Appendix A
CITY OF LOS ANGELES
INFORMATION STATEMENT
As of June 29, 2016

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

Table of Contents

INTRODUCTION

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

The City of Los Angeles (the "City") is the second most populous city in the United States with an estimated 2015 population of 3.96 million persons. Los Angeles is the principal city of a metropolitan region stretching from the City of Ventura to the north, the City of San Clemente to the south, the City of San Bernardino to the east, and the Pacific Ocean to the west.

In its Fiscal Year 2016-17 Adopted Budget, the City is meeting its major financial policies:

- By funding the Reserve Fund at 6.0%, the City is exceeding its Reserve Fund Policy goal of 5% of the General Fund Budget.
- The City is appropriating 1.6% of its General Fund to capital improvements, exceeding its policy of budgeting at least 1% of General Fund revenues towards capital projects.
- With growth to General Fund tax revenue being below 3.4%, no transfer to the Budget Stabilization Fund is required.
- The City is using one-time revenue for one-time expenses, allocating all $124.8 million in one-time revenues towards $132.2 million in one-time expenditures.

The Fiscal Year 2016-17 Adopted Budget shows the City making progress in a number of significant areas. Consistent with the City's settlement of the Willits litigation (see "**LITIGATION**," herein) the City will invest $1.4 billion ($930 million unadjusted for inflation) in the City's sidewalks and other walkways over the next 30 fiscal years; $31 million is appropriated from a variety of sources again in Fiscal Year 2016-17, as it was in 2015-16. The budget also fully funds the City's pavement preservation program to achieve 2,400 lane miles of street resurfacing and repair per year. Funding is also increased to pay the cost of police overtime, as well as other investments in public safety, including the continued hiring of firefighters after not doing so for several years. The Adopted Budget does not specifically earmark funds for increases in firefighter salaries, even though their contract expires June 30, 2016 and is currently under negotiation; funds for any salary increases are expected to be transferred from within the budget. The Adopted Budget also includes increased General Fund expenditures of approximately $47 million to support homelessness services as part of a broad, multifaceted approach to this persistent problem.

The 2016-17 Adopted Budget projected $76 million 2015-16 year-end revenue shortfall stemming primarily from lower than budgeted property tax receipts due to changes in State allocations, as well as lower than projected Power Revenue Fund, sales tax and parking fine revenues. This is a smaller shortfall than reported in the City Administrative Officer's Mid-Year (Third) Financial Status Report, dated February 26, 2016, which identified $119 million in potential General Fund revenue shortfalls. (See **"BUDGET AND FINANCIAL OPERATIONS—Fiscal Year 2015-16 Financial Status Reports,"** herein.) To the extent that this deficit is not closed through 2015-16 revenues exceeding the forecast or through expenditure savings, transfers from the City's Reserve Fund may be necessary, although even with any such transfers, it is anticipated that the Reserve Fund will remain above 5 percent, which is the minimum target pursuant to City policy.

The financial information concerning Fiscal Year 2016-17 contained in this Appendix A is generally derived from the Fiscal Year 2016-17 Adopted Budget approved by the City Council on May 25, 2016 and signed by the Mayor on June 2, 2016.

The City's most recent Budget Outlook, based on the Fiscal Year 2016-17 Adopted Budget, still projects budget gaps through Fiscal Year 2020-21 that must be addressed, but the gap that fiscal year is reduced to a more manageable $26.6 million. See **"BUDGET AND FINANCIAL OPERATIONS—General Fund Budget Outlook,"** herein.

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; see "**LITIGATION**," herein.

Litigation has been filed challenging the long-standing practice of transferring a portion of surplus power revenues to the City's General Fund as a violation of new restrictions on taxation imposed by Proposition 26 in 2010. The plaintiffs, on behalf of a class of DWP electricity rate payers, seek a refund of the alleged excess electricity fees that fund the Power Revenue Fund transfers as well as an injunction prohibiting future transfers. The transfers are a component of the City's General Fund revenues and in recent years have represented approximately 5% of the City's General Fund revenues; the City continues to receive such transfers during the pendency of the litigation. See **"MAJOR GENERAL FUND REVENUE SOURCES—Power Transfers to General Fund"** herein for more information regarding Power Revenue Fund transfers, and see **"LITIGATION"** herein for more information regarding the litigation related thereto.

In addition to litigation-related expenditures and liabilities, a number of large infrastructure projects the City has considered pursuing could result in major long-term commitments of funds. The City has a large backload of needed street repairs, estimated at over $3 billion. The City has sought funding from the Army Corp 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. The City is also considering major improvements to its civic center, with estimates ranging from $300 million to $500 million, and expanding its Convention Center at a currently estimated cost of $470 million. The City is considering an alternative procurement approach to the Convention Center expansion, where a third party would design, build, finance, operate, and maintain the facility. These expenditures are considered long-term projects that would be pursued only if a funding framework is first established.

The City is also exposed to major costs associated with compliance of 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 5 bodies of water do not exceed certain maximum levels. The Los Angeles Regional Water Quality Control Board estimates that the City's share of the costs of projects required to meet these requirements in the next five years is approximately $2.1 billion, and approximately $7.4 billion to meet its requirements over the next 25 years. In addition, non-compliance to these requirements within certain deadlines could expose the City to enforcement action, including substantial civil penalties and fines, and third-party lawsuits. Currently, City staff is developing a report to the Mayor and Council to address funding options with several revenue sources to begin the projects necessary to satisfy just the current TMDLs. Without such revenue sources, these costs would be obligations of the City's General Fund and could have a material adverse impact on the General Fund. See "**OTHER MATTERS—Stormwater Improvements,"** herein.

The City has also embarked on a program to address the problem of homelessness. The Mayor and Council directed the City Administrative Officer and Chief Legislative Analyst to identify $100 million in funding priorities. The 2016-17 Adopted Budget identifies a total commitment toward homelessness of $139 million, of which $121 million is for new expenditures. While $67 million of this is contingent upon the establishment of an Affordable Housing Linkage Fee and the sale of a number of surplus properties, $71.9 million represents funded budget appropriations, including $18.1 million in continuing General Fund, $47.4 million in new General Fund, and $6.4 million in special fund expenditures. In a report entitled "Comprehensive Homeless Strategy," the City estimated that over $1.85 billion will be needed over 10 years to build and lease the units needed to house the current number of homeless, which does not include all systems costs for coordinated case management, preventive steps or ongoing support services. The City is considering a number of funding options to finance related projects, including placing a general obligation bond measure before the voters.

HISTORIC, ECONOMIC AND DEMOGRAPHIC INFORMATION

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

The City and its surrounding metropolitan region have continued to experience growth in population and in economic diversity. The City's 470 square miles contain 11.5% of the area and about 39% of the population of the County of Los Angeles, California (the "County"). Tourism and hospitality, professional and business services, direct international trade, entertainment (including motion picture and television production), and wholesale trade and logistics all contribute significantly to local employment. Emerging industries are largely technology driven, and include biomedical, digital information technology, and environmental technology. 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. 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 information and data in this Appendix A are believed to be the latest data available to the City; however, the current state of the economy of the City, State of California and the United States of America may not be reflected in the data discussed below, because more up-to-date publicly available information is not available. This information is provided as general background.

Additional information on economic highlights for the City of Los Angeles was recently prepared by Beacon Economics, and is available on the City's web site at cao.lacity.org/debt/Beacon%20Report%20Comparative%20Analysis%20June%202016.pdf. This report is not incorporated by reference.

Population

The table below summarizes City, County, and State of California (the "State") population, estimated as of January 1 of each year. The population estimates for 2005 and later incorporate 2010 U.S. Census counts as the benchmark and, as a result, are noticeably lower than previously published estimates.

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	3,694,742	-	9,519,330	-	33,873,086	-
2005	3,769,131	0.40%	9,816,153	0.62%	35,869,173	1.15%
2010	3,792,621	0.12	9,818,605	0.00	37,253,956	0.76
2011	3,818,120	0.13	9,847,887	0.06	37,536,835	0.15
2012	3,860,986	0.22	9,956,722	0.22	37,881,357	0.18
2013	3,907,519	0.24	10,023,753	0.13	38,239,207	0.19
2014	3,945,037	0.19	10,093,053	0.14	38,567,459	0.17
2015	3,980,423	0.18	10,155,069	0.12	38,907,642	0.18
2016	4,030,904	0.25	10,241,335	0.17	39,255,883	0.18

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

Sources: State of California, Department of Finance, E-4 Population Estimates for Cities, Counties and the State, 2001-2010, with 2000 and 2010 Census Counts, Sacramento, California, November 2012. State of California, Department of Finance, E-4 Population Estimates for Cities, Counties, and the State, 2011-2016, with 2010 Census Benchmark. Sacramento, California, May 2016.

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.

The California Employment Development Department has reported preliminary unemployment figures for May 2016 of 4.7% statewide, 4.3% for Los Angeles County, and 4.5% for the City (not seasonally adjusted).

Table 2
ESTIMATED AVERAGE ANNUAL EMPLOYMENT AND UNEMPLOYMENT OF RESIDENT LABOR FORCE[1]

Civilian Labor Force	2011	2012	2013	2014	2015
City of Los Angeles					
Employed	1,671,300	1,680,100	1,728,500	1,835,200	1,870,400
Unemployed	261,200	230,900	211,700	175,700	140,300
Total	1,932,600	1,911,000	1,940,200	2,010,900	2,010,700
County of Los Angeles					
Employed	4,326,100	4,378,800	4,495,700	4,610,800	4,674,800
Unemployed	603,400	535,800	486,600	415,100	336,900
Total	4,929,500	4,914,500	4,982,300	5,025,900	5,011,700
Unemployment Rates					
City	13.5%	12.1%	10.9%	8.7%	7.0%
County	12.2	10.9	9.8	8.3	6.7
State	11.7	10.5	8.5	7.5	6.2
United States	8.9	8.1	7.4	6.2	5.3

(1) March 2015 Benchmark report as of March 18, 2016; not seasonally adjusted.

Note: Based on surveys distributed to households; not directly comparable to Industry Employment data reported in Table 3.Items may not add to totals due to rounding.

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

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

	County				State of California	
	2000	% of Total	2015	% of Total	2015	% of Total
Agricultural	7,700	0.2%	5,000	0.1%	423,300	2.6%
Natural Resources and Mining	3,400	0.1	3,900	0.1	29,100	0.2
Construction	131,800	3.2	126,100	2.9	727,400	4.4
Manufacturing	615,200	14.9	360,800	8.4	1,291,900	7.8
Trade, Transportation and Utilities	784,900	19.0	817,800	19.1	2,938,300	17.8
Information	244,300	5.9	202,700	4.7	483,000	2.9
Financial Activities	223,400	5.4	214,200	5.0	797,400	4.8
Professional and Business Services	590,700	14.3	600,300	14.0	2,493,800	15.1
Educational and Health Services	463,100	11.2	742,200	17.3	2,456,200	14.9
Leisure and Hospitality	345,000	8.4	488,100	11.4	1,830,000	11.1
Other Services	140,200	3.4	151,700	3.5	545,700	3.3
Government	581,400	14.1	566,400	13.2	2,458,800	14.9
Total[(2)]	4,130,900	100.0%	4,279,200	100.0%	16,474,800	100.0%

(1) The California Economic Development Department has converted employer records from the Standard Industrial Classification coding system to the North American Industry Classification System.
(2) Totals may not equal sum of parts due to independent 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 2015 Benchmark report released March 18, 2016.

Major Employers

The top 25 major non-governmental employers in the County are listed in the table below. The employees of these non-governmental employers represent approximately 6.5% of the labor force (based on total employment in 2015). In addition, government employment represents approximately 13.2% of the labor force (see Table 3 – Estimated Industry Employment and Labor Force).

Table 4
LOS ANGELES COUNTY
2015 MAJOR NON-GOVERNMENTAL EMPLOYERS

Employer	Product/Service	Employees
Kaiser Permanente	Nonprofit health care plan	35,771
University of Southern California	Private university	18,629
Northrop Grumman Corp.	Defense contractor	17,000
Target Corp.	Retailer	15,000
Ralphs/Food 4 Less (Kroger Co. Division)	Grocery retailer	13,500
Bank of America Corp	Banking and financial services	13,000[(1)]
Providence Health & Services Southern California	Health care	13,000
AT&T Inc.	Telecommunications	11,700
UPS	Transportation and freight	10,768
Home Depot	Home improvement specialty retailer	10,600[(1)]
Boeing Co.	Integrated aerospace and defense systems	10,500[(1)]
Cedars-Sinai Medical Center	Medical center	10,250
Albertsons/Vons/Pavilions	Retail grocer	10,200[(1)]
Walt Disney Co.	Entertainment	10,200[(2)]
Wells Fargo	Diversified financial services	10,000
ABM Industries Inc.	Facilities services, energy solutions, commercial cleaning, maintenance and repair	8,500[(1)]
California Institute of Technology	Private university, operator of Jet Propulsion Laboratory	8,100
FedEx Corp.	Shipping and logistics	7,700[(1)]
Edison International	Electric utility	7,650
Warner Bros. Entertainment Inc.	Entertainment	7,400[(2)]
Universal Services of America	Security professionals	6,554
Dignity Health	Health care	6,100
American Apparel Inc.	Apparel manufacturer and retailer	6,000
Costco Wholesale	Membership chain of warehouse stores	5,800
SoCalGas	Natural gas utility	5,600

(1) Business Journal estimate.
(2) Information provided by City of Burbank.

Source: Los Angeles Business Journal, Weekly Lists, originally published August 31, 2015.

Table 5
LOS ANGELES COUNTY
2015 LARGEST PUBLIC SECTOR EMPLOYERS

Employers	Employees
Los Angeles County	105,503
Los Angeles Unified School District	59,563
US Government - Federal Executive Board[1]	47,500
University of California, Los Angeles	44,744
City of Los Angeles[2]	31,875
State of California[3]	28,900
Los Angeles County Metropolitan Transportation Authority	9,281
Los Angeles Department of Water and Power (LADWP)	9,147
Los Angeles Community College District	6,819
Long Beach Unified School District	6,515
California State University, Northridge	6,047
City of Long Beach	5,133
California State University, Long Beach	4,202
Los Angeles World Airport (LAWA)	3,491
Montebello Unified School District	3,400
Pomona Unified School District	2,802
Cal Poly Pomona	2,612
City of Santa Monica	2,177
California State University, Los Angeles	2,177
City of Pasadena	2,172
Compton Unified School District	2,007
Santa Monica Community College District	1,904
Mt. San Antonio Community College District	1,895
Glendale Unified School District	1,830
Metropolitan Water District of Southern California	1,830

(1) Excludes education employees.
(2) Excludes proprietary departments (LADWP, LAWA, and Port of LA).
(3) Excludes education employees.

Source: Los Angeles Business Journal, Weekly Lists, originally published August 31, 2015.

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)
2011		
County	$ 441,724,254	$ 44,627
State[2]	1,691,002,503	44,852
United States[2]	13,233,436,000	42,453
2012		
County	$ 475,931,985	$ 47,713
State[2]	1,812,314,643	47,614
United States[2]	13,904,485,000	44,266
2013		
County	$ 478,371,346	$ 47,580
State[2]	1,849,505,496	48,125
United States[2]	14,064,468,000	44,438
2014		
County[3]	$ 499,767,889	$49,400
State[2]	1,939,527,656	49,985
United States[2]	14,683,147,000	46,049
2015		
County	N/A	N/A
State[2]	$2,061,337,141	$52,651
United States[2]	15,324,108,725	47,669

(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 2011 to 2015 reflect Census Bureau midyear State population estimates available as of December 2014. Estimates for 2015 are derived from the quarterly State population estimates produced by BEA based on unpublished Census Bureau data.
(2) Last updated: March 24, 2016—new estimates for 2015. In 2015 details may not add to totals because of rounding.
(3) Last updated: November 19, 2015.

Source: U.S. Bureau of Economic Analysis, "Table SA1 Personal Income Summary," (accessed April 21, 2016).

Retail Sales

As the largest city in the County, the City accounted for $41.7 billion (or 29.8%) of the total $140.0 billion in County taxable sales for 2013. The following table sets forth a history of taxable sales for the City for calendar years 2009 through 2013, 2013 being the last full year for which data is currently available.

The City experienced a 4.1% increase in sales tax receipts during Fiscal Year 2014-15, estimates 2.1% growth in Fiscal Year 2015-16 (excluding additional receipts from the restoration of the 1% local tax rate) and projected 3.0% growth in taxable sales for the Fiscal Year 2016-17 Adopted Budget. See **"MAJOR GENERAL FUND REVENUE SOURCES— Sales Tax,"** herein.

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

	2009	2010	2011	2012	2013
Motor Vehicle and Parts Dealers	$ 2,760,647	$ 2,865,868	$ 3,224,150	$ 3,662,657	$ 3,983,625
Home Furnishings and Appliance Stores	1,566,716	1,590,667	1,609,905	1,676,926	1,683,805
Bldg. Materials and Garden Equip. and Supplies	1,700,820	1,711,735	1,834,117	1,942,915	2,086,608
Food and Beverage Stores	2,126,677	2,123,626	2,199,481	2,322,695	2,444,701
Gasoline Stations	3,621,498	4,114,016	4,952,984	5,090,496	4,954,380
Clothing and Clothing Accessories Stores	2,404,735	2,551,905	2,715,953	2,884,984	3,032,886
General Merchandise Stores	2,448,694	2,534,482	2,660,830	2,759,578	2,873,530
Food Services and Drinking Places	5,437,781	5,637,405	6,049,187	6,564,652	6,946,625
Other Retail Group	3,425,579	3,451,919	3,599,674	3,716,658	3,943,616
Total Retail and Food Services	25,493,148	26,581,623	28,846,283	30,621,561	31,949,776
All Other Outlets	8,098,716	8,233,833	9,011,361	9,502,364	9,806,938
TOTAL ALL OUTLETS[(1)]	$33,591,864	$34,815,457	$37,857,643	$40,123,926	$41,756,714

(1) Items may not add to totals due to rounding.

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

Increase in Local Minimum Wage

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

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

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

Land Use

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

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

Non-Residential	2015-16 Assessed Valuation[1]	% of Total	No. of Parcels	% of Total
Commercial Office	$ 72,067,801,066	14.97%	35,721	4.59%
Vacant Commercial	2,101,642,002	0.44	1,255	0.16
Industrial	36,527,008,296	7.59	20,111	2.58
Vacant Industrial	1,735,544,481	0.36	4,069	0.52
Recreational	1,806,352,224	0.38	780	0.10
Government/Social/Institutional	3,259,017,043	0.68	3,795	0.49
Miscellaneous	386,941,983	0.08	2,815	0.36
Subtotal Non-Residential	$117,884,307,095	24.48%	68,546	8.81%
Residential				
Single Family Residence	$248,906,138,472	50.70%	490,638	63.03%
Condominium/Townhouse	33,412,992,353	6.94	86,129	11.06
Mobile Homes and Lots	108,478,933	0.02	3,304	0.42
Mobile Home Park	164,431,429	0.03	92	0.01
2-4 Residential Units	25,927,464,009	5.38	74,211	9.53
5+ Residential Units/Apartments	52,120,152,106	10.83	34,769	4.47
Vacant Residential	2,955,189,311	0.61	20,741	2.66
Subtotal Residential	$363,594,846,613	75.52%	709,884	91.19%
Total	$481,479,153,708	100.00%	778,430	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 2015-16 ASSESSED VALUATION OF SINGLE FAMILY RESIDENTIAL PROPERTIES

	No. of Parcels	2015-16 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential Properties	490,638	$248,906,138,472	$507,311	$327,900

2015-16 Assessed Valuation	No. of Residential Parcels [(1)]	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
$0 - $49,999	10,420	2.124%	2.124%	$ 404,118,860	0.162%	0.162%
$50,000 - $99,999	39,817	8.115	10.239	3,084,384,088	1.239	1.402
$100,000 - $149,999	32,135	6.550	16.789	4,177,132,245	1.678	3.080
$150,000 - $199,999	41,526	8.464	25.252	7,686,628,704	3.088	6.168
$200,000 - $249,999	47,742	9.731	34.983	11,025,537,480	4.430	10.597
$250,000 - $299,999	46,054	9.387	44.370	12,854,684,588	5.164	15.762
$300,000 - $349,999	46,922	9.563	53.933	15,957,046,072	6.411	22.173
$350,000 - $399,999	41,555	8.470	62.403	16,201,588,065	6.509	28.682
$400,000 - $449,999	28,624	5.834	68.237	12,594,989,360	5.060	33.742
$450,000 - $499,999	20,871	4.254	72.491	10,174,341,177	4.088	37.830
$500,000 - $549,999	17,685	3.604	76.095	9,498,065,265	3.816	41.646
$550,000 - $599,999	14,007	2.855	78.950	8,212,093,995	3.299	44.945
$600,000 - $649,999	13,366	2.724	81.674	8,563,462,540	3.440	48.385
$650,000 - $699,999	11,899	2.425	84.099	8,081,146,355	3.247	51.632
$700,000 - $749,999	8,686	1.770	85.870	6,456,208,254	2.594	54.226
$750,000 - $799,999	8,391	1.710	87.580	6,613,484,124	2.657	56.883
$800,000 - $849,999	6,514	1.328	88.908	5,477,068,910	2.200	59.083
$850,000 - $899,999	6,367	1.298	90.205	6,213,529,832	2.496	61.580
$900,000 - $949,999	5,777	1.177	91.383	5,357,971,082	2.153	63.732
$950,000 - $999,999	4,421	0.901	92.284	4,313,419,386	1.733	65.465
$1,000,000 and greater	37,859	7.716	100.000	85,959,238,090	34.535	100.000
Total	490,638	100.000%		$248,906,138,472	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
BUILDING PERMIT VALUATIONS AND NEW DWELLING UNITS

	2010	2011	2012	2013	2014
Total Valuation[1]($ in millions)	$3,328	$3,386	$3,671	$4,246	$6,416
Residential [2]	878	1,131	1,407	1,732	2,668
Miscellaneous [3]	15	26	17	48	18
Number of Units:					
Single family[4]	772	726	1,059	1,254	1,852
Multi-family[5]	3,374	5,258	5,615	7,136	9,607
Subtotal Residential	4,146	5,984	6,674	8,390	11,459
Miscellaneous [6]	370	390	477	536	274
Total Units	4,516	6,374	7,151	8,926	11,733

(1) Represents the total valuation of all construction work for which building permits were issued.
(2) Valuation of permits issued for Single-Family Dwellings, Duplexes, Apartment Buildings, Hotel/Motels, and Condominiums.
(3) Valuation of permits issued for “Addition Creating New Units – Residential” and “Alterations Creating New Units – Residential.”
(4) Number of dwelling units permitted for Single-Family Dwellings and Duplexes.
(5) Number of dwelling units permitted for new Apartment Buildings, Hotel/Motels, and Condominiums.
(6) Number of dwelling units added includes “Addition Creating New Units – Residential” and “Alterations Creating New Units - Residential.”

