FRANK T. MARTINEZ
City Clerk

KAREN E. KALFAYAN
Executive Officer

When making inquiries relative to this matter refer to File No.

04-1988

CITY OF LOS ANGELES
CALIFORNIA

JAMES K. HAHN
MAYOR

Office of the
CITY CLERK
Council and Public Services
Room 395, City Hall
Los Angeles, CA 90012
Council File Information - (213) 978-1043
General Information - (213) 978-1133
Fax: (213) 978-1040

HELEN GINSBURG
Chief, Council and Public Services Division

April 7, 2005

City Administrative Officer
Chief Legislative Analyst
Los Angeles World Airports
Harbor Department
Department of Water and Power
Housing Department
Community Redevelopment Agency
City Attorney

Controller, Room 300
Accounting Division, F&A
Disbursement Division
Treasurer

RE: FINANCIAL CONDITION OF THE FIRE AND POLICE PENSION SYSTEM AND THE LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

At the meeting of the Council held April 5, 2005, the following action was taken:

Attached report adopted	X
Attached motion (-) adopted	
Attached resolution adopted	
FORTHWITH	
Mayor concurred	
To the Mayor FORTHWITH	
Motion adopted to approve communication recommendation(s)	
Motion adopted to approve committee report recommendation(s)	
Ordinance adopted	

Frank T. Martinez

City Clerk
crm

PLACE IN FILES
APR 12 2005
DEPUTY

ccc 4/5/05

File No. 04-1988

17

TO THE COUNCIL OF THE
CITY OF LOS ANGELES

Your BUDGET AND FINANCE Committee

reports as follows:

	Yes	No
Public Comments:	X	

BUDGET AND FINANCE COMMITTEE REPORT relative to the financial condition of the Fire and Police Pension System (Pensions) and the Los Angeles City Employees' Retirement System (LACERS).

Recommendations for Council action:

1. AUTHORIZE the establishment of a Debt Management Committee of City officials, including the City Administrative Officer (CAO) as Chair, the Chief Legislative Analyst, the Controller, the Treasurer, the City Attorney, and those departments and agencies that are responsible for issuing their own debt, which would include disclosure review in its duties.

2. INSTRUCT the CAO to review the draft Comprehensive Annual Financial Report and REQUEST the Controller to participate in the detailed review of CAO report Appendix A.

3. INSTRUCT the CAO to include a description of the new disclosure process in the City's Debt Management Policy.

4. INSTRUCT the CAO to contract with the City's Disclosure Counsel to conduct annual training for elected officials, Department Heads and appropriate staff regarding their roles and responsibilities in the City financial disclosure process.

5. INSTRUCT the Departments of Airport, Harbor, Water and Power, Housing and Community Development, the Community Redevelopment Agency and the Housing and Industrial Development Authorities to submit their City disclosure information to the CAO to ensure consistent City information is disclosed.

6. INSTRUCT the CAO, City Attorney, Controller and the City's Certified Public Accountants to conduct annual workshops on financial disclosure requirements for all City departments, including the Community Redevelopment Agency.

7. AUTHORIZE expansion of the responsibilities of the Debt Management Committee to include reviewing financial disclosure issues for the City, not just General Government.

Fiscal Impact Statement: The CAO reports that it is anticipated that the cost for disclosure training will be approximately $5,000 annually. The cost for 2004-05 can be absorbed within the CAO's budget.

SUMMARY

At its meeting of March 29, 2005, the Budget and Finance Committee considered CAO and

Controller reports relative to the financial condition of Pensions and LACERS, and enhanced financial disclosure. The CAO was asked to provide the Budget and Finance Committee with a comprehensive report on the financial condition of Pensions and LACERS to ensure that the City does not make the same mistakes that the City of San Diego made with regard to its retirement system. As part of this process, the CAO requested the assistance of the City's financial advisors, Public Resources Advisory Group (PRAG) and Kelling, Northcross and Nobriga (KNN).

The CAO reports that over the past several months, problems related to the City of San Diego's employee retirement system have become public. Its retirement fund is under-funded, creating a large municipal liability. In addition, for several years San Diego failed to disclose its true fiscal situation to the financial community, including its pension problems. As a direct result of disclosing its true financial condition, San Diego's bond ratings were lowered significantly, which further impedes its ability to balance future budgets. The San Diego City Council commissioned a firm to investigate what occurred and recommend changes to its process. The firm, Vinson & Elkins, found that the city management failed to follow sound actuarial advice by deliberately under-funding its retirement system and failed to disclose its true financial condition.

The City of Los Angeles has policies in place intended to prevent a similar situation. First, the City has historically funded both Pensions and LACERs at 100 percent of their annual budget requirements (approved actuarial rates). The City Charter requires that the budgets for both systems include: (1) a sum equal to a percentage of the salaries of all members of the retirement system, as included in the most recent actuarial report; (2) a sum sufficient to liquidate, over a period of up to 30 years, any accrued unfunded liabilities assumed by the system; and, (3) administrative expenses. The Charter further specifies that LACERS is a general obligation of the City and that the Pensions budget must be funded at 100 percent. The CAO report includes a five-year funding history as well as a five-year projected contribution forecast for both systems.

The CAO reports that the City provides financial disclosure date in every bond issuance. The City's Debt Management Policy designates the CAO as the debt manager for all City debt except that issued by the Department of Airports, Harbor, Water and Power, Housing and community Development, the Community Redevelopment Agency and the Housing and Industrial Development Authorities, due to the specialized aspects of the debt issued and the integral ties between the debt and the programs these agencies administer. The Council is the final issuer of all City debt and awards all contracts for the purchase of bonds regardless of the agency.

For bond issuances that the CAO manages, the CAO submits a final draft of the Official Statement of the Mayor and Council for approval, who in turn authorize the CAO to finalize and disseminate the information to investors. Within the Official Statement, City information is contained in Appendix A, which includes the City's financial and municipal information and discloses various financial risks of the City. The most recent iteration of Appendix A is attached to the CAO report. Additionally, the City Controller prepares the Basic Financial Statements of the City that are included in all Official Statements, known as Appendix B. Every bond issuance has a Disclosure Certificate that identifies what the City needs to update for its annual disclosure as dictated by the Securities and Exchange Commission. This document is prepared with the assistance of the City's financial advisors and Disclosure Counsel in accordance with bond covenants and disseminated by the CAO to the four national

repositories, as previously approved by the Mayor and the Council. The CAO is authorized by the Mayor and the Council to ensure that the information is accurate and complete as the City's Due Diligence process describes.

Departments and agencies that issue their own debt should abide by these same policies and their financial disclosure documents should be consistent with those of the rest of the City. The CAO will ensure that City information included in other agencies' documents is consistent.

The CAO reports that while the City's financial advisors indicate that the City's current pension funding and disclosure practices are superior to San Diego's past practices, they do have several recommendations designed to improve communication and further strengthen the City's commitment to good disclosure. These recommendations are detailed in the CAO report attached to the Council file.

In response to the Budget and Finance Committee's request, the Controller reviewed the CAO's report as well as reviewed the Vinson & Elkins investigative report. The Controller concurred with the CAO's recommendations for improving disclosure related to General Government debt issues, and believes it is important to address additional concerns related to the broader issue of the City's financial disclosure process. The Controller included recommendations that the Mayor and Council fund a management audit of the LACERS and Pensions, and the Department of Water and Power's (DWP) Retirement System during their 2005-06 budget deliberations, and expansion of the responsibilities of the Debt Management Committee to include reviewing financial disclosure issues for the City, not just General Government, as well as a recommendation that the CAO, City Attorney, Controller and the City's CPA's conduct annual workshops on financial disclosure requirements for all City departments, including the CRA. The Budget and Finance Committee recommended approval of the Controller recommendations relative to financial disclosure issues and training, however, the Committee stated that funding for a management audit of LACERS, Pensions and the DWP's Retirement System would be part of the Committee's Fiscal Year 05-06 budget hearing process.

The Budget and Finance Committee, at its meeting of March 29, 2005, recommended approval of the CAO recommendations relative to the financial condition of Pensions and LACERS and additionally approved the Controller recommendations relative to expansion of the Debt Management Committee to include reviewing financial disclosure issues for the City, and annual training workshops on financial disclosure responsibilities. This matter is now forwarded to the Council for its consideration.

Respectfully submitted,

BUDGET AND FINANCE COMMITTEE

MEMBER	VOTE
PARKS:	YES
MISCIKOWSKI:	YES
CARDENAS:	YES
SMITH:	YES
GARCETTI:	YES

LB
#041988
3/30/05

Report

ADOPTED

APR 0 5 2005

LOS ANGELES CITY COUNCIL

COUNCIL VOTE

Apr 5, 2005 10:51:32 AM, #1

Items for Which Public Hearings Have Been Held - Items 6- 20
Voting on Item(s): 8-10,12,14-19
Roll Call

CARDENAS	Yes
GARCETTI	Yes
GREUEL	Yes
HAHN	Yes
LABONGE	Yes
LUDLOW	Yes
MISCIKOWSKI	Yes
PARKS	Yes
PERRY	Yes
REYES	Yes
SMITH	Yes
VILLARAIGOSA	Yes
WEISS	Yes
ZINE	Yes
*PADILLA	Yes

Present: 15, Yes: 15 No: 0

BUDGET AND FINANCE COMMITTEE
NOTIFICATION SHEET

Council File No. 04-1988

	Council Districts:	
	Mayor (with file/without)	(Mail Stop 370)
✓	City Administrative Officer	(Mail Stop 130)
✓	Chief Legislative Analyst	(Mail Stop 136)
✓	City Attorney (with blue slip/without)	(Mail Stop 140)
✓	Controller	(Mail Stop 183)
✓	Treasurer	(Mail Stop 750)
	Information Technology Agency	(Mail Stop 232)
	Department of Building and Safety	(Mail Stop 115)
	Office of Finance - Attn: Robert Lee	(Mail Stop 170)
	Fire Commission / Department	(Mail Stop 250)
	Department of General Services	(Mail Stop 508)
	Personnel Department	(Mail Stop 391)
	City Clerk -	
	Police Commission / Department	(Mail Stop 400)
	Board of Public Works	(Mail Stop 465)
	Public Works - Bureau of Engineering	(Mail Stop 490)
	Department of Transportation	(Mail Stop 725)
	Department of Recreation and Parks	(Mail Stop 625)
✓	Department of Airports (CAWA)	

✓ Port of Los Angeles (Harbor Dept)

✓ DWP

✓ Community Redevelopment Agency

✓ Housing Dept

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: *March 10, 2005*

CAO File No. 0420-00575-0000
Council File No. 04-1988
Council District: All

To: Budget and Finance Committee

From: William T Fujioka, City Administrative Officer

Reference: Motion (Parks-Zine) Regarding the Financial Condition of the Fire and Police Pensions System (Pensions) and the Los Angeles City Employees' Retirement System (LACERS)

Subject: **Financial Condition of Pensions and LACERS**

SUMMARY

The City Administrative Officer (CAO) was asked to provide a comprehensive report to the Budget and Finance Committee on the financial condition of the Fire and Police Pension System (Pensions) and the Los Angeles City Employees' Retirement System (LACERS) to ensure that the City does not make the same mistakes that the City of San Diego made with regard to its retirement system (C.F. 04-1988). As part of this process, we requested the assistance of the City's financial advisors, Public Resources Advisory Group (PRAG) and Kelling, Northcross and Nobriga (KNN).

Over the past several months, problems related to the City of San Diego's employee retirement system have become public. Its retirement fund is under-funded, creating a large municipal liability. In addition, for several years San Diego failed to disclose its true fiscal situation to the financial community including its pension problems. As a direct result of disclosing its true financial condition, San Diego's bond ratings were lowered significantly, which further impedes its ability to balance future budgets. The San Diego City Council commissioned the firm of Vinson & Elkins to investigate what occurred and recommend changes to its process. A summary of the final report is provided in the Discussion section of this report. In short, Vinson & Elkins found that city management failed to follow sound actuarial advice by deliberately under-funding its retirement system and failed to disclose its true financial condition.

The City of Los Angeles has policies in place intended to prevent a similar situation. First, the City has historically funded both Pensions and LACERS at 100% of their annual budget requirements (approved actuarial rates.) The City Charter requires that the budgets for both systems include: 1) A sum equal to a percentage of the salaries of all members of the retirement system, as included in the most recent actuarial report; 2) A sum sufficient to liquidate, over a period of up to 30 years, any accrued unfunded liabilities assumed by the system; and 3) Administrative expenses. The Charter further specifies that LACERS is a general obligation of the City and that the Pensions budget must be funded at 100%. It should be noted that in 2003-04 the City contribution adopted by the LACERS

BUDGET AND FINANCE MAR 14 2005

RECEIVED
CITY CLERK'S OFFICE

2005 MAR 14 AM 9:51

CITY CLERK
BY VM
DEPUTY

Board and contributed by the City did not meet the expense requirements under the Governmental Accounting Standards Board (GASB) Statement No. 27, requiring the recording of a Net Pension Obligation (NPO) for those years. The reasons for the NPO were (1) the LACERS Board allowed a three-year phase-in of the effect of certain assumption changes and (2) the LACERS Board funding policy produced current year contributions that did not meet one of the GASB requirements for amortizing unfunded liabilities. Later year contribution amounts have been and will be adjusted to address both of these issues.

A five-year funding history as well as a five-year projected contribution forecast are provided for both systems in the Discussion section of this report. Also included is a discussion of how actuarial gains and losses are handled, actuarial assumptions, earnings history and the current unfunded actuarial liabilities.

Los Angeles provides financial disclosure data in every bond issuance. The City's Debt Management Policy designates the CAO as the debt manager for all City debt except that issued by the Department of Airports, Harbor, Water and Power, Housing and Community Development, the Community Redevelopment Agency and the Housing and Industrial Development Authorities, due to the specialized aspects of the debt issued and the integral ties between the debt and the programs these agencies administer. The City Council is the final issuer of all City debt and awards all contracts for the purchase of bonds regardless of the agency.

For bond issuances that the CAO manages, the CAO submits a final draft of the Official Statement to the Mayor and Council for approval, who in turn authorize the CAO to finalize and disseminate the information to investors. Within the Official Statement, City information is contained in Appendix A, which includes the City's financial and municipal information and discloses various financial risks of the City. The most recent iteration of Appendix A is attached. In addition, the City Controller prepares the Basic Financial Statements of the City that are included in all Official Statements, known as Appendix B. Every bond issuance has a Disclosure Certificate that identifies what the City needs to update for its annual disclosure as dictated by the Securities and Exchange Commission. This document is prepared with the assistance of the City's financial advisors and Disclosure Counsel in accordance with bond covenants and disseminated by the CAO to the four national repositories, as previously approved by the Mayor and Council. The CAO is authorized by the Mayor and Council to ensure that the information is accurate and complete as the City's Due Diligence process describes.

Departments and agencies that issue their own debt should abide by these same policies and their financial disclosure documents should be consistent with those of the rest of the City. The CAO will ensure that City information included in other agencies' documents is consistent.

While our financial advisors indicate that the City's current pension funding and disclosure practices are superior to San Diego's past practices, they do have several recommendations designed to improve communication and further strengthen the City's commitment to good disclosure. These include:

- Establish a Debt Management Committee of City officials, including the CAO as Chair, the Chief Legislative Analyst, the Controller, the Treasurer, the City Attorney and the departments

and agencies that issue their own debt. This Committee's responsibilities would include disclosure review in its duties;

- Improve and broaden the cross review of disclosure documents, including Appendix A and other financial reports, by having the CAO review the draft Comprehensive Annual Financial Report (CAFR) and include the Controller in the detailed review of Appendix A;

- Include a description of the disclosure process in the City's Debt Management Policy;

- Contract with disclosure counsel to conduct annual formal training for Elected Officials, Department Heads and appropriate staff regarding their roles and responsibilities in the City's financial disclosure process; and

- Request that other City issuing agencies submit their preliminary official statement (POS) and their final official statement (OS) or Offering Memorandum (OM) to the CAO to ensure the City information is consistent for all City issuers.

The Controller has also reviewed a draft of this report and the Vinson & Elkins report and has drafted a separate response dated March 7, 2005 related to the financial disclosure process.

RECOMMENDATIONS

That the Mayor and Council:

1. Establish a Debt Management Committee of City officials, including the City Administrative Officer as Chair, the Chief Legislative Analyst, the Controller, the Treasurer, the City Attorney, and those departments and agencies that are responsible for issuing their own debt, which would include disclosure review in its duties;

2. Instruct the City Administrative Officer to review the draft Comprehensive Annual Financial Report and request the Controller to participate in the detailed review of Appendix A;

3. Include a description of the new disclosure process in the City's Debt Management Policy;

4. Direct the City Administrative Officer to contract with the City's Disclosure Counsel to conduct annual training for elected officials, Department Heads and appropriate staff regarding their roles and responsibilities in the City financial disclosure process; and

5. Instruct the Departments of Airport, Harbor, Water and Power, Housing and Community Development, the Community Redevelopment Agency and the Housing and Industrial Development Authorities to submit their City disclosure information to the City Administrative Officer to ensure consistent City information is disclosed.

FISCAL IMPACT STATEMENT

It is anticipated that the cost for disclosure training will be approximately $5,000 annually. The cost for 2004-05 can be absorbed within the City Administrative Officer's budget.

DISCUSSION

1. BASIS FOR THE REPORT

The Council has asked the City Administrative Officer to prepare a comprehensive report on the financial condition of the Fire and Police Pensions System (Pensions) and the Los Angeles City Employees' Retirement System (LACERS) to ensure that the City does not repeat the recently disclosed mistakes made by the City of San Diego with its pension system. This Office was asked to address a number of specific issues identified in the motion (Parks-Zine), which are discussed below (C.F. 04-1988).

2. SUMMARY OF THE VINSON & ELKINS REPORT

The San Diego City Council commissioned the firm of Vinson & Elkins to review San Diego's disclosure practices from January 1996 through February 2004, and to investigate whether San Diego failed to meet disclosure obligations concerning its funding of the San Diego City Employees' Retirement System (SDCERS). The report titled "Report on Investigation, The City of San Diego, California's Disclosures of Obligation to Fund the City of San Diego City Employees' Retirement System and Related Disclosure Practices 1996-2004 with Recommended Procedures and Changes to the Municipal Code," found that the City of San Diego approved an expensive retirement system for its municipal workers, and failed to adequately fund the system under the actuarial principal that pension liabilities generated today should be funded today and not passed onto future generations of tax payers. Moreover, San Diego developed a highly complex funding mechanism for its system that involved significant risk to the city and then did not disclose these risks to bond holders. From July 1, 1997 through July 1, 2004, the City of San Diego under-funded the SDCERS system by increasing its benefits for retirees and reducing its contributions to the system. In addition, the City of San Diego failed to adequately disclose this under-funding in its financial reports.

The reasons for the under-funding of the SDCERS system include the misuse of "surplus" funds, increased employee compensation and benefits agreements during lean years when funds were not available for salary increases, and the decision of the SDCERS Board to permit the city to fund the system at a lower rate than the actuary calculated and recommended.

Surplus earnings are defined as the realized returns on SDCERS assets above the assumed rate of return projected by its actuary as necessary to pay its future liabilities when due. It is assumed that asset appreciation will fluctuate over time, with strong returns in some years offsetting weak returns in other years. However, San Diego misapplied this concept, identifying above-average returns as "surplus" and available to finance additional retirement and health benefits. Because of this practice, the system's unfunded accrued actuarial liability grew at the same time the city was not increasing its annual contribution.

In addition, in years when funds were not available for salary increases, the city increased retirement benefits instead. To fund the increased benefits, San Diego city management deferred the true cost of the increased benefits by allocating one-time "surplus" funds for an on-going expense and encouraging the SDCERS Board to agree to reduce the city's contribution to the system to a level

below that necessary to fully meet the funding requirement. A majority of SDCERS Board members were either union officials or city administrators and were involved in negotiating the benefit increases. Vinson & Elkins believes this conflict of interest presented a challenge to Board members who were faced with choices to veto benefits for their constituencies or significantly increase the risk to the system's long-term financial stability.

2. LACERS AND PENSIONS UNFUNDED ACCRUED ACTUARIAL LIABILITY

The following actuarial information is as of June 30, 2004 and was provided as part of the actuarial valuations prepared by both systems' actuaries:

2003-04	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio
LACERS				
Retirement	$7,042,107,591	$8,533,863,528	$1,491,755,937	82.5%
Health	858,997,310	1,419,812,826	560,815,516	60.5%
Total	$7,901,104,901	$9,953,676,354	$2,052,571,453	79.4%
Pensions				
Retirement	$11,735,696,180	$11,389,980,813	$(345,715,367)	103.0%
Health	605,998,904	1,009,062,407	403,063,503	60.1%
Total	$12,341,695,084	$12,339,043,220	$57,348,136	99.5%

3. FIVE YEAR EARNINGS PERFORMANCE & ACTUARIAL ASSUMPTIONS

The following chart summarizes the investment earning based on market value of assets for both systems over the past five years:

	1999-2000	2000-01	2001-02	2002-03	2003-04
LACERS	10.92%	-4.35%	-4.85%	4.54%	18.6%
Pensions	16.3%	-10.0%	-7.97%	5.47%	16.9%

LACERS assumes an annual rate of return of 8%. Pensions assumes an annual rate of return of 8.5%. It is assumed that these will be the average rates of return over the life of the system and that in any given year the actual rates of return may be significantly higher or lower.

