APPENDIX A

CITY OF LOS ANGELES

INFORMATION STATEMENT

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 that 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

Page

INTRODUCTION 1

HISTORIC, ECONOMIC AND DEMOGRAPHIC INFORMATION 4
- Population 5
- Industry and Employment 5
- Major Employers 7
- Personal Income 9
- Retail Sales 10
- Land Use 11
- Residential Value and Construction Activity 12
- Commercial Real Estate Markets in Los Angeles 14
- Education 14

MUNICIPAL GOVERNMENT 15

BUDGET AND FINANCIAL OPERATIONS 16
- Fiscal Year 2016-17 Results 16
- City's Budgetary Process 19
- Fiscal Year 2017-18 Financial Status Reports 19
- Fiscal Year 2018-19 Adopted Budget 19
- General Fund Budget Outlook 22
- Budgetary Reserves and Contingencies 26
- Financial Management Policies 28
- Risk Management and Retention Program 29
- Workers' Compensation, Employee Health Care and Other Human Resources Benefits 31
- Labor Relations 31
- Retirement and Pension Systems 33
- Projected Retirement and Other Post-Employment Benefit Expenditures 49
- City Treasury Investment Practices and Policies 51
- Capital Program 52

MAJOR GENERAL FUND REVENUE SOURCES 53
- Property Tax 53
- Utility Users Taxes 58
- Sales Tax 60
- Business Tax 62
- Licenses, Permits, Fees and Fines 63
- Documentary Transfer Tax 64
- Transient Occupancy Tax 65
- Parking Fines 66
- Power Transfers to General Fund 66
- Impact of State of California Budget 67
- Information Regarding Federal Budget 68

LIMITATIONS ON TAXES AND APPROPRIATIONS 69

Article XIIIA of the California Constitution - Proposition 13 ... 69
Article XIIIB of the California Constitution - Gann Limit ... 69
Articles XIIIC and XIIID of the California Constitution - Proposition 218 ... 70
Proposition 1A ... 71
Proposition 26 ... 71
Future Initiatives ... 72

BONDED AND OTHER INDEBTEDNESS ... 73
Introduction ... 73
General Obligation Bonds ... 73
Lease Obligations ... 74
Commercial Paper Program ... 76
Judgment Obligation Bonds ... 77
Revenue Bonds ... 77
Conduit Debt Obligations ... 77
Cash-flow Borrowings ... 78
Summary of Long-Term Borrowings ... 78
Debt Management Policies ... 82
Variable Rate Obligations and Swap Agreements ... 85
Proposed Additional Financings ... 85
Overlapping Bonded Debt ... 86

OTHER MATTERS ... 87
Seismic Considerations ... 87
Climate Change ... 88
Cybersecurity ... 88
Clean Water Compliance ... 89
2028 Olympic and Paralympic Games ... 90

LITIGATION ... 91

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 2018 population of 4.05 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, experiencing the ninth year of growth in its General Fund tax revenues while maintaining its efforts to control costs. In addition, the City has settled a number of lawsuits that could have had a material impact on the City's finances, as further discussed throughout this Appendix A.

The Fiscal Year 2018-19 Adopted Budget meets or exceeds the City's five primary budgetary financial policies:

1. Maintaining a General Fund reserve of at least 5% of General Fund revenues. The Adopted Budget anticipates a July 1, 2018 Reserve Fund equal to 5.67% of projected General Fund revenues.

2. Appropriating at least 1% of General Fund revenues for capital improvements. The Adopted Budget allocates $100 million (1.62%) of Fiscal Year 2018-19 General Fund revenues to capital and infrastructure improvements.

3. Using one-time revenues for one-time, rather than ongoing, expenditures. All one-time revenues, totaling $45 million, are budgeted for one-time expenditures, which total $127 million.

4. Funding for Budget Stabilization. By City Ordinance, ongoing revenue growth above 3.4% in seven economically-sensitive taxes must be used to reach the Reserve Fund goal of 5% of General Fund revenues, transferred to the Budget Stabilization Fund ("BSF") or used to fund capital infrastructure. Growth above 3.4% is calculated at $108.2 million in tax revenues in the Adopted Budget; the policy was met by allocating $100 million towards capital improvements as cited above and an additional $9 million to the BSF.

5. Maintaining debt affordability. The City's debt service levels remain below its policy limits of 6% of general revenues for non-voter approved debt and 15% for all direct debt, with debt service at 4.14% and 6.03%, respectively.

Other key features of the Fiscal Year 2018-19 Adopted Budget include:

- A number of allocations to help address homelessness, including increasing General Fund expenditures by $53 million, which includes establishing a $20 million Crisis and Bridge Housing Fund to get homeless encampments off the streets faster, as well as the funding of affordable housing with proceeds of the Proposition HHH general obligation bonds approved by voters in 2016.

- Inclusion of a $5.8 million transfer from the Reserve Fund as a source of revenue to the General Fund, which is a decrease of $3.3 million from the amount in the prior year's budget.

The City's efforts to maintain a balanced budget during the fiscal year will be tested by some of the same challenges it has managed in recent years. Despite an increase in budgeted appropriations for liabilities beginning in Fiscal Year 2017-18, the amount budgeted for Fiscal Year 2018-19 could still fall short of actual need. In addition, certain existing General Fund revenues may be impacted based on policy changes that the Council may consider, in particular transient occupancy tax revenue from short-term rentals and billboard revenue and $60 million in special fund revenue from an increase in Street Damage Restoration fees, which are included in the budget but have not yet been adopted by the City Council.

In the longer term, the City believes there are other factors 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, which the City relies on to fight poverty, protect communities, and maintain and develop infrastructure. At the same time, both the City's Fire and Police Pension Plan and the Los Angeles City Employees' Retirement System ("LACERS") have recently followed pension systems nationwide and reduced their assumed investment rate of return, from 7.50% to 7.25%, which, in conjunction with changes to various other economic and demographic assumptions as well as changes in the City's payroll, is expected to increase the City's required contribution to the systems in Fiscal Year 2018-19 by approximately $92 million. LACERS is considering further reduction of its assumed rate of return.

Further complicating the City's outlook are certain labor agreements that expire in June 2018, renewal of which are under negotiations.

While the City's most recent Budget Outlook, prepared in connection with the Fiscal Year 2018-19 Adopted Budget, anticipates the elimination of projected structural deficits by Fiscal Year 2021-22, there are a number of events that could increase or extend the projected budget deficits that must be closed in the future. (See "**BUDGET AND FINANCIAL OPERATIONS—General Fund Budget Outlook**".)

The November 2018 statewide election may include a voter initiative to repeal a recently adopted increase to the State's Gas Tax (approved by SB1). The Adopted Budget appropriates a full year ($67 million) in revenue from this source to various capital projects. If the repeal passes, half of this revenue would not be available. In anticipation of this possibility, half of the appropriations are for projects that have not yet begun and therefore funds are not committed.

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 $730 million to $760 million for the first of multiple phases of its Civic Center Master Development Plan, and expanding its

Convention Center at a currently estimated cost of $500 million. These expenditures are considered long-term projects and are being pursued through acceptable funding frameworks that could provide opportunities for measurable risk transfer options and faster delivery of the projects with comparatively minimal impact to the City's debt capacity.

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 estimated that the City's share of the costs of projects required to meet these requirements through 2021 is approximately $2.1 billion, and approximately $7.4 billion to meet its requirements through 2037. In addition, non-compliance with these requirements by 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."**

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/2018.06.01%20-%20City%20of%20Los%20Angeles%20-%20Comparative%20Analysis%20Updated.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]	3,959,840	0.88	10,149,661	0.67	38,912,464	0.89
2016	3,985,114	0.64	10,180,169	0.30	39,179,627	0.69
2017	4,021,488	0.91	10,231,271	0.50	39,500,973	0.82
2018	4,054,400	0.82	10,283,729	0.51	39,809,693	0.78

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

Source: 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, 2011-2018, with 2010 Census Benchmark. Sacramento, California, May 2018.

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	2013	2014	2015	2016	2017
City of Los Angeles					
Employed	1,801,000	1,845,900	1,875,700	1,920,200	1,942,200
Unemployed	207,300	176,400	142,100	113,000	99,000
Total	2,008,200	2,022,300	2,017,800	2,033,200	2,041,200
County of Los Angeles					
Employed	4,482,600	4,591,100	4,671,100	4,789,500	4,883,600
Unemployed	484,600	413,000	331,200	265,400	240,300
Total	4,967,200	5,004,100	5,002,300	5,054,900	5,123,900
Unemployment Rates					
City	10.3%	8.7%	7.0%	5.6%	4.8%
County	9.8	8.3	6.6	5.3	4.7
State	8.9	7.5	6.2	5.4	4.8
United States	7.4	6.2	5.3	4.9	4.4

[1] March 2017 Benchmark report as of May 29, 2018; 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 April 2018 of 3.8% statewide, 4.0% for the County, and 4.1% for the City (not seasonally adjusted).

The following table summarizes the California Employment Development Department's estimated 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	2017	% of Total	2017	% of Total
Agricultural	7,700	0.2%	5,800	0.1%	427,600	2.5%
Mining and Logging	1,800	0.0	2,200	0.0	22,000	0.1
Construction	131,500	3.2	137,700	3.1	809,100	4.7
Manufacturing	617,800	15.0	350,100	7.9	1,311,900	7.6
Trade, Transportation and Utilities	785,000	19.0	838,900	18.9	3,042,600	17.6
Information	244,300	5.9	214,500	4.8	528,700	3.1
Financial Activities	223,400	5.4	221,100	5.0	830,500	4.8
Professional and Business Services	589,100	14.3	613,400	13.8	2,563,100	14.9
Educational and Health Services	464,900	11.3	794,300	17.9	1,636,600	9.5
Leisure and Hospitality	344,900	8.3	523,900	11.8	1,951,300	11.3
Other Services	140,200	3.4	154,100	3.5	563,300	3.3
Government	581,400	14.1	585,500	13.2	2,553,500	14.8
Total[(2)]	4,132,000	100.0%	4,441,400	100.0%	17,240,200	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 2017 Benchmark report released March 23, 2018.

Major Employers

The estimated top 25 major non-governmental employers in the County in 2017 are listed in the table below. Based on these estimates, the top 25 major non-governmental employers represented 6.6% of the labor force.

Table 4
LOS ANGELES COUNTY
2017 MAJOR NON-GOVERNMENTAL EMPLOYERS

Employer	Product/Service	Employees
Kaiser Permanente	Nonprofit health care plan	36,468
University of Southern California	Private university	20,163
Northrop Grumman Corp.	Defense contractor	16,600
Providence Health & Services Southern California	Health care	15,255
Target Corp.	Retailer	15,000(1)
Ralphs/Food 4 Less (Kroger Co. Division)	Grocery retailer	14,970
Walt Disney Co.	Entertainment	13,000(1)
Albertsons/Vons/Pavilions	Grocery retailer	13,000(1)
Bank of America Corp.	Banking and financial services	12,500(1)
Cedars-Sinai Medical Center	Medical center	12,242
NBCUniversal	Entertainment	12,000
AT&T	Telecommunications, DirecTV	11,500(1)
Home Depot	Home improvement specialty retailer	11,200(1)
UPS	Logistics, transportation and freight	10,131
Wells Fargo Bank, N.A.	Diversified financial services	9,001
Boeing Co.	Aerospace and defense, commercial jetliners, space and security systems	9,000(1)
California Institute of Technology	Private university, operator of Jet Propulsion Laboratory	8,702
Allied Universal	Security professionals	8,384
ABM Industries Inc.	Facility services, energy solutions, commercial cleaning, maintenance and repair	8,000(1)
FedEx Corp.	Shipping and logistics	7,000(1)
Dignity Health	Health care	6,274
Costco Wholesale	Membership chain of warehouse stores	6,000(1)
Amgen Inc.	Biotechnology	5,616
SoCalGas	Natural gas utility	5,600
Raytheon Co.	Aerospace and defense	5,500(1)

(1) Business Journal estimate.

Source: Los Angeles Business Journal, Weekly Lists, originally published August 28, 2017.

The estimated top 25 major governmental employers in the County in 2017 are listed in the table below. Based on these estimates, the top 25 major governmental employers represented 9.1% of the labor force.

Table 5
LOS ANGELES COUNTY
2017 LARGEST PUBLIC SECTOR EMPLOYERS

Employers	Employees
Los Angeles County	108,995
Los Angeles Unified School District	60,015
University of California, Los Angeles	47,596
U.S. Government – Federal Executive Board[1]	47,000
City of Los Angeles[2]	32,987
State of California[3]	28,700
Los Angeles County Metropolitan Transportation Authority	10,433
Los Angeles Department of Water and Power (LADWP)	9,438
Los Angeles Community College District	7,084
Long Beach Unified School District	6,607
California State University, Northridge	6,540
City of Long Beach	5,394
California State University, Long Beach	3,885
Los Angeles World Airports (LAWA)	3,460
Pomona Unified School District	3,022
Cal Poly Pomona	2,865
Montebello Unified School District	2,593
California State University, Los Angeles	2,513
Compton Unified School District	2,360
William S. Hart Union High School District	2,326
City of Santa Monica	2,310
City of Pasadena	2,114
Santa Monica Community College District	1,992
Mt. San Antonio Community College District	1,963
City of Glendale	1,934

(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 28, 2017.

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)
2013		
County[2]	$ 483,578,594	$ 48,283
State[2]	1,861,956,514	48,555
United States[2]	14,068,960,000	44,489
2014		
County[2]	$ 514,516,564	$51,111
State[2]	1,986,025,976	51,317
United States[2]	14,811,388,000	46,486
2015		
County[2]	$ 549,073,019	$54,298
State[2]	2,133,664,158	54,664
United States[2]	15,547,661,000	48,429
2016		
County[2]	$ 563,907,868	$55,624
State[2]	2,212,691,221	56,308
United States[2]	15,912,777,000	49,204
2017		
County[3]	N/A	N/A
State[2]	$ 2,303,870,496	$58,272
United States[2]	16,413,550,863	50,392

(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 2013 to 2017 reflect Census Bureau midyear state population estimates as of December 2017. Estimates for 2013 to 2016 reflect county population estimates as of March 2017.
(2) Last updated: March 22, 2018 – new estimates for 2017; revised estimates for 2013 - 2016.
(3) Last updated: November 16, 2017 – new estimates for 2016; revised estimates for 2013 – 2015.

Source: U.S. Bureau of Economic Analysis, "Table SA1 Personal Income Summary" and "Table CA1 Personal Income Summary".

Retail Sales

As the largest city in the County, the City accounted for $45 billion (or 29.2%) of the total $154.2 billion in County taxable sales for 2016. The following table sets forth a history of taxable sales for the City for calendar years 2012 through 2016, 2016 being the last full year for which data is currently available.

