APPENDIX A
CITY OF LOS ANGELES
INFORMATION STATEMENT

Certain statements included or incorporated by reference in this Appendix A constitute "forward-looking statements." Such forward-looking statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors 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.

Table of Contents

INTRODUCTION

Beginning with the downturn in the housing market in 2007, and continuing through the collapse of the financial markets in 2008, the City experienced the most challenging budgetary pressures since the Great Depression. Declines in revenues, combined with increasing retirement contributions due to investment losses, rising costs of other employee benefits such as health care and negotiated compensation increases resulted in continuing budgetary pressures.

Over the last six years, the City has made significant progress in reducing its structural deficit. At one point, in November 2009, the City projected accumulated gaps as high as $1 billion in Fiscal Year 2013-14, assuming that a number of expenditure factors were left unchanged over the intervening years. As a result of the City's action in implementing the numerous fiscal reforms, as well as improved economic conditions and growth in a number of economically-sensitive revenues, the City's budget projections now forecast structural balance by Fiscal Year 2018-19.

In adopting its Fiscal Year 2014-15 budget, the City met the key goals set forth in its financial policies. Most importantly, it exceeded the goal of its Reserve Fund Policy of 5% of expenditures, funding the Reserve Fund at 5.5%, after the transfer of $117.5 million to the Fiscal Year 2014-15 Adopted Budget. Together with the Budget Stabilization Fund and the Reserve for Economic Uncertainty, budgetary reserves represent 7.1% of budgeted expenditures. The City also met its goal of appropriating at least 1% of its General Fund to capital improvements.

With a strengthening economy, revenues are projected to grow in the Fiscal Year 2014-15 Adopted Budget by 5.7% when compared to the Fiscal Year 2013-14 Adopted Budget. Unfortunately, expenditures, driven by obligatory employee-related costs, have grown even faster. The gap between revenue and expenditures is projected to continue through Fiscal Year 2017-18, with a surplus finally in 2018-19.

The City moves in this direction even while taking into account the reduced revenues that will result from the Mayor's proposed business tax reform. The gradual implementation of $45 million in business tax reductions beginning in 2015-16, phased in over three years with approximately $15 million in reductions added each year provides the predictability to plan and prepare for the known revenue losses. All other revenues are expected to grow due to an improving economy.

There are potential challenges in Fiscal Year 2014-15 that may create additional deficits and need to be addressed. For example, potential changes in the assumed investment rate of return used by the City Employees' Retirement and the Fire and Police Pension systems may result in increased City contributions in the future;. Police overtime funding is insufficient to address the large banks that have been accumulated by Officers; funding is provided only for six months of the Fire Department's ambulance augmentation program, leaving a potential gap if that program continues beyond that period; and, the Fiscal Year 2014-15 Adopted Budget calls for a total of 2,400 lane miles of street resurfacing and repairs even though funding is provided at the current 2,200 mile cost. In addition, the City is involved in several litigation matters that could increase the City's deficit if decided against the City. See **"LITIGATION"** herein.

HISTORIC, ECONOMIC AND DEMOGRAPHIC INFORMATION

The City of Los Angeles, California (the "City") is the second most populous city in the United States with an estimated 2014 population of 3.9 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.

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 (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.

The City recently commissioned a report by Beacon Economics, an independent economic research and consulting firm, to study recent economic trends, prove a comparative analysis, and to assist in the City's revenue forecast. This report is not incorporated by reference, but can be found on http://cao.lacity.org/Debt.

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 the latest data available to the City; however, the current state of the economy of the City, State of California and the United States 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.

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]
1980	2,968,579	-	7,477,421	-	23,667,836	-
1985	3,216,900	1.62%	8,121,000	1.67%	26,113,000	1.99%
1990	3,476,000	1.56	8,832,500	1.69	29,558,000	2.51
1995	3,544,966	0.39	9,103,896	0.61	31,617,770	1.36
2000	3,679,600	0.75	9,477,651	0.81	33,721,583	1.30
2005	3,769,131	0.48	9,816,153	0.70	35,869,173	1.24
2010	3,794,586	0.13	9,818,605	0.00	37,253,956	0.76
2011	3,806,411	0.31	9,847,712	0.30	37,427,946	0.47
2012	3,827,172	0.55	9,889,520	0.42	37,668,804	0.64
2013	3,866,133	1.02	9,963,811	0.75	37,984,138	0.84
2014	3,904,657	1.00	10,041,797	0.78	38,340,074	0.94

(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, Report 84 E-4 Population Estimates for California Counties and Cities, January 1, 1976 through January 1, 1980; Report 90 E-4 Population Estimates for California State and Counties January 1, 1981 to January 1, 1990; E-4 Historical Population Estimates for City, County and the State, 1991-2000, with 1990 and 2000 Census Counts. E-4 Population Estimates for Cities, Counties and the State, 2001-2010, with 2000 and 2010 Census Counts. September 2011. State of California, Department of Finance, E-4 Population Estimates for Cities, Counties, and the State, 2011-2014, with 2010 Census Benchmark. Sacramento, California, May 2014. State of California, Department of Finance, E-1 Population Estimates for Cities, Counties and the State with Annual Percent Change — January 1, 2013 and 2014. Sacramento, California, May 2014.

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. Historically, the City's unemployment rate has been higher than both the County's and the State's rates.

The California Employment Development Department has reported preliminary unemployment figures for April 2014 of 7.8% statewide, 7.6% for Los Angeles County, and 8.5% for the City (not seasonally adjusted).

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

Civilian Labor Force	2009	2010	2011	2012	2013
City of Los Angeles					
Employed	1,676,600	1,647,900	1,669,800	1,680,100	1,728,500
Unemployed	243,700	266,900	261,800	230,900	211,700
Total	1,920,300	1,914,700	1,931,500	1,911,000	1,940,200
County of Los Angeles					
Employed	4,339,300	4,298,500	4,331,500	4,365,800	4,470,700
Unemployed	568,300	617,900	604,900	535,500	489,600
Total	4,907,600	4,916,300	4,936,400	4,901,300	4,960,300
Unemployment Rates					
City	12.7%	13.9%	13.6%	12.1%	10.9%
County	11.6	12.6	12.3	10.9	9.9
State	11.3	12.4	11.7	10.5	8.5
United States	9.3	9.6	8.9	8.1	7.4

(1) March 2013 Benchmark report as of May 16, 2014; 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.

The Trade, Transportation and Utilities sector was the largest employment sector in the County in 2013, employing 19.0% of wage and salary workers. Educational and Health Services, at 17.3%, was the second highest employment sector in the County, followed by Professional and Business Services, which employed 14.3% of wage and salary workers.

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

	County				State of California	
	2000	% of Total	2013	% of Total	2013	% of Total
Agricultural	7,700	0.2%	5,500	0.1%	411,400	2.6%
Natural Resources and Mining	3,400	0.1	4,600	0.1	30,600	0.2
Construction	131,700	3.2	116,500	2.8	636,200	4.1
Manufacturing	612,200	15.0	366,500	8.9	1,250,900	8.0
Trade, Transportation and Utilities	786,000	19.3	780,700	19.0	2,802,500	18.0
Information	243,700	6.0	197,300	4.8	450,400	2.9
Financial Activities	222,800	5.5	211,800	5.1	782,300	5.0
Professional and Business Services	587,900	14.4	590,300	14.3	2,330,900	15.0
Educational and Health Services	418,500	10.3	713,400	17.3	2,307,100	14.8
Leisure and Hospitality	344,700	8.4	436,700	10.6	1,671,300	10.7
Other Services	140,000	3.4	145,500	3.5	515,200	3.3
Government	581,300	14.2	549,200	13.3	2,370,100	15.2
Total(2)	4,079,800	100.0%	4,118,000	100.0%	15,558,800	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) Total 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 2013 Benchmark report released April 18, 2014.

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 6.6% of the labor force (based on total employment in 2013). In addition, government employment represents approximately 13.3% of the labor force (see Table 3 – Estimated Industry Employment and Labor Force).

Table 4
LOS ANGELES COUNTY
2013 MAJOR NON-GOVERNMENTAL EMPLOYERS

Employer	Product/Service	Employees
Kaiser Permanente	Nonprofit health care plan	36,495
Northrop Grumman Corp.	Defense contractor	16,100
Target Corp.	Retailer	15,000
University of Southern California	Private university	14,525
Bank of America Corp	Banking and financial services	13,746
Ralphs/Food 4 Less (Kroger Co. Division)	Grocery retailer	13,500[1]
Providence Health & Services So. Cal.	Health care	10,983
Cedars-Sinai Medical Center	Medical center	10,663
Home Depot	Home improvement specialty retailer	10,630
Walt Disney Co.	Entertainment	10,500[1]
Boeing Co.	Integrated aerospace and defense systems	10,463
Wells Fargo	Diversified financial services	10,100
AT&T Inc.	Telecommunications	8,900
UPS	Transportation and freight	8,845
California Institute of Technology	Private university, operator of Jet Propulsion Laboratory	8,649
ABM Industries Inc.	Facilities services, energy solutions, commercial cleaning, maintenance and repair	8,200
American Apparel Inc.	Apparel manufacturer and retailer	7,960
Edison International	Electric utility	7,850
Vons	Retail grocer	7,750
FedEx Corp.	Shipping and logistics	7,700[1]
Warner Bros. Entertainment Inc.	Entertainment	7,400[2]
Raytheon Co.	Aerospace and defense contractor	6,973[3]
JPMorgan Chase	Banking and financial services	6,300
Dignity Health	Health care	6,106
Amgen Inc.	Biotechnology	6,000

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

Source: Los Angeles Business Journal, Weekly Lists, originally published September 9, 2013.

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 5
COUNTY, STATE AND U.S.
PERSONAL INCOME

Year and Area	Personal Income (thousands of dollars)	Per Capita Personal Income[1] (dollars)
2009		
County	$ 394,935,230	$40,351
State	1,536,429,610	41,569
United States	12,073,738,000	39,357
2010		
County	$ 403,962,065	$41,113
State	1,579,148,473	42,297
United States	12,423,332,000	40,163
2011		
County	$ 424,763,231	$42,953
State	1,683,203,700	44,666
United States	13,179,561,000	42,298
2012		
County[2]	$ 443,088,010	$44,474
State	1,768,039,281	46,477
United States	13,729,063,000	43,735
2013		
County	N/A	N/A
State[2]	$ 1,817,010,000	$47,401
United States[2]	14,081,242,000	44,543

(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. Last updated: May 12, 2014; new estimates for 2013.
(2) Last updated: May 12, 2014.

Source: U.S. Bureau of Economic Analysis, "Table SA1-3 Local Areas Personal Income and Employment," (accessed May 12, 2014).
U.S. Bureau of Economic Analysis, "Table SA1-3 Annual State Personal Income and Employment," (accessed May 12, 2014).
U.S. Bureau of Economic Analysis, "Table CA1-3 County Personal Income and Employment," (accessed May 12, 2014).

Retail Sales

As the largest city in the County, the City accounted for $40.1 billion (or 29.7%) of the total $135.2 billion in County taxable sales for 2012. The following table sets forth a history of taxable sales for the City for calendar years 2009 through 2012, 2012 being the last full year for which data is currently available. A four year series is presented for this information, as the State changed its reporting categories beginning with the 2009 report.

The City experienced a 4.9% increase in sales tax receipts during Fiscal Year 2012-13, estimates 5.5% growth in Fiscal Year 2013-14 and projects 4.6% growth in the Fiscal Year 2014-15 Adopted Budget. See **"MAJOR GENERAL FUND REVENUE SOURCES — Sales Tax",** herein.

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

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

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

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

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 7
CITY OF LOS ANGELES
Assessed Valuation and Parcels by Land Use

Non-Residential	2013-14 Assessed Valuation[1]	% of Total	No. of Parcels	% of Total
Commercial Office	$ 70,238,001,198	16.59%	35,483	4.59%
Vacant Commercial	2,060,530,764	0.49	1,256	0.16
Industrial	36,730,705,063	8.67	20,234	2.62
Vacant Industrial	1,797,887,497	0.42	3,886	0.50
Recreational	1,686,681,326	0.40	753	0.10
Government/Social/Institutional	3,233,400,613	0.76	3,882	0.50
Miscellaneous	562,381,799	0.13	2,719	0.35
Subtotal Non-Residential	$ 116,309,588,260	27.46%	68,213	8.83%
Residential				
Single Family Residence	$ 201,261,659,719	47.52%	485,224	62.83%
Condominium/Townhouse	30,375,352,424	7.17	85,510	11.07
Mobile Homes and Lots	100,620,811	0.02	3,312	0.43
Mobile Home Park	156,257,660	0.04	92	0.01
2-4 Residential Units	23,967,156,168	5.66	74,199	9.61
5+ Residential Units/Apartments	48,223,264,726	11.39	34,700	4.49
Vacant Residential	3,098,543,071	0.73	21,092	2.73
Subtotal Residential	$307,182,854,579	72.54%	704,129	91.17%
Total	$423,492,442,839	100.00%	772,342	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 residential properties in the City.

Table 8
CITY OF LOS ANGELES
Per Parcel 2013-14 Assessed Valuation of Residential Properties

	No. of Parcels	2013-14 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Residential Properties	704,129	$307,182,854,579	$436,259	$270,000

2013-14 Assessed Valuation	No. of Residential Parcels [(1)]	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
$0 - $49,999	44,183	6.275%	6.275%	$ 1,211,891,629	0.395%	0.395%
$50,000 - $99,999	63,435	9.009	15.284	4,709,727,867	1.533	1.928
$100,000 - $149,999	62,404	8.863	24.146	7,851,654,576	2.556	4.484
$150,000 - $199,999	76,515	10.867	35.013	13,423,659,073	4.370	8.854
$200,000 - $249,999	77,045	10.942	45.955	17,291,076,785	5.629	14.483
$250,000 - $299,999	67,782	9.626	55.581	18,593,830,080	6.053	20.536
$300,000 - $349,999	56,984	8.093	63.674	18,455,539,227	6.008	26.544
$350,000 - $399,999	44,473	6.316	69.990	16,598,047,443	5.403	31.947
$400,000 - $449,999	32,810	4.660	74.650	13,900,837,062	4.525	36.472
$450,000 - $499,999	25,963	3.687	78.337	12,296,946,349	4.003	40.475
$500,000 - $549,999	20,247	2.875	81.213	10,611,276,321	3.454	43.930
$550,000 - $599,999	17,272	2.453	83.665	9,909,755,274	3.226	47.156
$600,000 - $649,999	14,504	2.060	85.725	9,048,833,571	2.946	50.101
$650,000 - $699,999	11,861	1.684	87.410	7,990,828,067	2.601	52.703
$700,000 - $749,999	9,820	1.395	88.804	7,106,452,299	2.313	55.016
$750,000 - $799,999	8,410	1.194	89.999	6,506,930,066	2.118	57.134
$800,000 - $849,999	7,029	0.998	90.997	5,791,499,205	1.885	59.020
$850,000 - $899,999	6,189	0.879	91.876	5,408,785,770	1.761	60.781
$900,000 - $949,999	5,235	0.743	92.620	4,835,956,966	1.574	62.355
$950,000 - $999,999	4,503	0.640	93.259	4,387,081,211	1.428	63.783
$1,000,000 and greater	47,465	6.741	100.000	111,252,245,738	36.217	100.000
Total	704,129	100.000%		$307,182,854,579	100.000%	

(1) Improved and unimproved residential properties.

Source: California Municipal Statistics, Inc.

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

Table 9
CITY OF LOS ANGELES
BUILDING PERMIT VALUATIONS AND NEW DWELLING UNITS
($ in millions)

	2009	2010	2011	2012	2013
Total Valuation[1]	$2,081	$3,328	$3,386	$3,671	$4,246
Residential [2]	567	876	1,121	1,357	1,732
Miscellaneous [3]	11	15	26	17	48
Number of Units:					
Single family [4]	781	772	726	1,059	1,254
Multi-family [5]	1,892	3,374	5,258	235	7,136
Subtotal Residential	2,673	4,146	5,984	1,294	8,390
Miscellaneous [6]	185	370	390	477	536
Total Units	2,858	4,516	6,374	1,771	8,926

(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 non-residential space in downtown Los Angeles and the remainder of the Los Angeles Metropolitan Area.

Table 10
LOS ANGELES METROPOLITAN AREA
NON-RESIDENTIAL VACANCY RATES

Year[1]	Downtown	Suburban	Metropolitan	Industrial Availability
2009	14.9%	14.7%	14.8%	7.7%
2010	17.6	16.7	16.9	7.7
2011	18.1	17.5	17.6	7.4
2012	18.3	16.5	16.8	6.8
2013	18.9	16.1	16.5	6.7

(1) Second quarter of year.

Source: California Department of Finance, California Economic Indicators.

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.

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.

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, effective July 1, 2000.

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. Mike Feuer assumed the office on July 1, 2013.

The City Administrative Officer ("CAO") is the chief fiscal advisor to the Mayor and Council and reports directly to both. 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. Antoinette Christovale, the Director of Finance, also serves as the City Treasurer.

The City has 39 departments, bureaus, commissions and offices 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.

The City was presented with an initiative petition to seek voter approval of the creation of a 15-member commission, with staff, to attend all meetings of the County regarding health policy, review a representative sample of County health services contracts, and present an annual health services plan regarding the health needs and goals for the City. The City Council adopted the proposed ordinance without alteration, rather than the alternative of placing the matter before the voters. There is currently no estimate of the cost impact of this measure.

An unsuccessful candidate for Mayor in the City's 2013 primary election posted on a website that a complaint was submitted to the United States Securities and Exchange Commission ("SEC") in October 2012, alleging that the City violated federal and state securities laws by failing to disclose certain budgetary information. The City has not received any notice or other communication from the SEC regarding this complaint.