In the late 1990's the equities market was very strong, which created large investment returns thus lowering the City's annual contributions. The market performed poorly in 2000-01 and this trend continued through 2002-03, requiring the City contributions to increase. Both systems experienced strong returns in 2003-04. However, over the past five years, the average return based on actuarial value of assets for both systems is still well below the actuarial assumed rates of return of 8% and 8.5% due to the recognition of those earlier losses over a five-year period. Over the past 20 years, LACERS average annual rate of return has been 11.96% and Pensions average annual rate of return

has been 11.42%. Both LACERS and Pensions require their actuaries to complete an experience study every three years. This study analyzes the financial risk areas related to mortality, withdrawal, disability, retirement, and economic factors. The experience study also analyzes and makes necessary adjustments to a variety of actuarial assumptions including, among other things, rates of return. An adjustment to the assumed rate of return based solely on recent market activity is not recommended.

4. GAINS AND LOSSES

The Los Angeles Administrative Code requires that actuarial experience gains and losses be amortized over a 15-year period for Fire and Police Pensions. Although not required, it is also the policy of the LACERS Board. In order to reduce the year-to-year volatility of the City's contribution to the plans, both systems employ an industry-standard, five-year smoothing technique for investment gains and losses that accounts for only 20% of an investment gain or loss in any one year. The declining balance is carried forward to the next year until the entire amount of the investment gain or loss is recognized. Both systems amortize changes in assumptions and benefits over 30 years.

5. CITY CONTRIBUTIONS

Charter Section 1160 indicates that the obligation to pay benefits to LACERS shall be a general obligation of the City and requires that the LACERS Board submit to the Mayor and Council a budget setting forth the estimated cost of maintaining the Retirement Fund. The budget (approved actuarial rates) shall include:

- The City's contribution – A sum equal to a percentage of the salaries of all members of the retirement system, as included in the most recent actuarial report;
- Liquidation of unfunded liabilities – A sum sufficient to liquidate, over a period of up to 30 years, any accrued unfunded liabilities assumed by the system; and
- Administrative expenses.

The City has always paid 100% of the budget adopted by the LACERS Board. In 2003-04 the City contribution adopted by the LACERS Board and contributed by the City did not meet the expense requirements under the Governmental Accounting Standards Board (GASB) Statement No. 27, requiring the recording of a Net Pension Obligation (NPO) for those years. The reasons for the NPO were (1) the LACERS Board allowed a three-year phase-in of the effect of certain assumption changes and (2) the LACERS Board funding policy produced current year contributions that did not meet one of the GASB requirements for amortizing unfunded liabilities. Later year contribution amounts have been and will be adjusted to address both of these issues.

Charter Section 1210 indicates that the Board of Fire and Police Pensions' Commissioners must adopt an annual budget, which sets forth the administrative expenses for each Tier of the Fire and Police Pension Plans. As with LACERS, the budget must include a sum equal to the percentage of all

members of each Tier, as stated in the most recent actuarial report, a sum sufficient to liquidate all unfunded actuarial accrued liabilities, and administrative expenses for each Tier. Charter Section 1210 also indicates that the City Council shall provide funds sufficient to provide the total amount of all items in the budget submitted by the Board. Historically, the City has always paid 100% of the budget adopted by the Pensions Board.

The following tables outline the City's actual contributions to both systems over the past five years:

	2000-01	2001-02	2002-03	2003-04	2004-05
LACERS					
General Fund	$59,401,577	$52,607,240	$69,213,000	$104,665,171	$183,786,177
Special Funds	8,121,556	7,709,800	9,568,000	16,443,103	27,996,002
Total	$67,523,133	$60,317,040	$78,780,434	$121,108,274	$211,782,179
	5.63%	4.71%	5.85%	8.30%	14.70%
Current Service Liability	$99,103,971	$123,838,703	$141,612,578	$177,503,025	$161,077,545
UAAL	(31,914,838)	(63,953,663)	(63,430,144)	(56,919,751)	50,243,634
Adjustments*	334,000	432,000	598,000	525,000	461,000
Total	$67,523,133	$60,317,040	$78,780,434	$121,108,274	$211,782,179

	2000-01	2001-02	2002-03	2003-04	2004-05
Pensions					
General Fund	$136,164,176	$99,480,535	$78,475,431	$120,762,879	$151,356,340
Tier 5 (1% pick up)	0	870,000	8,500,000	7,900,000	8,200,000
Total	$136,164,176	$100,350,535	$86,975,431	$128,662,879	$159,556,340
	17.4%	11.8%	9.60%	13.30%	15.85%
Current Service Liability	$149,210,373	$167,287,540	$173,280,119	$174,790,927	$183,071,305
UAAL	(13,546,197)	(67,437,005)	(86,804,688)	(46,801,798)	(24,183,065)
Adjustments*	500,000	500,000	500,000	633,750	668,100
Total	$136,164,176	$100,350,535	$86,975,431	$128,662,879	$159,556,340

Adjustments for LACERS include the excess benefit plan, the family death benefit plan, the limited term plan fund and prior service liability. Adjustments for Fire and Police Pensions include the settlement with the United Firefighters of Los Angeles City (UFLAC) and the excess benefit plan.

The City often opts to use Tax Revenue Anticipation Notes (TRAN) to finance a pre-payment of the annual General Fund contribution at a negotiated discount. The amounts identified above reflect the after discount amount, when applicable.

6. PROJECTED CONTRIBUTIONS

The chart below demonstrates the projected City contributions to LACERS for the next five years based on information provided by the system's actuary, The Segal Company:

	2005-06	2006-07	2007-08	2008-09	2009-10
LACERS					
General Fund	$259,061,000	$299,712,000	$308,995,000	$302,442,000	$291,521,000
Special Funds	40,110,000	48,096,000	49,526,000	48,552,000	46,874,000
Total	$299,171,000	$347,808,000	$358,521,000	$350,994,000	$338,395,000
Incremental Increase	$87,389,000	$48,637,000	$10,713,000	$(7,527,000)	$(12,599,000)

The following assumptions helped form these projected contribution rates:

- No cost of living adjustment is assumed from 2007-08 through 2009-10;
- Investment rate of return at 8% each year; and
- The contribution increases for LACERS are based on information provided by the system's actuary, The Segal Company.

The Board of Fire and Police Pensions' Commissioners recently adopted a new experience study conducted by its actuary, Gabriel, Roeder, Smith & Company. Experience studies are conducted once every three years. The chart below demonstrates the projected City contributions to Pensions for the next five years based on information provided by the system's actuary:

	2005-06	2006-07	2007-08	2008-09	2009-10
PENSIONS					
General Fund	$172,297,000	$228,319,000	$246,003,000	$239,934,000	$231,773,000
Incremental Increase	$9,027,000	$56,022,000	$17,684,000	($6,069,000)	($8,161,000)

The following assumptions helped form these projected contribution rates:

- No cost of living adjustment is assumed from 2006-07 through 2009-10;
- Investment rate of return at 8.5% each year; and
- Includes scheduled UFLAC contributions.

7. FINANCIAL DISCLOSURE

We learned from the Vinson & Elkins report that the City of San Diego failed to disclose the true financial outlook of its retirement system, which resulted in a great deal of mistrust within the investment community and the significant downgrade of San Diego's credit ratings. Whenever credit ratings are lowered, the cost to borrow money, short-term and long-term, goes up. For this reason,

this Office works diligently to protect the City of Los Angeles' credit ratings. We requested that the City's financial advisors, Public Resources Advisory Group (PRAG) and Kelling, Northcross and Nobriga (KNN), review both the Vinson & Elkins report and our City's disclosure process to ensure that we are utilizing best practices related to funding our retirement systems and appropriately disclosing the City's actual financial condition. A description of our financial disclosure practices follows.

Los Angeles provides financial disclosure data in every bond issuance. The City's Debt Management Policy designates the CAO as the debt manager for all City debt except the Departments of Airports, Harbor, Water and Power, Housing and Community Development, the Community Redevelopment Agency and the Housing and Industrial Development Authorities due to the specialized aspects of the debt issued and the integral ties between the debt and the programs these agencies administer. The City Council is the final issuer of all City debt and awards all contracts for the purchase of bonds regardless of the City issuing agency.

For bond issuances that the CAO manages, the CAO submits a final draft of the Official Statement to the Mayor and Council for approval. The Mayor and Council then authorize the CAO to finalize and disseminate the information to potential bond investors. This includes a summary of City information known as Appendix A, which contains all City financial and municipal information and discloses all of the financial risks of the City. Appendix A is updated every time the City issues debt. Prior to submission to the Mayor and Council, staff from the CAO's Debt Management Group, Finance Group, and Employee Relations Group, the CAO and at least two Assistant CAOs review the data included in Appendix A for accuracy and completeness and discuss other information that should be considered for inclusion. Representatives from the Offices of the City Attorney, the Treasurer, the Controller and the affected departments also review the document. Departments and agencies that issue their own debt also use the general City information contained in Appendix A in their debt documents. A copy of the most recent version of Appendix A is attached. To ensure consistent City disclosure regardless of the issuing City agency, we recommend that the other agencies submit copies of their City information before disseminating the information.

In addition, the City Controller prepares the Basic Financial Statements of the City that are included in all Official Statements, known as Appendix B. Every bond issue has a Disclosure Certificate that identifies what the City needs to update for its Annual Continuing Disclosure as dictated by the Securities and Exchange Commission. The CAO acts as the disseminating agent for the City and, in turn, uses our general financial advisors to assist in preparing this document according to each bond tax covenant.

The City subscribes to a service that reminds us of our Annual Continuing Disclosure deadlines and disseminates the City's disclosure information to the appropriate national repositories. There are four national repositories, available to the public, where municipal financial disclosure statements are located. In addition, the CAO has an Investor Relations/Debt Management page on its website to ensure that the investor community has access to all relevant internal documents, such as the Financial Status Reports. This process has been used for more than 100 bond issuances.

All disclosure information is approved by the Mayor and City Council. The CAO is authorized by the Mayor and Council to ensure that the information is accurate and complete as the City's Due Diligence process described above. It is important to note, however, that Vinson & Elkins criticized the San Diego City Council for its lack of involvement in the disclosure process. To ensure that all disclosure information is available for Mayor and Council review and approval, the CAO reports on bond issuances include a final draft Official Statement.

Departments and agencies that issue their own debt should abide by these same policies and their financial disclosure documents should be consistent with those of the rest of the City. As such, these agencies should transmit drafts of their preliminary and final official statements to ensure the consistent disclosure of City information.

The Controller has also reviewed a draft of this report and the Vinson & Elkins report and has prepared a response dated March 7, 2005, related to the financial disclosure process.

8. CONCLUSION AND RECOMMENDATIONS

The exposure of San Diego's problems has provided an opportunity for our City to take a closer look at our pension funding and disclosure practices to ensure we are following best practices. Los Angeles has a history of fully funding both the Pensions and LACERS systems, in good years and in bad. This expense is considered obligatory. Moreover, the City's financial advisors have indicated that Los Angeles' disclosure practices are superior to San Diego's past practices. However, they do recommend some minor changes to hedge against some common pitfalls:

- Establish a Debt Management Committee of top City officials, including the CAO as Chair, the Chief Legislative Analyst, the Controller, the Treasurer, the City Attorney and departments and agencies that issue their own debt, which would include disclosure review in its duties;

- Improve and broaden the cross review of disclosure documents, including Appendix A and other financial reports, by having the CAO review the draft Comprehensive Annual Financial Report (CAFR) and include the Controller in the detailed review of Appendix A;

- Include a description of the disclosure process in the City's Debt Management policy;

- Contract with disclosure counsel to conduct formal annual training for Elected Officials, Department Heads and appropriate staff regarding their roles and responsibilities in the City's financial disclosure process; and

- Request that other City issuing agencies submit their preliminary official statement (POS) and their final official statement (OS) or Offering Memorandum (OM) to the CAO to ensure the City information is consistent for all City issuers.

Together, these recommendations will improve communication between City agencies, enforce our already strong commitment to good disclosure and ensure continuing strong credit ratings for all City agencies.

Laura Guglielmo

Laura Guglielmo, Sr. Administrative Analyst II

APPROVED:

Ellen F. Sandt

Assistant City Administrative Officer

WTF:LKG:010500038c

Attachment

APPENDIX A
CITY OF LOS ANGELES

Table of Contents

	Page
INTRODUCTION	1
ECONOMIC AND DEMOGRAPHIC INFORMATION	2
Population	2
Industry and Employment	2
Major Employers	5
Effective Buying Income	6
Retail Sales	7
Construction Activity	7
Commercial Real Estate Markets in Los Angeles	8
Education	8
Seismic Considerations	9
MUNICIPAL GOVERNMENT	10
BUDGET AND REVENUES	11
Budgetary Process	11
State of California Budget	11
City's Fiscal 2004-05 Adopted Budget	13
Interim Financial Status	14
Budget Forecast	15
MAJOR GENERAL FUND REVENUE SOURCES	17
Property Taxes	17
Recent Litigation Involving Assessment Practices	20
Utility Users' Tax	20
Sales Tax	22
Business Tax	24
State Motor Vehicle License Fee	25
Licenses, Permits and Fees	26
Municipal Court Fines	27
Transfers to General Fund	27
LIMITATIONS ON TAXES AND APPROPRIATIONS	28
Article XIII A of the California Constitution - Proposition 13	28
Article XIII B of the California Constitution - Gann Limit	28
Articles XIII C and XIII D of California Constitution - Proposition 218	29
Future Initiatives	30
FINANCIAL OPERATIONS	31
Financial Statements	31
Fiscal Year 2003-04 Preliminary Financial Results [delete upon release of 2004 audit]	34
Reserve Fund and Financial Management Policies	34
Budgetary Reserves	35
Unreserved Fund Balance	35
Risk Retention Program	36
Workers' Compensation, Employee Health Care and Other Human Resources Benefits	37
Labor Relations [to be updated]	38
Retirement and Pension Systems	39

City Treasury Investment Practices and Policies 45
Capital Program 47
BONDED AND OTHER INDEBTEDNESS 47
Introduction 47
General Obligation Bonds 48
Citywide Limited Obligation Bonds 48
Lease Obligations 48
Commercial Paper Program 49
Judgment Obligation Bonds 52
Revenue Bonds 52
Conduit Debt Obligations 52
Cash-flow Borrowings 52
Summary of Long-Term Borrowings 54
Debt Management Policies 57
Variable Rate Obligations and Swap Agreements 58
Operating and Other Financing Leases 59
Proposed Additional Financings 59
Overlapping Bonded Debt 59
LITIGATION 61

INTRODUCTION

The City of Los Angeles (the "City"), California is the second most populous city in the United States with an estimated 2004 population of approximately 3.9 million persons. Los Angeles is the principal city of a metropolitan region stretching from the City of San Buenaventura to the north, the City of San Clemente to the south, and the City of San Bernardino to the east.

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

Both the City and its surrounding metropolitan region have continued to experience growth in population and in economic diversity. Services, wholesale and retail trade, manufacturing, government, financial service industries, transportation, utilities and construction contribute significantly to local employment. The City's 470 square miles contain 11.5% of the area and 38.7% of the population of the County of Los Angeles (the "County"). The County is a top ranked county in manufacturing in such diverse items as aircraft, aircraft equipment, aluminum, dental equipment, games and toys, gas transmissions and distribution equipment, guided missiles, space vehicles and propulsion units, and women's apparel. Fueled by trade with the Pacific Rim countries, the Ports of Los Angeles and Long Beach combined rank first in the nation in volume. As home to the film, television and recording industries, as well as important cultural facilities, the City serves as a principal global cultural center.

ECONOMIC AND DEMOGRAPHIC INFORMATION

The economic and demographic information provided below has been collected from sources which the City deems to be reliable. Because it is difficult to obtain timely regional economic and demographic information, the City's economic condition may not be fully apparent in all of the publicly available regional economic statistics provided herein.

Population

The City's population expanded by 4.8% during the 1970s, by more than 17.4% during the 1980s, and by 6% from 1990 to 2000. This latest expansion compares to a 7.4% growth rate for the County and a 13.8% growth rate for the State of California (the "State") during the same period. Table 1 summarizes City, County, and State population estimated at January 1 of each year.

Table 1
CITY, COUNTY AND STATE POPULATION STATISTICS

	City of Los Angeles	County of Los Angeles	State of California
1980	2,968,579	7,477,421	23,782,000
1985	3,216,900	8,121,000	26,113,000
1990	3,485,557	8,863,052	29,758,213
1995	3,547,700	9,103,900	31,617,000
2000	3,694,820	9,519,330	33,984,980
2001	3,747,800	9,661,800	34,431,000
2002	3,807,800	9,822,600	35,049,000
2003	3,859,400	9,966,200	35,612,000
2004	3,912,200	10,103,000	36,144,000

Source: U. S. Census for 1980, 1990 and 2000; other figures are California Department of Finance estimates as of January 1 of each year.

Industry and Employment

Table 2 summarizes the State Employment Department Development's estimated average annual employment of wage and salary workers in the County. (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, employment for the State is also summarized.

The trade, transportation and utilities sector was the major employment sector in the County in 2003, employing 19.4% of the nonagricultural wage and salary workers in the County. Government, at 15%, is the second highest employment sector in the County, followed by professional and business services, which employs 14.2% of the nonagricultural wage and salary workers in the County.

Table 2
LOS ANGELES COUNTY
INDUSTRY EMPLOYMENT AND LABOR FORCE[1]

	County				State of California	
	1990	% of Total	2003[2]	% of Total	2003[2]	% of Total
Agricultural	13,700	0.3%	7,900	0.2%	375,000	2.5%
Natural Resources and Mining	8,200	0.2	3,800	0.1	22,000	0.1
Construction	145,100	3.5	133,500	3.3	788,800	5.3
Manufacturing	811,600	19.6	500,000	12.5	1,544,900	10.4
Trade, Transportation & Utilities	794,700	19.1	777,200	19.4	2,722,000	18.4
Information	186,200	4.5	198,800	5.0	471,400	3.2
Financial Activities	280,300	6.8	239,800	6.0	886,800	6.0
Professional and Business Services	541,900	13.2	568,400	14.2	2,108,100	14.3
Educational and Health Services	384,700	9.3	460,300	11.5	1,536,300	10.4
Leisure and Hospitality	306,600	7.4	363,500	9.1	1,397,600	9.5
Other Services	136,700	3.3	145,800	3.6	505,800	3.4
Government	539,800	13.0	599,200	15.0	2,426,500	16.4
Total	4,149,500		3,998,100		14,785,200	

(1) Since 2000, the EDD has converted employer records from the Standard Industrial Classification (SIC) coding system to the North American Industry Classification System (NAICS). Items may not add to totals due to independent rounding.

(2) March 2003 Benchmark. The "benchmark" is the annual revision process in which monthly labor force and payroll employment data, which are based on estimates, are updated based on detailed tax records.

Source: California Employment Development Department, Labor Market Information Division.

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

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

	1999	2000	2001	2002	2003
County of Los Angeles[1]					
Civilian Labor Force					
Employed	4,291,400	4,421,900	4,506,900	4,465,600	4,451,700
Unemployed	267,000	249,900	270,100	324,200	337,100
Total	4,558,400	4,671,800	4,777,000	4,789,800	4,788,800
Unemployment Rates					
County	5.9%	5.3%	5.7%	6.8%	7.0%
State	5.2	4.9	5.4	6.7	6.7
United States[2]	4.2	4.0	4.8	5.8	5.6

(1) March 2003 Benchmark; not seasonally adjusted.
(2) United States data not strictly comparable with data for prior years.

Source: California Employment Development Department, Labor Market Information Division for the State and County; U.S. Bureau of Labor, Department of Labor Statistics for the U.S.

Major Employers

The economic base of Los Angeles is diverse, with no one sector being dominant. Some of the leading activities include government (including education), business/professional management services (including engineering), health services (including training and research), tourism, distribution, and entertainment. The major non-governmental employers in the County are listed in Table 4.

