

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.

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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 2019 population of 4.04 million persons. Los Angeles is the principal city, comprised of 470 square miles, 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. The City provides a full range of governmental services, which include police and fire protection, construction and maintenance of streets and infrastructure, recreational activities and cultural events, maintenance and operation of the sewer, and sanitation utilities, and operation and maintenance of the water and power utilities, harbor and airport served by proprietary departments within the City.

This Appendix A relies in large part on information derived from the Fiscal Year 2019-20 Adopted Budget (the "Adopted Budget"), which was adopted by the City Council on May 29, 2019 and approved by the Mayor on May 30, 2019.

The City's financial operations have been strengthened by a growing Los Angeles economy, which is approaching its tenth year of growth since the Great Recession, and by a number of measures taken to control costs and increase reserves during that period. The Adopted Budget includes cumulative reserves at a level higher than any adopted budget in at least 25 years. While the Adopted Budget assumes continued growth in revenues at 6.1% in Fiscal Year 2019-20, the increased reserves will help position the City to better address the potential fiscal challenges that may surface from a softening economy in Fiscal Year 2020-21 or later.

The Four-Year Budget Outlook (the "Outlook") prepared annually in connection with the annual budget projects surpluses in each of its four years for the first time since Fiscal Year 2000-01; these projections assume continued revenue growth, and do not incorporate a number of potential costs such as employee compensation increases for sworn police or fire personnel, changes in retirement system assumptions that could increase pension contributions, and certain major planned capital improvements. Notwithstanding these risks, the Outlook signals a return towards structural balance.

The Adopted Budget addresses a number of liabilities that have posed challenges in prior fiscal years, most notably by significantly increasing the appropriation for Police overtime, an area of overspending and the accumulation of unfunded liability in the past. The Adopted Budget includes funding for infrastructure, technology improvements, and public safety services, and continues the City's commitment to address the homelessness crisis. The Adopted Budget includes a total of \$426.3 million in funding towards ending homelessness, including \$104.4 million in General Funds, \$40.6 million in Special Funds, and \$281.3 million in previously issued general obligation bond proceeds (Proposition HHH). To date, Proposition HHH funds in a total amount of \$593 million have been committed in Project Expenditure Plans for 3,629 total units, 2,832 of which are supportive units.

The Adopted Budget meets or exceeds four of the City's five primary budget-related financial policies. The Reserve Fund balance is 6.25% of General Fund revenues, above the 5% policy minimum, not including additional contingency funding in the Unappropriated Balance (the "UB") and the Budget Stabilization Fund (the "BSF"). All one-time revenues are being used for one-time expenditures. Over 1.1% of General Fund revenues are allocated towards capital improvements. The City's debt remains well below its policy limits, most notably with its nonvoter-approved appropriation debt representing 3.92% of general revenues projected in the Adopted Budget, below its 6% policy limit.

The Adopted Budget falls short of the City's current BSF policy, which requires that revenue growth in excess of 3.4% of the combined growth in seven economically-sensitive taxes be deposited to the BSF or used for capital. Under the current policy, the value of the funds in excess of 3.4% was \$111 million. The Adopted Budget allocates only \$80 million (\$7 million to the BSF itself, bringing its balance to \$113.9 million, and \$73 million to capital improvements), which is less than the \$111 million currently required. The BSF ordinance provides that the growth threshold be recalculated every five years based on the prior five years of actual growth, and therefore, the Council has instructed the City Attorney to revise the ordinance using the more recent 4.5% growth rate. If the policy is updated as expected using the 4.5% growth rate, the value of the funds in excess of such rate is \$62 million, making the \$80 million allocation compliant with the revised BSF policy.

One significant area of concern for the Adopted Budget continues to be the potential impact of any new labor agreements that have yet to be negotiated with all sworn and several civilian employee organizations, many of whose memoranda of understanding expire in June 2019. Consistent with the City's budgeting practice, there is no funding appropriated in the Adopted Budget for increases other than for existing and recently negotiated agreements. Depending on the costs in Fiscal Year 2019-20 of the labor agreements that are being or remain to be negotiated, the City may have to use a portion of its budgeted reserves to pay for these costs, with the expectation that the Reserve Fund will remain above the policy level of 5.0% of General Fund revenues. Future year costs of these agreements will be addressed through the City's annual budget development process.

Another area of long-term concern is the City's capital infrastructure needs. While the Adopted Budget complies with the capital funding policy and includes new and expanded special funding sources for clean water and mobility projects, the City's infrastructure needs surpass currently available resources. 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 backlog 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 and Convention Center. The estimated combined cost for the first of multiple phases of its Civic Center Master Development Plan and expanding its Convention Center is over \$1 billion. These projects would require significant financial contributions, most likely in the form of availability payments under a public-private partnership.

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 (“LARWQCB”) 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.

One source of funding for these Clean Water Act costs will be from a special parcel tax approved by Los Angeles County voters in 2018 and which will appear on property tax bills countywide beginning with Fiscal Year 2019-20. Eligible uses for revenues include projects that provide a water supply and/or quality benefit and a community investment benefit. The tax is projected to generate approximately \$300 million a year. Fifty percent of revenues are allocated for region-wide projects and are awarded on a competitive basis. Forty percent of revenues are allocated to municipalities in the same proportion as the amount of revenues collected within each municipality. The City expects to receive \$38 million in Fiscal Year 2019-20.

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. Incorporated in 1850 under the provisions of a City Charter, 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 automobile 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 continued to experience growth in population and in economic diversity. The City's 470 square miles contain 11.5% of the area of the County of Los Angeles, California (the "County") and approximately 39% of the population of 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 in a report dated June 2019 and is available on the City's web site at <http://cao.lacity.org/debt/2019.06.05%20-%20City%20of%20Los%20Angeles%20-Comparative%20Analysis.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⁾	3,954,715	0.85	10,155,753	0.69	38,952,462	0.91
2016	3,981,283	0.67	10,185,851	0.30	39,214,803	0.67
2017	4,015,087	0.85	10,226,920	0.40	39,504,609	0.74
2018	4,038,313	0.58	10,254,658	0.27	39,740,508	0.60
2019	4,040,079	0.04	10,253,716	(0.01)	39,927,315	0.47

⁽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, 2011-2019, with 2010 Census Benchmark. Sacramento, California, May 2019.

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⁾**

	2014	2015	2016	2017	2018
Civilian Labor Force					
City of Los Angeles					
Employed	1,845,900	1,875,700	1,920,200	1,942,200	1,982,600
Unemployed	<u>176,400</u>	<u>142,100</u>	<u>113,000</u>	<u>99,000</u>	<u>97,600</u>
Total	2,022,300	2,017,800	2,033,200	2,041,200	2,080,200
County of Los Angeles					
Employed	4,591,100	4,671,100	4,789,500	4,883,600	4,896,500
Unemployed	<u>413,000</u>	<u>331,200</u>	<u>265,400</u>	<u>240,300</u>	<u>239,800</u>
Total	5,004,100	5,002,300	5,054,900	5,123,900	5,136,300
Unemployment Rates					
City	8.7%	7.0%	5.6%	4.8%	4.7%
County	8.3	6.6	5.3	4.7	4.7
State	7.5	6.2	5.5	4.8	4.2
United States	6.2	5.3	4.9	4.4	3.9

⁽¹⁾ March 2018 Benchmark report as of March 8, 2019; 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 2019 of 4.0% statewide, 4.3% 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 of Los Angeles <u>2018</u>	% of <u>Total</u>	State of California <u>2018</u>	% of <u>Total</u>
Agricultural	4,800	0.1%	424,200	2.4%
Mining and Logging	1,900	0.0	22,900	0.1
Construction	146,000	3.2	859,600	4.9
Manufacturing	343,700	7.6	1,325,400	7.5
Trade, Transportation and Utilities	850,900	18.8	3,051,600	17.3
Information	217,400	4.8	543,700	3.1
Financial Activities	223,000	4.9	836,300	4.8
Professional and Business Services	620,000	13.7	2,663,700	15.1
Educational and Health Services	823,600	18.2	2,726,500	15.5
Leisure and Hospitality	534,300	11.8	1,986,100	11.3
Other Services	159,700	3.5	572,100	3.3
Government	<u>589,600</u>	13.1	<u>2,587,400</u>	2.4
Total ⁽²⁾	4,514,900		17,599,400	

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

⁽²⁾ May not add due to rounding.

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 2018 Benchmark report released March 8, 2019.

Major Employers

The estimated top 25 major non-governmental employers in the County in 2018 are listed in the table below. Separate estimates for the City are not available. Based on these estimates, the top 25 major non-governmental employers represented 6.4% of the labor force.

Table 4
LOS ANGELES COUNTY
2018 MAJOR NON-GOVERNMENTAL EMPLOYERS

<u>Employer</u>	<u>Product/Service</u>	<u>Employees</u>
Kaiser Permanente	Nonprofit health care plan	37,468 ⁽¹⁾
University of Southern California	Private university	21,055
Northrop Grumman Corp.	Defense contractor	16,600 ⁽¹⁾
Providence Health & Services Southern California	Health care	15,952
Target Corp.	Retailer	15,000 ⁽¹⁾
Ralphs/Food 4 Less (Kroger Co. Division)	Grocery retailer	14,970 ⁽¹⁾
Cedars-Sinai Medical Center	Medical center	14,903
Walt Disney Co.	Entertainment	13,000 ⁽¹⁾
Allied Universal	Security professionals	12,879
NBCUniversal	Entertainment	12,000
AT&T	Telecommunications, DirecTV	11,500 ⁽¹⁾
Home Depot	Home improvement specialty retailer	11,200 ⁽¹⁾
Albertsons/Vons/Pavilions	Grocery retailer	10,200
UPS	Logistics, transportation and freight	9,553
California Institute of Technology	Private university, operator of Jet Propulsion Laboratory	8,697
Wells Fargo Bank, N.A.	Diversified financial services	8,582
ABM Industries Inc.	Facility services, energy solutions, commercial cleaning, maintenance and repair	8,000 ⁽¹⁾
FedEx Corp.	Shipping and logistics	7,000 ⁽¹⁾
Bank of America Corp.	Banking and financial services	6,572
Dignity Health	Health care	6,200
Space Exploration Technologies Corp (SpaceX)	Rockets and spacecraft	6,000 ⁽¹⁾
City of Hope	Treatment and research center for cancer, diabetes and other life-threatening diseases	5,950
Raytheon Co.	Aerospace and defense	5,800
Children's Hospital Los Angeles	Hospital	5,735
Costco Wholesale	Membership chain of warehouse stores	5,445

⁽¹⁾ Business Journal estimate.

Source: Los Angeles Business Journal, Weekly Lists, originally published August 27, 2018.

The estimated top 25 major governmental employers in the County in 2018 are listed in the table below. Separate estimates for the City are not available. Based on these estimates, the top 25 major governmental employers represented 8.9% of the labor force.

Table 5
LOS ANGELES COUNTY
2018 LARGEST PUBLIC SECTOR EMPLOYERS

<u>Employers</u>	<u>Employees</u>
Los Angeles County	109,881
Los Angeles Unified School District	60,240
University of California, Los Angeles	48,570
U.S. Government – Federal Executive Board ⁽¹⁾	47,200
City of Los Angeles ⁽²⁾	33,375
State of California ⁽³⁾	30,000
Los Angeles County Metropolitan Transportation Authority	9,907
Los Angeles Department of Water and Power (LADWP)	9,425
Los Angeles Community College District	6,893
Long Beach Unified School District	6,686
City of Long Beach	5,318
California State University, Northridge	4,169
Los Angeles World Airports (LAWA)	3,500
California State University, Los Angeles	3,085
California State University, Long Beach	3,045
Pomona Unified School District	3,034
Montebello Unified School District	2,614
California State Polytechnic University, Pomona	2,487
Compton Unified School District	2,335
City of Santa Monica	2,167
City of Pasadena	2,132
Mt. San Antonio Community College District	2,075
Santa Monica Community College District	1,998
City of Glendale	1,934
William S. Hart Union High School District	1,879

⁽¹⁾ Excludes law enforcement and judiciary employees.

⁽²⁾ Excludes proprietary departments (LADWP, LAWA, Port of L.A.).

⁽³⁾ Excludes education employees.

Source: Los Angeles Business Journal, Weekly Lists, originally published August 27, 2018.

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)
2014		
County ⁽²⁾	\$ 525,088,691	\$52,130
State ⁽³⁾	2,021,640,034	52,340
United States ⁽³⁾	14,983,140,000	47,060
2015		
County ⁽²⁾	\$ 560,484,548	\$55,366
State ⁽³⁾	2,173,299,670	55,793
United States ⁽³⁾	15,711,634,000	48,985
2016		
County ⁽²⁾	\$ 577,071,787	\$56,851
State ⁽³⁾	2,259,413,865	57,625
United States ⁽³⁾	16,115,630,000	49,883
2017		
County ⁽²⁾	\$ 593,741,110	\$58,419
State ⁽³⁾	2,364,129,404	60,004
United States ⁽³⁾	16,820,250,000	51,731
2018		
County	n/a	n/a
State ⁽³⁾	\$ 2,475,727,500	\$62,586
United States ⁽³⁾	17,572,929,100	53,712

⁽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 2014 to 2018 reflect midyear state population estimates available as of December 2018 and county population estimates as of March 2018.

⁽²⁾ Last updated: March 6, 2019 – revised statistics for 2014 – 2017.

⁽³⁾ Last updated: March 26, 2019 – new statistics for 2018; revised statistics for 2014 – 2017.

Source: U.S. Bureau of Economic Analysis, “Table SAINC1: Personal Income Summary” and “Table CAINC1: Personal Income Summary” (accessed May 30, 2019).

Retail Sales

As the largest city in the County, the City accounted for \$46.4 billion (or 29.2%) of the total \$159.3 billion in County taxable sales for 2017. The following table sets forth a history of taxable sales for the City for calendar years 2013 through 2017, that being the last full year for which data is currently available.

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

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Motor Vehicle and Parts Dealers	\$3,983,625	\$4,158,168	\$ 4,616,450	\$ 4,769,093	\$ 4,622,056
Home Furnishings and Appliance Stores	1,683,805	1,725,981	1,826,089	1,945,181	1,961,526
Bldg. Materials and Garden Equip. and Supplies	2,086,608	2,179,954	2,335,497	2,384,196	2,473,704
Food and Beverage Stores	2,444,701	2,582,338	2,718,199	2,781,424	2,909,256
Gasoline Stations	4,954,380	4,822,894	4,252,397	3,670,450	3,973,137
Clothing and Clothing Accessories Stores	3,032,886	3,102,222	3,190,617	3,201,152	3,211,610
General Merchandise Stores	2,873,530	2,899,454	2,725,354	2,600,015	2,625,576
Food Services and Drinking Places	6,946,625	7,534,764	8,194,963	8,775,092	9,273,851
Other Retail Group	<u>3,943,616</u>	<u>3,969,898</u>	<u>4,112,670</u>	<u>4,229,201</u>	<u>4,292,027</u>
Total Retail and Food Services	31,949,776	32,975,673	33,972,239	34,355,804	35,342,745
All Other Outlets	<u>9,806,938</u>	<u>10,480,659</u>	<u>10,074,458</u>	<u>10,624,426</u>	<u>11,140,035</u>
TOTAL ALL OUTLETS	\$41,756,714	\$43,456,334	\$44,046,697	\$44,980,230	\$46,482,780
Year-over-year growth	4.1%	4.1%	1.4%	2.1%	3.34%

Source: 2013 – 2016: California State Board of Equalization, Research and Statistics Division.
2017: California Department of Tax and Fee Administration, Research and Statistics

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

	2018-19 <u>Assessed Valuation</u> ⁽¹⁾	% of <u>Total</u>	No. of <u>Parcels</u>	% of <u>Total</u>
Non-Residential				
Commercial Office	\$ 86,930,913,906	14.77%	36,014	4.56%
Vacant Commercial	2,302,454,891	0.39	1,312	0.17
Industrial	41,062,872,143	6.98	19,847	2.51
Vacant Industrial	1,886,480,525	0.32	4,077	0.52
Recreational	2,384,310,500	0.41	773	0.10
Government/Social/Institutional	3,511,301,099	0.60	3,666	0.46
Miscellaneous	<u>326,228,908</u>	<u>0.06</u>	<u>1,766</u>	<u>0.22</u>
Subtotal Non-Residential	\$138,404,561,972	23.51%	67,455	8.54%
Residential				
Single Family Residence	\$304,553,516,361	51.74%	499,971	63.33%
Condominium/Townhouse	40,213,862,375	6.83	89,111	11.29
Mobile Homes and Lots	151,428,434	0.03	3,508	0.44
Mobile Home Park	214,563,948	0.04	93	0.01
2-4 Residential Units	32,665,399,511	5.55	74,968	9.50
5+ Residential Units/Apartments	69,278,236,137	11.77	35,472	4.49
Vacant Residential	<u>3,194,995,356</u>	<u>0.54</u>	<u>18,874</u>	<u>2.39</u>
Subtotal Residential	\$450,272,002,122	76.49%	721,997	91.46%
Total	\$588,676,564,094	100.00%	789,452	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 ASSESSED VALUATION OF SINGLE-FAMILY RESIDENTIAL PROPERTIES

