount Authorized	Amount Issued	Amount Outstanding[1]	Amount Authorized but Unissued
4/11/89	Branch Library Facilities (Proposition 1)	$ 53,400,000	$ 53,400,000	$ 632,626	$ --
4/11/89	Police Facilities (Proposition 2)	176,000,000	176,000,000	3,057,694	--
4/11/89	Fire Safety Facilities (Proposition 4)	60,000,000	60,000,000	210,876	--
6/5/90	Seismic Safety Projects (Proposition G)	376,000,000	376,000,000	6,642,577	--
11/3/98	Zoo Facilities (Proposition CC)	47,600,000	47,600,000	9,494,394	--
11/3/98	Library Facilities (Proposition DD)	178,300,000	178,300,000	32,945,831	--
11/7/00	Fire, Paramedic, Helicopter and Animal Shelter Projects (Proposition F)	532,648,000	532,648,000	159,516,949	--
3/5/02	Emergency Operations, Fire, Dispatch and Police Facilities (Proposition Q)	600,000,000	600,000,000	210,147,124	--
11/2/04	Storm Water Projects (Proposition O)	500,000,000	439,500,000	281,171,929	60,500,000
11/8/16	Homelessness (Measure HHH)	1,200,000,000	-	-	1,200,000,000
Total		$3,723,948,000	$2,463,448,000	$703,820,000	$1,260,500,000

(1) Principal payments are made September 1.

Source: City of Los Angeles, Office of the City Administrative Officer.

On November 8, 2016 voters approved $1.2 billion in general obligation bond authority to finance various improvements for housing and other facilities for the homeless. Current expectations are that these bonds would be issued over a 10-year period.

Voluntary Closing Agreement Program

The City has agreed to the terms of a final closing agreement with the Internal Revenue Service ("IRS") under its Voluntary Closing Agreement Program (the "VCAP Closing Agreement"). The VCAP Closing Agreement resolves all issues in connection with the slower than expected expenditure of proceeds of certain of the City's previously issued general obligation bonds (the "Affected Bonds"). Pursuant to and as a result of the VCAP Closing Agreement, there will neither be a change in the tax status of interest on the Affected Bonds nor a material adverse effect on the financial position of the City.

Lease Obligations

The City may enter into long-term lease obligations without first obtaining voter approval, so long as these agreements meet the requirements of State law. The City has entered into various lease arrangements under which the City must make annual lease payments to occupy public buildings or use capital equipment necessary for City operations. These lease agreements have been with a nonprofit corporation established by the City for this purpose, the Municipal Improvement Corporation of Los Angeles ("MICLA"). In most cases, securities have been issued, either in the form of lease revenue bonds or certificates of participation, on which debt service is paid from the annual lease payments primarily made by the City's General Fund. In five cases noted below, the obligation was privately placed directly with a bank. Payment of lease payments is managed by the CAO and, unless otherwise noted, budgeted in the Capital Finance Administration Fund.

The following table summarizes the outstanding bonded and other financing lease obligations payable from the City's General Fund.

Table 58
GENERAL FUND BONDED AND OTHER FINANCING LEASE OBLIGATIONS
As of July 1, 2017

Series	Project	Amount Issued	Amount Outstanding	Final Maturity
MICLA Taxable Certificates of Participation, Program AK (dated April 1, 1999)	Real Property	$ 43,210,000	$ 28,295,000	4/1/29
MICLA Refunding Certificates of Participation, Program AS (dated April 2, 2002)(1)	Real Property, Pershing Square	7,655,000	2,085,000	10/1/22
MICLA Lease Revenue Bonds, Series 2009-A (dated April 23, 2009)	Capital Equipment and Fixtures	57,930,000	13,525,000	4/1/19
MICLA Lease Revenue Bonds, Series 2009-C (dated December 10, 2009)	Capital Equipment and Fixtures	40,095,000	13,635,000	9/1/19
MICLA Lease Revenue Bonds, Series 2009-D (dated December 10, 2009)	Real Property Improvements (Recovery Zone Economic Development Bonds)	21,300,000	18,335,000	9/1/39
MICLA Lease Revenue Bonds, Series 2010-A (dated November 23, 2010)	Capital Equipment and Fixtures	30,355,000	13,505,000	11/1/20
MICLA Lease Revenue Bonds, Series 2010-B (Taxable) (dated November 23, 2010)	Capital Equipment and Fixtures	49,315,000	22,465,000	11/1/20
MICLA Lease Revenue Bonds, Series 2010-C (Taxable) (dated November 23, 2010)	Real Property	18,170,000	16,755,000	11/1/40
MICLA Qualified Energy Conservation Bonds, Series 2011-A (Taxable) (dated October 26, 2011)(2)	Real Property	11,920,000	6,826,203	10/1/27
MICLA Lease Revenue Bonds, Series 2012-A (dated May 10, 2012)	Capital Equipment and Fixtures	92,635,000	53,925,000	3/1/22
MICLA Lease Revenue Bonds, Series 2012-B (dated May 10, 2012)	Real Property	33,975,000	30,520,000	3/1/42
MICLA Lease Revenue Bonds, Refunding Series 2012-C (dated May 10, 2012)	Real Property	109,730,000	80,885,000	3/1/32
MICLA 2013 Streetlights (Private Placement) (dated September 9, 2013)(3)	Capital Equipment and Fixtures	39,795,479	15,508,088	6/1/21
MICLA Lease Revenue Bonds, Series 2014-A (dated September 24, 2014)	Real Property	41,800,000	37,570,000	5/1/34
MICLA Lease Revenue Bonds, Refunding Series 2014-B (dated September 24, 2014)	Real Property	51,730,000	34,045,000	5/1/33
MICLA 2014 Equipment (Private Placement) (dated November 19, 2014)(4)	Capital Equipment and Fixtures	67,257,597	51,662,787	11/1/24
MICLA Taxable Lease Revenue Refunding Bonds, Series 2015-A (dated November 19, 2015)	Convention Center	292,415,000	248,815,000	11/1/22
MICLA 2016 Streetlights Financing (Private Placement) (dated April 5, 2016)(3)	Capital Equipment and Fixtures	26,368,864	23,319,222	4/1/24
MICLA Lease Revenue Refunding Bonds, Series 2016-A (dated June 1, 2016)	Capital Equipment and Fixtures	125,235,000	120,670,000	11/1/26
MICLA Lease Revenue Refunding Bonds, Series 2016-B (dated June 1, 2016)	Real Property	685,270,000	665,320,000	11/1/39
MICLA 2017 Streetlights Financing (Private Placement) (dated April 18, 2017)(3)	Capital Equipment and Fixtures	39,297,800	39,297,800	6/1/27
		$1,885,459,740	$1,536,964,100	

(1) Primary source of repayment is a special tax on properties in the vicinity of Pershing Square through the establishment of a Mello-Roos District, but the City remains contingently liable for making up any deficiency from its General Fund.

(2) Lease agreement privately placed with Wells Fargo Bank, National Association.

(3) Lease agreement privately placed with Banc of America Leasing Corporation. Payments made from the Street Lighting Maintenance Assessment Fund.

(4) Privately placed with Banc of America.

Source: City of Los Angeles, Office of the City Administrative Officer.

Commercial Paper Program

The City has created two commercial paper programs secured by lease agreements payable from the General Fund.

