



City of Los Angeles, California
Continuing Disclosure Filing
Rule 15c2-12(b)(5)
For the Period Ending June 30, 2021

Prepared by:
Office of the City Administrative Officer
Debt Management Group
with assistance from
KNN Public Finance, LLC

List of Bond Issues for Which the Annual Filing Pertains:

Base CUSIP #544351 General Obligation Bonds
 Base CUSIP #544358 Municipal Improvement Corporation of Los Angeles (MICLA) Certificates of Participation
 Base CUSIP #54463P City of Los Angeles Solid Waste Resources Revenue Bonds
 Base CUSIP #544587 Municipal Improvement Corporation of Los Angeles (MICLA) Lease Revenue Bonds
 Base CUSIP #544652 Wastewater System Revenue Bonds
 Base CUSIP #544653 Wastewater System Revenue Bonds
 Base CUSIP #53945C Wastewater System Revenue Bonds

Base CUSIP	Dated Date	Par Amount	Name of Issue	Section	Note
544652	10/21/2010	\$177,420,000	City of Los Angeles Wastewater System Revenue Bonds, Series 2010-A (Taxable Build America Bonds)	1, 3	a
544652	10/21/2010	\$89,600,000	City of Los Angeles Wastewater System Revenue Bonds, Series 2010-B (Taxable Recovery Zone Economic Development Bonds)	1, 3	
544587	11/23/2010	\$18,170,000	Municipal Improvement Corporation of Los Angeles, Lease Revenue Bonds, Series 2010-C (Real Property) (Recovery Zone Economic Development Bonds - Taxable)	1	
544652	4/26/2012	\$157,055,000	City of Los Angeles Wastewater System Subordinate Revenue Bonds, Refunding Series 2012-A	1, 3	
544653	5/24/2012	\$133,715,000	City of Los Angeles Wastewater System Subordinate Revenue Bonds, Refunding Series 2012-C	1, 3	
544652	5/30/2012	\$253,880,000	City of Los Angeles Wastewater System Subordinate Revenue Bonds, Refunding Series 2012-B	1, 3	
54463P	2/26/2013	\$73,665,000	City of Los Angeles Solid Waste Resources Revenue Bonds, Series 2013-A	1, 2	
54463P	2/26/2013	\$78,780,000	City of Los Angeles Solid Waste Resources Refunding Revenue Bonds, Series 2013-B	1, 2	
53945C	5/23/2013	\$349,505,000	City of Los Angeles Wastewater System Subordinate Revenue Bonds, Refunding Series 2013-A	1, 3	
53945C	6/18/2013	\$149,980,000	City of Los Angeles Wastewater System Revenue Bonds, Series 2013-A	1, 3	
53945C	6/18/2013	\$143,880,000	City of Los Angeles Wastewater System Revenue Bonds, Refunding Series 2013-B	1, 3	
54463P	4/7/2015	\$76,670,000	City of Los Angeles Solid Waste Resources Refunding Revenue Bonds, Series 2015-A	1, 2	
53945C	6/4/2015	\$188,755,000	City of Los Angeles Wastewater System Revenue Bonds, Series 2015-A (Green Bonds)	1, 3	

Base CUSIP	Dated Date	Par Amount	Name of Issue	Section	Note
53945C	6/4/2015	\$41,175,000	City of Los Angeles Wastewater System Revenue Bonds, Refunding Series 2015-B	1, 3	
53945C	6/30/2015	\$21,650,000	City of Los Angeles Wastewater System Subordinate Revenue Bonds, Refunding Series 2015-A	1, 3	
53945C	6/30/2015	\$100,835,000	City of Los Angeles Wastewater System Revenue Bonds, Series 2015-C (Green Bonds)	1, 3	
53945C	6/30/2015	\$108,860,000	City of Los Angeles Wastewater System Revenue Bonds, Refunding Series 2015-D	1, 3	
544587	11/19/2015	\$292,415,000	Municipal Improvement Corporation of Los Angeles Taxable Lease Revenue Refunding Bonds, Series 2015-A (Los Angeles Convention Center)	1	
544587	6/1/2016	\$125,235,000	Municipal Improvement Corporation of Los Angeles Lease Revenue Refunding Bonds, Series 2016-A (Capital Equipment)	1	
544587	6/1/2016	\$685,270,000	Municipal Improvement Corporation of Los Angeles Lease Revenue Refunding Bonds, Series 2016-B (Real Property)	1	
544351	12/21/2016	\$143,815,000	General Obligation Refunding Bonds Series 2016-A (Taxable)	1	
53945C	5/24/2017	\$227,540,000	City of Los Angeles Wastewater System Subordinate Revenue Bonds, Series 2017-A (Green Bonds)	1, 3	
53945C	5/24/2017	\$107,155,000	City of Los Angeles Wastewater System Subordinate Revenue Bonds, Refunding Series 2017-B (Green Bonds)	1, 3	
53945C	5/24/2017	\$115,455,000	City of Los Angeles Wastewater System Subordinate Revenue Bonds, Refunding Series 2017-C (Taxable) (Green Bonds)	1, 3	
544351	7/13/2017	\$86,370,000	City of Los Angeles General Obligation Bonds, Series 2017-A (Taxable)	1	
544351	7/13/2017	\$81,895,000	City of Los Angeles General Obligation Refunding Bonds Series 2017-B	1	
544587	2/6/2018	\$54,430,000	Municipal Improvement Corporation of Los Angeles Lease Revenue Bonds, Series 2018-A (Capital Equipment)	1	
544587	2/6/2018	\$31,270,000	Municipal Improvement Corporation of Los Angeles Lease Revenue Bonds, Series 2018-B (Real Property)	1	
544587	2/6/2018	\$25,630,000	Municipal Improvement Corporation of Los Angeles Lease Revenue Refunding Bonds, Series 2018-C (Real Property - Taxable)	1	
544351	7/12/2018	\$276,240,000	City of Los Angeles General Obligation Bonds Series 2018-A (Taxable) (Social Bonds)	1	
544351	7/12/2018	\$34,665,000	City of Los Angeles General Obligation Refunding Bonds Series 2018-B (Tax-Exempt)	1	

Base CUSIP	Dated Date	Par Amount	Name of Issue	Section	Note
544351	7/12/2018	\$10,435,000	City of Los Angeles General Obligation Refunding Bonds Series 2018-C (Taxable)	1	
54436P	7/31/2018	\$110,530,000	City of Los Angeles Solid Waste Resources Revenue Bonds, Series 2018-A	1, 2	
53945C	11/15/2018	\$219,790,000	City of Los Angeles Wastewater System Subordinate Revenue Bonds, Series 2018-A (Green Bonds)	1, 3	
53945C	11/15/2018	\$139,880,000	City of Los Angeles Wastewater System Subordinate Revenue Bonds, Refunding Series 2018-B	1, 3	
544587	8/13/2020	\$84,725,000	Municipal Improvement Corporation of Los Angeles Lease Revenue Bonds, Series 2020-A (Capital Equipment)	1	
544587	8/13/2020	\$80,850,000	Municipal Improvement Corporation of Los Angeles Lease Revenue Refunding Bonds, Series 2020-B (Real Property)	1	
544587	8/13/2020	\$102,2650,000	Municipal Improvement Corporation of Los Angeles Lease Revenue Refunding Bonds, Series 2020-C (Real Property)(Federally Taxable)	1	
544587	3/4/2021	\$177,470,000	Municipal Improvement Corporation of Los Angeles Lease Revenue Refunding Bonds, Series 2021-A (Taxable)	1	
544587	3/4/2021	\$60,481,000	Municipal Improvement Corporation of Los Angeles Lease Revenue Refunding Bonds, Series 2021-B	1	
Issued After 6/30/2021					
544351	11/10/2021	\$211,940,000	City of Los Angeles General Obligation Bonds (Taxable) (Social Bonds), Series 2021-A	1	
544351	11/10/2021	\$65,490,000	City of Los Angeles, General Obligation Refunding Bonds (Tax-Exempt), Series 2021-B	1	
544587	12/15/2021	\$154,205,000	Municipal Improvement Corporation of Los Angeles Lease Revenue Bonds, Series 2021-C (Capital Equipment and Real Property)	1	
53945C	4/1/2022	\$380,570,000	City of Los Angeles Wastewater System Subordinate Revenue Bonds, Refunding Series 2022-C	1, 3	
53945C	4/19/2022	\$99,025,000	City of Los Angeles Wastewater System Subordinate Revenue Bonds, Series 2022-A (Green Bonds)	1, 3	
53945C	4/19/2022	\$70,300,000	City of Los Angeles Wastewater System Subordinate Revenue Bonds, Series 2022-B (Federally Taxable)	1, 3	

Notes:

a Defeased May 24, 2017; partial refunding: 2021-2032 maturities were defeased by Wastewater 2017-C.

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**1. APPENDIX A
CITY OF LOS ANGELES
INFORMATION STATEMENT**

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APPENDIX A
CITY OF LOS ANGELES
INFORMATION STATEMENT

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PART 1: FINANCIAL INFORMATION

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

Particularly because of the evolving nature of the current COVID-19 public health crisis described herein, no assurance can be given that any estimates of future impact described herein will be achieved, and actual results may differ materially from the potential impact described herein. All projections, forecasts, estimates, assumptions and other forward-looking statements in this Appendix A are expressly qualified in their entirety by this cautionary statement.

In addition, this Appendix A contains historic financial, economic and demographic information regarding the City. Such information is limited to the time periods indicated and reflect data, assumptions and other information available as of the indicated dates. Certain of the information predates the COVID-19 pandemic. It is not possible to predict whether the trends shown will continue in the future.

Numbers in tables in this Appendix A may not sum to the total due to rounding.

OVERVIEW OF THE CITY'S FINANCIAL CONDITION

The COVID-19 Pandemic

The pandemic caused by the novel coronavirus COVID-19 (“COVID-19”) has had tremendous economic and social impacts on the City of Los Angeles (the “City”). The State, the County of Los Angeles (the “County”) and the City have taken various actions designed to mitigate the spread of COVID-19. Since March 2020, residents of the City have been subject to various orders and directives that suspended, reduced or prohibited various activities. Measures to combat the pandemic have been revised from time to time, becoming more or less restricting to reflect the then-current status of infections, hospitalizations and other factors. While several vaccines against COVID-19 have been approved and are being administered, the pandemic is ongoing. Although there are various indications of economic recovery, with new variants of the illness developing, and their duration and severity unknown, the ultimate economic effects remain uncertain.

The COVID-19 pandemic has materially adversely disrupted the national, regional and local economies, including the global supply chain; reductions in tourism, business travel, and travel-related industries; widespread business closures; and significantly higher levels of unemployment, all resulting in corresponding decreases in taxes and revenues.

For Fiscal Year 2020-21, receipts from the American Rescue Plan Act (“ARPA”) and other federal funds allowed the City to balance its operations despite continuing revenue losses. The three largest programs were the Coronavirus Relief Fund (the “CARES Act,” which provided \$125 million to the General Fund in Fiscal Year 2020-21), \$1.279 billion from the American Rescue Plan Act’s State and Local Fiscal Recovery Funds program (“ARPA”) and reimbursements from the Federal Emergency Management Agency (“FEMA”). The first installment of ARPA funds (\$639,450,464) was received on May 18, 2021 and the second equal installment is expected to be received in May 2022. While the City will be required to submit periodic reports, and disqualified uses would be subject to recoupment, the City expects to meet the Treasury Department’s requirements for the entire amount. The City received FEMA reimbursements in the amount of \$30.8 million in 2020-21 and budgeted \$73.8 million for receipt in 2021-22, although the latter is likely to be received the following year. The City expects FEMA to reimburse 100 percent of eligible expenses, although the process for claiming and receiving reimbursements can be lengthy.

Although the nature and extent of the COVID-19 pandemic continues to evolve, the increasing size of the vaccinated population and declining infection rates have resulted in economic recovery that is expected to restore and increase certain City revenues. This recovery, combined with the ARPA funding, has allowed the City to restore most of the funding reductions undertaken during the pandemic, and finance certain new and increased services, including services to the City’s homeless population, COVID-19 vaccinations and other emergency responses, and increases in capital spending. Nevertheless, various risks remain, including the possibility of increased infection levels, additional restrictive safety protocols (including business closures), slower than expected economic recovery and future budgetary imbalance resulting from the use of one-time revenues for ongoing expenditures during 2021-22. See “BUDGET AND FINANCIAL OPERATIONS – Fiscal Year 2020-21,” “– Fiscal Year 2021-22” and “– General Fund Budget Outlook.”

See also “BUDGET AND FINANCIAL OPERATIONS – Labor Relations” for a discussion of the City’s vaccine mandate.

Fiscal Year 2020-21

The City's Fiscal Year 2020-21 Budget (the "2020-21 Budget") was based on assumptions formulated in and prior to April 2020, during the onset of the pandemic, and relied on data from prior recessions and the assumption that the City's then applicable "Safer at Home" orders would be lifted by the end of May 2020. At the time of budget adoption, the City recognized that these assumptions were no longer realistic, and that the Mayor and the Council would need to regularly revisit the revenue and expenditure projections and make adjustments throughout the year as the trends and potential shortfalls became clearer.

Because of the need to use reserves to address Fiscal Year 2019-20 pandemic-driven revenue shortfalls, the City began Fiscal Year 2020-21 with a Reserve Fund balance of \$262.5 million, or 3.9 percent of budgeted General Fund revenues. This represented a reduction of the Reserve Fund balance from \$407.3 million as of July 1, 2019 and was the first time since 2011-12 that the City began the fiscal year with a Reserve Fund balance less than 5 percent of General Fund revenues, the minimum prescribed by the City's Financial Policies ("Financial Policies").

Throughout the first half of the fiscal year, the shortfall between budget assumptions and realized receipts grew monthly, and by February 2021, the City's chief fiscal officer, the City Administrative Officer ("CAO"), reported that revenues could fall \$600 million below budgeted levels, which, combined with various expenditures that were in excess of budgeted amounts, would lead to a projected 2020-21 budget gap of \$750 million.

To address the projected budget shortfall, the Mayor and Council approved spending reductions, implemented a hiring moratorium, and curtailed certain City services. In addition, the City reached agreements with most of its employee organizations to defer previously scheduled wage increases, in exchange for the City refraining from using civilian layoffs, furloughs, and scheduled sidelining of fire engines or ambulances as possible budget balancing solutions in 2020-21. Consistent with the terms of these agreements, the City has reopened negotiations with its employee organizations to discuss the possibility of restoring deferred salaries or making other salary modifications. See "BUDGET AND FINANCIAL OPERATIONS – Labor Relations."

These austerity measures combined with federal assistance, particularly from ARPA, allowed the City to balance its budget without drawing on reserves or deficit borrowing. The City currently estimates growth in General Fund balance at the end of the fiscal year. See "BUDGET AND FINANCIAL OPERATIONS—Budgetary Reserves and Contingencies."

Fiscal Year 2021-22 Budget

The Council adopted a balanced Fiscal Year 2021-22 Budget (the "2021-22 Budget") on May 26, 2021, and the Mayor signed the budget on June 2, 2021. While it projected a Reserve Fund balance of \$509 million as of July 1, 2021, the actual beginning year balance was \$647 million or 8.6 percent of General Fund revenues.

The 2021-22 Budget assumed the receipt of federal funds (including the second allocation of \$639.5 million of ARPA funds) and varying degrees of revenue recovery (depending on the underlying economic drivers that would constrain or boost growth). If variants become pervasive or prove to be vaccine resistant, there is risk of new outbreaks prompting renewed restrictions and closures.

As a result of its substantial reliance on federal emergency funding, the 2021-22 Budget did not satisfy the portion of the City's Financial Policies prescribing that one-time revenues only

be used for one-time expenditures. The 2021-22 Budget included \$823.7 million in one-time revenues (including \$713.2 million in federal COVID-related funding and a \$85.1 million transfer from the Reserve Fund) and \$691.2 million of one-time expenditures, which resulted in \$132.5 million of one-time revenues being allocated towards ongoing expenditures. Some of these one-time expenditures are for services that are unrelated to the pandemic. The City may consider continuing to fund such expenditures in the future.

The Four-Year Budget Outlook (the “Outlook”), prepared annually in connection with the budget and last updated in connection with the Fiscal Year 2021-22 Budget, projected budget shortfalls of \$260.9 million in 2022-23, \$135.3 million in 2023-24, and \$47.3 million in 2024-25 which, if they materialize, must be addressed as part of that year’s annual budget process. As it projects budget gaps in the initial years, the 2021-22 Budget did not achieve the policy goal of achieving structural balance. The Outlook projected a surplus of \$157.3 million in 2025-26, the last year of the projection period. These projections assume that there will be no employee compensation increases during, or following the expiration of, the current employee agreements, which are subject to reopeners, through the remainder of the projection period. The Outlook also does not include potentially large capital expenditures, including potential expenditures in connection with the City’s Civic Center Master Plan, the Los Angeles Convention Center, restoration of the Los Angeles River, or mitigation of stormwater pollution, and makes certain assumptions regarding economic recovery as the pandemic subsides.

Certain Significant Challenges

Homelessness. The City faces challenges in connection with its large homeless population. The pandemic has significantly increased the demands and costs of serving this particularly vulnerable population, although a significant share of those costs is expected to be reimbursed from federal and State funds. The 2021-22 Budget allocates \$960.6 million to combatting homelessness, consisting of \$801.6 million in new funding (including \$224.6 million from the General Fund and \$577.0 million from various special funds), and approximately \$159 million in CARES Act funding carried over from prior years.

The City is subject to a lawsuit for violating various State and federal laws in connection with the City’s and County’s alleged failures in responding to homelessness, which may increase the City’s financial obligations beyond the approximately \$960.6 million already allocated in the 2021-22 Budget. See “LITIGATION – *LA Alliance for Human Rights et al. v. City of Los Angeles et al.*”

Federal Accessibility Law Matter. The City has dealt with a number of claims and lawsuits pertaining to compliance with federal accessibility laws as described under “LITIGATION.” The City is currently in litigation with the U.S. Department of Justice (“DOJ”) over the City’s alleged violation of the False Claims Act in connection with certain federal accessibility law compliance certifications. If the DOJ is successful, the City could face potential exposure to treble damages, which, based on certain private parties’ original complaint, was estimated to be \$3 billion. Due to the preliminary nature of the matter, an estimable liability amount is difficult to ascertain at this time.

MUNICIPAL GOVERNMENT

The City provides a full range of governmental services, which 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 and cultural events; community development, housing and aging services; and planning. The City also operates and maintains the water and power utilities, harbor and airport, all served by proprietary departments within the City.

The City is a charter city; under the State Constitution, charter cities such as the City are generally independent of the State Legislature in matters relating to municipal affairs. Charter cities, however, are subject to State Constitutional restrictions; see “LIMITATIONS ON TAXES AND APPROPRIATIONS.” The most recent charter was adopted in 1999, became effective July 1, 2000, and has been amended a number of times by voter approval. In an amendment approved by voters in 2015 (Charter Amendment 1), the City’s primary and general election dates were moved to June and November of even-numbered years, beginning in 2020, in order to align them with federal and State elections. The measure also extended the terms of officials elected in 2015 and 2017; these candidates were given five and a half year terms instead of the customary four to transition to the new election dates.

The City is governed by the Mayor and the Council. The Mayor is elected at-large for a four-year term. As executive officer of the City, the Mayor has the overall responsibility for administration of the City. The Mayor recommends and submits the annual budget to the Council and passes upon subsequent appropriations and transfers, approves or vetoes ordinances, and appoints certain City officials and commissioners. The Mayor supervises the administrative process of local government and works with the Council in matters relating to legislation, budget, and finance. The Mayor operates an executive department, of which he is the ex-officio head. The current Mayor, Eric Garcetti, assumed office on July 1, 2013 and was elected to a second term on March 7, 2017, which will end on December 11, 2022 due to the change in election dates. President Biden has nominated Mr. Garcetti to serve as the United States ambassador to India; his nomination is pending Senate confirmation.

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

The other two elective offices of the City are the Controller and the City Attorney, both elected for four-year terms. The Controller is the chief accounting officer for the City. The current Controller, Ron Galperin, assumed office on July 1, 2013, and was elected to a second term on March 7, 2017, which will end on December 11, 2022 due to the change in election dates.

The City Attorney is attorney and legal advisor to the City and to all City boards, departments, officers, and entities, and prosecutes misdemeanors and violations of the Charter and City ordinances. The current City Attorney, Mike Feuer, assumed office on July 1, 2013, and was elected to a second term on March 7, 2017, which will end on December 11, 2022 due to the change in election dates.

All citywide elected officials are subject to term limits of two four-year terms, while Council members are subject to term limits of three four-year terms. Any vacancies in the offices of Mayor, City Attorney, Controller and members of the City Council may be filled by Council by

appointment (for a term up to the next second Monday in December of an even-numbered year) or special election. Upon any vacancy in the office of Mayor, the President of the Council shall immediately act as the Mayor and assume the powers and duties of the office while also continuing to perform the functions of member and President of the Council. The Council President will serve in this capacity as Acting Mayor until the office is filled by appointment or special election as provided in the Charter.

The CAO is the chief fiscal advisor to the Mayor and Council and reports directly to both. The CAO is appointed by the Mayor, subject to Council confirmation. Matt Szabo was confirmed as the CAO by Council on June 16, 2021. Mr. Szabo has worked for the City in various capacities for over 20 years, and most recently served as the Mayor's Deputy Chief of Staff.

The Office of Finance ("Finance") serves as the custodian of all funds deposited in the City Treasury and all securities purchased by the City. Finance actively manages the investment of the City's general and special pool investment portfolios and cash programs. Finance also issues those licenses, permits, and tax registration certificates not issued by other city departments, including business tax certificates. The Director of Finance is appointed by the Mayor and confirmed by the Council. Diana Mangioglu has served as Director of Finance and City Treasurer since July 2020.

The City has 41 departments and bureaus for which operating funds are annually budgeted by the Council. Two of these departments, Youth Development and Community Investment for Families, were new as of July 1, 2021. Two additional departments, the Los Angeles City Employees' Retirement System ("LACERS") and the Los Angeles Fire and Police Pension Plan ("LAFPP"), are under the control of boards whose memberships consist of mayoral appointees and representatives elected by system members. In addition, three departments (the Department of Water and Power ("DWP"), the Harbor Department, and the Department of Airports) and one State-chartered public agency (the Housing Authority of the City) are under the control of boards appointed by the Mayor and confirmed by the Council.

BUDGET AND FINANCIAL OPERATIONS

Financial Reporting and Fiscal Year 2019-20 Results

The City prepares its financial statements in accordance with Generally Accepted Accounting Principles as promulgated by the Government Accounting Standards Board ("GASB"). Since 1999, GASB has required that basic financial statements include government-wide financial statements, which are designed to provide readers with a broad overview of the City's finances. These statements are prepared using accounting methods similar to those used by private-sector businesses, including the accrual basis of accounting. The government-wide statement of net position presents information on all the City's assets, liabilities, and deferred outflows/inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Various GASB rules have required the inclusion of both pension and retiree health liabilities in the government-wide financial statements. The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a portion of their costs through user fees and charges (business-type activities). Governmental activities are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support.

The City's Comprehensive Annual Financial Report (the "Annual Financial Report") for the Fiscal Year Ended June 30, 2021 reported a deficit balance for the governmental activities' unrestricted net position of \$7.535 billion, largely due to a net pension liability of \$8.856 billion and net OPEB liability of \$2.094 billion, and deferred financing of certain liabilities (including claims and judgments, workers' compensation, and compensated absences) of \$2.586 billion.

The primary focus of the Annual Financial Report is reporting on fund financial statements, designed to report information about groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities. The General Fund is the primary operating fund of the City, and the focus of this Appendix A. It is used to account for all financial resources of the general government, except those required to be accounted for in other funds.

The following two tables summarize financial information for the General Fund contained in the City's audited Basic Financial Statements prepared in accordance with Generally Accepted Accounting Principles ("GAAP") for the periods indicated. Results for Fiscal Year 2019-20 reflect an operating deficit and \$141 million reduction to Fund Balance resulting from the impact of the pandemic in the latter part of the fiscal year.

Table 1
BALANCE SHEETS FOR THE GENERAL FUND
For Fiscal Years Ending June 30
(\$ in thousands)

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Assets					
Cash and Pooled Investments ⁽¹⁾	\$1,137,680	\$1,058,705	\$1,291,607	\$1,433,584	\$1,856,003
Other Investments	-	-	-	451	762
Taxes Receivable	650,932	669,205	675,777	682,470	782,303
Accounts Receivable	116,666	107,631	109,123	127,181	139,628
Special Assessments Receivable	3,421	3,040	3,174	2,863	3,550
Investment Income Receivable	7,992	12,985	15,680	10,014	7,812
Intergovernmental Receivable	133,018	143,773	149,002	152,247	193,305
Loans Receivable	-	-	-	42	1,331
Due from Other Funds	68,638	115,287	84,183	196,394	104,675
Inventories	33,158	33,004	46,653	42,053	39,760
Prepaid Items and Other Assets	5	5	7	11	34
Advances to Other Funds	12,317	8,814	8,688	20,831	21,374
Total Assets	<u>\$2,163,827</u>	<u>\$2,152,449</u>	<u>\$2,383,894</u>	<u>\$2,668,141</u>	<u>\$3,150,537</u>
Liabilities:					
Accounts, Contracts and Retainage Payable	\$ 87,887	\$ 83,488	\$ 93,312	\$ 254,392	\$ 272,990
Obligations Under Securities Lending Transactions	13,914	33,339	21,874	13,799	19,333
Accrued Salaries and Overtime Payable	192,538	203,015	221,902	252,022	120,242
Accrued Compensated Absences Payable	9,887	9,254	8,381	7,912	11,529
Estimated Claims and Judgments Payable	65,534	69,831	66,284	35,741	37,511
Intergovernmental Payable	579	493	56	1,010	882
Due to Other Funds	90,237	133,283	141,905	188,702	174,796 ⁽⁵⁾
Unearned Revenue	421	972	1,535	-	322,085
Deposits and Advances	34,724	9,094	12,974	9,184	11,901
Advances from Other Funds	24,032	18,391	12,499	131,093	81,148
Other Liabilities	143,892	45,737	37,248	53,177	89,104
Total Liabilities	<u>\$ 663,645</u>	<u>\$ 606,897</u>	<u>\$ 617,970</u>	<u>\$ 947,032</u>	<u>\$ 1,141,521</u>
Deferred Inflows of Resources					
Real Estate Tax	\$ 58,304	\$ 62,674	\$ 68,813	\$ 88,615	\$ 88,635
Taxes Other than Real Estate	348,324	344,215	377,206	398,251	431,719
Receivables from Other Government Agencies	121,432	125,663	131,890	129,309	142,325
Interest Receivable on Loans and Others	-	-	-	112,805	122,360
Other Deferred Inflows of Resources	85,894	83,785	81,974	-	-
Total Deferred Inflows of Resources	<u>\$ 613,954</u>	<u>\$ 616,337</u>	<u>\$ 659,883</u>	<u>\$ 728,980</u>	<u>\$ 785,039</u>
Fund Balances					
Nonspendable ⁽²⁾	\$ 45,480	\$ 41,823	\$ 55,348	\$ 62,895	\$ 61,168
Restricted	-	-	-	-	-
Committed	9,723	25,151	33,092	37,386	71,733
Assigned ⁽³⁾	304,482	289,080	334,195	356,167	426,654
Unassigned ⁽⁴⁾	526,543	573,161	683,406	535,681	664,422
Total Fund Balances	<u>\$ 886,228</u>	<u>\$ 929,215</u>	<u>\$1,106,041</u>	<u>\$ 992,129</u>	<u>\$1,223,977</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$2,163,827</u>	<u>\$2,152,449</u>	<u>\$2,383,894</u>	<u>\$2,668,141</u>	<u>\$3,150,537</u>

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

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

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

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

⁽⁵⁾ Includes approximately \$87.6 million to be paid to the City's wastewater enterprise fund, which may be accelerated in connection with potential budgetary constraints of the wastewater enterprise fund.

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

Table 2
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES FOR THE GENERAL FUND
For Fiscal Years Ending June 30
(\$ in thousands)

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Revenues:					
Property Taxes	\$1,857,683	\$1,958,033	\$2,075,764	\$2,213,899	\$2,401,848
Sales Taxes	521,910	534,236	596,465	536,362	562,217
Utility Users Taxes	611,160	640,711	606,369	643,564	610,946
Business Taxes	546,494	534,994	617,169	668,035	686,520
Other Taxes	641,755	688,804	729,649	620,653	521,955
Licenses and Permits	37,133	38,777	34,157	34,999	29,390
Intergovernmental	15,337	17,822	23,062	27,284	28,145
Charges for Services	243,379	315,900	306,462	351,983	358,772
Services to Enterprise Funds	328,511	316,245	326,650	368,706	328,481
Fines	147,023	141,346	135,526	113,643	100,559
Special Assessments	1,490	1,755	1,825	769	1,731
Investment Earnings	25,353	33,024	84,257	99,248	28,579
Change in Fair Value of Investments ⁽¹⁾	(23,740)	(26,754)	-	-	(34,572)
Other	54,116	55,039	99,717	65,406	46,107
Total Revenues	<u>\$5,007,604</u>	<u>\$5,249,932</u>	<u>\$5,637,072</u>	<u>\$5,744,551</u>	<u>\$5,670,678</u>
Expenditures:					
Current:					
General Government	\$1,356,842	\$1,332,676	\$1,336,331	\$1,553,572	\$1,478,060
Protection of Persons and Property	2,874,117	2,963,819	3,095,356	3,269,764	3,221,865
Public Works	268,201	186,390	193,846	219,657	147,933
Health and Sanitation	87,722	95,705	111,680	107,329	121,325
Transportation	129,893	119,240	107,590	102,720	112,490
Cultural and Recreational Services	12,222	61,996	61,120	52,220	44,018
Community Development	79,002	39,074	54,000	84,944	134,074
Capital Outlay	23,359	27,858	110,000	54,241	29,164
Debt Service: Interest	9,116	13,524	23,538	19,609	5,194
Debt Service: Cost of Issuance	931	763	518	559	1,103
Total Expenditures	<u>\$4,841,405</u>	<u>\$4,841,045</u>	<u>\$5,093,979</u>	<u>\$5,464,615</u>	<u>\$5,295,226</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 166,199</u>	<u>\$ 408,887</u>	<u>\$ 543,093</u>	<u>\$ 279,936</u>	<u>\$ 375,452</u>
Other Financing Sources (Uses)					
Transfers In	\$ 297,649	\$ 277,315	\$ 265,723	\$ 292,948	\$ 584,808
Transfers Out ⁽²⁾	(603,044)	(643,061)	(724,032)	(714,147)	(728,412)
Loans from Capital Leases	-	-	78,393	-	-
Total Other Financing Sources (Uses)	<u>(305,395)</u>	<u>(365,746)</u>	<u>(\$379,916)</u>	<u>(\$421,199)</u>	<u>(\$143,604)</u>
Net Change in Fund Balance	(139,196)	43,141	163,177	(141,263)	231,848
Fund Balances, July 1	1,028,311 ⁽³⁾	886,228	929,215	1,106,041	992,129
Cumulative Effect of Change in Accounting Principle ⁽³⁾	-	-	-	27,351	-
(Decrease) Increase in Reserve for Inventories	<u>(2,887)</u>	<u>(154)</u>	<u>13,649</u>	<u>-</u>	<u>-</u>
Fund Balances, July 1 Restated	-	-	-	1,133,392	-
Fund Balances, June 30	<u>\$ 886,228</u>	<u>\$ 929,215</u>	<u>\$1,106,041</u>	<u>\$ 992,129</u>	<u>\$1,223,977</u>

⁽¹⁾ Typically, any losses due to fair market valuation is netted out of interest earnings. Losses were reported separately in Fiscal Year 2016-17 and Fiscal Year 2017-18 to provide a more meaningful picture of real investment earnings.

⁽²⁾ Includes transfers to other funds to pay for General Fund lease-financing obligations, parks and recreational facilities, libraries, housing and community programs, arts and cultural facilities, and other departmental operations.

⁽³⁾ In compliance with implementation guidelines for GASB Statement 84, certain activities were re-categorized from a Fiduciary Fund type to the appropriate governmental funds, including the General Fund as reported above.

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

City's Budgetary Process

The City's fiscal year extends from July 1 through June 30. Under the Charter, the Mayor is required each year to submit to the Council a Proposed Budget (the "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. By Charter, the Mayor presents and the Council adopts a balanced budget with no deficit.

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 Charter to adopt the Mayor's Proposed Budget, as modified by the Council, by June 1. If Council does not act on the Mayor's Proposed Budget by June 1, pursuant to the City Charter, the Mayor's Proposed Budget becomes the City Budget for the ensuing fiscal year, which occurred in 2020 with respect to the 2020-21 Budget. If the Council acts and modifies the Mayor's Proposed Budget, 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. After that time, the budget becomes the "Adopted Budget."

The budget is subject to revision throughout the fiscal year to reflect any changes in revenue and expenditure projections. During the fiscal year, the City monitors its revenues, expenditures and reserve estimates. As instructed by the Mayor and Council, the CAO issues interim financial status reports (each an "FSR") as deemed necessary. These reports identify various potential expenditures that could exceed budgeted amounts and recommend transfers to address them. These reports also update revenue projections and the condition of budgetary reserves and raise issues of concern. These and other changes approved by the Mayor and Council throughout the fiscal year become the basis of the "revised budget" reported in each subsequent year's proposed and Adopted Budget.

Additional information concerning the City's financial condition may be found on the website of the CAO at <http://cao.lacity.org/budget/FSR.htm>; except for the discussion below, such information is not incorporated as part of this Official Statement.

Fiscal Year 2020-21

The COVID-19 pandemic became a global crisis approximately one month before the release of the City's Fiscal Year 2020-21 Proposed Budget. At the time of budget development, the pandemic's effect on the local economy was just beginning and the City's revenue projections were not based on any actual economic data or fully equivalent historical precedence that could indicate how the pandemic would impact the local economy.

The depth of the pandemic and its impact on the economy was far greater than anticipated in the 2020-21 Budget. At one point, the City projected revenue shortfalls as high as \$600 million, and additional overspending of \$150 million. In addition, the 2020-21 Budget was also exposed to the risk of shortfalls in special fund revenues, particularly those that derived their revenues from sales tax, gas tax, admissions fees, and parking receipts, or from attendance, such as the City Zoo and the El Pueblo Historical Monument.

The City took a number of steps to address its revenue shortfalls. It reduced appropriations by \$158 million, supported by restrictions on hiring, overtime, and contracting, that in many cases negatively impacted services.

The City also engaged with its labor organizations on concession proposals to mitigate the need for layoffs and furloughs in 2020-21. The City reached agreements with most of its civilian and sworn unions to defer previously scheduled wage increases. In exchange, the City eliminated all unpaid furloughs planned for 2020-21, committed to no layoffs through June 30, 2021, and will fund at least \$70 million for police overtime in each of the next three years to reduce the banking of time off in lieu of payment. Fire service level provisions that prohibit the scheduled sidelining of fire engines or ambulances as possible budget balancing solutions were also agreed to through 2023-24. Consistent with the terms of these agreements, the City has reopened negotiations with its employee organizations to discuss the possibility of restoring deferred salaries or making other salary modifications. See “BUDGET AND FINANCIAL OPERATIONS–Budget Outlook” and “–Labor Relations.”

The City received significant funding from the CARES Act and the ARPA, which allowed the City to finance Fiscal Year 2020-21 expenditures without relying on many of the budget balancing measures the City had identified in its FSRs. The ARPA funding, in particular, was sufficient to offset the City’s 2020-21 revenue shortfall. Among other things, the City did not need to deplete its reserves or issue commercial paper for operating purposes.

Fiscal Year 2021-22

The Mayor released his Fiscal Year 2021-22 Proposed Budget on April 20, 2021. The Council’s Budget and Finance Committee held hearings on the Budget between April 27 and May 14, 2021. The Council deliberated on the budget on May 20, 2021 and adopted the budget on May 26, 2021. The Mayor signed the budget on June 2, 2021.

The 2021-22 Budget reflects a significant reversal from the prior year, with ARPA funding accounting for an additional \$639.5 million in revenues, which will be available for eligible General Fund expenditures. The 2021-22 Budget also assumes no additional closures as a result of COVID-19, and varying degrees of revenue recovery (depending on the underlying economic drivers that would constrain or boost growth). However, if COVID-19 variants prove to be pervasive or vaccine resistant, there is a risk that an increase in infection rates or other new outbreaks may result in renewed restrictions, which would ultimately negatively impact revenues. While total General Fund revenue budgeted for 2021-22 represents a 1.5 percent increase from the 2020-21 Budget, excluding the impact of federal funding, it represents 10.2 percent growth from actual revenues estimated for 2020-21. The expected recovery in many of the City’s tax and other revenue sources, combined with federal funds, will allow the City to restore and expand certain services.

The following table presents the 2021-22 Budget and the Adopted Budgets for the preceding Fiscal Years. These budgets include the General Fund and most special revenue funds, but exclude those operations not under the direct control of the Council (i.e., Airports, Harbor, Water and Power departments, LACERS and LAFPP). The table does not reflect changes made to the budgets subsequent to their original adoption, which for Fiscal Year 2019-20 and 2020-21 in particular were substantial due to pandemic-related revenue shortfalls. With respect to both the historical budgetary information and the projected budgetary information set forth below and elsewhere in this Appendix A, it is not possible to predict whether the trends set forth in the tables will continue in the future.

