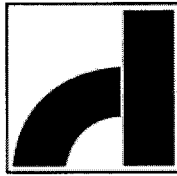


Budget for the Fiscal Year 2003-04

AS PROPOSED BY Mayor James K. Hahn



*Protecting
our Neighborhoods*



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

**City of Los Angeles
California**

For the Fiscal Year Beginning
July 1, 2002

President

Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) presented an award of Distinguished Budget Preparation to the City of Los Angeles for its annual budget for the fiscal year beginning July 1, 2002.

In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan and as a communication device.

The award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another award.



Budget for the Fiscal Year 2003-04

as Proposed by
Mayor James K. Hahn

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Technical and Advisory Assistance by the
City Administrative Officer - April 2003

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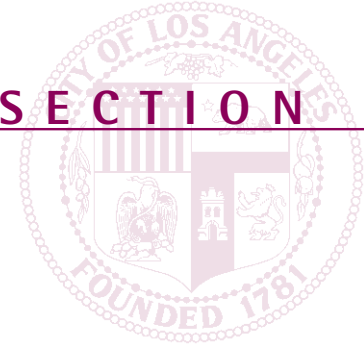
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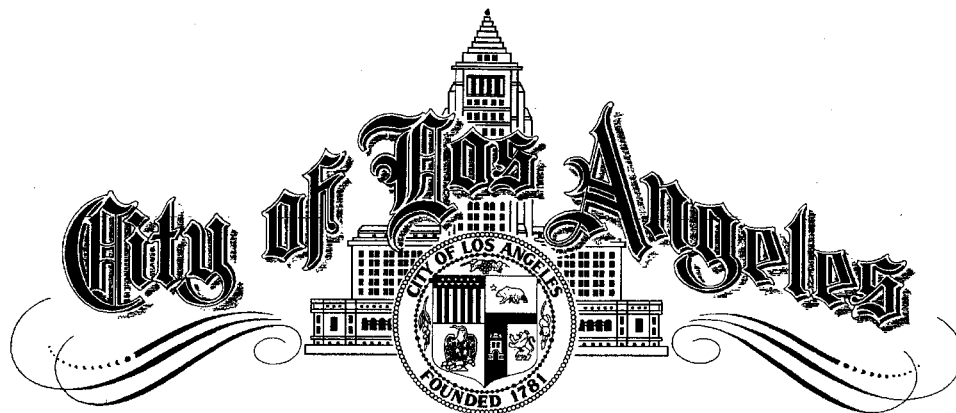
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SECTION 1



2003-04

Mayor's Message
Budget Statement
Budget Calendar
Economic and Demographic Data
Budget Exhibits



CITY HALL
LOS ANGELES, CALIFORNIA 90012

JAMES K. HAHN
MAYOR

April 18, 2003

The Honorable City Council
City of Los Angeles
Room 360, City Hall
Los Angeles, CA 90012

Honorable Members:

One year ago, when I presented my first budget to the City Council, it set four priorities: rebuilding our police force, making City Hall more responsive, improving services to neighborhoods, and providing expanded educational opportunities to children. In the face of significant economic challenges due to a depressed economy, I am proud to say we were able to meet these priorities and move our agenda forward. In order to meet these goals, tough budget decisions had to be made. Key revenue sources for the City such as the business, sales, and hotel levies all fell below expectations. As these shortfalls became apparent, we took steps to limit spending in order to ensure that resources were available to fund key priorities. We maintained a firm hiring freeze throughout much of the year, and in this budget we will eliminate nearly 400 positions. Since I took office we have cut tens of millions of dollars from the budget.

By taking decisive action to save money, we were able to identify the revenue necessary to accomplish all four goals. And by reducing spending, we place ourselves in a better financial position than we otherwise would have been. Public safety was and remains my top priority. I am very proud of what we have been able to achieve to date. The Police Department's budget for the current year included funding for 360 new police officers. Our efforts to turn around the Department's recruiting efforts and to improve morale exceeded every expectation, and by the end of this fiscal year we will have hired 675 new officers, 88 percent above our original goal. Attrition has been lower than expected, and is anticipated to be 350. As a result of our hiring success and low attrition the Department will grow by 325 officers by the end of this fiscal year.

