



NEW ISSUES – BOOK-ENTRY ONLY SYSTEM

RATINGS:

Fitch: “AA+”

S&P: “AA+”

Kroll: “AA+”

See “Ratings” herein.

In the opinion of Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel, under existing statutes, regulations, rulings and court decisions, and assuming compliance with the tax covenants described herein, interest on the Series 2015AB Senior Lien Bonds is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 from the gross income of the owners thereof for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. It is also the opinion of Bond Counsel that under existing law interest on the Series 2015AB Senior Lien Bonds is exempt from personal income taxes of the State of California. See “TAX MATTERS” herein.



\$182,655,000*
CITY OF LOS ANGELES
Wastewater System Revenue Bonds,
Series 2015-A (Green Bonds)

\$40,915,000*
CITY OF LOS ANGELES
Wastewater System Revenue Bonds,
Refunding Series 2015-B

Dated: Date of Delivery

Due: June 1, as shown on the inside cover

The \$182,655,000* City of Los Angeles Wastewater System Revenue Bonds, Series 2015-A (Green Bonds) (the “Series 2015-A Senior Lien Bonds”) and the \$40,915,000* City of Los Angeles Wastewater System Revenue Bonds, Refunding Series 2015-B (the “Series 2015-B Senior Lien Bonds”) and, together with the Series 2015-A Senior Lien Bonds, the “Series 2015AB Senior Lien Bonds”) are being issued by the City of Los Angeles (the “City”) pursuant to the Charter of the City of Los Angeles (the “City Charter”), Article 6.7 of Chapter 1 of Division 11 of the Administrative Code of the City (the “Procedural Ordinance”) and, with respect to the Series 2015-B Bonds, Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 (Section 53570 *et seq.* and Section 53580 *et seq.*, respectively) of the California Government Code (as amended, the “Refunding Law”). The Series 2015AB Senior Lien Bonds are also issued pursuant to the Wastewater System Revenue Bonds General Resolution, adopted by the Council of the City (the “City Council”) on November 10, 1987, as amended and supplemented (the “General Resolution”), including as amended and supplemented by the Twenty-Eighth Supplemental Resolution, adopted by the City Council on May 12, 2015.

The proceeds of the Series 2015AB Senior Lien Bonds, together with certain available monies of the City, will be used to (i) finance the construction and improvement of the wastewater collection and treatment system of the City, (ii) refund certain outstanding Wastewater System Revenue Bonds (as defined herein), (iii) fund a deposit to the Reserve Fund, and (iv) pay certain costs of issuing the Series 2015AB Senior Lien Bonds. See “Plan of Finance” herein.

The Series 2015AB Senior Lien Bonds are special, limited obligations of the City payable from the Revenues and amounts on deposit in the Sewer Construction and Maintenance Fund, Debt Service Fund, Reserve Fund and Construction Funds as defined in the General Resolution. The City is not obligated to make payments from any other source. The Series 2015AB Senior Lien Bonds are not payable from the General Fund of the City and are not a general obligation of the City, and neither the full faith and credit nor the taxing power of the City is pledged to the payment of any amounts due on the Series 2015AB Senior Lien Bonds.

Interest on the Series 2015AB Senior Lien Bonds will be payable on June 1 and December 1, commencing on December 1, 2015. The Series 2015AB Senior Lien Bonds will be issued as fully-registered bonds, will mature in the principal amounts in each year (subject to prior redemption), and will bear interest at the respective rates per annum as set forth on the inside cover of this Official Statement. The Series 2015AB Senior Lien Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”). DTC will act as securities depository for the Series 2015AB Senior Lien Bonds. Ownership interests in the Bonds may be purchased in book-entry form only. So long as DTC or its nominee is the Owner of the Series 2015AB Senior Lien Bonds, payments of the principal of, redemption premium, if any, and interest on the Series 2015AB Senior Lien Bonds will be made as described in APPENDIX G – “Book-Entry Only System” attached hereto.

The Series 2015AB Senior Lien Bonds are subject to optional redemption and mandatory sinking fund redemption prior to maturity. See “Redemption of the Series 2015AB Senior Lien Bonds” herein.

This cover page contains information for general reference only. Potential purchasers are advised to read the entire Official Statement to obtain information essential to making an informed investment decision.

The Series 2015AB Senior Lien Bonds are offered when, as and if issued, subject to the approval of legality by Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel. Certain legal matters will be passed upon for the City by Hawkins Delafield & Wood LLP, Los Angeles, California, Disclosure Counsel to the City, and by Michael N. Feuer, City Attorney, and for the Underwriters by their counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation, Sacramento, California. It is anticipated that the Series 2015AB Senior Lien Bonds will be available for delivery to DTC in New York, New York on or about June __, 2015.

Siebert Brandford Shank & Co., L.L.C.
Backstrom McCarley Berry & Co., LLC

BofA Merrill Lynch
Morgan Stanley

Dated: May __, 2015

* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any jurisdiction in which such offer, solicitation, or sale would be unlawful.

MATURITY SCHEDULES

\$182,655,000*

City of Los Angeles Wastewater System Revenue Bonds, Series 2015-A (Green Bonds)

Year (June 1)	Principal Amount	Interest Rate	Yield	CUSIP [†] (Base: 53945C)
	\$	%	%	

\$ _____ % Term Bonds due June 1, 20__ Yield: ____% CUSIP[†] No. 53945C ____

\$40,915,000*

City of Los Angeles Wastewater System Revenue Bonds, Refunding Series 2015-B

Year (June 1)	Principal Amount	Interest Rate	Yield	CUSIP [†] (Base: 53945C)
	\$	%	%	

\$ _____ % Term Bonds due June 1, 20__ Yield: ____% CUSIP[†] No. 53945C ____

* Preliminary, subject to change.

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CITY OF LOS ANGELES

Mayor

Eric Garcetti

City Council

Gilbert Cedillo (District 1)	Nury Martinez (District 6)	Mike Bonin (District 11)
Paul Krekorian (District 2)	Felipe Fuentes (District 7)	Mitchell Englander (District 12)
Bob Blumenfield (District 3)	Bernard C. Parks (District 8)	Mitch O'Farrell (District 13)
Tom LaBonge (District 4)	Curren D. Price, Jr. (District 9)	José Huizar (District 14)
Paul Koretz (District 5)	Herb J. Wesson, Jr. (District 10)	Joe Buscaino (District 15)

City Officials

Michael N. Feuer, *City Attorney*
Ron Galperin, *City Controller*
Miguel A. Santana, *City Administrative Officer*
Antoinette Christovale, *City Treasurer*
Holly L. Wolcott, *City Clerk*

Board of Public Works

Kevin James, President
Monica Rodriguez, Vice President
Mike Davis, Commissioner
Matt Szabo, President Pro Tempore
Heather Repenning, Commissioner

Bureau of Engineering
Gary Lee Moore, P.E.
City Engineer

Bureau of Sanitation
Enrique C. Zaldivar
Director

Office of Accounting
Victoria A. Santiago
Director

Special Services

CITY DEPARTMENT ISSUING DEBT
City Administrative Officer of the City of Los Angeles
Debt Management Group
Los Angeles, California

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Los Angeles, California

DISCLOSURE COUNSEL
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Los Angeles, California

PAYING AGENT
Treasurer of the City of Los Angeles
Los Angeles, California

FINANCIAL ADVISORS
Public Resources Advisory Group
Montague DeRose and Associates, LLC

ESCROW AGENT
U.S. Bank National Association

VERIFICATION AGENT
Causey Demgen & Moore P.C.

No dealer, broker, salesperson or other person has been authorized by the City to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series 2015AB Senior Lien Bonds by a person in any jurisdiction in which it is unlawful for such person to make an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Series 2015AB Senior Lien Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

The information set forth in this Official Statement has been obtained from the City and other sources which are believed by the City to be reliable. The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the City since the date hereof. All summaries of the Series 2015AB Senior Lien Bonds, the Resolutions (as defined herein) and other documents summarized herein, are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions.

This Official Statement is submitted in connection with the issuance of the Series 2015AB Senior Lien Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2015AB SENIOR LIEN BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE SERIES 2015AB SENIOR LIEN BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AT PRICES LOWER THAN THE PUBLIC OFFERING PRICE STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

The City maintains a website at www.lacity.org. The information presented therein is not a part of this Official Statement, is not incorporated by reference herein, and should not be relied upon in making an investment decision with respect to the Series 2015AB Senior Lien Bonds.

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OFFICIAL STATEMENT

\$182,655,000*
CITY OF LOS ANGELES
Wastewater System Revenue Bonds
Series 2015-A (Green Bonds)

\$40,915,000*
CITY OF LOS ANGELES
Wastewater System Revenue Bonds,
Refunding Series 2015-B

INTRODUCTION

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents described herein. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, provisions of the Constitution, the City Charter and laws of the State of California and any documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions. All capitalized terms used in this Official Statement and not otherwise defined herein have the meanings set forth in the Resolutions.

General

The \$182,655,000* City of Los Angeles Wastewater System Revenue Bonds, Series 2015-A (Green Bonds) (the “Series 2015-A Senior Lien Bonds”), and the \$40,915,000* City of Los Angeles Wastewater System Revenue Bonds, Refunding Series 2015-B (the “Series 2015-B Senior Lien Bonds” and, together with the Series 2015-A Senior Lien Bonds, the “Series 2015AB Senior Lien Bonds”) are being issued by the City of Los Angeles (the “City”) pursuant to the Charter of the City of Los Angeles (the “City Charter”), Article 6.7 of Chapter 1 of Division 11 of the Administrative Code of the City (the “Procedural Ordinance”), and the Wastewater System Revenue Bonds General Resolution, adopted by the Council of the City (the “City Council”) on November 10, 1987, as amended and supplemented (the “General Resolution”), including as amended and supplemented by the Twenty-Eighth Supplemental Resolution, adopted by the City Council on May 12, 2015 (the “Twenty-Eighth Supplemental Resolution”) and, with respect to the Series 2015-B Senior Lien Bonds, Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 (Section 53570 *et seq.* and Section 53580 *et seq.*, respectively) of the California Government Code (as amended, the “Refunding Law”). Under the General Resolution, the City has previously issued Senior Lien Bonds (the “Existing Senior Lien Bonds”) in the original aggregate principal amount of \$5,117,621,473.50, of which \$1,056,750,000 is Outstanding. See “Financial Operations of the Wastewater System – Outstanding Indebtedness” herein.

The proceeds of the Series 2015AB Senior Lien Bonds, together with certain available monies of the City, will be used to (i) finance the construction and improvement of the wastewater collection and treatment system of the City, (ii) refund certain outstanding Wastewater System Revenue Bonds (as defined herein), (iii) fund a deposit to the Reserve Fund, and (iv) pay certain costs of issuing the Series 2015AB Senior Lien Bonds. See “Plan of Finance” herein.

Under the Subordinate General Resolution adopted by the City Council on March 26, 1991, as amended and supplemented (the “Subordinate General Resolution”), the City has issued bonds

* Preliminary, subject to change.

("Subordinate Bonds") that have a lien on Revenues (herein defined) subordinate to that of the Senior Lien Bonds in the original aggregate principal amount of \$3,079,750,000, of which \$1,350,780,000 is Outstanding. Under the Subordinate General Resolution, the City has also authorized a maximum of \$400,000,000 aggregate principal amount of Subordinate Bonds in the form of commercial paper notes (the "CP Notes"). The maximum amount of CP Notes that may be Outstanding at any particular time under the existing Letters of Credit (the "Letters of Credit") for the CP Notes is \$200,000,000. There are currently \$110,000,000 in aggregate principal amount of CP Notes Outstanding. See "Financial Operations of the Wastewater System – Outstanding Indebtedness" herein.

In addition to the Series 2015AB Senior Lien Bonds, the City is planning to issue, subject to market conditions, approximately \$100 million additional Senior Lien Bonds to refund certain outstanding CP Notes, approximately \$120 million additional Senior Lien Bonds to refund all or a portion of certain series of Senior Lien Bonds and Subordinate Bonds, and approximately \$22 million additional Subordinate Bonds to refund certain Senior Lien Bonds and Subordinate Bonds on or about June 30, 2015. Additional Senior Lien Bonds and Subordinate Bonds may be issued pursuant to the provisions of the General Resolution and the Subordinate General Resolution, respectively, subject to satisfaction of the conditions precedent set forth therein. See "Plan of Finance" and "Security and Sources of Payment for the Series 2015AB Senior Lien Bonds – Additional Senior Lien Bonds" and "– Additional Subordinate Bonds" herein.

The System

The City owns and operates the System, which serves an approximately 600 square mile area with a population in excess of four million or approximately half of the population of Los Angeles County. The System has two distinct service areas: the Hyperion System and Terminal Island System (each as described herein). Total average daily flow during Fiscal Year 2014 was 363 million gallons per day. The System also provides wastewater conveyance, treatment and disposal services to 29 sanitation districts, cities, governmental entities and private businesses which adjoin the City. The System consists of more than 6,700 miles of sewers and interceptors, four treatment plants and various other facilities.

Security and Sources of Payment for the Series 2015AB Senior Lien Bonds

Series 2015AB Senior Lien Bonds. The Series 2015AB Senior Lien Bonds are revenue bonds secured by and payable from certain limited revenues of the City received from the ownership and/or operation of the System. The Series 2015AB Senior Lien Bonds, the Existing Senior Lien Bonds, and any other bonds issued in the future under the General Resolution (collectively, the "Senior Lien Bonds") are secured by a pledge of and first lien on (i) Revenues (defined below); and (ii) all moneys and securities held in the Reserve Fund, the Debt Service Fund (except for amounts segregated for the payment of specific Senior Lien Bonds that have become due and payable or that have been called for redemption, which amounts are held in trust for such specific Senior Lien Bonds only), and the Construction Funds. "Revenues" consist of all revenues of the City's Sewer Construction and Maintenance Fund (the "SCM Fund") and revenues otherwise attributable to the System, including earnings received from investments in the SCM Fund, the Debt Service Fund, the Reserve Fund and the Emergency Fund, provided that Revenues shall not include any amount received from the levy or collection of taxes, amounts designated for capital costs received under contracts with contracting agencies, moneys received as grants, earnings on the Construction Funds or the proceeds of borrowings or insurance. See "Security and Sources of Payment for the Series 2015AB Senior Lien Bonds" herein.

Pursuant to the General Resolution, Revenues in the SCM Fund are to be used on an ongoing basis to pay or provide for the ordinary and reasonable expenses of the operation and maintenance of the System including, without limitation, refunds and the reasonable expenses of management, repair and

other expenses necessary to maintain and preserve the System in good repair and working order when such amounts become due in the ordinary course of business. On or before the twenty-fifth day of each month, the City is to transfer amounts from the SCM Fund to the Debt Service Fund, Reserve Fund, and Emergency Fund (all held under the General Resolution for the Senior Lien Bonds), amounts sufficient to make the deposits therein required under the General Resolution.

Limited Obligations. The Series 2015AB Senior Lien Bonds are special, limited obligations of the City payable from the Revenues and amounts on deposit in the SCM Fund, Debt Service Fund, Reserve Fund and Construction Funds as defined in the General Resolution. The City is not obligated to make payments from any other source. The Series 2015AB Senior Lien Bonds are not payable from the General Fund of the City and are not a general obligation of the City, and neither the full faith and credit nor the taxing power of the City is pledged to the payment of any amounts due on the Series 2015AB Senior Lien Bonds.

Forward-Looking Statements

Certain statements included or incorporated by reference in the Official Statement constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “budget,” “projected” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Although the City believes that such expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. The City is not obligated to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur.

Continuing Disclosure

For purposes of assisting the Underwriters in complying with Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission (the “Rule”), the City has agreed to provide audited financial statements of the City for the SCM Fund and other financial and operating data relating to the System, not later than the June 30 after the end of each Fiscal Year, commencing on June 30, 2016 for the report for Fiscal Year 2014-15, or if the Fiscal Year-end changes from June 30, not later than 365 days after the end of the City’s Fiscal Year, to the Electronic Municipal Market Access (“EMMA”) database maintained by the Municipal Securities Rulemaking Board (the “MSRB”), and to provide notices to the MSRB through EMMA of the occurrence of certain enumerated events, as required by the Rule. See “Continuing Disclosure” herein and Appendix H – “Form of Continuing Disclosure Certificate” attached hereto.

Miscellaneous

Copies of the resolutions and additional information may be obtained upon request from the Office of the City Administrative Officer, City of Los Angeles, 200 North Main Street, City Hall East, Room 1500, Los Angeles, California 90012, Attention: Debt Management Group, (213) 473-7500. Certain capitalized terms used herein have the meanings ascribed to such terms in Appendix B – “Glossary of Defined Terms” attached hereto. See also Appendix D – “Glossary of System Terms” attached hereto.

PLAN OF FINANCE

Series 2015-A Senior Lien Bonds. The proceeds of the Series 2015-A Senior Lien Bonds will be used to (i) finance the construction and improvement of the System, including environmentally beneficial projects or portions thereof, (ii) fund a deposit to the Reserve Fund, and (iii) pay certain costs of issuing the Series 2015-A Senior Lien Bonds.

The City has designated the capital improvements to be financed with the proceeds of the Series 2015-A Senior Lien Bonds as “Green Projects” based on the environmental benefits of these capital facilities. These projects include wastewater treatment facilities which support the overall treatment objective of meeting the discharge standards in the NPDES (as herein defined) permits, wastewater collection and pumping facilities which reduce sewage spills, water recycling projects and air quality projects that support the construction and operation of the wastewater facilities. Accordingly, the City has designated the Series 2015-A Senior Lien Bonds to be used to finance such projects as “Green Bonds.” The terms “Green Project” and “Green Bonds” are neither defined in nor related to provisions in the General Resolution. Owners of the Series 2015-A Senior Lien Bonds do not have any security other than as provided in the General Resolution nor do such owners of the Green Bonds assume any specific project risk related to any of the projects funded thereby.

The Green Bonds, as with all Senior Lien Bonds, are revenue bonds secured by a pledge of and first lien on Revenues and all amounts held in the Reserve Fund, the Debt Service Fund (except for amounts segregated for the payment of specific Senior Lien Bonds that have become due and payable or that have been called for redemption, which amounts are held in trust for such specific Senior Lien Bonds only), and the Construction Funds. The City assumes no obligation to ensure that those projects designated as Green Projects comply with any legal or other standards or principles that relate to Green Projects. The proceeds of the Green Bonds will be deposited into a segregated account. The City will file annual updates regarding the use of the proceeds of all of the Green Bonds on the EMMA website at <http://www.emma.msrb.org> by December 31 after the end of each Fiscal Year until the City completes of these projects, at which time no further updates will be provided. The information on this web site is not incorporated herein by this reference.

Series 2015-B Senior Lien Bonds. The proceeds of the Series 2015-B Senior Lien Bonds, together with certain available monies of the City, will be used to (i) current refund certain of the City’s Outstanding Wastewater System Revenue Bonds, Refunding Series 2005-A (the “Series 2005-A Senior Lien Bonds”) as further described below, (ii) fund a deposit to the Reserve Fund, and (iii) pay certain costs of issuing the Series 2015-B Senior Lien Bonds.

The following table sets forth the Series 2005-A Senior Lien Bonds being considered for refunding with proceeds of the Series 2015-B Senior Lien Bonds. The City will determine the maturities of the Series 2005-A Senior Lien Bonds to be refunded at the time of the pricing of the Series 2015-B Senior Lien Bonds. Any such Series 2005-A Senior Lien Bonds to be refunded will be redeemed approximately 30 days following the date of issuance of the Series 2015-B Senior Lien Bonds.

<u>Maturity (June 1)</u>	<u>Outstanding Principal Amount</u>	<u>Principal to be Refunded</u>	<u>Redemp tion Price⁽¹⁾</u>	<u>CUSIP⁽²⁾</u>
2029	\$ 2,455,000	\$	100%	53945CBV1
2030	2,570,000		100	53945CBW9
2031	2,705,000		100	53945CBX7
2032	2,830,000		100	53945CBY5
2034 [†]	23,725,000		100	53945CCB4
2035	<u>12,760,000</u>		100	53945CCC2
Total	<u>\$47,045,000</u>	\$		

[†] Term Bond maturing on June 1, 2034.

(1) Expressed as a percentage of the principal amount.

(2) Copyright, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by the CUSIP Service Bureau, managed on behalf of the American Bankers Association by Standard & Poor's. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services Bureau. CUSIP numbers have been assigned by an independent company not affiliated with the City and are included solely for the convenience of the registered owners of the referenced bonds. Neither the City nor the Underwriters are responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the applicable bonds or as included herein.

To effect the refunding of the Series 2005-A Senior Lien Bonds (the portion thereof being refunded being referred to herein as the "Refunded Bonds"), the City intends to deposit into an escrow fund (the "Escrow Fund") to be held by U.S. Bank National Association (the "Escrow Agent") proceeds of the Series 2015-B Senior Lien Bonds and certain available monies on deposit under the Resolution relating to the Refunded Bonds. Amounts on deposit in the Escrow Fund will be sufficient to redeem the Series 2005-A Senior Lien Bonds on their date of redemption at a redemption price equal to the principal amount of the Refunded Bonds to be redeemed plus accrued interest thereon to the date of redemption, without premium. The Escrow Fund will be established under an escrow deposit agreement (the "Escrow Agreement") between the City and the Escrow Agent. The amounts in the Escrow Fund will be available only for the payment of the Refunded Bonds. After the deposit of the monies into the Escrow Fund as described above, the Refunded Bonds will no longer be secured by or entitled to the benefits of the General Resolution, except for the purposes of payment of such Refunded Bonds from the moneys held in the Escrow Account therefor.

Additional 2015 Issuance.* In addition to the Series 2015AB Senior Lien Bonds, the City is planning to issue, subject to market conditions, approximately \$100 million additional Senior Lien Bonds to refund certain outstanding CP Notes (the "Series 2015-C Senior Lien Bonds"), approximately \$120 million additional Senior Lien Bonds to refund all or a portion of certain series of Senior Lien Bonds and Subordinate Bonds (the "Series 2015-D Senior Lien Bonds"), and approximately \$22 million additional Subordinate Bonds to refund certain Senior Lien Bonds and Subordinate Bonds (the "Series 2015-A Subordinate Bonds") on or about June 30, 2015.

* Preliminary, subject to change.

ESTIMATED SOURCES AND USES OF FUNDS

The Series 2015 Senior Lien Bond proceeds, together with certain other amounts, are expected to be applied as set forth below:

	<u>Series 2015-A</u> <u>Senior Lien Bonds</u>	<u>Series 2015-B</u> <u>Senior Lien Bonds</u>	<u>Total</u>
Estimated Sources of Funds			
Principal Amount	\$	\$	\$
Original Issue Premium			
Release from the Debt Service Reserve Fund	--		
Total	<u>\$</u>	<u>\$</u>	<u>\$</u>
Estimated Uses of Funds			
Deposit to Reserve Fund	\$	\$	\$
Deposit to Construction Fund			
Deposit to Escrow Fund			
Costs of Issuance ⁽¹⁾			
Total	<u>\$</u>	<u>\$</u>	<u>\$</u>

⁽¹⁾ Includes underwriters' discount, financial advisors fees and expenses, rating agency fees, escrow agent fees, verification agent fees, bond counsel fees and expenses, disclosure counsel fees and expenses, printing costs and other miscellaneous expenses.

DESCRIPTION OF THE SERIES 2015AB SENIOR LIEN BONDS

The Series 2015AB Senior Lien Bonds will be dated and will bear interest from their date of delivery. Interest on the Series 2015AB Senior Lien Bonds will be payable semi-annually on June 1 and December 1, commencing on December 1, 2015. Interest will be calculated on the basis of a year of 360 days and twelve 30-day months. The Series 2015AB Senior Lien Bonds will be issuable as fully-registered bonds, will mature in the principal amounts in each year (subject to prior redemption), and will bear interest at the respective rates per annum as set forth on the inside cover of this Official Statement.

The Series 2015AB Senior Lien Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Series 2015AB Senior Lien Bonds. Ownership interests in the Series 2015AB Senior Lien Bonds may be purchased in book-entry form only. So long as DTC or its nominee is the Owner of the Series 2015AB Senior Lien Bonds, payments of the principal of, redemption premium, if any, and interest on the Series 2015AB Senior Lien Bonds will be made as described in Appendix G – "Book-Entry Only System" attached hereto.

REDEMPTION OF THE SERIES 2015AB SENIOR LIEN BONDS

Redemption of the Series 2015AB Senior Lien Bonds

Optional Redemption.* The Series 2015-A Senior Lien Bonds maturing before June 1, 20__ are not subject to redemption before their stated maturities. The Series 2015-A Senior Lien Bonds maturing

* Preliminary, subject to change.

on or after June 1, 20__ are subject to redemption, as a whole or in part as designated by the City, or, absent such designation, pro rata among maturities and by lot within any one maturity if less than all of the Series 2015-A Senior Lien Bonds of such maturity are to be redeemed, prior to their respective maturity dates, at the option of the City, on any date on or after June 1, 20__, at a redemption price equal to the principal amount of the Series 2015-A Senior Lien Bonds to be redeemed plus accrued interest thereon to the date of redemption, without premium.

The Series 2015-B Senior Lien Bonds maturing before June 1, 20__ are not subject to redemption before their stated maturities. The Series 2015-B Senior Lien Bonds maturing on or after June 1, 20__ are subject to redemption, as a whole or in part as designated by the City, or, absent such designation, pro rata among maturities and by lot within any one maturity if less than all of the Series 2015-B Senior Lien Bonds of such maturity are to be redeemed, prior to their respective maturity dates, at the option of the City, on any date on or after June 1, 20__, at a redemption price equal to the principal amount of the Series 2015-B Senior Lien Bonds to be redeemed plus accrued interest thereon to the date of redemption, without premium.

Mandatory Sinking Fund Redemption.* The Series 2015-A Senior Lien Bonds maturing on June 1, 20__ are subject to mandatory sinking fund redemption prior to maturity, commencing on June 1, 20__, and on each June 1 thereafter, at a redemption price equal to the principal being redeemed, without premium, from mandatory sinking account payments which have been deposited in the debt service fund created for the Series 2015-A Senior Lien Bonds, in the principal amounts set forth below (subject to adjustment in the event of an optional redemption of the Series 2015-A Senior Lien Bonds, as provided in the Twenty-Eighth Supplemental Resolution):

Series 2015-A Senior Lien Term Bonds Maturing June 1, 20__	
Redemption Date (June 1)	Principal Amount
	\$
(maturity)	

The Series 2015-B Senior Lien Bonds maturing on June 1, 20__ are subject to mandatory sinking fund redemption prior to maturity, commencing on June 1, 20__, and on each June 1 thereafter, at a redemption price equal to the principal being redeemed, without premium, from mandatory sinking account payments which have been deposited in the debt service fund created for the Series 2015-B Senior Lien Bonds, in the principal amounts set forth below (subject to adjustment in the event of an optional redemption of the Series 2015-B Senior Lien Bonds, as provided in the Twenty-Eighth Supplemental Resolution):

Series 2015-B Senior Lien Term Bonds Maturing June 1, 20__	
Redemption Date (June 1)	Principal Amount
	\$
(maturity)	

* Preliminary, subject to change.

Selection of Series 2015AB Senior Lien Bonds for Redemption. The Series 2015AB Senior Lien Bonds that are subject to optional redemption will be selected among such maturities as the City may designate, or, absent such designation, shall be redeemed pro rata among maturities. The Series 2015AB Senior Lien Bonds shall be redeemed by lot within any one maturity, in any manner the City shall deem appropriate.

Notice of Redemption of Series 2015AB Senior Lien Bonds

At least 20 days and no more than 60 days before each date of redemption, the City will give notice by mail or telecopy or other electronic means of communication to each registered owner of a Series 2015AB Senior Lien Bond to be redeemed at the owner's registered address. So long as DTC is the registered owner of Series 2015AB Senior Lien Bonds to be redeemed, notice of redemption shall be sent to DTC. Failure to give any required notice of redemption will not affect the validity of the call for redemption of any Series 2015AB Senior Lien Bond in respect of which no failure occurs.

The notice of redemption shall (i) specify the Series 2015AB Senior Lien Bonds to be redeemed, the redemption date, the redemption prices, or if applicable, a description of the mechanism or method for obtaining the redemption price and the place or places where amounts due upon such redemption will be payable and, if less than all of the Series 2015AB Senior Lien Bonds of a Series are to be redeemed, the numbers of the Series 2015AB Senior Lien Bonds, and the portions of Series 2015AB Senior Lien Bonds, to be redeemed; (ii) state any condition to such redemption or, if applicable, a description of the mechanism or method for determining the redemption price; (iii) state that on the redemption date, and upon the satisfaction of any such condition, the Series 2015AB Senior Lien Bonds to be redeemed shall cease to bear interest and, if at any time the Series 2015 Bonds to be redeemed are no longer book-entry bonds, such notice of redemption shall further contain the following information: (i) the CUSIP numbers of all Series 2015AB Senior Lien Bonds or portions thereof being redeemed; (ii) the date of original issuance of the Series 2015AB Senior Lien Bonds; (iii) the rate of interest borne by the Series 2015AB Senior Lien Bonds being redeemed; (iv) the maturity date of the Series 2015AB Senior Lien Bonds being redeemed; and (v) any other descriptive information to identify accurately the Series 2015AB Senior Lien Bonds or portions thereof being redeemed.

Any notice of redemption may be conditional, other than notice of redemption from mandatory sinking fund payments, and may be rescinded by written notice given by the City. Upon such rescission, the City shall give notice of such rescission in the same manner (*i.e.*, by mail or by telecopy or other electronic means of communication), and to the same persons, as notice of such redemption was given. Any optional redemption of the Series 2015AB Bonds and notice thereof shall be rescinded and cancelled if for any reason on the date fixed for redemption moneys are not available and held in trust for such purpose in an amount sufficient to pay in full on such date the principal of, interest, and any premium due on such Series 2015AB Bonds called for redemption.

Effect of Redemption of Series 2015AB Senior Lien Bonds

On the date designated for redemption, notice having been given in the manner and under the conditions provided in the General Resolution and moneys for payment of the redemption price being held in trust to pay the redemption price, the Series 2015AB Senior Lien Bonds called for redemption shall become due and payable, interest on such Series 2015AB Senior Lien Bonds shall cease to accrue, such Series 2015AB Senior Lien Bonds shall cease to be entitled to any lien, benefit or security under the General Resolution or the Subordinate General Resolution, as applicable, and the owners of such Series 2015AB Senior Lien Bonds shall have no rights in respect thereof except to receive payment of the redemption price.

**SECURITY AND SOURCES OF PAYMENT FOR
THE SERIES 2015AB SENIOR LIEN BONDS**

Sources of Payment

All Revenues received by the City from the ownership and operation of the System (less collection fees paid to the Department of Water and Power (“DWP”)) are deposited, after collection, into the SCM Fund held by the City Treasurer. The SCM Fund has been operated as a special fund of the City since it was created by an ordinance adopted by the City Council in 1970. For the City’s internal purposes, the City has also created a Sewer Operation and Maintenance Fund and a Sewer Capital Fund into which amounts from the Sewer Construction and Maintenance Fund may be transferred, and the City may create other funds into which Revenues (as defined below) are deposited or held. All of such funds are collectively referred to as the “SCM Fund,” and amounts in all of such funds will be held and used as the SCM Fund. All expenditures related to the construction, operation, maintenance and repair of the System are accounted for in the SCM Fund. Audited financial statements of the SCM Fund for the Fiscal Years ended June 30, 2014 and 2013 are attached as Appendix E hereto. The City is required to prepare annually audited financial statements of the SCM Fund.

“Revenues” means all revenues of the SCM Fund and revenues otherwise attributable to the System, including, but not limited to, those revenues currently arising as a result of the imposition of sewer service charges, industrial waste surcharge and inspection fees, sewage disposal contract charges, sewerage facility charges and bonded sewer fees and all other income and receipts derived by the City from the ownership or operation of the System or arising from the System and including amounts attributable to extensions, additions and improvements to the System and all other amounts received by the City in payment for providing wastewater collection, treatment and/or disposal services; and all earnings received from the investment of the SCM Fund, the Debt Service Fund, the Reserve Fund and the Emergency Fund; provided, however, that Revenues do not include:

- (i) any amount received from the levy or collection of taxes;
- (ii) amounts received under contracts or agreements with governmental or private entities and designated for capital costs;
- (iii) moneys received as grants from the United States of America or from the State of California;
- (iv) earnings received from the investment of the Construction Funds;
- (v) the proceeds of borrowings; and
- (vi) proceeds of insurance.

Pledge of Revenues

Under the terms of the General Resolution, the City has heretofore pledged the Revenues to secure the payment of the Outstanding Senior Lien Bonds. The City also has pledged to the payment of the Senior Lien Bonds all moneys and securities held in the Reserve Fund, the Debt Service Fund (except for amounts segregated for the payment of specific Senior Lien Bonds that have become due and payable or that have been called for redemption, which amounts are held in trust for such specific Senior Lien Bonds only) and the Construction Funds as well as all Revenues held in the SCM Fund. Such pledge is for the equal and proportionate benefit and security of all Senior Lien Bonds regardless of the time or

times of their issuance or maturity, and all Senior Lien Bonds shall be of equal rank without priority as to any Senior Lien Bond over any other Senior Lien Bond. Notwithstanding the foregoing, the General Resolution permits the issuance of obligations secured by the Revenues on a subordinated basis.

California Government Code Sections 54300 et seq. (as amended and supplemented, the “Revenue Bond Law”), pursuant to which the Outstanding Senior Lien Bonds were issued, prior to amendment in 1990, provided that the payment of principal of and interest on bonds issued pursuant to the Revenue Bond Law would be secured by an “exclusive” pledge, charge and lien upon “all” of the revenues of the financed enterprise. Such provision has been amended to delete the references to an exclusive pledge of all of the revenues. The City, at the time of the adoption of the General Resolution, (1) limited the revenues which are pledged to pay the General Resolution Bonds to those revenues within the definition of Revenues as set forth above; (2) granted the lien to secure all Additional Bonds, whether issued under the Revenue Bond Law or under other authority; and (3) provided for the issuance of subordinated obligations which may be secured by a subordinated lien on the Revenues.

In the General Resolution, the City represents and states that it has not previously pledged the Revenues, and the City covenants that, until all of the Senior Lien Bonds and the interest thereon shall have been paid or are deemed to have been paid, it will not (except for Additional Bonds issued as provided in the General Resolution) incur any obligations payable from the Revenues prior to or on a parity with the payment of the Senior Lien Bonds, except for operation and maintenance expenses, and will not grant any prior or parity pledge of Revenues or voluntarily create or permit to be created any charge or lien on the Revenues ranking prior to or on a parity with the charge and lien which secures all Senior Lien Bonds issued under the General Resolution. The City may, however, create or permit to be created a charge and lien on the Revenues ranking junior and subordinate to the charge or lien of the Senior Lien Bonds. The City also covenants in the Resolutions that it will continue to provide the System as the primary system and as a complete and operational system for the collection, transportation, treatment and disposal of sewage, wastewater and industrial wastewater within the City and will not sell, transfer or otherwise dispose of the System or any part thereof essential to the proper operation of the System except under the conditions described in the General Resolution. See Appendix C – “Summary of Certain Provisions of the Resolutions” attached hereto.

No Pledge of Refundable Credits

The City previously issued \$177,420,000 aggregate principal amount of Wastewater System Revenue Bonds Series 2010-A (the “Series 2010-A Senior Lien Bonds”) and designated such bonds as “Build America Bonds” under the provisions of the American Recovery and Reinvestment Act of 2009. The City previously issued \$89,600,000 aggregate principal amount of Wastewater System Revenue Bonds Series 2010-B (the “Series 2010-B Senior Lien Bonds”) and designated such bonds as “Recovery Zone Economic Development Bonds” under the provisions of the American Recovery and Reinvestment Act of 2009. Prior to March 1, 2013, the City received periodic payments (“Refundable Credits”) from the United States Treasury equal to 35% of the interest payable on the Series 2010-A Senior Lien Bonds and periodic Refundable Credits from the United States Treasury equal to 45% of the interest payable on the Series 2010-B Senior Lien Bonds. As a result of the Sequester (herein defined) described under “Risk Factors – Effect of Federal Sequestration on Refundable Credits,” the City expects to receive an estimated \$430,072 reduction in Refundable Credits in connection with the Series 2010-A Senior Lien Bonds and the Series 2010-B Senior Lien Bonds for the current federal fiscal year ending September 30, 2015. Until further action is taken by Congress, Sequestration will continue and there could be additional reductions for future years through and including federal fiscal year 2021.

The Refundable Credits constitute amounts payable by the Federal government under Section 6431 of the Code, and which, in the case of the Series 2010-A Senior Lien Bonds, the City has elected to

receive under Section 54AA(g)(1) of the Code. All of the Refundable Credits received by the City are to be deposited upon receipt into the debt service account established with respect to the Series 2010-A Senior Lien Bonds and the Series 2010-B Senior Lien Bonds to which they relate, and are pledged to the payment of the Series 2010-A Senior Lien Bonds and the Series 2010-B Senior Lien Bonds only. The Refundable Credits are not pledged to the payment of the Series 2015AB Senior Lien Bonds. The Refundable Credits are included in the calculation of Revenues under the General Resolution. See “– Amendment to the Resolutions Relating to the Refundable Credits” and “Risk Factors – Effect of Federal Sequestration on Refundable Credits” herein.

Flow of Funds

The SCM Fund. The City has agreed under the General Resolution that so long as any Bonds remain Outstanding it will continue to maintain the SCM Fund or another special fund or special funds into which all Revenues will be deposited and any and all such funds into which Revenues are deposited by the City shall be maintained and the amounts therein held and used as provided in the General Resolution.

Pursuant to the General Resolution, the City has agreed that it will deposit all Revenues (except the earnings on the Debt Service Fund (as defined in the General Resolution) created and held under the General Resolution and the Reserve Fund (as defined in the General Resolution) created and held under the General Resolution for which the special provision is made in the General Resolution and except for the earnings on funds created and held under Supplemental Resolutions for which special provision may be made) as collected, into the SCM Fund. All Revenues in the SCM Fund shall be held by the City in trust and applied as provided in the General Resolution, and pending such application, such amounts shall be subject to a lien and charge in favor of the Holders of the Bonds issued and Outstanding under the General Resolution.

Payment of Operation and Maintenance Expenses. Prior to making deposits into the Debt Service Fund, Reserve Fund or Emergency Fund, Revenues on deposit to the credit of the SCM Fund will be used to pay or provide for the ordinary and reasonable expenses of the operation and maintenance of the System when such amounts become due in the ordinary course of business, including, without limitation, refunds, the reasonable expenses of management, and repair and other expenses necessary to maintain and preserve the System in good repair and working order.

Deposits to the Debt Service Fund, Reserve Fund and Emergency Fund. On or before the twenty-fifth day of each month, the City must withdraw from the SCM Fund an amount sufficient to make the deposits described in (a), (b) and (c) below and to deposit such amount to the credit of the following funds and in the priority listed. If in any month available moneys are insufficient to make all of such deposits, moneys will be deposited first to the Debt Service Fund and, thereafter, to the Reserve Fund and, thereafter, to the Emergency Fund. Deposits from the SCM Fund are required to be made as follows:

(a) to the credit of the Debt Service Fund, an amount equal to the Aggregate Accrued Interest and Aggregate Accrued Principal for the current calendar month, less any Excess in the fund on the first day of the month, plus any Deficiency existing on the first day of such calendar month, plus any amount of interest or principal on Bonds which has become due and has not been paid and for which there are insufficient funds in the Debt Service Fund or another special fund or account to be used to make such payment;

(b) to the credit of the Reserve Fund, the following amounts, if any: (i) if, as of the most recent valuation of the Reserve Fund, the value thereof was less than the Reserve Fund Requirement and

the amount of such deficiency has not previously been restored, then commencing with the first month of the first Fiscal Year following such valuation and continuing until such deficiency has been eliminated (which may be by subsequent valuation), one-twelfth of the difference between the Reserve Fund Requirement and the value of the Reserve Fund on such valuation date, plus (ii) if any amount has been withdrawn from the Reserve Fund during the preceding 12 months to prevent a default on the Bonds or to make a deposit into the Rebate Fund and the Reserve Fund has not subsequently been restored to the Reserve Fund Requirement, an amount equal to one-twelfth of the amount so withdrawn, plus (iii) if any Bonds have been issued during the preceding 12 months and, at the time of such issuance, the City did not deposit into the Reserve Fund the full amount necessary to increase the amount in the Reserve Fund to the Reserve Fund Requirement and the amount of such deficiency has not previously been deposited into the Reserve Fund, an amount equal to one-twelfth of the difference between the Reserve Fund Requirement due upon the issuance of such series of Bonds and the amount deposited into the Reserve Fund at the time of issuance; and

(c) to the credit of the Emergency Fund, the following amounts, if any: (i) if, as of the most recent valuation of the Emergency Fund, the value thereof was less than the Emergency Fund Requirement and the amount of such deficiency has not previously been restored then commencing with the first month of the first Fiscal Year following such valuation and continuing until such deficiency has been eliminated (which may be by subsequent valuation), one-twelfth of the difference between the Emergency Fund Requirement and the value of the Emergency Fund on such valuation date, plus (ii) if any amount has been withdrawn from the Emergency Fund during the preceding 12 months to pay expenses arising from an emergency or a liability claim and the Emergency Fund has not subsequently been restored to the Emergency Fund Requirement, one-twelfth of the amount so withdrawn.