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 of Los Angeles.

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

Year and Area	Retail	Office	Warehouse	R&D
2011				
City	6.7%	15.9%	9.0%	8.0%
County	6.5	14.3	9.0	6.0
2012				
City	5.2	16.8	7.6	4.3
County	6.3	14.4	8.0	5.6
2013				
City	4.8	16.4	6.7	5.4
County	6.1	14.5	7.7	5.1
2014				
City	4.2	16.5	6.1	4.0
County	6.1	13.6	6.6	3.7
2015				
City	4.0	15.1	5.7	2.9
County	6.5	13.4	6.1	2.4

(1) Fourth quarter of each year.

Source: Beacon Economics and REIS.

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. This interaction appears to pose a potential seismic threat for every part of the City, regardless of the underlying geologic and soils conditions. In addition, there are likely to be unmapped faults throughout the City. The most recent major earthquake, the Northridge earthquake in 1994, occurred along a previously unmapped blind thrust fault. The City generally does not maintain earthquake insurance coverage; see "**BUDGET AND FINANCIAL OPERATIONS—Risk Retention Program**" herein.

Education

The Los Angeles Unified School District ("LAUSD") administers public instruction for kindergarten through 12th grade ("K-12"), adult, and occupational schools in the City and all or significant portions of a number of smaller neighboring cities and unincorporated areas. The LAUSD, which now encompasses approximately 710 square miles (making it significantly larger than the City at 470 square miles), was formed in 1854 as the Common Schools for the City of

Los Angeles, and became a unified school district in 1960. The LAUSD is governed by a seven-member Board of Education, elected by district to serve alternating four-year terms.

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

MUNICIPAL GOVERNMENT

Under the State Constitution, charter cities 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"** herein. The City is a charter city originally incorporated in 1850. The most recent charter was adopted in 1999, became effective July 1, 2000, and has been amended a number of times by voter approval.

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.

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

The other two elective offices of the City are the Controller and the City Attorney, both elected for four-year terms. The Controller is the chief accounting officer for the City. The current Controller, Ron Galperin, assumed office on July 1, 2013.

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.

All citywide elected officials of the City are subject to term limits of two four-year terms, while Council members are subject to terms 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. Miguel A. Santana has been serving as CAO since August 2009.

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

The City has 36 departments and bureaus for which operating funds are annually budgeted by the Council. In addition, four departments (the Department of Water and Power ("DWP"), the Harbor Department, the Department of Airports, and the Housing Authority of the City) are under the control of boards appointed by the Mayor and confirmed by the Council. The City obtains water and electricity from DWP, the largest municipally-owned utility in the nation. Two departments, the Los Angeles City Employees' Retirement System and the Fire and Police Pension System, are under the control of boards whose membership is comprised of Mayoral appointees and representatives elected by system members.

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

BUDGET AND FINANCIAL OPERATIONS

Fiscal Year 2014-15 Results

The City's Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2015 reported a growth in the City's total General Fund balance of approximately $40.1 million. See the City's Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2015 and Financial Statements available on the Electronic Municipal Market Access site at *http://emma.msrb.org*.

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.

For a summary of the impact of recent Government Accounting Standard Board ("GASB") pronouncements on the City's reporting of all Governmental Funds in its Government-Wide Statements of Net Assets, which includes the General Fund, see "**BUDGET AND FINANCIAL OPERATIONS—Retirement and Pension Systems; Accounting and Financial Reporting Standards."** As a result of GASB 68, the Total Net Position of Governmental Activities fell from $5,171,370,000 as of June 30, 2014 to a deficit of $536,792,000 as of June 30, 2015.

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

	2011	2012	2013	2014	2015
Assets					
Cash and Pooled Investments(1)	$ 966,168	$ 1,235,260	$ 791,293	$1,014,481	$1,084,125
Taxes Receivable	488,977	536,069	533,711	479,482	554,084
Accounts Receivable	176,233	184,312	187,230	128,136	131,040
Special Assessments Receivable	4,319	4,598	4,816	4,518	4,417
Investment Income Receivable	6,091	6,122	5,401	4,815	7,123
Intergovernmental Receivable	50,124	47,152	54,548	155,448	135,042
Loans Receivable	-	-	-	-	1
Due from Other Funds	48,388	44,229	86,632	43,625	50,870
Inventories	16,585	19,815	17,875	18,643	20,694
Prepaid Items and Other Assets	-	-	17,051	14,569	13,297
Advances to Other Funds	9,714	11,319	8,189	9,934	8,155
Total Assets	$1,766,599	$2,088,876	$1,706,746	$1,873,651	$2,008,848
Liabilities:					
Accounts, Contracts and Retainage Payable	$ 61,744	$ 56,764	$ 54,078	$ 63,347	$69,758
Obligations Under Securities Lending Transactions(2)	123,592	-	6,879	2,580	12,703
Accrued Salaries and Overtime Payable	95,287	121,845	130,168	122,028	154,873
Accrued Compensated Absences Payable	5,678	10,124	15,433	17,182	15,654
Accrued Retirement Benefits Payable	39,358	-	-	-	-
Estimated Claims and Judgments Payable	24,102	28,189	30,269	35,015	39,922
Intergovernmental Payable	814	776	12	353	876
Due to Other Funds	31,005	47,967	71,740	98,113	47,891
Unearned Revenue	-	-	-	24	19
Deposits and Advances	20,444	24,007	23,316	23,612	28,349
Deferred Revenue and Other Credits(3)	516,356	528,669	576,749	-	-
Advances from Other Funds	41,441	35,728	29,852	22,436	47,304
Notes Payable	-	601,541	-	-	-
Other Liabilities(4)	286,720	61,582	45,634	43,843	53,246
Total Liabilities	$1,246,541	$1,517,192	$ 984,130	$ 428,533	$ 470,595
Deferred Inflows of Resources(3)					
Unavailable Real Estate Tax	-	-	-	$ 29,884	$ 53,497
Taxes Other than Real Estate	-	-	-	269,310	314,960
Receivables from Other Government Agencies	-	-	-	154,739	132,692
Other Deferred Inflows of Resources	-	-	-	95,114	91,555
Total Deferred Inflows of Resources	-	-	-	$ 549,047	$ 592,704
Fund Balances					
Nonspendable(5)	$ 26,299	$ 31,134	$ 43,115	$ 43,146	$ 42,146
Restricted(6)	-	-	69,712	-	-
Committed	-	-	-	-	2,457
Assigned(7)	239,877	267,645	242,643	230,717	253,388
Unassigned(8)	253,882	272,905	367,146	622,208	647,558
Total Fund Balances	$ 520,058	$ 571,684	$ 722,616	$896,071	$945,549
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$1,766,599	$2,088,876	$1,706,746	$1,873,651	$2,008,848

(1) Includes securities held under securities lending transactions, offset by the Liability "Obligations Under Securities Lending Transactions." Fiscal Year 2010-11 includes securities for which settlement was made after the end of the fiscal year, offset by the liability of Obligations Under Securities Lending Transactions. Fiscal Year 2011-12 also includes funds set-aside for repayment of TRANS maturing in the subsequent fiscal year, offset by the liability of Notes Payable.

(2) The City temporarily suspended its securities lending program in November 2008, due to the volatility in the financial markets and heightened concerns with counterparty risks; the program was resumed in April 2010. The program was halted again in Fiscal Year 2011-12, until the contract for agent was renewed in December 2012.

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

(4) Increase in Fiscal Year 2010-11 includes $262 million owed for certain securities acquired at the end of the fiscal year for which payment was made after June 30, 2011; as such, it offsets a portion of the increase in "Cash and Pooled Investments."

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

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

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

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

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

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

	2011	2012	2013	2014	2015
Revenues:					
Property Taxes	$1,436,707	$1,470,799	$1,565,457	$1,662,364	$1,733,508
Sales Taxes	299,624	328,059	343,628	357,255	372,782
Utility Users' Taxes	618,307	634,629	623,794	631,492	637,318
Business Taxes	424,762	438,969	447,983	476,908	500,774
Other Taxes	359,434	392,686	451,304	522,341	552,549
Licenses and Permits	20,229	26,241	23,909	22,417	22,604
Intergovernmental	33,704	7,182	11,939	11,640	39,284
Charges for Services	496,551	510,401	532,512	543,882	617,481
Services to Enterprise Funds	248,263	245,853	252,178	253,414	273,171
Fines	145,731	147,780	162,930	167,474	156,006
Special Assessments	2,332	1,922	1,732	2,441	1,259
Investment Earnings	18,149	21,456	16,710	19,059	20,736
Change in Fair Value of Investments[1]	-	-	(18,002)	-	-
Other	75,498	91,357	104,973	118,571	79,816
Total Revenues	$4,179,291	$4,317,334	$4,521,047	$4,789,258	$5,007,288
Expenditures:					
Current:					
General Government	$1,224,681	$1,257,198	$1,219,179	$1,263,431	$1,333,453
Protection of Persons and Property	2,182,116	2,279,987	2,403,195	2,562,058	2,771,591
Public Works	158,050	165,025	176,240	180,714	170,510
Health and Sanitation	137,829	146,270	145,768	146,422	174,136
Transportation	113,632	107,803	98,446	106,494	110,336
Cultural and Recreational Services	46,239	46,592	51,991	50,943	54,992
Community Development	32,204	30,544	32,303	36,758	43,966
Capital Outlay	17,203	17,751	25,395	27,025	29,540
Debt Service: Interest	-	1,152	2,062	1,939	1,472
Debt Service: Cost of Issuance	1,090	940	955	907	927
Total Expenditures	$3,913,044	$4,053,262	$4,155,534	$4,376,691	$4,690,923
Excess (Deficiency) of Revenues Over Expenditures	$ 266,247	$ 264,072	$ 365,513	$ 412,567	$ 316,365
Other Financing Sources (Uses)					
Transfers In	$ 299,510	$ 270,660	$ 307,458	$ 294,383	$302,147
Transfers Out	(482,183)	(486,336)	(520,098)	(534,263)	(573,493)
Total Other Financing Sources (Uses)	(182,673)	(215,676)	(212,640)	(239,880)	(271,346)
Net Change in Fund Balance	83,574	48,396	152,873	172,687	45,019
Fund Balances, July 1	437,180	520,058	571,683	722,616	898,479[2]
(Decrease) Increase in Reserve for Inventories	(696)	3,230	(1,940)	768	2,051
Fund Balances, June 30	$ 520,058	$ 571,684	$ 722,616	$ 896,071[2]	$945,549

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

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

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

City's Budgetary Process

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

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

The City is required by law to maintain a balanced budget; however, in recent years expenditure growth has consistently outpaced revenue growth, creating a structural imbalance that was addressed on a year-by-year basis through both ongoing and one-time solutions. While the City's budget balancing attempted to address structural deficits through position elimination and increased employee retirement contributions, it also relied heavily on one-time solutions to close budget gaps. These one-time solutions have included the receipt of revenues earmarked for specific purposes over a short period of time (e.g. grants), expenditure deferrals for capital improvements, the use of one-time revenues for ongoing programs, hiring freezes, and furloughs. Furthermore, even structural solutions such as the elimination of positions were not always based on a strategic plan that took into consideration the needs of departments and whether the impacted services were core services of the City. Rather, vacant positions were targeted for elimination to achieve the highest savings possible with the least layoff impact.

The Adopted Budget is subject to revision throughout the fiscal year to reflect any changes in revenue and expenditure projections. During the fiscal year, the City monitors its revenues, expenditures and reserve estimates. As instructed by the Mayor and Council, the City Administrative Officer issues interim financial status reports as deemed necessary, which recommend budgetary adjustments throughout the year. The fifth financial status report for Fiscal Year 2015-16, also referred to as the Year-End report, was released June 3, 2016. Additional information concerning the City's financial condition may be found on the website of the City Administrative Officer at http://cao.lacity.org/budget/FSR.htm; such information is not incorporated as part of this Official Statement.

The table below summarizes the gaps that were identified as part of the Mayor's Proposed Budget for the past five years, which were addressed in the balancing of the Adopted Budget, and gaps subsequently identified as part of the City's interim reporting process, which were addressed by various actions throughout the year. Some of these interim actions were required to adjust for measures taken in the Adopted Budget that failed to generate projected savings; therefore, the two columns should not be totaled.

Table 14
BUDGET DEFICITS ADDRESSED IN BUDGET AND THROUGH INTERIM ACTIONS
($ in millions)

Fiscal Year	Addressed in Adopted Budget[1]	Addressed Through Mid-Year Adjustments[2]
2011-12	$336	$ 72
2012-13	238	7
2013-14	216	37
2014-15	433	72
2015-16	468	39

(1) As identified in the Mayor's Proposed Budget for each respective fiscal year.
(2) As of the date of the Mid-Year Financial Status Report for each respective fiscal year.

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

Fiscal Year 2015-16 Financial Status Reports

On October 23, 2015, the CAO released the first Financial Status Report of the Fiscal Year. This report summarized the close-out of the 2014-15 budget and provided an update on the current-year budget—including certain projected departmental deficits, early trends in revenues, the status of the City's Reserve Fund, and current issues of concern and their potential impact to the City. Recommendations totaling approximately $146 million for appropriations, transfers, and other budgetary adjustments were included.

The Second Financial Status Report, released December 4, 2015, identified a $97.24 million deficit, mainly attributed to an $80 million increase in the amount recommend by the City Attorney for allocation for the Liability Claims. Recommendations totaling approximately $65 million for appropriations, transfers, and other budgetary adjustments were included.

As of the City Administrative Officer's Mid-Year (Third) Financial Status Report, dated February 26, 2016, the City had identified $119 million in potential General Fund revenue shortfalls, stemming from lower than budgeted property tax ($90.6 million, primarily a result of a delay in receipts of in-lieu sales tax from the unwinding of the State's revenue allocation formula known as the "triple flip," pushing some receipts into Fiscal Year 2016-17); an $8.3 million shortfall in Power Revenue Fund receipts (due to reduced 2014-15 power sales, on which the transfer is based); a potential shortfall of $9.6 million in sales tax revenues (in part due to declining energy sales and gas prices); and a projected $6.5 million shortfall in parking fine revenue. Smaller budgeted revenue shortfalls are projected from documentary transfer taxes utility users' tax, and franchise fees.

As of the date of the Third Financial Status Report, the City's Reserve Fund balance was $382.2 million, $60.3 million less than the balance of $442.5 million at the beginning of the fiscal year. The report warned that the City may have to additionally rely on its Reserve Fund to balance the fiscal year.

The report, like its predecessors, also identified other areas of budgetary risk, including the potential cost impacts of a particularly wet winter arising from El Niño conditions and the City's new homelessness initiatives.

An Interim (Fourth) Financial Status Report was released on May 12, 2016, and included a number of urgent transactions but no update to the City's fiscal condition. This report recommended a total of $13.9 million in transfers between budgeted funds, including $1.8 million from the Unappropriated Balance.

The Year-End Financial Status Report, was released on June 3, 2016 and reported on and closed the remaining expenditure shortfall of $5.13 million using other reported surpluses and without a transfer from the Reserve Fund. The report identifies a Reserve Fund balance of $379.1 million, or 7.01 percent of General Fund revenues. The report also notes that the 2015-16 General Fund revenue shortfall of $76.4 million (as included in the 2016-17 Adopted Budget) may impact the Reserve Fund, although it is anticipated that the Reserve Fund will remain above the 5 percent minimum target pursuant to City policy. Finally, the report identifies additional surpluses totaling $10 million, which are recommended to be used to pay down the Police overtime bank of approximately $109 million ($5 million) and to be moved to the Unappropriated Balance, 2016-17 Budgetary Shortfalls account ($5 million) increasing that account from $15 million to $20 million.

Fiscal Year 2016-17 Adopted Budget

By Charter, the Mayor presents and the Council adopts a balanced budget with no deficit. The Mayor released his 2016-17 Proposed Budget on April 20, 2016. The City Council's Budget and Finance Committee held hearings on the Budget between April 27 and May 13. The City Council deliberated on the Budget on May 18 and May 19, and adopted the budget on May 25th. The Mayor signed the budget on June 2, 2016.

The table below illustrates how the assumptions that comprised an original projected deficit of $90 million were subsequently adjusted to reflect actual budgeted expenditures and revenues in developing and balancing the Fiscal Year 2016-17Adopted Budget. This deficit reflected the difference between projected Fiscal Year 2016-17 expenditures and revenues, adjusted to eliminate all one-time revenues from the prior year. This table also illustrates how the gap between the Fiscal Year 2015-16 base revenue level and the Fiscal Year 2016-17 Adopted Budget expenditure level was closed through a combination of ongoing and one-time revenues and expenditure reductions. In short, of the solutions to close this gap, 59% are ongoing and 41% are one-time in nature.

Table 15
CLOSING THE FISCAL YEAR 2016-17 BUDGET GAP
($ in millions)

	Based on2015-16 Adopted Budget Outlook	Based on 2016-17 Adopted Budget	
Revenue			
2015-16 Revenue Budget	$5,410	$5,410	
Less one-time 2015-16 Revenue	146	146	
2015-16 Base Revenue Budget	**$5,265**	**$5,265**	
Expenses			
2016-17Projected Base Expenses	$5,410	$5,410	
Obligatory 2016-17 Adjustments to 2015-16 Base Expenses	47	55	
Add 2016-17 Expenditures	57	130	
2015-16 Total Expenditures	**$5,514**	**$5,596**	
Total 2016-17 Expenditures Above Base 2015-16 Revenue	**$ 250**	**$ 331**	
Solutions			
Add 2016-17 Projected Ongoing Growth	$ 160	$ 186	57%
Add One-time 2016-17 Revenue	-	125	38
Less Ongoing Reductions/Efficiencies	-	8	2
Less One-time Reductions	-	12	3
Solutions Identified	**$ 160**	**$ 331**	**100%**
TBD Solutions (Gap)	**$ 90**	**$ -**	**0%**
Ongoing Solutions	64%	59%	
One-time Solutions	0	41	
TBD Solutions	36	0	
	100%	100%	

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

While the Fiscal Year 2016-17Adopted Budget is balanced, there are some known risks that were recognized as potentially requiring mid-year adjustments. The two most prominent risks that may require mid-year adjustments are budgeted costs associated with settlements of legal claims, and potential compensation adjustments, should they be agreed to in labor negotiations that are currently underway. The Adopted Budget does include $15 million in the Unappropriated Balance – 2016-17 Budgetary Shortfalls that will be available to address these unbudgeted costs, should they occur. See "**BUDGET AND FINANCIAL OPERATIONS—Budgetary Reserves and Contingencies**," herein.

Funding for police overtime continues to be funded at the anticipated need. The City, however, continues to maintain a police overtime liability of $109 million (as of April 2, 2016), accumulated in prior years as a result of underfunding this account and increasing the amount that could be banked by police officers for future pay-out or compensated time off. While $5 million of this liability was recently funded (see "**Fiscal Year 2015-16 Financial Status Reports**," herein), the specific timing of paying down the balance of this liability is undetermined.

The following table presents the Fiscal Year 2016-17Adopted 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 16
CITY OF LOS ANGELES ADOPTED BUDGET
(ALL BUDGETED FUND TYPES)

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

(1) Property taxes include all categories of the City allocation of one percent 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 Users' Tax, and Residential Development Tax.