Table 4
LOS ANGELES COUNTY
MAJOR NON-GOVERNMENTAL EMPLOYERS

Employer	Product/Service	Employees
Kaiser Permanente	Health care provider	29,225
The Boeing Co.	Aerospace high technology	22,058
Northrop Grummann Corp.	Aerospace/Defense design and manufacturing	20,000
Ralph's Grocery Co.	Supermarket operator	16,855
Target	Department retailer	12,137
University of Southern California	Education- private university	11,703
Tenet Healthcare Corp	Hospitals	11,673
Bank of America	Commercial banking	11,110
CPE	Employee benefit consultants	10,945
SBC Pacific Bell	Communications	9,977
ABM Industries, Inc.	Janitorial, lighting, parking and security service	9,650
Washington Mutual Inc.	Commercial banking	8,129
Cedars-Sinai Medical Center	Medical center	6,831
Catholic Healthcare West	Hospitals	6,718
AOL Time Warner	Media and entertainment	6,700
Edison International	Electric utility	5,956
Sempra Energy	Energy services	5,877
Amgen Inc.	Biotechnology	5,813
Countrywide Financial Corp.	Home mortgage origination and service	5,661
Providence Health System	Full service medical facilities	5,436
Daughters of Charity Health System	Health care provider	4,056
Children's Hospital Los Angeles	Medical center	3,986
Adventist Health	Hospitals	3,832
Lockheed Martin Corp	Defense, space, information, technology	3,811
Wellpoint Health Networks, Inc.	Health plans	3,458

Source: Los Angeles Business Journal, "The Lists 2004."

Effective Buying Income

"Effective Buying Income" ("EBI"), also referred to as "disposable" or "after tax" income, consists of personal money income less personal tax and certain non-tax payments. Personal income includes wages and salaries; retirement income (including Social Security income); public assistance, unemployment compensation, and disability income; and certain other income (e.g., rental and royalty income), dividends and interest, child support and alimony, and other periodic income. Deducted from this total are personal taxes (federal, state and local), and personal contributions to social insurance (Social Security and federal retirement payroll deductions). Certain receipts are not included as money income, such as non-cash public assistance; bank withdrawals and loans; and various lump-sum receipts.

Table 5 summarizes historical median household EBI, for the City, County, State and United States of America as annually reported by Sales and Marketing Management Magazine.

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

Year	City of Los Angeles	County of Los Angeles	State of California	United States of America
1998	$31,098	$34,554	$37,091	$35,377
1999	32,737	36,730	39,492	37,233
2000	37,321	41,628	44,464	39,129
2001	36,548	40,789	43,532	38,365
2002	33,398	37,983	42,484	38,035
2003	33,541	38,311	42,924	38,201

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

Retail Sales

As the largest city in the County, the City accounted for $31,844,860,000 (or 29.28%) of the total $108,753,064,000 in County taxable sales for 2002. The annual report for 2003 has not yet been released. Table 6 sets forth a history of taxable sales for the City.

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

	1998	1999	2000	2001	2002
Apparel stores	$ 1,391,090	$ 1,151,319	$ 1,213,763	$ 1,237,498	$ 1,333,967
General merchandise stores	2,566,803	2,904,725	3,068,289	3,121,521	3,173,481
Food stores	1,408,767	1,480,721	1,566,768	1,562,989	1,574,751
Eating and drinking establishments	3,174,278	3,415,261	3,691,864	3,832,553	4,050,080
Home furnishings and appliances	970,030	1,086,801	1,156,586	1,114,428	1,166,157
Building materials and farm implements	1,256,954	1,404,596	1,584,737	1,747,025	1,868,657
Auto dealers and auto supplies	2,481,523	2,883,414	3,275,664	3,506,186	3,759,209
Service stations	1,694,695	2,092,152	2,676,542	2,563,082	2,422,631
Other retail stores	3,706,948	4,043,963	4,408,228	4,324,943	4,368,574
Retail stores total	18,651,088	20,462,952	22,642,441	23,010,225	23,717,507
All other outlets	7,992,748	8,198,482	8,649,196	8,631,925	8,127,353
TOTAL ALL OUTLETS	$26,643,836	$28,661,434	$31,291,637	$31,642,150	$31,844,860

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

Construction Activity

Table 7 provides a summary of building permit valuations and number of new units in the City.

Table 7
BUILDING PERMIT VALUATIONS AND NEW UNITS
CITY OF LOS ANGELES

	1999	2000	2001	2002	2003
Valuation[1]:					
Residential	$ 677	$ 954	$ 1,096	$ 974	$1,062
Non-residential	1,199	1,140	1,204	1,152	1,190
Total Valuation:	$1,876	$2,094	$2,300	$2,126	$2,252
Number of Units:					
Single family	1,532	1,563	1,443	1,364	1,397
Multi-family	2,881	4,735	5,385	5,300	4,509
Subtotal Residential:	4,413	6,298	6,828	6,664	5,906
Non-residential	513	926	613	2,302	1,877
Total Units:	4,926	7,224	7,441	8,966	7,783

(1) Millions of dollars

Source: City of Los Angeles Department of Building and Safety.

Commercial Real Estate Markets in Los Angeles

Table 8 shows vacancy rates for non-residential space in downtown Los Angeles and the remainder of the Los Angeles Metropolitan Area.

Table 8
NON-RESIDENTIAL VACANCY RATES[1]
LOS ANGELES METROPOLITAN AREA

	Downtown			Suburban			Total		
Quarter	2002	2003	2004	2002	2003	2004	2002	2003	2004
First	15.4%	18.8%	16.9%	12.7%	13.4%	14.4%	13.1%	14.3%	14.8%
Second	15.4	19.1	15.8	12.6	14.0	14.3	13.1	14.8	14.5
Third	16.2	18.7	16.8	13.2	14.3	14.3	13.7	15.0	13.8
Fourth	16.7	17.4	16.7	11.5	14.7	13.4	12.4	15.2	12.7
Average	15.9%	18.5%	16.5%	12.5%	14.1%	14.1%	13.1%	14.8%	13.9%

[1] The downtown index covers office buildings in the central core. The corresponding suburban area includes the remainder of the metropolitan area, excluding the central core.

Source: RAND California.

Education

The Los Angeles Unified School District ("LAUSD") administers public instruction for grades K-12, adult, and occupational schools in the City and all or significant portions of a number of smaller neighboring cities and unincorporated territory. The LAUSD, which encompasses approximately 704 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.

Table 9 provides a summary of the Enrollment and Average Daily Attendance ("ADA") of Kindergarten-12 ("K-12") students for the LAUSD.

Table 9
LOS ANGELES UNIFIED SCHOOL DISTRICT
TOTAL ANNUAL AVERAGE DAILY ATTENDANCE[1]

Fiscal Year	Average Daily Attendance[2]
2001	744,729
2002	768,313
2003	777,098
2004	777,104
2005[3]	783,749

(1) Beginning in Fiscal Year 1998/99, and pursuant to SB 727 ADA, excludes excused absences and is based strictly on in-seat attendance. Each district's base revenue limit was adjusted in 1998/99 to offset the impact of excluding excused absences for revenue limit purposes.
(2) Includes students in Adult Education Program and District Charter Schools.
(3) Estimated.

Source: Los Angeles Unified School District Comprehensive Annual Financial Report for Fiscal Years 2000/01 through 2002/03. Fiscal years 2003/04 and 2004/05 are from the Final Budget for 2004/05.

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.

Seismic Considerations

Like most regions in the State, the City is subject to unpredictable seismic activity. A number of known faults run through the City, and the City lies near the San Andreas Fault. 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. Although the Northridge earthquake was listed by seismologists as a moderate earthquake, it was the most costly seismic event in the United States since the 1906 San Francisco earthquake, resulting in the loss of 72 lives and damage to approximately 93,000 buildings.

The City does not maintain insurance for earthquake risks, relying on its general reserves and the expectation that funds will be available from the Federal Emergency Management Agency ("FEMA"). There is no guarantee that sufficient reserves or FEMA assistance would be available in the event of a national disaster. See **"Budgeted Reserve Fund Policy"**, **"Budgetary Reserves"** and **"Risk Retention Program"** herein.

MUNICIPAL GOVERNMENT

Under the State Constitution, charter cities are generally independent of the state legislature in matters relating to municipal affairs, and in their ability to raise revenues. Charter cities 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 4-year term. As executive officer of the City, the Mayor has the overall responsibility of administration. 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 the 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. James K. Hahn was elected Mayor on June 5, 2001 and took office on July 1, 2001.

The Council, the legislative body of the City, is a full time council and enacts ordinances subject to the approval or veto of the Mayor. The Council may override the veto of the Mayor by a two-thirds vote. It 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 4-year terms.

The other two elective offices of the City are the Controller and the City Attorney, both elected for 4-year terms. The Controller is the chief accounting officer for the City. The current Controller, Laura N. Chick, was elected to her first term at the April 2001 election and took office July 1, 2001. The City Attorney is attorney and legal advisor to the Council and all officers, boards, and departments of the City, and prosecutes misdemeanors. The current City Attorney, Rockard J. Delgadillo, was elected on June 5, 2001 and took office on July 1, 2001.

The City's next primary nominating elections are scheduled for March 8, 2005, with general municipal elections scheduled for May 17, 2005.

The City Administrative Officer, appointed by the Mayor and confirmed by the Council, is the chief financial advisor to the Mayor and Council and reports directly to both. William T Fujioka has served as the City Administrative Officer since August, 1999.

The City Treasurer (the "Treasurer"), appointed by the Mayor and confirmed by the Council, receives, invests and is the custodian of the majority of the City's funds and those of affiliated entities. The Treasurer also serves as the City's central bank. The current Treasurer is Joya C. De Foor. The Office of Finance is responsible for revenue collection within the City. The current Director of the Office of Finance is Antoinette Christovale.

The City has 40 departments, bureaus, commissions and offices for which operating funds are annually budgeted by the Council. In addition, five departments (the Department of Water and Power ("DWP"), Harbor, Airports, and two pension systems), the Community

Redevelopment Agency of the City of Los Angeles and the Housing Authority of the City of Los Angeles are under the control of Boards appointed by the Mayor and confirmed by the Council.

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

The City obtains water and electricity from the Los Angeles DWP, one of the largest publicly-owned utilities in the nation.

BUDGET AND REVENUES

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 law 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 final adopted budget is subject to revision throughout the fiscal year to reflect any changes in revenue projections and to make necessary adjustments to appropriations.

State of California Budget

A number of the City's revenues are collected by 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 a material impact on City finances.

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 missed this date over the past several years). Because more than half of the State's general fund income is derived from the April 15 personal income tax, the Governor submits a "May Revised Budget" by May 14. The Legislature typically waits for the May Revised Budget before making final budget decisions. Once the budget bill has been approved by a two-thirds vote of each house of the Legislature, it is sent to the Governor for signature.

On March 2, 2004, California voters approved Proposition 57, a bond act authorizing the issuance of up to $15 billion of Economic Recovery Bonds, to fund the accumulated State budget deficit. 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 going to local governments will be reduced by the same amount and, in exchange, local governments will

receive an increased share of the local property tax (and K-12 school districts and community colleges a reduced share) during the time the one-quarter cent is being used to pay off the bonds (estimated to be between 9 and 14 years). This shift in revenues between the State and local governments is known as the "Triple Flip."

The 2004-05 budget made major changes to local government revenues and proposed a constitutional amendment to greatly restrict future State authority over local finance. Specifically, the adopted budget:

> Placed a Constitutional Amendment Before the State's Voters. State voters approved Proposition 1A at the November 2, 2004 election, which reduced future legislative authority to reduce or reallocate local revenues from the sales tax, property tax, or vehicle license fee (VLF).
>
> Eliminated the Statutory VLF Trigger and Backfill. The budget package set the VLF rate at 0.65 percent of vehicle value (down from the historical rate of 2%) and eliminated the trigger mechanism that increased the VLF rate in the event that the State's General Fund has insufficient funds to make the required backfill payments to cities and counties. The budget package permanently replaced city and county VLF backfill revenues with an equal amount of property taxes shifted from schools and community colleges. (All education agency property tax reductions are offset by increased State aid.)
>
> Two-year Shift of Property Taxes to K-14 Districts. The budget package shifted $1.3 billion of property taxes from cities, counties, special districts, and redevelopment agencies to K-14 district schools in 2004-05 and 2005-06 for the fiscal benefit of the State.

It cannot be predicted what actions will be taken in the future by the State Legislature and the Governor to implement specific provisions of the Final Budget, to deal with changing State revenues and expenditures, or the effect of national and state economic conditions on future State budgets.

On January 10, 2005, Governor Schwarzenegger released the 2005-06 Governor's Budget (the "Governor's Budget"). The Governor's Budget proposes funding reductions in virtually every part of State government including: (i) not appropriating Proposition 98 (school and community college funding) increases of $1.1 billion in 2004-05 and $1.17 billion in 2005-06 attributable to the postponement of $2 billion of Proposition 98 funds from prior fiscal years, (ii) approximately $4.7 billion of reductions to non-Proposition 98 program areas, (iii) the issuance of approximately $1.7 billion of economic recovery bonds and (iv) revenue increases of $409 million. The Governor's Budget also proposes a reduction of $567.4 million of the State's contribution to CalSTRS, a decrease of 49.4 percent over fiscal year 2004-05, the burden of which will be shifted to school districts or the covered employees. The Governor's Budget did not propose significant actions affecting the revenues or expenditures of the City of Los Angeles. It cannot be predicted the extent to which changes will be made to the Governor's Budget as part of the May Revised Budget or through legislative changes.

Additional information concerning the Governor's Budget and the State's financial condition may be found on the website of the State of California Department of Finance at

http://www.dof.ca.gov, and of the State's Legislative Analyst's Office at http://www.lao.ca.gov, which are not incorporated as part of this official statement.

City's Fiscal 2004-05 Adopted Budget

The City's Adopted Budget is $5.388 billion, comprised of approximately $3.048 billion for departmental expenditures and $2.340 billion for non-departmental expenditures. Total receipts are budgeted at $5.388 billion, comprised of approximately $3.671 billion in General Fund receipts (including a $123 million transfer from the general Reserve Fund) and $1.717 billion in special receipts and available balances. The Adopted Budget includes a Reserve Fund of $112.7 million, which represents approximately 3.01% of budgeted General Fund revenues.

The City's Adopted Budget incorporates certain revenue shifts incorporated in the State Budget. (See **"State of California Budget"** herein.) The Adopted Budget assumed a net reduction of $48 million in property taxes due to an increase in the shift of taxes to the ERAF. In addition, the reduction in VLF revenue and sales tax, coupled with increasing local dependence on the property tax, suggest the possibility of a significant delay in cash receipts.

Table 10 presents the Adopted Budget for the current and prior fiscal years. This budget includes the General Fund, special revenue funds, and those enterprise funds under direct control of the City Council (which excludes Airport, Harbor, Power and Water).

Table 10
2003-04 AND 2004-05 FISCAL YEAR BUDGETS
(ALL BUDGETED FUND TYPES)

Revenues	Adopted 2002-03	Adopted 2003-04	Adopted 2004-05
Taxes[1]	$2,144,036,000	$2,403,245,716	$2,537,799,818
Licenses, Permits & Fines[2]	755,426,000	827,240,369	839,479,228
Special Assessments[3]	77,381,998	76,332,881	78,963,100
Charges For Services & Operations[4]	763,482,429	724,408,200	737,432,441
Intergovernmental[5]	318,048,091	299,461,879	372,872,608
Interest	29,179,000	20,500,000	11,500,000
Transportation Funds[6]	208,661,688	211,202,662	219,781,323
Other General Fund[7]	96,882,628	168,582,501	137,686,472
Other Special Fund	254,604,481	134,834,609	151,839,200
Subtotal Revenues	4,647,702,315	4,865,808,817	5,087,354,190
Available Balances	179,391,940	297,561,562	300,713,742
Total	$4,827,094,255	$5,163,370,379	$5,388,067,932
Appropriations			
Community Safety	$1,088,430,547	$1,150,386,112	$1,201,622,965
Home and Community Environment	787,018,719	751,048,311	866,689,128
Transportation	476,919,126	455,652,826	471,322,454
Cultural, Educational & Recreational Services	187,338,904	208,980,316	203,626,493
Economic Development	118,082,802	73,865,950	65,518,823
Pensions and Retirement	219,475,639	308,549,446	435,069,422
Capital Outlay	359,239,009	455,429,227	432,791,994
General Government	1,590,589,509	1,759,458,191	1,711,426,653
Total	$4,827,094,255	$5,163,370,379	$5,388,067,932

(1) Major tax revenue sources include Property Tax, Utility Users' Tax, Sales Tax, Business Tax, Transient Occupancy Tax, Documentary Transfer Tax, Parking Users' Tax, Residential Development Tax, and Special Police Communications/911 System Tax.
(2) Revenue sources include State VLF, Municipal Court Fines, and Franchise Income.
(3) Revenue sources include Street Lighting Maintenance Assessment Fund and Stormwater Pollution Abatement Fund.
(4) Major revenue sources include Sewer Construction and Maintenance Fund, Sanitation Equipment Charge Revenue Fund, Convention Center Revenue Fund, Special Parking Revenue Fund, and Zoo Enterprise Fund.
(5) Major revenue sources include Community Development Block Grant, grant receipts, Local Public Safety Fund, and Workforce Investment Act. Also includes proprietary department transfers.
(6) Revenue sources include Special Gas Tax Street Improvement Fund, Proposition A Local Transit Improvement Fund, and Proposition C Anti-Gridlock Transit Improvement Fund.
(7) Includes transfers from the Reserve Fund.

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

Interim Financial Status

During the fiscal year, the City will monitor its revenues, expenditures and reserve estimates, and will make budgetary adjustments throughout the year as deemed necessary. As instructed by the Mayor and Council, the City Administrative Officer will periodically issue interim financial status reports. Additional information concerning the City's financial condition may be found on the website of the City Administrative Officer at http://www.lacity.org/cao/financial_reports.htm, which is not incorporated as part of this official statement.

On December 22, 2004, the City Administrative Officer released his third Financial Status Report for the fiscal year. General Fund reserves were projected to decline some $37 million (from a budget-based Reserve Fund of $152.3 million to $115.2 million). Revenues as of

September were 5 percent ahead of plan, primarily due to the strong local real estate market, higher cellular telephone activity, strong building permit revenue and increasing hotel occupancies. On balance, the 2004-05 Budget appears to be on target.

Budget Forecast

As part of its budget planning, the City Administrative Officer prepares a five-year budget forecast, based on the existing budget and known future obligatory expenditures, to identify future budget challenges, including whether a budget gap is likely to occur. This process allows for earlier implementation of budget adjustments, either through the annual budget process or through interim action. The forecast is updated in connection with the City's periodic interim financial status reports. The most recent update of this forecast suggests some level of structural deficit, which will need to be addressed through some combination of revenue increases, expenditure reductions, and transfers from revenues.

The following represents the City's most recent planning forecast.

Table 11
FIVE-YEAR GENERAL FUND BUDGET FORECAST ($MM)[1]

	2005/06	2006/07	2007/08	2008/09	2009/10
Estimated General Fund Revenue[2]					
General Fund Base	$3,518.4	$3,685.7	$3,815.7	$3,948.0	$4,092.7
COPs Universal Hiring Grant	3.5	7.0	7.0	3.5	--
State Repayment of VLF Loan	--	65.5	--	--	--
Transfer from Reserve Fund[3]	60.0	60.0	60.0	60.0	60.0
Total Revenue	3,481.9	3,818.2	3,882.7	4,011.5	4,152.7
General Fund Base Increase %	(2.4%)	6.6%	1.7%	3.3%	3.5%
General Fund Base Increase $	(89)	236	64	129	141
Estimated General Fund Expenditures					
General Fund Base	3,671.1	3,965.5	4,221.3	4,237.8	4,352.0
Obligatory Incremental Changes to Base					
Employee Compensation Adjustments[4]	82.9	30.0	28.3	9.0	9.0
Estimated Full-Year Cost of Partially Financed Positions	7.8	--	--	--	--
Fire and Police Pensions[5]	13.2	54.8	(56.4)	(5.1)	(5.0)
City Employee's Retirement System[5]	81.9	8.8	12.7	(5.1)	(11.4)
Worker's Compensation Benefits[6]	18.7	17.3	24.8	28.1	31.7
Health and Dental Benefits[7]	51.5	36.8	39.2	41.2	45.7
Debt Service	7.2	21.6	(6.7)	(2.6)	(0.2)
Expense CPI Increases[8]	5.9	6.0	6.2	6.3	6.4
Delete One-Time Costs	(3.6)	--	--	--	--
Unappropriated Balance[9]	(23.6)	--	--	--	--
New Facilities	15.0	--	(10.0)	--	--
City Elections[10]	(14.2)	14.6	(14.6)	15.1	(15.1)
Subtotal Expenditures	3,913.9	4,155.4	4,244.8	4,324.6	4,413.1
Subtotal Deficits	(331.9)	(337.2)	(362.1)	(313.1)	(260.4)
Other Potential Expenditures					
Additional 300 Police Hires/Year	15.9	24.9	24.9	24.9	24.9
Traffic Signal Replacement	5.2	--	--	--	--
Regional Crime Laboratory	1.4	(0.4)	(0.3)	--	--
EOC/POC/Fire Dispatch Facility	7.6	33.4	(32.1)	(5.5)	(3.4)
Rampart Liability	14.0	(4.0)	--	--	--
Tip Fees	--	10.0	--	--	--
Stormwater Bond Operation and Maintenance	--	2.0	4.0	8.0	11.0
FMIS Replacement	7.5	--	(3.5)	--	--
Subtotal Other Potential Expenditures	51.6	65.9	(7.0)	27.4	32.5
Total Obligatory and Potential Expenditures	3,965.5	4,221.3	4,237.8	4,352.0	4,445.6
Expenditures Growth %	8.0%	6.5%	0.4%	2.7%	2.2%
Expenditures Growth $	294	256	16	114	94
Deficit	$ (383.5)	$ (403.1)	$ (355.1)	$ (340.5)	$ (292.9)

(1) Dated as of December 22, 2004.
(2) Annual revenue growth is projected to average about 3.5%. Reflects State budget action which reduced current fiscal 2005-06 revenue by $49 million.
(3) Reserve Fund Transfer represents transfer of surplus funds carried forward from prior fiscal year. Forecast represents ten-year average transferred from the Reserve Fund.
(4) Employee Compensation Adjustments: Includes Sworn Cost of Living Adjustment (COLA) of 4% and other salary adjustments in 2005-06; 0% COLA for civilian employees from 2005-06 through 2009-10; as well as 0% Sworn COLA from 2006-07 through 2009-10. Employee compensation increases (above 0%) may occur in latter years. See "Labor Relations", herein.
(5) Fire & Police Pensions (Pensions) and City Employment Retirement System (CERS): The contribution increases for Pensions and CERS are estimated based on information from the two systems' actuaries.
(6) Workers Compensation Benefits: Based on Pricewater Cooper's "realistic" scenario" forecast report dated 4/8/03.
(7) Health and Dental Benefits: Based on Personnel Department/Mercer Consulting report dated 7/24/03.
(8) CPI Increases: Reflects 2% annual increase in volatile commodities.
(9) Deletes prior year funding where no longer required.
(10) Citywide elections occur every two years.