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

	2012	2013	2014	2015	2016
Motor Vehicle and Parts Dealers	$3,662,657	$3,983,625	$4,158,168	$ 4,616,450	$ 4,769,093
Home Furnishings and Appliance Stores	1,676,926	1,683,805	1,725,981	1,826,089	1,945,181
Bldg. Materials and Garden Equip. and Supplie	1,942,915	2,086,608	2,179,954	2,335,497	2,384,196
Food and Beverage Stores	2,322,695	2,444,701	2,582,338	2,718,199	2,781,424
Gasoline Stations	5,090,496	4,954,380	4,822,894	4,252,397	3,670,450
Clothing and Clothing Accessories Stores	2,884,984	3,032,886	3,102,222	3,190,617	3,201,152
General Merchandise Stores	2,759,578	2,873,530	2,899,454	2,725,354	2,500,015
Food Services and Drinking Places	6,564,652	6,946,625	7,534,764	8,194,963	8,775,092
Other Retail Group	3,716,658	3,943,616	3,969,898	4,112,670	4,229,201
Total Retail and Food Services	30,621,561	31,949,776	32,975,673	33,972,239	34,355,804
All Other Outlets	9,502,364	9,806,938	10,480,659	10,074,458	10,624,426
TOTAL ALL OUTLETS	$40,123,926	$41,756,714	$43,456,334	$44,046,697	$44,980,230
Year-over-year growth	6.0%	4.1%	4.1%	1.4%	2.1%

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

The City experienced a 2.9% growth in Fiscal Year 2016-17 (excluding additional receipts from the restoration of the 1% local tax rate), estimates 3.6% growth for Fiscal Year 2017-18, and projects 3.5% growth in sales tax receipts for the Fiscal Year 2018-19 Adopted Budget. See **"MAJOR GENERAL FUND REVENUE SOURCES—Sales Tax."**

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

	2017-18 Assessed Valuation[1]	% of Total	No. of Parcels	% of Total
Non-Residential				
Commercial Office	$ 81,696,410,903	14.94%	35,982	4.58
Vacant Commercial	2,229,933,010	0.41	1,217	0.15
Industrial	38,694,352,154	7.07	19,997	2.54
Vacant Industrial	1,841,327,493	0.34	4,094	0.52
Recreational	1,968,622,688	0.36	802	0.10
Government/Social/Institutional	3,424,152,581	0.63	3,754	0.48
Miscellaneous	412,305,160	0.08	2,867	0.36
Subtotal Non-Residential	$130,267,103,989	23.81%	68,713	8.74%
Residential				
Single Family Residence	$288,756,702,948	52.79%	498,231	63.41%
Condominium/Townhouse	36,815,358,543	6.73	86,529	11.01
Mobile Homes and Lots	114,122,340	0.02	3,294	0.42
Mobile Home Park	176,813,031	0.03	90	0.01
2-4 Residential Units	28,453,236,579	5.20	74,218	9.45
5+ Residential Units/Apartments	59,349,537,762	10.85	34,850	4.44
Vacant Residential	3,065,831,860	0.56	19,833	2.52
Subtotal Residential	$416,731,603,063	76.19%	717,045	91.26%
Total	$546,998,707,052	100.00%	785,758	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 2017-18 ASSESSED VALUATION OF SINGLE FAMILY RESIDENTIAL PROPERTIES

	No. of Parcels	2017-18 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential Properties	498,231	$288,756,702,948	$579,564	$359,390

2017-18 Assessed Valuation	No. of Residential Parcels [1]	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
$0 - $49,999	9,074	1.821%	1.821%	323,132,090	0.112%	0.112%
$50,000 - $99,999	27,124	5.444	7.265	2,023,073,298	0.701	0.813
$100,000 - $149,999	36,412	7.308	14.574	4,560,616,808	1.579	2.392
$150,000 - $199,999	33,629	6.750	21.323	5,914,480,713	2.048	4.440
$200,000 - $249,999	41,478	8.325	29.648	9,321,562,776	3.228	7.668
$250,000 - $299,999	47,500	9.534	39.182	13,045,607,796	4.518	12.186
$300,000 - $349,999	50,462	10.128	49.310	16,363,241,878	5.667	17.853
$350,000 - $399,999	47,340	9.502	58.812	17,717,148,178	6.136	23.989
$400,000 - $449,999	30,179	6.057	64.869	12,809,042,611	4.436	28.425
$450,000 - $499,999	24,255	4.868	69.737	11,499,157,968	3.982	32.407
$500,000 - $549,999	20,105	4.035	73.773	10,532,476,854	6.648	36.054
$550,000 - $599,999	16,601	3.332	77.105	9,524,583,481	3.298	39.353
$600,000 - $649,999	13,833	2.776	79.881	8,631,496,534	2.989	42.342
$650,000 - $699,999	12,539	2.517	82.398	8,452,788,333	2.927	45.269
$700,000 - $749,999	9,923	1.992	84.389	7,186,656,817	2.489	47.758
$750,000 - $799,999	8,987	1.804	86.193	6,958,229,310	2.410	50.168
$800,000 - $849,999	7,298	1.465	87.658	6,015,075,619	2.083	52.251
$850,000 - $899,999	6,851	1.375	89.033	5,989,248,192	2.074	54.325
$900,000 - $949,999	6,240	1.252	90.285	5,765,801,962	1.997	56.322
$950,000 - $999,999	4,812	0.966	91.251	4,686,027,695	1.623	57.945
$1,000,000 and greater	43,589	8.749	100.000	121,437,254,035	42.055	100.000
Total	498,231	100.000%		$288,756,702,948	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

	2013	2014	2015	2016	2017
Valuation[(1)]	$4,246	$6,416	$6,808	$6,822	$7,924
Residential[(2)]	1,732	2,668	3,385	3,359	3,522
Non-Residential[(3)]	605	968	880	729	1,197
Miscellaneous Residential[(4)]	48	18	28	25	134
Miscellaneous Non-Residential[(5)]	31	18	40	56	87
Number of Residential Units:					
Single family[(6)]	1,254	1,852	2,246	2,393	3,148
Multi-family[(7)]	7,136	9,607	13,246	11,495	10,984
Subtotal Residential Units	8,390	11,459	15,492	13,888	14,132
Number of Non-Residential Units[(8)]	0	326	613	97	630
Miscellaneous Residential Units[(9)]	536	274	393	672	4,701
Miscellaneous Non-Residential Units[(10)]	323	267	736	1,036	100
Total Units	9,249	12,326	17,234	15,693	19,563

(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	5.9%	16.0%	8.1%	6.1%
County	6.2	15.9	7.9	5.3
2013				
City	5.2	16.8	7.0	4.9
County	6.1	16.0	7.4	5.3
2014				
City	5.1	16.2	6.4	5.1
County	6.0	15.7	6.5	4.1
2015				
City	4.7	15.9	5.8	4.4
County	6.3	15.1	5.9	3.1
2016				
City	4.9	14.8	5.4	4.3
County	6.2	14.4	5.2	3.1
2017				
City	5.1	15.0	4.6	3.0
County	6.0	14.7	4.7	2.6

(1) Vacancy rates are annual averages

Source: REIS, Beacon Economics.

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. The Council enacts ordinances subject to the approval of the Mayor and 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. In February 2017, the Mayor appointed Richard H. Llewellyn, Jr. as Interim City

Administrative Officer; he was permanently appointed to the position by the Mayor and confirmed by the Council in February 2018.

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 budgeted annually 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 2016-17 Results

The City’s Comprehensive Annual Financial Report (the “CAFR”) for the Fiscal Year Ended June 30, 2017 reported a reduction in the City’s total General Fund fund balance of approximately $139.2 million. See the emma.msrb.org/ES1112705-ER879181-ER1279830.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)

	2013	2014	2015	2016	2017
Assets					
Cash and Pooled Investments[1]	$ 791,293	$1,014,481	$1,084,125	$1,135,914	$1,137,680
Taxes Receivable	533,711	479,482	554,084	749,917	650,932
Accounts Receivable	187,230	128,136	131,040	124,661	116,666
Special Assessments Receivable	4,816	4,518	4,417	3,691	3,421
Investment Income Receivable	5,401	4,815	7,123	7,376	7,992
Intergovernmental Receivable	54,548	155,448	135,042	125,862	133,018
Loans Receivable	-	-	1	-	-
Due from Other Funds	86,632	43,625	50,870	109,640	68,638
Inventories	17,875	18,643	20,694	36,045	33,158
Prepaid Items and Other Assets	17,051	14,569	13,297	10	5
Advances to Other Funds	8,189	9,934	8,155	8,155	12,317
Total Assets	$1,706,746	$1,873,651	$2,008,848	$2,301,271	$2,163,827
Liabilities:					
Accounts, Contracts and Retainage Payable	$ 54,078	$ 63,347	$ 69,758	$ 77,061	$ 87,887
Obligations Under Securities Lending Transactions	6,879	2,580	12,703	36,108	13,914
Accrued Salaries and Overtime Payable	130,168	122,028	154,873	182,250	192,538
Accrued Compensated Absences Payable	15,433	17,182	15,654	17,733	9,887
Estimated Claims and Judgments Payable	30,269	35,015	39,922	54,364	65,534
Intergovernmental Payable	12	353	876	397	579
Due to Other Funds	71,740	98,113	47,891	84,503	90,237
Unearned Revenue	-	24	19	10	421
Deposits and Advances	23,316	23,612	28,349	24,793	34,724
Deferred Revenue and Other Credits[2]	576,749	-	-	-	-
Advances from Other Funds	29,852	22,436	47,304	32,775	24,032
Other Liabilities	45,634	43,843	53,246	71,264	143,892
Total Liabilities	$ 984,130	$ 428,533	$ 470,595	$ 581,258	$ 663,645
Deferred Inflows of Resources[2]					
Unavailable Real Estate Tax	-	$ 29,884	$ 53,497	$ 55,325	$ 58,304
Taxes Other than Real Estate	-	269,310	314,960	417,584	348,324
Receivables from Other Government Agencies	-	154,739	132,692	120,010	121,432
Other Deferred Inflows of Resources	-	95,114	91,555	98,729	85,894
Total Deferred Inflows of Resources	-	$ 549,047	$ 592,704	$ 691,648	$ 613,954
Fund Balances					
Nonspendable[3]	$ 43,115	$ 43,146	42,146	$ 44,210	$ 45,480
Restricted[4]	69,712	-	-	-	-
Committed	-	-	2,457	1,296	9,723
Assigned[5]	242,643	230,717	253,388	392,418	304,482
Unassigned[6]	367,146	622,208	647,558	590,441	526,543
Total Fund Balances	$ 722,616	$ 896,071	$ 945,549	$1,028,365	$ 886,228
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$1,706,746	$1,873,651	$2,008,848	$2,301,271	$2,163,827

(1) Includes securities held under securities lending transactions, offset by the Liability "Obligations Under Securities Lending Transactions."
(2) 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.
(3) Includes inventories and certain advances to other funds.
(4) 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.
(5) Includes encumbrances, various revolving funds, and certain net receivables.
(6) 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)

	2013	2014	2015	2016	2017
Revenues:					
Property Taxes	$1,565,457	$1,662,364	$1,733,508	$1,808,486	$1,857,683
Sales Taxes	343,628	357,255	372,782	437,775	521,910
Utility Users Taxes	623,794	631,492	637,318	614,814	611,160
Business Taxes	447,983	476,908	500,774	507,635	546,494
Other Taxes	451,304	522,341	552,549	586,375	641,755
Licenses and Permits	23,909	22,417	22,604	32,728	37,133
Intergovernmental	11,939	11,640	39,284	20,691	15,337
Charges for Services	532,512	543,882	617,481	318,462(1)	243,379
Services to Enterprise Funds	252,178	253,414	273,171	317,265	328,511
Fines	162,930	167,474	156,006	152,304	147,023
Special Assessments	1,732	2,441	1,259	1,869	1,490
Investment Earnings	16,710	19,059	20,736	38,891	25,353
Change in Fair Value of Investments(2)	(18,002)	-	-	-	(23,740)
Other	104,973	118,571	79,816	55,742	54,116
Total Revenues	$4,521,047	$4,789,258	$5,007,288	$4,893,037	$5,007,604
Expenditures:					
Current:					
General Government	$1,219,179	$1,263,431	$1,333,453	$1,316,146	$1,356,842
Protection of Persons and Property	2,403,195	2,562,058	2,771,591	2,797,742	2,874,117
Public Works	176,240	180,714	170,510	112,473	268,201
Health and Sanitation	145,768	146,422	174,136	131,438	87,722
Transportation	98,446	106,494	110,336	105,354	129,893
Cultural and Recreational Services	51,991	50,943	54,992	57,815	12,222
Community Development	32,303	36,758	43,966	2,391	79,002
Capital Outlay	25,395	27,025	29,540	46,467	23,359
Debt Service: Interest	2,062	1,939	1,472	4,339	9,116
Debt Service: Cost of Issuance	955	907	927	807	931
Total Expenditures	$4,155,534	$4,376,691	$4,690,923	$4,574,972	4,841,405
Excess (Deficiency) of Revenues Over Expenditures	$ 365,513	$ 412,567	$ 316,365	$ 318,065	$ 166,199
Other Financing Sources (Uses)					
Transfers In	$ 307,458	$ 294,383	$ 302,147	$ 349,928	$ 297,649
Transfers Out	(520,098)	(534,263)	(573,493)	(600,527)	(603,044)
Total Other Financing Sources (Uses)	(212,640)	(239,880)	(271,346)	(250,599)	(305,395)
Net Change in Fund Balance	152,873	172,687	45,019	67,466	(139,196)
Fund Balances, July 1	571,683	722,616	898,479(3)	945,549	1,028,311
(Decrease) Increase in Reserve for Inventories	(1,940)	768	2,051	15,350	(2,887)
Fund Balances, June 30	$ 722,616	$ 896,071(3)	$945,549	$1,028,365	$ 886,228

(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 and Fiscal Year 2016-17 to provide a more meaningful picture of real 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 CAO at http://cao.lacity.org/budget/FSR.htm; such information is not incorporated as part of this Official Statement.

Fiscal Year 2017-18 Financial Status Reports

Throughout the fiscal year, the City Administrative Officer issues interim financial status reports as deemed necessary (each an "FSR"). These reports identify various potential expenditures that could exceed budgeted amounts, and recommend transfers to address them. The fourth and Year-End FSR was released on June 1, 2018.

The Year-End (Fourth) FSR identified $50.6 million in potentially unfunded expenditures, including about $12.7 million in the Fire Department expenses, primarily due to assets associated with mutual aid deployment and three major wildfires within the City; an additional $10 million for settlement of the *Ardon* telecommunications tax lawsuit; and a shortfall in projected revenues from the SB 1 gas tax program. Various actions, including transfers from the Unappropriated Balance ($37.1 million) and the Reserve Fund ($5.7 million), were recommended to address these items.

The City will continue to monitor its budget, report the results of such monitoring periodically to the Mayor and Council, and recommend various adjustments as necessary.

Fiscal Year 2018-19 Adopted Budget

By Charter, the Mayor presents and the Council adopts a balanced budget with no deficit. The Mayor released his 2018-19 Proposed Budget on April 19, 2018. The City Council's Budget and Finance Committee held hearings on the Budget between April 27 and May 15. The City Council deliberated on the budget on May 18 and May 19, and adopted the budget on May 25. The Mayor signed the budget on May 29, 2018.

While the Fiscal Year 2018-19 Adopted Budget is balanced, as in every year, budget adjustments may be required throughout the year. Expenditure adjustments may be required to address potential risks in the Budget. For example, the Budget does not include funding for compensation adjustments that could result from ongoing employee negotiations; it maintains the current level of funding for liabilities, which can be volatile; and it requires departments to achieve $45 million in reductions. Adjustments could also be required if revenues fall short of expectations. Risks to revenues include a pending short-term rental policy, revenues from billboards and street damage restoration fees that are dependent on the adoption of a new policy, and the potential repeal of the recent gas tax increase. 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."**

Police overtime funding ($118 million) is at a similar level in the Fiscal Year 2018-19 Adopted Budget as it was in Fiscal Year 2017-18. This amount may be inadequate based on current spending in that account and a required salary adjustment that will go into effect in July 2018. If the Police Department exceeds the budgeted level of overtime, additional funding will have to be identified in Fiscal Year 2018-19 or overtime will have to be banked, further increasing that future liability. The current police overtime bank is valued at approximately $109 million.