In 2004, the City and MICLA established a commercial paper program under which MICLA was authorized to issue up to $200 million in Lease Revenue Commercial Paper Notes (the "Commercial Paper Notes"). The program authorization was increased to $300 million in 2009 and to $335 million in 2013. In May 2016, the City authorized the expansion of the Program from $335 million to $395 million. This commercial paper program is used to finance and refinance capital equipment, the acquisition and improvement of real property, and other financing needs of the City. The City expects to issue lease revenue bonds through MICLA from time to time to refund Commercial Paper Notes. As of June 1, 2017, $256.5 million in Commercial Paper Notes were outstanding under this program.

The City has created a second commercial paper program to issue up to $110 million in Lease Revenue Commercial Paper Notes for the purposes of making capital improvements to the Convention Center facility, which also represent a lease obligation of the General Fund. As of June 1, 2017, $4 million in Commercial Paper Notes were outstanding under this program.

In connection with each of these commercial paper programs, the City arranged for the issuance of one or more irrevocable direct-pay letters of credit, and entered into a reimbursement agreement with each of the credit banks. If the letter of credit expires, and the City is unable to secure replacement letters of credit, the related letters of credit would be drawn upon to pay interest and principal due on the notes. Under the reimbursement agreement, the City is generally required to reimburse the credit banks over a period of time, but at no more than the stipulated fair rental value of the leased properties. The reimbursement agreements contain a number of covenants and agreements on the part of the City, and specify events of default, and remedies.

The following summarizes the various direct pay letters of credit that further support the payment of principal of and interest on the Commercial Paper Notes at that time.

Table 59
LEASE REVENUE COMMERCIAL PAPER NOTES

Series	LOC Provider	Amount of Authorization	LOC Expiration
A-1 and B-1	Wells Fargo Bank	$130,000,000	June 30, 2019
A-2 and B-2	Bank of America	55,000,000	June 30, 2019
A-3 and B-3	Bank of the West	60,000,000	June 30, 2019
A-4 and B-4	U.S. Bank National Association	150,000,000	June 30, 2021
Convention Center	Bank of Tokyo-Mitsubishi UFJ, Ltd	110,000,000	November 16, 2018

Source: City of Los Angeles, Office of the City Administrative Officer.

Judgment Obligation Bonds

State and City law permit the issuance of bonds, payable from the City's General Fund, to finance an obligation imposed by law. The City has issued such obligations several times to finance judgments: $198.3 million in 1992, $15.4 million in 1993, $25.0 million in 1998, $39.0 million in 2000, and the two issues summarized in the table below that remain outstanding.

Table 60
JUDGMENT OBLIGATION BONDS
As of July 1, 2017

Dated Date	Amount Issued	Amount Outstanding	Final Maturity	Judgment Financed with Proceeds
6/30/09	$20,600,000	$4,770,000	6/1/19	Employment lawsuits by certain police officers.
6/29/10	50,875,000	17,775,000	6/1/20	Various employment, inverse condemnation and liability lawsuits.
Total	$71,475,000	$22,545,000		

Source: City of Los Angeles, Office of the City Administrative Officer.

The City is considering the issuance of up to $60 million in judgment obligation bonds during the current fiscal year. See **"INTRODUCTION"**.

Revenue Bonds

The Charter and State law provide for the issuance of revenue bonds, and the execution of installment purchase contracts that support revenue certificates of participation, which are secured by and payable from the revenues generated by various enterprise and special fund operations. These revenue bonds do not represent obligations of the General Fund of the City, nor are they secured by taxes. Revenue bonds and certificates of participation have been issued that are secured by wastewater, refuse collection and parking revenues. In addition, three departments that are under the control of Boards appointed by the Mayor and confirmed by the Council, namely the departments of Water and Power, Harbor and Airports, have also issued revenue bonds.

Conduit Debt Obligations

The City has issued bonds or entered into installment purchase contracts secured by and payable from loans and installment sale contracts to provide conduit financing for single and multi-family housing, industrial development and unrelated third-party 501(c)(3) nonprofit corporations. These conduit bonds and certificates of participation are not managed by the CAO's Debt Management Group and are not secured by the General Fund or other City revenues.

Cash-flow Borrowings

The City annually issues tax and revenue anticipation notes ("TRANs") to alleviate short-term cash flow needs that occur early in the fiscal year when taxes and revenues have not yet been received. A large portion of these cash flow needs arise from the City's long-standing practice of paying its contribution to its pension systems early in the fiscal year. The following table summarizes the City's TRANs issuance over the past five years.

Table 61
TAX AND REVENUE ANTICIPATION NOTES

Fiscal Year	LACERS	Fire and Police Pensions	Cashflow	Total Par Amount
2011-12	$349,145,000	$463,135,000	$392,385,000	$1,204,665,000
2012-13	337,620,000	499,335,000	419,335,000	1,256,290,000
2013-14	362,530,000	567,725,000	394,295,000	1,324,550,000
2014-15	406,380,000	617,180,000	345,640,000	1,369,200,000
2015-16	427,900,000	613,755,000	344,580,000	1,386,235,000
2016-17	450,695,000	604,560,000	392,425,000	1,447,680,000
2017-18	439,678,882	619,240,476	390,135,642	1,449,055,000

Source: City of Los Angeles, Office of the City Administrative Officer.

Summary of Long-Term Borrowings

The table below presents a pro-forma statement of direct net debt of the City. Tables 65 and 66 summarize the debt service to maturity of certain of these obligations. Direct Debt is usually defined as the total amount outstanding of "tax-supported" obligations, including general obligation bonds, lease revenue bonds, certificates of participation secured by lease payments, and other obligations paid from property tax or other general revenues. The City includes its City-wide tax and assessment obligations in its calculation of direct debt. Net Direct Debt excludes any general obligation bonds and lease obligations that are self-supporting from non-General Fund sources; no such deductions are included below. Overall Net Debt is usually defined to be the combination of City net direct debt plus the net tax-supported debt of overlapping counties, school districts and special districts, including assessment and Mello-Roos special tax debt.

Table 62
DIRECT NET DEBT
As of July 1, 2017[1]

	Outstanding
General Obligation Bonds	$720,435,000
Lease Obligations [2][3]	
Capital Equipment and Fixtures	367,512,897
Real Property	1,169,451,203
Subtotal	$1,536,964,100
Judgment Obligation Bonds	22,545,000
GROSS DIRECT DEBT	$2,279,944,100
Revenue Bonds	
Power Revenue (DWP)[3]	$8,946,270,000
Water Revenue (DWP)[3]	4,454,950,000
Department of Airports[3]	5,006,095,000
Harbor Department[3][4]	891,740,000
Wastewater System[3]	2,680,130,000
Solid Waste Resources Fee (formerly Sanitation Equipment Charge)	178,720,000
Subtotal	$22,157,905,000
TOTAL CITY DEBT	$24,437,849,100
Less:	
Revenue Bonds	(22,157,905,000)
DIRECT NET DEBT	$2,279,944,100
Plus:	
Overlapping Debt[5]	$12,804,526,525
OVERALL NET DEBT	$15,084,470,625

(1) As adjusted by notes (2) through (6) below.

(2) Includes only bonded and certificated lease obligations and long-term private placements.

(3) Does not include commercial paper or revolving credit agreements.

(4) Does not include outstanding California Boating and Waterways Notes.

(5) Overlapping debt information from California Municipal Statistics, Inc. as of June 1, 2017. See Table 70.