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.

Property Taxes

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 one percent of the "full cash value." 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 two percent 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 one percent 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, and from ad valorem property taxation for certain classes of property such as local governments, churches, colleges, non-profit 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 percent of business inventories. Revenue losses to the City from the homeowner's exemption are replaced by the State.

The California Community Redevelopment Law authorizes redevelopment agencies to receive the allocation of tax revenues resulting from increases in assessed valuations of properties within designated project areas. In effect, the other local taxing authorities realize tax revenues from such properties only on the base year valuations, which are frozen at the time a redevelopment project area is created. The tax revenues which result from increases in assessed valuations flow to the redevelopment areas. The City has created redevelopment project areas pursuant to California law. Generally, funds must be spent within the redevelopment areas in which the tax increment revenues were generated, and may only be spent on projects that qualify under California redevelopment law.

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. Approximately 92.4% of the City's assessed valuation represents property contained on the secured roll.

Property taxes on the secured roll are due in two installments: on November 1 and February 1 of the fiscal year. If unpaid, such taxes become delinquent after December 10 and April 10, respectively, and a 10% penalty is added to delinquent taxes. In addition, property on the secured roll on which taxes are delinquent has a delinquency certificate recorded after June 30 of the fiscal year. 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, the property is deeded to the State and is subject to sale by the County Tax Collector.

California counties can 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"), as provided for in Section 4701 et seq. of the State Revenue and Taxation Code. Under the Teeter Plan, each participating local agency levying secured property taxes receives from its county the amount of uncollected taxes credited to its fund, in the same manner as if the amount credited had been collected. In return, the county receives and retains delinquent payments, penalties and interest as collected that would have been due the local agency. Los Angeles County does not participate in the Teeter Plan, and the City's property tax revenues reflect both delinquencies and the receipt of interest and penalties payments.

Property taxes on the unsecured roll are due as of March 1 and 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) a civil action against the taxpayer; (2) filing a certificate in the Office of the County Clerk specifying certain facts in order 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, in order 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.

Recent assessed valuations, property tax levies, and collections appear in Table 12.

Table 12
ASSESSED VALUATION
(in thousands)

Fiscal Year	Gross Assessed Valuations[1]	Net Assessed Valuations[2]	Total Levy[3]	Current Collections[4]	Collection Rate[5]	Other Collections[6]	Net Property Tax Revenues[7]
1999-00	$212,938,670	$200,721,331	$520,703	$504,061	$96.8%	$23,750	$527,811
2000-01	227,500,174	214,689,900	554,824	538,921	97.1%	49,386	588,307
2001-02	243,267,919	229,978,775	591,029	575,067	97.3%	47,326	622,393
2002-03	258,385,268	244,252,348	624,634	611,744	97.9%	51,696	663,440
2003-04	277,855,570	263,378,270	673,416	N/A	N/A	N/A	711,052[8]
2004-05	291,064,000	282,688,000	N/A	N/A	N/A	N/A	711,158[9]

(1) Represents Gross Total Locally Assessed Valuations per County Assessor.
(2) Valuations on which revenue is collected by the County; consists of Gross Total Locally Assessed Valuations, less exemptions for churches, schools, and homeowners.
(3) Secured and unsecured basic 1% property tax levy reported by the County Auditor-Controller. Excludes tax override for debt service.
(4) Total current year receipts for secured and unsecured property taxes received by the County.
(5) Current collections divided by total levy.
(6) Includes redemptions, supplemental taxes (property taxes levied after the lien date due to reassessment upon change of ownership), reimbursement of homeowners' exemption by the State, and other adjustments by the County, less County charges and refunds to taxpayers. Reasons for the year-to-year variation include significant annual fluctuations in current year receipts for prior year taxes, penalties, supplemental tax payments, and refunds; restoration of the City Community Redevelopment Agency ("CRA") increment; and County property-tax-year-related accounting adjustments. For example, most of the increase in 2000-01 was due to the return to the City roll of the CRA tax increment for the Central Business District.
(7) Total property tax received from the County during the fiscal year.
(8) Estimate contained in Adopted Budget.
(9) Adopted Budget. Includes additional ERAF shift of $38.8 million. Does not include any additional revenue from proposed "triple flip".
N/A Not available.

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). Current receipts are based on the County Assessor's estimate of growth in assessed valuation, adjusted for estimates in growth for redevelopment project areas. The estimate of current secured levy receipts is discounted by 3% for delinquencies; current unsecured levy receipts are discounted by 1%. Estimates of other property tax receipts are primarily based on historical collections.

The State Budget has resulted in various reallocations of property tax revenues, including the "Triple Flip" of property tax, sales tax, VLF revenues, and the temporary ERAF transfers (see **"State of California Budget"**). [Quantify net impact to City budget.]

A list of the 20 largest taxpayers, based on secured assessed valuations within the City for the 2002-03 Fiscal Year, appears in Table 13. The total secured assessed valuation of these taxpayers represents approximately 3.34% of the total City secured assessed valuation for Fiscal Year 2003-04.

Table 13
TWENTY LARGEST TAXPAYERS
LARGEST 2003-04 LOCAL SECURED TAXPAYERS

Property Owner	Primary Land Use	2003/04 Assessed Valuation	Percent of Total[(1)]
Tosco Corp.	Oil and Gas Production	$ 798,205,186	0.32%
Douglas Emmett Realty Funds 1995-2000	Office Building	796,607,999	0.32
Ultramar Inc.	Oil and Gas Production	786,783,561	0.32
Anheuser Busch Inc.	Industrial	722,041,340	0.29
Equilon Enterprises LLC	Office Building	647,798,597	0.26
One Hundred Towers LLC	Office Buildings	511,890,334	0.21
Maguire Partners 355 S. Grand LLC	Office Building	446,436,322	0.18
2121 Avenue of the Stars LLC	Office Building	352,695,600	0.14
Paramount Pictures Corp.	Motion Picture/Television Studio	347,769,229	0.14
Duesenberg Investment Company	Office Building	323,930,616	0.13
1999 Stars LLC	Office Building	309,889,084	0.12
BP 10880 Wilshire LLC/BP 10960 Wilshire LLC	Office Building	293,868,358	0.12
Twentieth Century Fox Film Corp.	Motion Picture/Television Studio	291,828,007	0.12
Century City Mall LLC	Shopping Center/Mall	282,988,800	0.11
Prime Park La Brea Holdings	Office Building/Apartments	273,900,524	0.11
Maguire Partners 555 West Fifth LLC	Office Building	258,000,000	0.10
Library Square Associates LLC	Office Building	256,118,767	0.10
Pivotal Century Plaza Hotel LLC	Hotel	218,835,304	0.09
South Hope Street LLC	Office Building	212,000,000	0.09
Figueroa at Wilshire LLC	Office Building	203,433,573	0.08
		$8,335,021,201	3.34%

(1) 2003-04 Local Secured Assessed Valuation: $249,335,729,789

Source: California Municipal Statistics, Inc.

Recent Litigation Involving Assessment Practices

Properties which have been subject to downward valuation by county assessors as a result of natural disasters, economic downturns or other factors, have often had that value restored by the assessors (up to the pre-decline value of the property) at rates higher than 2% per annum depending on the success of repairs following a disaster or the speed of a recovery from an economic downturn. (See **"Article XIII A of the State Constitution – Proposition 13"** herein.)

On March 26, 2004, the Court of Appeal reversed a trial court decision and affirmed that the inflation factor is calculated against the original purchase price and not on a prior year's reassessed value. On May 5, 2004, the Respondent filed a petition to the State Supreme Court for a review of the decision issued by the Court of. The California State Supreme Court declined to review the Court of Appeal's decision.

Utility Users' Tax

The Utility Users' Tax is imposed on all users of natural gas, electricity and telephone services within the City's limits. The tax rate is established by the Council. The tax is a

percentage of utility charges based on the following rates: residential - 10% of utility bill for users of electricity, gas, and telephone services and commercial - 10% of utility bill for users of gas and telephone services and 12½% of utility bill for users of electricity. These tax rates have been in effect since July 1983.

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 $15,300. 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.

Utility taxes are forecast based on analysis of each of the three taxed commodities. Electricity tax revenues are derived from the DWP's long-term power sales forecast, modified by an analysis of recent trends and a forecast of business activities. Natural gas sales are based on Southern California Gas Company historical trends, modified by approved and anticipated rate increases. Both electricity and natural gas sales are sensitive to weather (warm winters and cool summers reduce demand); forecasts are based on average weather. Telephone services forecasts are based on historical trends of major telephone companies, adjusted by growth in volume and major pending rate adjustments.

Utility companies, with the exception of the DWP, collect and transmit the tax monthly to the City Clerk who deposits the revenue into the General Fund. Tax revenue collected by the DWP is transferred directly to the General Fund on a monthly basis.

Table 14 shows the actual or estimated receipts from the Utility Users' Tax:

Table 14
UTILITY USERS' TAX RECEIPTS
(in thousands)

Fiscal Year	Receipts[1]
1999-00	$487,439
2000-01	557,401
2001-02	488,778
2002-03	510,339
2003-04 (Estimate)	572,903[2]
2004-05 (Adopted Budget)	569,726

(1) Cash basis.
(2) Increase primarily attributed to increased collection from wireless telephone services reflecting greater use and the Federal Mobile Sourcing Telecommunications Act, which eased local enforcement of such taxes.

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

Sales Tax

Sales and use taxes are collected on the total retail price of tangible personal property sold, unless specifically exempted. Included in the County-wide tax rate of 8.25% is a 1% sales tax collected by the State on behalf of cities (or, for unincorporated areas, on behalf of counties). Allocation of this 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. An additional 1% sales tax is collected in Los Angeles County for the Los Angeles Metropolitan Transportation Authority for transportation purposes. A portion of those funds is remitted to the City for deposit in two special revenue funds.

Effective July 1, 2004, the traditional Bradley-Burns 1% city sales tax will be modified by a State budgetary change known as the "triple flip." The "triple flip" puts in place a complex revenue swap to fund the State's deficit bonds approved by the electorate in March 2004 to balance the State budget. The "triple flip" will trade 0.25% of the 1% city share of the Bradley-Burns sales tax for an equal share of property taxes from the countywide Education Revenue Augmentation Fund (ERAF). See **"State of California Budget"** herein. [quantify net impact on City budget].

The components of the sales tax collected in the City are presented below. This table does not reflect the changes associated with the "triple flip" described above.

Table 15
SALES TAX COMPONENTS
LOS ANGELES COUNTY

State Rate		
General Fund Portion	5.00%	This rate was temporarily lowered to 4.75% in calendar year 2001, but returned to 5% on January 1, 2002.
Local Public Safety	0.50	Approved by the voters in 1993 to support local criminal justice activities. The City gets a small share of this, almost $32 million, which is deposited in the Local Public Safety Special Revenue Fund.
Local Revenue Fund	0.50	To support health program costs, primarily to counties.
Total State Rate	6.00%	
Uniform Local Tax Rate		This rate is levied Statewide.
County Transportation	0.25%	Los Angeles County allocates a small portion of this to the City.
Local Point of Sale	1.00	This represents the City "Bradley-Burns" sales tax, and is deposited to the General Fund.
Total Uniform Local Rate	1.25%	
Optional Local Rates		
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.
Total Optional Local Rate	1.00%	
Total Sales Tax Rate in the County	8.25%	

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

The City's budgeting forecast of Sales Tax receipts is based on State officials' estimates and the forecast of local economists.

Los Angeles County sought voter approval of an increase in the county-wide sales tax at the November 2, 2004 general election. The election would have increased the sales tax by 0.5%, with proceeds dedicated to the provision of expanded law enforcement in Los Angeles County and each of its cities. The measure gained 60% support but fell short of the 2/3 requirement for passage. Various measures to reintroduce such a County-wide tax or to levy such an additional sales tax in the City are being considered, although no such tax measures have been approved for consideration at a future election. [to be updated]

Table 16 shows the actual or estimated General Fund receipts from the Sales Tax:

Table 16
GENERAL FUND SALES TAX RECEIPTS
(in thousands)

Fiscal Year	Receipts[1]
1999-00	$331,710
2000-01	357,222
2001-02	351,062
2002-03	363,787
2003-04 (Estimate)	376,752
2004-05 (Adopted Budget)	394,000[2]

(1) Cash basis.
(2) Excludes reduction from "triple flip".

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

Business Tax

The Business Tax is imposed on persons engaged in a business in the City. The tax rate formula, which is established by the Council, varies based upon the type of business. Most businesses are taxed on gross receipts at rates varying from $1.18 per $1,000 of gross receipts for wholesalers to $5.91 per $1,000 of gross receipts for selected businesses and occupations. The City is considering revising its tax rates for businesses with gross receipts below $100,000. If implemented, these changes could reduce revenues by $4 million or more.

The City's budgeting forecast of Business Tax receipts is based on State officials' estimates and the forecast of local economists. The City's estimate is adjusted for anticipated rate adjustments and major refunds and temporary tax amnesties.

Table 17 shows the actual or estimated receipts from the Business Tax:

Table 17
BUSINESS TAX RECEIPTS
(in thousands)

Fiscal Year	Receipts[1]
1999-00	$317,340
2000-01	344,605
2001-02[2]	360,336
2002-03	356,041
2003-04 (Estimate)	372,114
2004-05 (Adopted Budget)	386,895

(1) Cash basis
(2) Included $17 million in receipts from one-time amnesty program.

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

[Add discussion of new business tax]

State Motor Vehicle License Fee

A VLF equivalent to 2% of the market value of motor vehicles has been imposed annually by the State in lieu of local property taxes since 1948. The VLF is an annual fee on the ownership of a registered vehicle in California. Automobiles, motorcycles, pick-up trucks, commercial trucks and trailers, rental cars and taxicabs are all subject to the VLF. The State allocates proceeds to the Department of Motor Vehicles and the California Highway Patrol to cover operating expenses, and to the State General Fund for administrative expenses. The remaining revenues are apportioned equally between counties and cities on the basis of relative population within the State.

In August 1998, the State adopted legislation that, beginning January 1, 1999, reduced the VLF by 25%. The fee reduction was increased to 35% in 2000, and to 67.5% beginning July 1, 2001. This law provided that the State "backfill" (and thus make local governments whole) the difference between the lower VLF rate and the 2 percent rate, unless the State has "insufficient moneys" with which to make such payments. In June 2003, the State Department of Finance made a determination that the State had insufficient moneys to provide any backfill to local government, and as a result of this determination, the backfill ended and the VLF returned to the 2%. During the roughly 90-day period between when the General Fund backfill ended and the VLF rate increased, local governments only received revenues based on the reduced VLF rate (with no State backfill).

As part of the State's FY 2004-05 Budget, the VLF rate was permanently reduced to 0.65%, with the lost revenue replaced by an incremental allocation of property tax. In addition, funds attributable to the 90-day "gap" in backfill, approximately $66.5 million be repaid by August, 2006, and reducing local government revenues from this source. See **"State of California Budget"** herein. [update for VLF financing]

The budget forecast for these revenues is derived from a forecast of statewide license receipts, which are prorated according to the ratio of the City's population to the State's population. The statewide receipts forecast are based on historical data, State officials' estimates and the forecast of local economists.

Table 18 shows the actual or estimated receipts from State Motor Vehicle License Fees:

Table 18
STATE MOTOR VEHICLE LICENSE FEE RECEIPTS
(in thousands)

Fiscal Year	Receipts[1]
1999-00	$184,807
2000-01	201,094
2001-02	209,683
2002-03	223,641
2003-04 (Estimate)	166,200[2]
2004-05 (Proposed Budget)	236,200[3]

(1) Cash basis.
(2) Reflects loss from suspension of State backfill.
(3) Does not reflect reductions from "triple flip," which replaces a substantial portion of this revenue with property taxes.

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

Licenses, Permits and Fees

This category of revenues includes reimbursements to the General Fund from various special and enterprise funds of the City, and charges for special services performed by City departments. Reimbursements include the costs of police, fire and other City services to the Airports and Harbor Departments, staff costs for the sewer construction and maintenance program, and costs financed by the Los Angeles Metropolitan Transportation Authority. These revenues also include charges imposed as regulatory measures by City departments, the largest of which are building permits from the Department of Building and Safety, and fees charged for paramedic ambulance services.

Table 19 shows the actual or estimated receipts from licenses, permits and fees:

Table 19
LICENSES, PERMITS AND FEES

	2001-02[1]	2002-03[1]	Estimated 2003-04	Adopted Budget 2004-05
Ambulance Fees	$40,910,532	$44,317,733	$ 48,300,000	$ 49,000,000
Services to Sewer Program	41,156,752	42,066,172	38,718,171	50,493,015
Services to Dept. of Airports	37,631,498	48,413,727	57,885,040	39,017,832
Services to Harbor Dept.	20,198,386	17,616,707	19,149,404	19,574,672
LA Metro. Trans. Auth. Reimbursement	27,376,456	26,464,235	4,603,279	0
Miscellaneous Reimbursements From Other Special Funds and Other Agencies	137,697,682	107,740,609	103,601,075	101,509,694
Building and Safety Fees	67,572,424	73,781,549	76,798,200	75,053,000
Other Departmental Receipts	100,618,177	107,301,845	114,751,910	114,803,015
Total	$473,161,907	$467,702,577	$463,807,079	$449,451,228

(1) Cash basis.

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

Municipal Court Fines

The City receives revenues from various fines, approximately 96% of which are parking fines. The schedule of fines is established by the Council. Other receipts include fees charged for laboratory work in connection with sobriety tests conducted by the Los Angeles Police Department, and fines paid for citations issued for violations of the Los Angeles Municipal Code (e.g., lease law violations).

For budgeting purposes, parking ticket revenue forecasts are based on the number of parking enforcement officers employed by the City's Department of Transportation, an estimate of average revenues per ticket based on historical trends and an estimate of average worker productivity.

Table 20 shows the actual or estimated receipts from all municipal court fines:

Table 20
MUNICIPAL COURT FINES
(in thousands)

Fiscal Year	Receipts[1]
1999-00	$ 92,804
2000-01	96,681
2001-02	94,352
2002-03	112,448
2003-04 (Estimated)	108,000[2]
2004-05 (Adopted Budget)	114,000

(1) Cash basis.
(2) Decrease attributable to unusually large bail refunds.

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

Transfers to General Fund

The largest revenue source in this category is the annual transfer to the General Fund from the Power Revenue Fund of the DWP. Historically, this transfer has equaled approximately five percent of the total operating revenue of the Power Revenue Fund in the preceding Fiscal Year. This transfer was increased to 7% beginning in 2002-03 pursuant to Charter Section 344, which provides that, with the consent of the Board of Water and Power Commissioners, the Council may direct by ordinance the transfer of surplus revenue to the General Fund. The transfer is restricted by the Charter and the DWP'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 surplus to less than 33-1/3% of the Department Water and Power's total outstanding debt. Transfers are made periodically following Council's adoption of the ordinance. Budget estimates for the succeeding year are based on actual revenues for the first three quarters and estimated revenues for the final quarter of the current fiscal year. In 2002-03, the General Fund received a non-recurring supplemental transfer from the Power System which was deposited in 2003-04. A supplemental transfer of $60 million is also budgeted for 2004-05. [cross reference litigation].