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

(4) Intergovernmental revenues include proprietary department 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, and the Proposition C Anti-Gridlock Transit Improvement Fund.

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

(9) Includes the Street Lighting Maintenance Assessment Fund and the Stormwater Pollution Abatement Fund.

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

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

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

General Fund Budget Outlook

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

The City's most recent Budget Outlook, prepared in connection with the Fiscal Year 2016-17 Adopted Budget, shows that the City would face a budget gap of $84.6 million in Fiscal Year 2017-18, $82.4 million in Fiscal Year 2018-19, $99.6 million in Fiscal Year 2019-20, and $26.6 million in Fiscal Year 2020-21 without corrective action.

Included in these assumptions are the following: the size of the workforce will remain flat after Fiscal Year 2016-17, with no major increases to City services; and each year's shortfall will be solved by ongoing rather than one-time solutions. Potential expenditures tied to the outcome of major litigation (see **"LITIGATION,"** herein) were not incorporated in this Budget Outlook.

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

Table 17
GENERAL FUND BUDGET OUTLOOK
($ in millions)

	Adopted 2015-16	Adopted 2016-17	2017-18	2018-19	2019-20	2020-21
Estimated General Fund Revenue:						
General Fund Base (1)	$5,138.3	$5,410.4	$5,576.4	$5,611.8	$5,794.9	$5,995.1
Revenue Growth (2)						
Property Related Taxes(3)	133.8	20.9	27.2	86.8	90.6	84.8
Sales and Business Taxes(4)	83.5	105.2	6.7	22.6	23.1	23.6
Utility Users' Tax(5)	(1.6)	3.7	16.3	13.3	30.1	11.6
License, Permits and Fees(6)	42.4	50.8	(2.8)	27.6	28.4	29.3
Other Fees, Taxes and Transfers(7)	45.3	38.4	28.3	32.8	28.0	24.7
SPRF Transfer (8)	25.9	(28.2)	(4.8)	-	-	-
Transfer from the Budget Stabilization Fund(9)	-	-	-	-	-	-
Transfer from Reserve Fund(10)	(57.2)	(24.8)	(35.5)	-	-	-
Total Revenue	**$5,410.4**	**$5,576.4**	**$5,611.8**	**$5,794.9**	**$5,995.1**	**$6,169.1**
General Fund Revenue Increase (Decrease) %	***5.3%***	***3.1%***	***0.63%***	***3.3%***	***3.5%***	***2.9%***
General Fund Revenue Increase (Decrease) $	***$ 272.1***	***$ 166.0***	***$ 35.4***	***$ 183.1***	***$ 200.2***	***$ 174.0***
Estimated Expenditures:						
General Fund Base (11)	$5,138.3	$5,410.4	$5,576.4	$5,696.4	$5,877.3	$6,094.7
Incremental Changes to Base: (12)						
Employee Compensation Adjustments (13)	105.1	84.1	86.5	73.0	79.9	41.3
Police Sworn Overtime (14)	70.0	5.0	10.0	-	-	-
City Employees Retirement System*(15)	23.1	24.8	22.7	25.1	21.6	11.0
Fire and Police Pensions*(15)	(1.6)	(7.2)	27.7	5.3	45.8	3.9
Workers Compensation Benefits (16)	(6.5)	(9.0)	14.8	5.8	8.1	12.7
Health, Dental and Other Benefits (17)	(0.2)	27.0	32.6	40.8	46.0	51.4
Debt Service (18)	(4.5)	(11.6)	4.2	5.4	(2.1)	(4.2)
Delete Resolution Authorities(19)	(25.5)	(29.9)	-	-	-	-
Add New and Continued Resolution Authorities(19)	26.6	32.0	-	-	-	-
Delete One-Time Costs(20)	(91.5)	(62.0)	(18.3)	-	-	-
Add One-Time Costs(20)	62.0	46.3	-	-	-	-
Comprehensive Homeless Strategy (21)		46.7	(41.4)			
Unappropriated Balance (22)	(13.5)	(56.6)	(17.2)	-	-	-
New Facilities (23)	4.0	(2.8)	-	-	-	-
City Elections (24)	(16.7)	19.2	(19.2)	-	10.0	(3.3)
CIEP – Municipal Facilities & Physical Plant(25)	2.6	9.8	(5.6)	-	-	-
CIEP – Sidewalks(26)	10.2	10.7	1.9	-	-	-
CIEP – Pavement Preservation(27)	6.8	(8.2)	2.7	3.1	3.1	3.2
Appropriation to the Reserve Fund(28)	-	-	-	-	-	-
Appropriation to the Budget Stabilization Fund (29)	-	-	-	-	-	-
Net - Other Additions and Deletions(30)	82.7	47.7	18.6	22.4	5.0	(15.0)
Subtotal Expenditures	**$5,410.4**	**$5,576.4**	**$5,696.4**	**$5,877.3**	**$6,094.7**	**$6,195.7**
Expenditure Growth (Reduction) %	***5.3%***	***3.1%***	***2.2%***	***3.2%***	***3.7%***	***1.7%***
Expenditure Growth (Reduction) $	***272.1***	***166.1***	***120.0***	***180.9***	***217.4***	***101.0***
TOTAL BUDGET GAP(31)	**$ 0.0**	**$ (0.0)**	**$ (84.6)**	**$ (82.4)**	**$ (99.6)**	**$ (26.6)**
Incremental Increase(Decrease) % in Gap				***(2.6)%***	***20.9%***	***(73.3%)***
Incremental Increase(Decrease) $ in Gap			***(84.6)***	***2.2***	***(17.3)***	***73.0***

*The City Employees Retirement System and Fire and Police Pensions contribution rates reflect a zero percent rate of return for 2015-16. Reducing the rate of return from 7.5 percent to zero percent increased expenditures by $24.1 million in 2017-18, $60.1 million in 2018-19, $96.2 million in 2019-20, and $127.8 million in 2020-21.

Revenue:

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

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

The total projected revenue assumes above average growth in 2016-17 attributed to one-time transfers and delayed remittances from the previous fiscal year. Average growth is assumed thereafter.

(3) Property tax growth is projected at 6.5 percent for 2016-17, tapering to average growth for subsequent fiscal years. Additionally, as the final quarter of 2015-16 property tax-sales tax replacement remittances were delayed, a $63.5 million one-time boost to property tax receipts will be realized. Consequently, a decrease is expected in 2017-18 with the discontinued disbursement of sales tax replacement revenue with the conclusion of the state "triple flip" methodology.

Documentary Transfer and Residential Development Taxes are volatile revenues and have realized large increases in recent years following large declines. Stable revenue to moderate growth for outgoing years is assumed with the sluggish housing market.

($ in millions)

(4) Business tax is projected to experience average growth tempered by the phased in reduction to the top business tax rate from 2015-16 through 2017-18. Sales tax growth through 2016-17 is based on available economic forecasts. Outgoing years reflect average growth. The second year of impact of the restoration of the full one percent sales tax rate as a result of the end to the state "triple flip" will result in additional $91 million.

(5) Electric users' tax assumes increased growth through 2020 consistent with estimates provided by the Department of Water and Power, reflecting current assumptions on rate increases and electricity consumption. The final year of revenue is consistent with historical growth. The 2016-17 growth in gas users' tax revenue is based on natural gas prices determined by the futures market. The subsequent years assume stable revenue. The decline in communication users' tax revenue is projected to slow with the implementation of AB1717 in 2016-17, which is expected to recover lost revenue from the prepaid wireless market.

(6) The projected revenue growth in this category is dependent on policy decisions to increase departmental fees and collect full overhead cost reimbursements. The assumed three percent growth is within range of the historical average. For 2016-17, reimbursements to the General Fund are based on Cost Allocation Plan 37, which is published by the Controller.

(7) Increases in 2016-17 reflect growth in the Transient Occupancy Tax, Parking Users Tax, and the Power Revenue Transfer. Growth in the power revenue transfer assumes prevailing in related litigation. Transient Occupancy Tax growth also assumes $5.8 million in additional ongoing receipts from a tax collection agreement between the City and short-term rental websites to be implemented in 2016-17. In outgoing years, modest growth is assumed in the tax revenues.

(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. A base-level surplus of $23.5 million is projected in 2016-17. Any amounts above this are considered one-time receipts and deducted from the estimated revenue growth for the following fiscal year.

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

(10) The transfer from the Reserve Fund in 2016-17 of $35.5 million is a reduction of $24.8 million from the transfer included in the 2015-16 Budget. The 2016-17 Reserve Fund balance is 6.1 percent after the transfer.

Estimated General Fund Expenditures:

(11) Estimated Expenditure General Fund Base: Using the 2015-16 General Fund budget as the baseline year, the General Fund base carries over all estimated General Fund expenditures from the prior year to the following fiscal year.

(12) The 2016-17 incremental changes reflect funding adjustments to the prior fiscal year General Fund budget. The Four-Year Outlook expenditures included for subsequent years are limited to those obligatory and major expenses known at this time and are subject to change. Amounts represent projected incremental changes to the base.

(13) Employee Compensation Adjustments: The 2016-17 amount includes employee compensation adjustments consistent with existing labor agreements, full funding for partially financed positions from the prior year, and one less working day in 2016-17. Fiscal years 2017-18 through 2020-21 reflect changes in the number of working days and existing labor agreements, or Memoranda of Understanding (MOUs), with City bargaining units.

(14) Police Sworn Overtime: For 2016-17, the City will fund Police Sworn Overtime at $90 million and further increase it to $100 million in 2017-18. The forecast assumes that these expenditures will be ongoing.

(15) City Employment Retirement System (LACERS) and Fire & Police Pensions (LAFPP): The contributions are based on information commissioned or requested by the CAO from the departments' actuaries or the City's actuary 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. The amounts reflected in the Four-Year Outlook represent incremental changes.

LACERS and Pensions

Assumptions	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
LACERS						
6/30th Investment Returns	0%	7.50%	7.50%	7.50%	7.50%	7.50%
Combined Contribution Rate	28.26%	28.13%	28.14%	28.64%	29.08%	29.23%
Pensions						
6/30th Investment Returns	0%	7.50%	7.50%	7.50%	7.50%	7.50%
Combined Contribution Rate	46.51%	44.54%	45.03%	44.16%	45.62%	45.13%

(16) Workers' Compensation Benefits (WC): The projection is based on a March 2016 actuarial analysis that projects annual medical inflation of two percent and a seven percent annual cost increase in permanent disability costs. The analysis projects SB863 legislation increasing permanent disability future costs. The State Assessment Fee is projected to be $7.5 million. Projections for 2017-18 and beyond are based solely on actuarial analysis.

(17) Health, Dental, and Other Benefits: The projection incorporates all known cost-sharing provisions adopted into recently finalized MOUs for the civilian and sworn populations. Net enrollment is projected to increase at an average one percent rate for the civilian and sworn populations. Rate increase assumptions are consistent with historical trends. The projection has also been updated to reflect a delay in implementation of the Affordable Care Act's "Cadillac Tax" to 2020.

(18) Debt Service: The debt service amounts include Capital Finance and Judgment Obligation Bond budgets.

Table 17
GENERAL FUND BUDGET OUTLOOK
($ in millions)

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

(20) One-time Costs: The deletion line reflects the practice of deleting programs and costs that are limited-term and temporary in nature each year. Funding for these programs and expenses is reviewed on a case-by-case basis and continued if appropriate. Continued and new funding is included in the "Add One-Time Costs" line. The funding for one-year projects is deleted in 2017-18. The remaining balance is for multiyear projects that are not anticipated to become part of the General Fund base.

(21) Comprehensive Homeless Strategy: This amount represents the increase in the General Fund appropriation dedicated to homelessness-related services within the context of the City's comprehensive homeless strategy. Expenditures identified as one-time or that are funded with one-time revenues in 2016-17 are deleted in 2017-18.

(22) Unappropriated Balance (UB): One-time UB items are eliminated and ongoing items are continued the following year to provide a placeholder for various ongoing and/or contingency requirements in the future. Included in the UB for 2016-17 is $15 million to address budgetary shortfalls.

(23) New Facilities: Funding projections are based on preliminary departmental estimates for ongoing staffing and expenses. Cost reductions in 2016-17 are attributed to the opening of the new Metro Division, Northeast Area Station, and Training Division facilities in 2015-16 and early 2016-17.

(24) Elections: Charter Amendment 1 changed the City's election dates from March and May of odd-numbered years to June and November of even-numbered years to align City elections with Federal and State elections. Therefore, no elections will be held in 2018-19. Beginning in 2019-20, elections will be funded annually. The amounts estimated for 2019-20 and 2020-21 include the estimated cost for a June 2020 primary election and November 2020 general election.

(25) Capital Improvement Expenditure Program (CIEP) – Municipal Facilities and Physical Plant: The 2016-17 Adopted Budget includes a total of $9.3 million in funding for physical plant related capital projects and reduces funding for municipal facilities by $220,000. Some of these project expenditures are one-time and deleted in 2016-17.

(26) CIEP – Sidewalk: Pursuant to the pending settlement in the case of Willits v. City of Los Angeles, the City is responsible for investing $31 million annually for sidewalk improvements for the next 30 years, with adjustments of 15.3 percent every five years to account for inflation and material price increases. The $23.3 million in 2016-17 is the General Fund appropriation required to meet the full $31 million investment. The 2017-18 increase of $1.9 million reflects the assumption that the General Fund portion will be $25.2 million annually beginning in 2017-18, with the balance of the investment covered by other sources of funds.

(27) CIEP – Pavement Preservation Program: Total Pavement Preservation Program funding in 2016-17 is $150 million from various sources of funds to repair 2,400 lane miles. Funding in 2016-17 is included in the departments' budgets and $3.3 million is set aside in the UB. It is assumed that the program will be continued through 2020-21 at 2,400 lane miles per year. To meet this level in 2017-18, an additional $2.7 will be required. This shortfall will increase by approximately $3 million annually in subsequent years.

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

(29) Appropriation to the Budget Stabilization Fund (BSF): Per the policy, if the combined annual growth for seven General Fund tax revenue sources exceeds 3.4 percent for a given year, the excess shall be deposited into the BSF. The appropriation may be reduced (1) to maintain the Reserve Fund at five percent; (2) to comply with the City's CIEP policy; (3) if a fiscal emergency is declared; or (4) the policy is suspended by the City Council and the Mayor. For 2016-17, the combined annual ongoing growth in the seven General Fund tax revenue sources does not exceed 3.4 percent.

(30) Net – Other Additions and Deletions: The 2016-17 amount includes ongoing changes and new regular positions added to the base budget. Among the significant increases are appropriations of $10.33 million to Recreation and Parks, $10.29 million to the Library, $2.7 million for the Office of Wage Standards, $3.5 million for subvention agreements, and $5.4 million for systems projects. The remaining balance reflects new and increased ongoing costs to a variety of departmental programs.

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

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

Budgetary Reserves and Contingencies

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

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

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

The Reserve Fund is composed of two accounts—a Contingency Reserve Account and an Emergency Reserve Account. Amounts in the Emergency Reserve Account, representing 2.75% of General Fund revenues, are restricted for funding an "urgent economic necessity" upon a finding by the Mayor and Council of such necessity and 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 City Council. The Reserve Fund was reported as part of the Unreserved General Fund balance in the City's Financial Statements through Fiscal Year 2009-10. Beginning with Fiscal Year 2010-11 and the implementation of GASB 54, the Reserve Fund is reported as part of the Unassigned Fund Balance. See **"BUDGET AND FINANCIAL OPERATIONS—GAAP-Based Fund Balance,"** above.

The following table summarizes the estimated Reserve Fund balances as of July 1 as contained in the Adopted Budget for the past 10 fiscal years, and the actual Reserve Fund on that date. 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.

Table18
HISTORICAL RESERVE FUND BALANCE AS OF JULY 1
Adopted Budget and Actual
($ in millions)

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Adopted Budget										
Emergency Reserve	108.5	122.0	125.2	121.0	120.3	120.6	125.1	133.8	141.3	148.8
Contingency	77.3	79.8	67.5	122.5	6.9	56.7	92.9	127.3	142.8	164.6
	185.8	201.8	192.7	243.5	127.2	177.3	218.0	261.1	284.1	313.4
Reserve Fund Balance as % of the General Fund	4.28%	4.55%	4.23%	5.53%	2.91%	4.04%	4.79%	5.37%	5.53%	5.79%
Actual										
Emergency Reserve	108.5	113.7	125.2	121.0	120.3	120.6	125.1	133.8	141.3	148.8
Contingency	70.3	0.0	40.9	30.7	51.0	80.1	108.0	192.9	241.7	293.8
	178.8	113.7	166.1	151.7	171.3	200.7	233.1	326.7	383.0	442.6
Reserve Fund Balance as % of the General Fund	4.12%	2.56%	3.65%	3.45%	3.92%	4.58%	5.12%	6.71%	7.45%	8.18%

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

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

The City created the Budget Stabilization Fund for the purpose of setting aside money 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 users' taxes)is to be deposited into the fund. For Fiscal Year 2016-17, while the overall growth of these seven tax revenues exceeds 3.4 percent, the ongoing growth after deducting one-time revenues is lower than 3.4 percent. Therefore, no appropriation is included in the 2016-17 Adopted Budget. The 2016-17 Adopted Budget includes a Budget Stabilization Fund of $93.4 million, plus an additional $725,000 in interest for a projected June 30, 2017 balance of $94.1 million.

The Unappropriated Balance was created by the Charter, which requires that an amount be included in the Budget to be available for appropriations later in the fiscal year to meet contingencies as they arise. The following table summarizes allocations to and from this fund over the past five years.

Table 19
UNAPPROPRIATED BALANCE
Historical Use for Fiscal Years Ending June 30
($ in thousands)

	2011-12	2012-13	2013-14	2014-15	Estimated 2015-16[1]
Appropriated in Adopted Budget	$ 21,679	$27,482	$83,940	$117,269	$103,623
Reappropriations and Transfers In	110,934	13,862	15,688	34,695	28,205
Total Available	$ 132,613	$41,344	$99,628	$151,964	$131,828
Transfer Out	(110,412)	(21,495)	(89,402)	(137,405)	(42,644)
Ending Balance	$ 22,202	$ 19,850	$ 10,227	$ 14,558	$89,184

(1) As reported in the CAO's 2015-16 Mid-Year Financial Status Report.

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

The following table summarizes the allocations to the Unappropriated Balance made in the Fiscal Year 2016-17 Adopted Budget.

Table 20
UNAPPROPRIATED BALANCE
Fiscal Year 2016-17 Adopted Budget
($ in thousands)

Appropriations	
Equipment, Expenses & Improvements	$ 3,645
Implementation of Public Right-of-Way Cleanup	3,660
Pavement Preservation	2,554
2016-17 Budgetary Shortfalls	15,000
Other	17,890
Total	$42,748
Sources of Funds	
General Fund	$42,498
Other	250
Total	$42,748

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

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

Table 21
GENERAL FUND RESERVES
As of July 1st of the Fiscal Year
($ in millions)

	2012-13	2013-14	2014-15	2015-16	Adopted Budget 2016-17
Emergency Reserve	$ 125.1	$ 133.8	$ 141.3	$148.8	$ 153.4
Contingency Reserve	108.0	192.9	241.7	293.8	181.5
Total Reserve Fund	$ 233.1	$ 326.7	$ 383.0	$ 442.5	$ 334.9
% of General Fund Revenues	5.12%	6.71%	7.45%	8.18%	6.01%
Budget Stabilization Fund	0.5	61.5	64.1	91.9	93.4
Reserve for Layoff Avoidance(1)	8.0	0.0	0.0	0.0	0.0
Reserve for Economic Uncertainties(1)	0.0	0.0	20.7	0.0	0.0
Reserve for Liability Resolution(1)(2)	0.0	0.0	0.0	50.0	0.0
Reserve for Mid-Year Adjustments(2)	0.0	0.0	0.0	17.0	0.0
2016-17 Budgetary Shortfalls	0.0	0.0	0.0	0.0	15.0
Total General Fund Reserves	$241.6	$409.2	$467.8	$601.4	$443.4
% of General Fund Revenues	5.31%	8.41%	9.10%	11.13%	7.95%
Budgeted General Fund Revenues	$4,550.5	$4,866.9	$5,138.3	$5,410.4	$5,576.4

(1) Budget account within the Unappropriated Balance.
(2) Year-end balance (estimated at $47.9 million) for Reserve for Liability Resolution to be re-appropriated to 2016-17 to be expended.

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

Financial Management Policies

The City has adopted comprehensive "Financial Policies for the City of Los Angeles." 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.

Other fiscal policies govern the use of the City's Budget Stabilization Fund, and require that one-time revenues only be used for one-time expenditures. The Fiscal Year 2016-17 Adopted Budget meets this policy by allocating all one-time revenues totaling $125 million towards one-time expenditures, which total $132 million. The largest components of one-time revenues are a Reserve Fund transfer ($35 million) and an infusion of sales tax tied to the elimination of the State's "triple flip" methodology for allocating sales and property taxes ($64 million).(See "**MAJOR GENERAL FUND REVENUE SOURCES —Property Taxes**," below.)