Source: City of Los Angeles, Office of the City Administrative Officer.

Table 63
DEBT SERVICE TO MATURITY ON DEBT PAYABLE FROM PROPERTY TAXES
As of July 1, 2017

	General Obligation Bonds		
Fiscal Year	Principal	Interest	Total
			$
2018	$90,110,000	$ 34,060,547	124,170,547
2019	89,080,000	25,723,952	114,803,952
2020	88,835,000	21,781,261	110,616,261
2021	85,435,000	17,984,160	103,419,160
2022	80,550,000	14,399,650	94,949,650
2023	67,820,000	11,192,129	79,012,129
2024	56,395,000	8,528,735	64,923,735
2025	47,160,000	6,226,917	53,386,917
2026	27,735,000	4,522,766	32,257,766
2027	23,300,000	3,384,731	26,684,731
2028	19,430,000	2,400,463	21,830,463
2029	19,135,000	1,521,109	20,656,109
2030	14,440,000	739,828	15,179,828
2031	5,545,000	292,431	5,837,431
2032	5,465,000	97,004	5,562,004
Total	$720,435,000	$152,855,681	$873,290,681

Source: City of Los Angeles, Office of the City Administrative Officer.

Table 64
DEBT SERVICE TO MATURITY ON BONDED AND CERTIFICATED LEASE OBLIGATIONS AND JUDGMENT OBLIGATION BONDS
As of July 1, 2017

	Capital Equipment and Fixtures			Real Property			Judgment Obligation Bonds			
Fiscal Year	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Grand Total
2018	$57,710,804	$15,637,736	$73,348,540	$82,550,000	$50,645,910	$133,195,910	$7,990,000	$1,038,175	$9,028,175	$215,572,626
2019	58,202,003	11,633,740	69,835,742	84,975,000	48,092,285	133,067,285	8,365,000	662,075	9,027,075	211,930,102
2020	52,088,033	9,153,970	61,242,003	85,450,000	44,868,483	130,318,483	6,190,000	304,500	6,494,500	198,054,986
2021	46,508,986	7,076,853	53,585,839	84,705,000	41,496,542	126,201,542	0	0	0	179,787,380
2022	37,309,158	5,384,009	42,693,167	87,695,000	38,030,423	125,725,423	0	0	0	168,418,590
2023	26,309,458	3,930,534	30,239,992	56,390,000	34,977,775	91,367,775	0	0	0	121,607,767
2024	27,216,359	3,028,108	30,244,467	42,080,000	32,638,095	74,718,095	0	0	0	104,962,562
2025	20,826,622	2,085,160	22,911,782	42,995,000	30,458,090	73,453,090	0	0	0	96,364,872
2026	20,082,736	1,278,940	21,361,676	45,215,000	28,201,561	73,416,561	0	0	0	94,778,237
2027	21,258,739	452,762	21,711,501	46,750,000	25,924,837	72,674,837	0	0	0	94,386,338
2028	0	0	0	42,526,203	23,557,308	66,083,511	0	0	0	66,083,511
2029	0	0	0	43,985,000	21,353,671	65,338,671	0	0	0	65,338,671
2030	0	0	0	42,675,000	19,022,642	61,697,642	0	0	0	61,697,642
2031	0	0	0	44,860,000	16,813,680	61,673,680	0	0	0	61,673,680
2032	0	0	0	46,920,000	14,489,212	61,409,212	0	0	0	61,409,212
2033	0	0	0	46,915,000	12,045,575	58,960,575	0	0	0	58,960,575
2034	0	0	0	48,150,000	9,818,454	57,968,454	0	0	0	57,968,454
2035	0	0	0	46,955,000	7,747,886	54,702,886	0	0	0	54,702,886
2036	0	0	0	48,910,000	5,749,786	54,659,786	0	0	0	54,659,786
2037	0	0	0	51,075,000	3,549,487	54,624,487	0	0	0	54,624,487
2038	0	0	0	22,670,000	1,868,587	24,538,587	0	0	0	24,538,587
2039	0	0	0	12,135,000	1,067,799	13,202,799	0	0	0	13,202,799
2040	0	0	0	7,505,000	563,891	8,068,891	0	0	0	8,068,891
2041	0	0	0	3,375,000	252,281	3,627,281	0	0	0	3,627,281
2042	0	0	0	1,990,000	99,500	2,089,500	0	0	0	2,089,500
Total	$367,512,897	$59,661,813	$427,174,710	$1,169,451,203	$513,333,760	$1,682,784,963	$22,545,000.(	$2,004,750.0	$24,549,750.0	$2,134,509,423

Source: City of Los Angeles, Office of the City Administrative Officer.

Debt Management Policies

The City adopted a written debt policy in August 1998, which was incorporated into the City's Administrative Code in May 2000, and has also adopted policies for Mello-Roos financing, variable rate debt and swaps. The debt, variable rate and swap policies were updated and consolidated into the City's Financial Policies in April 2005 (see **"BUDGET AND FINANCIAL OPERATIONS—Financial Management Policies,"** herein). The City's Debt Management Policy establishes guidelines for the structure and management of the City's debt obligations. These guidelines include target and ceiling levels for certain debt ratios to be used for planning purposes. The two most significant ratios are shown below:

Table 65
DEBT MANAGEMENT POLICY RATIOS

Ratio	Ceiling	Adopted Budget 2016-17	Adopted Budget 2017-18
Total Direct Debt Service as Percent of General Fund Revenues	15.0%	6.68%	6.32%
Non-Voted Direct Debt Service as Percent of General Fund Revenues	6.0%[1]	4.46%	4.12%

[1] The 6% ceiling may be exceeded only if there is a guaranteed new revenue stream for the debt payments and the additional debt will not cause the ratio to exceed 7.5%, or there is not a guaranteed revenue stream but the 6% ceiling shall only be exceeded for one year.

Source: City of Los Angeles, Office of the City Administrative Officer.

The table below provides a comparison of City debt ratios for its net direct debt outstanding for the past five fiscal years.

Table 66
FINANCIAL RATIOS

As of June 30	Direct Net Debt	Net Debt Per Capita	Net Debt as Percent of Net Assessed Valuation
2013	$2,989,555,000	$774	0.72%
2014	2,724,275,000	696	0.62
2015	2,611,432,899	660	0.56
2016	2,447,192,068	612	0.49
2017	2,279,944,100	564	0.43

Source: City of Los Angeles, Office of the City Administrative Officer.

The table below shows debt service paid from the General Fund as a percent of General Fund revenues.

Table 67
GENERAL FUND DEBT SERVICE AS A PERCENTAGE OF GENERAL FUND[(1)]
($ in thousands)

Fiscal Year	Debt Service Payment[(2)]	General Fund Revenues[(3)]	Debt Service as Percentage of General Fund Revenues
2012-13	$207,129	$4,828,505	4.29%
2013-14	211,059	5,083,641	4.15
2014-15	225,735	5,173,214	4.36
2015-16 (Estimated)	207,438	5,333,988	3.89
2015-16 (Adopted Budget)	205,200	5,576,435	3.68

(1) Cash basis.

(2) Debt service payments on lease obligations and judgment obligation bonds.

(3) Including operating transfers in.

Source: City of Los Angeles, Office of the City Administrative Officer.

The table below provides a schedule of debt retirement for net direct debt.