	<u>No. of Parcels</u>	<u>2018-19 Assessed Valuation</u>	<u>Average Assessed Valuation</u>	<u>Median Assessed Valuation</u>
Single Family Residential Properties	499,971	\$304,553,516,361	\$609,142	\$378,520

<u>2018-19 Assessed Valuation</u>	<u>No. of Residential Parcels ⁽¹⁾</u>	<u>% of Total</u>	<u>Cumulative % of Total</u>	<u>Total Valuation</u>	<u>% of Total</u>	<u>Cumulative % of Total</u>
\$0 - \$49,999	8,941	1.788%	1.788%	\$ 319,202,641	0.105%	0.105%
\$50,000 - \$99,999	23,542	4.709	6.497	1,760,188,256	0.578	0.683
\$100,000 - \$149,999	24,333	4.867	11.364	3,045,201,951	1.000	1.683
\$150,000 - \$199,999	32,418	6.484	17.848	5,705,632,836	1.873	3.556
\$200,000 - \$249,999	40,876	8.176	26.024	9,190,886,848	3.018	6.574
\$250,000 - \$299,999	47,184	9.437	35.461	12,961,350,432	4.256	10.830
\$300,000 - \$349,999	49,883	9.977	45.438	16,184,838,648	5.314	16.144
\$350,000 - \$399,999	51,062	10.213	55.651	19,119,553,156	6.278	22.422
\$400,000 - \$449,999	33,491	6.699	62.350	14,222,288,060	4.670	27.092
\$450,000 - \$499,999	26,415	5.283	67.633	12,530,008,080	4.114	31.206
\$500,000 - \$549,999	22,213	4.443	72.076	11,646,431,391	3.824	35.030
\$550,000 - \$599,999	18,741	3.748	75.824	10,758,158,604	3.532	38.563
\$600,000 - \$649,999	14,620	2.924	78.748	9,124,005,740	2.996	41.558
\$650,000 - \$699,999	12,676	2.535	81.284	8,545,905,680	2.806	44.365
\$700,000 - \$749,999	10,888	2.178	83.461	7,883,489,064	2.589	46.953
\$750,000 - \$799,999	9,222	1.845	85.306	7,139,515,626	2.344	49.297
\$800,000 - \$849,999	8,048	1.610	86.916	6,631,455,424	2.177	51.475
\$850,000 - \$899,999	6,895	1.379	88.295	6,027,871,010	1.979	53.454
\$900,000 - \$949,999	6,714	1.343	89.638	6,207,851,682	2.038	55.492
\$950,000 - \$999,999	4,914	0.983	90.620	4,788,093,492	1.572	57.064
\$1,000,000 and greater	<u>46,895</u>	<u>9.380</u>	100.000	<u>130,761,587,740</u>	<u>42.936</u>	100.000
Total	499,971	100.000%		\$304,553,516,361	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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Valuation ⁽¹⁾	\$6,416	\$6,808	\$6,822	\$7,924	\$8,654
Residential ⁽²⁾	2,668	3,385	3,359	3,522	3,940
Non-Residential ⁽³⁾	968	880	729	1,197	1,256
Miscellaneous Residential ⁽⁴⁾	18	28	25	134	180
Miscellaneous Non-Residential ⁽⁵⁾	18	40	56	87	40
Number of Residential Units:					
Single family ⁽⁶⁾	1,852	2,246	2,393	3,148	3,598
Multi-family ⁽⁷⁾	<u>9,607</u>	<u>13,246</u>	<u>11,495</u>	<u>10,984</u>	<u>12,659</u>
Subtotal Residential Units	11,459	15,492	13,888	14,132	16,257
Number of Non-Residential Units ⁽⁸⁾	326	613	97	630	12
Miscellaneous Residential Units ⁽⁹⁾	274	393	672	4,701	4,614
Miscellaneous Non-Residential Units ⁽¹⁰⁾	267	736	1,036	100	493
Total Units	12,326	17,234	15,693	19,563	21,376

- (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⁾

<u>Year and Area</u>	<u>Retail</u>	<u>Office</u>	<u>Warehouse</u>	<u>R&D</u>
2014				
City	5.4	16.7	6.4	5.2
County	6.1	15.7	6.9	4.7
2015				
City	4.9	16.4	5.8	4.4
County	6.0	15.4	6.2	3.8
2016				
City	5.0	15.2	5.4	4.3
County	6.3	14.5	5.6	3.2
2017				
City	5.4	15.1	4.6	3.0
County	6.2	14.6	4.7	2.6
2018				
City	5.4	15.0	4.7	3.4
County	6.5	14.5	4.8	3.0

⁽¹⁾ Vacancy rates are annual averages

Source: REIS, Beacon Economics.

Education

The Los Angeles Unified School District (“LAUSD”), a separate government agency and 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 also a number of charter and private K-12 schools located in the City.

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; 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, approves utility rates, 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. Richard H. Lewellyn, Jr. has served as City Administrative Officer since February 2017.

The Office of Finance (“Finance”) serves as the custodian of all funds deposited in the City Treasury and all securities purchased by the City. Finance actively manages the investment of the City’s general and special pool investment portfolios and cash programs. The Director of Finance is appointed by the Mayor and confirmed by the Council. Claire Bartels has served as the Director of Finance and City Treasurer since January 2016.

The City has 38 departments and bureaus for which operating funds are annually budgeted by the Council. Two of these departments, the Los Angeles City Employees’ Retirement System and the Fire and Police Pension System, are under the control of boards whose memberships consist of mayoral appointees and representatives elected by system members. 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.

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. The City obtains water and electricity from DWP, the largest municipally-owned utility in the nation.

BUDGET AND FINANCIAL OPERATIONS

Financial Reporting and Fiscal Year 2017-18 Results

The City prepares its financial statements in accordance to Generally Accepted Accounting Standards as promulgated by the Government Accounting Standards Board (“GASB”). For a number of years GASB has required that basic financial statements include government-wide financial statements, which are designed to provide readers with a broad overview of the City’s finances. These statements are prepared using accounting methods similar to those used by private-sector businesses, including the accrual basis of accounting. The government-wide statement of net position presents information on all of the City’s assets, liabilities, and deferred outflows/inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Various GASB rules have required the inclusion of both pension and retiree health liabilities in the government-wide financial statements. The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a portion of their costs through user fees and charges (business-type activities). Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support.

The City’s Comprehensive Annual Financial Report (the “CAFR”) for the Fiscal Year Ended June 30, 2018 reported a deficit balance for the governmental activities’ unrestricted net position of \$8.0 billion, which was mainly due to the net pension liability of \$6.2 billion, net OPEB liability of \$2.2 billion, and deferred financing of certain liabilities (including claims and judgments, workers’ compensation, and compensated absences).

The primary focus of the annual CAFR is reporting on fund financial statements, designed to report information about groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities. The most relevant of those funds is the City's General Fund, which is the primary operating fund of the City. It is used to account for all financial resources of the general government, except those required to be accounted for in other funds.

The CAFR for Fiscal Year 2017-18 reported a growth in the City's total General Fund fund balance of approximately \$43.0 million to \$929.2 million. 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)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Assets					
Cash and Pooled Investments ⁽¹⁾	\$1,014,481	\$1,084,125	\$1,135,914	\$1,137,680	\$1,058,705
Taxes Receivable	479,482	554,084	749,917	650,932	669,205
Accounts Receivable	128,136	131,040	124,661	116,666	107,631
Special Assessments Receivable	4,518	4,417	3,691	3,421	3,040
Investment Income Receivable	4,815	7,123	7,376	7,992	12,985
Intergovernmental Receivable	155,448	135,042	125,862	133,018	143,773
Loans Receivable	-	1	-	-	-
Due from Other Funds	43,625	50,870	109,640	68,638	115,287
Inventories	18,643	20,694	36,045	33,158	33,004
Prepaid Items and Other Assets	14,569	13,297	10	5	5
Advances to Other Funds	9,934	8,155	8,155	12,317	8,814
Total Assets	\$1,873,651	\$2,008,848	\$2,301,271	\$2,163,827	\$2,152,449
Liabilities:					
Accounts, Contracts and Retainage Payable	\$ 63,347	\$ 69,758	\$ 77,061	\$ 87,887	\$ 83,488
Obligations Under Securities Lending Transactions	2,580	12,703	36,108	13,914	33,339
Accrued Salaries and Overtime Payable	122,028	154,873	182,250	192,538	203,015
Accrued Compensated Absences Payable	17,182	15,654	17,733	9,887	9,254
Estimated Claims and Judgments Payable	35,015	39,922	54,364	65,534	69,831
Intergovernmental Payable	353	876	397	579	493
Due to Other Funds	98,113	47,891	84,503	90,237	133,283
Unearned Revenue	24	19	10	421	972
Deposits and Advances	23,612	28,349	24,793	34,724	9,094
Advances from Other Funds	22,436	47,304	32,775	24,032	18,391
Other Liabilities	43,843	53,246	71,264	143,892	45,737
Total Liabilities	\$ 428,533	\$ 470,595	\$ 581,258	\$ 663,645	\$ 606,897
Deferred Inflows of Resources					
Real Estate Tax	\$ 29,884	\$ 53,497	\$ 55,325	\$ 58,304	\$ 62,674
Taxes Other than Real Estate	269,310	314,960	417,584	348,324	344,215
Receivables from Other Government Agencies	154,739	132,692	120,010	121,432	125,663
Other Deferred Inflows of Resources	95,114	91,555	98,729	85,894	83,785
Total Deferred Inflows of Resources	\$ 549,047	\$ 592,704	\$ 691,648	\$ 613,954	\$ 616,337
Fund Balances					
Nonspendable ⁽²⁾	\$ 43,146	42,146	\$ 44,210	\$ 45,480	\$ 41,823
Restricted	-	-	-	-	-
Committed	-	2,457	1,296	9,723	25,151
Assigned ⁽³⁾	230,717	253,388	392,418	304,482	289,080
Unassigned ⁽⁴⁾	622,208	647,558	590,441	526,543	573,161
Total Fund Balances	\$ 896,071	\$ 945,549	\$1,028,365	\$ 886,228	\$ 929,215
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$1,873,651</u>	<u>\$2,008,848</u>	<u>\$2,301,271</u>	<u>\$2,163,827</u>	<u>\$2,152,449</u>

(1) Includes securities held under securities lending transactions, offset by the Liability "Obligations Under Securities Lending Transactions."

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

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

(4) Primarily consists of the City's Reserve Fund and 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)

	2014	2015	2016	2017	2018
Revenues:					
Property Taxes	\$1,662,364	\$1,733,508	\$1,808,486	\$1,857,683	\$1,958,033
Sales Taxes	357,255	372,782	437,775	521,910	534,236
Utility Users Taxes	631,492	637,318	614,814	611,160	640,711
Business Taxes	476,908	500,774	507,635	546,494	534,994
Other Taxes	522,341	552,549	586,375	641,755	688,804
Licenses and Permits	22,417	22,604	32,728	37,133	38,777
Intergovernmental	11,640	39,284	20,691	15,337	17,822
Charges for Services ⁽¹⁾	543,882	617,481	318,462	243,379	315,900
Services to Enterprise Funds	253,414	273,171	317,265	328,511	316,245
Fines	167,474	156,006	152,304	147,023	141,346
Special Assessments	2,441	1,259	1,869	1,490	1,755
Investment Earnings	19,059	20,736	38,891	25,353	33,024
Change in Fair Value of Investments ⁽²⁾	-	-	-	(23,740)	(26,754)
Other	118,571	79,816	55,742	54,116	55,039
Total Revenues	<u>\$4,789,258</u>	<u>\$5,007,288</u>	<u>\$4,893,037</u>	<u>\$5,007,604</u>	<u>\$5,249,932</u>
Expenditures:					
Current:					
General Government	\$1,263,431	\$1,333,453	\$1,316,146	\$1,356,842	\$1,332,676
Protection of Persons and Property	2,562,058	2,771,591	2,797,742	2,874,117	2,963,819
Public Works	180,714	170,510	112,473	268,201	186,390
Health and Sanitation	146,422	174,136	131,438	87,722	95,705
Transportation	106,494	110,336	105,354	129,893	119,240
Cultural and Recreational Services	50,943	54,992	57,815	12,222	61,996
Community Development	36,758	43,966	2,391	79,002	39,074
Capital Outlay	27,025	29,540	46,467	23,359	27,858
Debt Service: Interest	1,939	1,472	4,339	9,116	13,524
Debt Service: Cost of Issuance	907	927	807	931	763
Total Expenditures	<u>\$4,376,691</u>	<u>\$4,690,923</u>	<u>\$4,574,972</u>	<u>\$4,841,405</u>	<u>4,841,045</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 412,567</u>	<u>\$ 316,365</u>	<u>\$ 318,065</u>	<u>\$ 166,199</u>	<u>\$ 408,887</u>
Other Financing Sources (Uses)					
Transfers In	\$ 294,383	\$ 302,147	\$ 349,928	\$ 297,649	\$ 277,315
Transfers Out	(534,263)	(573,493)	(600,527)	(603,044)	(643,061)
Total Other Financing Sources (Uses)	<u>(239,880)</u>	<u>(271,346)</u>	<u>(250,599)</u>	<u>(305,395)</u>	<u>(365,746)</u>
Net Change in Fund Balance	172,687	45,019	67,466	(139,196)	43,141
Fund Balances, July 1	722,616	898,479 ⁽³⁾	945,549	1,028,311 ⁽³⁾	886,228
(Decrease) Increase in Reserve for Inventories	768	2,051	15,350	(2,887)	(154)
Fund Balances, June 30	<u>\$ 896,071⁽³⁾</u>	<u>\$945,549</u>	<u>\$1,028,365⁽³⁾</u>	<u>\$ 886,228</u>	<u>\$ 929,215</u>

⁽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 2016-17 and Fiscal Year 2017-18 to provide a more meaningful picture of real investment earnings.

⁽³⁾ In compliance with GASB implementation guidelines on fund categories, certain funds were reassigned between Special Revenue Fund type and 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.

By Charter, the Mayor presents and the Council adopts a balanced budget with no deficit.

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 (each an "FSR") 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>; except for the discussion below on "**Fiscal Year 2018-19 Financial Status Reports,**" such information is not incorporated as part of this Official Statement.

Fiscal Year 2018-19 Adopted Budget

The Adopted Budget for Fiscal Year 2018-19 was based on approximately \$6.191 billion in General Fund revenues and appropriations, and \$3.709 billion in special revenues (including bond levies) for a total of \$9.9 billion. As of the adoption of the Adopted Budget, actual General Fund revenues were estimated at \$6.205 billion. Although actual operating results will not be known for several months, the City estimates in connection with the Adopted Budget that the cash balance in the Reserve Fund will grow from \$436.1 million on July 1, 2018 to \$515.3 million on June 30, 2019. While the Reserve Fund cash balance does not represent GAAP-based fund balance, it is an important component. (See "**BUDGET AND FINANCIAL OPERATIONS—Budget Reserves and Contingencies.**")

Fiscal Year 2018-19 Financial Status Reports

Throughout the fiscal year, the City Administrative Officer issues interim financial status reports as deemed necessary. These reports identify various potential expenditures that could exceed budgeted amounts and recommend transfers to address them.

The City has released four FSRs this fiscal year, on October 26, 2018, December 6, 2018, February 28, 2019, and May 31, 2019.

The fourth FSR identified about \$14 million in projected overspending and unfunded items across various departments and funds, absent corrective action.

The recommendations in the report are expected to fully address the overspending, primarily through the use of the remaining balance in the Unappropriated Balance – Reserve for Mid-Year Adjustments. The report projects that revenues will meet the revised budget amount. The FSR also reports that the Reserve Fund is at 5.91% of revenues, and that the City’s overall reserves are 7.63% of revenues.

Fiscal Year 2019-20 Adopted Budget

The Mayor released his Fiscal Year 2019-20 Proposed Budget on April 18, 2019. The Council’s Budget and Finance Committee held hearings on the Proposed Budget between April 30 and May 16, 2019. The Council deliberated on the budget on May 22, May 23, and May 28, 2019 and adopted the budget on May 29, 2019. The Mayor signed the budget on May 30, 2019.

While the Fiscal Year 2019-20 Adopted Budget is balanced, as in every year, budget adjustments may be required throughout the year. For example, while the Adopted Budget includes \$82.3 million in anticipated salary and related pension cost increases for members of the Coalition of LA City Unions, it does not include funding for compensation adjustments that could result from ongoing employee negotiations with the police and firefighter unions and a number of civilian unions. Depending on the costs in Fiscal Year 2019-20 of the labor agreements that are being or remain to be negotiated, the City may have to use a portion of its budgeted reserves to pay for these costs, with the expectation that the Reserve Fund will remain above the policy level of 5.0% of General Fund revenues. See **“BUDGET AND FINANCIAL OPERATIONS—Labor Relations.”**

Adjustments could also be required if revenues fall short of expectations. Risks to revenues include an uncertainty regarding cannabis revenues (due to a lack of historical data), transient occupancy tax (due to the pending implementation of a new Home Sharing Ordinance), and gas taxes (which has been difficult to predict and fallen short in recent years). The Adopted Budget includes \$35 million in the UB – 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 has been increased by \$47.4 million in the Adopted Budget, \$6.4 million higher than estimated expenditures in Fiscal Year 2018-19. Previously, Police overtime has required mid-year appropriations, and as a last resort, unfunded overtime has occasionally been banked as compensatory time off, further increasing that future liability. The police overtime bank was valued at approximately \$108 million as of May 11, 2019.