**Table 3
CITY OF LOS ANGELES ADOPTED BUDGET
(ALL BUDGETED FUND TYPES)**

Revenues	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>	<u>2021-22</u>
General Fund					
Property Taxes ⁽¹⁾	\$1,833,755,000	\$1,961,509,000	\$2,115,611,000	\$2,297,080,000	\$2,400,250,000
Property Tax – Ex-CRA Tax Increment	74,168,000	97,252,000	100,386,000	95,900,000	111,990,000
Other Taxes ⁽²⁾	2,327,666,000	2,449,948,000	2,564,605,000	2,424,603,000	2,442,702,000
Licenses, Permits, Fees and Fines ⁽³⁾	1,247,823,015	1,350,888,130	1,432,853,292	1,560,189,689	1,466,009,998
Intergovernmental ⁽⁴⁾	242,500,000	238,000,000	235,600,000	224,100,000	225,819,000
Other General Fund ⁽⁵⁾	76,586,999	60,861,940	83,994,246	50,856,187	835,848,794
Interest	<u>23,957,000</u>	<u>32,137,000</u>	<u>36,700,000</u>	<u>34,613,000</u>	<u>20,603,000</u>
Total General Fund Revenue	\$5,826,456,014	\$6,190,596,070	\$6,569,749,538	\$6,687,341,876	\$7,503,222,792
Special Purpose Funds					
Charges for Services and Operations ⁽⁶⁾	\$1,561,406,303	\$1,625,828,317	\$1,832,475,709	\$1,713,546,262	\$1,847,751,480
Transportation Funds ⁽⁷⁾	393,912,507	496,879,264	618,102,159	597,452,919	723,456,411
Intergovernmental ⁽⁸⁾	79,656,836	86,886,108	86,722,284	81,462,581	88,583,085
Special Assessments ⁽⁹⁾	89,023,545	100,302,644	147,298,081	141,094,694	142,634,911
Other Special Funds	525,722,289	539,171,433	532,703,902	553,533,278	1,055,314,446
Available Balances	<u>693,324,603</u>	<u>740,937,349</u>	<u>784,687,123</u>	<u>628,390,708</u>	<u>640,068,929</u>
Total Special Fund Revenue	\$3,343,046,083	\$3,590,005,115	\$4,001,989,258	\$3,715,480,442	\$3,857,741,333
City Levy for Bond Redemption and Interest	<u>122,623,642</u>	<u>119,167,296</u>	<u>138,339,047</u>	<u>128,455,723</u>	<u>119,324,987</u>
Total Receipts	\$9,292,125,739	\$9,899,768,481	\$10,710,077,843	\$10,531,278,041	\$11,480,288,112
Appropriations by Funding Source					
General Fund					
Fire Department	\$ 639,273,170	\$ 662,270,767	\$ 682,509,340	\$ 723,143,241	\$737,168,351
Police Department	1,517,200,993	1,551,479,094	1,676,632,617	1,796,387,613	1,702,988,343
Other Budgetary Departments	1,178,595,853	867,370,474	971,170,179	886,359,305	965,733,465
Tax and Revenue Anticipation Notes ⁽¹⁰⁾	1,114,644,814	1,208,676,507	1,302,296,587	1,323,536,029	1,333,686,071
Capital Finance Administration ⁽¹¹⁾	209,459,534	221,353,665	223,750,313	211,750,313	224,436,534
Human Resources Benefits	682,788,227	730,656,927	743,564,377	800,593,969	774,377,710
Other General Fund Appropriations	<u>484,493,423</u>	<u>948,788,636</u>	<u>969,826,125</u>	<u>945,571,406</u>	<u>1,764,832,318</u>
Total General Fund	\$5,826,456,014	\$6,190,596,070	\$6,569,749,538	\$6,687,341,876	\$7,503,222,792
Special Purpose Funds					
Budgetary Departments	\$1,090,933,010	\$1,109,884,995	\$1,206,897,557	\$1,156,287,496	\$1,197,358,719
Appropriations to Proprietary Departments	102,313,802	102,313,802	117,561,561	113,351,104	129,147,678
Capital Improvement Expenditure Program	343,304,288	362,899,021	428,132,311	346,768,984	355,098,353
Wastewater Special Purpose Fund	521,469,820	559,438,564	597,021,942	576,990,112	576,990,112
Appropriations to Special Purpose Funds	<u>1,285,025,163</u>	<u>1,455,468,733</u>	<u>1,652,375,887</u>	<u>1,522,082,746</u>	<u>1,599,145,471</u>
Total Special Funds	\$3,343,046,083	\$3,590,005,115	\$4,001,989,258	\$3,715,480,442	\$3,857,740,333
Bond Redemption and Interest Funds					
General Obligation Bonds	\$ 122,623,642	\$ 119,167,296	\$ 138,339,047	\$ 128,455,723	\$ 119,324,987
Total (All Purposes)	<u>\$9,292,125,739</u>	<u>\$9,899,768,481</u>	<u>\$10,710,077,843</u>	<u>\$10,531,278,041</u>	<u>\$11,480,288,112</u>

- (1) Property taxes include all categories of the City allocation of 1% property tax collections such as secured, unsecured, State replacement, redemptions and penalties, supplemental receipts and other adjustments and is net of refunds and County charges. Also included are property taxes remitted to the City as replacement revenue for both State Vehicle License Fees and sales and use taxes.
- (2) Other taxes include utility users tax, business tax, sales tax, transient occupancy tax, documentary transfer tax, parking occupancy tax, and residential development tax. See “MAJOR GENERAL FUND REVENUE SOURCES” for a discussion of these taxes.
- (3) This item has been renamed “Departmental Receipts” beginning with the Fiscal Year 2020-21 Budget. Also includes State Vehicle License Fees, parking fines and franchise income.
- (4) Intergovernmental revenues include proprietary departments’ transfers.
- (5) Other General Fund receipts include grant receipts, tobacco settlement, transfers from the Special Parking Revenue Fund, Telecommunications Development Account Fund, and any transfers from the Reserve Fund or the Budget Stabilization Fund. For 2021-22, this item includes one-time revenues from the American Rescue Plan Act.
- (6) Major revenue sources include the Sewer Construction and Maintenance Fund, the Convention Center Revenue Fund, the Special Parking Revenue Fund, the Zoo Enterprise Fund, the Building and Safety Building Permit Enterprise Fund, the Street Damage and Restoration Fee, and the Refuse Collection Fee.
- (7) Revenue sources include the Special Gas Tax Street Improvement Fund, the Proposition A Local Transit Improvement Fund, the Proposition C Anti-Gridlock Transit Improvement Fund, the Measure R Traffic Relief and Rail Expansion Fund, and the Measure M Local Return Fund.
- (8) Intergovernmental receipts include the Community Development Block Grant, the Local Public Safety Fund, and the Workforce Innovation Opportunity Act Fund.
- (9) Special Assessments include the Street Lighting Maintenance Assessment Fund, the Stormwater Pollution Abatement Fund, the Measure W – Safe, Clean Water - Regional Projects Special Fund, and the Measure W – Safe, Clean Water – Municipal Program Special Fund.
- (10) A significant portion of the City’s TRAN proceeds are used to pay the annual contribution to LACERS and LAFPP. The budget line item for TRAN repayment is primarily for principal for this portion of the program and is made in lieu of direct appropriations for contributions to the two retirement systems. See “FINANCIAL OPERATIONS – Retirement and Pension Systems.” Interest due on the TRAN is also included in this line item.
- (11) This fund is used to make lease payments on various lease revenue bonds, privately placed leases and commercial paper notes.

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

The CAO issued the first FSR for Fiscal Year 2021-22 on October 21, 2021. It reported that revenues through September 2021 were \$97 million higher than expected, although it noted the risks that property and business taxes could underperform estimated projections contained in the FY 2021-2022 Budget. The first FSR also identified a total of \$99 million in over-expenditures and special fund revenue shortfalls, and recommended actions to address \$45 million of the potential budget gap at that time and identified \$25 million of potential future actions, leaving a remaining expenditure gap of \$29 million.

The CAO's second FSR, dated December 2, 2021, reported that revenues through October 2021 remained higher than expected for that point in the fiscal year, although by a lesser amount (\$80 million). The amount of overspending not addressed by recommendations in the first FSR or potential future actions increased from \$29 million after the first FSR to \$37 million. Addressing this overspending could result in transfers from the City's Reserve Fund, which was already reduced by a loan of \$46 million to pay for additional COVID-related expenses that are expected to be reimbursed by FEMA.

The CAO's third FSR, dated March 17, 2022, reported that revenues through December 2021 were \$14.2 million lower than expected, reflecting net increases in regular City revenues but a delayed receipt of \$73.8 million in anticipated FEMA reimbursements, now likely to be received in Fiscal Year 2022-23. After taking various actions and taking into account potential future actions, projected year-end overspending is projected to be \$36.3 million, slightly lower than the \$37.5 million in unresolved year-end overspending projected in the Second FSR.

The most significant financial impacts reported in the third FSR relate to various City reserves. The Reserve Fund was \$647 million at the beginning of the fiscal year. As of the date of the third FSR, the Reserve Fund balance was expected to be \$487.13 million or 6.5 percent of 2021-22 General Fund revenue, after accounting for transactions approved and recommended since July 1. Three separate actions to transfer funds out of the Reserve Fund approved by the Council and Mayor subsequent to the third FSR, totaling \$37.4 million, will further reduce the Reserve Fund balance to approximately 6.0 percent. Other matters that may require transfers from the Reserve Fund include the remaining \$36.3 million in potential overspending mentioned above, funding for additional affordable housing projects, and employee compensation resulting from ongoing labor negotiations related to contract reopeners. See "Labor Relations." Various other recommendations before the Council would exhaust another reserve, the Unappropriated Balance, Reserve for Mid-Year Adjustments account, which began the fiscal year at \$14.9 million.

General Fund Budget Outlook

The CAO periodically prepares a four-year Outlook, which compares projected revenues to projected expenditures in order to identify trends and potential future pressures. The most recent Outlook, presented below, was prepared in connection with the 2021-22 Budget (referred to as "the Outlook," herein), and has not been updated since that time.

The Outlook assumed the availability of ARPA funding as a major General Fund revenue source for Fiscal Year 2021-22. The Outlook did not project any major General Fund increase in capital spending. See, however, the large potential projects noted in the discussion of "BUDGET AND FINANCIAL OPERATIONS – Capital Program."

The Outlook also assumed that the City will not continue a significant portion of one-time spending from the 2021-22 Budget, even though there may be pressure to continue some of these new programs or temporary service increases to existing programs. Examples of higher-cost programs that use one-time funding include various homelessness and eviction prevention programs (\$89 million), a guaranteed basic income program (\$29 million), various business assistance programs (\$60 million), neighborhood services enhancements (\$30 million), and an expansion of the senior meals program (\$10 million). Continuing these or other programs designated as one-time would exacerbate future-year budget gaps. In addition, the Outlook assumed that the two retirement systems would achieve 14 percent returns (based on the market valuation) in 2020-21, which is lower than the rate of market-based returns the two retirement systems actually experienced in 2020-21. See Table 15 and Table 20 in the discussion of the respective retirement systems.

The Outlook reflected salary increases as set forth in the labor agreements that are currently in effect, including delayed salary increases in 2021-22. See “BUDGET AND FINANCIAL OPERATIONS–Labor Relations.” Various labor agreements include provisions for reopeners from time to time. The Outlook does not assume salary increases other than those already negotiated, including any that may result from the reopeners, during the projection period.

Each Outlook the CAO prepares begins with a balanced budget for the current budget year, in compliance with the City’s requirement to adopt a balanced budget, and projects revenue and expenditure changes for the next four fiscal years. While the Outlook does not demonstrate structural balance, as it projects deficits in the first three future years, prior Outlooks have usually projected such budget deficits as well. The Outlook does not assume any ongoing budget balancing measures, and therefore deficits are compounded from year to year. The projected budgets for future fiscal years reflect the impacts of current year assumptions and need not reflect a balanced budget, as any shortfalls will be addressed at the adoption of the budget for the applicable fiscal year.

Table 4
GENERAL FUND BUDGET OUTLOOK
As prepared and updated in connection with the Fiscal Year 2021-22 Budget
(\$ in millions)

	Adopted 2021-22	2022-23	2023-24	2024-25	2025-26
Estimated General Fund Revenues:					
General Fund Base ⁽¹⁾	\$ 6,687.3	\$ 7,503.2	\$ 7,169.60	\$ 7,493.9	\$ 7,758.5
Revenue Growth ⁽²⁾					
Property Related Taxes ⁽³⁾	131.5	130.4	109.5	130.2	136.3
Business and Sales Taxes ⁽⁴⁾	79.6	107.4	75.3	63.8	52.4
Utility Users Tax ⁽⁵⁾	(9.6)	3.1	5.8	8.3	10.7
Departmental Receipts ⁽⁶⁾	(90.5)	118.2	75.0	38.8	39.9
Other Fees, Taxes, and Transfers ⁽⁷⁾	(0.5)	16.8	58.8	23.5	18.1
American Rescue Plan (ARPA) Fund Transfer ⁽⁸⁾	639.5	(639.5)	-	-	-
SPRF Transfer ⁽⁹⁾	(19.2)	15.0	-	-	-
Transfer from the Budget Stabilization Fund ⁽¹⁰⁾	-	-	-	-	-
Transfer from Reserve Fund ⁽¹¹⁾	85.1	(85.1)	-	-	-
Total Revenues	\$ 7,503.2	\$ 7,169.6	\$ 7,493.9	\$ 7,758.5	\$ 8,015.9
<i>General Fund Revenue Increase (Decrease)%</i>	<i>12.2%</i>	<i>(4.4)%</i>	<i>4.5%</i>	<i>3.5%</i>	<i>3.3%</i>
<i>General Fund Revenue Increase (Decrease) \$</i>	<i>815.9</i>	<i>(333.7)</i>	<i>324.4</i>	<i>264.6</i>	<i>257.4</i>
Estimated General Fund Expenditures:					
General Fund Base ⁽¹²⁾	\$6,687.3	\$7,503.2	\$7,430.4	\$7,629.2	\$7,805.8
Incremental Changes to Base ⁽¹³⁾					
Employee Compensation Adjustments ⁽¹⁴⁾	112.9	259.5	97.5	69.9	60.0
City Employees' Retirement System ⁽¹⁵⁾	68.8	84.3	9.3	7.4	(37.4)
Fire and Police Pensions ⁽¹⁵⁾	(30.2)	43.0	19.9	(5.5)	(63.2)
Workers Compensation Benefits ⁽¹⁶⁾	(17.2)	0.2	8.3	8.9	10.2
Health, Dental and Other Benefits ⁽¹⁷⁾	(9.0)	21.0	32.9	34.8	37.0
Debt Service ⁽¹⁸⁾	12.7	(33.9)	(5.7)	7.5	(1.7)
Delete Resolution Authorities ⁽¹⁹⁾	(87.3)	-	-	-	-
Add New and Continued Resolution Authorities ⁽¹⁹⁾	95.4	-	-	-	-
Delete One-Time Costs ⁽²⁰⁾	(19.6)	(124.6)	-	-	-
Add One-Time Costs ⁽²⁰⁾	178.5	-	-	-	-
Comprehensive Homeless Strategy ⁽²¹⁾	111.3	(96.0)	-	-	-
Unappropriated Balance ⁽²²⁾	420.2	(352.2)	-	-	-
CTIEP-Municipal Facilities and Physical Plant ⁽²³⁾	52.1	(35.8)	4.9	4.0	3.9
CTIEP-Sidewalks ⁽²⁴⁾	8.4	6.8	-	-	-
CTIEP-Pavement Preservation ⁽²⁵⁾	6.6	18.5	3.0	3.1	3.1
Appropriation to the Reserve Fund ⁽²⁶⁾	(12.3)	-	-	-	-
Appropriation to the Budget Stabilization Fund ⁽²⁷⁾	-	21.2	(19.2)	(2.0)	-
Net-Other Additions and Deletions ⁽²⁸⁾	(75.4)	115.2	47.9	48.5	40.9
Total Expenditures	\$ 7,503.2	\$ 7,430.4	\$ 7,629.2	\$ 7,805.8	\$ 7,858.6
<i>Expenditure Growth (Reduction) %</i>	<i>12.2%</i>	<i>(1.0)%</i>	<i>2.7%</i>	<i>2.3%</i>	<i>0.7%</i>
<i>Expenditure Growth (Reduction) \$</i>	<i>815.9</i>	<i>(72.8)</i>	<i>198.8</i>	<i>176.6</i>	<i>52.8</i>
TOTAL BUDGET GAP⁽²⁹⁾	\$ -	\$ (260.9)	\$ (135.3)	\$ (47.3)	\$ 157.3
<i>Incremental Increase \$</i>	<i>-</i>	<i>(260.9)</i>	<i>125.6</i>	<i>88.0</i>	<i>204.6</i>

REVENUE

(1) General Fund (GF) Base: The revenue base for each year represents the prior year's estimated revenues. Each year's Total Revenue incorporates revised estimates for prior year receipts, adds revenue growth, and subtracts revenue reductions to the GF Base.

(2) Revenue Growth: Revenue projections assume the end of pandemic restrictions and the recovery in receipts with widespread vaccination and widespread immunity reached by the end of July. They further assume no additional closures. If vaccination efforts stall, or if variants prove to be vaccine resistant, there is risk of new outbreaks prompting renewed restrictions which may impact revenue growth. Revenue Growth for 2021-22 includes receipts from one-time federal funding sources totaling \$713.2 million, and represents an increase of 12.2 percent above adopted revenue and 7.8 percent above revised. Excluding one-time federal receipts from the revised 2020-21 and proposed 2021-22 estimates, total General Fund revenue for 2021-22 represents an increase of 1.5 percent from the 2020-21 Adopted Budget and 10.2 percent from the revised estimate, representing the recovery of the City's core revenue base. The amounts represent projected incremental change to the base. The revenue growth amounts deduct one-time receipts from the estimated revenue growth for the following fiscal year. Total City revenue growth for outgoing years is estimated between 3.3 and 5.6 percent, excluding federal relief funds. Unless otherwise noted, individual revenue sources reflect continuing growth in fiscal years 2022-23 through 2025-26 based on historical average receipts.

(3) Property Related Taxes include all property tax revenues, Documentary Transfer Tax, Residential Development Tax, and the redirection of ex-CRA tax increment monies. Assessed Value growth in property tax is projected at 5.9 percent for 2021-22 was based on assumptions for

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lower growth due to low inflation; redemption activities assumed to remain flat with the recovery of past-due taxes; and refunds projected to increase with the reassessment of commercial property.

Documentary Transfer is a volatile revenue in particular when sales volume and price move together. 2021-22 and outgoing years assumes both sales volume and prices remain stable under increasing interest rates as transfer tax revenue is predicted to surpass the peak revenue level seen at the height of the real estate bubble.

The Residential Development Tax is correlated with building permit activity, which have been minimally impacted by the pandemic. Receipts are assumed to fully recover in 2021-22 and remain stable thereafter.

Ex-CRA tax increment revenue growth is irregular. The estimate for 2021-22 is partly based on the proposed payment schedule (ROPS) and includes additional one-time miscellaneous revenue from surplus property sales assumed for 2021-22 and 2022-23. Subsequent fiscal years assume conservative growth based on the trend of lower tax increment growth (receipts) and increasing pass-through distributions (expenses) and align with property tax growth assumptions.

(4) Business tax estimates for non-cannabis activities assume a modest recovery in the 2022 annual renewal period, based on the average growth rate that followed the dot-com bust and “Great Recession” (i.e., the severe financial crisis and accompanying deep recession that ended in 2009) and estimated 2021 tax period receipts as the base. The estimate for 2021-22 reflects the loss of tax amnesty revenues from an amnesty program conducted in 2020-21, recovery in non-cannabis related business activity, and continuing growth in cannabis-related business activity. Outgoing years assume high, but decreasing, growth, primarily attributed to assumptions for cannabis receipts.

Sales tax growth in 2021-22 is 17.5 percent following two years of consecutive declines. Sales tax receipts are only 4.3 percent above the pre-pandemic revenue realized in 2018-19. Revenue estimates assume the return of indoor business operations, a decline in unemployment, and low inflation. Subsequent years represents a move towards the pre-pandemic growth trend.

(5) Electricity Users tax revenue is based on estimates provided by the Department of Water and Power (DWP). 2022-23 and outgoing years assume pre-pandemic average growth.

Gas users tax revenue for 2021-22 accounts for the second year of a three-year rate reduction stemming from a class-action lawsuit settlement. Consumption and prices are assumed to remain stable in 2021-22 and subsequent years.

The decline in communication users tax (CUT) revenue has accelerated with strategic wireless plan pricing and decreased landline use. 2021-22 and outgoing years assume an ongoing drop in CUT receipts.

(6) The projected revenue growth in departmental receipts inclusive of License, Permits, Fees, and Fines are dependent on policy decisions to increase departmental fees, collect full overhead cost reimbursements on Special Funds with sufficient capacity to do so, and increase reimbursements for those funds that have historically received a General Fund subsidy. Growth in departmental receipts for 2021-22 reflects the easing of pandemic-related restrictions on Transportation, Police, Fire, Building and Safety, Animal Services and other department services, restoring license, permit, fees and fine receipts. Additionally, updates to the cost allocation plan will typically increase reimbursements for related costs and other expenditures from proprietary and special funded departments. However, decreased balances in the solid waste, gas tax, stormwater, and other special funds will reduce reimbursements below cost recovery. 2022-23 and 2023-24 assume receipts return to the pre-pandemic level with growth slowing to 2.7 percent in outgoing years.

(7) Transient occupancy tax revenue in 2021-22 assumes an increase of approximately 75 percent from the revised 2020-21 estimate, inclusive of hotel and short-term rental revenue. The 2021-22 revenue amount remains below pre-pandemic levels, after two years of decline. Estimates are based on assumptions for room demand and room rates, with greater downside risk to international tourism assumptions. A gradual recovery to pre-pandemic hotel room demand is anticipated by 2023-24 with outgoing years reflecting historical growth.

Parking Occupancy tax assumes similar 75 percent growth as transient occupancy tax, although from a relatively smaller decline in 2020-21. 2021-22 through 2023-24 receipts are assumed to recover at a faster pace than TOT. 2024-25 and 2025-26 assume historical growth.

The Power Revenue Transfer estimate for 2021-22 is provided by the Department of Water and Power based on assumptions for estimated 2020-21 Power System revenue. The final transfer amount may be adjusted to conform to actual 2020-21 power system revenue in accordance with audited financial statements. Outgoing years assume an average of amounts transferred since a transfer limit was established.

(8) The American Rescue Plan Act (ARPA) provides fiscal recovery funds for metropolitan cities, distributed using a modified Community Development Block Grant (CDBG) formula. The 2021-22 amount includes \$639.5 million which represents the City’s second tranche allocation out of a total City allotment of \$1.279 billion. The City received an initial tranche of \$639.5 million in 2020-21. ARPA funds are one-time revenues and subsequent years do not include the continuation of these funds.

(9) Revenue from the Special Parking Revenue Fund (SPRF) represents the projected surplus that may be available to transfer to the General Fund after accounting for debt service and other expenditures associated with the maintenance, upgrades, and repairs of parking structures, meters, and related assets. The annual base-level surplus is \$23.5 million. Any amounts above this are considered one-time receipts and deducted from the estimated revenue growth for the following fiscal year. The transfer in 2020-21 was originally budgeted at \$27.7 million but due to the pandemic’s impact on parking revenues, the 2020-21 transfer was eliminated. The 2021-22 estimate assumes an \$8.5 million surplus available for transfer. Subsequent years assume the base transfer amount of \$23.5 million.

(10) The Outlook does not include any transfers from the Budget Stabilization Fund (BSF).

(11) The transfer from the Reserve Fund in 2021-22 is \$85.1 million. The Outlook does not assume any transfers in subsequent years.

ESTIMATED GENERAL FUND EXPENDITURES:

(12) General Fund Base: The General Fund base carries over all estimated General Fund expenditures from the prior year to the following fiscal year.

(13) Incremental changes to the Base: The 2021-22 amount reflects funding adjustments to the prior fiscal year General Fund budget. The expenditures included for subsequent years represent major expenses known at this time and are subject to change.

(14) Employee Compensation Adjustments: The 2021-22 amount includes employee compensation adjustments consistent with existing labor agreements as amended and all other required salary adjustments. Fiscal years 2022-23 through 2025-26 reflect restoration of one-time salary reductions from the prior year and full-funding for partially financed positions. The Outlook does not include projections for future compensation adjustments from future labor agreements, although it does include a two percent annual increase to account for natural salary

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growth. Most current agreements expire in 2022-23 or 2023-24.

- (15) City Employees' Retirement System (LACERS) and Fire and Police Pensions (LAFPP): The contribution rates are based on information that the systems' actuary calculated and includes the employee compensation adjustment assumptions above. In 2020, the board of commissioners for LACERS and LAFPP adopted economic and demographic assumption changes, including reducing the assumed investment rate of return from 7.25 percent to 7.00 percent. The contribution rates below include the adopted assumption changes. The 2020-21 investments return of 14 percent reflects higher than anticipated returns. The unaudited returns to date are significantly higher than 14 percent. If actual 2021-22 returns remain above this rate, the City's contribution rate will be lower than the reported projections, all else being equal.

Assumptions	LACERS and LAFPP					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
LACERS						
6/30 th Investment Returns	14.00%	7.00%	7.00%	7.00%	7.00%	7.00%
Combined Contribution Rate	29.05%	32.15%	32.30%	31.92%	31.52%	29.27%
LAFPP						
6/30 th Investment Returns	14.00%	7.00%	7.00%	7.00%	7.00%	7.00%
Combined Contribution Rate	46.79%	45.89%	45.27%	44.61%	43.21%	38.88%

- (16) Workers' Compensation Benefits: The projection reflects an April 2021 actuarial analysis. They reflect the impact of both current and projected future COVID-19 claims.
- (17) Health, Dental, and Other Benefits: The projection incorporates all known cost-sharing provisions adopted into labor agreements for the civilian and sworn populations. It assumes that net enrollment will increase an average of one percent for the civilian and sworn populations. Benefit rate increase assumptions are consistent with historical trends. Unemployment insurance costs rise in 2021-22, reflecting pandemic-related unemployment claim increases, and then decline in future years.
- (18) Debt Service: The debt service amounts include known future payments from the Capital Finance budget. The 2021-22 amount reflects one-time funding totaling \$11.2 million included in the Adopted Budget to prepay outstanding bonds and MICLA commercial paper program payments. The final debt service payment on all MICLA Los Angeles Convention Center Bonds is in 2022-23.
- (19) Resolution Authorities: The deletion line reflects the practice of annually deleting resolution authority positions, which are limited-term and temporary in nature. The "Add New and Continued Resolution Authorities" line reflects the continued or new resolution positions included in the 2021-22 Budget.
- (20) One-time Costs: The deletion line reflects the practice of deleting programs and costs that are limited-term and temporary in nature each year. The "Add One-Time Costs" line reflects the continued and new one-time costs included in the 2021-22 Budget. The Outlook deletes funding for all one-year projects in 2022-23 and retains the remaining balance for multiyear projects that will not become part of the General Fund base. To the extent that there are budget decisions to continue one-time programs in future years, expenditures would be higher than the reported projections.
- (21) Comprehensive Homeless Strategy: This amount represents the increase to the General Fund appropriation for homelessness-related services and expenditures within the context of the City's Comprehensive Homeless Strategy. The 2022-23 amount deletes one-time 2021-22 expenditures. To the extent that there are budget decisions to continue one-time programs in future years, expenditures would be higher than the reported projections.
- (22) Unappropriated Balance (UB): The 2022-23 amount eliminates one-time UB items, and continues ongoing ones. There is significant one-time UB items in 2021-22, including COVID response and new programs. To the extent that there are budget decisions to continue one-time programs in future years, expenditures would be higher than the reported projections.
- (23) Capital and Technology Improvement Expenditure Program (CTIEP) – Municipal Facilities and Physical Plant: The Adopted 2021-22 Budget includes an increase in funding from the General Fund of \$31.9 million for physical plant related capital projects and \$20.2 million for municipal facilities. The 2022-23 amount deletes funding for one-year projects. The Outlook assumes increased funding in future years to meet the policy spending level of 1.5 percent of General Fund revenue for capital and technology projects.
- (24) CTIEP – Sidewalk: Pursuant to the settlement in the case of *Willits v. City of Los Angeles*, the City is responsible for investing \$31 million annually for sidewalk improvements through 2047, with adjustments of 15.3 percent every five years to account for inflation and material price increases. The 2021-22 increase of \$6.8 million in General Fund appropriations reflects funds provided for sidewalk repair work for the Department of Water and Power and the Library Department, which will be reimbursed by those departments. The 2022-23 increase of \$6.8 million will increase the General Fund appropriation to \$29.7 million annually, with the balance of the investment covered by other sources of funds. This increase reflects both the required adjustment to the minimum obligation and the recognition that proprietary departments' expenditures will decrease as sidewalk repairs are completed at their facilities.
- (25) CTIEP – Pavement Preservation Program: The Pavement Preservation Program increase of \$6.6 million in 2021-22 reflects the restoration of General Fund to cover the costs shifted to special funds on a one-time basis in 2020-21. Future years both restore funding for one-time efficiencies and assume that the General Fund will bear cost increases to maintain service levels that exceed the capacity of special funds.
- (26) Appropriation to the Reserve Fund: There is no appropriation to the Reserve Fund in 2021-22, which is \$12.3 million less than the 2020-21 appropriation. No appropriation is included in subsequent years.
- (27) Appropriation to the Budget Stabilization Fund (BSF): Pursuant to the policy, when the combined annual growth for seven General Fund tax revenue sources exceeds the Average Annual Ongoing Growth Threshold, the budget must include a deposit into the BSF. When growth of these receipts falls short of the Average Annual Ongoing Growth Threshold, the Budget may include a withdrawal from the fund. Based on the projected growth in economically sensitive revenues, the projected transfer to the BSF is \$21.2 million in 2022-23 and \$2.0 million in 2023-24.
- (28) Net – Other Additions and Deletions: The 2021-22 amount includes one-time reductions and efficiencies and ongoing changes and new regular positions added to the base budget. The significant reductions include the deletion of 1,140 regular authority positions through the

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Separation Incentive Program (SIP) and one-time reductions taken as an alternative to deleting other position authorities that were vacated due to SIP. To the extent that the 2021-22 Budget restored positions eliminated through the SIP as resolution authority positions, the funding for those positions is included in the “Add New and Continued Resolution Authorities” line. Among the significant increases are appropriations of \$37 million to Recreation and Parks and \$13 million to the Library. The remaining balance reflects new and increased ongoing costs to a variety of departmental programs. Subsequent years include projected expenditures for the restoration of one-time expenditure reductions, structured payments, hotel development incentive agreements, LAPD vehicles, and the recycling incentives program and increased appropriations to Recreation and Parks and the Library.

⁽²⁹⁾ Total Budget Gap: The Total Budget Gap reflects the projected surplus (deficit) in each fiscal year included in the Outlook.

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

Budgetary Reserves and Contingencies

The City maintains a number of budgetary reserves and other funds designed to help manage its risks and ensure sufficient resources to meet contingencies. These funds represent a major component of what is reported as Unassigned Fund Balance at year-end in the City’s financial reports. See the footnotes for “Table 1—Balance Sheets for the General Fund.” While significant transfers from reserves occurred in Fiscal Year 2019-20 and were originally expected in 2020-21 to partially address revenue shortfalls due to the pandemic, ARPA receipts facilitated the preservation of budgetary reserves in 2020-21, and the City began Fiscal Year 2021-22 with larger reserves than anticipated in the Budget.

The City maintains a Reserve Fund, which was created by the Charter. The City may transfer moneys from the Reserve Fund as part of an Adopted Budget or throughout the fiscal year for unanticipated expenditures, or may transfer funds from the Reserve Fund as a loan to other funds. The City may also transfer moneys to the Reserve Fund from time to time throughout the year. All unencumbered cash amounts in the General Fund revert to the Reserve Fund at the end of the Fiscal Year; some of those funds will be re-appropriated at the beginning of the following fiscal year (primarily for General Fund capital projects, advances, and technical adjustments).

The City’s Financial Policies include a Reserve Fund policy setting forth the goal that the City maintain a budget-based Reserve Fund balance equal to at least 5 percent of General Fund revenues. As shown in the table below, the 2021-22 Budget, with an estimated Reserve Fund of \$509.9 million, exceeded this goal at 6.8 percent as of July 1, 2021, after falling short of this goal for the first time in seven years in Fiscal Year 2020-21 due to the revenue impacts of the COVID-19 pandemic. In his Preliminary Financial Report released October 21, 2021, the Controller reported that the actual July 1, 2021 Reserve Fund balance was even higher, at \$647 million, or 8.6 percent of budgeted General Fund revenues. The City’s Reserve Fund policy addresses budget-based reserves and does not set specific goals for GAAP-based year-end fund balances.

The Reserve Fund is composed of two accounts—an Emergency Reserve Account and a Contingency Reserve Account. Amounts in the Emergency Reserve Account, representing 2.75 percent of General Fund revenues, are restricted under the Charter for funding an “urgent economic necessity” upon a finding by the Mayor and Council of such necessity. If the City were to utilize amounts in the Emergency Reserve Account, the City would be expected to replenish the amount expended therefrom in the subsequent fiscal year except in the case of a catastrophic event, in which case the requirement can be temporarily suspended by Council and Mayoral action. The

balance of the available Reserve Fund is allocated to the Contingency Reserve Account and is available to address unexpected expenditures relating to existing programs or revenue shortfalls upon authorization by the Mayor and Council.

In addition, the City maintains a number of other funds that can be used to finance contingencies as they arise, the most important of which are the Budget Stabilization Fund (the “BSF”) and the Unappropriated Balance (the “UB”) line item for mid-year adjustments. Taken together, the Reserve Fund, the BSF, and the UB line item for mid-year adjustments comprise what the City considers to be its General Fund reserves.

Pursuant to the ordinance that regulates the BSF, as part of the annual budget process a portion of the economically sensitive revenues projected to be above the historical average must be deposited into the BSF, which can then be used to help fund future expenditures when revenue is stagnant or is in decline. The economically sensitive revenues consist of seven General Fund tax revenue sources: property, utility users, business, sales, transient occupancy, documentary transfer, and parking occupancy taxes. For purposes of the 2021-22 Budget, the growth rate used to determine BSF contributions was calculated to be 4.1 percent, based on the 20-year historical average of these tax revenues.

Under the BSF Financial Policy, the 2021-22 Budget was neither required to make a deposit into nor permitted to take a withdrawal from the BSF. As neither occurred, the Budget complies with this Financial Policy.

The UB was created by the Charter, which requires that an amount be included in the budget to be available for appropriations later in the fiscal year to meet contingencies as they arise. The amount and types of items identified in the UB vary each year depending on the specific challenges, the risks identified, and programs that have been approved but for which an appropriation for expenditure is premature. The 2021-22 Budget contained a particularly large appropriation of \$531.5 million to the UB, including allocations of \$14.9 million as a Reserve for Mid-Year Adjustments, \$23.9 million as a Reserve for Extraordinary Liability and a wide variety of programs, the largest of which are business assistance programs (\$25 million), child care programs (\$30 million), COVID-19 emergency response (\$25 million), renewable energy projects (\$30 million), a guaranteed basic income pilot program (\$29 million), improvements at recreation and parks facilities (\$75 million), and restaurant and small business recovery (\$25 million).

The City adopted a revision to its Financial Policies in January 2020 to add the stated goal of maintaining the cumulative value of the Reserve Fund, the Budget Stabilization Fund, and the UB line item for mid-year adjustments at an amount equal to at least 10 percent of all General Fund receipts anticipated for that fiscal year in the Adopted Budget. Based on the actual Reserve Fund balance on July 1, 2021, these General Fund reserves were 10.4 percent, which exceeded this reserve goal. As of April 15, 2022, these General Fund reserves have dropped to approximately 7.6 percent of budgeted General Fund revenues. See “BUDGET AND FINANCIAL OPERATIONS – Fiscal Year 2021-22.”

The following table summarizes both budgeted and actual reserves. The history of projected Reserve Fund balances as of July 1 as anticipated in past Adopted Budgets and the actual Reserve Fund balances that occurred on July 1 of those years is intended to illustrate the historical variance between budgeted and actual amounts. A number of factors affect the actual balance at the beginning of the year, including final expenditures and revenues for the preceding fiscal year, the reversion of unencumbered funds at year end, the reappropriation of a portion of those

reversions through the budget, and the use of appropriations to and from the Reserve Fund to support the Adopted Budget. The table also sets forth the City's other contingency resources, in addition to the City's Reserve Fund, namely the BSF and the UB line item for mid-year adjustments. These balances are reported as of the beginning of the fiscal year rather than the end of the prior year to avoid overstating them as a result of year-end reversions, many of which are reappropriated as of July 1, and to account for any transfers made as part of an Adopted Budget.

Table 5
HISTORICAL RESERVE FUND BALANCE AS OF JULY 1
Adopted Budget and Actual
(Cash Basis; \$ in millions)

	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>	<u>2021-22</u>
Adopted Budget										
Emergency Reserve	\$125.1	\$133.8	\$141.3	\$148.8	\$153.4	\$160.2	\$170.2	\$180.7	\$183.9	\$206.4
Contingency	<u>92.9</u>	<u>127.3</u>	<u>142.8</u>	<u>164.6</u>	<u>181.5</u>	<u>138.1</u>	<u>180.7</u>	<u>229.7</u>	<u>59.4</u>	<u>303.5</u>
	\$218.0	\$261.1	\$284.1	\$313.4	\$334.9	\$298.3	\$350.9	\$410.4	\$243.3	\$509.9
Total Budgeted General Fund Revenues	\$4,550.5	\$4,866.9	\$5,138.3	\$5,410.4	\$5,576.4	\$5,826.5	\$6,190.6	\$6,569.7	\$6,687.3	\$7,503.2
Reserve Fund Balance as % of Budgeted General Fund Revenues	4.79%	5.37%	5.53%	5.79%	6.01%	5.12%	5.67%	6.25%	3.64%	6.80%
Budget Stabilization Fund	\$0.5	\$61.5	\$64.4	\$91.5	\$92.4	\$95.1	\$107.3	\$113.9	\$116.6	\$118.0
Reserves for Mid-Year in UB	<u>8.0</u>	<u>21.0</u>	<u>20.7</u>	<u>17.0</u>	<u>15.0</u>	<u>20.0</u>	<u>20.3</u>	<u>35.0</u>	<u>30.1</u>	<u>14.9</u>
Total General Fund Budget Reserves	\$226.5	\$343.6	\$369.2	\$421.9	\$442.3	\$413.3	\$478.6	\$559.4	\$390.0	\$642.8
% of Budgeted General Fund Revenues	4.98%	7.06%	7.19%	7.80%	7.93%	7.09%	7.73%	8.51%	5.83%	8.57%
Actual										
Emergency Reserve	\$125.1	\$133.8	\$141.3	\$148.8	\$153.3	\$160.2	\$170.2	\$180.7	\$183.9	\$206.3
Contingency	<u>108.0</u>	<u>192.9</u>	<u>241.7</u>	<u>293.8</u>	<u>180.9</u>	<u>194.3</u>	<u>175.6</u>	<u>226.5</u>	<u>78.6</u>	<u>440.7</u>
	\$233.1	\$326.7	\$383.0	\$442.6	\$334.2	\$354.5	\$345.8	\$407.2	\$262.5	\$647.0
Reserve Fund Balance as % of Budgeted General Fund Revenues	5.12%	6.71%	7.45%	8.18%	5.99%	6.08%	5.59%	6.20%	3.93%	8.62%

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

Financial Management Policies

The City has adopted a number of Financial Policies. Several of these policies relate to the City's Reserve Fund and Budget Stabilization Fund. See "Budgetary Reserves and Contingencies" above for a description of these Financial Policies.