See “Security and Sources of Payment for the Series 2015AB Senior Lien Bonds – Reserve Fund,” “– Emergency Fund” and “– Amendment to General Resolution Relating to the Reserve Fund” herein.

Moneys Remaining in the SCM Fund. In addition to paying operation and maintenance expenses and making the deposits to the Debt Service Fund, Reserve Fund and Emergency Fund, amounts in the SCM Fund may, from time to time, be used to pay capital expenses of the System or may be used for any other lawful purpose related to the System, but if and only if all of the following conditions are met prior to any such withdrawal:

- (a) all operation and maintenance expenses are being or have been paid as they become due;
- (b) the monthly deposits to be made pursuant to certain provisions of the General Resolution for all prior months have been made in full and no Deficiency (as defined in the General Resolution) exists with respect to the Debt Service Fund as defined in and created under the General Resolution;
- (c) the amounts which are or will be required to be deposited pursuant to certain provisions of the General Resolution during the then current calendar month are deposited as provided in the General Resolution or such amounts are segregated with the SCM Fund to be used to make such deposits prior to the withdrawal or use of funds for other purposes under this paragraph; and
- (d) after such withdrawal, there will remain in the SCM Fund an amount at least equal to the amount reasonably estimated by the City to be needed to provide for the System’s operation and maintenance expenses during the next 45 days.

Any amounts in the SCM Fund which are not Revenues may be withdrawn at any time and without restriction and such amounts may be withdrawn without regard to the requirements of the

preceding paragraph, it being the intent of the General Resolution, that the various funds described in the General Resolution and the balances required to be maintained in the SCM Fund are to be maintained from the Revenues.

Rate Covenant

The City has covenanted in the General Resolution that it will, at all times while any of the Senior Lien Bonds remain Outstanding, establish, fix, prescribe and collect rates, fees and charges in connection with the use of the System so that in each Fiscal Year the Revenues will be at least sufficient to pay the following amounts: (1) the interest on and principal of the Outstanding Senior Lien Bonds as they become due and payable; (2) all other payments required for compliance with the terms of the General Resolution and of any Supplemental Resolution including, but not limited to, the required deposits to the Debt Service Fund, Reserve Fund and Emergency Fund; (3) all other payments to meet any other obligations of the City which are charges, liens or encumbrances upon, or payable from, the Revenues; and (4) all current operation and maintenance costs of the System (but not including such operation and maintenance costs as are scheduled to be paid by the City from moneys other than Revenues). The City further agrees that it will establish, fix, prescribe and collect rates, fees and charges in connection with the use of the System so that during each Fiscal Year the Net Revenues are equal to at least 125 percent of the actual debt service becoming due on Outstanding Senior Lien Bonds in such year. "Net Revenues" for any given period consist of the Revenues for such period less the Expenses for such period, but excluding any profits or losses on the early extinguishment of debt or on the sale or other disposition, not in the ordinary course of business, of investments or fixed or capital assets. "Expenses" consist of the total operating expenses of the System as determined in accordance with generally accepted accounting principles, except to the extent such items are included in such operating expenses, depreciation, interest on Outstanding Senior Lien Bonds and amortization of financing expenses.

Additional Senior Lien Bonds

In addition to the Existing Senior Lien Bonds and the Series 2015AB Senior Lien Bonds, the City may authorize one or more other series of Additional Senior Lien Bonds which are secured by the pledge of Revenues made under the General Resolution equally and ratably with Senior Lien Bonds previously issued.

As a condition to the issuance of Additional Senior Lien Bonds, except with respect to certain refunding bonds, the City shall first be required to obtain a certificate or certificates prepared by a Consultant or by Consultants showing (i) that the Net Revenues for the immediately preceding Fiscal Year or for any 12 consecutive months out of the 18 consecutive months immediately preceding the issuance of the proposed Additional Senior Lien Bonds were at least equal to 125 percent of the Maximum Annual Debt Service for all Senior Lien Bonds which will be Outstanding immediately after the issuance of the proposed Bonds, and (ii) that the estimated Net Revenues for the Fiscal Year immediately following the date of issuance of such Series of Senior Lien Bonds will be at least equal to 125 percent of Maximum Annual Debt Service for all Senior Lien Bonds which will be Outstanding immediately after the issuance of the proposed Senior Lien Bonds. For purposes of preparing the certificate described above, the Consultant may rely upon financial statements prepared by the City that have not been subject to audit by an independent certified public accountant if audited financial statements for the Fiscal Year or period are not available.

For purposes of the computations to be made as described in subsection (i) and in subsection (ii) of the preceding paragraph, the determination of Net Revenues may take into account as adjustments any increase in rates and charges and shall take into account any reductions in such rates and charges which relate to the System and which have been authorized by the City to be implemented and which will for purposes of the test described in (i) of the preceding paragraph, be effective prior to or at the time of

issuance of such proposed Bonds and for purposes of the test described in (ii) of the preceding paragraph be effective during the Fiscal Year for which such estimate is made.

Subordinate Bonds

The City has issued under the Subordinate General Resolution \$3,079,750,000 original aggregate principal amount of Subordinate Bonds, of which \$1,350,780,000 is Outstanding. Under the Subordinate General Resolution, the City has also authorized a maximum of \$400,000,000 aggregate principal amount of Subordinate Bonds in the form of CP. The maximum amount of CP Notes that may be Outstanding at any particular time under the existing Letters of Credit (the "Letters of Credit") for the CP Notes is \$200,000,000. CP Notes are currently Outstanding in the aggregate principal of \$110,000,000. The maturing principal of all of such CP Notes will be paid as they become due and payable with proceeds of the Series 2015-A Senior Lien Bonds, as described herein. See "Plan of Finance – Series 2015-B Senior Lien Bonds," "– Additional 2015 Issuance" and "Financial Operations – Outstanding Indebtedness" herein.

Refunding Senior Lien Bonds

Notwithstanding the provisions described above, the General Resolution provides that additional series of Senior Lien Bonds may be issued for the purpose of refunding any Outstanding Senior Lien Bonds without compliance with the tests set forth above if, prior to the issuance of such Senior Lien Bonds, an Authorized City Representative shall have delivered a certificate showing that the Maximum Annual Debt Service on all Senior Lien Bonds Outstanding after the issuance of the refunding Senior Lien Bonds will be equal to or less than the Maximum Annual Debt Service on all Senior Lien Bonds Outstanding prior to the issuance of such Senior Lien Bonds.

Books and Accounts

The City prepares annual financial statements of the SCM Fund in accordance with generally accepted accounting principles which are audited by an independent certified public accountant. See Appendix E – "City of Los Angeles Sewer Construction and Maintenance Fund Financial Statements and Required Supplementary Information for the Fiscal Years ended June 30, 2014 and 2013 (With Independent Auditor's Report Thereon) and Debt Service Compliance Report for the Fiscal Year ended June 30, 2014 (With Independent Auditor's Report Thereon)" attached hereto. The City will make the financial statements available for examination by any Bondholder or any Beneficial Owner and will furnish a copy of the financial statements to any Bondholder or any Beneficial Owner upon request. The City may charge a fee to cover the cost of copying.

The City is also required to prepare and adopt a budget for the SCM Fund annually prior to the beginning of the Fiscal Year and a five-year capital plan or capital budget setting forth in reasonable detail the amount expected to be expended in each year for capital needs of the System and the purposes for which such amounts are expected to be expended.

Operation and Maintenance of the System

The City covenants that it will maintain and preserve the System in good repair and working order, in conformity with standards customarily followed for municipal wastewater systems of like size and character. The City also covenants that it will from time to time make all necessary and proper repairs, renewals, replacements and substitutions to the properties of the System, so that at all times business carried on in connection with the System will and can be properly and advantageously conducted in an efficient manner and at reasonable cost.

Reserve Fund

Under the terms of the General Resolution, the Reserve Fund is required to be created and funded in an amount equal to Maximum Annual Debt Service on all Senior Lien Bonds issued and Outstanding under the General Resolution. Upon issuance of the Series 2015AB Senior Lien Bonds, amounts in the Reserve Fund will be at least equal to the Reserve Fund Requirement, which amount is \$_____.

Moneys held in the Reserve Fund are to be used for the purpose of paying principal and interest on the Senior Lien Bonds if on any principal or interest payment date the amounts in the Debt Service Fund available therefor are insufficient to pay in full the amounts then due. Moneys held in the Reserve Fund may also be used to make any deposit required to be made to a Rebate Fund if the City does not have other funds available from which such deposit can be made.

The City may satisfy the Reserve Fund Requirement in whole or in part by depositing into the Reserve Fund a Reserve Fund Insurance Policy that satisfies the requirements of the General Resolution. Amounts in the Reserve Fund in excess of the Reserve Fund Requirement are to be transferred to the Debt Service Fund for the Senior Lien Bonds. A "Reserve Fund Insurance Policy" is an insurance policy, a letter of credit or surety bond deposited in the Reserve Fund in lieu of or partial substitution for cash or securities. Debt backed by the entity providing such Reserve Fund Insurance Policy shall be rated in one of the two highest classifications by both Moody's and S&P (without reference to gradations thereof such as "plus" or "minus"). The Reserve Fund does not currently include any Reserve Fund Insurance Policy; it is fully cash funded.

The City shall annually, on or about January 15, value the Reserve Fund on the basis of the market value thereof. If upon any valuation, the value of the Reserve Fund exceeds the Reserve Fund Requirement, the excess amount shall be withdrawn and deposited into the Debt Service Fund; if the value is less than the Reserve Fund Requirement, additional deposits shall be made to the Reserve Fund. For purposes of determining the amount on deposit in the Reserve Fund, any Reserve Fund Insurance Policy shall be deemed to be a deposit in the face amount of the policy or the stated amount of the credit facility provided, as reduced by any payment made thereunder and not reinstated.

At such time as a Series of Senior Lien Bonds is to be paid in full or deemed to be paid in full, if, as a result, the amount in the Reserve Fund will exceed the Reserve Fund Requirement, the excess may at such time be used to pay or provide for the payment of the Senior Lien Bonds of such Series.

See "- Amendment to General Resolution Relating to the Reserve Fund" herein.

Emergency Fund

In 1987, the City established an Emergency Fund in connection with the issuance of the initial series of Bonds and deposited therein \$5 million. The City has never withdrawn money from the Emergency Fund and the Emergency Fund is currently funded at its original amount of \$5 million. Amounts in the Emergency Fund may be used by the City, if other funds are not readily available and sufficient, to pay extraordinary and unexpected repair or replacement expenses of the System or liability claims related to the System. Amounts will be withdrawn from the Emergency Fund only after delivery to the Treasurer of a certificate signed by an Authorized City Representative stating that an extraordinary and unexpected event has occurred or that an amount is due as a result of a liability claim, that the expense resulting from such event or the claim which is to be paid is in excess of \$500,000, that other funds are not readily available to pay such expense or claim, and that the expenditure of such funds has been duly authorized in accordance with City procedures. The Treasurer will annually, on or about

January 15 of each year, and at such other times as the City deems appropriate, value the Emergency Fund on the basis of the market value thereof. If, upon any valuation of the Emergency Fund, the value thereof is less than the Emergency Fund Requirement or if the City withdraws funds from the Emergency Fund and such withdrawal reduces the balance in such fund below the Emergency Fund Requirement, then deposits shall be made into the Emergency Fund from the SCM Fund as provided in the General Resolution. Such deposits will be made after deposits to the Debt Service Fund and Reserve Fund pursuant to the General Resolution and prior to the withdrawal or use of funds for the purpose of paying or providing for the payment of Subordinate Bonds. See “Security and Sources of Payment for the Series 2015AB Senior Lien Bonds – Flow of Funds” herein.

Insurance and Condemnation

The City agrees that it will maintain commercial insurance or provide a self-insurance reserve against loss or damage to the System from fire, storm or other causes to the extent that such insurance or reserves are customary for sewer systems in metropolitan areas. However, the City is not required to maintain insurance against earthquake damage if it determines that earthquake insurance is not available on the open market, from reputable companies at a reasonable price. The City does not currently maintain earthquake insurance on the System and does not anticipate obtaining such coverage in the future. The City is not required to maintain liability insurance or self-insurance reserves in lieu of liability insurance in any period for which the City agrees to hold the SCM Fund harmless from all general, automobile, and public liability claims filed during such period.

The City carries commercial insurance with an equipment breakdown limit of \$100 million for loss to boiler and machinery, excluding damage caused by earthquake and flood. The deductible for this policy is \$1 million and is paid from amounts in the SCM Fund. The City carries all risk property coverage with limits of \$1 billion for damage to real and personal property, excluding damage caused by earthquake and flood. The deductible for this policy is \$1 million which is covered by the SCM Fund. The City carries property terrorism coverage with limits of \$100 million for certified and non-certified acts of terrorism. The deductible for this policy is \$100,000 and is paid from amounts in the SCM Fund.

The General Resolution provides that the proceeds of any property damage insurance will be applied to the restoration, replacement or reconstruction of the property or facility lost or damaged, unless the City determines that such property or facility is not necessary to the efficient or proper operation of the System and therefore determines not to restore, replace or reconstruct such property or facilities. Any proceeds of such insurance not applied to restoration, replacement or reconstruction or remaining after such work is completed will be deposited in the SCM Fund and be available for other proper uses of funds deposited in the SCM Fund. Proceeds of any liability insurance will be applied by the City in satisfaction of the applicable claim. If the City has elected to self-insure its property damage risks, then, unless the City determines not to restore, replace or reconstruct such property or facilities, amounts in the self-insurance fund will be withdrawn and used to restore, replace or reconstruct the property or facility lost or damaged as a result of a casualty for which such fund was created. If the City has elected to self-insure its liability risk, then amounts in the self-insurance fund of the SCM Fund will be withdrawn and applied in satisfaction of claims arising as a result of events for which such fund was created.

The General Resolution provides that if any property or facilities comprising part of the System will be taken through the exercise of the power of eminent domain, the City will apply the proceeds of any award received on account of such taking to the replacement of the property or facilities so taken, unless the City determines that such property or facility is not necessary to the efficient or proper operation of the System and therefore determines not to replace such property or facilities. Any proceeds of such award not applied to replacement or remaining after such work has been completed will be deposited in the SCM Fund and be available for other proper uses of funds deposited in the SCM Fund.

Amendment to the Resolutions Relating to the Refundable Credits

The City has proposed to amend each of the Resolutions to provide for an offset to Revenues in the amount of the Refundable Credits (the amendments being referenced herein as the “Refundable Credits Amendments”). The Resolutions, as amended, would provide that (i) for the purpose of calculating Maximum Annual Debt Service, in determining the amount of interest coming due during any twelve-month period ending June 30 on any Series of Subordinate Bonds or Senior Lien Bonds, as applicable, that were issued as Build America Bonds or Recovery Zone Economic Development Bonds (collectively, “Direct Subsidy Bonds”), such amount shall be reduced by an amount equal to the Refundable Credits the City is scheduled to receive with respect to such Subordinate Bonds issued as Direct Subsidy Bonds or Senior Lien Bonds issued as Direct Subsidy Bonds, as applicable, during each such twelve-month period ending June 30 (and to avoid double counting, an equivalent amount shall be deducted from Revenues for the purpose of such calculation); and (ii) with respect to the Rate Covenant, for the purpose of calculating actual debt service becoming due on Outstanding Senior Lien Bonds (in the case of the amendment to the General Resolution), or Outstanding Senior Lien Bonds and Subordinate Bonds (in the case of the amendment to the Subordinate General Resolution), in determining the amount of interest coming due during any twelve-month period ending June 30 on any Series of Subordinate Bonds or Senior Lien Bonds, as applicable, that were issued as Direct Subsidy Bonds, such amount shall be reduced by an amount equal to the Refundable Credits the City is scheduled to receive with respect to Subordinate Bonds or Senior Lien Bonds, as applicable, during each such twelve-month period ending June 30 (and to avoid double counting, an equivalent amount shall be deducted from Revenues for the purpose of such calculation).

The Refundable Credits Amendments are not yet operative. These proposed amendments shall become operative on the date on which the written consent of the Owners of not less than 51% in aggregate principal amount of Outstanding Senior Lien Bonds and of each Insurer and Credit Provider of all Outstanding Senior Lien Bonds and the written consent of the Owners of not less than 51% in aggregate principal amount of Outstanding Subordinate Bonds and of each Insurer and Credit Provider of all Subordinate Lien Bonds has been obtained, and the other requirements of the General Resolution and Subordinate General Resolution, as applicable, have been satisfied. Purchasers of bonds issued on and after October 21, 2010, including purchasers of the Series 2015AB Senior Lien Bonds, will be deemed to have granted their consent to the proposed amendments by their purchase of such bonds. It is expected that the required consents will be obtained for the Refundable Credits Amendments upon the issuance of the Series 2015AB Senior Lien Bonds and the issuance of the additional Senior Lien Bonds as described above under “Plan of Finance-Additional 2015 Issuance” and that thereafter, upon the adoption of Refundable Credits Amendments by the City Council and satisfaction of the other requirements of the Resolutions, the Refundable Credit Amendments will become operative.

Amendment to General Resolution Relating to the Reserve Fund

The City has proposed to amend the General Resolution to provide for the establishment of a Participating Bonds Debt Service Reserve Fund (the “Participating Bonds Debt Service Reserve Fund”) and one or more Series Debt Service Reserve Funds (the “Series Debt Service Reserve Fund”) (the amendment is referred to herein as the “Reserve Fund Amendment”). The General Resolution, as amended, would provide for (i) amounts in the Participating Bonds Debt Service Reserve Fund to be used to pay the principal of and interest on the Participating Bonds (herein defined) if amounts in the related Debt Service Fund are insufficient and (ii) amounts in a Series Debt Service Reserve Fund, if any, for any one or more Series of Future Bonds (herein defined) that are not Participating Bonds to be used to pay the principal of and interest on such Series of Non-Participating Bonds (herein defined) for which such Series Debt Service Reserve Fund was established if amounts in the related Debt Service Fund are insufficient. “Participating Bonds” means all Senior Lien Bonds Outstanding prior to the effectiveness of the Reserve

Fund Amendment, including the Series 2015AB Senior Lien Bonds, and all Senior Lien Bonds issued after the effectiveness of the Reserve Fund Amendment (the “Future Bonds”) and deemed or designated by the City as Participating Bonds. “Non-Participating Bonds” means each Series of Future Bonds that are not Participating Bonds, for which there may or may not be a Series Debt Service Reserve Fund, as determined by the City at the time of issuance. Pursuant to the Reserve Fund Amendment, amounts in the Participating Bonds Debt Service Reserve Fund shall be held in trust solely as security for Participating Bonds and be used to pay only such Participating Bonds and shall not be pledged as security for or be available to pay any Series of Future Bonds that are Non-Participating Bonds and amounts in any Series Debt Service Reserve Fund established for one or more Series of Future Bonds that are not Participating Bonds shall be held in trust solely as security for such Series of Future Bonds that are not Participating Bonds secured thereby and be used to pay only such Series of Future Bonds that are not Participating Bonds and shall not be pledged as security for or be available to pay any Participating Bonds or any other Series of Future Bonds which are not secured by such Series Debt Service Reserve Fund. Pursuant to the Reserve Fund Amendment, the definition and calculation of the Reserve Fund Requirement for Participating Bonds would generally remain unchanged, except that (i) for the purpose of calculating the Reserve Fund Requirement for the Participating Bonds only, all references to Bonds under the definition of “Maximum Annual Debt Service” shall be deemed to be references to Participating Bonds and (ii) for purpose of valuing investments held in any Reserve Fund, the Treasurer shall annually, on or about January 15 of each year and at such other times as the City shall deem appropriate, value each investment held in a Reserve Fund on the basis of the amortized cost thereof; provided that investments which mature five years or more after the date of the valuation shall be valued on the basis of the market value thereof. The Reserve Fund Requirement for Non-Participating Bonds would be determined by the City at the time of issuance.

The Reserve Fund Amendment would also change the application of revenues as set forth under “Security and Sources of Payment for the Series 2015AB Senior Lien Bonds – Flow of Funds – Deposits to the Debt Service Fund, Reserve Fund and Emergency Fund.” Instead of the credit to the Reserve Fund as set forth under paragraph (b) of the referenced section, the Reserve Fund Amendment would provide for: (A) the credit of the Participating Bonds Debt Service Reserve Fund, the following amounts, if any: (i) if, as of the most recent valuation of the Participating Bonds Debt Service Reserve Fund, the value thereof was less than the Reserve Fund Requirement therefor and the amount of such deficiency has not previously been restored, then commencing with the first month of the first Fiscal Year following such valuation and continuing until such deficiency has been eliminated (which may be by subsequent valuation) one-twelfth (1/12) of the difference between the Reserve Fund Requirement for the Participating Bonds Debt Service Reserve Fund and the value of the Participating Bonds Debt Service Reserve Fund on such valuation date, plus (ii) if any amount has been withdrawn from the Participating Bonds Debt Service Reserve Fund during the preceding 12 months to prevent a default on the Bonds or to make a deposit into the Rebate Fund and the Participating Bonds Debt Service Reserve Fund has not subsequently been restored to the Reserve Fund Requirement therefor, an amount equal to one-twelfth (1/12) of the amount so withdrawn plus (iii) if any Participating Bonds have been issued during the preceding 12 months and, at the time of such issuance, the City did not deposit into the Participating Bonds Debt Service Reserve Fund the full amount necessary to increase the amount in the Participating Bonds Debt Service Reserve Fund to the Reserve Fund Requirement therefor and the amount of such deficiency has not previously been deposited into the Participating Bonds Debt Service Reserve Fund, an amount equal to one-twelfth (1/12) of the difference between the Reserve Fund Requirement upon the issuance of such Series of Participating Bonds and the amount deposited into the Participating Bonds Debt Service Reserve Fund at the time of issuance; and (B) the credit of each Series Debt Service Reserve Fund established for one or more Series of Future Bonds that are not Participating Bonds, the following amounts, if any: (i) if, as of the most recent valuation of any such Series Debt Service Reserve Fund, the value thereof was less than the Reserve Fund Requirement therefor and the amount of such deficiency has not previously been restored, then commencing with the first month of the first Fiscal Year following

such valuation and continuing until such deficiency has been eliminated (which may be by subsequent valuation) one-twelfth (1/12) of the difference between the Reserve Fund Requirement for such Series Debt Service Reserve Fund and the value of such Series Debt Service Reserve Fund on such valuation date, plus (ii) if any amount has been withdrawn from any such Series Debt Service Reserve Fund during the preceding 12 months to prevent a default on the Bonds or to make a deposit into the Rebate Fund and such Series Debt Service Reserve Fund has not subsequently been restored to the Reserve Fund Requirement therefor, an amount equal to one-twelfth (1/12) of the amount so withdrawn plus (iii) if any Future Bonds that are not Participating Bonds have been issued during the preceding 12 months for which a Series Debt Service Reserve Fund has been established and, at the time of such issuance, the City did not deposit into any such Series Debt Service Reserve Fund the full amount necessary (if any) to increase the amount in any such Series Debt Service Reserve Fund to the Reserve Fund Requirement therefor and the amount of such deficiency has not previously been deposited into such Series Debt Service Reserve Fund, an amount equal to one-twelfth (1/12) of the difference between the Reserve Fund Requirement upon the issuance of such Series of Future Bonds that are not Participating Bonds and the amount deposited into the Series Debt Service Reserve Fund at the time of such issuance; provided that the transfers to the Participating Bonds Debt Service Reserve Fund and each Series Debt Service Reserve Fund shall be made to the Participating Bonds Debt Service Reserve Fund and each Series Debt Service Reserve Fund without preference or priority between the transfers made in accordance with clauses (A) and (B) of this subparagraph (2), and in the event of any insufficiency of such moneys, ratably based on the amount required to be deposited into each such fund, without any discrimination or preference.

These proposed amendments are not operative. These proposed amendments shall become operative on the date on which the written consent of the Owners of not less than 51% in aggregate principal amount of Outstanding Senior Lien Bonds has been obtained, and the other requirements of the General Resolution have been satisfied. Purchasers of bonds issued on and after the dated date of the Series 2015AB Senior Lien Bonds, including purchasers of the Series 2015AB Senior Lien Bonds, will be deemed to have consented to the proposed amendments by their purchase of such bonds (and such consent shall be deemed to constitute the written consent of such purchasers). Purchasers of the Series 2015AB Senior Lien Bonds are the first purchasers to consent to these proposed amendments.

THE WASTEWATER SYSTEM

Service Area

The System provides wastewater collection, treatment and disposal services for an area of approximately 600 square miles that includes most of the City. The wastewater service area within the Los Angeles Basin is determined by natural drainage patterns and does not generally conform to political boundaries. Because of the economics associated with gravity flow, parts of the City are served by other agencies and the System provides wastewater service for communities outside the boundaries of the incorporated City. Areas within the City limits that are not served by the City are served by Los Angeles County Sanitation Districts. See page 22 herein for a map of the System.

Existing Facilities

Treatment Plants. The City's four wastewater treatment plants receive flows from two distinct service areas. Central, western and northern areas of the City are tributary to a coastal plant, the Hyperion Treatment Plant ("HTP"), and to two inland plants along the Los Angeles River, the Donald C. Tillman Water Reclamation Plant ("DCTWRP") and the Los Angeles-Glendale Water Reclamation Plant ("LAGWRP"). The southern harbor area of the City is tributary to the Terminal Island Water Reclamation Plant ("TIWRP"). For ease of reference, the two service areas are referred to herein as the Hyperion System and the Terminal Island System.

The following table sets forth the approximate first year of operation, the current design capacities and the influent flows of the Hyperion System treatment facilities and the Terminal Island System treatment facilities:

**TABLE 1
EXISTING WASTEWATER TREATMENT FACILITIES**

Treatment Facility	Approximate First Year of Operation	Current Design Capacity (mgd) ⁽¹⁾	Average Flow (mgd) ⁽²⁾
HYPERION SYSTEM			
Hyperion ⁽³⁾	1923	450	279
Los Angeles-Glendale ⁽⁴⁾	1976	20	19
Tillman ⁽⁴⁾	1984	<u>80</u>	<u>50</u>
Total Hyperion System		<u>550</u>	<u>348</u>
TERMINAL ISLAND SYSTEM			
Terminal Island ⁽⁵⁾	1935	<u>30</u>	<u>15</u>
TOTAL BOTH SYSTEMS		<u>580</u>	<u>363</u>

Source: City of Los Angeles, Bureau of Sanitation.

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

(2) These numbers are average flows for Fiscal Year 2014.

(3) This facility utilizes activated sludge secondary treatment.

(4) These facilities utilize activated sludge secondary treatment followed by coagulation, filtration, chlorination and dechlorination.

(5) This facility utilizes activated sludge secondary treatment, microfiltration and reverse osmosis.

Collection System. The Wastewater collection and conveyance system consists of more than 6,700 miles of mainline sewers, in excess of 100,000 maintenance holes, 44 wastewater pumping plants, and other miscellaneous facilities. Sixty-seven percent of the sewers have been in service for 50 years or more with the oldest pipes installed about 125 years ago. See "Wastewater System Capital Improvement Program – Current Major Projects of the Wastewater Capital Improvement Program – Projects under Construction – Secondary Sewer Renewal Program" herein for a description of the City's program for replacing portions of the Collection System, including renewals of secondary sewers.

The City has 24 pumping plants in the Hyperion System and 20 pumping plants in the Terminal Island System, all of which form an integral and essential part of the conveyance system. The collection system is designed with redundancy in the form of standby pumps and power supplies. Certain plants are provided with storage retention basins or emergency bypass lines to address potential collection failures.

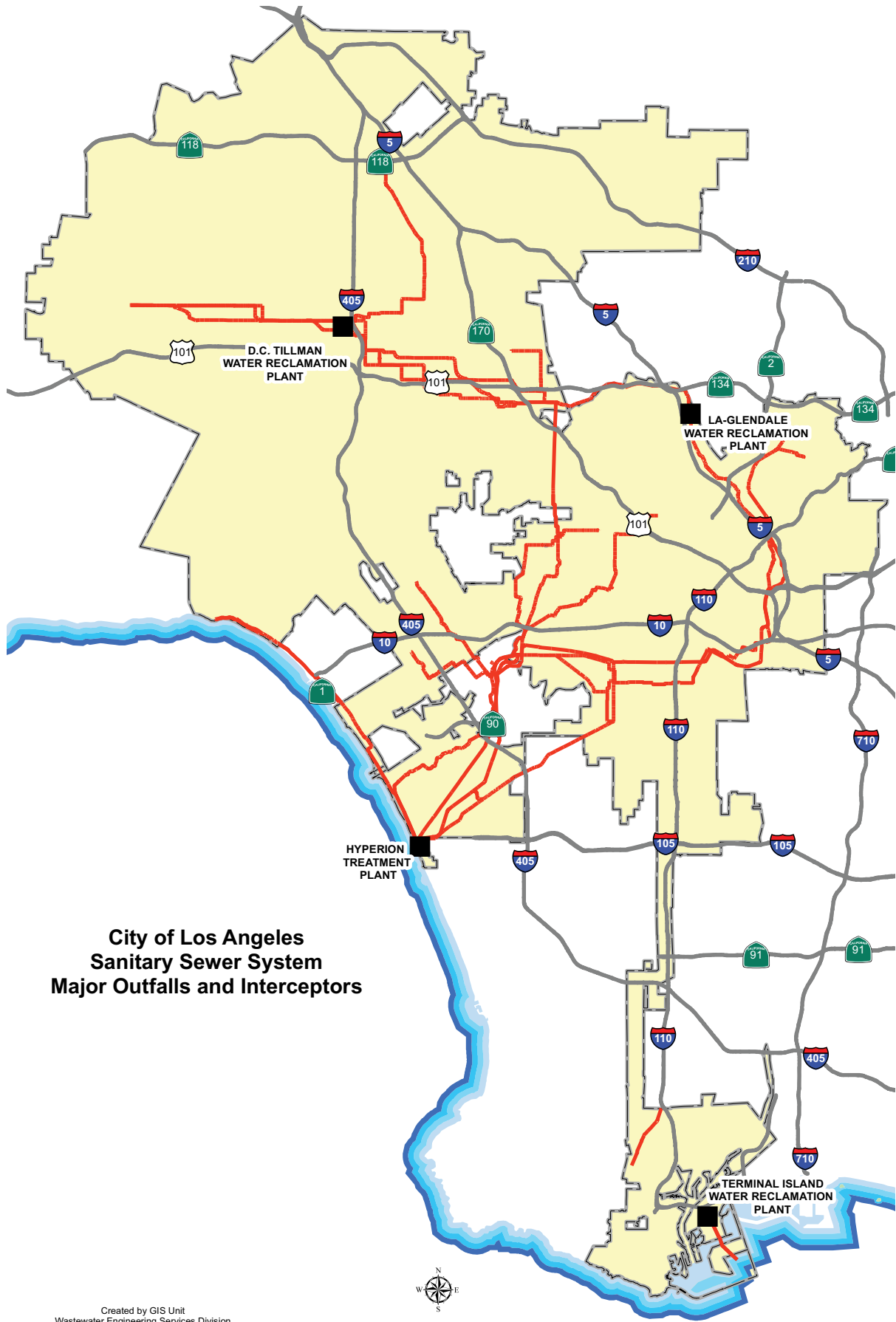
The City's stormwater collection and conveyance system is separate from the wastewater collection and conveyance system. Stormwater is discharged into the Santa Monica Bay and Los Angeles Harbor through a series of storm drains. Under certain circumstances, some dry weather urban runoff is diverted to the wastewater collection system for treatment at the HTP.

Hyperion Service Area. The Hyperion service area consists of a series of local, collector and interceptor sewers terminating at the HTP. The seven main interceptor sewers in the Hyperion service

area are the Central Outfall Sewer (“COS”), the Coastal Interceptor Sewer (“CIS”), the East Central Interceptor Sewer (“ECIS”), the Northeast Interceptor Sewer (“NEIS”), the North Central Outfall Sewer (“NCOS”), the North Outfall Sewer (“NOS”), and the North Outfall Replacement Sewer (“NORS”).

Hyperion Treatment Plant. The existing HTP, designed for an average flow of 450 mgd, currently treats an average flow of approximately 279 mgd. The HTP has a total wet weather flow capacity of 850 mgd. The HTP provides secondary treatment utilizing the pure oxygen activated sludge process.

The City has entered into two agreements with DWP to provide for steam and power to the HTP. Pursuant to a gas transfer/power purchase agreement between the City and DWP, the City delivers to DWP its surplus methane gas from the HTP in exchange for power from DWP at a significantly reduced rate. Pursuant to an operating agreement between the City and DWP, DWP supplies steam from its Scattergood Generating Station to the adjoining HTP in return for a conversion charge. A steamline has been constructed between the Scattergood Generating Station and the adjoining HTP to provide the HTP with the inexpensive process steam. The City expects the current agreements with DWP to remain in effect through 2016. In February 2014, the City selected a contractor to construct a project to beneficially reuse the digester gas generated at HTP to produce sufficient steam and electricity to operate HTP. See “Wastewater System Capital Improvement Program – Current Major Projects of the Wastewater Capital Improvement Program – Projects Under Construction” herein.



**City of Los Angeles
Sanitary Sewer System
Major Outfalls and Interceptors**

Created by GIS Unit
Wastewater Engineering Services Division
Bureau of Sanitation
Department of Public Works
City of Los Angeles
05/12/15



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Donald C. Tillman and Los Angeles-Glendale Water Reclamation Plants. The DCTWRP is designed to provide tertiary treatment for an average dry weather flow of 80 mgd and a peak wet weather flow of 160 mgd. The purpose of the DCTWRP is to treat all of the wastewater flow from the Additional Valley Outfall Relief Sewer (“AVORS”) and the East Valley Interceptor Sewer (“EVIS”), providing flow relief for downstream reaches of the interceptor system. The LAGWRP is designed to provide tertiary treatment for an average dry weather flow of 20 mgd and a peak wet weather flow of 30 mgd. This plant is able to provide flow relief for the NOS interceptor system by treating a portion of the flow from the eastern section of the San Fernando Valley and the cities of Burbank (“Burbank”) and Glendale. Sludge produced by the two water reclamation plants is returned to the interceptor system for treatment at the HTP. In Fiscal Year 2014, the DCTWRP and the LAGWRP returned a total of 8.2 mgd of sludge to the HTP for treatment.

Terminal Island Service Area and Water Reclamation Plant. The service area for the TIWRP consists of the Harbor area of the City located approximately 20 miles south of downtown Los Angeles. This area includes the communities of Wilmington and San Pedro, Terminal Island, and a portion of Harbor City. As it is geographically isolated from the rest of the City, this area requires a separate collection, treatment and disposal system. The TIWRP is designed to treat an average dry weather flow of 30 mgd and a peak wet weather flow of 55 mgd. The TIWRP has provided tertiary treatment since December 1996. The TIWRP also contains advanced wastewater purification facilities that use microfiltration and reverse osmosis to recycle five mgd of wastewater. Reclaimed water from the TIWRP is sold to DWP, which then sells the water for its own account.

System Wastewater Flow

The following table sets forth the System wastewater flows for Fiscal Years 2005 through 2014 for each treatment plant. The decrease in wastewater flow over the last decade is attributable to water conservation efforts. The System’s projected operating results set forth in Table 22 include the existing reduction in wastewater flow and include an assumed five percent reduction in sewage contributed by the System customers in Fiscal Year 2016 and no additional reductions for the remainder of the projection period. See “Financial Operations of the Wastewater System – Number of Customers and Billable Wastewater Volume” herein for a description of the effects of the City’s conservation efforts.

**TABLE 2
HISTORIC WASTEWATER FLOW
(Amounts in Million Gallons Per Day)**

Fiscal Year Ended June 30	HTP	LAGWRP	DCTWRP	TIWRP	TOTAL
2005	358	16	57	16	447
2006	337	15	54	16	422
2007	341	17	54	16	428
2008	322	17	48	16	403
2009	314	19	48	16	397
2010	300	20	48	16	384
2011	300	20	47	16	383
2012	288	20	46	14	368
2013	291	19	47	14	371
2014	279	19	50	15	363

Source: City of Los Angeles, Bureau of Sanitation.

Subscribing Agencies

Universal Terms Contracts. The City currently provides wastewater conveyance, treatment and disposal services on a wholesale basis to 20 agencies (the “Agencies”) pursuant to Universal Terms Contracts. The Agencies include the cities of Beverly Hills, Burbank, Culver City, El Segundo, Glendale, La Cañada Flintridge, Long Beach, San Fernando and Santa Monica, the Crescenta Valley Water District, the Las Virgenes Municipal Water District, several Los Angeles County Sanitation Districts, the community of Marina Del Rey and Universal City.

The Universal Terms Contracts include the following key provisions: (i) the Agencies will pay shares of the costs of the City’s amalgamated wastewater system facilities, including sewers with diameters that are 36 inches or larger and pay shares of half the costs of sewers with diameters that are 30 to 36 inches in diameter, regardless of which facilities actually treat and convey their wastewater, (ii) the Agencies’ shares of treatment costs will reflect the flow and quality of their wastewater, (iii) the Agencies’ shares of conveyance costs will reflect their flows and distances to the treatment plants, (iv) the Agencies’ charges will be based on their actual wastewater flow and quality, (v) there will be no limitation on the wastewater that an Agency can discharge into the System, (vi) the Agencies and the City will share the connection fee income paid by new customers discharging to the System, (vii) interest and penalties will be added to late payments by the Agencies, (viii) each Agency may have access to a share of the reusable water produced by the City’s water reclamation plants, and (ix) the contract will have a thirty-year term, except that the parties may initiate renegotiations after ten years for certain changed conditions. All of the Universal Terms Contracts are in effect through 2029. The City expects that wastewater service to the Agencies will be extended beyond 2029 pursuant to renegotiated contracts in part because of the large economies of scale available in the System, the difficulty associated with siting and permitting smaller treatment plants serving just the Agencies, and the high cost of connecting the Agencies’ sewer systems to other regional wastewater systems.

Sewage Disposal Contracts. The City also serves nine other agencies (each, an “SDC Entity” and together with the Agencies, the “Entities”) on a wholesale basis pursuant to the older Sewage Disposal Contracts (“SDCs” and together with the Universal Terms Contracts, the “Wastewater Service Contracts”). The nine SDC Entities operating under the older SDCs account for 0.4 mgd, which is 0.8% of the 29 Entities’ total average flow in Fiscal Year 2014. These customers include the Veteran’s Administration and several small SDC Entities. Although each SDC varies somewhat as to its terms and conditions, in general each SDC requires payment of operation and maintenance expenses and capital costs attributable to those components of the sewer system used by the SDC Entity. See “Financial Operations of the Wastewater System – Sewer Rates and Revenues – Wastewater Service Contracts” herein for a description of Revenues relating thereto.

Flow Contributed by the Entities. The Entities contributed approximately 14 percent of the System flow in Fiscal Year 2014. The five largest Entities (Beverly Hills, Los Angeles County Sanitation District Number 4, Culver City, Glendale and Santa Monica) accounted for approximately 78 percent of the 29 Entities’ total flow. The next five largest Entities accounted for approximately 15 percent of the Entities’ total flow. The following table sets forth the largest Entities and the flow contributed by each.

**TABLE 3
MAJOR SUBSCRIBING ENTITIES AND FLOW CONTRIBUTED
Fiscal Year 2014**

Entities	Actual Flow (mgd)⁽¹⁾
Glendale	14.41
Santa Monica	12.15
Beverly Hills	5.01
Culver City	4.95
Los Angeles County Sanitation District #4	3.05
Burbank ⁽²⁾	2.09
San Fernando	1.84
Crescenta Valley Water District	1.35
Marina Del Rey	1.26
El Segundo	1.24
Los Angeles County Sanitation District #5	0.68
Universal City	0.62
Los Angeles County Sanitation District #16	0.35
Las Virgenes Municipal Water District	0.34
Veterans Administration	0.33
Los Angeles County Sanitation District #9	0.24
All Others	<u>0.53</u>
Total	<u>50.44</u>

Source: City of Los Angeles, Bureau of Sanitation.

⁽¹⁾ “mgd” means million gallons per day.

⁽²⁾ Reflects the flow that was used in billing Burbank for its wastewater service. However, this amount may be revised due to flow monitoring issues that are still being resolved. The City and Burbank have agreed to appoint an independent consultant to assist in determining the actual flow.

Other Treatment Facilities. Burbank independently owns and operates a wastewater treatment facility capable of treating up to nine mgd of Burbank’s wastewater flow. The remaining flow and the biosolids from Burbank’s plant are deposited into the System. Burbank could expand its facilities to treat all of the wastewater now produced in Burbank. However, any biosolids generated by Burbank could still be discharged to the System for treatment and disposal.

The City of Glendale is responsible for 50 percent of the operation and maintenance expenses and 50 percent of all non-expansion related capital improvement costs associated with the LAGWRP that is owned and operated by the City. The City is responsible for the remainder of the operation and maintenance expenses and non-expansion related capital improvement costs and all expansion related capital improvement costs associated with this plant.

Contract Receipts. The following table sets forth WSC cash receipts from the 29 Entities for Fiscal Years 2010 through 2014. The amounts exclude approximately \$21 million in payments withheld by Burbank as a result of a disagreement on how flow is monitored. The City and Burbank have agreed to appoint an independent consultant to assist in determining the actual flow. For Fiscal Year 2014, the WSC cash receipts constituted approximately 5.7% of total System revenues.