The following table presents the 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)

	Adopted Budget <u>2015-16</u>	Adopted Budget <u>2016-17</u>	Adopted Budget <u>2017-18</u>	Adopted Budget <u>2018-19</u>	Adopted Budget <u>2019-20</u>
Revenues					
General Fund					
Property Taxes ⁽¹⁾	\$1,765,230,000	\$1,786,069,000	\$1,833,755,000	\$1,961,509,000	\$2,115,611,000
Property Tax – Ex-CRA Tax Increment	52,580,000	54,594,000	74,168,000	97,252,000	100,386,000
Other Taxes ⁽²⁾	2,080,875,000	2,220,813,000	2,327,666,000	2,449,948,000	2,564,605,000
Licenses, Permits, Fees and Fines ⁽³⁾	1,077,604,212	1,119,258,885	1,247,823,015	1,350,888,130	1,432,853,292
Intergovernmental ⁽⁴⁾	275,300,000	291,000,000	242,500,000	238,000,000	235,600,000
Other General Fund ⁽⁵⁾	141,191,911	85,000,457	76,586,999	60,861,940	83,994,246
Interest	<u>17,600,000</u>	<u>19,700,000</u>	<u>23,957,000</u>	<u>32,137,000</u>	<u>36,700,000</u>
Total General Fund Revenue	\$5,410,381,123	\$5,576,435,342	\$5,826,456,014	\$6,190,596,070	\$6,569,749,538
Special Purpose Funds					
Charges For Services and Operations ⁽⁶⁾	\$1,312,020,696	\$1,310,678,984	\$1,553,096,303	\$1,555,317,317	\$1,758,998,195
Transportation Funds ⁽⁷⁾	373,949,770	356,414,969	393,912,507	496,879,264	618,102,159
Intergovernmental ⁽⁸⁾	82,564,920	64,738,943	79,656,836	86,886,108	86,722,284
Special Assessments ⁽⁹⁾	98,396,818	86,915,551	89,023,545	100,302,644	147,298,081
Other Special Funds	422,486,212	547,333,260	534,032,289	609,682,433	606,181,416
Available Balances	<u>745,236,659</u>	<u>711,949,569</u>	<u>693,324,603</u>	<u>740,937,349</u>	<u>784,687,123</u>
Total Special Fund Revenue	\$3,034,655,075	\$3,078,031,276	\$3,343,046,083	\$3,590,005,115	\$4,001,989,258
City Levy for Bond Redemption and Interest	<u>137,526,468</u>	<u>122,494,656</u>	<u>122,623,642</u>	<u>119,167,296</u>	<u>138,339,047</u>
Total Receipts	\$8,582,562,666	\$8,776,961,274	\$9,292,125,739	\$9,899,768,481	\$10,710,077,843
Appropriations by Funding Source					
General Fund					
Fire Department	\$ 620,197,506	\$ 627,145,936	\$ 639,273,170	\$ 662,270,767	\$682,509,340
Police Department	1,388,767,435	1,435,223,677	1,517,200,993	1,551,479,094	1,676,632,617
Other Budgetary Departments	1,093,424,363	826,906,870	1,178,595,853	867,370,474	971,170,179
Tax and Revenue Anticipation Notes ⁽¹⁰⁾	1,077,985,098	1,095,628,745	1,114,644,814	1,208,676,507	1,302,296,587
Capital Finance Administration ⁽¹¹⁾	214,208,074	205,223,909	209,459,534	221,353,665	223,750,313
Human Resources Benefits	611,491,371	629,485,100	682,788,227	730,656,927	743,564,377
Other General Fund Appropriations	<u>404,307,276</u>	<u>756,821,105</u>	<u>484,493,423</u>	<u>948,788,636</u>	<u>969,826,125</u>
Total General Fund	\$5,410,381,123	\$5,576,435,342	\$5,826,456,014	\$6,190,596,070	\$6,569,749,538
Special Purpose Funds					
Budgetary Departments	\$ 962,208,445	\$ 995,115,656	\$1,090,933,010	\$1,109,884,995	\$1,206,897,557
Appropriations to Proprietary Departments	102,643,144	106,556,869	102,313,802	102,313,802	117,561,561
Capital Improvement Expenditure Program	266,516,882	254,041,522	343,304,288	362,899,021	428,132,311
Wastewater Special Purpose Fund	464,501,463	490,986,961	521,469,820	559,438,564	597,021,942
Appropriations to Special Purpose Funds	<u>1,238,785,141</u>	<u>1,231,330,268</u>	<u>1,285,025,163</u>	<u>1,455,468,733</u>	<u>1,652,375,887</u>
Total Special Funds	\$3,034,655,075	\$3,078,031,276	\$3,343,046,083	\$3,590,005,115	\$4,001,989,258
Bond Redemption and Interest Funds					
General City Bonds	<u>\$ 137,526,468</u>	<u>\$ 122,494,656</u>	<u>\$ 122,623,642</u>	<u>\$ 119,167,296</u>	<u>\$ 138,339,047</u>
Total (All Purposes)	<u>\$8,582,562,666</u>	<u>\$8,776,961,274</u>	<u>\$9,292,125,739</u>	<u>\$9,899,768,481</u>	<u>\$10,710,077,843</u>

- (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 pay 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 preparation of the budget.

Even though budget deficits were consistently projected 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 Adopted Budget. For the first time since Fiscal Year 2000-01, the Adopted Budget Outlook for Fiscal Year 2019-20 projects balance or surpluses in each of its four forecast years. The Budget Outlook assumes that revenue amounts will match historical averages, and that the size of the workforce will remain flat after Fiscal Year 2019-20, with no major increases to City services.

A risk to the Budget Outlook is the uncertainty regarding the development of new labor agreements with City workers. Many existing agreements will expire in June 2019 and will need to be renegotiated. See "**BUDGET AND FINANCIAL OPERATIONS—Labor Relations.**" The Budget Outlook only accounts for currently negotiated salary increases in future years. Increased labor costs will be incorporated in future Budget Outlooks. The Outlook also does not account for changes in the rate of return assumption or other key variables for the City's employee retirement systems that could result in higher City contribution rates beginning in 2020-21. See "**BUDGET AND FINANCIAL OPERATIONS—Retirement and Pension Systems.**" Also not included in the Budget 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 Budget				
	2019-20	2020-21	2021-22	2022-23	2023-24
Estimated General Fund Revenue:					
General Fund Base ⁽¹⁾	\$6,190.6	\$6,569.7	\$6,708.0	\$6,887.7	\$7,084.6
Revenue Growth ⁽²⁾					
Property Related Taxes ⁽³⁾	154.4	95.1	80.0	95.6	99.4
Business and Sales Taxes ⁽⁴⁾	98.9	24.2	43.9	45.5	43.2
Utility Users Tax ⁽⁵⁾	10.6	3.4	4.5	5.7	6.7
License, Permits , Fees and Fines ⁽⁶⁾	98.8	22.2	31.2	32.0	32.8
Other Fees, Taxes and Transfers ⁽⁷⁾	(3.0)	27.2	20.1	18.1	18.8
SPRF Transfer ⁽⁸⁾	25.2	(33.8)	-	-	-
Transfer from the Budget Stabilization Fund ⁽⁹⁾	-	-	-	-	-
Transfer from Reserve Fund ⁽¹⁰⁾	(5.8)	-	-	-	-
Total Revenue	6569.7	\$6,708.0	\$6,887.7	\$7,084.6	\$7,285.5
<i>General Fund Revenue Increase (Decrease) %</i>	<i>6.1%</i>	<i>2.1%</i>	<i>2.7%</i>	<i>2.9%</i>	<i>2.8%</i>
<i>General Fund Revenue Increase (Decrease) \$</i>	<i>379.1</i>	<i>138.3</i>	<i>179.7</i>	<i>196.9</i>	<i>200.9</i>
Estimated General Fund Expenditures:					
General Fund Base ⁽¹¹⁾	\$6,190.6	\$6,569.7	\$6,674.8	\$6,860.5	\$7,022.2
Incremental Changes to Base: ⁽¹²⁾					
Employee Compensation Adjustments ⁽¹³⁾	153.2	72.2	77.6	56.1	46.2
City Employees' Retirement System ⁽¹⁴⁾	70.9	42.6	32.1	22.2	19.3
Fire and Police Pensions ⁽¹⁴⁾	17.2	(2.3)	(18.5)	20.7	25.6
Workers Compensation Benefits ⁽¹⁵⁾	5.1	7.8	7.8	11.5	17.6
Health, Dental and Other Benefits ⁽¹⁶⁾	7.8	34.2	53.1	60.5	65.1
Debt Service ⁽¹⁷⁾	(0.1)	(4.0)	0.7	(35.5)	(5.8)
Delete Resolution Authorities ⁽¹⁸⁾	(68.4)	-	-	-	-
Add New and Continued Resolution Authorities ⁽¹⁸⁾	88.9	-	-	-	-
Delete One-Time Costs ⁽¹⁹⁾	(37.3)	(40.4)	-	-	-
Add One-Time Costs ⁽¹⁹⁾	51.7	-	-	-	-
Comprehensive Homeless Strategy ⁽²⁰⁾	5.2	(19.5)	-	-	-
Unappropriated Balance ⁽²¹⁾	(2.9)	(39.7)	-	-	-
City Elections ⁽²²⁾	9.5	(1.3)	7.3	(0.7)	(3.3)
CIEP – Municipal Facilities & Physical Plant ⁽²³⁾	(11.3)	-	-	-	-
CIEP – Sidewalks ⁽²⁴⁾	(3.4)	3.7	-	5.7	-
CIEP – Pavement Preservation ⁽²⁵⁾	(2.5)	15.8	3.3	3.4	3.5
Appropriation to the Reserve Fund ⁽²⁶⁾	7.6	(7.6)	-	-	-
Appropriation to the Budget Stabilization Fund ⁽²⁷⁾	-	-	-	-	-
Net - Other Additions and Deletions ⁽²⁸⁾	87.9	43.6	22.3	17.8	17.6
Subtotal Expenditures	\$6,569.7	\$6,674.8	\$6,860.5	\$7,022.2	\$7,208.0
<i>Expenditure Growth (Reduction) %</i>	<i>6.1%</i>	<i>1.6%</i>	<i>2.8%</i>	<i>2.4%</i>	<i>2.6%</i>
<i>Expenditure Growth (Reduction) \$</i>	<i>379.1</i>	<i>105.1</i>	<i>185.7</i>	<i>161.7</i>	<i>185.8</i>
TOTAL BUDGET GAP⁽²⁹⁾	\$ -	\$ 33.2	\$ 27.2	\$ 62.4	\$ 77.5
<i>Incremental Increase(Decrease) \$ in Gap</i>		<i>33.2</i>	<i>(6.0)</i>	<i>35.2</i>	<i>15.1</i>

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 and individual economically-sensitive revenues may grow up to six 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 2019-20 attributed to one-time transfers and new on-going revenue. Subsequent years include average growth.

(3) Property tax growth is projected at 6.2 percent for 2019-20 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 2019-20 reflects modest price growth and lower sales. The Outlook includes steady growth in outgoing years as home prices are restrained by affordability.

(4) Business tax and Sales taxes are projected to experience increased growth for 2019-20 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 tangible goods to services and digital goods and from local to online retailers.

(5) Electricity Users tax reflects increased growth for 2019-20 consistent with estimates provided by the Department of Water and Power.

Table 15
GENERAL FUND BUDGET OUTLOOK
(\$ 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 2019-20 low growth 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, Fees, and Fines 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 2019-20 amount reflects new ongoing revenue from LAPD's contract with Los Angeles County Metropolitan Transportation Authority for security services and as-needed and part-time related cost recovery. For 2019-20, reimbursements to the General Fund are based on Cost Allocation Plan 41, which is published by the Controller.
- (7) The 2019-20 low growth in Transient Occupancy tax reflects industry forecasts for reduced hotel room demand. Additionally, growth in short-term rental receipts is projected to decline as a result of restrictions implemented by the City's home-sharing policy. The Outlook assumes steady growth for Parking Occupancy tax for 2019-20 and in the outgoing years. The Power Revenue Transfer estimate for 2019-20 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 2019-20 is \$25.2 million more than the 2018-19 transfer and \$33.8 million above the base-level transfer. The annual base-level transfer is assumed for the outgoing years.
- (9) The Outlook does not include any transfers from the Budget Stabilization Fund (BSF). Transfers from the BSF are subject to an available balance 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.
- (10) The Outlook does not include any transfers from the Reserve Fund. The 2019-20 amount reflects a reduction of the \$5.8 million transfer included in the 2018-19 Budget. The 2019-20 Reserve Fund balance is 6.25 percent of General Fund revenues.

Estimated General Fund Expenditures:

- (11) General Fund Base: The General Fund base carries over all estimated General Fund expenditures from the prior year to the following fiscal year.
- (12) Incremental changes to the Base: The 2019-20 amount reflects funding adjustments to the prior fiscal year General Fund budget. The 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 2019-20 amount includes employee compensation adjustments consistent with existing labor agreements, full funding for partially financed positions from the prior year, and two additional working days in 2019-20. Fiscal years 2020-21 through 2023-24 reflect adjustments of one-time salaries from the prior year, changes in the number of working days, and existing labor agreements with City bargaining units, including the agreement with the Coalition of City Unions, which is pending final Council approval.
- (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 Tier 3 payroll assumptions. In 2018, the board of administration for LACERS adopted demographic assumption changes, specifically a change to the mortality tables. The contribution rates below include the adopted assumption changes.

LACERS and LAFPP

Assumptions	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
LACERS						
6/30th Investment Returns	0%	7.25%	7.25%	7.25%	7.25%	7.25%
Combined Contribution Rate	28.02%	29.52%	29.80%	30.20%	30.65%	31.05%
Pensions						
6/30th Investment Returns	0%	7.25%	7.25%	7.25%	7.25%	7.25%
Combined Contribution Rate	46.85%	47.37%	46.31%	44.16%	44.56%	45.41%

- (15) Workers' Compensation Benefits: The projection is based on a March 2019 actuarial analysis that projects annual medical inflation of three percent and a three percent annual cost increase in permanent disability costs. The State Assessment Fee is projected to be \$11 million. Projections for 2020-21 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. The final debt service payment on all Judgment Obligation Bonds is in 2019-20 and the final debt service payment on all Municipal Improvement Corporation of Los Angeles (MICLA) Los Angeles Convention Center Bonds is in 2022-23.
- (18) Resolution Authorities: The deletion line reflects the practice of annually deleting resolution authority positions, which are limited-term and 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

Table 15
GENERAL FUND BUDGET OUTLOOK
(\$ in millions)

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 2020-21. 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 2019-20 are deleted in 2020-21.
- (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: Pursuant to Charter Amendment 1, the County administers City Elections and the City reimburses the County for its share of the costs. The City continues to perform limited functions related to the elections. The Outlook includes the costs for both the City’s work on the elections and the estimated reimbursement to the County. The 2019-20 amount represents costs for a June 2019 special election and funding set aside in the UB for reimbursement to the County for the March 2020 primary election and an August 2019 special election, if necessary. The amounts estimated in 2020-21, 2021-22, 2022-23, and 2023-24 include the estimated cost for a November 2020 general election, March 2022 primary election, November 2022 general election, and March 2024 primary election, respectively.
- (23) Capital Improvement Expenditure Program (CIEP) – Municipal Facilities and Physical Plant: The 2019-20 Adopted Budget includes a reduction in funding from the General Fund of \$11.4 million for physical plant related capital projects and a \$0.1 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 2019-20 decrease of \$3.4 million in General Fund appropriations reflects the availability of special funds to meet the required \$31 million obligation. The 2020-21 increase of \$3.7 million reflects the assumption that the General Fund portion will be increased to \$19.2 million annually, with the balance of the investment covered by other sources of funds. The General Fund appropriation will increase by \$5.7 million in 2022-23 to reflect both the required adjustment and to recognize that 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 2019-20 to \$150.5 million from various sources of funds. Funding in 2019-20 is included in the departments’ budgets. It is assumed that the program will continue at that level through 2023-24. To meet this level in 2020-21, an additional \$15.8 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 appropriation to the Reserve Fund in 2019-20 is \$7.6 million. No appropriation is included in subsequent years.
- (27) Appropriation to the Budget Stabilization Fund (BSF): Per the existing policy, if the combined 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. Pursuant to the BSF ordinance, the City should adjust the growth threshold in 2019 based on the actual revenues received during the previous five years. The Adopted Budget includes a request for the City Attorney to revise the BSF ordinance to change the annual growth threshold to 4.5 percent. The appropriation to the BSF 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 2019-20, the combined annual ongoing growth in the seven General Fund tax revenue sources is 5.9 percent. Based on the anticipated revised growth revenue threshold of 4.5 percent, the direct transfer from the Reserve Fund to the BSF is \$7 million and an additional \$73 million is used for capital improvements.
- (28) Net – Other Additions and Deletions: The 2019-20 amount includes ongoing changes and new regular positions added to the base budget. Among the significant increases are appropriations of \$19 million to Recreation and Parks, \$13 million to the Library, and \$37 million for Police Sworn Overtime. 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, LAPD vehicles, and the recycling incentives program.
- (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 may also transfer 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 following table summarizes the projected Reserve Fund balances as of July 1 as anticipated in past Adopted Budgets and the actual Reserve Fund balances that occurred on July 1 of those years, as well as the projected balance for July 1, 2019. 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)

	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>
Adopted Budget										
Emergency Reserve	\$120.3	\$120.6	\$125.1	\$133.8	\$141.3	\$148.8	\$153.4	\$160.2	\$170.2	\$180.7
Contingency	<u>6.9</u>	<u>56.7</u>	<u>92.9</u>	<u>127.3</u>	<u>142.8</u>	<u>164.6</u>	<u>181.5</u>	<u>138.1</u>	<u>180.7</u>	<u>229.7</u>
	\$127.2	\$177.3	\$218.0	\$261.1	\$284.1	\$313.4	\$334.9	\$298.3	\$350.9	\$410.4
Reserve Fund Balance as % of the General Fund	2.91%	4.04%	4.79%	5.37%	5.53%	5.79%	6.01%	5.12%	5.67%	6.25%
Actual										
Emergency Reserve	\$120.3	\$120.6	\$125.1	\$133.8	\$141.3	\$148.8	\$153.3	\$160.2	\$170.2	
Contingency	<u>51.2</u>	<u>77.1</u>	<u>108.0</u>	<u>192.9</u>	<u>241.7</u>	<u>293.8</u>	<u>180.9</u>	<u>194.3</u>	<u>175.6</u>	
	\$171.5	\$197.7	\$233.1	\$326.7	\$383.0	\$442.6	\$334.2	\$354.5	\$345.8	
Reserve Fund Balance as % of the General Fund	3.92%	4.51%	5.12%	6.71%	7.45%	8.18%	5.99%	6.08%	5.59%	

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 (the “BSF”) and the Unappropriated Balance (the “UB”).