The following table presents the Fiscal Year 2018-19 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 14
CITY OF LOS ANGELES ADOPTED BUDGET
(ALL BUDGETED FUND TYPES)

Revenues	Adopted Budget 2014-15	Adopted Budget 2015-16	Adopted Budget 2016-17	Adopted Budget 2017-18	Adopted Budget 2018-19
General Fund					
Property Taxes (1)	$ 1,644,811,000	$1,765,230,000	$1,786,069,000	$1,833,755,000	$1,961,509,000
Property Tax – Ex-CRA Tax Increment	48,023,000	52,580,000	54,594,000	74,168,000	97,252,000
Other Taxes (2)	1,958,030,000	2,080,875,000	2,220,813,000	2,327,666,000	2,449,948,000
Licenses, Permits, Fees and Fines (3)	1,040,330,401	1,077,604,212	1,119,258,885	1,247,823,015	1,350,888,130
Intergovernmental (4)	261,000,000	275,300,000	291,000,000	242,500,000	238,000,000
Other General Fund (5)	172,604,670	141,191,911	85,000,457	76,586,999	60,861,940
Interest	13,491,000	17,600,000	19,700,000	23,957,000	32,137,000
Total General Fund Revenue	$5,138,290,071	$5,410,381,123	$5,576,435,342	$5,826,456,014	$6,190,596,070
Special Purpose Funds					
Charges For Services and Operations (6)	$ 1,291,885,009	$1,312,020,696	$1,310,678,984	$1,553,096,303	$1,555,317,317
Transportation Funds (7)	380,172,972	373,949,770	356,414,969	393,912,507	496,879,264
Intergovernmental (8)	80,068,557	82,564,920	64,738,943	79,656,836	86,886,108
Special Assessments (9)	85,018,351	98,396,818	86,915,551	89,023,545	100,302,644
Other Special Funds	415,812,211	422,486,212	547,333,260	534,032,289	609,682,433
Available Balances	582,806,097	745,236,659	711,949,569	693,324,603	740,937,349
Total Special Fund Revenue	$2,835,763,197	$3,034,655,075	$3,078,031,276	$3,343,046,083	$3,590,005,115
City Levy for Bond Redemption and Interest	148,889,669	137,526,468	122,494,656	122,623,642	119,167,296
Total Receipts	$8,122,942,937	$8,582,562,666	$8,776,961,274	$9,292,125,739	$9,899,768,481
Appropriations by Funding Source					
General Fund					
Fire Department	$ 558,262,567	$ 620,197,506	$ 627,145,936	$ 639,273,170	$ 662,270,767
Police Department	1,293,469,105	1,388,767,435	1,435,223,677	1,517,200,993	1,551,479,094
Other Budgetary Departments	1,039,190,694	1,093,424,363	826,906,870	1,178,595,853	867,370,474
Tax and Revenue Anticipation Notes (10)	1,047,447,674	1,077,985,098	1,095,628,745	1,114,644,814	1,208,676,507
Capital Finance Administration (11)	218,722,586	214,208,074	205,223,909	209,459,534	221,353,665
Human Resources Benefits	615,138,916	611,491,371	629,485,100	682,788,227	730,656,927
Other General Fund Appropriations	366,058,529	404,307,276	756,821,105	484,493,423	948,788,636
Total General Fund	$5,138,290,071	$5,410,381,123	$5,576,435,342	$5,826,456,014	$6,190,596,070
Special Purpose Funds					
Budgetary Departments	$ 908,106,365	$ 962,208,445	$ 995,115,656	$1,090,933,010	$1,109,884,995
Appropriations to Proprietary Departments	93,818,332	102,643,144	106,556,869	102,313,802	102,313,802
Capital Improvement Expenditure Program	199,725,825	266,516,882	254,041,522	343,304,288	362,899,021
Wastewater Special Purpose Fund	463,170,037	464,501,463	490,986,961	521,469,820	559,438,564
Appropriations to Special Purpose Funds	1,170,942,638	1,238,785,141	1,231,330,268	1,285,025,163	1,455,468,733
Total Special Funds	$2,835,763,197	$3,034,655,075	$3,078,031,276	$3,343,046,083	$3,590,005,115
Bond Redemption and Interest Funds					
General City Bonds	$ 148,889,669	$ 137,526,468	$ 122,494,656	$ 122,623,642	$ 119,167,296
Total (All Purposes)	$8,122,942,937	$8,582,562,666	$8,776,961,274	$9,292,125,739	$9,899,768,481

(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 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, the Proposition C Anti-Gridlock Transit Improvement Fund, the Measure R Traffic Relief and Rail Expansion Fund, and the Measure M Local Return Fund.

(8) Intergovernmental receipts include the Community Development Block Grant, the Local Public Safety Fund, and the Workforce Innovation Opportunity Act 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." 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 typically updated in connection with the City's budget process.

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, the City's budget must be balanced when adopted, 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.

The City's most recent Budget Outlook was prepared in connection with the Fiscal Year 2018-19 Adopted Budget. The Budget Outlook assumes that the size of the workforce will remain flat after Fiscal Year 2018-19, with no major increases to City services. The projections of retirement costs include the reductions in actuarial assumptions approved in Fiscal Year 2017-18; the board of administration for the City Employees Retirements System is expected to reconsider both economic and demographic actuarial assumptions in 2018 that may include further reductions to the assumed investment rate of return. The impacts of any such future assumption changes are not included in this Outlook. See "**BUDGET AND FINANCIAL OPERATIONS—Retirement and Pension Systems**."

In addition to the projected increased retirement costs, 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. Increased labor costs will be incorporated in future Budget Outlooks. Also not included in the Outlook is any funding for major municipal capital projects that the City is currently considering, including the Civic Center Master Plan, Convention Center renovation, and the Los Angeles River Revitalization Master Plan.

Table 15
GENERAL FUND BUDGET OUTLOOK
($ in millions)

	Adopted 2018-19	2019-20	2020-21	2021-22	2022-23
Estimated General Fund Revenue:					
General Fund Base[1]	$5,826.5	$6,190.6	$6,294.0	$6,465.3	$6,642.8
Revenue Growth[2]					
Property Related Taxes[3]	146.7	78.7	90.4	94.0	97.7
Sales and Business Taxes[4]	100.4	12.3	29.7	30.3	31.1
Utility Users Tax[5]	(19.7)	4.3	3.9	4.4	.8
License, Permits and Fees[6]	81.1	3.8	27.2	27.8	28.5
Other Fees, Taxes and Transfers[7]	65.4	18.7	20.1	21.0	18.7
SPRF Transfer[8]	(6.5)	(8.6)	-	-	-
Transfer from the Budget Stabilization Fund[9]	-	-	-	-	-
Transfer from Reserve Fund[10]	(3.3)	(5.8)	-	-	-
Total Revenue	**$6,190.6**	**$6,294.0**	**$6,465.3**	**$6,642.8**	**$6,823.6**
General Fund Revenue Increase (Decrease) %	***6.2%***	***1.7%***	***2.7%***	***2.7%***	***2.7%***
General Fund Revenue Increase (Decrease) $	***364.1***	***103.4***	***171.3***	***177.5***	***180.8***
Estimated Expenditures:					
General Fund Base [11]	$5,826.5	$6,190.6	$6,454.3	$6,521.6	$6,608.4
Incremental Changes to Base:[12]					
Employee Compensation Adjustments[13]	116.9	141.5	43.4	54.1	55.1
Police Sworn Overtime	-	-	-	-	-
City Employees' Retirement System[14]	37.6	30.4	(0.6)	2.5	16.8
Fire and Police Pensions[14]	53.0	52.6	(12.8)	(36.1)	5.3
Workers Compensation Benefits[15]	19.0	5.2	5.2	8.3	13.5
Health, Dental and Other Benefits[16]	27.3	40.3	42.6	49.2	54.3
Debt Service[17]	11.9	(1.0)	(4.0)	(3.4)	(35.5)
Delete Resolution Authorities[18]	(53.2)	-	-	-	-
Add New and Continued Resolution Authorities[18]	64.0	-	-	-	-
Delete One-Time Costs[19]	(45.0)	(18.6)	-	-	-
Add One-Time Costs[19]	37.3	-	-	-	-
Comprehensive Homeless Strategy[20]	52.6	(33.5)	-	-	-
Unappropriated Balance[21]	(4.6)	(24.1)	-	-	-
City Elections[22]	4.5	5.5	(3.3)	3.3	(3.3)
CIEP – Municipal Facilities & Physical Plant[23]	8.4	-	-	-	-
CIEP – Sidewalks[24]	5.1	7.1	-	-	5.7
CIEP – Pavement Preservation[25]	5.6	15.0	3.3	3.3	3.4
Appropriation to the Reserve Fund[26]	-	-	-	-	-
Appropriation to the Budget Stabilization Fund[27]	-	-	-	-	-
Net - Other Additions and Deletions[28]	14.5	43.3	(6.5)	5.6	(0.4)
Subtotal Expenditures	**$6,190.6**	**$6,454.3**	**$6,521.6**	**$6,608.4**	**$6,723.3**
Expenditure Growth (Reduction) %	***6.2%***	***4.3%***	***1.0%***	***1.3%***	***1.7%***
Expenditure Growth (Reduction) $	***364.1***	***263.7***	***67.3***	***86.8***	***114.9***
TOTAL BUDGET GAP[29]	**$ -**	**$ (160.3)**	**$ (56.3)**	**$ 34.4**	**$ 100.3**
Incremental Increase(Decrease) % in Gap			*(64.9%)*	*(164.4%)*	*191.6%*
Incremental Increase(Decrease) $ in Gap		*(160.3)*	*104.0*	*90.7*	*65.9*

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 the economic recovery will continue. Individual economically-sensitive revenues may grow up to seven percent. 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 reflects above average growth in 2018-19 attributed to one-time transfers and new ongoing revenue. Subsequent years include average growth.

(3) Property tax growth is projected at 6 percent for 2018-19 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. Low growth for 2018-19 reflects modest price growth and flat sales. The Outlook includes steady growth in outgoing years as home prices are restrained by affordability.

(4) Business tax and Sales tax are projected to experience increased growth for 2018-19 based on cannabis-related business and sales activity. Higher growth in Business tax is projected in outgoing years due in part to cannabis-related activity. Sales tax growth is based on available economic forecasts and assumes lower growth in outgoing years based on the continuing shift in spending from local to online retailers.

(5) Electricity Users tax reflects increased growth for 2018-19 consistent with estimates provided by the Department of Water and Power,

($ in millions)

reflecting current assumptions on rates and electricity consumption and adjusted to reflect uncollectable receipts. The outgoing years of revenue are consistent with historical growth.

The 2018-19 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 permanently lower revenue as a result of a legal settlement that reduces the tax base.

The decline in Communications Users tax revenue has resumed despite the implementation of AB1717, which recovers lost revenue from the prepaid wireless market, due to aggressive wireless plan pricing and the decrease in landline use.

(6) The projected revenue growth in License, Permits, and Fees is dependent on policy decisions to increase departmental fees and collect full overhead cost reimbursements. The assumed modest growth is within range of the historical average. The 2018-19 amount reflects new ongoing revenue from LAPD's contract with Los Angeles County Metropolitan Transportation Authority for security services, billboard leasing and relocation agreements, and as-needed and part-time related cost recovery. For 2018-19, reimbursements to the General Fund are based on Cost Allocation Plan 40, which is published by the Controller.

(7) Increases in 2018-19 reflect growth in the Transient Occupancy Tax and Parking Occupancy Tax. Transient Occupancy Tax growth reflects ongoing receipts from tax collection agreements between the City and short term rentals. The Outlook assumes steady growth in the tax revenues in outgoing years. The Power Revenue Transfer estimate for 2018-19 is provided by the Department of Water and Power. No growth in this revenue is assumed.

(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 2018-19 is $8.6 million above the base-level transfer, or $6.5 million less than the 2017-18 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 2018-19 of $5.8 million is a decrease of $3.3 million from the transfer included in the 2017-18 Budget. The Outlook does not include any transfers in subsequent years. The 2018-19 Reserve Fund balance is 5.67 percent of General Fund revenues.

Estimated General Fund Expenditures:

(11) General Fund Base: Using the 2017-18 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 2018-19 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.

(13) Employee Compensation Adjustments: The 2018-19 amount includes employee compensation adjustments consistent with existing labor agreements and full funding for partially financed positions from the prior year. Fiscal years 2019-20 through 2022-23 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) City Employees' Retirement System (LACERS) and Fire and 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 payroll assumptions. In 2017, the boards of commissioners for LACERS and LAFPP adopted economic assumption changes, including reducing the assumed investment rate of return from 7.50 percent to 7.25 percent. The contribution rates below include the adopted assumption changes. In 2018, the board of commissioners for LACERS is expected to reconsider both economic and demographic assumptions that may include proposed further reductions to the assumed investment rate of return. The impacts of future assumption changes on the City contribution to LACERS are not included in this Outlook.

LACERS and LAFPP

Assumptions	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**
LACERS					
6/30th Investment Returns	7.25%	7.25%	7.25%	7.25%	7.25%
Combined Contribution Rate	28.02%	27.81%	27.34%	26.94%	27.27%
Pensions					
6/30th Investment Returns	7.25%	7.25%	7.25%	7.25%	7.25%
Combined Contribution Rate	46.85%	47.43%	45.83%	42.66%	42.11%

(15) Workers' Compensation Benefits (WC): The projection is based on a March 2018 actuarial analysis that projects annual medical inflation of three percent and a two percent annual cost increase in permanent disability costs. The State Assessment Fee is projected to be $9 million. Projections for 2019-20 and beyond are based solely on actuarial analysis.

(16) Health, Dental, and Other Benefits: The projection incorporates all known cost-sharing provisions adopted into labor agreements for the civilian and sworn populations. Net enrollment is projected to increase an average of one percent annually 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 2022.

(17) Debt Service: The debt service amounts include known future payments from the Capital Finance and Judgment Obligation Bonds budgets.

(18) Resolution Authorities: The deletion line reflects the practice of annually deleting resolution authority positions, which are limited-term and

Table 15
GENERAL FUND BUDGET OUTLOOK
($ in millions)

temporary in nature. 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.

(19) 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 2019-20. The remaining balance is for multiyear projects that are not anticipated to become part of the General Fund base.

(20) Comprehensive Homeless Strategy: This amount represents the increase to the General Fund appropriation for homelessness-related services and expenditures within the context of the City's Comprehensive Homeless Strategy. Expenditures identified as one-time in 2018-19 are deleted in 2019-20.

(21) Unappropriated Balance (UB): 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.

(22) 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. The 2018-19 amount represents funding set aside in the UB to place a City ballot measure on the November 2018 Los Angeles County Ballot. 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 and the estimated reimbursement to the County for either a primary or general election. The amounts estimated in 2019-20, 2020-21, 2021-22, and 2022-23 include the estimated cost for a June 2020 primary election, November 2020 general election, June 2022 primary election, and November 2022 general election, respectively.

(23) Capital Improvement Expenditure Program (CIEP) – Municipal Facilities and Physical Plant: The 2018-19 Adopted Budget includes a $7.3 million increase in funding for physical plant related capital projects and a $1.1 million increase for municipal facilities.

(24) CIEP – Sidewalk: Pursuant to the 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 percent every five years to account for inflation and material price increases. The 2018-19 increase of $5.1 million represents the General Fund appropriations required to meet the $31 million obligation. The 2019-20 increase of $7.1 million reflects the assumption that the General Fund portion will be increased to $25.9 million annually, with the balance of the investment covered by other sources of funds. Beginning in 2022 23, the annual investment will increase to $35.7 million. The General Fund appropriation will increase by $5.7 million in 2022-23 to meet the investment as proprietary departments' expenditures are expected to decrease as sidewalk repairs are completed at their facilities.