Table 68
RETIREMENT OF DIRECT NET DEBT
As of July 1, 2017

	General Obligation Bonds		Capital Equipment and Fixtures		Real Property Leases		Judgment Obligation Bonds		Total	
Maturing Within	Maturing Principal	Cumulative % of Debt Retired	Maturing Principal	Cumulative % of Debt Retired	Maturing Principal	Cumulative % of Debt Retired	Maturing Principal	Cumulative % of Debt Retired	Maturing Principal	Cumulative % of Debt Retired
0 to 5 years	$ 434,010,000	60.2%	$ 251,818,984	68.5%	$425,375,000	36.4%	$ 22,545,000	100.0%	$1,133,748,984	49.7%
5 to 10 years	222,410,000	91.1	115,693,913	100.0	233,430,000	56.3	0	100.0	571,533,913	74.8
10 to 15 years	64,015,000	100.0	0	100.0	220,966,203	75.2	0	100.0	284,981,203	87.3
15 to 20 years	0	100.0	0	100.0	242,005,000	95.9	0	100.0	242,005,000	97.9
20 to 25 years	0	100.0	0	100.0	47,675,000	100.0	0	100.0	47,675,000	100.0
Total	$720,435,000		$367,512,897		$1,169,451,203		$ 22,545,000		$2,279,944,100	

Source: City of Los Angeles, Office of the City Administrative Officer.

Variable Rate Obligations and Swap Agreements

The only variable-rate debt paid from General Fund revenues are the Commercial Paper Notes described above. There are no swap agreements payable from the General Fund.

The City has a formal swap policy approved by the Mayor and Council in April 2003. This policy was consolidated into the City's Financial Policies in April 2005 (see **"BUDGET AND FINANCIAL OPERATIONS—Financial Management Policies"**). In connection with a variable-rate wastewater system revenue bond transaction in 2006, the City entered into fix-pay swap agreements. Swap payments and any termination payments would be made from the wastewater system enterprise fund and not the City's General Fund. A portion of the Series 2008A-H bonds were refunded with a partial swap termination by the Series 2012A Bonds on April 17, 2012. The Series 2008A-H bonds were refunded with the proceeds of the City's Wastewater System Subordinate Revenue Bonds, Variable Rate Refunding Series 2012-D (the "Series 2012-D Subordinate Bonds"). The swap agreements have been re-associated with a portion of the Series 2012-D Subordinate Bonds. As of April 17, 2012, the notional value of the swaps was reduced from $311.6 million to $151.1 million. As of March 31, 2017, the remaining portion of swap agreements had a combined market value of ($24,720,232), with the negative amount indicating a City liability in the event of a termination requiring a termination payment. For additional information, see Note 4-M in the "Notes to the City's Basic Financial Statements Fiscal Year Ended June 30, 2016" in the City's Comprehensive Annual Financial Report.

In August 2014, the City Council approved a proposal to review these swap agreements. In March 2015, Councilmember Paul Koretz participated in a phone conversation with members of the Fix LA Coalition, the Service Employees International Union and the chief of staff of one of the commissioners of the Securities and Exchange Commission (the "SEC") during which the Fix LA Coalition asked that the SEC investigate the practice of the banks involved in the City's Wastewater 2006 Swap transaction. The City has not been contacted by the SEC and is not aware of any existing investigation.

Proposed Additional Financings

The City currently anticipates the completion of some or all of the financings summarized in the table below secured in whole or in part by the City's General Fund or other revenues and taxes. Certificates of participation or lease revenue bonds in addition to those listed below may be approved for refundings or to finance real and personal property acquisitions and improvements.

The City may also seek further general obligation bond voter authorization.

Table 69
POTENTIAL ADDITIONAL FINANCINGS
DEBT CALENDAR
June 1, 2017

Anticipated Sale Date	Project	Type of Obligation	Estimated Amount
June 27, 2017	General Obligation Bonds Series 2017-A (Taxable)	General Obligation Bond	$ 89,000,000
June 27, 2017	General Obligation Refunding Bonds Series 2017-B (Tax-Exempt)	General Obligation Bond	96,000,000
Fall 2017	MICLA 2017-A (MICLA AK) Refunding	Lease Revenue Bond	31,000,000
Fall 2017	MICLA 2017-B Refunding	Lease Revenue Bond	150,000,000
Fall 2017	Solid Waste Resources Revenue Bonds, Series 2017-A	Revenue Bonds	87,000,000
Winter 2018	Wastewater System Revenue Refunding Bonds, Series 2018-A	Revenue Bonds	150,000,000

Source: City of Los Angeles, Office of the City Administrative Officer.

Overlapping Bonded Debt

Contained within the City are numerous overlapping local agencies providing public services. These local agencies have outstanding bonds issued primarily in the form of general obligation, pension obligation, lease revenue, special tax, and special assessment bonds. A statement of the overlapping debt of the City, prepared by California Municipal Statistics Inc., is shown in the following table. The City makes no representations as to its completeness or accuracy. Self-supporting revenue bonds, tax allocation bonds, and non-bonded capital lease obligations are excluded from the debt statement. The City anticipates issuing additional bonded debt. (See **"BONDED AND OTHER INDEBTEDNESS—Introduction" and "Proposed Additional Financings"** herein). The City also anticipates that new special assessment and special tax districts may be created in the future within the City, and that debt supported by these special assessments and special taxes may be issued.

Table 70
STATEMENT OF OVERLAPPING DEBT
As of June 1, 2017

	Debt Outstanding 6/1/17	Estimated Percent Applicable[1]	Estimated Shares Of Overlapping Debt 6/1/17
OVERLAPPING DEBT REPAID WITH PROPERTY TAXES[2]			
Los Angeles County Flood Control District	$ 10,060,000	40.418%	$ 4,066,051
The Metropolitan Water District of Southern California	74,905,000	20.629	15,452,152
Los Angeles Community College District	3,847,880,000	71.335	2,744,885,198
Beverly Hills Unified School District	405,289,478	0.155	628,199
Inglewood Unified School District	109,160,000	1.054	1,150,546
Las Virgenes Unified School District	132,851,686	0.899	1,194,337
Los Angeles Unified School District	10,005,485,000	87.888	8,793,620,657
Other School Districts	482,189,353	Various	414,412
City of Los Angeles Community Facilities District No. 3	3,130,000	100.000	3,130,000
City of Los Angeles Community Facilities District No. 4	76,425,000	100.000	76,425,000
City of Los Angeles Community Facilities District No.8	5,780,000	100.000	5,780,000
Mountains Recreation and Conservation Authority Assessment Districts	19,025,000	99.990-100.000	19,023,994
Los Angeles County Regional Park and Open Space Assessment District	38,895,000	39.632	15,414,866
OTHER OVERLAPPING DEBT:			
Los Angeles County General Fund Obligations	1,959,096,065	39.632	776,428,952
Los Angeles County Superintendent of Schools Certificates of Participation	7,204,988	39.632	2,855,481
Los Angeles County Sanitation District Nos. 1, 4, 5, 8 & 16 Authorities	62,852,335	0.001-11.518	3,035,652
Inglewood Unified School District Certificates of Participation	1,470,000	1.054	15,494
Las Virgenes Unified School District Certificates of Participation	10,575,000	0.899	95,069
Los Angeles Unified School District Certificates of Participation	239,440,000	87.888	210,439,027
Less: Los Angeles Unified School District QZAB Bonds (supported by periodic payments to investment accounts)			(8,597,938)
TOTAL OVERLAPPING DEBT			$12,804,526,525

(1) Percentage of overlapping agency's assessed valuation located within boundaries of the City.