TABLE 4
SEWER CONSTRUCTION AND MAINTENANCE FUND
CONTRACTUAL WASTEWATER SERVICES RECEIPTS
CASH BASIS (UNAUDITED)
(in Thousands)

Wastewater Service Contract Receipts	Fiscal Year Ended June 30				
	2010	2011	2012	2013	2014
Operation and Maintenance ⁽¹⁾	\$ 16,097	\$ 12,991	\$ 15,848	\$ 16,540	\$ 19,291
Capital ⁽²⁾	<u>15,382</u>	<u>9,757</u>	<u>8,946</u>	<u>8,196</u>	<u>12,153</u>
Total ⁽³⁾	<u>\$ 31,479</u>	<u>\$ 22,748</u>	<u>\$ 24,794</u>	<u>\$ 24,736</u>	<u>\$ 31,444</u>

Source: City of Los Angeles, Department of Public Works – Office of Accounting, from records of the City Controller.

⁽¹⁾ Higher amounts for Fiscal Year 2010 include payments relating to higher than usual wastewater flows from certain Agencies. Higher amounts for Fiscal Year 2012 include payments that would usually be paid in 2011.

⁽²⁾ Prior to 2014, the Entities’ shares of the System’s capital costs decreased as the total capital costs of the System have decreased. In addition, the proportion of capital costs that were billable to the Entities (*i.e.*, the costs associated with treatment and larger conveyance projects) decreased as the City focused its resources on replacing smaller sewers to meet its CSSA (herein defined) goals. Beginning in 2014, however, the total capital costs of the System began to increase. The City anticipates that that the Entities’ shares of capital costs will increase as capital costs continue to increase and as the capital program includes more projects for the treatment of wastewater and for the construction and rehabilitation of sewers with larger diameters.

⁽³⁾ Total may not equal sum of components due to rounding.

Security of the System

The System is subject to safety and security inspections on a continuing basis by the City. All four treatment plants in the System are maintained as secured facilities, with fences, gates and security guards. All pumping plants with above-ground structures have security fences. Subterranean pumping plants have padlocked hatches. Improved communications systems are being implemented. However, the City does not represent that any existing or additional safety and security measures will be adequate in the event that terrorist activities are directed against the System or that costs of security measures will not be greater than currently anticipated. Further, damage to components of the System could have a material adverse impact on the City’s expenditures for repairs to the System. See “Security and Sources of Payment for the Series 2015AB Senior Lien Bonds – Insurance and Condemnation” herein for a description of insurance for the System.

ORGANIZATION AND MANAGEMENT OF THE SYSTEM

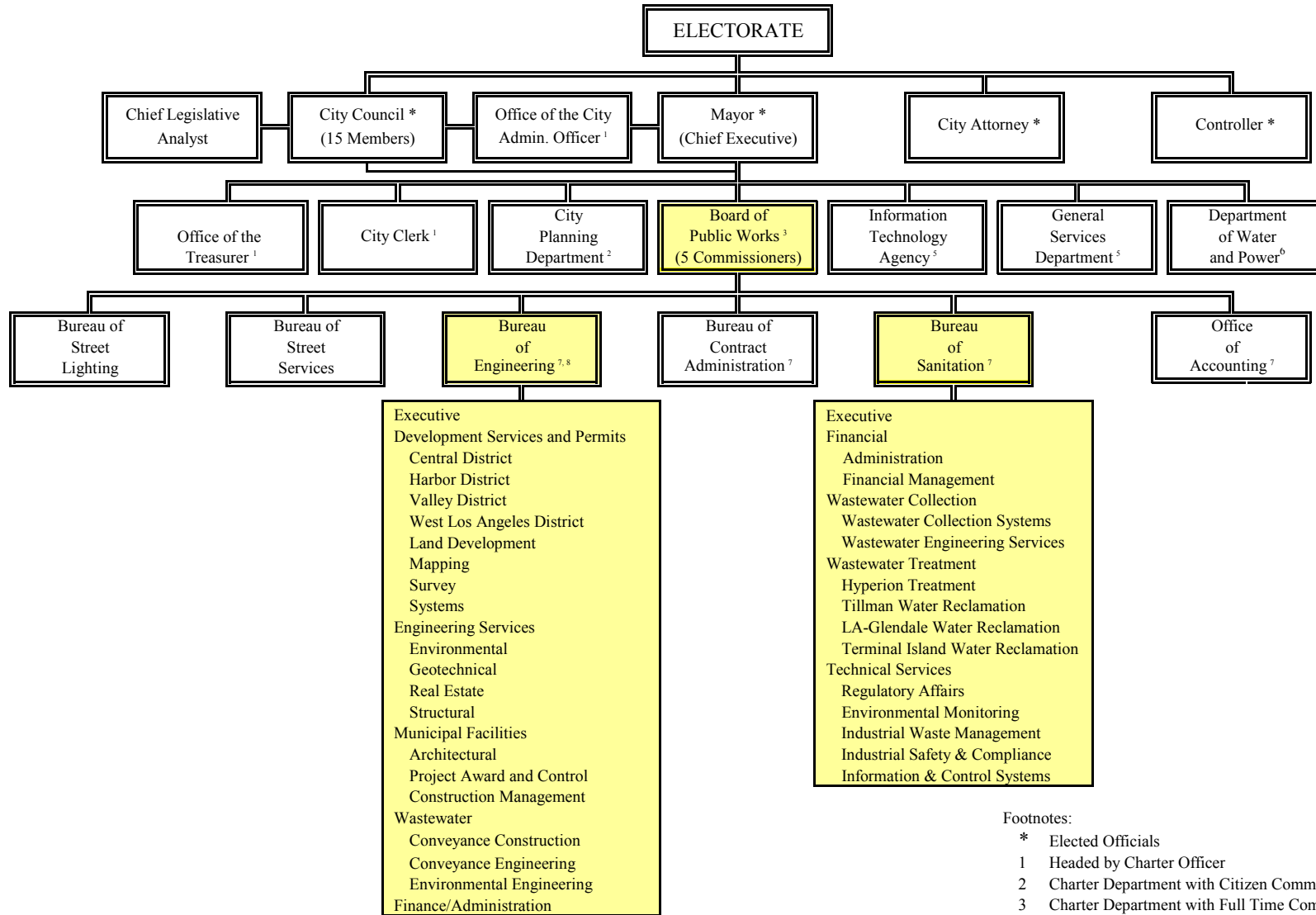
General

The City is the planning agency, owner and operator of the System. The governing body consists of the Mayor, who is chief executive of the City, and a 15-member full-time City Council, which is the legislative body. The Mayor, the members of the City Council, the City Controller and City Attorney are elected officials.

The Board of Public Works manages the Department of Public Works, which administers the City's water pollution control policy and is responsible for operation of the following bureaus: Contract Administration, Engineering, Sanitation, Street Lighting and Street Maintenance. The Board of Public Works is composed of five full-time salaried members appointed by the Mayor for a term of five years.

The Board of Public Works advertises and invites proposals for bids, awards contracts for the construction of public facilities, and coordinates the issuance of certain activity permits for use of City-owned property. An organization chart of the structure of the City government, the Department of Public Works, the Bureau of Engineering and the Bureau of Sanitation is on the following page.

CITY OF LOS ANGELES WASTEWATER SYSTEM ORGANIZATIONAL CHART



Footnotes:

- * Elected Officials
- 1 Headed by Charter Officer
- 2 Charter Department with Citizen Commission
- 3 Charter Department with Full Time Commission
- 4 Ordinance Department with Citizen Commission
- 5 Ordinance Department (No Commission)
- 6 Independent Charter Department Headed by Citizen Commission
- 7 Department of Public Works Bureaus or Offices with Responsibilities Relating to the Wastewater System
- 8 Headed by City Engineer

Office of Accounting

The Office of Accounting of the Board of Public Works (the “Office of Accounting”) provides the accounting and financial services to the Department of Public Works for all its funds and programs, including the SCM Fund and the wastewater program. The Office of Accounting bills and collects revenues from grant agencies and recipients of City services, processes appropriation and encumbrance budgetary documents, initiates payments to contractors, service providers, other City departments and employees, and assures expenditure compliance within appropriations. The Office of Accounting also prepares SCM Fund financial reports and statements, analyzes and provides information on accounting and financial matters, and operates systems to provide general ledger and cost data to departmental users.

Bureau of Engineering

The Bureau of Engineering prepares environmental assessments, preliminary designs, final plans and specifications and estimates for all storm drains, sewers, wastewater treatment plants, bridges, service yards and other public improvements. The Bureau of Engineering handles all contract documents and certain contractual relationships for the aforementioned items during construction. The Bureau of Engineering acquires rights of way and easements required for the various City projects, negotiates and administers short-term rentals of property acquired by the City, sells City-owned properties and examines titles and processes title transfers. For major design projects, such as the current Air Treatment Facilities and the rehabilitation of the North Outfall Sewer, the Bureau of Engineering’s staff is augmented through the use of engineering consultants. The City Engineer directs the operations of the Bureau of Engineering and is assisted by the Chief Deputy City Engineer and various Deputy and Division Engineers.

Bureau of Sanitation

The Bureau of Sanitation is responsible for the operation and maintenance of all facilities required for the conveyance, treatment, and disposal of wastewater, including various technical services related to wastewater. The Bureau of Sanitation also has responsibility for the collection and disposal of refuse and other solid waste and for maintenance of local storm drains.

A Director, four Assistant Directors and a Chief Financial Officer, who together constitute the Bureau of Sanitation’s Executive Office, head the Bureau of Sanitation. There are Assistant Directors in charge of the HTP, DCTWRP, LAGWRP and TIWRP; the Collection System, engineering services and watershed management; Technical Services; and Solid Resources Management. All Assistant Directors and the Chief Financial Officer report directly to the Director.

Wastewater treatment plant operations and maintenance activities are the responsibility of plant managers assigned to each of the four treatment plants. The manager of the Wastewater Collection Systems Division is responsible for operating the pump stations and for routine and emergency maintenance on both the separate sanitary sewer and local storm drain systems. The manager of Wastewater Engineering Service Division is responsible for integrated planning for the System.

Technical Services includes five divisions with wastewater functions. The Regulatory Affairs Division monitors legislation, renews and updates permits, and serves as liaison with the various regulatory agencies on matters affecting the Bureau of Sanitation’s operations and facilities. The Environmental Monitoring Division is responsible for treatment plant performance monitoring, water quality monitoring, and reporting functions. The Industrial Waste Management Division conducts industrial waste discharge ordinance compliance monitoring and enforcement. The Information/Control Systems Division produces and maintains the data processing and information control systems. The Industrial Safety and Compliance Division develops and implements training and safety programs.

The Financial Management Division handles financial matters including the development and implementation of policies and procedures. The manager of this division and the manager of the Administrative Division report directly to the Chief Financial Officer.

Bureau of Contract Administration

General. The Bureau of Contract Administration is responsible for administering contracts and permits for construction of all public works projects, including providing inspection services at construction sites, preparing statements of payments due on contracts, recommending acceptance of public improvement projects, and reviewing contractor compliance with affirmative action and minority business enterprise requirements on City projects.

Contractor Procurement. The City contracts for a variety of services related to the wastewater program, including general engineering consulting services, project design, construction management and scheduling and construction. The Fiscal Year 2015 Capital Program includes approximately 110 separate projects, which require the procurement of many contractors. Construction contracts are awarded by competitive bid and require satisfactory bonds. All firms doing business with the City must show proof of insurance in amounts as determined by the City Risk Manager. Required insurance includes but is not limited to general liability, automobile liability and worker's compensation. Additionally, a waiver of subrogation is generally required. Any firm doing business with or in the City must comply with the City business tax statutes.

WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM

General

The Wastewater System Capital Improvement Program (the "CIP") is an ongoing, ten-year, capital expenditure program. The general objectives of the CIP are to meet federal and State requirements and City policy regarding water pollution control, to provide satisfactory levels of service to users of the System, and to maintain the integrity of the System. The CIP currently includes such improvements to the System as the installation of major interceptor sewers, the renovation or replacement of other major sewers and pumping stations, and the modernization and upgrading of wastewater treatment or reclamation facilities. The City estimates that the total non-labor cost for these projects will be approximately \$1.19 billion during the five-year period from Fiscal Year 2015 through Fiscal Year 2019.

Prior Year Expenditures

The following table sets forth the capital expenditures made by the City for the CIP from Fiscal Years 1987 through 2014.

TABLE 5
WASTEWATER CAPITAL IMPROVEMENT PROGRAM EXPENDITURES
Fiscal Years 1987 through 2014⁽¹⁾ (Unaudited)
(in Thousands)

Fiscal Year Ended June 30	System-Wide Collection and Pumping	Wastewater Treatment			Major Capital Improvement ⁽⁴⁾	Capital Labor ⁽⁵⁾	Total ⁽⁶⁾
		Hyperion	Other ⁽³⁾	Total			
Prior Years ⁽²⁾	\$1,510,855	\$1,828,430	\$236,350	\$2,064,780	\$3,575,635	\$1,153,217	\$4,728,852
2005	112,566	17,089	25,276	42,365	154,931	71,141	226,072
2006	142,976	26,251	31,573	57,824	200,800	76,717	277,517
2007	111,754	27,784	60,572	88,356	200,110	84,953	285,063
2008	112,571	8,461	31,624	40,085	152,656	79,431	232,087
2009	155,827	38,458	12,311	50,769	206,596	69,938	276,534
2010	104,190	27,188	21,489	48,677	152,867	75,538	228,405
2011 ⁽⁷⁾	83,180	44,248	9,501	53,749	136,929	61,549	198,478
2012 ⁽⁷⁾	48,480	19,430	8,070	27,500	75,980	50,318	126,298
2013	71,938	32,266	6,478	38,744	110,682	77,519	188,201
2014	<u>72,059</u>	<u>23,751</u>	<u>20,520</u>	<u>44,271</u>	<u>116,330</u>	<u>74,290</u>	<u>190,620</u>
Total	<u>\$2,526,396</u>	<u>\$2,093,356</u>	<u>\$463,764</u>	<u>\$2,557,120</u>	<u>\$5,083,516</u>	<u>\$1,874,611</u>	<u>\$6,958,127</u>

Source: City of Los Angeles, Bureau of Sanitation and Office of Accounting.

(1) Actual expenditures on a cash basis. Includes the costs of issuance for bonds issued to finance capital improvements.

(2) Includes capital improvements from Fiscal Year 1987 through Fiscal Year 2004.

(3) Includes LAGWRP, DCTWRP, and TIWRP projects.

(4) Represents the sum of System-wide collection and pumping expenditures and wastewater treatment expenditures.

(5) Includes retirement contributions for System staff who work on the CIP. See "Financial Operations of the Wastewater System – Retirement and Other Postemployment Benefits Contributions" herein for a description of the System's contributions, through the City, to LACERS.

(6) Represents the sum of major capital improvement expenditures and capital labor expenditures.

(7) Capital expenditures in Fiscal Years 2011 and 2012 were reduced from capital expenditures for prior years pending the outcome of the rate adjustment process.

Current Major Projects of the Wastewater Capital Improvement Program

Current Projects. The following projects are currently included in the CIP. The cost estimates for these projects that are set forth below may increase and the expected dates of completion for these projects may be delayed due to unexpected events, circumstances or conditions. The schedule of rate increases that have been approved and the SCM Fund's bonding capacity are sufficient to fund these projects. See "– Financing Plans for the Wastewater Capital Improvement Program" herein. Portions of the projects described below consist of Green Projects to be financed with proceeds of the Series 2015-A Senior Lien Bonds. See "Plan of Finance – Series 2015-A Senior Lien Bonds" herein.

Wastewater Control System Replacement Projects. The City has two projects to replace and upgrade the existing distributed control system and supervisory control and data acquisition system at an estimated cost of \$40 million, of which \$25 million remains to be spent. Construction of the projects began in January 2012, with completion scheduled by 2017.

Venice Pumping Plant Dual Force Main. The City is planning the construction of a dual force main to handle the peak wet weather flow at the pumping plant. The estimated cost for the construction phase of this project is \$53 million. The construction phase of the project is scheduled to commence in August 2016, with completion scheduled in April 2019.

Secondary Sewer Renewal Program. In addition to the specific projects described above, the City's Secondary Sewer Renewal Program ("SSRP") will continue to be a large portion of the CIP. The City plans to renew an annual average of 50 miles of sewers for the foreseeable future, following the completion of the projects included in the Collection System Settlement Agreement ("CSSA") on June 30, 2014. The majority of these projects will be renewals of secondary sewers. The SSRP includes 38 projects to be funded in Fiscal Years 2015 through 2019, which projects are projected to cost \$54 million. See "Regulatory Requirements Affecting Operation of the System – Collection System Settlement Agreement" herein.

The Northeast Interceptor Sewer (NEIS), Phase 2A. The City is planning the construction of 3.67 miles of sewer to relieve the NOS from just south of the Los Angeles Glendale Water Reclamation Plant downstream to the existing NEIS. The estimated cost of this project is \$163 million. Construction of the project is scheduled to start in December 2015, with completion in May 2019.

Advanced Water Purification Facility Expansion. The City is planning to construct an expansion of the Advanced Water Purification Facility ("AWPF") at TIWRP to meet user demand for high purity water and comply with the TIWRP National Pollutant Discharge Elimination System ("NPDES") permit. The project will increase water production by 6.5 mgd for a total of 11.5 mgd. The estimated cost for the construction phase is \$57 million. Construction is scheduled to start in July 2015, with completion in January 2018. See "Regulatory Requirements Affecting Operation of the System – NPDES Permits" herein.

Hyperion Digester Gas Utilization Project (DGUP). The City is constructing a cogeneration facility that will use the digester gas produced at HTP to produce sufficient electricity and steam for HTP's operation. The projected cost is \$139 million. The design/build project began in February 2014, and the project is scheduled to be completed in February 2017.

Additional Projects. In addition to the above, the City plans to spend \$708 million through Fiscal Year 2019 to fund over 270 additional projects. These projects include sewer rehabilitations, new sewers and rehabilitations and process enhancements at the four treatment plants.

Proposed CIP Expenditures. The Bureau of Sanitation annually prepares a Wastewater System Capital Improvement Expenditure Program budget for the System, which is included for funding in the City’s current adopted budget. The following table sets forth a summary of the proposed CIP expenditures for Fiscal Years 2015 through 2019. The City has reduced the proposed CIP expenditures reflecting reduced projected SSC revenues resulting from water conservation. See “Financial Operations of the Wastewater System – Water Usage – General” herein. The City continually monitors its revenues and billable wastewater volume and adjusts the capital program accordingly.

TABLE 6
SUMMARY OF CAPITAL IMPROVEMENT PROGRAM
Fiscal Years 2015 through 2019
(in Thousands)

Fiscal Year Ending June 30	Major Capital Improvement ⁽¹⁾			Sub-Total Non-Labor	Capital Labor ⁽³⁾	Total
	Collection and Pumping	Wastewater Treatment ⁽²⁾	System-wide			
2015	\$ 37,400	\$ 79,100	\$ 17,400	\$ 133,900	\$ 70,100	\$ 204,000
2016	83,700	152,300	7,800	243,800	77,100	320,900
2017	113,400	128,600	3,300	245,300	71,200	316,500
2018	188,600	95,800	6,200	290,600	72,800	363,400
2019	150,500	128,900	4,200	283,600	74,500	358,100
Total	<u>\$ 573,600</u>	<u>\$ 584,700</u>	<u>\$ 38,900</u>	<u>\$1,197,200</u>	<u>\$ 365,700</u>	<u>\$ 1,562,900</u>

Source: City of Los Angeles, Bureau of Sanitation.

⁽¹⁾ Estimated.

⁽²⁾ Includes the HTP, LAGWRP, DCTWRP, and TIWRP projects.

⁽³⁾ Includes retirement contributions for System staff who work on the CIP. See “Financial Operations of the Wastewater System – Retirement and Other Postemployment Benefits Contributions” herein for a description of the System’s contributions, through the City, to LACERS (herein defined).

Integrated Resources Plan. In 2006, the City completed an Integrated Resources Plan (“IRP”) for the period through Fiscal Year 2020 that evaluated the needs of the System in conjunction with water reclamation, groundwater recharge, and stormwater management. Some of the projects set forth in the IRP are also projects to be completed pursuant to the City’s CIP. The timing and cost of specific projects depends on actual and projected wastewater flow and other factors affecting operation and maintenance. Additional projects may be required pursuant to the IRP depending on system flow, regulatory requirements and other factors. The IRP proposes capital improvements in the last three years of the plan (2018 through 2020) that are currently estimated to cost \$150 million. As described above, the CIP includes a total of \$1.6 billion of capital projects through Fiscal Year 2019. The City completed a five-year review of the IRP in June, 2012. The review resulted in the delay of certain projects and a reduction of capital expenditures due to the decline in wastewater flows. For a discussion of the projected funding sources for capital projects pursuant to the IRP, see “– Financing Plans for the Wastewater Capital Improvement Program” below.

In lieu of a five-year review of the IRP, the City has commenced development of the One Water LA 2040 Plan (the “One Water Plan”), which provides for a sustainable approach to collectively manage drinking water, stormwater, groundwater, recycled water and wastewater throughout the City through 2040. There are two phases to the One Water Plan, with Phase I consisting of the development of initial planning baselines and the establishment of guiding principles and Phase II consisting of development of projects and policies for coordinated water management and facilities planning citywide, updated

facilities plans for stormwater and wastewater, and guidance for updates of other future master plans citywide. Phase I was completed in 2014 and Phase II is scheduled to commence in 2015, with completion scheduled for early 2017. Projects and policies developed as part of the One Water Plan may result in the deferral or elimination of projects set forth in the IRP.

Program Review

The Bureau of Sanitation is responsible for final decisions relating to Wastewater Program costs and priorities. A Program Review Committee (“PRC”) consisting of the Director, Assistant Directors, and Financial Manager of the Bureau of Sanitation and the Wastewater Deputy City Engineer annually evaluates the CIP and meets monthly to consider any changes affecting the scope, cost, schedule, and overall implementation of the program. From time to time, the City Controller audits various departments and bureaus of the City. The last such audit of the Bureau of Sanitation, dated January 15, 2009 (“Controller’s Audit”), found that the Bureau of Sanitation has adequately planned for infrastructure needs to serve the City’s wastewater demands and the CIP for the System addresses the facilities, upgrades, programs and strategies necessary to move the City’s sewage from homes and businesses through the primary and secondary sewer drainage basins to the wastewater treatment and water reclamation plants.

Financing Plans for the Wastewater Capital Improvement Program

There are four primary funding sources available for the CIP: (i) System Revenues, (ii) wastewater service contracts, (iii) proceeds of debt issuances, and (iv) Federal Emergency Management Agency (“FEMA”) and other federal grants and reimbursements.

System Revenues derived from user fees will continue to finance a portion of capital improvements. Wastewater service contract capital payments made under agreements or contracts with 29 regional entities include reimbursement for certain capital improvements and related engineering and contract administration costs. Debt financing (primarily revenue bonds and commercial paper) will provide supplemental funds required by the CIP. The City estimates that a total of approximately \$1.14 billion of the CIP expenditures from Fiscal Years 2015 through 2019 will be financed through the issuance of bonds, notes or other forms of indebtedness.

The Outstanding Senior Lien Bonds and Subordinate Bonds were issued pursuant to the Charter of the City and the Revenue Bond Law of 1941. Pursuant thereto, the voters of the City authorized the issuance of wastewater system revenue bonds and notes in an aggregate principal amount of \$3.5 billion. The voters of the City subsequently approved a new Charter which became effective July 1, 2000. Under the new Charter, revenue bonds and notes of the City may be issued in accordance with the Procedural Ordinance and without any further authorization by the voters of the City. The Series 2015-A Senior Lien Bonds are the first issue of bonds to be issued pursuant to the Charter of the City and the Procedural Ordinance.

The City had \$163 million aggregate principal amount of outstanding loans from the Clean Water State Revolving Fund (the “SRF”) as of March 1, 2015. The City’s existing SRF Clean Water loans will be paid through Fiscal Year 2025. The City executed a financing agreement with the State Water Resources Control Board (“SWRCB”) to obtain a \$3 million SRF loan for a sewer rehabilitation project, a loan which will be forgiven by the SWRCB if the City complies with the terms of the loan. The sewer rehabilitation project is complete and the City has received principal forgiveness in the amount of \$533,345 for the design of the project and \$2,466,655 for the construction of the project. The SRF Clean Water loans are secured on a basis subordinate to all outstanding and hereinafter issued Senior Lien Bonds and the Subordinate Bonds, including CP Notes.

As of March 1, 2015, the SCM Fund had received a total of \$174 million in FEMA and State disaster reimbursements related to earthquake repairs for the System. All earthquake repair projects have been completed. The SCM Fund may receive approximately \$41 million in reimbursements from FEMA, the State and other City funds, subject to eligibility determinations and the availability of funds. The financial projections set forth in this Official Statement include the receipt of \$24.4 million reimbursement from FEMA. The City expects final closeout and payment of this amount to occur by Fiscal Year 2015. The City continually evaluates opportunities for federal and grant funds, but is not currently constructing any large projects that will be funded by federal or State grants.

The following table sets forth the projected major funding sources for the CIP for Fiscal Years 2015 through 2019.

TABLE 7
PROJECTED MAJOR FUNDING SOURCES FOR
WASTEWATER CAPITAL IMPROVEMENT PROGRAM⁽¹⁾
(in Thousands)

Description	Fiscal Year Ending June 30					Total
	2015	2016	2017	2018	2019	
Net Debt Financing ⁽²⁾	\$200,000	\$140,000	\$234,000	\$307,000	\$257,000	\$1,138,000
Grants / FEMA	24,400	0	0	0	0	24,400
WSC ⁽³⁾ Capital Payments	10,292	21,205	30,141	23,243	17,030	101,911
System Revenues	53,996	60,000	71,000	78,000	101,000	363,996
Interest Income	3,265	2,498	935	838	805	8,341
Use of available fund balances	<u>(87,953)</u>	<u>97,197</u>	<u>(19,576)</u>	<u>(45,681)</u>	<u>(17,735)</u>	<u>(73,748)</u>
Total ⁽⁴⁾	<u>\$204,000</u>	<u>\$320,900</u>	<u>\$316,500</u>	<u>\$363,400</u>	<u>\$358,100</u>	<u>\$1,562,900</u>

Source: City of Los Angeles, Bureau of Sanitation.

(1) Positive amounts represent a draw-down of funds. Negative amounts represent an increase in funds. Amounts attributable in each fund vary from time to time depending on projects included in the then-current CIP.

(2) Reflects use of proceeds of Bonds in the indicated Fiscal Year. See Table 22 hereof for projected debt financings and assumptions relating thereto.

(3) Wastewater Service Contracts.

(4) Excludes prior fiscal year's ending fund balance. Total may not equal sum of components due to individual rounding.

FINANCIAL OPERATIONS OF THE WASTEWATER SYSTEM

Sewer Rates and Revenues

General. The City's user fee system consists of a sewer service charge, industrial wastewater surcharge and fees, a sewerage facilities charge, wastewater service contracts and miscellaneous fees, as summarized below. The City has approved rates which will increase through Fiscal Year 2021. These rates and charges were predicated on assumptions of expected volume of wastewater operations. In April 2015, the Governor proposed several restrictions on water use in response to the continued drought in the State. Such proposals may result in a reduced volume of wastewater operations. See "– Water Usage – General" herein. In addition to the foregoing fees and charges, the City recovers the cost of System operations and maintenance (including replacement) and a portion of major capital expenditures through federal Clean Water and FEMA Grants, interest earnings and miscellaneous revenues.

- *Sewer Service Charge:* This charge is based on metered water usage and includes reduced rates for low income households and a compensating surcharge for non-low income

households and commercial customers. Revenues from the sewer service charge constitute the largest component of the System's total operating receipts, having comprised over 87% of total operating receipts of the System annually from Fiscal Year 2010 through Fiscal Year 2014. Revenues from the sewer service charge are anticipated to be approximately 87% of Revenues for Fiscal Year 2015.

- *Industrial Wastewater Surcharge and Fees:* The Quality Surcharge Fee is designed to recover the costs related to suspended solids ("SS") and biochemical oxygen demand ("BOD") strengths above normal or domestic strength values as well as costs for administering and maintaining the surcharge program. Industrial Wastewater Permit Application Fees are designed to recover the cost required to process permit applications for applicable users. Inspection and Control Fees are designed to recover the costs of necessary inspections of permitted users. Significant Industrial User fees recover a portion of additional costs incurred in the monitoring and inspection of certain industrial users subject to EPA categorical pretreatment requirements. Revenues from industrial wastewater surcharge and fees are anticipated to be approximately 2.6 percent of estimated Revenues for Fiscal Year 2015.
- *Sewerage Facilities Charge:* The Sewerage Facilities Charge ("SFC") is designed to recover the cost of the System capacity required by new sewer connections and increases in capacity required by current System users. Revenues from SFC are anticipated to be approximately 2.1 percent of Revenues for Fiscal Year 2015.
- *Wastewater Service Contracts:* The wastewater service contracts with the Entities provide for cost reimbursement of capital and operation and maintenance expenses. Revenues from WSC operation and maintenance payments are anticipated to be 3.6 percent of Revenues for Fiscal Year 2015.
- *Miscellaneous Fees:* These fees include bonded sewer fees, septage fees, sewer tap fees, and other miscellaneous revenue sources.

Pursuant to the Municipal Code of the City, all revenues derived from these user fees and charges are deposited into the SCM Fund and expended "only for sewer and sewage-related purposes, including but not limited to industrial waste control and water reclamation purposes." All interest earnings on moneys held in the SCM Fund are retained in the Fund. The methodology for developing the fee schedules for the above outlined charges is governed in part by the Municipal Code of the City of Los Angeles and the SWRCB, acting on behalf of the United States Environmental Protection Agency ("US EPA").

While the Municipal Code requires that the income from the fees and charges assessed for sewer services equal the overall cost of operation, maintenance, coverage and capital improvements of the System, the SWRCB and the US EPA impose additional requirements, relating to cost recovery, on specific components of the City's wastewater income structure. In accordance with State and federal guidelines, operation and maintenance costs, including renewal and replacement ("OM&R"), are recovered solely from the OM&R component of the sewer service charge, the OM&R component of the industrial waste surcharge and inspection and control fees, the OM&R component of the significant industrial user fee and the OM&R component of the sewage disposal contract fees. Specific revenue calculation requirements and policies for specific components of the City's sewer charges are described below.

Sewer Service Charge. The City currently imposes a Sewer Service Charge (“SSC”) based on a rate of \$3.97 per 100 cubic feet of wastewater discharged into the System. As described below, the City has adopted a series of annual SSC rate increases through Fiscal Year 2021. The adopted SSC rate increases are expected to provide approximately \$1.5 billion in additional revenues over the next ten years to fund \$1.7 billion additional capital projects and debt financing relating thereto, taking into account the most recent projections of billable wastewater volume. The City previously projected \$1.7 billion in additional revenues to fund \$2.3 billion in additional capital projects and debt financing for the next ten-year period from 2013 to 2023. The decrease in projected revenues and the reduction in capital projects reflect recent reductions in wastewater flow and corresponding adjustments to the CIP. See “– Water Usage – General” herein. The SSC is expected to provide approximately \$508 million in revenue for Fiscal Year 2015. See “Financial Operations of the Wastewater System – Projected Statement of Revenues and Expenditures” herein.

The current SSC rate and the annual SSC rate increases adopted by the City through Fiscal Year 2021 are set forth in the following table.

**TABLE 8
SEWER SERVICE CHARGE RATE INCREASES**

Effective Date	SSC Rate (\$/hcf)	Percentage Increase from Prior Year
Current Rate	\$3.97	6.5%
July 1, 2015	4.23	6.5
July 1, 2016	4.51	6.5
July 1, 2017	4.80	6.5
July 1, 2018	5.11	6.5
July 1, 2019	5.44	6.5
July 1, 2020	5.80	6.5

The determination of the SSC for residential customers, including multiple family dwellings up to four units, is based on winter water usage, which is established annually to determine each residential customer’s minimum daily water consumption. Once established, each residential customer’s minimum daily water consumption is presumed to closely approximate the sewer discharge and will be used to compute the SSC for the ensuing Fiscal Year. Qualifying low-income residential customers receive a 31 percent discount on the first 1,800 cubic feet of bimonthly wastewater volume. Low-income discounts are offset by a 0.84 percent surcharge applied to the base SSC of all other users who do not qualify as low-income residential customers and by the City’s General Fund.

The winter water use method does not apply to commercial customers, including multiple family dwellings of five or more units, industrial, governmental and other non-residential users, who are billed at the rate of \$3.97 per 100 cubic feet of 93 percent of total metered water usage effective July 1, 2014. The default percentage discharge may be adjusted within a range of 90 to 94 percent based on DWP updates to its water conservation policies, which currently includes a mandatory water conservation ordinance that imposes increased rates on water usage above certain specified levels. Prior to April 6, 2012, the default percentage discharge was 90 percent. The default percentage discharge was subsequently increased to 93 percent to reflect the use of less irrigation water, which resulted in a higher percentage of the metered water used entering the sewer. Users whose water does not enter the sewer system are not billed for that water usage.

The ten largest customers of the System for Fiscal Year 2013 provided approximately six percent of the SSC revenue in that year. The following table sets forth the SSC for each of the ten largest customers:

**TABLE 9
SEWER SERVICE CHARGE BILLED TO
TEN LARGEST CUSTOMERS
Fiscal Year 2013**

<u>User</u>	<u>Customer Type</u>	<u>SSC Billed</u>
Los Angeles Unified School District	School district	\$ 5,798,703
County of Los Angeles	Government	4,591,596
<u>City of Los Angeles</u>	Government	4,512,772
University of California – Los Angeles	Education	4,463,684
ConocoPhillips	Petroleum product refiner	3,038,794
Anheuser-Busch, Inc.	Brewing company	3,027,274
University of Southern California	Education	1,693,050
US Government	Government	1,512,589
Park La Brea	Apartment complex	1,199,573
Henry Weiss	Property maintenance; real estate agents and managers	<u>1,248,887</u>
Total		<u>\$31,086,922⁽¹⁾</u>

Source: City of Los Angeles, Bureau of Sanitation.

⁽¹⁾ Total cash basis SSC revenue for Fiscal Year 2013 was \$518,936,715.

Quality Surcharge Fees, Inspection and Control Fees, Industrial Wastewater Permit Application Fees and Significant Industrial User Fees. Pursuant to Section 64.30 of the Municipal Code of the City and the Revenue Program Guidelines for Wastewater Agencies published by the SWRCB, Division of Water Quality, the City assesses a Quality Surcharge Fee (“QSF”) on users of the wastewater system whose wastewater discharge strength, as measured by SS and BOD, is higher than 265 milligrams per liter of BOD and/or 275 milligrams per liter of SS (domestic strength). Treatment of “high strength” wastewater results in additional operating costs, such as the cost of additional chemicals, power and solids storage capacity and final disposal. Since July 1, 2014, the QSF rates have been \$0.416/lb for BOD and \$0.419/lb for SS.

The City has adopted a series of annual QSF rate increases that will go into effect through Fiscal Year 2021, which increases are expected to provide approximately \$25 million in additional revenues over the next ten years. The QSF is expected to provide approximately \$7.5 million in revenue for Fiscal Year 2015. See “Financial Operations of the Wastewater System – Projected Statement of Revenues and Expenditures” herein.

The current QSF rate and the annual QSF rate increases adopted by the City through Fiscal Year 2021 are set forth in the following table.

**TABLE 10
QUALITY SURCHARGE FEES RATE INCREASES**

Effective Date	BOD Rate (\$/pounds of BOD)	Percentage Increase from Prior Year	SS Rate (\$/pounds of SS)	Percentage Increase from Prior Year
Current Rate	\$0.416	6.0%	\$0.419	6.0%
July 1, 2015	0.441	6.0	0.444	6.0
July 1, 2016	0.470	6.5	0.472	6.5
July 1, 2017	0.500	6.5	0.503	6.5
July 1, 2018	0.533	6.5	0.536	6.5
July 1, 2019	0.567	6.5	0.571	6.5
July 1, 2020	0.604	6.5	0.608	6.5

Most of the QSF revenue is attributable to certain large customers of the System. A single industrial user, Anheuser-Busch, Inc., with a total surcharge of \$1,879,959, accounted for approximately 25 percent of the QSF revenue in Fiscal Year 2014. Baxter Healthcare Corporation is the second largest QSF revenue contributor with a total surcharge of \$708,210. Juanita Foods, Hostess Brands, and Darling International followed with total surcharges of \$317,828, \$294,737 and \$275,180 in Fiscal Year 2014, respectively.

The wastewater strength unit costs applied to QSF customers are also applied to users who participate in the low-strength SSC and “zero-based” QSF program. Under this program, users with one or both wastewater strength parameters below domestic strength values can petition for a “low-strength” SSC rate that includes only the flow component of the unit SSC. These low-strength customers are then billed for the strength component of the SSC by paying a “zero-based” QSF equal to the treatment cost for the actual concentrations of BOD and SS in their discharge.

The current “low-strength” SSC rate and the annual “low-strength” SSC rate increases adopted by the City through Fiscal Year 2021 are set forth in the following table.

**TABLE 11
“LOW-STRENGTH” SSC RATE INCREASES**

Effective Date	“Low-Strength” SSC Rate (\$/hcf)	Percentage Increase From Prior Year
Current Rate	\$2.756	6.5%
July 1, 2015	2.936	6.5
July 1, 2016	3.126	6.5
July 1, 2017	3.330	6.5
July 1, 2018	3.546	6.5
July 1, 2019	3.777	6.5
July 1, 2020	4.022	6.5

In addition to the strength charges, when applicable, the City charges three other industrial waste related fees, including an Inspection and Control Fee for each industrial user (“IU”) in possession of a valid Industrial Wastewater Permit. This fee is designed to recover the cost of inspecting and monitoring IUs and is set by ordinance. The Inspection and Control Fee currently ranges from \$291 to \$3,491 per IU

per year based on the number of site visits that are needed for each class of IUs. The City administers the Industrial Waste Source Control Program to reduce the introduction of all regulated pollutants and prevent the discharge of all prohibited pollutants into the sewer system. All IUs must obtain permits to discharge into the System. For Fiscal Year 2014, 6,352 local IUs were permitted to discharge to the System. Permit Application Fees are currently \$424. The City also has established Significant Industrial User (“SIU”) fees. All IUs with discharges in excess of 25,000 gallons per day of process wastewater, and all IUs that are subject to the Federal Categorical Pretreatment Standards established by the US EPA regardless of their discharge amounts, are classified as SIUs. There are 212 SIUs currently regulated by the City. Existing SIU fees range from \$2,646 to \$4,997, depending on the SIU classification. The City has adopted a series of annual increases through Fiscal Year 2021 for the three fees described in this paragraph. The scheduled increases and percentage increase are the same as those set forth in Table 10. The City estimates that the QSF, inspection and control fees, permit application fees and SIU fees will account for approximately 2.6 percent of estimated Revenues for Fiscal Year 2015.

The City has implemented a commercial and industrial grease control ordinance, known as the Fats, Oils and Grease Control Program (“FOG Control Program”). The goal of this program is to reduce the amount of grease that accumulates in sewers, leading to blockages and potential overflows. As of June 30, 2014, approximately 9,850 food service establishments (“FSEs”) were regulated under the FOG Control Program. These businesses are required to obtain an Industrial Wastewater Permit, pay a one-time application fee of \$424 and pay an annual Inspection and Control Fee of \$291.

As of June 2014, the City also permits and regulates approximately 1,644 dental offices in the City to control the potential discharge of certain heavy metals into the sewer system. These offices must obtain an Industrial Wastewater Permit and follow best management practices (“BMPs”) for capture of certain elements. Dental offices meeting the BMPs are inspected every five years and businesses not complying with the BMPs are inspected every year and are subject to higher fees.

Sewerage Facilities Charge. The SFC is a fee collected when a customer is initially connected to the City’s sewer system. The “System Buy-In Approach” is used to determine SFCs for new connections and increased usage of the System. The parameters used to calculate the SFC are set forth in an ordinance adopted by the City Council. These parameters permit charges for wastewater strength to be determined separately. A customer’s SFC is based on two measures of wastewater strength, BOD and SS, in addition to the customer’s flow. This approach determines the SFC based on flow and strength proportionate to shares of the equity of the wastewater system, as originally contributed by the existing system customers. The SFC is based on the reproduction cost, less depreciation value of the existing facilities, and the applicable portion of wastewater system reserve funds, minus the outstanding debt of the wastewater system. Revenue from the SFC is dependent on growth and new construction within the City.

The SFC base rates are currently \$344 per 100 gallons per day of flow, \$159 per pound per day of BOD, and \$147 per pound per day of SS. Applying the base rates to the sewage generation factors for typical three and four-bedroom single-family residences results in SFCs of \$950 and \$1,136, respectively.

Pursuant to the Municipal Code of the City, the Board of Public Works is authorized to issue refund credits to qualifying SIUs for unused capacity if: (1) the SFC payment was made and the current occupant of the property for which the SFC payment was made is an SIU, (2) the SIU is also an owner of the property for which the payment was made, (3) the flow from the property is less than the amount for which SFC payment was made, (4) the SIU can demonstrate that the reduced amount of flow was caused by the use of water conservation practices, pretreatment of discharge, or use of environmentally responsible practices and (5) the SIU, at the time of submission of the written claim, is not delinquent in payment of any monies owed with respect to sewer, water course and drains charges, including SSCs. The City issued \$710,000 in refund credits for Fiscal Year 2014 and has authorized approximately

\$920,000 in credits for Fiscal Year 2015 and \$30,000 for Fiscal Year 2016. The amount of future credits could increase if additional SIUs are granted refund credits.