Table 21 shows the actual or estimated transfers from the Power Revenue Fund:

Table 21
TRANSFERS FROM POWER REVENUE FUND
(in thousands)

Fiscal Year	Receipts[1]
1999-00	$112,000
2000-01	119,800
2001-02	154,153
2002-03	156,358
2003-04 (Estimated)[2]	175,214
2004-05 (Adopted Budget)[3]	218,600

(1) Cash basis.
(2) Includes non-recurring supplemental transfer originally scheduled in 2002-03.
(3) Includes non-recurring supplemental transfer estimated at $60 million.

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

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.

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 shown 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.

On June 18, 1992, the United States Supreme Court upheld the constitutionality of certain challenged provisions of Article XIII A in connection with its review of the Nordlinger v. Hahn case.

Article XIII B of the California Constitution - Gann Limit

On November 6, 1979, California voters approved Proposition 4, the so-called 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 used to be the 1978-79 fiscal year, but is now 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 State subventions, refunds of taxes, benefit payments from retirement, unemployment insurance and disability insurance funds. "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.

Article XIII B permits any government entity to change the appropriations limit by vote of the electorate in conformity with statutory and Constitutional voting requirements, but any such voter-approved change can only be effective for a maximum of four years.

Table 22 is a comparison of the City's appropriations limit and appropriations subject to limitation.

Table 22
APPROPRIATIONS LIMITS AND APPROPRIATIONS SUBJECT TO LIMITATIONS

Fiscal Year	City Appropriations Limit	Appropriations Subject to Limitations	Difference Between Limit and Actual Appropriations
2000-01	$3,114,912,694	$2,194,569,003	$920,343,691
2001-02	3,340,743,864	2,450,909,110	889,834,754
2002-03	3,301,991,235	2,398,075,507	903,915,728
2003-04	3,430,108,495	2,496,962,184	993,146,311
2004-05	3,587,207,464	2,683,430,589	903,776,875

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

Articles XIII C and XIII D of California Constitution - Proposition 218

On November 5, 1996, the voters of the State approved Proposition 218, known as the "Right to Vote on Taxes Act." Proposition 218 added Articles XIIIC and XIIID to the California Constitution, which contain a number of provisions affecting the ability of the City to levy and collect both existing and future taxes, assessments, fees and charges.

Article XIIIC requires that all new local taxes 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 City

Council to raise revenues for the General Fund, and no assurance can be given that the City will be able to impose, extend or increase such taxes in the future to meet any increased expenditure requirements.

Article XIIID contains new provisions relating to how local agencies may levy and maintain "assessments" for municipal services and programs. "Assessment" is defined to mean any levy or charge upon real property for a special benefit conferred upon the real property. Article XIIID also contains several new provisions affecting "property-related fees" and "charges," defined for purposes of Article XIIID to mean "any levy other than an ad valorem tax, a special tax, or an assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service." All new and existing property-related fees and charges must conform to requirements prohibiting, among other things, fees and charges which (i) generate revenues exceeding the funds required to provide the property-related service, (ii) are used for any purpose other than those for which the fees and charges are imposed, (iii) are for a service not actually used by, or immediately available to, the owner of the property in question, or (iv) are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. Further, before any property-related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. The City must then hold a hearing upon the proposed imposition or increase, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the City may not impose or increase the fee or charge. Moreover, except for fees or charges for sewer, water and refuse collection services, or fees for electrical and gas service, which are not treated as "property-related" for purposes of Article XIIID, no property-related fee or charge may 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 which reduce or repeal local taxes, assessments, fees or charges currently comprising a substantial part of the City's General Fund.

Add section on Prop 1A [text to come.....]

Future Initiatives

Article XIIIA, Article XIIIB, Article XIIIC and Article XIIID 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.

FINANCIAL OPERATIONS

Financial Statements

Tables 23 and 24 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.

Fiscal Year 2001-02 represented the first period for which the City presented its financial statements under the new reporting model required by the Governmental Accounting Standards Board ("GASB") Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as amended by GASB Statement No. 37.

The City's external auditor has identified significant deficiencies in the City's internal controls for properly reporting cash positions in its financial statements. The deficiencies are due to the inability to process monthly bank reconciliations in an accurate and timely manner, and to the lack of qualified, permanent accounting personnel in the Treasurer's office. These significant internal control deficiencies may result in a material weakness in the Auditors report on internal controls. The City has contracted with the external auditor to expand the scope of the audit to determine if, and to provide assurances that the cash and investment balances are fairly stated. [Update upon release of audit]

The following tables summarize the General Fund condition as reported in the City's audited financial statements over the last five years. [Update upon release of audit]

Table 23
COMBINED BALANCE SHEET FOR THE GENERAL FUND
June 30, 1999 through 2003
(in thousands)

	1999	2000	2001	2002	2003
Assets					
Cash and Pooled Investments	$358,882	$448,475	$ 629,937	$ 706,616	$ 801,219
Taxes Receivable	126,101	135,168	264,262	232,032	242,284
Accounts Receivable	27,978	53,419	76,892	103,209	144,277
Special Assessments Receivable	4,290	6,328	7,282	7,817	8,821
Investment Income Receivable	10,439	10,606	12,650	12,650	9,855
Intergovernmental Receivable	21,748	23,390	26,467	75,971	65,169
Due from Other Funds	59,943	48,681	44,820	63,399	51,954
Inventories	23,915	19,974	24,075	24,791	30,345
Prepaid Items and Other Assets	130	0	0	0	0
Advances to Other Funds	14,029	15,318	11,424	10,807	10,450
Restricted Assets	7,127	5,832	15	0	0
Total Assets	654,582	767,191	1,097,824	1,237,292	1,364,374
Liabilities and Fund Equity					
Liabilities:					
Accounts, Contracts and Retainage Payable	51,565	63,691	76,853	48,663	44,964
Obligations Under Securities Lending Transactions	85,647	68,683	99,809	157,457	191,409
Accrued Wages and Overtime Payable	60,332	89,292	90,405	88,282	97,423
Accrued Compensated Absences Payable	15,390	14,446	13,752	3,060	1,550
Estimated Claims and Judgments Payable	60,219	127,583	113,649	27,386	19,224
Intergovernmental Payable	45	46	54	137	86
Due to Other Funds	49,938	41,487	39,235	32,980	17,796
Deposits and Advances	21,029	34,201	5,201	7,370	4,366
Deferred Revenue and Other Credits	91,153	93,907	151,054	209,810	243,800
Advances from Other Funds	6,871	7,487	62,118	57,093	51,998
Other Liabilities	5,914	7,082	7,748	7,664	9,887
Total Liabilities	448,103	547,905	659,878	638,902	682,503
Fund Balance:					
Reserved for Encumbrances	100,756	93,339	126,970	122,132	105,309
Reserved for Assets Not Available for Appropriation	38,067	35,292	35,499	35,598	40,795
Reserved for Debt Service	0	0	1,057	0	0
Reserved for Special Purposes	0	0	0	28,451	25,941
Designated for Special Purposes[1]	75,271	75,663	115,802	71,100	71,000
Unreserved and Undesignated	(7,615)	14,992	158,618	340,209	438,826
Total Fund Balances	206,479	219,286	437,946	597,390	681,871
Total Liabilities and Fund Equity	$654,582	$ 767,191	$1,097,824	$1,237,292	$1,364,374

(1) Budgetary-based designations; in 1999, designations exceeded total unreserved balance.

Source: City of Los Angeles, Basic Financial Statements.

Table 24
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE FOR THE GENERAL FUND
For the Years Ended June 30, 1999 through 2003
(in thousands)

	1999	2000	2001	2002	2003
Revenues:					
Property Taxes	$ 503,406	$ 537,114	$ 589,628	$ 632,329	$ 666,977
Sales Taxes	307,304	330,950	362,735	346,302	367,112
Utility Users' Taxes	487,138	491,881	556,425	478,343	521,148
Business Taxes	300,774	319,231	344,170	358,865	356,937
Other Taxes	271,706	290,887	307,631	284,989	311,004
Licenses and Permits	30,379	36,706	35,074	36,939	38,345
Intergovernmental	173,152	198,727	211,747	233,592	225,968
Charges for Services	309,315	324,795	312,794	345,451	360,372
Services to Enterprise Funds	169,425	171,616	177,914	190,024	206,412
Fines	90,950	95,394	98,737	95,794	116,115
Special Assessments	1,365	2,068	1,507	2,095	1,397
Investment Earnings	28,457	27,841	48,988	39,913	49,424
Other	11,391	38,215	40,897	28,520	33,664
Total Revenues	2,684,762	2,865,425	3,088,247	3,073,156	3,254,875
Expenditures:					
Current:					
General Government	550,902	586,936	713,165	659,912	931,700
Protection of Persons and Property	1,496,292	1,543,552	1,528,077	1,590,922	1,556,554
Public Works	148,568	158,646	154,926	175,582	170,546
Health and Sanitation	198,889	202,515	197,408	211,780	186,286
Transportation	75,294	84,027	89,983	102,162	103,113
Cultural and Recreational Services	34,316	33,501	29,284	32,358	30,502
Community Development	28,081	32,197	28,558	28,381	26,488
Capital Outlay	16,329	32,224	29,315	34,679	22,013
Debt Service: Cost of Issuance	131	0	0	173	223
Total Expenditures	2,548,802	2,673,598	2,770,716	2,835,949	3,027,435
Excess (Deficiency) of Revenues Over Expenditures	135,960	191,827	317,531	237,207	227,440
Other Financing Sources (Uses)					
Certificate of Participation Proceeds	0	25,002	0	0	0
Operating Transfers In	128,615	136,054	151,393	226,832	227,227
Operating Transfer Out	(314,858)	(333,835)	(366,938)	(402,853)	(375,740)
Total Other Financing Sources (Uses)	(186,243)	(172,779)	(215,545)	(176,021)	(148,513)
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	(50,283)	19,048	101,986	61,186	79,927
Fund Balances, July 1, Restated (1)	259,117	200,604	330,346	534,958	597,390
(Decrease) Increase in Reserve for Inventories	(3,074)	(3,941)	4,782	1,246	5,554
Residual Equity Transfers In	719	3,575	832	0	0
Residual Equity Transfers Out	0	0	0	0	0
Fund Balance General Fund, June 30	$206,479	$219,286	$437,946	$597,390	$681,871

(1) Prior period adjustments occurred in 1999, 2000, 2001, and 2002. Accordingly, prior year ending fund balance does not equal beginning fund balance for that year. The adjustment to beginning fund balance in 2001 reflects $111.0 million from the implementation of GASB Statement Nos. 33 and 36, affecting the timing of recognition of certain sales tax and utility users' tax receivables. The adjustment to beginning fund balance in 2002 reflects $97 million resulting from the implementation of GASB Interpretation No. 6, which reduced the accruals for compensated absences, claims and judgments.

Source: City of Los Angeles, Basic Financial Statements.

Fiscal Year 2003-04 Preliminary Financial Results [delete upon release of 2004 audit]

Based on preliminary, unaudited data collected before the end of the fiscal year, the City anticipates that Fiscal Year 2003-04 General Fund revenues will total $3,576,075,000, and General Fund Expenditures will total [$3,485,343,010.] The year-end Reserve Fund is anticipated to be $278 million.

Reserve Fund and Financial Management Policies

The Reserve Fund was created by the City Charter and contains those actual General Fund cash receipts that are not otherwise appropriated to the City's Adopted Budget. The City expects that funds will be transferred from the Reserve Fund as part of the Adopted Budget or throughout the fiscal year for appropriation, or may be transferred as a loan to other funds to maintain those funds on a parity with their obligations. 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 August 1998, the City adopted a Reserve Fund policy, which requires the City to maintain a budget-basis Reserve Fund equivalent to 2% of General Fund revenues. The Reserve Fund is now comprised of two accounts - a Contingency Reserve Account and an Emergency Reserve Account. The Contingency Reserve Account is available for unexpected expenditures and/or revenue shortfalls upon authorization by the Council. The Emergency Reserve Account may not be utilized for funding unless the Mayor and Council find that there is an "urgent economic necessity," and determine that no other viable sources of funds are available. The Reserve Fund is reported as part of the General Fund in the City's Financial Statements. The City's Reserve Fund policy addresses budget-based reserves, and does not set specific goals for GAAP-based year-end fund balances.

The 2004-05 Reserve Fund for the Adopted Budget is $112.7 million or 3.07% of budgeted General Fund revenue. Of this amount, $61 million was allocated to the Emergency Reserve Account and $51.7 million to the Contingency Reserve Account.

In August 2003, the City adopted additional financial policies. One requires that one-time revenues only be used for one-time expenditures. A second requires that any new programs, unbudgeted expenditures, or new positions must be funded at the time of their approval.

[update for new policies]

Budgetary Reserves

In addition to the Reserve Fund, the City maintains several other budgetary reserves within the General Fund, which are summarized in Table 25.

Table 25
BUDGETED RESERVES
(in millions)

Budget for Fiscal Year Ending June 30	Budgeted Reserve Fund	Budgeted Unappropriated Balance	Reserve for Economic Uncertainties[1]	Reserve for Extraordinary Liability Claims[2]	Total Budgeted Reserves	% of Total General Fund Budgeted Revenues[3]
2000-01	$ 59.8	$73.2	$25.8	$30.0	$111.8	4.6%
2001-02	105.1	65.8	54.7	40.0	265.6	8.3
2002-03	101.9	31.8	46.5	35.0	215.2	6.6
2003-04	96.6	86.6	12.3	28.9	212.1	6.1
2004-05	112.7	23.7	N/A	16.7	153.0	4.2

(1) Funds received following budget adoption that have been set aside in the Reserve for Economic Uncertainties account of the Unappropriated Balance.
(2) Allocated for Rampart Division litigation. See "LITIGATION" herein.
(3) Includes Operating Transfers In.

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

The City annually allocates funds to the Unappropriated Balance to be available for appropriations later in the fiscal year to meet contingencies as they may arise. A preliminary allocation of these funds is included in the City's budget. The 2004-05 allocation of $23.7 million included $4.3 million for potential Department of Recreation and Parks appropriations, $3.4 million for workforce displacement mitigation, $2.3 million for petroleum and postage cost increases, $4.2 million for the Office of Public Safety, and $2.5 million towards replacement of the City's financial management information system.

The City maintains two other reserves as part of its budget. Beginning in 1999-2000, the City began to transfer unbudgeted revenues throughout the year to a Reserve for Economic Uncertainties. Beginning in 2000-01, the City began funding a Reserve for Extraordinary Liabilities Claims to prepare for financial exposure from police-related litigation. (See **"LITIGATION"** herein.)

Unreserved Fund Balance

Table 26 presents the City's year-end unreserved fund balance, as reported in the City's annual Basic Financial Statements, which are prepared in accordance with Generally Accepted Accounting Principles ("GAAP"). Designations of the General Fund balance are made on a budgetary basis; in some years this amount exceeded the unreserved fund balance available on a GAAP basis, which resulted in the reporting of a negative unreserved undesignated fund balance.

Table 26
ANALYSIS OF UNRESERVED GENERAL FUND BALANCES
GAAP BASIS
(in millions)

	Unreserved General Fund Balance				
Fiscal Year	Designated[1]	Undesignated[1]	Total	General Fund Revenues[2]	Unreserved Fund Balance as Percent Of Revenues
1998-99	75.3	(7.6)[3]	67.7	2,757.2	2.4
1999-00	75.7	15.0	90.7	2,941.0	3.0
2000-01	115.8	158.6	274.4	3,088.2	8.5
2001-02	71.0	340.2	411.2	3,300.0	12.5
2002-03	71.0	438.8	509.8	3,482.1	14.6

(1) Beginning in FY 1998-99, includes the City's contingency and emergency reserves in accordance with the City's Reserve Fund Policy, which was adopted in August 1998. These funds were formerly accounted for in the Undesignated Fund Balance.
(2) Includes Operating Transfers In.
(3) Budgetary-based designations exceeded total unreserved balance.

Source: City of Los Angeles Comprehensive Annual Financial Report.

Risk Retention Program

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

Funds are budgeted annually to provide for claims and other liabilities based both on the City's historical record of payments and an evaluation of known or anticipated claims.

The City's claim payment experience is listed in Table 27.

Table 27
LIABILITY CLAIMS PAID[1]
(in millions)

Fiscal Year	Budget	Claims Paid
1999-00	$53.2	$82.6
2000-01	55.7	79.5
2001-02	59.5	48.0
2002-03	55.0	47.1
2003-04 (Estimated)	50.0	N/A
2004-05 (Adopted Budget)	48.5	N/A

(1) Does not include Workers' Compensation claims paid by the City.

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 benefit its employees. The Fund is administered by the Personnel Department. Since 2001-02, all civilian health, dental, union supplemental benefit and life insurance subsidies have been consolidated into the "Civilian Flex Program" line item. Total benefits expenditures are shown in Table 28. The City anticipates that the cost of these programs will grow at a rate that is greater than the rate of inflation in the future.

Table 28
HUMAN RESOURCES BENEFITS[1]

	2000-01	2001-02	2002-03	Estimated 2003-04	Adopted Budget 2004-05
Workers' Compensation/Rehabilitation	$ 99,556,806	$115,380,306	$130,117,029	$142,000,000	$155,000,000
Dental Insurance[2]	3,435	-	-	-	-
Union Supplemental Benefit Plan[2]	132,721	-	-	-	-
Life Insurance[2]	403,657	-	-	-	-
Civilian FLEX Program	97,551,000	102,732,732	120,151,060	137,935,000	159,752,770
Supplemental Civilian Union Benefits	3,315,405	3,407,548	3,682,928	3,559,000	3,629,167
Police Health and Welfare Program	54,042,133	52,026,355	59,127,006	64,775,000	69,969,402
Fire Health and Welfare Program	20,186,226	21,558,231	23,238,916	25,914,000	28,231,303
Unemployment Insurance	1,899,748	2,337,237	4,232,029	5,070,000	5,880,000
Employee Assistance Program	1,078,969	946,162	1,267,559	1,141,000	1,099,892
Total	$278,170,100	$298,388,571	$341,816,527	$380,394,000	$423,562,534

(1) Cash basis.
(2) The benefits were included in the civilian flex program beginning FY 2001-02.

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

Labor Relations [to be updated]

As of August 2004, there were approximately 45,986 current full-time City employees; 33,253 in Council-controlled departments and 11,690 in the departments having control of their own funds (Airports, Harbor and Water and Power). Approximately _____% of the City's General Fund expenditures finance wages, salaries, retirement contributions, and benefits. The average salary for a sworn (police and fire) employee is $_____ a year. The average salary for a civilian employee is $_____ a year.

The City adopted an employee relations ordinance under the provisions of the Meyers-Milias-Brown Act. Formal memoranda of understanding are executed between the City and the bargaining units incorporating the negotiated wages, hours and working conditions. Approximately 44,167 City employees are associated with some 51 employee units represented by 20 unions and employee associations; the other 1,651 employees are not represented.

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

Table 29
STATUS OF LABOR CONTRACTS
LARGEST EMPLOYEE ORGANIZATIONS[1]
(As of March 2004)

Organization	Approximate Number of Full-Time Employees Represented	Number of Bargaining Units	Status of Current Memorandum of Understanding
Los Angeles Police Protective League	9,080	1	Three-year contract through June 30, 2006.
Los Angeles City Employees Union, Local 347, SEIU, AFL-CIO	8,636	7	Three-year contracts through June 30, 2004.[2]
Engineers and Architects Association	6,718	7	Three-year contracts through June 30, 2004.[2]
American Federation of State, County, and Municipal Employees, AFL-CIO	5,559	7	Three-year contracts through June 30, 2004.[2]
United Firefighters of Los Angeles City, Local 112, AFL-CIO	3,425	1	Three-year contract through June 30, 2006.

(1) Excludes DWP.
(2) New contracts are under negotiation. If an agreement expires without a replacement, the terms of the expired agreement remain operative.

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

Table 30 shows total authorized City staffing for all departments of the City excluding Airports, Harbor and Water and Power.

Table 30
AUTHORIZED CITY STAFFING[1]

	2000-01	2001-02	2002-03	2003-04	2004-05
Police	13,650	13,753	13,788	13,892	13,805
All Others	20,749	21,715	22,042	22,092	21,833
Total	34,399	35,468	35,830	35,984	35,638

(1) Excludes Airports, Harbor, and DWP.

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

Retirement and Pension Systems

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. No general funds of the City are allocated to the Water and Power plan.