(25) CIEP – Pavement Preservation Program: Total Pavement Preservation Program funding is increased in 2018-19 to $147.9 million from various sources of funds to repair 2,400 lane miles. Funding in 2018-19 is included in the departments' budgets. It is assumed that the program will be continued through 2022-23 at 2,400 lane miles per year. To meet this level in 2019-20, an additional $15 million in General Fund will be required. This cost will increase by approximately $3 million annually in subsequent years.

(26) 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 ten percent of budgeted General Fund revenues.

(27) Appropriation to the Budget Stabilization Fund (BSF): Per the policy, if the combined ongoing annual growth for seven General Fund tax revenue sources exceeds 3.4 percent for a given year, the excess shall be deposited into the BSF. The appropriation may be reduced (1) to maintain the Reserve Fund at five percent; (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 2018-19, the combined annual ongoing growth in the seven General Fund tax revenue sources is 6 percent. The amount deposited to BSF is reduced to $9 million direct transfer from the Reserve Fund while $100 million is used for capital improvements.

(28) Net – Other Additions and Deletions: The 2018-19 amount includes ongoing changes and new regular positions added to the base budget. Among the significant increases are appropriations of $9.6 million to Recreation and Parks, $10.7 million to the Library, and $0.9 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, various structured settlements, hotel development incentive agreements, the Body Worn Video Camera Program, and LAPD vehicles.

(29) 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.")

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 re-appropriated 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 is reported as part of the Unassigned Fund Balance in the Comprehensive Annual Financial Report.

The following table summarizes the projected Reserve Fund balances as of July 1 as anticipated in the Adopted Budgets for the past 10 fiscal years, and the actual Reserve Fund balances that occurred on July 1 of those years. 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 16
HISTORICAL RESERVE FUND BALANCE AS OF JULY 1
Adopted Budget and Actual
(Cash Basis; $ 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	$160.2
Contingency	40.5	31.9	51.2	77.1	108.0	192.9	241.7	293.8	180.9	194.3
	$165.8	$152.9	$171.5	$197.7	$233.1	$326.7	$383.0	$442.6	$334.2	$354.5
Reserve Fund Balance as % of the General Fund	3.64%	3.47%	3.92%	4.51%	5.12%	6.71%	7.45%	8.18%	5.99%	6.08%

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 projected overall growth of these seven tax revenues in the Fiscal Year 2018-19 Adopted Budget is 6.0%. The value of the funds in excess of 3.4% was $108 million. To meet the requirements of the Budget Stabilization Fund Ordinance, $100 million of those funds were appropriated for capital expenditures, and an additional $9 million was transferred to the Budget Stabilization Fund. The Fiscal Year 2018-19 Adopted Budget includes a Budget Stabilization Fund of $107.3 million to begin the year.

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 Fiscal Year 2017-18 Adopted Budget provided $102.0 million in funding in the Unappropriated Balance, while the Fiscal Year 2018-19 Adopted Budget provides $140.3 million.

The table below contains a five-year history of the various General Fund reserves described above, including the City's Reserve Fund, 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 rather than year-end 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 17
GENERAL FUND RESERVES
As of July 1st of the Fiscal Year
(Cash Basis; $ in millions)

	2014-15	2015-16	2016-17	2017-18	Adopted Budget 2018-19
Emergency Reserve	$141.3	$148.8	$153.4	$160.2	$170.2
Contingency Reserve	241.7	308.9	180.9	194.3	180.7
Total Reserve Fund	$383.0	$457.7	$334.4	$354.5	$351.0
% of General Fund Revenues	7.45%	8.46%	5.99%	6.08%	5.67%
Budget Stabilization Fund	$64.1	$91.7	$93.7	$95.1	$107.3
Reserves In Unappropriated Balance[1]	20.7	17.0	15.0	20.0	20.3
Total General Fund Reserves	$467.8	$566.4	$442.9	$469.6	$478.6
% of General Fund Revenues	9.10%	10.47%	7.94%	8.06%	7.73%
Budgeted General Fund Revenues	$5,138.3	$5,410.4	$5,576.4	$5,826.5	$6,190.6

(1) Line item amounts budgeted within the Unappropriated Balance that are identified as reserves.

Source: City of Los Angeles, Office of the City Administrative Officer and City Controllers Preliminary Financial Report dated October 11, 2017.

Financial Management Policies

The City has adopted comprehensive Financial Policies (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 2018-19 Adopted Budget meets this policy by allocating all one-time revenues totaling $45 million towards one-time expenditures, which total $127 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 2018-19 Adopted Budget includes $100 million in appropriations for infrastructure, representing 1.62% of General Fund revenues.

In addition, the City maintains a 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% of General Fund revenues. After allocating the $100 million toward capital improvements cited above, the Adopted Budget allocates an additional $9 million to the BSF, bringing the balance in the BSF to $107.3 million as of July 1, 2018.

The City also has limits on the amount of debt service it considers affordable, and is well below those thresholds. See "**BONDED AND OTHER INDEBTEDNESS—Debt Management Policies**."

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

Risk Management and 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.

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 2018-19 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 2018-19 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. See **"BONDED AND OTHER OBLIGATIONS—Judgment Obligation Bonds."**

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

Table 18
LIABILITY CLAIMS PAID [1]
($ in millions)

Fiscal Year	Budget	Claims Paid
2013-14	$47.5	$ 55.5
2014-15	47.5	68.8
2015-16	53.5	109.0[2]
2016-17	59.7	201.4[3]
2017-18	80.0[4]	80.0[5]
2018-19 Adopted	80.0[4]	N/A

(1) Cash basis, General Fund only. Does not include Workers' Compensation claims paid by the City; see Table 19. 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 was attributed in part to settlements entered into by the City for wrongful conviction and imprisonment suits.
(3) 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.
(5) Estimated.

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

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, 2017, estimated the amount of tort and non-tort liabilities to be "probable" of occurring at approximately $594.7 million. Of this amount, approximately $209.1 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, 2017, estimated that certain other pending lawsuits and claims have a "reasonable possibility" of resulting in additional liability totaling $26.0 million. See **"LITIGATION"** 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."**

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 19
HUMAN RESOURCES BENEFITS[1]
($ in thousands)

	2014-15	2015-16	2016-17	Estimated 2017-18	Adopted 2018-19
Workers’ Compensation/Rehabilitation	$161,500	$169,601	$175,831	$189,500	$194,000
Contractual Services	26,480	21,141	20,152	23,230	25,830
Civilian FLEX Program[2]	227,017	235,918	255,129	276,415	286,257
Supplemental Civilian Union Benefits	4,094	4,318	4,889	4,607	5,113
Police Health and Welfare Program	129,359	134,340	139,498	145,526	158,068
Fire Health and Welfare Program	46,437	47,037	49,348	52,523	56,927
Unemployment Insurance	5,000	2,989	2,538	2,900	2,800
Employee Assistance Program	1,250	1,463	1,535	1,587	1,662
Total	$601,137	$616,807	$648,919	$696,288	$730,657

(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”).”

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. Most current labor contracts will expire at the end of Fiscal Year 2017-18 or Fiscal Year 2018-19.

Table 20
STATUS OF LABOR CONTRACTS
LARGEST EMPLOYEE ORGANIZATIONS
(As of July 1, 2018)

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	9,897	1	Contract expires 7/31/19	2% on 7/8/18 2% on 7/7/19
United Firefighters of Los Angeles City	3,282	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]	15,653	17	Contracts expire 6/30/18	2% on 7/9/17 2.75% step on 1/7/18 Salaries restructured
Engineers and Architects Association	4,937	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	866	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 21
AUTHORIZED CITY STAFFING[(1)]

	2014-15	2015-16	2016-17	2017-18	Adopted 2018-19
Sworn					
Police	10,480	10,522	10,545	10,547	10,549
Fire	3,232	3,292	3,350	3,350	3,363
Subtotal Sworn	13,712	13,814	13,895	13,897	13,912
Civilian					
Police	3,227	3,313	3,330	3,335	3,388
Fire	342	342	379	383	397
All Others	14,594	15,107	15,501	15,760	16,063
Subtotal Civilian	18,163	18,762	19,210	19,478	19,805
Total	31,875	32,576	33,105	33,375	33,760

(1) As authorized in the Adopted Budget. Includes permanent ("regular") positions and excludes temporary personnel (also referred to as "resolution authority positions"), which total 2,400 for Fiscal Year 2018-19. 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") 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. 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 these 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.

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 (lowered to 7.25% for both LACERS and LAFPP as of their June 30, 2017 actuarial valuations) represents an actuarial investment loss, while any return above the assumed rate of return represents an actuarial investment gain.

Table 22
LOS ANGELES PENSION SYSTEMS
HISTORICAL MARKET VALUE INVESTMENT RETURNS

Fiscal Year	LACERS	LAFPP
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
2016-17	13.3	13.3

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, 2017.

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 Airport Peace Officers hired on or after January 7, 2018 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. The entire portion of the enhanced benefit for Airport Peace Officers will be borne exclusively by the Airport 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 who are members of Los Angeles Fire and Police Pensions, and employees of the Department of Water and Power. As of June 30, 2017, the date of its most recent actuarial valuation, LACERS had 25,457 active members, 18,805 retired members and beneficiaries, and 7,428 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, 2017.

Table 23
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
ACTUARIAL ASSUMPTIONS
As of June 30, 2017

Investment rate of return	7.25%
Inflation rate	3.00%
Real across-the-board salary increase (net of inflation)	0.50%
Projected salary increases	Ranges from 3.90% to 10.00%, 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, 2017.

Over the past several years, LACERS has adopted various changes to its actuarial assumptions, including reducing the assumed investment return from 7.75% to 7.50% in 2014, and further reducing its assumed return to 7.25% in 2017. These new assumptions were reflected in the June 30, 2017 valuation, which impact the Fiscal Year 2018-19 contribution.

LACERS' actuary (Segal Consulting) recommended in 2017, three combinations of economic assumption alternatives to reduce the assumed investment return and price inflation, from 7.50% and 3.25% respectively to: 7.00% and 3.00%; 7.25% and 3.00%; or 7.00% and 2.75%. The LACERS Board adopted a 7.25% assumed investment return and 3.00% price inflation, with a plan to conduct a full experience study of economic and demographic assumptions in the summer of 2018. Based on Segal's recommendations to its other clients, the 2018 recommendations may include a 7.00% assumed investment return, a 2.75% inflation assumption, and/or a change to the mortality table. Any of these assumption changes could increase the City's contribution rate for 2019-20.

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, 2017, there was a total unrecognized net gain of $2.6 million. The following table shows the original market gains and losses, and the unrecognized gains and losses as of June 30, 2017.

Table 24
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
CALCULATION OF UNRECOGNIZED RETURN DUE TO ASSET SMOOTHING
As of June 30, 2017

Year Ended June 30	Original Market Gain (Loss)	Portion Not Recognized	Amount Not Recognized
2013	$ (81,571,421)	2/6	$ (27,190,474)[(1)]
2014	1,246,285,581	3⁄7	534,122,392
2015	(707,760,540)	4⁄7	(404,434,594)
2016	(1,065,023,569)	5⁄7	(760,731,121)
2017	770,969,472	6/7	660,830,976
Total unrecognized return (loss)			$ 2,597,179

(1) All deferred unrecognized investment gains as of June 30, 2013 were combined into a single layer, to be recognized over the six-year period beginning July 1, 2013.

Source: Los Angeles City Employees' Retirement System Actuarial Valuation and Review of Retirement and Health Benefits as of June 30, 2017.

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 25
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]
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
2017	13,178,334	18,458,188	5,279,854	71.4	2,062,316	256.0

(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.

Source: Los Angeles City Employees' Retirement System Actuarial Valuation and Review of Retirement and Health Benefits as of June 30, 2017.

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 26
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]
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
2017	13,180,516	18,458,188	5,277,672	71.4	2,062,316	256.0

(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 budgeted payment for Fiscal Year 2018-19. 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 27
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
SOURCES AND USES OF CONTRIBUTIONS
($ in thousands)[1]

	2014-15	2015-16	2016-17	Adopted Budget 2017-18	Adopted Budget 2018-19
Sources of Contributions					
Contributions for Council-controlled Departments	$411,509	$434,639	$459,400	$450,813	$488,414
Airport, Harbor Departments, LACERS, LAFPP	94,209	103,120	106,766	102,214	110,370
Total	$505,718	$537,759	$566,166	$553,027	$598,784
Percent of payroll – Tier 1	26.56%	28.75%	28.16%	27.22%	28.31%
Percent of payroll – Tier 2	19.63%	26.42%			
Percent of payroll – Tier 3			24.96%	24.64%	25.88%
Uses of Contributions					
Current Service Liability (Normal cost)	$193,769	$190,777	$206,982	$214,403	$223,667
UAAL	305,891	363,929	366,172	359,542	397,617
Adjustments[2]	6,058[3]	(16,947)[4]	(6,988)[5]	(20,918)[6]	(22,500)[7]
Total	$505,718	$537,759	$566,166	$553,027	$598,784

(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.
(7) Adjustments for 2018-19 include the 2017-18 true-up which consists of a $23,745,605 credit (all agencies) and $1,246,000 in excess benefit, family death, and limited term plan costs. The final contribution obligation for all agencies has been adjusted accordingly for the enhanced benefit for the Airport Peace Officers who remain in LACERS.

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 28
COMPARISON OF LACERS TIER I AND TIER III PLAN DESIGNS

Plan Feature	Tier I[1]	Tier III
Normal Retirement (Age / Years of Service ("YOS"))	60 / 10 70 / Any	60 / 30 60 / 10
Early, Unreduced Retirement Eligibility	55 / 30	55 / 30
Benefit Factors	2.16%@ 55 / 30	1.5% @ 60 / 10 2.0% @ 60 / 30 2.0% @ 55 / 30 2.0%@ 63 / 10 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 or 33% of final compensation Less than 5 YOS, return contributions	More than 5 YOS Maximum 1.43% per YOS or 33% of final compensation Less than 5 YOS, return contributions
Government Service Buyback	Member contribution	Member pays employee and employer contributions, except for limited military or maternity leave time.

(1) Does not reflect Tier 1 Enhanced Benefits for approximately 500 Airport Peace Officers.

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

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

Table 29
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
ASSET CLASS MARKET VALUE AND ALLOCATION
($ in million)
As of April 10, 2018

Asset Class	Market Value	Actual Allocation (%)	New Target Allocation Approved April 2018 (%)
U.S. Equity	$ 4,537	26.44%	19.00%
Non-U.S. Equity	5,525	32.20	27.00
Fixed Income Securities	2,963	17.27	13.75
Credit Opportunities	793	4.62	12.25
Real Assets	1,574	9.17	13.00
Private Equity	1,650	9.62	14.00
Cash	118	0.68	1.00
Total Portfolio	$17,161	100.00%	100.00%

Source: LACERS Portfolio Performance Review for the Quarter Ending June 30, 2017.

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, and some Department of Harbor and some Department of Airport police. As of June 30, 2017, the date of its most recent actuarial valuation, the LAFPP had 13,327 active members, 12,836 retired members and beneficiaries, and 374 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, 2017, 1,303 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 employing department (i.e., City, Harbor Department, or Airport Department). 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 employing department. 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 current 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 on or 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 30
LOS ANGELES FIRE AND POLICE PENSION PLAN
Actuarial Assumptions
As of June 30, 2017

Investment rate of return, net of expenses	7.25%
Inflation rate	3.00%
Real across-the-board salary increase (net of inflation)	0.50%
Projected salary increases	Ranges from 4.30% to 12.00% based on service
Cost of living adjustments (pensioners)	Based on changes to the Los Angeles area consumer price index. Capped at 3% per year for Tiers 3, 4, 5 and 6, with excess banked for Tiers 5 and 6.

Source: LAFPP Actuarial Valuation and Review of Pension and Other Postemployment Benefits (OPEB) as of June 30, 2017.