To maintain this momentum, this year's budget includes funding to hire 720 new police officers, with expected attrition of 400 officers. If hiring meets expectations, there will be 320 more officers in the community protecting our streets by the middle of next year.



Additionally, now that the contract between the LAPD and the Metropolitan Transportation Authority has been severed, I made the decision to absorb those costs within the budget so the 210 trained LAPD officers who had been assigned to the transportation system will now be available to protect neighborhoods. Because of our successes, by the end of the 2003-04 fiscal year the police force will have 9,550 officers, the highest since fiscal year 1998-99. Funding is also provided to create a Bureau of Counterterrorism to place a greater emphasis on terrorism preparedness and response. We have also maintained our financial commitment to ensure that every step is taken by LAPD to fully implement the consent decree.

We also provided resources to the Los Angeles Fire Department for the third year of the five-year Emergency Medical Services Resource Deployment Plan and increased the number of paramedic positions from 573 to 597. Adding paramedic resources to every Fire Station improves the speed and quality of delivery of emergency services. Workloads in high incident areas are reduced, thereby lowering response times.

I have also provided funding for 30 additional firefighter positions to add a tenth-member to ten task force stations in Los Angeles. This additional staffing improves coordination and timing, and facilitates truck company operations, including entry, search and rescue, fire exposure, advancement of handlines, and interior ladder work. Fighting fires requires a coordinated effort between resources affecting ventilation, entry into the building, and attack of the fire. The additional firefighter added to the task force prevents delays in timing, thereby increasing the effectiveness of the firefighters.

City government has become more responsive during this past year by implementing our 3-1-1 number to provide greater access to departments; by creating Neighborhood Service Cabinets as part of the Teamwork LA initiative; and by providing financial and administrative assistance to the growing number of neighborhood councils. To date, 67 neighborhood councils have been certified throughout Los Angeles. In the Proposed Budget, we again increase the level of funding for neighborhood councils to provide direct financial resources to the councils so they can actively improve their local community. Working with the City Controller, three neighborhood councils have already received their spending cards so they can directly access \$50,000 annually for supplies and other items to help them improve their neighborhood. Dozens more councils will have their cards by the end of the year.

Funding is also included to continue the operation of the 3-1-1 Call Center and to begin development of a Service Request System (Phase II of 3-1-1), which is a computer tracking system that will help Los Angeles track and monitor constituent service requests and delivery of constituent and business services. The 3-1-1/E-Government Project provides the public and businesses with prompt, reliable, and convenient access to information about City services seven days a week, twenty-four hours a day.

Los Angeles also has delivered a record level of services to neighborhoods with the highest levels of tree trimming and sidewalk repair ever, as well as some of the highest levels of street repairs Los Angeles has ever seen. However, because of budget shortfalls and state budget cuts, there are some reductions in tree trimming and street

The Honorable City Council
City of Los Angeles
April 18, 2003
Page 3


repair levels, though levels remain higher than fiscal year 1998-99. The record level of 98 miles of sidewalk repair in the current budget is maintained.

During the current year we have opened 17 fully equipped new libraries, built and renovated 50 recreational facilities and continued to provide high quality children's programming. The Proposed Budget maintains that commitment by providing funds for the opening of three new branch libraries, and seven renovated libraries, fully outfitted with new technology to access library resources and the resources of the world beyond. Funding is also provided for the opening of new park facilities and the replacement of worn and broken playground equipment. The budget also includes funding for the nationally recognized LA's BEST after school program.

Even with on-going budget reductions, streamlining of City operations and the continuation of a hard hiring freeze, the City will be forced to increase a limited number of fees. These fees have not been raised in several years and are intended to cover the full-cost of certain City services. Over the past several years, the General Fund has been subsidizing these costs at the expense of our public safety goals. These fee increases will enable us to redirect General Fund dollars to our highest priority of funding more police officers in our neighborhoods.

As it did last year, the economic terrain remains uncertain, and every effort will be made to restrain unnecessary spending, and focus our resources on key priorities. I look forward to working with the City Council to implement this budget, and to working with community leaders to meet the needs of neighborhoods throughout Los Angeles.

Very truly yours,

A handwritten signature in black ink that reads "James K. Hahn". The signature is written in a cursive style with a long horizontal stroke at the end.