In early 2013, City Council President Herb Wesson asked Mickey Kantor, the former United States Secretary of Commerce, to establish an independent, private commission to study and report on fiscal stability and job growth in the City. Former Mayor Antonio Villaraigosa also endorsed the establishment of such a commission, known as the "Los Angeles 2020 Commission" (the "2020 Commission"). The 2020 Commission has 13 members, including former Governor Gray Davis, representing private sector, labor and governmental viewpoints. In December 2013, the 2020 Commission released its first report, "A Time for Truth," which discussed the current challenges facing the City. In April 2014, the 2020 Commission released its second report, "A Time for Action," which contained a series of measures aimed at enhancing transparency and accountability in City Hall, and putting Los Angeles on a path toward fiscal stability and job creation. The reports were presented to the City Council; no action was taken by the Mayor and City Council on these reports. Both of these reports may be found at www.la2020reports.org; they are not incorporated herein by reference.

BUDGET AND FINANCIAL OPERATIONS

Fiscal Year 2012-13 Results

The City's Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2013 reported a growth in the City's total General Fund fund balance of approximately $152.9 million. See the City's Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2013.

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

Table 11
BALANCE SHEETS FOR THE GENERAL FUND
For Fiscal Years Ending June 30
($ in thousands)

	2009	2010	2011	2012	2013
Assets					
Cash and Pooled Investments[1]	$ 625,675	$ 561,249	$ 966,168	$ 1,235,260	$ 791,293
Other Investments	70	181	-	-	-
Taxes Receivable	364,048	543,519	488,977	536,069	533,711
Accounts Receivable	194,888	201,314	176,233	184,312	187,230
Special Assessments Receivable	3,457	4,125	4,319	4,598	4,816
Investment Income Receivable	4,955	3,405	6,091	6,122	5,401
Intergovernmental Receivable	13,814	40,449	50,124	47,152	54,548
Due from Other Funds	36,912	54,899	48,388	44,229	86,632
Inventories	18,205	17,281	16,585	19,815	17,875
Prepaid Items and Other Assets	-	-	-	-	17,051
Advances to Other Funds	9,673	12,490	9,714	11,319	8,189
Total Assets	$1,271,697	$1,438,912	$1,766,599	$2,088,876	$1,706,746
Liabilities and Fund Equity					
Liabilities:					
Accounts, Contracts and Retainage Payable	$ 70,686	$ 70,853	$ 61,744	$ 56,764	$ 54,078
Obligations Under Securities Lending Transactions[2]	-	36,072	123,592	-	6,879
Accrued Wages and Overtime Payable	201,098	84,161	95,287	121,845	130,168
Accrued Compensated Absences Payable	1,415	2,842	5,678	10,124	15,433
Accrued Retirement Benefits Payable	-	77,022	39,358	-	-
Estimated Claims and Judgments Payable	20,918	20,026	24,102	28,189	30,269
Intergovernmental Payable	41	27	814	776	12
Due to Other Funds	53,002	31,665	31,005	47,967	71,740
Deposits and Advances	6,892	20,346	20,444	24,007	23,316
Deferred Revenue and Other Credits	377,540	587,836	516,356	528,669	576,749
Advances from Other Funds	38,397	50,282	41,441	35,728	29,852
Notes Payable[1]	-	-	-	601,541	-
Other Liabilities[3]	18,257	20,600	286,720	61,582	45,634
Total Liabilities	$ 788,246	$1,001,732	$1,246,541	$1,517,192	$ 984,130
Fund Balance[4]:					
Reserved for Encumbrances	$ 138,951	$ 134,623	-	-	-
Reserved for Assets Not Available for Appropriation	27,878	29,771	-	-	-
Reserved for Special Purposes	168	791	-	-	-
Designated for Special Purposes	159,784	157,068	-	-	-
Unreserved and Undesignated	156,670	114,927	-	-	-
Nonspendable	-	-	$ 26,299	$ 31,134	$ 43,115
Restricted	-	-	-	-	69,712
Committed	-	-	-	-	-
Assigned	-	-	239,877	267,645	242,643
Unassigned	-	-	253,882	272,905	367,146
Total Fund Balances	$ 483,451	$ 437,180	$ 520,058	$ 571,684	$ 722,616
Total Liabilities and Fund Equity	$1,271,697	$1,438,912	$1,766,599	$2,088,876	$1,706,746

(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 described in Note 3, below. Fiscal Year 2011-12 includes funds set-aside for repayment of TRANS maturing in the subsequent fiscal year; see

Table 11
BALANCE SHEETS FOR THE GENERAL FUND
For Fiscal Years Ending June 30
($ in thousands)

Liabilities: 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) 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."

(4) Beginning with the Comprehensive Annual Financial Report (CAFR) for Fiscal Year 2010-11, the City implemented GASB Statement No. 54, which provided new direction in classifying components of the fund balance of governmental funds. See "**Budget and Revenues—GAAP-Based Fund Balance**, below."

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

Table 12
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE GENERAL FUND
For Fiscal Years Ending June 30
($ in thousands)

	2009	2010	2011	2012	2013
Revenues:					
Property Taxes	$1,518,744	$1,455,081	$1,436,707	$1,470,799	$1,565,457
Sales Taxes	300,585	281,186	299,624	328,059	343,628
Utility Users' Taxes	646,256	628,484	618,307	634,629	623,794
Business Taxes	461,374	412,287	424,762	438,969	447,983
Other Taxes	344,147	345,618	359,434	392,686	451,304
Licenses and Permits	23,704	20,849	20,229	26,241	23,909
Intergovernmental	25,095	21,926	33,704	7,182	11,939
Charges for Services	496,053	541,306	496,551	510,401	532,512
Services to Enterprise Funds	264,602	255,949	248,263	245,853	252,178
Fines	141,077	139,788	145,731	147,780	162,930
Special Assessments	1,967	2,142	2,332	1,922	1,732
Investment Earnings	47,468	26,504	18,149	21,456	16,710
Change in Fair Value of Investments					(18,002)
Other	60,477	54,313	75,498	91,357	104,973
Total Revenues	$4,331,549	$4,185,433	$4,179,291	$4,317,334	$4,521,047
Expenditures:					
Current:					
General Government	$1,309,583	$1,329,982	$1,224,681	$1,257,198	$1,219,179
Protection of Persons and Property	2,308,105	2,231,156	2,182,116	2,279,987	2,403,195
Public Works	205,924	189,430	158,050	165,025	176,240
Health and Sanitation	147,380	135,422	137,829	146,270	145,768
Transportation	145,891	111,293	113,632	107,803	98,446
Cultural and Recreational Services	62,952	75,984	46,239	46,592	51,991
Community Development	48,612	45,302	32,204	30,544	32,303
Capital Outlay	20,687	25,795	17,203	17,751	25,395
Debt Service: Cost of Issuance	750	1,333	1,090	2,092	3,017
Total Expenditures	$4,249,884	$4,145,697	$3,913,044	$4,053,262	$4,155,534
Excess (Deficiency) of Revenues Over Expenditures	81,665	39,736	266,247	264,072	365,513
Other Financing Sources (Uses)					
Operating Transfers In	$ 289,432	$ 332,521	$ 299,510	$ 270,660	$ 307,458
Operating Transfer Out	(506,040)	(471,401)	(482,183)	(486,336)	(520,098)
Issuance of Long-Term Debt [(1)]	20,600	50,875	-	-	-
Premium on Issuance of Long-Term Debt	324	2,922	-	-	-
Total Other Financing Sources (Uses)	(195,684)	(85,083)	(182,673)	(215,676)	(212,640)
Net Change in Fund Balance	(114,019)	(45,347)	83,574	48,396	152,873
Fund Balances, July 1	597,947	483,451	437,180	520,058	571,683
(Decrease) Increase in Reserve for Inventories	(477)	(924)	(696)	3,230	(1,940)
Fund Balances, June 30	$ 483,451	$ 437,180	$ 520,058	$ 571,684	$ 722,616

(1) Represents judgment obligation bonds.

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 of its ever failing to meet these City Charter deadlines.

The City is required by law to maintain a balanced budget; however, expenditure growth 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 the 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. Additional information concerning the City's financial condition may be found on the website of the City Administrative Officer at http://cao.lacity.org/fin_rpts/. See "**Fiscal Year 2013-14 Financial Status Reports,**" herein.

The table below summarizes the gaps 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 13
BUDGET DEFICITS ADDRESSED IN BUDGET AND THROUGH INTERIM ACTIONS
($ in millions)

Fiscal Year	Addressed in Adopted Budget[1]	Addressed Through Mid-Year Adjustments[2]
2009-10	$529	$209
2010-11	492	54
2011-12	336	72
2012-13	238	7
2013-14	216	37
2014-15	242	NA

(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 2013-14 Adopted Budget

The 2013-14 Adopted Budget, including the General Fund and most special revenue funds, totaled $7.7 billion, a $439 million (6.1%) increase from the Fiscal Year 2012-13 Adopted Budget. General Fund revenues for Fiscal Year 2013-14 were estimated at $4.87 billion, a net increase of $316 million (7.0%) from the Fiscal Year 2012-13 Adopted Budget, and a net increase of $220 million (4.3%) from the Fiscal Year 2012-13 actual revenues.

Fiscal Year 2013-14 Financial Status Reports

The City has issued four interim financial status reports (see "City's Budgetary Process," herein.) In the most recent dated May 29, 2014, the City Administrative Officer reported a projected expenditure imbalance of $19.9 million, comprised of a variety of additional expenditures for liability claims, the Fire Department's Ambulance Augmentation Plan, City Attorney professional stipend costs, and urgent capital projects. This interim report recommended a variety of transfers to address the full amount of this budget shortfall. The expenditure imbalance was closed, despite unbudgeted salary increases of 5.5% implemented in January 2014 for 60% of the civilian workforce, which were generally absorbed within existing budget appropriations and from other expected savings.

Fiscal Year 2014-15 Adopted Budget

In early 2013-14, the CAO revised its projected 2014-15 Budget Outlook and concluded that the City would face a $242 million deficit in 2014-15 unless action was taken (see **General Fund Budget Outlook,** below). The calculation of this deficit assumed a loss of all 2013-14 one-time revenue, an increase in ongoing revenue, and the maintenance of 2013-14 service levels. During the 2014-15 budget development process, the actual expenditure level had grown higher than what had been projected in the Outlook. This, in turn, increased the gap between the baseline 2013-14 revenues and the proposed expenditures to $433 million. In formulating the 2014-15 Budget, the Mayor and Council addressed this $433 million gap. They balanced the budget through a combination of expenditure cuts and revenue measures. The revenue component of the solutions included one-time revenues totaling $186 million, the largest of which was a transfer of $117.5 million from the City's Reserve Fund. While it is the City's policy to use one-time revenues for one-time expenditures rather than ongoing expenses, the Adopted Budget included only $123 million in one-time expenditures, meaning that $63 million in ongoing expenditures were funded by one-time revenues. Approximately 57% of the increased revenues and reduced expenditures used to close the shortfall are ongoing solutions, and the remaining 43% are one-time. The following table identifies the measures taken to close the projected gap.

Table 14
CLOSING THE FISCAL YEAR 2014-15 BUDGET GAP
($ in millions)

	From Prior 2013-14 Outlook	Based on 2014-15 Adopted Budget
Revenue		
13-14 Revenue Budget	$4,867	$4,867
Less one-time 13-14 revenue	131	131
13-14 Base Revenue Budget	**$4,736**	**$4,736**
Expenses		
14-15 Projected Base Expenses	$4,878	$4,878
Add 14-15 New Ongoing Expenses	225	168
Add 14-15 One-time Expenses	18	123
14-15 Total Expenses	**$5,120**	**$5,169**
Total 14-15 Expense Above Base 13-14 Revenue	**$ 384**	**$ 433**
Solutions		
Add 14-15 Projected Ongoing Growth	$ 142	$ 216
Add One-time 14-15 Revenue	-	186
Less Ongoing Reductions/Efficiencies	-	30
Less One-time Reductions	-	1
Solutions Identified	**$ 142**	**$ 433**
TBD Solutions (Gap)	**$ 242**	**$ -**
Ongoing Solutions	37%	57%
One-time Solutions	0%	43%
TBD Solutions	63%	0%
	100%	100%

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

There are other issues in the 2014-15 Adopted Budget that will also need to be addressed. For example, Police overtime funding is insufficient to address the large banks of compensated time off that have been accumulated by Officers in recent years, pursuant to the contract with the Police Protective League that allowed the Police Department to bank up to 800 overtime hours. Through that program, Officers have banked 2.3 million hours of overtime at a cash value of $112 million that will eventually be either taken in time off or paid in cash. Further, unless an alternative agreement is negotiated, the overtime bank limit will reduce to 150 hours on July 1, 2014 with the expiration of the current contract. In the last year prior to increasing the overtime bank, the department paid out over $92 million in overtime, far above the $30 million total included in the Police Department base budget and the Unappropriated Balance. Similarly, only six months of the Fire Department's ambulance augmentation program is funded in Fiscal Year 2014-15, leaving a potential gap of $8.4 million if that program continues. The budget also calls for a total of 2,400 lane miles of street resurfacing and repairs, even though funding is provided at the current 2,200 mile cost. Higher expectations for street repair levels will also drive deficits in future years as these costs increasingly are born by the General Fund due to decreased funding availability in the special funds that have been used for street projects in the past.

On May 28, 2014 the City Council adopted the Mayor's proposed budget with modifications totaling $22.8 million. On June 2, 2014 the Mayor signed the 2014-15 Adopted Budget as modified by the City Council.

The following table presents the Fiscal Year 2014-15 Adopted Budget and the adopted budgets for the preceding fiscal years. These budgets include the General Fund and most special revenue funds, but exclude those operations not under the direct control of the Council (i.e., Airports, Harbor, Water and Power departments, and the Los Angeles City Employees' Retirement and Fire and Police Pensions systems).

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

Revenues	Adopted Budget 2012-13	Adopted Budget 2013-14	Adopted Budget 2014-15
General Fund			
Property Taxes [1]	$ 1,457,022,000	$ 1,549,568,000	$ 1,644,811,000
Property Tax – Ex-CRA Tax Increment	48,600,000	55,434,000	48,023,000
Other Taxes [2]	1,764,726,000	1,896,692,000	1,958,030,000
Licenses, Permits, Fees and Fines [3]	970,757,118	1,033,987,064	1,040,330,401
Intergovernmental [4]	249,100,000	253,000,000	261,000,000
Other General Fund [5]	49,777,000	63,590,260	172,604,670
Interest	10,510,000	14,621,000	13,491,000
Total General Fund Revenue	$4,550,492,118	$4,866,892,324	$5,138,290,071
Special Purpose Funds			
Charges For Services and Operations [6]	$ 1,173,478,896	$ 1,217,506,209	$ 1,291,885,009
Transportation Funds [7]	325,540,467	322,539,834	335,198,972
Intergovernmental [8]	82,150,321	82,637,744	80,068,557
Special Assessments [9]	91,856,801	81,894,536	85,018,351
Other Special Funds	447,339,632	425,437,766	460,786,211
Available Balances	410,782,495	527,905,446	582,806,097
Total Special Fund Revenue	$2,531,148,612	$2,657,921,535	$2,835,763,197
City Levy for Bond Redemption and Interest	$ 164,475,921	$ 160,695,451	$ 148,889,669
Total Receipts	$7,246,116,651	$7,685,509,310	$8,122,942,937
Appropriations by Funding Source			
General Fund			
Fire Department	$ 34,972,700	$ 36,672,192	$ 37,379,713
Police Department	1,221,043,234	1,266,367,842	1,293,469,105
Other Budgetary Departments	1,383,640,397	1,455,605,552	1,560,073,548
Tax and Revenue Anticipation Notes [10]	860,620,300	955,905,263	1,047,447,674
Capital Finance Administration [11]	201,111,784	213,368,640	218,722,586
Human Resources Benefits	592,508,153	600,430,000	615,138,916
Other General Fund Appropriations	256,595,550	338,542,835	366,058,529
Total General Fund	$4,550,492,118	$4,866,892,324	$5,138,290,071
Special Purpose Funds			
Budgetary Departments	$ 869,794,129	$ 922,678,331	$ 908,106,365
Appropriations to Proprietary Departments	77,718,048	83,472,204	93,818,332
Capital Improvement Expenditure Program	167,280,201	176,855,922	199,725,825
Wastewater Special Purpose Fund	448,973,671	464,477,897	463,170,037
Appropriations to Special Purpose Funds	967,382,563	1,010,437,181	1,170,942,638
Total Special Funds	$2,531,148,612	$2,657,921,535	$2,835,763,197
Bond Redemption and Interest Funds			
General City Bonds	$ 164,475,921	$ 160,695,451	$ 148,889,669
Total (All Purposes)	$7,246,116,651	$7,685,509,310	$8,122,942,937

(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 2014-15 Adopted Budget, shows that the City would face a budget gap of $165 million in Fiscal Year 2015-16 and $185.9 million in Fiscal Year 2016-17 without corrective action. Based on the assumptions of the Outlook, this deficit would be eliminated by 2018-19.

To generate the surplus of $23.9 million in 2018-19, the Mayor and Council will have to demonstrate a commitment to fiscal discipline. For example, the following is assumed: the size of the workforce will remain flat after 2014-15; no major increases to City services, which means that there will not be an opportunity to restore services that were reduced during the fiscal crisis unless their costs are offset by new revenues or reductions in other services or costs; no further salary increases will be agreed to in the pending labor negotiations; all employees will contribute 10% of the cost of their health care premiums on an ongoing basis; and, each year's shortfall will be solved by ongoing rather than one-time solutions.

There are additional potential expenditures not included in the projected structural deficit that will make eliminating it difficult. For example, there are pending discussions at both the City Employees' Retirement and the Fire and Police Pension systems about the appropriate assumed investment return rate. Lowering the assumed investment return rate by 0.25% could increase the annual General Fund contribution by approximately $80 million a year in future fiscal years.