Wastewater Service Contracts. The City provides wastewater conveyance, treatment, and disposal services to 29 local Entities pursuant to Sewage Disposal Contracts and Universal Terms Contracts executed and in force with each Entity. The capital charge component of Wastewater Service Contracts payments is not treated as Revenue to the SCM Fund and is not available to pay debt service on the Senior Lien Bonds or the Subordinate Bonds, including the Series 2015AB Senior Lien Bonds. These contracts generally extend through the useful life of the facilities which transport or treat the respective Entity’s wastewater. However, all Sewage Disposal Contracts are subject to renegotiation as described below. See “The Wastewater Service Area and Facilities – Subscribing Agencies” herein.

Historical Sewer Rates and Charges

The following table sets forth the City’s SSC, QSF and SFC from Fiscal Years 2011 through 2015.

**TABLE 12
SEWER CONSTRUCTION AND MAINTENANCE FUND RATES AND CHARGES
Fiscal Year 2011 through 2015**

Fiscal Year Ended June 30	Sewer Service Charge⁽¹⁾	Quality Surcharge Fees⁽²⁾		Sewerage Facilities Charge (per 100 gal. avg. flow)⁽³⁾	Typical Monthly Single Family Residential SSC⁽⁴⁾
		BOD	SS		
2011	\$3.27	\$0.349	\$0.351	\$325.00	\$29.97
2012 ⁽⁵⁾	3.42	0.363	0.365	413.00	31.22
2013 ⁽⁶⁾	3.57	0.377	0.380	413.00	32.63
2014	3.73	0.393	0.395	413.00	30.88
2015	3.97	0.416	0.419	413.00	33.00

Source: City of Los Angeles, Bureau of Sanitation.

⁽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 was applied to 90% of total metered water usage through April 5, 2012. See “Financial Operations of the Wastewater System – Sewer Rates and Revenues” herein for a description of adjustments to the default percentage discharge for commercial customers through Fiscal Year 2021.

⁽²⁾ The surcharge is based on a rate per pound of BOD or SS in excess of domestic strength wastewater.

⁽³⁾ Sewerage Facilities Charge includes strength charges based on 265 mg/L BOD and 275 mg/L SS.

⁽⁴⁾ These figures do not reflect effects of low-income assistance program. Amounts based on average billable wastewater volumes of approximately 9.0 hcf per month through 2013 and 8.3 hcf per month for 2014 and 2015, projected as of 2015. The reduction in billable volume is due to water conservation by the wastewater customers. See “Financial Operations of the Wastewater System – Number of Customers and Billable Wastewater Volume” herein.

⁽⁵⁾ Rates and charges effective as of April 6, 2012 through the end of fiscal year 2012.

⁽⁶⁾ Rates and charges effective as of July 1, 2012. The rates and charges, except for the SFC, will increase each year thereafter until July 1, 2020. See “Financial Operations of the Wastewater System – Sewer Rates and Revenues” herein.

Rate Setting Process

The City is required by the General Resolution to establish rates and charges for the use of the System to produce Net Revenues in each year at least equal to 125 percent of actual debt service on all Senior Lien Bonds in such year, and by the Subordinate General Resolution to establish rates and charges to produce Net Revenues in each year at least equal to 110 percent of actual debt service on Senior Lien Bonds and Subordinate Bonds, in such year. The SSC, the QSF, the SFC, Industrial Waste Inspection and Control Fees, Bonded Sewer Fees and other miscellaneous fees and charges are established by ordinance adopted by a majority vote of the City Council and approved by the Mayor and become effective after a posting period of 30 days from the date of its publication.

The Bureau of Sanitation annually reviews the System's rates and charges as part of the budgetary process. The Mayor and City Council may enact rate increases as part of the budgetary process or at any time upon recommendation by the Bureau of Sanitation and City Administrative Officer. The Mayor is required each year to submit a proposed budget to the City Council by April 20. The proposed budget is prepared by the City Administrative Officer and reflects the Mayor's budget priorities as established by the Mayor's budget policy letter distributed to City departments early in the Fiscal Year.

The Mayor's proposed budget is reviewed by the Budget and Finance Committee of the City Council, which recommends the proposed budget, with any modification, to the City Council. The City Council is required under the City Charter, to adopt the proposed budget, as modified, by June 1. The Mayor has five working days after adoption to veto any items modified by the City Council. The City Council then has five working days to override by a two-thirds vote any items changed by the Mayor.

The adopted budget is subject to mid-year revisions to reflect passage of the State budget and any resulting increases or decreases in State payments to the City, any changes in revenue projections and unexpected adjustments in expenditures.

The City has adopted a series of rate increases for the SSC, SFC and QSF that will become effective through July 1, 2020 without further action by the City. See "Financial Operations of the Wastewater System – Sewer Rates and Revenues" herein. The City complied with the notice and hearing requirements of Proposition 218 (see "Proposition 218" below) in setting the new rates for the Sewer Service Charge and the Quality Surcharge Fee, the only user fees to which Proposition 218 applies.

Proposition 218

On November 5, 1996, California voters approved an initiative known as the Right to Vote on Taxes Act ("Proposition 218") that added Articles XIIC and XIID to the California Constitution. Proposition 218 limits the application of property-related fees and charges and requires them to be submitted to property owners for approval or rejection, after notice and public hearing. Proposition 218 also extended the initiative power to reducing or repealing local property-related fees and charges, regardless of the date such fees and charges were imposed. Fees and charges for sewer, water and refuse collection services are excepted from the voter approval provisions of Proposition 218 pursuant to Article XIID. Because water and sewer charges are similarly treated under Article XIID, the City believes that the judicial determinations with respect to water charges, as described below, would also apply to sewer charges.

Section 1 of Article XIIC requires majority voter approval for the imposition, extension or increase of general taxes and Section 2 thereof requires two thirds voter approval for the imposition, extension or increase of special taxes. Section 3 of Article XIIC expressly extends the initiative power to give voters the power to reduce or repeal local taxes, assessments, fees and charges, regardless of the date

such taxes, assessments, fees or charges were imposed. Section 3 expands the initiative power to include reducing or repealing assessments, fees and charges, which had previously been considered administrative rather than legislative matters and therefore beyond the initiative power. This extension of the initiative power is not limited by the terms of Article XIIC to fees imposed after November 6, 1996, the effective date of Proposition 218, and absent other legal authority could result in the reduction in any existing taxes, assessments or fees and charges imposed prior to November 6, 1996.

“Fees” and “charges” are not expressly defined in Article XIIC or in SB 919, the Proposition 218 Omnibus Implementation Act enacted in 1997 to prescribe specific procedures and parameters for local jurisdictions in complying with Article XIIC and Article XIID (“SB 919”). However, on July 24, 2006, the California Supreme Court ruled in *Bighorn-Desert View Water Agency v. Verjil (Kelley)* (the “*Bighorn Decision*”) that charges for ongoing water delivery are property-related fees and charges within the meaning of Article XIID and are also fees or charges within the meaning of Section 3 of Article XIIC. The California Supreme Court held that such water service charges may, therefore, be reduced or repealed through a local voter initiative pursuant to Section 3 of Article XIIC.

In the *Bighorn Decision*, the California Supreme Court did state that nothing in Section 3 of Article XIIC authorizes initiative measures that impose voter-approval requirements for future increases in fees or charges for water delivery. The California Supreme Court stated that water providers may determine rates and charges upon proper action of the governing body and that the governing body may increase a charge which was not affected by a prior initiative or impose an entirely new charge. The Supreme Court further stated in the *Bighorn Decision* that it was not holding that the initiative power is free of all limitations and was not determining whether the initiative power is subject to the statutory provision requiring that water service charges be set at a level that will pay debt service on bonded debt and operating expenses. Such initiative power could be subject to the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution. Additionally, SB 919 provides that the initiative power provided for in Proposition 218 “shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after [the effective date of Proposition 218] assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights” protected by the United States Constitution. No assurance can be given that the voters of the City will not, in the future, approve initiatives which repeal, reduce or prohibit the future imposition or increase of assessments, fees or charges, including the City’s SSC, which are a significant source of Revenues pledged to the payment of debt service on Series 2015AB Senior Lien Bonds.

Notwithstanding the fact that the SSC may be subject to reduction or repeal by voter initiative undertaken pursuant to Section 3 of Article XIIC, the City has covenanted to establish, fix, prescribe and collect rates, fees and charges in connection with the use of the System which meet the requirements of the Resolutions and in accordance with applicable law.

Article XIID defines a “fee” or “charge” as any levy other than an *ad valorem* tax, special tax, or assessment imposed upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property-related service. A “property-related service” is defined as “a public service having a direct relationship to a property ownership.” In the *Bighorn Decision*, the California Supreme Court held that a public water agency’s charges for ongoing water delivery are fees and charges within the meaning of Article XIID. Article XIID requires that any agency imposing or increasing any property-related fee or charge must provide written notice thereof to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it. As a result, the local government’s ability to increase such fee or charge may be limited by a majority protest.

In addition, Article XIID also includes a number of limitations applicable to existing fees and charges including provisions to the effect that (i) revenues derived from the fee or charge shall not exceed the funds required to provide the property-related service; (ii) such revenues shall not be used for any purpose other than that for which the fee or charge was imposed; (iii) the amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel; and (iv) no such fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Property-related fees or charges based on potential or future use of a service are not permitted.

Further, pursuant to *Capistrano Taxpayers Association v. City of San Juan Capistrano*, tiered rates charged to different classes of customers must be calculated based on the actual costs of providing the service. In *Capistrano Taxpayers Association*, the Court of Appeal held that Proposition 218 requires public water agencies to calculate the actual costs of providing water at various levels of usage and that Article XIII D, section 6, subdivision (b)(3) of the California Constitution, as interpreted by the California Supreme Court in *Bighorn* provides that water rates must reflect the “cost of service attributable” to a given parcel. The Court of Appeal further stated that “[w]hile tiered, or inclined rates that go up progressively in relation to usage are perfectly consonant with [A]rticle XIII D, section 6, subdivision (b)(3) and *Bighorn*, the tiers must still correspond to the actual cost of providing service at a given level of usage.

The City believes that current sewer fees and charges that are subject to Proposition 218 should comply with the provisions thereof or are immune from legal challenge and that the City will continue to comply with the rate covenant set forth in the General Resolution in conformity with the provisions of Article XIID of the California State Constitution. The City also believes that its sewer connection charges, Industrial Wastewater Permit Application Fees, Inspection and Control Fees and Sewerage Facilities Charges are not subject to the requirements of Article XIID. Should it become necessary to increase the sewer fees and charges above current levels, the City would be required to comply with the requirements of Article XIID in connection with such proposed increase. No assurance can be given that the voters of the City will not, in the future, approve initiatives which repeal, reduce or prohibit the future imposition or increase of assessments, fees or charges, including the City’s service fees and charges.

Implementing legislation pertaining to Proposition 218 may be introduced in the State legislature from time to time. Moreover, Proposition 218 was adopted as a measure that qualified for the ballot pursuant to California’s initiative process. From time to time other initiative measures could be adopted to modify Proposition 218. No assurance may be given as to the terms of such legislation or initiatives or their potential impact on the various fees and charges that constitute Revenues of the System, however, there could be a material negative impact on the City’s ability to collect such Revenues.

On November 2, 2010, voters of the State approved Proposition 26 (“Proposition 26”), which amended Article XIIC of the State Constitution to expand the definition of a “tax” so that certain fees and charges imposed by governmental entities are subject to approval by two-thirds of each house of the State Legislature or approval by local voters, as applicable. Proposition 26 lists several exceptions to such definition of “tax”, including property-related fees imposed in accordance with Article XIID (Proposition 218), reasonable regulatory costs of performing investigations and inspections, and charges imposed as a condition of property development. The City believes that Proposition 26 does not apply to any of the User Fees imposed by the City because such fees are within various exceptions to Proposition 26.

Water Usage

General. The ability of the System to operate effectively is affected by the water supply for the City. DWP's Los Angeles Aqueduct supply deliveries have, over the years, been reduced to fulfill environmental restoration commitments in the Mono Basin and Owens Valley. As a result, DWP has increased its purchase of water from The Metropolitan Water District of Southern California ("MWD"), a wholesale water supplier for the Southern California region. The DWP is working with MWD to develop supply reliability for the City and all of MWD's service area. On April 14, 2015, MWD's Board of Directors approved an allocation plan that will reduce imported water deliveries to its member agencies, including the City, by 15% starting July 1, 2015. The allocation plan will include a surcharge, ranging from \$1,480 - \$2,960 per acre-foot of additional water, for any member agency that fails to meet the 15% reduction. According to MWD, this is the fourth time it has restricted imported supplies in response to drought conditions, the last being a 10% cutback from July 2009 to April 2011. The adequacy of MWD's overall future supply reliability is dependent upon maintaining the supply of water available to MWD from the Colorado River and northern California, through the State Water Project's California Aqueduct operated by the State of California Department of Water Resources and various projects relating to water conservation, recycled water, conjunctive use, water transfers and exchanges, groundwater recovery and seawater desalination. See also "– Number of Customers and Wastewater Usage," below.

The adequacy of DWP's water supply is affected by many factors, including but not limited to annual snowpack and rainfall, population growth, water use, groundwater basin quality and recharge trends, federal and State environmental rules and regulations, environmental restoration commitments, water quality, climate change, and area of origin issues. Sustained drought conditions or continued low water levels could adversely affect DWP's water supply, water rates and demand for water services. Additionally, any natural disaster or other physical calamity, including acts of terrorism, earthquake, earth movements, floods, extreme weather or gradual climate change, may have the effect of reducing water availability, quality and/or distribution capabilities of DWP, impair the financial stability of DWP, affect infrastructure and other public improvements and private improvements and the continued habitability and enjoyment of such private improvements thus affecting revenues of DWP through damage to the Water System and to the economy of the surrounding area. See "Risk Factors – Risks Relating to the Water Supply" herein.

The current SSC rates and schedule of rate increases that were adopted in 2012 did not contemplate the extent of the water conservation which has since occurred. Further, the State's and City's continued drought conditions have prompted various actions to further reduce water consumption. On January 17, 2014, the Governor declared a drought state of emergency, asked residents to reduce their water consumption by twenty percent and directed State agencies to take certain actions to ameliorate the shortage of water. On October 14, 2014, Los Angeles Mayor Garcetti issued Executive Directive Number Five (the "Mayor's Executive Directive") setting a goal of reducing per-capita water use by twenty percent in the City, directing City departments to take certain actions to meet the goal, and asking City residents to take certain voluntary actions. In March 2015, the State Water Resources Control Board adopted expanded emergency regulations requiring mandatory water conservation measures and the Governor and State Legislative announced a \$1.059 billion package to accelerate funds for flood protection projects and help the State address various drought-related environmental issues. On April 1, 2015, the Governor issued a drought order requiring a 25 percent reduction in urban water usage statewide, compared to 2013 levels. Cities with relatively high per-capita water usage will be required to reduce their usage more than other cities. The City currently has lower per-capita water usage than the State average. Specific regulations implementing the ordinance have not yet been issued, so the water usage reduction required of the City is unknown. Though the order provides for rebates for replacing high-water use appliances, it focuses more on reducing water use for landscaping. Because most water conservation resulting from compliance with the State order and the Mayor's Executive Directive will

occur in landscaping and other uses not tributary to the sewer, the System's budgeted SSC revenues assume a five percent reduction in sewage contributed by the System customers in Fiscal Year 2016. The City expects to manage the System using the additional revenues to be generated by the SSC rates and scheduled rate increases adopted in 2012. The City does not expect to raise SSC rates above the previously adopted schedule of rate increases during the projection period. However, the City could raise additional SSC revenues by increasing the default percentage discharge for commercial customers from 93 percent to 94 percent. The City could also reduce the capital improvement program to a level commensurate with the reduced revenues. See "Risk Factors - Potential Impact of Drought and Other Risks Relating to the Water Supply" herein.

City Water Supply Plan. The City has developed a Water Supply Action Plan (the "Water Supply Plan") to address Los Angeles' water needs through 2030 through, among other things, water conservation and water recycling. The Water Supply Action Plan seeks to develop water supply sustainability to the City through development of local resources and no net increase in imported water supply deliveries. The City expects that, with coordinated efforts with MWD and DWP, MWD's and DWP's water supplies will be sufficient to meet the City's future demands.

Number of Customers and Billable Wastewater Volume

The following table sets forth the number of wastewater system customers and billable wastewater volume subject to SSC during the past five fiscal years.

**TABLE 13
WASTEWATER SYSTEM CUSTOMERS AND
BILLABLE WASTEWATER VOLUME**

Customer Class	Number of Customers				
	Fiscal Year Ended June 30				
	2010	2011	2012	2013	2014⁽⁴⁾
Single Family	463,999	474,442	478,925	481,591	466,801
Small Multifamily	71,909	71,471	71,871	72,134	72,450
Large Multifamily	43,391	43,749	44,092	44,268	39,751
Commercial/Industrial	56,406	56,221	56,806	56,976	50,170
All Others	4,992	4,974	5,126	5,195	1,340
Total Customers	640,697	650,857	656,820	660,164	630,512

Customer Class	Billable Wastewater Volume⁽¹⁾				
	Fiscal Year Ended June 30				
	2010	2011	2012	2013	2014
Single Family ⁽²⁾	55,736	51,125	50,693	51,457	45,506
Small Multifamily ⁽²⁾	14,727	14,183	13,711	12,961	12,595
Large Multifamily ⁽³⁾	46,032	45,836	46,071	47,710	44,478
Commercial/Industrial ⁽³⁾	31,912	31,767	31,584	32,747	35,458
All Others ^(3,5)	3,942	4,276	4,663	5,750	8,819
Total Billable Wastewater Volume	152,349	147,187	146,722	150,625	146,856

Source: City of Los Angeles, Bureau of Sanitation.

⁽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, further reduced by a dry weather compensation factor.

⁽³⁾ Prior to April 6, 2012, billable wastewater volume was generally equal to 90 percent of total annual water sales volume. All customers who could demonstrate that their billable wastewater volume was less than 72 percent of annual water sales were billed at the lower estimate. See "Financial Operations of the Wastewater System – Sewer Rates and Revenues" for a description of adjustments to the default percentage discharge for commercial customers that became effective on April 6, 2012.

⁽⁴⁾ The numbers of customers in some classes have been reduced in DWP's new billing system because multiple accounts for a single owner can be counted as one account. See "– Billing and Collection – Sewer Service Charge" herein.

⁽⁵⁾ Prior to April 6, 2012, certain public agencies only paid the O&M portion of the SSC. This was reflected on their bills as an adjustment to the volume, rather than the rate. The Fiscal Year 2013 Billable Wastewater Volumes reflect the full volume, for which the agencies now pay both the O&M and capital share of the SSC.

The changes in billable wastewater volume in Fiscal Years 2010 through 2014 were caused in large part by changes in the number of customers and the success of water conservation measures, which were mandatory beginning June 1, 2009. Although the number of customers increased in Fiscal Years 2010 through 2012, the billable wastewater volume continued to decrease due to water conservation. The number of system customers decreased in Fiscal Year 2014 because the new billing system implemented by DWP in September 2013 allowed certain multiple accounts to be counted as single accounts. The

billable wastewater volume was reduced again in 2014 due to water conservation. The lower billable wastewater volumes resulted in reductions in revenue that would otherwise have been generated had the wastewater volume not declined in Fiscal Years 2010, 2011, 2012 and 2014 of approximately \$40 million, \$57 million, \$26 million and \$27 million respectively. The first three reductions were accounted for in the 2012 rate adjustment calculations, which included an adjustment to the default percentage discharge for commercial customers from 90 percent to 93 percent. However, billable wastewater volume is projected to decrease by one percent in Fiscal Year 2015 and a further five percent in 2016. See “Financial Operations of the Wastewater System – Sewer Rates and Revenues – Sewer Service Charge” herein.

The following table sets forth the projected number of System customers and billable wastewater volume subject to SSC for Fiscal Years 2015 through 2019.

**TABLE 14
PROJECTED WASTEWATER SYSTEM CUSTOMERS AND
BILLABLE WASTEWATER VOLUME**

Customer Class	Number of Customers				
	Fiscal Year Ended June 30				
	2015	2016	2017	2018	2019
Single Family	466,950	467,100	467,250	467,400	467,550
Small Multifamily	72,510	72,570	72,630	72,680	72,740
Large Multifamily	39,780	39,810	39,840	39,870	39,900
Commercial/Industrial	50,200	50,220	50,250	50,270	50,300
All Others	1,340	1,350	1,350	1,360	1,360
Total Customers	630,780	631,050	631,320	631,580	631,850

Customer Class⁽¹⁾	Billable Wastewater Volume⁽²⁾				
	Fiscal Year Ended June 30				
	2015	2016	2017	2018	2019
Single Family ⁽³⁾	45,836	43,559	43,572	43,586	43,600
Small Multifamily ⁽³⁾	11,965	11,375	11,384	11,393	11,402
Large Multifamily ⁽⁴⁾	42,760	40,718	40,814	40,910	41,007
Commercial/Industrial ⁽⁴⁾	35,218	33,474	33,491	33,507	33,524
All Others ⁽⁴⁾	9,455	9,011	9,038	9,066	9,094
Total Billable Water Sales	145,234	138,137	138,299	138,462	138,627

Source: City of Los Angeles, Bureau of Sanitation.

(1) Assumes a decline in billable wastewater volume for Fiscal Year 2016 and an increase in billable wastewater volume thereafter. Notwithstanding the decline in wastewater volume resulting from conservation efforts, growth in billable wastewater volume is assumed for Fiscal Year 2017 through 2019 because of the continued growth in the number of customers.

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

(3) Billable wastewater volume for single family and multifamily dwellings of up to four units are based on each residential customer's minimum average daily water consumption during the winter water use period, as adjusted by a dry weather compensation factor.

(4) Billable wastewater volume is generally equal to 93 percent of total annual water sales volume, subject to adjustment in connection with DWP water conservation policy changes. See "Financial Operations of the Wastewater System – Sewer Rates and Revenues" for a description of adjustments to the default percentage discharge for commercial customers. All customers who can demonstrate that their billable wastewater volume is less than 74 percent of annual water sales are billed at the lower estimate.

Billing and Collection

Sewer Service Charge. Billing and collection services for the SSC are provided by DWP. Residential customers are predominately billed bimonthly and commercial and industrial customers are generally billed on a monthly basis. Some customers whose bills are disputed are billed by the Office of Finance. DWP prepares a single bill covering charges for water, electric, sewer, solid waste collection and recycling services, multi-family bulky item collection, and State and local taxes. A payment received by DWP is credited to the billed amounts in the following order: (1) any required deposits, (2) water charges,

(3) electric charges, (4) the SSC and (5) the solid resources fee and bulky item fee, which are credited proportionally. Payments received are generally credited first to amounts in arrears and then to the current amounts for each charge in the priority described above. DWP transfers projected SSC revenue to the SCM Fund on a weekly basis based on expected revenues. The last payment of the month is adjusted for the actual revenues received for the month, less a monthly billing and collection fee of \$248,400.

If a customer pays less than the amount billed for a billing period, then the payment is credited to the various utility services in the order set forth in the preceding paragraph. Payments received for the next billing period are credited first to the services in arrears in the following order: (1) any required deposits, (2) water and electric charges, which are credited proportionally, and (3) the SSC, solid resources fee and bulky item fee, which are also credited proportionally. Remaining payments are then credited to the current services in the order set forth in the preceding paragraph. This procedure in effect brings any customer's delinquent sewer service charges current, prior to applying payments against current charges, including water and electric.

DWP policy for most customers is that when a utility accounts receivable (water or electric) in arrears is \$150 or greater, a late payment charge of 18 percent per annum is applied. When the total accounts receivable in arrears reaches \$250, a collection procedure is started. The first step in this procedure is a "final notice." This notice is mailed to the customer 20 days after the current bill's issue date, when the past due balance of the account reaches a certain threshold in arrears (varies depending on the customer's credit standing with DWP). This notice provides the customer a 'last day to pay', typically two weeks from the date this final notice is issued.

A five-day shut off notice is issued to the customer after the 'last day to pay' date, which is approximately 37 days from the bill issue date, if the delinquent amount remains over \$250. A customer's failure to pay by the conclusion of the five-day period leads to a temporary shut off of water and/or electrical service on the first field call. Should the bill remain unpaid ten days after the initial shut off, the water and/or electrical service may be permanently discontinued if a follow-up check in the field confirms this customer is no longer at the service location.

Certain DWP customers receive water and electric service by means of a master meter which may serve multiple dwelling units. Water and electrical service to multiple dwelling unit residences served by a master meter may be disconnected for non-payment. In February 1998, DWP implemented the Utility Maintenance Program as an alternative to the termination of master-metered service. This program is an extension of the existing Rent Escrow Accounts Program. Tenants who participate in the program have the option of putting their rent into an escrow trust fund established by the Los Angeles Housing Department to maintain utility services until such time as the delinquent bill is paid in full.

Customer accounts where the water and/or electrical service are disconnected due to non-payment are monitored by DWP collections personnel. Unless a customer vacates the service location, DWP collections personnel will continue to regard the customer's account as an active account and attempt collection of the delinquent amount. Should the customer vacate the service location, a closing bill is generated which initiates further collection efforts. An outside collection agency may be used on accounts with \$10.00 to \$4,999.99 outstanding as soon as 45 days after the closing bill is issued. Accounts with \$5,000.00 or more outstanding are referred to the City Attorney for legal action. If the delinquent amount remains outstanding approximately three months after the closing bill has been issued, the amount owed is transferred into "write off", where collection efforts will be maintained for up to four years from the closing bill issue date. The four year period may be extended by up to one year under certain circumstances. However, due to the temporary changes in collections practices, in 2014, no amounts were written off.

In September 2013, DWP implemented a new customer information system. In the initial months after implementation, DWP experienced delayed bills in connection with the use of the new system, caused by customer accounts that were missing meter reading information or meeting other exception processing criteria, and certain customer bills were held in a queue for manual review and intervention prior to release of such bills. There was also an increase in estimated bills that are sent to customers where metering information was not available. Delayed billing and reduced collection efforts resulted in customer payments below the anticipated levels. DWP implemented a multipart strategy to address these issues, which resulted in substantial reductions in the overall value of delayed bills, reductions in the percentage of estimated bills, re-commencement of collections and improved cash collections. Certain collection delays appear to be continuing. DWP has instituted an action plan to assist customers in reducing their delinquent bills. This has resulted in a reduction of total accounts receivable for active accounts more than 90 days past due from \$300 million to \$230 million between January and April 2015, which is a 23 percent reduction. A State audit has been instituted in connection with the implementation of the new customer information system and the billing issues that arose therefrom. The report was released on March 10, 2015 and contained recommendations for improvements to the management of large information technology projects in the future.

In Fiscal Year 2014, SSC collections were approximately \$51 million lower than budgeted, approximately \$14 million of which is attributed to reduced water consumption, with the remaining amount due to delays in billings and collections. The shortfall of SSC collections by DWP has continued in Fiscal Year 2015; collections from July through March 2015 were 15.3 percent below budget. For the entire Fiscal Year 2015, the Bureau of Sanitation estimates total SSC revenue of \$508 million, a reduction of \$94 million, which is 15.6 percent below budget for the year. Approximately \$21 million of this amount is attributed to water conservation, \$13 million relates to overestimates of revenue from certain customers who only pay for sewage conveyance because their wastewater treatment is provided by another agency, and the remaining amount relates to delays in collections of amounts from both Fiscal Years 2014 and 2015. The Fiscal Year 2015 budgeted amount included an assumption that \$25 million in uncollected revenues from Fiscal Year 2014 would be recovered. The Fiscal Year 2015 budgeted amount was not based on the reduced water consumption in Fiscal Year 2014 due to the timing of the budget cycle and the unavailability of reports immediately after the billing conversion. The estimated Fiscal Year 2015 revenue is 2.1 percent less than the actual revenue in Fiscal Year 2013, notwithstanding the two rate adjustments that have occurred since 2013. The estimated SSC revenue for the balance of Fiscal Year 2015 depends on various factors, including how many customers leave the service area, resulting in the write-off of their past due amounts, and how soon all residential past-due customers will receive service shut-off notices. DWP's new billing system permits past-due amounts to continue to accrue to customers who move so long as they remain within the service area. The Bureau of Sanitation and DWP continue to work together to refine projections of the impact of water conservation on the SSC revenues.

The following table sets forth the SSC budgeted, billed, and collected amounts for Fiscal Years 2013 through 2015:

TABLE 15
SSC BILLINGS AND COLLECTIONS
Fiscal Years 2013 through 2015
(in Thousands)

Fiscal Year	Budgeted SSC Revenue	Billed SSC Revenue	Collected SSC Revenue	Billed as a Percent of Budget	Collections as a Percent of Billed
2013	\$516,191	\$527,099	\$518,937	102.1	98.5
2014	542,000	506,884	491,135	93.5	96.9
2015 ⁽¹⁾⁽²⁾	602,000	528,962	507,974	87.9	96.0

Source: City of Los Angeles, Bureau of Sanitation.

⁽¹⁾ Projected.

⁽²⁾ Budgeted revenues in Fiscal Year 2015 included an assumption of recovery of \$25 million from uncollected Fiscal Year 2014 billings. Removing this amount results in a “Billed as a percent of Budget” amount of 91.7.

The City expects that by July 2015, SSC collections by DWP will resume their pre-September 2013 levels (i.e., the levels prior to implementation of the new customer information system). The City also expects to ultimately recover certain of the delinquent payments accrued during the billing delays described above.

Sewerage Facilities Charge. The SFC is collected along with Bonded Sewer Fees and Tapping Fees as part of the building permit and sewer connection permit application procedures. Permits are not granted until the SFC payment has been received. The SFC, Bonded Sewer Fees, and Tapping Fees are deposited by the Department of Public Works directly into the SCM Fund as received by the City.

Industrial Waste Charges. Billings for QSF, Inspection and Control Fees and SIU Fees are prepared by the Bureau of Sanitation, Industrial Waste Management Division. All customers are billed quarterly in arrears except for dental offices that are billed annually in advance. Payments are remitted to the Department of Public Works and deposited directly into the SCM Fund.

All fees that are not paid by the end of the month in which they are due become delinquent and a delinquency charge of 2.5 percent of the principal balance owed is added to the amount due. The delinquent dates are February 1, May 1, August 1 and November 1. Delinquent accounts are referred to a collection agency or to the Office of Finance for collection activities within 45 days of the delinquent date.

Wastewater Service Contract Charges. Billings under the Universal Terms Contracts and the older Sewage Disposal Contracts are prepared annually by the Department of Public Works according to the contractual obligation of each Agency or Entity (as described in “The Wastewater Service Area and Facilities – Subscribing Agencies” herein) to pay its contractual share of operation and maintenance (“O&M”) expenses and capital costs of the System. Allocations of O&M expenses and capital costs are prepared by the Bureau of Sanitation. Under contractual provisions, O&M and capital bills for those Agencies with Universal Terms Contracts are payable bimonthly during the year in which they receive service, with a later reconciled bill to adjust for actual costs. For other Entities, O&M and capital bills are payable in arrears. Some of the Sewage Disposal Contracts do not specify the timing of capital bills and, in nearly all such cases, they are billed semiannually in arrears.

The City has certain billed accounts receivable with respect to these charges. The Universal Terms Contracts between the City and most Agencies allow the City to collect late payment charges. Late payment charges are not authorized under the older contracts, which provide less than one percent of the total billings to the Agencies and other Entities. It is the City’s policy to carefully monitor its accounts receivable. If payment is not made by the contractual due date, overdue notices are sent and telephone contact made to determine why payment was not made. The City has not terminated service when an Entity failed to pay these charges because of the essential nature of the service provided to the Entities by the System. In those cases where late payments do occur, the City has imposed late charges sufficient to offset any lost revenues as a result of such delinquencies.

Labor and Employment

Several City departments and bureaus contribute labor and employee time to the operation of the System. See “Organization and Management of the System” herein. The primary labor and employment budget for the System is that of the Bureau of Sanitation, whose authorized workforce is as shown in the following table:

**TABLE 16
BUREAU OF SANITATION AUTHORIZED POSITIONS**

Fiscal Year Ending June 30	Authorized Number of Positions
2011	1,318
2012	1,251
2013	1,249
2014	1,250
2015	1,242

The Bureau of Sanitation workforce is 99% unionized under a number of separate labor organizations that collectively refer to themselves as the Coalition of Los Angeles City Unions as well as the non-coalition Engineers and Architects Association. The City’s memoranda of understanding with the majority of bargaining units represented by the Coalition of Los Angeles City Unions were effective through Fiscal Year 2014. The City’s contract and the International Union of Operating Engineers (MOU 9) was effective through Fiscal Year 2013. The City is in negotiations with these bargaining units for successor agreements. The City’s contracts with the Engineers and Architects Association are effective through Fiscal Year 2016. See Appendix A “City of Los Angeles Information Statement – Financial Operations – Labor Relations” attached hereto.

During Fiscal Year 2010, as part of the Early Retirement Incentive Program described in Appendix A hereto, certain System positions were eliminated and many employees performing work for the System received work hour reductions ranging from 59.5 hours to 26 days. There were no such work hour reductions in Fiscal Years 2011 through 2014, and no work hour reductions are expected for Fiscal Year 2015. The System has not experienced any work stoppage over the past five years and does not currently anticipate any work stoppage.

Retirement and Other Postemployment Benefits Contributions

The City’s annual required contribution to the Los Angeles City Employee’s Retirement System (“LACERS”) includes amounts related to the retirement benefits and other postemployment healthcare benefits (“OPEB”) of City employees who work on the System, which are attributable to the SCM Fund. See Appendix A – “City of Los Angeles Information Statement – Financial Operations – Retirement and

Pension System” and “– Other Post-Employment Benefits” attached hereto. Such System-related expenses, including any additional amounts relating to the Early Retirement Incentive Program, are first paid from the City’s General Fund and subsequently reimbursed from the SCM Fund through application of a Cost Allocation Plan (“CAP”), which is subject to approval each year by the Federal government in connection with on-going grant compliance procedures. The CAP is based on historical data from the prior two years. Annual OPEB amounts attributable to the SCM Fund are included in the retirement calculations for the CAP rates applicable to the System.

As of June 30, 2014, the System’s percentage share of the City’s pension and OPEB costs was 7.83 percent. The System’s percentage share of such costs may increase or decrease from year to year depending on, among other things, the number of covered employees attributable to the SCM Fund, the overall number of City employees and the retirement benefits accruing to the respective employees. The following table sets forth retirement and OPEB contributions from the SCM Fund for Fiscal Years 2010 through 2014.

**TABLE 17
SEWER CONSTRUCTION AND MAINTENANCE FUND
RETIREMENT AND OPEB CONTRIBUTIONS**

Fiscal Year	Total City Contribution⁽¹⁾	Wastewater System Contribution⁽²⁾	Wastewater System Percentage
2010	\$298,215,000	\$21,539,812	7.22%
2011	339,136,000	22,787,102	6.72
2012	351,735,000	28,896,535	8.22
2013	342,188,000	27,402,873	8.01
2014	367,772,000	28,780,215	7.83

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

⁽¹⁾ Total City contributions are based on the CAP, which is based on actual historical data that lags by two years and is reconciled by an adjustment factor.

⁽²⁾ Based on the City’s overhead rates for the respective Fiscal Year for budget purposes.

The System’s contribution to the City’s pension and OPEB costs for Fiscal Year 2015 is expected to be \$31,937,635, which is approximately 7.76% of the City’s pension cost and 3.90% of the System’s budget. The City is currently projecting significant increases to the amount it will contribute to LACERS over the next three years. See Appendix A – “City of Los Angeles Information Statement – Financial Operations – Retirement and Pension System” and “– Other Post-Employment Benefits” attached hereto for a description of the City’s historical and current projected pension and OPEB contributions. Because of the manner in which the SCM Fund retirement and OPEB contributions are determined, the City’s projected retirement and OPEB contribution increases will impact the SCM Fund beginning in Fiscal Year 2013. The System’s projected share of the City’s projected contributions to LACERS are included in the pro forma statement of financial operations included herein. See “– Projected Operation and Maintenance Expenses” herein.

The City’s current retirement contribution projections, as set forth in Appendix A, are based on, among other things, information provided by LACERS’ actuary and LACERS’ current actuarial assumptions, which are based on the results of LACERS’ most recent triennial experience study. Actual retirement and OPEB costs attributable to the SCM Fund may be more or less than and may vary materially from the amounts included in the projections for the System. The System has experienced similar fluctuations in expenditures in the past and will make adjustments to revenues and expenditures as

necessary to address any such changes in expenditures. There can be no assurance that the retirement and OPEB costs attributable to the SCM Fund will not materially increase.

Cash Receipts and Disbursements

The following table sets forth unaudited cash receipts and disbursements of the SCM Fund for Fiscal Years 2010 through 2014.

TABLE 18
SEWER CONSTRUCTION AND MAINTENANCE FUND
SUMMARY OF OPERATIONS AND DEBT SERVICE COVERAGE
CASH BASIS (UNAUDITED) (in Thousands)

	Fiscal Year Ended June 30				
	2010	2011	2012	2013	2014
OPERATING RECEIPTS					
Sewer Service Charge	\$478,333	\$477,118	\$456,308	\$518,937	\$491,135
Sewerage Facilities Charge	4,172	10,219	4,606	9,328	12,061
Industrial Waste Fees ⁽¹⁾	16,065	17,135	15,399	14,735	16,222
Wastewater Service Contracts ⁽²⁾	16,097	12,991	15,221	16,540	19,290
Interest Income ⁽³⁾	3,743	3,789	3,845	4,324	2,448
Other	7,890	4,317	1,739	3,172	2,592
Total Operating Receipts	<u>\$526,300</u>	<u>\$525,569</u>	<u>\$497,118</u>	<u>\$567,036</u>	<u>\$543,748</u>
Non-Operating Revenues ⁽⁴⁾	2,756	6,179	14,163	12,548	8,789
TOTAL REVENUES	<u>\$529,056</u>	<u>\$531,748</u>	<u>\$511,281</u>	<u>\$579,584</u>	<u>\$552,537</u>
LESS OPERATING EXPENSES⁽⁵⁾	<u>238,635</u>	<u>254,727</u>	<u>267,850</u>	<u>264,137</u>	<u>286,581</u>
NET REVENUES	<u>\$290,420</u>	<u>\$277,021</u>	<u>\$243,431</u>	<u>\$315,447</u>	<u>\$265,956</u>
SENIOR DEBT					
Debt Service ⁽⁶⁾	\$102,818	\$107,579	\$112,551	\$118,023	\$97,924
Debt Service Coverage ⁽⁶⁾	2.82	2.58	2.16	2.67	2.72
SUBORDINATE DEBT SERVICE					
Commercial Paper Notes	\$ 875	\$ 301	\$ 0	\$ 105	\$ 0
Variable and Fixed Rate Subordinate Bonds	56,760	59,010	70,664	76,754	79,074
State Revolving Fund Loan	13,605	13,605	13,605	13,605	13,605
TOTAL DEBT	<u>\$174,058</u>	<u>\$180,495</u>	<u>\$196,820</u>	<u>\$208,487</u>	<u>\$190,603</u>
Debt Service without SRF Loans ⁽⁶⁾	160,453	166,890	183,215	194,882	176,998
Debt Service Coverage ⁽⁶⁾	1.81	1.66	1.33	1.62	1.50
NET REVENUES AFTER DEBT SERVICE	<u>\$116,362</u>	<u>\$ 96,526</u>	<u>\$ 46,611</u>	<u>\$106,960</u>	<u>\$ 75,353</u>
NON-OPERATING REVENUES					
Grant Reimbursement	\$ 0	\$ 0	\$ 1,340	\$ 2,231	\$ 8,383
Wastewater Service Contracts ⁽⁷⁾	15,382	9,757	9,541	8,196	12,153
FEMA Reimbursement	5	1,088	0	27	1,224
Total Non-operating Revenues	<u>\$ 15,387</u>	<u>\$ 10,845</u>	<u>\$ 10,881</u>	<u>\$ 10,454</u>	<u>\$ 21,760</u>
NON-OPERATING EXPENSES					
Deposits to Escrow Accounts ⁽⁸⁾	\$ 0	\$ 4,335	\$ 0	\$ 1,524	\$ 0
BALANCE AVAILABLE^(9, 10, 11)	<u>\$131,750</u>	<u>\$103,036</u>	<u>\$57,492</u>	<u>\$115,890</u>	<u>\$ 97,113</u>

(Table continued on next page.)

(Table continued from prior page.)

Source: City of Los Angeles, Office of Accounting. Amounts above were prepared on a cash basis and differ from amounts in the Debt Service Compliance Report for the Fiscal Year ended June 30, 2014 (With Independent Auditor's Report Thereon) attached as Appendix E hereto, which were prepared on an accrual basis.