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 were reflected in the June 30, 2017 valuation, which impact the Fiscal Year 2018-19 contribution.

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 order to reduce year-to-year contribution rate volatility, similar to the adjustment adopted by LACERS.

Table 31
LOS ANGELES FIRE AND POLICE PENSION PLAN
CALCULATION OF UNRECOGNIZED RETURN DUE TO ASSET SMOOTHING
As of June 30, 2017

	Original Market Gain (Loss)	Portion Not Recognized	Amount Not Recognized	
Market value of assets (for Retirement and Health Subsidy Benefits)				$20,662,406,596
Calculation of unrecognized return[1]				
Year ended June 30, 2017	$1,050,034,903	6/7	$900,029,917	
Year ended June 30, 2016	(1,240,953,883)	5/7	(886,395,631)	
Year ended June 30, 2015	(643,447,599)	4/7	(367,684,342)	
Year ended June 30, 2014	1,571,818,656	3/6	673,636,567	
Combined Net Deferred Gain as of June 30, 2013[2]	77,259,408	2/6	25,753,136	
Total unrecognized return (loss)				345,339,647
Final actuarial value of assets:				$20,317,066,949
Actuarial value as a percentage of market value:				98.3%
Market value of retirement assets				$ 18,996,721,329
Valuation value of retirement assets:				$ 18,679,220,993
Deferred return recognized in each of the next 6 years (for Retirement and Health Subsidy Benefits)				
Amount recognized on June 30, 2018				$118,226,864
Amount recognized on June 30, 2019				118,226,864
Amount recognized on June 30, 2020				105,350,297
Amount recognized on June 30, 2021				(119,195,224)
Amount recognized on June 30, 2022				(27,274,141)
Amount recognized on June 30, 2023				150,004,987
Subtotal				$345,339,647

(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) All deferred unrecognized investment gains as of June 30, 2013 were combined into a single layer, to be recognized over the six-year period beginning July 1, 2013.

Source: LAFPP Actuarial Valuation and Review of Pension and Other Post-Employment Benefits (OPEB) as of June 30, 2017.

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 32
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)
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
2017	18,679,221	20,411,024	1,731,803	91.5	1,475,539	117.4

(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 33
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)
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
2017	18,996,721	20,411,024	1,414,303	93.1	1,475,593	95.8

(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: Calculated by CAO based on data from 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 34
LOS ANGELES FIRE AND POLICE PENSION PLAN
SOURCES AND USES OF CONTRIBUTIONS
($ in thousands)

	2014-15	2015-16	2016-17	Adopted Budget 2017-18	Adopted Budget 2018-19
General Fund	$624,974	$623,415	$616,235	$634,905	$687,867
Percent of Payroll	47.94%	46.51%	44.54%	44.26%	46.85%
Current Service Liability	$306,625	$306,841	$319,458	$332,409	$344,786
UAAL/(Surplus)	318,349	303,580	283,355	288,567	325,312
Administrative Costs[(1)(2)]	-	12,994	13,422	13,929	17,769
Total	$624,974	$623,415	$616,235	$634,905	$687,867

(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 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 April 30, 2018.

Table 35
LOS ANGELES FIRE AND POLICE PENSION PLAN
ASSET CLASS BY MARKET VALUE AND ALLOCATION
($ in millions)
As of April 30, 2018

	Market Value	Percent Allocation	Target (%)
Domestic Large Cap Equity	$ 5,488.9	24.73%	23.0%
Domestic Small Cap Equity	1,547.6	6.97	6.0
International Developed Markets	3,748.0	16.88	16.0
International Emerging Markets	1,016.5	4.58	5.0
Domestic Bonds	3,339.9	15.04	17.0
High Yield Bonds	519.9	2.34	3.0
Unconstrained Fixed Income	468.5	2.11	2.0
Real Estate	1,922.7	8.66	10.0
Private Equity	2,037.4	9.18	12.0
Commodities	994.8	4.48	5.0
Cash House Accounts	1,115.2	5.02	1.0
Total	$22,199.8	100.00%	100.0%

Source: Los Angeles Fire and Police Pension Plan April 30, 2018 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 and dental 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. 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, 2017, the unfunded healthcare benefits liabilities of LACERS and the LAFPP are as follows:

Table 36
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)
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
2017	2,438,458	3,005,806	567,348	81.1	2,062,316	27.5

(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 37
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]
2008	$ 767,647	$1,836,840	$1,069,193	41.8%	$1,206,589	88.6%
2009	809,677	2,038,659	1,228,982	39.7	1,357,249	90.5
2010	817,276	2,537,825	1,720,549	32.2	1,356,986	126.8
2011	882,890	2,557,607	1,674,717	34.5	1,343,963	124.6
2012	927,362	2,499,289	1,571,927	37.1	1,341,914	117.1
2013	1,013,400	2,633,793	1,620,393	38.5	1,367,237	118.5
2014	1,200,874	2,783,283	1,582,409	43.1	1,402,715	112.8
2015	1,344,333	2,962,703	1,618,370	45.4	1,405,171	115.2
2016	1,480,810	3,079,670	1,598,860	48.1	1,400,808	114.1
2017	1,637,846	3,322,746	1,684,900	49.3	1,475,539	114.2

(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.

Two lawsuits are pending challenging the LAFPP Board's exercise of its discretion to annually increase the subsidy for sworn employees who opted to make an additional contribution toward retiree healthcare. 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 projected rates from the City's actuary applied against projected payroll by the CAO. These contributions illustrate the projected cost of both pension and OPEB under the existing assumptions.

Table 38
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
PROJECTED CONTRIBUTIONS
($ in thousands)

	Adopted Budget 2018-19	Projection 2019-20	Projection 2020-21	Projection 2021-22	Projection 2022-23
LACERS					
Contributions for Council-controlled Departments[1][2]	$488,414	$518,838	$518,242	$520,768	$537,555
Percentage of Payroll[3]	28.02%	27.81%	28.34%	26.94%	27.27%
Incremental Change	$37,601	$30,424	$(596)	$2,526	$16,787
% Change	8.34%	6.23%	(0.11)%	0.49%	3.22%

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

(2) Assumes 7.25% 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.

Similar to the previous table, the table below illustrates the City's projected contributions to LAFPP for the next four fiscal years based on projected rates from the City's actuary applied against projected payroll by the CAO. These contributions illustrate the projected cost of both pension and other post-employment benefits (OPEB) under the existing assumptions.

Table 39
LOS ANGELES FIRE AND POLICE PENSION PLAN
PROJECTED CONTRIBUTIONS[1]
($ in thousands)

	Adopted Budget 2018-19	Projected 2019-20	Projected 2020-21	Projected 2021-22	Projected 2022-23
General Fund	$687,867	$740,426	$727,664	$691,534	$696,846
Percentage of Payroll	46.85%	47.43%	45.83%	42.66%	42.11%
Incremental Change	$52,962	$52,559	$(12,762)	$(36,130)	$5,312
% Change	8.34%	7.64%	(1.72)%	(4.97%)	0.77%

(1) Assumes 7.25% 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 40
POOLED INVESTMENT FUND
GENERAL POOL
Investments as of April 30, 2018

Description	Par Value	Market Value	Percent of Total Funds (Market Value)	Average Days
Bank Deposits[1]	$ 89,300,701	$ 89,300,701	0.90%	0
Money Market Funds	4,776,244	4,776,244	0.05	0
LAIF (State of California)	0	0	0.00	0
Subtotal Cash and Overnight Investments	$ 94,076,945	$ 94,076,945	0.95%	0
CDARS [2]	$ 0	$ 0	0.00%	0
Commercial Paper	1,967,091,000	1,961,882,245	19.83	46
Negotiable Certificates of Deposit	0	0	0.00	0
Corporate Notes	207,200,000	206,672,981	2.09	170
U.S. Agencies/Munis/Supras	304,046,000	303,323,525	3.07	82
U.S. Treasuries	595,000,000	591,870,200	4.98	301
Subtotal: Pooled Investments	$3,073,337,000	$3,063,748,952	30.96%	107
Total Short Term Core Portfolio	$3,167,413,945	$3,157,825,897	31.91%	104
Money Market Funds	$ 0	$ 0	0.00%	0
Commercial Paper	0	0	0.00	0
Negotiable Certificates of Deposit	0	0	0.00	0
Corporate Notes	1,238,905,000	1,216,317,095	12.29	945
Asset-Backed Securities	115,337,000	113,886,872	1.15	1,276
U.S. Agencies/Munis/Supras	634,830,000	621,517,375	6.28	926
U.S. Treasuries	4,890,000,000	4,785,490,650	48.36	1,019
Total Long-Term Reserve Portfolio	$6,879,072,000	$6,737,211,993	68.09%	1,001
Total Cash and Pooled Investments	$10,046,485,945	$9,895,037,890	100.00%	715

	Short-Term Core Portfolio	Long-Term Reserve Portfolio	Consolidated
Average Weighted Maturity	104 Days	2.7 Years	2.0 Years
Effective Yield	1.84%	1.77%	1.80%

(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) 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 41
CAPITAL IMPROVEMENT EXPENDITURE PROGRAM(1)
($ in thousands)

	2014-15	2015-16	2016-17	Estimated 2017-18	Adopted 2018-19
General Fund(2)	$9,190	$14,185	$10,336	$19,873	$36,697
Special Gas Tax Street Improvement Fund	10,378	6,155	4,924	5,157	6,859
Road Maintenance and Rehabilitation Program Special	-	-	-	512	18,020
Stormwater Pollution Abatement Fund	1,050	1,329	4,234	3,546	-
Sewer Construction and Maintenance Fund	138,640	199,354	212,853	283,100	329,976
Park and Recreational Sites and Facilities Fund	(47)	1,160	3,549	3,445	3,500
Street Lighting Maintenance Assessment Fund	-	1,391	-	-	-
Local Transportation Fund(3)	1,692	1,559	-	-	-
Measure R Local Return Fund	394	1,599	-	-	-
Measure M Local Return Fund	-	-	-	5,716	-
Other	2,380	-	413	-	4,544
Total(4)	$163,677	$226,732	$236,309	$321,349	$399,596

(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."** The following represents the revenues for Fiscal Years 2016-17, estimated revenues for Fiscal Year 2017-18, and budgeted revenues for Fiscal Year 2018-19.

Table 42
GENERAL FUND RECEIPTS[1]
($ in thousands)

	2016-17 Actual	Percent of Total	2017-18 Estimated	Percent of Total	2018-19 Adopted	Percent of Total
Property Tax[2]	$1,791,249	31.8%	$1,849,644	31.7%	$1,961,509	31.7%
Redirection of ex-CRA Tax Increment Monies	103,262	1.8	88,655	1.5	97,252	1.6
Licenses, Permits, Fees and Fines	913,233	16.2	1,031,706	17.6	1,128,045	18.2
Utility Users Tax	624,831	11.1	624,450	10.7	641,570	10.4
Business Tax	528,076	9.4	551,000	9.4	590,000	9.5
Sales Tax	520,404	9.2	538,880	9.2	557,990	9.0
Power Revenue Transfer	264,427	4.7	241,848	4.1	238,000	3.8
Parking Fines	140,773	2.5	139,000	2.4	141,900	2.3
Transient Occupancy Tax	265,653	4.7	299,205	5.1	322,160	5.2
Documentary Transfer Tax	210,070	3.7	208,580	3.6	214,548	3.5
Parking Occupancy Tax	111,161	2.0	114,600	2.0	118,400	1.9
Franchise Income	42,930	0.8	57,276	1.0	78,816	1.3
Interest	21,056	0.4	27,411	0.5	32,137	0.5
State Motor Vehicle License Fees	1,806	0.0	2,127	0.0	2,127	0.0
Tobacco Settlement	9,174	0.2	10,952	0.2	10,952	0.2
Grants Receipts	11,594	0.2	11,863	0.2	12,003	0.2
Residential Development Tax	5,255	0.1	5,220	0.1	5,280	0.1
Special Parking Revenue Transfer	28,342	0.5	32,848	0.6	32,116	0.5
Reserve Fund Transfer	35,496	0.6	9,108	0.2	5,791	0.1
Total General Receipts	$5,628,790	100.0%	$5,844,373	100.0%	$6,190,596	100.0%
Change from Previous Year	5.5%		3.8%		6.0%	

(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.

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.

Property Tax

Property taxes, including various State replacements and the reallocation of tax increment from the dissolution of redevelopment, represent 33.3% of General Fund revenues in the Fiscal Year 2018-19 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.”**)

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. For Fiscal Year 2017-18, approximately 94.7% of property in the City was assessed 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 6.04% growth in assessed value in its Fiscal Year 2018-19 Adopted Budget.

Table 43
ASSESSED VALUATION[(1)]

	2013	2014	2015	2016	2017
Land	$232,778,743,317	$248,792,504,198	$267,336,770,583	$285,423,529,738	$306,136,812,787
Buildings and Structures	205,411,896,165	215,540,855,692	230,127,214,313	242,901,174,456	257,547,708,020
Business Personal Property	26,480,491,712	27,745,896,590	28,900,346,059	30,964,660,173	31,426,664,923
Gross Total[(2)]	$464,671,131,194	$492,079,256,480	$526,364,330,955	$559,289,364,367	$595,111,185,730
Less: Church, Welfare, etc.[(3)]	24,136,984,143	25,148,131,867	26,003,406,049	26,446,696,208	27,264,044,440
Revenue-Producing Valuations	440,534,147,051	466,931,124,613	500,360,924,906	532,842,668,159	567,847,141,290
Less: Homeowners' Exemptions[(4)]	2,588,592,473	2,545,252,570	2,502,725,568	2,454,777,939	2,411,313,641
Net Total Revenue-Producing Valuations[(5)]	$437,945,554,578	$464,385,872,043	$497,858,199,338	$530,387,890,220	$565,435,827,649
Change from Prior Year	5.1%	6.0%	7.2%	6.5%	6.6%

(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.

Over the years, the State Budget has resulted in various reallocations of property tax revenues, including the "Triple Flip" of property tax and sales tax receipts to secure certain State bonds, which was ended in Fiscal Year 2016-17, and the "backfill" of Vehicle License Fee revenues with an increased allocation of property taxes. The table below summarizes those reallocations received as property tax.

Table 44
PROPERTY TAX REVENUES BY SOURCE[1]
($ in thousands)

	2014-15	2015-16	2016-17	Estimated 2017-18	Adopted 2018-19
1% Property Tax	$1,190,885	$1,257,499	$1,314,874	$1,409,795	$1,495,412
Vehicle License Fee Replacement	361,672	387,567	412,738	439,849	466,097
Sales Tax Replacement[2]	121,903	36,710	63,637	0	0
Total Property Tax	$1,674,461	$1,681,776	$1,791,249	$1,849,644	$1,961,509
Change from Prior Year	5.3%	0.4%	6.5%	3.3%	5.8%

(1) Cash basis. Excludes property taxes attributable to the dissolution of the Los Angeles Community Redevelopment Agency, projected to be $88.7 million in Fiscal Year 2017-18 and $97.3 million in Fiscal Year 2018-19.
(2) Figures in Fiscal Year 2015-16 and Fiscal Year 2016-17 reflect the phasing out of the Triple Flip.

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

A list of the 20 largest taxpayers, based on secured assessed valuations within the City for Fiscal Year 2017-18, appears in the table below. The tax roll for the next fiscal year is typically released in summer.