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

Table 16
GENERAL FUND BUDGET OUTLOOK
($ in millions)

	Adopted 2014-15	2015-16	2016-17	2017-18	2018-19
Estimated General Fund Revenue:					
General Fund Base [1]	$4,866.9	$5,138.3	$5,127.4	$5,286.5	$5,453.4
Revenue Growth [2]					
Property Related Taxes [3]	125.7	103.2	(46.8)	84.2	88.0
Sales and Business Taxes[4]	10.1	14.2	138.1	12.2	27.5
Utility Users' Tax[5]	(9.7)	(10.5)	8.8	9.1	15.9
License, Permits and Fees[6]	(2.4)	(10.3)	32.8	34.1	35.5
Other Fees, Taxes and Transfers [7]	42.8	20.2	26.2	27.3	28.2
SPRF Transfer [8]	(4.5)	(10.1)	-	-	-
Transfer from the Budget Stabilization Fund[9]	(8.0)	-	-	-	-
Transfer from Reserve Fund[10]	117.5	(117.5)	-	-	-
Total Revenue	**$5,138.3**	**$5,127.4**	**$5,286.5**	**$5,453.4**	**$5,648.5**
General Fund Revenue Increase (Decrease) %	***5.6%***	***-0.2%***	***3.1%***	***3.2%***	***3.6%***
General Fund Revenue Increase (Decrease) $	***271.4***	***(10.9)***	***159.0***	***166.9***	***195.1***
Estimated Expenditures:					
General Fund Base [11]	$4,866.9	$5,138.3	$5,292.6	$5,472.4	$5,525.2
Incremental Changes to Base: [12]					
Employee Compensation Adjustments [13]	80.9	60.7	36.5	37.2	46.7
City Employees Retirement System [14]	43.7	36.0	23.4	(8.5)	(5.0)
Fire and Police Pensions [14]	49.0	45.8	39.7	(0.9)	(18.9)
Workers Compensation Benefits [15]	2.4	4.7	5.1	7.7	11.5
Health, Dental and Other Benefits [16]	12.4	26.1	44.8	35.7	35.7
Debt Service [17]	4.1	(21.3)	(6.5)	(2.7)	(0.5)
Delete Resolution Authorities [18]	(27.2)	-	-	-	-
Add New and Continued Resolution Authorities	20.8	-	-	-	-
Delete One-Time Costs[19]	(57.8)	-	-	-	-
Add One-Time Costs	53.3	-	-	-	-
Unappropriated Balance [20]	30.0	(51.2)	(5.2)	(0.8)	-
New Facilities [21]	-	-	-	-	-
City Elections [22]	16.0	(16.0)	16.0	(16.0)	16.0
CIEP [23]	(14.4)	47.5	-	1.0	2.9
Appropriation to the Reserve Fund[24]	-	-	-	-	-
Appropriation to the Budget Stabilization Fund [25]	-	-	-	-	11.2
Net - Other Additions and Deletions[26]	58.1	22.0	26.0	-	-
Subtotal Expenditures	**$5,138.3**	**$5,292.6**	**$5,472.4**	**$5,525.2**	**$5,624.7**
Expenditure Growth (Reduction) %	***5.6%***	***3.0%***	***3.4%***	***1.0%***	***1.8%***
Expenditure Growth (Reduction) $	***271.4***	***154.3***	***179.8***	***52.8***	***99.5***
TOTAL BUDGET GAP[27]	**$ -**	**$ (165.1)**	**$ (185.9)**	**$ (71.8)**	**$ 23.9**
Incremental Increase(Decrease) % in Gap			***12.6%***	***-61.4%***	***-133.2%***
Incremental Increase(Decrease) $ in Gap		***(165.1)***	***(20.8)***	***114.1***	***95.7***

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 that economy-sensitive revenues will grow annually between two percent and ten 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 2014-15 and below average growth for 2015-16 from the loss of one-time revenues. A return to average growth is projected for 2016-17 through 2018-19.

(3) Property tax is projected to return to growth rates between four percent and five percent annually from 2014-15 to 2018-19. The high growth in 2014-15 reflects the adjustment to the 2013-14 base to include prior year receipts. Net 2016-17 growth reflects a negative growth rate as a result of assumed lower documentary transfer tax growth and the projected end to the triple-flip and associated sales tax replacement revenue. This reduction is offset by an increase in sales tax revenue for the same year. See discussion in note 4 below.

Included in this revenue category is tax increment revenue from the redirection of the former Community Redevelopment Agency, which reflects a lower rate as a set-aside for enforceable obligation expenditures. This revenue category was first received in June 2012.

(4) Fiscal years 2015-16 through 2017-18 assume a $15 million reduction each year in business tax revenue attributed to proposed business tax reform. Fiscal year 2016-17 assumes an increase in sales tax revenue associated with the end of the triple-flip and the restoration of the one percent rate assessed on taxable sales. Municipalities currently receive 0.75 percent of taxable sales and a supplementary 0.25 percent in

($ in millions)

property tax. Because of the differences in the sales tax and property tax remittance schedules, the exchange in property tax for sales tax replacement and sales tax are not equivalent during a fiscal year. The Governor released a revised budget in May 2014, which includes a proposal to pay off economic recovery bonds in Fiscal Year 2014-15, thereby ending the triple-flip by Fiscal Year 2015-16.

(5) Moderate growth is projected for the gas and electric users' tax. The communication users' tax revenue is projected to continue to decline due to the changing makeup of the landline and mobile markets. Fiscal Year 2014-15 assumes the one-time receipt of $12 million in delayed electrical users' tax revenue from the prior year and 2015-16 reflects the corresponding decrease. Fiscal Year 2014-15 communication users' tax revenue also reflects a reduction from the loss of one-time tax amnesty revenue. Additionally, Fiscal Years 2014-15 through 2017-18, assume $5.7 million in lower communication users' tax revenue as the result of a settlement agreement with a telecom company.

(6) Revenue from Licenses, Permits, Fees, and Fines reflects the impact of decreasing one-time revenues budgeted in 2013-14 and 2014-15. The loss of $45 million in transportation grant monies, $19 million in ambulance billing reimbursements, and $5 million in other miscellaneous revenues is reflected in 2014-15. The loss of $12 million in one-time settlement revenues, $2.2 million in Wilshire Grand transient occupancy tax revenue replacement, $17 million one-time ambulance reimbursements, and $10.5 million in other miscellaneous revenues is reflected in 2015-16. A four percent growth rate is assumed for all outgoing years.

(7) The growth in 2014-15 reflects higher-than-predicted growth from the 2013-14 Adopted Budget for transient occupancy tax and parking fine revenues, for which current year revenue estimates have been revised.

(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 about $20.5 million is projected in 2014-15 through 2018-19. Any amounts above this are considered one-time receipts and deducted from the estimated revenue growth for the following fiscal year. The 2013-14 transfer included $14.6 million in one-time revenue. The 2014-15 includes $10.1 million in one-time revenue, a $4.5 million reduction.

(9) Transfers from the Budget Stabilization Fund (BSF) are subject to an available balance in the BSF. BSF transfers are considered one-time receipts and are deducted from the estimated revenue growth for the following fiscal year. The $8 million transferred in 2013-14 is deleted in 2014-15. No other transfers from the BSF are assumed.

(10) The transfer from the Reserve Fund of $117.5 million is considered one-time. The 2014-15 Reserve Fund balance is 5.53 percent after the transfer.

Estimated General Fund Expenditures:

(11) Estimated Expenditure General Fund Base: Using the 2013-14 General Fund budget as the baseline year, the General Fund base is the "Total Obligatory and Potential Expenditures" carried over to the following fiscal year.

(12) The 2014-15 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: This line includes salary step adjustments and full funding for partially financed positions from the prior year. The Four-Year Outlook reflects existing labor agreements, Memoranda of Understanding ("MOUs"), with City bargaining units. No cost of living adjustments are assumed for 2014-15 and beyond.

(14) City Employment Retirement System ("LACERS") and Fire & Police Pensions ("Pensions"): The contributions are based on information commissioned or requested by the CAO from the departments' actuaries and include the employee compensation adjustment assumptions noted above. The LACERS contribution rate is a combination of the Tier 1 and Tier 2 rates, and assumes Tier 2 payroll will be two percent of the covered payroll in 2014-15 and grow by one percent each year. The amounts reflected in the Four-Year Outlook represent incremental changes.

Table 1
LACERS and Pensions

Assumptions		2014-15	2015-16	2016-17	2017-18	2018-19
LACERS						
6/30th Investment Returns		7.75%	7.75%	7.75%	7.75%	7.75%
Combined Contribution Rate		26.42%	28.36%	29.37%	28.39%	27.53%
Pensions						
6/30th Investment Returns		7.75%	7.75%	7.75%	7.75%	7.75%
Combined Contribution Rate		47.94%	50.17%	52.27%	51.35%	48.97%

(15) Workers' Compensation Benefits: The projection is based on a draft actuarial analysis from April 2014 that projects annual medical inflation of seven percent and a five percent annual cost increase in permanent disability costs. The analysis projects no impact of SB863 legislation on future costs. The State Assessment Fee of $7.5 million is not projected to increase.

(16) Health and Dental Benefits: The projection assumes that all civilian employees will contribute ten percent towards the cost of the City-sponsored health plan on January 1, 2015. Mercer Consulting provides a forecast of Civilian Flex medical premiums increases, which range from 6.75 percent to 9.50 percent in 2015. Police and Fire health benefits are historically higher due to subsidy increases and the type and level of coverage elected by sworn employees. Civilian enrollment projections are based on zero percent growth. Police and Fire enrollment projections are based on one percent growth. It is anticipated that federal health care reform laws will continue to impact health plan costs and in 2018 Cadillac Tax provision may increase costs by $15 million.

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

(18) 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

Table 16
GENERAL FUND BUDGET OUTLOOK
($ in millions)

included in the "Add New and Continued Resolution Authorities" line. Funding is continued in subsequent years to provide a placeholder for continuation of resolution authority positions for various programs and incorporated into the beginning General Fund base of subsequent years.

(19) One-time Costs: The deletion line reflects the practice of deleting programs and costs that are limited-term and temporary in nature each year. Funding for these programs and expenses is reviewed on a case-by-case basis and continued if appropriate. Continued and new funding is included in the "Add One-Time Costs" line. Funding is continued in subsequent years to provide a placeholder for continuation of equipment and other one-time expenses incurred annually and incorporated into the beginning General Fund base of subsequent years.

(20) 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.

(21) New Facilities: Funding projections are based on preliminary departmental estimates for ongoing staffing and expenses. No General Fund projects are projected at this time.

(22) Elections: Funding for elections is provided bi-annually.

(23) Capital Improvement Expenditure Program (CIEP): The 2014-15 Adopted Budget includes $9.6 million for capital projects, some of which are one-time and deleted in 2015-16. In 2015-16, $5 million is added to the Sidewalk Repair Program and the 2014-15 funding is deleted from the UB and added to CIEP. The Pavement Preservation Program is also deleted from the UB and added to CIEP in 2015-16. It is assumed that the program will be continued through 2018-19 at 2,200 miles per year.

(24) 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 has recommended increasing the combined balances of the Reserve Fund and the Budget Stabilization Fund to ten percent of budgeted General Fund revenues.

(25) 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 by the City Council and the Mayor; or (4) the policy is suspended by the City Council and the Mayor.

(26) Net - Other Additions and Deletions: The 2014-15 amount includes changes and new regular positions added to the base budget. For 2015-16, it is assumed that the City will fully fund the Ambulance Augmentation Plan. Funding for police overtime payouts is increased by $20 million in 2015-16 and $30 million in 2016-17. The remaining overtime will be banked.

(27) Total Budget Gap: The 2018-19 surplus assumes the triple-flip will end in 2016-17. Any deviations from the revenue assumptions could result in a 2018-19 deficit. Additionally, the surplus is contingent on eliminating prior year deficits with ongoing solutions. The use of one-time revenues and one-time expenditure reductions will continue the structural deficit into the future.

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

GAAP-Based Fund Balance

The Government Accounting Standards Board (GASB) has provided new guidance for the presentation of fund balance in the General Fund and other governmental funds, effective with financial statements for periods beginning after June 15, 2010. Statement No. 54 provides a new hierarchy of fund balance classifications. A description of the new classifications appears in "Note 1 (E) Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity," in the City's CAFR for the Fiscal Year Ended June 30, 2013. The table below restates the historical fund balances for the General Fund for Fiscal Years 2008-09 and 2009-10 under this new hierarchy. A restatement beginning in Fiscal Year 2002-03 can be found in the Statistical Section of the CAFR.

Table 17
GASB 54 GENERAL FUND BALANCE
For Fiscal Years Ending June 30
($ in thousands)

	2009	2010	2011	2012	2013
Nonspendable[(1)]	$ 27,879	$ 29,771	$ 26,299	$ 31,134	$ 43,115
Restricted[(2)]	-	-	-	-	69,712
Assigned[(3)]	233,761	182,835	239,877	267,645	242,643
Unassigned[(4)]	221,811	224,574	253,882	272,905	367,146
Total Fund Balance	$483,451	$437,180	$520,058	$571,684	$722,616

(1) Includes inventories and certain advances to other funds.
(2) Represents the City's Budget Stabilization Fund. In prior years, this fund was reported as part of the Unassigned Fund Balance.
(3) Includes encumbrances, various revolving funds, and certain net receivables.
(4) Primarily consists of the City's reserve fund.

Source: City of Los Angeles, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2013.

Budgetary Reserves and Contingencies

The City maintains a Reserve Fund, which was created by the City 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 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 current financial policies 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 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.

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, 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') is to be deposited into the fund. The balance as of July 1, 2014 is projected to be $64.4 million. The Budget Stabilization Fund, thereby, limits the use of excess revenues for ongoing services that would be difficult to continue to fund in the case that the revenues are not sustained in future years.

The Unappropriated Balance was created by the Charter, which requires that 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 this fund over the past five years, highlighting items that received an allocation of $5 million or more in any given year.

Table 18
UNAPPROPRIATED BALANCE
As of July 1st
($ in millions)

	2010-11	2011-12	2012-13	Estimated 2013-14	Adopted 2014-15
Appropriations					
Equipment, Expenses & Improvements	-	$3.6	$3.6	$5.7	$4.9
Petroleum Products	$2.0	4.0	9.0	3.0	3.0
Budget Balancing Bridge	13.2	-	-	-	-
Early Retirement Incentive Program Payout	33.7	-	-	-	-
FLEX Benefits	13.4	-	-	-	-
Reserve for Future Transit Expenditures	15.0	-	-	-	-
Service Reduction Mitigation	11.0	-	-	-	-
Layoff Avoidance	-	-	8.0	-	-
Reserve for Economic Uncertainties	-	-	-	21.0	20.7
Police Overtime and Hiring	-	-	-	18.2	22.3
Liability Claims	-	-	-	6.0	6.0
Outside Counsel	-	-	-	4.0	4.0
Sidewalk Repairs	-	-	-	10.0	20.0
Pavement Preservation	-	-	-	-	8.7
Management Systems	-	-	-	-	7.8
Healthy Streets	-	-	-	-	5.0
Other	10.8	14.1	6.9	16.0	14.9
Total	$99.1	$21.7	$27.5	$83.9	$117.3
Sources of Funds					
General Fund	$71.6	$21.7	$27.2	$83.9	$113.9
Other	27.5	-	0.3	-	3.4
Total	$99.1	$21.7	$27.5	$83.9	$117.3

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 Reserve for Economic Uncertainties Account of 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.

Table 19
BUDGETARY RESERVES
As of July 1st
($ in millions)

	2010-11	2011-12	2012-13	Estimated 2013-14	Adopted 2014-15
Emergency Reserve	$ 120.3	$ 120.6	$ 125.1	$ 133.8	$ 141.3
Contingency Reserve	51.2	80.1	108.0	192.9	142.8
Total Reserve Fund	$ 171.5	$ 200.7	$ 233.1	$ 326.7	$ 284.1
Budget Stabilization Fund	0.5	0.5	0.5	61.5	64.4
Reserve for Economic Uncertainties(1)	0	0	0	21.0	20.7
Total Budgetary Reserves	$172.0	$201.2	$233.6	$409.2	$269.2
Budgeted General Fund Revenues	$4,375.2	$4,385.7	$4,550.5	$4,866.9	$5,138.3
% of General Fund Revenues	3.93%	4.59%	5.13%	8.4%	7.2%

(1) Budget account within the Unappropriated Balance

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 that increases each year until the goal of 5% of General Fund revenues is reached. The City's Reserve Fund policy addresses budget-based reserves, and does not set specific goals for GAAP-based year-end fund balances. The City has also adopted policies governing the use of its Budget Stabilization Fund.

The City's Financial Policies include several other fiscal policies which have been more difficult to comply with during the past few years of budget challenges. One of these policies requires that one-time revenues only be used for one-time expenditures. The Fiscal Year 2014-15 Adopted Budget contains $186 million in one-time revenue and $123 million in one-time expenditures, with $63 million in net one-time budget resources, in deviation from this policy. The budget gap was eliminated by using this net one-time revenue (see Table 14).

The Financial Policies also call for the City to annually budget 1% of General Fund revenue to fund capital or infrastructure improvements. For the second time in five years, the City has met this policy goal in the Adopted Budget.

These Financial Policies, available on the City's website, http://cao.lacity.org/Debt_Mgmt/index.htm, are subject to change.

Risk Retention Program

Because of its size and its financial capacity, the City has long followed the practice of directly assuming 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. As of June 30, 2013, as reported in the City's CAFR (Note 4 (O): Risk Management—Estimated Claims and Judgments Payable), the City estimated the amount of tort and non-tort liabilities to be probable of occurring as of June 30, 2013 at approximately $771.5 million. Of this amount, approximately $143.8 million was estimated to be payable in Fiscal Year 2013-14. The City Attorney also estimated that certain pending lawsuits and claims have a reasonable possibility of resulting in additional General Fund liability totaling $944.0 million. See "**LITIGATION**" herein for an update on litigation as of the date of the official statement.