The City created the BSF in 2014 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 BSF. 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 Adopted Budget is 5.9%. The value of the funds in excess of 3.4% was \$111 million, although only \$80 million was used for its stated purpose of transfer to the BSF (\$7 million) or funding infrastructure (\$73 million). Pursuant to the BSF ordinance, the City should recalculate the growth rate in 2019 based on the prior five years of actual growth. The Adopted Budget includes a request for the City Attorney to revise the ordinance using the prior five-year growth rate, which is 4.5%. If updated, the \$80 million allocation would exceed the \$62 million required using the 4.5% rate, bringing the City into compliance. The Adopted Budget includes a beginning BSF balance of \$113.9 million.

The UB 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 UB 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 UB, the Fiscal Year 2018-19 Adopted Budget provided \$140.3 million, and the

Adopted Budget provides \$115.3 million. Of that amount, \$35.0 million is allocated as a Reserve for Mid-Year Adjustments.

The table below contains a 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 UB, as of July 1 as well as the balances projected for July 1, 2019, in the Adopted Budget. These balances are reported as of the beginning of the fiscal year rather than the end of the year to avoid overstating them 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 1 of the Fiscal Year
(Cash Basis; \$ in millions)

	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>Adopted Budget 2019-20</u>
Emergency Reserve	\$148.8	\$153.3	\$160.2	\$170.2	\$180.7
Contingency Reserve	<u>308.9</u>	<u>180.9</u>	<u>194.3</u>	<u>175.6</u>	<u>229.7</u>
Total Reserve Fund	\$457.7	\$334.2	\$354.5	\$345.8	\$410.4
% of General Fund Revenues	8.46%	5.99%	6.08%	5.59%	6.25%
Budget Stabilization Fund	\$91.7	\$93.7	\$95.1	\$106.9	\$113.9
Reserves in Unappropriated Balance ⁽¹⁾	<u>17.0</u>	<u>15.0</u>	<u>20.0</u>	<u>20.3</u>	<u>35.0</u>
Total General Fund Reserves	\$566.4	\$442.9	\$469.6	\$473.0	\$559.3
% of General Fund Revenues	10.47%	7.94%	8.06%	7.64%	8.51%
Budgeted General Fund Revenues	\$5,410.4	\$5,576.4	\$5,826.4	\$6,190.6	\$6,569.7

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

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

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. The Fiscal Year 2019-20 Adopted Budget meets this policy by projecting a Reserve Fund of \$410 million at the beginning of the Fiscal Year, representing 6.25% of budgeted General Fund revenues.

Another component of the Financial Policies requires that one-time revenues only be used for one-time expenditures. The Adopted Budget meets this policy by allocating all one-time revenues totaling \$63 million towards one-time expenditures, which total \$141 million.

The Financial Policies also call for the City to annually budget 1% of General Fund revenues to fund capital or infrastructure improvements. The Adopted Budget includes \$73 million in appropriations for infrastructure, representing 1.11% of General Fund revenues.

The City’s policy for funding of the BSF is discussed under **Budgetary Reserves and Contingencies**, above.

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 Adopted Budget provides funding of \$90.5 million for these liabilities, of which \$80 million is dedicated to liabilities that must be paid from the General Fund. The Adopted Budget also includes an additional \$20 million in the UB, Reserve for Extraordinary Liabilities, which is 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 is listed in the table below.

Table 18
LIABILITY CLAIMS PAID ⁽¹⁾
(\$ in millions)

Fiscal Year	Total Amount Budgeted				Total Claims Paid
	General Fund	Special Funds	Unappropriated		All Council-Controlled Funds
			Balance	Total	
2014-15	\$47.5	\$ 0.4	\$ 6.0	\$ 53.9	\$65.8
2015-16	53.5	0.4	50.0	103.9	109.2
2016-17	59.6	8.9	-	68.5	201.4
2017-18	80.0	9.1	20.0	109.1	107.1
2018-19 Estimated	80.0	9.1	20.0	109.1	109.0
2019-20 Adopted	80.0	10.5	20.0	110.5	N/A

⁽¹⁾ Cash basis. 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.

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 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, 2018, estimated the amount of tort and non-tort liabilities to be “probable” of occurring at approximately \$588.4 million. Of this amount, approximately \$194.4 million was estimated to be payable in Fiscal Year 2018-19. In addition, and as also reported in the City’s CAFR, the City Attorney, as of June 30, 2018, estimated that certain other pending lawsuits and claims have a “reasonable possibility” of resulting in additional liability totaling \$47.0 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 “**OTHER MATTERS—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)

	<u>2015-16</u>	<u>2016-17</u>	Actual <u>2017-18</u>	Estimated <u>2018-19</u>	Adopted Budget <u>2019-20</u>
Workers’ Compensation/Rehabilitation	\$169,601	\$175,831	\$186,263	\$197,000	\$198,300
Contractual Services	21,141	20,152	23,707	24,530	26,779
Civilian FLEX Program ⁽²⁾	235,918	255,129	274,024	285,257	291,509
Supplemental Civilian Union Benefits	4,318	4,889	5,012	5,113	5,140
Police Health and Welfare Program	134,340	139,498	144,926	158,068	158,627
Fire Health and Welfare Program	47,037	49,348	52,748	56,927	58,750
Unemployment Insurance	2,989	2,538	2,720	2,800	2,800
Employee Assistance Program	1,463	1,535	1,386	1,662	1,660
Total	<u>\$616,807</u>	<u>\$648,920</u>	<u>\$690,786</u>	<u>\$731,357</u>	<u>\$743,565</u>

⁽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 43 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”).”**

The 21 bargaining units that comprise the “Coalition of LA City Unions” (which includes 19 full-time and two part-time bargaining units) have contracts that expired on June 30, 2018. The successor contracts are currently in the ratification process and are expected to go to the City Council for approval in June 2019. Funds for expected salary increases included in these contracts are included in the Adopted Budget. See **“Fiscal Year 2019-20 Adopted Budget.”**

Agreements with the Los Angeles Police Protective League and the United Firefighters of Los Angeles City, as well as several civilian unions, expire in June and July 2019. Negotiations with these bargaining units are currently underway. No funds for salary increases have been included in the Adopted Budget.

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

Table 20
STATUS OF LABOR CONTRACTS
LARGEST EMPLOYEE ORGANIZATIONS
As of June 1, 2019

<u>Organization</u>	<u>Employees Represented</u> ⁽¹⁾	<u>Number of Bargaining Units</u>	<u>Status of Memorandum of Understanding</u>	<u>Cost of Living Adjustment</u> ⁽²⁾
Los Angeles Police Protective League	9,964	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⁾	24,579	21	Contracts expired 6/30/18	2.9% on 10/28/18 2.75% on 1/19/20 2% on 1/31/21 2% on 6/20/22
Engineers and Architects Association	5,479	4	Contracts expires 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	880	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

⁽¹⁾ Total full-time and part-time 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. Terms of new agreements pending ratification.

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⁾

	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>Adopted Budget 2019-20</u>
Sworn					
Police	10,522	10,545	10,547	10,549	10,552
Fire	<u>3,292</u>	<u>3,350</u>	<u>3,350</u>	<u>3,363</u>	<u>3,382</u>
Subtotal Sworn	13,814	13,895	13,897	13,912	13,934
Civilian					
Police	3,313	3,330	3,335	3,388	3,454
Fire	342	379	383	397	406
All Others	<u>15,107</u>	<u>15,501</u>	<u>15,760</u>	<u>16,063</u>	<u>16,378</u>
Subtotal Civilian	<u>18,762</u>	<u>19,210</u>	<u>19,478</u>	<u>19,848</u>	<u>20,238</u>
Total	32,576	33,105	33,375	33,760	34,172

⁽¹⁾ As authorized in the Adopted Budget. Includes permanent (“regular”) positions and excludes temporary personnel (also referred to as “resolution authority positions”), which total 2,859 for Fiscal Year 2019-20. 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.

Both Pension Systems are 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).

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 at a given point in time.

Each of the Pension Systems has adopted an asset allocation plan to guide their respective investments in stocks, bonds, real estate, alternatives and cash equivalents over a three- to five-year period. The asset allocations are summarized further below. Market value investment returns for the past 10 fiscal years are shown in the table below. Any return below the actuarial assumed rate of return (currently 7.25% for both systems) 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
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
2017-18	9.2	9.9

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

While estimates for earnings for Fiscal Year 2018-19 are not available, they are expected to be below the actuarial assumed rate of return, in which case the Pension Systems would experience an actuarial loss. For budget planning purposes, the City has assumed a 0% return for both Pension Systems. See “**BUDGET AND FINANCIAL OPERATIONS—General Fund Budget Outlook.**”

The City has never issued pension obligation bonds to fund either of its Pension Systems. The City pays at a discount the annual contributions to its Pension Systems out of the proceeds of its annual issuance of tax and revenue anticipation notes.

This section, **“Retirement and Pension Systems,”** and the following sections, **“Other Post-Employment Benefits”** and **“Projected Retirement and Other Post-Employment Benefit Expenditures”** 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/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, 2018.

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.

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 LAFPP and employees of DWP. As of June 30, 2018, the date of its most recent actuarial valuation, LACERS had 26,042 active members, 19,379 retired members and beneficiaries, and 8,028 inactive members.

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, 2018.

Table 23
LOS ANGELES CITY EMPLOYEES’ RETIREMENT SYSTEM
ACTUARIAL ASSUMPTIONS
As of June 30, 2018

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 3.9% to 10.0%, based on service
Maximum 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, 2018.

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. All else being equal, a reduction in the assumed investment return results in an increase in the City's required contribution. In addition, changes in mortality assumptions in 2018 (the use of generational mortality tables to reflect future mortality improvement) resulted in an increase of 1.68% in the City's contribution rate.

The LACERS Board considered a full experience study of economic and demographic assumptions in August 2018. In addition to demographic assumption changes including mortality, the LACERS actuary (Segal Consulting) recommended further reducing the inflation rate from 3.00% to 2.75% and the assumed investment return to 7.0%. The LACERS Board only adopted changes to the demographic actuarial assumptions and not the economic assumptions, as they had already taken action on these assumptions in 2017. Instead, the LACERS Board decided to reconsider all economic and demographic assumptions in 2020. The assumption changes adopted by the LACERS Board are reflected in the City's contribution rate for Fiscal Year 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. 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. 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 adjustments, as of June 30, 2014 and June 30, 2017, 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, 2018, there was a total unrecognized net gain of \$301.7 million. The following table shows the original market gains and losses, and the unrecognized gains and losses as of June 30, 2018.

Table 24
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
DETERMINATION OF ACTUARIAL VALUE OF ASSETS
As of June 30, 2018

1.	Market value of assets				\$16,989,616,344
2.	Calculation of unrecognized return ⁽¹⁾	Original Amount	Portion Not Recognized	Amount Not Recognized	
	(a) Year ended June 30, 2018	\$349,468,305	6/7	\$299,544,261	
	(b) Year ended June 30, 2017	770,969,472			
	(c) Year ended June 30, 2016	(1,065,023,569)			
	(d) Year ended June 30, 2015	(707,760,540)			
	(e) Year ended June 30, 2014	1,246,285,581			
	(f) Combined net deferred loss as of June 30, 2013	(81,571,421)			
	(g) Total unrecognized return		5/6	2,164,316	\$301,708,577
3.	Preliminary actuarial value: (1) – (2g)				\$16,687,907,767
4.	Adjustment to be within 40% corridor				0
5.	Final actuarial value of assets: (3) + (4)				<u>\$16,687,907,767</u>
6.	Actuarial value as a percentage of market value: (5) ÷ (1)				98.2%
7.	Market value of retirement assets				\$14,235,230,528
8.	Valuation value of retirement assets (5) ÷ (1) x (7)				\$13,982,435,465
9.	Deferred return recognized in each of the next 6 years:				
	(a) Amount recognized on 6/30/2019				\$50,356,907
	(b) Amount recognized on 6/30/2020				50,356,907
	(c) Amount recognized on 6/30/2021				50,356,907
	(d) Amount recognized on 6/30/2022				50,356,907
	(e) Amount recognized on 6/30/2023				50,356,907
	(f) Amount recognized on 6/30/2024				<u>49,924,044</u>
	(g) Subtotal (may not total exactly due to rounding)				\$301,708,577

(1) Total return minus expected return on a market value basis.

(2) Based on action taken by the Board on July 24, 2018, the net unrecognized gain as of June 30, 2017 (i.e., \$2,597,179) has been recognized in six level amounts, with five years of recognition remaining after the June 30, 2018 valuation.

Source: Los Angeles City Employees' Retirement System Actuarial Valuation and Review of Retirement and Health Benefits as of June 30, 2018.

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. Most 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⁾
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
2018	13,982,435	19,944,579	5,962,144	70.1	2,177,687	273.8

⁽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, 2018.

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⁾
2009	\$ 7,122,911	\$12,041,984	\$4,919,073	59.2%	\$1,816,171	270.8%
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	1,846,970	255.9
2014	11,791,079	16,248,853	4,457,774	72.6	1,898,064	234.9
2015	11,920,570	16,909,996	4,989,426	70.5	1,907,665	261.5
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	255.9
2018	14,235,231	19,944,579	5,709,348	71.4	2,177,687	262.2

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

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

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

⁽⁴⁾ Annual payroll for members of LACERS.

⁽⁵⁾ Unfunded liability divided by covered payroll.

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

The table below summarizes the City’s payments to LACERS over the past four years and payments included in the 2019-20 Adopted Budget. This table includes costs for contributions for both pensions and retiree health care (see “**BUDGET AND FINANCIAL OPERATIONS—Retirement and Pension Systems—Other Post-Employment Benefits**”), and other miscellaneous benefits.

Table 27
LOS ANGELES CITY EMPLOYEES’ RETIREMENT SYSTEM
SOURCES AND USES OF CONTRIBUTIONS
(\$ in thousands)⁽¹⁾

	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>Estimated 2018-19</u>	<u>Adopted Budget 2019-20</u>
Sources of Contributions					
Contributions for Council-controlled					
Departments	\$434,639	\$459,400	\$450,806	\$488,400	\$559,317
Airport, Harbor Departments, LACERS, LAFPP	<u>103,120</u>	<u>106,766</u>	<u>103,126</u>	<u>111,761</u>	<u>117,462</u>
Total	\$537,759	\$566,166	\$553,932	\$600,161	\$676,779
Percent of payroll – Tier 1	28.75%	28.16%	27.22%	28.31%	29.89%
Percent of payroll – Tier 2 ⁽²⁾	22.62%	N/A	N/A	N/A	N/A
Percent of payroll – Tier 3	26.42%	24.96%	24.64%	25.88%	27.70%
Uses of Contributions					
Current Service Liability (Normal cost)	\$190,777	\$206,982	\$214,741	\$224,161	\$243,374
UAAL	363,929	366,172	360,109	398,500	477,109
Adjustments ⁽²⁾	<u>(16,947)⁽³⁾</u>	<u>(6,988)⁽⁴⁾</u>	<u>(20,918)⁽⁵⁾</u>	<u>(22,500)⁽⁶⁾</u>	<u>(34,704)⁽⁷⁾</u>
Total	\$537,759	\$566,166	\$553,932	\$600,161	\$676,779

⁽¹⁾ Includes funding for OPEB.