- (1) Includes Quality Surcharge Fees, Permit Application Fees, Inspection and Control Fees, and SIU Fees.
- (2) Operations and maintenance portion of Wastewater Service Contract payments (excluding capital charge component, which is not treated as Revenues).
- (3) Interest on all SCM funds except construction funds. Amounts in the SCM Fund are invested separately from amounts from the City's General Fund.
- (4) Includes non-operating revenues considered in the debt service coverage calculation as defined in the Wastewater General Resolution. The increase of \$7,984 in Fiscal Year 2012 was due to increased reimbursement from DWP for costs of the advanced water purification facility at the TIWRP and due to the sale of surplus property.
- (5) Operating expenses for Fiscal Years 2010, 2011, 2012, 2013 and 2014 include SSC refunds of approximately \$1,003,000, \$149,000, \$476,000, \$388,000 and \$435,000, respectively. Operating expenses in 2010 were lower due to mandatory 10% staff furloughs. Operating expenses increased between Fiscal Year 2013 to 2014 due to the payment of certain litigation settlement amounts.
- (6) Excludes SRF loan, which is subordinate to the Senior Lien Bonds, the Subordinate Bonds and the CP Notes.
- (7) This category includes only the capital portion of Wastewater Service Contract payments. The Entities' shares of the System's capital costs decreased as the total capital costs of the System has decreased. In addition, the proportion of capital costs billable to the Entities (i.e., the costs associated with treatment and larger conveyance projects) decreased as the City focused its resources on replacing smaller sewers to meet its CSSA goals. The City anticipates the total capital costs of the System and the Entities' shares of those costs will increase in future years.
- (8) Release of money in the Debt Service Fund and Reserve Fund in connection with the refunding of certain prior bonds.
- (9) Amount represents surplus Revenues equal to the balance of operating and non-operating revenues available for capital costs or other purposes. This category does not include prior Fiscal Year's ending fund balance or interest on all construction funds..
- (10) Balance of operating and non-operating revenues available for capital costs or other purposes. This category does not include prior fiscal year's ending fund balance or interest on all construction funds.
- (11) Decrease in available balance in Fiscal Year 2014 is a result of decrease in SSC revenues due to DWP's transition to a new billing system and the effect of water conservation.

Sewer Construction and Maintenance Fund Cash Balances

The following table sets forth the cash balances of the Sewer Construction and Maintenance Fund's unrestricted and restricted funds.

TABLE 19
SEWER CONSTRUCTION AND MAINTENANCE FUND
CASH BALANCES IN ALL FUNDS (UNAUDITED)
(in Thousands)

	As of June 30				
	2010	2011	2012	2013	2014
UNRESTRICTED FUNDS					
Sewer Construction and Maintenance ⁽¹⁾	\$ 56,768	\$ 63,654	\$ 64,564	\$102,856	\$ 75,651
Sewer Operation and Maintenance ⁽²⁾	31,124	20,555	11,169	14,400	24,333
Sewer Capital ⁽³⁾	25,496	14,948	14,948	8,840	18,424
Total Unrestricted Funds	<u>\$113,388</u>	<u>\$99,157</u>	<u>\$90,681</u>	<u>\$126,096</u>	<u>\$118,408</u>
RESTRICTED FUNDS					
Construction Funds ⁽⁴⁾	\$ 94,099	\$ 95,412	\$ 36,820	\$118,130	\$151,903
Reserve Funds ⁽⁵⁾	95,902	107,605	100,687	98,085	101,944
Debt Service Funds	13,298	18,917	18,854	17,441	20,510
Operation and Maintenance Reserve	34,277	34,276	30,276	36,553	37,027
Insurance and Liability Claims Funds ⁽⁶⁾	3,000	3,000	3,000	3,000	3,000
Emergency Fund	5,000	5,000	5,000	5,000	5,000
Rebate Funds	431	400	400	431	366
Total Restricted Funds	<u>\$246,007</u>	<u>\$264,610</u>	<u>\$195,037</u>	<u>\$278,640</u>	<u>\$319,750</u>
TOTAL FUNDS	<u>\$359,395</u>	<u>\$363,767</u>	<u>\$285,718</u>	<u>\$404,736</u>	<u>\$438,158</u>

Source: City of Los Angeles, Office of Accounting, from records of the City Controller.

⁽¹⁾ Amounts in the SCM Fund have been temporarily loaned to the City General Fund from time to time. Such loans are typically repaid to the SCM Fund within a few days, with interest, in each case within the applicable fiscal year. No such loans have been made in the last several years.

⁽²⁾ O&M expenses are paid from revenues transferred from the SCM Fund.

⁽³⁾ Grant receipts and Wastewater Service Contract capital payments are deposited into this account.

⁽⁴⁾ These funds are funded with proceeds of the Senior Lien Bonds, Subordinate Bonds and CP Notes.

⁽⁵⁾ These funds are funded with proceeds of Senior Lien Bonds.

⁽⁶⁾ Amounts in these funds are restricted by City accounting practices and not by the General Resolution.

Property, Plant and Equipment

The City has consistently invested in its property, plant and equipment. Expenditures for property, plant and equipment of the System (at cost) was \$7.2 billion in Fiscal Year 2014, representing an approximate 30 percent increase in investment in the last ten Fiscal Years. Net debt represented approximately 64 percent of net plant as of June 30, 2014, which is down from a high of approximately 71 percent as of June 30, 1992 and up from the percentages over most of the last ten years. The following table sets forth the City's expenditures on property, plant and equipment and the balances in the total debt attributable thereto for the last ten Fiscal Years.

TABLE 20
SEWER CONSTRUCTION AND MAINTENANCE FUND
GROWTH IN PROPERTY, PLANT AND EQUIPMENT
(in Thousands)

Fiscal Year Ended June 30	Property, Plant and Equipment (at cost)	Net Property, Plant and Equipment (depreciated)	Total Debt	Net Debt⁽¹⁾	Net Debt as Percent of Net Plant
2005	\$5,513,835	\$3,493,370	\$2,289,594	\$2,197,393	62.90%
2006	5,711,808	3,557,060	2,246,306	2,157,866	60.66
2007	5,902,111	3,655,261	2,202,492	2,113,482	57.82
2008	6,063,168	3,715,623	2,271,653	2,182,043	58.73
2009	6,332,843	3,831,965	2,405,516	2,306,865	60.20
2010	6,541,977	3,891,258	2,505,709	2,409,807	61.93
2011	6,684,116	3,865,681	2,567,085	2,459,480	63.63
2012	6,804,411	3,833,969	2,507,195	2,404,503	62.72
2013	7,000,335	3,863,746	2,582,893	2,484,657	64.31
2014	7,176,030	3,895,191	2,611,225	2,509,142	64.42

Source: City of Los Angeles, Office of Accounting.

⁽¹⁾ Total debt net of balances in debt service reserve funds.

Projected Operation and Maintenance Expenses

The following table sets forth the projection of total wastewater system operation and maintenance expenses by major service category and expense for Fiscal Years 2015 through 2019.

TABLE 21
PROJECTED OPERATION AND MAINTENANCE EXPENSES
(in Thousands)

	As of June 30				
	2015	2016	2017	2018	2019
Conveyance System	\$ 51,593	\$ 54,325	\$ 57,168	\$ 58,123	\$ 59,097
Wastewater Treatment:					
Hyperion System	123,374	123,947	141,518	141,521	136,362
Terminal Island System	14,964	14,229	15,176	15,472	15,775
Total Treatment	<u>138,338</u>	<u>138,176</u>	<u>156,694</u>	<u>156,993</u>	<u>152,137</u>
Departmental Support ⁽¹⁾	90,554	85,633	81,811	86,063	95,565
City Support Services ⁽²⁾	19,090	21,116	24,034	24,383	24,740
Total O&M Expenses	<u>\$299,575</u>	<u>\$299,250</u>	<u>\$319,707</u>	<u>\$325,562</u>	<u>\$331,539</u>

Source: City of Los Angeles, Bureau of Sanitation.

⁽¹⁾ Includes Environmental Monitoring and Regulation, Industrial Waste Management, Wastewater Engineering Services, Executive, Administration, Financial Management, Information & Control Systems, and Industrial Safety and Compliance Divisions of the Bureau of Sanitation and other Bureau support services such as solid resources management.

⁽²⁾ Includes support services from City Departments or Offices outside of the Bureau of Sanitation. Also includes allowances for SSC refunds and billing services provided by the DWP.

The foregoing projection is based upon City estimates which reflect, as of the date of projection, analysis of historical costs, known and expected changes in future service requirements, increased costs due to treatment plant modifications and expanded operational procedures, and an overall estimate of future price escalation.

Projected Statement of Revenues and Expenditures

The following table sets forth a projected operations statement based on revenue and expenditure projections developed by the Bureau of Sanitation. This projected operations statement includes a number of assumptions, including that the number of customers will remain approximately the same as it is at this time and that water conservation measures enacted due to the present drought in the State will reduce wastewater usage by 5% in Fiscal Year 2016, with the reduction expected to continue through Fiscal Year 2019. The achievement of certain results or other expectations contained in the following table involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements reflected in the following table to be materially different from any future results, performance or achievements expressed or implied by such table. Although, in the opinion of the Bureau of Sanitation, such projections are reasonable, there can be no assurance that any or all of such projections will be realized or predictive of future results.

TABLE 22
PRO FORMA STATEMENT OF FINANCIAL OPERATIONS
UNDER INDICATED REVENUE LEVELS
(in Thousands)

Description	Fiscal Year Ending June 30				
	2015	2016	2017	2018	2019
REVENUES					
Rates As of July 1, 2014	\$ 515,472	\$ 483,564	\$ 484,150	\$ 484,706	\$ 485,263
Increased Rates	0	28,848	62,231	97,858	135,880
Total User Charges Revenue ⁽¹⁾	515,472	\$ 512,412	\$ 546,381	\$ 582,564	\$ 621,143
BABs and RZEDB subsidies ⁽²⁾	5,464	5,461	5,461	5,461	5,461
Other Revenue ⁽³⁾	61,955	62,450	73,990	66,699	70,157
Total Revenues	\$ 582,891	\$ 580,323	\$ 625,832	\$ 654,724	\$ 696,761
EXPENDITURES					
Operation & Maintenance Expense ⁽⁴⁾	\$ 299,575	\$ 299,250	\$ 319,707	\$ 325,562	\$ 331,539
Debt Service					
Senior Lien Bonds					
Existing Senior Lien Bonds ⁽⁵⁾	100,499	94,014	79,177	79,162	57,091
Series 2015A Senior Lien Bonds ⁽⁶⁾	0	9,396	8,924	8,924	8,924
Series 2015C Senior Lien Bonds ⁽⁶⁾	0	4,850	4,878	4,878	4,878
Additional Senior Lien Bonds ⁽⁷⁾	0	0	0	10,115	27,175
Subordinate Bonds					
Existing Subordinate Bonds ⁽⁸⁾⁽⁹⁾	88,876	95,058	109,287	109,580	129,541
Accruals for Subsequent Years ⁽¹⁰⁾	1,162	(88)	23	(175)	219
CP Notes ⁽¹¹⁾	733	467	3,000	4,000	4,000
SRF Clean Water Loans	13,605	13,605	13,605	13,605	13,605
Operating Reserve ⁽¹²⁾	(3,093)	(40)	2,522	722	737
Cash Financing of Construction	53,996	60,000	71,000	78,000	101,000
Additions to Minimum Operating Balance	27,538	3,811	13,709	20,351	18,052
Total Expenditures⁽¹³⁾	582,891	580,323	625,832	654,724	696,761

(Table continued on next page.)

(Table continued from prior page.)

Source: City of Los Angeles, Bureau of Sanitation.

- (1) Includes increases effective on each of July 1 from 2015 through 2019. Assumes a one percent reduction in sewage volume for Fiscal Years 2015 and a five percent reduction in Fiscal Year 2016 resulting from water conservation. See “Financial Operations of the Water System - Water Usage” and “Risk Factors – Potential Impact of Drought and Other Risks Relating to the Water Supply” herein.
- (2) The effect of Sequestration on Fiscal Years 2016 through 2019 is currently unknown. The City expects to receive an estimated \$430,072 reduction in Refundable Credits in connection with the Series 2010-A Senior Lien Bonds and the Series 2010-B Senior Lien Bonds for the current federal fiscal year ending September 30, 2015. These amounts are not pledged to payment of principal of and interest on the Series 2015AB Senior Lien Bonds.
- (3) Includes revenue from the O&M portion of wastewater service contract payments, the SFC, industrial wastewater fees, interest income on all funds except Construction Funds, bonded sewer fees, and miscellaneous revenue.
- (4) See Table 21 (Projected Operation and Maintenance Expenses) herein for the components of the O&M expense. Includes the System’s projected share of the City’s projected contributions to LACERS, based on projected contributions as of June 1, 2014. See “Financial Operations of the Wastewater System – Retirement and Other Postemployment Benefits Contributions” herein.
- (5) Represents principal and interest becoming due and payable on all Senior Lien Bonds issued and Outstanding in each Fiscal Year, other than principal of and interest on the Series 2015AB Senior Lien Bonds, which is reflected elsewhere in this table, and accounting for the completion of the refundings relating thereto described under “Plan of Finance” herein.
- (6) Preliminary, subject to change. Reflects projected debt service on the Series 2015-A Senior Lien Bonds to be issued to fund capital improvements to the System and debt service on the Series 2015-C Senior Lien Bonds to be issued to refund outstanding commercial paper. Excludes projected debt service on the portion of the Series 2015-B Senior Lien Bonds and Series 2015-D Senior Lien Bonds to be issued to refund certain of the City’s Outstanding Bonds, as described under “Plan of Finance” herein.
- (7) Assumes an interest rate of 5.00 percent for additional Senior Lien Bond issuances and 30-year wrapped debt service principal amortization structures. Assumes issuances of \$174 million, \$307 million and \$257 million in Fiscal Years 2017, 2018 and 2019, respectively. Excludes debt service on refunding bonds to be issued, including the Series 2015-B Senior Lien Bonds and the Series 2015-B Senior Lien Bonds, the proceeds of which will be used to refinance certain outstanding Bonds of the System.
- (8) Preliminary, subject to change. Represents principal and interest becoming due and payable on all Subordinate Bonds issued and Outstanding in each Fiscal Year, excluding the Series 2015-A Subordinate Bonds expected to be issued after the date hereof.
- (9) Assumes an all-in interest cost of 3.79 percent for the \$151,085,000 portion of the Series 2012-D Subordinate Bonds associated with the Swap Agreements, and an all-in interest cost of 2.00 percent on the remaining \$129,775,000 portion of the Series 2012-D Subordinate Bonds.
- (10) Additional deposits in the Debt Service Fund; amounts are in excess of required monthly principal and interest deposits.
- (11) Represents principal and interest becoming due and payable on all CP Notes issued and Outstanding, subsequent to the issuance of the Series 2015-A Senior Lien Bonds and the completion of the refunding relating thereto described under “Plan of Finance” herein. Interest at an assumed annual interest rate of 0.8 percent on projected CP Notes for Fiscal Year 2015 and 2.0 percent for Fiscal Years 2016 through 2019.
- (12) Reflects excess amounts available for deposit into the Operating Reserve.
- (13) Total may not equal sum of components due to individual rounding.

Outstanding Indebtedness

Senior Lien Bonds and Subordinate Bonds heretofore issued were issued pursuant to the City Charter and the Authorizations. Pursuant to the amended and restated charter approved by the voters of the City, additional revenue bonds and notes of the City in excess of the aggregate principal amount approved pursuant to the Authorizations may be issued upon adoption of a procedural ordinance and without any further authorization by the voters of the City. Beginning with the issuance of the Series 2015AB Senior Lien Bonds, Senior Lien Bonds and Subordinate Bonds issued to finance capital improvements of the System will be issued pursuant to the City Charter and the Procedural Ordinance.

The City has issued a total of \$5,117,621,473.50 principal amount of Senior Lien Bonds, of which \$1,056,750,000 is Outstanding. The City has issued a total of \$3,079,750,000 principal amount of Subordinate Bonds in the form of fixed and variable rate bonds, of which \$1,350,780,000 is Outstanding. In addition, the City has also authorized a maximum of \$400,000,000 aggregate principal amount of Subordinate Bonds in the form of CP Notes. The maximum amount of CP Notes that may be Outstanding at any particular time under the Letters of Credit for the CP Notes is \$200,000,000. CP Notes are currently Outstanding in the principal amount of \$110,000,000.

The following table sets forth the Outstanding Wastewater System Revenue Bonds and CP Notes.

TABLE 23
CITY OF LOS ANGELES OUTSTANDING WASTEWATER SYSTEM
REVENUE BONDS AND COMMERCIAL PAPER REVENUE NOTES
(in Thousands) (as of April 1, 2015)⁽¹⁾

Issue	Amount Issued	Amount Outstanding	Final Maturity
Series 2002-A (Refunding)	102,850	37,110	6/1/2022
Series 2005-A (Refunding)	300,655	52,455 ⁽¹⁾	6/1/2035
Series 2009-A (Refunding)	454,785	365,720	6/1/2039
Series 2010-A	177,420	177,420	6/1/2039
Series 2010-B	89,600	89,600	6/1/2040
Series 2010-A (Subordinate)	199,790	195,740	6/1/2032
Series 2012-A (Subordinate Refunding)	157,055	153,850	6/1/2024
Series 2012-B (Subordinate Refunding)	253,880	252,510	6/1/2032
Series 2012-A (Refunding)	49,650	49,650	6/1/2024
Series 2012-C (Subordinate Refunding)	133,715	131,100	6/1/2027
Series 2012-D (Subordinate Refunding) ⁽²⁾	280,860	280,860	6/1/2032
Series 2013-A (Subordinate Refunding)	349,505	336,720	6/1/2035
Series 2013-A	149,980	149,980	6/1/2043
Series 2013-B (Refunding)	143,880	134,815	6/1/2035
CP Notes ⁽³⁾	200,000	110,000	
Total	<u>\$3,043,625</u>	<u>\$2,517,530</u>	

⁽¹⁾ Excludes the issuance of the Series 2015AB Senior Lien Bonds and the completion of the refundings relating thereto described under “Plan of Finance” herein.

⁽²⁾ The Series 2012-D Subordinate Bonds are variable rate obligations initially bearing an adjustable interest rate based on the London Interbank Offered Rate index and determined in accordance with the paying agent agreement therefor. Payment of the principal of and interest on the Series 2012-D Subordinate Bonds is secured by and payable solely from Revenues, in accordance with the Subordinate General Resolution. The City has entered into Swap Agreements with respect to certain of the Series 2012-D Subordinate Bonds. See “– Variable Rate Bonds” and “– Swap Agreements” herein.

⁽³⁾ The City has authorized a maximum of \$400,000,000 aggregate principal amount of Subordinate Bonds in the form of CP Notes. However, the maximum amount of CP Notes that may be Outstanding at any particular time under the existing Letters of Credit for the CP Notes is \$200,000,000.

Annual Debt Service Requirements

The following table sets forth the amounts required in each Fiscal Year ending June 30 for the payment of principal and interest on all Outstanding Senior Lien Bonds and Subordinate Bonds.

TABLE 24
CITY OF LOS ANGELES
WASTEWATER SYSTEM REVENUE BONDS
DEBT SERVICE ON ALL SENIOR LIEN BONDS AND SUBORDINATE BONDS

Fiscal Year Ending June 30	Series 2015-A Bonds			Series 2015-B Bonds			Debt Service on Other Senior Lien Bonds ⁽¹⁾	Debt Service on all Senior Lien Bonds	Debt Service on Subordinate Bonds	Total Debt Service on All Bonds
	Principal	Interest	Total Principal and Interest	Principal	Interest	Total Principal and Interest				
2015	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
2016							94,013,990		98,950,415	
2017							79,177,290		113,179,565	
2018							79,162,490		113,473,315	
2019							57,090,928		133,433,665	
2020							68,196,065		124,961,615	
2021							82,802,803		107,189,015	
2022							101,144,628		93,475,697	
2023							52,727,128		137,605,247	
2024							101,119,053		86,995,247	
2025							48,985,128		141,295,247	
2026							48,982,965		142,876,560	
2027							48,984,465		132,119,143	
2028							48,985,115		93,437,420	
2029							60,832,265		83,404,325	
2030							60,870,521		82,699,250	
2031							60,906,796		82,021,250	
2032							60,833,671		81,276,750	
2033							60,907,596		45,662,500	
2034							60,902,234		45,660,250	
2035							60,901,959		45,664,500	
2036							93,805,146		-	
2037							92,809,529		-	
2038							91,781,799		-	
2039							90,720,400		-	
2040							96,556,071		-	
2041							44,609,250		-	
2042							44,612,500		-	
2043							44,609,250		-	
2044									-	
2045									-	
TOTAL							\$1,937,031,034		\$1,985,380,977	

⁽¹⁾ Preliminary, subject to change. Includes debt service on the Refunded Bonds.

⁽²⁾ Total may not equal sum of components due to individual rounding.

Variable Rate Bonds

The Series 2012-D Subordinate Bonds are variable rate obligations initially bearing an adjustable interest rate based on the London Interbank Offered Rate (“LIBOR”) index and determined in accordance with the paying agent agreement therefor (the “2012D Paying Agent Agreement”). The Series 2012-D Subordinate Bonds are outstanding in the aggregate principal amount of \$280,860,000. Payment of the principal of and interest on the Series 2012-D Subordinate Bonds is secured by and payable solely from Revenues, in accordance with the Subordinate General Resolution.

The owner of the Series 2012-D Subordinate Bonds has the right to tender the Series 2012-D Subordinate Bonds for purchase on certain specified dates (each a “Special Purchase Date”) and upon an event of default under the continuing covenant agreement with respect to the Series 2012-D Subordinate Bonds (the “2012-D Continuing Covenant Agreement”) at a price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the date specified for purchase. In the event such tendered Series 2012-D Subordinate Bonds cannot be remarketed, assuming no event of default under the 2012-D Continuing Covenant Agreement and assuming certain other conditions are met, the principal amount of the Series 2012-D Subordinate Bonds may be payable in installments over a period of up to three years. Under such circumstances, the Series 2012-D Subordinate Bonds would bear a variable interest rate that could be significantly higher than the variable rate that was borne by the Series 2012-D Subordinate Bonds prior to the failed mandatory tender for purchase. The accelerated amortization and increased interest rate would significantly increase the size of current debt service payments due and owing on the Series 2012-D Subordinate Bonds. See “Risk Factors – Risks Related to Variable Rate Bonds” herein.

The City has entered into Swap Agreements intended to mitigate the variable rate risk with respect to certain of the Series 2012-D Subordinate Bonds. See “– Swap Agreements” herein.

Swap Agreements

The City has entered into a Swap Agreement with The Bank of New York Mellon (the “Bank of New York Mellon”) and a Swap Agreement with Dexia Crédit Local, New York Branch (“Dexia”) (collectively, the “Swap Agreements”). Each Swap Agreement has an outstanding notional amount of \$75,542,500, for a total of \$151,085,000, and a termination date of June 1, 2028. In each swap agreement, the City pays a fixed rate of 3.34%, and the swap counterparty pays 64.1% of 1-month USD-LIBOR, adjusted weekly. As of April 30, 2015, the remaining portion of each Swap Agreement had a market value of approximately \$(15,500,428), for a combined total market value of \$(31,000,856), with negative amounts indicating a City liability in the event of a termination requiring a termination payment. The City may terminate the swap agreement with Dexia in the event that any two of Moody’s, S&P or Fitch assign ratings to Dexia’s senior, unsecured, unenhanced debt that is below Baa1, BBB+ or BBB+, respectively. Payments received by the City under the Swap Agreements constitute Revenues of the System, but are not a source of credit or security for the Series 2015 Senior Lien Bonds. See “Security and Sources of Payment for the Series 2015 Senior Lien Bonds – Swap Agreements” herein. Swap agreements entail certain risks. See “Risk Factors – Swap Agreements” herein.

In August 2014, the City Council approved a proposal to review the Swap Agreements. In March 2015, Councilmember Paul Koretz participated in a phone conversation with members of the Fix LA Coalition, the Service Employees International Union and the chief of staff of one of the commissioners of the Security and Exchange Commission (the “SEC”) during which the Fix LA Coalition asked that the SEC investigate the practice of the banks involved in the Swap transactions. The City has not been contacted by the SEC and is not aware of any existing investigation.

Anticipated Financings

In addition to the Series 2015AB Senior Lien Bonds, the City is planning to issue, subject to market conditions, approximately \$100 million of Series 2015-C Senior Lien Bonds to refund certain outstanding CP Notes, approximately \$120 million of Series 2015-D Senior Lien Bonds to refund all or a portion of certain series of Senior Lien Bonds and Subordinate Bonds and approximately \$22 million of Subordinate Bonds to refund certain Senior Lien Bonds and Subordinate Bonds on or about June 30, 2015. The City also anticipates issuing additional Senior Lien Bonds and Subordinate Bonds (including CP Notes) from time to time to finance capital improvement projects. See “Plan of Finance” and “Wastewater System Capital Improvement Program – Financing Plans for the Wastewater Capital Improvement Program” herein.

Cash Basis Debt Service Coverage

The following table sets forth the projected cash basis debt service coverage for Fiscal Years 2015 through 2019. Such debt service coverage projections are based on a number of assumptions, including that the number of customers will remain approximately the same as it is at this time. The achievement of certain results or other expectations contained in the following table involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements reflected in the following table to be materially different from any future results, performance or achievements expressed or implied by such table. Although, in the opinion of the Bureau of Sanitation, such projections are reasonable, there can be no assurance that any or all of such projections will be realized or predictive of future results.

TABLE 25
DEBT SERVICE COVERAGE PROJECTIONS
(in Thousands)

Category	Fiscal Year Ending June 30				
	2015	2016	2017	2018	2019
Net Revenues – Current Rates ⁽¹⁾	\$ 277,577	\$ 246,175	\$ 237,627	\$ 224,357	\$ 221,481
Additional Revenue from Future Rate Increases ⁽²⁾	0	28,848	62,231	97,858	135,880
Additional Interest Income ⁽³⁾	275	589	758	1,201	1,779
BABs and RZEDB Subsidies ⁽⁴⁾	5,464	5,461	5,461	5,461	5,461
Projected Net Revenue	\$ 283,316	\$ 281,073	\$ 306,077	\$ 328,877	\$ 364,601
Debt Service					
Existing Senior Lien Bonds ⁽⁵⁾	\$ 100,499	\$ 94,014	\$ 79,177	\$ 79,162	\$ 57,091
Series 2015A Senior Lien Bonds ⁽⁶⁾	0	9,396	8,924	8,924	8,924
Series 2015C Senior Lien Bonds ⁽⁶⁾	0	4,850	4,878	4,878	4,878
Additional Senior Lien Bonds ⁽⁷⁾	0	0	0	10,115	27,175
Total Senior Lien Bonds	\$ 100,499	\$ 108,260	\$ 92,979	\$ 103,079	\$ 98,068
Existing Subordinate Bonds ⁽⁸⁾⁽⁹⁾	\$ 88,876	\$ 95,058	\$ 109,287	\$ 109,580	\$ 129,541
CP Notes ⁽¹⁰⁾	733	467	3,000	4,000	4,000
Total All Bonds and CP Notes	\$ 190,108	\$ 203,785	\$ 205,266	\$ 216,659	\$ 231,609
Projected Debt Service Coverage					
Total Senior Debt	282%	260%	329%	319%	372%
Total Senior and Subordinate Debt	149%	138%	149%	152%	157%

Source: City of Los Angeles, Bureau of Sanitation.

⁽¹⁾ Net Revenues, as defined by the General Resolution based on rates and charges currently in effect. The net revenues are calculated assuming that SSC shortfalls resulting from implementation of LADWP's new billing system will not be recovered in Fiscal Years 2016 through 2019.

⁽²⁾ Includes projected increases effective on each of July 1 from 2015 through 2019. There is no assurance that debt service coverage for Fiscal Years 2015 through 2019, inclusive, will be at the levels currently projected.

⁽³⁾ Includes assumed annual interest earnings of 2.7 percent on increased reserve funds resulting from proposed additional Bond sales.

⁽⁴⁾ Amount for Fiscal Year 2013 reflects reductions in the amount of Refundable Credits as described under "Security and Sources of Payment for the Series 2015AB Senior Lien Bonds – No Pledge of Refundable Credits" and "Risk Factors – Effect of Federal Sequestration on Refundable Credits" herein. The effect of Sequestration on Fiscal Years 2016 through 2019 is currently unknown. These amounts are not pledged to payment of principal of and interest on the Series 2015AB Senior Lien Bonds.

⁽⁵⁾ Reflects principal and interest becoming due and payable on all Senior Lien Bonds issued and outstanding in each Fiscal Year, prior to the issuance of the Series 2015AB Senior Lien Bonds and completion of the refundings relating thereto. See "Plan of Finance".

⁽⁶⁾ Preliminary, subject to change. Reflects projected debt service on the Series 2015-A Senior Lien Bonds to be issued to fund capital improvements to the System and debt service on the Series 2015-C Senior Lien Bonds to be issued to refund outstanding commercial paper. Excludes projected debt service on the portion of the Series 2015-B Senior Lien Bonds and Series 2015-D Senior Lien Bonds to be issued to refund certain of the City's Outstanding Bonds, as described under "Plan of Finance" herein.

⁽⁷⁾ Principal and interest becoming due and payable on projected additional revenue bonds in each Fiscal Year. Assumes interest rate of 5.00 percent for additional Senior Lien Bond issuances and 30-year wrapped debt service principal amortization structures. See Table 22 for additional information on projected debt issuance.

⁽⁸⁾ Represents principal and interest becoming due and payable on all Subordinate Bonds issued and Outstanding in each Fiscal Year, excluding debt service on the Series 2015-A Subordinate Bonds expected to be issued after the date hereof.

⁽⁹⁾ Principal and interest becoming due on existing Subordinate Bonds in each Fiscal Year. Assumes an all-in interest cost of 3.79 percent on the \$151,085,000 portion of the Series 2012-D Subordinate Bonds associated with the Swap Agreements, and an all-in interest cost of 2.00 percent on the remaining \$129,775,000 portion of the Series 2012-D Subordinate Bonds.

⁽¹⁰⁾ Interest at an assumed annual interest rate of 0.8 percent on projected CP Notes for Fiscal Year 2015 and 2.0 percent for Fiscal Years 2016 through 2019.

REGULATORY REQUIREMENTS AFFECTING OPERATION OF THE SYSTEM

General

The City's wastewater operations are subject to regulatory requirements relating to the Federal Water Pollution Control Act as amended (the "Clean Water Act"). The regulatory requirements are administered by the US EPA through the SWRCB. Regulations of these agencies deal primarily with the quality of effluent which may be discharged from the four wastewater treatment facilities, the recycling of residual solids generated by the wastewater treatment plants, the reuse of reclaimed water for irrigation and industrial uses to conserve potable water, and the nature of waste material (particularly industrial waste) discharged into the collection system. As a condition of having received federal EPA grant funds under the Clean Water Act for planning, design, and construction of various wastewater projects, the City is subject to additional requirements. Among the grant-related requirements are guidelines which must be followed concerning planning methodologies, design criteria, procurement, construction activities, and financing of facilities.

To comply with federally mandated effluent quality and disposal criteria, the City must operate its wastewater treatment facilities according to discharge limitations and reporting requirements set forth in NPDES discharge permits. All wastewater treatment plants currently comply with the requirements of their respective NPDES permits.

To comply with other federal regulations concerning the discharge of waste materials into the sewer system, the City must administer and enforce industrial pretreatment limitation standards upon users of the system. The City has had an industrial waste program in effect since the early 1940s. The City has been approved by the State and the US EPA to administer its own industrial pretreatment program.

The City's industrial waste ordinance sets forth the water quality standards that industrial users must meet and provides enforcement procedures for violators. The Industrial Waste Management Division of the Bureau of Sanitation is currently responsible for monitoring industrial sites, food service establishments, and dental offices located in the City. In addition, each Entity is required to permit and monitor all industries within its respective service area. Agencies served under the Universal Terms Contracts are now contractually required to meet the federal pretreatment requirements.

Another grant-related regulatory requirement is that the City has an approved user charge system. Such user charge regulations require the City to recover annual operation, maintenance, and replacement costs from users of the system in a proportionate manner according to the customer's level of use. Such factors as volume, flow rate, and strength of wastewater are to be considered in determining proportionate use. User fee rates are reviewed periodically and established at a level necessary to generate sufficient revenues to recover the annual operation, maintenance and replacement costs. User fee rates for all users, except Entities still served by the old SDCs and certain City operations are established to recognize the volume and strength characteristics of wastewater contributed to the system. The SWRCB approved the City's original Revenue Program on September 23, 1987. The Agencies also must file their respective revenue programs with the SWRCB in connection with the City's Revenue Program. In order to comply with SWRCB revenue program requirements for proportional cost recovery by user class, the outdated SDCs are being renegotiated to reflect both volume and wastewater strength requirements.

In addition to federal requirements, the City must comply with State requirements which are generally more stringent. The primary State law concerned with the control of water quality is the Porter-Cologne Water Quality Control Act of 1969, as amended (the "Porter-Cologne Act"). The basic tenor of that act was set by the policy that the waters of the State must be protected for use and enjoyment by the

people of the State. The Porter-Cologne Act directly addresses the issue of water reclamation and reuse. A declared policy of the law is that the people of the State have a primary interest in the development of facilities to reclaim wastewater to supplement existing surface and underground water supplies in order to meet their water requirements. The legislative intent was to undertake all possible development of water reclamation facilities to make reclaimed water available for use. The law requires the State Department of Health Services to establish statewide reclamation criteria for each type of use where such use involves public health.

Biosolids Management

The City terminated the discharge of biosolids into the ocean in November 1987 as required by the terms of the Amended Consent Decree. The City produces exceptional quality biosolids at HTP and TIWRP, which will permit the continuation of land application. The City reuses biosolids, a byproduct or residual of wastewater treatment, as a soil amendment at a City-owned farm in Kern County, pending resolution of litigation relating to biosolids land application in Kern County. A Kern County voter-approved initiative was passed in July 2006 that prohibits biosolids land application in the unincorporated areas of Kern County. The City filed legal challenges to the validity of this initiative. See “Litigation” herein. If the provisions of the initiative are upheld, the City would no longer be able to land apply biosolids at its farm in Kern County and would have to landfill it, dispose of it out of state, or consider other use options at an increased cost of approximately \$3 million per year. The financial projections set forth in this Official Statement do not include the potential costs related to alternate disposition of biosolids.

The City is investigating and evaluating new beneficial use options, including injection of biosolids deep below the geological subsurface at TIWRP pursuant to the Terminal Island Renewable Energy Project. Since July 2008, over 320 million gallons of biosolids have been injected. The City received a new permit in December 2013 to continue the project for another five years. The City also composts a portion of its biosolids at its Griffith Park compost facility. Composting is the process by which organic materials such as biosolids are decomposed into a nutrient-rich soil conditioner.

Air Quality

South Coast Air Quality Management District. The air quality issues relating to treatment plants have been the subject of increased federal, State and local regulation. The US EPA has delegated most enforcement responsibilities of the federal Clean Air Act (CAA) to the South Coast Air Quality Management District (“SCAQMD”). The Bureau of Engineering obtains SCAQMD permits to construct many System capital improvement projects. The Bureau of Sanitation tracks federal and State air quality legislation and proposed federal, State and regional regulations, prepares responses to issues that may impact System operations and future development and coordinates SCAQMD permits to construct larger System projects such as the DGUP at HTP.

Pollutant and Air Toxics Emissions. All of the City’s treatment plants monitor and report on pollutant emissions and certain air toxics pursuant to SCAQMD requirements, which are based on guidelines set forth by the California Office of Environmental Health Hazard Assessment (OEHHA). SCAQMD requires Annual Emissions Reports (“AERs”) of air contaminants. Pursuant to the Air Toxics “Hot Spots” Information and Assessment Act SCAQMD has designated HTP and TIWRP as high priority emitters and requires a health risk assessment (“HRA”) from each facility every four years, or as requested by SCAQMD. An HRA is a comprehensive analysis of the dispersion of hazardous substances into the environment, the potential for human exposure, and a quantitative assessment of both individual and population-wide health risks associated with those levels of exposure. Future HRA analyses will be based on the recently revised Exposure Assessment by OEHHA. Due to this revision, SCAQMD is

proposing to amend Rules 1401, 1401.1, 1402, and 212, and is revising its Risk Assessment Procedures. It is expected that this may result in more public notices for future construction or operations at HTP and potentially TIWRP. No issues are expected to arise from AERS, Hot Spots reports, or HRAs.

Priority Reserve Credits and Reserves. Since 2006, there have been various legal challenges to SCAQMD's Rules 1309.1 and 1315. Rule 1309.1 provides priority reserve credits to Essential Public Services (EPSs), including wastewater treatment facilities. Rule 1315 provides a US EPA approved banking or tracking system for credits so that permits can be issued. On May 24, 2012, US EPA approved the most recent version of Rule 1315. On November 15, 2012, plaintiff *Communities for a Better Environment and California Communities Against Toxics* filed suit in the US Ninth Circuit Court of Appeals ("Ninth Circuit") against the US EPA to invalidate and vacate Rule 1315. If the plaintiffs prevail, issuance of air permits by SCAMD would cease for an unknown period. During such a moratorium, Priority Reserve Credits could not be issued to EPSs and offset credits could not be issued or traded. This litigation continues. Priority Reserve Credits have already been obtained for the DGUP at HTP.

National Ambient Air Quality Standards. SCAQMD implements portions of the federal CAA, including the National Ambient Air Quality Standards, which are emission limits for criteria pollutants, including ozone. Nitrogen oxides ("NOx") and volatile organic compounds ("VOCs") are precursors to ozone. The CAA Section 185 requires major sources of NOs and VOCs within a severe or extreme non-attainment area, like the South Coast Air Basin, to either reduce their emission by twenty percent or pay a fee. On December 5, 2008, the SCAQMD governing board adopted Rule 17 to implement Section 185. Rule 317 would have potentially resulted in a fee of approximately \$1 million per year for HTP's DGUP due to CAA Section 185.

SCAQMD amended Rule 317 to follow the US EPA's fee-equivalency approach of CAA Section 172(e), which allows expenditures by the US EPA, California Air Resources Board (CARB) and SCAQMD in surplus emission reduction programs, such as truck replacement, clean fuels and bus retrofit programs, to be used on a dollar per dollar basis to offset the Section 185 fee obligations. On March 11, 2015, the Ninth Circuit denied a petition by the Natural Resources Defense Council and the Committee for a Better Environment that would have invalidated the February 4, 2015 rule change. No appeal is expected. SCAQMD has indicated that adequate equivalency funding appears to be available through 2020, when the one-hour ozone standard is expected to be achieved, thereby avoiding any penalties under Section 185 of the federal CAA.

Prevention of Significant Deterioration. Because HTP already is regulated for Prevention of Significant Deterioration by SCAQMD, emissions of the greenhouse gas ("GHG") carbon dioxide ("CO₂") are also subject to this rule, which could affect future capital projects at HTP. At present, the effect of this inclusion is for Best Available Control Technology to be applied to DGUP to minimize CO₂. DGUP equipment has been determined to be Best Available Control Technology.

CARB. In December 2007, CARB adopted Mandatory Reporting Requirements ("MRRs") requiring reporting of GHG emissions from the largest sources, including refineries, general stationary combustion facilities, and hydrogen plants that emit at least 25,000 metric tons of CO₂ per year. On December 16, 2011, CARB reduced the reporting threshold to 10,000 metric tons CO₂ equivalent per year and removed cogeneration as a category subject to MRRs. Presently, HTP emits less than 10,000 metric tons per year. Like the US EPA, CARB is not requiring the reporting of biogenic CO₂.

US EPA. On September 22, 2009, the US EPA finalized a rule for GHG MRRs, one in a series of regulatory changes, leaving no impact on Publicly Owned Treatment Works ("POTWs"). Through this series of changes, the regulation clarified that most POTW, including HTP, are not impacted by the

federal MRR, which addresses fossil related stationary source combustion emissions about 25,000 metric tons CO₂ equivalents per year.

Southern California Alliance of Publicly Owned Treatment Works (“SCAP”) and California Association of Sanitation Agencies (“CASA”). The City is a member of SCAP, which assists POTWs in addressing US EPA, CARB, and SCAQMD regulations affecting POTWs and addresses the climate change and GHG issues of POTWs. The City is also a member of CASA, which provides advocacy for POTWs in a broad spectrum of issues, including those pertaining to air quality and climate change.

No assurance can be given that the cost of compliance with future laws, regulations and orders relating to climate change, greenhouse gases and/or renewable energy would not adversely affect the ability of the System to generate Revenues sufficient to pay debt service on the Series 2015AB Senior Lien Bonds.

Water Quality

Total Maximum Daily Loads. The Los Angeles Regional Water Quality Control Board (“LARWQCB”) is required to develop TMDLs for impaired waterbodies. Section 303(d) of the Clean Water Act requires every state to compile a list of waterbodies that are impaired with respect to water quality and then implement mitigation efforts through the TMDL process. The TMDL for nitrogen compounds and its related effects in the Los Angeles River and its tributaries was adopted by the LARWQCB in July 2003, and was adopted by SWRCB in November 2003. The TMDL became effective on March 23, 2004. Interim limits for the discharge of nitrogen compounds also became effective for DCTWRP and LAGWRP on March 23, 2004. The City is required to perform several studies relating to this TMDL. The City has constructed nitrification/denitrification facilities that achieve compliance with the TMDL.