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. 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 claims payment experience is listed in the table below.

Table 20
LIABILITY CLAIMS PAID [1]
($ in millions)

Fiscal Year	Budget	Claims Paid
2010-11	$48.9	$45.0
2011-12	47.9	49.1
2012-13	47.9	55.6
2013-14 (Estimated)	47.9	53.3[2]
2014-15 (Adopted)	47.9	NA

(1) Does not include Workers' Compensation claims paid by the City; see Table 34.
(2) Estimated.

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 21
HUMAN RESOURCES BENEFITS[1]
($ in thousands)

	2010-11	2011-12	2012-13	Estimated 2013-14	Adopted 2014-15
Workers' Compensation/Rehabilitation	$139,152	$157,802	$156,033	$156,600	$169,500
Contractual Services	-	1,422	20,690	26,980	26,480
Civilian FLEX Program[2]	211,434	199,042	209,450	225,680	231,217
Supplemental Civilian Union Benefits	4,352	4,177	4,249	4,126	4,094
Police Health and Welfare Program	114,046	117,732	122,850	124,560	133,360
Fire Health and Welfare Program	43,675	42,977	43,900	45,005	48,438
Unemployment Insurance	9,376	6,499	4,040	5,000	5,000
Employee Assistance Program	1,277	1,089	1,386	1,246	1,250
Total	$523,312	$530,740	$562,598	$589,197	$619,339

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

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

Labor Relations

In 1971, the City adopted an employee relations ordinance under the provisions of the Meyers-Milias-Brown Act ("MMBA"). Under the MMBA, management must bargain with recognized employee organizations on terms and conditions of employment, including wages, hours, and other working conditions. The CAO is the formal management representative on employee relations matters, representing the Mayor and Council in negotiations with 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, representing about 34,700 full-time City employees (these bargaining units include employees of the Airport and Harbor departments, but exclude DWP employees). The 41 MOUs are represented by 25 labor unions/employee associations and about 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.

Over the last several fiscal years, the CAO, at the direction of the EERC, has worked with labor unions to reduce the City's labor expenses by reducing the workforce through an Early Retirement Incentive Program ("ERIP"), reducing working hours for civilians (e.g., unpaid holidays), deferring or eliminating cost-of-living adjustments, reducing or eliminating cash overtime, changing active civilian employee healthcare benefits, and reforming its pension plans, including retiree healthcare benefits. During this time, the City also eliminated funded positions, transferred hundreds of employees into vacant non-General Fund positions, implemented furloughs on City civilian workers and executed layoffs. The City's adopted authorized staffing level for Fiscal Year 2014-15 is 31,875, well below its peak of 37,173 in Fiscal Year 2007-08.

To offset the increasing costs associated with health insurance for active employees, several bargaining units have agreed to have their members pay at least 5% of their monthly health care premium, and three bargaining units have agreed to pay at least 10% of the premium beginning in January 2014. Effective January 2015, a total of 12 bargaining units will be contributing 10% of the health care premium and one bargaining unit will be contributing 5%. These bargaining units represent about a quarter of the City's workforce.

In addition, the City has implemented significant reductions to its expenditures related to sworn employees. In March 2011, voters approved a Charter amendment for a new sworn pension tier that is anticipated to provide significant savings over the next 10 years. By 2018-19, approximately 25 percent of new sworn personnel will be enrolled in the new tier. Multi-year agreements reached with the Los Angeles Police Protective League, representing approximately 9,781 sworn employees, and with the United Firefighters of Los Angeles City, representing 3,168 sworn employees will expire in June 2014. Those agreements provided salary increases in Fiscal Years 2012-13 and 2013-14 (as shown on the table below) in addition to an agreement which gave members the option to contribute an additional 2% of salary (post-tax) toward vesting their current retiree health benefit and any future increases; approximately 71% of the eligible sworn workforce (representing 64% of the total sworn workforce) elected to make this contribution. Those that did not choose to make the additional contribution had their subsidy level frozen at the rate in effect as of July 1, 2011.

The following table summarizes the membership and status of the largest unions and employee associations. See also "**BUDGET AND FINANCIAL OPERATIONS—General Fund Budget Outlook**," including the footnotes to Table 16. After a Memorandum of Understanding expires, the terms continue to be observed during negotiations of a new contract unless a provision has a specific termination date.

Table 22
STATUS OF LABOR CONTRACTS
LARGEST EMPLOYEE ORGANIZATIONS
(As of June 1, 2014)

Organization	Authorized Number of Full-Time Employees Represented[1]	Number of Bargaining Units	Status of Memorandum of Understanding	Cost of Living Adjustment
Los Angeles Police Protective League	9,709	1	Contract expires 6/30/14	1% on 7/1/12 2% on 1/1/13 1% on 7/1/13 1% on 11/1/13 2% on 3/1/14
United Firefighters of Los Angeles City	3,112	1	Contract expires 6/30/14	1% on 7/1/12 2% on 1/1/13 1% on 7/1/13 1% on 11/1/13 2% on 3/1/14
Coalition of Los Angeles City Unions[2]	13,174	16	Contract expires 6/30/14	3% on 7/1/10 2.75% on 1/1/11 2.25% on 7/1/11 2.25% on 7/1/12 32 hours time-off in lieu of compensation (11/1/12) 1.75% deferral recovery on 7/1/13 5.5% on 1/1/14
Engineers and Architects Association	4,395	4	Contract expires 7/1/16	0% for term of contract Salaries restructured
Service Employees International Union – Units 8 & 17	1,735	2	Contract expires 6/30/14	2% on 7/3/11 3% on 6/30/13
Municipal Construction Inspectors Association (MCIA)	815	1	Contract expires 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) Includes Service Employees International Union, Local 721, American Federation of State, County and Municipal Employees, Laborers' International Union of North America Local 777, Los Angeles/Orange County Building & Construction Trades Council, IUOE Local 501, and the Teamsters, Local 911.

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

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

Table 23
AUTHORIZED CITY STAFFING[1]

	2010-11	2011-12	2012-13	Estimated 2013-14	Adopted 2014-15
Police & Fire	13,740	13,677	13,647	13,706	13,712
All Others	19,225	18,597	18,169	18,187	18,163
Total	32,965	32,274	31,816	31,893	31,875

(1) Excludes the Departments of Airports, Harbor, and Water and Power.

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 the Water and Power Employees' Retirement, Disability and Death Benefit Insurance Plan (the "Water and Power Plan"). No General Fund monies of the City are allocated to 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. 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 from time to time phasing-in of assumption changes has resulted in a small net pension obligation or net OPEB obligation for specific years.

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 next 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 valuation of assets that are lower or higher than the market value of assets. As discussed below, both systems have recently 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 7.75% for both of the Pension Systems) represents an actuarial investment loss, while any return above 7.75% represents an actuarial investment gain.

Table 24
LOS ANGELES PENSION SYSTEMS
HISTORICAL MARKET VALUE INVESTMENT RETURNS

Fiscal Year	LACERS[1]	FPPP[2]
2003-04	18.6%	16.9%
2004-05	10.0	10.1
2005-06	12.4	12.5
2006-07	19.5	18.5
2007-08	(5.7)	(4.7)
2008-09	(19.5)	(20.0)
2009-10	12.9	13.7
2010-11	22.6	22.1
2011-12	1.1	1.9
2012-13	14.3	13.0

(1) As of June 30, 2013, the 20-year annualized average rate of return for LACERS was 7.9%. The 30-year average was 9.4%.
(2) As of June 30, 2013, the 20-year annualized average rate of return for FPPP is 8.0%. The 30-year average is 9.2%.

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

The City has never issued pension obligation bonds to fund either of its Pension Systems.

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 www.lafpp.com/LAFPP/financial.html, respectively.

Such information 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, 2013.

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, 2013, the date of its most recent actuarial valuation, LACERS had 24,441 active members, 17,362 retired members and beneficiaries, and 5,799 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 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).

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, 2013.

Table 25
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
Actuarial Assumptions
As of June 30, 2013

Investment rate of return	7.75%
Inflation rate	3.50%
Real across-the-board salary increase	0.75%
Projected salary increases	Ranges from 4.65% to 11.25%, based on service
Cost of living adjustments for pensioners	3.00%

Source: Los Angeles City Employees' Retirement System Actuarial Valuation and Review of Retirement and Health Benefits as of June 30, 2013.

Based on the results of its most recent triennial experience study dated September 30, 2011 for the three-year period from July 1, 2008 through June 30, 2011, LACERS adopted new actuarial assumptions, including a reduced assumed investment return from 8% to 7.75%. The impact of these new actuarial assumptions would have increased the City's contribution rate by approximately 1.39% in Fiscal Year 2012-13. However, LACERS' Board approved phasing in impacts of these changes in assumptions over five years, which resulted in a 0.28% increase to the City's contribution rate in Fiscal Year 2012-13, and a .55% increase to the City's contribution rate for Fiscal Year 2013-14.

Over the past several years, LACERS' Board took several actions to change its asset smoothing method. First, it extended the period of time over which it recognizes market gains and loss from five to seven years, effective with the June 30, 2010 actuarial evaluation. Under this asset smoothing, only 1/7th 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. LACERS also amended the manner by which it recognizes extraordinary losses or gains in the market value of assets. LACERS, like a number of pension systems, maintains a policy that whenever market value falls outside a certain range or "corridor" relative to actuarial value, the excess portion must be recognized in that year's valuation. Previously, losses that resulted in the calculated actuarial value being greater than 120% of the market value, or gains resulting in market values less than 80% of actuarial values, had to be recognized immediately. Because of investment losses for Fiscal Year 2008-09 of approximately 20%, LACERS' actuary estimated that the actuarial value would be greater than 120% of the market value of assets. Application of this corridor meant that losses would be recognized more quickly than would occur under normal smoothing. LACERS' Board adopted a wider corridor, effective June 30, 2009, requiring immediate recognition of the losses or gains of assets whose actuarial value was greater than 150% of the market value or less than 50% of the market value. The effect of this action was to defer the actuarial recognition of extraordinary market losses; however, the unrecognized losses will have to be paid in future years. In connection with the revised smoothing method discussed above, LACERS again, as of June 30, 2010, revised its market corridor, narrowing it to 60%-140%, when the smoothing period was extended from five to seven years.

The following table shows unrecognized gains and losses as of June 30, 2013. As of the valuation date, approximately $82 million of net investment return losses are being deferred. These deferred losses will be reflected in future valuations and will increase the City's contribution in the future, unless offset by other favorable plan experience.

Table 26
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
CALCULATION OF UNRECOGNIZED RETURN DUE TO ASSET SMOOTHING
As of June 30, 2013

Year Ended June 30	Original Market Gain (Loss)	Percent Not Yet Recognized	Amount Not Recognized
2013	$ 683,838,549	85.71%	$ 586,147,328
2012	(770,325,267)	71.43	(550,232,334)
2011	1,208,621,516	57.14	690,640,866
2010	392,956,483	42.86	168,409,921
2009	(2,964,832,484)	26.67[1)]	(790,621,996)
2008	(1,549,293,380)	12.00[(1)]	(185,915,206)
Total unrecognized return (loss)			**$(81,571,421)**

(1) These percentages have been calculated by taking the unrecognized returns developed using a 5-year smoothing period through June 30, 2009 and recognizing those amounts over an extended period of an additional 2 years (for a total of 7 years from the original date of the investment gains or losses) starting with the June 30, 2010 valuation.

Source: Los Angeles City Employees' Retirement System Actuarial Valuation and Review of Retirement and Health Benefits as of June 30, 2013.

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 30 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 27
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)	Underfunded AAL[2]	Funded Ratio[3]	Covered Payroll[4]	Underfunded AAL as a Percentage Of Covered Payroll[5]
2004	$ 7,042,108	$ 8,533,864	$1,491,756	82.5%	$1,575,285	94.7%
2005	7,193,142	9,321,525	2,128,383	77.2	1,589,306	133.9
2006	7,674,999	9,870,662	2,195,663	77.8	1,733,340	126.7
2007	8,599,700	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

(1) Table includes funding for retirement benefits only. Other Post-Employment Benefits (OPEB) are not included.
(2) Actuarial Accrued Liability minus Actuarial Value of Assets, commonly referred to as UAAL. Positive numbers represent a funded ratio less than 100%.
(3) Actuarial value of assets divided by actuarial accrued liability.
(4) Annual payroll for members of LACERS.
(5) UAAL divided by covered payroll.

Source: Los Angeles City Employees' Retirement System Actuarial Valuation and Review of Retirement and Health Benefits as of June 30, 2013.

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 28
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)	Underfunded Liability[(2)]	Funded Ratio (Market Value)[(3)]	Covered Payroll[(4)]	Unfunded Liability as a Percentage Of Covered Payroll (Market Value)[(5)]
2004	$ 6,879,278	$ 8,533,864	$1,654,586	80.6%	$1,575,285	105.0%
2005	7,393,707	9,321,525	1,927,818	79.3	1,589,306	121.3
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	293.2
2013	10,154,486	14,881,663	4,727,177	68.2	1,846,970	255.9

(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 and Review of Retirement and Health Benefits as of June 30, 2013.

The table below summarizes the City's payments to LACERS over the past five years. 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 29
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
SOURCES AND USES OF CONTRIBUTIONS
($in Thousands)[1]

	2010-11	2011-12	2012-13[3]	2013-14	Adopted 2014-15[4]
Sources of Contributions					
Contributions for Council-controlled Departments	$339,136	$351,734	$342,188	$367,772	$411,509
Airport, Harbor Departments, LACERS, LAFPP	72,701	72,781	77,917	83,759	93,718
Total	$411,837	$424,515	$420,105	$451,531	$505,227
Percent of payroll – Tier 1	24.49%	24.71%	24.14%	25.33%	26.56%
Percent of payroll – Tier 2				18.32%	19.63%
Uses of Contributions					
Current Service Liability (Normal cost)	$230,398	$186,487	$184,202	$185,217	$193,578
UAAL	180,559	237,262	234,896	265,081	305,591
Adjustments[2]	880	766	1,007	1,233	6,058
Total	$411,837	$424,515	$420,105	$451,531	$505,227

(1) Includes funding for OPEB.
(2) Includes the excess benefit plan, the family death benefit plan, and the limited term plan fund. Beginning with the 2014-15 payment, the true-up obligation for the prior year is also reflected in this line item.
(3) 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.
(4) Payment for the 2013-14 true-up in the amount of $5,191,511 (all agencies) will be made in 2014-15.

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

In late 2012, the City Council adopted a new civilian retirement tier (Council file 10-1250), which applies to all employees hired on or after July 1, 2013. Prior to the adoption of the new tier, the City successfully negotiated and/or implemented various savings measures, 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, reducing the size of the civilian workforce by 5,300 positions, implementing a new pension tier for sworn personnel, and lowering the new hire salary for police officers by 20%. Although such measures were significant in helping to ameliorate the City's fiscal difficulties, implementation of a new civilian retirement tier was necessary to further bridge the gap. The new tier will reduce the City's future pension costs by increasing the normal retirement age from 55 to 65, decreasing the maximum retirement factor from 2.16% to 2.00% per year of service, capping the maximum retirement allowance at 75% of an employees' final compensation (compared to the current 100%), setting an employees' pension on a 3-year salary average (as opposed to one year), modifying disability retirement benefits to avoid spikes in the number of disability retirements, eliminating the current 50% survivor continuance benefit capping future retiree annual cost-of-living adjustments to 2% with the option for the employee to purchase up to 3%, requiring that employees pay the full cost of purchasing service credit and limiting the number of years purchasable to four years maximum, and controlling retiree healthcare costs by limiting the benefit to retirees only. The most significant cost offset for the City is achieved through the new tier's cost sharing element, which requires employees to contribute a portion of their salary at 75% of the normal cost of the pension benefits plus 50% of any future unfunded liabilities. This will relieve the City from carrying 100% of future pension cost increases.

In total, the new civilian retirement tier is estimated to result in a five-year savings of $30 million to $70 million, a 10-year savings of $169 million to $309 million, and a 30-year savings of $3.9 billion to $4.3 billion, as calculated by an independent enrolled actuary as required under the City Charter (Section 1168).

In the development and implementation of the new civilian tier, the City reached out to labor unions that represent all civilian employees through a two-year meet and consult process. Various unions contend that the development and implementation of the new tier is subject to meet and confer. As such, administrative actions have been taken against the City and are currently in process. Pending the outcome of the administrative actions, legal action may be taken against the City.

The City contribution is determined annually based on the estimated payroll for the coming fiscal year for LACERS-covered employees (as adopted through the City budget process), multiplied by an actuarially determined contribution percentage needed to fund the retirement and retiree healthcare benefits (as adopted by the LACERS Board). If the estimated covered payroll is less than the actual payroll amount, an actuarial loss will occur as the actual contribution is less than what is expected. Conversely an actuarial gain will occur if the estimated covered payroll is higher than the actual payroll amount. These annual experience gains/losses are added to the Unfunded Actuarial Accrued Liability ("UAAL") and amortized over 15 years. The City's future contributions will increase or decrease in the next 15 years to compensate for the contribution shortfall or surplus of a given year. Therefore, from the plan funding perspective, the inexactness in estimated covered payroll does not affect a pension plan's long-term funding goal.

However, beginning July 1, 2013, the inexactness between the City's estimated and actual covered payroll will have impact on the contribution rate for members under a new tier of LACERS benefits (Tier 2) adopted by City ordinance. Under Tier 2, the employee contribution is 10% of pensionable salary for the first four years; thereafter, Tier 2 member contributions are based on an actuarially determined rate, adopted by the Board, sufficient to fund 75% of Normal Cost and 50% of UAAL. The UAAL will increase when the estimated covered payroll is less than the actual covered payroll. Tier 2 members could potentially challenge their contribution to the UAAL claiming undue actuarial losses on the grounds that the City understated covered payrolls. Therefore, the LACERS Board adopted a contribution true-up mechanism to prevent such disputes on Tier 2 member contributions. The true-up amount determined by this mechanism, being either an underpayment or overpayment by the City, will result an adjustment to the annual required City contribution for the following fiscal year beginning from fiscal year 2013-2014, rather than incorporated into the UAAL to be amortized over 15 years.