Another component of the Financial Policies requires that one-time revenues only be used for one-time expenditures. The 2021-22 Budget fails to satisfy this policy due to the allocation of \$823.7 million in one-time revenues (including \$639.5 million from ARPA, \$73.8 million from FEMA, and an \$85.1 million transfer from the Reserve Fund) towards \$691.2 million of one-time expenditures, which results in \$132.5 million of these one-time revenues being allocated towards ongoing expenditures. See "General Fund Budget Outlook," above.

The Financial Policies provide for the City to annually budget 1.5 percent of General Fund revenues to fund capital and technology infrastructure improvements. The 2021-22 Budget exceeds this goal, appropriating \$259.5 million towards such expenditures, representing 3.5 percent of General Fund revenues.

The City also has limits on the amount of debt service it considers affordable and is well below those thresholds. See "BONDED AND OTHER INDEBTEDNESS—Debt Management Policies."

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

Risk Management and Retention Program

Because of its size and its financial capacity, the City has long followed the practice of directly assuming most insurable risks without procuring commercial insurance policies. The extent and variety of City exposure is such that the cost of the premiums outweighs the benefits of such coverage. The City administers, adjusts, settles, defends and pays claims from budgeted resources. The City is self-insured for workers' compensation as permitted under State law. The City procures commercial insurance when required by bond or lease financing covenants and for other limited purposes. Due to the impacts of the pandemic, global property market losses, and the property losses the City sustained over the last five years (including the recent Hyperion Water Reclamation Plant Sewage Spill), insurance premiums for the City have increased. See "OTHER MATTERS – Clean Water Compliance." The 2021-22 Budget provides additional funding to cover these increased costs. Premium costs for 2022-23 are anticipated to remain at this higher level.

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 2021-22 Budget provides funding of \$87.4 million for these liabilities, of which \$80 million is dedicated to liabilities that must be paid from the General Fund. The 2021-22 Budget also includes a \$23.9 million appropriation in the UB as a "Reserve for Extraordinary Liabilities." From time to time, the City may issue judgment obligation bonds to finance larger judgments or settlements, as it did in Fiscal Years 2008-09 and 2009-10.

The City’s recent budget and claims payment experience is listed in the table below.

Table 6
LIABILITY CLAIMS PAID ⁽¹⁾
(\$ in millions)

Fiscal Year	Total Amount Budgeted				Total Claims Paid
	General Fund	Special Funds	Unappropriated Balance	Total	All Council-Controlled Funds
2016-17	\$59.6	\$ 8.9	\$ -	\$68.5	\$201.4
2017-18	80.0	9.1	20.0	109.1	107.1
2018-19	80.0	9.1	20.0	109.1	103.3
2019-20	80.0	10.5	20.0	110.5	126.9
2020-21	80.0	7.9	-	87.9	87.3
2021-22 Budget	80.0	7.4	23.9	111.3	N/A

⁽¹⁾ Cash basis. Does not include Workers’ Compensation claims paid by the City; see Table 7. Also, does not include claims paid in connection with Fair Labor Standards Act disputes and other labor matters, which are paid out of departmental operating budgets.

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

The City’s Annual Financial Report provides estimates of potential liabilities. Under GAAP, the City is required to accrue liabilities arising from claims, litigation and judgments when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The City’s Annual Financial Report discloses and takes into account estimates of such potential liabilities. . As reported in the City’s Annual Financial Report (Note 4 (N): Risk Management—Estimated Claims and Judgments Payable), the City, as of June 30, 2021, estimated the amount of tort and non-tort liabilities to be “probable” of occurring at approximately \$664.7 million. In addition, and as reported in the City’s Annual Financial Report, the City Attorney, as of June 30, 2021, estimated that certain other pending lawsuits and claims have a “reasonable possibility” of resulting in additional liability totaling \$55.0 million. See “LITIGATION” for a discussion of certain recently completed, pending or threatened litigation matters involving the City.

Also as of June 30, 2021, the City estimated its workers’ compensation liability at \$2.0 billion; see Table 7 for recent and budgeted expenditures for this liability.

The City generally does not maintain earthquake insurance coverage. Instead, the City relies on its general reserves as well as the expectation that funds will be available from FEMA to manage earthquake and other major natural disaster risk. The City has received a waiver from the requirement under federal law that it acquire earthquake insurance on facilities that were the beneficiaries of prior FEMA grants. There is no guarantee that sufficient City reserves or FEMA assistance would be available in the event of a natural disaster. See “OTHER MATTERS—Seismic Considerations.”

In addition, the City does not maintain insurance for cybersecurity risk. See “OTHER MATTERS—Cybersecurity.”

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

The City appropriates funds to a Human Resources Benefits Fund to account for various programs to provide benefits to its employees, in addition to retirement and other post-employment benefits, as described below. Total benefits expenditures are shown in the following table.

Table 7
HUMAN RESOURCES BENEFITS⁽¹⁾
(\$ in thousands)

	2017-18	2018-19	2019-20	2020-21	Budget 2021-22
Workers' Compensation/Rehabilitation	\$186,263	\$195,985	\$203,356	\$211,100	\$212,467
Contractual Services	23,707	24,086	23,430	24,920	27,341
Civilian FLEX Program ⁽²⁾	274,024	282,513	291,509	308,627	300,562
Supplemental Civilian Union Benefits	5,012	5,070	5,544	6,173	5,938
Police Health and Welfare Program	144,926	156,625	157,451	158,385	160,760
Fire Health and Welfare Program	52,748	56,927	58,938	61,874	62,490
Unemployment Insurance	2,720	2,452	1,961	8,500	3,000
Employee Assistance Program	1,386	2,078	1,369	1,834	1,820
Total	<u>\$690,786</u>	<u>\$725,736</u>	<u>\$743,558</u>	<u>\$781,413</u>	<u>\$774,378</u>

⁽¹⁾ Cash basis.

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

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

Labor Relations

In 1971, the City adopted an employee relations ordinance under the provisions of the Meyers-Milias-Brown Act ("MMBA"). Under the MMBA, management must bargain with recognized employee organizations on terms and conditions of employment, including wages, hours, and other working conditions. The CAO is the formal management representative on employee relations matters, representing the Mayor and Council in negotiations with recognized employee organizations. The CAO receives direction from the Executive Employee Relations Committee, consisting of the Mayor; the President of the Council; the President Pro-Tempore of the Council; the chairperson of the Council's Budget and Finance Committee; and the chairperson of the Council's Personnel, Audits and Animal Welfare Committee. Formal Memoranda of Understanding ("MOUs") are executed between the City and the employee organizations incorporating the negotiated wages and working conditions for each bargaining unit. For expired contracts, the terms continue to be observed during negotiations of a new contract, unless a provision has a specific termination date.

There are 44 individual MOUs, affecting about 36,400 full-time and 9,800 part-time City employees (these bargaining units include employees of the Airport and Harbor departments, but exclude DWP employees) that are represented by 22 labor unions/employee associations. The remaining approximately 800 employees are not represented. The vast majority of employees that are members of the Los Angeles City Employees' Retirement System ("LACERS") are considered to be "civilian" employees. Employees that are members of the City of Los Angeles Fire and Police Pension Plan ("LAFPP") are considered to be "sworn" or "safety" employees. See "BUDGET AND FINANCIAL OPERATIONS—Retirement and Pension Systems—Los Angeles City Employees' Retirement System ("LACERS")."

To address the projected budget gap in Fiscal Year 2020-21 occasioned by the COVID-19 pandemic, the City renegotiated terms of MOUs with the majority of its labor organizations whose salaries most significantly impact the City's General Fund. The renegotiated terms focused primarily on deferring previously scheduled wage increases, in exchange for the City refraining from implementing civilian layoffs, furloughs, and scheduled sidelining of fire engines or ambulances as means to balance the 2020-21 Budget. The renegotiated MOUs have been reopened consistent with provisions to discuss the possibility of restoring deferred salaries or making other salary modifications. Tentative Agreements have been reached with several of the City's civilian labor organizations which are pending ratification by its members, and which will subsequently require full Council and Mayor approval. If approved, these Tentative Agreements may have an impact on the General Fund in 2021-22 and subsequent fiscal years. Any impacts in 2021-22 will be addressed through existing budgeted funds and the Reserve Fund. Impacts in 2022-23 and beyond will be incorporated as part of the budget development process. All other groups with whom the City is in discussions continue to consider the City's offers and have not yet indicated a timeline for proceeding.

For a number of years, the City has accumulated liability for banked Police Department ("LAPD") uncompensated overtime, valued at approximately \$151.5 million as of August 28, 2021. Those hours that are not used as leave become more expensive over time due to promotions and other salary increases of applicable LAPD personnel. The recent agreement reached by the City and the union representing police officers, which deferred certain salary increases, may reduce the need to bank overtime hours in lieu of payment, as the agreement will require the City to pay a minimum of \$70 million in cash overtime to police officers in each of the following three fiscal years: 2021-22, 2022-23, and 2023-24.

On August 16, 2021, the City Council, due to the ongoing COVID-19 pandemic, adopted Ordinance 187134 (the "Vaccine Ordinance"), which mandated that all its employees, volunteers, interns, hiring hall, appointed officers, board members and commissions, and elected officials and their appointees (collectively, the "Affected Employees") be fully vaccinated against COVID-19 by October 19, 2021, unless the Affected Employees claim, and get approval for, an exemption for either medical reasons or sincerely-held religious beliefs. On October 26, 2021, after negotiations with the City's employee labor unions over their concerns with the Vaccine Ordinance, the City Council adopted a resolution which set forth certain consequences for non-compliance with the requirements of the Vaccine Ordinance (the "Vaccine Resolution"), and, among other things, extended the compliance period set forth under the Vaccine Ordinance until December 18, 2021, unless otherwise exempted for medical or religious reasons. Those Affected Employees who sought additional time to comply with the vaccine requirements or awaiting a decision on their request for religious or medical exemption were subject to COVID-19 testing, the costs of which are expected to be covered from federal and/or State COVID-19 relief funds. Affected Employees who fail to comply with the Vaccine Ordinance and the Vaccine Resolution are subject to certain corrective actions, including potential termination from City employment. The cost associated with implementing the Vaccine Ordinance and the Vaccine Resolution, including any potential labor dispute arising as a result of such implementation, cannot be determined at this time.

The City faced a series of lawsuits relating to the Vaccine Ordinance and the Vaccine Resolution. The first lawsuit, entitled *Firefighters4Freedom Foundation v. City of Los Angeles*, was filed on September 17, 2021 in Los Angeles County Superior Court by a non-profit

corporation, as appointed agent for and on behalf of 529 Los Angeles Fire Department employees. The second lawsuit, as amended, was originally filed on September 11, 2021 in United States District Court, Central District by a group of six LAPD officers and is entitled *Lemons, et al. v. City of Los Angeles et al.* Those lawsuits, along with another lawsuit brought by the Los Angeles Fire Department employees union (United Firefighters of Los Angeles City Local 112), have been dismissed in the City’s favor. The City cannot provide any assurances that no plaintiffs would appeal their respective dismissals.

On or about October 29, 2021, the Los Angeles Police Protective League filed a lawsuit in Los Angeles County Superior Court alleging that the testing plan under the Vaccine Resolution violated state labor laws and involved conflicts of interest issues relating to the contractor hired by the City to administer the tests. The City expects to continue to defend any allegations that the City violated any state labor laws. The City also plans to continue to defend the enforceability of the Vaccine Ordinance and the Vaccine Resolution.

The following table summarizes the membership and status of the largest unions and employee associations. The cost of living adjustments include the terms renegotiated to defer salary increases. See “BUDGET AND FINANCIAL OPERATIONS—Fiscal Year 2020-21.”

**Table 8
STATUS OF LABOR CONTRACTS
LARGEST EMPLOYEE ORGANIZATIONS**

<u>Organization</u>	<u>Employees Represented</u> ⁽¹⁾	<u>Number of Bargaining Units</u>	<u>Status of Memorandum of Understanding</u>	<u>Base Wage Adjustments</u> ⁽²⁾
Los Angeles Police Protective League	9,964	1	Contract expires 6/30/24	4.5% effective 9/1/19 1.5% effective 7/5/20 3.25% effective 1/17/21 3% effective 1/1/23 ⁽³⁾ 1.5% effective 1/1/23 ⁽³⁾
United Firefighters of Los Angeles City	3,282	1	Contract expires 6/29/24	2% effective 7/7/19 4.75% effective 7/5/20 4.5% effective 1/1/23
Coalition of LA City Unions	24,579	21	Contracts expires 12/31/22	2.9% effective 10/28/18 2.75% effective 1/19/20 2% effective 6/19/22 ⁽³⁾ 2% effective 6/19/22 ⁽³⁾
Engineers and Architects Association	5,479	4	Contracts expires 12/31/23	2.75% effective 1/19/20 2% effective 6/19/22 2% effective 1/29/23 1.5% effective 6/18/23
Municipal Construction Inspectors Association	880	1	Contract expires 12/30/23	2% effective 1/19/20 2.75% effective 7/5/20 2% effective 7/3/22 2% effective 1/29/23

⁽¹⁾ Total full-time and part-time employees in all departments except DWP, as of July 1, 2020.

⁽²⁾ Adjustments for the term covered by the specific MOU.

⁽³⁾ The renegotiated MOU deferred two salary increases to the same date. Both increases are shown here separately.

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

The table below shows total authorized City staffing for all departments except Airports, Harbor, DWP, LACERS, and LAFPP. The LAPD represents the single largest department in terms of authorized positions.

Table 9
AUTHORIZED CITY STAFFING⁽¹⁾

	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>	<u>Budget 2021-22</u>
Sworn					
Police	10,547	10,549	10,552	10,554	10,557
Fire	<u>3,350</u>	<u>3,363</u>	<u>3,382</u>	<u>3,416</u>	<u>3,424</u>
Subtotal Sworn	13,897	13,912	13,934	13,970	13,981
Civilian					
Police	3,335	3,388	3,454	3,451	3,187
Fire	383	397	406	415	380
All Others	<u>15,760</u>	<u>16,063</u>	<u>16,378</u>	16,795	16,014
Subtotal Civilian	<u>19,478</u>	<u>19,848</u>	<u>20,238</u>	<u>20,661</u>	<u>19,581</u>
Total	33,375	33,760	34,172	34,631	33,562

⁽¹⁾ As authorized in the Adopted Budget. Includes permanent (“regular”) positions and excludes temporary personnel (also referred to as “resolution authority positions”), which total 3,171 for Fiscal Year 2021-22. Also excludes personnel of the departments of Airports, Harbor, DWP, LACERS and LAFPP.

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

Retirement and Pension Systems

General

The City has three single-employer defined-benefit pension plans created by the Charter: the Los Angeles City Employees’ Retirement System (“LACERS”), the City of Los Angeles Fire and Police Pension Plan (“LAFPP”) and, for employees of DWP, the Water and Power Employees’ Retirement, Disability and Death Benefit Insurance Plan (the “Water and Power Plan”). Both LACERS and LAFPP (collectively, the “Pension Systems”) are funded primarily from the City’s General Fund, while the Water and Power Plan is funded by that department’s proprietary revenues.

The Pension Systems provide retirement, disability, death benefits, post-employment healthcare and annual cost-of-living adjustments to plan members and beneficiaries. Both Pension Systems are funded pursuant to the Entry Age Cost Method, which is designed to produce stable employer contributions in amounts that increase at the same rate as the employer’s payroll (i.e., level percent of payroll). Retired members and surviving spouses and domestic partners of LACERS and LAFPP members are eligible for certain subsidies toward their costs of medical and other benefits. These benefits are paid by the respective retirement system. These retiree health benefits are accounted for as “Other Post-Employment Benefits” (“OPEB”). The City began making payments to its Pension Systems to pre-fund OPEB obligations in the late 1980s. The calculations of OPEB funding requirements are made by the same actuaries that perform the analysis of the Pension Systems’ retirement benefits, and generally rely on the same actuarial assumptions, other than those assumptions such as medical cost inflation specific to OPEB.

The actuarial valuations for both Pension Systems are prepared on an annual basis and the applicable actuary recommends contribution rates for the fiscal year beginning after the

completion of that actuarial valuation. The Pension Systems' annual valuations determine the contribution rate, as a percentage of covered payroll, needed to fund the normal retirement costs accrued for current employment and to amortize any unfunded actuarial accrued liability ("UAAL"). The UAAL represents the difference between the present value of estimated future benefits accrued as of the valuation date and the actuarial value of assets currently available to pay these liabilities. The valuation for each plan is an estimate based on relevant economic and demographic assumptions, with the goal of determining the contributions necessary to sufficiently fund over time the benefits for currently active, vested former members and retired employees and their beneficiaries.

Various actuarial assumptions are used in the valuation process, including the assumed rate of earnings on the assets of the plan in the future, the assumed rates of general inflation, salary increases, inflation in health care costs, assumed rates of disability, the assumed retirement ages of active employees, the assumed marital status at retirement, and the post-employment life expectancies of retirees and beneficiaries. As plan experience differs from adopted assumptions, the actual liabilities will be more or less than the liabilities calculated based on these assumptions. The contribution rates in the following year's valuations are adjusted to take into account actual plan experience in the current and prior years.

Each plan also generally performs an experience study every three years, comparing the plan's actual experience to the non-economic or demographic assumptions previously adopted by its board. Based on the plan's experience, the board may adopt the actuary's recommendations to adjust various assumptions such as retirement rates, mortality, termination rates, and disability incidence rates in calculating its liabilities. Additionally, the experience study will review each plan's economic assumptions and the actuary may recommend adjustments based on future expectations for items such as general inflation, participant salary increases, and the plan's future expected rate of investment return. These economic assumptions are also adopted by each plan's board.

The valuations incorporate a variety of actuarial methods, some of which are designed to reduce the volatility of contributions from year to year. When measuring the value of assets for determining the UAAL, many pension plans, including the Pension Systems, "smooth" market value gains and losses over a period of years to reduce contribution volatility. These smoothing methodologies result in an actuarial value of assets that are lower or higher than the market value of assets at a given point in time.

The Actuarial Standards Board, the organization that sets standards for appropriate actuarial practice in the United States through the development and promulgation of Actuarial Standards of Practice, approved the new Actuarial Standard of Practice No. 51 ("ASOP 51"), effective as of the June 30, 2019 actuarial valuations. ASOP 51 requires actuaries to identify and assess risks that "may reasonably be anticipated to significantly affect the plan's future financial condition," (referred to as a "Risk Report.")

Examples of key risks that are particularly relevant to the Pension Systems are investment risk and longevity and other demographic risks. Among other things, the reports consider the cost to the City of alternative earning scenarios from investments. Since the funded ratio, UAAL, and the employer contribution rates have fluctuated as a result of deviation in investment experience in past valuations, the Pension Systems' actuary has examined the risk associated with earning either higher or lower than the assumed investment rate in future valuations.

ASOP 51 also requires an actuary to consider if there is any ongoing contribution risk to the plan by evaluating the potential for and impact of actual contributions deviating from expected contributions in the future. The Risk Reports for both Pension Systems (the “Risk Reports”), noted that the City has a well-established practice of making the Actuarially Determined Contribution. As a result, in practice both Pension Systems have been found to have essentially no contribution risk.

In the Risk Reports, the actuary noted that each had strengthened their respective actuarial assumptions over time in part by lowering the expected investment rate of return, utilizing a generational mortality assumption, and adopting a funding policy that controls future negative amortization. These changes may result in higher contributions in the short term, but in the medium to longer term avoid both deferring contributions and allowing unmanaged growth in the UAAL.

The Risk Reports also note that both of the Pension Systems have become more mature as evidenced by an increase in the ratio of members in pay status (retirees and beneficiaries) to active members employed by the City and by an increase in the ratios of plan assets and liabilities to active member payroll. The actuary expected these trends to continue going forward. Any increase in UAAL due to unfavorable investment and non-investment experience for the relatively larger group of non-active members would have to be amortized and funded over the payroll of the relatively smaller group of only active members; as a plan grows more mature, its contribution rate becomes more sensitive to investment volatility and liability changes.

Each of the Pension Systems has adopted its own asset allocation plan to guide their respective investments in stocks, bonds, real estate, alternatives, and cash equivalents. Each plan reviews its asset allocation plan periodically and any adjustments are approved by the respective boards.

The City has never issued pension obligation bonds to fund either of its Pension Systems but may consider it in the future. The City typically pays all of its annual contributions to its Pension Systems in July at a discount, out of the proceeds of its annual issuance of tax and revenue anticipation notes.

This section, “Retirement and Pension Systems,” is primarily derived from information produced by LACERS and LAFPP and their independent actuaries. The City has not independently verified the information provided by LACERS and LAFPP. The comprehensive annual financial reports of the individual Pension Systems, actuarial valuations for retirement and health benefits, and other information concerning LACERS and LAFPP are available on their websites, at www.lacers.org/aboutlacers/reports/index.html and www.lafpp.com/financial-reports, respectively. Information set forth on such websites is not incorporated by reference herein. For additional information regarding the Pension Systems, see also Note 5 in the “Notes to the City’s Basic Financial Statements” in the City’s Annual Financial Report for the Fiscal Year Ended June 30, 2021.

Investors are cautioned that, in considering information on the Pension Systems, including the amount of the UAAL for retirement and other benefits, the funded ratio, the calculations of normal cost, and the resulting amounts of required contributions by the City, this is “forward-looking” information. Such “forward-looking” information reflects the judgment of the boards of the respective Pension Systems and their respective actuaries as to the value of future benefits over the lives of the currently active employees, vested terminated employees, and existing retired

employees and beneficiaries. These judgments are based upon a variety of assumptions, one or more of which may prove to be inaccurate and/or be changed in the future.

Los Angeles City Employees' Retirement System ("LACERS")

LACERS, established in 1937 under the Charter, is a contributory plan covering civilian employees other than employees of DWP and those Airport Peace Officers not participating in LAFPP. As of June 30, 2021, the date of its most recent actuarial valuation, LACERS had 25,176 active members, 22,012 retired members and beneficiaries, and 9,647 inactive members (members with a vested right to a deferred or immediate benefit or entitled to a return of their member contributions).

Over the past several years, LACERS has adopted various changes to its actuarial assumptions, including reducing the assumed investment return from 7.75 percent to 7.50 percent in 2014, to 7.25 percent in 2017, and to 7.0 percent in 2020. This most recent change in the investment return assumption represents one of many assumption changes recommended in an experience study dated as of June 17, 2020; other changes included the decrease in the inflation assumption from 3.00 percent to 2.75 percent, an increase in the merit and promotion salary increase assumption, and changes in the mortality assumption. Together, these changes increased the City's retirement contribution rate by 3.32 percent of payroll and the retirement UAAL by \$530.7 million. (These changes also increased the City's contribution rate for OPEB by 0.62 percent.)

LACERS amortizes components that contribute to its UAAL over various periods of time, depending on how the unfunded liability arose, layering separate fixed amortization periods. Under current funding policy, market losses and gains are recognized over a seven-year asset smoothing period, where only 1/7 of annual market gains or losses are recognized in the actuarial value of assets each year. The remaining gains or losses are spread equally over the next six years. Other factors that affect the calculation of unfunded liability, including early retirement incentives, plan amendments, changes in assumptions and other actuarial gains and losses will be amortized over terms that range from 5 to 30 years.

LACERS' Board uses a market value "corridor" of 40 percent. A corridor is used in conjunction with asset smoothing, in order to keep the actuarial value of assets within a certain percentage of the market value of assets. For example, if a system has a 40 percent corridor, the actuarial value of assets must be between 60 percent and 140 percent of the market value of assets. If the actuarial value falls below 60 percent or rises above 140 percent of market value, the system must recognize the excess returns or losses, respectively, in that year without smoothing.

In 2012, the Council adopted a new civilian retirement tier ("Tier 2"), which applied to all employees hired on or after July 1, 2013. Subsequently, as part of an agreement with the Coalition of LA City Unions, both the City and the Coalition agreed to transfer all Tier 2 employees into Tier 1 effective February 21, 2016. Any new employee hired into a position eligible for LACERS membership on or after February 21, 2016, unless eligible for Tier 1 membership under specific exemptions, is enrolled in a new "Tier 3." Based on the actuarial valuation as of June 30, 2021, approximately 71 percent of the system's active membership was Tier 1 members and 29 percent was comprised of Tier 3 members.

The following table includes a summary of the major plan design changes from Tier 1 to Tier 3.

Table 10
COMPARISON OF LACERS TIER I AND TIER III PLAN DESIGNS

<u>Plan Feature</u>	<u>Tier I⁽¹⁾</u>	<u>Tier III</u>
Normal Retirement (Age / Years of Service)	55 / 30 60 / 10 70 / Any	60 / 30 60 / 10
Early Retirement (Reduced)	55 / 10 Under 55 / 30	Under 60 / 30
Benefit Factors	Normal Retirement 2.16% per year of service	Normal Retirement 1.5% @ 60 / 10 2.0% @ 60 / 30
	Early Retirement Reduced by 3% per Years of Service before age 55; and 1.5% per Years of Service from ages 55-59	Early Retirement Reduced by 10.5% at age 54, plus an additional 3% reduction for every year below the age of 54; unreduced from ages 55 to 59
Compensation Used to Determine Retirement Allowance	Highest consecutive 12 months, including most bonuses	Last 36 months prior to retirement, including most MOU bonuses
Maximum Benefit	100%	80%
Employee Contribution Base	6%	7%
Early Retirement Incentive Program (ERIP) Employee Contribution	1% until 2026 or when ERIP debt is paid, whichever is sooner	N/A
Other Post-Employment Benefits (OPEB), e.g., retiree healthcare Employee Contribution	4%	4%
Maximum Annual COLA	3%	2%
COLA Bank	Yes	No
Government Service Buyback	Member pays employee contributions	Member pays employee and employer contributions, except for limited military or maternity leave time. Service purchase may not cause member's service retirement allowance to exceed eighty percent of final compensation.

⁽¹⁾ Does not reflect Tier 1 Enhanced Benefits for approximately 500 Airport Peace Officers.

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

The aggregate employer rates for the Retirement and Health Plans have risen modestly since the June 30, 2012 valuation. For the Retirement Plan, the rate generally increased between the June 30, 2012 and the June 30, 2021 valuations, from 21.3 percent to 30.3 percent, primarily due to the amortization of UAAL increases from unfavorable investment experience and changes in actuarial assumptions. While there have also been increases in the normal cost rates due to the changes in the actuarial assumptions, those increases were offset to some degree by plan changes (the introduction of Tier 3) as new members have been enrolled in the lower cost benefit tier since February 21, 2016. Furthermore, an additional employee contribution (becoming 4 percent for all affected employees effective January 1, 2013) was implemented by the City for certain bargaining

groups and for all non-represented employees. For the Health Plan, the non-investment experience (primarily lower than projected medical premiums and subsidies) has had the most impact of modestly declining contribution rates, from 5.7 percent in 2012 to 4.0 percent in 2021.

The table below shows the actuarial value of the City’s liability for retirement benefits (excluding retiree health care and other post-employment benefits), the actuarial value of assets available for retirement benefits, and two indicators of funding progress for LACERS, the funded ratio and the ratio of UAAL to annual payroll.

Table 11
LOS ANGELES CITY EMPLOYEES’ RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS FOR RETIREMENT BENEFITS
ACTUARIAL VALUE BASIS
(\$ in thousands)⁽¹⁾

Actuarial Valuation As of June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	UAAL ⁽²⁾	Funded Ratio ⁽³⁾	Covered Payroll ⁽⁴⁾	UAAL as a Percentage Of Covered Payroll ⁽⁵⁾
2012	\$ 9,934,959	\$14,393,959	\$4,458,999	69.0%	\$1,819,270	245.1%
2013	10,223,961	14,881,663	4,657,702	68.7	1,846,970	252.2
2014	10,944,751	16,248,853	5,304,103	67.4	1,898,064	279.5
2015	11,727,161	16,909,996	5,182,835	69.4	1,907,665	271.7
2016	12,439,250	17,424,996	4,985,746	71.4	1,968,703	253.3
2017	13,178,334	18,458,188	5,279,854	71.4	2,062,316	256.0
2018	13,982,435	19,944,579	5,962,144	70.1	2,177,687	273.8
2019	14,818,564	20,793,421	5,974,857	71.3	2,225,413	268.5
2020	15,630,103	22,527,195	6,897,093	69.4	2,445,017	282.1
2021	16,660,585	23,281,893	6,621,308	71.6	2,254,165	293.7

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

⁽²⁾ Actuarial Accrued Liability minus Actuarial Value of Assets, commonly referred to as UAAL. Positive numbers represent a funded ratio less than 100%.

⁽³⁾ Actuarial value of assets divided by Actuarial Accrued Liability.

⁽⁴⁾ Projected annual pensionable payroll for members of LACERS.

⁽⁵⁾ UAAL divided by covered payroll.

Source: Los Angeles City Employees’ Retirement System Actuarial Valuation reports.

The actuarial value of assets is different from the market value of assets, as the actuarial value smooths asset gains and losses over a number of years. The following table shows the funding progress of LACERS based on the market value of the portion of system assets allocated to retirement benefits.

Table 12
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS FOR RETIREMENT BENEFITS
MARKET VALUE BASIS
(\$ in thousands)⁽¹⁾

Actuarial Valuation As of June 30	Market Value Of Assets	Actuarial Accrued Liability (AAL)	Unfunded Liability ⁽²⁾	Funded Ratio (Market Value) ⁽³⁾	Covered Payroll ⁽⁴⁾	Unfunded Liability As a Percentage of Covered Payroll (Market Value) ⁽⁵⁾
2012	\$ 9,058,839	\$14,393,959	\$5,335,120	62.9%	\$1,819,270	293.3%
2013	10,154,486	14,881,663	4,727,177	68.2	1,846,970	255.9
2014	11,791,079	16,248,853	4,457,774	72.6	1,898,064	234.9
2015	11,920,570	16,909,996	4,989,426	70.5	1,907,665	261.5
2016	11,809,329	17,424,996	5,615,667	67.8	1,968,703	285.2
2017	13,180,516	18,458,188	5,277,672	71.4	2,062,316	255.9
2018	14,235,231	19,944,579	5,709,348	71.4	2,177,687	262.2
2019	14,815,593	20,793,421	5,977,828	71.3	2,225,413	268.6
2020	14,932,404	22,527,195	7,594,791	66.3	2,445,017	310.6
2021	18,918,136	23,281,893	4,363,757	81.3	2,254,165	193.6

- (1) Table includes funding for retirement benefits only. Other Post-Employment Benefits (OPEB) are not included.
(2) Actuarial Accrued Liability minus Market Value of Assets. Positive numbers represent a funded ratio less than 100%.
(3) Market value of assets divided by Actuarial Accrued Liability.
(4) Projected annual pensionable payroll for members of LACERS.
(5) Unfunded liability divided by covered payroll.

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

The table below shows the actuarial funding progress of LACERS' liability for healthcare benefits:

Table 13
LOS ANGELES CITY EMPLOYEE'S RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS FOR OTHER POST-EMPLOYMENT BENEFITS
(\$ in thousands)

Actuarial Valuation As of June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	UAAL ⁽¹⁾	Funded Ratio ⁽²⁾	Covered Payroll ⁽³⁾	UAAL As a Percentage of Covered Payroll ⁽⁴⁾
2012	\$1,642,374	\$2,292,400	\$650,027	71.6%	\$1,819,270	35.7%
2013	1,734,733	2,412,484	677,751	71.9	1,846,970	36.7
2014	1,941,225	2,662,853	721,628	72.9	1,898,064	38.0
2015	2,108,925	2,646,989	538,065	79.7	1,907,665	28.2
2016	2,248,753	2,793,689	544,935	80.5	1,968,703	27.7
2017	2,438,458	3,005,806	567,348	81.1	2,062,316	27.5
2018	2,628,844	3,256,828	627,984	80.7	2,177,687	28.8
2019	2,812,662	3,334,299	521,637	84.4	2,225,413	23.4
2020	2,984,424	3,486,531	502,107	85.6	2,445,017	20.5
2021	3,330,377	3,520,078	189,701	94.6	2,254,165	8.4

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

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

The table below summarizes the City’s payments to LACERS over the past four years and payments included in the 2021-22 Budget. This table includes costs for contributions for both pensions and retiree health care.

Table 14
LOS ANGELES CITY EMPLOYEES’ RETIREMENT SYSTEM
SOURCES AND USES OF CONTRIBUTIONS
(\$ in thousands)⁽¹⁾

	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>	<u>2021-22</u>
Sources of Contributions					
Contributions for Council-controlled Departments ⁽²⁾	\$450,806	\$488,400	\$559,299	\$532,833	\$601,450
Airport, Harbor Departments, LACERS, LAFPP	<u>103,126</u>	<u>111,761</u>	<u>117,368</u>	<u>\$114,828</u>	<u>\$124,074</u>
Total	\$553,932	\$600,161	\$676,667	\$647,661	\$725,524
Percent of payroll – Tier 1	27.22%	28.31%	29.89%	29.43%	32.81%
Percent of payroll – Tier 3	24.64%	25.88%	27.70%	27.45%	30.16%
Uses of Contributions					
Current Service Liability (Normal cost)	\$214,741	\$224,161	\$234,336	\$229,795	\$265,096
UAAL	360,109	398,500	477,035	462,604	492,955
Adjustments ⁽³⁾	<u>(20,918)</u>	<u>(22,500)</u>	<u>(34,704)</u>	<u>(44,738)</u>	<u>(32,527)</u>
Total	\$553,932	\$600,161	\$676,667	\$647,661	\$725,524

⁽¹⁾ Includes funding for OPEB.

⁽²⁾ Includes employees funded by certain special funds in addition to the General Fund.

⁽³⁾ Adjustments include various “true-ups” for such adjustments as the retroactive upgrade of past Tier 2 members to Tier 1, the family death benefit plan, the limited term retirement plan, excess benefits, and the enhanced benefit for the Airport Peace Officers who remain in LACERS.

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

The table below illustrates the City’s projected contributions to LACERS for the next four fiscal years from Council-Controlled Departments (excluding the proprietary departments) based on projected rates from the City’s consulting actuary applied against projected payroll by the CAO. These projected contributions illustrate the projected cost of both pension and OPEB at the time of consideration of the 2021-22 Budget; they have not since been updated.

Table 15
LOS ANGELES CITY EMPLOYEES’ RETIREMENT SYSTEM
PROJECTED CONTRIBUTIONS
(\$ in thousands)

	<u>Budget</u> <u>2021-22</u>	<u>Projection</u> <u>2022-23</u>	<u>Projection</u> <u>2023-24</u>	<u>Projection</u> <u>2024-25</u>	<u>Projection</u> <u>2025-26</u>
Contributions for Council-controlled Departments ⁽¹⁾⁽²⁾	\$601,450	\$685,774	\$695,105	\$702,496	\$665,090
Percentage of Payroll ⁽³⁾	32.15%	32.30%	31.92%	31.52%	29.27%
Incremental Change	\$68,800	84,332	\$9,331	\$7,391	\$(37,405)
% Change	12.92%	14.02%	1.36%	1.06%	(5.32)%

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

⁽²⁾ Assumes 14.00% return on investment in 2020-21 and 7.00% thereafter. Actual market rate of return for 2020-21 was 29.2%.

⁽³⁾ Reflects combined rates for all benefit tiers.

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

Los Angeles Fire and Police Pension Plan (“LAFPP”)

The LAFPP, established in 1899 and incorporated into the Charter in 1923, represents contributory plans covering uniformed fire, police, and some Department of Harbor and some Department of Airports police. As of June 30, 2021, the date of its most recent actuarial valuation, the LAFPP had 12,823 active members (including 124 in Harbor and 93 in Airport), 13,527 retired members and beneficiaries, and 633 vested former members.

Six tiers of benefits are provided, depending on the date of the member’s hiring. No active members are in Tier 1, while Tier 2 had only 5 active members as of June 30, 2021, although both tiers have beneficiaries. Sixty-four percent of active members are in Tier 5, and 30 percent are in Tier 6.

Amortization of UAAL may be calculated differently for different tiers. A Charter amendment adopted by City voters on March 8, 2011 provided the LAFPP Board with greater flexibility to establish amortization and plan funding policies. Under the LAFPP Board’s current actuarial funding policy, actuarial gains or losses are amortized over 20 years; changes in actuarial assumptions and cost methods are amortized over 20 years; plan amendments are amortized over 15 years; and actuarial funding surpluses are amortized over 30 years.

Similar to LACERS, LAFPP has adopted various asset smoothing methods. Generally, market gains or losses are recognized over seven years, so that approximately 1/7 of market losses or gains are recognized each year in the actuarial valuation. LAFPP uses a 40 percent market corridor, so that the actuarial value of assets must be between 60 percent and 140 percent of the market value of assets. If the actuarial value falls below 60 percent or rises above 140 percent of market value, the system must recognize the excess returns or losses, respectively, in that year without smoothing.

Within the LAFPP, there is a Deferred Retirement Option Plan (“DROP”). This voluntary plan allows members to retire, for pension purposes only, after they are eligible to retire and have completed at least 25 years of service. A member entering DROP continues to work and receive salary and benefits as an active employee but stops accruing additional salary and service credits for retirement purposes. While in DROP, the member’s retirement benefit is deposited into an interest-bearing account that is distributed to the member when he or she leaves City service. Participation in DROP is generally limited to a maximum of five years. The City’s actuary assumes that 95 percent of eligible active members will elect DROP prior to retirement. As of June 30, 2021, 1,484 active members participated in DROP.