(2) Excludes the City's Landscaping and Lighting District, a voter-approved citywide assessment district treated herein as direct debt.

Source: California Municipal Statistics, Inc.

OTHER MATTERS

Federal Funding

While the federal government is currently funded through the Consolidated Appropriations Act of 2017 that expires on September 30, 2017, and provides level funding for the Consolidated Plan, the funding allocations for the current year have not yet been released by the Department of Housing and Urban Development (HUD). Further, the Trump Administration is seeking the elimination of the Community Development Block Grant (CDBG) and the HOME Investment Partnerships Program (HOME) in its proposed 2018 HUD Budget.

Additionally, the Trump Administration budget proposal includes Federal Emergency Management Administration (FEMA) and Department of Homeland Security grant program reductions (along with a 25% cost matching requirement). If approved, the reductions could impact the Emergency Management, Police, and Fire departments through the following grant programs: Emergency Management Performance Grant (EMPG), Urban Areas Security Initiative (UASI), Port Security, and State Homeland Security Grant Program (SHSGP).

The City is closely monitoring the federal appropriations process and any potential impacts to the City. Pursuant to Council instruction, the CAO recently released a report that identifies and categorizes all federal grants, loans, and other funding that the City currently receives. In total, the City receives about $1.6 billion a year in federal funding, primarily for streets and highways, capital projects, public safety, environmental quality and human services. An additional $1.2 billion is received by two related agencies, the Housing Authority of the City of Los Angeles and the Los Angeles Homeless Services Authority, a joint powers authority between the City and the County of Los Angeles. Given the early stages of the federal budget process, the City cannot predict at this time the impact, if any, of federal budget changes on the City.

Clean Water Compliance

The Clean Water Act ("CWA") regulates the discharges of pollutants into the waters of the United States by establishing quality standards. The CWA requires states to identify "impaired" water bodies and to develop a Total Maximum Daily Load ("TMDL") for each pollutant contributing to impairment. The CWA makes it unlawful to discharge any pollutant into waters protected by the CWA, unless a permit is first obtained. The U.S. Environmental Protection Agency's ("EPA's") National Pollutant Discharge Elimination System ("NPDES") permit program controls these discharges. With respect to the City, EPA has delegated permitting and direct enforcement under its NPDES program to the Los Angeles Regional Water Quality Control Board ("LARWQCB").

On November 8, 2012, the LARWQCB adopted the National Pollutant Discharge Elimination System Municipal Separate Storm Sewer System Permit ("MS4 permit") Order No. R4-2012-0175, which became effective on December 28, 2012. The MS4 permit establishes the TMDL of pollutants that can be discharged into water while still meeting water quality standards and objectives. The MS4 covers 84 of the 88 public agencies in the Los Angeles County area, including the City, the Los Angeles County Flood Control District and the County, that are responsible for compliance with the MS4 permit. The City is currently subject to 22 TMDLs, encompassing a total of 192 pollutants, in the Los Angeles River, Ballona Creek, the Santa Monica Bay shoreline, Dominguez Channel, Marina Del Rey, and several lakes within the City. The City is likely to receive more TMDLs in the coming years. The TMDL compliance deadlines spread out through 2037.

The MS4 permit allows for the option to work together to develop and implement Enhanced Watershed Management Programs ("EWMPs") to address permit and TMDL requirements. The MS4 permit has safe harbor provisions whereby, the City was deemed in compliance with the TMDLs during the development of the EWMPs, provided that all requirements and deadlines related to the EWMP development were met. As the EWMPs cross multiple local jurisdictions, the City collaborated with other participating agencies on the development of the EWMPs, and in June 2015 submitted them in accordance with the required schedule. The EWMPs were approved by the LARWQCB at different times from February 2 through April 26 of 2016.

Non-compliance with the MS4 permit and applicable TMDLs could result in enforcement action by the LARWQCB, civil penalties and fines, and potentially third-party lawsuits. For example, the LARWQCB may levy administrative fines of up to $10,000 per pollutant per day of violation. In addition, the State can impose mandatory minimum penalties of $3,000 per pollutant per day of violation and seek civil liabilities of up to $25,000 per pollutant per day. Additionally, private citizens or EPA can pursue penalties if the LARWQCB does not enforce on a violation. The City is responsible for its own fines, penalties and costs incurred as a result of non-compliance.

The City is currently in substantial compliance with the MS4 permit, but requires significant funding for capital, and operation and maintenance costs to implement the EWMPs to meet the TMDL compliance deadlines contained in the MS4 permit. The City has partially funded the monitoring and reporting programs required by the MS4 permit. The City's share of the costs of the projects required to meet the TMDLs in the next five years is estimated by the LARWQCB to be $2.1 billion. The City's share of the costs of the approved EWMP projects required to meet the TMDLs over the next 25 years is estimated by the LARWQCB to be approximately $7.4 billion. Estimating project costs over such a long time period is inherently difficult and no assurance can be provided by the City that LARWQCB's approved projections are accurate. City staff has issued a report, pending the approval of the Mayor and Council, to address funding options, including other revenue sources outside of the General Fund, many of which would require voter approval, to begin the projects necessary to satisfy the current TMDLs. Without these other revenue sources, these costs would be obligations of the City's General Fund and could have a material adverse impact on the General Fund.

The Fiscal Year 2017-18 Adopted Budget contains $5.3 million for Stormwater projects related to this obligation. An estimated $51 million will be required in 2018-19 to complete these projects. Additionally, it is estimated that consideration will need to be given to starting additional projects during 2018-19. No assurance can be provided that additional General Fund expenditures will not be required in future fiscal years.

2024 Olympic and Paralympic Games

The City has been selected by the United States Olympic Committee (the "USOC") as its Candidate City to host the 2024 Summer Olympic and Paralympic Games (the "2024 Games"). The City is also being considered for the 2028 Games The Los Angeles 2024 Exploratory Committee ("LA24"), a private nonprofit corporation separate and apart from the City, is leading the international campaign and is responsible for the delivery of all bid related materials on behalf of the City. At the conclusion of a three-stage Candidature Process, the International Olympic Committee ("IOC") will select the Host City in September 2017.

Original budget documents submitted by LA24 as part of the USOC's domestic candidacy phase included a Games budget that set forth projected expenditures of $4.52 billion and expected to be privately financed in its entirety. Since moving on to the international phase in September 2015, LA24 has refined its proposed Games concept and strategy. In December 2016, LA24 released its updated Games budget of $5.32 billion, also expected to be privately financed in its entirety. As part of its oversight efforts, the City retained KPMG to conduct an independent review of this budget, including the expected contingency against cost overruns of more than $487 million. The resulting report concluded the updated budget represented a complete, reasonable, and conservative projection of potential revenues and expenditures associated with hosting the Games. Subsequent reports from the California Legislative Analyst's Office have also lauded the proposal for its low risk profile.

The City Council and various City offices and departments have assisted in the development of a compelling bid for the 2024 Games while protecting the City against financial risk. An example of this collaboration can be found in the selection of the location of the Olympic Village. While the original plan called for a major redevelopment and construction project, the revised plan leverages the existing world-class facilities and modern residences of UCLA. While providing an exceptional experience for Olympic athletes, the site also significantly reduces the financial risk profile of the bid. The City expects that, as a Host City, it may incur various city service costs, which have been contemplated in the proposed Games budget, for which it would seek reimbursement. The City intends to avoid and or minimize costs payable from its General Fund.