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

Table 30
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
ASSET CLASS MARKET VALUE AND ALLOCATION
($ in millions)
As of September 30, 2013

Asset Class	Market Value	Market Value to Total Fund (%)	Target to Total Fund (%)
U.S. Equity	$8.90	69.2%	65.0%
Non-U.S. Equity	2.79	21.7	29.0
Core	2.73	21.2	19.0
Credit Opportunities	0.10	0.8	5.0
Public Real Assets	-	0.0	5.0
Private Real Estate	0.68	5.3	5.0
Total Portfolio	$12.87	100.0%	100.0%

Source: LACERS Portfolio Performance Review for the Quarter Ending September 30, 2013.

Fire and Police Pension Plan ("FPPP")

The FPPP, established in 1899 and incorporated into the Charter in 1923, represents contributory plans covering uniformed fire and police (sworn) personnel. As of June 30, 2013, the date of its most recent actuarial valuation, the FPPP had 13,224 active members, 12,432 retired members and beneficiaries, and 133 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 service credit 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. A new study was completed in February 2014 and is currently being reviewed by the Office of the City Administrative Officer and labor organizations.

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 31
LOS ANGELES FIRE AND POLICE PENSION PLAN
Actuarial Assumptions
As of June 30, 2013

Investment rate of return	7.75%
Inflation rate	3.50%
Real across-the-board salary increase	0.75%
Projected salary increases	Ranges from 5.25% to 12.25% based on service
Cost of living adjustments (pensioners)	3.50% for Tiers 1 and 2 and 3.00% for Tiers 3, 4, 5 and 6.

Source: LAFPPP Actuarial Valuation and Review of Pension and Other Postemployment Benefits (OPEB) as of June 30, 2013.

Effective July 1, 2010, the FPPP reduced its assumed investment return from 8% to 7.75%. Also, based on the results of its recent triennial experience study dated June 24, 2011 for the three-year period from July 1, 2007 through June 30, 2010, FPPP adopted new non-economic actuarial assumptions. The impact of these new actuarial assumptions would have increased the City's contribution rate for retirement benefits by approximately 2.94% in Fiscal Year 2012-13. However, FPPP phased in the impacts of these changes in assumptions over three years.

Similar to LACERS, FPPP has taken several actions to change its asset smoothing method. It extended the period of time over which market gains or losses are recognized, extending its smoothing methodology from five years to seven years effective July 1, 2008, so that approximately 1/7th of market losses or gains are recognized each year. FPPP also amended the manner in which they recognize extraordinary losses or gains in the market value of assets, expanding their market value "corridor." Because of investment losses for Fiscal Year 2008-09 of approximately 20%, FPPP adopted a wider corridor (effective July 1, 2008), requiring immediate recognition of assets whose actuarial value was greater than 140% of the market valuation or less than 60% of the market value; the prior corridor was 80% to 120%. The combination of the seven-year smoothing period and three year phase-in is estimated to have deferred approximately $157 million in City contributions in Fiscal Year 2010-11, $53 million in Fiscal Year 2011-12, $90 million in Fiscal Year in 2012-13, and $80 million in Fiscal Year 2013-14.

The following table shows unrecognized gains and losses as of June 30, 2013 for retirement and health subsidy benefits. As of the valuation date, approximately $77 million of net investment return is being deferred.

Table 32
LOS ANGELES FIRE AND POLICE PENSION PLAN
CALCULATION OF UNRECOGNIZED RETURN
As of June 30, 2013

Year Ended June 30	Original Market Gain (Loss)	Percent Not Recognized	Amount Not Recognized
2013	$ 851,978,845	85.71%	$ 730,267,581
2012	(1,024,245,456)	71.43	(731,603,897)
2011	1,641,626,618	57.14	938,072,353
2010	737,173,630	42.86	315,931,556
2009	(4,113,928,646)	28.57	(1,175,408,185)
Total unrecognized return (loss)			**$ 77,259,408**

Source: LAFPPP Actuarial Valuation and Review of Pension and Other Postemployment Benefits (OPEB) as of June 30, 2013.

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

Actuarial Valuation As of June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded or (Overfunded) AAL(2)	Funded Ratio(3)	Covered Payroll(4)	Underfunded AAL as a Percentage Of Covered Payroll(5)
2004	$11,735,696	$11,389,981	$ (345,715)	103.0%	$1,001,004	(34.5)%
2005	11,634,114	12,357,524	723,411	94.1	1,037,445	69.7
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

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

Actuarial Valuation As of June 30	Market Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded or (Overfunded) Liability(2)	Funded Ratio (Market Value)(3)	Covered Payroll(4)	Underfunded Liability as a Percentage Of Covered Payroll (Market Value)(5)
2004	$11,039,890	$11,389,981	$ 350,091	96.9%	$1,001,004	35.0%
2005	11,775,706	12,357,524	581,818	95.3	1,037,445	56.1
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

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

	2010-11	2011-12	2012-13	2013-14	Adopted Budget 2014-15
General Fund	$386,505	$441,861	$506,086	$575,941	$624,974
Percent of payroll	30.12%	39.07%	39.94%	44.40%	47.94%
Current Service Liability	$279,334	$276,171	$214,223	$302,040	$306,625
UAAL/(Surplus)	107,171	165,689	291,863	273,901	318,349
Adjustments[1]	-	-	-	-	-
Total	$386,505	$441,861	$506,086	$575,941	$624,974

[1] Effective FY 2010-11, the 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 June 30, 2013.

Table 36
LOS ANGELES FIRE AND POLICE PENSION PLAN
ASSET CLASS BY MARKET VALUE AND ALLOCATION
($ in millions)
As of June 30, 2013

	Market Value	**Cash Market Allocation**	**Current Target**
Domestic Large Cap Equity	$ 4,817	30.59%	23.00%
Domestic Small Cap Equity	1,127	7.16	6.00
International Developed Markets	2,458	15.61	16.00
International Emerging Markets	616	3.91	5.00
Domestic Bonds	2,109	13.39	14.00
High Yield Bonds	406	2.58	3.00
TIPS	722	4.59	5.00
Real Estate	1,023	6.50	7.00
REITS	276	1.75	2.00
Alternative Investments	1,310	8.32	9.00
Hedge Funds	549	3.49	4.00
Commodities	11	0.07	5.00
Cash Equivalents	320	2.03	1.00
Total	**$15,745**	**100.00%**	**100.00%**

Source: Los Angeles Fire & Police Pensions June 30, 2013 Performance Report.

Accounting and Financial Reporting Standard

In 2012, the Governmental Accounting Standards Board ("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 and GASB 68 address the disclosure of pension liability only; they do not impose any additional funding requirements.

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 their long-term obligation for pension benefits as a liability and provides greater guidance on measuring the annual costs of pension benefits, 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 provisions in GASB 68 are effective for fiscal years beginning after June 15, 2014. The City anticipates complying with the provisions of GASB 68 by its effective date (i.e., its financial statements for Fiscal Year 2014-15).

GASB 67 revises 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) and a statement of changes in fiduciary net position, and requires additional note disclosures and required supplementary information. The provisions in GASB 67 are effective for financial statements for fiscal years beginning after June 5, 2013. LACERS and FPPP are expected to comply with the provisions of GASB 67 by its effective date (i.e., financial statements for Fiscal Year 2013-14).

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 and dental insurance. 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 four 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 liabilities are made by the same actuaries that perform the analysis of the Pension Systems, and generally rely on the same actuarial assumptions, other than those assumptions such as medical inflation specific to OPEB.

As of June 30, 2013, the unfunded healthcare benefits liabilities of LACERS and the FPPP are as follows:

Table 37
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)	Underfunded AAL[1]	Funded Ratio[2]	Covered Payroll[3]	Underfunded AAL as a Percentage of Covered Payroll[4]
2006	$ 990,270	$1,730,799	$740,529	57.2%	$1,733,340	42.7%
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

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

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

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

Actuarial Valuation As of June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded AAL[1]	Funded Ratio[2]	Covered Payroll[3]	Underfunded AAL as a Percentage of Covered Payroll[4]
2006	$ 613,782	$1,631,187	$1,017,045	37.6%	$1,092,815	93.1%
2007	687,096	1,656,653	969,557	41.5	1,135,592	85.4
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

(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 95% of its civilian workforce and a 2% active employee contribution toward retiree healthcare for 71% of its eligible sworn 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. It is estimated that the City OPEB contribution to both systems will be offset by approximately $80 million in Fiscal Year 2013-14 as the result of members making the additional contribution toward retiree pension costs.

Three lawsuits have been filed challenging the City's actions relative to freezing OPEB benefits: *Los Angeles City Attorneys Association v. City of Los Angeles; 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, under the same actuarial assumptions used by LACERS' actuary for the LACERS valuation. These contributions illustrate the projected cost of both pension and other post-employment benefits under these assumptions. These projections reflect deferred investment losses from the previous years and the actuarial assumptions described above.

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

	Adopted Budget 2014-15	2015-16	2016-17	2017-18	2018-19
LACERS					
Contributions for Council-controlled Departments[1][2]	$411,509	$447,471	$470,844	$462,389	$457,371
Percentage of payroll[3]	26.42%	28.36%	29.37%	28.39%	27.53%
Incremental Change	$ 43,735	$ 35,962	$ 23,373	$ (8,455)	$ (5,018)
% Change		9%	5%	(2)%	(1)%

[1] Includes the General Fund and various special funds.
[2] Assumes 7.75% return on market value of assets for 2013-14 and 7.75% per year thereafter.
[3] Reflects combined rates for Tiers 1 and 2.

Source: City of Los Angeles, Office of the City Administrative Officer. Based on information from the LACERS 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. These contributions include the projected cost of other post-employment benefits. These illustrations, which are based on the June 30, 2013 actuarial valuation, reflect the deferred investment 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. Potential savings from the establishment of the new Tier 6 pension plan, as approved by City voters in March 2011, are not reflected in these estimates. Savings will occur as current active employees are replaced by new employees in Tier 6.

The triennial experience study adopted by the FPPP board reflected demographic changes, including changes to mortality rates that will increase the City's costs. Increased liabilities arising from the experience study have been phased in over three years.

Table 40
LOS ANGELES FIRE AND POLICE PENSION PLAN
PROJECTED CONTRIBUTIONS
($ in Thousands)

	Adopted Budget 2014-15	2015-16	2016-17	2017-18	2018-19
General Fund[1]	$624,974	$670,821	$710,558	$709,689	$690,746
Percentage of Payroll	47.94%	50.17%	52.27%	51.35%	48.97%
Incremental Change	$ 49,033	$ 45,847	$ 39,736	$ (869)	$ (18,943)
% Change		7%	6%	(0.1)%	(3)%

(1) Assumes 7.75% return on market value of assets.

Source: City of Los Angeles, Office of the City Administrative Officer. Based on information from the FPPP actuary requested 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 41
POOLED INVESTMENT FUND
GENERAL POOL
Investments as of April 30, 2014

Description	Par Value	Market Value	Percent of Total Funds (Market Value	Average Days
Bank Deposits[1]	$ 59,802,287	$ 59,802,287	0.81%	1
BNYM Sweep Accounts	0	0	0.00	0
LAIF (State of California)	0	0	0.00	0
Subtotal Cash and Overnight Investments	$ 59,802,287	$ 59,802,287	0.81%	1
CDARS [2]	$ 7,000,000	$ 7,000,000	0.09%	195
Commercial Paper	737,000,000	736,962,807	9.99	17
Negotiable Certificates of Deposit	0	0	0.00	0
Corporate Notes	205,450,000	207,319,562	2.81	152
U.S. Federal Agencies	309,226,000	309,438,025	4.19	36
U.S. Treasuries	290,000,000	290,000,000	3.93	8
Subtotal: Pooled Investments	$1,548,676,000	$1,550,720,394	21.02%	38
Total Short Term Core Portfolio	$1,608,478,287	$1,610,522,681	21.83%	36
Money Market Funds	$ 0	$ 0	0.00%	0
Commercial Paper	0	0	0.00	0
Negotiable Certificates of Deposit	0	0	0.00	0
Corporate Notes	1,199,079,000	1,210,906,173	16.42	1,064
U.S. Federal Agencies	749,000,000	759,808,380	10.30	1,034
U.S. Treasuries	3,727,000,000	3,795,339,650	51.45	991
Total Long-Term Reserve Portfolio	$5,675,079,000	$5,766,054,203	78.17%	1,012
Total Cash and Pooled Investments	$7,283,557,287	$7,376,576,884	100.00%	799

	Short-Term Core Portfolio	Long-Term Reserve Portfolio	Consolidated
Average Weighted Maturity	36 Days	2.8 Years	2.2 Years
Effective Yield	0.35%	1.19%	1.01%

(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 permitted investment vehicles, liquidity parameters and maximum maturity of investments. The Investment Policy is reviewed and approved by the Council on an annual basis.

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.

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. The City suspended the program from November 2008 until April 2010, due to volatility in the financial markets, and in 2012 pending a new contract for agent. The program was reinitiated in December 2012.

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

	2010-11	2011-12	2012-13	Estimated 2013-14	Adopted 2014-15
General Fund[2]	$ 10,560	$ 6,361	$ 8,462	$ 23,900	$ 9,612
Special Gas Tax Street Improvement Fund	2,900	1,789	10,333	0	9,043
Stormwater Pollution Abatement Fund	744	278	484	1,424	0
Special Parking Revenue Fund	6,988	6,868	0	750	0
Sewer Construction and Maintenance Fund	165,000	136,855	110,745	130,000	183,800
Park and Recreational Sites and Facilities Fund	742	624	536	1,800	2,000
Street Lighting Maintenance Assessment Fund	4,719	1,425	968	3,336	0
Proposition C Anti-Gridlock Transit Improvement Fund	495	219	65	0	0
Arts & Cultural Facilities and Svcs Trust Fund	0	0	93	0	0
Local Transportation Fund[3]	3,201	65	2,901	4,271	4,109
Measure R Local Return Fund	0	0	0	6,289	7,154
Other	671	1,454	1,073	0	0
Total[4]	$196,020	$155,940	$135,660	$171,770	$215,718

(1) Cash basis.
(2) General Fund reflects Municipal Facilities funding only. Excludes $27.2 million in funding provided in the Public Works Street Services Budget for street resurfacing and sidewalk repair. The latter funding is 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 2012-13 and projected revenues for Fiscal Years 2013-14 and 2014-15, as contained in the Fiscal Year 2014-15 Adopted Budget.

Table 43
FISCAL YEARS 2012-13, 2013-14 AND 2014-15
GENERAL FUND RECEIPTS
($ in thousands, cash basis)

	2012-13 Actual	Percent of Total	2013-14 Estimated	Percent of Total	2014-15 Adopted Budget	Percent of Total
Property Tax[(1)]	$ 1,550,388	33.18%	$ 1,543,098	31.58%	$ 1,644,811	32.01%
Redirection of ex-CRA Tax Increment Monies	58,839	1.06	66,548	1.36	48,023	0.93
Licenses, Permits, Fees and Fines	724,702	15.76	829,844	16.98	830,286	16.16
Utility Users' Tax	620,448	13.38	626,551	12.82	631,850	12.30
Business Tax	448,832	9.70	464,996	9.51	459,500	8.94
Sales Tax	338,970	7.26	357,580	7.32	374,100	7.28
Power Revenue Transfer	246,534	5.28	253,000	5.18	261,000	5.08
Parking Fines	156,878	3.33	160,852	3.29	165,192	3.21
Transient Occupancy Tax	167,824	3.53	184,970	3.78	194,100	3.78
Documentary Transfer Tax	147,282	3.12	178,900	3.66	196,800	3.83
Parking Users' Tax	89,422	1.96	96,563	1.98	98,400	1.92
Franchise Income	42,963	0.90	44,137	0.90	43,153	0.84
Interest	16,001	0.33	14,329	0.29	13,491	0.26
State Motor Vehicle License Fees	2,099	0.04	1,737	0.04	1,700	0.03
Tobacco Settlement	13,861	0.30	9,106	0.19	9,106	0.18
Grants Receipts	7,232	0.13	8,641	0.18	10,240	0.20
Transfer from Telecommunications Development Account	0	0.00	0	0.00	5,077	0.10
Residential Development Tax	2,379	0.04	3,052	0.06	3,280	0.06
Special Parking Revenue Transfer	32,577	0.70	35,142	0.72	30,635	0.60
Budget Stabilization Fund Transfer	0	0.00	8,029	0.16	0	0.00
Reserve Fund Transfer	0	0.00	0	0.00	117,546	2.29
Total General Receipts[(2)]	$$4,667,233	100.00%	$4,887,075	100.00%	$5,138,290	100.00%

(1) Includes property tax received in lieu of sales tax and motor vehicle license fees.
(2) 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 allocates 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 are 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 now receive an increased share of the local property tax (and K-12 school districts and community colleges receive a reduced share) until the ERBs are repaid. All education agency property tax reductions are offset by increased State aid. This shift in revenues between the State and local governments is known as the "Triple Flip." Although the final maturity of the ERBs was in 2023, they may be repaid by the State in advance of that date; the State currently estimates that by June 30, 2015 all of the ERBs will have been paid or provision for their payment will have been made through creation of escrow accounts.

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's rate. These various reallocations have affected the timing of the receipt of the impacted revenues.

Property Tax

Property taxes, including the reallocation of revenues under the "Triple Flip," various State replacements and the reallocation of tax increment, represent 32.8% of General Fund revenues in the 2014-15 Adopted Budget. Under Article XIII A of the State Constitution (enacted in 1978 through the passage of Proposition 13) and its implementing legislation, *ad valorem* taxes on real property (other than taxes relating to certain voter-approved indebtedness) are limited to 1.0% of the "full cash value of property." Full cash value is generally defined as the valuation of real property as shown on the 1975-76 tax bill or, thereafter, as the appraised value of property when purchased or newly constructed after the 1975 assessment period. Real property valuation may be increased to reflect inflation, not to exceed 2.0% per year. (See **"LIMITATIONS ON TAXES AND APPROPRIATIONS"** herein.)