JAMES K. HAHN
Mayor

JKH:sp

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BUDGET STATEMENT

GENERAL

The City of Los Angeles (City) was incorporated in 1850 under the provisions of a City Charter. The Charter that was in effect in fiscal year 1999-2000 originally was adopted in 1925 and has been amended periodically since that time. On June 8, 1999, an election was held and a new Charter was approved. The new Charter, operative on July 1, 2000, made the following significant changes: The Mayor's authority over the administration of City departments was increased while the authority of the Council, particularly over decisions by boards and commissions, was decreased. The Controller was given more responsibilities, including conducting performance audits of departments. Also, the new charter required the creation of a system of self-selected, advisory neighborhood councils and a Department of Neighborhood Empowerment, and a new Office of Finance. The new Charter established a Mayor-Council form of City government while continuing to provide for an independently elected City Attorney and independently elected Controller.

As Executive Officer, the Mayor supervises the administrative process of the City and works with the Council in matters relating to legislation, budget and finance. As governing body of the City, the 15 member, full-time Council enacts ordinances, levies taxes, approves utility rates, authorizes contracts and public improvements, adopts zoning and other land use controls and provides the necessary resources for the budgetary departments and offices of the City. Council action is subject to the approval or veto of the Mayor and Council may override a Mayor veto by a two-thirds vote.

Public services provided by the City include: police, fire and paramedics, residential refuse collection and disposal, wastewater collection and treatment, street maintenance 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, planning, airports, harbor, power and water services, and convention center.

BUDGET PROCESS

The City's fiscal year is July 1st through June 30th. In August, the Mayor releases a budget policy letter that defines City objectives for the next fiscal year. This letter guides City departments, bureaus and other offices in preparing their annual budget requests. The Charter requires that budget requests be submitted to the Mayor by January 1st.

In hearings with General Managers, the Mayor reviews the budget requests of every City department, bureau and office. By early March, the Mayor's Office develops the revenue projections in conjunction with the Office of Finance, the Office of the City Administrative Officer (CAO), and the Controller. The Mayor's Proposed Budget is then prepared and submitted to the Council. The Charter requires that the Proposed Budget be presented to the Council by April 20th of each year.

A Council committee examines the proposed budget in hearings with the Mayor's Office, City General Managers, CAO, Chief Legislative Analyst, and staff. The committee then develops recommendations on the proposed budget for Council consideration. The Charter requires the Council by majority vote to adopt or modify the proposed budget by June 1st. Once the Council has acted, the Mayor has five working days to approve or veto any Council changes made to the proposed budget. Once the Mayor has acted, the Council has five working days to sustain or override by two-thirds vote the Mayor's actions. The result of this entire process is the adopted budget for the next fiscal year. A budget calendar is presented to show the scheduled process.

BUDGET BASIS

The City's annual budget is prepared on a modified cash basis of accounting. Revenues are recognized when cash is received, and appropriations include both cash payments and encumbrances for purchase orders and contractual services. Encumbered appropriations that have not been paid at the end of the current year will be paid in a subsequent year. The budget is not prepared based on Generally Accepted Accounting Principles (GAAP) classifications. The primary differences between the City's budget and GAAP are: the latter's recognition of revenue on an accrual basis; depreciation on fixed assets; certain contingencies, such as compensated absences for accrued vacation and sick pay; and difference in classification of inter-fund transfers. However, the Comprehensive Annual Financial Report for Los Angeles shows the status of the City's finances on the basis of the GAAP classifications.

Department funds are controlled at the line item or account level. Some enterprise funds are controlled at the fund level. Spending authority authorized in the annual budget can be increased or decreased throughout the fiscal year as unanticipated situations arise. The Mayor is given authority to transfer funds between accounts within a department subject to a limit established by ordinance. Otherwise the Council, by majority vote and subject to approval by the Mayor, may increase or decrease appropriations, and transfer funds within and between departments and funds. The Mayor may veto the Council action which then may be overridden by a two-thirds vote of the Council.