Other cities that have hosted the Olympic and Paralympic Games have incurred significant financial obligations due in large part to extensive capital project commitments related to new construction of public infrastructure and facilities. Given the quality and quantity of existing and planned infrastructure and facilities in Los Angeles, the City does not anticipate similar capital project commitments. If the City were selected by the International Olympic Committee (the "IOC") to be the Host City for the 2024 Games however, the City will be obligated to enter into a comprehensive Host City Contract with the IOC. This contract would commit the Host City and its organizing committee to perform in accordance with a number of detailed policies and protocols and provide formal guaranties to protect the IOC against any costs and expenses in excess of those agreed to by the IOC.

The City is presently unable to determine the fiscal impact and financial risk to the City of hosting the 2024 Games. No assurance is made by the City whether it will be selected as the Host City and the potential financial costs which may be incurred by the City in connection with hosting the 2024 Games.

LITIGATION

The City is routinely a party to a variety of pending and threatened lawsuits and administrative proceedings that may affect the General Fund of the City. The following list of certain newly completed, pending or threatened litigation matters involving the City was prepared by the Office of the City Attorney. For all pending or threatened litigation matters and administrative proceedings not listed below, the City believes, based on current facts and circumstances, that a final determination of such matters, either individually or in the aggregate, should not materially affect the General Fund's financial position. Certain litigation or administrative proceedings discussed below, if determined in a final and conclusive manner adverse to the City, may, individually or in the aggregate, materially affect the General Fund's financial position.

1. *Fair Labor Standards Act and Other Related Litigation.* The City has been sued in approximately 35 separate large plaintiff group cases (some of which arose after the decertification of conditionally certified classes). The various cases involve police officers, firefighters, or Bureau of Sanitation employees and generally involve allegations of failure to compensate for off-the-clock hours worked, uncompensated overtime, meal breaks worked and retaliatory

disciplinary action. The City has settled with 17 of the lead plaintiffs for approximately $85,000 and attorneys' fees of approximately $500,000. Approximately 13 large plaintiff group cases have been resolved or dismissed without any financial impact to the City. Of the remaining large group cases, since 2015, the City settled four matters for approximately $8.4 million, with the others expected to be resolved at differing times. With respect to the plaintiffs who were removed following decertification, they are currently appealing the decertification, amongst other rulings of the district court, to the United States Court of Appeals for the Ninth Circuit. Arguments are not expected to be heard until fall 2017. In the event of an adverse ruling, the potential maximum cumulative liability remaining is currently estimated to be as much as $20 million, including attorney's fees.

2. A number of claims have been filed in connection with the City's telephone users' tax on telephone services, which was amended in 2008 to eliminate any such future claims (see **"MAJOR GENERAL FUND REVENUE SOURCES — Utility Users' Taxes"**). On December 27, 2006, in *Ardon v. City of Los Angeles*, plaintiff filed a class action that challenged the validity of the City's telephone users' tax based on a federal government interpretation of the federal excise tax. The City settled this case in 2015, the terms of which capped its liability to $92.5 million. As part of the settlement, cases that were filed against the City for the same claim and dependent upon the result of *Ardon*, namely *J2 Global Communications, Inc. v. City of Los Angeles* and *TracFone Wireless, Inc. v. City of Los Angeles* (two cases), were given the option to join the Ardon settlement claim process or continue pursuing their respective claims against the City. The plaintiffs in *J2* elected to opt in to the *Ardon* settlement as of the June 2016 deadline. The plaintiffs in *TracFone* have decided to pursue their claim separately. With respect to the two separate cases named *TracFone Wireless, Inc. v. City of Los Angeles*, the plaintiffs are seeking a combined refund of approximately $3 million for telephone users' tax collected.

   In 2014, the City settled a series of refund claims sought in *Nextel Boost of California LLC v. City of Los Angeles, Sprint Telephony PCS, L.P. v. City of Los Angeles*, and *Sprint Communications Co. L.P. v. City of Los Angeles*, in connection with the City's telephone users' tax. Under the settlement, the City agreed to provide the plaintiffs, who are subsidiaries or affiliates of Sprint, a credit against the City's Communications Users Tax owed by any Sprint entity. The credit is capped at $5.75 million for each 12-month period until a total of $23 million is reached. The plaintiffs have until May 2018 to utilize the credit.

3. The City is subject to several actions relating to its programs for low- and moderate-income housing. First, the U.S. Department of Justice ("DOJ") advised the City Attorney by letter, dated November 30, 2011, that the Civil Fraud Section of the DOJ was investigating whether the City violated the False Claims Act in connection with certifications to the U.S. Department of Housing and Urban Development ("HUD") regarding compliance with federal accessibility laws and regulations protecting individuals with disabilities. On June 7, 2017, the U.S. District Court of the Central District of California released its order announcing

DOJ's election to intervene, on behalf of two private parties, and pursue litigation against the City for violations under the False Claims Act in connection with certifications to HUD regarding compliance with federal accessibility laws and regulations protecting individuals with disabilities.

If the DOJ is successful in its suit, the City could face potential exposure to treble damages calculated based on the City's receipt of Community Development Block Grant ("CDBG"), HOME Investment Partnership, Emergency Shelter Grant ("ESG"), and Housing Opportunities for People with AIDS ("HOPWA") funds from as early as 2001 until 2010, as well as related civil penalties, which, based on the private parties' original complaint, is estimated to be approximately $3 billion. However, the City disputes (1) any assertion that, as a matter of law, the City's certifications signed as part of these entitlement programs are subject to the False Claims Act; (2) that any conduct by the City otherwise met the high standard for imposing False Claims Act liability; and (3) that there is a factual basis for treble damages calculated from the total of these receipts, even if the Court otherwise found the City liable. The City intends to vigorously defend its interests in this matter.

Second, during three visits in late 2011, HUD's Office of Fair Housing and Equal Opportunity ("FHEO") purportedly reviewed the City's compliance with the Americans With Disabilities Act and other federal accessibility laws as part of FHEO's oversight of the City's receipt of federal funds from HUD, which the City uses to fund housing developments. FHEO has since conducted additional site inspections. As a result of the separate litigation filed by private litigants in the Independent Living matter discussed below, the City has already committed to retrofit and remediate, and/or newly construct, 4,000 privately-owned housing units in order to conform to the applicable federal accessibility laws that would have covered this number of units over the period of FHEO's review. The City currently estimates that the cost of such construction and remediation will be approximately $200 million over the next ten years. The City disputes that FHEO has any legal basis to compel the City to take further measures above those agreed to in Independent Living in order to fully and finally resolve the FHEO review of the City's housing portfolio. However, HUD notified the City that future funding under HUD programs may be at risk to the extent that the City does not agree to certain ongoing requirements that go above and beyond the requirements which the City agreed to as part of the Independent Living settlement. To the extent that HUD takes any action to deny such future funding, the City expects to challenge this action.