Based on the advice of its actuary, the LAFPP Board reduced its assumed rate of investment return from 7.50 percent to 7.25 percent in 2017, lowering it again to 7.00 percent in May 2020 (lowering its inflation assumption from 3.00 percent to 2.75 percent as well). In addition to the economic assumptions, the LAFPP Board adopted the actuary’s recommendations to adjust various other assumptions such as retirement, termination, and disability incidence rates. There were no changes in the mortality assumptions since the Board adopted new public safety mortality assumptions in December 2019. Adoption of the economic and non-economic assumption changes was estimated to increase City contributions by 2.3 percent of payroll. The new assumptions were used in the June 30, 2020 actuarial valuation, which was adopted by the Board on November 19, 2020 and determined the City’s contribution rate for Fiscal Year 2021-22. The most recent

valuations, relating to the Fiscal Year ended June 30, 2021, has been submitted to the LAFPP Board and will be considered for adoption on November 18, 2021. The results of such actuarial valuation, which remain subject to adoption, have been included in Tables 16 through 18.

The table below shows the actuarial value of the City's liability for retirement benefits (excluding retiree health care and other post-employment benefits), the actuarial value of assets available for retirement benefits, and two indicators of funding progress for LAFPP, the funded ratio and the ratio of UAAL to annual payroll.

Table 16
LOS ANGELES FIRE AND POLICE PENSION PLAN
SCHEDULE OF FUNDING PROGRESS FOR RETIREMENT BENEFITS
ACTUARIAL VALUE BASIS
(\$ in thousands) ⁽¹⁾

Actuarial Valuation As of June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	UAAL ⁽²⁾	Funded Ratio ⁽³⁾	Covered Payroll ⁽⁴⁾	UAAL As a percentage of Covered Payroll ⁽⁵⁾
2012	\$14,251,913	\$17,030,833	\$2,778,920	83.7%	\$1,341,914	207.1%
2013	14,657,713	17,632,425	2,974,712	83.1	1,367,237	217.6
2014	15,678,480	18,114,229	2,435,749	86.6	1,402,715	173.6
2015	16,770,060	18,337,507	1,567,447	91.5	1,405,171	111.5
2016	17,645,338	18,798,510	1,153,172	93.9	1,400,808	82.3
2017	18,679,221	20,411,024	1,731,803	91.5	1,475,539	117.4
2018	19,840,070	21,364,804	1,524,734	92.9	1,546,043	98.6
2019	21,037,711	22,474,125	1,436,414	93.6	1,583,808	90.7
2020	22,106,722	23,727,315	1,620,593	93.2	1,670,245	97.0
2021	23,689,349	24,461,267	771,918	96.8	1,684,785	45.8

⁽¹⁾ Table includes funding for retirement benefits only. Other post-employment benefits not included.

⁽²⁾ Actuarial Accrued Liability minus Actuarial Value of Assets, commonly referred to as UAAL. Positive numbers represent an actuarial deficit.

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

⁽⁴⁾ Projected annual payroll against which UAAL amortized.

⁽⁵⁾ UAAL divided by covered payroll.

Source: LAFPP Actuarial Valuations and Review of Retirement and Other Post-Employment Benefits as of June 30, 2021.

The actuarial value of assets is different from the market value of assets, as the actuarial value smooths asset gains and losses over a number of years. The following table shows the funding progress of LAFPP based on the market value of the portion of system assets allocated to retirement benefits.

Table 17
LOS ANGELES FIRE AND POLICE PENSION PLAN
SCHEDULE OF FUNDING PROGRESS FOR RETIREMENT BENEFITS
MARKET VALUE BASIS
(\$ in thousands)⁽¹⁾

Actuarial Valuation As of June 30	Market Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) Liability ⁽²⁾	Funded Ratio (Market Value) ⁽³⁾	Covered Payroll ⁽⁴⁾	Unfunded Liability As a Percentage of Covered Payroll (Market Value) ⁽⁵⁾
2012	\$13,268,687	\$17,030,833	\$3,762,146	77.9%	\$1,341,914	280.4%
2013	14,729,976	17,632,425	2,902,449	83.5	1,367,237	212.3
2014	16,989,705	18,114,229	1,124,525	93.8	1,402,715	80.2
2015	17,346,554	18,337,507	990,953	94.6	1,405,171	70.5
2016	17,104,276	18,798,510	1,694,234	91.0	1,400,808	120.9
2017	18,996,721	20,411,024	1,414,303	93.1	1,475,593	95.8
2018	20,482,133	21,364,804	882,671	95.9	1,546,043	57.1
2019	21,262,200	22,474,125	1,211,925	94.6	1,583,808	76.5
2020	21,396,933	23,727,315	2,330,382	90.2	1,670,245	139.5
2021	27,862,307	24,461,267	(3,401,040)	113.9%	1,684,785	(201.9)

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

Source: Calculated by CAO based on data from LAFPP Actuarial Valuations.

The table below provides a ten-year history of the funding progress for healthcare benefit liabilities of the LAFPP.

Table 18
OTHER POST-EMPLOYMENT BENEFITS
FIRE AND POLICE PENSION PLAN
(\$ in thousands)

Actuarial Valuation As of June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL ⁽¹⁾	Funded Ratio ⁽²⁾	Covered Payroll ⁽³⁾	Unfunded AAL As a Percentage of Covered Payroll ⁽⁴⁾
2012	\$ 927,362	\$2,499,289	\$1,571,927	37.1%	\$1,341,914	117.1%
2013	1,013,400	2,633,793	1,620,393	38.5	1,367,237	118.5
2014	1,200,874	2,783,283	1,582,409	43.1	1,402,715	112.8
2015	1,344,333	2,962,703	1,618,370	45.4	1,405,171	115.2
2016	1,480,810	3,079,670	1,598,860	48.1	1,400,808	114.1
2017	1,637,846	3,322,746	1,684,900	49.3	1,475,539	114.2
2018	1,819,359	3,547,777	1,728,417	51.3	1,546,043	111.8
2019	2,016,202	3,590,023	1,573,821	56.2	1,583,808	99.4
2020	2,214,552	3,709,858	1,495,307	59.7	1,670,245	89.5
2021	2,455,726	3,793,174	1,337,448	64.7	1,684,785	79.4

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

Source: The Fire and Police Pension Plan System Actuarial Valuations.

The table below summarizes the General Fund’s payments to LAFPP over the past four years and payments included in the 2021-22 Budget. This table includes costs for both pensions and retiree health care, as well as the plan’s administrative expenses.

Table 19
LOS ANGELES FIRE AND POLICE PENSION PLAN
SOURCES AND USES OF CONTRIBUTIONS
(\$ in thousands)

	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>	<u>2021-22</u>
General Fund ⁽¹⁾	<u>\$634,905</u>	<u>\$687,867</u>	<u>\$705,076</u>	<u>\$738,908</u>	<u>\$721,998</u>
Percent of Payroll	44.26%	46.85%	47.37%	46.79%	45.89%
Current Service Liability	\$332,409	\$344,786	\$349,256	\$382,639	\$393,940
UAAL/(Surplus)	288,567	325,312	337,815	337,154	306,679
Administrative Costs	<u>13,929</u>	<u>17,769</u>	<u>18,005</u>	<u>19,115</u>	<u>21,379</u>
Total	<u>\$634,905</u>	<u>\$687,867</u>	<u>\$705,076</u>	<u>\$738,908</u>	<u>\$721,998</u>

⁽¹⁾ The City funds an Excess Benefit Plan outside LAFPP to provide for any benefit payments to retirees that exceed IRS limits. Amounts deposited in that account are credited against the City’s annual contribution to LAFPP.

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

Historically, plan members did not contribute to offset the City’s costs of retiree healthcare subsidy benefits, as all such costs were funded from the employer’s contribution and investment returns thereon. In 2011, the City negotiated with the sworn bargaining units the option of a 2 percent active employee contribution to offset the cost of retiree healthcare for its sworn workforce hired before July 1, 2011. Sworn employees hired on and after July 1, 2011 are members of Tier 6, which requires an additional 2 percent contribution to offset the cost of retiree healthcare. Employees who contribute to retiree healthcare benefits are vested in future subsidy increases authorized by the retirement board. For those sworn employees that opted not to make an additional contribution to offset the cost of retiree healthcare, their retiree health subsidy has been frozen and cannot surpass the maximum subsidy level in effect as of July 1, 2011.

A consolidated lawsuit is still pending challenging the LAFPP Board’s exercise of its discretion to annually increase the subsidy for sworn employees who opted to make an additional contribution to offset the cost of retiree healthcare. See “LITIGATION”.

The table below illustrates the City’s projected contributions to LAFPP for the next four fiscal years based on projected rates from the LAFPP’s consulting actuary applied against projected payroll by the CAO. These illustrative tables show the projected cost of contributions for both pension and OPEB at the time of consideration of the 2021-22 Budget; they have not since been updated.

Table 20
LOS ANGELES FIRE AND POLICE PENSION PLAN
PROJECTED CONTRIBUTIONS⁽¹⁾
(\$ in thousands)

	Budget <u>2021-22</u>	Projected <u>2022-23</u>	Projected <u>2023-24</u>	Projected <u>2024-25</u>	Projected <u>2025-26</u>
General Fund	\$721,998	\$764,996	\$784,923	\$779,468	\$716,307
Percentage of Payroll	45.89%	45.27%	44.61%	43.21%	38.88%
Incremental Change	\$(30,190)	\$42,998	\$19,927	\$(5,454)	\$(63,161)
% Change	(4.01)%	5.95%	2.60%	(0.69)%	(8.10)%

⁽¹⁾ Assumes 14.00% return on investment in 2020-21 and 7.00% thereafter. Actual market rate of return for 2020-21 was 32.4%.

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

City Treasury Investment Practices and Policies

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

The City's General Pool is further divided into a core pool, a reserve pool, and an extended reserve pool. The core or liquidity portion is targeted at the City's net liquidity requirements for six months. All investments in the core section of the portfolio have maturities of one year or less. Most of the balance of the General Pool that is not required for the City's six-month liquidity requirement is invested in the reserve portfolio. The reserve portfolio holds investments ranging from one to five years. In January 2020, the City created an extended reserve portfolio, which pursues a primary investment objective of providing an enhancement of overall interest earnings with longer term investments. Holdings in that portfolio consist of U.S. Treasury and Agency bonds only, with a maximum maturity of ten years.

Table 21
POOLED INVESTMENTS
Portfolio Characteristics
as of February 28, 2022

<u>Portfolio Funds</u>	<u>Amount of Funds at Market Value</u>	<u>Percent of Investment Pool</u>	<u>Average Weighted Maturity</u>
Core Portfolio	\$ 4,864,564,092	36.2%	118 days
Reserve Portfolio	5,776,080,362	43.0%	2.8 years
Extended Reserve Portfolio	<u>2,798,625,194</u>	<u>20.8%</u>	<u>7.0 years</u>
Total Investment Pool	\$13,439,269,648	100.0%	2.8 years

The following summarizes the City’s pooled investment program as of its most recent investment report.

Table 22
POOLED INVESTMENT FUND
GENERAL POOL
As of February 28, 2022

Description	Par Value	Market Value	Percent of Total Funds (Market Value)	Average Days
Bank Deposits ⁽¹⁾	\$ 10,000,000	\$ 10,000,000	0.07%	0
Money Market Funds	64,892,117	64,892,117	0.48	0
LAIF (State of California)	4,002,433	4,002,433	0.03	0
Subtotal Cash and Overnight Investments	\$ 78,894,550	\$ 78,894,550	0.59%	0
Commercial Paper	\$2,664,581,000	\$2,661,912,502	19.81%	74
Negotiable Certificates of Deposit	100,000,000	100,001,000	0.74	37
Corporate Notes	254,000,000	255,226,640	1.90	171
U.S. Agencies/Munis/Supras	140,000,000	140,517,600	1.05	132
U.S. Treasuries	1,620,000,000	1,628,011,800	12.11	191
Subtotal: Pooled Investments	\$4,778,581,000	\$4,785,669,542	35.61%	120
Total Short-Term Core Portfolio	\$4,857,475,550	\$4,864,564,092	36.20%	118
Money Market Funds	\$ 150,001	\$ 150,001	0.00%	0
Commercial Paper	0	0	0.00	0
Negotiable Certificates of Deposit	0	0	0.00	0
Corporate Notes	1,143,000,000	1,124,971,170	8.37	1,093
Asset-Backed Securities	183,154,950	180,722,081	1.34	1,450
U.S. Agencies/Munis/Supras	547,700,000	534,561,444	3.98	1,483
U.S. Treasuries	6,815,000,000	6,734,300,860	50.11	1,612
Total Long-Term Reserve Portfolios	\$8,689,004,951	\$8,574,705,556	63.80%	1,533
Total Cash and Pooled Investments	\$13,546,480,501	\$13,439,269,648	100.00%	1,020

⁽¹⁾ Collected balance for Wells Fargo Active Accounts.

Source: City of Los Angeles, City Treasurer.

The City’s treasury operations are managed in compliance with the California Government Code and according to the City’s Statement of Investment Policy (the “Investment Policy”), which sets forth liquidity parameters, maximum maturities and permitted investment vehicles, which include U.S. Treasuries, U.S. Government Agencies and Corporate Notes. Additionally, daily investment activity is reviewed independently by an outside investment advisor to ensure that all security transactions are in accordance with all policies as delineated above.

The Treasurer does not invest in range notes, inverse floating rate investments, or mortgage-derived interest or principal-only strips, among other instruments prohibited by State law and the City’s Investment Policy.

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

Capital Program

The City adopted a revised Capital and Technology Improvement Policy (the “Capital Policy”) in May 2020 to help guide the City’s process for planning, identifying, evaluating, and prioritizing funding for new capital and technology projects. Among other things, the new Capital Policy updates an annual minimum investment target of 1.5 percent of General Fund revenue for the City’s capital and technology improvements, starting in Fiscal Year 2021-22.

Consistent with the Capital Policy, on November 17, 2021, the City Administrative Officer released the first Five-Year Capital and Technology Improvement Program (“CTIP”) under the Capital Policy. The CTIP is divided into three major improvement types: municipal facilities, physical plant and technology. The municipal facilities components include administrative buildings and other facilities; public safety facilities for the animal services, fire and police departments; recreational and cultural facilities; the Convention Center; and various seismic, yard, shop, and bridge improvements. Physical plant components include wastewater (referred to as clean water), stormwater, streets and other public rights-of-way, street lighting, and transportation projects. Technology components include city-wide infrastructure, major projects, and system replacements costing \$1 million or more. The CTIP does not include projects that are funded and are under the control of the three proprietary departments, or projects related to housing and homelessness.

The CTIP also identifies sources of funding for these projects, indicating whether the projects are going to be financed by the General Fund, Lease Revenue Bonds (which are usually paid from by General Fund appropriations) or by one or more special funds. The CTIP includes the approved funding for Fiscal Year 2021-22 and anticipated funding amounts for Fiscal Years 2022-23 through 2025-26, which will be considered for appropriation through the City’s budget and appropriation processes in the future.

The amounts in the following two tables were developed independently from the projection used in developing the Outlook (Table 4), which was prepared in connection with the Fiscal Year 2021-22 Budget and did not project any major General Fund increase in capital spending.

The following tables summarize the CTIP by project type and funding source.

Table 23A
CAPITAL AND TECHNOLOGY IMPROVEMENT PLAN
BY ASSET CATEGORIES

	<u>2021-22</u>	<u>2022-23</u>	<u>2023-24</u>	<u>2024-25</u>	<u>2025-26</u>	<u>Future Years</u>	<u>Total</u>
Municipal Facilities							
Deferred Maintenance	\$ 14,156,500	\$ 12,560,526	\$ 12,250,000	\$ 12,250,000	\$ 12,250,000	\$ -	\$ 63,467,026
Office Development and Capital Program	17,786,600	29,289,003	12,375,000	12,375,000	12,375,000	5,500,000	89,700,603
Public Safety Facilities and Security Upgrades	10,570,372	6,341,865	3,490,000	3,490,000	3,490,000	1,250,000	28,632,237
Recreation and Cultural Facilities	64,927,185	87,019,690	72,400,000	18,550,000	450,000	-	243,346,875
Seismic & Bridge Improvements, Yards and Shops	58,200,000	95,616,015	39,539,727	21,250,000	1,250,000	-	215,855,742
Los Angeles Convention Center	6,415,000	6,975,000	350,000	-	-	-	13,740,000
Other	2,968,569	668,569	668,569	668,569	668,569	-	5,642,845
Subtotal	\$ 175,024,226	\$ 238,470,668	\$ 141,073,296	\$ 68,583,569	\$ 30,483,569	\$ 6,750,000	\$660,385,328
Physical Plant							
Clean Water Projects	\$ 267,229,073	\$ 277,150,604	\$ 408,619,518	\$ 367,159,725	\$ 174,324,887	\$ 889,609,075	\$ 2,384,092,882
Stormwater Projects	190,420,538	73,120,698	6,549,664	700,000	300,000	-	271,090,900
Street Projects	429,159,746	453,048,158	344,887,072	297,048,590	254,872,783	437,504,920	2,216,521,269
Street Lighting Projects	3,430,000	600,000	600,000	600,000	600,000	-	5,830,000
Subtotal	\$ 890,239,357	\$ 803,919,460	\$ 760,656,254	\$ 665,508,315	\$ 430,097,670	\$ 1,327,113,995	\$ 4,877,535,051
Technology							
Citywide Infrastructure	\$ 25,583,036	\$ 16,193,026	\$ 14,295,316	\$ 14,310,009	\$ 34,738,605	\$ 10,100,000	\$ 115,219,992
Major Projects and System Replacements	47,204,401	38,801,374	29,910,000	9,910,000	4,250,000	3,250,000	133,325,775
Subtotal	72,787,437	54,994,400	44,205,316	24,220,009	38,988,605	13,350,000	248,545,767
TOTAL - ALL PROJECTS	\$1,138,051,020	\$1,097,384,528	\$ 945,934,866	\$ 758,311,893	\$ 499,569,844	\$1,347,213,995	\$5,786,466,146

Source: City of Los Angeles, Capital and Technology Improvement Program, 2021-22 to 2025-26.

Table 23B
CAPITAL AND TECHNOLOGY IMPROVEMENT PLAN
BY FUNDING SOURCE

	<u>2021-22</u>	<u>Future Cost</u>	<u>Total</u>
Municipal Facilities			
General Fund	\$ 33,914,394	\$ 169,131,955	\$ 203,046,349
Lease Revenue Bonds	98,761,256	228,814,240	327,575,496
Special Funds	42,348,576	87,414,907	129,763,483
Subtotal	\$ 175,024,226	\$ 485,361,102	\$ 660,385,328
Physical Plant			
General Fund	\$ 72,122,143	\$ 152,292,855	\$ 224,414,998
Special Funds ¹	818,117,214	3,835,002,839	4,653,120,053
Subtotal	\$ 890,239,357	\$ 3,987,295,694	\$ 4,877,535,051
Technology			
General Fund	\$ 51,885,819	\$ 76,249,330	\$ 128,135,149
Lease Revenue Bonds	3,634,158	8,000,000	11,634,158
Special Funds	17,267,460	91,509,000	108,776,460
Subtotal	\$ 72,787,437	\$ 175,758,330	\$ 248,545,767
All Programs			
General Fund	\$ 157,922,356	\$ 397,674,140	\$ 555,596,496
MICLA Lease Revenue Bonds	102,395,414	236,814,240	339,209,654
Special Funds	877,733,250	4,013,926,746	4,891,659,996
Total	\$ 1,138,051,020	\$ 4,648,415,126	\$ 5,786,466,146

⁽¹⁾ Includes the proceeds of enterprise revenue bonds.

Source: City of Los Angeles, Capital and Technology Improvement Program, 2021-22 to 2025-26.

A number of large infrastructure projects the City is considering pursuing could result in major long-term commitments of funds that have not yet been identified and which are not included in the tables above. Other major capital expenditures could include such municipal facility improvements as expansions of the civic center and the convention center, which together could cost \$2 billion or more if not privately funded. An additional \$2 billion in recreation and park facility needs have also been identified. Physical plant improvements could include more than an additional \$5 billion for street and sidewalk (including access and curb ramp) repairs.

The City is also exposed to major costs associated with compliance with the Clean Water Act (“CWA”), which regulates the discharges of pollutants by establishing quality standards. The City is responsible for helping to ensure that up to 192 pollutants in five bodies of water do not exceed certain maximum levels. The City’s share of the costs of projects required to meet these requirements could total \$8 billion through 2037. See “OTHER MATTERS—Clean Water Compliance.”

The City has also sought funding from the Army Corps of Engineers for restoration of the Los Angeles River, which could cost in excess of \$1.5 billion and require substantial matching funds from the City.

MAJOR GENERAL FUND REVENUE SOURCES

The following is a discussion of the City’s principal General Fund revenue sources. The table below presents actual General Fund revenues for Fiscal Years 2017-18, 2018-19 and 2019-20, estimated revenues for Fiscal Year 2020-21, and budgeted revenues for Fiscal Year 2021-22.

Table 24
GENERAL FUND RECEIPTS⁽¹⁾
(\$ in thousands)

	2017-18 <u>Actual</u>	2018-19 <u>Actual</u>	2019-20 <u>Actual</u>	2020-21 <u>Estimate</u>	2021-22 <u>Budget</u>
Property Tax	\$1,851,833	\$2,010,508	\$2,132,308	\$2,261,356	\$2,400,250
Property Tax Increment (Former CRA/LA)	88,507	73,971	84,054	128,042	111,990
Utility Users Tax	625,853	644,152	638,379	615,238	605,050
Departmental Receipts	1,015,490	1,129,767	1,198,296	1,257,516	1,244,790
Business Tax	554,521	603,123	655,849	692,386	716,600
Sales Tax	529,757	581,443	556,237	524,618	606,610
Documentary Transfer Tax	207,815	206,211	205,473	235,922	227,005
Power Revenue Transfer	241,848	232,557	229,913	218,355	225,819
Transient Occupancy Tax	299,108	318,888	253,539	110,427	183,300
Parking Fines	138,766	129,900	114,865	93,347	123,621
Parking Occupancy Tax	115,937	120,949	106,979	58,844	99,337
Franchise Income	56,869	84,314	84,020	84,303	94,657
State Motor Vehicle License Fees	2,127	1,946	3,198	2,942	2,942
Grants Receipts	8,548	11,613	18,398	43,690 ⁽²⁾	91,343 ⁽³⁾
Tobacco Settlement	10,952	10,616	10,178	11,489	11,489
Residential Development Tax	6,545	4,918	4,821	4,392	4,800
Special Parking Revenue Transfer	31,000	32,115	31,294	-	8,477
Interest Income	24,916	34,099	46,429	27,112	20,603
<u>American Rescue Plan Transfer</u>	-	-	-	639,450	639,450
Subtotal General Fund Revenues	<u>\$5,810,392</u>	<u>\$6,231,090</u>	<u>\$6,374,231</u>	<u>\$7,009,427</u>	<u>\$7,418,133</u>
<u>Reserve Fund Transfer</u>	<u>9,108</u>	<u>5,791</u>	<u>195,465</u>	-	<u>85,090</u>
Total General Fund	<u>\$5,819,500</u>	<u>\$6,236,881</u>	<u>\$6,569,696</u>	<u>\$7,009,427</u>	<u>\$7,503,223</u>

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

⁽²⁾ Includes \$30.7 million in FEMA reimbursement.

⁽³⁾ Includes \$73.8 million in FEMA reimbursement.

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

Both the 2020-21 estimated revenues and the 2021-22 Budget rely on ARPA funding. See “OVERVIEW OF THE CITY’S FINANCIAL CONDITION” and “BUDGET AND FINANCIAL OPERATIONS” for a discussion of the appropriation of these funds to the General Fund.

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

Property Tax

Property taxes, including various State replacements and the reallocation of tax increment from the dissolution of redevelopment agencies, represent 33.5 percent of General Fund revenues in the 2021-22 Budget. The City has limited information of the impact of the pandemic and the recession on the valuation of its property tax base.

The assessed valuation of property is established by the County Assessor as of each January 1, except for public utility property, which is assessed by the State Board of Equalization. Real property is reassessed at market value on the date property changes ownership (with limited exceptions) or upon completion of new construction. A supplemental tax is collected for the remainder of the tax year. Under the State Constitution and legislation, *ad valorem* taxes on real property (other than taxes relating to certain voter-approved indebtedness) are limited as described under “LIMITATIONS ON TAXES AND APPROPRIATIONS – Article XIII A of the California Constitution – Proposition 13.”

A property owner may apply for a reduction of the property tax assessment for that owner’s property (known as a “Proposition 8” appeal). The County Assessor may also reduce valuations based on current economic value, without a taxpayer appeal.

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

The County collects the *ad valorem* taxes. Taxes arising from the 1 percent levy are apportioned among local taxing agencies on the basis of a formula established by State law. Taxes relating to voter-approved indebtedness are allocated to the relevant taxing agency. The County deducts the pro-rata cost of collecting property taxes from the City’s allocation.

All taxable real and personal property is classified as either “secured” or “unsecured.” 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 all other taxable 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.

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

Property taxes on the unsecured roll become delinquent on August 31. A 10 percent penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5 percent per month begins to accrue on November 1. The taxing authority has several ways of collecting delinquent unsecured personal property taxes.

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

revenue from uncollected taxes and increased revenue from the subsequent receipt of delinquent taxes, interest and penalty payments.

Recent assessed valuations by revenue category appear in the table below.

Table 25
ASSESSED VALUATION⁽¹⁾

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Locally Assessed					
Land	\$306,136,812,787	\$329,102,259,292	\$352,506,933,714	\$375,613,820,236	\$394,598,572,212
Improvements	260,935,746,380	280,224,446,180	299,590,583,910	319,689,264,560	332,201,374,517
Personal Property	4,163,011,484	3,299,927,802	4,020,257,586	3,997,131,756	4,019,429,073
Less: Exemptions ⁽²⁾	<u>24,236,863,599</u>	<u>23,950,069,180</u>	<u>26,571,608,102</u>	<u>26,822,209,552</u>	<u>29,365,270,443</u>
Total Locally Assessed	\$546,998,707,052	\$588,676,564,094	\$629,546,167,108	\$672,478,007,000	\$701,454,105,359
Public Utilities ⁽³⁾	73,781,054	40,022,411	42,153,347	66,084,991	73,778,428
Unsecured Valuations	<u>20,848,434,238</u>	<u>22,575,613,220</u>	<u>23,370,052,850</u>	<u>23,469,028,925</u>	<u>22,238,902,102</u>
Gross Revenue-Producing Valuations	\$567,920,922,344	\$611,292,199,725	\$652,958,373,305	\$696,013,120,916	\$723,766,785,889
Less: Homeowners' Exemptions ⁽⁴⁾	<u>2,411,313,641</u>	<u>2,364,506,686</u>	<u>2,329,536,808</u>	<u>2,264,753,291</u>	<u>2,226,637,411</u>
Net Local Revenue-Producing Valuations	\$565,509,608,703	\$608,927,693,039	\$650,628,836,497	\$693,748,367,625	\$721,540,148,478
Change from Prior Year	6.6%	7.7%	6.8%	6.6%	4.01%
(1) As of January 1 of each year. These values apply to taxes levied in the fiscal year beginning the subsequent July 1. The information above is provided by the County in August of the relevant fiscal year.					
(2) Exclusive of the Homeowner Exemption.					
(3) Assessed by the State Board of Equalization.					
(4) Exemptions reimbursed to local governments by the State.					

Source: County of Los Angeles, Office of the Auditor-Controller, Assessed Valuations Reports.

Prior to Fiscal Year 2010-11, a portion of the property taxes collected in the City were allocated to redevelopment project areas as tax increment. As part of the State's Fiscal Year 2011-12 Budget, legislation was approved to eliminate redevelopment agencies. A portion of the funds previously allocated to the City's Community Redevelopment Agency, including the proceeds from the sale of property, is now allocated to overlapping taxing jurisdictions, including the City, based on a legislatively mandated process. Because the proceeds from property sales are difficult to predict, the City reports property tax increment revenue from the former Community Redevelopment Agency separately from its other property tax revenues, as reported in the "General Fund Receipts" table, above.

Property taxes arising from the 1 percent levy are apportioned among local taxing agencies on the basis of a formula established by State law. Over the years, State budget pressures have resulted in various reallocations of property tax revenues, including transfers to school and community college districts by means of an Educational Revenue Enhancement Fund, the dissolution of redevelopment, the "Triple Flip" of property tax and sales tax receipts to secure certain State bonds (which ended in Fiscal Year 2016-17), and the "backfill" of reallocated Vehicle License Fee revenues with an increased allocation of property taxes. While limits on such reallocations have been instituted, no assurance can be given that property tax reallocations will not occur in the future. See "LIMITATIONS ON TAXES AND APPROPRIATIONS—Proposition 1A."

The table below summarizes the City’s receipt of the basic 1 percent property tax and those reallocations received as property tax. This table excludes property tax attributable to the dissolution of the Los Angeles Community Redevelopment Agency and the *ad valorem* tax levied to pay general obligation bond debt service; the latter is not reported in the General Fund.

The 2021-22 Budget assumed 5.9 percent growth in its property tax base and a 6.1 percent increase in property tax revenue. Subsequently, the County Assessor (the “Assessor”) reported that assessed valuation for the City increased by 4.0 percent in 2021-22. As a result, estimated City property tax receipts may fall short of the adopted budget between \$27.6 million and \$52.0 million.

Table 26
PROPERTY TAX - ALL SOURCES⁽¹⁾
Annual Property Tax by Account
(\$ in thousands)

	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>	<u>Budget 2021-22</u>
Secured	\$1,331,529	\$1,458,252	\$1,528,635	\$1,612,184	\$1,723,575
Unsecured	53,251	56,894	59,230	57,782	56,380
Homeowner Exemption	7,980	7,875	7,941	7,771	7,690
Supplemental	34,555	39,270	39,039	40,469	42,655
Redemptions	20,704	19,622	21,375	31,241	30,920
County Admin Charges	(18,885)	(20,818)	(21,153)	(22,723)	(24,410)
Refunds	(17,972)	(23,084)	(19,547)	(15,701)	(19,550)
Adjustments	821	(941)	911	56	-
Miscellaneous Property	<u>7,300</u>	<u>7,045</u>	<u>10,167</u>	<u>11,221</u>	<u>12,390</u>
1% Property Tax	\$1,419,284	\$1,544,112	\$1,626,598	\$1,722,300	\$1,829,650
Percent Change ⁽²⁾	7.3%	8.8%	5.3%	5.9%	6.2%
State Vehicle License Fee Replacement	<u>439,849</u>	<u>473,440</u>	<u>505,710</u>	<u>539,055</u>	<u>570,600</u>
Property Tax All Sources	\$1,859,133	\$2,017,552	\$2,132,308	\$2,261,356	\$2,400,250
Percent Change	3.3%	8.5%	5.7%	6.1%	6.1%

⁽¹⁾ Cash basis.

⁽²⁾ Note that changes in 1% Property Tax receipts do not directly correspond to changes in assessed valuation, as it includes prior year delinquencies and penalties, among other adjustments.

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

A list of the 20 largest property taxpayers, based on secured assessed valuations within the City, for 2021-22, appears in the table below. The tax roll for the next fiscal year is typically released in the summer.

Table 27
CITY OF LOS ANGELES
TWENTY LARGEST 2021-22 SECURED PROPERTY TAXPAYERS

<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2021-22 Secured Assessed Valuation</u>	<u>Percent of Secured AV⁽¹⁾</u>
Douglas Emmett LLC	Office Building	\$ 2,672,575,239	0.38%
Essex Portfolio LP	Apartments	1,466,229,531	0.21
Century City Mall LLC	Shopping Center	1,091,138,977	0.16
Greenland LA Metropolis	Apartments with Retail	966,598,953	0.14
FSP South Flower Street	Office Building	964,738,709	0.14
Hanjin International Corp.	Hotel	867,474,871	0.12
Rochelle H. Sterling	Apartments	838,124,648	0.12
Omni Wilshire Courtyard LLC	Office Building	794,670,367	0.11
Anheuser Busch Commercial	Industrial	762,511,489	0.11
Valero Energy Corporation	Petroleum	746,204,280	0.11
One Hundred Towers LLC	Office Building	687,016,162	0.10
Trizec 333 LA LLC	Office Building	673,797,273	0.10
Tesoro Corporation	Petroleum	670,068,162	0.10
Maguire Partners 355 S. Grand LLC	Office Building	630,139,070	0.09
BRE HH Property Owner LLC	Office Building	625,298,936	0.09
APM Terminals Pacific Ltd.	Terminal Operations	614,119,000	0.09
Olympic and Georgia Partners LLC	Hotel	601,431,351	0.09
Tishman Speyer Archstone Smith	Apartments	600,722,759	0.09
LA Live Properties LLC	Commercial	561,741,163	0.08
Maguire Properties 555 W Fifth	Office Building	552,468,542	0.08
Total		\$17,387,069,482	2.48%

⁽¹⁾ Based on 2021-22 Local Secured Assessed Valuation of \$701,454,105,359. Total does not add due to rounding.

Source: California Municipal Statistics, Inc.

For additional information on the City’s property tax base, see “PART 2—HISTORIC, ECONOMIC AND DEMOGRAPHIC INFORMATION,” Table 59: Assessed Valuation and Parcels by Land Use and Table 60: Per Parcel Assessed Valuation of Single-Family Residential Properties.

Utility Users Taxes

Utility users taxes represent 8.1 percent of General Fund revenues in the 2021-22 Budget. The City imposes taxes on users of natural gas, electricity and communication services within the City’s limits. The tax rate is 9 percent of utility charges on taxable communication services, 10 percent for natural gas and residential electricity, and 12.5 percent for commercial and industrial electricity.

Revenue estimates account for known impacts, such as DWP rate increases, and market indicators, such as natural gas futures. Utility users tax receipts can be variable, as they reflect not only power, gas and telephone rates, but also business activities and changing technologies. Both electricity and natural gas sales are sensitive to weather (warm winters and cool summers reduce

demand); for example, the increase in gas users tax receipts in 2018-19 reflects an unusually cold winter.

Projected revenues in 2021-22 for the electricity users tax were based on estimates provided by DWP. Communication users tax receipts have declined as consumers abandon landline communication and switch to cheaper voice and texting mobile communication plans.

The City’s prior telephone users tax ordinance was the subject of litigation challenging the application of the tax to certain telecommunications services. The cases have been resolved and the City does not expect any future claims relating to the City’s telephone users tax ordinance, which was amended in 2008 to eliminate such future claims, to arise. Receipts from this tax have been declining due to changes in telephone use and pricing.

The table below shows the actual and budgeted receipts from utility users taxes.

Table 28
UTILITY USERS TAX RECEIPTS⁽¹⁾
(\$ in thousands)

	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>	<u>Budget 2021-22</u>
Electric Users Tax	\$386,525	\$417,489	\$434,847	\$429,228	\$435,950
Gas Users Tax	68,028	77,035	73,837	72,752	74,100
Communications Users Tax	<u>171,300</u>	<u>149,628</u>	<u>129,695</u>	<u>113,259</u>	<u>95,000</u>
Total	<u>\$625,853</u>	<u>\$644,152</u>	<u>\$638,379</u>	<u>\$615,238</u>	<u>\$605,050</u>
Change from Prior Year	0.2%	2.9%	(0.9)%	(3.6)%	(1.7)%

⁽¹⁾ Cash basis.

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

Departmental Receipts

This category of revenues includes reimbursements to the General Fund from various special revenue and enterprise funds of the City, and charges for special services performed by City departments. Reimbursements include the costs of police, fire and other City services to the Airports and Harbor departments, staff costs for the sewer construction and maintenance program, and reimbursements from the Los Angeles County Metropolitan Transportation Authority (“MTA”) for police services on its bus and rail lines pursuant to a contract between the MTA and the City. These revenues also include charges imposed as regulatory measures by City departments, and fees charged for paramedic ambulance services. In prior years, this revenue category was called “Licenses, Permits, Fees and Fines.” Departmental receipts represent 16.6 percent of General Fund revenues in the 2021-22 Budget.

In 2020-21, these revenues fell as a result of the pandemic and recession, but were offset by \$125 million in CARES Act funding. Among the areas where the largest shortfalls have been experienced are Ambulance Fees, proprietary department reimbursements, MTA reimbursements for police services, Fire and Police Permits (accounted for under “Other Departmental Receipts”), and Special Fund Related Cost reimbursements from planning, cannabis regulation, housing code enforcement, transportation sales tax, and solid waste funds. Receipts are anticipated to stabilize in 2021-22.

The table below shows receipts from departmental receipts.

Table 29
DEPARTMENTAL RECEIPTS⁽¹⁾
(\$ in thousands)

	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>	<u>Budget 2021-22</u>
Ambulance Fees	\$ 84,671	\$ 78,472	\$ 94,074	\$ 80,385	\$78,700
Services to Dept. of Airports	82,532	78,879	86,242	93,948	90,538
Services to Harbor Dept.	34,456	42,428	39,065	44,808	45,504
Services to DWP	29,325	29,847	32,473	14,490 ⁽²⁾	40,490
Services to Sewer Program	95,526	107,585	109,264	93,941	128,996
Solid Waste Fee	58,309	61,661	75,427	83,042	18,811 ⁽³⁾
Gas Tax Reimbursements	1,284	23,108	21,769	41,963	40,153
Services to Stormwater Fund	9,507	-	4,732	3,037	-
Special Funds Related Costs	202,155	229,122	261,845	253,725	333,973
MTA Reimbursement	53,555	65,705	105,507	86,256	96,244
One Time Reimbursements	8,776	23,040	17,577	140,119 ⁽⁴⁾	2,420
Library Reimbursements	67,988	69,653	71,915	74,233	83,080
Recreation and Parks Reimbursements	43,951	49,177	49,287	52,813	64,725
State Mandated	2,907	3,320	7,172	3,806	3,000
Miscellaneous Taxes and Fees	7,300	8,540	-	-	-
Other Departmental Receipts	<u>233,249</u>	<u>259,232</u>	<u>129,308</u>	<u>190,950</u>	<u>218,156</u>
Total General Fund	<u>\$1,015,490</u>	<u>\$1,129,767</u>	<u>\$1,198,296</u>	<u>\$1,257,516</u>	<u>\$1,244,790</u>
Change from Prior Year	11.2%	11.3%	6.1%	4.9%	(1.0)%

⁽¹⁾ Cash basis.