BUDGET CALENDAR

Fiscal Year 2003-04 Target Dates

2002

August 6	Mayor's budget policy letter released to departments.
August 15	Mayor/CAO technical workshop on budget.
September 6	Alteration and Improvement (A&I) Requests due to CAO.
September 20	Technology and Communication Service Requests (CSR) due to CAO and ITA.
October 11	GSD returns A&I requests to CAO and departments with preliminary cost estimates.
October 18	CAO and ITA return technology requests to departments with cost estimates and recommendations. Capital project requests due to the CAO.
November 15	Departmental budget requests due to Mayor's Office.
November 18	Mayor and CAO begin reviewing departmental budget requests.

2003

January 21 to 29	CAO budget hearings with departmental managers.
February 12 to 18	Mayor's budget conferences with departmental managers and CAO.
Feb 19 to March 29	Mayor's Office finalizes development of the Proposed Budget.
March 1	Charter deadline for City Controller to submit revenue estimates to Mayor, copies to City Council and CAO.
April 20	Charter deadline for Mayor to submit the Proposed Budget to Council.
April 28 to May 13	Council Budget Committee reviews the budget and makes its recommendations to Council.
May 16 to 22	Public hearings and Council consideration of the budget and the Committee's recommendations.
June 1	Charter deadline for Council to adopt the budget as proposed by Mayor or as modified by Council.
June 1 to 7	Mayor has five working days after receipt of budget from Council to review any changes made by Council and to approve or veto any items so changed.
June 8 to 14	Council has five working days after receipt of budget from Mayor to consider any Mayor's vetoes and may sustain or override each veto by a two-thirds vote. Budget is adopted after this process is completed.

ECONOMIC AND DEMOGRAPHIC INFORMATION

Introduction

The City of Los Angeles, California is the second most populous City in the United States with an estimated 2000 population in excess of 3.8 million. Los Angeles is the principal city of a metropolitan region stretching from the City of San Buenaventura to the north, the City of San Clemente to the south, and the City of San Bernardino to the east.

Founded in 1781, Los Angeles was for its first century a provincial outpost under a succession of Spanish, Mexican, and American rule. It 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, unlike San Diego's, 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 unspoiled 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. Its population climbed to 50,000 in 1890, and then swelled to 1.5 million by 1940. 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. During this same period, the motor car became the principal mode of American transportation, and Los Angeles developed as the first major city of the automotive age. Following World War II, Los Angeles became the focus of a new wave of migration, with its population reaching 2.4 million by 1960.

Both the City and its surrounding metropolitan region have continued to experience growth in population and in economic diversity. Services, wholesale and retail trade, manufacturing, government, financial service industries, transportation, utilities, and construction contribute significantly to local employment. The City's 470 square miles contain 11.5% of the area and 38.8% of the population of the County of Los Angeles (the "County"). The County is the top ranked county in manufacturing in the United States, producing more than 10% of the nation's production of such diverse items as aircraft, aircraft equipment, aluminum, dental equipment, games and toys, gas transmissions and distribution equipment, guided missiles, space vehicles and propulsion units, and women's apparel. Fueled by trade with the Pacific Rim countries, the Port of Los Angeles/Long Beach ranks first in the nation in volume. As home to the film, television and recording industries, as well as important cultural facilities, Los Angeles serves as a principal global cultural center. With Los Angeles International Airport serving as the new "Ellis Island" for foreign immigration to this country, the metropolitan region has achieved a new ethnic and cultural diversity.

Population

The City's population expanded by 4.8% during the 1970s and by more than 17.4% during the 1990's, and by 6% from 1990 to 2000. This latter expansion compares to a 7.4% growth rate for the County and a 13.8% growth rate for the State of California (the "State") during the same period.

Table 1 summarizes City, County, and State population estimated at January 1 of each year.