Third, in *Independent Living Center of Southern California, et al v. City of Los Angeles*, a case brought by three fair housing advocacy organizations against the City, the CRA/LA, and 34 owners of affordable housing projects, the plaintiffs allege that the defendants failed to ensure that the affordable housing projects met the accessibility requirements under federal and state civil rights laws. The City agreed to settle the matter with the plaintiffs on August 30, 2016. Under the terms of the settlement, the City will spend approximately $200 million dollars over 10 years to provide 4,000 additional housing units compliant with federal accessibility requirements. To reach this goal the City will either remediate existing housing units that are not currently in compliance with federal accessibility requirements, or construct new housing units compliant with federal accessibility requirements. The City also agreed to pay the following: (a) $4.5 million in damages to the plaintiffs, (b) $16 million in attorneys' fees payable over the next two years, and (c) approximately $750,000 in plaintiffs attorneys' costs. The City continues to anticipate that the terms under this settlement agreement will largely overlap with the construction and remediation obligations which the City currently expects to undertake to resolve the related dispute with FHEO discussed above.

4. Wrongful Incarceration Cases.

Susan Mellen v. City of Los Angeles et al. In this case, the plaintiff alleged she was wrongfully incarcerated for 17 years based on conduct by the LAPD. The City was dismissed as a named defendant on April 1, 2016. On December 2, 2016, the plaintiff's suit against the named LAPD officer was dismissed on motion. The plaintiff is appealing the dismissal of the suit against the LAPD officer.

John Smith v. City of Los Angeles et al. On March 3, 2016, the plaintiff filed an amended complaint against the City and its employees for civil rights violations in connection with his wrongful incarceration after his writ of habeas corpus was granted on September 24, 2012 by a Superior Court judge. On September 26, 2016, the plaintiff's complaint against the City was dismissed pursuant to a motion of summary judgment. On January 11, 2017, following a short jury trial, the jury rendered a unanimous verdict in favor of the remaining City employee defendants. The plaintiff is currently appealing the jury verdict.

5. *Willits, et al. v. City of Los Angeles.* The plaintiffs and the entity Communities Actively Living Independent and Free alleged that the City's policies and procedure as well as its infrastructure (including curb ramps and sidewalks) did not provide equal services and access to individuals with disabilities. The complaint sought injunctive relief to require the removal of alleged barriers to pedestrian paths of travel throughout the City and cessation of alleged discriminatory policies to help ensure that all City design and construction activities and services are usable and readily accessible to persons with disabilities. On February 29, 2016, the court granted the order approving the preliminary settlement of the matter. Under the terms of the preliminary settlement, the City will incur approximately $1.4 billion over 30 years to generally cover the following: (1) the cost of sidewalk remediation, which is to be incurred over 30 years, (2) attorneys' fees, and (3) service awards to the Plaintiffs. The court approved the settlement on August 26, 2016.

6. *Clear Channel Outdoor, Inc.* Clear Channel filed a Claim for Damages, dated February 22, 2013, for an amount in excess of $100 million arising from a federal appellate court decision invalidating a settlement agreement between the City and certain outdoor advertising companies (the "Summit Media Decision"). The

claim alleges: (i) violation of the City's representations and warranties in the settlement agreement that the conversions of its existing signs to digital technology did not violate the City's regulations, and that (ii) just compensation is due under the California Outdoor Advertising Act. The City denied the claim by letter dated March 1, 2013. The parties have entered into another tolling agreement to extend the time deadline to August 1, 2017 by which the claimant may file a lawsuit pursuant to the claim. A lawsuit has yet to be filed.

7. *CBS Outdoor.* CBS Outdoor filed a Claim for Damages on May 13, 2013, for an amount stated to be in excess of $1 million arising from the Summit Media Decision, for damages, lost revenue, attorneys' fees, restitution and costs. The City denied the Claim by letter dated June 8, 2013. The parties entered into another tolling agreement to extend the time deadline by which the claimant may file a lawsuit to July 1, 2017. A lawsuit has yet to be filed.

8. *Power Revenue Fund Transfer Litigation.* On January 20, 2015, the California Court of Appeal, in *Citizens for Fair REU Rates v. City of Redding,* held that the City of Redding's municipally owned electrical utility's annual payment in lieu of tax (or "PILOT"), which is paid from the utility to the City of Redding, is a tax under the California Constitution, and that it is not "grandfathered in" as a tax that pre-existed Proposition 26. This decision overturned the trial court's ruling that the annual PILOT payment was "grandfathered in." On April 29, 2015, the California Supreme Court granted review of the Court of Appeal's decision in *Redding*. The *Redding* decision was depublished, and, as a result, it may not be cited or relied on as precedent by the California courts. The City is unable to predict when the California Supreme Court will issue its decision in the *Redding* case.

   Following the Court of Appeal's ruling in *Redding*, three class action lawsuits were filed against the City related to the Power Revenue Fund transfers - *Chapman v. City of Los Angeles*, *Eck v. City of Los Angeles*, and *Eisan v. City of Los Angeles*. See **"MAJOR REVENUES—Power Revenue Transfers to General Fund,"** herein for more information regarding Power Revenue Fund transfers. The claimants in *Chapman*, *Eck*, and *Eisan* allege that the City violates Proposition 26 by charging customer fees in excess of the cost of providing electric utility service, as allegedly evidenced by DWP's practice of transferring surplus revenue to the City's General Fund. The three cases were consolidated into a single complaint (*Eck*), and litigated before a single judge. Initially, the plaintiffs, on behalf of a class of DWP electricity rate payers, sought a refund of the allegedly excess electricity fees that fund the Power Revenue Fund transfers collected from January 30, 2012 through the end of the lawsuit, as well as a declaration that the City's electric rates are invalid, and an injunction prohibiting future transfers.

   On May 31, 2017, the City agreed to settle the consolidated *Eck* matter. The settlement, subject to court approval, will limit the annual amount of revenue transferred from DWP to the City to 8% of the retail operating revenues of the 2008 Electric Rate Ordinance. This is estimated to be roughly $240 million annually. In addition, under the proposed settlement, the City will set aside approximately $52 million to cover attorney's fees, and other settlement-related costs. The remaining amount of the fund will be distributed as credits to then-existing DWP customers. The $52 million is funded by revenue collected from DWP customers between April 15, 2016 and July 1, 2017, that was intended to be transferred to the City. Thus, the money will not come from the City's General Fund.

On September 21, 2016, a class action lawsuit was filed in the United States District Court for the Central District of California against 26 public officials and employees (but not against the City or the DWP) alleging that the City's electric rates are an illegal tax because they exceed the cost of providing electric utility service and, thus, the individual defendants as well as the City should be held liable for alleged civil rights and RICO violations. The plaintiffs, on behalf of a class defined as "all DWP water and electric customers from September 23, 2012 to the date of class certification," seek a refund of alleged excess fees collected from September 23, 2012, as well as general, punitive and treble damages. They also seek a declaration and an injunction prohibiting future transfers. On October 8, 2016, the plaintiffs filed a motion for a preliminary injunction, seeking to enjoin both the charging of rates above the alleged cost of service, as well as the transfer of funds from the DWP to the City. The defendants filed an opposition to the plaintiffs' motion for a preliminary injunction, as well as a motion to stay the case pending resolution of the previously filed state court litigation (the *Eck* litigation) and a motion to dismiss the complaint. On November 28, 2016, the district court granted the defendants' motion to stay this lawsuit pending resolution of the *Eck* litigation, and denied the plaintiffs' motion for a preliminary injunction. The plaintiffs have appealed both rulings to the U.S. Court of Appeals for the Ninth Circuit. Oral argument is scheduled for June 9, 2017.