Table 45
CITY OF LOS ANGELES
TWENTY LARGEST 2017-18 SECURED TAXPAYERS

Property Owner	Primary Land Use	2017-18 Secured Assessed Valuation	Percent of Secured AV(1)
Douglas Emmett LLC	Office Building	$ 2,789,993,123	0.51%
Essex Portfolio LP	Apartments	1,403,756,659	0.26
FSP South Flower Street	Office Building	899,773,192	0.16
Valero Energy Corporation	Petroleum	826,383,573	0.15
Rochelle H. Sterling	Apartments	753,506,679	0.14
Anheuser Busch Inc.	Industrial	744,693,400	0.14
One Hundred Towers LLC	Office Building	639,863,052	0.12
Century City Mall LLC	Office Building	639,283,209	0.12
Trizec 333 LA LLC	Office Building	628,423,753	0.11
Phillips 66 Company	Petroleum	598,396,983	0.11
Maguire Partners 355 S. Grand LLC	Office Building	587,705,494	0.11
APM Terminals Pacific Ltd.	Terminal Operations	584,036,659	0.11
Tishman Speyer Archstone Smith	Apartments	561,092,724	0.10
Olympic and Georgia Partners LLC	Hotel	552,606,051	0.10
BRE HH Property Owner LLC	Office Building	531,505,280	0.10
Paramount Pictures Corp.	Industrial/Studio	530,130,218	0.10
LA Live Properties LLC	Commercial	529,177,801	0.10
Palmer Flower Street Properties	Apartments	520,211,514	0.10
Maguire Properties 555 W. Fifth	Office Building	515,426,282	0.09
CJDB LLC, Lessor	Shopping Center	506,431,855	0.09
Total		$15,342,397,501	2.80%

(1) Based on 2017-18 Local Secured Assessed Valuation of $546,998,707,052

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. A portion of the funds previously allocated to the City's redevelopment agency is now allocated to overlapping taxing jurisdictions based on a legislatively mandated process. This process involves approval of a Recognized Obligation Payment Schedule ("ROPS") by the Successor Agency, a seven person county-wide Oversight Committee and the State Department of Finance. Based on the Department of Finance-approved ROPS, the County Auditor-Controller remits to taxing entities any tax increment funds that are in excess of the amount needed to fund the enforceable obligations. Additional remittances are made to distribute excess funds and proceeds from the sale of surplus properties held by the successor for redevelopment agency. Because the proceeds from such sales is difficult to predict, the City reports property tax increment revenue from the former Community Redevelopment Agency separately from its other property tax revenues, as reported in the "General Fund Receipts" table, above.

Utility Users Taxes

Utility Users taxes represent 10.4% of General Fund revenues in the Fiscal Year 2018-19 Adopted Budget. The City imposes taxes on users of natural gas, electricity and communication services within the City's limits. The tax rate 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 prior Telephone Users tax ordinance has been the subject of litigation challenging the application of the tax to certain telecommunications services, most of which have been resolved. See **"LITIGATION—2. Telephone Utility Users Tax Cases."**

A portion of the City's 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 lawsuits challenged the imposition of the Gas Users tax on certain charges and fees. See **"LITIGATION—9. Gas Utility Users Tax Cases"**. The Fiscal Year 2017-18 estimate has been adjusted to reflect the potential impact of an expected settlement of this case.

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

Table 46
UTILITY USERS TAX RECEIPTS[(1)]
($ in thousands)

	2014-15	2015-16	2016-17	Estimated 2017-18	Adopted 2018-19
Electric Users Tax	$363,716	$360,305	$356,617	$385,250	$411,670
Gas Users Tax	68,643	66,392	73,733	66,400	63,300
Communications Users Tax	207,032	188,006	194,481	172,800	166,600
Total	$639,391	$614,702	$624,831	$624,450	$641,570
Change from Prior Year	1.9%	-3.9%	1.6%	-0.1%	2.7%

(1) Cash basis.

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

Sales Tax

Sales tax receipts represent 9.0% of General Fund revenues in the Fiscal Year 2018-19 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. 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. Implementation of both measures on July 1, 2017 increased 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 certain State bonds. The Triple Flip traded 0.25% of the 1% city share of the sales tax for an equal amount of property taxes and remained in effect until August 2015. The State's Board of Equalization reinstated the 1% sales tax rate on January 1, 2016, which was offset by a corresponding reduction in the formula that allocates property tax receipts. The City received the first revenues from the restored rate with the State's March 2016 remittance. Fiscal Year 2016-17 represented 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 47
LOS ANGELES CITY
SALES TAX COMPONENTS
As of July 1, 2018

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. Fiscal Year 2015-16 revenue growth reflects this restoration of the full 1% share of receipts for the fourth quarter from the end of the Triple Flip. 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 48
GENERAL FUND SALES TAX RECEIPTS
($ in thousands)

Fiscal Year	Receipts[1]	Change from Prior Year
2014-15	$371,031	4.1%
2015-16	417,541	12.5%
2016-17 [2]	520,404	24.6%
2017-18 (Estimated)	538,880	3.6%
2018-19 Adopted	557,990	3.5%

(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 9.3% of General Fund revenues in the Fiscal Year 2018-19 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 growing to $47.3 million in the final year of the phase-in, which occurred in Fiscal Year 2017-18. 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 Fiscal Year 2018-19 Adopted Budget includes cannabis business tax revenue projected at $40 million, which includes ongoing revenue from medical cannabis activity as well as projections for new recreational cannabis activity. Council is considering extending the City's business tax renewal deadline from February 28 to April 15 to align with corresponding deadlines for the California Franchise Tax Board and the Internal Revenue Services. The extension, if approved, is projected to result in a one-time shift of approximately $22 million in business tax receipts from the year of implementation to the subsequent fiscal year. The proposed deadline extension is not included in the City's Fiscal Year 2018-19 Adopted Budget or cash flows.

The table below shows receipts from the business tax.

Table 49
BUSINESS TAX RECEIPTS
($ in thousands)

Fiscal Year	Receipts[1]	Change from Prior Year
2014-15	$497,329	4.6%
2015-16	509,765	2.5%
2016-17	528,076	3.6%
2017-18 (Estimated)	551,000	4.3%
2018-19 Adopted	590,000	7.1%

(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 18.1% of General Fund revenues in the Fiscal Year 2018-19 Adopted Budget. The Adopted Budget includes $13 million in revenue from billboard leasing and modernization agreements that must be enacted by the Mayor and Council to be realized. The estimates for Fiscal Years 2017-18 and 2018-19 also include reimbursements from the County Metropolitan Transportation Authority (MTA) for police services on its bus and rail lines pursuant to a contract between the MTA and the City.

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

Table 50
LICENSES, PERMITS, FEES AND FINES RECEIPTS[1]
($ in thousands)

	2014-15	2015-16	2016-17	Estimated 2017-18	Adopted 2018-19
Ambulance Fees	$76,789	$84,816	$73,915	$81,951	$73,475
Services to Dept. of Airports	58,778	72,407	79,372	85,037	84,420
Services to Harbor Dept.	25,364	28,802	40,290	39,771	46,259
Services to DWP	19,018	26,540	34,617	31,315	32,685
Services to Sewer Program	79,548	54,760	69,285	93,236	107,375
Solid Waste Fee	46,499	81,255	68,368	58,309	61,948
Gas Tax Reimbursements	36,136	23,020	-	1,248	26,338
Services to Stormwater Fund	6,001	8,259	9,333	9,435	2,072
Special Funds Related Costs	136,953	169,102	191,619	216,885	250,154
MTA Reimbursement	-	-	187	53,280	64,213
One Time Reimbursements	39,022	28,785	23,870	9,262	4,575
Library Reimbursements	56,067	54,626	55,906	67,860	70,661
Recreation and Parks Reimbursements	33,803	36,162	36,384	43,951	49,177
State Mandated	28,901	7,275	3,270	3,145	2,500
Miscellaneous Taxes and Fees	5,983	7,273	8,012	7,300	7,300
Other Departmental Receipts	202,647	204,358	218,804	229,721	244,893
Total General Fund	$851,507	$887,442	$913,233	$1,031,706	$1,128,045
Change from Prior Year	2.3%	4.2%	2.9%	13.0%	9.3%

(1) Cash basis.

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

Documentary Transfer Tax

Documentary Transfer tax receipts represent 3.5% of General Fund revenues in the Fiscal Year 2018-19 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, although not evident in the years represented in the table below, can be 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. For example, 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 2018-19 Adopted Budget assumes modest growth of 3.5%.

The table below presents receipts from this revenue source.

Table 51
DOCUMENTARY TRANSFER TAX RECEIPTS
($ in thousands)

Fiscal Year	Receipts[1]	Change from Prior Year
2014-15	$196,681	8.4%
2015-16	198,438	0.9%
2016-17	210,070	5.9%
2017-18 (Estimated)	208,580	-0.6%
2018-19 Adopted	214,548	2.9%

(1) Cash basis.

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

Transient Occupancy Tax

Transient Occupancy tax receipts represent 5.2% of General Fund revenues in the hotel or other dwellings occupied for 30 days or less 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. Amounts beginning in Fiscal Year 2016-17 include revenue from agreements between the City and the short-term rental website Airbnb. Additional receipts from a second agreement with VRBO are expected to be realized in the final quarter of Fiscal Year 2017-18.

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, which is projected to increase by 7.7% for Fiscal Year 2018-19, reflecting additional revenue from short-term rental websites. The revenue estimate does not reflect the impact of pending policies that would restrict the number of properties and rental days that owners can make private dwellings available on the short-term rental market.

Table 52
GENERAL FUND TRANSIENT OCCUPANCY (HOTEL) TAX RECEIPTS
($ in thousands)

Fiscal Year	Receipts[1]	Change from Prior Year
2014-15	$202,897	10.0%
2015-16	230,818	13.8%
2016-17	265,653	15.1%
2017-18 (Estimated)	299,205	12.6%
2018-19 Adopted	322,160	7.7%

(1) Cash basis.

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

Parking Fines

Parking Fine receipts represent 2.3% of General Fund revenues in the Fiscal Year 2018-19 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, and estimates of average revenues per ticket based on historical trends, collection rates and average worker productivity. Parking fine revenue for Fiscal Years 2014-15 through 2017-18 declined due to diverted staffing and relaxed parking enforcement. Fiscal Year 2018-19 assumes a modest increase to revenue through operational efficiencies.

The table below shows receipts from all parking fines.

Table 53
PARKING FINES RECEIPTS
($ in thousands)

Fiscal Year	Receipts[(1)]	Change from Prior Year
2014-15	$152,293	-5.5%
2015-16	147,884	-2.9%
2016-17	140,773	-4.8%
2017-18 (Estimated)	139,000	-1.3%
2018-19 Adopted	141,900	2.1%

(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 3.8% of General Fund revenues in the Fiscal Year 2018-19 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. 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. 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.

The following table shows transfers from the Power Revenue Fund:

Table 54
TRANSFERS FROM POWER REVENUE FUND
($ in thousands)

Fiscal Year	Receipts[1]	Change from Prior Year
2014-15	$265,586	5.0%
2015-16	266,957	0.5%
2016-17	264,427	-0.9%
2017-18 (Estimated)[2]	241,848	-8.5%
2018-19 Adopted[2]	238,000	-1.6%

(1) Cash basis.
(2) Reflects the *Eck* settlement.

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 was finally approved on February 14, 2018, will limit the annual amount of 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, with no refund of prior transfers required from the City's General Fund. Certain other litigation with respect to the transfer of such surplus power revenues remain. See **"LIMITATIONS ON TAXES AND APPROPRIATIONS—Proposition 26," and "LITIGATION."**

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 2018-19 Proposed State Budget and May Revision 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, although a measure expected on the November 2018 ballot would rescind the increases if approved.

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

On March 23, 2018, the Consolidated Appropriations Act was enacted, which outlines funding for the remainder of federal Fiscal Year 2017-18. For the first time in at least ten years, this budget increased funding for the various grants under the Department of Housing and Urban Development's Consolidated Plan programs. The City estimates that it will receive an 8.6 percent increase in Community Development Block Grant, a 42.8% increase in Home Investment Partnerships Program, and a 12.9% increase in the Housing Opportunities for Persons with AIDS program from the federal Fiscal Year 2016-17 allocations. The Trump Administration has already released its proposed federal Fiscal Year 2018-19 budget, which once again calls for drastic cuts to domestic programs. It seems likely, however, that the proposed cuts may once again be ignored by Congress.

The City is closely monitoring the federal appropriations process and any potential impacts to the City. Pursuant to Council instruction, the CAO has identified and categorized 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.

In December 2017, Congress approved and the President signed a bill amending the federal tax code, which includes limits to the deductibility of state and local taxes and other changes that could have adverse impacts on the California economy. The City can make no prediction on how such changes in federal taxes, if enacted, would affect the City or its financial condition.

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."**

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 55
APPROPRIATIONS LIMITS AND APPROPRIATIONS SUBJECT TO LIMITATION

Fiscal Year	City Appropriations Limit	Appropriations Subject to Limitations	Amount Appropriations Are Under Limit
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	5,415,819,599	4,095,495,596	1,320,324,003
2018-19 Adopted	5,669,148,096	4,353,097,592	1,316,050,504

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 Vehicle License Fee 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 payer 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." The *Redding* decision was depublished, and, as a result, it may not be cited or relied on as precedent by the California courts. On April 29, 2015, the California Supreme Court granted review of the Court of Appeal's decision in *Redding*. Oral arguments were heard on May 30, 2018. The City is unable to predict when the California Supreme Court will issue its decision in the *Redding* Case, but a ruling is expected this calendar year.

Litigation was filed challenging the City's transfer of surplus power revenues, which is a material source of City General Fund revenues. The suit alleged that the City charged its electric utility customers fees that exceeded the cost of providing electric utility service, in violation of Proposition 26. The City recently settled three consolidated class actions lawsuits challenging this practice. The court granted final approval of the settlement on February 14, 2018. 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 and 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 potential refunding of certain outstanding general obligation bonds of the City (currently estimated to be $47 million) or the second issuance of general obligation bonds under Proposition HHH (approximately $275 million).

Table 56
GENERAL OBLIGATION BONDS
As of July 1, 2018

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	$ 524,507	$ --
4/11/89	Police Facilities (Proposition 2)	176,000,000	176,000,000	2,535,120	--
4/11/89	Fire Safety Facilities (Proposition 4)	60,000,000	60,000,000	174,836	--
6/5/90	Seismic Safety Projects (Proposition G)	376,000,000	376,000,000	5,507,330	--
11/3/98	Zoo Facilities (Proposition CC)	47,600,000	47,600,000	7,871,757	--
11/3/98	Library Facilities (Proposition DD)	178,300,000	178,300,000	24,269,427	--
11/7/00	Fire, Paramedic, Helicopter and Animal Shelter Projects (Proposition F)	532,648,000	532,648,000	131,280,273	--
3/5/02	Emergency Operations, Fire, Dispatch and Police Facilities (Proposition Q)	600,000,000	600,000,000	179,928,256	--
11/2/04	Storm Water Projects (Proposition O)	500,000,000	439,500,000	261,748,494	60,500,000
11/8/16	Homelessness (Proposition HHH)	1,200,000,000	86,370,000	86,370,000	1,113,630,000
Total		$3,723,948,000	$2,549,818,000	$700,210,000	$1,174,130,000

(1) Principal payments are made September 1.