**Table 1
CITY, COUNTY AND STATE POPULATION STATISTICS**

	<u>City of Los Angeles</u>	<u>County of Los Angeles</u>	<u>State of California</u>
1980	2,968,579	7,477,421	23,782,000
1981	2,989,500	7,550,300	24,267,000
1982	3,029,500	7,679,100	24,786,000
1983	3,087,700	7,830,000	25,309,000
1984	3,145,000	7,961,900	25,780,000
1985	3,216,900	8,121,000	26,113,000
1986	3,268,200	8,250,000	26,999,000
1987	3,318,800	8,410,800	27,655,000
1988	3,362,200	8,537,800	28,323,000
1989	3,399,000	8,652,800	29,063,000
1990	3,485,557	8,863,052	29,758,213
1991	3,536,799	8,988,754	30,351,000
1992	3,575,000	9,074,400	30,982,000
1993	3,607,700	9,158,400	31,552,000
1994	3,620,500	9,230,600	31,960,000
1995	3,547,700	9,103,900	31,617,000
1996	3,542,300	9,104,700	31,837,000
1997	3,557,800	9,147,100	32,207,000
1998	3,586,700	9,225,800	32,657,000
1999	3,627,300	9,330,100	33,140,000
2000	3,694,820	9,519,338	33,871,648
2001	3,746,300	9,653,900	34,385,000
2002	3,807,400	9,824,800	35,037,000

Source: U. S. Census for 1980 and 1990; other figures are California Department of Finance estimates as of January 1 of each year.

Table 2 summarizes the income distribution of the City, County, and State estimated population as of January 1, 2002.

**Table 2
CITY, COUNTY, AND STATE POPULATION
BY INCOME GROUP
Estimated January 1, 2002**

	<u>% OF POPULATION BY INCOME GROUP</u>		
	<u>\$20,000- \$34,999</u>	<u>\$35,000- \$49,999</u>	<u>\$50,000 and Over</u>
City of Los Angeles	24.9%	18.1%	33.5%
County of Los Angeles	23.1	19.5	38.1
State of California	21.8	19.0	41.9

Source: Sales and Marketing Management Magazine "2001 Survey of Buying Power."

The average number of employed and unemployed residents of the County, together with the average annual unemployment rate is summarized in Table 3.

Table 3
ESTIMATED AVERAGE ANNUAL EMPLOYMENT AND
UNEMPLOYMENT OF RESIDENT LABOR FORCE

Civilian Labor Force								
County of Los Angeles								
(in thousands)⁽¹⁾								
	<u>1995</u>	<u>1996</u>	<u>1997⁽²⁾</u>	<u>1998⁽²⁾</u>	<u>1999⁽³⁾</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Employed.....	4,007	4,017	4,185	4,341	4,386	4,506	4,598	4,616
Unemployed	343	360	307	304	273	255	277	318
Total.....	4,350	4,377	4,492	4,645	4,659	4,761	4,875	4,696
Unemployment Rates								
County.....	7.9%	8.2%	6.8%	6.6%	5.9%	5.4%	5.7%	6.8%
State.....	7.8	7.2	6.3	5.9	5.2	4.9	5.3	6.7
United States.....	5.6	5.4	4.9	4.5	4.2	4.0	4.8	5.8

⁽¹⁾ March 2000 Benchmark; not seasonally adjusted.

⁽²⁾ United States data not strictly comparable with data for prior years.

⁽³⁾ Beginning in January 1999, data for United States are not strictly comparable with data for 1998 and earlier years because revisions in population counts used in household surveys.

Source: 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.

Major Employers

The economic base of Los Angeles is diverse, with no one sector being dominant. Some of the leading activities include government (including education), business/professional management services (including engineering), health services (including training and cutting-edge research), tourism, distribution, and entertainment. The job loss in the technology sector has ended, while major new investments are being made in entertainment and tourism. The ten leading employers in the Los Angeles Five County Area, as reported in January 2000, are listed in Table 4. A five-year history is not available.

Table 4
TEN LEADING EMPLOYERS IN THE
LOS ANGELES
FIVE COUNTY AREA⁽¹⁾
January 2000

<u>Company/Organization</u>	<u>Product</u>	<u>Number of Employees</u>
Los Angeles County	Government	88,779
U.S. Government	Government	75,900
Los Angeles Unified School District	Public Schools	67,169
State of California	Government	66,200
University of California	Higher Education	53,065
United States Postal Service	Government	41,661
Boeing Co.	Aerospace	23,468
Kaiser Permanente	Health Services	27,635
City of Los Angeles	Government	34,433
Ralphs Grocery Co.	Retail	17,211

⁽¹⁾ Los Angeles, Orange, Riverside, San Bernardino and Ventura Counties.