⁽²⁾ Tier 2 employees were transferred to Tier 3, as described below.

⁽³⁾ 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.

⁽⁴⁾ 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.

⁽⁵⁾ 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.

⁽⁶⁾ 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.

⁽⁷⁾ Adjustments for 2019-20 include the 2018-19 true-up which consists of a \$36,017,160 credit (all agencies) and \$1,313,000 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 LA 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.” Based on the actuarial valuation as of June 30,

2018, 89% of the Citywide payroll is comprised of Tier 1 members and 11% is comprised of Tier 3 members.

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”))	55 / 30 60 / 10 70 / Any	60 / 30 60 / 10
Early Retirement (Unreduced)		Under Age 60 / 30
Early Retirement (Reduced)	55 / 10 Under Age 55 / 30 Normal Retirement 2.16% per year of service	Under Age 55 / 30 1.5% @ 60 / 10 2.0% @ 60 / 30 2.0% @ 55 / 30 2.0% @ 63 / 10 2.1% @ 63 / 30
Benefit Factors	Early Retirement Reduced by 3% per year of service before age 55; and 1.5% per year of service from ages 55-59	
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⁽¹⁾
(\$ in million)
As of September 30, 2018

<u>Asset Class</u>	<u>Market Value</u>	<u>Actual Allocation (%)</u>	<u>New Target Allocation Approved April 2018 (%)</u>
U.S. Equity	\$ 4,747	26.71%	19.00%
Non-U.S. Equity	5,387	30.31	27.00
Fixed Income Securities	3,048	17.15	13.75
Credit Opportunities	928	5.22	12.25
Private Equity	1,815	10.21	14.00
Real Assets	1,693	9.52	13.00
Cash	156	0.88	1.00
Total Portfolio	\$17,773	100.00%	100.00%

⁽¹⁾ All assets, including pension and OPEB.

Source: LACERS Portfolio Performance Review for the Quarter Ending September 30, 2018.

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, 2018, the date of its most recent actuarial valuation, the LAFPP had 13,442 active members, 12,890 retired members and beneficiaries, and 534 vested former members.

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, 2018, 1,442 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 excluding the Harbor Department and 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 (i.e., Fire and Police Departments combined, Harbor Department, or Airport 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, 2018

Investment rate of return, net of investment expenses	7.25%
Inflation rate	3.00%
Real across-the-board salary increase (net of inflation)	0.50%
Projected salary increases	Ranges from 0.80% to 8.50% 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 any excess banked for Tiers 5 and 6.

Source: LAFPP Actuarial Valuation and Review of Pension and Other Postemployment Benefits (OPEB) as of June 30, 2018.

The LAFPP Board adopted most of the findings and recommendations of the triennial actuarial experience study covering July 1, 2013 to June 30, 2016, which adjusted both economic and demographic assumptions, including a reduction in the assumed rate of investment return from 7.50% to 7.25%. The one exception was they did not adopt recommended changes to the mortality rates. All else being equal, a reduction in the assumed investment return results in an increase in the City’s required contribution. The next triennial experience study will cover Fiscal Years 2016-17 to 2018-19 and is expected to be completed by June 2020.

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 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
DETERMINATION OF ACTUARIAL VALUE OF ASSETS
As of June 30, 2018

1.	Market value of assets (for Retirement and Health Subsidy Benefits)			\$22,360,370,203
2.	Calculation of unrecognized return ⁽¹⁾	Original Amount	Portion Not Recognized	Amount Not Recognized
	(a) Year ended June 30, 2018	\$552,799,174	6/7	\$473,827,863
	(b) Year ended June 30, 2017	1,050,034,903	5/7	750,024,931
	(c) Year ended June 30, 2016	(1,240,953,883)	4/7	(709,116,505)
	(d) Year ended June 30, 2015	(643,447,599)	3/7	(275,763,257)
	(e) Year ended June 30, 2014	1,571,818,656	2/7	449,091,045
	(f) Combined net deferred loss as of June 30, 2013 ⁽²⁾	77,259,408	1/6	<u>12,876,568</u>
	(g) Total unrecognized return			<u>700,940,645</u>
3.	Preliminary actuarial value: (1) – (2g)			\$21,659,429,558
4.	Adjustment to be within 40% corridor			0
5.	Final actuarial value of assets: (3) + (4)			<u>\$21,659,429,558</u>
6.	Actuarial value as a percentage of market value: (5) ÷ (1)			96.9%
7.	Market value of retirement assets			\$20,482,132,769
8.	Valuation value of retirement assets (5) ÷ (1) x (7)			\$19,840,070,083
9.	Deferred return recognized in each of the next 6 years (for Retirement and Health Subsidy Benefits):			
	(a) Amount recognized on 6/30/2019			\$197,198,175
	(b) Amount recognized on 6/30/2020			184,321,608
	(c) Amount recognized on 6/30/2021			(40,223,914)
	(d) Amount recognized on 6/30/2022			51,697,170
	(e) Amount recognized on 6/30/2023			228,976,298
	(f) Amount recognized on 6/30/2024			<u>78,971,308</u>
	(g) Subtotal (may not total exactly due to rounding)			\$700,940,645
(1)	Total return minus expected return on a market value basis. Effective with the calculation for the period ending June 30, 2015, both actual and expected returns on market value have been adjusted to exclude administrative expense paid during the plan year.			
(2)	Net deferred unrecognized investment gains as of June 30, 2013 have been combined into a single layer to be recognized over the six-year period effective July 1, 2013.			

Source: LAFPP Actuarial Valuation and Review of Pension and Other Postemployment Benefits (OPEB) as of June 30, 2018.

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⁾
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
2018	19,840,070	21,364,804	1,524,734	92.9	1,546,043	98.6

⁽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 and Review of Retirement and Other Post-Employment Benefits as of June 30, 2018.

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⁾
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
2018	20,482,133	21,364,804	882,671	95.9	1,546,043	57.1

⁽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 four years and payments included in the 2019-20 Adopted Budget. This table includes costs for both pensions and retiree health care (see **“BUDGET AND FINANCIAL OPERATIONS—Retirement and Pension Systems—Other Post-Employment Benefits”**), and other miscellaneous benefits.

Table 34
LOS ANGELES FIRE AND POLICE PENSION PLAN
SOURCES AND USES OF CONTRIBUTIONS
(\$ in thousands)

	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	Adopted Budget <u>2019-20</u>
General Fund	<u>\$623,415</u>	<u>\$616,235</u>	<u>\$634,905</u>	<u>\$687,867</u>	<u>\$705,076</u>
Percent of Payroll	46.51%	44.54%	44.26%	46.85%	47.37%
Current Service Liability	\$306,841	\$319,458	\$332,409	\$344,786	\$349,256
UAAL/(Surplus)	303,580	283,355	288,567	325,312	337,815
Administrative Costs ⁽¹⁾⁽²⁾	<u>12,994</u>	<u>13,422</u>	<u>13,929</u>	<u>17,769</u>	<u>18,005</u>
Total	<u>\$623,415</u>	<u>\$616,235</u>	<u>\$634,905</u>	<u>\$687,867</u>	<u>\$705,076</u>

⁽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 LAFPP's investments and asset allocation targets.

Table 35
LOS ANGELES FIRE AND POLICE PENSION PLAN
ASSET CLASS BY MARKET VALUE AND ALLOCATION
(\$ in millions)
As of December 31, 2018

	<u>Market Value</u>	<u>Percent Allocation</u>	<u>Target (%)</u>
Domestic Large Cap Equity	\$ 5,011.8	23.50%	23.0%
Domestic Small Cap Equity	1,258.1	5.90	6.0
International Developed Markets	3,211.2	15.06	16.0
International Emerging Markets	929.5	4.36	5.0
Domestic Bonds	3,560.7	16.70	17.0
High Yield Bonds	564.2	2.65	3.0
Unconstrained Fixed Income	468.4	2.20	2.0
Real Estate	1,875.6	8.79	10.0
Private Equity	2,238.9	10.50	12.0
Commodities	931.6	4.37	5.0
Cash House Accounts	<u>1,276.4</u>	<u>5.99</u>	<u>1.0</u>
Total	\$21,326.40	100.00%	100.0%

Source: Los Angeles Fire and Police Pension Plan December 31, 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.

The tables below provide a ten-year history of the unfunded healthcare benefits liabilities of LACERS and the LAFPP:

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⁾
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
2018	2,628,844	3,256,828	627,984	80.7	2,177,687	28.8

⁽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⁾
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
2018	1,819,359	3,547,777	1,728,417	51.3	1,546,043	111.8

(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 on and 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 still 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**".

The City has established a new fund within LACERS called the Health Care Fund to allow LACERS to better manage future costs of the retiree health and welfare program while ensuring continued compliance with Internal Revenue Code provisions governing retiree benefits provided on a tax-free basis. Effective July 1, 2019, the City will make its OPEB contributions to this new fund, which will also be managed by LACERS.

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 consulting actuary applied against projected

payroll by the CAO. These projected contributions illustrate the projected cost of both pension and OPEB under certain assumptions.

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

	Adopted Budget <u>2019-20</u>	Projection <u>2020-21</u>	Projection <u>2021-22</u>	Projection <u>2022-23</u>	Projection <u>2023-24</u>
Contributions for Council-controlled Departments ⁽¹⁾⁽²⁾	\$559,317	\$601,942	\$634,018	\$656,187	\$675,442
Percentage of Payroll ⁽³⁾	29.52%	29.80%	30.20%	30.65%	31.05%
Incremental Change	\$70,904	\$42,625	\$32,076	\$22,169	\$19,255
% Change	14.52%	7.62%	5.33%	3.50%	2.93%

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

⁽²⁾ Assumes 0.00% return on investment in 2018-19 and 7.25% thereafter.

⁽³⁾ Reflects combined rates for all benefit tiers.

Source: City of Los Angeles, Office of the City Administrative Officer (CAO), based on information commissioned by the CAO.

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 LAFPP's actuary applied against projected payroll by the CAO. These contributions illustrate the projected cost of both pension and OPEB under certain assumptions.

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

	Adopted Budget <u>2019-20</u>	Projected <u>2020-21</u>	Projected <u>2021-22</u>	Projected <u>2022-23</u>	Projected <u>2023-24</u>
General Fund	\$705,076	\$702,817	\$684,361	\$705,061	\$730,621
Percentage of Payroll	47.37%	46.31%	44.16%	44.56%	45.41%
Incremental Change	\$17,208	\$(2,259)	\$(18,456)	\$20,700	\$25,560
% Change	2.50%	(0.32)%	(2.63)%	3.02%	3.63%

⁽¹⁾ Assumes 0.00% return on investment in 2018-19 and 7.25% thereafter.

Source: City of Los Angeles, Office of the City Administrative Officer (CAO), based on information commissioned by the CAO.

City Treasury Investment Practices and Policies

The Director of Finance, serving in the capacity of City 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. 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 may be 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, 2019

Description	Par Value	Market Value	Percent of Total Funds (Market Value)	Average Days
Bank Deposits ⁽¹⁾	\$ 50,000,000	\$ 50,000,000	0.42%	0
Money Market Funds	57,329,846	57,329,846	0.49	0
LAIF (State of California)	0	0	0.00	0
Subtotal Cash and Overnight Investments	\$ 107,329,846	\$ 107,329,846	0.91%	0
Commercial Paper	\$ 2,822,524,000	\$ 2,813,496,149	23.81	46
Negotiable Certificates of Deposit	176,179,000	176,198,962	1.49	57
Corporate Notes	318,905,000	318,227,195	2.69	167
U.S. Agencies/Munis/Supras	795,029,000	791,820,071	6.70	87
U.S. Treasuries	975,000,000	971,852,100	8.22	144
Subtotal: Pooled Investments	\$5,087,637,000	\$5,071,594,477	42.92%	79
Total Short Term Core Portfolio	\$5,194,966,846	\$5,178,924,323	43.83%	78
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	1,163,000,000	1,166,766,010	9.87	945
Asset-Backed Securities	211,837,000	212,290,514	1.80	1,199
U.S. Agencies/Munis/Supras	430,000,000	428,802,000	3.63	940
U.S. Treasuries	4,840,000,000	4,829,878,050	40./87	1,0306
Total Long-Term Reserve Portfolio	\$6,644,837,000	\$6,637,736,574	56.17%	1,015
Total Cash and Pooled Investments	\$11,839,803,846	\$11,816,660,897	100.00%	604
	<u>Short-Term Core Portfolio</u>	<u>Long-Term Reserve Portfolio</u>	<u>Consolidated</u>	
Average Weighted Maturity	78 Days	2.8 Years	1.7 Years	
Effective Yield	2.32%	2.14%	2.22%	

⁽¹⁾ Collected balance for Wells Fargo Active Accounts.

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 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 for Council-controlled funds, excluding proprietary departments. This table excludes the expenditure of proceeds of general obligation bonds, MICLA lease revenue bonds and commercial paper notes, and grants.

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

	Actual <u>2015-16</u>	Actual <u>2016-17</u>	Actual <u>2017-18</u>	Estimated <u>2018-19</u>	Adopted Budget <u>2019-20</u>
General Fund ⁽²⁾	\$74,700	\$89,500	\$74,600	\$100,400	\$72,950
Special Gas Tax Street Improvement Fund	6,155	4,924	4,018	4,762	-
Road Maintenance and Rehabilitation Program Special	-	-	4	12,282	30,240
Stormwater Pollution Abatement Fund	1,329	4,234	1,630	1,033	-
Measure W Local Return Fund	-	-	-	-	12,052
Sewer Construction and Maintenance Fund	199,354	212,853	238,763	300,000	371,120
Park and Recreational Sites and Facilities Fund	1,160	3,549	-	3,500	3,500
Street Lighting Maintenance Assessment Fund	1,391	-	-	-	-
Local Transportation Fund ⁽³⁾	1,559	-	-	-	-
Potrero Canyon Trust Fund	-	-	353	-	-
Measure R Local Return Fund	1,599	-	-	-	-
Street Damage Restoration Fee Fund	-	-	-	-	1,631
Measure M Local Return Fund	-	-	113	9,079	9,590
Other	-	413	-	-	-
Total ⁽⁴⁾	<u>\$287,247</u>	<u>\$315,473</u>	<u>\$319,481</u>	<u>\$431,056</u>	<u>\$501,083</u>

⁽¹⁾ Cash basis.

⁽²⁾ General Fund amounts represent budgeted appropriations meeting the City’s policy of allocating at least 1% of its General Fund to capital projects. They have not been updated to reflect actual or estimated expenditures.

⁽³⁾ Funded by portion of State sales tax dedicated towards this purpose.

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

MAJOR GENERAL FUND REVENUE SOURCES

More than 70% of the City’s General Fund revenue is from seven major taxes: property, utility, business, sales, hotel, documentary, and parking occupancy taxes. While the City’s Adopted Budget and longer-term forecast assume stable revenue growth, these taxes are sensitive to changes in the economy. For example, in Fiscal Year 2009-10, tax receipts decreased by almost 5% with the collapse of the real estate market, and four years elapsed before City receipts returned to prior levels. A decade after the Great Recession, documentary transfer tax revenue is still below its pre-recession peak.

Following is a discussion of the City’s principal General Fund revenue sources. See **“LIMITATIONS ON TAXES AND APPROPRIATIONS.”** The following represents actual revenues for Fiscal Year 2017-18, estimated revenues for Fiscal Year 2018-19, and budgeted revenues for Fiscal Year 2019-20.

Table 42
GENERAL FUND RECEIPTS⁽¹⁾
(\$ in thousands)

	2017-18 <u>Actual</u>	Percent <u>of Total</u>	2018-19 <u>Estimated</u>	Percent <u>of Total</u>	Adopted Budget <u>2019-20</u>	Percent <u>of Total</u>
Property Tax	\$1,851,833	31.8%	\$1,984,862	32.2%	\$2,115,611	32.2%
Redirection of ex-CRA Tax Increment Monies	88,507	1.5	71,857	1.2	100,386	1.5
Licenses, Permits, Fees and Fines	1,015,490	17.4	1,114,540	18.0	1,226,882	18.7
Utility Users Tax	625,853	10.8	657,700	10.6	652,165	9.9
Business Tax	554,521	9.5	602,000	9.7	657,150	10.0
Sales Tax	529,757	9.1	571,500	9.2	589,790	9.0
Power Revenue Transfer	241,848	4.2	232,557	3.7	235,600	3.6
Parking Fines	138,766	2.4	129,000	2.1	123,785	1.9
Transient Occupancy Tax	299,108	5.1	322,870	5.2	326,620	5.0
Documentary Transfer Tax	207,815	3.6	211,960	3.4	211,960	3.2
Parking Occupancy Tax	115,937	2.0	118,400	1.9	121,900	1.9
Franchise Income	56,869	1.0	82,410	1.3	80,240	1.2
Interest	24,916	0.4	36,580	0.6	36,700	0.6
State Motor Vehicle License Fees	2,127	0.0	1,946	0.0	1,946	0.0
Tobacco Settlement	10,952	0.2	10,952	0.2	10,952	0.2
Grants Receipts	8,548	0.2	12,994	0.2	15,729	0.2
Residential Development Tax	6,545	0.1	5,020	0.1	5,020	0.1
Special Parking Revenue Transfer	31,000	0.6	32,116	0.5	57,313	0.9
Reserve Fund Transfer	<u>9,108</u>	<u>0.2</u>	<u>5,791</u>	<u>0.1</u>	<u>0</u>	<u>0.0</u>
Total General Receipts	\$5,819,501	100.0%	\$6,205,055	100.0%	\$6,569,750	100.0%
Change from Previous Year	3.4%		6.6%		5.9%	

⁽¹⁾ Cash basis.