⁽²⁾ Reflects a credit due to prior-year overpayments.

⁽³⁾ Because this fee has not been set to generate full cost recovery, funds are available to only partially reimburse Bureau of Sanitation overhead costs.

⁽⁴⁾ Includes \$125 million from the CARES Act allocated towards reimbursement for related expenses in 2020-21.

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

Business Tax

Business tax receipts represent 9.6 percent of General Fund revenues in the 2021-22 Budget. The business tax is imposed on persons engaged in a business within the City. The tax rate formula, which is established by ordinance, varies based upon the type of business.

In March 2017, voters approved City Measure M, which approved the cultivation and sale of recreation cannabis within the City, enables the formation of cannabis policy and regulation, decreases the business tax paid by medical cannabis businesses and implements a new business tax on recreational cannabis businesses. The 2021-22 Budget includes cannabis business tax revenue projected at \$165.7 million, representing 23.1 percent of business tax revenue. Cannabis business tax revenues are estimated to have grown 71.2 percent in 2020-21 and are projected to grow 23.7 percent in 2021-22.

Excluding receipts from a temporary tax amnesty program, non-cannabis business tax revenues are estimated to have fallen 6.6 percent in 2020-21 and are projected to experience a modest 2.1 percent increase for 2021-22.

The table below shows receipts from business tax.

Table 30
BUSINESS TAX RECEIPTS
(\$ in thousands)

<u>Fiscal Year</u>	<u>Receipts⁽¹⁾</u>	<u>Change from Prior Year</u>
2017-18	\$554,521	5.0%
2018-19	603,123	8.8
2019-20	655,849	8.7
2020-21	692,386	5.6
2021-22 Budget	716,600	3.5

⁽¹⁾ Cash basis.

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

Sales Tax

Budgeted sales tax receipts represent 8.1 percent of General Fund revenues in the 2021-22 Budget. Sales and use taxes are collected on the total retail price of tangible personal property sold, unless specifically exempted. Included in the current County-wide tax rate is a sales tax collected by the State on behalf of cities (or, for unincorporated areas, on behalf of counties). The current local tax rate is 1 percent. Allocation of the 1 percent local component (often referred to as the “Bradley-Burns Sales Tax”) is on the basis of “situs,” or the point of sale. Additional sales taxes can be collected based on local voter approval. Included in the current County-wide rate are sales taxes collected for the Los Angeles County Metropolitan Transportation Authority for transportation purposes and taxes collected by the County for homeless services. A portion of those taxes is remitted to the City for deposit in special revenue funds.

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

Table 31
LOS ANGELES CITY
SALES TAX COMPONENTS
As of July 1, 2021

State Rate		
General Fund Portion	3.9375%	
Local Revenue Fund	1.5625%	To support local health program costs (1991 realignment) and public safety services (2011 realignment).
Local Public Safety	<u>0.50%</u>	For the Local Public Safety Fund, approved by the State voters in 1993 as Proposition 172 to support local criminal justice activities. The City has budgeted \$44 million in Fiscal Year 2020-21 receipts, which are deposited in a special fund and appropriated to the Police and Fire Departments.
Total State Rate	6.00%	
Uniform Local Tax Rate (Statewide)		
County Transportation	0.25%	The County allocates a small portion of this to the City.
Local Point of Sale	<u>1.00%</u>	This is the “Bradley-Burns” sales tax, allocated to cities and counties (for unincorporated areas) by point of sale.
Total Uniform Local Rate	<u>1.25%</u>	
Total Statewide Rate	7.25%	
Optional Local Rates⁽¹⁾		
Proposition A (LACMTA)	0.50%	} Voter-approved measures to improve public transit and reduce traffic congestion. The City receives a portion of these funds, with the percentage varying by measure.
Proposition C (LACMTA)	0.50%	
Measure R (LACMTA)	0.50%	
County Measure M (LACMTA)	0.50%	
County Measure H (LA County)	0.25%	} Voter-approved measure for homeless services.
Total Optional Local Rate	<u>2.25%</u>	
Total Sales Tax Rate	9.50%	

⁽¹⁾ State law permits optional voter approval of local tax rates, up to a combined maximum, which is 10.25% in the County . These rates are levied in 0.25% and 0.5% increments.

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

The following table shows the actual and budgeted General Fund receipts from sales tax. Delayed Fiscal Year 2017-18 remittances resulting from the State’s implementation of a new sales tax automation system contributed to the low growth in 2017-18 and high growth in 2018-19.

The pandemic had a significant impact on taxable sales and thus the City’s receipt of sales tax revenues. Various State actions during the pandemic, such as extension of filing dates and adjustment to its allocation methodologies, further obscured the impact of the pandemic on recent and forecasted receipts. The sales tax growth rate of 15.6 percent projected in the 2021-22 Budget follows two years of consecutive declines; budgeted receipts are 4.3 percent above the pre-pandemic revenue realized in 2018-19. Sales tax revenue estimates assume the return of indoor business operations, a decline in unemployment, and low inflation. There is a risk that actual revenues will be less than estimated if these assumptions prove optimistic.

Table 32
GENERAL FUND SALES TAX RECEIPTS
(\$ in thousands)

<u>Fiscal Year</u>	<u>Receipts⁽¹⁾</u>	<u>Change from Prior Year</u>
2017-18	\$529,757	1.8%
2018-19	581,443	9.8
2019-20	556,237	(4.3)
2020-21	524,615	(5.7)
2021-22 Budget	606,610	15.6

⁽¹⁾ Cash basis.

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

Documentary Transfer Tax

Documentary transfer tax receipts represent 3.0 percent of General Fund revenues in the 2021-22 Budget. The documentary transfer tax is imposed on each transaction in which real property is sold that is evidenced by a recorded document. The City's tax rate is 0.45 percent of the value of real property transferred. This tax is in addition to the 0.11 percent tax (\$1.10 per \$1,000) levied by the County. This tax is tied to real estate market activity and, although not evident in the years represented in the table below, can be more volatile than other City revenues, as it reflects both sales volume and sales price. The greatest impact is seen when the two components move together. For example, this tax revenue declined 29 percent in 2007-08, and another 31 percent in 2008-09. Further contributing to the volatility of this revenue is the irregular pattern of business property sales; monthly remittances can fluctuate from zero to amounts in excess of \$10 million.

The 2021-22 Budget estimate assumes that pricing and sales volume will remain relatively unchanged.

The table below presents receipts from this revenue source.

Table 33
DOCUMENTARY TRANSFER TAX RECEIPTS
(\$ in thousands)

<u>Fiscal Year</u>	<u>Receipts⁽¹⁾</u>	<u>Change from Prior Year</u>
2017-18	\$207,815	(1.1)%
2018-19	206,211	(0.7)
2019-20	205,473	(0.4)
2020-21	235,922	14.8
2021-22 Budget	227,005	(3.8)

⁽¹⁾ Cash basis.

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

Power Revenue Transfers to General Fund

Transfers from the Power Revenue Fund represent 3.0 percent of budgeted General Fund revenues in the 2021-22 Budget. The City’s Charter Section 344(b) provides that the Council may, by ordinance, direct that surplus money in the Power Revenue Fund be transferred to the Reserve Fund with the consent of the DWP Commissioners. These funds are routinely appropriated from the Reserve Fund to the City’s General Fund budget. The DWP Commissioners may withhold their consent if such transfer would have a material negative impact on DWP’s financial condition in the year in which the transfer would be made. The transfer rate has been 8 percent of surplus revenues beginning with 2009-10.

Variations can occur between the amount budgeted for transfer and the amount received, reflecting the variance between actual financial results of the Power System for the prior year from the results projected by the DWP at the time the budget is adopted. The estimated transfer amount is provided by the DWP at the time of budget adoption and is based on the Power System’s financial plan for the fiscal year currently in progress. At the close of the fiscal year, but before December 31 in the following fiscal year, the Board of DWP Commissioners affirms or amends the transfer amount according to the audited financial statements. The transfer occurs in the latter half of the following year.

The City has been the subject of litigation that challenged this long-standing practice of transferring a portion of surplus power revenues to the City’s General Fund as a violation of Proposition 26, which imposed new restrictions on taxation. The principal case on this matter was *Eck v. City of Los Angeles* (“*Eck*”). This matter was settled under a court-approved settlement on February 26, 2018, with all appeals challenging the settlement having been exhausted. The settlement limits the annual amount of revenue transferred from the DWP to the City to 8 percent of the retail operating revenues of the 2008 Electric Rate Ordinance. Other remaining litigation associated with the transfer of such surplus power revenues has been resolved in the City’s favor. See “LIMITATIONS ON TAXES AND APPROPRIATIONS—Proposition 26.”

The following table shows transfers from the Power Revenue Fund. Beginning with Fiscal Year 2018-19, amounts reflect the settlement under the *Eck* case. At the time of budget preparation, no estimate was available on the impact of the pandemic and recession on the DWP’s revenue.

Table 34
TRANSFERS FROM POWER REVENUE FUND
(\$ in thousands)

<u>Fiscal Year</u>	<u>Receipts⁽¹⁾</u>	<u>Change from Prior Year</u>
2017-18	\$241,848	(8.5)%
2018-19	232,557	(3.8)
2019-20	229,913	(1.1)
2020-21 ⁽²⁾	218,355	(5.0)
2021-22 Budget	225,819	3.4

⁽¹⁾ Cash basis.

⁽²⁾ The 2020-21 transfer amount was reduced to reflect lower audited 2019-20 power system revenue.

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

Transient Occupancy Tax

Transient occupancy tax receipts represent 2.4 percent of General Fund revenues in the 2021-22 Budget. The transient occupancy tax (“TOT”) is levied at the rate of 14 percent of the amount charged for hotel and motel rooms or other dwellings occupied for 30 days or less. The tax is collected by hotel operators, individuals, and short-term rental websites, which are subsequently remitted to the City monthly.

This revenue is very sensitive to changing conditions that affect travel and has been significantly impacted by the pandemic. Transient occupancy tax revenue for 2020-21 is estimated to be only 35 percent of its peak in 2018-19. While significant growth is budgeted as travel recovers, it would still represent only 57 percent of its peak.

The 14 percent tax rate is composed of two parts: a 13 percent General Fund tax and a 1 percent special tax to fund the Los Angeles Convention Visitors’ Bureau (also known as L.A., Inc.). The table below presents General Fund receipts from the 13 percent portion of the tax rate.

Table 35
GENERAL FUND TRANSIENT OCCUPANCY TAX RECEIPTS
(\$ in thousands)

<u>Fiscal Year</u>	<u>Receipts⁽¹⁾</u>	<u>Change from Prior Year</u>
2017-18	\$299,108	12.6%
2018-19	318,888	6.6
2019-20	253,539	(20.5)
2020-21	110,427	(56.4)
2021-22 Budget	183,300	66.0

⁽¹⁾ Cash basis.

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

Parking Fines and other Parking-Related Revenues

Parking fine receipts represent 1.6 percent of General Fund revenues in the 2021-22 Budget. The schedule of fines is established by the Council. For budgeting purposes, parking fine revenue forecasts are based on the number of parking enforcement officers employed by the City’s Department of Transportation and estimates of average revenues per ticket based on historical trends, collection rates and average worker productivity. While parking fine revenue has declined each of the prior seven years, revenues were trending towards growth in 2019-20 prior to the onset of the pandemic. The pandemic’s impact to parking demand reduced both ticket issuance and the collection rate for fines, with 2020-21 revenue further reduced under relaxed parking enforcement and fine relief policies. The 2021-22 Budget reflects increased issuance and collection rates due to increased parking demand and the end of temporary relief measures.

The table below shows receipts from all parking fines.

Table 36
PARKING FINES RECEIPTS
(\$ in thousands)

Fiscal Year	Receipts ⁽¹⁾	Change from Prior Year
2017-18	\$138,766	(1.4)%
2018-19	129,900	(6.4)
2019-20	114,865	(11.6)
2020-21	93,347	(18.7)
2021-22 Budget	123,621	32.4

⁽¹⁾ Cash basis.

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

The General Fund receives two other revenues related to parking activity, from a parking occupancy tax and from transfers from its Special Parking Revenue Fund. The parking occupancy tax is levied at 10 percent of parking fees. Revenues from this source fell 53 percent from 2018-19 to 2020-21, from \$120.9 million to \$58.9 million. The 2021-22 Budget estimates \$99.3 million in revenues. The Special Parking Revenue Fund collects receipts from City-owned off-street parking facilities. Surplus revenues after the cost of operating and maintaining those facilities can be transferred to the General Fund. While the annual base transfer is \$23.5 million, no surplus funds were available for transfer in 2020-21, and \$8.5 million is budgeted in 2021-22.

Impact of State of California Budget

A number of the City’s revenues are collected and subvented by the State (such as sales tax and motor-vehicle license fees) or allocated in accordance with State law (most importantly, property taxes). Therefore, State budget decisions can have an impact on City finances. Approximately 40 percent of the City’s General Fund revenues are collected by the State or otherwise allocated in accordance to State law. During prior State fiscal crises, the State has reallocated a portion of such revenues to assist in its own budget balancing. Proposition 1A, adopted in 2004, amended the State Constitution to impose limits on the State’s ability to reallocate local revenue. See “LIMITATIONS ON TAXES AND APPROPRIATIONS—Proposition 1A.” The State budget provides certain funding for emergency response and for homelessness, from which the City expects to benefit.

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

On June 28, 2021, the California State Legislature passed the 2021-22 State Budget, which estimates a budget surplus of \$47 billion, mainly due to higher than anticipated revenues and receipt of \$27 billion under ARPA. The State will also receive an additional \$550 million from the Coronavirus Capital Projects Fund, which the State plans to allocate for broadband infrastructure projects. The 2021-22 State Budget continues to build the State's reserves, pay down the State's long-term retirement liabilities, invest in education, confront homelessness and housing affordability, and fund capital projects. The following are State budget items with potential impacts to the City:

- \$8.1 billion for the Golden State Stimulus program, which provides \$600 stimulus payments for low- and moderate-income households and an additional \$1.5 billion, for a total funding amount of \$4.0 billion, for grants to small business experiencing hardships due to the pandemic.
- \$1.8 billion to support state and local emergency response to COVID-19.
- An additional \$100 million for a total funding amount of \$162.6 million to aid local governments with emergency response.
- \$1.1 billion over a three-year period for Caltrans to partner with local governments in a statewide beautification effort.
- \$2.75 billion over two years for the additional acquisition and rehabilitation of facilities through the Homekey Program. The Homekey Program provides grants to local governments to acquire hotels, motels, vacant apartments, and other properties to establish permanent housing for individuals experiencing homelessness, at risk of homelessness, or those impacted by COVID-19.
- \$2.0 billion over two years for the Homeless Housing, Assistance, and Prevention program to help counties, Continuums of Care, and large cities address homelessness and help move people off the streets.
- An additional \$240 million for other programs to address homelessness.
- \$1 billion to complete critical transportation projects in anticipation of the 2028 Olympics Games in Los Angeles.
- \$600 million provide planning and implementation grants to regional entities for infill developments that reduce vehicle miles traveled and help reach the State's climate goals.
- \$100 million to establish a cannabis related local jurisdiction assistance grant program to aid local governments in permitting and regulating cannabis businesses.

The 2021-22 State Budget was adopted subsequent to adoption of the City's 2021-22 Budget; none of the State funding sources are included in the City's 2021-22 Budget.

Information about the State budget is regularly available at various State-maintained websites. Text of the State budget may be found at the State Department of Finance website, www.govbud.dof.ca.gov. An impartial analysis of the budget is posted by the Office of the Legislative Analyst at www.lao.ca.gov. In addition, various State of California official statements, many of which contain a summary of the current and past State budgets, may be found at the website of the State Treasurer, www.treasurer.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the City, and the City takes no responsibility for the continued accuracy of the Internet addresses or for the accuracy or timeliness of information posted there, and such information is not incorporated herein by these references.

LIMITATIONS ON TAXES AND APPROPRIATIONS

Article XIII A of the California Constitution - Proposition 13

Article XIII A of the California Constitution, known as Proposition 13, was approved by the voters in 1978. Article XIII A limits the amount of *ad valorem* taxes on real property to 1 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 local government indebtedness approved by the voters.

Article XIII A defines “full cash value” to mean the County assessor’s valuation of real property as shown on the 1975-76 tax bill under full cash value or, thereafter, the appraised value of real property when purchased, newly constructed or when a change in ownership has occurred after the 1975 assessment period. The full cash value may be adjusted annually to reflect inflation at a rate, as determined by the consumer price index, not to exceed 2 percent per year. “Full cash value” base may be reduced in the event of declining property values caused by damage, destruction or other factors. Under the California Revenue and Taxation Code, county assessors that have reduced assessed valuation may be able to recapture such value (up to the pre-decline value of the property) at a rate higher than 2 percent per year in some circumstances.

See “MAJOR GENERAL FUND REVENUE SOURCES —Property Tax.”

Article XIII B of the California Constitution

Article XIII B of the California Constitution, approved by the voters in 1979 and commonly referred to as the “Gann Limit”, limits the annual appropriations of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted annually for changes in the cost of living, population and services rendered by the governmental entity. The “base year” for establishing such appropriation limit is the 1986-87 fiscal year as a result of Proposition 111.

Appropriations subject to Article XIII B include generally any authorization to expend during the fiscal year the “proceeds of taxes” levied by the State or other entity of local government, exclusive of certain limited funds. In addition to the proceeds of General Fund taxes, “proceeds of taxes” include all tax revenues and proceeds 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 funds received from the State. If any entity’s revenues in any year exceed the amounts permitted to be spent, the excess must be returned by revising tax rates or fee schedules over the subsequent two fiscal years. The Article XIII B limitation generally does not apply to debt service on voter-approved indebtedness and appropriations required to comply with mandates of courts, or the federal government or certain capital expenditures.

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

Table 37
APPROPRIATIONS LIMITS AND APPROPRIATIONS SUBJECT TO LIMITATION

Fiscal Year	City Appropriations Limit	Appropriations Subject to Limitations	Amount Appropriations Are Under Limit
2017-18	\$5,415,819,599	\$4,095,495,596	\$1,320,324,003
2018-19	5,669,148,096	4,353,097,592	1,316,050,504
2019-20	6,234,016,905	4,585,351,952	1,648,664,953
2020-21	6,682,049,927	4,589,819,240	2,092,230,687
2021-22 Budget ⁽¹⁾	7,264,486,670	4,677,432,449	2,587,054,221

⁽¹⁾ The Appropriation Limit will be reconsidered by the Council later in the fiscal year to incorporate the State’s price and population factors for 2021-22.

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

Articles XIIC and XIID of the California Constitution - Proposition 218

Articles XIIC and XIID of the California Constitution, approved by the California voters in 1979, restrict the ability of the City to levy and collect existing and future taxes, assessments, fees and charges.

Article XIIC requires that all new local taxes or increases in existing local taxes be approved by the electorate before they become effective. Taxes for general governmental purposes of the City require majority voter approval and taxes for specific purposes, even if deposited in the City’s General Fund, require two-thirds voter approval. These requirements reduce the flexibility of the Council to raise revenues for the General Fund and may prevent the City from imposing, extending or increasing such taxes in the future to meet any increased expenditure requirements.

Article XIID contains provisions generally making it more difficult for local agencies to levy and maintain “assessments” (any levy or charge upon real property for a special benefit conferred upon the real property) for municipal services and programs and “property-related fees and charges” (any levy other than an *ad valorem* tax, a special tax, or an assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service). Assessments shall not be imposed if there is a majority protest by property owners submitting ballots on the issue. Property-related fees or charges for services other than sewer, water and refuse collection services may not be imposed or increased without majority approval by the property owners subject to the fee or charge or, at the option of the local agency, two-thirds voter approval by the electorate residing in the affected area.

The City is currently the subject of a putative class action lawsuit, entitled *Hoffman et al v. City of Los Angeles*, which alleges that the charges imposed on residential customers for the use and disposal of sewage through the City’s sewage system violate Proposition 218 and other applicable City statutes. The court issued an interim decision on or about June 30, 2021, finding that the City failed to meet the procedural requirements under Proposition 218, along with other applicable City statutes, when it imposed residential sewer service charges on residential customers with its annual determination of a reduction factor (Dry Winter Compensation Factor) that is applied to such charges. A second phase of the trial over whether there were substantive violations under Proposition 218 (i.e., whether the City used the revenues derived from residential

sewer service charges for non-sewer related purpose) as well as damages is pending. No class certification has occurred, and no trial date has been set. In the event of an adverse ruling, damages could be approximately \$180 million or more if a class is certified. The parties are currently in mediation in an attempt to resolve this matter. Any potential damages in this case are expected to be ultimately funded through the City's wastewater enterprise fund. The City does not expect a General Fund impact. However, a General Fund impact could arise if the wastewater enterprise fund, depending on the results of the second phase of the trial, lacks, in full or in part, the then present funds to satisfy the liability imposed from the second phase of the trial.

In addition, Article XIIC addresses the initiative power in matters of reducing or repealing any local tax, assessment, fee or charge. The voters of the City could, in the future, approve an initiative or initiatives that reduce or repeal local taxes, assessments, fees or charges. Such an action could have a material impact on the City's General Fund.

Proposition 26

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

The City has been subject to a series of lawsuits pertaining to the transfer of surplus power revenues, which is a material source of City General Fund revenues. The principal lawsuit on this matter was *Eck*. This matter was settled under a court-approved settlement on February 26, 2018. The settlement limits the annual amount of revenue transferred from the DWP to the City to 8 percent of the retail operating revenues of the 2008 Electric Rate Ordinance. The other lawsuits associated with the transfer of such surplus power revenues have been resolved in the City's favor. See "MAJOR GENERAL FUND REVENUE SOURCES—Power Transfer to General Fund."

Proposition 1A

Proposition 1A, approved by the voters in 2004, amended the State Constitution to impose limits on the State's ability to reallocate local revenue. The measure provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions.

Proposition 1A also limits, but does not totally restrict, the State's ability to shift any share of property tax revenues allocated to local governments in any fiscal year to schools or community colleges. Up to 8 percent of local government property tax revenues may be shifted if specified conditions are met, and any amount shifted must be repaid, with interest, within three years. The right of the State to redirect local revenues under Proposition 1A was exercised in Fiscal Year 2009-10.

Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the State Legislature. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also provides that, if the State reduces the Vehicle License Fee rate below 0.65 percent of vehicle value, the State must provide local governments with equal replacement revenues.

Further, Proposition 1A requires the State to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates.

Future Initiatives

The voters of the City may approve initiatives that reduce or repeal local taxes, assessments, fees or charges. From time to time, other initiative measures could be adopted at the state or local level, which may place further limitations on the ability of the State, the City or local districts to increase revenues or to increase appropriations, or which repeal or reduce existing taxes, assessments, fees or charges, which may affect the City's revenues or its ability to expend its revenues.

BONDED AND OTHER INDEBTEDNESS

Introduction

The City has issued or caused the issuance of a variety of bonded and other debt obligations as provided for under the State Constitution, judicial interpretation of the State Constitution, State statutes, and its own Charter powers. The following summarizes that indebtedness.

The CAO serves as the City's debt manager, structuring debt issuances and overseeing the ongoing management of all tax-secured, General Fund and certain special fund debt programs. These include general obligation bonds; lease obligations; tax and revenue anticipation notes; wastewater system and solid waste resources fee revenue obligations; judgment obligation bonds, if any; and special tax obligations, Mello-Roos bonds and certain special assessment obligations. Debt of the Housing Department and the City's three proprietary departments—Airports, Harbor, and Water and Power—are administered by staff of the respective department.

General Obligation Bonds

The City may issue general obligation bonds for the acquisition and improvement of real property, subject to two-thirds voter authorization of the bond proposition. An *ad valorem* tax on all taxable property to pay principal and interest on general obligation bonds is levied by the City and collected by the County on the secured and unsecured property tax bills within the City. See "MAJOR GENERAL FUND REVENUE SOURCES—Property Tax". The following summarizes the various voter authorizations for general obligation bonds.

Table 38
GENERAL OBLIGATION BONDS
As of October 1, 2021

Date of Election	Projects	Amount Authorized	Amount Issued	Amount Outstanding ⁽²⁾	Amount Authorized but Unissued
11/3/98	Zoo Facilities (Proposition CC)	\$ 47,600,000	\$ 47,600,000	\$ 867,165	--
11/7/00	Fire, Paramedic, Helicopter and Animal Shelter Projects (Proposition F)	532,648,000	532,648,000	19,817,942	--
3/5/02	Emergency Operations, Fire, Dispatch and Police Facilities (Proposition Q)	600,000,000	600,000,000	43,816,695	--
11/2/04	Storm Water Projects (Proposition O)	500,000,000	439,500,000	161,913,198	\$ 60,500,000
11/8/16	Homelessness (Proposition HHH) ⁽¹⁾	<u>1,200,000,000</u>	<u>362,610,000</u>	<u>303,885,000</u>	<u>837,390,000</u>
	Total	\$2,880,248,000	\$1,982,358,000	\$530,300,000	\$897,890,000

⁽¹⁾ An additional \$211,940,000 of bonds under this authorization were delivered on November 10, 2021.

⁽²⁾ Includes pro-rata allocation of refunding bonds, excluding \$65,490,000 of refunding bonds delivered on November 10, 2021. Principal payments are made September 1.

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

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

Table 39
2020-21 TYPICAL TAX RATE PER \$100 OF ASSESSED VALUATION
TRAs 00067, 00013, 00016⁽¹⁾

Countywide 1%	1.000000%
City of Los Angeles	.016538
Los Angeles Unified School District	.139929
Los Angeles Community College District	.040162
Metropolitan Water District	<u>.003500</u>
Total	1.200129%

⁽¹⁾ Tax Rate Areas 00067, 00013, and 00016 are the three largest within the City in terms of assessed valuation:

TRA 00067 2020-21 AV: \$238,147,109,971

TRA 00013 2020-21 AV: \$106,307,675,103

TRA 00016 2020-21 AV: \$103,685,780,556

Source: California Municipal Statistics, Inc.

Lease Obligations

The City may enter into long-term lease obligations without first obtaining voter approval, so long as these agreements meet the requirements of State law. The City has entered into various lease arrangements under which the City must make annual lease payments to occupy public buildings or use capital equipment necessary for City operations. Most of these lease agreements have been with a nonprofit corporation established by the City for this purpose, the Municipal Improvement Corporation of Los Angeles ("MICLA"). In most cases, securities have been issued in the form of lease revenue bonds, on which debt service is paid from the annual lease payments primarily made by the City's General Fund. In some cases, as noted below, the lease obligation was privately placed directly with a bank or other private lender. Payment of lease payments is managed by the CAO and, unless otherwise noted, budgeted in the Capital Finance Administration Fund.

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

Table 40
GENERAL FUND BONDED AND OTHER FINANCING LEASE OBLIGATIONS
As of October 1, 2021⁽¹⁾

<u>Series</u>	<u>Project</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>	<u>Final Maturity</u>
Public Offerings				
MICLA Lease Revenue Bonds, Series 2010-C (Taxable) (dated November 23, 2010)	Real Property	\$ 18,170,000	\$ 15,570,000	11/1/40
MICLA Taxable Lease Revenue Refunding Bonds, Series 2015-A (dated November 19, 2015)	Real Property (Convention Center)	292,415,000	65,520,000	11/1/22
MICLA Lease Revenue Refunding Bonds, Series 2016-A (dated June 1, 2016)	Capital Equipment and Fixtures	125,235,000	80,880,000	11/1/26
MICLA Lease Revenue Refunding Bonds, Series 2016-B (dated June 1, 2016)	Real Property	685,270,000	579,105,000	11/1/39
MICLA Lease Revenue Bonds, Series 2018-A (dated February 6, 2018)	Capital Equipment and Fixtures	54,430,000	41,320,000	11/1/27
MICLA Lease Revenue Bonds, Series 2018-B (dated February 25, 2018)	Real Property	31,270,000	28,650,000	11/1/37
MICLA Lease Revenue Refunding Bonds, Series 2018-C (dated February 26, 2018)	Real Property	25,630,000	18,865,000	11/1/27
MICLA Lease Revenue Bonds, Series 2020-A (dated August 20, 2020)	Capital Equipment and Fixtures	84,725,000	84,725,000	11/1/30
MICLA Lease Revenue Refunding Bonds, Series 2020-B (dated August 20, 2020)	Real Property	80,850,000	74,625,000	11/1/40
MICLA Lease Revenue Refunding Bonds, Series 2020-C Taxable (dated August 20, 2020)	Real Property	102,265,000	102,265,000	11/1/41
MICLA Lease Revenue Refunding Bonds, Series 2021-A (Taxable) (dated March 4, 2021)	Capital Equipment and Real Property	177,470,000	177,470,000	11/1/38
MICLA Lease Revenue Refunding Bonds, Series 2021-B (dated March 4, 2021)	Capital Equipment and Real Property	<u>60,481,000</u>	<u>60,481,000</u>	11/1/38
Subtotal Public Offerings		\$1,738,211,000	\$1,329,476,000	
Private Placements				
MICLA 2016 Streetlights (dated April 5, 2016)	Capital Equipment and Streetlights	26,368,864	10,369,234	4/1/24
MICLA 2017 Streetlights Financing (dated April 18, 2017)	Capital Equipment and Streetlights	39,297,800	24,792,673	6/1/27
2017 Police Vehicles Lease Financing (dated November 15, 2017)	Capital Equipment	21,110,000	7,053,080	11/15/22
2017 Police Radios Lease Financing (dated December 22, 2017)	Vehicles and Handheld Radios	64,500,000	31,384,203	2/1/25
MICLA 2019 Streetlights Financing (dated September 30, 2019)	Capital Equipment and Fixtures	17,845,461	16,017,515	6/1/29
MICLA 2020 Streetlights Financing (dated November 1, 2020)	Capital Equipment and Fixtures	<u>9,088,272</u>	<u>9,088,272</u>	6/1/31
Subtotal Private Placements		<u>\$178,210,397</u>	<u>\$98,704,977</u>	
Total Lease Obligations		<u>\$1,916,421,397</u>	<u>\$1,428,180,977</u>	

⁽¹⁾ Does not include MICLA Lease Revenue Bonds, Series 2021-C (Capital Equipment and Real Property) issued in the principal amount of \$154,205,000 on December 15, 2021.

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

Commercial Paper Program

The City has created two commercial paper ("CP") programs secured by lease agreements payable from the General Fund.

In 2004, the City and MICLA established a commercial paper program authorizing MICLA to issue lease revenue CP notes to finance and refinance capital equipment, the acquisition and

improvement of real property, and other financing needs of the City (the “General MICLA CP”). The General MICLA CP program increased from time to time and is currently authorized for up to \$425 million. The City expects to issue lease revenue bonds through MICLA from time to time to refund the General MICLA CP. As of October 1, 2021, \$309.9 million in General MICLA CP was outstanding under this program.

The City has created a second CP program to issue up to \$100 million in lease revenue CP notes to finance and refinance capital improvements to the Los Angeles Convention Center facility (the “LACC CP”), which also represents a lease obligation of the General Fund. As of October 1, 2021, \$20.7 million in LACC CP was outstanding under this program.

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

The table below summarizes the direct pay letters of credit that currently support the payment of principal of and interest on the General MICLA CP and the LACC CP programs, respectively.

Table 41
LEASE REVENUE COMMERCIAL PAPER NOTES LETTERS OF CREDIT

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

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

Revenue Bonds

The Charter and State law provide for the issuance of revenue bonds, 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 administered by the CAO have been issued in the past that are secured by wastewater, refuse collection and parking revenues. In addition, three departments that are under the control of Boards appointed by the Mayor and confirmed by the Council, namely the departments of Water and Power, Harbor and Airports, have also issued revenue bonds.

Conduit Debt Obligations

The City has issued bonds or entered into installment purchase contracts secured by and payable from loans and installment sale contracts to provide conduit financing for single and multi-

family housing, industrial development and unrelated third-party 501(c)(3) nonprofit corporations. These conduit bonds and certificates of participation are not managed by the CAO’s debt management group and are not obligations of the General Fund or other City revenues.

Cash-flow Borrowings

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

Table 42
TAX AND REVENUE ANTICIPATION NOTES

<u>Fiscal Year</u>	<u>LACERS</u>	<u>Fire and Police Pensions</u>	<u>Cashflow</u>	<u>Total Par Amount</u>
2017-18	\$439,678,882	\$619,240,476	\$390,135,642	\$1,449,055,000
2018-19	477,615,000	672,655,000	391,160,000	1,541,430,000
2019-20	539,935,000	680,670,000	434,425,000	1,655,030,000
2020-21	515,155,000	714,395,000	531,755,000	1,761,305,000
2021-22	579,765,000	695,960,000	578,365,000	1,854,090,000

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

Summary of Long-Term Borrowings

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

Table 43
NET DIRECT DEBT
As of October 1, 2021

	<u>Outstanding</u>
General Obligation Bonds	\$530,300,000
Lease Obligations ^{(1) (2)}	\$1,428,180,977
GROSS DIRECT DEBT	\$1,958,480,977
Revenue Bonds ⁽²⁾	
Power Revenue (DWP)	\$9,905,715,000
Water Revenue (DWP) ⁽³⁾	5,267,440,000
Department of Airports	8,224,485,000
Harbor Department ⁽⁴⁾	618,480,000
Wastewater System ⁽³⁾	
Senior Revenue Bonds	971,695,000
Subordinate Revenue Bonds	1,521,075,000
Solid Waste Resources Fee	<u>164,495,000</u>
Subtotal	<u>\$26,673,385,000</u>
TOTAL CITY DEBT	\$28,631,865,977
Less:	
Revenue Bonds	<u>(26,673,385,000)</u>
NET DIRECT DEBT	\$1,958,480,977
Plus:	
Overlapping Debt ⁽⁵⁾	<u>13,564,865,000</u>
NET OVERALL DEBT	<u>\$15,523,345,977</u>

⁽¹⁾ Includes only bonded and certificated lease obligations and long-term private placements.

⁽²⁾ Does not include any commercial paper or revolving credit agreements.

⁽³⁾ Does not include outstanding California State Revolving Fund loans.

⁽⁴⁾ Does not include outstanding California Department of Boating and Waterways loans.

⁽⁵⁾ Overlapping debt information from California Municipal Statistics, Inc. as of October 1, 2021. See Table 51.

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

Table 44
DEBT SERVICE TO MATURITY ON DEBT PAYABLE FROM PROPERTY TAXES⁽¹⁾
As of October 1, 2021

Fiscal Year	Principal	General Obligation Bonds		Total
		Interest		
2022 ⁽²⁾	\$ 0	\$10,050,403		\$10,050,403
2023	79,635,000	18,520,636		98,155,636
2024	61,525,000	15,776,651		77,301,651
2025	44,360,000	13,756,343		58,116,343
2026	37,355,000	12,199,068		49,554,068
2027	35,945,000	10,816,189		46,761,189
2028	34,485,000	9,492,207		43,977,207
2029	35,940,000	8,180,847		44,120,847
2030	31,225,000	6,916,369		38,141,369
2031	23,675,000	5,896,655		29,571,655
2032	23,595,000	5,044,121		28,639,121
2033	18,125,000	4,282,408		22,407,408
2034	18,125,000	3,609,407		21,734,407
2035	18,125,000	2,930,105		21,055,105
2036	18,125,000	2,248,646		20,373,646
2037	18,125,000	1,565,029		19,690,029
2038	18,125,000	879,255		19,004,255
2039	13,810,000	267,914		14,077,914
2040	0	0		0
Total	<u>\$530,300,000</u>	<u>\$132,432,249</u>		<u>\$662,732,249</u>

(1) Does not reflect Proposition HHH general obligation bonds issued in the principal amount of \$211,940,000 or the general obligation refunding bonds issued in the principal amount of \$65,490,000, both issued on November 10, 2021. Totals may not add due to independent rounding.

(2) Excludes payments made from July 1 to October 1.

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

Table 45
DEBT SERVICE TO MATURITY ON BONDED AND CERTIFICATED LEASE OBLIGATIONS⁽¹⁾
As of October 1, 2021

Fiscal Year	Principal	Interest	Total
2022 ⁽²⁾	\$153,129,974	\$52,989,331	\$206,119,306
2023	129,989,590	47,899,171	177,888,760
2024	113,589,595	44,097,420	157,687,015
2025	108,655,117	40,470,224	149,125,341
2026	101,804,302	36,823,336	138,627,638
2027	105,384,518	32,885,131	138,269,648
2028	81,567,013	28,973,297	110,540,310
2029	74,275,289	25,643,243	99,918,532
2030	63,539,184	22,659,423	86,198,607
2031	66,412,395	19,776,657	86,189,052
2032	57,168,000	17,031,120	74,199,120
2033	57,306,000	14,463,899	71,769,899
2034	58,785,000	12,014,127	70,799,127
2035	57,864,000	9,696,873	67,560,873
2036	60,235,000	7,310,371	67,545,371
2037	62,832,000	4,702,430	67,534,430
2038	34,913,000	2,564,706	37,477,706
2039	22,321,000	1,344,948	23,665,948
2040	9,780,000	638,180	10,418,180
2041	7,025,000	225,938	7,250,938
2042	1,605,000	22,976	1,627,976
2043	0	0	0
Total	<u>\$1,428,180,977</u>	<u>\$422,232,802</u>	<u>\$1,850,413,778</u>

(1) Does not include MICLA Lease Revenue Bonds, Series 2021-C (Capital Equipment and Real Property) issued in the principal amount of \$154,205,000 on December 15, 2021. Totals may not add due to independent rounding.

(2) Excludes payments made from July 1 to October 1.

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

Debt Management Policies

The City adopted a written debt policy in August 1998, which was incorporated into the City’s Administrative Code in May 2000 and has also adopted policies for Mello-Roos financing, variable rate debt and swaps. Revisions of these policies were approved by the Council in September 2020. See “BUDGET AND FINANCIAL OPERATIONS—Financial Management Policies”. The City’s Debt Management Policy establishes guidelines for the structure and management of the City’s debt obligations. These guidelines include target and ceiling levels for certain debt ratios to be used for planning purposes. The two most significant ratios are shown below.