Source: Economic Development Corporation of Los Angeles County

Effective Buying Income

“Effective Buying Income” (“EBI”), also referred to as “disposable” or “after tax” income, consists of personal income less personal tax and certain non-tax payments. Personal income includes wages and salaries, other labor-related income (such as employer contributions to private pension funds), and certain other income (e.g., proprietor's income; rental income; dividends and interest; pensions; and welfare assistance). Deducted from this total are personal taxes (federal, state and local), certain non-tax payments (e.g., fines, fees and penalties), and personal contributions to a retirement program.

Table 5 summarizes historical median household EBI, for the City, County, State and United States of America.

Table 5
CITY, COUNTY, STATE AND U.S.
MEDIAN HOUSEHOLD EFFECTIVE BUYING INCOME

Year ⁽¹⁾	City of Los Angeles	County of Los Angeles	State of California	United States of America
1998	\$30,640	\$34,356	\$36,483	\$34,618
1999	31,098	34,554	37,091	35,377
2000	32,737	36,730	39,492	37,233
2001	37,321	41,628	44,464	39,129
2002	36,548	40,789	43,532	38,365

⁽¹⁾ As of January 1.

Source: Sales and Marketing Management Magazine “Survey of Buying Power”.

Retail Sales

As the largest city in the County, the City accounted for \$31,642,150,000 (or 29.45%) of the total \$10,426,692,000 in County taxable sales for 2000. Table 6 sets forth a history of taxable sales for the City from 1997 through 2001. While more recent detailed sales tax data is not available, the City has recently experienced a 2 ½% decline in sales tax revenue, indicating a decline in retail sales activity.

Table 6
TAXABLE SALES
CITY OF LOS ANGELES
(in thousands)

	1997	1998	1999	2000	2001
Apparel stores	\$ 1,387,618	\$ 1,391,090	\$ 1,151,319	\$ 1,213,763	\$ 1,237,498
General merchandise stores	2,468,054	2,566,803	2,904,725	3,068,289	3,121,521
Food stores	1,393,492	1,408,767	1,480,721	1,566,768	1,562,989
Eating and drinking establishments	2,974,703	3,174,278	3,415,261	3,691,864	3,832,553
Home furnishings and appliances	923,572	970,030	1,086,801	1,156,586	1,114,428
Building materials and farm implements	1,118,187	1,256,954	1,404,596	1,584,737	1,747,025
Auto dealers and auto supplies	2,251,959	2,481,523	2,883,414	3,275,664	3,506,186
Service stations	2,010,774	1,694,695	2,092,152	2,676,542	2,563,082
Other retail stores	<u>3,557,996</u>	<u>3,706,948</u>	<u>4,043,963</u>	<u>4,408,228</u>	<u>4,324,943</u>
Retail Stores Total	18,086,355	18,651,088	20,462,952	22,642,441	23,010,225
All other outlets	<u>7,745,644</u>	<u>7,992,748</u>	<u>8,198,482</u>	<u>8,649,196</u>	<u>8,631,925</u>
TOTAL ALL OUTLETS	<u>\$25,831,999</u>	<u>\$26,643,836</u>	<u>\$28,661,434</u>	<u>\$31,291,637</u>	<u>\$31,642,150</u>

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

Construction Activity

The total valuation of building permits issued in the City exceeded \$2.6 billion in 2001, which represents a 1.5% increase from 2000. Residential valuation as a percentage of total valuation was 54.1% in 2001. Table 7 provides a summary of building permit valuations and number of new dwelling units in the City for the years 1997 through 2001.

Table 7
BUILDING VALUATIONS AND PERMITS
CITY OF LOS ANGELES

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Valuation ⁽¹⁾ :					
Residential	\$ 824.0	\$ 832.4	\$ 1,004.5	\$ 1,337.1	\$ 1,448.1
Non-residential:	<u>909.6</u>	<u>935.8</u>	<u>1,311.5</u>	<u>1,300.9</u>	<u>1,229.8</u>
Total Valuation:	\$1,733.6	\$1,768.2	\$2,316.0	\$2,638.0	\$2,677.9
 New Dwelling Units:					
Single family	1,201	1,334	1,384	1,679	1,723
Multi-family	<u>2,039</u>	<u>1,474</u>	<u>3,067</u>	<u>4,950</u>	<u>5,528</u>
Total New Dwelling Units:	3,240	2,808	4,451	6,629	7,251

⁽¹⁾ millions of dollars

Source: RAND California.