Both LACERS and FPPP (collectively the "Pensions Systems") provide retirement, disability, death benefits, post-employment healthcare and annual cost-of-living adjustments to plan members and beneficiaries. The Charter requires that the City contribute to the appropriate plan based on rates determined by each plan's actuaries. The actuarial assumptions regarding interest and inflation rates, salary growth, demographic data and mortality impact the actuary's valuation of each plan. The valuation determines the amount needed to fund the normal retirement costs and to amortize any unfunded accrued actuarial liability ("UAAL"). The actuarial valuations for both Pension Systems are prepared on an annual basis and, in the actuarial valuation for each of the Pension Systems, the applicable actuary recommends contribution rates for the fiscal years 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 and the employees' legally required contribution rates for such years.

The UAAL for each plan is an estimate based on a series of assumptions that operate on demographic data of the Pension Plans' respective memberships. This process is necessary to determine, as of the date of the calculation, how sufficient the assets in the Pension Systems are to fund, as of the date of calculation, the accrued costs attributable to currently active, vested terminated and retired employees. Examples of the actuarial assumptions that are used in this process are the assumed rate of earnings on the assets of the plan into the future, the assumed future pay increases for current employees, 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 amount paid out by a plan will be more or less than the amounts contemplated by the calculation of the UAAL.

When measuring assets for determining the UAAL, many pension plans, including each of the Pension Systems, "smooth" market value gains and losses to reduce volatility. With respect to either of the Pension Systems, if in the period for which an actuarial valuation is prepared the actual investment return on that Pension Systems' assets is lower or higher than the actuarial assumed rate of return, then 20% of the shortfall or excess is recognized in each of the fiscal years for which contribution rates are recommended in that actuarial valuation, resulting in the smoothing or spreading of that shortfall or excess over a five-year period. The impact of this will result in "smoothed" assets which are lower or higher than the market value of assets depending upon whether the remaining amount to be smoothed is either a net gain or a net loss.

Actual investment returns for the past five years for both of the Pension Systems are shown in Table 31.

Table 31
LOS ANGELES PENSION SYSTEMS
HISTORICAL INVESTMENT RETURNS

	1999-2000	2000-01	2001-02	2002-03	2003-04
LACERS	11.1%	(4.2)%	(4.8)%	4.5%	18.6%
Pensions	16.3%	(10.0)%	(7.97)%	5.47%	16.9%

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

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. On June 30, 2004, LACERS had 27,092 active members and 14,137 retired members. LACERS is funded pursuant to the Projected Unit Credit Cost Method, which produces a pattern of increasing cost as a percent of pay. Among the actuarial assumptions currently used in valuing the plan are that future earnings will be 8%, and this same rate is used to discount future values. Actuarial losses are funded and actuarial gains credited over fixed 15 year periods. Any liability or surplus due to benefit or assumption changes are funded over 30 years.

Table 32 shows the present value of retirement benefits, the actuarial value of assets available for retirement benefits, and two indicators of funding progress for LACERS, the funding ratio and the ratio of UAAL to annual payroll.. Due to asset losses in Fiscal Years 2000-01 and 2001-02, and the recognition of gains and losses on an actuarial basis over a five-year "smoothing" period, the funding ratio is likely to decline and City employer contributions increase. As of June 30, 2004, LACERS' actuarial valuation of assets still reflected the deferral of $183 million in net losses due to the smoothing of short-term market performance.

Table 32
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS
(Dollars in Thousands)

Actuarial Valuation As of June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded Or (Overfunded) AAL[1]	Funded Ratio[2]	Covered Payroll[3]	Underfunded or (Overfunded) AAL as a Percentage Of Covered Payroll[4]
1999	$5,910,948	$5,684,586	$(226,362)	104.0%	$1,068,124	(21.2)%
2000	6,561,365	6,012,931	(548,434)	109.1	1,182,203	(46.4)
2001	6,988,782	6,468,066	(520,716)	108.1	1,293,350	(40.3)
2002[5]	7,060,188	7,252,118	191,930	97.4	1,334,335	14.4
2003[5]	6,999,647	7,659,846	660,199	91.4	1,405,058	47.0
2004[5]	7,042,108	8,533,164	1,491,756	82.5	1,575,285	94.7

(1) Commonly referred to as UAAL. Actual value of assets minus actual accrued liability. Positive numbers represent an actuarial surplus.
(2) Actuarial value of assets divided by actuarial accrued liability.
(3) Annual payroll against which UAAL amortized.
(4) UAAL divided by covered payroll.
(5) Drop in funded ratio is primarily attributable to investment losses and changes in actuarial assumption and not increased benefits.

Source: The City of Los Angeles City Employees' Retirement System Actuarial Valuation as of June 30, 2004.

Table 33 summarizes the City's payments to LACERS over the past five years

Table 33
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
SOURCES AND USES OF CONTRIBUTIONS
(Dollars in Thousands)

	2000-01	2001-02	2002-03	2003-04	2004-05
Sources of Contributions					
General Fund	$59,402	$52,607	$69,213	$104,665	$183,786
Special Funds	8,122	7,710	9,568	16,443	27,996
Total	$67,523	$60,317	$78,781	$121,108	$211,782
Percent of payroll	5.63%	4.71%	5.85%	8.30%	14.70%
Uses of Contributions					
Current Service Liability (Normal cost)	$99,104	$123,839	$141,613	$177,503	$161,078
UAAL	(31,915)	(63,954)	(63,430)	(56,920)	50,244
Adjustments[1]	334	432	598	525	461
Total	$67,523	$ 60,317	$78,780	$121,108	$211,782

(1) Include the excess benefit plan, the family death benefit plan, the limited term plan fund and prior service liability.

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

The City has been advised that, due to an error by its actuary regarding the amortization period used for calculating the Unfunded Actuarial Accrued Liability (UAAL) in fiscal years 2003-04 and 2004-05, the City did not contribute the full amount of its Annual Required Contribution as defined by GASB Statement No. 27. It is the City's policy to fund such amounts, even if it results in a higher contribution than required under its own plan. As a result, it has

incurred Contribution Deficiencies of $30.2 million for fiscal year 2003-04 and $13.4 million for fiscal year 2004-05. In addition, the City's Net Pension Obligation (NPO) will increase in future years by $18 million for the continued phase-in of changes in actuarial assumptions for the calculation of the UAAL. The City intends to recognize this deficiency in the calculation of unfunded liability, and amortize this liability over 15 years.

Table 34 below projects the City's contributions to LACERS for the next five years based on information provided by the system's current actuary, the Segal Company. Among the assumptions used in the projection are that there will be no cost of living adjustment from 2007-08 through 2009-10, and the investment rate of return will be 8% each year

Table 34
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
PROJECTED CONTRIBUTIONS
(Dollars in Thousands)

	2005-06	2006-07	2007-08	2008-09	2009-10
LACERS					
General Fund	$259,061	$299,712	$308,995	$302,442	$291,521
Special Funds	40,110	48,096	49,526	48,552	46,874
Total	$299,171	$347,808	$358,521	$350,994	$338,395
Incremental Increase	$ 87,389	$ 48,637	$ 10,713	$ (7,527)	$ (12,599)

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

The City of Los Angeles Fire and Police Pension Plan ("FPPP"), established in 1923 under the Charter, represent contributory plans covering uniformed fire and police personnel. Five tiers of benefits are provided, depending on the date of the member's hiring. As of June 30, 2004, the FPPP had 12,649 active members and 11,782 retired members. The FPPP is funded pursuant to the Entry Age Normal Funding Method. Among the actuarial assumptions used in valuing the plan are that future earnings will be 8.5%, and this same rate is used to discount future values. The FPPP's current actuary, Gabriel, Roeder, Smith & Company, has recommended that the actuarial earning assumption be reduced, as the current assumption is above the median for funds of the FPPP's size. At its meeting of September 2004, the Board of Fire and Police Pension Commissioners elected not to change this actuarial assumption. For Tiers 1 and 2, any UAAL are amortized over a fixed term ending on July 1, 2037. For Tiers 3, 4 and 5, actuarial losses are funded and actuarial gains credited over a fixed 15 years; any liability changes due to benefit or assumption changes are funded over 30 years.

The FPPP also administers a Deferred Retirement Option Program ("DROP"), which became effective May 2002. DROP is a voluntary program whereby a member with a minimum of 25 years of service may file for a service pension but continue to work and earn salary and benefits as an active member. The monthly service pension benefit is deposited into a DROP account that earns a 5% per annum return, payable upon exiting the DROP program. Participation in the DROP program is limited to a maximum of five years. It is a five-year program designed to be cost-neutral, with provisions for review and adjustment of the design to retain its cost neutrality.

Table 35 shows the present value of retirement benefits, the actuarial value of assets available for retirement benefits, and two indicators of funding progress for FPPP, the funding ratio and the ratio of UAAL to annual payroll. Due to investment losses in Fiscal Years 2000-01 and 2001-02, and the recognition of gains and losses on an actuarial basis over a five-year period, the funding ratio is expected to continue to decline and City employer contributions increase. As of June 30, 2004, FPPP's actuarial valuation of assets still reflected the deferral of $732 million in losses due to the smoothing of short-term market performance.

Table 36
LOS ANGELES FIRE AND POLICE PENSION SYSTEM
SCHEDULE OF FUNDING PROGRESS
(Dollars in Thousands)

Actuarial Valuation As of June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded Or (Overfunded) AAL[1]	Funded Ratio[2]	Covered Payroll[3]	Underfunded or (Overfunded) AAL as a Percentage Of Covered Payroll[4]
1999	$ 9,637,255	$ 9,203,636	$ (433,619)	104.7%	$ 819,741	(52.9)%
2000	10,985,936	9,604,174	(1,381,763)	114.4	845,426	(163.4)
2001	11,835,549	9,954,056	(1,881,492)	118.9	882,758	(213.1)
2002[5]	11,491,922	10,606,825	(885,097)	108.3	946,037	(93.6)
2003[5]	11,690,750	11,203,558	(487,192)	104.3	970,727	(50.2)
2004[5]	11,735,656	11,389,981	(345,715)	103.0	1,001,004	(34.5)

(1) Does not include DROP program.
(2) Commonly referred to as UAAL. Actual value of assets minus actual accrued liability. Positive numbers represent an actuarial surplus.
(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 City of Los Angeles City Employees' Retirement System Actuarial Valuation as of June 30, 2004.

Table 36 summarizes the City's payments to LACERS over the past five years

Table 36
LOS ANGELES FIRE AND POLICE PENSION PLAN
SOURCES AND USES OF CONTRIBUTIONS
(Dollars in Thousands)

	2000-01	2001-02	2002-03	2003-04	2004-05
General Fund	$136,164	$99,481	$78,475	$120,763	$151,356
Tier 5 (1% pick up)[1]	0	870	8,500	7,900	8,200
Total	$136,164	$100,351	$86,975	$128,663	$159,556
Percent of payroll	17.4%	11.8%	9.6%	13.3%	15.9%
Current Service Liability	$149,210	$167,288	$173,280	$174,791	$183,071
UAAL	(13,546)	(67,437)	(86,805)	(46,802)	(24,183)
Adjustments[2]	500	500	500	634	668
Total	$136,164	$100,351	$86,975	$128,623	$159,556

[1] [define 1% pick up]
[2] Include the settlement with the United Firefighters of Los Angeles City (UFLAC) and the excess benefit plan.

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

Table 37 below projects the City's contributions to FPPP for the next five years based on information provided by the system's actuary. Among the assumptions used in the projection are that there will be no cost of living adjustment from 2007-08 through 2009-10, and the investment rate of return will be 8.5% each year.

Table 37
LOS ANGELES FIRE AND POLICE PENSION PLAN
PROJECTED CONTRIBUTIONS
(Dollars in Thousands)

	2005-06	2006-07	2007-08	2008-09	2009-10
General Fund	$172,297	$228,319	$246,003	$239,934	$231,773
Incremental Increase	$ 9,027	$ 53,022	$ 17,684	$ (6,069)	$ (8,161)

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

LACERS and the Fire and Police Pension Systems are currently actuarially funding retiree health insurance benefits for current retirees and active eligible members for retired health insurance benefits. The Charter, the City Administrative Code, and related ordinance define the post-employment health subsidy benefits for members of both LACERS and Fire and Police Pension Systems. There are no member contributions for health subsidy benefits; all such costs are funded out of the employer's contribution.

As of June 30, 2003, the unfunded healthcare benefits liability of LACERS and the Fire and Police Pension Systems, based on the actuarial cost method and assumptions used for the related pension plans, are as follows:

Table 38
POST-EMPLOYMENT HEALTHCARE BENEFITS
LACERS AND THE POLICE AND FIRE PENSION SYSTEMS
($ in thousands)

	As of June 30, 2003 (In thousands)		As of June 30, 2004 (In thousands)	
	LACERS	FPPP	LACERS	FPPP
Valuation Assets	$848,983	$592,539	$858,997	$605,999
Actuarial Accrued Liability	1,205,811	926,761	1,419,813	1,009062
Unfunded Actuarial Accrued Liability	356,828	334,222	560,816	403,064
Funded Ratio	70.4%	63.9%	60.5%	60.1%

Source: City of Los Angeles, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2003.

The information in Table 38 does not purport to reflect the application of GASB Statements Number 43 and 45, which will require that LACERS, FPPP, and the City report the cost of other post employment benefits as part of their respective financial statements. LACERS and FPPP are required to comply with the Statements beginning FY 2006-07, with the City complying the following year (FY 2007-08).

Investors are cautioned that, in considering the amount of the UAAL, the funded ratio, and the calculations of normal cost as reported by the Pension Systems 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 amount of assets which the Pension Systems will be required to accumulate to fund future benefits over the lives of the currently active employees, vested terminated employees and existing retired employees. These judgments are based upon a variety of assumptions, one or more of which may prove to be inaccurate or be changed in the future, that may change with the future experience of the Pension Systems.

For additional information, see Note 5A in the "Notes to the City's Basic Financial Statements Fiscal Year Ended [June 30, 2003,"] which appears as an Appendix to this Official Statement. Various reports for LACERS and FPPP are posted from time to time on the City's website, at http://www.lacers.org/publicat/index.htm#reports and http://www.lacity.org/PEN/index.htm, respectively. Such reports are not incorporated as part of this Official Statement.

City Treasury Investment Practices and Policies

The Treasurer invests temporarily idle cash for the City, including that of the proprietary departments, as part of a pooled investment program which 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.

As of May 31, 2004, the book value of the General Pool was $4.243 billion, with a market value (including accrued interest) of $4.241 billion.

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 12 months. All investments in this section of the portfolio have maturities of one year or less. The balance of the General Pool not required for the City's 12-month liquidity requirement is invested in the reserve portfolio. This portfolio holds investments from one to five years.

Table 39
POOLED INVESTMENT FUND
GENERAL POOL
Investments as of May 31, 2004

	Core Portfolio		Reserve Portfolio		Consolidated	
Average Duration (Years)	0.03		2.31		1.87	
Average Market Yield to Maturity	1.10%		3.02%		2.65%	
	Market Value	Percent of Total	Market Value	Percent of Total	Market Value	Percent of Total
US Treasury	$ 0	4.6%	$ 518,907,655	15.0%	$ 518,907,655	12.1%
Federal Agency Securities	37,740,342	0.0	2,212,783,039	63.9	2,250,523,382	52.5
Commercial Paper	553,381,097	67.7	6,112,000	0.2	559,493,097	13.1
Negotiable CD	65,448,342	8.0	0	0.0	65,448,342	1.5
US Corporate	0	0.0	727,777,639	21.0	727,777,639	17.0
State of California Local Agency Investment Fund	160,986,095	19.7	0	0.0	160,986,095	3.8
Total	$817,555,876		$3,465,580,333		$4,283,136,209	

Source: City of Los Angeles, Office of the 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, 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 Investment Advisory Committee, comprised of the Treasurer, the Controller, the Chief Legislative Analyst, the City Administrative Officer, the Director of the Office of Finance and a contracted investment advisor, has oversight responsibility to ensure conformity with the investment policy and Government Code. The City's General Investment Pool has a AAAf/S1 rating from Standard and Poor's. The Municipal Treasurers Association of the United States and Canada has certified the City's Investment Policy.

[Reviewe CAFR for "material weakness" finding]

The Treasurer does not invest in securities that include, but are not limited to, 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 Agencies only) collateralize these lending arrangements, the total value of which is at least 102% of the market value of securities loaned out.

Capital Program

The City annually budgets capital improvements in a number of special purpose funds, as well as the General Fund. Table 40 represents the expenditures toward capital improvements by revenue type. This table excludes the expenditure of proceeds of general obligation bonds or special parking revenue bonds.

Table 40
CAPITAL IMPROVEMENT EXPENDITURE PROGRAM
(in thousands)

	2000-01	2001-02	2002-03	Estimated 2003-04	Adopted Budget 2004-05
General Fund	$ 6,951	$ 10,673	$ 13,669	$ 19,400	$ 5,400
Special Gas Tax Street Improvement Fund	4,454	3,205	5,799	13,208	8,689
Stormwater Pollution Abatement Fund	--	2,005	5508	6,000	6,087
Mobile Source Air Pollution Reduction Trust Fund[1]	4,836	1,475	--	--	--
Special Parking Revenue Fund	2,191	--	2,827	535	480
Sewer Construction and Maintenance Fund	192,824	211,017	275,634	268,200	245,040
Street Lighting Maintenance Assessment Fund	4,780	3,629	3,004	6,500	6,500
Local Sales Tax Transit Improvement Funds	4,154	7,096	3,589	3,881	3,873
Allocation from Other Government Agencies	3,806	3,530	5,783	3,000	--
Local Transportation Fund[2]	763	2,796	1,225	1,250	3,428
Other	1,117	--	1,032	1,594	1,649
Total	$225,876	$245,426	$318,070	$323,568	$281,146

(1) Funded by local supplemental vehicle fee.
(2) Funded by portion of State sales tax dedicated towards this purpose.

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

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 City Administrative Officer 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 revenue anticipation notes, wastewater system, sanitation equipment charge and parking system revenue obligations, judgment obligation bonds, 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 real 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 Taxes"** herein). As of July 1, 2004, the City had $1,140,850,000 in general obligation bonds outstanding. The following summarizes the various voter authorizations for general obligation bonds.

Table 41
GENERAL OBLIGATION BONDS

Date of Election	Projects	Amount Authorized	Amount Issued[1]	Amount Authorized but Unissued
4/11/89	Branch Library Facilities	$ 53,400,000	$ 53,400,000	$ 0
4/11/89	Police Facilities	176,000,000	176,000,000	0
4/11/89	Fire Safety Facilities	60,000,000	60,000,000	0
6/5/90	Seismic Safety Projects	376,000,000	376,000,000	0
11/3/98	Library Facilities	178,300,000	178,300,000	0
11/3/98	Zoo Facilities	47,600,000	47,600,000	0
11/7/00	Fire, Paramedic, Helicopter and Animal Shelter Projects	532,648,000	396,120,000	136,528,000
3/5/02	Emergency Operations, Fire, Dispatch and Police Facilities	600,000,000	583,705,000	16,295,000
11/2/04	Storm Water Projects	500,000,000	0	500,000,000
Total		$2,523,948,000	$1,871,125,0000	$652,823,000

[1] As of July 1, 2004. Not all issued bonds remain outstanding.

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

Citywide Limited Obligation Bonds

The City has received two-thirds voter authorization to levy special taxes on real property based on the size of improvements (rather than assessed valuation) to secure $235,000,000 in bonds for a Police Emergency Communications System (911). The last series of these bonds was issued February 14, 2002. As of January 1, 2005, $158,275,000 of these bonds remained outstanding.

In addition, 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). The City has issued $44,290,000 of bonds secured by these assessments, of which $35,650,000 were outstanding as of January 1, 2005.

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 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 these annual lease payments.

Table 41 summarizes the bonded and certificated lease obligations payable out of the general funds of the City as of January 1, 2005, as well as lease revenue bonds payable out of the Police Emergency Communications System special tax described above.

Commercial Paper Program

In June 2004 the City and MICLA established a commercial paper program under which MICLA is authorized to issue up to $200,000,000 in Lease Revenue Commercial Paper Notes (the "Commercial Paper Notes"). The commercial paper program will be used to finance equipment and real property. The City expects to issue lease revenue bonds through MICLA from time to time to refund the 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 a direct pay letter of credit. As of January 1, 2005, $50.0 million in Commercial Paper Notes were outstanding.