The Financial Policies also call for the City to annually budget 1% of General Fund revenue to fund capital or infrastructure improvements. The Fiscal Year 2016-17 Adopted Budget includes $89.49 million in appropriations for infrastructure, representing 1.60%.

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

Risk Retention Program

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

The City's CAFR provides estimates of potential liabilities. Under GASB standards, 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 (O): Risk Management—Estimated Claims and Judgments Payable), the City, as of June 30, 2015, estimated the amount of tort and non-tort liabilities to be "probable" of occurring at approximately $599.2million. Of this amount, approximately $230.5 million was estimated to be payable in Fiscal Year 2015-16.In addition and as also reported in the City's CAFR, the City Attorney, as of June 30, 2015, estimated that certain other pending lawsuits and claims have a "reasonable possibility" of resulting in additional liability totaling $121.0 million. See "**LITIGATION**" herein for a discussion of certain recently completed, pending or threatened litigation matters involving the City.

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

Funds are budgeted annually to provide for claims and other liabilities based both on the City's historical record of payments and an evaluation of known or anticipated claims. The Fiscal Year 2016-17 Adopted Budget provides funding of $68.5 million for these liabilities, of which $60 million is dedicated to liabilities that must be paid from the General Fund. 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**," herein.

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

Table 22
LIABILITY CLAIMS PAID [1]
($ in millions)

Fiscal Year	Budget	Claims Paid
2012-13	$47.9	$55.6
2013-14	47.9	55.6
2014-15	47.9	65.8
2015-16	53.9	110.0[2]
2016-17 (Adopted)	68.5	N/A

(1) Does not include Workers' Compensation claims paid by the City; see Table 23. Also does not include claims paid in connection with Fair Labor Standards Act disputes and other labor matters, which are paid out of departmental operating budgets.
(2) Estimated. Increase in payments in FY 2016 are attributed in part to settlements entered into by the City for wrongful conviction and imprisonment suits.

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

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

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

Table 23
HUMAN RESOURCES BENEFITS[1]
($ in thousands)

	2012-13	2013-14	2014-15	Estimated 2015-16	Adopted 2016-17
Workers' Compensation/Rehabilitation	$156,033	$149,886	$161,500	$168,500	$159,000
Contractual Services	20,690	21,730	26,480	22,980	23,480
Civilian FLEX Program[2]	209,450	225,135	227,017	236,292	247,569
Supplemental Civilian Union Benefits	4,249	3,940	4,094	4,015	4,249
Police Health and Welfare Program	122,850	124,360	129,359	135,012	140,602
Fire Health and Welfare Program	43,900	45,180	46,437	47,130	49,798
Unemployment Insurance	4,040	4,678	5,000	3,400	3,400
Employee Assistance Program	1,386	1,193	1,250	1,360	1,388
Total[3]	$562,598	$576,102	$601,137	$618,689	$629,485

(1) Cash basis.
(2) Reflects all civilian health, dental, union supplemental benefit and life insurance subsidies.
(3) Totals may not add due to rounding.

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 bargaining units. 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 bargaining units incorporating the negotiated wages and working conditions.

There are 41 individual MOUs, affecting about 35,000 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. 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 ("FPPP") are considered to be "sworn" or "safety" employees.

Between Fiscal Years 2007-08 and 2014-15, the CAO, at the direction of the EERC, worked with labor unions to reduce the City's labor expenses to address short-term financial concerns and to create a more sustainable, long-term workforce. The adopted staffing level for Fiscal Year 2016-17 is 33,105, 10.9% below its peak of 37,173 in Fiscal Year 2007-08. This represents an increase of 1.5% from Fiscal Year 2015-16.

Among the measures taken to control employee related costs were changing active civilian employee healthcare benefits. To offset the increasing costs associated with health insurance for active employees, several bargaining units have agreed to have their members pay a portion of their monthly health care premium. Effective January 2016, a total of 14 bargaining units began contributing 10% of their health care premium. These bargaining units represent about a quarter of the City's workforce.

In Fiscal Year 2012-13, the City Council adopted a new civilian retirement tier, which applied to all civilian employees hired on or after July 1, 2013. The new tier was designed to reduce the City's future pension costs through a series of plan design changes. On July 28, 2014, the City Employee Relations Board ruled that the City's action in creating the new civilian retirement tier was illegal because the City did not meet and confer with labor representatives on the matter. The Board ordered that the City rescind the implementation of the new retirement tier. The City subsequently filed an appeal of the ruling in State court and entered into a mandatory settlement conference phase. As a part of the agreement with the Coalition of LA City Unions, both the City and the Coalition have agreed to dismiss with prejudice all legal actions. Any employee hired into a position eligible for LACERS membership on or after February 21, 2016 will, unless eligible for Tier 1 membership under a specific exemption, be enrolled in a new Tier 3. See "**BUDGET AND FINANCIAL OPERATIONS—Retirement and Pension Systems—Los Angeles City Employees' Retirement System ("LACERS")**, herein."

In Fiscal Year 2014-15, multi-year agreements were reached with the Los Angeles Police Protective League and with the United Firefighters of Los Angeles City. The City also recently completed negotiations with the 19 bargaining units that comprise the "Coalition of LA City Unions" (which includes 17 full-time and two part-time bargaining units) and the four bargaining units represented by the Engineers and Architects Association. The agreements provides for salary increases as shown on the table below.

The following table summarizes the membership and status of the largest unions and employee associations. For expired contracts, such as the Municipal Constructors Inspectors Association and the United Firefighters, which expires on June 30, 2016, the terms continue to be observed during negotiations of a new contract, unless a provision has a specific termination date.

Table 24
STATUS OF LABOR CONTRACTS
LARGEST EMPLOYEE ORGANIZATIONS
(As of June 10, 2016)

Organization	Authorized Number of Full-Time Employees Represented[1]	Number of Bargaining Units	Status of Memorandum of Understanding	Cost of Living Adjustment[2]
Los Angeles Police Protective League	9,726	1	Contract expires 6/30/18	4% on 6/26/16 2% on 7/9/17 2% on 1/7/18
United Firefighters of Los Angeles City	3,147	1	Contract expires 6/30/16	2% on 6/28/15
Coalition of LA City Unions[3]	14,980	17	Contracts expire 6/30/18	2% on 7/9/17 2.75% step on 1/7/18 Salaries restructured
Engineers and Architects Association	4,860	4	Contracts expire 6/22/19	1.5% increase effective 12/13/15. 2.25% effective 6/26/16 2.25% effective 6/25/17 2.25% effective 6/24/18
Municipal Construction Inspectors Association	804	1	Contract expired 6/30/14	2% on 7/3/11 1.5% first full pay period January 2013 1.5% first full pay period January 2014

(1) Total authorized 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, and two units representing part-time employees not included above.

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

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

Table 25
AUTHORIZED CITY STAFFING[1]

	2012-13	2013-14	2014-15	Actual 2015-16	Adopted 2016-17
Sworn					
Police	10,480	10,480	10,480	10,522	10,545
Fire	3,222	3,234	3,232	3,292	3,350
Subtotal Sworn	13,702	13,714	13,712	13,814	13,895
Civilian					
Police	3,167	3,226	3,227	3,313	3,330
Fire	315	310	342	342	379
All Others	14,633	14,643	14,594	15,107	15,501
Subtotal Civilian	18,115	18,179	18,163	18,762	19,210
Total	31,817	31,893	31,875	32,576	33,105

(1) Includes permanent ("regular") positions and excludes temporary personnel (also referred to as "resolution authority positions"), which total 1,427 for Fiscal Year 2015-16. Also excludes personnel of the Departments of Airports, Harbor, and DWP.

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

Retirement and Pension Systems

General

The City contributes to 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 ("FPPP") 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 FPPP (collectively, the "Pension Systems") provide retirement, disability, death benefits, post-employment healthcare and annual cost-of-living adjustments to plan members and beneficiaries. Both systems are funded primarily from the City's General Fund. As required by the City Charter, the actuarial valuations for both Pension Systems are prepared on an annual basis and the applicable actuary recommends contribution rates for the fiscal year beginning after the completion of that actuarial valuation. When approved by the respective boards of administration of the Pension Systems, these become the City's contribution rates for such years. The City generally makes its actuarially determined Annual Required Contribution ("ARC"), although phasing-in of assumption changes has resulted in a small net pension obligation for fiscal years ended June 30, 2004 and 2005.

The Pension Systems' annual valuations determine the amount 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 accrued costs attributable to currently active, vested former members and retired employees and their beneficiaries. In addition, various actuarial assumptions are used in the valuation process, including the assumed rate of earnings on the assets of the plan in the future, the assumed rates of general inflation, salary inflation, inflation in health care costs, assumed rates of disability, the assumed retirement ages of active employees, the assumed marital status at retirement, and the post-employment life expectancies of retirees and beneficiaries. As plan experience differs from adopted assumptions, the actual liabilities will be more or less than the liabilities calculated based on the assumptions. The contribution rates in the following year's valuations are adjusted to take into account actual performance in the current and prior years. In addition, each plan performs an experience study every three years and further adjusts its assumptions accordingly.

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

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

Table 26
LOS ANGELES PENSION SYSTEMS
HISTORICAL MARKET VALUE INVESTMENT RETURNS

Fiscal Year	LACERS	FPPP
2005-06	12.4%	12.5%
2006-07	19.5	18.5
2007-08	(5.7)	(4.6)
2008-09	(19.5)	(20.0)
2009-10	12.9	13.9
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

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

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

This section, "**Retirement and Pension Systems**," and the following section, "**Other Post-Employment Benefits**," contain certain information relating to LACERS and FPPP. The information contained in these sections is primarily derived from information produced by LACERS and FPPP and their independent accountants and their actuaries. The City has not independently verified the information provided by LACERS and FPPP. The comprehensive annual financial reports, actuarial valuations for retirement and health benefits, and other information concerning LACERS and FPPP are available on their websites, at www.lacers.org/aboutlacers/reports/index.html and https://www.lafpp.com/about/financial-reports, respectively. Information set forth on such websites is not incorporated by reference herein. For additional information regarding the Pension Systems, see also Note 5 in the "Notes to the City's Basic Financial Statements" in the City's Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2015.

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 and employees of the Department of Water and Power. As of June 30, 2015, the date of its most recent actuarial valuation, LACERS had 23,895 active members, 17,932 retired members and beneficiaries, and 6,507 inactive members. The number of retired members was significantly increased, and the number of active members significantly decreased, as a result of the City's Early Retirement Incentive Program in Fiscal Year 2009-10. LACERS is funded pursuant to the Entry Age Cost Method, which is designed to produce stable employer contributions in amounts that increase at the same rate as the employer's payroll (i.e., level percent of payroll).

A number of assumptions are made in calculating the actuarial valuation of retirement benefits. The following are some of the key assumptions used by LACERS' actuary, The Segal Company, in preparing LACERS' actuarial report as of June 30, 2015.

Table 27
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
ACTUARIAL ASSUMPTIONS
As of June 30, 2015

Investment rate of return	7.50%
Inflation rate	3.25%
Real across-the-board salary increase	0.75%
Projected salary increases	Ranges from 4.4% to 10.5%, based on service
Cost of living adjustments for pensioners	3.00% for Tier 1; 2.00% for Tier 2

Source: Los Angeles City Employees' Retirement System Actuarial Valuation and Review of Retirement and Health Benefits as of June 30, 2015.

Based on the results of its most recent triennial experience study dated October 8, 2014 for the three-year period from July 1, 2011 through June 30, 2014, LACERS adopted new actuarial assumptions, including reducing the assumed investment return from 7.75% to 7.50% and reducing the inflation rate from 3.50% to 3.25%.

As of June 30, 2010, the LACERS' Board adopted a market value corridor of 40%.A "corridor" is used in conjunction with asset smoothing, in order to keep the actuarial value of assets within a certain percentage of the market value of assets. For example, if a system has a 40% corridor, the actuarial value of assets must be between 60% and 140% of the market value of assets. Market losses and gains are recognized under a seven-year asset smoothing period, where only 1/7 of annual market gains or losses are recognized in the actuarial value of assets each year. The remaining gains or losses are spread equally over the next six years.

As of June 30, 2015, there was a total unrecognized net gain of $229 million. To limit future fluctuations in asset values due to large unrecognized gains reflecting several years of fairly large annual market gains and losses from a volatile market, the LACERS Board adopted a one-time adjustment, as of June 30, 2014, to its current asset smoothing policy by combining the unrecognized gains and losses of the prior years into one layer and spreading it evenly over six years. The following table shows the original market gains and losses, and the unrecognized gains and losses as of June 30, 2015.

Table 28
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
CALCULATION OF UNRECOGNIZED RETURN DUE TO ASSET SMOOTHING
As of June 30, 2015

Year Ended June 30	Original Market Gain (Loss)	Portion Not Recognized	Amount Not Recognized
2015	$ (707,760,540)	6/7	$ (606,651,891)
2014	1,246,285,581	5/7	890,203,986
2013	(81,571,421)	4/6	(54,380,947)(1)
Total unrecognized return (loss)			**$229,171,148**

(1) Valuation as of June 30, 2014 recognizes 2/6 of $81,571,421 original market loss as of June 30, 2013, with the balance to be recognized over the next four years.

Source: Los Angeles City Employees' Retirement System Actuarial Valuation and Review of Retirement and Health Benefits as of June 30, 2015.

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 or 20 years for retiree health care benefits and retirement benefits, respectively. Liabilities caused by future early retirement incentives will be funded over five years; other benefit changes will be amortized over 15 years. Effective for the June 30, 2012 valuation, most existing liabilities on or before June 30, 2012 were combined under one layer and amortized over 30 years. The LACERS Board implemented this revised amortization policy to mitigate the impact of the change in funding policy from the Projected Unit Credit cost method to Entry Age Normal cost method.

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 29
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]
2006	$ 7,674,999	$ 9,870,662	$ 2,195,663	77.8%	$ 1,733,340	126.7%
2007	8,599,700[6]	10,526,874	1,927,174	81.7	1,896,609	101.6
2008	9,438,318	11,186,404	1,748,085	84.4	1,977,645	88.4
2009	9,577,747	12,041,984	2,464,237	79.5	1,816,171	135.7
2010	9,554,027	12,595,025	3,040,998	75.9	1,817,662	167.3
2011	9,691,011	13,391,704	3,700,693	72.4	1,833,392	201.9
2012	9,934,959	14,393,959	4,458,999	69.0	1,819,270	245.1
2013	10,223,961	14,881,663	4,657,702	68.7	1,846,970	252.2
2014	10,944,751	16,248,853	5,304,103	67.4	1,898,064	279.5
2015	11,727,161	16,909,996	5,182,835	69.4	1,907,665	271.7

(1) Table includes funding for retirement benefits only. Other Post-Employment Benefits (OPEB) are not included.
(2) Actuarial Accrued Liability minus Actuarial Value of Assets, commonly referred to as UAAL. Positive numbers represent a funded ratio less than 100%.
(3) Actuarial value of assets divided by actuarial accrued liability.
(4) Annual payroll for members of LACERS.
(5) UAAL divided by covered payroll.
(6) Valuation value of assets is after excluding $5,269,481 of discounted Harbor Port Police assets transferred to FPPP in October 2007.

Source: Los Angeles City Employees' Retirement System Actuarial Valuation and Review of Retirement and Health Benefits as of June 30, 2015.

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 30
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)]
2006	$ 8,204,603	$ 9,870,662	$ 1,666,059	83.1%	$ 1,733,340	96.1%
2007	9,708,718	10,526,874	818,156	92.2	1,896,609	43.1
2008	9,059,551	11,186,404	2,126,853	81.0	1,977,645	107.5
2009	7,122,911	12,041,984	4,919,073	59.2	1,816,171	270.9
2010	7,804,223	12,595,025	4,790,802	62.0	1,817,662	263.6
2011	9,186,697	13,391,704	4,205,007	68.6	1,833,392	229.4
2012	9,058,839	14,393,959	5,335,120	62.9	1,819,270	293.3
2013	10,154,486	14,881,663	4,727,177	68.2	1,736,113	272.3
2014	11,791,079	16,248,853	4,457,774	72.6	1,802,931	247.3
2015	11,920,570	16,909,996	4,989,426	70.5	1,835,637	261.5

(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: Los Angeles City Employees' Retirement System Actuarial Valuation reports.

The table below summarizes the City's payments to LACERS over the past five years, including the proposed payment for Fiscal Year 2016-17 pending Council approval. This table includes costs for retirement, as well as for retiree health care (see **"BUDGET AND FINANCIAL OPERATIONS —Other Post-Employment Benefits"**), and other miscellaneous benefits.

Table 31
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
SOURCES AND USES OF CONTRIBUTIONS
($in thousands)[1]

	2012-13 [2]	2013-14	2014-15	2015-16	Adopted Budget 2016-17
Sources of Contributions					
Contributions for Council-controlled Departments	$342,188	$367,772	$411,509	$434,639	$459,400
Airport, Harbor Departments, LACERS, LAFPP	77,917	83,759	94,209	103,120	106,457
Total	$420,105	$451,531	$505,718	$537,759	$565,857
Percent of payroll – Tier 1	24.14%	25.33%	26.56%	28.75%	28.16%
Percent of payroll – Tier 2		18.32%	19.63%	22.62%	
Percent of payroll – Tier 3					24.96%
Uses of Contributions					
Current Service Liability (Normal cost)	$184,202	$185,217	$193,769	$190,777	$206,870
UAAL	234,896	265,081	305,891	363,929	365,975
Adjustments[3][4][5][6]	1,007	1,233	6,058	(16,947)	(6,988)
Total	$420,105	$451,531	$505,718	$537,759	$565,857

(1) Includes funding for OPEB.
(2) A $3.7 million credit from 2011-12 was applied to 2012-13. The actual amount paid for Council-controlled departments, Airports, and Harbor to LACERS subsequent to this credit was $416.4 million.
(3) Includes the excess benefit plan, the family death benefit plan, and the limited term plan fund. Beginning with the 2014-15 payment, the true-up obligation for the prior year is also reflected in this line item.
(4) Payment for a 2013-14 true-up in the amount of $5,191,511 (all agencies) will be made in 2014-15.
(5) 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.
(6) Adjustments for 2016-17 include the 2015-16 true-up which consists of a $24,031,072 credit (all agencies) 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.

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

Beginning with the Fiscal Year 2009-10 Adopted Budget, the City has successfully implemented various savings measures to reduce retirement costs, including increasing active member pension contributions from 7% to 11% to help defray the costs of retiree healthcare, freezing retiree health care subsidies for noncontributing employees, deferring cost-of-living adjustments, and reducing the size of the civilian workforce by 5,300 positions. Although such measures were significant in helping to ameliorate the City's fiscal difficulties, the City determined that implementation of a new civilian retirement tier was necessary to further reduce future costs.

In late 2012, the City Council adopted a new civilian retirement tier ("Tier 2"), which applied to all employees hired on or after July 1, 2013. On July 28, 2014, the City Employee Relations Board ruled that the City's unilateral action in creating the new civilian retirement tier did not meet the City's meet and confer obligations. The Board ordered that the City rescind the implementation of the new retirement tier, reinstate the status quo ante, and meet and confer in good faith with labor representatives from affected bargaining units. The City subsequently filed an appeal of the ruling in State court and entered into a mandatory settlement conference phase. As a part of the agreement with the Coalition of Los Angeles City Unions, both the City and the Coalition have agreed to dismiss with prejudice all legal actions. All members of Tier 2 were transferred 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.

Tier 3 benefits are as follows. Normal retirement age for unreduced benefits is either age 60 with 30 years of service with a 2% retirement factor, or age 60 with 10 years of service with a 1.5% retirement factor. Tier 3 also provides for an enhanced retirement age of 63 with 30 years of service with a 2.1% retirement factor, or age 63 with 10 years of service with a 2% retirement factor. Tier 3 also provides for early retirement prior to age 60 for employees with 30 years of service with a 2% retirement factor. Benefits are unreduced for early retirement between ages 55-59, while the reduction is 10.5% at age 54 and 3% for each year of retirement before age 54. All required years of service include 5 years of continuous service. Tier 3 final compensation is based on the employee's highest 36-month average compensation. Tier 3 benefits, including the enhanced retirement factor, are subject to a maximum of 80% of final compensation. Tier 3 members will vest retiree health benefits in exchange for a 4% salary contribution, which will be subject to future negotiations. Employees will also contribute 7% toward their pension benefits. In total, employees will contribute 11% of their salary for retirement benefits.

In light of the agreement with the Coalition, approximately 3,501 employees hired between July 1, 2013 and February 20, 2016, who were previously in Tier 2, were transferred to Tier 1 at the City's expense. The cost to the City as determined by the LACERS actuary is $15.85 million as of July 15, 2016. These costs are expected to be settled as part of the 2016-17 payment to LACERS on July 15, 2016.