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 33.7% of General Fund revenues in the 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 of 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 2019-20, approximately 96.3% of the City’s property tax receipts are expected to be from taxes levied 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 clerk of the court 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 by revenue category through the most recent County annual report appear in the table below. City assumed 6.1% growth in its property tax base in its Adopted Budget.

Table 43
ASSESSED VALUATION⁽¹⁾

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Land	\$248,792,504,198	\$267,336,770,583	\$285,423,529,738	\$306,136,812,787	\$329,102,259,292
Buildings and Structures	215,540,855,692	230,127,214,313	242,901,174,456	257,547,708,020	276,374,044,824
Business Personal Property	<u>27,745,896,590</u>	<u>28,900,346,059</u>	<u>30,964,660,173</u>	<u>31,426,664,923</u>	<u>32,960,650,397</u>
Gross Total ⁽²⁾	\$492,079,256,480	\$526,364,330,955	\$559,289,364,367	\$595,111,185,730	\$638,436,954,513
Less: Church, Welfare, etc. ⁽³⁾	<u>25,148,131,867</u>	<u>26,003,406,049</u>	<u>26,446,696,208</u>	<u>27,264,044,440</u>	<u>27,184,777,199</u>
Revenue-Producing Valuations	\$466,931,124,613	\$500,360,924,906	\$532,842,668,159	\$567,847,141,290	\$611,252,177,314
Less: Homeowners' Exemptions ⁽⁴⁾	<u>2,545,252,570</u>	<u>2,502,725,568</u>	<u>2,454,777,939</u>	<u>2,411,313,641</u>	<u>2,364,506,686</u>
Net Total Revenue-Producing Valuations ⁽⁵⁾	\$464,385,872,043	\$497,858,199,338	\$530,387,890,220	\$565,435,827,649	\$608,887,670,628
Change from Prior Year	6.0%	7.2%	6.5%	6.6%	7.7%

- (1) As of January 1 of each year. These values apply to taxes levied in the Fiscal Year beginning the subsequent July 1.
- (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 reallocated 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)

	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>Estimated 2018-19</u>	<u>Adopted Budget 2019-20</u>
1% Property Tax ⁽²⁾	\$1,257,499	\$1,314,874	\$1,411,984	\$1,511,422	\$1,613,059
Vehicle License Fee Replacement	387,567	412,738	439,849	473,440	502,552
Sales Tax Replacement ⁽³⁾	<u>36,710</u>	<u>63,637</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Property Tax	\$1,681,776	\$1,791,249	\$1,851,833	\$1,984,862	\$2,115,611
Change from Prior Year ⁽⁴⁾	0.4%	6.5%	3.4%	7.2%	6.6%

- (1) Cash basis. Excludes property taxes attributable to the dissolution of the Los Angeles Community Redevelopment Agency. See the table “General Fund Receipts,” above.
- (2) Fiscal Year 2019-20 includes \$8.5 million in revenue previously reported as departmental revenues under Licenses, Permits, Fees and Fines.
- (3) Figures in Fiscal Year 2015-16 and Fiscal Year 2016-17 reflect the phasing out of the Triple Flip.
- (4) Note that changes in 1% Property Tax receipts do not directly correspond to changes in assessed valuation, as it includes prior year delinquencies and penalties, among other adjustments.

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

A list of the 20 largest property taxpayers, based on secured assessed valuations within the City, for Fiscal Year 2018-19, appears in the table below. The tax roll for the next fiscal year is typically released in the summer.

Table 45
CITY OF LOS ANGELES
TWENTY LARGEST 2018-19 SECURED PROPERTY TAXPAYERS

<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2018-19 Secured Assessed Valuation</u>	<u>Percent of Secured AV⁽¹⁾</u>
Douglas Emmett LLC	Office Building	\$ 2,845,817,224	0.48%
Essex Portfolio LP	Apartments	1,565,352,116	0.27
FSP South Flower Street	Office Building	928,172,873	0.16
Valero Energy Corporation	Petroleum	854,643,459	0.15
Rochelle H. Sterling	Apartments	779,637,650	0.13
Anheuser Busch Inc.	Industrial	741,603,853	0.13
Phillips 66 Company	Petroleum	739,718,341	0.13
One Hundred Towers LLC	Office Building	652,593,052	0.11
Century City Mall LLC	Shopping Center	652,068,871	0.11
Trizec 333 LA LLC	Office Building	640,992,227	0.11
Tesoro Corporation	Petroleum	605,349,762	0.10
Maguire Partners 355 S. Grand LLC	Office Building	599,459,603	0.10
APM Terminals Pacific Ltd.	Terminal Operations	595,717,391	0.10
BRE HH Property Owner LLC	Office Building	594,660,029	0.10
Tishman Speyer Archstone Smith	Apartments	575,649,384	0.10
Greenland LA Metropolis	Apartments with Retail	565,337,734	0.10
Olympic and Georgia Partners LLC	Hotel	561,050,690	0.10
LA Live Properties LLC	Commercial	537,991,346	0.09
Paramount Pictures Corp.	Industrial/Studio	535,010,794	0.09
Palmer Flower Street Properties	Apartments	533,906,096	0.09
Total		\$16,104,732,495	2.74%

(1) Based on 2018-19 Local Secured Assessed Valuation of \$588,676,564,094.

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 2011-12 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, including the City, based on a legislatively mandated process. This process involves approval of a Recognized Obligation Payment Schedule (“ROPS”) by the Governing Board of the CRA/LA, the successor for the former Community Redevelopment Agency of the City of Los Angeles (“Successor Agency”), a seven-person Oversight Board 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 of the Successor Agency. Additional remittances are made from time to time to distribute excess funds and proceeds from the sale of surplus properties held by the Successor 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 9.9% of General Fund revenues in the 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 taxes 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); for example, the increase in Gas Users Tax receipts in Fiscal Year 2018-19 reflects an unusually cold winter. 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—8. Gas Utility Users Tax Cases**". The Fiscal Year 2019-20 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 Taxes:

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

	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>Estimated 2018-19</u>	<u>Adopted Budget 2019-20</u>
Electric Users Tax	\$360,305	\$356,617	\$386,525	\$424,350	\$447,440
Gas Users Tax	66,392	73,733	68,028	80,750	63,325
Communications Users Tax	<u>188,006</u>	<u>194,481</u>	<u>171,300</u>	<u>152,600</u>	<u>141,400</u>
Total	\$614,702	\$624,831	\$625,853	\$657,700	\$652,165
Change from Prior Year	(3.9%)	1.6%	0.2%	5.17%	(0.84%)

⁽¹⁾ Cash basis.

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

Sales Tax

Budgeted sales tax receipts represent 9.0% of General Fund revenues in the 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 and taxes collected by the County for services for the homeless. A portion of those taxes is remitted to the City for deposit in special revenue funds.

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, 2019

<u>State Rate</u>		
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	<u>0.50%</u>	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%	
<u>Uniform Local Tax Rate</u> (Statewide)		
County Transportation	0.25%	The County allocates a small portion of this to the City.
Local Point of Sale	<u>1.00%</u>	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%	
Total Statewide Rate	7.25%	
<u>Optional Local Rates</u> ⁽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	<u>2.25%</u>	
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 the 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. Delayed 2017-18 remittances resulting from the State's implementation of a new sales tax automation system, contributed to the low growth in Fiscal Year 2017-18 and high growth in 2018-19. Fiscal Year 2019-20 revenues are projected to increase by 3.2%, which includes \$11.5 million in sales tax receipts from growth in cannabis retail activity and anticipated out-of-state receipts.

Table 48
GENERAL FUND SALES TAX RECEIPTS
(\$ in thousands)

<u>Fiscal Year</u>	<u>Receipts⁽¹⁾</u>	<u>Change from Prior Year</u>
2015-16	\$417,541	12.5%
2016-17 ⁽²⁾	520,404	24.6
2017-18	529,757	1.8
2018-19 (Estimated)	571,500	7.9
2019-20 Adopted Budget	591,440	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 10.0% of General Fund revenues budgeted in the 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 through calendar year 2020. 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, \$33.0 million the second year, and growing to \$49.4 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 approved the cultivation and sale of recreation cannabis within the City, enables the formation of cannabis policy and regulation, decreases the business tax paid by medical cannabis businesses and implements a new business tax on recreational cannabis businesses. The Adopted Budget includes cannabis business tax revenue projected at \$66.7 million.

The table below shows receipts from the business tax.

Table 49
BUSINESS TAX RECEIPTS
(\$ in thousands)

<u>Fiscal Year</u>	<u>Receipts⁽¹⁾</u>	<u>Change from Prior Year</u>
2015-16	\$509,765	2.5%
2016-17	528,076	3.6
2017-18	554,521	5.0
2018-19 (Estimated)	602,000	8.6
2019-20 Adopted Budget	657,150	9.2

⁽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, staff costs for the sewer construction and maintenance program, and reimbursements from the Los Angeles County Metropolitan Transportation Authority (“MTA”) for police services on its bus and rail lines pursuant to a contract between the MTA and the City. 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 18.7% of General Fund revenues in the Adopted Budget.

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

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

	2015-16	2016-17	2017-18	Estimated 2018-19	Adopted Budget 2019-20
Ambulance Fees	\$ 84,816	\$ 73,915	\$ 84,671	\$ 76,700	\$ 94,523
Services to Dept. of Airports	72,407	79,372	82,532	79,923	95,114
Services to Harbor Dept.	28,802	40,290	34,456	40,512	44,587
Services to DWP	26,540	34,617	29,325	30,175	33,569
Services to Sewer Program	54,760	69,285	95,526	107,607	110,010
Solid Waste Fee	81,255	68,368	58,309	61,948	77,334
Gas Tax Reimbursements	23,020	-	1,284	24,093	23,030
Services to Stormwater Fund	8,259	9,333	9,507	636	6,187
Special Funds Related Costs	169,102	191,619	202,155	231,957	298,095
MTA Reimbursement	-	187	53,555	73,870	78,892
One Time Reimbursements	28,785	23,870	8,776	4,382	4,373
Library Reimbursements	54,626	55,906	67,988	71,277	74,114
Recreation and Parks Reimbursements	36,162	36,384	43,951	49,177	50,477
State Mandated	7,275	3,270	2,907	3,501	3,000
Miscellaneous Taxes and Fees	7,273	8,012	7,300	8,540	-
Other Departmental Receipts	<u>204,358</u>	<u>218,804</u>	<u>233,249</u>	<u>250,242</u>	<u>233,578</u>
Total General Fund	\$887,442	\$913,233	\$1,015,490	\$1,114,540	\$1,226,882
Change from Prior Year	4.20%	2.90%	10.07%	8.89%	9.16%

⁽¹⁾ Cash basis.

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

Documentary Transfer Tax

Documentary Transfer tax receipts represent 3.2% of General Fund revenues in the 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 property sales; monthly remittances can fluctuate from zero to amounts in excess of \$10 million.

The table below presents receipts from this revenue source.

Table 51
DOCUMENTARY TRANSFER TAX RECEIPTS
(\$ in thousands)

<u>Fiscal Year</u>	<u>Receipts⁽¹⁾</u>	<u>Change from Prior Year</u>
2015-16	\$198,438	0.9%
2016-17	210,070	5.9
2017-18	207,815	(1.1)
2018-19 (Estimated)	211,960	2.0
2019-20 Adopted Budget	211,960	0.0

⁽¹⁾ Cash basis.

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

Transient Occupancy Tax

Transient Occupancy tax receipts represent 5.0% of budgeted General Fund revenues in the Adopted Budget. The transient occupancy tax (TOT) is levied at the rate of 14% of the amount charged for hotel and motel rooms or other dwellings occupied for 30 days or less. The tax is collected by hotel operators, individuals, and short-term rental websites, which are subsequently remitted to the City monthly. This revenue is very sensitive to changing conditions that affect travel. Amounts beginning in Fiscal Year 2016-17 include revenue from agreements between the City and short-term rental websites, such as Airbnb.

The 14% tax rate is composed of two parts: a 13% General Fund tax and a 1% special tax to fund the Los Angeles Convention Visitors' Bureau (also known as L.A., Inc.). The table below presents General Fund receipts at the 13% portion of the tax rate, which is projected to increase by 1.2% for Fiscal Year 2019-20, reflecting the impact of the City's home-sharing policy, which will restrict the number of properties and rental days that individual owners can make private dwellings available on the short-term rental market. With a tax collection agreement with Airbnb expiring in July 2019, the City will need to extend or amend this agreement for the majority of receipts from short-term rental activity to be realized.

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

<u>Fiscal Year</u>	<u>Receipts⁽¹⁾</u>	<u>Change from Prior Year</u>
2015-16	\$230,818	13.8%
2016-17	265,653	15.1
2017-18	299,108	12.6
2018-19 (Estimated)	322,870	7.9
2019-20 Adopted Budget	326,620	1.2

⁽¹⁾ Cash basis.

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

Parking Fines

Parking Fine receipts represent 1.9% of budgeted General Fund revenues in the 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 has declined each of the past five years, a trend that is projected to continue in Fiscal Year 2019-20.

The table below shows receipts from all parking fines.

Table 53
PARKING FINES RECEIPTS
(\$ in thousands)

<u>Fiscal Year</u>	<u>Receipts⁽¹⁾</u>	<u>Change from Prior Year</u>
2015-16	\$147,884	(2.9%)
2016-17	140,773	(4.8)
2017-18	138,766	(1.4)
2018-19 (Estimated)	129,000	(7.0)
2019-20 Adopted Budget	123,785	(4.0)

⁽¹⁾ Cash basis.

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

Power Revenue Transfers to General Fund

Transfers from the Power Revenue Fund represent 3.6% of budgeted General Fund revenues in the 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 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
2015-16	\$266,957	0.5%
2016-17	264,427	(0.9)
2017-18	241,848	(8.5)
2018-19 (Estimated) ⁽²⁾	232,557	(3.8)
2019-20 Adopted Budget ⁽²⁾	235,600	1.3

⁽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 Proposition 26, which imposed new restrictions on taxation, has recently been settled. The settlement, which was finally approved on February 14, 2018, limits 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. Certain other litigation associated with 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 subvented 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 2019-20 Adopted State Budget and May Revision that would materially and adversely impact the City’s General Fund.

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 February 15, 2019, the Consolidated Appropriations Act was enacted, which outlines funding for the remainder of federal Fiscal Year 2018-19. The City estimates that it will receive no change in the Community Development Block Grant (CDBG), an 8.2% decrease in Home Investment Partnerships Program (HOME), a 3.7% increase in the Emergency Solutions Grant (ESG), and a 4.8% increase in the Housing Opportunities for Persons with AIDS (HOPWA) program from the federal Fiscal Year 2017-18 allocations. The House Committee on Appropriations proposed a funding bill for federal Fiscal Year 2019-20, which includes a 9.1% increase in CDBG, a 40% increase in HOME, a 3.6% increase in ESG, and a 4.3% increase in HOPWA. This funding could be affected by the results of certain pending litigation. See **“LITIGATION—4. Federal Accessibility Law Matters.”**

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.

LIMITATIONS ON TAXES AND APPROPRIATIONS

Article XIII A 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 XIII A 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 XIII A 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 XIII B of the California Constitution - Gann Limit

In November 1979, California voters approved Proposition 4, known as the Gann Initiative, which added Article XIII B to the California Constitution. In June 1990, Article XIII B was amended by the voters through their approval of Proposition 111. Article XIII B 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 XIII B 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 XIII B 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 XIII B 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

<u>Fiscal Year</u>	<u>City Appropriations Limit</u>	<u>Appropriations Subject to Limitations</u>	<u>Amount Appropriations Are Under Limit</u>
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	5,669,148,096	4,353,097,592	1,316,050,504
2019-20	6,234,016,905	4,697,117,410	1,536,899,494

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

Articles XIIC and XIID 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 XIIC and XIID 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 XIIC 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 XIID 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 XIID also contains several provisions affecting “property-related fees” and “charges,” defined for purposes of Article XIID to mean “any levy other than an ad valorem tax, a special tax, or an assessment, imposed by an agency 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 XIII A and XIII C. 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 XIII A, XIII C and XIII D 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 August 27, 2018, the California Supreme Court reversed the appellate court's ruling. The California Supreme Court held that the transfer itself was not a tax under Proposition 26. The California Supreme Court further held that while the electric rate charged by *Redding* could constitute a tax under Proposition 26, *Redding's* electric rate did not violate Proposition 26 because it did not exceed the reasonable cost of providing electric service. This decision was based on the evidence showing that the revenue generated from electric rates was less than *Redding's* operating costs.