9. Gas Tax Cases.

Lavinksy et al. v. City of Los Angeles. This case involves a class action lawsuit in connection with the City's gas utility users' tax. Plaintiff filed a class action lawsuit seeking a refund of gas taxes paid to the City on behalf of the classes attributable to the inclusion of the State regulatory fee and the Public Purpose Surcharge in computing the City's gas utility users' tax on plaintiff's natural gas bills. In December 2014, the court ruled in favor of the plaintiff's summary judgment motion and concluded that the City's calculation of the tax was improper and did result in overcharges of the City's gas utility users' tax. The class was certified on October 21, 2015. The City is currently in settlement discussions with the plaintiffs. Any settlement amount agreed to by the parties would result in a refund of the portion of gas utility users' tax previously collected and currently collected that relates to the state regulatory fee and public surcharge. The refund, which is expected to occur over a period of years, could range between $20 million to $30 million.

Enquist et al. v. City of Los Angeles. This case also involves a class action lawsuit in connection with the City's gas utility users' tax. Plaintiffs filed its class action lawsuit on August 13, 2015 and seeking a refund of gas taxes paid to the City. The suit challenges the City's method of taking into account Customer

Charges and Service Establishment Charges in computing the tax, which the City continues to follow. Plaintiffs seek an unspecified refund amount. At this time, the court has yet to certify the class. A ruling on the class certification question is expected to occur by the end of the calendar year. The City plans on defending the lawsuit vigorously. The outcome of the pending class certification will dictate exposure in this case, however. In the event of an adverse ruling, based on the pleadings, the City's potential liability could range as high as $15 million to $20 million.

10. *Berkes, Crane, Robinson & Seal et al. v. City of Los Angeles.* This case involves a class action lawsuit seeking a refund of unspecified amount of City business taxes paid from the period between 2007 to present. Plaintiff alleges that the City improperly included reimbursed expenses in computing plaintiffs' gross receipts for City business tax. The court certified the class on October 23, 2015, designating two class of claimants - one class of claimants for the period 2007 through present and a second class of claimants from 2011 to present. The parties have decided to settle the matter and recently finalized the amount of the refund to be awarded to the class members. The amount to be refunded is expected to be approximately $6 million.

11. *Atkins et al. v. City of Los Angeles.* On February 14, 2017 (as modified on March 17, 2017), the Second District Court of Appeals, affirmed in part, a jury award verdict against the City for violations of the State's Fair Employment and Housing Act. Plaintiffs were police recruit officers between 2008 and 2009 who were terminated or forced to resign from the Academy when they were unable to complete training due to injuries they sustained during training. Following the trial, the jury rendered verdict in favor of the plaintiffs and awarded them $12,304,368, with a subsequent fee award of $1,683,250, for a total judgment of $13,987,618. The appeals court, agreeing with portions of the City's arguments, struck down a portion of the jury award, relating to future damages, but affirmed the judgment against the City for approximately $5.8 million, plus accrued interest of approximately $2 million. The question of future damages was remanded back to the trial court. In the event of an adverse finding on future damages at the trial court, the City faces additional damages of $5 million, plus attorney's fees.

12. In 2007, the Los Angeles Unified School District ("LAUSD") filed a lawsuit seeking to recover tax increment pass-through payments that the County of Los Angeles and relevant redevelopment agencies improperly calculated without including Educational Review Augmentation Fund ("ERAF") revenues in the accounting. The Court of Appeals ruled in January 2010 that the County improperly excluded property taxes allocated to the ERAF in computing LAUSD's proportional share of property tax increments collected from relevant redevelopment agencies. Because of the County's flawed computational methodology, as ruled by the Court of Appeals, the City, over the years, inadvertently received a greater share of the revenue from property tax increments collected by the County on behalf of the redevelopment agencies. In February 2017, LAUSD filed a motion seeking to recover its proportionate share of

property tax increments collected by the County and diverted to local municipalities and other taxing entities directly from the City rather than from the successor agencies of the relevant redevelopment agencies. The potential amount of surplus property tax increments to be repaid to LAUSD by the City is estimated to be approximately $21 million.

In addition to the cases listed above, two lawsuits have been filed challenging the City's actions relative to freezing OPEB Benefits for sworn employees. (See **"BUDGET AND FINANCIAL OPERATIONS—Other Post-Employment Benefits,"** above).

1. *Jack Fry et al v. City of Los Angeles et al.* This suit was filed by individual sworn employees and Retirees Association for the Fire and Police retirement system. The suit challenged the City's "freeze" of the medical premium subsidy for fire and police department retirees who retired after June 2011, with the exception of those employees who "opted in" to pay an additional 2% of their compensation into the pension system. On July 28, 2014, the trial court issued an interim order ruling that the petitioners had a vested right to a "nonfrozen" health subsidy in retirement. The court, however, did not rule that petitioners were entitled to any particular health subsidy amount. The City appealed the trial court's ruling. On November 12, 2014, the Court of Appeal granted the City's appeal and stayed the enforcement of the trial court's decision and all other lower court activities, including any trial of remaining claims, pending final resolution of the appeal. The appeal was heard on February 16, 2016. On March 7, 2016, the California Second District Court of Appeal reversed the September 5, 2014 Writ of Mandate issued by the Los Angeles Superior Court authorizing the Board of Fire and Police Pension Commissioners (Board) "to exercise its discretion, previously delegated to it by the City in an ordinance, to set the maximum subsidy…without regard to later City ordinances 'freezing' the subsidy…". The Court of Appeal agreed with the City's position that there was not a vested right to a LAFPP Board-determined subsidy. The Court of Appeal found that the City Council continues to retain the final decision authority over the subsidy even while delegating to the LAFPP Board determination of subsidy increases. The plaintiffs subsequently filed a petition for rehearing in March 2016. However, on March 25, 2016, the Second Appellate Court denied the petition for rehearing. The plaintiffs filed a Petition for Review with the California Supreme Court. The Supreme Court denied plaintiffs petition for review on or about June 15, 2016. On February 17, 2017, the plaintiffs settled with the City for a nominal amount in exchange for dismissing their pending causes of action at the trial court level.

2. *Los Angeles Police Protective League and United Firefighters of Los Angeles City v. Board of Fire and Police Pension Commissioners v. City of Los Angeles.* In this case plaintiffs seek a judgment declaring that their letter of agreement with the City requires the Retirement Board to increase the retirees' medical subsidy by the maximum amount allowable per year under the Administrative Code. The City prevailed on a demurrer, but the Court of Appeal reversed and issued a remitter, sending the case back to the trial court to resolve disputed factual issues. A bench trial occurred from September 26 to September 28, 2016. Following the bench trial, the court issued a tentative decision in favor of the plaintiffs. In

November 2016, upon remand, the trial court ruled in favor of the plaintiffs' claim with respect to the medical subsidy. The City is appealing the ruling. In the event the trial court's ruling is affirmed by the appeals court, regardless of its appeal options, the City does not expect that such ruling would have a negative financial impact on the City based on current projections because the Retirement Board's actuaries already determine the City's contribution rate based on the highest possible increase in the subsidy for retirees. However, the Retirement Board would lose the flexibility moving forward to increase the retiree's medical subsidy by an amount less than the maximum amount allowable per year under the Administrative Code. The City is currently unable to determine what impact that could have in future years. The plaintiffs also sought a rescission claim to stop contributing to LAFPP, but subsequently dropped such claim.