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

Table 32
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
ASSET CLASS MARKET VALUE AND ALLOCATION
($ in thousands)
As of December 31, 2015

Asset Class	Market Value	Market Value to Total Fund (%)	Target (%)
U.S. Equity	$3,679,000	26.3%	24.0%
Non-U.S. Equity	4,008,000	28.7	29.0
Fixed Income Securities	2,675,000	19.2	19.0
Credit Opportunities	639,000	4.6	5.0
Real Assets	1,368,000	9.8	10.0
Private Equity	1,384,000	9.9	12.0
Cash	210,000	1.5	1.0
Total Portfolio	$13,962,000	100.0%	100.0%

Source: LACERS Portfolio Performance Review for the Quarter Ending December 31, 2015.

Fire and Police Pension Plan ("FPPP")

The FPPP, established in 1899 and incorporated into the Charter in 1923, represents contributory plans covering uniformed fire, police, and certain port police (sworn) personnel. As of June 30, 2015, the date of its most recent actuarial valuation, the FPPP had 13,068active members, 12,593 retired members and beneficiaries, and 112 vested former members. The FPPP is funded pursuant to the Entry Age Normal Cost Method, which is designed to produce stable employer contributions in amounts that increase at the same rate as the employer's payroll (i.e., level percent of payroll).

Within the FPPP, 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, 2015, 1,359 active members participated in DROP.

Six tiers of benefits are provided, depending on the date of the member's hiring. For Tier 1, any UAAL is amortized over a fixed term ending on June 30, 2037. For Tiers 2, 3, and 4, level percent of payroll amortization with multiple layers is used as a percent of total valuation payroll from the respective employer (i.e., City or Harbor Port Police). For Tiers 5 and 6, level percent of payroll with multiple layers is used as a percent of combined payroll for these tiers from the respective employer. A Charter amendment adopted by City voters on March 8, 2011 provides the FPPP Board with greater flexibility to establish amortization policies. Under the FPPP Board's actuarial funding policy, adopted in September 2012, actuarial gains or losses are amortized over 20 years; changes in actuarial assumptions and cost methods are amortized over 25 years; plan amendments are amortized over 15 years; and actuarial funding surpluses are amortized over 30 years. That same Charter amendment created a new tier of retirement benefits (Tier 6) for sworn employees hired after July 1, 2011.

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

Table 33
LOS ANGELES FIRE AND POLICE PENSION PLAN
Actuarial Assumptions
As of June 30, 2015

Investment rate of return	7.50%
Inflation rate	3.25%
Real across-the-board salary increase	0.75%
Projected salary increases	Ranges from 4.75% to 11.50% based on service
Cost of living adjustments (pensioners)	3.25% for Tiers 1 and 2 and 3.00% for Tiers 3, 4, 5 and 6.

Source: LAFPP Actuarial Valuation and Review of Pension and Other Postemployment Benefits (OPEB) as of June 30, 2015.

Based on the results of its most recent triennial experience study covering July 1, 2010 through June 30, 2013, the FPPP Board lowered the system's investment return assumption from 7.75% to 7.50%, and also lowered various inflation and salary increase assumptions. The cumulative effect of these changes resulted in an increase in the City's contribution rate of less than 1%.

Similar to LACERS, FPPP 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, FPPP 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%, the system must recognize the excess returns or losses in that year without smoothing. Based on its actuary's recommendation, the FPPP also adopted an ad hoc adjustment, effective July 1, 2013,combining deferred gain and loss layers representing a net deferred investment gain of $77.3 million as of June 30, 2013into a single six-year smoothing layer in to order to reduce year-to-year contribution rate volatility, similar to the adjustment adopted by LACERS.

The following table shows unrecognized gains and losses as of June 30, 2015 for retirement and health subsidy benefits. As of the valuation date, approximately $623 million of net investment return was being deferred.

Table 34
LOS ANGELES FIRE AND POLICE PENSION PLAN
CALCULATION OF UNRECOGNIZED RETURN
As of June 30, 2015

	Original Market Gain (Loss)	Portion Not Recognized	Amount Not Recognized
Market value of assets (for Retirement and Health Subsidy Benefits)			
Unrecognized return for year ended June 30, 2015	$ (643,447,599)	6⁄7	$ (551,526,513)
Unrecognized return for year ended June 30, 2014	1,571,818,656	5⁄7	1,122,727,611
Combined Net Deferred Gain as of June 30, 2013 (1)	77,259,408	4⁄6	51,506,272
Total unrecognized return			$ 622,707,370
Deferred return recognized in each of the next 6 years			
Amount recognized on June 30, 2016			145,501,004
Amount recognized on June 30, 2017			145,501,004
Amount recognized on June 30, 2018			145,501,004
Amount recognized on June 30, 2019			145,501,004
Amount recognized on June 30, 2020			132,624,437
Amount recognized on June 30, 2021			(91,921,083)
Subtotal			$622,707,370

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

Source: LAFPP Actuarial Valuation and Review of Pension and Other Post-Employment Benefits (OPEB) as of June 30, 2015.

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 FPPP, the funded ratio and the ratio of UAAL to annual payroll.

Table 35
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]
2006	$12,121,403	$12,811,384	$ 689,981	94.6%	$1,092,815	63.1%
2007	13,215,668	13,324,089	108,421	99.2	1,135,592	9.5
2008	14,153,296	14,279,116	125,820	99.1	1,206,589	10.4
2009	14,256,611	14,817,146	560,535	96.2	1,357,249	41.3
2010	14,219,581	15,520,625	1,301,044	91.6	1,356,986	95.9
2011	14,337,669	16,616,476	2,278,807	86.3	1,343,963	169.6
2012	14,251,913	17,030,833	2,778,920	83.7	1,341,914	207.1
2013	14,657,713	17,632,425	2,974,712	83.1	1,367,237	217.6
2014	15,678,480	18,114,229	2,435,749	86.6	1,402,715	173.6
2015	16,770,060	18,337,507	1,567,447	91.5	1,405,171	111.5

(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.

Investment gains and losses are recognized on an actuarial basis over a seven-year period. The following table shows the funding progress of FPPP based on the market value of the portion of system assets allocated to retirement benefits.

Table 36
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]
2006	$12,854,086	$12,811,384	$ (42,702)	100.3%	$1,092,815	(3.9)%
2007	14,766,110	13,324,089	(1,442,021)	110.8	1,135,592	(0.1)
2008	13,622,037	14,279,116	657,079	95.4	1,206,589	54.5
2009	10,379,786	14,817,146	4,437,360	70.1	1,357,249	326.9
2010	11,535,936	15,520,625	3,984,688	74.3	1,356,986	293.6
2011	13,564,904	16,616,476	3,051,572	81.6	1,343,963	227.1
2012	13,268,687	17,030,833	3,762,146	77.9	1,341,914	280.4
2013	14,729,976	17,632,425	2,902,449	83.5	1,367,237	212.3
2014	16,989,705	18,114,229	1,124,525	93.8	1,402,715	80.2
2015	17,346,554	18,337,507	990,953	94.6	1,405,171	70.5

(1) Table includes funding for retirement benefits only. Other post-employment benefits not included.
(2) Actuarial Accrued Liability minus Market Value of Assets. Positive numbers represent a deficit.
(3) Market value of assets divided by actuarial accrued liability.
(4) Annual payroll against which liability is amortized.
(5) UAAL divided by covered payroll.

Source: The Fire and Police Pension System Actuarial Valuations.

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

Table 37
LOS ANGELES FIRE AND POLICE PENSION PLAN
SOURCES AND USES OF CONTRIBUTIONS
($ in thousands)

	2012-13	2013-14	2014-15	2015-16	Adopted Budget 2016-17
General Fund	$506,086	$575,941	$624,974	$623,415	$616,235
Percent of payroll	39.94%	44.40%	47.94%	46.51%	44.54%
Current Service Liability	$214,223	$302,040	$306,625	$306,841	$319,458
UAAL/(Surplus)	291,863	273,901	318,349	303,580	283,355
Administrative Costs[1][2]	-	-	-	12,994	13,422
Total	$506,086	$575,941	$624,974	$623,415	$616,235

[1] Beginning in 2015-16, administrative expenses are separately identified in the contribution rate in conjunction with Governmental Accounting Standards Board (GASB 67) reporting. These costs are inclusive of Health and Pension administrative costs.
[2] Excess Benefit Plan costs are now credited as part of the Annual Required Contribution (i.e., the costs are included in the contribution rate).

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

The following table sets forth the FPPP's investments and asset allocation targets as of March 31, 2016.

Table 38
LOS ANGELES FIRE AND POLICE PENSION PLAN
ASSET CLASS BY MARKET VALUE AND ALLOCATION
($ in millions)
As of March 31, 2016

	Market Value	Percent Allocation	Target (%)
Domestic Large Cap Equity	$4,698.8	25.51%	23.0%
Domestic Small Cap Equity	1,160.2	6.30	6.0
International Developed Markets	2,913.9	15.82	16.0
International Emerging Markets	723.1	3.93	5.0
Domestic Bonds	3,287.3	17.85	19.0
High Yield Bonds	488.7	2.65	3.0
Unconstrained Fixed Income	372.6	2.02	2.0
Real Estate	1,999.8	10.86	10.0
Private Equity	1,663.6	9.03	10.0
Commodities	654.9	3.56	5.0
Cash House Accounts	453.2	2.46	1.0
Total	**$18,416.5**	**100.00%**	

Source: Los Angeles Fire & Police Pensions March 31, 2016 Performance Report.

Accounting and Financial Reporting Standards

In 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions ("GASB 68"), which applies to governmental entities such as the City, and Statement No. 67, Financial Reporting for Pension Plans ("GASB 67"), which applies to the financial reports of most pension plans such as LACERS and FPPP.

GASB 67 revised existing guidance for the financial reports of most pension plans, including LACERS and FPPP. GASB 67 generally expands the existing framework for financial reports of defined benefit pension plans, which includes a statement of "Fiduciary Net Position" (the amount held in a trust for paying retirement benefits, generally the market value of assets) and a statement of changes in Fiduciary Net Position, and requires additional note disclosures and required supplementary information. LACERS and FPPP complied with the provisions of GASB 67 by its effective date (i.e., financial statements for Fiscal Year 2013-14).Most of the reporting requirements of GASB 68 related to the Net Pension Liability are included in the note disclosures and required supplementary information of the Pension Plans.

GASB 68 revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits, including the City. GASB 68, among other things, requires governments providing defined benefit pensions to recognize the difference between pension plans' Fiduciary Net Position and their long-term obligation for pension benefits as a liability ("Net Pension Liability"), and provides greater guidance on measuring such obligation, including specific guidelines on projecting benefit payments, use of discount rates and use of the "entry age" actuarial cost method. GASB 68 also addresses accountability and transparency through revised and new note disclosures and required supplementary information. The GASB 68 standards apply to financial reporting but not to the actuarial calculation of annual City employer pension contributions, which continue to be determined actuarially by each plan.

The City complied with the provisions of GASB 68 by its effective date (i.e., its financial statements for Fiscal Year 2014-15). In broad terms, the most significant change contained in GASB 68 is the requirement to report a Net Pension Liability on the employers' Government-Wide Statements of Net Assets when the fair value of pension assets falls short of actuarially calculated liabilities. See "NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Adoption of New GASB Pronouncements" in the City's CAFR for the Fiscal Year ending June 30, 2015. As a result of GASB 68, the Total Net Position of Governmental Activities fell from $5,171,370,000 as of June 30, 2014 to a deficit of $536,792,000 as of June 30, 2015. As GASB 68 moves pension reporting in the City's government-wide financial statements away from the phased or smoothed asset and liability figures that the City uses in determining its annual pension contribution, the City expects that these changes will increase year-to-year volatility in reported pension assets and liabilities.

GASB 67 and GASB 68 address the disclosure of pension liability only; they do not impose any funding requirements, and the City does not expect to alter the way the City funds these liabilities. The City expects to continue to fully fund the pension at the amount recommended by the Pension Systems and their actuaries to finance annual normal costs and to amortize its unfunded liabilities consistent with current practice.

Other Post-Employment Benefits

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

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

As of June 30, 2015, the unfunded healthcare benefits liabilities of LACERS and the FPPP are as follows:

Table 39
OTHER POST-EMPLOYMENT BENEFITS
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
($in thousands)

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

(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 40
OTHER POST-EMPLOYMENT BENEFITS
FIRE AND POLICE PENSION PLAN
($ in thousands)

Actuarial Valuation As of June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL[1]	Funded Ratio[2]	Covered Payroll[3]	Unfunded AAL as a Percentage of Covered Payroll[4]
2008	$ 767,647	$ 1,836,840	$ 1,069,193	41.8%	$1,206,589	88.6%
2009	809,677	2,038,659	1,228,982	39.7	1,357,249	90.6
2010	817,276	2,537,825	1,720,549	32.2	1,356,986	126.8
2011	882,890	2,557,607	1,674,716	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	43.2	1,402,715	112.8
2015	1,344,333	2,962,703	1,618,370	45.4	1,405,171	115.2

(1) Actuarial Accrued Liability minus Actuarial Value of Assets, commonly referred to as UAAL. Positive numbers represent an actuarial deficit.
(2) Actuarial value of assets divided by actuarial accrued liability.
(3) Annual payroll against which UAAL amortized.
(4) UAAL divided by covered payroll.

Source: The Fire and Police Pension 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 will reduce the City's contributions for OPEB benefits, which include a 4% active employee contribution toward retiree healthcare for 99% of its civilian workforce and a 2% active employee contribution toward retiree healthcare for 71% of its eligible workforce (representing 64% of the sworn workforce). Employees who elected to contribute will have their current retiree health benefits and any future subsidy increases vested. For those civilian bargaining units and sworn employees that opted not to make an additional contribution toward retiree healthcare, their retiree health subsidy has been frozen and cannot surpass the maximum subsidy level in effect as of July 1, 2011.

Two lawsuits are pending that challenge the City's actions relative to freezing OPEB benefits: *Jack Fry, Gary Cline, Sandra Carlsen, Yvette Moreno, and Los Angeles Retired Fire & Police Association, Inc. v. City of Los Angeles; and Los Angeles Police Protective League v. Board of Fire and Police Pension Commissioners v. City of Los Angeles*. See "**LITIGATION**," herein.

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, assuming no change to the actuarial assumptions used by LACERS' actuary for the actuarial valuation as of June 30, 2015. These contributions illustrate the projected cost of both pension and OPEB under the existing assumptions. These projections reflect the actuarial assumptions described above.

Table 41
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
PROJECTED CONTRIBUTIONS
($ in thousands)

	Adopted Budget 2016-17	2017-18	2018-19	2019-20	2020-21
LACERS					
Contributions for Council-controlled Departments(1)(2)	$459,400	$482,112	$507,205	$528,850	$539,830
Percentage of payroll(3)	28.13%	28.14%	28.64%	29.08%	29.23%
Incremental Change	$24,761	$22,712	$25,093	$21,645	$10,980
% Change	6%	5%	5%	4%	2%

(1) Includes the General Fund and various special funds.
(2) Assumes 7.50% return on investment.
(3) Reflects combined rates for all benefit tiers.

Source: City of Los Angeles, Office of the City Administrative Officer. Based on information from the LACERS actuary and or City actuary commissioned by the City Administrative Officer.

The table below illustrates the City's projected contributions to FPPP, including the projected cost of pension and other post-employment benefits, for the next four fiscal years, based on an illustration provided by FPPP's actuary using the plan's assumed rate of return of 7.5%. These contributions include the projected cost of other post-employment benefits. These illustrations, which are based on the June 30, 2015 actuarial valuation, reflect the deferred investment gains/losses from the previous years, the actuarial assumptions described above, and certain benefit enhancements implemented with the adoption of the Tier 5 plan in 2002. Future savings from the Tier 6 pension plan for future sworn hires are not reflected in these estimates. Savings will occur as current active employees are replaced by new employees in Tier 6.

Table 42
LOS ANGELES FIRE AND POLICE PENSION PLAN
PROJECTED CONTRIBUTIONS(1)
($ in thousands)

	Adopted Budget 2016-17	2017-18	2018-19	2019-20	2020-21
General Fund	$616,234	$643,939	$649,232	$695,070	$699,008
Percentage of Payroll	44.54%	45.03%	44.16%	45.62%	45.13%
Incremental Change	$(7,180)	$27,705	$5,293	$45,838	$3,938
% Change	(1%)	5%	0.8%	7%	0.6%

(1) Assumes 7.50% return on investment.

Source: City of Los Angeles, Office of the City Administrative Officer. Based on information from the FPPP actuary commissioned by the City Administrative Officer.

City Treasury Investment Practices and Policies

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

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

Table 43
POOLED INVESTMENT FUND
GENERAL POOL
Investments as of April 30, 2016

Description	Par Value	Market Value	Percent of Total Funds (Market Value	Average Days
Bank Deposits[1]	$ 75,598,256	$ 75,598,256	0.87%	1
BNYM Sweep Accounts	-	-	-	-
LAIF (State of California)	-	-	-	-
Subtotal Cash and Overnight Investments	$ 75,598,256	$75,598,256	0.87%	1
CDARS [2]	$ 0	$ 0	0.00%	0
Commercial Paper	1,743,594,000	1,742,642,432	20.02	41
Negotiable Certificates of Deposit	10,000,000	10,003,100	0.11	66
Corporate Notes	190,000,000	190,783,200	2.19	159
U.S. Federal Agencies	379,038,000	379,190,799	4.36	72
U.S. Treasuries	95,000,000	94,975,300	1.09	61
Subtotal: Pooled Investments	$2,417,632,000	$2,417,594,831	27.78%	56
Total Short Term Core Portfolio	$2,493,230,256	$2,493,193,087	28.65%	55
Money Market Funds	$ -	$ -	-	-
Commercial Paper	-	-	-	-
Negotiable Certificates of Deposit	-	-	-	-
Corporate Notes	1,210,105,000	1,227,202,414	14.10%	1,029
U.S. Federal Agencies	661,830,000	669,469,574	7.69	992
U.S. Treasuries	4,247,000,000	4,313,349,970	49.56	1,000
Total Long-Term Reserve Portfolio	$6,118,935,000	$6,210,021,957	71.35%	1,005
Total Cash and Pooled Investments	$8,612,165,256	$8,703,215,044	100.00%	733

	Short-Term Core Portfolio	Long-Term Reserve Portfolio	Consolidated
Average Weighted Maturity	55 Days	2.8 Years	2.0 Years
Effective Yield	0.59%	1.39%	1.16%

(1) Collected balance for Wells Fargo Active Accounts.
(2) Certificate of Deposit Account Registry Service, which provides capital to community banks that lend and provide services in economically distressed areas. Deposits are insured through FDIC.

Source: City of Los Angeles, City Treasurer.

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

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

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

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

Capital Program

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

Table 44
CAPITAL IMPROVEMENT EXPENDITURE PROGRAM[1]
($ in thousands)

	2012-13	2013-14	2014-15	Estimated 2015-16	Adopted 2016-17
General Fund[2]	$ 8,462	$ 8,286	$ 9,190	$ 10,000	$22,104
Special Gas Tax Street Improvement Fund	10,333	6,815	10,378	7,300	686
Stormwater Pollution Abatement Fund	484	296	1,050	1,400	2,243
Sewer Construction and Maintenance Fund	110,745	116,330	138,640	198,000	245,327
Park and Recreational Sites and Facilities Fund	536	256	(47)	695	3,000
Street Lighting Maintenance Assessment Fund	968	0	0	0	1,190
Proposition C Anti-Gridlock Transit Improvement Fund	65	0	0	0	0
Arts & Cultural Facilities and Services Trust Fund	93	0	0	0	0
Local Transportation Fund[3]	2,901	612	1,692	1,263	1,595
Measure R Local Return Fund	0	3,728	394	400	0
Other	1,073	1,076	2,380	0	0
Total[4]	$135,660	$137,399	$163,677	$219,058	$276,145

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

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

MAJOR GENERAL FUND REVENUE SOURCES

Following is a discussion of the City's principal General Fund revenue sources. See **"LIMITATIONS ON TAXES AND APPROPRIATIONS** "herein. The following represents the revenues for Fiscal Year 2014-15 and Fiscal Years 2015-16 and projected revenues for 2016-17, as contained in the Fiscal Year 2016-17 Adopted Budget.

Table 45
FISCAL YEARS 2014-15, 2015-16 (Estimated) AND 2016-17 (Adopted)
GENERAL FUND RECEIPTS[1]
($ in thousands)

	2014-15	Percent of Total	2015-16 Estimated	Percent of Total	2016-17 Adopted Budget	Percent of Total
Property Tax[2]	$ 1,674,461	31.9%	$ 1,654,922	31.0%	$ 1,786,069	32.0%
Redirection of ex-CRA Tax Increment Monies	52,363	1.0	50,111	0.9	54,594	1.0
Licenses, Permits, Fees and Fines	851,507	16.2	922,763	17.3	923,482	16.6
Utility Users' Tax	639,391	12.2	627,540	11.8	634,000	11.4
Business Tax	497,329	9.4	505,600	9.5	502,300	9.0
Sales Tax	371,031	7.1	416,441	7.8	520,020	9.3
Power Revenue Transfer	265,586	5.1	266,957	5.0	291,000	5.2
Parking Fines	152,292	2.9	147,000	2.8	152,000	2.7
Transient Occupancy Tax	202,897	3.9	226,076	4.2	246,569	4.4
Documentary Transfer Tax	196,681	3.8	197,984	3.7	202,184	3.6
Parking Users' Tax	100,370	1.9	108,400	2.0	111,000	2.0
Franchise Income	45,517	0.9	42,110	0.8	42,180	0.8
Interest	17,239	0.3	19,000	0.4	19,700	0.4
State Motor Vehicle License Fees	1,678	0.0	1,597	0.0	1,597	0.0
Tobacco Settlement	9,021	0.2	9,106	0.2	9,106	0.2
Grants Receipts	14,250	0.3	12,034	0.2	12,057	0.2
Transfer from Telecommunications Development Account	0	0.0	5,223	0.1	-	-
Residential Development Tax	4,365	0.1	4,740	0.1	4,740	0.1
Special Parking Revenue Transfer	30,635	0.6	56,072	1.1	28,342	0.5
Reserve Fund Transfer	117,546	2.2	60,313	1.1	35,496	0.6
Total General Receipts[3]	$5,244,159	100.0%	$5,333,988	100.0%	$5,576,435	100.0%

(1) Cash basis.
(2) Includes property tax received in lieu of sales tax and motor vehicle license fees.
(3) Totals do not add due to rounding.