Table 42
BONDED AND CERTIFICATED LEASE OBLIGATIONS
As of January 1, 2005

Series	Project	Amount Issued	Amount Outstanding	Final Maturity
Los Angeles Convention and Exhibition Center Authority Certificates of Participation, 1990 Series (dated August 1,1990)	Convention Center Expansion	$ 202,030,000	$ 5,382,539	8/15/05
Los Angeles Convention and Exhibition Center Authority, Lease Revenue Bonds 1993	Refunding of Convention Center Certificates	503,870,000	51,180,000	8/15/11
MICLA Certificates of Participation, Program S (dated June 1, 1994)	Equipment and Real Property	57,260,000	6,510,000	6/1/11
MICLA Certificates of Participation, Program T (dated August 1, 1994)	Refunding of Piper Technical Center Bonds	45,340,000	14,035,000	8/1/07
MICLA Certificates of Participation, Program U (dated October 1, 1994)	Equipment	41,595,000	4,230,000	9/1/10
MICLA Lease Revenue Bonds, Program X (dated December 1, 1995)	Equipment and Real Property	24,625,000	2,995,000	1/1/06
MICLA Certificates of Participation, Program W (dated February 1, 1996)	Equipment	65,470,000	8,545,,000	2/1/12
MICLA Add'l Certificates of Participation, Program H (dated February 1, 1996)	Real Property	3,755,000	2,325,000	11/1/12
MICLA Add'l Certificates of Participation, Program T (dated February 1, 1996)	Real Property	5,990,000	450,000	2/1/06
MICLA Certificates of Participation, Program AA Series AA (dated December 1, 1996)	Equipment and Real Property	88,770,000	27,025,000	12/1/11
MICLA Certificates of Participation, Program AC (dated October 1, 1997)	Equipment and Real Property	83,240,000	24,485,000	10/1/14
MICLA Certificates of Participation, Program H (dated October 1, 1997)	Real Property	2,420,000	1,710,000	11/1/14
Los Angeles Convention and Exhibition Center Authority Taxable Lease Revenue Bonds, 1998 Series A (dated April 1, 1998)	Staples Arena	45,580,000	41,285,000	8/15/24
MICLA Special Tax Lease Revenue Bonds, Refunding Series 1998-C (dated October 1, 1998)[2]	Police Emergency Command Control Communications Systems	26,895,000	6,360,000	9/1/05
MICLA Refunding Certificates of Participation, Program K (dated November 1, 1998)	Real Property	14,005,000	3,045,000	2/1/06
MICLA Refunding Certificates of Participation, Program Q (dated November 1, 1998)	General Services Radio Communications System	18,535,000	1,430,000	2/1/05
MICLA Certificates of Participation, Program AE (dated December 1, 1998)	Equipment and Real Property	74,555,000	27,320,000	12/1/14
MICLA Taxable Certificates of Participation, Program AK (dated April 1, 1999)	Real Property	43,210,000	41,410,000	4/1/29
MICLA Special Tax Lease Revenue Bonds, Series 1999 D (dated April 1, 1999)[2]	Police Emergency Command Control Communications Systems	70,285,000	50,100,000	1/1/06
MICLA Special Tax Lease Revenue Bonds, Refunding Series 1999-E (dated April 1, 1999)[2]	Police Emergency Command Control Communications Systems	65,040,000	47,095,000	9/1/10
MICLA Certificates of Participation, Program AL (dated November 1, 1999)	Equipment and Capital Improvements	72,600,000	40,210,000	11/1/15
MICLA Certificates of Participation, Program AM (dated October 1, 2000)	Equipment and Capital Improvements	56,085,000	34,730,000	8/1/10
MICLA Special Tax Lease Revenue Bonds, Series 2002-F (dated February 14, 2002)[2]	Police Emergency Command Control Communications Systems	52,325,000	52,325,000	9/1/13
MICLA Certificates of Participation, Program AN (dated February 20, 2002)	Equipment and Capital Improvements	53,880,000	45,445,000	2/1/12
MICLA Special Tax Lease Revenue Bonds, Refunding Series 2002-G (dated February 14, 2002)[2]	Police Emergency Command Control Communications Systems	16,320,000	16,320,000	9/1/13
MICLA Refunding Certificates of Participation, Program AT (dated April 1, 2002)	Refunding of Central Library Bonds	30,305,000	30,175,000	6/1/20
MICLA Certificates of Participation, Program AQ (dated April 2, 2002)	Real Property	28,130,000	28,130,000	4/1/32
MICLA Certificates of Participation, Program AR (dated April 2, 2002)	Real Property	62,105,000	59,230,000	4/1/27

Table 42
BONDED AND CERTIFICATED LEASE OBLIGATIONS
As of January 1, 2005

Series	Project	Amount Issued	Amount Outstanding	Final Maturity
	Table 41 continued			
MICLA Refunding Certificates of Participation, Program AS (dated April 2, 2002)(1)	Real Property, Pershing Square	7,655,000	6,920,000	10/1/22
MICLA Certificates of Participation, Program AU (dated October 31, 2002)	Equipment and Real Property Acquisition	70,700,000	61,285,000	10/1/27
MICLA Additional Certificates of Participation, Program T (dated October 31, 2002)	Real Property Improvement	42,410,000	41,395,000	2/1/27
MICLA Leasehold Refunding Revenue Bonds, Program AV (dated April 2, 2003)	Central Library Project	43,330,000	40,395,000	6/1/15
Los Angeles Convention and Exhibition Center Authority, Lease Revenue Bonds 2003A	Refunding of Convention Center Bonds	226,045,000	225,260,000	8/15/15
Los Angeles Convention and Exhibition Center Authority, Lease Revenue Bonds 2003B-F (Variable Rate)	Refunding of Convention Center Bonds	235,520,000	235,520,000	8/15/21
MICLA Certificates of Participation, Program AW (dated June 17, 2003)	Real Property	36,220,000	35,535,000	6/1/33
MICLA Certificates of Participation, Program AX (dated April 29, 2004)	Real Equipment	64,170,000	64,170,000	4/1/14
MICLA Certificates of Participation, Program AR (dated April 29, 2004)	Real Property Improvement	16,875,000	16,875,000	4/1/24
		$2,597,145,000	$1,400,837,539	

(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.
(2) Bonds payable from voter authorized parcel tax with no contingent liability from City's General Fund.

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

Judgment Obligation Bonds

State law provides for the issuance of bonds to finance an obligation imposed by law. Pursuant to a procedural ordinance, the City has issued several obligations to finance judgment obligations. The Judgment Obligation Bonds are secured by the General Fund of the City. Table 43 summarizes the City's Judgment Obligation bond issuance.

Table 43
JUDGMENT OBLIGATION BONDS
As of January 1, 2005

Dated Date	Amount Issued	Amount Outstanding	Final Maturity	Judgment Financed with Proceeds
6/1/98	$25,000,000	$10,000,000	4/1/08	Refund to certain taxpayers of business license taxes which the court in General Motors v. City of Los Angeles held to be discriminatory against interstate and intercity commerce because out-of-City manufacturers wholesaling in the City had to pay a business tax that in-City manufacturers wholesaling in the City did not.
4/01/00	$25,000,000	$15,000,000	4/1/10	To repay judgments related to police officers making claims under the Fair Labor Standards Act.
8/1/00	$13,995,000	$8,355,000	8/1/10	To repay judgments related to police officers making claims under the Fair Labor Standards Act.
Total	$63,995,000	$33,355,000		

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 fund. 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, in order 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 other City general funds or revenues.

Cash-flow Borrowings

The City annually issues tax and revenue anticipation notes ("TRANS") to help ease cash flow pressures arising from the mismatch of its revenues and expenditures. The following table

summarizes the City's TRAN issuance over the past five years, and the borrowing for Fiscal Year 2004-05.

Table 44
TAX AND REVENUE ANTICIPATION NOTES

Fiscal Year Ending	Principal Amount
1999	$190,500,000
2000	328,700,000
2001	297,100,000
2002	332,600,000
2003	443,600,000
2004	650,500,000

Source: City of Los Angeles, Office of the Treasurer.

Summary of Long-Term Borrowings

Table 45 presents a pro-forma statement of net debt of the City outstanding as of January 1, 2005, unless otherwise noted. Tables 46 and 47 summarize the debt service to maturity of certain of these obligations.

Table 45
NET DEBT
As of January 1, 2005[1]

	Outstanding at 01/01/05
General Obligation Bonds	$ 1,418,980,000
Special Tax Bonds	
Police Emergency Command Control Communications System	158,275,000
Landscaping and Lighting District 96-1	35,650,000
Subtotal	193,925,000
Lease Obligations [2]	
Equipment	348,380,000
Real Property	880,257,539
Subtotal	1,228,637,539
Judgment Obligation Bonds	33,395,000
Revenue Bonds	
Department of Water and Power[3]	5,158,698,982
Department of Airports[3]	385,940,000
Harbor Department [3][4]	725,870,000
Wastewater System[3]	2,121,745,000
Sanitation Equipment Charge	303,005,000
Parking System	114,515,000
Subtotal	8,809,773,982
GROSS DIRECT DEBT	11,684,711,521
Less:	
Revenue Bonds	(8,809,773,982)
DIRECT NET DEBT	2,874,937,539
Plus:	
Tax Allocation Debt [5]	494,300,000
Other Overlapping Debt[6]	6,565,593,656
OVERALL NET DEBT	$ 9,934,831,195

(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 California Boating and Waterways Notes outstanding.
(5) Debt of the Community Redevelopment Agency of the City of Los Angeles, as of July 30, 2003.
(6) Overlapping debt information from California Municipal Statistics, Inc. as of July 1, 2004.

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

Table 46
DEBT SERVICE TO MATURITY ON DEBT PAYABLE FROM TAXES
As of January 1 2005[1]

	General Obligation Bonds			Special Tax Bonds			
Fiscal Year	Principal	Interest	Total	Principal	Interest	Total	Grand Total
2005	--	$33,336,441	$ 33,336,441	$ 1,490,000	$ 4,161,669	$ 5,651,669	38,988,110
2006	$100,535,000	62,885,450	163,420,450	18,645,000	7,935,948	26,580,948	190,001,398
2007	97,945,000	58,973,126	156,918,126	17,140,000	7,259,571	24,399,571	181,317,698
2008	98,100,000	55,003,945	153,103,945	17,550,000	6,563,664	24,113,664	177,217,609
2009	96,005,000	50,953,879	146,958,879	18,275,000	5,822,486	24,097,486	171,056,365
2010	90,135,000	46,897,019	137,032,019	18,995,000	5,057,474	24,052,474	161,084,493
2011	89,795,000	43,015,168	132,810,168	19,725,000	4,245,518	23,970,518	156,780,685
2012	87,555,000	39,112,749	126,667,749	20,555,000	3,385,536	23,940,536	150,608,286
2013	85,225,000	35,197,558	120,422,558	21,220,000	2,462,019	23,682,019	144,104,576
2014	83,260,000	31,371,483	114,631,483	22,150,000	1,466,094	23,616,094	138,247,576
2015	76,275,000	27,552,766	103,827,766	2,155,000	902,045	3,057,045	106,884,811
2016	71,145,000	23,883,550	95,028,550	2,255,000	801,689	3,056,689	98,085,239
2017	60,520,000	20,673,913	81,193,913	2,360,000	694,524	3,054,524	84,248,436
2018	60,520,000	17,685,825	78,205,825	2,480,000	579,979	3,059,979	81,265,804
2019	60,520,000	14,648,575	75,168,575	2,605,000	453,849	3,058,849	78,227,424
2020	60,520,000	11,599,713	72,119,713	2,740,000	320,833	3,060,833	75,180,545
2021	57,515,000	8,619,988	66,134,988	2,140,000	179,250	2,319,250	68,454,238
2022	52,870,000	5,848,750	58,718,750	1,445,000	72,250	1,517,250	60,236,000
2023	42,810,000	3,456,750	46,266,750	0	0	0	46,266,750
2024	29,700,000	1,644,000	31,344,000	0	0	0	31,344,000
2025	18,030,000	450,750	18,480,750	0	0	0	18,480,750
Total	$1,418,980,000	$592,811,395	$2,011,791,395	$193,925,000	$52,364,396	$246,289,396	$2,258,080,791

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

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

Table 47
DEBT SERVICE TO MATURITY ON BONDED AND CERTIFICATED LEASE OBLIGATIONS AND JUDGMENT OBLIGATION BONDS
As of January 1, 2005[1]

	Equipment			Real Property			Judgment Obligation Bonds			
Fiscal Year	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Grand Total
2005	$15,230,000	$8,166,536	$23,396,536	$10,845,000	$34,177,435	$45,022,435	$5,255,000	$749,492	$6,004,492	$ 74,423,463
2006	63,250,000	14,906,071	78,156,071	20,827,539	52,492,528	73,320,067	6,655,000	1,230,121	7,885,121	159,361,259
2007	59,075,000	12,060,164	71,135,164	32,330,000	36,302,926	68,632,926	6,145,000	943,834	7,088,834	146,856,924
2008	53,465,000	9,447,350	62,912,350	35,415,000	35,049,156	70,464,156	6,145,000	676,699	6,821,699	140,198,204
2009	44,640,000	7,013,214	51,653,214	33,605,000	33,526,789	67,131,789	3,900,000	399,080	4,299,080	123,084,083
2010	45,210,000	4,852,203	50,062,203	37,410,000	32,040,181	69,450,181	3,900,000	216,480	4,116,480	123,628,863
2011	23,910,000	3,007,145	26,917,145	41,085,000	30,249,138	71,334,138	1,395,000	30,690	1,425,690	99,676,973
2012	16,710,000	1,912,251	18,622,251	43,750,000	27,952,356	71,702,356	0	0	0	90,324,607
2013	9,240,000	1,201,030	10,441,030	45,705,000	25,934,291	71,639,291	0	0	0	82,080,321
2014	6,970,000	782,159	7,752,159	47,030,000	24,201,746	71,231,746	0	0	0	78,983,905
2015	2,825,000	467,765	3,292,765	48,820,000	22,324,381	71,144,381	0	0	0	74,437,146
2016	1,860,000	346,215	2,206,215	50,570,000	20,282,923	70,852,923	0	0	0	73,059,138
2017	375,000	287,858	662,858	52,810,000	18,184,706	70,994,706	0	0	0	71,657,563
2018	395,000	270,335	665,335	54,805,000	16,067,182	70,872,182	0	0	0	71,537,517
2019	415,000	250,875	665,875	56,875,000	13,858,090	70,733,090	0	0	0	71,398,965
2020	435,000	229,625	664,625	59,120,000	11,553,546	70,673,546	0	0	0	71,338,171
2021	455,000	207,375	662,375	54,750,000	9,148,914	63,898,914	0	0	0	64,561,289
2022	480,000	184,000	664,000	56,825,000	6,997,617	63,822,617	0	0	0	64,486,617
2023	505,000	159,375	664,375	15,360,000	5,467,131	20,827,131	0	0	0	21,491,506
2024	530,000	133,500	663,500	15,655,000	4,597,074	20,252,074	0	0	0	20,915,574
2025	555,000	106,375	661,375	15,310,000	3,672,261	18,982,261	0	0	0	19,643,636
2026	585,000	77,875	662,875	12,315,000	2,890,545	15,205,545	0	0	0	15,868,420
2027	615,000	47,875	662,875	13,000,000	2,201,435	15,201,435	0	0	0	15,864,310
2028	650,000	16,250	666,250	6,280,000	1,473,068	7,753,068	0	0	0	8,419,318
2029	0	0	0	6,670,000	1,083,978	7,753,978	0	0	0	7,753,978
2030	0	0	0	3,475,000	670,085	4,145,085	0	0	0	4,145,085
2031	0	0	0	3,655,000	491,400	4,146,400	0	0	0	4,146,400
2032	0	0	0	3,840,000	303,460	4,143,460	0	0	0	4,143,460
2033	0	0	0	2,120,000	106,000	2,226,000	0	0	0	2,226,000
2034	0	0	0	0	0	0	0	0	0	0
2035	0	0	0	0	0	0	0	0	0	0
	$348,380,000	$66,133,419	$414,513,419	$880,257,539	$473,300,340	$1,353,557,879	$33,395,000	$4,246,396	$37,641,396	1,805,712,694

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

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

Debt Management Policies

The City adopted a formal debt policy in August 1998, and has subsequently adopted policies for Mello Roos financing, variable rate debt and swaps. 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 48
DEBT MANAGEMENT POLICY RATIOS[1]

Ratio	Ceiling	Outstanding of July 1, 2004
Total Direct Debt Service as Percent of General Fund Revenues	15.0%	7.85%
Non-Voted Direct Debt Service as Percent of General Fund Revenues	6.0% [2]	3.98%

(1) Does not include $360,540,000 General Obligation Bonds issued July 27, 2004.
(2) The 6% ceiling may be exceeded only if there is a guaranteed new revenue stream for the debt payments and the additional debt will not cause the ratio to exceed 7.5%, or there is not a guaranteed revenue stream but the 6% ceiling shall only be exceeded for one year.

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

Table 49 provides a comparison of City debt ratios for its net direct debt outstanding for the past five fiscal years.

Table 49
FINANCIAL RATIOS[1]

Fiscal Year	Direct Net Debt	Net Debt Per Capita	Net Debt as Percent Of Assessed Valuation
1999-00	1,998,237,449	541	0.982
2000-01	2,018,175,000	539	0.928
2001-02	2,279,430,000	599	0.979
2002-03	2,524,542,012	653	0.977
2003-04	2,626,040,942	671	0.929

(1) Does not include $360,540,000 General Obligation Bonds issued Jul y 27, 2004.

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

Table 50 shows direct debt service as a percent of adjusted General Fund revenues.

Table 50
DEBT SERVICE AS A PERCENTAGE OF ADJUSTED GENERAL FUND RECEIPTS

Fiscal Year	Debt Service Payment[2] ($000)	General Fund Receipts[3] ($000)	Debt Service as Percentage of General Fund Receipts
2001-02	$263,782	$3,292,352	8.01%
2002-03	268,682	3,599,080	7.47
2003-04 (estimated)	316,097	3,861535	8.19%

(1) Includes debt service payments on lease obligations, judgment obligation, general obligation bonds, and 911 Special Tax bonds.
(2) Does not include $360,540,000 General Obligation Bonds issued July 27, 2004.
(3) Includes supplemental taxes collected for general obligation and 911 special tax bond debt service, and payments received from the Staples Center.

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

Table 51 provides a schedule of debt retirement for direct net debt.

Table 51
RETIREMENT OF DIRECT NET DEBT
As of January 1, 2005[1][2]

	General Obligation Bonds		Special Tax Bonds		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	$482,720,000	34.0%	$ 90,320,000	46.6%	$265,550,000	76.2%	$ 160,522,539	18.2%	$29,500,000	88.3%	$1,028,612,539	35.8%
>5 to 10 years	422,110,000	63.8	85,425,000	90.6	74,975,000	97.7	223,730,000	43.7	3,895,000	100.0	810,135,000	64.0
>10 to 15 years	313,225,000	85.8	11,855,000	96.7	3,480,000	98.7	270,495,000	74.4	0	100.0	599,055,000	84.8
>15 to 20 years	200,925,000	100.0	6,325,000	100.0	2,525,000	99.5	162,490,000	92.8	0	100.0	372,265,000	97.4
>20 to 25 years	0	100.0	0	100.0	1,850,000	100.0	49,930,000	98.5	0	100.0	51,780,000	99.5
>25 to 30 years	0	100.0	0	100.0	0	100.0	13,090,000	100.0	0	100.0	13,090,000	100.0
>30 to 35 years	0	100.0	0	100.0	0	100.0	0	100.0	0	100.0	0	100.0
	$1,418,980,000		$193,925,000		$348,380,000		$880,257,539		$33,395,000		$2,874,937,539	

(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

In connection with the refunding of certain lease obligations relating to the Los Angeles Convention Center, the City issued approximately $235.5 million in variable rate obligations. The City entered into swap agreements for a notional amount equal to all of these variable rate lease revenue bonds. Such agreements are intended to mitigate the City's variable interest rate risk. The swap agreements will provide that the respective swap counterparty is obligated to pay the City a variable interest rate equal to a variable index identified in the swap agreements and the City is obligated to pay to the respective swap counterparty a fixed interest rate. In certain circumstances, the City could be required to make an unanticipated termination payment and

such termination payment could be substantial. The City reports quarterly on its swap position to the Mayor and Council.

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.

Proposed Additional Financings

The City currently anticipates the completion of some or all of the long-term financings summarized in Table 52 secured in whole or in part by the City's General Fund or other revenues and taxes. Refundings, certificates of participation or lease revenue bonds in addition to those listed below may be approved to finance real and personal property acquisitions and improvements. The City may seek further general obligation bond voter authorization.

Table 52
POTENTIAL ADDITIONAL FINANCINGS
DEBT CALENDAR

Anticipated Sale Date	Project	Type of Obligation	Estimated Financing Amount
2005	Refunding of CP used to acquire and improve downtown office space and various equipment	Lease Revenue Obligations	$200 million
2005	Police Department Headquarters	Lease Revenue Obligations	$300 million

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

The City anticipates a major new capital program to mitigate storm water pollution. An initial capital program of approximately $500 million has been identified, and voters have authorized general obligation bonds in that amount. The total program could be substantially larger.