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

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

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

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

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

All taxable real and personal property is classified as either "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" contains real property (land and improvements), certain taxable personal property (such as business equipment on business-owned property), and possessory interests (a leasehold on otherwise exempt government property). The "unsecured roll" contains taxable property that is not secured by the underlying real property, the majority of which is business equipment on leased or rented premises, and other taxable personal property such as boats and aircraft, as well as delinquent possessory interests. The balance of personal property has been exempted by State law from property taxes. For recent years, approximately 94% 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.

Los Angeles 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 44
ASSESSED VALUATION
($ in thousands)

	2009-10	2010-11	2011-12	2012-13	2013-14
Local Secured	$394,410	$386,781	$392,384	$402,227	$423,492
Utility	44,863	41,349	57,814	42,101	34,896
Unsecured	19,009	17,148	16,689	16,900	17,042
Total	$458,282	$445,278	$466,887	$461,228	$475,430
% Change in Net Valuation		-2.3%	1.3%	2.5%	5.1%

Source: California Municipal Statistics, Inc.

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

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

	2010-11	2011-12	2012-13	Estimated 2013-14	Adopted Budget 2014-15
1% Property Tax	$1,024,483	$ 994,966	$1,109,285	$1,080,836	$1,159,721
Vehicle License Fee Replacement	312,872	316,857	324,644	341,226	358,490
Sales Tax Replacement	96,811	100,538	116,458	121,036	126,600
Total Property Tax	$1,434,167	$1,412,361	$1,550,388	$1,543,098	$1,644,811

(1) Cash basis. Excludes property taxes attributable to the dissolution of the Los Angeles Community Redevelopment Agency.

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 2014-15 Adopted Budget assumes growth of 5.06% in property tax.

A list of the 20 largest taxpayers, based on secured assessed valuations within the City for Fiscal Year 2013-14, appears in the table below.

Table 46
CITY OF LOS ANGELES
TWENTY LARGEST 2013-14 SECURED TAXPAYERS

Property Owner	Primary Land Use	2013-14 Secured Assessed Valuation	Percent of Secured AV	Cumulative Percent of Secured AV
Douglas Emmett LLC	Office Building	$ 2,393,458,404	0.57%	0.57%
Anheuser Busch Inc.	Industrial	836,512,733	0.20	0.76
Valero Energy Corporation	Possessory Interest/Petroleum	828,316,149	0.20	0.96
Donald T. Sterling	Apartments	648,866,087	0.15	1.11
BRE Properties Inc.	Apartments	647,721,827	0.15	1.26
Conocophillips Co.	Possessory Interest/Petroleum	618,211,962	0.15	1.41
One Hundred Towers LLC	Office Building	605,746,600	0.14	1.55
Olympic And George Partners LLC	Hotel/Residences	574,137,599	0.14	1.69
APM Terminals Pacific Ltd.	Possessory Interest/Terminal Operations	550,437,546	0.13	1.82
Tishman Speyer Archstone Smith	Apartments	544,789,195	0.13	1.95
Westfield Topanga Owner LP	Shopping Center	490,970,618	0.12	2.06
LA Live Properties LLC	Commercial	488,095,440	0.12	2.18
Century City Mall LLC	Shopping Center	478,152,504	0.11	2.29
Taubman-Beverly Center	Shopping Center	477,297,278	0.11	2.40
Tesoro Corporation	Possessory Interest/Petroleum	471,758,221	0.11	2.52
Casden Park La Brea	Apartments	467,448,220	0.11	2.63
Trizec 333 LA LLC	Office Building	466,751,222	0.11	2.74
Duesenberg Investment Company	Office Building	452,529,548	0.11	2.84
Paramount Pictures Corp.	Industrial/Studio	448,997,362	0.11	2.95
Wilshire Courtyard LP	Office Building	420,500,000	0.10	3.05
Total		$12,910,698,515	3.05%	

Source: California Municipal Statistics, Inc.

Until recently, 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 ("LA/CRA") 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.

Utility Users' Taxes

Utility users' taxes represent 12.3% of General Fund revenues in the Fiscal Year 2014-15 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 Los Angeles Department of Water and Power (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 who, 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 meeting 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. Improvements to the system resulted in DWP cash collection in March and April, 2014, that were at or above the budgeted level. The City does not expect that the billing issues will affect the total amount of utility users' tax receipts for Fiscal Year 2014-15.

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 as a result of outdated ordinance definitions or references to outdated federal laws. One outstanding suit, *Ardon v. City of Los Angeles*, is a class action challenging the validity of the City's telephone users' tax based on a federal government interpretation of the federal excise tax. On July 25, 2011, the State Supreme Court held that class actions against municipalities for refunds of local taxes are permitted under State law, and remanded the matter back to the trial court for consideration on the merits. The City collected approximately $750 million of telephone users' tax between the time federal law changed in 2006 and the electorate approved a measure in 2008 that modernized the City's ordinance. Only a portion of the collected telephone users' tax is vulnerable to the claims made in *Ardon* and the City believes that if the plaintiffs were to prevail on all substantive and procedural issues (which the City believes is unlikely), the City's liability would not exceed $300 million and could be substantially less. (See **"LITIGATION"** herein.)

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

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

	2010-11	2011-12	2012-13	2013-14 Estimated	2014-15 Adopted
Electric Users' Tax	$303,812	$303,765	$320,432	$326,825	$352,000
Gas Users' Tax	72,410	68,295	66,017	70,900	70,200
Communications Users' Tax	251,847	242,974	233,998	226,651	209,650
Total	$628,068	$615,034	$620,447	$624,376	$631,850

(1) Cash basis.

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

Sales Tax

Sales tax receipts represent 7.3% of General Fund revenues in the Fiscal Year 2014-15 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 0.75%, reduced from 1.0% in 2004. Allocation of the 0.75% 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.

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 trades 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 will remain in place until the ERBs are retired, currently estimated to occur in 2016.

Statewide taxes were increased by 0.25% for four years, effective January 1, 2013, to increase funding for education. The combined tax rate in Los Angeles County is currently 9.00%.

On March 17, 2014, a joint City Administrative Officer and Chief Legislative Analyst report was released regarding the Save Our Streets LA (SOSLA) ballot measure proposal. The report provided information for the development of a comprehensive capital street repair and reconstruction program primarily targeting failed streets. In addition, information was provided regarding the inclusion of failed sidewalks. The report recommended a ½ cent sales tax increase to fund this program over 15 years to generate $4.5 billion. The report is currently pending Council Committee review.

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

Table 48
LOS ANGELES CITY
SALES TAX COMPONENTS
Since July 1, 2011

State Rate		
General Fund Portion	4.1275%	.
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 in 2016-2017.
Local Public Safety	0.50%	For the Local Public Safety Fund, approved by the State voters in 1993 to support local criminal justice activities. The City receives approximately $30 million annually.
Total State Rate	**6.50%**	
Uniform Local Tax Rate (Statewide)		
County Transportation	0.25%	The County allocates a small portion of this to the City.
Local Point of Sale	0.75%	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 is expected to expire with the retirement of the Economic Recovery Bonds.
Total Uniform Local Rate	**1.00%**	
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%**	

(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 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. These revenues reflect the reduction in receipts from the Triple Flip, which commenced in Fiscal Year 2005-06. After a two-year decline totaling over 17%, the City has experienced steady growth in sales tax in subsequent years.

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

Fiscal Year	Receipts[1]
2010-11	$296,608
2011-12	323,246
2012-13	338,970
2013-14 (Estimated)	357,580
2014-15 (Adopted)	374,100

(1) Cash basis.

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

Business Tax

Business tax receipts represent 8.9% of General Fund revenues in the Fiscal Year 2014-15 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 permanent tax reform measures were implemented. These reforms included exemptions for small businesses, changes in the taxing methodology for entertainment production companies, and the establishment of tax rate reductions that were triggered by growth in revenue. Most recently, the City adopted an ordinance that reduced the taxes on mutual funds over three years, beginning in the 2012 tax year, with an estimated $7.5 million reduction to receipts. Additionally in July 2012, the City adopted an ordinance to eliminate the gross receipts tax on new car dealers, which was estimated to reduce business tax revenue by approximately $3.8 million beginning in 2012-13

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; Fiscal Year 2014-15 reflects lower estimated receipts as a result of the loss of this one-time revenue.

Table 50
BUSINESS TAX RECEIPTS
($ in thousands)

Fiscal Year	Receipts[1]
2010-11	$418,374
2011-12	439,802
2012-13	448,832
2013-14 (Estimated)	464,996
2014-15 Adopted	459,500

(1) Cash basis.

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

The City is currently evaluating its current business tax structure in response to a 2011 citizen advisory committee recommendation to phase-out the City's business tax. The Mayor has proposed reducing the City's business tax by $45 million, beginning in 2015-16, phased in over three years with approximately $15 million in reductions added each year.

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 15.9% of General Fund revenues in the 2014-15 Adopted Budget.

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

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

	2010-11	2011-12	2012-13	Estimated 2013-14	Adopted 2014-15
Ambulance Fees	$ 65,131	$ 66,869	$ 66,745	$ 78,173	$ 90,518
Services to Dept. of Airports	60,691	58,819	61,490	65,065	62,720
Services to Harbor Dept.	26,170	24,891	20,912	24,627	25,777
Services to DWP	14,435	16,184	18,859	22,487	25,175
Services to Sewer Program	63,720	64,881	73,497	82,246	79,548
Solid Waste Fee	68,220	62,792	51,587	38,871	46,499
Gas Tax Reimbursements	25,381	24,023	30,059	34,859	36,136
Special Funds Related Costs	117,231	147,577	130,961	207,090	176,255
One Time Reimbursements	38,711	52,873	65,071	84,395	84,572
Other Departmental Receipts	199,169	194,691	190,117	175,371	191,085
Other Receipts	12,396	13,939	15,405	16,660	12,001
Total General Fund[2]	$691,255	$727,539	$724,703	$829,844	$830,286

(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 3.8% of General Fund revenues in the Fiscal Year 2014-15 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 is a factor of 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. The Adopted Budget assumes continued growth in the housing market with steady increase in both volume and price with the real estate recovery. The table below presents actual and budgeted receipts from this revenue source.

Table 52
DOCUMENTARY TRANSFER TAX RECEIPTS
($ in thousands)

Fiscal Year	Receipts[1]
2010-11	$100,413
2011-12	103,238
2012-13	147,282
2013-14 (Estimated)	178,900
2014-15 (Adopted)	196,800

[1] Cash basis.

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

Transient Occupancy Tax

Transient Occupancy Tax receipts represent 3.8% of General Fund revenues in the Fiscal Year 2014-15 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. 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 53
GENERAL FUND TRANSIENT OCCUPANCY (HOTEL) TAX RECEIPTS
($ in thousands)

Fiscal Year	Receipts[1]
2010-11	$134,798
2011-12	149,258
2012-13	167,823
2013-14 (Estimated)	184,700
2014-15 (Adopted)	194,100

[1] Cash basis.

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

Parking Fines

Parking Fine receipts represent 3.2% of General Fund revenues in the Fiscal Year 2014-15 Adopted Budget. The City receives revenues from parking fines; the schedule of fines is established by the Council. For budgeting purposes, parking fine revenue forecasts are based on the number of parking enforcement officers employed by the City's Department of Transportation, and estimates of average revenues per ticket based on historical trends, collection rates and average worker productivity. Additional staffing has been approved for Fiscal Year 2014-15 and is expected to increase revenue by approximately $2.3 million.

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

Table 54
PARKING FINES RECEIPTS
($ in thousands)

Fiscal Year	Receipts[1]
2010-11	$133,808
2011-12	152,844
2012-13	156,878
2013-14 (Estimated)	160,852
2014-15 (Adopted)	165,192

(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 5.1% of General Fund revenues in the Fiscal Year 2014-15 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. Monies are customarily transferred to the General Fund through adoption of the City budget.

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 Department’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 55
TRANSFERS FROM POWER REVENUE FUND
($ in thousands)

Fiscal Year	Receipts[1]
2010-11	$258,815
2011-12	250,077
2012-13	246,534
2013-14 (Estimated)	253,000
2014-15 (Adopted)	261,000

[1] Cash basis.

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

Proposition 26, adopted by State voters in November 2010, added new State constitutional restrictions to the City’s ability to charge fees. See “**LIMITATIONS ON TAXES AND APPROPRIATIONS—Proposition 26**,” herein. Application of the measure most likely was not retroactive for local governments, and therefore, transfers derived from revenues generated by current electricity rates do not appear subject to a material legal risk under Proposition 26. Nevertheless, the City cannot provide assurance that Proposition 26 will not materially and adversely impact the City’s ability to transfer surplus revenues from the Power Revenue Fund to the General Fund in the future. At this time, no legal challenge to the Power Revenue Transfer under Proposition 26 has been brought.

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.

On May 13, 2014, the Governor released his May Revision to the 2014-15 Proposed State Budget (the "May Revision"), which projects Fiscal Year 2013-14 revenues and transfers of $102.19 billion, total expenditures of $100.71 billion and a year-end surplus of $3.90 billion (inclusive of the $2.43 billion fund balance from Fiscal Year 2012-13), of which $955 million would be reserved for the liquidation of encumbrances and $2.95 billion would be deposited in a reserve for economic uncertainties. In addition, in Fiscal Year 2014-15, $1.604 billion would be deposited into the State's Budget Stabilization Account/Rainy Day Fund. The May Revision states that a number of major risks continue to threaten the State's fiscal stability, including the overhang of fiscal debts, growing long-term liabilities and continuing uncertainties regarding the costs of the federal Affordable Care Act.

The City has not identified any elements of the May Revision that would significantly 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 XIII A of the California Constitution - Proposition 13

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

Article XIII B of the California Constitution - Gann Limit

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

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

Appropriations subject to limitation pursuant to Article XIII B 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 56
APPROPRIATIONS LIMITS AND APPROPRIATIONS SUBJECT TO LIMITATION

Fiscal Year	City Appropriations Limit	Appropriations Subject to Limitations	Amount Appropriations Are Under Limit
2010-11	$4,283,914,632	$3,180,791,068	$1,103,123,564
2011-12	4,388,385,333	3,247,070,884	1,141,314,449
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 (Adopted)	5,081,981,225	3,700,196,019	1,381,785,206

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

Articles XIII C and XIII D of 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 XIII C and XIII D 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 XIII C 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 XIII D 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 XIII D also contains several provisions affecting "property-related fees" and "charges," defined for purposes of Article XIII D 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” 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. Proposition 1A provides, however, that beginning in fiscal year 2008-09, the State may shift from local governments to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years of the shift or borrowing, if the Governor proclaims that the shift is needed due to a severe State financial hardship, the shift is approved by two-thirds of the State Legislature and certain other conditions are met. This shift can only be effected twice every ten years. 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

In November, 2010, the voters of the State approved Proposition 26, which, among other things, amended Article XIII C to the California Constitution, principally to define what constitutes a “tax” under the limitations and requirements of that provision. Article XIII C imposes limitations on local governments like the City when imposing certain taxes, including a requirement that the local government submit certain taxes to the electorate for its approval.

Before Proposition 26, Article XIII C did not define the term "tax" and the purpose of Proposition 26 is to broadly define what constitutes a tax under Article XIII C to include "any levy, charge, or exaction of any kind imposed by a local government." Proposition 26 lists several exceptions to the definition of "tax," which include (a) a charge for a specific benefit or privilege, which does not exceed the reasonable costs of providing the benefit or privilege, (b) a charge for a government service or product, which does not exceed the reasonable costs of providing the service or product, (c) a charge for the reasonable regulatory costs of issuing licenses and permits, performing investigations, inspections, and audits, and the administrative enforcement thereof, (d) a charge for entrance to or use of local government property, or the purchase, rental, or lease of local government property, (e) a fine, penalty, or other monetary charge imposed as a result of a violation of law, (f) a charge imposed as a condition of property development, and (g) assessments and property-related fees imposed in accordance with the provisions of Article XIII D.

Proposition 26 thus added new state constitutional restrictions to the City's ability to charge fees. Application of the measure appears most likely not to have been retroactive for local governments. Thus, even if a fee enacted by the City prior to November 3, 2010 does not fit any of the measure's exceptions, it will nonetheless remain valid provided that the legislation authorizing it is not amended so as to extend or increase the fee. The City does not believe it has enacted, extended or increased any fees since passage of the measure that would not be exempt from it or that would require voter approval pursuant to it. See "**MAJOR GENERAL FUND REVENUE SOURCES —Power Transfer to General Fund**."

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 City has never failed to pay principal of or interest on any debt or lease obligation when due.

The CAO serves as the City's debt manager. Staff of the Office of the City Administrative Officer structures 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; solid waste resources fee (formerly sanitation equipment charge) and parking system revenue obligations; judgment obligation bonds; and special tax obligations, Mello-Roos bonds and certain special assessment obligations.

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. A 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.

Table 57
GENERAL OBLIGATION BONDS
As of July 1, 2014

Date of Election	Projects	Amount Authorized	Amount Issued	Amount Outstanding	Amount Authorized but Unissued
4/11/89	Branch Library Facilities (Proposition 1)	$ 53,400,000	$ 53,400,000	$ 2,054,962	--
4/11/89	Police Facilities (Proposition 2)	176,000,000	176,000,000	8,779,710	--
4/11/89	Fire Safety Facilities (Proposition 4)	60,000,000	60,000,000	920,617	--
6/5/90	Seismic Safety Projects (Proposition G)	376,000,000	376,000,000	25,495,844	--
11/3/98	Zoo Facilities (Proposition CC)	47,600,000	47,600,000	14,100,738	--
11/3/98	Library Facilities (Proposition DD)	178,300,000	178,300,000	83,798,587	--
11/7/00	Fire, Paramedic, Helicopter and Animal Shelter Projects (Proposition F)	532,648,000	532,648,000	220,636,673	--
3/5/02	Emergency Operations, Fire, Dispatch and Police Facilities (Proposition Q)	600,000,000	600,000,000	287,917,314	--
11/2/04	Storm Water Projects (Proposition O)	500,000,000	439,500,000	348,235,555	$60,500,000
Total		$2,523,948,000	$2,463,448,000	$991,940,000	$60,500,000

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 No. 1). While most of these projects are being funded on a pay-as-you-go basis, the City has issued $44,290,000 of bonds secured by these assessments, of which $18,180,000 will be outstanding as of July 1, 2014.