The City has been subject to a series of lawsuits pertaining to the transfer of surplus power revenues, which is a material source of City General Fund revenues. The suits alleged that the City charged its electric utility customers fees that exceeded the cost of providing electric utility service, in violation of Proposition 26. 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 will be outstanding as of June 1, 2019.

Table 56
GENERAL OBLIGATION BONDS
As of June 1, 2019

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	\$ --	\$ --
4/11/89	Police Facilities (Proposition 2)	176,000,000	176,000,000	--	--
4/11/89	Fire Safety Facilities (Proposition 4)	60,000,000	60,000,000	--	--
6/5/90	Seismic Safety Projects (Proposition G)	376,000,000	376,000,000	--	--
11/3/98	Zoo Facilities (Proposition CC)	47,600,000	47,600,000	6,775,586	--
11/3/98	Library Facilities (Proposition DD)	178,300,000	178,300,000	16,140,340	--
11/7/00	Fire, Paramedic, Helicopter and Animal Shelter Projects (Proposition F)	532,648,000	532,648,000	94,016,669	--
3/5/02	Emergency Operations, Fire, Dispatch and Police Facilities (Proposition Q)	600,000,000	600,000,000	127,478,368	--
11/2/04	Storm Water Projects (Proposition O)	500,000,000	439,500,000	232,274,037	60,500,000
11/8/16	Homelessness (Proposition HHH)	<u>1,200,000,000</u>	<u>362,610,000</u>	<u>358,290,000</u>	<u>837,390,000</u>
Total		\$3,723,948,000	\$2,826,058,000	\$834,975,000	\$897,890,000

⁽¹⁾ Principal payments are made September 1.

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

The following indicates the ad valorem property tax rate levied to service the City’s general obligation bonds, as well as the overlapping property tax rates levied in the City.

Table 57
2018-19 TYPICAL TAX RATE PER \$100 OF ASSESSED VALUATION
TRAs 00067, 00013, 00016⁽¹⁾

Countywide 1%	1.000000%
City of Los Angeles	.023107
Los Angeles Unified School District	.123226
Los Angeles Community College District	.046213
Metropolitan Water District	<u>.003500</u>
Total	1.196046%

⁽¹⁾ Tax Rate Areas 00067, 00013, and 00016 are the three largest within the City in terms of assessed valuation:
 TRA 00067 2018-19 AV: \$208,869,299,187
 TRA 00013 2018-19 AV: \$95,026,429,096
 TRA 00016 2018-19 AV: \$92,516,191,266

Source: California Municipal Statistics, Inc.

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 long-term financing lease obligations payable from the City's General Fund.

Table 58
GENERAL FUND BONDED AND OTHER FINANCING LEASE OBLIGATIONS
As of June 1, 2019

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	\$ 1,200,000	10/1/21
MICLA Lease Revenue Bonds, Series 2009-C (dated December 10, 2009)	Capital Equipment and Fixtures	40,095,000	4,760,000	9/1/19
MICLA Lease Revenue Bonds, Series 2009-D (dated December 10, 2009) ⁽²⁾	Real Property Improvements (Recovery Zone Economic Development Bonds)	21,300,000	17,345,000	9/1/39
MICLA Lease Revenue Bonds, Series 2010-A (dated November 23, 2010)	Capital Equipment and Fixtures	30,355,000	7,270,000	11/1/20
MICLA Lease Revenue Bonds, Series 2010-B (Taxable) (dated November 23, 2010)	Capital Equipment and Fixtures	49,315,000	11,885,000	11/1/20
MICLA Lease Revenue Bonds, Series 2010-C (Taxable) (dated November 23, 2010)	Real Property	18,170,000	16,200,000	11/1/40
MICLA Qualified Energy Conservation Bonds, Series 2011-A (Taxable) (dated October 26, 2011) ⁽³⁾	Real Property	11,920,000	5,521,203	10/1/28
MICLA Lease Revenue Bonds, Series 2012-A (dated May 10, 2012)	Capital Equipment and Fixtures	92,635,000	33,910,000	3/1/22
MICLA Lease Revenue Bonds, Series 2012-B (dated May 10, 2012)	Real Property	33,975,000	29,075,000	3/1/42
MICLA Lease Revenue Bonds, Refunding Series 2012-C (dated May 10, 2012)	Real Property	109,730,000	68,195,000	3/1/32
MICLA 2013 Streetlights (Private Placement) (dated September 9, 2013) ⁽⁴⁾	Capital Equipment and Streetlights	39,795,479	4,198,894	6/1/21
MICLA Lease Revenue Bonds, Series 2014-A (dated September 24, 2014)	Real Property	41,800,000	34,435,000	5/1/34
MICLA Lease Revenue Bonds, Refunding Series 2014-B (dated September 24, 2014)	Real Property	51,730,000	21,760,000	5/1/33
MICLA 2014 Equipment (Private Placement) (dated November 19, 2014) ⁽⁵⁾	Capital Equipment and Fixtures	67,257,597	38,654,793	11/1/24
MICLA Taxable Lease Revenue Refunding Bonds, Series 2015-A (dated November 19, 2015)	Real Property	292,415,000	159,450,000	11/1/22
MICLA 2016 Streetlights Financing (Private Placement) (dated April 5, 2016) ⁽⁴⁾	Capital Equipment and Streetlights	26,368,864	16,965,449	4/1/24
MICLA Lease Revenue Refunding Bonds, Series 2016-A (dated June 1, 2016)	Capital Equipment and Fixtures	125,235,000	101,675,000	11/1/26
MICLA Lease Revenue Refunding Bonds, Series 2016-B (dated June 1, 2016)	Real Property	685,270,000	623,680,000	11/1/39
MICLA 2017 Streetlights Financing (Private Placement) (dated April 18, 2017) ⁽⁴⁾	Capital Equipment and Streetlights	39,297,800	32,280,954	6/1/27
2017 Police Vehicles Lease Financing (dated November 15, 2017) ⁽⁶⁾	Capital Equipment	21,110,000	13,866,018	11/15/22
2017 Police Radios Lease Financing (dated December 22, 2017) ⁽⁷⁾	Vehicles and Handheld Radios	64,500,000	52,900,829	2/1/25
MICLA Lease Revenue Bonds, Series 2018-A (dated February 6, 2018)	Capital Equipment and Fixtures	54,430,000	50,705,000	11/1/27
MICLA Lease Revenue Bonds, Series 2018-B (dated February 6, 2018)	Real Property	31,270,000	30,685,000	11/1/37
MICLA Lease Revenue Refunding Bonds, Series 2018-C (dated February 6, 2018)	Real Property	25,630,000	23,560,000	11/1/27
		<u>\$1,981,259,740</u>	<u>\$1,400,178,140</u>	

(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) To be refunded by the Bonds described in this Official Statement.

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

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

(5) Lease agreements privately placed with Banc of America.

(6) Lease agreement privately placed with JP Morgan Chase.

(7) 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 (“CP”) programs secured by lease agreements payable from the General Fund.

In 2004, the City and MICLA established a commercial paper program authorizing MICLA to issue up to \$200 million in lease revenue CP notes to finance and refinance capital equipment, the acquisition and improvement of real property, and other financing needs of the City (the “General MICLA CP”). The General MICLA CP program increased from time to time, is currently authorized for up to \$395 million, which will increase to up to \$425 million on June 21, 2019. The City expects to issue lease revenue bonds through MICLA from time to time to refund the General MICLA CP. With the issuance of the Bonds described in the forepart of this official statement, the City anticipates having \$162.1 million in General MICLA CP outstanding under this program.

The City has created a second CP program to issue up to \$110 million in lease revenue CP notes to finance and refinance capital improvements to the Los Angeles Convention Center facility (the “LACC CP”), which also represents a lease obligation of the General Fund. As of June 1, 2019, \$12.7 million in LACC CP was outstanding under this program.

In connection with each of these CP 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 CP. 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 City is currently renewing and replacing the letters of credit supporting these CP programs, with closing scheduled to occur by June 21, 2019 (the “CP LOC Replacement Transaction”). Concurrently therewith, the City is expanding the General MICLA CP program to \$425 million and reducing the LACC CP program to \$100 million. The table below summarizes the proposed direct pay letters of credit that will support the payment of principal of and interest on the General MICLA CP and the LACC CP programs, respectively, following the closing of the CP LOC Replacement Transaction.

Table 59
PROPOSED LEASE REVENUE COMMERCIAL PAPER NOTES LETTERS OF CREDIT

<u>Series</u>	<u>LOC Provider</u>	<u>Amount of CP Supported</u>	<u>LOC Expiration</u>
A-1 and B-1	BMO Harris Bank, N.A.	\$150,000,000	June 30, 2022
A-2 and B-2	Bank of America, N.A.	100,000,000	June 30, 2022
A-3 and B-3	U.S. Bank National Association	175,000,000	June 30, 2022
Convention Center	State Street Bank and Trust Company	100,000,000	June 30, 2022

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, \$20.6 million in 2009, and the issue summarized in the table below, which remains outstanding.

Table 60
JUDGMENT OBLIGATION BONDS
As of June 1, 2019

<u>Dated Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>	<u>Final Maturity</u>	<u>Judgment Financed with Proceeds</u>
6/29/10	50,875,000	6,190,000	6/1/20	Various employment, inverse condemnation and liability lawsuits.

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 obligations of 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 in order to receive a discount. The following table summarizes the City’s TRANs issuance since Fiscal Year 2014-15, excluding the current issue.

Table 61
TAX AND REVENUE ANTICIPATION NOTES

<u>Fiscal Year</u>	<u>LACERS</u>	<u>Fire and Police Pensions</u>	<u>Cashflow</u>	<u>Total Par Amount</u>
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	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 the City’s debt, while the subsequent two tables summarize the debt service to maturity of certain of these obligations. Direct Debt is usually defined as the total amount outstanding of “tax-supported” obligations, including general obligation bonds, lease revenue bonds, certificates of participation secured by lease payments, and other obligations paid from property tax or other general revenues. Net Direct Debt excludes any general obligation bonds and lease obligations that are self-supporting from non-General Fund sources; no such deductions are included below. Overall Net Debt is usually defined to be the combination of City Net Direct Debt plus the net tax-supported debt of overlapping counties, school districts and special districts, including assessment and Mello-Roos special tax debt.

Table 62
NET DIRECT DEBT
As of June 1, 2019

	<u>Outstanding</u>
General Obligation Bonds	\$834,975,000
Lease Obligations ^{(1) (2)}	
Capital Equipment and Fixtures	369,071,937
Real Property	<u>1,031,106,203</u>
Subtotal	\$1,400,178,140
Judgment Obligation Bonds	6,190,000
GROSS DIRECT DEBT	\$2,241,343,140
Revenue Bonds	
Power Revenue (DWP) ⁽²⁾	\$9,416,830,000
Water Revenue (DWP) ⁽²⁾⁽³⁾	5,002,085,000
Department of Airports ⁽²⁾	6,823,710,000
Harbor Department ^{(2) (4)}	810,110,000
Wastewater System ⁽²⁾	2,718,855,000
Solid Waste Resources Fee (formerly Sanitation Equipment Charge)	<u>115,805,000</u>
Subtotal	\$24,887,395,000
TOTAL CITY DEBT	\$27,128,738,140
Less:	
Revenue Bonds	(24,887,395,000)
NET DIRECT DEBT	\$2,241,343,140
Plus:	
Overlapping Debt ⁽⁵⁾	<u>\$13,364,518,628</u>
NET OVERALL DEBT	<u>\$15,605,861,768</u>

- (1) Includes only bonded and certificated lease obligations and long-term private placements.
(2) As of March 15, 2019. Does not include commercial paper or revolving credit agreements.
(3) Does not include outstanding California State Revolving Fund loans.
(4) Does not include outstanding California Department of Boating and Waterways loans.
(5) Overlapping debt information from California Municipal Statistics, Inc. as of April 1, 2019. See Table 70.

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

Table 63
DEBT SERVICE TO MATURITY ON DEBT PAYABLE FROM PROPERTY TAXES⁽¹⁾
As of June 1, 2019

Fiscal Year	General Obligation Bonds		Total
	Principal	Interest	
2020	\$105,455,000	\$30,831,496	\$136,286,496
2021	102,060,000	26,395,722	128,455,722
2022	97,160,000	22,164,987	119,324,987
2023	79,635,000	18,520,636	98,155,636
2024	61,525,000	15,776,651	77,301,651
2025	44,360,000	13,756,343	58,116,343
2026	37,355,000	12,199,068	49,554,068
2027	35,945,000	10,816,189	46,761,189
2028	34,485,000	9,492,207	43,977,207
2029	35,940,000	8,180,847	44,120,847
2030	31,225,000	6,916,369	38,141,369
2031	23,675,000	5,896,655	29,571,655
2032	23,595,000	5,044,121	28,639,121
2033	18,125,000	4,282,408	22,407,408
2034	18,125,000	3,609,407	21,734,407
2035	18,125,000	2,930,105	21,055,105
2036	18,125,000	2,248,646	20,373,646
2037	18,125,000	1,565,029	19,690,029
2038	18,125,000	879,255	19,004,255
2039	<u>13,810,000</u>	<u>267,914</u>	<u>14,077,914</u>
Total	<u>\$834,975,000</u>	<u>\$201,774,055</u>	<u>\$1,036,749,055</u>

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

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

Table 64
DEBT SERVICE TO MATURITY ON BONDED AND CERTIFICATED LEASE OBLIGATIONS
AND JUDGMENT OBLIGATION BONDS⁽¹⁾
As of June 1, 2019

Fiscal Year	Capital Equipment and Fixtures			Real Property			Judgment Obligation Bonds			Grand Total
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	
2020	\$68,558,623	\$12,481,425	\$81,040,048	\$86,960,000	\$45,243,475	\$132,203,475	\$6,190,000	\$304,500	\$6,494,500	\$219,738,022
2021	63,390,681	9,993,577	73,384,258	86,205,000	41,893,329	128,098,329	0	0	0	201,482,587
2022	54,614,599	7,875,363	62,489,962	89,170,000	38,448,269	127,618,269	0	0	0	190,108,231
2023	44,056,325	5,981,212	50,037,537	57,845,000	35,416,673	93,261,673	0	0	0	143,299,209
2024	41,798,147	4,653,481	46,451,628	43,515,000	33,101,005	76,616,005	0	0	0	123,067,633
2025	35,822,088	3,300,354	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	<u>\$369,071,937</u>	<u>\$47,511,365</u>	<u>\$416,583,302</u>	<u>\$1,031,106,203</u>	<u>\$423,943,566</u>	<u>\$1,455,049,769</u>	<u>\$6,190,000</u>	<u>\$304,500</u>	<u>\$6,494,500</u>	<u>\$1,878,127,571</u>

⁽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 65
DEBT MANAGEMENT POLICY RATIOS

<u>Ratio</u>	<u>Ceiling</u>	<u>2018-19</u>	<u>Adopted Budget 2019-20</u>
Total Direct Debt Service as Percent of General Revenues ⁽¹⁾	15.0%	5.91%	5.90%
Non-Voted Direct Debt Service as Percent of General Revenues ⁽¹⁾	6.0% ⁽²⁾	3.99%	3.92%

⁽¹⁾ For purposes of the Debt Policy, General Revenues includes the General Fund, the General Obligation Bond Debt Service Fund, and any tax revenues deposited into special funds that pay 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 66
FINANCIAL RATIOS

<u>As of June 30</u>	<u>Net Direct Debt</u>	<u>Net Debt Per Capita</u>	<u>Net Debt as Percent of Net Assessed Valuation</u>
2015	\$2,611,432,899	\$660	0.59%
2016	2,447,192,068	615	0.52
2017	2,279,944,100	568	0.46
2018	2,277,748,296	564	0.40
2019 ⁽¹⁾	2,241,343,140	555	0.37

⁽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 67
GENERAL FUND DEBT SERVICE AS A PERCENTAGE OF GENERAL FUND⁽¹⁾
(\$ in thousands)

<u>Fiscal Year</u>	Debt Service Payments ⁽²⁾	General Fund Revenues ⁽³⁾	Debt Service as Percentage of <u>General Fund Revenue</u>
2015-16	\$189,935	\$5,242,965	3.62%
2016-17	196,407	5,305,253	3.70
2017-18	218,487	5,841,076	3.74
2018-19 (Estimated)	233,601	6,190,596	3.77
2019-20 (Adopted Budget)	230,245	6,530,101	3.37

⁽¹⁾ Cash basis.

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

⁽³⁾ Including operating transfers in.