The Los Angeles River Metals TMDL, as readopted, became effective October 29, 2008. The TMDL assigned DCTWRP and LAGWRP Waste Load Allocations that have been exceeded from time to time and provided a compliance schedule of five years from the original effective date of the TMDL. However, DCTWRP and LAGWRP are subject to more stringent final limits pursuant to their NPDES permits and the California Toxics Rule, with which the DCTWRP and LAGWRP are in compliance. Various watersheds in the Los Angeles area have water body segments that are also listed as impaired due to pollutants such as heavy metals, pesticides, ammonia, and nutrients. TMDLs are being developed by the LARWQCB for these water bodies. It is difficult to predict their full impact on the City’s four water reclamation and wastewater treatment plants. In addition, the proposed Greater Los Angeles County Municipal Separate Stormwater Sewer Systems (MS4) permit, adopted by the LARWQCB in November 2012, contains provisions that require compliance with all the adopted TMDLs. Significant capital improvements funded by the System may be required to comply with the TMDLs and their resulting impact on the City’s NPDES permits.

Nutrient Policy for Inland Surface Waters. The SWRCB has commenced development of a statewide nutrient control program for inland surface waters that is intended to protect beneficial users from the effects of nutrient pollution and eutrophication in California water bodies. SWRCB is expected to establish an approach to address nutrient pollution and eutrophication across waterbody types and develop a watershed approach that is flexible and adaptive over time. In the first phase of program development, SWBRC is prioritizing the development of a nutrient program for wadeable streams. Compliance with the resulting SWRCB program may require significant upgrades to the facilities and increased energy demand of DCTWRP and LAGWRP. The potential costs of compliance are unknown at this time.

Discharge of Treated Municipal Wastewater. On May 6, 2010, the LARWQCB adopted the TIWRP's current NPDES permit, which will expire on June 25, 2015. See “– NPDES Permits” herein. In connection with its application for renewal of the TIWRP NPDES permit, the Bureau of Sanitation has submitted a water recycling requirements permit application to the LARWQCB for expansion of the AWPf facility at TIWRP, including the future discharge of the AWPf recycled water to Machado Lake. The NPDES permit is based upon Resolution 94-009 adopted by LARWQCB in 1994 (“Resolution 94-009”) and, as required by the 1974 Bay and Estuary policy, calls for the City to eliminate TIWRP tertiary discharge (except for brine waste) to the Los Angeles Harbor by 2020. Resolution 94-009 sets the goal of eliminating the effluent discharge by 2020 through expansion of the AWPf and increasing water reuse. The Bureau of Sanitation will pay for and own the AWPf expansion and will recover the costs of the facility by selling the recycled water from the facility to DWP.

NPDES Permits

The City's four treatment plants are required to obtain five-year NPDES permits that are issued by the LARWQCB. The City is in the process of renewing the TIWRP NPDES permit. The current NPDES permit expires in June 2015 and the new NPDES permit is expected to be adopted before June 2015. HTP's NPDES permit was adopted on November 2010 and will expire on December 23, 2015. The Bureau of Sanitation will submit a renewal application before the June 2015 deadline.

The LARWQCB issued new permits for DCTWRP and LAGWRP on December 8, 2011 (collectively, the “Permits”). DCTWRP and LAGWRP currently comply with their final permit limits for copper, and neither plant is expected to experience difficulty meeting these new limits in the future. The Cities of Burbank and Los Angeles completed a Copper Site-Specific Objective Study for the Los Angeles River. The study was adopted by the LARWQCB on May 6, 2010 and approved by the SWRCB, US EPA and Office of Administrative Law. The study has been incorporated into the Los Angeles River heavy metal Total Maximum Daily Loads (“TMDLs”). Based upon the new copper effluent limit in the permits and the current level of copper removal achieved, it is anticipated that there will be no adverse financial impact to the City.

The previous DCTWRP and LAGWRP permits also required compliance with the Nitrogen TMDL and construction of Nitrification-Denitrification (“NDN”) facilities. NDN facilities have been constructed at DCTWRP and LAGWRP. DCTWRP and LAGWRP have been operating in full NDN mode since September 2007 and have met their final ammonia effluent limits. An Ammonia Site-Specific Objective (the “SSO”) Study has been approved by the LARWQCB and adopted by the SWRCB, Office of Administrative Law, and US EPA. The final adoption of the SSO study into the DCTWRP and LAGWRP NPDES permits will allow adjustment of the final ammonia limits and provide for operator flexibility in the disinfection process. The LARWQCB re-opened and revised the Waste Load Allocations for Ammonia. The inclusion of the ammonia effluent limit in the NPDES permit is expected to take place in the next permit cycle; meanwhile, the Bureau of Sanitation has received a Time Schedule Order from the LARWQCB for DCTWRP until the adoption of the new NPDES permit, when the new limits are expected to be included in the permit. Under the Time Schedule Order, the City will improve its instrumentation to more accurately measure the ammonia concentration in the plant effluent. If the results of the SSO study are not incorporated into the permits, then plant operational flexibility may be limited and additional modifications to the treatment process may be required. Potential costs for compliance are unknown at this time.

In the future, and if the plants cannot meet future permit requirements, it is possible that the City may be required to install new treatment processes at a substantial cost to the City. The City cannot currently estimate the cost of such permit requirements, and such permit requirements are not included in the current Capital Improvement Program.

Collection System Settlement Agreement

In 1998, the Santa Monica BayKeeper (“BayKeeper”) filed a federal lawsuit asking for injunctive relief and \$549 million in penalties relating to spills from the City wastewater system that occurred during the El Niño storms of 1998. In January 2001, the US EPA, the LARWQCB and certain community groups representing residents in South Los Angeles joined the BayKeeper in its lawsuit against the City. This action was settled pursuant to the CSSA signed by all parties and approved and entered by the court in October 2004. The CSSA required the construction of several projects including, but not limited to, the Figueroa Meridian York Relief Sewer project, Air Treatment Facility – East Central Interceptor Sewer Mission and Jesse project (the “ATF – ECIS Mission and Jesse project”), Central Outfall Sewer - 59th Street and Fourth Avenue project, Supplemental Environmental Projects and numerous projects in the Secondary Sewer Renewal Program. All of these projects were completed on or before the end of the term of the agreement on June 30, 2014 except for the start-up of the ATF – ECIS Mission and Jesse project, which is currently scheduled to be completed by June 2015. Pending completion of the project, the City is controlling odors using an odor scrubber. In addition, the City was required to clean a three-year rolling average of 2,800 miles of sewers, visually inspect at least 600 miles of sewers annually, and continue odor mitigation efforts. The US EPA has approved the City’s Ten-Year report and has confirmed that the City has met all of its CSSA obligations.

RISK FACTORS

The ability of the City to pay principal of and interest on the Series 2015AB Senior Lien Bonds depends primarily upon the receipt by the City of Revenues. Some of the events which could prevent the City from receiving a sufficient amount of Revenues to enable it to pay the principal of and interest on the Series 2015AB Senior Lien Bonds are summarized below. The following description of risks is not intended to be an exhaustive list of the risks associated with the purchase of the Series 2015AB Senior Lien Bonds and the order of the risks set forth below does not necessarily reflect the relative importance of the various risks.

Limited Obligations

The obligation of the City to pay debt service on the Series 2015AB Senior Lien Bonds is a limited obligation of the City and is not secured by a legal or equitable pledge or charge or lien upon any property of the City or any of its income or receipts, except the Revenues. The obligation of the City to pay debt service on the Series 2015AB Senior Lien Bonds does not constitute an obligation of the City to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. The City is obligated under the Resolutions to pay debt service on the Series 2015AB Senior Lien Bonds solely from Revenues.

Factors that can adversely affect the availability of Revenues include, among other matters, drought, general and local economic conditions, and changes in law and government regulations (including initiatives and moratoriums on growth). The realization of future Revenues is also subject to, among other things, the capabilities of management of the City, the ability of the City to provide wastewater service to its retail customers and the Agencies, the ability of the City to establish, maintain and collect charges for the wastewater service to its retail customers and the Agencies and the ability of the City to establish, maintain and collect rates and charges sufficient to pay debt service on the Series 2015AB Senior Lien Bonds. See “Financial Operations of the Wastewater System” herein and Appendix E attached hereto.

System Revenues and Expenditures

The operation and maintenance expenses of the System are expected to increase in the next five years. See “Financial Operations of the Wastewater System – Operation and Maintenance Expenses” herein. Actual operation and maintenance expenses may be greater or less than projected. Factors such as changes in technology, regulatory standards, increased costs of material, energy, labor and administration can substantially affect System expenses. Although the City has covenanted to prescribe, revise and collect rates and charges in amounts sufficient to pay debt service on the Series 2015AB Senior Lien Bonds, there can be no assurance that such amounts will be collected. Increases in System rates could result in a decrease in demand for System usage.

Rate-Setting and Initiative Processes Under Proposition 218

Proposition 218 affects the City’s ability to impose future rate increases, and no assurance can be given that future rate increases will not encounter majority protest opposition or be challenged by initiative action authorized under Proposition 218. In the event that future proposed rate increases cannot be imposed as a result of majority protest or initiative, the City might thereafter be unable to generate Revenues in the amounts required to pay debt service on the Series 2015AB Senior Lien Bonds. See “Financial Operations of the Wastewater System – Proposition 218” herein.

Proposition 218, as incorporated in the California Constitution under Article XIII C, also provides that the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments. See “Financial Operations of the Wastewater System – Proposition 218” herein. Notwithstanding the fact that the SSC may be subject to reduction or repeal by voter initiative undertaken pursuant to Section 3 of Article XIII C, the City has covenanted to establish, fix, prescribe and collect rates, fees and charges in connection with the use of the System which meet the requirements of the Resolutions and in accordance with applicable law. No assurance can be given that the voters of the City will not, in the future, approve initiatives which seek to repeal, reduce or prohibit the future imposition or increase of assessments, fees or charges, including the City’s SSC, which are a significant source of Revenues pledged to the payment of debt service on Series 2015AB Senior Lien Bonds.

Potential Impact of Drought and Other Risks Relating to the Water Supply

The State’s and City’s continued drought conditions have prompted various actions to reduce water consumption. See “Financial Operations of the Wastewater System – Water Usage - General” herein. The City has approved rates which will increase through Fiscal Year 2021. These rates and charges were predicated on assumptions of expected volume of wastewater operation. If the water supply decreases significantly, whether by operation of mandatory supply restrictions, prohibitively high water costs or otherwise, flow within the Wastewater System will diminish and Revenues may be adversely affected. The City has reduced the funding for CIP projects in Fiscal Year 2016 in response to the expected reduction in wastewater volume and Revenues. Also, much of the conservation programs pursuant to the Governor’s order will occur in landscape water and other uses that are not tributary to the System. Therefore, the City does not expect its bond coverage to be materially affected by a reduction in volume of wastewater operations due to the Governor’s proposed program. However, no assurance may be made regarding the potential impact of the present or any future drought on the System’s financial condition. See “Financial Operations of the Wastewater System – Water Usage - General” herein.

Statutory and Regulatory Compliance

Changes in the scope and standards for public agency wastewater systems, such as the System, may lead to increasingly stringent operating requirements and the imposition of administrative orders issued by Federal or State regulators. Future compliance with such requirements and orders can impose substantial additional costs on the SCM Fund. See “Regulatory Requirements Affecting the Operation of the System” herein. In addition, claims against the System for failure to comply with applicable laws and regulations could be significant. Such claims are payable from assets of the System or from other legally available sources. No assurance can be given that the cost of compliance with such existing or future laws, regulations and orders would not adversely affect the ability of the System to generate Revenues sufficient to pay debt service on the Series 2015AB Senior Lien Bonds.

Earthquakes and Other Natural Disasters

The System is located above or near a number of geological faults capable of generating significant earthquakes. The area is characterized by a number of geotechnical conditions which represent potential safety hazards, including expansive soils and areas of potential liquefaction and landslide. In anticipation of such potential disasters, the City designs and constructs System facilities to the seismic codes in effect at the time of design of the project.

In January 1994, an earthquake of magnitude 6.8 on the Richter Scale occurred in the northwest San Fernando Valley on a previously unmapped fault. It caused widespread damage to commercial and residential structures. No significant damage occurred to the System and sewer service was not interrupted. Pipe fractures were detected using closed circuit television cameras and some portions of the pipe collapsed. The City estimates that repairs to the System in connection with this earthquake cost approximately \$213 million.

Although the City has implemented disaster preparedness plans, there can be no assurance that these or any additional measures will be adequate in the event that a natural disaster occurs, nor that costs of preparedness measures will be as currently anticipated. Further, damage to components of the System could cause a material increase in costs for repairs or a corresponding material adverse impact on Revenues. The City is not obligated under the Resolutions to maintain earthquake insurance on the System, and the City does not now and does not plan to maintain, earthquake insurance on the System.

Security of the Wastewater System

Damage to the System resulting from vandalism, sabotage, or terrorist activities may adversely impact the operations and finances of the System. There can be no assurance that the City’s security, emergency preparedness and response plans will be adequate to prevent or mitigate such damage, or that the costs of maintaining such security measures will not be greater than currently anticipated. See “The Wastewater System Service Area and Facilities – Security of the System” herein. The City has established the Emergency Fund, which may be used by the City, if other funds are not readily available and sufficient, to pay extraordinary and unexpected repair or replacement expenses of the System or liability claims related to the System. See “Security and Sources of Payment for the Series 2015AB Senior Lien Bonds – Emergency Fund” herein.

Utility Costs

No assurance can be given that any future significant reduction or loss of power would not materially adversely affect the operations of the System. The volume of wastewater conveyed and treated in the System on a daily basis requires a significant amount of electrical and thermal power. Electricity is

needed to run pumps, lights, computers, mechanical valves and other machinery. Thermal energy, usually generated by electrical power or by burning natural gas, provides heat and cooling necessary for both buildings and the wastewater treatment process. Prices for electricity or gas may increase, which could adversely affect the System's financial condition.

Impact of Economic Conditions on System Revenues

The recent recession and major economic disruptions adversely affected economic activity of the region in general, in particular resulting in decreased economic activity, increased unemployment and a reduction in residential and commercial construction. The City cannot predict the extent of the fiscal problems that will be encountered in any future economic downturn. Reduction in System users' ability to pay rates and charges, and reduction in the rate at which new customers are added to the System, can adversely impact System Revenues.

Acceleration; Limitations on Remedies

The General Resolution and the Subordinate General Resolution provide that, upon and during the continuance of an Event of Default, the principal of and interest accrued on all Senior Bonds and Subordinate Bonds, respectively, subject to certain conditions, may be declared to be due and payable immediately. The foregoing notwithstanding, the remedy of acceleration is subject to the limitations on legal remedies against public entities in the State, including a limitation on enforcement obligations against funds needed to serve the public welfare and interest. Also, any remedies available to the Owners of the Series 2015AB Senior Lien Bonds upon the occurrence of an Event of Default under the respective Resolutions are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

Further, enforceability of the rights and remedies of the Owners of the Series 2015AB Senior Lien Bonds may become subject to (i) the Federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor's rights generally, (ii) equity principles which may limit the specific enforcement of certain remedies, (iii) the exercise by the United States of America of the powers delegated to it by the Constitution, and (iv) the exercise of the state police powers. Remedies available to the Owners of the Series 2015AB Senior Lien Bonds are in many respects dependent upon judicial action which is often subject to discretion and delay and could prove both expensive and time consuming to obtain.

Swap Agreements

The City is currently a party to two Swap Agreements related to bonds issued under the Subordinate General Resolution. Swap Agreements entail certain financial risks to the City and the City may not realize the expected financial benefits from these swap transactions. In addition, the potential future exposure to the City relating to the difference in payments between the amounts the City receives and pays in connection with a swap agreement, termination payments, or any non-scheduled payment cannot be predicted. The respective counterparties may terminate any of the Swap Agreements upon the occurrence of certain termination events or events of default, which may include failure of either the City or the counterparty to maintain credit ratings at specified levels. The City may terminate any of the Swap Agreements at any time. If either the counterparty or the City terminates any swap, the City may be required to make a termination payment to the counterparty, even if such termination is due to an event affecting the counterparty, including the counterparty's failure to maintain credit ratings at specified levels, and there is no assurance that such payment by the City would not have a material adverse effect on the Revenues. See "Financial Operations of the Wastewater System – Swap Agreements" herein for a

description of the counterparties to the City's two Swap Agreements and the respective market values thereof.

Risks Related to Variable Rate Bonds

The variable rate of interest that is borne by the Series 2012-D Subordinate Bonds while bearing interest in an index interest rate mode is dependent in part upon the ability of the City to pay the principal of and interest on the Series 2012-D Subordinate Bonds tendered for purchase on each Special Purchase Date and upon an event of default under the 2012-D Continuing Covenant Agreement. In the event the Series 2012-D Subordinate Bonds tendered for purchase cannot be remarketed, assuming no event of default under the 2012-D Continuing Covenant Agreement and assuming certain other conditions are met, the principal amount of the Series 2012-D Subordinate Bonds may be payable in installments over a period of up to three years. Under such circumstances, the Series 2012-D Subordinate Bonds would bear a variable interest rate that could be significantly higher than the variable rate that was borne by the Series 2012-D Subordinate Bonds prior to the failed mandatory tender for purchase. The accelerated amortization and increased interest rate would significantly increase the size of current debt service payments due and owing on the Series 2012-D Subordinate Bonds. In such a case, the City may seek to convert the Series 2012-D Subordinate Bonds to an adjustable rate mode (other than an index interest rate mode) and cause to be executed and delivered a credit facility which will provide for the payment of principal of and interest on the Series 2012-D Subordinate Bonds when due and the purchase of any such Series 2012-D Subordinate Bonds tendered for purchase and not remarketed. However, there can be no assurance that credit enhancement could be obtained at a reasonable cost, if at all. The City may also convert the Series 2012-D Subordinate Bonds to a fixed interest rate or other rate not requiring credit enhancement or cause the refunding of the Series 2012-D Subordinate Bonds, but there can be no assurance with respect to the timing or terms of any such conversion or refunding.

Effect of Federal Sequestration on Refundable Credits

The Refundable Credits payable by the Federal government in connection with the Series 2010-A Senior Lien Bonds and Series 2010-B Senior Lien Bonds are subject to reduction pursuant to existing federal law, which requires that the federal budget authority for all accounts in the domestic mandatory spending category, including payments to issuers of direct-pay bonds such as the City, be reduced beginning federal fiscal year 2013 (the "Sequestration"). Prior to March 1, 2013, the City received periodic payments ("Refundable Credits") from the United States Treasury equal to 35% of the interest payable on the Series 2010-A Senior Lien Bonds and periodic Refundable Credits from the United States Treasury equal to 45% of the interest payable on the Series 2010-B Senior Lien Bonds. As a result of the Sequester (herein defined) described under "Risk Factors – Effect of Federal Sequestration on Refundable Credits," the City expects to receive an estimated \$430,072 reduction in Refundable Credits in connection with the Series 2010-A Senior Lien Bonds and the Series 2010-B Senior Lien Bonds for the current federal fiscal year ending September 30, 2015. The Refundable Credits are pledged only to the payment of the Series 2010-A Senior Lien Bonds and Series 2010-B Senior Lien Bonds, and are included in the calculation of Revenues under the General Resolution. However, the City has paid and will continue to pay debt service on its Bonds without accounting for the Refundable Credits expected to be received from the Federal government. The reduction in the amount of Refundable Credits from the Federal government will reduce the amount of Revenues received by the City and, in turn, the amount of Revenues available to pay debt service on Senior Lien Bonds and Subordinate Bonds. However, such reduction is not expected to materially adversely impact the City's ability to pay debt service on the Series 2015AB Senior Lien Bonds.

TAX MATTERS

The Internal Revenue Code of 1986 (the “Code”) imposes certain requirements that must be met subsequent to the issuance and delivery of the Series 2015AB Senior Lien Bonds for interest thereon to be and remain excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Series 2015AB Senior Lien Bonds to be included in the gross income of the owners thereof for federal income tax purposes retroactive to the date of issue of the Series 2015AB Senior Lien Bonds. The City has covenanted in the Twenty-Eighth Supplemental Resolution not to take any action or omit to take any action that, if taken or omitted, respectively, would adversely affect the exclusion of the interest on the Series 2015AB Senior Lien Bonds from the gross income of the owners thereof for federal income tax purposes.

In the opinion of Norton Rose Fulbright US LLP, Bond Counsel, under existing law interest on the Series 2015AB Senior Lien Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the aforementioned covenants, interest on the Series 2015AB Senior Lien Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Bond Counsel is of the further opinion that under existing law the Series 2015AB Senior Lien Bonds are not “specified private activity bonds” within the meaning of section 57(a)(5) of the Code and, therefore, interest on the Series 2015AB Senior Lien Bonds is not treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code. However, receipt or accrual of interest on Series 2015AB Senior Lien Bonds owned by a corporation may affect the computation of its alternative minimum taxable income. A corporation’s alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code is computed.

In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the City made in a Tax Certificate dated the date of delivery of the Series 2015AB Senior Lien Bonds pertaining to the use, expenditure, and investment of the proceeds of the Series 2015AB Senior Lien Bonds.

Except as set forth in the second preceding paragraph, Bond Counsel will express no opinion as to any federal, state or local tax consequence of the receipt of interest on, or the ownership or disposition of, the Series 2015AB Senior Lien Bonds. Furthermore, Bond Counsel will express no opinion as to any federal, state or local tax law consequence with respect to the Series 2015AB Senior Lien Bonds, or the interest thereon, if any action is taken with respect to the Series 2015AB Senior Lien Bonds or the proceeds thereof upon the advice or approval of other counsel.

Bond Counsel’s opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the covenants of the City described above. No ruling has been sought from the Internal Revenue Service (the “Service”) with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel’s opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Series 2015AB Senior Lien Bonds is commenced, under current procedures the Service is likely to treat the City as the “taxpayer,” and the owners would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Series 2015AB Senior Lien Bonds, the City may have different or conflicting interests from those of the owners of the Series 2015AB Senior Lien Bonds. Public awareness of any future audit of the Series 2015AB Senior Lien Bonds could adversely affect the value and liquidity of the Series 2015AB Senior Lien Bonds during the pendency of the audit, regardless of the ultimate outcome.

To the extent that a purchaser of a Series 2015 Senior Lien Bond acquires that Series 2015 Senior Lien Bond at a price in excess of its “stated redemption price at maturity” (within the meaning of section 1273(a)(2) of the Code), such excess will constitute “bond premium” under the Code. Section 171 of the Code, and the Treasury Regulations promulgated thereunder, provide generally that bond premium on a tax-exempt obligation must be amortized over the remaining term of the obligation (or a shorter period in the case of certain callable obligations); the amount of premium so amortized will reduce the owner’s basis in such obligation for federal income tax purposes, but such amortized premium will not be deductible for federal income tax purposes. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of the obligation. The amount of premium that is amortizable each year by a purchaser is determined by using such purchaser’s yield to maturity. The rate and timing of the amortization of the bond premium and the corresponding basis reduction may result in an owner realizing a taxable gain when its Series 2015 Senior Lien Bond is sold or disposed of for an amount equal to or in some circumstances even less than the original cost of the Series 2015 Senior Lien Bond to the owner. Purchasers of Series 2015AB Senior Lien Bonds at a price that includes bond premium should consult their own tax advisors with respect to the computation and treatment of such bond premium, including, but not limited to, the calculation of gain or loss upon the sale, redemption or other disposition of the Series 2015AB Senior Lien Bonds.

The excess, if any, of the stated redemption price at maturity of Series 2015AB Senior Lien Bonds of a series and maturity over the initial offering price to the public of the Series 2015AB Senior Lien Bonds of that series and maturity is “original issue discount.” Original issue discount accruing on a Series 2015 Senior Lien Bond is treated as interest excluded from the gross income of the owner thereof for federal income tax purposes, and is exempt from California personal income tax, to the same extent as would be stated interest on that Series 2015 Senior Lien Bond. Original issue discount on any Series 2015 Senior Lien Bond purchased at such initial offering price and pursuant to such initial offering will accrue on a semiannual basis over the term of the Series 2015 Senior Lien Bond on the basis of a constant yield method and, within each semiannual period, will accrue on a ratable daily basis. The amount of original issue discount on such Series 2015 Senior Lien Bond accruing during each period is added to the adjusted basis of such Series 2015 Senior Lien Bond to determine taxable gain upon disposition (including sale, redemption or payment on maturity) of such Series 2015 Senior Lien Bond. The Code includes certain provisions relating to the accrual of original issue discount in the case of purchasers of Series 2015AB Senior Lien Bonds who purchase such Series 2015AB Senior Lien Bonds other than at the initial offering price and pursuant to the initial offering. Purchasers of Series 2015AB Senior Lien Bonds of a maturity having original issue discount should consult their own tax advisors with respect to the tax consequences of ownership of Series 2015AB Senior Lien Bonds with original issue discount.

Although Bond Counsel is of the opinion that interest on the Series 2015AB Senior Lien Bonds is exempt from California personal income tax and is excluded from the gross income of the owners thereof for federal income tax purposes, an owner’s federal, state or local tax liability may otherwise be affected by the ownership or disposition of the Series 2015AB Senior Lien Bonds. The nature and extent of these other tax consequences will depend upon the owner’s other items of income or deduction. Without limiting the generality of the foregoing, prospective purchasers of the Series 2015AB Senior Lien Bonds should be aware that (i) section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Series 2015AB Senior Lien Bonds and the Code contains additional limitations on interest deductions applicable to financial institutions that own tax-exempt obligations (such as the Series 2015AB Senior Lien Bonds), (ii) with respect to insurance companies subject to the tax imposed by section 831 of the Code, section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15% of the sum of certain items, including interest on the Series 2015AB Senior Lien Bonds, (iii) interest on the Series 2015AB Senior Lien Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by section 884 of the Code, (iv) passive

investment income, including interest on the Series 2015AB Senior Lien Bonds, may be subject to federal income taxation under section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such S corporation is passive investment income, (v) section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, receipts or accruals of interest on the Series 2015AB Senior Lien Bonds, and (vi) under section 32(i) of the Code, receipt of investment income, including interest on the Series 2015AB Senior Lien Bonds, may disqualify the recipient thereof from obtaining the earned income credit. Bond Counsel has expressed no opinion regarding any such other tax consequences. Persons considering purchasing Series 2015AB Senior Lien Bonds should consult their own tax advisors with respect to such other tax consequences.

Bond Counsel has not undertaken to advise in the future whether any events occurring after the date of issuance of the Series 2015AB Senior Lien Bonds may affect the tax status of interest on the Series 2015AB Senior Lien Bonds or the tax consequences of the ownership of the Series 2015AB Senior Lien Bonds. No assurance can be given that pending or future legislation, if enacted into law, will not contain provisions that could directly or indirectly reduce the benefit of the exemption of interest on the Series 2015AB Senior Lien Bonds from personal income taxation by the State of California or of the exclusion of the interest on the Series 2015AB Senior Lien Bonds from the gross income of the owners thereof for federal income tax purposes.

Existing law may change so as to reduce or eliminate the benefit to beneficial owners of the exclusion of interest on the Series 2015AB Senior Lien Bonds from gross income for federal income tax purposes. Proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Series 2015AB Senior Lien Bonds. Prospective purchasers of the Series 2015AB Senior Lien Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as Appendix F.

CONTINUING DISCLOSURE

In order to provide certain continuing disclosure with respect to the Series 2015AB Senior Lien Bonds in accordance with the Rule, the City has executed a Continuing Disclosure Certificate (“Disclosure Certificate”) for the benefit of the Owners of the Series 2015AB Senior Lien Bonds, pursuant to which Digital Assurance Certification, L.L.C. will serve as the initial dissemination agent. The form of Disclosure Certificate is attached hereto as Appendix H. Under the Disclosure Certificate, the City will covenant for the benefit of Owners and Beneficial Owners of the Series 2015AB Senior Lien Bonds to provide certain annual financial information and operating data, including its audited financial statements for the SCM Fund, relating to the System by not later than June 30 of each Fiscal Year, commencing on June 30, 2016 for the report for the 2014-15 Fiscal Year, or if the fiscal year-end changes from June 30, not later than 365 days after the end of the City’s Fiscal Year (the “Annual Reports”), and to provide notices of the occurrence of certain enumerated events (the “Listed Events”). The Annual Reports and notices of Listed Events will be filed with the Electronic Municipal Market Access (“EMMA”) database maintained by the Securities and Exchange Commission, pursuant to the Rule. These covenants will be made in order to assist the Underwriters of the Series 2015AB Senior Lien Bonds in complying with the Rule.

The City and its related entities issue a variety of bonds, notes and obligations (“Obligations”), including Obligations issued through its proprietary enterprise programs and for its housing program and other conduit borrowers, as well as Obligations secured by special taxes and special assessments. The

statements made by the City in this section regarding its previous continuing disclosure undertakings relate only to those Obligations which are managed by the City Administrative Officer and its staff, including Obligations secured by the City's general fund (including the City's Judgment Obligation Bonds and the bonds and notes issued through the Los Angeles Convention and Exhibition Center Authority and the Municipal Improvement Corporation of Los Angeles), General Obligation Bonds, Wastewater System Revenue Bonds, Tax and Revenue Anticipation Notes, Solid Waste Revenue Bonds, and Landscape and Lighting District 96-1 Bonds. The City's Department of Airports, Department of Water and Power and Harbor Department (each of which is governed by a Board of Commissioners that is separate from the City Council) enter into continuing disclosure undertakings in connection with the bonds and notes that are secured and payable from their respective enterprise revenues.

In April 2010, Moody's and Fitch downgraded their ratings on certain of the Obligations. In addition, between December 2007 and February 2010, Moody's, Fitch and S&P downgraded the ratings on several issues of certain of the Obligations based on downgrades or withdrawals of bond insurers, including AMBAC Assurance Corp., Assured Guaranty Municipal Corp., Financial Guaranty Insurance Company, MBIA Inc., and ACA Financial Guaranty Corporation. Notices of all of these rating changes were filed on the EMMA website in May 2013.

LITIGATION

There is no controversy of any nature now pending against the City or, to the knowledge of its respective officers, threatened, seeking to restrain or enjoin the issuance, sale, execution or delivery of the Series 2015AB Senior Lien Bonds or in any way contesting or affecting the validity of the Series 2015AB Senior Lien Bonds or any proceedings of the City taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the Series 2015AB Senior Lien Bonds or the use of the proceeds of the Series 2015AB Senior Lien Bonds.

Certain Claims Against the SCM Fund

There are no pending lawsuits that in the opinion of the City Attorney challenge the validity of the Series 2015AB Senior Lien Bonds, the corporate existence of the City, or the title of the officers to their respective offices. In this review attention has been given to litigation pending against the City and against the City's Board of Public Works. The Office of the City Attorney has prepared the following summary, as of April 2, 2015, of certain claims and lawsuits (with any potential loss exceeding \$1,000,000) pending against the SCM Fund for construction claims and certain other alleged liabilities arising during the ordinary course of operations of the System.

- The City was notified by letter dated July 7, 2010 that the City is a potentially responsible party in an action entitled *Rev 973, LLC v. Mouren-Laurens*, Case No. 98-10690 pending in the United States District Court for the Central District of California. The action involves claims for environmental contamination on two sites located in Compton, California, and it is alleged that the City arranged for transport of hazardous materials from the Hyperion plant to one of the sites. The plaintiffs dismissed the City as a defendant without prejudice.
- *City of Los Angeles et al. v. County of Kern et al.* is an action in State court (Tulare County) stemming from a June 2006 ballot initiative (Measure E) that banned the land application of biosolids within the unincorporated portions of Kern County, including the area where the City land applies biosolids at its farm. A comparable lawsuit that the City previously filed in federal court was dismissed on procedural grounds after the City's motion for summary judgment had been granted. The City's current lawsuit challenges

Kern County's ban on the land application of biosolids. Following a hearing on June 9, 2011, the court granted the City's motion for a preliminary injunction against the Kern County's enforcement of Measure E, finding that the City was likely to succeed on the merits of the lawsuit. On February 13, 2013, the California Court of Appeal in Fresno upheld the preliminary injunction, thereby allowing biosolids land application to continue pending the outcome of the case. On April 22, 2013, Kern County filed a petition for review with the California Supreme Court. The California Supreme Court granted review on a narrow procedural ground regarding the interpretation of a federal statute governing the tolling of the statute of limitations for the state law claims originally litigated by the parties in federal court. The Court did not grant review of the preliminary injunction. The Court ruled against the City and held that the time limit for the federal statute was not met and remanded the case back to the lower court. The City and Kern County each filed motions for summary judgment which the court denied. A trial setting conference is set for April 2015. If Kern County ultimately prevails, alternative methods of biosolids disposal could cost the City in excess of \$3 million per year.

- *Nivisec v. City of Los Angeles* is an action brought in state court by the owner of a residence who used the first floor of the residence as an office. The plaintiff claimed that several cameras and computers were destroyed by sewer water, causing damage and loss of business income. At the trial held in August, 2012, the court ruled the City was liable under an inverse condemnation cause of action. The City paid the \$6.19 million judgment in April 2014.
- *Maxim Tselevich, et al. v. City of Los Angeles* is a lawsuit alleging that a City sewer system malfunction caused damage to plaintiff's residence and at-home business venture for manufacturing specialty furniture. The City's motion for summary judgment was partially granted and the claims by one of the plaintiffs for health related and business opportunity damages were dismissed. The only remaining claim is for inverse condemnation. The trial is scheduled for August 18, 2015. If plaintiff prevails on the remaining claim, possible City liability could be approximately \$1 million.

In the view of the City, in no event should these claims and lawsuits result in judgments or settlements which, in the aggregate, would have a material adverse effect on the SCM Fund's financial position.

Claim Filed by the City

On July 23, 2008, the City filed a complaint in the Superior Court for the County of Los Angeles, California, Case Number BC394944, which named a number of investment banking and other firms as defendants, some of which are serving as underwriters of the Series 2015AB Senior Lien Bonds and some of which have been underwriters of the City's Senior Lien Bonds and Subordinate Bonds in the past. The complaint alleges that the defendants manipulated the derivative market by various means which decreased the returns the City earned on guaranteed investment contracts and municipal derivative instruments. The City has settled with certain of the investment banking firms. The City cannot predict the outcome of the lawsuit.

Other Pending Legal Matters

Attached hereto as part of Appendix A is a list prepared by the Office of the City Attorney of pending matters or cases relating to the City. This information is presented for general information

purposes only. See Appendix A – “City of Los Angeles Information Statement – Litigation” attached hereto.

LEGAL OPINION

The validity of the Series 2015AB Senior Lien Bonds and certain other matters are subject to the approval of legality by Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel. A complete copy of the proposed form of opinion of Bond Counsel is contained in Appendix F attached hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the City by Hawkins Delafield & Wood LLP, Los Angeles, California, Disclosure Counsel, and by Michael N. Feuer, City Attorney, and for the Underwriters by their counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation, Sacramento, California.

RATINGS

Standard & Poor’s Ratings Services (“S&P”), Fitch Ratings (“Fitch”) and Kroll Bond Rating Agency have assigned the Series 2015AB Senior Lien Bonds their ratings of “AA+,” “AA+” and “AA+,” respectively. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Standard & Poor’s Ratings Services, 55 Water Street, New York, New York 10041; Fitch Ratings, One State Street Plaza, New York, New York 10004; and Kroll Bond Rating Agency, 845 Third Avenue, Fourth Floor, New York, New York 10022. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own.

There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2015AB Senior Lien Bonds.

UNDERWRITING

The Series 2015AB Senior Lien Bonds are being purchased by Siebert Brandford Shank & Co., L.L.C., as representative of itself, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Backstrom McCarley Berry & Co., LLC and Morgan Stanley & Co. LLC (collectively, the “Underwriters”), at a price of \$_____ (which amount represents the principal amount of the Series 2015AB Senior Lien Bonds of \$_____, plus an original issue premium of \$_____, and less an underwriters’ discount of \$_____). The Underwriters may offer and sell the Series 2015AB Senior Lien Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriters.

Siebert Brandford Shank & Co., L.L.C., one of the underwriters of the Series 2015AB Senior Lien Bonds, has provided the following sentences for inclusion: Siebert Brandford Shank & Co., L.L.C. (“SBS”) has entered into an agreement with Credit Suisse Securities (USA) for the retail distribution of certain securities offerings, at the original issue prices. Pursuant to said agreement, if applicable to the Bonds, Credit Suisse Securities (USA) will purchase Bonds at the original issue price less the selling concession with respect to any Bonds that Credit Suisse Securities (USA) sells. SBS will share a portion of its underwriting compensation with Credit Suisse Securities (USA).

Backstrom McCarley Berry & Co., LLC, one of the underwriters of the Series 2015AB Senior Lien Bonds, has provided the following sentences for inclusion: Backstrom McCarley Berry & Co., LLC

("BMcB"), one of the Co-Managers on the Series 2015AB Senior Lien Bonds, has entered into a Broker/Dealer Agreement with D.A. Davidson & Company (formally Crowell, Weedon & Co), and a non-exclusive Distribution Agreement with Wedbush Securities, to augment our institutional and retail marketing capabilities, for the distribution of certain securities offerings, including the Series 2015AB Senior Lien Bonds at the original issue price. Pursuant to our distribution agreements D.A. Davidson & Company and Wedbush Securities, may purchase bonds from BMcB at the original issue price less a negotiated portion of the selling concession applicable to any Series 2015AB Senior Lien Bonds that such firm sells.

Morgan Stanley & Co. LLC, one of the underwriters of the Series 2015AB Senior Lien Bonds, has provided the following sentences for inclusion: Morgan Stanley, parent company of Morgan Stanley & Co. LLC, an underwriter of the Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

The following four paragraphs have been provided by the Underwriters:

Certain of the Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage services. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the City, for which they received or will receive customary fees and expenses.

The City intends to use a portion of the proceeds from the Series 2015-B Senior Lien Bonds to redeem the Refunded Bonds. To the extent an Underwriter or an affiliate thereof is an owner of Refunded Bonds, such Underwriter or its affiliate, as applicable, would receive a portion of the proceeds from the issuance of the Series 2015-B Senior Lien Bonds contemplated herein in connection with such Refunded Bonds being redeemed by the City.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities, which may include credit default swaps) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the City.

The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

FINANCIAL ADVISORS

Public Resources Advisory Group and Montague DeRose and Associates, LLC have served as Financial Advisors to the City in connection with the issuance of the Series 2015AB Senior Lien Bonds. The Financial Advisors have assisted the City in matters relating to the planning, structuring, issuance of the Series 2015AB Senior Lien Bonds. The Financial Advisors have not audited, authenticated or otherwise independently verified the information set forth in the Official Statement, or any other related

information available to the City, with respect to accuracy and completeness of disclosure of such information. The Financial Advisors make no guaranty, warranty or other representation respecting accuracy and completeness of the Official Statement.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Upon delivery of the Refunded Bonds, Causey Demgen & Moore P.C., independent certified public accountants, will deliver a report stating that the firm has verified the mathematical accuracy of certain computations relating to the adequacy of the Defeasance Securities and the interest thereon to pay the principal of, premium, if any, and interest on, the Refunded Bonds on their respective payment and redemption dates.

FINANCIAL STATEMENTS AND DEBT SERVICE COMPLIANCE REPORTS

The SCM Fund Financial Statements and Required Supplementary Information for the Fiscal Years ended June 30, 2014 and 2013 (With Independent Auditor's Report Thereon) and the SCM Fund Debt Service Compliance Report for the Fiscal Year ended June 30, 2014 (With Independent Auditor's Report Thereon) are included as Appendix E. The financial statements of the SCM Fund for the Fiscal Year ended June 30, 2014 and the SCM Fund Debt Service Compliance Report for the Fiscal Year ended June 30, 2014 have been audited by Macias Gini & O'Connell LLP ("Macias"), independent certified public accountants, as stated in their report. The financial statements of the SCM Fund for the Fiscal Years ended June 30, 2013 and 2012 were audited by Simpson & Simpson, independent certified public accountants, as stated in their report. Macias has not consented to the inclusion of its reports in Appendix E and Macias has not undertaken to update its reports or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by Macias with respect to any event subsequent to the date of its reports.

MISCELLANEOUS

This Official Statement has been duly approved, executed and delivered by the City.

There are appended to this Official Statement a summary of certain provisions of the Resolutions, a glossary of defined terms, a glossary of System terms, Audited Financial Statements of the SCM Fund, the proposed form of opinion of Bond Counsel, and a general description of the City and a description of the Book-Entry Only System. The Appendices are integral parts of this Official Statement and must be read together with all other parts of this Official Statement.

This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or holders of any of the Series 2015AB Senior Lien Bonds. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as an opinion and not as representations of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof. All references to the City Charter and the Resolutions are brief outlines of certain provisions thereof. Such outlines do not purport to be complete and reference is made to such laws and such documents for a full and complete statement of such provisions.

CITY OF LOS ANGELES

By: _____
Assistant City Administrative Officer

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APPENDIX A

CITY OF LOS ANGELES INFORMATION STATEMENT

The information contained in Appendix A is provided as general information regarding the City of Los Angeles. Investors are advised that no funds or other financial resources of the City discussed in Appendix A are pledged to the payment of the Series 2015AB Senior Lien Bonds. The Series 2015AB Senior Lien Bonds are limited obligations secured by and payable only from the sources of funds described in the Official Statement. See “Security and Sources of Payment for the Series 2015AB Senior Lien Bonds” in the forepart of this Official Statement.

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HISTORIC, ECONOMIC AND DEMOGRAPHIC INFORMATION

The City of Los Angeles, California (the “City”) is the second most populous city in the United States with an estimated 2014 population of 3.9 million persons. Los Angeles is the principal city of a metropolitan region stretching from the City of Ventura to the north, the City of San Clemente to the south, the City of San Bernardino to the east, and the Pacific Ocean to the west.