Table 46
DEBT MANAGEMENT POLICY RATIOS

<u>Ratio</u>	<u>Ceiling</u>	<u>2019-20</u>	<u>Estimated 2020-21</u>	<u>Budget 2021-22</u>
Total Direct Debt Service as Percent of General Revenues ⁽¹⁾	15.0%	5.90%	4.51%	4.86%
Non-Voted Direct Debt Service as Percent of General Revenues ⁽¹⁾	6.0% ⁽²⁾	3.92%	2.78%	3.35%

⁽¹⁾ For purposes of the Debt Policy, General Revenues includes the General Fund, the General Obligation Bond Debt Service Fund, and any tax revenues deposited into special funds that pay debt service on lease revenue bonds.

⁽²⁾ The 6% ceiling may be exceeded only if there is a guaranteed new revenue stream for the debt payments and the additional debt will not cause the ratio to exceed 7.5%, or there is not a guaranteed revenue stream but the 6% ceiling shall only be exceeded for one year.

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

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

Table 47
FINANCIAL RATIOS

<u>As of June 30</u>	<u>Net Direct Debt</u>	<u>Net Debt Per Capita</u>	<u>Net Debt as Percent of Net Assessed Valuation</u>
2017	\$2,279,944,100	\$572	0.43%
2018	2,277,748,296	570	0.40
2019	2,241,343,140	562	0.37
2020	2,160,374,979	543	0.33
2021 Budget	2,064,424,459	526	0.30

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

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

Table 48
GENERAL FUND DEBT SERVICE AS A PERCENTAGE OF GENERAL FUND⁽¹⁾
(\$ in thousands)

Fiscal Year	Debt Service Payments ⁽²⁾	General Fund Revenues ⁽³⁾	Debt Service as Percentage of General Fund Revenue
2017-18	\$218,487	\$5,841,076	3.74%
2018-19	226,334	6,236,881	3.63
2019-20	228,118	6,569,750	3.47
2020-21	221,756	6,957,766	3.19
2021-22 Budget	224,032	7,503,223	2.99

(1) Cash basis.

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

(3) Including operating transfers in.

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

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

Table 49
RETIREMENT OF NET DIRECT DEBT⁽¹⁾
As of October 1, 2021

	General Obligation Bonds		Bonded and Certificated Leases		Total	
	Maturing Within	Cumulative % of Debt Retired	Maturing Principal	Cumulative % of Debt Retired	Maturing Principal	Cumulative % of Debt Retired
>0 to 5 years	\$258,820,000	48.8%	\$607,168,578	42.5%	\$865,988,578	44.2%
>5 to 10 years	148,920,000	76.9%	391,178,399	69.9%	540,098,399	71.8%
>10 to 15 years	90,625,000	94.0%	291,358,000	90.3%	381,983,000	91.3%
>15 to 20 years	31,935,000	100.0%	136,871,000	99.9%	168,806,000	99.9%
>20 to 25 years	0	100.0%	1,605,000	100.0%	1,605,000	100.0%
Total	\$530,300,000		\$1,428,180,977		\$1,958,480,977	

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

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

Variable Rate Obligations and Swap Agreements

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

Projected Additional Financings

The City currently anticipates the completion of some, or all of the financings summarized in the table below secured in whole or in part by the City's General Fund or other revenues and

taxes. Certificates of participation or lease revenue bonds in addition to those listed below may be approved for refundings or to finance real and personal property acquisitions and improvements.

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

Table 50
PROPOSED SCHEDULE OF BOND ISSUANCES AND TRANSACTIONS
DEBT CALENDAR

	<u>Expected Sale Date</u>	<u>Amount</u>
2022 Tax and Revenue Anticipation Notes	Summer 2022	\$2.0 billion
General Obligation Bonds (Proposition O)	Winter 2022-23	\$37 million
MICLA Lease Revenue Bonds, Series 2023-A (Capital Equipment) and Series 2023-B (Real Property)	Spring 2023	\$120 million

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

Overlapping Bonded Debt

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

Table 51
STATEMENT OF OVERLAPPING DEBT
As of October 1, 2021

	Debt Outstanding 10/1/21	Estimated Percent Applicable	Estimated Shares Of Overlapping Debt 10/1/21
<u>OVERLAPPING DEBT REPAID WITH PROPERTY TAXES⁽¹⁾</u>			
The Metropolitan Water District of Southern California	\$ 26,830,000	21.429%	\$ 5,749,401
Los Angeles Community College District	4,146,515,000	72.335	2,999,381,625
Beverly Hills Unified School District	441,617,136	0.148	653,593
Inglewood Unified School District	134,275,000	0.760	1,020,490
Las Virgenes Unified School District	107,388,325	0.886	951,461
Los Angeles Unified School District	10,335,150,000	88.386	9,134,825,679
Other School Districts	541,217,928	Various	444,536
City of Los Angeles Community Facilities District No. 3	605,000	100.000	605,000
City of Los Angeles Community Facilities District No. 4	59,225,000	100.000	59,225,000
City of Los Angeles Community Facilities District No. 8	5,425,000	100.000	5,425,000
Mountains Recreation and Conservation Authority Assessment Districts	14,730,000	100.000	14,730,000
Los Angeles Unified School District supported general obligation bonds			136,883,398
<u>OTHER OVERLAPPING DEBT:</u>			
Los Angeles County General Fund Obligations	2,575,585,386	40.851	1,052,152,386
Los Angeles County Superintendent of Schools Certificates of	3,972,227	40.851	1,622,694
Los Angeles County Sanitation District Nos. 1, 4, 5, 8 & 16 Authorities	6,697,602	0.001 – 11.927	328,022
Inglewood Unified School District Certificates of Participation	1,185,000	0.760	9,006
Las Virgenes Unified School District Certificates of Participation	9,517,975	0.886	84,329
Los Angeles Unified School District Certificates of Participation	120,710,000	88.386	106,690,741
OVERLAPPING TAX INCREMENT DEBT (Successor Agency):	\$317,850,000	100.000%	\$317,850,000
TOTAL, OVERLAPPING DEBT			\$13,564,865,000

⁽¹⁾ Excludes City of Los Angeles Community Facilities District No. 11 (Ponte Vista) Special Tax Bonds, Series 2021, issued in the principal amount of \$22,410,000, which closed October 20, 2021, and Community Facilities District No. 8 (Legends at Cascades) Special Tax Refunding Bonds, Series 2022, issued in the principal amount of \$5,470,000, which closed January 27, 2022 and which defeased all of the then outstanding bonds for City of Los Angeles Community Facilities District No. 8. All of this debt will be applicable to the City.

Source: California Municipal Statistics, Inc.

OTHER MATTERS

Seismic Considerations

The City is subject to unpredictable and significant seismic activity. A number of known faults run through the City, and the City lies near the San Andreas Fault, which is the boundary between the Pacific and North American tectonic plates. The complex Los Angeles fault system interacts with the alluvial soils and other geologic conditions in the hills and basins of the area. This interaction poses a potential seismic threat for every part of the City, regardless of the underlying geologic and soils conditions. In addition, there are likely to be unmapped faults throughout the City. The most recent major earthquake, the Northridge earthquake in 1994, occurred along a previously unmapped blind thrust fault. The City generally does not maintain earthquake insurance coverage; see “BUDGET AND FINANCIAL OPERATIONS—Risk Management and Retention Program.”

Climate Change

The change in the earth's average atmospheric temperature, generally referred to as "climate change", is expected to, among other things, increase the frequency and severity of extreme weather events and cause substantial flooding. The City's Sustainable City pLAN (the "Plan," also referred to as the City's "Green New Deal"), released in 2015 and updated in 2019, provides a 20-year framework intended to both prepare for climate change and mitigate its effects on the City's economy, infrastructure and communities. The Plan sets forth several actions that may be taken by the City, including improving emergency response functions and disaster preparedness, reducing air and water pollution, and managing rising temperatures in urban environments. In addition, the City has begun construction of a series of groundwater remediation projects to reduce the City's reliance on imported water, is exploring the use of specially designed "cool roofs" to manage the effect of rising temperatures in urban environments, and is testing the effects of "cool pavement" (a special coating applied to city streets) to manage urban temperatures. The City continues to explore various other adaptive actions within the framework established by the Plan.

The City cannot predict the timing, extent, or severity of climate change and its impact on the City's operations and finances. Climate change may be a factor in the increased incidence of wildfire in the City and elsewhere in the County and the State. Also, additional actions to address climate change may be necessary and the City can give no assurances regarding the impact of such actions on the City's operations and finances.

Cybersecurity

The City relies on a large and complex technology environment to conduct its operations. As a recipient and provider of personal, private and sensitive information, the City and its departments face multiple cyber threats including hacking, viruses, malware and other attacks on computers and other sensitive digital networks and systems. There have been, however, only limited cyber-attack disruptions on the City's computer system to date. For example, in 2019, the City experienced a cyber-attack that impacted a cloud-hosted system at a City department. The attack potentially involved certain personal information of about 20,000 applicants who went through the LAPD recruitment process. The City mitigated the attack and notified all the affected individuals immediately. Following this incident, certain City personnel attended security awareness training. The City installed web application firewall and endpoint protection system to quickly identify and respond to cyber-attacks targeted at the department web application systems.

In 2013, the City created the Cyber Intrusion Command Center (the "CICC") under a Mayoral Executive Directive to coordinate cybersecurity preparation and response across City departments. The CICC is comprised of key City departments, cybersecurity professionals, and local and federal law enforcement experts. The CICC has assisted the City in establishing policies for data classification, information handling, and cybersecurity prevention and response protocols. In 2015, the City established an Integrated Security Operations Center (the "ISOC") with cybersecurity professionals for cyber-attack monitoring and response. In addition, the City has identified critical data assets and applied additional cyber defenses through its Critical Asset Protection program. The City has conducted cyber security awareness training for all City employees with computer access, conducts phishing email tests, and provides periodic cybersecurity newsletters and workshops to its employees. In 2017, the City consolidated and distributed a comprehensive Information Security Policy Manual with sections dedicated to City employees, City managers, and City technology professionals. Also, the City conducts annual

“penetration tests” to identify and remediate any potential weaknesses in its networks and weekly cyber vulnerability scanning on City servers and websites accessible by the Internet.

No assurances can be given that the City’s security and operational control measures will be successful in guarding against any and each cyber threat and attack. The results of any attack on the City’s computer and information technology systems could impact its operations and damage the City’s digital networks and systems, and the costs of remedying any such damage could be substantial.

Clean Water Compliance

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

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

The MS4 permit allows for the option to work together to develop and implement Enhanced Watershed Management Programs (“EWMPs”) to address permit and TMDL requirements. The MS4 permit has safe harbor provisions whereby, the City was deemed in compliance with the TMDLs during the development of the EWMPs, provided that all requirements and deadlines related to the EWMP development were met. As the EWMPs cross multiple local jurisdictions, the City collaborated with other participating agencies on the development of the EWMPs, which were approved by the LARWQCB in 2016.

Non-compliance with the MS4 permit and applicable TMDLs could result in enforcement action by the LARWQCB, civil penalties and fines, and potentially third-party lawsuits. For example, under State law, the LARWQCB may levy administrative fines of up to \$10,000 per pollutant per day of violation and impose mandatory minimum penalties of \$3,000 per pollutant per day of violation. In addition, under Federal law, the LARWQCB may seek civil liabilities of up to \$53,484 per pollutant per day, reflecting an increase in accordance with the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015. Additionally, private citizens or the EPA can pursue penalties if the LARWQCB does not enforce on a violation. The City is responsible for its own fines, penalties and costs incurred as a result of non-compliance.

The City is currently in substantial compliance with the MS4 permit, but requires significant funding for capital, and operation and maintenance costs to implement the EWMPs necessary to meet the current TMDL compliance deadlines established by the MS4 permit. The City has partially funded the monitoring and reporting programs required by the MS4 permit by using existing Stormwater Pollution Abatement Funds (primarily funded by a charge on property) and by implementing cost sharing agreements between other municipalities. If not granted, the City could potentially face fines for failing to meet the 2021 TMDL compliance milestones as well as upcoming TMDL milestones that will take effect by 2026.

The City's share of the costs of the approved EWMP projects required to meet the TMDLs through 2037 is estimated by the LARWQCB to be approximately \$8 billion. Estimating project costs over such a long time period is inherently difficult and no assurance can be provided by the City that LARWQCB's approved projections are accurate.

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

The City has budgeted \$32 million from this source in the 2021-22 Budget and received \$35.9 million in 2020-21. In addition, the City is competing for project funding from the Measure W Regional Program administered by the LACFCD. Under the first round of regional funding for 2020-21, the Bureau of Sanitation secured funding totaling \$61.2 million over the next five years for four projects. As the regional program progresses, the Bureau of Sanitation is anticipating approximately \$20 million to \$30 million annually in regional returns.

In November 2004, the City of Los Angeles voters passed Proposition O, the Clean Water General Obligation Bond, authorizing the sale of \$500 million in general obligation bonds to finance projects that protect public health by cleaning up pollution in the City's rivers, lakes, and beaches. To date, the City has issued \$439.5 million in general obligation bonds for Proposition O. The City expects to issue \$37 million of bonds under the remaining \$60.5 million in authorized but unissued authority in the winter of 2022, and expects to leverage bond proceeds to support Measure W projects seeking regional funding.

Hyperion Water Reclamation Plant Sewage Spill. On July 11, 2021, the City's major wastewater treatment plant (the Hyperion Water Reclamation Plant (the "Plant")) Headworks screening facility experienced a major raw sewage spill. The Plant's relief system was triggered and sewage flows were controlled through use of the Plant's one-mile outfall and the discharge of over 17 million gallons of untreated sewage into Santa Monica Bay. The Plant suffered major damage to critical equipment and vehicles. Normal Plant operations resumed on October 22, 2021,

following months of cleanup and restoration. As of February 24, 2022, the City estimated that approximately 90% of repairs were complete.

Several lawsuits (*Mecklenburg v. Hyperion Water Reclamation Plant, Abdelnur, Katarina et al v. City of Los Angeles*, and *Konig, Joshua v. City of Los Angeles*) have been filed against the City in connection with this incident. Each of these three lawsuits have been determined to be related by the court. The City is aware of other potential lawsuits that may be filed in connection with this incident. The City cannot determine at this time the extent of the financial impact of this incident as the costs of repairs to the facility and equipment, the amount of resulting fees and fines by regulatory agencies, the costs resulting from any litigation or other proceeding related to the incident, and other incidental costs/damages are currently unknown but such amounts could be substantial. Although the extent of the financial impact to the City from this incident cannot be determined at this time, it is expected that any financial impact would be limited to the City's wastewater enterprise fund. The City, nonetheless, cannot provide any assurances that this incident and resulting matters would not have an impact on the General Fund.

2028 Olympic and Paralympic Games

The City has been selected by the International Olympic Committee ("IOC") as the host city for the 2028 Olympic and Paralympic Games ("2028 Games"). The local host committee is named the Los Angeles Organizing Committee for the Olympic and Paralympic Games 2028 ("LA 2028").

In accordance with a Memorandum of Understanding ("2028 MOU") between the City, the United States Olympic Committee ("USOC"), and LA 2028, an independent review was conducted by KPMG to validate the 2028 Games budget. The 2028 Games budget is \$6.88 billion, which includes both a contingency against cost overruns of \$615.9 million and the impact of inflation. The City and LA 2028 approved the Youth Sport Partnership Agreement in February 2020 to provide the City \$160 million in order to enhance access and remove barriers to sport programming for youth leading up to the 2028 Games. City staff and LA 2028 recently negotiated the 2028 Games Agreement ("2028 Games Agreement"), which incorporates the provisions of the 2028 MOU and further identifies the obligations and actions between the City and LA 2028 regarding the hosting of the 2028 Games including establishing a process for determining necessary City resources to support the 2028 Games and the reimbursement of costs identified in the 2028 Games Agreement. The 2028 Games Agreement is pending review and approval by the Council and Mayor.

Pursuant to a Host City Contract between the City and the IOC, the IOC is protected against any costs and expenses in excess of those agreed to by the IOC. The City has several funding sources to finance expenses relative to the 2028 Games, including \$160 million pursuant to a Youth Sport Partnership Agreement and up to \$270 million from the State for budgetary shortfalls if the host committee has exhausted its funds and the City has spent \$270 million on the 2028 Games.

Other cities that hosted the Olympic Games and the Paralympic Games have incurred significant financial obligations because of the extensive capital project expenses of construction of new public infrastructure and facilities. However, the City does not anticipate it will be necessary to construct extensive new capital projects in order to host the 2028 Games. The City is presently unable to determine the fiscal impact and financial risk to the City of hosting the 2028 Games.

Federal Public Corruption Investigation

Jose Huizar, a former member of the Los Angeles City Council, has been indicted for violations of the Racketeer Influenced and Corrupt Organizations (“RICO”) Act in connection with a criminal enterprise in which the United States Attorney alleges that Mr. Huizar received at least approximately \$1.5 million in bribes. Mr. Huizar was suspended from office on June 23, 2020. He has since been replaced by Kevin de Leon. Eight additional defendants have been charged as a result of the federal investigation, including two former officials of the City, one of whom has plead guilty. The federal criminal complaint against Mr. Huizar is part of an on-going public corruption investigation of City elected officials and staff members conducted by the Federal Bureau of Investigations and the United States Attorney’s Office. Mitchell Englander, a former City Council member, resigned his City Council seat on December 31, 2018, pled guilty in connection with the investigation, and has begun serving 14 months in federal prison. The City cannot predict the outcome of these investigations.

On October 13, 2021, Mark Ridley-Thomas, a member of the City Council, was indicted on federal charges of conspiracy, bribery, mail fraud and wire fraud relating to alleged actions taken while he served on the Board of Supervisors of the County. On October 20, 2021, the Council voted to suspend Mr. Ridley-Thomas from office in light of the charges. The City cannot predict the outcome of the investigation or proceedings. On February 22, 2022, the City Council voted to appoint Herb Wesson to fill the temporary vacancy created by Mr. Ridley-Thomas’ suspension and represent Council District 10 until December 31, 2022, or until Mr. Ridley-Thomas is acquitted or the charges against him are dropped, whichever comes first. Mr. Wesson’s appointment was challenged by a nonprofit entity and certain registered voters of Council District 10. The Superior Court denied the relief sought by the challengers on the grounds that they must first obtain leave from the Attorney General before seeking judicial consideration of their claims. If the Attorney General grants the challengers leave to sue, they would have the option to file an amended petition with the court. The City plans to continue to defend any challenge to Mr. Wesson’s temporary appointment.

LITIGATION

The City is routinely a party to a variety of pending and threatened lawsuits and administrative proceedings that may affect the General Fund of the City. The following list of certain newly completed, pending or threatened litigation matters involving the City was prepared by the Office of the City Attorney, and includes matters with a potential exposure of \$10 million or more. For all pending or threatened litigation matters and administrative proceedings not listed below, the City believes, based on current facts and circumstances, that a final determination of such matters, either individually or in the aggregate, should not materially affect the General Fund's financial position. Certain litigation or administrative proceedings discussed below, if determined in a final and conclusive manner adverse to the City, may, individually or in the aggregate, materially affect the General Fund's financial position.

1. *Federal Accessibility Law Matters.*

False Claims Act Claim

The City Attorney was advised by letter, dated November 30, 2011, that the Civil Fraud Section of the U.S. Department of Justice was investigating whether the City allegedly violated the False Claims Act ("FCA") in connection with certain federal accessibility law compliance certifications to U.S. Department of Housing and Urban Development ("HUD").

On June 7, 2017, the U.S. District Court of the Central District of California released its order announcing DOJ's election to intervene, on behalf of two private parties pursuing litigation against the City for FCA violations arising out of such certifications and other state common law claims against the City.

If the DOJ is successful in its suit, the City could face potential exposure to treble damages calculated based on the City's receipt of Community Development Block Grant ("CDBG"), HOME Investment Partnership, and Housing Opportunities for People with AIDS ("HOPWA") funds from as early as 2001 until 2010, as well as related civil penalties, which, based on the private parties' original complaint, is estimated to be approximately \$3 billion. However, the City disputes (1) any assertion that, as a matter of law, the City's certifications signed as part of these entitlement programs are subject to the FCA; (2) that any conduct by the City otherwise met the high standard for imposing FCA liability; (3) that there is a factual basis for treble damages calculated from the total of these receipts, even if the Court otherwise found the City liable; and (4) that there is any legal basis for DOJ to bring the state common law claims against the City. The City is vigorously defending its interests in this matter. Due to the preliminary nature of the matter, an estimable liability amount is difficult to ascertain at this time.

HUD Investigation

During three visits in late 2011, HUD's Office of Fair Housing and Equal Opportunity ("HUD FHEO") purportedly reviewed the City's compliance with the Americans With Disabilities Act ("ADA") and other federal accessibility laws as part of HUD FHEO's oversight of the City's receipt of federal funds from HUD, which the City uses to fund housing developments.

On August 2, 2019, the City and HUD entered into a Voluntary Compliance Agreement ("VCA"). The VCA addresses the same alleged deficiencies and

conduct underlying DOJ's claims against the City in connection with its compliance certifications under the FCA. Under the VCA, the City committed to spend no less than \$20 million per year for the next ten years to correct accessible deficiencies in its City funded housing developments to the extent such remediation costs are not covered under the *Independent Living* settlement discussed below. As a result of the City's execution of the VCA, the Civil Rights Division of DOJ has notified the City that it has terminated its investigation of the City's alleged noncompliance with federal accessibility laws.

Independent Living Center of Southern California, et al. v. City of Los Angeles

This case was brought by three fair housing advocacy organizations against the City, CRA/LA, and 34 owners of affordable housing projects. The City settled the matter with the plaintiffs on August 30, 2016. Under the terms of the settlement, the City will spend approximately \$200 million dollars over 10 years to provide 4,000 additional housing units compliant with federal accessibility requirements. To reach this goal, the City will either remediate existing housing units that are not currently in compliance with federal accessibility requirements or construct new housing units compliant with federal accessibility requirements. The City also agreed to pay the following: (a) \$4.5 million in damages to the plaintiffs, (b) \$16 million in attorneys' fees, (c) approximately \$750,000 in plaintiffs attorneys' costs, and (d) \$6,000,000 in court appointed monitor fees. The terms under this settlement agreement largely overlap with the construction and remediation obligations, required of the City under the VCA described above. However, to account for additional costs associated with the monitoring of the terms of the settlement, in late 2019 the court required the parties to meet and confer on increasing these fees. In October 2020, the City Council approved an additional increase in the court-appointed monitor fee of \$606,000 for the initial three years of the ten-year settlement term. The cost of this increase to the City is partially offset by \$427,000 in savings from Fiscal Year 2018-19. In October 2020, the City Council also approved an additional \$3,578,000 in attorneys' fees for monitoring the last seven years of the settlement term.

2. *Clear Channel Outdoor, Inc.*

Clear Channel filed a Claim for Damages, dated February 1, 2018, for an amount in excess of \$100 million arising from a federal appellate court decision invalidating a settlement agreement between the City and certain outdoor advertising companies (the "Summit Media Decision"). The claim alleges: (i) violation of the City's representations and warranties in the settlement agreement that the conversions of its existing signs to digital technology did not violate the City's regulations, and that (ii) just compensation is due under the California Outdoor Advertising Act. The City denied the claim by letter dated March 1, 2018. The parties entered into another tolling agreement extending the term to August 1, 2022. Unless the tolling agreement is extended again, the statute of limitation will begin to run starting August 1, 2022.

3. *CBS Outdoor.*

CBS Outdoor filed a Claim for Damages on May 13, 2013, for an amount stated to be in excess of \$1 million arising from the Summit Media Decision, for damages, lost revenue, attorneys' fees, restitution and costs. The City denied the Claim by letter dated June 8, 2013. The parties' most recent tolling expired on January 1, 2020. CBS Outdoor has four years to file suit. A suit has yet to be filed.

4. *Brewster v. City of Los Angeles.*

On or about November 2, 2014, plaintiffs filed a putative class action in Federal District Court for damages pursuant to 42 U.S.C. § 1983. The complaint alleged that the City violated the plaintiffs' rights under the Fourth Amendment of the U.S. Constitution, and related state laws, by impounding vehicles without a warrant for 30 days pursuant to Vehicle Code section 14602.6.

On December 26, 2014, the City filed a motion to dismiss the plaintiffs' complaint. The Federal District Court granted the City's motion to dismiss the complaint on March 19, 2015. Plaintiffs appealed the Federal District Court's dismissal to the Ninth Circuit Court of Appeals. On June 21, 2017, the Ninth Circuit Court of Appeals reversed the District Court's decision to dismiss the complaint. The City sought review of the Ninth's Circuit's decision with the U.S. Supreme Court. On March 19, 2018, the U.S. Supreme Court denied the City's request. The District Court heard arguments on the motion for class certification on September 21, 2020. On August 5, 2021, the District Court granted plaintiff's motion for class certification, in part and denied in part. The District Court certified two classes and denied the certification of a third. Plaintiffs' filed a motion of reconsideration with respect to the third class on August 17, 2021. On September 24, 2021, the District Court granted plaintiff's motion to file a renewed motion for certification of the third class by October 25, 2021. The plaintiffs filed their renewal motion on October 21, 2021. In the event the third class is certified, the potential liability could increase the City exposure from \$18 million (from the certification of the two classes) to approximately \$75 million to \$100 million. The City is contesting the renewal motion for certification of the third class and the certification of the other two classes.

5. *Blue Cross of America v. City of Los Angeles.*

On March 30, 2017, Blue Cross filed a protective tax refund complaint of business taxes paid for tax year 2015, under Article XIII, Section 28 of the California Constitution. In October 2017, Blue Cross filed a supplemental claim (together with the 2017 complaint, the "Blue Cross Action") seeking additional refunds of business taxes paid for tax years 2016, 2017, 2018 and 2019. Blue Cross' protective refund action arises out of a separate action in Los Angeles County Superior Court, entitled *Michael D. Myers v. State Board of Equalization, et al.* (BS143436) ("Myers"). *Myers* proceeded under a California statute that permitted an individual taxpayer to sue a governmental agency when the taxpayer believes the agency has failed to enforce governing law.

One of the issues to be resolved in *Myers* is whether Blue Cross is an "insurer" for purposes of California tax law and therefore required to pay a gross premiums tax in lieu of a corporate franchise tax. Following an adverse appellate court ruling,

which concluded that the matter should be first adjudicated at the trial court, on April 2, 2019, Blue Cross filed a request to the California Supreme Court to resolve the question of whether Blue Cross is an “insurer” under the California Constitution. The California Supreme Court denied the appeal on May 15, 2019. Due to COVID-19, the trial was rescheduled from July 2020 to January 2021. On February 21, 2021, the trial court, in a judgment, determined that Blue Cross was not an “insurer”. On March 21, 2021, the plaintiffs filed a notice of appeal. The plaintiffs’ appeal was denied and the matter is before the trial court for further pleadings. In the event that Blue Cross is determined to be an “insurer” upon final adjudication of the issue, it would likely be entitled to a refund of previously paid City business taxes. The refund is estimated to be approximately \$55 million (inclusive of interest), as computed through the end of 2021, plus attorney’s fees.

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

On September 27, 2017, the plaintiffs filed a class action claim in Superior Court alleging the franchise fee collected by the City from private commercial waste haulers for the rights to service commercial and multi-family buildings should be treated as a tax under Proposition 218, and therefore required voter approval. The plaintiffs asserted two causes of action: (1) a refund of the franchise fees; and (2) a declaration that the franchise fees are taxes. On November 2, 2020, the City filed a motion for summary judgment on both causes of action; that same date, the plaintiffs filed a motion for summary adjudication of the second cause of action. On March 16, 2021, the Court granted the City's motion for summary judgment, holding that the plaintiffs lacked standing to bring both causes of action. On the same date, the Court also denied the plaintiffs' motion for summary adjudication. On April 6, 2021, judgment was entered in the City's favor. On June 2, 2021, the plaintiffs' filed a notice of appeal.

7. *LA Alliance for Human Rights et al. v. City of Los Angeles et al.*

On March 10, 2020, the plaintiffs filed suit against the City of Los Angeles (“City”) and the County of Los Angeles (“County”) for violating various State and Federal laws in connection with homeless individuals. The plaintiffs contend that the County and the City have not made sufficient progress in providing housing and other services to the homeless population. Such failure has resulted in impassable sidewalks and exposed the public to health risks, environmental hazards, increased crime, and untreated mental illness and addiction. The plaintiffs demand that the Defendants provide immediate shelter for all homeless individuals to abate the degradation of the cities and communities.

On May 15, 2020, the US District Court of Central District of California (“District Court”) issued a preliminary injunction requiring the City and the County to relocate and shelter approximately 6,000 to 7,000 homeless individuals living near freeway overpasses, underpasses, and ramps. Of that number, approximately 3,000 to 4,000 were found in the City. Under the order, the City, together with the County, were required to shelter or provide alternative housing to these homeless individuals in facilities that were safe, humane, hygienic, and public health compliant. The injunction was to be effective on May 22, 2020. The District Court stayed its order on May 22, 2020 pending the review of an alternative shelter and

relocation plan submitted by the City and County. On June 18, 2020, the City and County entered into an agreement to memorialize an alternative shelter and relocation plan, subject to court approval and monitoring. Under the agreement, the City agreed to provide 6,700 shelter beds, permanent supporting housing units, safe parking spaces and other interventions (collectively, “beds” or “interventions”) to shelter homeless individuals. Of that number, 6,000 would be additional new beds to be available from the date of the agreement, as follows: 5,300 beds within 10 months and 700 beds within 18 months. On June 18, 2020, the District Court approved the agreement and vacated the preliminary injunction. As of December 31, 2021, the City opened 6,566 new beds and 754 other interventions from existing agreements.

A preliminary estimate of the capital cost to the City for providing the 6,700 beds is \$200 million. The City estimates that the annual cost of operations and services for this population is \$104 million, of which the County has agreed to pay the City approximately \$60 million per year for five years. The City has committed to fund the remaining half of the estimated annual operations and services costs. Such costs will total approximately \$300 million over five years. While the City anticipates that all of these obligations will be financed in 2021-22 with COVID-related federal and State funds, and County funds for services, in future years these obligations could result in additional expenditures from the City’s General Fund.

On April 1, 2022, the City and the plaintiffs filed a notice with the District Court indicating they had reached a potential settlement framework. The City and the plaintiffs intend to further negotiate and execute a settlement agreement to be approved by the City Council, the Mayor and the District Court, after which the City would be dismissed from the litigation. Under the proposed settlement, the City would agree to create shelter or housing to accommodate 60 percent of unsheltered persons experiencing homelessness (PEH) in the City. As in the City’s June 18, 2020 settlement, the City may choose, at its sole discretion, any housing or shelter solution, including but not limited to tiny homes; shared housing; purchased or master leased apartments, hotels/motels, or other buildings; congregate shelters; permanent supporting housing; rental assistance/rapid rehousing; family reunification; sprung structures or tents; safe parking; safe sleeping/camping; interim housing, etc. The 60 percent of PEH will be measured against Los Angeles Homeless Services Authority’s (“LAHSA”) 2022 Point In Time Count (the annual census of PEH which is still in progress), who can reasonably be assisted by the City (meaning such persons do not suffer from serious mental illness and are not chronically homeless with a substance use disorder or chronic physical illness or disability requiring the need for professional medical care and support) over a five year time period. Based on LAHSA’s 2020 count, such proposed settlement framework could require approximately 13,000 new beds for which total capital and operating costs could be as high as \$3 billion during the five year period. Such estimates do not include the new beds that were agreed to be provided, or related costs, under the City’s June 18, 2020 agreement.

The majority of the funding under this proposed settlement framework is expected to be provided by the City’s Proposition HHH general obligation bonds and other available funding. Any additional financing that would be needed has yet to be

identified, but could come from other government sources including the County, State, and federal agencies. The City cannot provide any assurances that the proposed settlement will not be challenged or that it will be approved by the District Court. If the proposed settlement is not approved, the District Court case would continue to proceed, as modified by the amended complaint which was filed on October 29, 2021.

8. *Black Lives Matter et al. v. City of Los Angeles et al.*

On or about July 7, 2020, the City was served with a class action lawsuit alleging that the Los Angeles Police Department violated the Federal and State Constitutional rights of protestors and rioters during its response to quell civil unrest in late May and early June 2020. The protests and riots were part of the nationwide movement following the deaths of George Floyd, from the actions of four officers of the Minneapolis Police Department, and Breonna Taylor, shot by Louisville Metro Police Department officers. The lawsuit was filed in Federal District Court. The lawsuit seeks class certification, injunctive relief and unspecified damages. The court issued an injunction against the City which limited LAPD's use to less lethal munitions in public protest situations. Trial is scheduled for February 28, 2023. Due to the preliminary nature of the lawsuit, an estimable amount of liability cannot be determined.

9. *GHP Management et al. v. City of Los Angeles et al.*

On August 27, 2021, the City was served with a lawsuit, in District Court, that alleges that the City's COVID-19 eviction moratorium constituted an uncompensated governmental taking in violation of the U.S. and California Constitutions. The moratorium, plaintiffs claim, has permitted their tenants to abstain from remitting any rental payments while continuing to reside in the rental units. They seek damages in the form of unpaid rents, interest, and attorneys' fees. The City filed a motion to dismiss the complaint on October 18, 2021, and a hearing for the motion was heard on January 24, 2022, and a ruling is pending. At this time, due to the preliminary nature of the lawsuit, an estimable liability amount cannot be determined.

10. *Paola French and Russell French v. City of Los Angeles et al.*

On April 1, 2020, the plaintiffs filed a wrongful death and battery action, amongst other claims, based on both federal and state law against the City of Los Angeles and Salvador Sanchez, a former LAPD officer, in Federal District Court. The suit arose from actions taken by Salvador Sanchez, who was off-duty and shopping with his family, inside a Costco located in Corona, California, which led to the death of the plaintiffs' son, Kenneth French, and severe injuries to the plaintiffs, following an incident inside the Costco between Kenneth French and Salvador Sanchez. The incident prompted Salvador Sanchez to remove a concealed, personal handgun from his waistband and shoot Kenneth French and the plaintiffs. Kenneth French died as a result of his gunshot wounds and the plaintiffs suffered significant injuries from their gunshot wounds. On October 27, 2021, following a six-day trial, the jury awarded the plaintiffs approximately \$17.5 million, of which the City is potentially responsible for approximately \$13.5 million. The City is presently

weighing its options of appeal on the issues of course and scope of employment and damages.

11. *Artura Aceves Jimenez v. City of Los Angeles et al.*

In 1995, the plaintiff, at age 19, was convicted for murder in connection with a gang-related shooting. The plaintiff maintained his innocence. A post-conviction investigation into the murder allegedly revealed the identity of the real killer and that the prosecution's only identifying eyewitness was allegedly pressured into making an erroneous identification. Further, it is alleged that another eyewitness excluded plaintiff as the killer. Based on this evidence, after more than 25 years of alleged wrongful incarceration, the Los Angeles County District Attorney's Office conceded that the plaintiff's conviction was unconstitutional, and the Superior Court vacated his conviction and issued a finding of factual innocence. Following his release, on September 2, 2021, the plaintiff sued the City, together with other parties, for wrongful incarceration in Federal District Court. The plaintiff alleges that because of the alleged wrongdoing of an LAPD detective, the plaintiff was wrongfully convicted of murder. The trial is scheduled for July 2022.

12. *Akili et al. v. City of Los Angeles et al.*

In late November/early December of 2020, plaintiffs held daily protests in front of the Mayor's Mansion, calling on then president-elect Joe Biden not to appoint Mayor Garcetti to his cabinet in light of the Mayor's policies on homelessness and transportation. LAPD personnel were present at all daily protests, but took no actions against any protester until December 6, 2020. Plaintiffs claim that on December 6, 2020, premised on an alleged violation of a municipal noise ordinance, LAPD officers unlawfully attempted to disperse a crowd (prior to giving a dispersal order) using batons in a manner inconsistent with their use of force policy with respect to batons, resulting in head strikes and other serious injuries. Plaintiffs further claim that LAPD has a pattern and practice of such constitutionally unlawful and excessive uses of force. One person was arrested on that date. In the event of an adverse ruling, liability could be approximately \$10 million.

In addition to the cases listed above, the following lawsuit has been filed challenging the City's actions relative to freezing OPEB Benefits for sworn employees. See "BUDGET AND FINANCIAL OPERATIONS—Retirement and Pension Systems—Fire and Police Pension Plan," above.

1. *Los Angeles Police Protective League and United Firefighters of Los Angeles City v. Board of Fire and Police Pension Commissioners v. City of Los Angeles.*

In this case plaintiffs seek a judgment declaring that their letter of agreement with the City requires the Retirement Board to increase the retirees' medical subsidy by the maximum amount allowable per year under the Administrative Code. The City prevailed on a demurrer, but the Court of Appeal reversed and issued a remitter, sending the case back to the trial court to resolve disputed factual issues. A bench trial occurred from September 26 to September 28, 2016. Following the bench trial, the court issued a tentative decision in favor of the plaintiffs. In November 2016, the trial court ruled in favor of the plaintiffs' claim with respect to the medical subsidy. The City appealed the trial court ruling. On October 30, 2018, the

appellate court reversed the trial court and ordered that the case be remanded for a new trial.

On August 10, 2017, the Los Angeles Police Protective League filed an additional lawsuit against the Board of Police Pension Commissioners and the City in Los Angeles County Superior Court. The complaint, as supplemented, alleges that the Board should have raised the retiree subsidy to the maximum amount of 7 percent for the fiscal year beginning July 1, 2017 rather than the 6 percent then awarded and for the fiscal years thereafter. This case has been consolidated with the case discussed above. In October 2021, the court conducted a three day trial. A ruling may be issued in the spring or summer of 2022. In the event of an adverse ruling, which is reasonably possible, a special study would need to be conducted by the LAFPP Plan actuary in order to quantify the costs of the annual subsidy increase.

PART 2: HISTORIC, ECONOMIC AND DEMOGRAPHIC INFORMATION

Introduction

The City of Los Angeles is the second most populous city in the United States, with an estimated 2021 population of 3.92 million. Los Angeles is the principal city, comprised of 470 square miles, of a metropolitan region stretching from the City of Ventura to the north, the City of San Clemente to the south, the City of San Bernardino to the east, and the Pacific Ocean to the west.