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

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

In recent years, various changes in the way the State allocated property tax, sales tax and motor vehicle license fees have complicated the presentation of certain revenues, as discussed below under the relevant revenue sources. For example, on March 2, 2004, California voters approved Proposition 57, a bond act authorizing the issuance of up to $15 billion of Economic Recovery Bonds ("ERBs"), to fund the accumulated State budget deficit. The entire authorized amount of ERBs was issued in three sales, in May and June 2004, and in February 2008. These bonds were secured by a pledge of revenues from an increase in the State's share of the sales and use tax of one-quarter cent beginning July 1, 2004. The share of the tax allocated to local governments was reduced by the same amount and, in exchange, local governments received an increased share of the local property tax (and K-12 school districts and community colleges received a reduced share) until the ERBs were repaid. All education agency property tax reductions were offset by increased State aid. This shift in revenues between the State and local governments was known as the "Triple Flip." The State effectively retired all outstanding ERBs in August 2015.As a result, sales tax revenues will increase in the latter half of Fiscal Year 2015-16 while property tax revenues will decrease in Fiscal Year 2016-17 as a result of the adjustments involved in ending the triple flip.

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

Property Tax

Property taxes, including various State replacements and the reallocation of tax increment from the dissolution of redevelopment, represent 33.0% of General Fund revenues in the Fiscal Year 2016-17AdoptedBudget. Under Article XIII A of the State Constitution (enacted in 1978 through the passage of Proposition 13) and its implementing legislation, *ad valorem* taxes on real property (other than taxes relating to certain voter-approved indebtedness) are limited to 1.0% of the "full cash value of property." Full cash value is generally defined as the valuation of real property as shown on the 1975-76 tax bill or, thereafter, as the appraised value of property when purchased or newly constructed after the 1975 assessment period. Real property valuation may be increased to reflect inflation, not to exceed 2.0% per year. (See **"LIMITATIONS ON TAXES AND APPROPRIATIONS"** herein.)

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

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

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

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

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

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

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

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

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

Recent assessed valuations within the City appear in the table below.

Table 46
ASSESSED VALUATION[(1)]

	2011	2012	2013	2014	2015
Land	$216,231,591,560	$220,930,613,001	$232,778743,317	$248,792,504,198	$267,336,770,583
Buildings and Structures	188,587,844,393	194,894,140,295	205,411,896,165	215,540,855,692	230,127,214,313
Business Personal Property	26,856,567,608	26,431,153,552	26,480,491,712	27,745,896,590	28,900,346,059
Gross Total[(2)]	$431,676,003,561	$442,255,906,848	$464,671,131,194	$492,079,256,480	$526,364,330,955
Less: Church, Welfare, etc.[(3)]	22,602,918,177	23,129,201,371	24,136,984,143	25,148,131,867	26,003,406,049
Revenue-Producing Valuations	409,073,085,384	419,126,705,477	440,534,147,051	466,931,124,613	500,360,924,906
Less: Homeowners' Exemptions[(4)]	2,674,226,445	2,629,356,346	2,588,592,473	2,545,252,570	2,502,725,568
Net Total Revenue-Producing Valuations[(5)]	$406,398,858,939	$416,497,349,131	$437,945,554,578	$464,385,872,043	$497,858,199,338

(1) As of January 1 of each year.
(2) Assessed values do not include Board of Equalization valued properties, such as utilities.
(3) Exemptions not reimbursed to local governments by the State.
(4) Exemptions reimbursed to local governments by the State.
(5) Valuations on which revenue is collected.

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

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

Table 47
PROPERTY TAX REVENUES BY SOURCE[(1)]
($ in thousands)

	2012-13	2013-14	2014-15	Estimated 2015-16	Adopted Budget 2016-17
1% Property Tax	$1,109,285	$1,127,721	$1,190,885	$1,230,645	$1,309,741
Vehicle License Fee Replacement	324,644	341,226	361,672	387,567	412,760
Sales Tax Replacement	116,458	121,036	121,903	36,710	63,568
Total Property Tax	$1,550,388	$1,589,983	$1,674,461	$1,654,922	$1,786,069

(1) Cash basis. Excludes property taxes attributable to the dissolution of the Los Angeles Community Redevelopment Agency, projected to be $54.6 million in Fiscal Year 2016-17.

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

In preparing its budget, the City forecasts property taxes based on each of the specific categories of receipts (secured and unsecured, current and delinquent receipts and State replacement funds) based on appropriate indices. Current receipts are forecasted based on the County Assessor's estimate of changes in assessed valuation, including declines in valuation as a result of sales, appeals, Proposition 8 adjustments, and adjustments based on the consumer price index. The City's Fiscal Year 2016-17 Adopted Budget assumes 6.5% in growth in assessed valuation and Vehicle License Fee Replacement revenue. The Sales Tax Replacement includes $63.6 million in delayed Fiscal Year 2015-16 revenue; there will be no other revenue from this component as the "triple flip" has been discontinued. Revenue growth from all categories equates to 7.9% growth in total property tax.

A list of the 20 largest taxpayers, based on secured assessed valuations within the City for Fiscal Year 2015-16, appears in the table below.

Table 48
CITY OF LOS ANGELES
TWENTY LARGEST 2015-16 SECURED TAXPAYERS

Property Owner	Primary Land Use	2015-16 Secured Assessed Valuation	Percent of Secured AV	Cumulative Percent of Secured AV
Douglas Emmett LLC	Office Building	$ 2,625,138,199	0.55%	0.55%
Essex Portfolio LP	Apartments	1,591,893,951	0.33	0.88
FSP South Flower Street Associates LLC	Office Building	868,880,162	0.18	1.06
Anheuser-Busch Inc.	Industrial	793,569,250	0.16	1.22
Valero Energy Corporation	Possessory Interest/Petroleum	774,549,383	0.16	1.38
Phillips 66	Possessory Interest/Petroleum	750,133,939	0.16	1.54
Rochelle H. Sterling	Apartments	712,248,965	0.15	1.69
One Hundred Towers LLC	Office Building	620,885,544	0.13	1.81
Trizec 333 LA LLC	Office Building	606,847,300	0.13	1.94
Tishman Speyer Archstone Smith	Apartments	588,816,361	0.12	2.06
Maguire Partners 355 S. Grand LLC	Office Building	567,527,071	0.12	2.18
APM Terminals Pacific Ltd.	Possessory Interest/Terminal Operations	552,936,532	0.11	2.30
Olympic and George Partners LLC	Hotel	542,457,522	0.11	2.41
Paramount Pictures Corp.	Industrial/Studio	541,103,214	0.11	2.52
LA Live Properties LLC	Commercial	516,145,652	0.11	2.63
Hines REIT Wets LA Portfolio LP	Office Buildings	513,256,463	0.11	2.73
Century City Mall LLC	Shopping Center	511,255,988	0.11	2.84
Palmer Flower Street Properties	Apartments	507,787,516	0.11	2.95
Westfield Topanga Owner LP	Shopping Center	503,053,742	0.10	3.05
Maguire Properties 555 W. Fifth	Office Building	498,040,231	0.10	3.15
Total		$15,186,526,985	3.15%	

Source: California Municipal Statistics, Inc.

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

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

Utility Users' Taxes

Utility users' taxes represent 11.4% of General Fund revenues in the Fiscal Year 2016-17 Adopted Budget. The City imposes taxes on users of natural gas, electricity and communication services within the City's limits. The tax is 9% of utility charges on taxable communication services, 10% for natural gas and residential electricity, and 12.5% for commercial and industrial electricity.

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

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

The tax on electricity is collected by DWP which, in September 2013, implemented a new customer information system. DWP has experienced delayed bills in connection with the use of the new system, as customer accounts that are missing meter reading information or qualify under other exception processing criteria are held in a queue for manual review and intervention prior to release of the bills. DWP has also seen an increase in estimated bills that are sent to customers where metering information is not available. DWP has temporarily adjusted its collection practices in light of such concerns, which has contributed to higher delinquency rates and could increase the risk of customer nonpayment. The estimated increase in revenues for Fiscal Year 2015-16 incorporates estimated receipts of approximately $2.9 million in delayed billings.

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

The City's telephone users' tax ordinance has been the subject of litigation challenging application of the tax to certain telecommunications services. See **"LITIGATION,"** herein.

A portion of the gas users' tax has also been challenged in *Lavinsky v. City of Los Angeles*, specifically the assessment of the gas users' tax on two charges included in Southern California Gas Company billings: the Public Purpose Surcharge and the State Regulatory Fee. See "**LITIGATION**," herein

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

Table 49
UTILITY USERS' TAX RECEIPTS[1]
($ in thousands)

	2012-13	2013-14	2014-15	Estimated 2015-16	Adopted 2016-17
Electric Users' Tax	$320,432	$331,307	$363,716	$372,200	$382,000
Gas Users' Tax	66,017	73,078	68,643	66,300	66,300
Communications Users' Tax	233,998	223,052	207,032	189,040	185,700
Total	$620,447	$627,437	$639,391	$627,540	$634,000

(1) Cash basis.

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

Sales Tax

Sales tax receipts represent 9.3% of General Fund revenues in the Fiscal Year 2016-17 Adopted Budget. Sales and use taxes are collected on the total retail price of tangible personal property sold, unless specifically exempted. Included in the current County-wide tax rate is a sales tax collected by the State on behalf of cities (or, for unincorporated areas, on behalf of counties). The current local tax rate is 1%. Allocation of the 1% local component (often referred to as the "Bradley-Burns Sales Tax") is on the basis of "situs," or the point of sale. Additional sales taxes can be collected based on local voter approval. Included in the current County-wide rate are sales taxes collected for the Los Angeles County Metropolitan Transportation Authority for transportation purposes. A portion of those taxes is remitted to the City for deposit in three special revenue funds.

Statewide taxes were increased by 0.25% for four years, effective January 1, 2013, to increase funding for education. The combined tax rate within the City is currently 9.00%. This additional tax will expire on December 31, 2016.

Effective July 1, 2004, the traditional Bradley-Burns Sales Tax was modified by a State budgetary change known as the Triple Flip, a complex revenue swap to secure the State's ERBs. The Triple Flip traded 0.25% of the 1% city share of the sales tax for an equal amount of property taxes from the countywide Education Revenue Augmentation Fund, and remained in August 2015. The State's Board of Equalization reinstated the 1% tax rate on January 1, 2016. The City received the first revenues from the restored rate with the State's March 2016 remittance. Sales tax revenue for Fiscal Year 2015-16 assumes approximately $38.0 million in added revenue from the rate restoration. Fiscal Year 2016-17 represents the first full year of the reinstated remittance of the 1-percent tax rate, resulting in an approximately $91.0 million boost in revenue from the prior year.

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

Table 50
LOS ANGELES CITY
SALES TAX COMPONENTS
As of July 1, 2016

State Rate		
General Fund Portion	3.9375%	.
Local Revenue Fund	1.5625%	To support local health program costs (1991 realignment) and public safety services (2011 realignment).
State Education Protection Account	0.25%	Voter approved school funding (November 2012). Expires December 31, 2016.
Local Public Safety	0.50%	For the Local Public Safety Fund, approved by the State voters in 1993 to support local criminal justice activities. The City receives approximately$30million annually.
Total State Rate	**6.25%**	
Uniform Local Tax Rate(Statewide)		
County Transportation	0.25%	The County allocates a small portion of this to the City.
Local Point of Sale	1.00%	This is the City "Bradley-Burns" sales tax, allocated by point of sale. The City's share was reduced from 1.00% by the Triple Flip starting July 2004.This provision will expire with the retirement of the State's Economic Recovery Bonds. The City will be entitled to the full 1% January, 2016, and should begin realizing the additional sales tax revenue in March or April of that year.
Total Uniform Local Rate	**1.25%**	
Optional Local Rates[1]		
Proposition A	0.50%	Voter-approved measure to improve public transit and reduce traffic congestion.
Proposition C	0.50%	Voter-approved measure to improve public transit and reduce traffic congestion.
Measure R	0.50%	Voter-approved measure to improve public transit and reduce traffic congestion.
Total Optional Local Rate	**1.50%**	
Total Sales Tax Rate[2]	**9.00%**	8.75% after the expiration of the State Education Protection Account, approved by voters in 2012 to be collected from January 1, 2013 through December 31, 2016.

(1) State law permits optional voter approval of local tax rates. These rates are levied in 0.25% and 0.5% increments.
(2) The total within the State ranges from 7.50% to the current maximum allowable rate of 10.00%.

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

The following table shows the actual and budgeted General Fund receipts from the Sales Tax. After a two-year decline during Fiscal Years 2009-10 and 2010-11, totaling over 17%, the City has experienced steady growth in sales tax in subsequent years. Revenues through Fiscal Year 2014-15 reflect the reduction in receipts from the Triple Flip, which commenced in Fiscal Year 2005-06. Fiscal Year 2015-16 revenues reflect the restoration of the full 1% share of receipts for the fourth quarter. The Fiscal Year 2016-17 Adopted Budget assumes 24.9% growth, which reflects the restoration of the full 1% share of receipts for the first three quarters. Without this boost, sales tax would be expected to grow 3.0% next year.

Table 51
GENERAL FUND SALES TAX RECEIPTS
($ in thousands)

Fiscal Year	Receipts[1]
2012-13	$338,970
2013-14	356,503
2014-15	371,031
2015-16 (Estimated)	416,441
2016-17 (Adopted)[2]	520,020

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

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

Business Tax

Business tax receipts represent 9.0% of General Fund revenues in the Fiscal Year 2016-17 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. Most 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 $16.8 million the first year, $30.3 million the second year, and $44.1 million in the final year of the phase-in. The revenue estimate for Fiscal Year 2016-17 reflects a reduction of $13.5 million for the second year of implementation.

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

Table 52
BUSINESS TAX RECEIPTS
($ in thousands)

Fiscal Year	Receipts[1]
2012-13	$448,832
2013-14	475,397
2014-15	497,329
2015-16 (Estimated)	505,600
2016-17 (Adopted)	502,300

(1) Cash basis.

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

Licenses, Permits, Fees and Fines

This category of revenues includes reimbursements to the General Fund from various special revenue and enterprise funds of the City, and charges for special services performed by City departments. Reimbursements include the costs of police, fire and other City services to the Airports and Harbor departments, and staff costs for the sewer construction and maintenance program. These revenues also include charges imposed as regulatory measures by City departments, and fees charged for paramedic ambulance services. Licenses, Permits, Fees and Fines receipts represent 16.6% of General Fund revenues in the 2016-17 Adopted Budget.

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

Table 53
LICENSES, PERMITS, FEES AND FINES RECEIPTS[1]
($ in thousands)

	2012-13	2013-14	2014-15	Estimated 2015-16	Adopted 2016-17
Ambulance Fees	$ 66,745	$ 72,999	$ 76,789	$ 86,404	$ 83,229
Services to Dept. of Airports	61,490	69,676	58,778	70,610	68,588
Services to Harbor Dept.	20,912	24,329	25,364	28,660	37,484
Services to DWP	18,859	19,203	19,018	27,128	27,483
Services to Sewer Program	73,497	82,689	79,548	55,023	69,254
Solid Waste Fee	51,587	38,871	46,499	81,249	68,291
Gas Tax Reimbursements	30,059	34,859	36,136	23,020	-
Special Funds Related Costs	130,961	197,846	142,952	209,140	232,262
One Time Reimbursements	65,071	68,153	39,022	30,786	14,350
Other Departmental Receipts	189,765	207,069	202,647	196,793	198,321
Other Receipts	15,405	16,282	124,754	113,949	124,220
Total General Fund[2]	$724,351	$831,976	$851,507	$922,762	$923,482

(1) Cash basis.
(2) Totals may not add due to rounding.

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

Documentary Transfer Tax

Documentary Transfer Tax receipts represent 3.6% of General Fund revenues in the Fiscal Year 2016-17 Adopted Budget. The documentary transfer tax is imposed on each transaction in which real property is sold that is evidenced by a recorded document. The City's tax rate is 0.45% of the value of real property transferred. This tax is in addition to the 0.11% tax ($1.10 per $1,000) levied by the County. This tax is tied to real estate market activity and is more volatile than other City revenues as it reflects both sales volume and sales price. The greatest impact is seen when the two components move together. This tax revenue declined 29% in Fiscal Year 2007-08, and another 31% in Fiscal Year 2008-09. Further contributing to the volatility of this revenue is the irregular pattern of business sales; monthly remittances can fluctuate from zero to amounts in excess of $10 million.

The Fiscal Year 2016-17 Adopted Budget assumes modest growth of 4.3%.

The table below presents actual and budgeted receipts from this revenue source.

Table 54
DOCUMENTARY TRANSFER TAX RECEIPTS
($ in thousands)

Fiscal Year	Receipts[1]
2012-13	$147,282
2013-14	181,463
2014-15	196,681
2015-16 (Estimated)	197,984
2016-17 (Adopted)	202,184

(1) Cash basis.

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

Transient Occupancy Tax

Transient Occupancy Tax receipts represent 4.4% of General Fund revenues in the Fiscal Year 2016-17 Adopted Budget. The City imposes a tax for the privilege of occupancy in any hotel at the rate of 14% of the room charge. The tax is collected by hotel operators and remitted to the City monthly. This revenue is very sensitive to changing conditions that affect travel. In budgeting for this revenue, the City relies on industry data and forecasts of average room rates and hotel occupancy. Fiscal Year 2016-17 assumes additional revenue of $5.8 million from presumed tax collection agreements to be negotiated between the City and short-term rental websites. Due to uncertainty associated with this new revenue, instructions were added to the Adopted Budget that the appropriations backed by this revenue are contingent upon receipt.

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 actual and budgeted General Fund receipts at the 13% portion of the tax rate.

Table 55
GENERAL FUND TRANSIENT OCCUPANCY (HOTEL) TAX RECEIPTS
($ in thousands)

Fiscal Year	Receipts[1]
2012-13	$167,824
2013-14	184,382
2014-15	202,896
2015-16 (Estimated)	226,076
2016-17 (Adopted)	246,569

(1) Cash basis.

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

Parking Fines

Parking Fine receipts represent 2.7% of General Fund revenues in the Fiscal Year 2016-17 Adopted Budget. The City receives revenues from parking fines; the schedule of fines is established by the Council. For budgeting purposes, parking fine revenue forecasts are based on the number of parking enforcement officers employed by the City's Department of Transportation (the "Transportation Department"), and estimates of average revenues per ticket based on historical trends, collection rates and average worker productivity.

The table below shows the actual and budgeted receipts from all parking fines.

Table 56
PARKING FINES RECEIPTS
($ in thousands)

Fiscal Year	Receipts[1]
2012-13	$156,878
2013-14	161,146
2014-15	152,292
2015-16 (Estimated)	147,000
2016-17 (Adopted)	152,000

(1) Cash basis.

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

Power Transfers to General Fund

Transfers from the Power Revenue Fund represent 5.2% of General Fund revenues in the Fiscal Year 2016-17 Adopted Budget. The City's Charter Section 344(b) provides that the Council may, by ordinance, direct that surplus money in the Power Revenue Fund be transferred to the Reserve Fund with the consent of the DWP Commissioners. The DWP Commissioners may withhold their consent if such transfer would have a material negative impact on DWP's financial condition in the year in which the transfer would be made. Historically, this transfer had equaled approximately 5% of the total operating revenue of the Power Revenue Fund in the preceding Fiscal Year. The transfer rate was increased to 7% beginning in Fiscal Year 2002-03. In Fiscal Years 2003-04, 2004-05, and 2008-09, additional supplemental transfers were also approved. The transfer rate was increased to 8% beginning with the Fiscal Year 2009-10.The amount to be transferred is also affected by the Charter and the Power System's revenue bond covenants, which specify that a transfer may not be greater than the previous fiscal year's net income, nor may it result in a reduction of the Power System's surplus to less than 33-1/3% of the Power System's total outstanding debt. Transfers are made periodically following Council's adoption of an ordinance. Variances can occur between the amount budgeted for transfer and the amount received, reflecting the variance between actual financial results of the Power System for the prior year from the results projected by the DWP at the time the budget is adopted. For example, the Adopted Budget for Fiscal Year 2009-10 projected a transfer of $232 million, while the actual transfer was $220 million. The estimated transfer amount is provided by the DWP at the time of budget adoption, and is based on the Power System financial plan for the fiscal year currently in progress. The transfer occurs midway through the following year.