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

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. Most of 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 some cases, as noted below, the obligation was privately placed directly with a bank or other private lender. 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 57
GENERAL FUND BONDED AND OTHER FINANCING LEASE OBLIGATIONS
As of July 1, 2018

Series	Project	Amount Issued	Amount Outstanding	Final Maturity
MICLA Refunding Certificates of Participation, Program AS (dated April 2, 2002)[(1)]	Real Property, Pershing Square	7,655,000	1,655,000	10/1/21
MICLA Lease Revenue Bonds, Series 2009-A (dated April 23, 2009)	Capital Equipment and Fixtures	57,930,000	6,905,000	4/1/19
MICLA Lease Revenue Bonds, Series 2009-C (dated December 10, 2009)	Capital Equipment and Fixtures	40,095,000	9,300,000	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	17,850,000	9/1/39
MICLA Lease Revenue Bonds, Series 2010-A (dated November 23, 2010)	Capital Equipment and Fixtures	30,355,000	10,270,000	11/1/20
MICLA Lease Revenue Bonds, Series 2010-B (Taxable) (dated November 23, 2010)	Capital Equipment and Fixtures	49,315,000	17,315,000	11/1/20
MICLA Lease Revenue Bonds, Series 2010-C (Taxable) (dated November 23, 2010)	Real Property	18,170,000	16,485,000	11/1/40
MICLA Qualified Energy Conservation Bonds, Series 2011-A (Taxable) (dated October 26, 2011)[(2)]	Real Property	11,920,000	6,176,203	10/1/28
MICLA Lease Revenue Bonds, Series 2012-A (dated May 10, 2012)	Capital Equipment and Fixtures	92,635,000	44,160,000	3/1/22
MICLA Lease Revenue Bonds, Series 2012-B (dated May 10, 2012)	Real Property	33,975,000	29,810,000	3/1/42
MICLA Lease Revenue Bonds, Refunding Series 2012-C (dated May 10, 2012)	Real Property	109,730,000	74,680,000	3/1/32
MICLA 2013 Streetlights (Private Placement) (dated September 9, 2013)[(3)]	Capital Equipment and Streetlights	39,795,479	9,224,421	6/1/21
MICLA Lease Revenue Bonds, Series 2014-A (dated September 24, 2014)	Real Property	41,800,000	36,025,000	5/1/34
MICLA Lease Revenue Bonds, Refunding Series 2014-B (dated September 24, 2014)	Real Property	51,730,000	28,055,000	5/1/33
MICLA 2014 Equipment (Private Placement) (dated November 19, 2014)[(4)]	Capital Equipment and Fixtures	67,257,597	45,225,601	11/1/24
MICLA Taxable Lease Revenue Refunding Bonds, Series 2015-A (dated November 19, 2015)	Real Property	292,415,000	204,570,000	11/1/22
MICLA 2016 Streetlights Financing (Private Placement) (dated April 5, 2016)[(3)]	Capital Equipment and Streetlights	26,368,864	20,172,076	4/1/24
MICLA Lease Revenue Refunding Bonds, Series 2016-A (dated June 1, 2016)	Capital Equipment and Fixtures	125,235,000	111,340,000	11/1/26
MICLA Lease Revenue Refunding Bonds, Series 2016-B (dated June 1, 2016)	Real Property	685,270,000	644,860,000	11/1/39
MICLA 2017 Streetlights Financing (Private Placement) (dated April 18, 2017)[(3)]	Capital Equipment and Streetlights	39,297,800	35,889,996	6/1/27
2017 Police Vehicles Lease Financing (dated November 15, 2017)[(5)]	Capital Equipment	21,110,000	17,185,000	11/15/22
2017 Police Radios Lease Financing (dated December 22, 2017)[(6)]	Vehicles and Handheld Radios	64,500,000	64,500,000	2/1/25
MICLA Lease Revenue Bonds, Series 2018-A (dated February 6, 2018)	Capital Equipment and Fixtures	54,430,000	54,430,000	11/1/27
MCILA Lease Revenue Bonds, Series 2018-B (dated February 6, 2018)	Real Property	31,270,000	31,270,000	11/1/37
MICLA Lease Revenue Refunding Bonds, Series 2018-C (dated February 6, 2018)	Real Property	25,630,000	25,630,000	11/1/27
		$2,039,189,740	$1,562,983,296	

(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) Lease agreements privately placed with Banc of America.
(5) Lease agreement privately placed with JP Morgan Chase.
(6) Lease agreement privately placed with Motorola Solutions, Inc.

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, 2018, $285.9 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, 2018, $12.7 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 58
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 59
JUDGMENT OBLIGATION BONDS
As of July 1, 2018

Dated Date	Amount Issued	Amount Outstanding	Final Maturity	Judgment Financed with Proceeds
6/30/09	$20,600,000	$2,430,000	6/1/19	Employment lawsuits by certain police officers.
6/29/10	50,875,000	12,125,000	6/1/20	Various employment, inverse condemnation and liability lawsuits.
Total	$71,475,000	$14,555,000		

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

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 since Fiscal Year 2014-15 and the anticipated issuance of the City's 2018 TRANs.

Table 60
TAX AND REVENUE ANTICIPATION NOTES

Fiscal Year	LACERS	Fire and Police Pensions	Cashflow	Total Par Amount
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
2018-19 (Estimated)	477,615,000	672,655,000	391,160,000	1,541,430,000

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, while the subsequent two tables summarize the debt service to maturity of certain of these obligations. These tables do not include the proposed issuance of the City's 2018 general obligation bonds (approximately $276 million) and any potential refunding of the City's outstanding general obligation bonds (currently estimated to be $47 million) 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 citywide 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 61
DIRECT NET DEBT
As of July 1, 2018

	Outstanding
General Obligation Bonds[1]	$700,210,000
Lease Obligations[2] [3]	
Capital Equipment and Fixtures	445,917,093
Real Property	1,117,066,203
Subtotal	$1,562,983,296
Judgment Obligation Bonds	14,555,000
GROSS DIRECT DEBT	$2,277,748,296
Revenue Bonds	
Power Revenue (DWP)[3]	$8,805,075,000
Water Revenue (DWP)[3][6]	4,931,285,000
Department of Airports[3]	5,635,515,000
Harbor Department[3] [4]	854,125,000
Wastewater System[3]	2,596,110,000
Solid Waste Resources Fee (formerly Sanitation Equipment Charge)	147,365,000
Subtotal	$22,969,475,000
TOTAL CITY DEBT	$25,247,223,296
Less:	
Revenue Bonds	(22,969,475,000)
DIRECT NET DEBT	$2,277,748,296
Plus:	
Overlapping Debt[5]	$13,816,081,257
OVERALL NET DEBT	$16,093,829,553

(1) Does not include proposed issuance of the City's 2018 General Obligation Bonds and any potential refunding of the City's outstanding general obligation bonds.
(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, 2018. See Table 69.
(6) Includes $150 million in loans outstanding under the Wells Fargo Credit Agreement.

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

Table 62
DEBT SERVICE TO MATURITY ON DEBT PAYABLE FROM PROPERTY TAXES[(1)]
As of July 1, 2018

	General Obligation Bonds		
Fiscal Year	Principal	Interest	Total
2019	$ 91,340,000	$ 27,827,295	$119,167,295
2020	91,640,000	23,817,517	115,457,517
2021	88,245,000	19,934,343	108,179,343
2022	83,345,000	16,256,207	99,601,207
2023	70,605,000	12,968,849	83,573,849
2024	59,140,000	10,234,630	69,374,630
2025	49,865,000	7,858,587	57,723,587
2026	30,395,000	6,083,249	36,478,249
2027	25,905,000	4,877,439	30,782,439
2028	21,975,000	3,833,195	25,808,195
2029	23,455,000	2,864,696	26,319,696
2030	18,760,000	1,953,815	20,713,815
2031	9,865,000	1,372,499	11,237,499
2032	9,785,000	1,039,911	10,824,911
2033	4,315,000	803,669	5,118,669
2034	4,315,000	662,353	4,977,353
2035	4,315,000	518,879	4,833,879
2036	4,315,000	373,248	4,688,248
2037	4,315,000	225,459	4,540,459
2038	4,315,000	75,513	4,390,513
Total	$700,210,000	$143,581,350	$843,791,350

(1) Totals may not add due to independent rounding.

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

Table 63
DEBT SERVICE TO MATURITY ON BONDED AND CERTIFICATED LEASE OBLIGATIONS AND JUDGMENT OBLIGATION BONDS(1)
As of July 1, 2018

	Capital Equipment and Fixtures			Real Property			Judgment Obligation Bonds			
Fiscal Year	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Grand Total
2019	$ 74,460,270	$ 15,173,593	$ 89,633,863	$85,960,000	$48,980,176	$134,940,176	$8,365,000	$662,075	$9,027,075	$233,601,114
2020	69,254,287	11,785,760	81,040,048	86,960,000	45,243,475	132,203,475	6,190,000	304,500	6,494,500	219,738,022
2021	63,969,241	9,415,017	73,384,258	86,205,000	41,893,329	128,098,329	0	0	0	201,482,587
2022	55,074,444	7,415,518	62,489,962	89,170,000	38,448,269	127,618,269	0	0	0	190,108,231
2023	44,395,823	5,641,714	50,037,537	57,845,000	35,416,673	93,261,673	0	0	0	143,299,209
2024	42,015,645	4,435,983	46,451,628	43,515,000	33,101,005	76,616,005	0	0	0	123,067,633
2025	35,915,908	3,206,535	39,122,443	44,410,000	30,948,679	75,358,679	0	0	0	114,481,122
2026	26,257,736	2,099,065	28,356,801	46,605,000	28,724,202	75,329,202	0	0	0	103,686,003
2027	27,748,739	956,262	28,705,001	48,105,000	26,484,338	74,589,338	0	0	0	103,294,339
2028	6,825,000	170,625	6,995,625	43,846,203	24,158,109	68,004,312	0	0	0	74,999,937
2029	0	0	0	42,175,000	22,055,333	64,230,333	0	0	0	64,230,333
2030	0	0	0	44,310,000	19,888,517	64,198,517	0	0	0	64,198,517
2031	0	0	0	46,580,000	17,595,680	64,175,680	0	0	0	64,175,680
2032	0	0	0	48,730,000	15,182,962	63,912,962	0	0	0	63,912,962
2033	0	0	0	48,815,000	12,646,575	61,461,575	0	0	0	61,461,575
2034	0	0	0	50,150,000	10,321,954	60,471,954	0	0	0	60,471,954
2035	0	0	0	49,055,000	8,148,886	57,203,886	0	0	0	57,203,886
2036	0	0	0	51,120,000	6,043,036	57,163,036	0	0	0	57,163,036
2037	0	0	0	53,395,000	3,729,487	57,124,487	0	0	0	57,124,487
2038	0	0	0	25,110,000	1,929,587	27,039,587	0	0	0	27,039,587
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	$445,917,093	$60,300,073	$506,217,166	$1,117,066,203	$472,923,742	$1,589,989,945	$14,555,000	$966,575	$15,521,575	$2,111,728,686

(1) Totals may not add due to independent rounding.

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"**). 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 64
DEBT MANAGEMENT POLICY RATIOS

Ratio	Ceiling	Adopted Budget 2017-18	Adopted Budget 2018-19
Total Direct Debt Service as Percent of General Revenues[1]	15.0%	6.25%	6.03%
Non-Voted Direct Debt Service as Percent of General Revenues[1]	6.0%[2]	4.29%	4.14%

(1) For purposes of the Debt Policy, General Revenues includes the General Fund, the General Obligation Bond Debt Service Fund, and the amount of any other special fund that pays debt service on lease revenue bonds.
(2) 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 65
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	659	0.56
2016	2,447,192,068	614	0.49
2017	2,279,944,100	567	0.43
2018	2,277,748,296	562	0.38[1]

(1) Estimated

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 66
GENERAL FUND DEBT SERVICE AS A PERCENTAGE OF GENERAL FUND[(1)]
($ in thousands)

Fiscal Year	Debt Service Payments[(2)]	General Fund Revenues[(3)]	Debt Service as Percentage of General Fund Revenue
2014-15	$216,467	$5, 309.435	4.08%
2015-16	189,935	5,242,965	3.62
2016-17	196,407	5,305,253	3.70
2017-18 (Estimated)	218,487	5,841,076	3.74
2018-19 (Adopted Budget)	233,601	6,190,596	3.77

(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 67
RETIREMENT OF DIRECT NET DEBT[1]
As of July 1, 2018

	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	$425,175,000	60.7%	$307,154,066	68.9%	$406,140,000	36.4%	$ 14,555,000	100.0%	$1,153,024,066	50.6%
>5 to 10 years	187,280,000	87.5	138,763,027	100.0	226,481,203	56.6	0	100.0	552,524,230	74.9
>10 to 15 years	66,180,000	96.9	0	100.0	230,610,000	77.3	0	100.0	296,790,000	87.9
>15 to 20 years	21,575,000	100.0	0	100.0	228,830,000	97.8	0	100.0	250,405,000	98.9
>20 to 25 years	0	100.0	0	100.0	25,005,000	100.0	0	100.0	25,005,000	100.0
>25 to 30 years	0	100.0	0	100.0	0	100.0	0		0	100.0
>30 to 35 years	0	100.0	0	100.0	0	100.0	0		0	100.0
Total	$700,210,000		$445,917,093		$1,117,066,203		$ 14,555,000		$2,277,748,296	

[1] Totals may not add due to independent rounding.

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 were re-associated with a portion of the Series 2012-D Subordinate Bonds, and the notional value of the swaps reduced from $311.6 million to $151.1 million. As of June 30, 2017, the remaining portion of swap agreements had a combined market value of ($25.20 million), 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, 2017" 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 68
POTENTIAL ADDITIONAL FINANCINGS
DEBT CALENDAR

Anticipated Sale Date	Project	Type of Obligation	Estimated Amount
June 26, 2018	TRAN 2018	Tax and Revenue Anticipation Notes	$1.54 billion
June 27, 2018	General Obligation Bonds, Series A	General Obligation Bonds	$276 million
June 27, 2018	General Obligation Bonds, Series B	General Obligation Bonds	$36 million
June 27, 2018	General Obligation Bonds, Series C	General Obligation Bonds	$11 million
July 17, 2018	Solid Waste Resources Revenue Bonds, Series 2018-A	Revenue Bonds	$127 million
August 2018	Wastewater System Revenue Bonds, Series 2018-A	Revenue Bonds	$286 million
August 2018	Wastewater System Commercial Paper Letters of Credit	Commercial Paper/Letters of Credit	$200 million
November 2018	MICLA LA Convention Center Commercial Paper Letters of Credit	Commercial Paper/Letters of Credit	$110 million
November 2018	MICLA 2018-D Lease Revenue Bonds	Lease Revenue Bonds	$100 million
Spring 2019	MICLA 2019 Street Lighting Direct Loan		$25 million
June 2019	MICLA Commercial Paper Letters of Credit	Commercial Paper/Letters of Credit	$245 million
June 2019	General Obligation Bonds, Series 2019	General Obligation Bonds	$120 million
June 2019	TRAN 2019	Tax and Revenue Anticipation Notes	$1.6 billion

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"**). 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 69
STATEMENT OF OVERLAPPING DEBT
As of June 1, 2018

	Debt Outstanding 6/1/18	Estimated Percent Applicable[(1)]	Estimated Shares Of Overlapping Debt 6/1/18
OVERLAPPING DEBT REPAID WITH PROPERTY TAXES			
The Metropolitan Water District of Southern California	$ 60,600,000	20.727%	$ 12,560,562
Los Angeles Community College District	4,165,830,000	71.500	2,978,568,450
Beverly Hills Unified School District	380,866,507	0.145	552,256
Inglewood Unified School District	102,015,000	1.053	1,074,218
Las Virgenes Unified School District	125,636,474	0.891	1,119,421
Los Angeles Unified School District	10,604,150,000	88.063	9,338,332,615
Other School Districts	463,526,523	Various	391,047
City of Los Angeles Community Facilities District No. 3	2,685,000	100.000	2,685,000
City of Los Angeles Community Facilities District No. 4	73,690,000	100.000	73,690,000
City of Los Angeles Community Facilities District No.8	5,730,000	100.000	5,730,000
Mountains Recreation and Conservation Authority Assessment Districts	18,230,000	99.990-100.000	18,229,036
Los Angeles County Regional Park and Open Space Assessment District	26,575,000	39.857	10,591,998
OTHER OVERLAPPING DEBT:			
Los Angeles County General Fund Obligations	1,921,992,404	39.857	766,048,512
Los Angeles County Superintendent of Schools Certificates of Participation	6,500,306	39.857	2,590,827
Los Angeles County Sanitation District Nos. 1, 4, 5, 8 & 16 Authorities	50,759,722	0.001-11.650	2,436,600
Inglewood Unified School District Certificates of Participation	1,420,000	1.053	14,953
Las Virgenes Unified School District Certificates of Participation	10,825,617	0.891	96,456
Los Angeles Unified School District Certificates of Participation	195,975,000	88.063	172,581,464
Less: Los Angeles Unified School District QZAB Bonds (supported by periodic payments to investment accounts)			(5,812,158)
OVERLAPPING TAX INCREMENT DEBT (Successor Agency):	$434,600,000	100.000%	$434,600,000
SUBTOTAL, OVERLAPPING DEBT			$13,816,081,257
City of Los Angeles General Obligation Bonds	$ 700,210,000	100.000%	$ 700,210,000[(1)]
City of Los Angeles General Fund Obligations	1,564,227,093	100.000	1,564,227,093
City of Los Angeles Judgment Obligations	14,555,000	100.000	14,555,000
TOTAL CITY OF LOS ANGELES DIRECT DEBT			$2,278,992,093
TOTAL DIRECT AND OVERLAPPING DEBT			$16,095,073,350[(2)]

(1) Excludes general obligation bonds to be sold.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc.