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

The City and its surrounding metropolitan region have continued to experience growth in population and in economic diversity. The City’s 470 square miles contain 11.5% of the area and about 39% of the population of the County of Los Angeles (the “County”). Tourism and hospitality, professional and business services, direct international trade, entertainment (including motion picture and television production), and wholesale trade and logistics all contribute significantly to local employment. Emerging industries are largely technology driven, and include biomedical, digital information technology, and environmental technology. The County is a top-ranked county in manufacturing in the nation. Important components of local industry include apparel, computer and electronic components, transportation equipment, fabricated metal, and food. Fueled by trade with the Pacific Rim countries, the Ports of Los Angeles and Long Beach combined are the busiest container ports in the nation. As home to the film, television and recording industries, as well as important cultural facilities, the City serves as a principal global cultural center.

Although the economic and demographic information provided below has been collected from sources that the City considers to be reliable, the City has made no independent verification of the information provided by non-City sources and the City takes no responsibility for the completeness or accuracy thereof. The information and data in this Appendix A are the latest data available to the City; however, the current state of the economy of the City, State of California and the United States may not be reflected in the data discussed below, because more up-to-date publicly available information is not available. This information is provided as general background.

Population

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

Table 1
CITY, COUNTY AND STATE POPULATION STATISTICS

	City of Los Angeles	Annual Growth Rate ⁽¹⁾	County of Los Angeles	Annual Growth Rate ⁽¹⁾	State of California	Annual Growth Rate ⁽¹⁾
1980	2,968,579	-	7,477,421	-	23,667,836	-
1985	3,216,900	1.62%	8,121,000	1.67%	26,113,000	1.99%
1990	3,476,000	1.56	8,832,500	1.69	29,558,000	2.51
1995	3,544,966	0.39	9,103,896	0.61	31,617,770	1.36
2000	3,679,600	0.75	9,477,651	0.81	33,721,583	1.30
2005	3,769,131	0.48	9,816,153	0.70	35,869,173	1.24
2010	3,792,621	0.12	9,818,605	0.00	37,253,956	0.76
2011	3,806,865	0.38	9,847,712	0.30	37,427,946	0.47
2012	3,835,724	0.76	9,908,030	0.61	37,680,593	0.68
2013	3,875,207	1.03	9,980,432	0.73	38,030,609	0.93
2014	3,914,359	1.01	10,054,852	0.75	38,357,121	0.86
2015	3,957,022	1.09	10,136,559	0.81	38,714,725	0.93

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

Sources: State of California, Department of Finance, Report 84 E-4 Population Estimates for California Counties and Cities, January 1, 1976 through January 1, 1980; Report 90 E-4 Population Estimates for California State and Counties January 1, 1981 to January 1, 1990; E-4 Historical Population Estimates for City, County and the State, 1991-2000, with 1990 and 2000 Census Counts. E-4 Population Estimates for Cities, Counties and the State, 2001-2010, with 2000 and 2010 Census Counts, Sacramento, California, November 2012. State of California, Department of Finance, E-4 Population Estimates for Cities, Counties, and the State, 2011-2015, with 2010 Census Benchmark. Sacramento, California, May 2015. State of California, Department of Finance, E-1 Population Estimates for Cities, Counties and the State with Annual Percent Change — January 1, 2014 and 2015. Sacramento, California, May 2015.

Industry and Employment

The following table summarizes the average number of employed and unemployed residents of the City and the County, based on the annual “benchmark,” an annual revision process in which monthly labor force and payroll employment data, which are based on estimates, are updated based on detailed tax records. The “benchmark” data is typically released in March for the prior calendar year. Historically, the City’s unemployment rate has been higher than both the County’s and the State’s rates.

The California Employment Development Department has reported preliminary unemployment figures for March 2015 of 6.5% statewide, 7.2% for Los Angeles County, and 7.7% for the City (not seasonally adjusted).

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

Civilian Labor Force	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
City of Los Angeles					
Employed	1,660,200	1,671,300	1,680,100	1,728,500	1,835,200
Unemployed	<u>267,100</u>	<u>261,200</u>	<u>230,900</u>	<u>211,700</u>	<u>175,700</u>
Total	1,927,300	1,932,600	1,911,000	1,940,200	2,010,900
County of Los Angeles					
Employed	4,302,300	4,326,100	4,378,800	4,495,700	4,610,800
Unemployed	<u>615,100</u>	<u>603,400</u>	<u>535,800</u>	<u>486,600</u>	<u>415,100</u>
Total	4,917,400	4,929,500	4,914,500	4,982,300	5,025,900
Unemployment Rates					
City	13.9%	13.5%	12.1%	10.9%	8.7%
County	12.5	12.2	10.9	9.8	8.3%
State	12.4	11.7	10.5	8.5	7.5%
United States	9.6	8.9	8.1	7.4	6.2%

⁽¹⁾ March 2014 Benchmark report as of March 23, 2015; not seasonally adjusted.

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

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

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

The Trade, Transportation and Utilities sector was the largest employment sector in the County in 2014, employing 18.9% of wage and salary workers. Educational and Health Services, at 17.7%, was the second highest employment sector in the County, followed by Professional and Business Services, which employed 14.4% of wage and salary workers.

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

	County				State of California	
	<u>2000</u>	% of <u>Total</u>	<u>2014</u>	% of <u>Total</u>	<u>2014</u>	% of <u>Total</u>
Agricultural	7,700	0.2%	5,300	0.1%	417,200	2.6%
Natural Resources and Mining	3,400	0.1	4,700	0.1	31,300	0.2
Construction	131,800	3.2	120,200	2.8	675,400	4.2
Manufacturing	615,200	14.9	364,900	8.6	1,269,600	7.9
Trade, Transportation and Utilities	784,900	19.0	800,700	18.9	2,871,100	17.9
Information	244,300	5.9	195,900	4.6	457,900	2.9
Financial Activities	223,400	5.4	209,700	5.0	784,300	4.9
Professional and Business Services	590,700	14.3	609,400	14.4	2,433,400	15.1
Educational and Health Services	463,100	11.2	748,000	17.7	2,414,400	15.0
Leisure and Hospitality	345,000	8.4	464,600	11.0	1,757,100	10.9
Other Services	140,200	3.4	151,700	3.6	539,800	3.4
Government	<u>581,400</u>	<u>14.1</u>	<u>556,711</u>	<u>13.2</u>	<u>2,411,000</u>	<u>15.0</u>
Total ⁽²⁾	4,130,900	100.0%	4,231,700	100.0%	16,062,300	100.0%

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

⁽²⁾ Total may not equal sum of parts due to independent rounding.

Note: Based on surveys distributed to employers; not directly comparable to Civilian Labor Force data reported in Table 2.

Source: California Employment Development Department, Labor Market Information Division. Based on March 2014 Benchmark report released March 20, 2015.

Major Employers

The top 25 major non-governmental employers in the County are listed in the table below. The employees of these non-governmental employers represent approximately 6.4% of the labor force (based on total employment in 2014). In addition, government employment represents approximately 13.2% of the labor force (see Table 3 – Estimated Industry Employment and Labor Force).

Table 4
LOS ANGELES COUNTY
2014 MAJOR NON-GOVERNMENTAL EMPLOYERS

<u>Employer</u>	<u>Product/Service</u>	<u>Employees</u>
Kaiser Permanente	Nonprofit health care plan	35,991
Northrop Grumman Corp.	Defense contractor	17,000
Target Corp.	Retailer	15,000
Providence Health & Services Southern California	Health care	15,000
University of Southern California	Private university	14,722
Bank of America Corp	Banking and financial services	13,500 ⁽¹⁾
Ralphs/Food 4 Less (Kroger Co. Division)	Grocery retailer	13,500 ⁽¹⁾
Home Depot	Home improvement specialty retailer	10,600 ⁽¹⁾
Boeing Co.	Integrated aerospace and defense systems	10,500 ⁽¹⁾
Cedars-Sinai Medical Center	Medical center	10,243
Walt Disney Co.	Entertainment	10,200 ⁽²⁾
Wells Fargo	Diversified financial services	10,000 ⁽¹⁾
UPS	Transportation and freight	8,984
AT&T Inc.	Telecommunications	8,900
ABM Industries Inc.	Facilities services, energy solutions, commercial cleaning, maintenance and repair	8,400 ⁽¹⁾
California Institute of Technology	Private university, operator of Jet Propulsion Laboratory	8,094
Vons	Retail grocer	7,781
Edison International	Electric utility	7,700 ⁽¹⁾
FedEx Corp.	Shipping and logistics	7,600 ⁽¹⁾
Warner Bros. Entertainment Inc.	Entertainment	7,400 ⁽²⁾
Raytheon Co.	Aerospace and defense contractor	6,117 ⁽³⁾
Dignity Health	Health care	6,100
American Apparel Inc.	Apparel manufacturer and retailer	6,000
Amgen Inc.	Biotechnology	6,000
Universal Services of America	Security professionals	5,960

⁽¹⁾ Business Journal estimate.

⁽²⁾ Information provided by City of Burbank.

⁽³⁾ Information provided by City of El Segundo.

Source: Los Angeles Business Journal, Weekly Lists, originally published September 1, 2014.

Personal Income

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

The following table summarizes the latest available estimate of personal income for the County, State and United States.

Table 5
COUNTY, STATE AND U.S.
PERSONAL INCOME

Year and Area	Personal Income (thousands of dollars)	Per Capita Personal Income ⁽¹⁾ (dollars)
2010		
County	\$ 404,473,004	\$41,163
State	1,578,553,439	42,282
United States	12,417,659,000	40,144
2011		
County	\$ 425,673,042	\$43,062
State	1,685,635,498	44,749
United States	13,189,935,000	42,332
2012		
County	\$ 455,788,782	\$45,800
State	1,805,193,769	47,505
United States	13,873,161,000	44,200
2013		
County	\$ 466,098,988	\$46,530
State	1,856,614,186	48,434
United States	14,151,427,000	44,765
2014		
County	N/A	N/A
State ⁽²⁾	\$ 1,944,369,223	\$50,109
United States ⁽²⁾	14,708,582,165	46,129

⁽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 2010-2013 reflect state population estimates released in December 2013, while 2014 estimates reflect the December 2014 release.

⁽²⁾ Last updated: March 25, 2015 – new estimates for 2014.

Source: U.S. Bureau of Economic Analysis, “Table SA1 Personal Income Summary,” (accessed March 31, 2015).

Retail Sales

As the largest city in the County, the City accounted for \$41.7 billion (or 29.8%) of the total \$140.0 billion in County taxable sales for 2013. The following table sets forth a history of taxable sales for the City for calendar years 2009 through 2013, 2013 being the last full year for which data is currently available. A five year series of this information is presented, as the State changed its reporting categories beginning with the 2009 report.

The City experienced a 5.2% increase in sales tax receipts during Fiscal Year 2013-14, estimates 4.4% growth in Fiscal Year 2014-15 and projects 4.4% growth in taxable sales for the Fiscal Year 2015-16 Proposed Budget.

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

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

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

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

Land Use

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

Table 7
CITY OF LOS ANGELES
ASSESSED VALUATION AND PARCELS BY LAND USE

	2014-15 <u>Assessed Valuation⁽¹⁾</u>	<u>%</u> <u>of Total</u>	<u>No. of</u> <u>Parcels</u>	<u>% of</u> <u>Total</u>
<u>Non-Residential</u>				
Commercial Office	\$ 67,219,901,752	14.97%	35,619	4.59%
Vacant Commercial	1,980,607,102	0.44	1,219	0.16
Industrial	35,306,732,762	7.86	20,129	2.59
Vacant Industrial	1,693,987,578	0.38	4,015	0.52
Recreational	1,728,210,793	0.38	762	0.10
Government/Social/Institutional	3,185,291,491	0.71	3,784	0.49
Miscellaneous	<u>381,425,691</u>	<u>0.08</u>	<u>2,784</u>	<u>0.36</u>
Subtotal Non-Residential	\$111,496,157,169	24.84%	68,312	8.80%
<u>Residential</u>				
Single Family Residence	\$ 227,578,657,077	50.69%	488,464	62.94%
Condominium/Townhouse	31,970,422,930	7.12	85,994	11.08
Mobile Homes and Lots	105,172,091	0.02	3,319	0.43
Mobile Home Park	161,901,999	0.04	92	0.01
2-4 Residential Units	25,048,870,620	5.58	74,221	9.56
5+ Residential Units/Apartments	49,739,982,848	11.08	34,729	4.47
Vacant Residential	<u>2,826,940,897</u>	<u>0.63</u>	<u>20,994</u>	<u>2.70</u>
Subtotal Residential	\$337,431,948,462	75.16%	707,813	91.20%
Total	\$448,928,105,631	100.00%	776,125	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 8
CITY OF LOS ANGELES
PER PARCEL 2014-15 ASSESSED VALUATION OF SINGLE FAMILY RESIDENTIAL PROPERTIES

Single Family Residential Properties	<u>No. of Parcels</u>	<u>2014-15 Assessed Valuation</u>	<u>Average Assessed Valuation</u>	<u>Median Assessed Valuation</u>
	488,464	\$227,578,657,077	\$465,907	\$289,145

<u>2014-15 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	13,181	2.698%	2.698%	\$ 481,291,034	0.211%	0.211%
\$50,000 - \$99,999	42,411	8.683	11.381	3,185,150,922	1.400	1.611
\$100,000 - \$149,999	34,400	7.042	18.423	4,364,534,400	1.918	3.529
\$150,000 - \$199,999	43,567	8.919	27.343	7,669,796,082	3.370	6.899
\$200,000 - \$249,999	49,892	10.214	37.557	11,282,676,664	4.958	11.857
\$250,000 - \$299,999	46,011	9.420	46.976	12,659,742,606	5.563	17.420
\$300,000 - \$349,999	46,148	9.448	56.424	15,029,526,788	6.604	24.024
\$350,000 - \$399,999	40,582	8.308	64.732	15,182,740,750	6.671	30.695
\$400,000 - \$449,999	28,443	5.823	70.555	12,097,746,519	5.316	36.011
\$450,000 - \$499,999	21,551	4.412	74.967	10,275,538,351	4.515	40.526
\$500,000 - \$549,999	15,663	3.207	78.173	8,213,191,647	3.609	44.135
\$550,000 - \$599,999	13,310	2.725	80.898	7,685,779,640	3.377	47.512
\$600,000 - \$649,999	12,054	2.468	83.366	7,538,764,464	3.313	50.825
\$650,000 - \$699,999	10,202	2.089	85.455	6,881,504,050	3.024	53.849
\$700,000 - \$749,999	7,642	1.564	87.079	5,544,271,000	2.436	56.285
\$750,000 - \$799,999	7,476	1.531	88.550	5,807,738,076	2.552	58.837
\$800,000 - \$849,999	5,927	1.213	89.763	4,885,365,312	2.147	60.983
\$850,000 - \$899,999	5,363	1.098	90.861	4,716,871,123	2.073	63.056
\$900,000 - \$949,999	4,603	0.942	91.803	4,258,350,375	1.871	64.927
\$950,000 - \$999,999	3,792	0.776	92.580	3,701,803,488	1.627	66.554
\$1,000,000 and greater	<u>36,246</u>	<u>7.420</u>	100.000	<u>76,116,273,786</u>	<u>33.446</u>	100.000
Total	488,464	100.000%		\$227,578,657,077	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 9
CITY OF LOS ANGELES
BUILDING PERMIT VALUATIONS AND NEW DWELLING UNITS

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

⁽¹⁾ Represents the total valuation of all construction work for which building permits were issued.

⁽²⁾ Valuation of permits issued for Single-Family Dwellings, Duplexes, Apartment Buildings, Hotel/Motels, and Condominiums.

⁽³⁾ Valuation of permits issued for "Addition Creating New Units – Residential" and "Alterations Creating New Units – Residential."

⁽⁴⁾ Number of dwelling units permitted for Single-Family Dwellings and Duplexes.

⁽⁵⁾ Number of dwelling units permitted for new Apartment Buildings, Hotel/Motels, and Condominiums.

⁽⁶⁾ Number of dwelling units added includes "Addition Creating New Units – Residential" and "Alterations Creating New Units - Residential."

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

Commercial Real Estate Markets in Los Angeles

The following table shows the most recent information available regarding vacancy rates for non-residential space in downtown Los Angeles and the remainder of the Los Angeles Metropolitan Area.

Table 10
LOS ANGELES METROPOLITAN AREA
NON-RESIDENTIAL VACANCY RATES

<u>Year⁽¹⁾</u>	<u>Downtown</u>	<u>Suburban</u>	<u>Metropolitan</u>	<u>Industrial Availability</u>
2009	14.9%	14.7%	14.8%	7.7%
2010	17.6	16.7	16.9	7.7
2011	18.1	17.5	17.6	7.4
2012	18.3	16.5	16.8	6.8
2013	18.9	16.1	16.5	6.7

⁽¹⁾ Second quarter of each year.

Source: California Department of Finance, California Economic Indicators.

Seismic Considerations

The City is subject to unpredictable and significant seismic activity. A number of known faults run through the City, and the City lies near the San Andreas Fault, which is the boundary between the Pacific and North American tectonic plates. The complex Los Angeles fault system interacts with the alluvial soils and other geologic conditions in the hills and basins. This interaction appears to pose a potential seismic threat for every part of the City, regardless of the underlying geologic and soils conditions. In addition, there are likely to be unmapped faults throughout the City. The most recent major earthquake, the Northridge earthquake in 1994, occurred along a previously unmapped blind thrust fault.

Education

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

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

MUNICIPAL GOVERNMENT

Under the State Constitution, charter cities are generally independent of the State Legislature in matters relating to municipal affairs. Charter cities, however, are subject to State Constitutional restrictions. The City is a charter city originally incorporated in 1850. The most recent charter was adopted in 1999, effective July 1, 2000.

The City is governed by the Mayor and the Council. The Mayor is elected at-large for a four-year term. As executive officer of the City, the Mayor has the overall responsibility for administration of the City. The Mayor recommends and submits the annual budget to the Council and passes upon subsequent appropriations and transfers, approves or vetoes ordinances, and appoints certain City officials and commissioners. He supervises the administrative process of local government and works with the Council in matters relating to legislation, budget, and finance. As prescribed by the Charter and City ordinances, the Mayor operates an executive department, of which he is the *ex-officio* head. The current Mayor, Eric Garcetti, assumed office on July 1, 2013.

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

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

The City Attorney is attorney and legal advisor to the City and to all City boards, departments, officers, and entities, and prosecutes misdemeanors and violations of the Charter and City ordinances. Mike Feuer assumed the office on July 1, 2013.

All elected officials of the City are subject to term limits of two four-year terms.

The City Administrative Officer (“CAO”) is the chief fiscal advisor to the Mayor and Council and reports directly to both. Miguel A. Santana has been serving as CAO since August 2009.

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

The City has 36 departments and bureaus for which operating funds are annually budgeted by the Council. In addition, four departments (the Department of Water and Power (“DWP”), the Harbor Department, the Department of Airports, and the Housing Authority of the City) are under the control of boards appointed by the Mayor and confirmed by the Council. The City obtains water and electricity from DWP, the largest municipally-owned utility in the nation. Two departments, the Los Angeles City Employees’ Retirement System and the Fire and Police

Pension System, are under the control of boards whose membership is comprised of Mayoral appointees and representatives elected by system members.

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

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

In March 2015, Councilmember Paul Koretz participated in a phone conversation with members of the Fix LA Coalition, the Service Employees International Union and the chief of staff of one of the commissioners of the SEC during which the Fix LA Coalition asked that the SEC investigate the practice of the banks involved in the City's Wastewater 2006 Swap transaction. The City has not been contacted by the SEC and is not aware of any existing investigation.

CERTAIN FINANCIAL OPERATIONS

Risk Retention Program

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

The City's CAFR provides estimates of potential liabilities. As of June 30, 2014, as reported in the City's CAFR (Note 4 (O): Risk Management—Estimated Claims and Judgments Payable), the City estimated the amount of tort and non-tort liabilities to be probable of occurring as of June 30, 2014 at approximately \$956.1 million. Of this amount, approximately \$131.5 million was estimated to be payable in Fiscal Year 2014-15 out of General and special funds. The City Attorney also estimated that certain pending lawsuits and claims have a reasonable possibility of resulting in additional General Fund liability totaling \$505.8 million. See "**EMPLOYMENT LITIGATION**" herein for an update on certain litigation as of the date of the official statement.

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

event of a natural disaster. See “**HISTORIC, ECONOMIC AND DEMOGRAPHIC INFORMATION – Seismic Considerations,**” herein.

Funds are budgeted annually to provide for claims and other liabilities based both on the City’s historical record of payments and an evaluation of known or anticipated claims. The Fiscal Year 2015-16 Proposed Budget allocates additional funding in the Unappropriated Balance for this purpose. From time to time, the City may issue judgment obligation bonds to finance larger judgments or settlements, as it did in Fiscal Year 2008-09 and Fiscal Year 2009-10. Claims and other liabilities against the Wastewater System are paid directly out of the Sewer Construction and Maintenance Fund. The Program’s recent claims payment experience is listed in the table below.

Table 11
SEWER CONSTRUCTION AND MAINTENANCE FUND
LIABILITY CLAIMS PAID⁽¹⁾
(\$ in thousands)

Fiscal Year	Claims Paid
2011-12	\$252
2012-13	300
2013-14	67
2014-15 (Estimated)	300
2015-16 (Proposed)	300

⁽¹⁾ Cash basis.

Source: City of Los Angeles, Department of Public Works, Bureau of Sanitation.

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

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

Table 12
HUMAN RESOURCES BENEFITS⁽¹⁾
(\$ in thousands)

	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>Estimated 2014-15</u>	<u>Proposed 2015-16</u>
Workers' Compensation/Rehabilitation	\$157,802	\$156,033	\$149,886	\$161,500	\$165,000
Contractual Services	14,242	20,690	21,730	26,480	26,480
Civilian FLEX Program ⁽²⁾	199,042	209,450	225,135	227,017	228,393
Supplemental Civilian Union Benefits	4,177	4,249	3,940	4,094	4,016
Police Health and Welfare Program	117,732	122,850	124,360	129,359	134,412
Fire Health and Welfare Program	42,977	43,900	45,180	46,437	47,548
Unemployment Insurance	6,499	4,040	4,678	5,000	5,000
Employee Assistance Program	1,089	1,386	1,193	1,250	1,361
Total	<u>\$543,560</u>	<u>\$562,598</u>	<u>\$576,102</u>	<u>\$601,137</u>	<u>\$612,209</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.

The Wastewater System pays its pro-rata share of these and certain other costs through a line item budgeted as "Reimbursement of General Fund Costs" in the Sewer Construction and Maintenance Fund budget.

Table 13
REIMBURSEMENT OF GENERAL FUND COST
(\$ in thousands)

<u>Fiscal Year</u>	<u>Expenditures⁽¹⁾</u>
2011-12	\$50,483
2012-13	53,773
2013-14	62,507
2014-15 (Estimated)	60,699
2015-16 (Proposed)	48,122

⁽¹⁾ Cash basis.

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

Labor Relations

In 1971, the City adopted an employee relations ordinance under the provisions of the Meyers-Milias-Brown Act (“MMBA”). Under the MMBA, management must bargain with recognized employee organizations on terms and conditions of employment, including wages, hours, and other working conditions. The CAO is the formal management representative on employee relations matters, representing the Mayor and Council in negotiations with bargaining units. The CAO receives direction from the Executive Employee Relations Committee (“EERC”), consisting of the Mayor, the President of the Council, the President Pro-Tempore of the Council and the chairpersons of the Council’s Budget and Finance and Personnel and Animal Welfare Committees. Formal Memoranda of Understanding (“MOUs”) are executed between the City and the bargaining units incorporating the negotiated wages and working conditions.

There are 41 individual MOUs, representing about 34,700 full-time City employees (these bargaining units include employees of the Airport and Harbor departments, but exclude DWP employees). The 41 MOUs are represented by 25 labor unions/employee associations and about 800 employees are not represented. Employees that are members of the Los Angeles City Employees’ Retirement System (“LACERS”) are considered to be “civilian” employees. Employees that are members of the City of Los Angeles Fire and Police Pension Plan (“FPPP”) are considered to be “sworn” or “safety” employees.

Over the last several fiscal years, the CAO, at the direction of the EERC, has worked with labor unions to reduce the City’s labor expenses by reducing the workforce through an Early Retirement Incentive Program (“ERIP”), reducing working hours for civilians (e.g., unpaid holidays), deferring or eliminating cost-of-living adjustments, reducing or eliminating cash overtime, changing active civilian employee healthcare benefits, and reforming its pension plans, including retiree healthcare benefits. During this time, the City also eliminated funded positions, transferred hundreds of employees into vacant non-General Fund positions, implemented furloughs on City civilian workers and executed layoffs. The City’s adopted authorized staffing level for Fiscal Year 2014-15 was 31,875, well below its peak of 37,173 in Fiscal Year 2007-08. The Fiscal Year 2015-16 Proposed Budget calls for a staffing level of 32,562, representing a 2.2% increase.

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

In addition, the City has implemented significant reductions to its expenditures related to sworn employees. In March 2011, voters approved a Charter amendment for a new sworn pension tier that is anticipated to provide significant savings over the next 10 years. The City estimates that by Fiscal Year 2018-19, approximately 25 percent of new personnel will be enrolled in the new tier. Multi-year agreements reached with the Los Angeles Police Protective League, representing approximately 9,718 sworn employees, and with the United Firefighters of Los Angeles City, representing 3,085 sworn employees, expired in June 2014. Those agreements provided salary increases in Fiscal Years 2012-13 and 2013-14 (as shown on the table below) in addition to an agreement which gave members the option to contribute an additional 2% of salary (post-tax) toward vesting their current retiree health benefit and any

future increases; approximately 71% of the eligible sworn workforce (representing 64% of the total sworn workforce) elected to make this contribution. Those who did not choose to make the additional contribution had their subsidy level frozen at the rate in effect as of July 1, 2011. On July 28, 2014, a Superior Court judge issued an interim order in a challenge to the new retiree health benefit funding formula (*Fry, et al. v. City of Los Angeles*), ruling that the petitioners have a vested right to a “non-frozen” health subsidy in retirement. This matter is under appeal. See “**EMPLOYMENT LITIGATION**,” below.

In another effort to control costs, the City Council adopted a new civilian retirement tier, which applies to all employees hired on or after July 1, 2013. The new tier was designed to reduce the City’s future pension costs by increasing the normal retirement age from 55 to 65, and making various other changes to reduce costs. The City estimates savings from the new tier of \$4 million for Fiscal Years 2013-14 and 2014-15 (inclusive of savings to the Harbor and Airports departments). The new civilian retirement tier was estimated to result in a five-year savings of \$30 million to \$70 million, a 10-year savings of \$169 million to \$309 million, and a 30-year savings of \$3.9 billion to \$4.3 billion. On July 28, 2014, the City Employee Relations Board ruled that the City’s action in creating the new civilian retirement tier was illegal because the City did not meet and confer with labor representatives on the matter. The Board ordered that the City rescind the implementation of the new retirement tier. The City is considering its options in response to the decision, including appealing the ruling in State court. At this time, the new tier still remains in effect. See “**Pension and Retirement Systems—Los Angeles City Employees’ Retirement System (“LACERS”)**,” below.

The following table summarizes the membership and status of the largest unions and employee associations. Over 85% of the City's employees' contracts expired on June 30, 2014. After an MOU expires, the terms continue to be observed during negotiations of a new contract unless a provision has a specific termination date.

Table 14
STATUS OF LABOR CONTRACTS
LARGEST EMPLOYEE ORGANIZATIONS
(As of April 1, 2015)

<u>Organization</u>	<u>Authorized Number of Full-Time Employees Represented⁽¹⁾</u>	<u>Number of Bargaining Units</u>	<u>Status of Memorandum of Understanding</u>	<u>Cost of Living Adjustment⁽²⁾</u>
Los Angeles Police Protective League	9,718	1	Contract expired 6/30/14	1% on 7/1/12 2% on 1/1/13 1% on 7/1/13 1% on 11/1/13 2% on 3/1/14
United Firefighters of Los Angeles City	3,085	1	Contract expires 6/30/16	2% on 6/28/15
Coalition of Los Angeles City Unions ⁽³⁾	13,174	16	Contracts expired 6/30/14	3% on 7/1/10 2.75% on 1/1/11 .75% on 7/1/11 32 hours time-off in lieu of compensation (12/11) 3.75% on 7/1/12 32 hours time-off in lieu of compensation (12//12) 1.75% deferral recovery on 7/1/13 5.5% on 1/1/14
Engineers and Architects Association	4,395	4	Contracts expire 7/1/16	0% for term of contract Salaries restructured
Service Employees International Union – Units 8 & 17	1,735	2	Contracts expired 6/30/14	2% on 7/3/11 3% on 6/30/13
Municipal Construction Inspectors Association (MCIA)	815	1	Contract expired 6/30/14	2% on 7/3/11 1.5% first full pay period January 2013 1.5% first full pay period January 2014

⁽¹⁾ Total authorized employees in all departments except DWP.

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

⁽³⁾ Includes Service Employees International Union, Local 721, American Federation of State, County and Municipal Employees, Laborers' International Union of North America Local 777, Los Angeles/Orange County Building & Construction Trades Council, IUOE Local 501, and the Teamsters, Local 911.

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

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

Table 15
AUTHORIZED CITY STAFFING⁽¹⁾

	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>Estimated 2014-15</u>	<u>Proposed 2015-16</u>
Police & Fire	13,677	13,647	13,706	13,707	13,814
All Others	<u>18,597</u>	<u>18,169</u>	<u>18,187</u>	<u>18,168</u>	<u>18,748</u>
Total	32,274	31,816	31,893	31,875	32,562

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

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

Retirement and Pension Systems

General

The City contributes to three single-employer defined benefit pension plans created by the City Charter: the Los Angeles City Employees' Retirement System ("LACERS"), the City of Los Angeles Fire and Police Pension Plan ("FPPP"), and the Water and Power Employees' Retirement, Disability and Death Benefit Insurance Plan (the "Water and Power Plan"). No General Fund monies of the City are allocated to the Water and Power Plan. Employees of the City's Wastewater System are members of LACERS.

LACERS provides retirement, disability, death benefits, post-employment healthcare and annual cost-of-living adjustments to plan members and beneficiaries. As required by the City Charter, the actuarial valuations for LACERS are prepared on an annual basis and the system's actuary recommends contribution rates for the fiscal year beginning after the completion of that actuarial valuation. When approved by the Board of Administration of LACERS, these become the City's contribution rates for such years. The City generally makes its actuarially determined Annual Required Contribution ("ARC"), although phasing-in of assumption changes has resulted in a small net pension obligation for fiscal years ended June 30, 2004 and 2005.

LACERS' annual valuations determine the amount needed to fund the normal retirement costs accrued for current employment and to amortize any unfunded actuarial accrued liability ("UAAL"). The UAAL represents the difference between the present value of estimated future benefits accrued as of the valuation date and the actuarial value of assets currently available to pay these liabilities. The valuation for the plan is an estimate based on relevant economic and demographic assumptions, with the goal of determining the contributions necessary to sufficiently fund over time the accrued costs attributable to currently active, vested former members and retired employees and their beneficiaries. In addition, various actuarial assumptions are used in the valuation process, including the assumed rate of earnings on the assets of the plan in the future, the assumed rates of general inflation, salary inflation, inflation in

health care costs, assumed rates of disability, the assumed retirement ages of active employees, the assumed marital status at retirement, and the post-employment life expectancies of retirees and beneficiaries. As plan experience differs from adopted assumptions, the actual liabilities will be more or less than the liabilities calculated based on the assumptions. The contribution rates in the next year’s valuations are adjusted to take into account actual performance in the current and prior years. In addition, the plan performs an experience study every three years and further adjusts its assumptions accordingly.

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

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

Table 16
LOS ANGELES CITY EMPLOYEES’ RETIREMENT SYSTEM
HISTORICAL MARKET VALUE INVESTMENT RETURNS

<u>Fiscal Year</u>	<u>LACERS⁽¹⁾</u>
2004-05	10.0
2005-06	12.4
2006-07	19.5
2007-08	(5.7)
2008-09	(19.5)
2009-10	12.9
2010-11	22.6
2011-12	1.1
2012-13	14.3
2013-14	18.4

⁽¹⁾ As of June 30, 2014, the 20-year annualized average rate of return for LACERS was 9.7%. The 30-year average was 10.2%.

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

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

This section, “**Retirement and Pension Systems,**” and the following section, “**Other Post-Employment Benefits,**” contain certain information relating to LACERS. The information contained in these sections is primarily derived from information produced by its independent accountants and its actuaries. The City has not independently verified the information provided by LACERS. The comprehensive annual financial reports, actuarial valuations for retirement

and health benefits, and other information concerning LACERS are available on its websites, at www.lacers.org/aboutlacers/reports/index.html. Such information is not incorporated by reference herein. For additional information regarding LACERS, see also Note 5 in the “Notes to the City’s Basic Financial Statements” in the City’s Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2014.

Investors are cautioned that, in considering information on LACERS, including the amount of the UAAL for retirement and other benefits, the funded ratio, the calculations of normal cost, and the resulting amounts of required contributions by the City, this is “forward looking” information. Such “forward looking” information reflects the judgment of the boards of the respective Pension Systems and their respective actuaries as to the value of future benefits over the lives of the currently active employees, vested terminated employees, and existing retired employees and beneficiaries. These judgments are based upon a variety of assumptions, one or more of which may prove to be inaccurate and/or be changed in the future.

Los Angeles City Employees’ Retirement System (“LACERS”)

LACERS, established in 1937 under the Charter, is a contributory plan covering most City employees except uniformed fire and police personnel and employees of the Department of Water and Power. As of June 30, 2014, the date of its most recent actuarial valuation, LACERS had 24,009 active members, 17,532 retired members and beneficiaries, and 6,031 inactive members. The number of retired members was significantly increased, and the number of active members significantly decreased, as a result of the City’s Early Retirement Incentive Program in Fiscal Year 2009-10. LACERS is funded pursuant to the Entry Age Normal Cost Method, which is designed to produce stable employer contributions in amounts that increase at the same rate as the employer’s payroll (i.e., level percent of payroll).

A number of assumptions are made in calculating the actuarial valuation of retirement benefits. The following are some of the key assumptions used by LACERS’ actuary, The Segal Company, in preparing LACERS’ actuarial report as of June 30, 2014.

Table 17
LOS ANGELES CITY EMPLOYEES’ RETIREMENT SYSTEM
ACTUARIAL ASSUMPTIONS
As of June 30, 2014

Investment rate of return	7.5%
Inflation rate	3.25%
Real across-the-board salary increase	0.75%
Projected salary increases	Ranges from 4% to 10.5%, based on service
Cost of living adjustments for pensioners	3.00% for Tier 1; 2.00% for Tier 2

Source: Los Angeles City Employees’ Retirement System Actuarial Valuation and Review of Retirement and Health Benefits as of June 30, 2014.

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

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

As of June 30, 2013, there was a total unrecognized net loss of \$81.6 million, reflecting six years of fairly large annual market gains and losses from a volatile market. In order to limit future fluctuations in asset values, the LACERS Board adopted a one-time adjustment to its current asset smoothing policy by combining the unrecognized gains and losses of the prior years into one layer and spreading it evenly over six years. The following table shows the original market gains and losses, and the unrecognized gains and losses as of June 30, 2014. As of the valuation date, approximately \$1 billion of net investment gains are being deferred. These deferred gains will be reflected in future valuations and will reduce the City's contribution in the future, unless offset by other unfavorable plan experience.

Table 18
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
CALCULATION OF UNRECOGNIZED RETURN DUE TO ASSET SMOOTHING
As of June 30, 2014

<u>Year Ended June 30</u>	<u>Original Market Gain (Loss)</u>	<u>Percent Not Yet Recognized</u>	<u>Amount Not Recognized</u>
2014	\$ 1,246,285,581	85.71%	\$1,068,244,784
2013	683,838,549	83.33 ¹	(67,976,184) ¹
2012	(770,325,267)	NA	NA
2011	1,208,621,516	NA	NA
2010	392,956,483	NA	NA
2009	(2,964,832,484)	NA	NA
Total unrecognized return (loss)			\$1,000,268,600

⁽¹⁾ Valuation as of June 30, 2014 recognizes 1/6 of \$81,571,421 net total unrecognized loss as of June 30, 2013 (or \$13,595,237), with the balance to be recognized over the next five years.

Source: Los Angeles City Employees' Retirement System Actuarial Valuation and Review of Retirement and Health Benefits as of June 30, 2014.

LACERS amortizes components that contribute to its UAAL over various periods of time, depending on how the unfunded liability arose, layering separate, fixed amortization periods. Under current funding policy, actuarial losses and gains are amortized over fixed 15-year periods. Liabilities or surpluses due to assumption changes are funded or credited over 15 or 30 years for retiree health care benefits and retirement benefits, respectively. Liabilities caused by future early retirement incentives will be funded over five years; other benefit changes will be amortized over 15 years. Effective for the June 30, 2012 valuation, most existing liabilities on or before June 30, 2012 were combined under one layer and amortized over 30 years. The LACERS Board implemented this revised amortization policy to mitigate the impact of the change in funding policy from the Projected Unit Credit cost method to Entry Age Normal cost method.

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

Table 19
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS FOR RETIREMENT BENEFITS
ACTUARIAL VALUE BASIS
(\$ in thousands)⁽¹⁾

Actuarial Valuation As of June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded AAL ⁽²⁾	Funded Ratio ⁽³⁾	Covered Payroll ⁽⁴⁾	Underfunded AAL as a Percentage Of Covered Payroll ⁽⁵⁾
2005	\$ 7,193,142	\$ 9,321,525	\$ 2,128,383	77.2%	\$ 1,589,306	133.9%
2006	7,674,999	9,870,662	2,195,663	77.8	1,733,340	126.7
2007	8,599,700	10,526,874	1,927,174	81.7	1,896,609	101.6
2008	9,438,318	11,186,404	1,748,085	84.4	1,977,645	88.4
2009	9,577,747	12,041,984	2,464,237	79.5	1,816,171	135.7
2010	9,554,027	12,595,025	3,040,998	75.9	1,817,662	167.3
2011	9,691,011	13,391,704	3,700,693	72.4	1,833,392	201.9
2012	9,934,959	14,393,959	4,458,999	69.0	1,819,270	245.1
2013	10,223,961	14,881,663	4,657,702	68.7	1,846,970	252.2
2014	10,944,751	16,248,853	5,304,103	67.4	1,898,064	279.5

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

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

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

⁽⁴⁾ Annual payroll for members of LACERS.

⁽⁵⁾ UAAL divided by covered payroll.

Source: Los Angeles City Employees' Retirement System Actuarial Valuation and Review of Retirement and Health Benefits as of June 30, 2014.

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

Table 20
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS FOR RETIREMENT BENEFITS
MARKET VALUE BASIS
(\$ in thousands)⁽¹⁾

Actuarial Valuation As of June 30	Market Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded Liability ⁽²⁾	Funded Ratio (Market Value) ⁽³⁾	Covered Payroll ⁽⁴⁾	Unfunded Liability as a Percentage Of Covered Payroll (Market Value) ⁽⁵⁾
2005	\$ 7,393,707	\$ 9,321,525	\$ 1,927,818	79.3%	\$ 1,589,306	121.3%
2006	8,204,603	9,870,662	1,666,059	83.1	1,733,340	96.1
2007	9,708,718	10,526,874	818,156	92.2	1,896,609	43.1
2008	9,059,551	11,186,404	2,126,853	81.0	1,977,645	107.5
2009	7,122,911	12,041,984	4,919,073	59.2	1,816,171	270.9
2010	7,804,223	12,595,025	4,790,802	62.0	1,817,662	263.6
2011	9,186,697	13,391,704	4,205,007	68.6	1,833,392	229.4
2012	9,058,839	14,393,959	5,335,120	62.9	1,819,270	293.2
2013	10,154,486	14,881,663	4,727,177	68.2	1,846,970	255.9
2014	11,791,079	16,248,853	4,457,774	72.6	1,898,064	234.9

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

Source: Los Angeles City Employees' Retirement System Actuarial Valuation and Review of Retirement and Health Benefits as of June 30, 2014.

The table below summarizes the City’s payments to LACERS over the past five years. This table includes costs for retirement, as well as for retiree health care (see “**FINANCIAL OPERATIONS —Other Post-Employment Benefits**”), and other miscellaneous benefits.

Table 21
LOS ANGELES CITY EMPLOYEES’ RETIREMENT SYSTEM
SOURCES AND USES OF CONTRIBUTIONS
(\$ in thousands)⁽¹⁾

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

⁽¹⁾ Includes funding for OPEB.

⁽²⁾ Includes the excess benefit plan, the family death benefit plan, and the limited term plan fund. Beginning with the 2014-15 payment, the true-up obligation for the prior year is also reflected in this line item.

⁽³⁾ A \$3.7 million credit from 2011-12 was applied to 2012-13. The actual amount paid for Council-controlled departments, Airports, and Harbor to LACERS subsequent to this credit was \$416.4 million.

⁽⁴⁾ Payment for a 2013-14 true-up in the amount of \$5,191,511 (all agencies) will be made in 2014-15.