Overlapping Bonded Debt

Contained within the City are numerous overlapping local agencies providing public services. These local agencies have outstanding bonds issued in the form of general obligation, lease revenue, and special assessment bonds. A statement of the overlapping debt of the City, dated July 1, 2004, prepared by California Municipal Statistics Inc., is shown in Table 53. The City makes no representations as to its completeness or accuracy. Self-supporting revenue bonds, tax allocation bonds, and non-bonded capital lease obligations are excluded from the debt statement. The City anticipates issuing additional bonded debt. (See **"BONDED AND OTHER INDEBTEDNESS – Introduction"** and **"Proposed Additional Financings"** herein). The City also anticipates that new special assessment and special tax districts may be created within the City, and that debt supported by these special assessments and special taxes may be issued.

Table 53
STATEMENT OF OVERLAPPING DEBT

2003-04 Assessed Valuation:	$266,146,366,720
Redevelopment Incremental Valuation:	14,091,932,394
Adjusted Assessed Valuation:	$252,054,434,326

OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 07/01/2004
Los Angeles County	39.919%	$ 9,368,989
Los Angeles County Flood Control District	40.556	55,701,638
Metropolitan Water District of Southern California	20.643	92,372,264
Los Angeles Community College District	70.952	477,943,315
Beverly Hills Unified School District	0.200	221,439
Inglewood Unified School District	1.272	960,487
Las Virgenes Joint Unified School District	1.326	1,125,690
Los Angeles Unified School District	86.978	3,723,976,117
Other School Districts	Various	74,367
City of Los Angeles Community Facilities District Nos. 3 and 4	100	145,710,000
City of Los Angeles Assessment District No. 1	100	12,996,494
Mountains Recreation and Conservation Authority Assessment Districts	99.976-100.	27,966,447
Los Angeles County Regional Park and Open Space Assessment District	39.919	117,210,000
Los Angeles County Metropolitan Transit District Benefit Assessment Districts	100	150,179,270
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		$4,815,806,517[1]
OVERLAPPING GENERAL FUND OBLIGATION DEBT:		
Los Angeles County General Fund Obligations	39.919%	$ 573,653,175
Los Angeles County Pension Obligations	39.919	527,271,068
Los Angeles County Superintendent of Schools Certificates of Participation	39.919	10,280,683
Los Angeles County Sanitation District Nos. 1, 3, 4, 5, 8 & 16 Authorities	0.00005-12.022	9,814,365
Inglewood Unified School District Certificates of Participation	1.272	39,559
Los Angeles Unified School District Certificates of Participation	86.978	650,556,300
Las Virgenes Joint Unified School District Certificates of Participation	1.326	265,200
TOTAL GROSS OVERLAPPING GENERAL FUND OBLIGATION DEBT		$1,771,880,350
Less: Los Angeles County COPs (100% self-supporting from leasehold revenues on properties in Marina del Rey)		(22,093,171)
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		$1,749,787,179
NET COMBINED TOTAL OVERLAPPING DEBT		$6,565,593,656[2]

(1) Excludes City of Los Angeles Landscaping and Lighting Benefit Assessment District accounted for as direct debt on Table 44.
(2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc.

LITIGATION

The following is a list prepared by the Office of the City Attorney as of July 15, 2004, [to be updated] of completed, pending or threatened litigation involving the City, excluding personal injury cases and single plaintiff cases, in which the City has a financial exposure of $4 million or more which, either individually or in the aggregate, could materially affect the City's General Fund financial position.

With regard to the other pending litigation, it is the opinion of the City Attorney 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. *Aircraft Owners and Pilots Association v. City of Los Angeles* (USDOT Complaint No. 13-95-09) and *Air Transport Association v. City of Los Angeles* (USDOT Complaint No. 13-95-05) are administrative proceedings before the U.S. Secretary of Transportation challenging the legality of the transfer of approximately $58,000,000 from the Airport Revenue Fund to the General Fund. The challenged transfer represents condemnation proceeds received for certain City-owned property taken by the State of California for use in the construction of the Century Freeway.

2. *Tipton-Whitingham v. City of Los Angeles* is a multi-plaintiff action which seeks injunctive relief and damages in the United States District Court. The plaintiffs allege that there is discrimination against women in the Police Department. Although this case was initially filed as a class action, the class allegation was abandoned by plaintiffs. The plaintiffs have subsequently filed seven separate lawsuits; two of those cases have settled. An unfavorable ultimate result from these lawsuits could give rise to a liability of as much as $30,000,000, which would be paid from the General Fund.

3. Rampart Division Litigation: Investigations are continuing into alleged illegal activities of some police officers in the Los Angeles Police Department's Rampart Division ("Rampart Division"). As of March 9, 2004, 229 lawsuits have been served on the City and 182 cases have been resolved for approximately $58,020,000. Other lawsuits are anticipated to arise from the continuing investigations. It is estimated that the total number of cases may range from 250 to 275 cases. The total liability for all Rampart Division cases may be as much as $125,000,000. The City has established a "Reserve for Extraordinary Liability Claims" to fund a portion of this liability. (See **"FINANCIAL OPERATIONS — Budgetary Reserves,"** herein).

4. *U. S. ex rel Giles v. City of Los Angeles* is a Federal court case over allegedly false claims filed by the City with FEMA for costs to clean up post-earthquake debris. It is alleged that the City knew that some contractors were submitting fraudulent invoices, and that therefore, some of the reimbursement claims the City filed with FEMA were false claims under the Federal False Claims Act. The City prevailed on its motion for summary judgment. Plaintiffs are appealing. An unfavorable ultimate result could give rise to a liability of as much as $10,000,000, which would be paid from the General Fund.

5. *Cleveland v. City of Los Angeles* is an action over the alleged failure by the City to pay its firefighters-paramedics overtime compensation under the Fair Labor Standards Act. The United States District Court ruled in favor of plaintiffs. The City is appealing the

$5,100,000 judgment. An unfavorable ultimate result could give rise to a liability of as much as $5,100,000.

6. *Jones v. City of Los Angeles* is a proposed class action lawsuit in United States District Court on behalf of police officers who claim to have been discriminated against, harassed, retaliated against or transferred to different jobs for complaining about allegedly improper activities within the Police Department. The class allegation was abandoned by plaintiffs. Individual lawsuits have been filed involving approximately 78 plaintiffs in 71 cases. Sixty-seven cases have been resolved for approximately $7,400,000. An unfavorable ultimate result on the remaining cases could give rise to a liability of as much as $1,000,000.

7. *AB Cellular-LA, et al. v. City of Los Angeles* is an action for the refund of Utility Users' Tax paid by the plaintiff. Plaintiff alleges that the customer information provided by the City used by the plaintiff for billing purposes and upon which the tax is based is faulty. The City prevailed on its demurrer motion, but on appeal the appellate court reversed. The case will proceed to trial. An unfavorable ultimate result could give rise to a liability of as much as $8,000,000.

8. *Gousse v. City of Los Angeles* seeks damages for physical injuries from police officers arresting the plaintiff for driving a stolen car; the car rental company had given him a car with stolen license plates. The jury awarded the plaintiff, a surgeon, a judgment of $33,000,000 of which Budget Rent-A-Car is to pay $18,800,000 and the City to pay the other $14,200,000. The trial judge rejected the jury's damages award as disproportionate to the injury and ordered a new trial on damages. Plaintiff must decide whether to appeal the rejection. An unfavorable ultimate result could give rise to a liability of as much as $14,200,000.

The following cases, which had been identified in previous official statements of the City, have been either completely resolved, either by settlement or judicial action, or the potential liability has been reduced below $4,000,000 each: *Grajeda v. County of Los Angeles*; *Bank of New York v. City of Los Angeles*; and *Brehm v. City of Los Angeles.*

Claim - A claim has been filed against the City by Stanley Miller in the amount of $25,000,000 for alleged injuries sustained during an arrest for suspicion of auto theft after a police pursuit by car and on foot.

OFFICE OF
CONTROLLER

LAURA N. CHICK
CONTROLLER

200 N. MAIN STREET, RM 300
LOS ANGELES 90012
(213) 978-7200
www.lacity.org/ctr

March 7, 2005

Budget and Finance Committee
c/o City Clerk
Room 395, City Hall

SUBJECT: ENHANCED FINANCIAL DISCLOSURE

I have reviewed the City Administrative Officer's (CAO) report in response to the Committee's request. I also reviewed the Vinson & Elkins investigative report. While I concur with the CAO's recommendations for improving disclosure related to General Government debt issues, I also believe it is important to address additional concerns related to the broader issue of the City's financial disclosure process.

Recommendations

I support the recommendations contained in the CAO's report. However, I also recommend the following:

1. Pursuant to City Charter Section 1112 (a), the City Council and Mayor fund a management audit of the Los Angeles City Employees' Retirement System, the Police and Fire Retirement System, and the Department of Water and Power's Retirement System during their 2005-2006 budget deliberations.

2. The CAO, City Attorney, Controller and the City's CPA's conduct annual workshops on financial disclosure requirements for all City departments, including the Community Redevelopment Agency (CRA).

3. Expanding the responsibilities of the Debt Management Committee to include reviewing financial disclosure issues for the City, not just General Government.

Financial Statements

As you know, the City Controller is responsible for preparing the Comprehensive Annual Financial Report (CAFR) for the City. These basic financial statements, note disclosures and the Management Discussion and Analysis (MD&A) provide information on the financial condition of all aspects of the City's municipal operations. For example, the CAFR includes information from the audited financial statements of the three retirement systems, the proprietary departments, and the Community Redevelopment Agency.

BUDGET AND FINANCE
MAR 14 2005

RECEIVED
CITY CLERK'S OFFICE

2005 MAR 14 AM 8:45

CITY CLERK
BY VM
DEPUTY

Used by bond raters, bond buyers and the public, the CAFR is the City's official representation of financial results.

The schedules in the CAFR, MD&A, the Note Disclosure, and the statistical section are all prepared in accordance with standards issued by the Government Accounting Standards Board (GASB). Currently, the City must comply with 46 standards. These standards require full and complete disclosure of all material information by the City and all of its operations.

Under the City Charter, the City Council is responsible for ensuring an audit of the City's financial statements. This audit is conducted each year by a Certified Public Accountant (CPA) that reports to the City Council through the Audits and Governmental Efficiency Committee. The CPA issues an opinion on the fair presentation of the basic financial statements. The CPA's opinion letter notes that the auditor is only responsible for the opinion; City management is responsible for the preparation, accuracy, and completeness of the statements and all related disclosures.

Financial Disclosure

Each year, through the creation of the financial statements, we work with all departments and offices to achieve full and complete financial disclosure. For example, all general managers are required to certify that their departments have provided full and complete disclosure to the Controller and the CPA. Once compiled, the CAO, Treasurer, Chief Legislative Analyst, and the Mayor's Office review the draft financial statements.

The City has three pension systems: (1) Los Angeles City Employees' Retirement System (LACERS), (2) Fire and Police Pension System and (3) the Los Angeles Department of Water and Power Pension System. If any of these systems were adversely impacted, the City would be affected immediately. For example, if the LACERS or the Fire and Police Pension System were adversely affected, the City's General Fund contribution would likely increase. If the LADWP Pension System were adversely affected, the City's transfer from the LADWP could be reduced or jeopardized in total.

Each year, these entities meet their disclosure requirements through the issuance of separate financial statements that are audited by their CPAs and presented to their boards. While these are separate statements, the City is nonetheless linked to them through our annual employer contributions. Consequently, the City discloses its relationship to the various retirement systems in the CAFR.

Pension Systems Audit

Charter Section 1112 (a) states that the Mayor, Council and Controller shall have a management audit conducted of each retirement system at least once every five years. Because the three systems are so critical to the City and its employees, I recommend one audit, with an overall result on the three systems as a whole and with separate sections related to each system. I also recommend that the Mayor and Council fund this approach as part of the 2005-06 budget.

Improved Disclosure

Full disclosure affects all aspects of City financial reporting, not just retirement. The Governmental Accounting Standards Board (GASB) continues to add significant requirements to what constitutes generally accepted accounting principles (GAAP) to provide better information to the public and other users of the financial statements. This results in additional information that is required to be included and disclosed in the financial statements.

The City has expanded the types of activities with which it is involved. We now have variable rate debt, interest rate swaps, natural gas hedges, multi-department financing deals, site specific revenue tied to economic development, short term commercial paper, as well as futures contracts for foreign currencies. Although there is nothing inherently wrong with these transactions, they are complex transactions that require more effort to explain and achieve full disclosure.

In preparing the annual financial statements, we identify issues that had not been fully disclosed, which require additional work to ensure the City's financial activities are adequately disclosed. However, we do not know with certainty if all material items have been disclosed. As the Vinson and Elkins report on San Diego points out, disclosure is important to government's credibility, not just the credit rating. Public companies recently had problems with disclosure that affected their credibility and in some cases their viability. These concerns caused the Congress to enact the Sarbanes-Oxley Act of 2002 that placed new reporting and governance requirements on those companies.

Although Sarbanes-Oxley does not apply to the City, like most public entities, we nonetheless face challenges with regard to financial disclosure, and we must take additional steps to ensure we meet current disclosure requirements. Consequently, I am recommending that the responsibilities of the Debt Management Committee be expanded beyond those recommended by the CAO to also include all aspects of financial disclosure related to the City's operations (e.g., proprietary departments and the Community Redevelopment Agency), not just the General Government.

I also recommend that financial disclosure training, recommended by the CAO, encompass all City departments, including the CRA. The Controller and the City's external CPA should be requested to assist in planning and conducting the training. This reflects the fact that the Comprehensive Annual Financial Report (CAFR) is a financial representation of the City, not just the General Government.

Sincerely,

Laura N. Chick

LAURA N. CHICK
City Controller

J. MICHAEL CAREY
City Clerk

FRANK T. MARTINEZ
Executive Officer

When making inquiries relative to this matter refer to File No.

ITY OF LOS ANGEL
CALIFORNIA

JAMES K. HAHN
MAYOR

Office of the
CITY CLERK
Council and Public Services
Room 395, City Hall
Los Angeles, CA 90012
Council File Information - (213) 978-1043
General Information - (213) 978-1133
Fax: (213) 978-1040

HELEN GINSBURG
Chief, Council and Public Services Division

04-1988

October 14, 2004

Councilmember Parks
Councilmember Zine
City Administrative Officer
Chief Legislative Analyst
City Attorney
City Employees' Retirement System
Department of Pensions
Budget and Finance Committee Clerk
Attn: L. Braithwaite

PLACE IN FILES
OCT 19 2004
DEPUTY

RE: REPORT TO THE BUDGET AND FINANCE COMMITTEE IN CONNECTION WITH THE CITY'S PENSION OBLIGATIONS, INCLUDING THE FIRE AND POLICE PENSION SYSTEMS AND THE CITY EMPLOYEE'S RETIREMENT SYSTEM

At the meeting of the Council held OCTOBER 8, 2004, the following action was taken:

Attached report adopted	
Attached motion (Parks - Zine) adopted	X
Attached resolution adopted	
FORTHWITH	
Mayor concurred	
To the Mayor FORTHWITH	
Motion adopted to approve communication recommendation(s)	
Motion adopted to approve committee report recommendation(s)	

Frank T. Martinez
City Clerk
kw

28

MOTION

MENT ON NEXT
D BE POSTED

#55

Over the last several months, very disturbing information has become known about financial difficulties that the City of San Diego is facing with regard to its pension system. Equally disturbing is the apparent lack of disclosure to the financial community of the size and scope of the pension system's unfunded liability and the impact that unfunded liability will have on San Diego's future budgets and ability to deliver services.

There have been serious consequences from San Diego's actions. Bond rating agencies have downgraded and/or suspended the city's credit ratings, which materially impact San Diego's ability to raise essential capital. Additionally, the value of the city's bonds already held by investors has deteriorated, creating ill will in the investment community that could take years to turn around.

On September 16, 2004, Paul S. Maco, and Richard C. Sauer, from the firm Vinson & Elkins L.L.P. of Washington, D.C., released a report entitled: "Report on Investigation, The City of San Diego, California's Disclosures of Obligation to Fund the San Diego City Employees' Retirement System and Related Disclosure Practices 1996-2004 with Recommended Procedures and Changes to the Municipal Code." The report contains numerous citations of failures to adequately fund the retirement system and enhancements of retirement benefits funded solely from investment gains in bull markets rather than through normal contributions, thereby creating ever increasing liabilities when the inevitable market downturn occurred. Furthermore, the report noted a troubling lack of communication between key City staff in preparing disclosure information and a failure of anyone in an executive position to take on the responsibility of ensuring that disclosure of the city's financial condition to the financial markets is accurate and complete. Recently, leaders in San Diego have taken steps to remedy the situation and should be commended for their aggressive actions. However, a proactive approach to these issues may have helped avoid the problems in the first place, and the City of Los Angeles can benefit from San Diego's experience by ensuring that our own house is in order.

The City of Los Angeles has always carefully guarded its creditworthiness, and historically the Council and Mayor have taken responsible actions to ensure that its budgets are balanced through difficult times. As a result, the City enjoys some of the highest credit ratings in the nation and access to capital at low interest rates. However, the seemingly never-ending budget problems at the State level which have been solved largely on the backs of local government, significant increases in health care premiums, reduced pension earnings, pressures to add police officers while maintaining other City services and excessive workers compensation pay-outs all contribute to increasing budgetary pressures which demand careful and responsible oversight by the Council. In that effort, it is essential that the Council, Mayor and key City officials have a clear understanding of the state of the City's finances, particularly with regard to our pension systems obligations, and the process through which the City will ensure that it accurately and completely discloses to the financial markets all issues which may impact its financial condition.

I THEREFORE MOVE, that the Council instruct the City Administrative Officer, with the assistance of the Department of Pensions and City Employees' Retirement System to report to the Budget and Finance Committee within 30 days with a comprehensive report to include the following:

1. A summary of the Vinson & Elkins report findings and recommendations and a discussion of the applicability of those recommendations to the City of Los Angeles;

2. The current unfunded actuarial liabilities, including health care obligations, of the Fire and Police Pension Systems (FPPS) and the City Employees' Retirement System (CERS);

OCT 1 2004

3. The earnings performance of FPPS and CERS for each of the last five years;

4. The dollar amount and percent of payroll for City contributions to FPPS and CERS for each of the last five years, broken down by normal costs and unfunded actuarially accrued liability contributions;

5. The actuarial earnings assumptions for FPPS and CERS compared to the actual experience and an analysis of under what conditions an adjustment of those assumptions would occur and the likelihood of an adjustment given several years of low earnings in both systems;

6. A projection of the City's contributions to FPPS and CERS over the next five years, and the potential impact of deviations in the assumptions, e.g. if actual investment returns are 1 % less than assumed;

7. A discussion of the how actuarial gains and losses are handled in FPPS and CERS;

8. The codification (City Charter, Administrative Code, State or federal law, etc.) and processes of determining the City's contributions to FPPS and CERS;

9. A discussion of the processes and procedures for preparing the City's disclosure information to the financial community;

10. Identification of who, specifically, is ultimately responsible and will be held accountable for approving the release of financial disclosure information and ensuring that the information is accurate and complete; and

11. Any other pertinent information relative to the City's pensions obligations and overall disclosure processes and procedures and recommendations for improvement where appropriate.

Presented by: _____
BERNARD C. PARKS
Councilmember, 8th District

Seconded by: _____

MO.

ADOPTED

OCT 0 8 2004

LOS ANGELES CITY COUNCIL

gm:MotionsMisc\sdmotion

COUNCIL VOTE

Oct 8, 2004 10:39:25 AM, #3

Items for Which Public Hearings Have Not Been Held - Items 11-29
Voting on Item(s): 11-29
Roll Call

CARDENAS	Yes
GARCETTI	Yes
GREUEL	Yes
HAHN	Absent
LABONGE	Yes
LUDLOW	Absent
MISCIKOWSKI	Yes
PARKS	Yes
PERRY	Yes
REYES	Absent
SMITH	Yes
VILLARAIGOSA	Yes
WEISS	Absent
ZINE	Yes
*PADILLA	Yes

Present: 11, Yes: 11 No: 0

CITY COUNCIL
SUGGESTED NOTIFICATION OF COUNCIL ACTION

Council File No. _____

☐ Petitioner/Communicant _____

☑ Councilperson(s) PARKS, ZINE

☑	City Administrative Officer	☐	Treasurer
☑	Chief Legislative Analyst	☐	Controller
☑	City Attorney (with/without file)	☐	Information Services Dept.
☐	Building and Safety	☐	City Clerk Tax and Permit
☐	Fire Commission	☐	Fire Department
☐	General Services	☐	Personnel Department
☐	Police Commission	☐	Police Department
☐	Public Works (Board)	☐	Public Works - Engineering
☐	Planning Department	☐	Transportation
☐	Water and Power Department	☐	Mayor (with/without file)
☑	DEPT OF	☑	CERS
☐	PENSIONS	☑	B & F
☐		☐	COMTE CLK
☐		☐	
☐		☐	
☐		☐	
☐		☐	