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

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

Table 68
RETIREMENT OF NET DIRECT DEBT⁽¹⁾
As of June 1, 2019

Maturing Within	General Obligation Bonds		Capital Equipment and Fixtures		Real Property Leases		Judgment Obligation Bonds		Total	
	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	\$445,835,000	53.4%	\$272,418,374	73.8%	\$363,695,000	35.3%	\$ 6,190,000	100.0%	\$1,088,138,374	48.5%
>5 to 10 years	188,085,000	75.9	96,653,563	100.0	225,141,203	57.1	0	100.0	509,879,766	71.3
>10 to 15 years	114,745,000	89.7	0	100.0	238,585,000	80.2	0	100.0	353,330,000	87.1
>15 to 20 years	86,310,000	100.0	0	100.0	190,815,000	98.8	0	100.0	277,125,000	99.4
>20 to 25 years	0	100.0	0	100.0	<u>12,870,000</u>	100.0	<u>0</u>	100.0	<u>12,870,000</u>	100.0
Total	\$834,975,000		\$369,071,937		\$1,031,106,203		\$6,190,000		\$2,241,343,140	

⁽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 is the Commercial Paper program described above. There are no swap agreements payable from the General Fund.

Proposed Additional Financings

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

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

Table 69
POTENTIAL ADDITIONAL FINANCINGS
DEBT CALENDAR

<u>Anticipated Sale Date</u>	<u>Project</u>	<u>Type of Obligation</u>	<u>Estimated Amount</u>
Summer 2019	MICLA 2019 Street Lighting Direct Loan	Lease Revenue	\$20 million
Spring 2020	Wastewater System	Revenue Bonds	\$325 million

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 70
STATEMENT OF OVERLAPPING DEBT
As of April 1, 2019

	Debt Outstanding 4/1/19	Estimated Percent Applicable ⁽¹⁾	Estimated Shares Of Overlapping Debt 4/1/19
<u>OVERLAPPING DEBT REPAID WITH PROPERTY TAXES</u>			
The Metropolitan Water District of Southern California	\$ 48,050,000	20.962%	\$ 10,072,241
Los Angeles Community College District	3,930,390,000	71.857	2,824,260,342
Beverly Hills Unified School District	363,302,561	0.155	563,119
Inglewood Unified School District	124,745,000	1.000	1,247,450
Las Virgenes Unified School District	127,817,728	0.898	1,147,803
Los Angeles Unified School District	10,199,475,000	88.19	8,994,917,003
Other School Districts	493,630,103	Various	416,732
City of Los Angeles Community Facilities District No. 3	2,215,000	100.000	2,215,000
City of Los Angeles Community Facilities District No. 4	70,720,000	100.000	70,720,000
City of Los Angeles Community Facilities District No.8	5,670,000	100.000	5,670,000
Mountains Recreation and Conservation Authority Assessment Districts	17,405,000	100.000	17,405,000
Los Angeles County Regional Park and Open Space Assessment District	13,620,000	40.259	5,483,276
<u>OTHER OVERLAPPING DEBT:</u>			
Los Angeles County General Fund Obligations	2,161,916,630	40.259	870,366,016
Los Angeles County Superintendent of Schools Certificates of Participation	5,827,868	40.259	2,346,241
Los Angeles County Sanitation District Nos. 1, 4, 5, 8 & 16 Authorities	38,138,131	0.001-11.592	1,822,853
Inglewood Unified School District Certificates of Participation	1,365,000	1.000	13,650
Las Virgenes Unified School District Certificates of Participation	10,615,405	0.898	95,326
Los Angeles Unified School District Certificates of Participation	180,545,000	88.19	159,222,636
Less: Los Angeles Unified School District QZAB Bonds (supported by periodic payments to investment accounts)			(6,526,060)
OVERLAPPING TAX INCREMENT DEBT (Successor Agency):	\$403,060,000	100.000%	\$403,060,000
SUBTOTAL, OVERLAPPING DEBT			\$13,364,518,628
City of Los Angeles General Obligation Bonds	\$ 877,260,000	100.000%	\$ 877,260,000
City of Los Angeles General Fund Obligations	1,418,206,496	100.000	1,418,206,496
City of Los Angeles Judgment Obligations	14,555,000	100.000	14,555,000
TOTAL CITY OF LOS ANGELES DIRECT DEBT			\$2,310,021,496
TOTAL DIRECT AND OVERLAPPING DEBT			\$15,674,540,124 ⁽¹⁾

⁽¹⁾ 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 Management and 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 and updated in 2019, 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, 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 hacking, viruses, malware and other attacks on computers and other sensitive digital networks and systems. There have been, however, only limited cyber-attack disruptions on the City’s computer system to date. For example, in 2017, the City experienced a ransomware attack that 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. 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, in 2018, 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. In 2017, the City consolidated and distributed a comprehensive Information Security Policy Manual with sections dedicated to City employees, City managers, and City technology professionals. Also, the City conducts annual “penetration tests” to identify and remediate any potential weaknesses in its networks and weekly cyber vulnerability scanning on City servers and websites accessible by the Internet.

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 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. 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.

One source of funding for these Clean Water costs will be from a special parcel tax approved by Los Angeles County voters. On November 6, 2018, Los Angeles County voters approved Measure W – The Los Angeles Region Safe, Clean Water Program (Measure W), a parcel tax of 2.5 cents per square foot of impermeable surface to support the costs of stormwater-related projects and activities. The tax will be collected on property tax bills countywide beginning with Fiscal Year 2019-20, and is projected to generate approximately \$300 million a year. This program is administered by the Los Angeles County Flood Control District (LACFCD). Revenues are allocated to three sub-programs: municipal, regional, and administrative. Fifty percent of revenues are allocated for region-wide projects and are awarded on a competitive basis. Forty percent of revenues are allocated to municipalities in the same proportion as the amount of revenues collected within each municipality. The remaining ten percent is allocated to the LACFCD for implementation and administration of the Measure W Program. Eligible uses for revenues include projects that provide a water supply and/or quality benefit and a community investment benefit.

The City has budgeted \$38 million in the Adopted Budget. In addition, the City has \$60.5 million in approved but unissued general obligation bond authority for Storm Water Projects (Proposition O).

2028 Olympic and Paralympic Games

The City has been selected by the International Olympic Committee ("IOC") as the host city for the 2028 Olympic and Paralympic Games ("Olympic Games"). Based on the budget released by LA24 (the local host committee), and the initial independent review conducted by KPMG dated December 2016, the Olympic Games were reported (in 2016 dollars) to cost approximately \$5.32 billion, which includes a contingency against cost overruns of more than

\$487 million. Upon being selected to host the 2028 Olympic Games, the local host committee was renamed the LA 2028 Organizing Committee of the Olympic Games (“LA 2028”).

In accordance with a Memorandum of Understanding between the City of Los Angeles, the United States Olympic Committee (“USOC”), and LA 2028, an independent review was conducted by KPMG to validate the 2028 Olympic Games budget which reflects updates to the Host City Contract relating to hosting the event four years later in 2028 rather than 2024. The review was completed and released in April 2019. KPMG reports the 2028 Games budget is “reasonable and complete for this stage of the event lifecycle” with the event nine years in the future. Further, KPMG found there are “reasonable processes in place to mitigate risk of overspending in the additional four years of planning.” The 2028 Games budget (in 2028 dollars) is \$6.88 billion, which includes a contingency against cost overruns of \$615.9 million. Inflation, calculated at 1.912 percent, is identified by KPMG as the cause for 86 percent of the total increase for expenses. The remaining expense increases are attributed to support of the \$160 million Youth Sports Program, sustainability initiatives, costs for secondary ceremony event(s), and costs for an additional four years of operations.

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.

In October 2017, the State enacted legislation (AB 132) that, among other things, created an Olympic Games Trust Fund to 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.

Other cities that 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 it will be necessary to construct extensive new capital projects in order to host 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 did not rule on the decertification issue – the sole remaining issue on appeal. On September 13, 2018, the Ninth Circuit affirmed the decertification ruling of the district court. The period to file an appeal to the U.S. Supreme Court lapsed in January 2019. Any future claims by plaintiffs with respect to this issue would now have to proceed without the benefits of a class action; plaintiffs would thus need to plead their respective cases individually.

2. *LAPPL v. City of Los Angeles et al.*

On January 14, 2009, the plaintiff, Los Angeles Police Protective League ("LAPPL"), filed a class action grievance alleging current and former officers were entitled to overtime under the Memorandum of Understanding, executed between the LAPPL and the City, for time spent on donning and doffing activities (i.e., dressing in and out of the uniform). Plaintiff also petitioned to compel arbitration over the allegation. The petition was stayed pending the outcome of the Ninth Circuit appeal discussed above. With the decertification issue adjudicated, the petition to compel arbitration was dismissed. The resolution of any class grievance would be subject to a mutually agreed arbitration process, scheduling of which remains pending.

3. *Telephone Utility Users Tax Cases.*

A number of claims have been filed in connection with the City's Telephone Utility 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.

4. *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. 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 April 1, 2019, HUD FHEO issued a Supplemental Letter of Findings of Noncompliance to the City ("Supplemental Letter"). The Supplement Letter concludes that the City was not in compliance with the ADA and other federal accessibility laws in connection with the City's affordable housing portfolio. HUD FHEO is seeking to resolve this matter through execution of a Voluntary Compliance Agreement. In response to a requested review of the Supplemental Letter by the City, on May 29, 2019, HUD FHEO sustained its findings of noncompliance and informed the City that, should it not execute a newly drafted Voluntarily Compliance Agreement, HUD FHEO plans to initiate administrative proceedings to terminate the City's CDBG and HOME funding, which funds total approximately \$79.3 million annually. Additionally, HUD FHEO threatened to withhold the City's funding during the pendency of the administrative proceedings. The City disputes HUD FHEO's conclusions, including the withholding of the City's funding, and does not believe HUD FHEO has any legal basis to compel the City to take 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.

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 DOJ has yet to raise any potential enforcement actions. The City is complying with DOJ's request.

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.

5. *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. The Ninth Circuit reversed the district court's dismissal against the LAPD officer. In March 2019, the City agreed to settle the matter with respect to the LAPD officer for \$12 million.

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 did not appeal the appellate court's ruling.

6. *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 July 1, 2019 by which the claimant may file a lawsuit pursuant to the claim. A lawsuit has yet to be filed.

7. *CBS Outdoor.*

CBS Outdoor filed a Claim for Damages on May 13, 2013, for an amount stated to be in excess of \$1 million arising from the Summit Media Decision, for damages,

lost revenue, attorneys' fees, restitution and costs. The City denied the Claim by letter dated June 8, 2013. The parties entered into another tolling agreement to extend the time deadline by which the claimant may file a lawsuit to July 1, 2019. A lawsuit has yet to be filed.

8. *Power Revenue Fund Transfer Litigation.*

On January 20, 2015, the California Court of Appeal, in *Citizens for Fair REU Rates v. City of Redding*, held that the City of Redding's municipally owned electrical utility's annual payment in lieu of tax (or "PILOT"), which is paid from the utility to the City of Redding, was 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. On August 27, 2018, the California Supreme Court reversed the appellate court's ruling. The California Supreme Court held that the transfer itself was not a tax under Proposition 26. The California Supreme Court further held that while the electric rate charged by Redding was a tax under Proposition 26, Redding's electric rate did not violate Proposition 26 because it did not exceed the reasonable cost of providing electric service. This decision was based on undisputed evidence showing that the revenue generated from electric rates was less than Redding's operating costs.

Following the Court of Appeal's ruling in *Redding*, but prior to the publication of the California Supreme Court's opinion noted above, 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 GENERAL FUND REVENUE SOURCES—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. On September 26, 2018, the appeals of three of the objectors were dismissed by the appellate court for lack of standing. One appeal remains pending. It may be at least a year before it is resolved. Additionally, two objectors filed motions to vacate the final judgment--these motions were denied by the Superior Court.

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.

On July 2, 2018, the plaintiffs filed an amended complaint which adds claims for conversion, breach of contract, and interference with prospective economic

advantage. On July 16, 2018, the City filed a motion to dismiss the amended complaint. On January 3, 2019, the district court granted the defendants' motion to dismiss. The district court granted the motion to dismiss with prejudice as to the federal claims asserted in the amended complaint, and without prejudice as to the state law claims asserted in the amended complaint. That same day, the district court entered judgment in favor of the defendants. Plaintiffs have appealed this decision to the Ninth Circuit Court of Appeals. The appeal is pending. Due to the preliminary nature of the matter, coupled with the settlement landscape, an estimable liability amount is difficult to ascertain at this time.

On July 25, 2018, another lawsuit challenging the transfer was filed in Los Angeles County Superior Court (*Humphreville v. City of Los Angeles, et al.*) by a plaintiff who had previously opted out of the *Eck* settlement. The plaintiff filed a petition for writ of mandate and a complaint for declaratory and injunctive relief alleging the Power Revenue Fund transfer violates Proposition 26 (Article XIII C of the California Constitution). Subsequently, on or about October 5, 2018, the plaintiff filed a first amended petition for writ of mandate and complaint for injunctive and declaratory relief alleging the Power Revenue Fund transfer violates Proposition 26, or, in the alternative, that the City's Power Revenue Fund transfer violates the City Charter. The petition/complaint seeks a writ of mandate requiring the City to comply with Proposition 26, as well as an injunction preventing the City from further Power Revenue Fund transfers or, in the alternative, an injunction requiring the City to comply with the City Charter. On November 9, 2018, the defendants filed a demurrer to the first amended petition. On January 16, 2019, the trial court sustained the demurrer to the amended petition with leave to amend. The plaintiff filed a second amended petition for writ of mandate and complaint for injunctive and declaratory relief alleging that the City's transfer practices (not just the Power Revenue Fund transfer itself) violate Proposition 26. The defendants filed a demurrer, and on April 22, 2019, the trial court sustained the demurrer to the second amended petition without leave to amend. The plaintiff has not indicated whether he will appeal this ruling.

9. *Gas Utility Users Tax Cases.*

Lavinsky 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. After further settlement discussions, the parties settled the matter for approximately \$32,500,000, inclusive of attorney's fees and administrative costs. The settlement amount to the class plaintiffs would be in the form of an abatement against an adjusted Gas Utility Users tax to be collected from ratepayers. The abatement is expected to occur over a period of years. Cash payments associated with administrative costs and attorney's fees is estimated to

be approximately \$10 million. The court issued its preliminary approval in April 2019. Subject to any objections from members of the class, final court approval is expected in late 2019.

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. The court certified the class in April 2019. In the event of an adverse finding or verdict, based on the pleadings, the City's potential liability could range as high as \$25 million to \$30 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. In March 2019, the parties settled the question of future damages for \$2.25 million, inclusive of attorney's fees and costs.

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 State appellate court 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 appellate court, 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. In April 2019, the City settled with LAUSD for approximately \$20.4 million. The payment has been made from June 2019 property tax revenues.

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 settled in April 2019 for approximately \$375,000.

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 California tax law and therefore required to pay a gross premiums tax

in lieu of a corporate franchise tax. Following an adverse superior court ruling, on April 2, 2019, Blue Cross filed a request to the California Supreme Court to resolve the question of whether Blue Cross is an “insurer” under the California Constitution. In the event the California Supreme Court holds that Blue Cross is an “insurer”, it would be exempt from the City’s business tax. Should that occur, Blue Cross would likely be entitled to a refund of previously paid City business tax. The refund could be as high as \$32 million, plus accrued interest and attorney’s fees.

15. *Apartment Owners Association of Ca. v. City of Los Angeles.*

On September 27, 2017, the plaintiffs filed a class action claim in Superior Court alleging the franchise fee collected by the City from private commercial waste haulers for the rights to service commercial and multi-family buildings should be treated as a tax under Proposition 218, and therefore required voter approval. The City rejects the allegation. The court has yet to certify the class status of the plaintiffs. Due to the preliminary nature of the matter, an assessment of liability is difficult to ascertain.

16. *Abikzer et al. v. City of Los Angeles et al.*

On May 18, 2018, the plaintiff filed suit in Superior Court alleging negligence against the City and other causes of action against Mercedes-Benz USA associated with a collision between a City employee driven vehicle and the plaintiff. The accident resulted in the plaintiff’s legs being amputated. In the event of an adverse verdict, the City’s liability could be as high as \$15 million.

17. *Shear et al. v. City of Los Angeles et al.*

On May 17, 2018, the plaintiffs filed suit against the City and other named defendants in connection with the death of the plaintiffs’ father who was struck by a private vehicle while walking in a marked crosswalk in Venice. The plaintiffs allege that the collision was, in part, caused by the dangerous conditions of the roadway. In the event of an adverse verdict, the City’s liability could be as high as \$10 million.

In addition to the cases listed above, two lawsuits have been filed challenging the City’s actions relative to freezing OPEB Benefits for sworn employees. (See “**BUDGET AND FINANCIAL OPERATIONS—Retirement and Pension Systems—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 appealed the trial court ruling. On October 30, 2018, the appellate court reversed the trial court and ordered that the case be remanded for a new trial. The trial status conference is scheduled for mid-June 2019. The City is currently unable to determine the impact of the new trial.

On August 10, 2017, the Los Angeles Police Protective League filed an additional lawsuit against the Board of Police Pension Commissioners and the City in Los Angeles County Superior Court. The complaint alleges that the Board did not raise the retiree subsidy by the maximum amount of 7% for the fiscal year beginning July 1, 2017. The court has yet to lift the stay. A status conference is scheduled for June 10, 2019.