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

The following table shows the actual and budgeted transfers from the Power Revenue Fund:

Table 57
TRANSFERS FROM POWER REVENUE FUND
($ in thousands)

Fiscal Year	Receipts[(1)]
2012-13	$246,534
2013-14	253,000
2014-15	265,586
2015-16 (Estimated)[(2)]	266,957
2016-17 (Adopted)	291,000

(1) Cash basis.
(2) Amount is $8.3 million less than Adopted Budget, reflecting reduced power sales in Fiscal Year 2014-15.

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

Litigation has also been filed challenging the long-standing practice of transferring a portion of surplus power revenues to the City's General Fund as a violation of new restrictions on taxation imposed by Proposition 26 in 2010. The plaintiffs, on behalf of a class of DWP electricity rate payers, seek a refund of the alleged excess electricity fees that fund the Power Revenue Fund transfers as well as an injunction prohibiting future transfers. See "**LIMITATIONS ON TAXES AND APPROPRIATIONS—Proposition 26**," and "**LITIGATION**," herein.

Impact of State of California Budget

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

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

The City has not identified any elements of the Fiscal Year 2015-16 State Budget Act, or the original 2016-17 Adopted Budget that was released January 7, 2016, which would materially and adversely impact the City.

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.

LIMITATIONS ON TAXES AND APPROPRIATIONS

Article XIIIA of the California Constitution - Proposition 13

Article XIII A of the California Constitution limits the amount of *ad valorem* taxes on real property to one percent of “full cash value” as determined by the County Assessor, except that additional *ad valorem* taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978 and on bonded indebtedness for the acquisition or improvement of real property that has been approved on or after July 1, 1978 by two-thirds of the voters on such indebtedness (or for school indebtedness, by 55% of voters).See **“MAJOR GENERAL FUND REVENUE SOURCES —Property Tax”** herein.

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

Article XIIIB of the California Constitution - Gann Limit

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

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

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

The table below sets forth the City's appropriations limit and appropriations subject to limitation.

Table 58
APPROPRIATIONS LIMITS AND APPROPRIATIONS SUBJECT TO LIMITATION

Fiscal Year	City Appropriations Limit	Appropriations Subject to Limitations	Amount Appropriations Are Under Limit
2012-13	$4,554,024,205	$3,332,937,466	$1,221,086,739
2013-14	4,786,591,114	3,545,476,762	1,241,114,352
2014-15	4,555,372,559	3,697,158,083	858,214,476
2015-16	4,780,745,648	3,803,672,985	977,072,663
2016-17	5,101,447,580	4,016,215,227	1,085,232,352

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

Articles XIIIC and XIIID of the California Constitution - Proposition 218

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

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

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

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

Proposition 1A

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

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

Proposition 26

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

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

Litigation has been filed challenging a material source of City General Fund revenues, alleging that the City charges its electric utility customers fees that exceed the cost of providing electric utility service, in violation of Proposition 26. See "**MAJOR GENERAL FUND REVENUE SOURCES—Power Transfer to General Fund**," and "**LITIGATION**," herein.

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. Staff of the Office of the City Administrative Officer helps structure debt issuances and oversees 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 City's three proprietary departments—Airports, Harbor, and Water and Power—is 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,"** herein). The following summarizes the various voter authorizations for general obligation bonds that are currently outstanding.

Table 59
GENERAL OBLIGATION BONDS
As of July 1, 2016

Date of Election	Projects	Amount Authorized	Amount Issued	Amount Outstanding[1]	Amount Authorized but Unissued
4/11/89	Branch Library Facilities (Proposition 1)	$ 53,400,000	$ 53,400,000	$ 707,669	--
4/11/89	Police Facilities (Proposition 2)	176,000,000	176,000,000	3,420,399	--
4/11/89	Fire Safety Facilities (Proposition 4)	60,000,000	60,000,000	235,889	--
6/5/90	Seismic Safety Projects (Proposition G)	376,000,000	376,000,000	7,430,521	--
11/3/98	Zoo Facilities (Proposition CC)	47,600,000	47,600,000	10,620,621	--
11/3/98	Library Facilities (Proposition DD)	178,300,000	178,300,000	51,255,106	--
11/7/00	Fire, Paramedic, Helicopter and Animal Shelter Projects (Proposition F)	532,648,000	532,648,000	178,158,320	--
3/5/02	Emergency Operations, Fire, Dispatch and Police Facilities (Proposition Q)	600,000,000	600,000,000	235,524,929	--
11/2/04	Storm Water Projects (Proposition O)	500,000,000	439,500,000	303,031,546	$60,500,000
Total		$2,523,948,000	$2,463,448,000	$790,385,000	$60,500,000

(1) Principal payments are made September 1.

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

Citywide Limited Obligation Bonds

The City received majority voter approval to create a Citywide Landscaping and Lighting Assessment District to finance various park and recreational improvements throughout the City (Proposition K, creating the City of Los Angeles Landscaping and Lighting District 96-1). While most of these projects are being funded on a pay-as-you-go basis, the City issued $44,290,000 of bonds secured by these assessments. The remaining $16,025,000 of outstanding bonds were defeased as of June 26, 2015.

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 payments to occupy public buildings or use capital equipment necessary for City operations. These lease agreements have been with a nonprofit corporation established by the City for this purpose, the Municipal Improvement Corporation of Los Angeles ("MICLA"), or with a joint powers authority, the Los

Angeles Convention and Exhibition Center Authority. In most cases, securities have been issued, either in the form of lease revenue bonds or certificates of participation, the debt service on which is paid from the annual lease payments primarily made by the City from the General Fund. In two cases noted below, the obligation was privately placed directly with a bank. Payment of lease payments is managed by the CAO and, unless otherwise noted, budgeted in the Capital Finance Administration Fund.

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

Table 60
GENERAL FUND BONDED AND OTHER FINANCING LEASE OBLIGATIONS
As of July 1, 2016

Series	Project	Amount Issued	Amount Outstanding	Final Maturity
MICLA Taxable Certificates of Participation, Program AK (dated April 1, 1999)	Real Property	$ 43,210,000	$ 29,750,000	4/1/29
MICLA Refunding Certificates of Participation, Program AS (dated April 2, 2002)[(1)]	Real Property, Pershing Square	7,655,000	2,500,000	10/1/22
MICLA Lease Revenue Bonds, Series 2009-A (dated April 23, 2009)	Capital Equipment and Fixtures	57,930,000	19,840,000	4/1/19
MICLA Lease Revenue Bonds, Series 2009-B (dated April 23, 2009)	Real Property	52,065,000	-	4/1/39
MICLA Lease Revenue Bonds, Series 2009-C (dated December 10, 2009)	Capital Equipment and Fixtures	40,095,000	17,805,000	9/1/19
MICLA Lease Revenue Bonds, Series 2009-D (dated December 10, 2009)	Real Property Improvements (Recovery Zone Economic Development Bonds)	21,300,000	18,805,000	9/1/39
MICLA Lease Revenue Bonds, Series 2010-A (dated November 23, 2010)	Capital Equipment and Fixtures	30,355,000	16,600,000	11/1/20
MICLA Lease Revenue Bonds, Series 2010-B (Taxable) (dated November 23, 2010)	Capital Equipment and Fixtures	49,315,000	27,370,000	11/1/20
MICLA Lease Revenue Bonds, Series 2010-C (Taxable) (dated November 23, 2010)	Real Property	18,170,000	17,015,000	11/1/40
MICLA Qualified Energy Conservation Bonds, Series 2011-A (Taxable) (dated October 26, 2011)[(2)]	Real Property	11,920,000	7,471,203	10/1/27
MICLA Lease Revenue Bonds, Series 2012-A (dated May 10, 2012)	Capital Equipment and Fixtures	92,635,000	63,225,000	3/1/22
MICLA Lease Revenue Bonds, Series 2012-B (dated May 10, 2012)	Real Property	33,975,000	31,200,000	3/1/42
MICLA Lease Revenue Bonds, Refunding Series 2012-C (dated May 10, 2012)	Real Property	109,730,000	86,845,000	3/1/32
MICLA Streetlights Refinancing Lease Agreement(dated September 9, 2013)[(3)]	Capital Equipment and Fixtures	39,795,479	22,072,930	6/1/21
MICLA Lease Revenue Bonds, Series 2014-A (dated September 24, 2014)	Real Property	41,800,000	39,040,000	5/1/34
MICLA Lease Revenue Bonds, Refunding Series 2014-B (dated September 24, 2014)	Real Property	51,730,000	39,830,000	5/1/33
Equipment Lease Purchase (Private Placement) (dated November 19, 2014)[(4)]	Capital Equipment and Fixtures	67,257,597	57,969,071	11/1/24
MICLA Taxable Lease Revenue Refunding Bonds, Series 2015-A (dated November 19, 2015)	Convention Center	292,415,000	292,415,000	11/1/22
HV/LED Conversion Program (Private Placement) (dated April 5, 2016)[(3)]	Capital Equipment and Fixtures	26,368,864	26,368,864	4/1/24
MICLA Lease Revenue Refunding Bonds, Series 2016-A (dated June 1, 2016)	Capital Equipment and Fixtures	125,235,000	125,235,000	11/1/26
MICLA Lease Revenue Refunding Bonds, Series 2016-B (dated June 1, 2016)	Real Property	685,270,000	685,270,000	11/1/39
		$1,898,226,940	$1,626,627,068	

[(1)]Primary source of repayment is a special tax on properties in the vicinity of Pershing Square through the establishment of a Mello-Roos District, but the City remains contingently liable for making up any deficiency from its General Fund.
[(2)] Lease agreement privately placed with Wells Fargo Bank, National Association.
[(3)] Lease agreement privately placed with Banc of America Leasing. Payments made from the Street Lighting Maintenance Assessment Fund.
[(4)]Privately placed with Banc of America.

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

Commercial Paper Program

In 2004, the City and MICLA established a commercial paper program under which MICLA was authorized to issue up to $200 million in Lease Revenue Commercial Paper Notes (the "Commercial Paper Notes"). The program authorization was increased to $300 million in 2009 and to $335 million in 2013.In May 2016, the City authorized the expansion of the Program from $335 million to $395 million as seen in the table below. The commercial paper program is used to finance and refinance capital equipment, the acquisition and improvement of real property, and other financing needs of the City. The City expects to issue lease revenue bonds through MICLA from time to time to refund Commercial Paper Notes. Principal of and interest on the Commercial Paper Notes are payable from the proceeds of Commercial Paper Notes issued to pay such principal and interest and are also payable from lease payments to be made by the City.

As of June 8, 2016, $124.3 million in Commercial Paper Notes were outstanding.

The City is in the process of replacing certain letters of credit and extending others that support the commercial paper program, effective as of June 14, 2016. The following summarizes the various direct pay letters of credit that will further support the payment of principal of and interest on the Commercial Paper Notes at that time.

Table 61
LEASE REVENUE COMMERCIAL PAPER NOTES

Series	LOC Provider	Amount of Authorization	LOC Expiration
A-1 and B-1	Wells Fargo Bank	$130,000,000	June 30, 2019
A-2 and B-2	Bank of America	55,000,000	June 30, 2019
A-3 and B-3	Bank of the West	60,000,000	June 30, 2019
A-4 and B-4	U.S. Bank National Association	150,000,000	June 30, 2021

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

The City has created another commercial paper program to issue Lease Revenue Commercial Paper Notes for the purposes of making capital improvements to the Convention Center facility, which would also represent a lease obligation of the General Fund. These notes are secured by a $100 million letter of credit from The Bank of Tokyo-Mitsubishi UFJ, Ltd for an authorized amount of $110 million. The letter of credit expires on November 16, 2018. As of May 5, 2016, $1 million in Commercial Paper Notes were outstanding under the Convention Center CP Program.

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

Judgment Obligation Bonds

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

Table 62
JUDGMENT OBLIGATION BONDS
As of July 1, 2016

Dated Date	Amount Issued	Amount Outstanding	Final Maturity	Judgment Financed with Proceeds
6/30/09	$20,600,000	$7,020,000	6/1/19	Employment lawsuits by certain police officers.
6/29/10	50,875,000	23,160,000	6/1/20	Various employment, inverse condemnation and liability lawsuits.
Total	$71,475,000	$30,180,000		

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

Revenue Bonds

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

Conduit Debt Obligations

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

Cash-flow Borrowings

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

Table 63
TAX AND REVENUE ANTICIPATION NOTES

Fiscal Year	LACERS	Fire and Police Pensions	Cashflow	Total Par Amount
2011-12	$349,145,000	$463,135,000	$392,385,000	$1,204,665,000
2012-13	337,620,000	499,335,000	419,335,000	1,256,290,000
2013-14	362,530,000	567,725,000	394,295,000	1,324,550,000
2014-15	406,380,000	617,180,000	345,640,000	1,369,200,000
2015-16	459,400,377	616,234,998	344,580,000	1,475,635,375

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

Summary of Long-Term Borrowings

The table below presents a pro-forma statement of direct net debt of the City. Tables 64 and 65 summarize the debt service to maturity of certain of these obligations. Direct Debt is usually defined as the total amount outstanding of "tax-supported" obligations, including general obligation bonds, lease revenue bonds, certificates of participation secured by lease payments, and other obligations paid from property tax or other general revenues. The City includes its City-wide tax and assessment obligations in its calculation of direct debt. Net Direct Debt excludes any general obligation bonds and lease obligations that are self-supporting from non-General Fund sources; no such deductions are included below. Overall Net Debt is usually defined to be the combination of City net direct debt plus the net tax-supported debt of overlapping counties, school districts and special districts, including assessment and Mello-Roos special tax debt.

Table 64
DIRECT NET DEBT
As of July 1, 2016[(1)]

	Outstanding
General Obligation Bonds	$790,385,000
Lease Obligations [(2)(3)]	
Capital Equipment and Fixtures	376,485,865
Real Property	1,250,141,203
Subtotal	$1,626,627,068
Judgment Obligation Bonds	30,180,000
GROSS DIRECT DEBT	$2,447,192,068
Revenue Bonds	
Power Revenue (DWP)[(3)(4)]	$8,417,869,000
Water Revenue (DWP) [(3)]	4,361,192,000
Department of Airports[(3)]	4,658,586,000
Harbor Department[(3) (4)]	951,120,000
Wastewater System[(3)]	2,418,420,000
Solid Waste Resources Fee (formerly Sanitation Equipment Charge)	209,260,000
Subtotal	$21,016,447,000
TOTAL CITY DEBT	23,463,639,068
Less:	
Revenue Bonds	(21,016,447,000)
DIRECT NET DEBT	$2,447,192,068
Plus:	
Other Overlapping Debt[(5)]	$13,051,887,400
OVERALL NET DEBT	$15,499,079,468

(1) As adjusted by notes (2) through (6) below.
(2) Includes only bonded and certificated lease obligations and long-term private placements.
(3) Does not include commercial paper or revolving credit agreements.
(4) As of June 1, 2016
(5) Does not include outstanding California Boating and Waterways Notes.
(6) Overlapping debt information from California Municipal Statistics, Inc. as of May 1, 2016. See Table 72.

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

Table 65
DEBT SERVICE TO MATURITY ON DEBT PAYABLE FROM TAXES
As of July 1, 2016 [(1)]

	General Obligation Bonds		
Fiscal Year	Principal	Interest	Total
2017	$86,565,000	$35,929,656	$122,494,656
2018	86,540,000	31,842,225	118,382,225
2019	86,420,000	27,756,888	114,176,888
2020	86,275,000	23,675,981	109,950,981
2021	83,050,000	19,647,688	102,697,688
2022	78,450,000	15,799,325	94,249,325
2023	65,960,000	12,361,456	78,321,456
2024	54,760,000	9,491,644	64,251,644
2025	45,715,000	7,050,738	52,765,738
2026	27,590,000	5,249,100	32,839,100
2027	23,235,000	4,003,150	27,238,150
2028	19,725,000	2,903,656	22,628,656
2029	19,725,000	1,885,294	21,610,294
2030	14,675,000	980,556	15,655,556
2031	5,850,000	438,750	6,288,750
2032	5,850,000	146,250	5,996,250
2033	0	0	0
2034	0	0	0
2035	0	0	0
2036	0	0	0
2037	0	0	0
Total	$790,385,000	$199,162,356	$989,547,356

(1) Totals may not add due to rounding.

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

Table 66
DEBT SERVICE TO MATURITY ON BONDED AND CERTIFICATED LEASE OBLIGATIONS AND JUDGMENT OBLIGATION BONDS[(1)]
As of July 1, 2016

	Capital Equipment and Fixtures			Real Property			Judgment Obligation Bonds			
Fiscal Year	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Grand Total
2017	48,270,767	$12,245,986	$60,516,753	$80,690,000	$49,913,638	$130,603,638	$7,635,000	$1,397,425	$9,032,425	$200,152,817
2018	54,303,000	12,939,559	67,242,559	82,550,000	50,645,910	133,195,910	7,990,000	1,038,175	9,028,175	209,466,644
2019	54,592,960	10,772,906	65,365,866	84,975,000	48,092,285	133,067,285	8,365,000	662,075	9,027,075	207,460,226
2020	48,389,662	8,382,465	56,772,127	85,450,000	44,868,483	130,318,482	6,190,000	304,500	6,494,500	193,585,110
2021	42,719,076	6,396,887	49,115,962	84,705,000	41,496,542	126,201,542	0	0	0	175,317,504
2022	33,425,443	4,797,848	38,223,291	87,695,000	38,030,423	125,725,423	0	0	0	163,948,714
2023	22,329,616	3,440,500	25,770,116	56,390,000	34,977,775	91,367,775	0	0	0	117,137,891
2024	23,138,011	2,636,580	25,774,591	42,080,000	32,638,095	74,718,095	0	0	0	100,492,686
2025	16,647,329	1,794,577	18,441,906	42,995,000	30,458,090	73,453,090	0	0	0	91,894,996
2026	15,800,000	1,091,800	16,891,800	45,215,000	28,201,561	73,416,561	0	0	0	90,308,361
2027	16,870,000	371,625	17,241,625	46,750,000	25,924,837	72,674,837	0	0	0	89,916,462
2028	0	0	0	42,526,203	23,557,308	66,083,511	0	0	0	66,083,511
2029	0	0	0	43,985,000	21,353,671	65,338,671	0	0	0	65,338,671
2030	0	0	0	42,675,000	19,022,642	61,697,642	0	0	0	61,697,642
2031	0	0	0	44,860,000	16,813,680	61,673,680	0	0	0	61,673,680
2032	0	0	0	46,920,000	14,489,212	61,409,212	0	0	0	61,409,212
2033	0	0	0	46,915,000	12,045,575	58,960,575	0	0	0	58,960,575
2034	0	0	0	48,150,000	9,818,454	57,968,454	0	0	0	57,968,454
2035	0	0	0	46,955,000	7,747,886	54,702,886	0	0	0	54,702,886
2036	0	0	0	48,910,000	5,749,786	54,659,786	0	0	0	54,659,786
2037	0	0	0	51,075,000	3,549,487	54,624,487	0	0	0	54,624,487
2038	0	0	0	22,670,000	1,868,587	24,538,587	0	0	0	24,538,587
2039	0	0	0	12,135,000	1,067,799	13,202,799	0	0	0	13,202,799
2040	0	0	0	7,505,000	563,891	8,068,891	0	0	0	8,068,891
2041	0	0	0	3,375,000	252,281	3,627,281	0	0	0	3,627,281
2042	0	0	0	1,990,000	99,500	2,089,500	0	0	0	2,089,500
2043	0	0	0	0	0	0	0	0	0	0
2044	0	0	0	0	0	0	0	0	0	0
2045	0	0	0	0	0	0	0	0	0	0
2046	0	0	0	0	0	0	0	0	0	0
2047	0	0	0	0	0	0	0	0	0	0
Total	$376,485,865	$64,870,733	$441,356,597	$1,250,141,203	$563,247,398	$1,813,388,601	$30,180,000	$3,402,175	$33,582,175	$2,288,327,374

(1) Totals may not add due to 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**," herein).The City's Debt Management Policy establishes guidelines for the structure and management of the City's debt obligations. These guidelines include target and ceiling levels for certain debt ratios to be used for planning purposes. The two most significant ratios are shown below:

Table 67
DEBT MANAGEMENT POLICY RATIOS

Ratio	Ceiling	Adopted Budget 2015-16	Adopted Budget 2016-17
Total Direct Debt Service as Percent of General Fund Revenues	15.0%	6.68%	6.32%
Non-Voted Direct Debt Service as Percent of General Fund Revenues	6.0% (1)	4.46%	4.12%