The economic and demographic information below is provided as general background. Although it has been collected from sources that the City considers to be reliable, the City has made no independent verification of the information provided by non-City sources and the City takes no responsibility for the completeness or accuracy thereof. The current state of the economy of the City, State of California and the United States of America may not be reflected in the data discussed below, because more up-to-date information is not publicly available. In particular, the impact of the COVID-19 pandemic on the local economy and workforce is not reflected in the information within.

History

Founded in 1781, Los Angeles was for its first century a provincial outpost under successive Spanish, Mexican and American rule. Incorporated in 1850 under the provisions of a City Charter, the City experienced a population boom following its linkage by rail with San Francisco in 1876. Los Angeles was selected as the Southern California rail terminus because its natural harbor seemed to offer little challenge to San Francisco, home of the railroad barons. But what the region lacked in commerce and industry, it made up in temperate climate and available real estate, and soon tens and then hundreds of thousands of people living in the Northeastern and Midwestern United States migrated to new homes in the region. Agricultural and oil production, followed by the creation of a deep-water port, the opening of the Panama Canal, and the completion of the City-financed Owens Valley Aqueduct to provide additional water, all contributed to an expanding economic base. The City's population climbed to 50,000 persons in 1890, and then swelled to 1.5 million persons by 1940. During this same period, the automobile became the principal mode of American transportation, and the City developed as the first major city of the automotive age. Following World War II, the City became the focus of a new wave of migration, with its population reaching 2.4 million persons by 1960.

The City and its surrounding metropolitan region continued to experience growth in population and in economic diversity. The City's 470 square miles contain 11.5 percent of the area of the County of Los Angeles, California (the "County") and approximately 39 percent of the population of the County. Tourism and hospitality, professional and business services, direct international trade, entertainment (including motion picture and television production), and wholesale trade and logistics all contribute significantly to local employment. Emerging industries are largely technology driven, and include biomedical technology, digital information technology, environmental technology and aerospace. The County is a top-ranked county in manufacturing in the nation. Important manufacturing components of local industry include apparel, computer and electronic components, transportation equipment, fabricated metal, and food processing. Fueled by trade with the Pacific Rim countries, the Ports of Los Angeles and Long Beach combined are

the busiest container ports in the nation. As home to the film, television and recording industries, as well as important cultural facilities, the City serves as a principal global cultural center.

Population

The table below summarizes City, County, and State population, estimated as of January 1 of each year.

Table 52
CITY, COUNTY AND STATE POPULATION STATISTICS

	City of <u>Los Angeles</u>	Annual <u>Growth Rate⁽¹⁾</u>	County of <u>Los Angeles</u>	Annual <u>Growth Rate⁽¹⁾</u>	State of <u>California</u>	Annual <u>Growth Rate⁽¹⁾</u>
2000	3,694,742	-	9,519,330	-	33,873,086	-
2005 ⁽¹⁾	3,769,131	0.40%	9,816,153	0.62%	35,869,173	1.18%
2010 ⁽¹⁾	3,792,621	0.12	9,818,605	0.00	37,253,956	0.77
2015 ⁽¹⁾	3,938,939	0.77	10,124,800	0.62	38,865,532	0.87
2016	3,958,803	0.50	10,150,386	0.25	39,103,587	0.61
2017	3,984,916	0.66	10,181,162	0.30	39,352,398	0.64
2018	3,996,298	0.29	10,192,593	0.11	39,519,535	0.42
2019	3,986,031	(0.26)	10,163,139	(0.29)	39,605,361	0.22
2020	3,975,234	(0.27)	10,135,614	(0.27)	39,648,938	0.11
2021	3,923,341	(1.31)	10,044,458	(0.90)	39,466,865	(0.46)

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

Source: State of California, Department of Finance, E-4 Population Estimates for Cities, Counties and the State, 2001-2010, with 2000 and 2010 Census Counts, Sacramento, California, November 2012. State of California, Department of Finance, E-4 Population Estimates for Cities, Counties, and the State, 2011-2021, with 2010 Census Benchmark. Sacramento, California, May 7, 2021.

Industry and Employment

The following table summarizes the average number of employed and unemployed residents of the City and the County, based on the annual “benchmark,” an annual revision process in which monthly labor force and payroll employment data, which are based on estimates, are updated based on detailed tax records. The “benchmark” data is typically released in March for the prior calendar year.

Table 53
ESTIMATED AVERAGE ANNUAL EMPLOYMENT AND
UNEMPLOYMENT OF RESIDENT LABOR FORCE⁽¹⁾

Civilian Labor Force	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
City of Los Angeles					
Employed	1,969,500	1,984,800	2,009,100	1,789,500	1,868,800
Unemployed	<u>100,000</u>	<u>96,100</u>	<u>93,000</u>	<u>252,800</u>	<u>181,600</u>
Total	2,069,500	2,081,000	2,102,100	2,042,300	2,050,400
County of Los Angeles					
Employed	4,864,100	4,885,300	4,926,100	4,355,900	4,548,900
Unemployed	<u>245,700</u>	<u>235,900</u>	<u>227,000</u>	<u>613,000</u>	<u>445,200</u>
Total	5,109,800	5,121,200	5,153,100	4,968,900	4,994,100
Unemployment Rates					
City	4.8%	4.6%	4.4%	12.4%	8.9%
County	4.8%	4.6%	4.4%	12.3%	8.9%
State	4.8%	4.3%	4.1%	10.2%	7.3%
United States	4.4%	3.9%	3.7%	8.1%	5.3%

⁽¹⁾ March 2021 Benchmark report as of March 25, 2022; not seasonally adjusted.

Note: Based on surveys distributed to households; not directly comparable to Industry Employment data reported in Table 54.

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

The COVID-19 pandemic caused an unprecedented loss of jobs and an increase in unemployment. Unemployment for the City for April 2020 was 20.7 percent, increased from 5.5 percent in March (not seasonally adjusted). The previous high in unemployment was 12.3 percent at the height of the Great Recession in 2010. The California Employment Development Department has reported preliminary unemployment figures for March 2022 of 4.2 percent statewide, 4.9 percent for the County, and 5.0 percent for the City (not seasonally adjusted).

The following table summarizes the California Employment Development Department’s estimated annual employment for the County as of March 2020 (prior to the pandemic), which includes full-time and part-time workers who receive wages, salaries, commissions, tips, payment-in-kind, or piece rates. Separate figures for the City are not maintained. Percentages indicate the percentage of the total employment for each type of employment for the given year. For purposes of comparison, the most recent employment data for the State is also summarized.

Table 54
LOS ANGELES COUNTY
ESTIMATED INDUSTRY EMPLOYMENT AND LABOR FORCE⁽¹⁾

	County of Los Angeles <u>2021</u>	% of <u>Total</u>	State of California <u>2021</u>	% of <u>Total</u>
Agricultural	4,600	0.1%	407,500	2.3%
Mining and Logging	1,600	0.0	19,000	0.1
Construction	149,800	3.5	880,300	5.1
Manufacturing	311,700	7.3	1,273,200	7.4
Trade, Transportation and Utilities	817,600	19.0	3,031,700	17.7
Information	213,200	5.0	566,500	3.3
Financial Activities	210,800	4.9	823,100	4.8
Professional and Business Services	629,500	14.6	2,702,100	15.8
Educational and Health Services	839,600	19.5	2,809,100	16.4
Leisure and Hospitality	429,300	10.0	1,632,600	9.5
Other Services	134,100	3.1	500,700	2.9
Government	<u>558,200</u>	13.0	<u>2,469,200</u>	14.4
Total ⁽²⁾	4,300,000		17,115,600	

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

⁽²⁾ May not add due to rounding.

Note: Based on surveys distributed to employers; not directly comparable to Civilian Labor Force data reported in Table 53.

Source: California Employment Development Department, Labor Market Information Division. Based on March 2021 Benchmark report released March 25, 2022.

Major Employers

The estimated top 25 major non-governmental employers in the County in 2021 are listed in the table below. Separate estimates for the City are not available. Based on these estimates, the top 25 major non-governmental employers represented 7.5 percent of the labor force.

Table 55
LOS ANGELES COUNTY
2021 MAJOR NON-GOVERNMENTAL EMPLOYERS

<u>Employer</u>	<u>Product/Service</u>	<u>Employees</u>
Kaiser Permanente	Nonprofit health care plan	40,876
University of Southern California	Private university	22,465
Target Corp.	Retailer	20,000 ⁽¹⁾
Northrop Grumman Corp.	Defense contractor	18,000 ⁽¹⁾
Cedars-Sinai	Health system	16,309
Amazon	Online retailer	16,200 ⁽¹⁾
Allied Universal	Security professionals	15,326
Providence	Health care	14,935
Ralphs/Food 4 Less – Kroger Co.	Grocery retailer	14,585
Walt Disney Co.	Media and entertainment	12,200 ⁽¹⁾
Boeing Co.	Aerospace and defense, commercial jetliners, space and security systems	12,005 ⁽¹⁾
UPS	Logistics, transportation and freight	11,643 ⁽¹⁾
Home Depot	Home improvement specialty retailer	11,200 ⁽¹⁾
NBCUniversal	Media and entertainment	11,000 ⁽¹⁾
AT&T	Telecommunications, DirecTV, cable, satellite and television provider	10,500 ⁽¹⁾
Albertsons Cos.	Grocery retailer	9,700 ⁽¹⁾
California Institute of Technology	Private university, operator of Jet Propulsion Laboratory	8,988
Edison International	Electric utility, energy services	7,672
ABM Industries Inc.	Facility services, energy solutions, commercial cleaning, maintenance and repair	7,400 ⁽¹⁾
City of Hope	Treatment and research center for cancer, diabetes and other life-threatening diseases	7,143
Wells Fargo & Co.	Diversified financial services	7,075 ⁽¹⁾
FedEx Corp.	Shipping and logistics	6,750 ⁽¹⁾
Children's Hospital Los Angeles	Hospital	6,405
Raytheon Intelligence & Space	Advanced sensors, training cyber and software solutions	6,133
Dignity Health	Health care	6,118

⁽¹⁾ Business Journal estimate.

Source: Los Angeles Business Journal, Weekly Lists, originally published October 11, 2021.

The estimated top 25 major governmental employers in the County in 2021 are listed in the table below. Separate estimates for the City are not available. Based on these estimates, the top 25 major governmental employers represented 9.8 percent of the labor force.

Table 56
LOS ANGELES COUNTY
2021 LARGEST PUBLIC SECTOR EMPLOYERS

<u>Employers</u>	<u>Employees</u>
Los Angeles County	111,800
Los Angeles Unified School District	75,676
Federal Executive Board ⁽¹⁾	50,000
University of California, Los Angeles	46,130
City of Los Angeles ⁽²⁾	32,500
State of California ⁽³⁾	29,100
Long Beach Unified School District	11,267
Los Angeles County Metropolitan Transportation Authority	9,115
Los Angeles Department of Water and Power	8,770
Los Angeles Community College District	6,623
City of Long Beach	4,700
Cal State Northridge	3,933
Los Angeles World Airports	3,050
Pomona Unified School District	2,840
Cal Poly Pomona	2,675
Cal State Los Angeles	2,644
Cal State Long Beach	2,615
Montebello Unified School District	2,320
Mt. San Antonio Community College District	2,021
Compton Unified School District	1,992
City of Glendale	1,980
City of Santa Monica	1,900
William S. Hart Union High School District	1,900
City of Pasadena	1,795
Santa Monica Community College District	1,768

⁽¹⁾ Excludes law enforcement and judiciary employees.

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

⁽³⁾ Excludes education employees.

Source: Los Angeles Business Journal, Weekly Lists, originally published October 11, 2021.

Personal Income

The U.S. Census Bureau defines personal income as the income received by all persons from all sources, and is the sum of “net earnings,” rental income, dividend income, interest income, and transfer receipts. “Net earnings” is defined as wages and salaries, supplements to wages and salaries, and proprietors’ income, less contributions for government social insurance, before deduction of personal income and other taxes.

The following table summarizes the latest available estimate of personal income for the County, State and United States; equivalent data is not available for the City.

Table 57
COUNTY, STATE AND U.S.
PERSONAL INCOME

Year and Area	Personal Income (thousands of dollars)	Per Capita Personal Income ⁽¹⁾ (dollars)
2017		
County ⁽²⁾	\$ 580,826,819	\$57,551
State ⁽³⁾	2,318,644,417	58,942
United States ⁽³⁾	16,845,028,000	51,573
2018		
County ⁽²⁾	\$ 602,428,812	\$59,874
State ⁽³⁾	2,431,821,953	61,663
United States ⁽³⁾	17,681,159,000	53,817
2019		
County ⁽²⁾	\$ 631,161,849	\$63,043
State ⁽³⁾	2,544,234,978	64,513
United States ⁽³⁾	18,402,004,000	55,724
2020		
County ⁽²⁾	\$ 678,829,092	\$68,272
State ⁽³⁾	2,763,311,977	70,192
United States ⁽³⁾	19,607,447,000	59,147
2021		
County	N/A	N/A
State ⁽³⁾	\$ 2,997,205,600	\$76,386
United States ⁽³⁾	21,056,621,900	63,444

⁽¹⁾ Per capita personal income was computed using Census Bureau midyear population estimates. Per capita personal income is total personal income divided by total midyear population. Estimates for 2010-2020 reflect county population estimates available as of March 2021. These population estimates are based on the 2010 census. BEA will incorporate Census Bureau midyear population estimates based on the 2020 census results when they become available.

⁽²⁾ Last updated: November 16, 2021 – new statistics for 2020; revised statistics for 2016 – 2019.

⁽³⁾ Last updated: March 23, 2022 – preliminary statistics for 2021; revised statistics for 2017 – 2020.

Source: U.S. Bureau of Economic Analysis, “Table SAINC1: Personal Income Summary” and “Table CAINC1: Personal Income Summary” (accessed March 23, 2022).

Retail Sales

As the largest city in the County, the City accounted for \$39.7 billion (or 25 percent) of the total \$155.7 billion in County taxable sales for 2020. The following table sets forth a history of taxable sales for the City for calendar years 2016 through 2020.

Table 58
CITY OF LOS ANGELES
TAXABLE SALES
(in thousands)

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Motor Vehicle and Parts Dealers	\$ 4,769,093	\$ 4,622,056	\$4,953,943	\$4,920,618	\$4,585,480
Home Furnishings and Appliance Stores	1,945,181	1,961,481	1,994,456	1,879,295	1,523,470
Bldg. Materials and Garden Equip. and Supplies	2,384,196	2,473,704	2,604,997	2,633,786	2,774,916
Food and Beverage Stores	2,781,424	2,909,253	2,965,281	3,003,306	3,045,666
Gasoline Stations	3,670,451	3,973,137	4,577,433	4,634,896	2,903,295
Clothing and Clothing Accessories Stores	3,201,152	3,211,811	3,358,528	3,392,114	2,302,122
General Merchandise Stores	2,812,550	2,858,495	2,901,449	2,908,563	2,494,747
Food Services and Drinking Places	8,775,092	9,273,985	9,704,572	10,214,928	6,320,584
Other Retail Group	<u>4,229,201</u>	<u>4,292,007</u>	<u>4,582,036</u>	<u>4,686,277</u>	<u>4,462,925</u>
Total Retail and Food Services	34,568,339	35,575,932	37,642,695	38,273,783	30,413,205
All Other Outlets	<u>10,624,426</u>	<u>11,140,929</u>	<u>11,862,801</u>	<u>11,900,668</u>	<u>9,241,031</u>
TOTAL ALL OUTLETS	\$45,192,765	\$46,716,861	\$49,505,496	\$50,174,451	\$39,654,236
Year-over-year growth	2.5%	3.4%	6.05%	1.4%	(21.0%)

Source: California Department of Tax and Fee Administration, Research and Statistics.

Land Use

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

Table 59
CITY OF LOS ANGELES
ASSESSED VALUATION AND PARCELS BY LAND USE

	2021-22 Assessed Valuation ⁽¹⁾	% of Total	No. of Parcels	% of Total
Non-Residential				
Commercial Office	\$ 99,479,806,013	14.18%	26,214	3.36%
Vacant Commercial	2,411,441,436	0.34	1,329	0.17
Industrial	45,798,520,681	6.53	17,694	2.27
Vacant Industrial	1,952,747,009	0.28	4,115	0.53
Recreational	2,697,996,471	0.38	790	0.10
Government/Social/Institutional	4,025,036,089	0.57	3,701	0.47
Miscellaneous	<u>376,223,984</u>	<u>0.05</u>	<u>1,803</u>	<u>0.23</u>
Subtotal Non-Residential	\$156,741,771,683	22.35%	55,646	7.13%
Residential				
Single Family Residence	\$374,334,075,716	53.37%	503,701	64.50%
Condominium/Townhouse	45,834,858,933	6.53	89,666	11.48
Mobile Homes and Lots	174,681,616	0.02	3,450	0.44
Mobile Home Park	245,888,787	0.04	93	0.01
2-4 Residential Units	36,796,040,685	5.25	74,932	9.59
5+ Residential Units/Apartments	84,025,603,719	11.98	35,512	4.55
Vacant Residential	<u>3,301,184,220</u>	<u>0.47</u>	<u>17,984</u>	<u>2.30</u>
Subtotal Residential	\$544,712,333,676	77.65%	725,338	92.87%
Total	\$701,454,105,359	100.00%	780,984	100.00%

⁽¹⁾ Local Secured Assessed Valuation, excluding tax-exempt property.

Source: California Municipal Statistics, Inc.

Residential Value and Construction Activity

The following table indicates the array of assessed valuation for single-family residential properties in the City.

Table 60
CITY OF LOS ANGELES
PER PARCEL ASSESSED VALUATION OF SINGLE-FAMILY RESIDENTIAL PROPERTIES

	<u>No. of Parcels</u>	<u>2021-22 Assessed Valuation</u>	<u>Average Assessed Valuation</u>	<u>Median Assessed Valuation</u>
Single Family Residential Properties	503,701	\$374,334,075,716	\$743,167	\$409,411

<u>2021-22 Assessed Valuation</u>	<u>No. of Residential Parcels ⁽¹⁾</u>	<u>% of Total</u>	<u>Cumulative % of Total</u>	<u>Total Valuation</u>	<u>% of Total</u>	<u>Cumulative % of Total</u>
\$0 - \$49,999	6,435	1.278%	0.178%	\$ 225,186,390	0.060%	0.060%
\$50,000 - \$99,999	15,478	3.073	4.350	1,163,094,310	0.311	0.371
\$100,000 - \$149,999	17,847	3.543	7.894	2,234,658,564	0.597	0.968
\$150,000 - \$199,999	28,872	5.732	13.626	5,087,361,888	1.359	2.327
\$200,000 - \$249,999	36,916	7.329	20.954	8,308,388,792	2.220	4.546
\$250,000 - \$299,999	43,021	8.541	29.495	11,810,210,962	3.155	7.701
\$300,000 - \$349,999	50,184	9.963	39.459	16,303,175,712	4.355	12.057
\$350,000 - \$399,999	49,281	9.784	49.242	18,470,666,643	4.934	16.991
\$400,000 - \$449,999	26,509	5.263	54.505	11,260,599,056	3.008	19.999
\$450,000 - \$499,999	28,936	5.745	60.250	13,736,960,896	3.670	23.669
\$500,000 - \$549,999	28,655	5.689	65.939	15,034,447,505	4.016	27.685
\$550,000 - \$599,999	26,816	5.324	71.263	15,404,531,648	4.115	31.800
\$600,000 - \$649,999	19,684	3.908	75.170	12,290,709,284	3.283	35.084
\$650,000 - \$699,999	15,329	3.043	78.214	10,331,929,948	2.760	37.844
\$700,000 - \$749,999	12,841	2.549	80.763	9,299,593,451	2.484	40.328
\$750,000 - \$799,999	11,916	2.366	83.129	9,222,161,796	2.464	42.792
\$800,000 - \$849,999	10,053	1.996	85.125	8,285,370,957	2.213	45.005
\$850,000 - \$899,999	8,677	1.723	86.847	7,582,561,313	2.026	47.031
\$900,000 - \$949,999	7,389	1.467	88.314	6,826,926,159	1.824	48.854
\$950,000 - \$999,999	6,354	1.261	89.576	6,191,038,962	1.654	50.508
\$1,000,000 and greater	<u>52,508</u>	<u>10.424</u>	100.000	<u>185,264,501,480</u>	<u>49.492</u>	100.000
Total	503,701	100.000%		\$374,334,075,716	100.000%	

⁽¹⁾ Improved single-family residential parcels. Excludes condominiums and parcels with multiple family units.

Source: California Municipal Statistics, Inc.

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

Table 61
CITY OF LOS ANGELES
RESIDENTIAL BUILDING PERMIT VALUATIONS AND NEW UNITS

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Valuation ⁽¹⁾	\$7,924	\$8,654	\$8,520	\$6,285	\$6,091
Residential ⁽²⁾	3,522	3,940	3,437	2,930	2,743
Non-Residential ⁽³⁾	1,197	1,256	1,091	1,187	871
Miscellaneous Residential ⁽⁴⁾	134	180	173	129	232
Miscellaneous Non-Residential ⁽⁵⁾	87	40	146	46	18
Number of Residential Units:					
Single family ⁽⁶⁾	3,148	3,598	3,739	2,685	3,122
Multi-family ⁽⁷⁾	<u>10,984</u>	<u>12,659</u>	<u>10,693</u>	<u>9,171</u>	<u>10,898</u>
Subtotal Residential Units	14,132	16,257	14,432	11,856	14,020
Number of Non-Residential Units ⁽⁸⁾	630	12	1	0	512
Miscellaneous Residential Units ⁽⁹⁾	4,701	4,614	5,014	3,017	4,664
Miscellaneous Non-Residential Units ⁽¹⁰⁾	100	493	475	257	480
Total Units	19,563	21,376	19,922	15,130	19,676

- (1) In millions of dollars. "Valuation" represents the total valuation of all construction work for which the building permit is issued.
- (2) Valuation of permits issued for Single-Family Dwellings, Duplexes, Apartment Buildings, Hotel/Motels, and Condominiums.
- (3) Valuation of permits issued for Special Permits, Airport Buildings, Amusement Buildings, Churches, Private Garages, Public Garages, Gasoline Service Stations, Hospitals, Manufacturing Buildings, Office Buildings, Public Administration Buildings, Public Utilities Buildings, Retail Stores, Restaurants, School Buildings, Signs, Private Swimming Pools, Theater Buildings, Warehouses, Miscellaneous Buildings/Structures, Prefabricated Houses, Solar Heaters, Temporary Structures, Artists-in-Residence, Foundation Only, Grade – Non-Hillside, Certificates of Occupancy – Use of Land, Grading – Hillside.
- (4) Valuation of permits issued for "Additions Creating New Units – Residential" and "Alterations Creating New Units – Residential."
- (5) Valuation of permits issued for "Additions Creating New Units – Commercial" and "Alterations Creating New Units – Commercial."
- (6) Number of dwelling units permitted for Single-Family Dwellings and Duplexes.
- (7) Number of dwelling units permitted for new Apartment Buildings, Hotel/Motels, and Condominiums.
- (8) Number of dwelling units permitted for Airport Buildings, Amusement Buildings, Churches, Private Garages, Public Garages, Gasoline Service Stations, Hospitals, Manufacturing Buildings, Office Buildings, Public Administration Buildings, Public Utilities Buildings, Retail Stores, Restaurants, School Buildings, Signs, Private Swimming Pools, Theater Buildings, Warehouses, Miscellaneous Buildings/Structures Prefabricated Houses, Solar Heaters, Temporary Structures, Artists-in-Residence.
- (9) Number of dwelling units added includes "Addition Creating New Units – Residential" and "Alterations Creating New Units – Residential."
- (10) Number of dwelling units added includes "Additions Creating New Units – Commercial" and "Alterations Creating New Units – Commercial."

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

Education

The Los Angeles Unified School District ("LAUSD"), a separate government agency and one of the largest employers in the City, administers public instruction for kindergarten through 12th grade ("K-12"), adult, and occupational schools in the City and all or significant portions of a number of smaller neighboring cities and unincorporated areas. The LAUSD, which now encompasses approximately 710 square miles (making it significantly larger than the City at 470 square miles), was formed in 1854 as the Common Schools for the City of Los Angeles and became a unified school district in 1960. The LAUSD is governed by a seven-member Board of Education, elected by the district to serve alternating four-year terms. There are also a number of charter and private K-12 schools located in the City.

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

2. SOLID WASTE RESOURCES REVENUE BONDS

Base CUSIP: 54463P

City of Los Angeles Solid Waste Resources Revenue Bonds, Series 2013-A
City of Los Angeles Solid Waste Resources Refunding Revenue Bonds, Series 2013-B
City of Los Angeles Solid Waste Resources Refunding Revenue Bonds, Series 2015-A
City of Los Angeles Solid Waste Resources Revenue Bonds, Series 2018-A

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In 2006-07, the City changed the name of its Sanitation Equipment Charge to the Solid Waste Collection, Transfer, Recycling, Recovery of Waste Resources and Disposal Fee, and adopted a series of multi-year rate increases intended to more fully recover the cost of refuse collection and disposal. Previously, this activity was heavily subsidized by the City's General Fund.

SOLID WASTE RESOURCES REVENUE BONDS
Rate History

Periods by Fiscal Years	Monthly Charges	
	Single-Family Dwelling Unit	Multi-Family Dwelling Unit
1984-91 ⁽¹⁾	\$ 1.50	\$ 1.00
1991-93 ⁽²⁾	3.00	2.00
1993-94 ⁽³⁾	6.00	4.00
1995-96 ⁽⁴⁾	4.50	3.00
1997-04 ⁽⁵⁾	6.00	4.00
2004 ⁽⁶⁾	10.00	6.60
2005-07 ⁽⁷⁾	11.00	7.27
2007 ⁽⁸⁾	18.00	11.88
2008 ⁽⁹⁾	22.00	14.52
2008-09 ⁽¹⁰⁾	26.00	17.16
2009-21 ⁽¹¹⁾	36.32	24.33

- (1) Established July 21, 1983.
- (2) Increase effective July 5, 1990.
- (3) Increase effective January 20, 1993.
- (4) Decrease effective July 1, 1994.
- (5) Increase effective July 1, 1996.
- (6) Increase effective October 25, 2003.
- (7) Increase effective July 1, 2004.
- (8) Increase effective September 1, 2006.
- (9) Increase effective July 1, 2007.
- (10) Increase effective September 20, 2007.
- (11) Increase effective September 8, 2008.

Source: City of Los Angeles, Bureau of Sanitation.

SOLID WASTE RESOURCES REVENUE BONDS
Department of Water and Power
Billings, Collections and Remittances Solid Waste Fee

<u>Fiscal Year</u>	<u>Billings</u>	<u>Collections</u>	<u>Collection Rate⁽¹⁾</u>	<u>Remittance to City</u>
2010-11	\$272,139,496	\$275,381,471	101.19%	\$276,304,047
2011-12	288,733,227	286,562,787	99.25	281,709,908
2012-13	290,403,456	290,801,586	100.14	291,125,302
2013-14	292,427,811	265,804,255	90.90 ⁽²⁾	267,594,618
2014-15	295,361,246	275,764,833	93.37 ⁽²⁾	270,955,262
2015-16	294,867,611	301,592,386	102.28	311,859,776
2016-17	292,236,428	290,329,008	99.35	286,501,703
2017-18	291,704,750	285,958,865	98.03	284,638,476
2018-19	295,466,824	293,040,492	99.18	289,509,415
2019-20	298,786,775	288,227,468	96.47	293,282,808
2020-21	299,067,650	271,292,559	90.71	268,421,296 ⁽³⁾

⁽¹⁾ The collection rate varies from year to year and may exceed 100% because of differences in the average time taken by customers to pay their bills and differences in the estimations used to calculate remittances of the Solid Waste Fee at fiscal year-end.

⁽²⁾ In Fiscal Year 2013-14, the City's Department of Water and Power (LADWP), who bills this charge on a consolidated utility bill, transitioned to a new customer information system. This transition decreased Operating Cash for Fiscal Years 2013-14 and 2014-15.

⁽³⁾ The drop in collections has been attributed to the COVID-19 pandemic. In response, LADWP implemented a number of temporary measures to assist its customers, including a moratorium on disconnection due to nonpayment which expired on March 31, 2022. LADWP anticipates resuming normal billing and collection processes following the expiration of the disconnection moratorium.

Source: City of Los Angeles, Bureau of Sanitation.

**SOLID WASTE PROGRAM
CHANGES IN OPERATING CASH
Fiscal Years 2016-17 through 2020-21⁽¹⁾
(Unaudited)**

	<u>2016-17</u> <u>Actual</u>	<u>2017-18</u> <u>Actual</u>	<u>2018-19</u> <u>Actual</u>	<u>2019-20</u> <u>Actual</u>	<u>2020-21</u> <u>Actual</u>
Revenues					
Solid Waste Resources Fee	\$286,501,703	\$284,638,476	\$289,509,415	\$293,282,808	\$268,421,296
General Fund Lifeline Reimbursement	9,929,185	4,302,205	5,734,144	7,112,766	2,844,085
Interest	2,214,725	2,475,197	2,490,377	2,983,389	1,399,087
Reimbursement from Other Funds/Departments ⁽²⁾	18,911,733	15,545,055	79,461,953	29,533,930	27,709,583
Miscellaneous Other Revenues	<u>3,989,444</u>	<u>11,729,385</u>	<u>7,196,915</u>	<u>17,338,072</u>	<u>9,962,410</u>
Total Revenues	<u>\$321,546,790</u>	<u>\$318,690,318</u>	<u>\$384,392,804</u>	<u>\$350,250,965</u>	<u>\$310,336,461</u>
Expenditures					
Debt Service	\$39,607,450	\$ 38,904,025	\$42,906,230	\$ 47,503,250	\$28,696,425
Operational Expenditures	286,047,273	296,031,659	336,223,980	337,852,984	335,683,809
Capital Infrastructure	<u>6,044,942</u>	<u>2,829,282</u>	<u>8,706,367</u>	<u>900,032</u>	<u>225,797</u>
Total Expenditures⁽³⁾	<u>\$331,699,665</u>	<u>\$337,764,966</u>	<u>\$387,836,577</u>	<u>\$386,256,266</u>	<u>\$364,606,031</u>
Operating Cash					
Beginning Cash Balance	\$190,977,577	\$180,824,702	\$161,750,054	\$158,306,281	\$122,300,980
Change in Operating Cash	<u>(10,152,875)</u>	<u>(19,074,648)</u>	<u>(3,443,773)</u>	<u>(36,005,301)</u>	<u>(54,269,570)</u>
Ending Cash Balance	<u>\$180,824,702</u>	<u>\$161,750,054</u>	<u>\$158,306,281</u>	<u>\$122,300,980</u>	<u>\$68,031,410</u>

⁽¹⁾ Figures are provided on a cash basis.

⁽²⁾ In Fiscal Year 2018-19, Solid Waste Resources (SWR) Revenue Fund received reimbursements from bond proceeds relating to the SWR Revenue Bonds, Series 2018-A for front funding capital expenditures, which resulted in an increase in reimbursements from other funds as well as an increase in operational expenditures during that year.

⁽³⁾ Figures only represent expenditures from the SWR Revenue Fund.

Source: City of Los Angeles, Bureau of Sanitation.

SOLID WASTE RESOURCES REVENUE BONDS
Historical Debt Service Coverage
Fiscal Year Ended June 30
(Dollar amount in thousands)

	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>
Solid Waste Resources Fee and Extra Capacity Fee	\$286,502	\$284,638	\$289,509	\$293,283	\$268,421
Interest	2,215	2,475	2,490	2,983	1,399
Other Revenue	<u>32,830</u>	<u>31,577</u>	<u>92,393</u>	<u>53,985</u>	<u>40,516</u>
Pledged Revenues ⁽¹⁾	\$321,547	\$318,690	\$384,393	\$350,251	310,336
Debt Service	\$39,607	\$38,904	\$42,906	\$47,503	\$28,696
Debt Service Coverage ⁽²⁾	8.12x	8.19x	8.96x	7.37x	10.81x

⁽¹⁾ Totals may not add due to rounding.

⁽²⁾ Represents coverage by Pledged Revenues, prior to operation and maintenance expenses, as set forth in the Trust Agreement.

Source: City of Los Angeles, Bureau of Sanitation and Office of the City Administrative Officer, Debt Management Group.

SOLID WASTE RESOURCES REVENUE BONDS
Pro-Forma Statement of Debt Service Coverage
Fiscal Year Ended June 30
(Amount in thousands)

	<u>2021-22</u>	<u>2022-23</u>	<u>2023-24</u>	<u>2024-25</u>	<u>2025-26</u>
Solid Waste Resources Fee and Extra Capacity Fee ⁽¹⁾	\$270,885	\$287,000	\$287,287	\$287,574	\$287,862
Interest	650	200	100	50	30
Other Revenue	<u>30,070</u>	<u>20,427</u>	<u>20,957</u>	<u>21,186</u>	<u>21,572</u>
Total Pledged Revenues	\$301,605	\$307,627	\$308,344	\$308,810	\$309,464
Debt Service ⁽²⁾					
Series 2013-A Bonds	\$ 5,181	\$ 7,632	\$ 7,627	\$ 9,630	9,428
Series 2013-B Bonds	1,030	1,028	1,031	1,033	1,032
Series 2015-A Bonds	7,150	4,905	4,906	-	-
Series 2018-A Bonds	<u>10,593</u>	<u>10,594</u>	<u>10,595</u>	<u>10,596</u>	<u>10,594</u>
Total Debt Service ⁽³⁾	\$23,953	\$24,159	\$24,159	\$21,258	\$21,054
Debt Service Coverage ⁽⁴⁾	12.59x	12.73x	12.76x	14.53x	14.70x

⁽¹⁾ Fiscal Year 2021-22 projection assumed revenue delay due to impacts of COVID-19 pandemic. Future years are projected at normal level and are escalated by 0.10% a year.

⁽²⁾ Comprised of bond payments on August 1 and the following February 1 occurring in the applicable Fiscal Year.

⁽³⁾ Totals may not add due to rounding.

⁽⁴⁾ Represents coverage by Pledged Revenues, prior to operation and maintenance expenses, as set forth in the Trust Agreement.

Source: City of Los Angeles, Bureau of Sanitation and Office of the City Administrative Officer, Debt Management Group.

3. WASTEWATER SYSTEM REVENUE BONDS

Base CUSIP: 544652

Wastewater System Revenue Bonds, Series 2010-A (Taxable Build America Bonds)

Wastewater System Revenue Bonds, Series 2010-B (Taxable Recovery Zone Economic Development Bonds)

Wastewater System Subordinate Revenue Bonds, Refunding 2012-A

Wastewater System Subordinate Revenue Bonds, Refunding Series 2012-B

Base CUSIP: 544653

Wastewater System Subordinate Revenue Bonds, Refunding Series 2012-C

Base CUSIP: 53945C

Wastewater System Subordinate Revenue Bonds, Refunding Series 2013-A

Wastewater System Revenue Bonds, Series 2013-A

Wastewater System Revenue Bonds, Refunding Series 2013-B

Wastewater System Revenue Bonds, Series 2015-A (Green Bonds)

Wastewater System Revenue Bonds, Refunding Series 2015-B

Wastewater System Revenue Bonds, Series 2015-C (Green Bonds)

Wastewater System Revenue Bonds, Refunding Series 2015-D

Wastewater System Subordinate Revenue Bonds, Refunding Series 2015-A

Wastewater System Subordinate Revenue Bonds, Series 2017-A (Green Bonds)

Wastewater System Subordinate Revenue Bonds, Refunding Series 2017-B (Green Bonds)

Wastewater System Subordinate Revenue Bonds, Refunding Series 2017-C (Taxable) (Green Bonds)

Wastewater System Subordinate Revenue Bonds, Series 2018-A (Green Bonds)

Wastewater System Subordinate Revenue Bonds, Refunding Series 2018-B

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WASTEWATER SYSTEM REVENUE BONDS
Existing Water Reclamation Facilities

<u>Reclamation Facility</u>	<u>Approximate First Year of Operation</u>	<u>Current Design Capacity (mgd)⁽¹⁾</u>	<u>Average Flow⁽²⁾ (mgd)</u>
HYPERION SYSTEM			
Hyperion ⁽³⁾	1923	450	248
Los Angeles-Glendale	1976	20	17
Tillman	1984	<u>80</u>	<u>39</u>
Total Hyperion System		<u>550</u>	<u>304</u>
TERMINAL ISLAND SYSTEM			
Terminal Island	1935	<u>30</u>	<u>12</u>
TOTAL BOTH SYSTEMS⁽⁴⁾		<u>580</u>	<u>316</u>

(1) "mgd" means million gallons per day.

(2) These numbers are average flows for Fiscal Year 2020-21.

(3) Includes treated outflow from upstream plants.

(4) Totals may not add due to rounding.

Source: City of Los Angeles, Bureau of Sanitation.

The City has decided to modify the manner by which it provides historical capital improvement program expenditure data. The following table sets forth the expected sources and uses of capital improvement program expenditures for Fiscal Year 2021-22 in this modified format. In its continuing disclosure annual reports in the future, the City plans to provide an update of the capital improvement program expenditures for the most recently completed fiscal year in in this modified format similar to the way it is presented in the table below.