Lease Obligations

The City may enter into long-term lease obligations without first obtaining voter approval, so long as these agreements meet certain 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. 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. Payment of lease payments is managed by the CAO, and budgeted in the Capital Finance Administration Fund.

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

Table 58
GENERAL FUND BONDED AND CERTIFICATED LEASE OBLIGATIONS
As of July 1, 2014

Series	Project	Amount Issued	Amount Outstanding	Final Maturity
Los Angeles Convention and Exhibition Center Authority Taxable Lease Revenue Bonds, 1998 Series A (dated April 1, 1998)	Staples Arena	$ 45,580,000	$ 29,125,000	8/15/24
MICLA Taxable Certificates of Participation, Program AK (dated April 1, 1999)	Real Property	43,210,000	31,260,000	4/1/29
MICLA Refunding Certificates of Participation, Program AT (dated April 1, 2002)	Refunding of Central Library Bonds	30,305,000	28,520,000	6/1/20
MICLA Refunding Certificates of Participation, Program AS (dated April 2, 2002)[(1)]	Real Property, Pershing Square	7,655,000	3,275,000	10/1/22
MICLA Leasehold Refunding Revenue Bonds, Program AV (dated April 2, 2003)	Central Library Project	43,330,000	4,610,000	6/1/15
Los Angeles Convention and Exhibition Center Authority, Lease Revenue Bonds 2003A	Refunding of Convention Center Bonds	226,045,000	68,815,000	8/15/15
MICLA Certificates of Participation, Program AW (dated June 17, 2003)	Real Property	36,220,000	27,335,000	6/1/33
MICLA Certificates of Participation, Refunding Program AY (dated May 17, 2005)	Refunding (Real Property)	46,395,000	45,000	12/1/14
MICLA Lease Revenue Bonds, Series 2006-A (dated December 14, 2006)	Police Admin Bldg., Public Works Bldg.	448,595,000	407,655,000	1/1/37
MICLA Lease Revenue Bonds, Series 2007-A (dated August 8, 2007)	Capital Equipment	106,900,000	17,435,000	8/1/14
MICLA Lease Revenue Bonds, Series 2007-B1 (dated August 8, 2007)	Figueroa Plaza	169,050,000	159,550,000	8/1/37
MICLA Lease Revenue Bonds, Series 2007-B2 (Taxable) (dated August 8, 2007)	Figueroa Plaza	52,085,000	30,745,000	8/1/20
MICLA Lease Revenue Bonds, Series 2008-A (dated August 28, 2008)	Capital Equipment	105,090,000	83,365,000	9/1/26
MICLA Lease Revenue Bonds, Series 2008-B (dated August 28, 2008)	Real Property	43,790,000	39,835,000	9/1/38
Los Angeles Convention and Exhibition Center Authority Lease Revenue Bonds, Series 2008A (dated October 15, 2008)	Refunding of Convention Center Bonds	253,060,000	253,060,000	8/15/22
MICLA Lease Revenue Bonds, Series 2009-A (dated April 23, 2009)	Capital Equipment	57,930,000	31,690,000	4/1/19
MICLA Lease Revenue Bonds, Series 2009-B (dated April 23, 2009)	Real Property	52,065,000	47,325,000	4/1/39
MICLA Lease Revenue Bonds, Series 2009-C (dated December 10, 2009)	Capital Equipment	40,095,000	25,675,000	9/1/19
MICLA Lease Revenue Bonds, Series 2009-D (dated December 10, 2009)	Recovery Zone Economic Development Bonds	21,300,000	19,695,000	9/1/39
MICLA Lease Revenue Bonds, Series 2009-E (dated December 10, 2009)	Real Property	56,665,000	53,160,000	9/1/39
MICLA Lease Revenue Bonds, Series 2010-A (dated November 23, 2010)	Capital Equipment	30,355,000	22,415,000	11/1/20
MICLA Lease Revenue Bonds, Series 2010-B (Taxable) (dated November 23, 2010)	Capital Equipment	49,315,000	36,575,000	11/1/20
MICLA Lease Revenue Bonds, Series 2010-C (Taxable) (dated November 23, 2010)	Real Property	18,170,000	17,495,000	11/1/40
MICLA Lease Revenue Bonds, Series 2010-D (dated November 23, 2010)	Equipment and Real Property	18,705,000	5,575,000	11/1/15
MICLA Qualified Energy Conservation Bonds, Series 2011-A (Taxable) (dated October 26, 2011)	Real Property	11,920,000	9,990,000	10/1/28
MICLA Lease Revenue Bonds, Series 2012-A (dated May 10, 2012)	Capital Equipment	92,635,000	85,625,000	3/1/22
MCILA Lease Revenue Bonds, Series 2012-B (dated May 10, 2012)	Real Property	33,975,000	32,485,000	3/1/42
MICLA Lease Revenue Bonds, Refunding Series 2012-C (dated May 10, 2012)	Real Property	109,730,000	98,135,000	3/1/32
		$2,250,170,000	$1,670,470,000	

(1) Primary source of repayment is an assessment of 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.

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. 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. The payment of principal of and interest on the Commercial Paper Notes is further supported by various direct pay letters of credit, summarized as follows:

Table 59
LEASE REVENUE COMMERCIAL PAPER NOTES

Series	LOC Provider	Amount of Authorization	LOC Expiration
A-1 and B-1	Wells Fargo Bank	$130,000,000	February 24, 2016
A-2 and B-2	JP Morgan Chase Bank	107,500,000	June 13, 2016
A-3 and B-3	Bank of the West	47,500,000	June 13, 2016
A-4 and B-4	U.S. Bank National Association	50,000,000	June 13, 2016

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

As of May 22, 2014, $278 million in Commercial Paper Notes was outstanding.

As part of the Fiscal Year 2014-15 Adopted Budget, the Mayor and City Council approved the concept of creating another commercial paper program under which the Los Angeles Convention & Exhibition Center Authority Commission would be authorized to issue Lease Revenue Commercial Paper Notes for the purposes of making capital improvements to the Convention Center facility. The Budget also included a $2 million General Fund appropriation for credit support and interest cost. The City anticipates the program to be in place by December 2014.

Operating and Other Financing Leases

In addition to lease payments budgeted in connection with lease revenue bonds and certificates of participation, the City has entered into other lease arrangements for office equipment and other minor acquisitions. The City has also entered into a $39.8 million lease financing, funded through a private placement with Banc of America Leasing & Capital**,** LLC, to refund prior loans that financed streetlight improvements. While an obligation of the General Fund, these payments are being funded by the City's Streetlighting Assessment District. As of July 1, 2014, $33.9 million of this obligation remained outstanding.

Judgment Obligation Bonds

State law permits the issuance of bonds to finance an obligation imposed by law. The City has issued from time to time several obligations 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 which remain outstanding.

Table 60
JUDGMENT OBLIGATION BONDS
As of July 1, 2014

Dated Date	Amount Issued	Amount Outstanding	Final Maturity	Judgment Financed with Proceeds
6/30/09	$20,600,000	$11,265,000	6/1/19	Employment lawsuits by certain police officers.
6/29/10	50,875,000	33,310,000	6/1/20	Various employment, inverse condemnation and liability lawsuits.
Total	$71,475,000	$44,575,000		

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

Revenue Bonds

The City 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 501(c)(3) nonprofit corporations. These bonds and certificates of participation are not secured by any City General Fund or other City revenues.

Cash-flow Borrowings

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

Table 61
TAX AND REVENUE ANTICIPATION NOTES

Fiscal Year	LACERS	Fire and Police Pensions	Cashflow	Total Par Amount
2010-11	$335,810,000	$383,225,000	$445,595,000	$1,164,630,000
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

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

Table 62
DIRECT NET DEBT
As of July 1, 2014 [1]

	Outstanding
General Obligation Bonds	$ 991,940,000
City-Wide Special Tax and Assessment Bonds	
Landscaping and Lighting District 96-1	18,180,000
Lease Obligations [2][3]	
Capital Equipment	302,780,000
Real Property	1,367,690,000
Subtotal	1,670,470,000
Judgment Obligation Bonds	44,575,000
GROSS DIRECT DEBT	2,725,165,000
Revenue Bonds	
Power Revenue (DWP)[3]	7,452,695,000
Water Revenue (DWP) [3]	3,637,920,000
Department of Airports[3]	3,936,075,000
Harbor Department[3] [4]	764,505,000
Wastewater System[3]	2,407,530,000
Solid Waste Resources Fee (formerly Sanitation Equipment Charge)	283,645,000
Parking System[5]	0
Subtotal	18,482,370,000
TOTAL CITY DEBT	21,201,345,000
Less:	
Revenue Bonds	(18,482,370,000)
DIRECT NET DEBT	2,725,165,000
Plus:	
Other Overlapping Debt[6]	13,102,371,428
OVERALL NET DEBT	$15,827,536,428

(1) As adjusted by notes (2) through (6) below.
(2) Includes only bonded and certificated lease obligations. Excludes lease revenue bonds included under Parcel Tax Bonds.
(3) Does not include commercial paper.
(4) Does not include outstanding California Boating and Waterways Notes.
(5) Outstanding bonds have been refunded with proceeds of commercial paper.
(6) Overlapping debt information from California Municipal Statistics, Inc. as of May 1, 2014. See Table 70.

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

Table 63
DEBT SERVICE TO MATURITY ON DEBT PAYABLE FROM TAXES
As of July 1, 2014 (1)

	General Obligation Bonds			City-Wide Special Tax and Assessment Bonds			
Fiscal Year	Principal	Interest	Total	Principal	Interest	Total	Grand Total
2015	$ 104,205,000	$ 44,684,669	$148,889,669	$ 2,155,000	$ 902,045	$ 3,057,045	$ 151,946,714
2016	97,350,000	40,176,469	137,526,469	2,255,000	801,689	3,056,689	140,583,158
2017	86,565,000	35,929,656	122,494,656	2,360,000	694,524	3,054,524	125,549,180
2018	86,540,000	31,842,225	118,382,225	2,480,000	579,979	3,059,979	121,442,204
2019	86,420,000	27,756,888	114,176,888	2,605,000	453,849	3,058,849	117,235,736
2020	86,275,000	23,675,981	109,950,981	2,740,000	320,833	3,060,833	113,011,814
2021	83,050,000	19,647,688	102,697,688	2,140,000	179,250	2,319,250	105,016,938
2022	78,450,000	15,799,325	94,249,325	1,445,000	72,250	1,517,250	95,766,575
2023	65,960,000	12,361,456	78,321,456	0	0	0	78,321,456
2024	54,760,000	9,491,644	64,251,644	0	0	0	64,251,644
2025	45,715,000	7,050,738	52,765,738	0	0	0	52,765,738
2026	27,590,000	5,249,100	32,839,100	0	0	0	32,839,100
2027	23,235,000	4,003,150	27,238,150	0	0	0	27,238,150
2028	19,725,000	2,903,656	22,628,656	0	0	0	22,628,656
2029	19,725,000	1,885,294	21,610,294	0	0	0	21,610,294
2030	14,675,000	980,556	15,655,556	0	0	0	15,655,556
2031	5,850,000	438,750	6,288,750	0	0	0	6,288,750
2032	5,850,000	146,250	5,996,250	0	0	0	5,996,250
Total	$991,940,000	$284,023,494	$1,275,963,494	$18,180,000	$4,004,418	$22,184,418	$1,298,147,911

(1) Totals may not add due to rounding.

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

Table 64

DEBT SERVICE TO MATURITY ON BONDED AND CERTIFICATED LEASE OBLIGATIONS AND JUDGMENT OBLIGATION BONDS[1]

As of July 1, 2014

	Capital Equipment			Real Property			Judgment Obligation Bonds			
Fiscal Year	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Grand Total
2015	$50,990,000	$13,651,473	$64,641,473	$ 66,865,000	$66,575,287	$133,440,287	$7,055,000	$1,973,225	$9,028,225	$ 207,109,984
2016	33,750,000	11,847,670	45,597,670	70,815,000	63,739,126	134,554,126	7,340,000	1,691,025	9,031,025	189,182,822
2017	33,025,000	10,398,898	43,423,898	72,795,000	60,488,729	133,283,729	7,635,000	1,397,425	9,032,425	185,740,052
2018	34,570,000	8,842,258	43,412,258	76,320,000	56,862,093	133,182,093	7,990,000	1,038,175	9,028,175	185,622,526
2019	35,820,000	7,141,998	42,961,998	80,105,000	52,957,489	133,062,489	8,365,000	662,075	9,027,075	185,051,561
2020	30,785,000	5,302,621	36,087,621	84,250,000	48,798,208	133,048,208	6,190,000	304,500	6,494,500	175,630,329
2021	27,405,000	3,817,641	31,222,641	81,695,000	44,392,350	126,087,350	0	0	0	157,309,991
2022	18,445,000	2,656,563	21,222,641	85,590,000	40,121,065	125,711,065	0	0	0	146,812,628
2023	6,925,000	1,725,813	8,650,813	54,845,000	36,504,600	91,349,600	0	0	0	100,000,413
2024	7,275,000	1,376,531	8,651,531	41,460,000	34,010,404	75,470,404	0	0	0	84,121,936
2025	7,640,000	1,009,375	8,649,375	45,575,000	31,702,327	77,277,327	0	0	0	85,926,702
2026	8,030,000	617,625	8,647,625	44,070,000	29,389,425	73,459,425	0	0	0	82,107,050
2027	8,440,000	208,438	8,648,438	45,630,000	27,088,523	72,718,523	0	0	0	81,366,961
2028	0	0	0	41,975,000	24,691,675	66,666,675	0	0	0	66,666,675
2029	0	0	0	43,570,000	22,461,304	66,031,304	0	0	0	66,031,304
2030	0	0	0	41,415,000	20,266,067	61,681,067	0	0	0	61,681,067
2031	0	0	0	43,460,000	18,202,311	61,662,311	0	0	0	61,662,311
2032	0	0	0	45,380,000	16,028,603	61,408,603	0	0	0	61,408,603
2033	0	0	0	46,020,000	13,884,145	59,904,145	0	0	0	59,904,145
2034	0	0	0	45,940,000	11,716,930	57,656,930	0	0	0	57,656,930
2035	0	0	0	48,070,000	9,558,416	57,628,416	0	0	0	57,628,416
2036	0	0	0	50,300,000	7,296,584	57,596,584	0	0	0	57,596,584
2037	0	0	0	52,640,000	4,926,484	57,566,484	0	0	0	57,566,484
2038	0	0	0	26,270,000	2,443,482	28,713,482	0	0	0	28,713,482
2039	0	0	0	13,740,000	1,356,974	15,096,974	0	0	0	15,096,974
2040	0	0	0	8,210,000	611,900	8,821,900	0	0	0	8,821,900
2041	0	0	0	3,375,000	252,281	3,627,281	0	0	0	3,627,281
2042	0	0	0	1,990,000	99,500	2,089,500	0	0	0	2,089,500
Total	$303,100,000	$68,596,901	$371,696,901	$1,362,370,000	$746,426,282	$2,108,796,282	$44,575,000	$7,066,425	$51,641,425	$2,532,134,608

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

Table 65
DEBT MANAGEMENT POLICY RATIOS

Ratio	Ceiling	Estimated 2013-14	Adopted 2014-15
Total Direct Debt Service as Percent of General Fund Revenues	15.0%	8.23%	7.59%
Non-Voted Direct Debt Service as Percent of General Fund Revenues	6.0% [1]	5.08%	4.76%

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

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

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

Table 66
FINANCIAL RATIOS

As of June 30	Direct Net Debt	Net Debt Per Capita	Net Debt as Percent of Net Assessed Valuation
2009	$3,314,405,000	$876	0.81%
2010	3,409,635,000	899	0.83
2011	3,288,940,000	863	0.82
2012	3,250,215,000	850	0.80
2013	2,989,555,000	774	0.72

.

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

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

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

Fiscal Year	Debt Service Payment[(2)] ($000)	General Fund Revenues[(3)] ($000)	Debt Service as Percentage of General Fund Revenues
2009-10	$194,569	$4,517,954	4.31%
2010-11	214,661	4,478,801	4.79
2011-12	205,404	4,587,994	4.48
2012-13	210,143	4,639,692	4.53
2013-14 (Adopted Budget)	225,132	4,866,892	4.63

(1) Cash basis.
(2) Debt service payments on lease obligations and judgment obligation bonds.
(3) Including operating transfers in.

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

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

Table 68
RETIREMENT OF DIRECT NET DEBT
As of July 1, 2014[1]

	General Obligation Bonds		Special Tax Bonds		Capital Equipment Leases		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	Maturing Principal	Cumulative % of Debt Retired
0 to 5 years	$ 461,080,000	46.5%	$ 11,855,000	65.2%	$ 188,155,000	62.1%	$ 366,900,000	26.9%	$ 38,385,000	86.1%	$ 1,066,375,000	39.2%
5 to 10 years	368,495,000	83.6	6,325,000	100.0	90,835,000	92.0	347,840,000	52.5	6,190,000	100.0	819,685,000	69.3
10 to 15 years	135,990,000	97.3	0	100.0	24,110,000	100.0	220,820,000	68.7	0	100.0	380,920,000	83.3
15 to 20 years	26,375,000	100.0	0	100.0	0	100.0	222,215,000	85.0	0	100.0	248,590,000	92.5
20 to 25 years	0	100.0	0	100.0	0	100.0	191,020,000	99.0	0	100.0	191,020,000	99.5
25 to 30 years	0	100.0	0	100.0	0	100.0	13,575,000	100.0	0	100.0	13,575,000	100.0
30 to 35 years	0	100.0	0	100.0	0	100.0	0	100.0	0	100.0	0	100.0
Total	$ 991,940,000		$ 18,180,000		$ 303,100,000		$ 1,362,370,000		$ 44,575,000		$ 2,720,165,000	

(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.