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

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

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

Table 68
FINANCIAL RATIOS

As of June 30	Direct Net Debt	Net Debt Per Capita	Net Debt as Percent of Net Assessed Valuation
2011	$3,288,940,000	$863	0.82%
2012	3,250,215,000	850	0.80
2013	2,989,555,000	774	0.72
2014	2,724,275,000	696	0.62
2015	2,611,432,899	660	0.56

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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 69
GENERAL FUND DEBT SERVICE AS A PERCENTAGE OF GENERAL FUND[(1)]

Fiscal Year	Debt Service Payment[(2)] ($000)	General Fund Revenues[(3)] ($000)	Debt Service as Percentage of General Fund Revenues
2012-13	$207,129	$4,828,505	4.29%
2013-14	211,059	5,083,641	4.15
2014-15	225,735	5,173,214	4.36
2015-16 (Estimated)	223,239	5,392,237	4.14

(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 70
RETIREMENT OF DIRECT NET DEBT
As of July 1, 2016[1]

	General Obligation Bonds		Capital Equipment and Fixtures		Real Property Leases		Judgment Obligation Bonds		Total	
Maturing Within	Maturing Principal	Cumulative % of Debt Retired	Maturing Principal	Cumulative % of Debt Retired	Maturing Principal	Cumulative % of Debt Retired	Maturing Principal	Cumulative % of Debt Retired	Maturing Principal	Cumulative % of Debt Retired
0 to 5 years	$ 428,850,000	54.3%	$ 248,275,466	65.9%	$ 418,370,000	33.5%	$ 30,180,000	100.0%	$ 1,125,675,466	46.0%
5 to 10 years	272,475,000	88.7	111,340,399	95.5	274,375,000	55.4	0	100.0	658,190,399	72.9
10 to 15 years	83,210,000	99.3	16,870,000	100.0	220,796,203	73.1	0	100.0	320,876,203	86.0
15 to 20 years	5,850,000	100.0	0	100.0	237,850,000	92.1	0	100.0	243,700,000	96.9
20 to 25 years	0	100.0	0	100.0	96,760,000	99.8	0	100.0	96,760,000	99.9
25 to 30 years	0	100.0	0	100.0	1,990,000	100.0	0	100.0	1,990,000	100.0
Total	$790,385,000		$376,485,865		$1,250,141,203		$ 30,180,000		$2,447,192,068	

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

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

Variable Rate Obligations and Swap Agreements

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

The City has a formal swap policy approved by the Mayor and Council in April 2003. This policy was consolidated into the City's Financial Policies in April 2005 (see **"BUDGET AND FINANCIAL OPERATIONS—Financial Management Policies**," herein). In connection with a variable-rate wastewater system revenue bond transaction in 2006, the City entered into fix-pay swap agreements. Swap payments and any termination payments would be made from the wastewater system enterprise fund and not the City's General Fund. A portion of the Series 2008A-H bonds were refunded with a partial swap termination by the Series 2012A Bonds on April 17, 2012. The Series 2008A-H bonds were refunded with the proceeds of the City's Wastewater System Subordinate Revenue Bonds, Variable Rate Refunding Series 2012-D (the "Series 2012-D Subordinate Bonds"). The swap agreements have been re-associated with a portion of the Series 2012-D Subordinate Bonds. As of April 17, 2012, the notional value of the swaps was reduced from $311.6 million to $151.1 million. For additional information, see Note 4-L in the "Notes to the City's Basic Financial Statements Fiscal Year Ended June 30, 2014" in the City's Comprehensive Annual Financial Report.

In August 2014, the City Council approved a proposal to review these swap agreements, and adopted an action calling on the swap providers under the respective swap agreements to renegotiate or terminate such swap agreements with no additional fees. In March 2015, Councilmember Paul Koretz participated in a phone conversation with members of the Fix LA Coalition, the Service Employees International Union and the chief of staff of one of the commissioners of the Securities and Exchange Commission (the "SEC") during which the Fix LA Coalition asked that the SEC investigate the practice of the banks involved in the City's Wastewater 2006 Swap transaction. The City has not been contacted by the SEC and is not aware of any existing investigation.

Proposed Additional Financings

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

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

Table 71
POTENTIAL ADDITIONAL FINANCINGS
DEBT CALENDAR
As of April 20, 2016

Anticipated Sale Date	Project	Type of Obligation	Estimated Financing Amount
Fall 2016	MICLA AK Refunding	Lease Revenue Bond	$31,000,000
Spring 2017	MICLA Streetlights 2017	Lease Revenue Bond	40,000,000

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

Overlapping Bonded Debt

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

Table 72
STATEMENT OF OVERLAPPING DEBT
As of May 1, 2016

	Debt Outstanding 5/1/2016	Estimated Percent Applicable[(1)]	Estimated Shares Of Overlapping Debt 5/1/2016
OVERLAPPING DEBT REPAID WITH PROPERTY TAXES[(2)]			
Los Angeles County Flood Control District	$ 12,630,000	40.049%	$ 5,058,189
The Metropolitan Water District of Southern California	92,865,000	20.415	18,958,390
Los Angeles Community College District	3,671,000,000	71.006	2,606,630,260
Beverly Hills Unified School District	263,394,622	0.161	424,065
Inglewood Unified School District	116,040,000	1.058	1,227,703
Las Virgenes Unified School District	140,428,289	0.916	1,286,323
Los Angeles Unified School District	10,551,660,000	87.705	9,254,333,403
Other School Districts	501,391,166	Various	430,442
City of Los Angeles Community Facilities District No. 3 (estimate)	3,550,000	100.000	3,550,000
City of Los Angeles Community Facilities District No. 4	78,930,000	100.000	78,930,000
City of Los Angeles Community Facilities District No.8	5,825,000	100.000	5,825,000
Mountains Recreation and Conservation Authority Assessment Districts	19,790,000	99.990-100.000	19,788,954
Los Angeles County Regional Park and Open Space Assessment District	50,610,000	39.269	19,874,041
OTHER OVERLAPPING DEBT:			
Los Angeles County General Fund Obligations	2,038,435,694	39.269	800,473,313
Los Angeles County Superintendent of Schools Certificates of Participation	7,944,360	39.269	3,119,671
Los Angeles County Sanitation District Nos. 1, 4, 5, 8 & 16 Authorities	57,511,338	0.002-11.161	3,584,791
Inglewood Unified School District Certificates of Participation	1,520,000	1.058	16,082
Las Virgenes Unified School District Certificates of Participation	10,875,000	0.916	99,615
Los Angeles Unified School District Certificates of Participation	273,805,000	87.705	240,140,675
Less: Los Angeles Unified School District QZAB Bonds (supported by periodic payments to investment accounts)			(11,863,517)
TOTAL OVERLAPPING DEBT			$13,051,887,400

(1) Percentage of overlapping agency's assessed valuation located within boundaries of the City.
(2) Excludes the City's Landscaping and Lighting District, a voter-approved citywide assessment district treated herein as direct debt.

Source: California Municipal Statistics, Inc.

OTHER MATTERS

Stormwater Improvements

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

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

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

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

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

The Fiscal Year 2016-17 Adopted Budget contains $1.5 million for stormwater projects. No assurance can be provided that once the report is presented to the Mayor and Council additional General Fund expenditures will not be required in Fiscal Year 2016-17.

DWP Governance Reform

On June 7, 2016, the City Council instructed various City officials to prepare the materials necessary to place a measure before the voters at the November 8, 2016 general election that would amend the City Charter and take other actions to reform the governance and management of the Department of Water Power. The measure would, among other things, make changes to the membership and powers of the Department's Board of Commissioners, the selection and powers of the General Manger, certain staffing functions, and convert billing from a bi-monthly to a monthly cycle. The measure would also add a Charter section allowing for waiving all or part of the civil service standards currently contained in the Charter, and would require that DWP submit a strategic investment and revenue requirement plan, including proposed rates, every four years for Mayor and Council approval. The City does not anticipate that such changes would have a material impact on its financial position.

2024 Olympic Bid

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

Original budget documents submitted by LA24 as part of the USOC's domestic candidacy phase included a games budget that set forth projected expenditures of $4.52 billion and expected to be privately financed in its entirety. Since moving on to the international phase in September 2015, LA24 has refined its proposed Games concept and strategy. Accordingly, LA24 expects to develop a refined budget in the coming months for review by the City and its independent experts.

The City Council and various City offices and departments continue to assist in the development of a compelling bid for the 2024 Games while protecting the City against financial risk. An example of this collaboration can be found in the selection of the location of the Olympic Village. While the original plan called for a major redevelopment and construction project, the revised plan leverages the existing world-class facilities and modern residences of UCLA. While providing an exceptional experience for Olympic athletes, the site also significantly reduces the financial risk profile of the bid. In addition, the City has, among other things, approved a joinder agreement with the USOC that provides that the City Council will review and approve (or decline to approve) the host city agreement and other related agreements relating to any guarantee to cover gap funding and other matters. The City expects that, as a Host City, it may incur various city service costs for which it would seek reimbursement. The City intends to avoid and or minimize costs payable from its General Fund.

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

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

LITIGATION

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

1. *Fair Labor Standards Act and Other Related Litigation*. The City has been sued in approximately 33 separate class action cases (some of which were subsequently decertified). Of these 33 cases, 18 have been settled for a total of $85,000, subject to a future award of attorney's fees to be decided by the court in coming weeks or months and which are unknown but currently estimated to range from about $100,000 to as much as $750,000. The various cases involve police officers, firefighters or Bureau of Sanitation employees, and involve allegations of failure to compensate for off-the-clock hours worked, uncompensated overtime, meal breaks worked and retaliatory disciplinary action. Resolution of these cases is not expected to occur concurrently, and some of the cases have settled, however, over an extended period of time and in the event of an adverse ruling, the potential maximum cumulative liability remaining is currently estimated to be as much as $16 million, including attorney's fees.

2. A number of claims have been filed in connection with the City's telephone users' tax on telephone services, which was amended in 2008 to eliminate any such future claims (see **"MAJOR GENERAL FUND REVENUE SOURCES — Utility Users' Taxes"** herein.). On December 27, 2006, in *Ardon v. City of Los Angeles*, plaintiff filed a class action that challenged the validity of the City's telephone users' tax based on a federal government interpretation of the federal excise tax. The City settled this case in 2015, the terms of which capped its

liability to $92.5 million. As part of the settlement, cases that were filed against the City for the same claim and dependent upon the result of *Ardon*, namely *J2 Global Communications, Inc. v. City of Los Angeles* and *TracFone Wireless, Inc. v. City of Los Angeles* (two cases), were given the option to join the *Ardon* settlement claim process or continue pursuing their respective claims against the City. The deadline for the plaintiffs in *J2* and *TracFone* (both cases) to opt in to the *Ardon* claims process was June 2016. The plaintiffs in *TracFone* decided to pursue their claim separately. It is unknown whether the plaintiffs in *J2* decided to opt in. That information will not be known until about July 12, 2016. Notwithstanding, in the event *J2* ultimately decides to pursue its claim separately, a refund of approximately $5.5 million is being sought for the collection of the City's telephone users' tax for the years 2005, 2006, and 2007. With respect to the two separate cases named *TracFone Wireless, Inc. v. City of Los Angeles*, the plaintiffs are seeking a combined refund of approximately $3 million for telephone users' tax collected.

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

3. The City is subject to several actions relating to its programs for low- and moderate income housing. First, the City Attorney was advised by letter dated November 30, 2011, that the Civil Fraud Section of the U.S. Department of Justice is currently 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 handicaps. The City is cooperating in the investigation. At this time the City is unable to provide a detailed estimate of exposure because the investigation is still ongoing; however, exposure could be significant and could have a material impact on the City's financial position. If the U.S. Department of Justice or private parties were to pursue litigation and were successful, 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 approximately 2005 to 2010, as well as civil penalties. However, the City disputes any assertion that actions by City personnel met the high standard for imposing False Claims Act liability, and further disputes that there is a factual basis for treble damages. If necessary, the City intends to vigorously defend its interests.

   Second, during three visits in late 2011, HUD's Office of Fair Housing and Equal Opportunity ("FHEO") purportedly reviewed the City's compliance with the

Americans With Disabilities Act and other federal accessibility laws as part of FHEO's oversight of the City's receipt of federal funds from HUD, which it uses to fund housing developments. FHEO has since conducted additional site inspections. As a result of such review and inspections and the related Independent Living matter discussed below, the City currently expects that it will need to retrofit and remediate all or a portion of federally-funded housing properties to the appropriate standards and/or construct additional housing units in compliance with federal accessibility requirements in future years. The City currently estimates that a total of approximately 4,000 units will either need to be newly constructed or remediated to conform to the appropriate federal standards. The City currently estimates that the cost of such construction and remediation will be approximately $200 million over the next ten years. The City anticipates that the units which are to be constructed or remediated and related costs will largely overlap with any settlement or judgment stemming from the *Independent Living* matter discussed below.

Third, in *Independent Living Center of Southern California, et al v. City of Los Angeles*, a case brought by three fair housing advocacy organizations against the City, the CRA/LA, and 34 owners of affordable housing projects, the plaintiffs allege that the defendants failed to ensure that the affordable housing projects met the accessibility requirements under federal and state civil rights laws. The City is currently negotiating a settlement with the plaintiffs and expects the City's potential payment to the plaintiffs under such settlement to be approximately $15 million to $25 million, including attorney's fees and costs. In addition, as mentioned above, the City currently expects that it will need to retrofit and remediate all or a portion of federally-funded housing properties to the appropriate standards and/or construct additional housing units in compliance with federal accessibility requirements in future years. The City currently anticipates that any settlement with the plaintiffs in this lawsuit, or any injunctive relief ordered by the court if a settlement is not reached, will largely overlap with the construction and remediation obligations which the City currently expects to undertake to resolve the related dispute with FHEO discussed above.

4. Wrongful Incarceration Cases.

Susan Mellen v. City of Los Angeles. In this case, the plaintiff alleged she was wrongfully incarcerated for 17 years based on conduct by the LAPD. The trial date was reset, and a new date has not yet been assigned. Based on current facts and circumstances, the City is unable to provide a reasonable estimate of potential liability at this time.

John Smith v. City of Los Angeles. On March 3, 2016, the plaintiff filed an amended complaint against the City 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. Due to the preliminary nature of the matter, the City is unable to provide a reasonable estimate of liability at this time.

5. *Willits, et al. v. City of Los Angeles*. The plaintiffs and the entity Communities Actively Living Independent and Free alleged that the City's policies and procedure as well as its infrastructure (including curb ramps and sidewalks) did not provide equal services and access to individuals with disabilities. The complaint sought injunctive relief to require the removal of alleged barriers to pedestrian paths of travel throughout the City and cessation of alleged discriminatory policies to help ensure that all City design and construction activities and services are usable and readily accessible to persons with disabilities. On February 29, 2016, the court granted the order approving the preliminary settlement of the matter. Under the terms of the preliminary settlement, the City will incur approximately $1.4 billion over 30 years to generally cover the following: (1) the cost of sidewalk remediation, which is to be incurred over 30 years, (2) attorneys' fees, and (3) service awards to the Plaintiffs. The preliminary settlement is subject to a fairness hearing which is scheduled for July 12, 2016.

6. *Clear Channel Outdoor, Inc*. Clear Channel filed a Claim for Damages, dated February 22, 2013, for an amount in excess of $100 million arising from a federal appellate court decision invalidating a settlement agreement between the City and certain outdoor advertising companies (the "Summit Media Decision"). The Claim alleges: (i) violation of the City's representations and warranties in the settlement agreement that the conversions of its existing signs to digital technology did not violate the City's regulations, and that (ii) just compensation is due under the California Outdoor Advertising Act. The City denied the Claim by letter dated March 1, 2013. The parties have entered into a tolling agreement to extend the time deadline to August 1, 2016 by which the claimant may file a lawsuit pursuant to the claim. A lawsuit has yet to be filed.

7. *Regency Outdoor Advertising, Inc*. Regency filed a Claim for Damages, dated February 26, 2013, for an unstated amount for breach of contract, breach of the covenant of good faith and fair dealing, and unjust enrichment arising from the Summit Media Decision. The City denied the claim by letter dated April 3, 2013. The parties entered into a tolling agreement to extend the time deadline to August 1, 2015 by which the claimant may file a lawsuit pursuant to the claim. A lawsuit has yet to be filed by Regency.

8. *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 a tolling agreement to extend the time deadline by which the claimant may file a lawsuit to July 1, 2016. A lawsuit has yet be filed.

9. *Christian Rodriguez v. City of Los Angeles*. This case was a certified class action lawsuit in which plaintiffs, over 5,000 gang members, claimed the City's gang injunction provisions were unconstitutional. On March 16, 2016, the City settled the lawsuit with the plaintiffs. Under the terms of the settlement, the City will make payments between the amount of $1.125 million to $7.5 million per year, for four years (totaling between $4,500,000 and $30,000,000 over the four-year

period), to non-profit organizations that will enable gang members in the plaintiff class to take advantage of job readiness programs to prepare them to enter the workforce, apprenticeship programs for jobs in today's economy, vocational counseling to connect them with available employment and ongoing mentoring to keep them on track. The ultimate amount paid over the four years will depend on the number of members who participate in the programs. The City will also provide $150,000 per year, for four years, to programs that remove gang tattoos (this amount will not increase the City's maximum annual exposure of $7.5 million). The City also agreed to pay attorney's fees, which has yet to be determined by the court, and purchase two annuities, each in the amount of $20,000, dedicated toward the education of the minor daughters of the two class representatives.

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

    Following the Court of Appeal's ruling in *Redding*, three class action lawsuits were filed against the City related to the Power Revenue Fund transfers - *Chapman v. City of Los Angeles*, *Eck v. City of Los Angeles*, and *Eisan v. City of Los Angeles*. See **"MAJOR REVENUES—Power Revenue Transfers to General Fund,"** herein for more information regarding Power Revenue Fund transfers. The claimants in *Chapman*, *Eck*, and *Eisan* allege that the City violates Proposition 26 by charging customer fees in excess of the cost of providing electric utility service, as allegedly evidenced by DWP's practice of transferring surplus revenue to the City's General Fund. The three cases have been 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 March 21, 2016, the plaintiffs acknowledged in their opposition to the motion for judgment on the pleadings that their claim for refund was limited to any alleged excess electricity charges that fund the transfers collected by the DWP on or after January 31, 2014. On April 25, 2016, the City's motion for judgment on the pleadings was granted with leave to amend. It is anticipated that the plaintiffs will file an amended consolidated complaint. Should that occur, the City will again move to dismiss the complaint. If the City is once again successful on its motion, the plaintiffs would be barred from recovering any refunds of allegedly excess electricity fees paid prior to April 15, 2016. Given the unsettled legal landscape with the *Redding case*, as noted above, the City is unable to predict the final adjudication of this litigation. In recent years, Power Revenue Fund transfers have represented approximately 5% of the City's General Fund revenues. The City is vigorously defending against the lawsuit.

11. Gas Tax Cases.

Lavinksy 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 state regulatory fee and public surcharge in computing the City's gas utility users' tax on plaintiff's natural gas bills. In December 2014, the court ruled in favor of the plaintiff's summary judgment motion and concluded that the City's calculation of the tax was improper and did result in overcharges of the City's gas utility users' tax. The class was certified on October 21, 2015. The City is still contemplating its appeal options. However, the value of the potential liability, based on the pleadings, could be as high $12 million.

Enquist v. City of Los Angeles. This case also involves a class action lawsuit in connection with the City's gas utility users' tax. Plaintiff also filed a class action lawsuit seeking a refund of gas taxes paid to the City on behalf of certain classes. The suit challenges the City's method of computing the tax. It was filed on August 13, 2015. Plaintiffs seek an unspecified refund amount of excess gas utility users' tax paid on their natural gas bills as result of taking into Customer Charges and Service Establishment Charges in computing gas utility users' tax liability. At this time, the court has yet to certify the class. However, the City plans on defending the lawsuit vigorously. The outcome of the pending class certification will dictate exposure in this case. However, in the event of an adverse ruling, based on pleadings, the City's potential liability could range as high as $12 million.

12. *Berkens, Crane, Robinson & Seal et al. v. City of Los Angeles*. This case involves a class action lawsuit seeking a refund of unspecified amount of City business taxes paid from the period between 2007 to present. Plaintiff alleges that the City improperly included reimbursed expenses in computing plaintiffs' gross receipts for City business tax. The court certified the class on October 23, 2015, designating two class of claimants - one class of claimants for the period 2007 through present and a second class of claimants from 2011 to present. The trial date is set for August 30, 2016. In spite of the certification, the City plans on defending the lawsuit vigorously. In the event of an adverse ruling, based on the pleadings, the City's potential liability could range between $7 million to $10 million.

13. *Guilmette v. City of Los Angeles*. On May 2, 2016, a jury found the City liable for the wrongful death of a motorist involved in a traffic accident. The jury awarded the plaintiffs $23.7 million. The City plans to appeal the ruling.

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

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

2. *Los Angeles Police Protective League and United Firefighters of Los Angeles City v. Board of Fire and Police Pension Commissioners v. City of Los Angeles*. In this case plaintiff 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, which will require resolution of disputed factual issues. A new trial date was set for July 16, 2016. Based on current facts and circumstances, in the event of an adverse ruling, the City's liability could range as high as $16 million.