OTHER MATTERS

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."**

Climate Change

The change in the earth's average atmospheric temperature, generally referred to as "climate change", is expected to, among other things, increase the frequency and severity of extreme weather events and cause substantial flooding. The City's Sustainable City pLAn (the "Plan"), released in 2015, provides a 20-year framework intended to both prepare for climate change and mitigate its effects on the City's economy, infrastructure and communities. The Plan sets forth several actions that may be taken by the City, including improving emergency response functions and disaster preparedness, reducing air and water pollution, and managing rising temperatures in urban environments. In addition, the City has begun construction of a series of groundwater remediation projects to reduce the City's reliance on imported water as drought conditions continue, is exploring the use of specially designed "cool roofs" to manage the effect of rising temperatures in urban environments and is testing the effects of "cool pavement" (a special coating applied to city streets) to manage urban temperatures. The City continues to explore various other adaptive actions within the framework established by the Plan.

The City cannot predict the timing, extent, or severity of climate change and its impact on the City's operations and finances. Also, additional actions to address climate change may be necessary and the City can give no assurances regarding the impact of such actions on the City's operations and finances.

Cybersecurity

The City relies on a large and complex technology environment to conduct its operations. As a recipient and provider of personal, private and sensitive information, the City and its departments face multiple cyber threats including, but not limited to, hacking, viruses, malware and other attacks on computers and other sensitive digital networks and systems. There have been, however, only limited cyber-attacks on the City's computer system. For example, the City recently experienced a ransomware attack which impacted a single computer at a City department for one business day. The computer was immediately discovered and the malicious file was quarantined to prevent it from spreading to other computers and no data was lost or breached. Following this incident, certain City personnel attended awareness training and the City installed an endpoint detection and response system, which identifies and responds to malicious and other suspicious activities. Also, recently a City department's website was compromised and was unavailable for a few hours. No data was lost and the website was subsequently restored. The City has since increased its server security.

In 2013, the City created the Cyber Intrusion Command Center (the "CICC") under a Mayoral Executive Directive to coordinate cybersecurity preparation and response across City departments. The CICC is comprised of key City departments, cybersecurity professionals, and local and federal law enforcement experts. The CICC has assisted the City in establishing policies for data classification, information handling, and cybersecurity prevention and response protocols. In 2015, the City established an Integrated Security Operations Center (the "ISOC") with cybersecurity professionals for cyber-attack monitoring and response. In addition, the City has identified critical data assets and applied additional cyber defenses through its Critical Asset

Protection program. The City has conducted cyber security awareness training for all City employees with computer access, conducts phishing email tests, and provides periodic cybersecurity newsletters and workshops to its employees. Also, the City conducts annual “penetration tests” to identify and remediate any potential weaknesses in its networks.

No assurances can be given that the City’s security and operational control measures will be successful in guarding against any and each cyber threat and attack. The results of any attack on the City’s computer and information technology systems could impact its operations and damage the City’s digital networks and systems, and the costs of remedying any such damage could be substantial

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, the 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. Eighty-four of the 88 cities in Los Angeles County (including the City of Los Angeles), the Los Angeles County Flood Control District, and the County are covered by the MS4 and 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, which were approved by the LARWQCB in 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, under State law, the LARWQCB may levy administrative fines of up to $10,000 per pollutant per day of violation and impose mandatory minimum penalties of $3,000 per pollutant per day of violation. In addition, under Federal law, the LARWQCB may seek civil liabilities of up to $53,484 per pollutant per day, reflecting an increase in accordance with the Federal Civil

Penalties Inflation Adjustment Act Improvements Act of 2015. 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 through 2021 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 through 2037 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 approved by 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. The Council has instructed the City Administrative Officer, in coordination with other City departments, to report back on a funding strategy, as well as an implementation plan. The City, in conjunction with the County of Los Angeles, may seek a parcel tax increase, subject to voter approval in the November 2018 ballot, to support stormwater projects and programs that improve water quality and increase water supply. 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 2018-19 Adopted Budget contains $15.4 million for stormwater projects related to this obligation. An estimated $47.7 million will be required to complete these projects and of this amount, $39.5 million will be required in 2019-20. 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.

2028 Olympic and Paralympic Games

The City has been selected by the International Olympic Committee ("IOC") as the host city for the Summer Olympic Games in 2028 (the "Olympic Games"). Based on the budget released by LA24 (the local host committee) and the subsequent independent review conducted by KPMG, the Olympic Games are expected to cost approximately $5.32 billion, which includes a contingency against cost overruns of more than $487 million. In October 2017 the State enacted legislation (AB 132) that, among other things, created an Olympic Games Trust Fund that will reimburse the City up to $270 million for budgetary shortfalls if the host committee has exhausted its funds and the City has spent $270 million on the Olympic Games.

The City has entered into a comprehensive Host City Contract with the IOC that commits the City, as Host City, and its organizing committee to perform in accordance with a number of detailed policies and protocols and provides formal guaranties to protect the IOC against any costs and expenses in excess of those agreed to by the IOC.

Other cities that have hosted the Olympic Games and the Paralympic Games have incurred significant financial obligations because of the extensive capital project expenses of construction of new public infrastructure and facilities. However, the City does not anticipate that it will be necessary to construct extensive new capital projects in order to service the 2028 Olympic Games. The City is presently unable to determine the fiscal impact and financial risk to the City of hosting the 2028 Olympic 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 or firefighters 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 appealed the decertification, amongst other rulings of the district court, to the United States Court of Appeals for the Ninth Circuit. On April 30, 2018, the Ninth Circuit affirmed the district court's other ruling on joinder but have yet to rule on the decertification issue – the sole remaining issue on appeal. 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. Telephone Utility Users Tax Cases.

   A number of claims have been filed in connection with the City's Telephone Utlity 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 Utility Users tax based on a federal government interpretation of the federal excise tax. The City settled this case in 2016, 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* (TracFone has filed 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 the Telephone Utility 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 Utility 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 had until May 2018 to utilize the credit.

3. *Federal Accessibility Law Matters.*

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, and to assert state common law claims against the City.

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; (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; and (4) that there is any legal basis for DOJ to bring the state common law claims against the City. The City is vigorously defending its interests in this matter.

Second, during three visits in late 2011, HUD's Office of Fair Housing and Equal Opportunity ("HUD FHEO") purportedly reviewed the City's compliance with the Americans With Disabilities Act ("ADA") and other federal accessibility laws as part of HUD FHEO's oversight of the City's receipt of federal funds from HUD, which the City uses to fund housing developments. HUD FHEO has since conducted additional site inspections. As a result of the separate litigation filed by private litigants in the *Independent Living Center* 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 HUD 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 HUD 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 HUD FHEO review of the City's housing portfolio. However, HUD FHEO notified the City that future funding under HUD programs, and possibly funding from other federal agencies, may be at risk to the extent that the City does not agree to additional terms that go above and beyond the requirements which the City agreed to as part of the *Independent Living Center* settlement. On November 20, 2017, the DOJ notified the City that HUD FHEO had referred the matter to the DOJ for further investigation. The notification stated that, as part of the investigation, the DOJ will determine whether certain enforcement action may be appropriate and included a request that the City retain relevant documents as part of the pending investigation. The City is complying with DOJ's request and continues to communicate with HUD FHEO in an effort to resolve this matter.

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 successor for the former Los Angeles Community Redevelopment Agency 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 overlap with the construction and remediation obligations which may be required of the City to resolve the related dispute with HUD 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 to the Ninth Circuit Court of Appeals. Oral arguments were held on May 18, 2018. It is currently unknown when the Ninth Circuit will render an opinion.

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 appealed. In June 2018, the appellate court upheld the jury's verdict in favor of the City. The plaintiff still retains the option to appeal to the U.S. Supreme Court.

5. *Clear Channel Outdoor, Inc.*

Clear Channel filed a Claim for Damages, dated February 1, 2018, 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, 2018 by which the claimant may file a lawsuit pursuant to the claim. A lawsuit has yet to be filed.

6. *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 January 1, 2019. A lawsuit has yet to be filed.

7. *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 California Supreme Court recently posted notice that it will hold oral argument in the *Redding* matter on May 30, 2018. 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,"** 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 February 22, 2016, the City filed a motion for judgment on the pleadings, arguing that the consolidated complaint should be dismissed because the plaintiff's claims are time-barred under the Public Utilities Code Section 10004.5. On April 25, 2016, the City's motion for judgment on the pleadings was granted with leave to amend. The plaintiffs filed an amended consolidated complaint on July 1, 2016. The amended complaint focused on claims related to the City's new electric rate ordinance (effective April 15, 2016).

On May 31, 2017, the City agreed to settle the consolidated *Eck* matter on a class-wide basis. On September 14, 2017, the settlement was preliminarily approved by the Court, such that notice could be provided to the class. Under the terms of the settlement, the City has agreed to 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. The court granted final approval of the settlement at a hearing on February 14, 2018. The court then entered final judgment in the matter on February 26, 2018. Subsequently, four objectors have filed notices of appeal from the final judgment. It will likely be at least a year before these appeals are ruled upon. Additionally, two objectors have also filed motions to vacate the final judgment. These motions are pending.

On September 21, 2016, (*Abcarian et al. v. Levine et al.*), 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 appealed both rulings to the U.S. Court of Appeals for the Ninth Circuit. On July 3, 2017, the U.S. Court of Appeals for the Ninth Circuit affirmed the district court's order staying the action pending final settlement resolution of the *Eck* litigation and the district court's order denying the plaintiff's motion for a preliminary injunction. On April 20, 2018, the district court lifted the stay in this matter in light of the state court entering final judgment in the *Eck* litigation. Accordingly, this case will now move forward. The City believes that the potential liability for these lawsuits is difficult to project.

8. Gas Utility Users 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. The parties expect to file their motion for preliminary approval in August or September 2018. Any settlement amount 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 $30 million to $40 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. The certification hearing is still pending. The outcome of the pending class certification will dictate the potential exposure in this case. In the event the court certifies the class and an adverse ruling is made, based on the pleadings, the City's potential liability could range as high as $25 million to $30 million.

9. *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 court issued its final order on May 1, 2018. The amount to be refunded is $4,641,969, plus attorney's fees and costs of approximately $1.3 million.

10. *Atkins et al. v. City of Los Angeles.*

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 City appealed. 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. The appeals court 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. The trial date is scheduled for September 24, 2018. In the event of an adverse finding on future damages at the trial court, the City faces potential additional damages of $5 million, plus attorney's fees.

11. *LAUSD v. City of Los Angeles*.

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. The potential amount of surplus property tax increments to be repaid to LAUSD by the City is estimated to be approximately $21 million.

12. *Brewster v. City of Los Angeles.*

On or about November 2, 2014, plaintiff filed a putative class action in Federal District Court for damages pursuant to 42 U.S.C. § 1983. The complaint alleged that the City violated the plaintiffs' rights under the Fourth Amendment of the U.S. Constitution, and related state laws, by impounding vehicles without a warrant for 30 days pursuant to Vehicle Code section 14602.6.

On December 26, 2014, the City filed a motion to dismiss plaintiff's complaint. The Federal District Court granted the City's motion to dismiss the complaint on March 19, 2015. Plaintiffs appealed the Federal District Court's dismissal to the Ninth Circuit Court of Appeals. On June 21, 2017, the Ninth Circuit Court of Appeals reversed the District Court's decision to dismiss the complaint. The City sought review of the Ninth's Circuit's decision with the U.S. Supreme Court. On March 19, 2018, the U.S. Supreme Court denied the City's request. The matter is now pending in Federal District Court. In the event a class is certified, the potential liability the City may incur with an adverse ruling may range between $75 million to $100 million. The City plans to oppose the plaintiff's motion for class certification and deny liability in this case.

13. *Gruppioni et al. v. City of Los Angeles*.

On June 5, 2018, the City agreed to settle five cases relating to an August 3, 2013 incident where a driver deliberately drove his car on the Venice Boardwalk, hit a number of pedestrians, and killed Alice Gruppioni. For the wrongful death action related to Alice Gruppioni, the City agreed to pay the plaintiffs $12 million over three fiscal years. The first payment of $6 million is to be paid in the current fiscal year. The remaining $6 million is expected to be paid in two installments of $4 million and $2 million over the next two fiscal years. The City agreed to settle the claims of three other individuals for an aggregate $2 million, payable in the next fiscal year. The fifth individual settled his claim for approximately $20,000. There is currently one pending lawsuit involving six other pedestrians allegedly injured from the August 3, 2013 incident. The case is scheduled for trial on July 16, 2018. In the event of an adverse trial court decision, the City's potential liability could be approximately $1 million, in the aggregate.

14. *Blue Cross of America v. City of Los Angeles.*

On March 30, 2017, Blue Cross filed a protective tax refund complaint of business taxes paid for tax year 2015, under Article XIII, Section 28 of the

California Constitution. In October 2017, Blue Cross filed a supplemental complaint (together with the 2017 complaint, the "Blue Cross Action") seeking additional refunds of business taxes paid for tax years 2016 and 2017. Blue Cross' protective refund action arises out of a separate action in Los Angeles County Superior Court, entitled *Michael D. Myers v. State Board of Equalization, et al. (BS143436)("Myers")*. *Myers* is proceeding under a California statute that permits an individual taxpayer to sue a governmental agency when the taxpayer believes the agency has failed to enforce governing law.

One of the issues to be resolved in *Myers*, is whether Blue Cross is an "insurer" for purposes of tax law and therefore required to pay a gross premiums tax in lieu of a corporate franchise tax under the California law. In the event Blue Cross is found to be an "insurer" and liable for the constitutionally imposed gross premium tax as an "insurer," it may be exempt from the City's business tax. The Blue Cross Action is expected to be an ongoing issue until the *Myers* case is finally resolved and it is determined whether Blue Cross is exempt from the City's business tax under Article XIII, Section 28 of the California Constitution. Should Blue Cross be exempt from the City's business tax, the potential business tax refund could be as high as $24 million, plus accrued interest.

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. *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, 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.

On August 10, 2017, LAPPL filed an additional lawsuit against the LAFPP and the City in Los Angeles Superior Court. The complaint alleges that the LAFPP did not raise the retiree subsidy by the maximum amount of 7% for the fiscal year beginning July 1, 2017. The court has stayed the case until October 2018, pending the outcome of the above case currently on appeal.