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 City's wastewater system enterprise 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-M in the "Notes to the City's Basic Financial Statements Fiscal Year Ended June 30, 2013" in the City's Comprehensive Annual Financial Report.

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).

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.

For example, the City has approved an Implementation Agreement with a private developer, Anschutz Entertainment Group ("AEG"), in connection with the potential expansion of the City's Convention Center and development of a new event center that would host National Football League football and other events. In connection with this potential project, $316.4 million for the construction of additional convention center facilities, to replace the current West Hall facility where the event center would be located, would be financed through issuance of two types of bonds. The City, acting through the Los Angeles Convention and Exhibition Center Authority, would issue approximately $208.4 million in lease revenue bonds. The lease revenue bonds would be repaid by the City using new General Fund revenues generated as a direct result of the event center project that otherwise would not have been received. The City would also establish a community facilities district covering the L.A. Live properties to issue approximately $108 million in Mello-Roos special tax bonds. The special tax bonds would be repaid through an incremental property tax levied on the property owners or lessors of the parcels included in the district. Before the Agreement expires in October 2014, there are certain conditions that must be met in order to issue bonds. The City Council has authorized City staff to take steps necessary for developing an alternative proposal for the design, expansion and modernization of the Convention Center facility, in case the conditions set forth in the Implementation Agreement are not satisfied. The City will be exploring all options including the concept of a Public Private Partnership.

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

Table 69
POTENTIAL ADDITIONAL FINANCINGS
DEBT CALENDAR

Anticipated Sale Date[1]	Project	Type of Obligation	Estimated Financing Amount
Summer 2014	Refunding of Landscape and Lighting District 1	City-wide Assessment Bond	$18 million
Summer 2014	MICLA 2014 Direct Purchase (Equipment)	Leave Revenue	$70 million
Summer 2014	MICLA 2014-A Commercial Paper Refunding (Real Property)	Leave Revenue	$30 million
Summer 2014	MICLA 2014-B Refunding (Real Property - AT, AV, AW)	Lease Revenue	$61 million
Summer 2014	Community Facilities District No. 4 (Playa Vista) Refunding, Series 2014	Mello-Roos Special Tax	$98 million
Fall 2014	Convention Center Commercial Paper	Lease Revenue	$100 million
Winter 2015	Solid Waste Refunding	Enterprise Revenue Bonds	$64 million
Spring 2015	Wastewater System Refunding	Enterprise Revenue Bonds	Unknown

(1) Anticipated quarter of calendar year.

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 overlapping debt statement also excludes the City's city-wide landscaping and lighting district, which is reported in Table 60 as Direct Debt. 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 within the City, and that debt supported by these special assessments and special taxes may be issued.

Table 70
STATEMENT OF OVERLAPPING DEBT
As of May 1, 2014

	Debt Outstanding 5/1/2014	Estimated Percent Applicable[1]	Estimated Shares Of Overlapping Debt 5/1/2014
OVERLAPPING DEBT REPAID WITH PROPERTY TAXES [2]			
Los Angeles County Flood Control District	$ 17,480,000	39.883%	$ 6,971,548
Metropolitan Water District of Southern California	132,275,000	20.169	26,678,545
Los Angeles Community College District	3,642,560,000	70.450	2,566,183,520
Beverly Hills Unified School District	212,000,399	0.173	366,761
Inglewood Unified School District	130,230,000	1.059	1,379,136
Las Virgenes Unified School District	157,579,487	0.945	1,489,126
Los Angeles Unified School District	10,618,110,000	87.409	9,281,183,770
Other School Districts	431,419,576	Various	348,387
City of Los Angeles Community Facilities District No. 3 (estimate)	4,315,000	100.000	4,315,000
City of Los Angeles Community Facilities District No. 4	119,065,000	100.000	119,065,000
City of Los Angeles Community Facilities District No. 8	5,890,000	100.000	5,890,000
Mountains Recreation and Conservation Authority Assessment Districts	21,255,000	99.990-100.000	21,253,876
Los Angeles County Regional Park and Open Space Assessment District	113,615,000	38.676	43,941,737
OTHER OVERLAPPING DEBT:			
Los Angeles County General Fund Obligations	1,814,000,030	38.676	701,582,652
Los Angeles County Superintendent of Schools Certificates of Participation	9,529,882	38.676	3,685,777
Los Angeles County Sanitation District Nos. 1, 4, 5, 8 & 16 Authorities	74,168,932	0.002-11.506	4,657,867
Inglewood Unified School District Certificates of Participation	1,615,000	1.059	17,103
Las Virgenes Unified School District Certificates of Participation	11,445,000	0.945	108,155
Los Angeles Unified School District Certificates of Participation	365,858,657	87.409	319,793,393
Less: Los Angeles County General Fund Obligations supported by landfill revenues			(2,124,022)
Los Angeles Unified School District QZAB Bonds (supported by periodic payments to investment accounts)			(4,415,903)
TOTAL OVERLAPPING DEBT			$13,102,371,428

(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.

LITIGATION

The following is a list prepared by the Office of the City Attorney updated as of May 23, 2014, of completed, pending or threatened litigation involving the City, excluding most personal injury cases and single plaintiff cases, in which the City has a possible financial exposure of $5 million or more which, either individually or in the aggregate, could materially affect the City's General Fund financial position.

With regard to all other pending litigation, the City Attorney believes, based on current facts and circumstances, that the final determination of such litigation, either individually or in the aggregate, would not materially affect the City's General Fund financial position.

1. *Fair Labor Standards Act and Other Related Litigation*: The City has been sued in twelve separate class action cases, many of which allege violations of the Act. The various cases involve classes of 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 will not occur concurrently, and some of the cases have settled, but over an extended period of time maximum cumulative liability remaining could reach $25 million to the General Fund.

2. A number of claims have been filed in connection with the City's utility users' tax on telephone services, which was amended in 2008 to eliminate any such future claims (see **"MAJOR GENERAL FUND REVENUE SOURCES — Utility Users' Taxes"** herein.). *Ardon v. City of Los Angeles* is a class action challenging the validity of the City's telephone users' tax based on a federal government interpretation of the federal excise tax. The appellate court held that class actions against local taxes are not permitted under State law. The California Supreme Court reversed the appellate court decision on July 25, 2011, concluding that class claims for tax refunds against a local governmental entity are permissible, and remanded the matter back to the trial court. The class has not yet been certified. The City collected approximately $750 million of telephone users' tax between the time federal law changed in 2006 and the electorate approved a measure in 2008 that modernized the City's ordinance. Only a portion of the collected telephone users' tax is vulnerable to the claims made in *Ardon*. The City believes that if: (i) the case is not settled, (ii) the class is certified as to all phone customers within the City (including business users); (iii) the entire claiming period argued by plaintiffs is allowed; (iv) the City is found liable on the merits; and (v) there is a high claiming rate by those within the class, the City's liability would not exceed $300 million and could be substantially less. The City further believes it unlikely that each of five elements in the preceding sentence will occur.

   In *Nextel Boost of California LLC v. City of Los Angeles,* the plaintiff, a provider of prepaid wireless services, seeks a refund of $6.3 million, which it alleges it overpaid for the period February 2007 through February 2008 in connection with the telephone users' tax. In *J2 Global Communications, Inc. v. City of Los Angeles,* the plaintiff seeks a $5.5 million refund for telephone users' taxes incurred for the years 2005, 2006 and 2007. Plaintiff makes the same federal excise tax argument as in *Ardon*, and also argues that the City's amendment to the Municipal Code was improper prior to voter approval in 2008. In *Sprint Telephone PCS, L.P. v. City of Los Angeles*, the plaintiff seeks a refund in the amount of $8,320,000 for overpaid telephone users tax for the period January 1, 1998 through December 1, 2003 (the "Refund Period"). Plaintiff argues that it was not subject to the federal excise tax during the Refund Period. In *TracFone Wireless, Inc. v. City of Los Angeles*, the plaintiff, a national vendor of prepaid telephone cards, filed a complaint in December 2006, seeking a refund of approximately $180,000 based on the same arguments. The *TracFone and J2 Global* cases are related to the *Ardon* matter and are in the pre-trial stage. The prior lawsuits filed by *Nextel Boost*, *Sprint Telephone PCS*, and *Sprint Communications Co*. based on similar theories have been resolved.

   In a second suit by Tracfone, *Tracfone Wireless, Inc. v. City of Los Angeles*, the plaintiff seeks $2.8 million for allegedly overpaid telephone users taxes for the periods January

2006 through December 2009. This action is stayed pending resolution of the *Ardon* matter. *Sipple et al. v. City of Los Angeles,* is not a FET case but involves related issues. On May 11, 2011, plaintiff filed a complaint against 138 public agencies, including the City, seeking a refund of TUT. Plaintiff contends that TUT was erroneously collected on internet access charges by carrier New Cingular Wireless and its affiliates. New Cingular Wireless filed a refund request in an amount slightly over $22 million. The trial court sustained the City's demurrer to the complaint on the grounds that the plaintiffs lacked standing to assert a claim on behalf of all City taxpayers and plaintiffs had failed to comply with the City's claiming ordinance. The Court of Appeal reversed the dismissal and the City has authorized a Petition for Review to the Supreme Court. If the Court of Appeal decision stands, the potential exposure of plaintiffs prevail is estimated at approximately $9.7 million.

3. *Lisker v. City of Los Angeles, et al.* This case arises from plaintiff being arrested in 1983 and subsequently being convicted of murdering his mother. Plaintiff was released in August 2009, after a federal court determined that plaintiff received ineffective assistance of counsel and the evidence used against him was false. Plaintiff filed suit against the City and two former detectives, alleging the investigating detectives fabricated evidence and/or testified falsely at his trial. Potential loss to the City could be $25 million or more.

4. *Americans for Safe Access v. City of Los Angeles.* This case has been renamed *420 Caregivers LLC v. City of Los Angeles.* The City is a party to approximately 44 related state court actions challenging the City's medical marijuana ordinance. The plaintiffs prevailed at trial. On July 23, 2012, the Court of Appeal reversed the lower court's December 2010 preliminary injunction order against portions of the City's ordinance. On September 19, 2012, the California Supreme Court granted review, but on July 31, 2013, the California Supreme Court dismissed review of the case. These cases have not been dismissed and several new lawsuits have been filed challenging the City's new medical marijuana laws. The City believes that City liability, if any, will be significantly below $5 million.

5. The City Attorney has been 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 regarding compliance with federal accessibility laws and regulations protecting individuals with handicaps. The City is cooperating in the investigation and is defending its interests. Potential liability could exceed $5 million.

6. *Castillo v. City of Los Angeles.* This case is a putative class action seeking damages under the State's Unruh Act and the California Constitution arising from the City's impounding the vehicles of un-licensed drivers. The City's potential liability could reach $50 million.

7. *Independent Living Center of Southern California, et al v. City of Los Angeles.* This case was brought by three fair housing advocacy organizations against the City, the CRA/LA and 34 owners of affordable housing projects. The plaintiffs allege defendants failed to ensure that the affordable housing projects meet the accessibility requirements under federal and state civil rights laws. City liability could exceed $5 million.

8. *Killings-Rodriguez v. City of Los Angeles.* In this case the plaintiff alleges wrongful death to a teenager and personal injuries (quadriplegia) to a young child as a result of being struck in a crosswalk by a third party vehicle. The plaintiff alleges that the traffic controls were inadequate. The City's motion for summary judgment was granted and the plaintiff has appealed. If the plaintiff ultimately prevails, City liability could reach $40 million.

9. *Romero v. City of Los Angeles.* The plaintiffs are the Water and Power Employees' Retirement Plan ("WPERP"), the WPERP Board, and certain current and former Board WPERP members and employees of the Los Angeles Department of Water and Power ("LADWP"). Plaintiffs sought relief arising from City employees applying to vacant LADWP positions, causing such employees to be covered by WPERP. Plaintiffs claimed such actions caused WPERP to have an additional unfunded accrued actuarial liability of $183 million. The parties settled this case and the City is not required to pay any money.

10. *The Association of Los Angeles City Attorneys v City of Los Angeles, Engineers & Architects Association, Intervenors.* The plaintiffs filed an action arising out of the furloughs imposed on plaintiff employees in fiscal years 2010-11 through 2012-13. Plaintiff sought to end the furloughs and obtain back pay to reimburse Association members for the furlough days they would have worked but for the City's actions, plus interest and attorneys' fees. Pursuant to a mediation process, the parties have agreed to a global settlement agreement resulting in successor Memoranda of Understanding ("MOU") governing the terms and conditions of employment for two City Attorney bargaining units for a 3-year period ending June 30, 2016. The MOU terms include compensation and other terms and conditions of employment, contributions to healthcare and retirement benefits, and other benefits. As part of the settlement, the Association agreed to dismiss the furlough lawsuit with prejudice, and the City agreed to dismiss its appeal in a related lawsuit regarding retiree healthcare benefits. The total net cost to the City is estimated at $5.9 million over the three-year MOU period.

11. *Gomez v. City of Los Angeles.* In this case plaintiff sought damages arising from injuries (paraplegia) to a 13 year old boy who was playing with a replica gun and who was shot by LAPD officers. The trial court entered a judgment of $22 million against the City. The City has filed an appeal.

12. *Housing Reform Coalition, Jason Teague, Niesja Sharp v. City of Los Angeles*. Plaintiffs brought a class action lawsuit as a private attorney general, alleging that the City Housing Department's Systematic Code Enforcement Program fees are a tax and violate Article XIIIC, Section 2 of the California Constitution. Plaintiffs seek a refund in the amount of $82,405,660 plus attorneys' fees.

13. *Willits, et al. v. City of Los Angeles*. Plaintiffs and the entity Communities Actively Living Independent and Free allege that the City's policies and procedure as well as its infrastructure (including curb ramps and sidewalks) fail to provide equal services and access to individuals with disabilities. The complaint seeks injunctive relief to require the removal of alleged barriers to pedestrian paths of travel throughout the City and cessation of alleged discriminatory policies to ensure all City design and construction activities and services operate in a manner that is usable and readily accessible to persons with disabilities. The parties are in mediation. The City's on-going capital program includes funding for sidewalks. At this time the City is unable to estimate the potential impact on

the General Fund of an adjudication or settlement of this dispute beyond the currently planned and budgeted sidewalk funding.

14. 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 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 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 by which the claimant may file a lawsuit pursuant to the claim.

15. 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 City’s liability might exceed $5 million. The parties have entered into a tolling agreement to extend the time deadline by which the claimant may file a lawsuit pursuant to the claim.

16. 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 City’s liability might exceed $5 million. The parties have entered into a tolling agreement to extend the time deadline by which the claimant may file a lawsuit pursuant to the claim.

17. *Galfer v. City of Los Angeles.* This case is a putative class action and writ petition seeking injunctive and declaratory relief and attorneys’ fees, arising from the City’s Department of Transportation issuing a notice of denial to dismiss a citation without issuing an explanation of the denial as required by the State Vehicle Code. The class has not been certified. IF the class is certified and plaintiffs prevail, possible City liability could reach $30 million.

18. *Christian Rodriguez v. City of Los Angeles.* This case is a certified class action lawsuit in which plaintiffs, over 5,000 gang members, claim the City’s gang injunction provisions are unconstitutional. Plaintiffs seek damages and other relief; possible City liability could reach $25 million.

19. Parking Violations Litigation. Approximately ten lawsuits have been filed in state or federal court against the City, some of which are putative class action lawsuits. The plaintiffs allege that the City’s Parking Violations Bureau processes constitute unconstitutional deprivations of property without due process and violate other state laws. One lawsuit is a putative class action case filed in federal court in which plaintiffs allege that the expired parking meter fines are excessive and constitute violations of due process under the federal and state constitutions. No class has been certified for any of these cases.

20. *Coldwater Development LLC v. City of Los Angeles.* This is a lawsuit for inverse condemnation and injunctive relief. Plaintiff alleges that the City's Department of Building and Safety acted improperly in connection with its permit applications to construct two large residential structures. Possible City liability could exceed $5 million.

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

1. *Los Angeles City Attorneys Association v. City of Los Angeles; Engineers and Architects Association, Intervenors.* This lawsuit challenged the City's action to freeze the level of retiree health benefits at current levels for civilian employees who elected not to contribute to such benefits. On September 13, 2013, the trial court entered a judgment in favor of the plaintiffs and issued a writ of mandate, and the City appealed. The parties have settled this case as part of the mediation process described in *The Association of Los Angeles City Attorneys v. City of Los Angeles, Engineers & Architects Association, Intervenors*, above.
2. *Jack Fry, Gary Cline, Sandra Carlsen, Yvette Moreno, and Los Angeles Retired Fire & Police Association, Inc. v. City of Los Angeles.* This suit was filed by individual sworn employees regarding the City's action to freeze retiree health benefits for sworn employees who elect not to contribute to these benefits. The case is expected to be heard on the merits this summer. There is no firm estimate of the long term cost to the City if the plaintiffs prevail, but it would probably be less than $6 million.
3. *Los Angeles Police Protective League and United Firefighters of Los Angeles City v. Board of Fire and Police Pension Commissioners v. City of Los Angeles.* In this case, plaintiffs seek a judgment declaring that their letter agreement with the City requires the Retirement Board to increase the retirees' medical subsidy. The City prevailed on a demurrer and the case is on appeal.