**WASTEWATER SYSTEM REVENUE BONDS
CAPITAL IMPROVEMENT PROGRAM
FISCAL YEAR ENDING JUNE 30, 2022**

EXPENDITURES AND SOURCES OF FUNDING
(in thousands)

Projected Capital Improvement Program Expenditures

System-Wide conveyance and Pumping	\$137,967
Hyperion Water Reclamation Plant	48,340
Other Water Reclamation Plants	65,850
Recycled Water Projects	<u>49,412</u>
Construction Projects Subtotal	301,569
Non-Construction Capital Expenditures	<u>124,379</u>
Total	<u>\$425,948</u>

Projected Sources of Funding for Capital Improvement Program

Recycled Water Capital Contributions	
Los Angeles Department of Water and Power (LADWP) ⁽¹⁾	\$6,000
Los Angeles World Airports ⁽²⁾	7,434
West Basin Municipal Water District and LADWP ⁽³⁾	<u>4,000</u>
Recycled Water Capital Contributions	\$17,434
Debt Proceeds ⁽⁴⁾	248,236
System Revenues	133,734
Wastewater Service Contract Capital Payments	10,788
Interest Income	756
Proceeds from Insurance ⁽⁵⁾	<u>15,000</u>
Total	<u>\$425,948</u>

- (1) Donald C. Tilman Water Reclamation Plant (DCTWRP) Advanced Water Purification Project. Consists of the construction of an up to 18 mgd advanced water purification plant at DCTWRP and the conveyance of the purified recycled water to the spreading grounds.
- (2) Consists of the construction of a 1.5 mgd advanced water treatment process at Hyperion that will serve the Los Angeles International Airport.
- (3) A pilot study to determine the feasibility of utilizing nitrification and denitrification membrane bioreactors at Hyperion.
- (4) Reflects the use of proceeds from bonds, Wastewater System Commercial Paper Notes, and/or other indebtedness.
- (5) Reflects insurance proceeds received as of December 1, 2021, from a July 2021 sewerage overflow at Hyperion. Additional insurance proceeds may be received related to this event, as the full cost of the claimed damages has not yet been completed.

Source: City of Los Angeles, Bureau of Sanitation.

WASTEWATER SYSTEM REVENUE BONDS
Sewer Service Charge (SSC) Billed to Ten Largest Customers
Fiscal Year 2020-21

<u>User</u>	<u>Customer Type</u>	<u>SSC Billed</u>
City of Los Angeles	Government	\$15,037,713
Los Angeles Unified School District	School district	7,448,355
County of Los Angeles	Government	6,270,386
Phillips 66 Company	Petroleum product refiner	4,376,810
University of California – Los Angeles	Education	3,439,602
Anheuser-Busch, LLC	Brewing company	2,500,224
University of Southern California	Education	2,153,931
ERP Operating Limited Partnership	Property maintenance; real estate	1,874,360
GK Property Management Co., Inc.	Property maintenance; real estate	1,601,150
Park La Brea	Property maintenance; real estate	<u>1,600,452</u>
TOTAL		<u>\$46,302,984</u>

(1) Totals may not equal the sum of components due to individual rounding. Total estimated SSC billings for Fiscal Year 2020-21 was \$718.9 million.

Source: City of Los Angeles, Bureau of Sanitation.

WASTEWATER SYSTEM REVENUE BONDS
Sewer Construction and Maintenance Fund Rates and Charges

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Sewer Service</u> <u>Charge⁽¹⁾</u>	<u>Quality Surcharge Fees⁽²⁾</u>		<u>Sewerage</u> <u>Facilities Charge (SFC)</u> <u>(per 100 gal. avg. flow)⁽³⁾</u>	<u>Typical Monthly</u> <u>Single Family</u> <u>Residential SSC⁽⁴⁾</u>
		<u>BOD</u>	<u>SS</u>		
2017	\$4.51	\$0.470	\$0.472	\$413.00	\$34.73
2018	4.80	0.500	0.503	413.00	33.60
2019 ⁽⁵⁾	5.11	0.533	0.536	413.00	37.81
2020 ⁽⁵⁾	5.44	0.567	0.571	413.00	39.41
2021 ⁽⁵⁾	5.80	0.604	0.608	413.00	42.34

(1) This charge is based on dollars per 100 cubic feet (hcf or hundred cubic feet) of billable wastewater volume. For residential customers, including multiple-family dwellings up to four units, this charge is applied to each customer's minimum daily water usage during the winter water use period. For commercial customers, including multiple family dwellings of five or more units, this charge is applied to 93% of total metered water usage.

(2) The surcharge is based on a rate per pound of biochemical oxygen demand (BOD) or suspended solids (SS) in excess of domestic strength wastewater 265 mg/L BOD and 275 mg/L SS.

(3) SFC includes strength charges.

(4) These figures do not reflect effects of low-income assistance program. Amounts based on average billable wastewater volumes of approximately 7.7 hcf per month for Fiscal Year 2016-17, 7.0 hcf per month in Fiscal year 2017-18, 7.4 hcf per month for Fiscal Year 2018-19, 7.3 hcf per month for Fiscal Year 2019-20 and 7.3 hcf per month for Fiscal Year 2020-21.

(5) The typical Monthly Single Family Residence SSC are higher in these years, in part, because the methodology for calculating this figure was updated and is now calculated by dividing the billable wastewater volume for single family residential customers by the total number of service points rather than the number of accounts. A service point is a location where wastewater service is provided. There are more accounts than service points because a service point can have more than one account as customers discontinue and establish service during a year. This results in higher typical charges when the charges are based on service point rather than on accounts.

Source: City of Los Angeles, Bureau of Sanitation.

WASTEWATER SYSTEM REVENUE BONDS
Wastewater System Service Points and Billable Wastewater Volume
Fiscal Year Ended June 30

Customer Class	Number of Service Points				
	2017	2018	2019	2020	2021
Single Family	479,069	491,229	491,145	487,605	490,384
Small Multifamily	70,128	70,408	70,320	70,073	70,494
Large Multifamily	40,280	40,982	40,758	40,656	40,623
Commercial/Industrial	52,099	53,413	52,185	51,907	51,519
All Others	<u>3,964</u>	<u>3,958</u>	<u>3,961</u>	<u>3,891</u>	<u>3,869</u>
Total Customers	<u>645,540</u>	<u>659,990</u>	<u>658,369</u>	<u>654,132</u>	<u>656,889</u>
	Billable Wastewater Volume ⁽¹⁾				
Single Family ⁽²⁾	44,070	40,440	43,606	42,827	43,392
Small Multifamily ⁽²⁾	11,558	11,955	10,958	12,234	11,339
Large Multifamily ⁽³⁾	38,879	39,592	39,478	40,061	41,489
Commercial/Industrial ⁽³⁾	30,319	31,037	30,603	28,757	26,434
All Others	<u>6,128</u>	<u>6,059</u>	<u>5,827</u>	<u>5,508</u>	<u>6,469</u>
Total Billable Wastewater Volume ⁽⁴⁾	<u>130,954</u>	<u>129,083</u>	<u>130,472</u>	<u>129,388</u>	<u>129,122</u>

⁽¹⁾ In thousands of hcf (hundred cubic feet).

⁽²⁾ Billable wastewater volume for single family and multi-family dwellings of up to four units are based on each residential customer's minimum average daily water consumption during the winter water use from the prior winter, further reduced by a dry weather compensation factor.

⁽³⁾ Billable wastewater volume for large multifamily, commercial industrial and other customers is, for each month, generally equal to 93 percent of total water sales volume for that month. All customers who can demonstrate that the billable wastewater volume is less than 74 percent of annual water sales are billed at the lower estimate.

⁽⁴⁾ Totals may not equal sum of components due to individual rounding.

Source: City of Los Angeles, Bureau of Sanitation.

SSC REVENUE
BUDGET, BILLINGS, AND REMITTANCE
Fiscal Year Ending June 30
(in Thousands)

Fiscal Year	Budgeted	Billed	Remitted	Billed as a Percent of Budget	Remitted as a Percent of Billed ⁽¹⁾
2017 ⁽²⁾	\$532,395	\$565,789	\$555,309	106.3%	98.1%
2018	561,010	594,365	589,046	105.9	99.1
2019	626,791	640,189	622,973	102.1	97.3
2020	665,533	675,639	660,495	101.5	97.8
2021 ⁽³⁾	709,501	718,921	668,421	101.3	93.0

⁽¹⁾ LADWP's remittance rate of SSC revenue varies from year to year and may exceed 100% because of differences in average time taken by customers to pay their bills and differences in the estimation used to calculate expected revenue versus actual revenue.

⁽²⁾ LADWP previously halted their collection process once it was determined that there were significant programming issues in their new billing system. Remittances in Fiscal Year 2016-17 reflect collection of prior years' accounts receivable due to resumption of DWP's collections measures consistent with their stated collections policies.

⁽³⁾ In response to the COVID-19 pandemic, LADWP implemented a number of temporary measures to assist its customers, including a moratorium on disconnection due to nonpayment. The disconnection moratorium expired on March 31, 2022. LADWP anticipates resuming normal billing and collection processes following the expiration of the disconnection moratorium. The budget for Fiscal Year 2020-21 was not adjusted to reflect the impact of the disconnection moratorium.

Source: City of Los Angeles, Bureau of Sanitation.

BUREAU OF SANITATION AUTHORIZED POSITIONS⁽¹⁾

<u>Fiscal Year Ending June 30</u>	<u>Authorized Number of Positions⁽²⁾</u>
2018	1,387
2019	1,396
2020	1,404
2021	1,412
2022	1,416

- ⁽¹⁾ As authorized in the Adopted Budget. Represents permanent (“regular”) positions, funded by the Sewer Construction and Maintenance (SCM) Fund, and excludes temporary personnel (also referred to as “resolution authority positions”).
- ⁽²⁾ Consistent with the numbers reflected for Fiscal Years 2020-21 and 2021-22, the numbers were restated for Fiscal Years 2017-18 through 2019-20 to include positions assigned to the Clean Water Program and other budgetary programs within the Bureau of Sanitation, but which support the System and are funded by the SCM Fund.
-

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

**SEWER CONSTRUCTION AND MAINTENANCE FUND
Retirement and OPEB Contributions
(\$ in thousands)**

<u>Fiscal Year</u>	<u>Total City Contribution⁽¹⁾</u>	<u>Wastewater System Contribution⁽²⁾</u>	<u>Wastewater System Percentage</u>
2018	\$450,806	\$33,277	7.4%
2019	488,400	35,833	7.3
2020	559,299	37,516	6.7
2021	532,833	56,216	10.6
2022	601,450	56,869	9.5

- ⁽¹⁾ Total City Contribution represents amounts paid to the Los Angeles City Employees’ Retirement System for City Council controlled departments only.
- ⁽²⁾ For Fiscal Years 2017-18, 2018-19, and 2019-20, the Wastewater System Contribution only reflect retirement and OPEB contributions for labor attributable to the Bureau of Sanitation. Beginning in Fiscal Year 2020-21, due to more accessible data related to a revised CAP billing methodology, the Wastewater System Contribution now reflects the costs attributable to the Bureau of Sanitation and other City departments that support the System.
-

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

The City has decided to modify the manner by which it provides a historical summary of the financial operations of the Sewer Construction and Maintenance Fund and debt service coverage ratio. Previously, this information was provided on an unaudited cash basis. In its continuing disclosure annual reports in the future, the City plans to provide this information on an accrual (GAAP) basis, similar to the way it is presented in the table below.

WASTEWATER SYSTEM REVENUE BONDS
Sewer Construction and Maintenance Fund
Summary of Operations and Debt Service Coverage (in Thousands)
Fiscal Year Ended June 30

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
OPERATING REVENUES					
Sewer Service Charge	\$570,093	\$598,533	\$618,168	\$681,164	\$713,013
Wastewater Service Contracts ⁽¹⁾	22,512	29,120	28,705	25,734	29,647
Industrial Waste Surcharges ⁽²⁾	17,988	17,652	18,499	20,455	20,158
Sewerage Facilities Charge	18,811	16,115	15,635	15,779	14,583
Other Operating Revenues	<u>4,656</u>	<u>16,466</u>	<u>13,956</u>	<u>9,595</u>	<u>11,354</u>
Total Operating Receipts	634,060	677,886	694,963	752,727	788,755
NON-OPERATING REVENUES					
Gross Interest Income	316	4,893	15,057	9,870	48
Other Non-Operating Revenues (Net)	873	3,598	8,584	2,289	20,119
ADJUSTMENTS⁽³⁾					
Interest on Construction Funds	(309)	(2,970)	(5,076)	(3,121)	(241)
Other Non-Operating Expenses (Revenues) ⁽⁴⁾	18,815	1,456	9,238	9,301	(11,527)
Federal or State Government Grants	(10,623)	7,808	0	0	0
Interest Subsidy from U.S. Treasury ⁽⁵⁾	<u>(6,104)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL REVENUES	\$637,028	\$692,671	\$722,766	\$771,066	\$797,154
Less: Operating Expenses	<u>303,483</u>	<u>284,184</u>	<u>375,442</u>	<u>368,658</u>	<u>318,637</u>
NET REVENUES	<u>\$333,545</u>	<u>\$408,487</u>	<u>\$347,324</u>	<u>\$402,408</u>	<u>\$478,517</u>
Senior Debt Service⁽⁵⁾	\$87,225	\$78,707	\$54,974	\$58,806	\$73,634
Senior Debt Service Coverage	3.82	5.19	6.32	6.84	6.50
Subordinate Debt Service ⁽⁶⁾	\$119,934	\$127,700	\$153,897	\$159,204	\$136,667
Aggregate Debt Service	\$207,159	\$206,407	\$208,871	\$218,010	\$210,301
Aggregate Debt Service Coverage	1.61	1.98	1.66	1.85	2.28

⁽¹⁾ Operations and maintenance portion of Wastewater Service Contracts payments (excluding capital charge component, which is not treated as Revenues). Most of the revenue increase from Fiscal Year 2017-18 to Fiscal Year 2018-19 is due to the City of Burbank's \$9 million partial payment of service charges previously invoiced by the City but not previously paid because of an ongoing billing dispute. An additional portion of the revenue increase is because the invoicing and payment of the City of Glendale's share of the Los Angeles-Glendale Water Reclamation Plant's cost was delayed from Fiscal Year 2017-18 to Fiscal Year 2018-19.

⁽²⁾ Includes Quality Surcharge Fees, Permit Application Fees, Inspection and Control Fees, and Significant Industrial User Fees.

⁽³⁾ Adjustments made in the annual Debt Service Compliance Report to calculate coverage in accordance with the Resolutions.

⁽⁴⁾ Includes various adjustments to conform analysis to the definition of "Expenses" in the Resolutions, primarily reversing items reported as non-operating expenses in the annual financial reports.

⁽⁵⁾ Derived from Debt Service Compliance Reports. After the April 19, 2017 adoption of the Refundable Credits Amendments, the BABs and RZEDB credits have not been reported as non-operating revenues considered in the debt service coverage calculation, but rather are netted out of the amount of interest coming due during this period.

⁽⁶⁾ Derived from Debt Service Compliance Reports. Excludes debt service on the Existing State Revolving Fund Clean Water Loan, which is subordinate to the Senior Lien Bonds, the Subordinate Bonds and the Wastewater System Commercial Paper Notes.

Source: City of Los Angeles Office of Accounting. Sewer Construction and Maintenance Fund Financial Statements and Debt Service Compliance Reports.

WASTEWATER SYSTEM REVENUE BONDS
Sewer Construction and Maintenance Fund
Cash Balances in All Funds (Unaudited)⁽¹⁾ (in Thousands)

	Fiscal Year Ended June 30				
	2017	2018	2019	2020	2021
UNRESTRICTED FUNDS⁽²⁾					
Sewer Construction and Maintenance ⁽³⁾	\$ 31,602	\$ 97,540	\$ 49,635	\$ 29,455	\$101,245
Sewer Operation and Maintenance ⁽⁴⁾	48,110	10,206	15,997	21,670	39,140
Sewer Capital ⁽⁵⁾	<u>56,152</u>	<u>18,749</u>	<u>11,831</u>	<u>13,658</u>	<u>27,478</u>
Total Unrestricted Funds	<u>\$135,864</u>	<u>\$126,495</u>	<u>\$ 77,463</u>	<u>\$ 64,783</u>	<u>\$167,863⁽⁶⁾</u>
RESTRICTED FUNDS⁽⁷⁾					
Operation and Maintenance Reserve ⁽⁸⁾	\$ 39,590	\$ 41,495	\$ 45,741	\$ 47,255	\$ 48,968
Insurance Reserve ⁽⁹⁾	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>
Subtotal-Restricted Funds Available for Operation and Maintenance	\$42,590	\$44,495	\$48,741	\$50,255	\$51,968
SUBTOTAL: FUNDS AVAILABLE FOR O&M	<u>\$178,454</u>	<u>\$170,990</u>	<u>\$126,204</u>	<u>\$115,038</u>	<u>\$219,831</u>
Emergency Fund	\$ 5,026	\$ 5,017	\$ 5,008	\$ 5,008	\$ 5,008
Construction Funds ⁽¹⁰⁾⁽¹¹⁾	262,538	168,576	281,725	93,274	45,853
Reserve Funds ⁽¹²⁾	102,413	103,807	102,310	102,310	100,547
Debt Service Funds	20,743	20,784	19,562	20,826	26,052
Rebate Funds	<u>366</u>	<u>530</u>	<u>167</u>	<u>169</u>	<u>170</u>
Total Restricted Funds	<u>\$433,676</u>	<u>\$343,209</u>	<u>\$457,513</u>	<u>\$271,842</u>	<u>\$229,598</u>
TOTAL FUNDS	<u>\$569,540</u>	<u>\$469,704</u>	<u>\$534,976</u>	<u>\$336,625</u>	<u>\$397,461</u>

- (1) All the funds listed under Unrestricted Funds are considered accounts of the SCM Fund pursuant to the Subordinate General Resolution and the supplemental resolutions related thereto, and reported within a single SCM Fund in the City's audited financial statements.
- (2) Reported under current assets as "unrestricted" cash and pooled investments held by the City Treasurer in the Statements of Net Position of the separately prepared audited financial statement of the SCM Fund and valued at market value rather than the original cost value shown in the table above.
- (3) All Revenues are deposited into this fund maintained in the City's Treasury for transfer to other funds and accounts of the SCM Fund.
- (4) The fund established by the City to receive transfers from its SCM Fund for payment of O&M expenses. The amounts reported above are residual after paying O&M expenses.
- (5) The fund established by the City to receive transfers from its SCM Fund for payment of pay-as-you-go capital. Additionally, grant receipts and Wastewater Service Contracts capital payments are deposited into this account. The amounts reported above are residual after paying pay-as-you-go capital.
- (6) The increase in cash balance from Fiscal Year 2019-20 to Fiscal Year 2020-21 is due to a decline in expenditures, such as salaries and other operating expenditures. Additionally, due to the COVID-19 pandemic, the City paused the award of some capital improvement projects for several months while evaluating the impact of the pandemic on revenues and the construction industry, which resulted in lower expenditures in such Fiscal Year.
- (7) Reported by the City Treasurer in the Statements of Net Position of the audited financial statement of the SCM Fund in current assets and non-current assets as "restricted" cash and pooled investments and at fair market value rather than the original cost value shown in the table above.
- (8) Pursuant to the Subordinate General Resolution, certain transfers from the SCM Funds are restricted if the City does not maintain an amount needed to provide for the System's operation and maintenance expenses for 45 days.
- (9) Amounts in this fund represent an Operations and Maintenance Reserve allocated for insurance.
- (10) These funds are funded with proceeds of the Senior Lien Bonds, Subordinate Bonds, and Wastewater System Commercial Paper Notes.
- (11) The construction funds were reported as unrestricted in Fiscal Year 2016-17 due to a change in the City's financial reporting practices and accounting. However, in Fiscal Year 2017-18 and thereafter, the City reported the construction funds as restricted, to reflect the actual use of these funds.
- (12) Funded with proceeds of the Senior Lien Bonds.

Source: City of Los Angeles, Office of Accounting.

Outstanding Wastewater System Revenue Bonds and Commercial Paper Revenue Notes
Amounts Issued and Outstanding
As of April 1, 2022
(in thousands)

Issue	Amount Issued	Amount Outstanding	Final Maturity
Series 2010-A (Senior)	\$177,420	\$177,420	6/1/2039
Series 2010-B (Senior)	89,600	89,600	6/1/2040
Series 2012-A (Subordinate Refunding)	157,055	18,350	6/1/2024
Series 2012-B (Subordinate Refunding)	253,880	81,150	6/1/2023
Series 2012-C (Subordinate Refunding)	133,715	11,520	6/1/2022
Series 2013-A (Senior)	149,980	149,980	6/1/2043
Series 2013-B (Senior Refunding)	143,880	94,000	6/1/2035
Series 2013-A (Subordinate Refunding)	349,505	242,190	6/1/2035
Series 2015-A (Senior)	188,755	188,755	6/1/2045
Series 2015-B (Senior Refunding)	41,175	41,175	6/1/2035
Series 2015-C (Senior)	100,835	100,835	6/1/2045
Series 2015-D (Senior Refunding)	108,860	80,280	6/1/2034
Series 2015-A (Subordinate Refunding)	21,650	21,650	6/1/2024
Series 2017-A (Subordinate)	227,540	227,540	6/1/2047
Series 2017-B (Subordinate Refunding)	107,155	99,105	6/1/2039
Series 2017-C (Subordinate Refunding) (Taxable)	115,455	104,625	6/1/2039
Series 2018-A (Subordinate)	219,790	217,335	6/1/2048
Series 2018-B (Subordinate)	139,880	139,880	6/1/2028
Series 2022-C (Subordinate Refunding)	380,570	380,570	6/1/2032
WIFIA Loan (Subordinate) ⁽¹⁾	223,921	0	6/1/2056
Wastewater System Commercial Paper Notes	<u>400,000</u>	<u>230,000⁽²⁾</u>	
Total: ⁽³⁾	\$3,730,621	\$2,695,960	

⁽¹⁾ On September 23, 2021, the City entered into a loan agreement with the United States Environmental Protection Agency for a financing under the Water Infrastructure Finance and Innovation Act (WIFIA) for the DCTWRP Advanced Water Purification Facility Project. The City plans to draw on the loan on the projected substantial completion date of September 30, 2027. The final maturity for the WIFIA Loan will be the earlier of (a) June 1, 2056 and (b) the principal payment date immediately preceding the date that is thirty-five (35) years following the substantial completion date.

⁽²⁾ Includes \$180,976,000 of outstanding Wastewater System Commercial Paper Notes that were refunded with the proceeds of Series 2022-AB Subordinate Bonds issued on April 19, 2022.

⁽³⁾ Excludes the Existing State Revolving Fund (SRF) Clean Water Loan (which matures in Fiscal Year 2024-25). As of March 1, 2022, the outstanding aggregate principal amount of the Existing SRF Clean Water Loan was \$39.3 million.

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

LITIGATION

The City is routinely a party to a variety of pending and threatened lawsuits and administrative proceedings, including those that may affect the SCM Fund of the City. The Office of the City Attorney has prepared the following summary, as of March 1, 2022, of certain claims and lawsuits (with a potential loss exceeding \$1 million) pending against the City that affect the SCM Fund for construction claims and certain other alleged liabilities arising during the ordinary course of operations of the System.

Hoffman v. City. The case is a putative class action lawsuit challenging the City’s calculation of the annual, fiscal year Dry Winter Compensation Factor (“DWCF”) relating to SSCs. The City has utilized a “Winter Water Use” method since 1997. The determination of the

SSC for residential customers is based on winter water usage. A residential customer's sewage volume is calculated by multiplying the resident's lowest average daily winter water usage by the DWCF. The method assumes that while most water delivered during the winter season to a residence is returned to the sewer system, some is used for landscape irrigation (and therefore does not go down the sewer). Thus, the DWCF serves to reduce the amount of water a residential customer is billed for as sewage volume because delivered water used for irrigation is not returned to the City's sewer system. Plaintiffs allege that the reduction factor was not calculated correctly and therefore plaintiffs should have received a greater discount than what they received under City's methodology for calculating the DWCF.

There are four causes of action alleged in the lawsuit (accounting, money had and received, declaratory relief, and procedural and substantive violations of Proposition 218/Article 13D of the California Constitution).

The first portion of a bifurcated court trial proceeded in this matter in February and March 2021, and the court's Statement of Decision was served on June 30, 2021. The court determined the City did not comply with the applicable Los Angeles Municipal Code Section and the Board of Public Works Rules and Regulations in setting the DWCF, and overcharged residential customers, basing its ruling on plaintiffs' methodology. The court further determined that the annual DWCF determination resulted in a "new or increased fee" under Proposition 218, which mandated the City to provide customers with notice and an opportunity to protest the annual DWCF determination, which the City did not do. The City argued that it did not need to go through a new Proposition 218 process because (a) the DWCF did not increase the maximum rate, and (b) the residential customers were given notice of the full rate (100% of delivered winter water as the baseline for the sewer charges without any discount).

No trial date has been set on the second portion of the bifurcated trial where plaintiffs' Proposition 218 "substantive violation" claim (i.e., whether the City used the revenues derived from residential sewer services charges for non-sewer related purposes) and plaintiffs' damages for the alleged DWCF overcharge will be heard. No class certification has occurred.

While the court has not assessed damages and several procedural steps remain before the court would assess damages, the City believes that the court's Statement of Decision, if finalized, would likely lead to the assessment of significant damages. In its Statement of Decision, the court lays out its calculation of the amount per hundred cubic feet of sewage volume the City overcharged residential users based on the improper annual DWCF determination. Based on this calculation, the City believes that any assessed damages could be \$180 million or more if a class is certified. In addition to the amount of damages, there would also be a determination of the method of assessing those damages which could be either in the form of one lump sum payment or multi-year structured payments or a combination of both or potentially some other method. The parties are currently in mediation in an attempt to resolve this matter.

In addition to the assessment of damages, the City expects that under any resolution of this case, the City would likely calculate SSC rates differently in the future or change the methodology used to calculate the DWCF. Importantly, the court's Statement of Decision addresses the process by which the City calculates wastewater volumes and does not challenge the ability of the City to

charge rates that allow it to comply with the City's rate covenant set forth in the Resolutions and to pay the costs of the System as a whole. Thus, the City does not believe that any re-calculation of the SSC rates or change in the methodology used to calculate the DWCF would adversely impact the City's ability to generate sufficient Revenues to pay debt service on Senior Lien Bonds and Subordinate Bonds or comply with its obligations under the Resolutions.

The City continues to dispute the plaintiff's claim that it used revenues derived from SSCs for non-sewer related purposes (i.e., the plaintiffs' Proposition 218 "substantive violation" claim) and contends that plaintiffs are not entitled to recover monetary damages for this alleged claim.

Mecklenburg v. Hyperion Water Reclamation Plant. On July 30, 2021, El Segundo resident Susan Mecklenburg filed a class action complaint against the City related to the July 11, 2021 incident involving HWRP. On January 31, 2022, the plaintiff amended her complaint, removing the majority of the previously alleged causes of action, with only claims for dangerous condition and inverse condemnation remaining. The putative class plaintiff generally alleges that the City's operation, management, supervision, control and repairs of HWRP have been unreasonable or problematic in a number of ways, including having ineffective emergency plans or emergency discharge prevention practices; inadequate inspections or evaluations in regard to plant safety; poor planning, prevention, or reaction to the overflow event; and failures to issue prompt notifications including to the public of the event, among other factual allegations. The plaintiff alleges that the foregoing caused or contributed to the July 11, 2021 sewage discharge incident from HWRP and the alleged odors impacting the surrounding community since. The class action complaint does not seek a specific sum of damages. The complaint was served on August 3, 2021. The City does not currently have an estimate of any potential liability or probability of exposure. The City filed a notice of related case that both the *Abdelnur* and *Konig* matters described below are related to *Mecklenburg*. The Court has related *Abdelnur* to *Mecklenburg*, and the parties anticipate that the Court will similarly order *Konig* as a related litigation matter.

Abdelnur, Katarina et al v. City of Los Angeles. On January 4, 2022, over 130 plaintiffs filed a joint, mass tort against the City and a City contractor (Murray Plumbing and Heating Corporation), claiming that the July 11, 2021 sewage discharge incident from HWRP was a result of dangerous conditions for which the City bears responsibility, a result of contractor negligence, and that the impacts of the incident constitutes inverse condemnation by the City. The complaint does not specify any amount of damages, and it is too early in the process to estimate or assess probability of exposure. The City filed a notice of related case that both the *Abdelnur* and *Konig* matters are related to *Mecklenburg*, and the Court has related *Abdelnur* to *Mecklenburg*.

Konig, Joshua v. City of Los Angeles. On January 10, 2022, twenty-one plaintiffs filed a joint, mass tort against the City claiming that the July 11, 2021 sewage discharge incident from HWRP was a result of dangerous conditions for which the City bears responsibility and that the impacts of the incident constitutes inverse condemnation by the City. The complaint does not specify any amount of damages, and it is too early in the process to estimate or assess probability of exposure. The City filed a notice of related case that both the *Abdelnur* and *Konig* matters are related to *Mecklenburg*. The parties anticipate that the Court will order *Konig* as a related litigation matter.

Perez v. City. In March 2021, an employee of a contractor working at HWRP experienced a fatal accident. On January 28, 2022, the family of the decedent filed a lawsuit against the City and other defendants alleging that the death resulted from faulty tank covers, which the City designed and approved the manufacture of, and that a contractor installed. Cal-OSHA conducted an investigation and although it cited the contractor for violations, including serious and willful violations, Cal-OSHA did not cite the City for any issues associated with the fatal accident. The complaint does not specify any amount of damages, and it is too early in the process to estimate or assess probability of exposure.

Jessy Hernandez v. City of Los Angeles. The incident giving rise to the claim occurred on April 1, 2018, when Jesse Hernandez (sometimes spelled Jessy), who was 13 years old at the time, and some of his cousins were playing in an abandoned concrete maintenance shack near the Griffith Park's Travel Town area. While in the shack, Jesse fell about 25 feet into a sewer pipe containing toxic water. Jesse was subject to untreated sewer for approximately 13 hours until he was rescued. A claim on Jesse's behalf has been submitted to the City, seeking damages in the amount of \$5,000,000. Based on plaintiff's medical record and a psychological report, the range of exposure in this case is \$125,000 to \$750,000. Evaluation of the potential exposure in this case may change as the City learns more through depositions, medical evaluations of the plaintiff and through other experts. Trial is scheduled for June 24, 2022.

6th Street Bridge Sewage Overflow. On July 18, 2016, 2,630,754 gallons of untreated sewage overflowed by the 6th Street Bridge. The State Water Resources Control Board and Regional Water Quality Control Board proposed a penalty on the City in the amount of \$2,971,635. The City is engaged in ongoing settlement discussions with the State in an attempt to resolve this matter.

Miles v. City. The case is a class action (certified on February 28, 2019) by sewer maintenance workers seeking compensation and penalties for claimed missed meal and rest breaks under the California wage order associated with the transportation industry under the California Labor Code.

The City filed a motion for summary judgment, which was granted by the Court. The Court entered summary judgment in favor of the City on June 10, 2019. Plaintiffs sought leave to file a fifth amended complaint, which the City opposed. The Court denied the plaintiffs' motion, and entered final judgment in the City's favor on June 25, 2019. Plaintiffs filed an appeal. On October 28, 2020, the Court of Appeals published its opinion, affirming the trial court's rulings in favor of the City. On December 2, 2020, Plaintiffs filed a petition for review with the California Supreme Court. Potential exposure in this case is in the \$10 million to \$15 million range, but the City believes plaintiffs' probability of success on appeal is low.

LaSalle v. City. Plaintiff sued the City and two employees alleging roughly a dozen causes of action based on race: California Fair Employment and Housing Act ("FEHA") discrimination, harassment-hostile work environment, retaliation, failure to prevent racial discrimination, assault and battery, discrimination in violation of the Ralph Civil Rights of 1976, Civil Code Section 51.7, intentional infliction of emotional distress, whistleblower retaliation for reporting Labor Code Sections 6310, 6400-6404 reporting health and safety issues, and whistleblower retaliation under

Labor Code Section 1102.5. The estimated potential loss is in the range of \$2 to \$5 million but it is still early in the litigation to determine how likely (and in what amount) liability will be. Trial is set for May 9, 2022.

Pierson v. City. Plaintiff, a Wastewater Collection Supervisor, alleges sixteen causes of action against the City and a City employee based on his status as a sergeant in the U.S. Army and current member of the California Army National Guard under the FEHA, including the California Family Rights Act, California Military & Veteran Code, and the Uniformed Services Employment and Reemployment Rights Act (“USERRA”). He claims that the City retaliated against him for testifying in the case where the jury returned a \$17 million verdict against the City (*Pearl v. City* case), for blowing the whistle on health and safety issues related to masks during the COVID-19 outbreak, and for blowing the whistle on the Bureau of Sanitation’s use of Vactor Condor trucks, which had caused injury and death to City workers. He also claims that he was harassed and discriminated against for using family leave. He alleges that the City did not return him to the workstation that he occupied when he returned from military assignment, and that he has not been promoted to Wastewater Manager and has been denied opportunities to serve as an acting manager. He claims FEHA disability discrimination, harassment, and retaliation based on physical disability and post-traumatic stress disorder, along with retaliation under Labor Code Section 1102.5 and violations of the California Military & Veterans Act and USERRA. The case has been set for trial on February 28, 2023. It is still early in the litigation to determine how likely (and in what amount) liability will be but liability in typical retaliation and FEHA disability cases may range from \$1 million to \$2.5 million.

Fajardo v. City. Plaintiff, an employee of the Bureau of Sanitation, alleges sixteen causes of action against the City and a former City employee with claims of retaliation for previously filing a lawsuit against the City that was settled in 2013, taking intermittent leave to take care of his disabled son, advocating for the promotion of Chicanos and raising concerns about “illegal” or “improper” work assignments. Plaintiff alleges protected characteristics of identifying as Chicano and being associated with his disabled son. Plaintiff seeks both monetary and non-monetary damages, but has not identified any specific amounts. The City has filed a motion for summary judgment and the motion is set for hearing on March 17, 2022. The estimated range of potential liability for the City is between \$100,000 to \$3 million.

FUTURE AMENDMENTS OF SUBORDINATE GENERAL RESOLUTION AND SENIOR GENERAL RESOLUTION

Amendment and Restatement of Subordinate General Resolution

The City is planning to amend and restate the Subordinate General Resolution to include several material amendments. See the Official Statement for the City’s Wastewater System Subordinate Revenue Bonds, Refunding Series 2022-C, dated March 15, 2022 (<https://emma.msrb.org/P11580258-P11219915-P11641136.pdf>) APPENDIX I- “PROPOSED CHANGES TO SUBORDINATE GENERAL RESOLUTION” for a marked copy of the Amended and Restated Subordinate General Resolution, which shows the amendments and modifications that the City intends to make to the Subordinate General Resolution.

The Amended and Restated Subordinate General Resolution will effectuate several significant amendments to the Subordinate General Resolution, including:

- Amend Section 3.09 of the Subordinate General Resolution to provide that Average Annual Debt Service will be used to calculate the test for the issuance of additional Subordinate Bonds (as compared to Maximum Annual Debt Service, which is currently set forth in the Subordinate General Resolution); and
- Amend Section 6.03 of the Subordinate General Resolution to permit the City to use any monies in the SCM Fund to satisfy the rate covenant and to make other modifications. In addition, the Amended and Restated Subordinate General Resolution will also delete a requirement for independent auditors to deliver a compliance report with respect to Section 6.03(b) of the Subordinate General Resolution because the amendment will allow the use of available monies in the SCM Fund which will introduce financial terms that are not defined by generally accepted accounting principles.

There are other amendments to the Subordinate General Resolution contained within the Amended and Restated Subordinate General Resolution, which investors may consider to be significant.

Under the Subordinate General Resolution, the Amended and Restated Subordinate General Resolution will not become effective until Bondholders owning 51% or more of the then-outstanding Subordinate Bonds have consented to such proposed amendments and the other requirements of the Subordinate General Resolution have been satisfied. The City is planning to effectuate these consents through a “springing consent” process, which means that the City will require the holders of each new Series of Subordinate Bonds that it issues, starting with the Series 2022-C Subordinate Bonds, which closed on April 1, 2022 and the Series 2022-AB Subordinate Bonds, which closed on April 19, 2020, to be deemed to have consented to the Amended and Restated Subordinate General Resolution until the requisite consents have been obtained. After giving effect to the issuance of the Series 2022-AB Subordinate Bonds and the Series 2022-C Subordinate Bonds, the City expects that it would have the consent to the Amended and Restated Subordinate General Resolution of approximately 36% of the then-outstanding Subordinate Bonds.

The City has authorized a maximum of \$400,000,000 aggregate principal amount of Subordinate Bonds in the form of Wastewater System Commercial Paper Notes. Under the Subordinate General Resolution, the City may secure a portion of the consents from Bondholders of the Subordinate Bonds from the Bondholders of Wastewater System Commercial Paper Notes, which the City could also secure by requiring future Bondholders of Wastewater System Commercial Paper Notes to be deemed to consent to the Amended and Restated Subordinate General Resolution.

Amendment of Senior General Resolution

The City also plans to amend and restate the Senior General Resolution. Many of the amendments will be conforming amendments to mirror provisions shared by both the Senior

General Resolution and the Subordinate General Resolution, including substantially the same changes to Sections 3.09 and 6.03 of the Subordinate General Resolution as described above. The City also plans to make additional amendments to provisions in the Senior General Resolution that are not mirrored in the Subordinate General Resolution, including (among others) the elimination of the Reserve Fund and the Emergency Fund with respect to both existing and future Senior Lien Bonds. The City also plans to secure consents from the holders of the Senior Lien Bonds on a “springing consent” basis by requiring holders of Senior Lien Bonds it issues in the future to be deemed to consent to those amendments. These amendments to the Senior General Resolution do not require the consent of Bondholders of the Subordinate Bonds (including the Series 2022-AB Subordinate Bonds or the Series 2022-C Subordinate Bonds). See the Official Statement for the City’s Wastewater System Subordinate Revenue Bonds, Refunding Series 2022-C, dated March 15, 2022 (<https://emma.msrb.org/P11580258-P11219915-P11641136.pdf>) APPENDIX J– “PROPOSED CHANGES TO SENIOR GENERAL RESOLUTION” for a marked copy of the Amended and Restated Senior General Resolution, which shows the amendments and modifications that the City intends to make to the Senior General Resolution.

Anticipated Implementation of the Amended and Restated Subordinate General Resolution and Amendments to Senior General Resolution

Since both the Amended and Restated Subordinate General Resolution and proposed amendments to the Senior General Resolution will be effectuated on a “springing consent” basis, the timing of when the amendments will become effective will largely depend on the timing and sizes of future new money issuances of Senior Lien Bonds and Subordinate Bonds, and the timing and sizes of refundings of Senior Lien Bonds and Subordinate Bonds. In addition, the City’s current intention is to adopt the amendments to both resolutions at the same time after the requisite consents are obtained, which may also have an impact on the timing of the effectiveness of the amendments. While the timing of when the amendments to both resolutions will become effective will depend on a number of factors, the City believes that the amendments to both resolutions may become effective as early as calendar year 2025.