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

In late 2012, the City Council adopted a new civilian retirement tier, which applies to all employees hired on or after July 1, 2013. Prior to the adoption of the new tier, the City successfully negotiated and/or implemented various savings measures, including increasing active member pension contributions from 7% to 11% to help defray the costs of retiree healthcare, freezing retiree health care subsidies for noncontributing employees, deferring cost-of-living adjustments, reducing the size of the civilian workforce by 5,300 positions, implementing a new pension tier for sworn personnel, and lowering the new hire salary for police officers by 20%. Although such measures were significant in helping to ameliorate the City’s fiscal difficulties, implementation of a new civilian retirement tier was necessary to further bridge the gap. The new tier was designed to reduce the City’s future pension costs by increasing the normal retirement age from 55 to 65, decreasing the maximum retirement factor from 2.16% to 2.00% per year of service, capping the maximum retirement allowance at 75% of an employees’ final compensation (compared to the current 100%), setting an employees’ pension on a 3-year salary average (as opposed to one year), modifying disability retirement benefits to avoid spikes in the number of disability retirements, eliminating the current 50% survivor continuance benefit, capping future retiree annual cost-of-living adjustments to 2% with the option for the employee to purchase up to 3%, requiring that employees pay the actuarial cost of purchasing service credit and limiting the number of years purchasable to four years

maximum, and controlling retiree healthcare costs by limiting the benefit to retirees only. The most significant cost offset for the City would be achieved through the new tier's cost sharing element, which requires employees to contribute a portion of their salary at 75% of the normal cost of the pension benefits plus 50% of any amortized unfunded liabilities. This cost sharing would relieve the City from carrying 100% of future pension cost increases.

In total, the new civilian retirement tier was estimated to result in a five-year savings of \$30 million to \$70 million, a 10-year savings of \$169 million to \$309 million, and a 30-year savings of \$3.9 billion to \$4.3 billion, as calculated by an independent enrolled actuary as required under the City Charter (Section 1168). The City estimates that the new tier will generate \$4 million in savings in retirement contributions for both Fiscal Years 2013-14 and 2014-15 (inclusive of savings for the Harbor and Airports departments).

In the development and implementation of the new civilian tier, the City reached out to labor unions that represent all civilian employees through a two-year meet and consult process. Various unions contended that the development and implementation of the new tier was subject to the meet and confer process; in response, the unions took administrative actions against the City.

On July 28, 2014, the City Employee Relations Board ruled that the City's action in creating the new civilian retirement tier was illegal because the City did not meet and confer with labor representatives on the matter. The Board ordered that the City rescind the implementation of the new retirement tier. The City is considering its options in response to the decision, including appealing the ruling in State court.

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

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

the City, will result in an adjustment to the annual required City contribution for the following fiscal year beginning from Fiscal Year 2013-14, rather than incorporated into the UAAL to be amortized over 15 years.

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

Table 22
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
ASSET CLASS MARKET VALUE AND ALLOCATION
(\$ in thousands)
As of December 31, 2014

<u>Asset Class</u>	<u>Market Value</u>	<u>Market Value to Total Fund (%)</u>	<u>Target to Total Fund (%)</u>
U.S. Equity	\$4,410,000	31.3%	24.0%
Non-U.S. Equity	3,954,000	28.1	29.0
Core Fixed Income Securities	2,802,000	19.9	19.0
Credit Opportunities	496,000	3.5	5.0
Real Assets	851,000	6.1	10.0
Private Equity	1,312,000	9.3	12.0
Cash	<u>248,000</u>	<u>1.8</u>	<u>1.0</u>
Total Portfolio	\$14,073,000	100.0%	100.0%

Source: LACERS Portfolio Performance Review for the Quarter Ending December 31, 2014.

Accounting and Financial Reporting Standards

In 2012, the Governmental Accounting Standards Board ("GASB") issued Statement No. 68, Accounting and Financial Reporting for Pensions ("GASB 68"), which applies to governmental entities such as the City, and Statement No. 67, Financial Reporting for Pension Plans ("GASB 67"), which applies to the financial reports of most pension plans such as LACERS and FPPP. GASB 67 and GASB 68 address the disclosure of pension liability only; they do not impose any additional funding requirements.

GASB 68 revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits, including the City. GASB 68, among other things, requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability and provides greater guidance on measuring the annual costs of pension benefits, including specific guidelines on projecting benefit payments, use of discount rates and use of the "entry age" actuarial cost method. GASB 68 also addresses accountability and transparency through revised and new note disclosures and required supplementary information. The provisions in GASB 68 are effective for fiscal years beginning after June 15, 2014. The City anticipates complying with the provisions of GASB 68 by its effective date (i.e., its financial statements for Fiscal Year 2014-15).

GASB 67 revises existing guidance for the financial reports of most pension plans, including LACERS. GASB 67 generally expands the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position, and requires additional note disclosures and required supplementary information. The provisions in GASB 67 are effective for financial statements for fiscal years beginning after

June 5, 2013. LACERS complied with the provisions of GASB 67 by its effective date (i.e., financial statements for Fiscal Year 2013-14).

Other Post-Employment Benefits

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

The City began making payments to LACERS to pre-fund its OPEB obligations in Fiscal Year 1989-90, in an amount then determined by LACERS and its actuaries. The calculations of OPEB funding requirements are made by the same actuaries that perform the analysis of LACERS’ retirement benefits, and generally rely on the same actuarial assumptions, other than those assumptions such as medical inflation specific to OPEB.

As of June 30, 2014, the unfunded healthcare benefits liabilities of LACERS are as follows:

Table 23
OTHER POST-EMPLOYMENT BENEFITS
LOS ANGELES CITY EMPLOYEES’ RETIREMENT SYSTEM
(\$ in thousands)

Actuarial Valuation As of June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded AAL ⁽¹⁾	Funded Ratio ⁽²⁾	Covered Payroll ⁽³⁾	Underfunded AAL as a Percentage of Covered Payroll ⁽⁴⁾
2006	\$ 990,270	\$1,730,799	\$740,529	57.2%	\$1,733,340	42.7%
2007	1,185,544	1,730,400	544,856	68.5	1,896,609	28.7
2008	1,342,920	1,928,043	585,123	69.7	1,977,645	29.6
2009	1,342,497	2,058,177	715,680	65.2	1,816,171	39.4
2010	1,425,726	2,233,874	808,148	63.8	1,817,662	44.5
2011	1,546,884	1,968,708	421,824	78.6	1,833,392	23.0
2012	1,642,374	2,292,400	650,027	71.6	1,819,270	35.7
2013	1,734,733	2,412,484	677,751	71.9	1,846,970	36.7
2014	1,941,225	2,662,853	721,628	72.9	1,898,064	38.0

⁽¹⁾ Actuarial Accrued Liability minus Actuarial Value of Assets, commonly referred to as UAAL. Positive numbers represent an actuarial deficit.

⁽²⁾ Actuarial value of assets divided by actuarial accrued liability.

⁽³⁾ Annual payroll against which UAAL amortized.

⁽⁴⁾ UAAL divided by covered payroll.

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

Historically, plan members did not contribute towards healthcare subsidy benefits; all such costs were funded from the employer’s contribution and investment returns thereon. The City negotiated bargaining agreements that will reduce the City’s contributions for OPEB benefits, which include a 4% active employee contribution toward retiree healthcare for 99% of its civilian workforce and a 2% active employee contribution toward retiree healthcare for 71% of its eligible sworn workforce (representing 64% of the sworn workforce). Employees who elected to contribute will have their current retiree health benefits and any future subsidy increases vested. For those civilian bargaining units and sworn employees that opted not to make

an additional contribution toward retiree healthcare, their retiree health subsidy has been frozen and cannot surpass the maximum subsidy level in effect as of July 1, 2011. It is estimated that the City OPEB contribution to both systems will be offset by approximately \$80 million in Fiscal Year 2013-14 as the result of members making the additional contribution toward retiree pension costs.

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

Projected Retirement and Other Post-Employment Benefit Expenditures

The table below illustrates the City’s projected contributions to LACERS for the next four fiscal years, assuming no change to the actuarial assumptions used by LACERS’ actuary for the actuarial valuation as of June 30, 2014. These contributions illustrate the projected cost of both pension and OPEB under the existing assumptions. These projections reflect the actuarial assumptions described above.

Table 24
LOS ANGELES CITY EMPLOYEES’ RETIREMENT SYSTEM
PROJECTED CONTRIBUTIONS
(\$ in thousands)

	Proposed 2015-16	2016-17	2017-18	2018-19	2019-20
LACERS					
Contributions for Council-controlled Departments ⁽¹⁾⁽²⁾	\$432,728	\$443,076	\$429,795	\$418,369	\$410,743
Percentage of payroll ⁽³⁾	28.26%	27.49%	26.24%	25.03%	23.92%
Incremental Change		\$ 10,348	\$ (13,281)	\$ (11,426)	\$ (7,626)
% Change		2.4%	(3.0)%	(2.7)%	(1.8)%
⁽¹⁾ Includes the General Fund and various special funds.					
⁽²⁾ Assumes 7.50% return on investment.					
⁽³⁾ Reflects combined rates for Tiers 1 and 2.					

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

City Treasury Investment Practices and Policies

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

The City’s General Pool is further divided into a core pool and a reserve pool. The core or liquidity portion is targeted at the City’s net liquidity requirements for six months. All

investments in the core section of the portfolio have maturities of one year or less. The balance of the General Pool not required for the City’s six-month liquidity requirement is invested in the reserve portfolio. The reserve portfolio holds investments ranging from one to five years.

Table 25
POOLED INVESTMENT FUND
GENERAL POOL
Investments as of February 28, 2015

Description	Par Value	Market Value	Percent of Total Funds (Market Value)	Average Days
Bank Deposits ⁽¹⁾	\$ 151,260,614	\$ 151,260,614	1.74%	1
BNYM Sweep Accounts	-	-	-	-
LAIF (State of California)	-	-	-	-
Subtotal Cash and Overnight Investments	\$ 151,260,614	\$ 151,260,614	1.74%	1
CDARS ⁽²⁾	\$ 7,000,000	\$ 7,000,000	0.08%	255
Commercial Paper	1,334,452,000	1,334,158,504	15.31	45
Negotiable Certificates of Deposit	-	-	-	-
Corporate Notes	190,000,000	191,271,800	2.19	194
U.S. Federal Agencies	536,018,000	536,997,145	6.16	80
U.S. Treasuries	-	-	-	-
Subtotal: Pooled Investments	\$2,067,470,000	\$2,069,427,449	23.74%	69
Total Short Term Core Portfolio	\$2,218,730,614	\$2,220,688,063	25.48%	64
Money Market Funds	\$ -	\$ -	-	-
Commercial Paper	-	-	-	-
Negotiable Certificates of Deposit	-	-	-	-
Corporate Notes	1,269,804,000	1,281,866,403	14.71%	1,081
U.S. Federal Agencies	697,000,000	704,899,177	8.09	919
U.S. Treasuries	4,447,000,000	4,508,764,050	51.73	995
Total Long-Term Reserve Portfolio	\$6,413,804,000	\$6,495,529,630	74.52%	1,004
Total Cash and Pooled Investments	\$8,632,534,614	\$8,716,217,693	100.00%	764
	Short-Term Core Portfolio	Long-Term Reserve Portfolio	Consolidated	
Average Weighted Maturity	64 Days	2.7 Years	2.1 Years	
Effective Yield	0.36%	1.22%	1.00%	

⁽¹⁾ Collected balance for Wells Fargo Active Accounts.

⁽²⁾ Certificate of Deposit Account Registry Service, which provides capital to community banks that lend and provide services in economically distressed areas. Deposits are insured through FDIC.

Source: City of Los Angeles, City Treasurer.

The City’s treasury operations are managed in compliance with the California Government Code and according to the City’s Statement of Investment Policy (the “Investment Policy”), which sets forth permitted investment vehicles, liquidity parameters and maximum maturity of investments. The Investment Policy is reviewed and approved by the Council on an annual basis.

The Treasurer does not invest in structured and range notes, securities that could result in zero interest accrual if held to maturity, variable rate, floating rate or inverse floating rate investments and mortgage-derived interest or principal-only strips.

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

EMPLOYMENT LITIGATION

Two lawsuits have been filed challenging the City's actions relative freezing OPEB Benefits. (See "**FINANCIAL OPERATIONS—Other Post-Employment Benefits,**" above).

1. *Jack Fry, Gary Cline, Sandra Carlsen, Yvette Moreno, and Los Angeles Retired Fire & Police Association, Inc. v. City of Los Angeles*. This suit was filed by individual sworn employees regarding the City's action to freeze retiree health benefits for sworn employees who elect not to contribute to these benefits. On July 28, 2014, a Superior Court issued an interim order ruling that the petitioners have a vested right to a "non-frozen" health subsidy in retirement. The court did not rule that petitioners are entitled to any particular health subsidy amount. The City appealed the Superior Court's Decision. On November 12, 2014, the Court of Appeal granted the City's application for a Writ of Supersedeas which stays the Superior Court's order pending the City's appeals and requires the LAFPP Board to continue applying the retiree health care freeze ordinance. The City filed its brief on appeal and expects an opposition brief in May. There is no firm estimate of the long term cost to the City if the plaintiffs ultimately prevail in this case.
2. *Los Angeles Police Protective League and United Firefighters of Los Angeles City v. Board of Fire and Police Pension Commissioners v. City of Los Angeles*. In this case, plaintiffs seek a judgment declaring that their letter of agreement with the City requires the Retirement Board to increase the retirees' medical subsidy by a specific amount. The City prevailed on a demurrer, but the Court of Appeal reversed. The case has been reassigned to a trial court where factual issues will be resolved; no dates have been set for briefing or trial. The City cannot assess the value of this case at this time.

APPENDIX B

GLOSSARY OF DEFINED TERMS

The following are definitions of certain terms contained in the General Resolution and the Twenty-Eighth Supplemental Resolution.

“Accrued Interest” means, for any calendar month, the amount of interest which has accrued or will accrue on a Series of Outstanding Bonds during that month less (i) any interest which accrues during such period, but is to be paid from moneys or Permitted Investments or the earnings thereon, which moneys or Permitted Investments are on deposit in a separate fund or account or are otherwise segregated for such purpose and (ii) interest which has accrued but is not due and payable within the 12-month period immediately following such accrual; for purposes of this definition interest which has accrued but is not due and payable within the 12-month period immediately following such accrual shall be included as Accrued Interest in 12 equal consecutive monthly installments commencing in the twelfth month preceding the payment date; with respect to the calculation of the amount to be deposited into the Debt Service Fund for any given month for any Series of Bonds the interest rate on which will or may fluctuate from the date of calculation to the end of such calendar month, interest after the calculation date, for purposes of calculating Accrued interest for such month, will be assumed to accrue at a rate equal to 110% of the rate of interest on such Bonds on the date of calculation; for purposes of determining any Deficiency or Excess, interest accruing on fluctuating rate Bonds for any prior month shall be calculated at the actual rate or rates for such month.

“Accrued Principal” means, for any calendar month, the amount of principal which has “accrued” or will “accrue” on a Series of Outstanding Bonds during that month less any principal which accrues during such period but is to be paid from moneys or Permitted Investments or the earnings thereon, which moneys or Permitted Investments are on deposit in a separate fund or account or are otherwise segregated for such purpose; for purposes of this definition, it shall be assumed that principal accrues in 12 equal monthly installments commencing in the twelfth month preceding the date on which payment is due, except that (i) with respect to principal on a Series of Bonds which is payable more frequently than annually, principal shall accrue in equal monthly installments from one payment date to the next and (ii) if the first principal payment date on a Series of Bonds is less than 12 months after the issuance of such Series, principal due on such first payment date shall accrue in equal monthly installments from the date of issuance to the first payment date and (iii) with respect to Balloon Indebtedness and commercial paper which is intended at the time of issuance to be paid with the proceeds of a corresponding issue of commercial paper, the entire principal amount shall be deemed to accrue in the month in which such Balloon Indebtedness or commercial paper is due and payable and not in monthly installments prior to such date. In all events, principal shall be determined to accrue in amounts sufficient to assure that the full amount due on any principal payment date and to be paid from the Debt Service Fund will be on deposit in the Debt Service Fund on the payment date. For purposes of determining Accrued Principal, a payment to be made on the basis of an accreted value shall be deemed a principal payment. If Bonds have been declared to be due and payable upon the occurrence and continuance of an Event of Default as provided in the General Resolution, then, in each calendar month, the entire unpaid principal of all Bonds which have been accelerated shall be deemed to have accrued in that calendar month.

“Aggregate Accrued Interest” means, for any calendar month, the sum of the Accrued Interest for that month for all Series of Outstanding Bonds.

“Aggregate Accrued Principal” means, for any calendar month, the sum of the Accrued Principal for that month for all Series of Outstanding Bonds.

“Authorized City Representative” means the Mayor, the City Clerk, the City Controller, the City Administrative Officer or a duly authorized designee of any of the foregoing, or any one or more of them and, in addition to the foregoing, for the purpose of directing the investment of money under the General Resolution only, the Treasurer or any Assistant Treasurer.

“Authorized Denominations” means denominations of \$5,000 and any integral multiples thereof.

“Balloon Indebtedness” means, with respect to any Series of Bonds, 25% or more of the principal of which matures on the same date or within a 12-month period, that portion of such Series which matures on such date or within such 12-month period; provided, however, that to constitute Balloon Indebtedness the amount of indebtedness maturing on a single date or over a 12-month period must equal or exceed 150% of the amount of such Series which matures during any preceding 12-month period. For purposes of this definition, the principal amount maturing on any dates shall be reduced by the amount of such indebtedness which is required, by the documents governing such indebtedness, to be amortized by prepayment or redemption prior to its stated maturity date.

“Bond” or “Bonds” means bonds, notes and other indebtedness, obligations or securities of any kind or class issued or incurred as provided in the General Resolution and secured by the General Resolution and the pledge of Revenues granted thereby. The term “Bonds” includes, but is not limited to, obligations in the form of bonds, notes, contracts, lease obligations, bond anticipation notes, commercial paper and certificates of participation. The term “Bond” or “Bonds” does not include any obligations incurred by the City on a subordinated basis as permitted by the General Resolution.

“Bond Counsel” means a firm of attorneys that are nationally recognized as experts in the area of municipal finance.

“Bondholder,” “Holder,” “Owner” or “Registered Owner” means at any given time the person in whose name a Bond or Bonds are at such time registered on the books maintained by the City or its Registrar. Beneficial Owners are not Bondholders, Holders, Owners or Registered Owners within the meaning of the General Resolution and shall, except as specifically provided in the General Resolution, derive their rights only through the entity which is the Registered Owner of the Bond in which they are a Beneficial Owner.

“Code” means the Internal Revenue Code of 1986, as amended.

“Commercial Paper Notes” or “CP Notes” the City’s Wastewater System Commercial Paper Revenue Notes outstanding under the Subordinate General Resolution, as amended and supplemented, as of the effective date of the Twenty-Eighth Supplemental Resolution.

“Construction Fund” means any of the Construction Funds created as provided in the General Resolution for the purpose of serving as a depository of Bond proceeds to be used to pay Project Costs. The General Resolution provides that a separate Construction Fund be created for each Series if needed. The City has also created the General Wastewater System Construction Fund into which amounts from the individual Series Construction Funds may be deposited and distributed to pay Project Costs.

“Consultant” means the consultant, consulting firm, engineer, architect, engineering firm, architectural firm, accountant or accounting firm retained by the City to perform acts and carry out the duties provided for such Consultant in the General Resolution. Such consultant, consulting firm, engineer, architect, engineering firm, architectural firm, accountant or accounting firm shall be nationally recognized within its profession for work of the character required.

“Continuing Disclosure Certificate” means each Continuing Disclosure Certificate executed by the City and dated the date of issuance and delivery of any Series of Series 2015 Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“Costs of Issuance” means all costs and expenses incurred by the City in connection with the issuance of any Series 2015 Bonds and the refunding of any Refunded Obligations pursuant to the Twenty-Eighth Supplemental Resolution, including, but not limited to, costs and expenses of printing and copying documents and the Series 2015 Bonds, any fees incurred in connection with agreements authorized by the Twenty-Eighth Supplemental Resolution, and the fees, costs and expenses of rating agencies, counsel, accountants, verification specialists, underwriters, financial advisors, the escrow agent, insurance consultants and other consultants and agents.

“Debt Service Fund” as defined in the General Resolution means the Debt Service Fund created under the General Resolution as a fund into which money is to be deposited to be used to pay debt service on the Bonds.

“Deficiency” means, at any time, the amount by which the sum of the Aggregate Accrued Interest and the Aggregate Accrued Principal for all prior calendar months with respect to unpaid interest and principal on all Outstanding Bonds exceeds the amount on deposit in the Debt Service Fund. For purposes of determining whether any Deficiency exists in the Debt Service Fund, amounts therein which have been segregated to pay Bonds which have previously become due and payable but have not yet been presented for payment and amounts therein which have been segregated to pay the redemption price of any Bond shall be disregarded.

“Emergency Fund” means that fund required to be established as provided in the General Resolution to be available for use for emergency needs of the System.

“Emergency Fund Requirement” means the sum of \$5,000,000 or such greater amount as shall from time to time be recommended by a Consultant and approved by the City, as provided in the General Resolution.

“Escrow Agreement” means an agreement between the City and an Escrow Agent, and related to the deposit, investment and use of a portion of the proceeds of any one or more Series of Series 2015 Bonds and the earnings thereon to pay principal of, and premium and interest on any Refunded Obligations and to pay the Costs of Issuance of such Series of Series 2015 Bonds.

“Event of Default” means any occurrence or event specified in the General Resolution as described in Appendix C below under the caption “Events of Default and Remedies.”

“Excess” means, at any time, the amount by which the amount on deposit in the Debt Service Fund exceeds the sum of the Aggregate Accrued Interest and Aggregate Accrued Principal for all prior months with respect to unpaid interest and principal on all Outstanding Bonds. For purposes of determining whether any Excess exists in the Debt Service Fund, amounts therein which have been segregated to pay Bonds which have previously become due and payable but have not yet been presented for payment and amounts therein which have been segregated to pay the redemption price of any Bond shall be disregarded.

“Expenses” means the total operating expenses of the System as determined in accordance with generally accepted accounting principles except, to the extent such items are included in such operating expenses, depreciation, interest on Outstanding Bonds and amortization of financing expenses.

“Fiscal Year” means the period of time beginning on July 1 of any given year and ending on June 30 of the immediately subsequent year, or such other annual period as the City designates as its fiscal year.

“General Resolution” means the “Wastewater System Revenue Bonds General Resolution” adopted by the City Council on November 10, 1987, as amended and supplemented from time to time.

“General Wastewater System Construction Fund” means that fund created by Ordinance No. 165924 of the City adopted on May 22, 1990 into which the City shall from time to time deposit either directly or by payment from other funds Bond proceeds and the earnings thereon to be used to pay Project costs.

“Government Obligations” means (i) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America and (ii) securities or receipts evidencing ownership interests in obligations or specified portions (such as principal or interest) of obligations described in (i).

“Maximum Annual Debt Service” means, at any point in time, with respect to Bonds then Outstanding, the maximum amount of principal and interest becoming due in the then current or any future Fiscal Year, calculated by the City or by a Consultant as provided in this definition. For purposes of calculating Maximum Annual Debt Service the following assumptions shall be used to calculate the principal and interest becoming due in any Fiscal Year:

(i) in determining the principal amount due in each year, payment shall (except to the extent a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made in accordance with any amortization schedule established for such debt, including any scheduled retirement of commercial paper not intended at the time of calculation to be repaid from the proceeds of a subsequent borrowing and including any scheduled mandatory redemption or prepayment of Bonds on the basis of accreted value, and for such purpose, the redemption payment or prepayment shall be deemed a principal payment; in determining the interest due in each year, interest payable at a fixed rate shall (except to the extent subsection (ii) or (iii) of this definition applies) be assumed to be made at such fixed rate and on the required payment dates;

(ii) if all or any portion or portions of an Outstanding Series of Bonds constitutes Balloon Indebtedness or if all or any portion or portions of a Series of Bonds then proposed to be issued would constitute Balloon Indebtedness, then, for purposes of determining Maximum Annual Debt Service, each maturity which constitutes Balloon Indebtedness shall be treated as if it were to be amortized in substantially equal annual installments of principal and interest over a term of 25 years commencing in the year the stated maturity of such Balloon Indebtedness occurs; the interest rate used for such computation shall be the rate quoted in *The Bond Buyer Revenue Bond Index* for the last week of the month preceding the date of calculation, as published in *The Bond Buyer*, or if that index is no longer published, another similar index selected by the City, or if the City fails to select a replacement index, an interest rate equal to 80% of the yield as of the date of calculation for United States Treasury bonds maturing at least 25 years after the date of such calculation, or if there are no such Treasury bonds having such maturities, 100% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States ranked by assets; with respect to any Series of Bonds only a portion of which constitutes Balloon Indebtedness, the remaining portion shall be treated as described in (i) above and, with respect to any Series or that portion of a Series which constitutes Balloon Indebtedness, all payments of

principal and interest becoming due prior to the year of the stated maturity of the Balloon Indebtedness shall be treated as described in (i) above;

(iii) if any of the Outstanding Series of Bonds constitutes Tender Indebtedness or if Bonds then proposed to be issued would constitute Tender Indebtedness, then, for purposes of determining Maximum Annual Debt Service, Tender Indebtedness shall be treated as if the principal amount of such Bonds were to be amortized in substantially equal annual installments of principal and interest over a term of 25 years commencing in the year in which such Series is first subject to tender; the interest rate used for such computation shall be the rate quoted in *The Bond Buyer Revenue Bond Index* for the last week of the month preceding the date of calculation, as published in *The Bond Buyer*, or if that index is no longer published, another similar index selected by the City, or if the City fails to select a replacement index, an interest rate equal to 80% of the yield as of the date of calculation for United States Treasury bonds maturing at least 25 years after the date of such calculation, or if there are no such Treasury bonds having such maturities, 100% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States ranked by assets; with respect to all principal and interest payments becoming due prior to the year in which such Tender Indebtedness is first subject to tender such payments shall be treated as described in (i) above unless the interest during that period is subject to fluctuation, in which case the interest becoming due prior to such first tender date shall be determined as provided in (iv) or (v) below, as appropriate;

(iv) if any Outstanding Bonds constitute Variable Rate Indebtedness (except to the extent subsection (ii) relating to Balloon Indebtedness or (iii) relating to Tender Indebtedness apply), the interest rate on such Bonds shall be assumed to be 110% of the greater of (a) the daily average interest rate on such Bonds during the 12 months ending with the month preceding the date of calculation, or such shorter period that such Bonds shall have been outstanding, or (b) the rate of interest on such Bonds on the date of calculation;

(v) if Bonds proposed to be issued will be Variable Rate Indebtedness (except to the extent subsection (ii) relating to Balloon Indebtedness, (iii) relating to Tender Indebtedness apply), then, such Bonds shall be assumed to bear interest at the rate quoted in The Bond Buyer Revenue Bond Index for the last week of the month preceding the date of sale of such additional Bonds, as published in The Bond Buyer, or if that index is no longer published, another similar index selected by the City, or if the City fails to select a replacement index, an interest rate equal to 80% of the yield for outstanding United States Treasury bonds having an equivalent maturity as the then Outstanding Bonds for which the interest rate is to be assumed or having an equivalent maturity as the additional Bonds proposed to be issued, or if there are no such Treasury bonds having equivalent maturities, 100%, of the lowest prevailing prime rate of any of the five largest commercial banks in the United States ranked by assets; and

(vi) if moneys or Permitted Investments have been deposited by the City into a separate fund or account or are otherwise held by the City or by a fiduciary to be used to pay principal and/or interest on specified Bonds, then the principal and/or interest to be paid from such moneys or Permitted Investments or from the earnings thereon shall be disregarded and not included in calculating Maximum Annual Debt Service.

“Net Revenues” means, for any given period, the Revenues for such period less the Expenses for such period, but excluding any profits or losses on the early extinguishment of debt or on the sale or other disposition, not in the ordinary course of business, of investments or fixed or capital assets.

“Opinion of Bond Counsel” means an opinion of Counsel by Bond Counsel.

“Outstanding” as shall mean all Bonds which have been authenticated and delivered under the General Resolution, except:

(i) Bonds canceled or purchased by the City for cancellation or delivered to or acquired by the City for cancellation and, in all cases, with the intent to extinguish the debt represented thereby;

(ii) Bonds or portions of Bonds which have been paid or are deemed to be paid in accordance with the General Resolution as described in Appendix C below under the caption “Defeasance”;

(iii) Bonds in lieu of which other Bonds have been authenticated under the General Resolution;

(iv) Bonds or portions of Bonds that have become due (at maturity or on redemption, acceleration or otherwise) and for the payment of which sufficient moneys, including interest accrued to the due date, are held by the City or an agent of the City separate and apart for such purpose;

(v) Bonds which, under the terms of the Supplemental Resolution pursuant to which they were issued, are deemed to be no longer Outstanding; and

(vi) for purposes of any consent or other action to be taken by the holders of a specified percentage of Bonds under the General Resolution, Bonds held by or for the account of City, unless such Bonds are pledged to secure a debt to an unrelated party, in which case such Bonds shall, for purposes of consents and other Bondholder action, be deemed to be Outstanding and owned by the party to which such Bonds are pledged.

“Paying Agent” means any paying agent appointed in accordance with the terms of the General Resolution and the Twenty-Eighth Supplemental Resolution.

“Permitted Encumbrances” means:

(i) utility, access and other easements and rights-of-way, restrictions, encumbrances and exceptions which do not materially interfere with or materially impair the operation of the portion of the System affected thereby;

(ii) any mechanic’s, laborer’s, materialman’s, supplier’s or vendor’s lien or right in respect thereof if payment is not yet due under the contract in question or if such lien is being contested; and

(iii) such minor defects and irregularities of title which do not materially adversely affect the value of, or materially impair, the property affected thereby for the purpose for which it was acquired or is held by the City.

“Permitted Investments” means (i) Government Obligations, (ii) obligations of any state or territory of the United States or any agency or political subdivision thereof rated by S&P, if the Series of Bonds which such Permitted Investments secure is then rated by S&P, and by Moody’s, if such Series is then rated by Moody’s, at least as high as such Series of Bonds, (iii) obligations of any state or territory of the United States or any agency or political subdivision thereof for the payment of the principal or redemption price of and interest on which there shall have been deposited Government Obligations

maturing as to principal and interest at times and in amounts sufficient to provide such payment, (iv) time certificates of deposit issued by a state or nationally chartered bank or trust company or a state or federal savings and loan association, provided that such certificates of deposit shall be (1) continuously and fully insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation or (2) continuously and fully secured by Government Obligations, which securities shall have a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such certificate of deposit, (v) bankers' acceptances which are issued by a bank or trust company rated "A" or higher by Moody's and S&P; provided that such bankers' acceptances may not exceed 270 days' maturity, (vi) repurchase agreements with any bank or trust company or government bond dealer reporting to, trading with and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement is secured by Government Obligations, provided that the underlying securities are required by the repurchase agreement to be held by any such bank, trust company or primary dealer having a combined capital and surplus of at least \$100,000,000 and being independent of the issuer of such repurchase agreement, and provided that the securities are continuously maintained at a market value of not less than the amount so invested, (vii) commercial paper of "prime" quality of the highest or of the highest letter and numerical rating as provided by Moody's and S&P, (viii) investment agreements with (1) any bank or trust company or government bond dealer reporting to, trading with and recognized as a primary dealer by the Federal Reserve Bank of New York, having a combined capital and surplus of at least \$100,000,000, or (2) any corporation that is organized and operating within the United States and that has total assets in excess of \$500,000,000 and that has an "A" or higher rating for its debt, other than commercial paper, as provided by Moody's and S&P, provided that such investment agreements shall be continuously and fully secured by Government Obligations, which securities shall have a market value (exclusive of accrued interest) at all times at least equal to the principal amount so invested, and (ix) government money market portfolios or money market funds restricted to obligations issued or guaranteed as to payment of principal and interest by the full faith and credit of the United States, which portfolios, unless held by the Treasurer for five business days or less, shall have a rating in the highest two categories provided by Moody's and S&P.

"Prior Senior Bonds" means, collectively, all Senior Lien Bonds issued by the City pursuant to the General Resolution prior to the Twenty-Eighth Supplemental Resolution.

"Prior Subordinate Bonds" means, collectively, all Subordinate Bonds issued by the City pursuant to the Subordinate General Resolution prior to the Seventeenth Supplemental Resolution thereto.

"Project" means any purpose for which a Series of Bonds is issued under the terms of the General Resolution.

"Project Costs" means, with respect to the System, all or any part of the cost of construction, acquisition, alteration, reconstruction, remodeling, maintaining and operating, including, without limiting the generality of the foregoing, all labor, materials, machinery, equipment, lands, structures, real and personal property, rights, rights-of-way, water rights, air rights, franchises, easements and interests acquired or used by the City in connection with the work undertaken; the cost of any demolitions, removals or relocations necessary in connection therewith; financing charges, insurance expenses, capitalized interest for such period as shall be determined by the Council, reserves for debt service and reserves for capital and current expenses; the cost of architectural, engineering, financial and legal services, plans, specifications, appraisals, surveys, inspections, estimates of costs and revenues, and other expenses necessary or incident to determining the feasibility or practicality of such undertaking; organizational, professional, administrative, operating and other expenses incurred prior to the commencement of and during such work; costs of the City properly allocated to a Project and with respect to costs of employees or other labor costs, including the cost of medical, pension, retirement and other benefits as well as salary and wages and the allocable cost of administrative, supervisory and managerial

personnel and the properly allocable cost of benefits provided for such personnel; costs of equipment, supplies and training of operating personnel and other expense of completing such work and placing the same in operation; working capital, and such other expenses as may be necessary or incidental to a Project, the financing thereof, including, but not limited to, costs and expenses of consultants and advisors including insurance consultants, accountants, engineers and attorney, printing costs, rating agency fees and expenses, insurance costs and related election expenses and expenses necessary or incidental to placing a Project in operation and all other costs, expenses and charges related directly or indirectly to the System for which the City is otherwise permitted to incur an obligation, including the financing of working capital, whether or not the Project then under consideration involves the acquisition or construction of physical properties.

“Rebate Fund” means the Rebate Fund established by ordinance and more particularly described in Appendix C hereto.

“Record Date” means, for a June 1 Interest Payment Date, the close of business on the preceding May 15 and, for a December 1 Interest Payment Date, the close of business on the preceding November 15, whether or not such day is a Business Day, or such other record dates designated by the City with respect to a Series of Series 2015 Bonds.

“Refunded Obligations” means all or any of the Refunded Senior Bonds, the Refunded Subordinate Bonds and, if applicable, the Commercial Paper Notes to be refunded by the Series 2015 Bonds.

“Refunded Senior Bonds” means all or any of the Prior Senior Bonds to be refunded by the Series 2015 Bonds.

“Refunded Subordinate Bonds” means all or any of the Prior Subordinate Bonds to be refunded by the Series 2015 Bonds.

“Reserve Fund” shall mean the Debt Service Reserve Fund which has been established pursuant the General Resolution and is held as a reserve from which payments of principal and interest on the Bonds can be made if, on any principal or interest payment date on the Bonds, the amounts in the Debt Service Fund available therefor are insufficient to pay the full amount then due, or from which required deposits to the Rebate Fund may be made if other funds are not available therefor.

“Reserve Fund Requirement” means an amount equal to Maximum Annual Debt Service with such modification in the assumptions therefor as are described in this definition. For purposes of determining the Reserve Fund Requirement, the annual debt service with respect to any Variable Rate Indebtedness shall, upon the issuance of such Series, be calculated on the basis of the assumptions set forth in subsection (v) of the definition of Maximum Annual Debt Service, and the amount so determined shall not require adjustment thereafter except as appropriate to reflect reductions in the Outstanding principal amount of such Series. For purposes of the Reserve Fund Requirement, the annual debt service requirements assumed at the time of issuance of a Series of Bonds containing Balloon Indebtedness or Tender Indebtedness shall not, with respect to such Series, require subsequent increases.

“Revenues” means all revenues of the SCM Fund and revenues otherwise attributable to the System, including, but not limited to, those revenues currently arising as a result of the imposition of sewer service charges, industrial waste surcharge and inspection fees, sewage disposal contract charges, sewerage facility charges and bonded sewer fees and all other income and receipts derived by the City from the ownership or operation of the System or arising from the System and including amounts attributable to extensions, additions and improvements to the System and all other amounts received by

the City in payment for providing wastewater collection, treatment and/or disposal services; and all earnings received from the investment of the SCM Fund, the Debt Service Fund, the Reserve Fund and the Emergency Fund; provided, however, that Revenues shall not include:

- (1) any amount received from the levy or collection of taxes;
- (2) amounts received under contracts or agreements with governmental or private entities and designated for capital costs;
- (3) moneys received as grants from the United States of America or from the State of California;
- (4) earnings on the Construction Funds;
- (5) the proceeds of borrowings; and
- (6) proceeds of insurance.

“SCM Fund” means, collectively, the City’s Sewer Construction and Maintenance Fund, Sewer Operation and Maintenance Fund and Sewer Capital Fund established under the terms of the City’s Municipal Code as special funds in the City Treasury into which the Revenues are to be deposited, and such term also includes any other fund or series of funds into which Revenues are deposited.

“Senior Lien Bonds” means all Bonds issued pursuant to the General Resolution and various supplements thereto, whenever issued.

“Series” means Bonds issued at the same time or sharing some other common term or characteristic and designated as a separate Series.

“Series 2015 Bonds” means the City of Los Angeles Wastewater System Revenue Bonds, of each Series issued pursuant to the General Resolution and the Twenty-Eighth Supplemental Resolution.

“Subordinate Bonds” means any bonds, notes or other indebtedness, obligations or securities or any kind or class, including Commercial Paper Notes, issued or incurred under and secured by the Subordinate General Resolution.

“Subordinate General Resolution” means the Wastewater System Subordinate Revenue Bonds General Resolution adopted by the City Council on March 26, 1991, as amended and supplemented from time to time.

“Supplemental Resolution” means any supplemental resolution adopted by the City Council providing for the issuance of a Series or multiple Series of Bonds amending and/or supplementing the General Resolution.

“System” means the City’s entire wastewater collection, transportation, drainage, treatment and disposal system, including all sewers, pipes, buildings, systems, plants, works, equipment, improvements and other facilities or undertakings of the City relating to the collection, transportation, treatment and disposal of sewage, wastewater, industrial wastewater and infiltration/inflows incidental thereto, including those facilities in existence at the time of adoption of the General Resolution and any and all subsequent additions, extensions, improvements, acquisitions and replacements thereto and all facilities and undertakings relating to or useful in connection with the construction, improvement, replacement,

expansion, extension, operation and maintenance of the System. The term System more specifically includes, but is not limited to, sewage and wastewater treatment and disposal plants, sewage pumping plants, water reclamation plants, sewer maintenance yards and headquarters, intercepting and collecting sewers, outfall sewers, trunk, connecting, relief and other sewer mains and additions to, alterations of and reconstruction of, any of them and the lands, rights of way, pipe, conduits, equipment, machinery, apparatus, and property necessary therefor.

“Tax Certificate” means that Tax Certificate relating to federal tax matters to be executed on behalf of the City at the time of issuance of any Series of Series 2015 Bonds and as amended from time to time.

“Tender Indebtedness” means any Bonds or portions of Bonds, a feature of which is an option, on the part of the Bondholders, or an obligation, under the terms of such Bonds, as applicable, to tender all or a portion of such Bonds, to the City, a Paying Agent or other fiduciary or agent for payment or purchase and requiring that such Bonds or portions of Bonds be purchased if properly presented. Tender Indebtedness also includes maturities of commercial paper, which are intended at the time of issuance to be paid from proceeds of a corresponding issue of commercial paper.

“Variable Rate Indebtedness” means any portion of indebtedness the interest rate on which is not established at the time of incurrence of such indebtedness and has not, at some subsequent date, been established at a rate which is not subject to fluctuation or subsequent adjustment.

APPENDIX C

**SUMMARY OF CERTAIN
PROVISIONS OF THE RESOLUTIONS**

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS

THE GENERAL RESOLUTION

The following is a summary of certain provisions of the General Resolution. The summary is only a brief description of limited provisions of such document and is qualified in its entirety by reference to the full text of the General Resolution.

Pledge to Secure Bonds

To secure the payment of all Bonds issued pursuant to the General Resolution, the City pledges to the Owners of the Bonds, places a lien upon and assigns to the Owners (1) the Revenues, including any additional sources of Revenues pledged by Supplemental Resolutions, (2) the Revenues held in the SCM Fund including the earnings on such Revenues and (3) all moneys and securities held in the Reserve Fund, the Debt Service Fund (except as hereinafter described) and the Construction Funds. This pledge and lien is granted for the equal and proportionate benefit and security of all Bonds issued under the terms of the General Resolution, all of which, regardless of the time or times of their authentication and delivery or maturity, will be of equal rank without preference, priority or distinction as to lien or otherwise of any Bond over any other Bonds. Amounts in the Debt Service Fund which have been segregated for the payment of Bonds which have become due and payable or which have been called for redemption but not presented for payment shall be held in trust solely as security for such specific Bonds and be used to pay only such Bonds and shall not be pledged as security for or be available to pay any other Bonds. The pledges and liens granted pursuant to the General Resolution shall remain effective for so long as any Bonds are Outstanding thereunder.

Subordinated Obligations

The General Resolution provides that the City may issue obligations on a subordinated basis and such obligations may be secured by and be payable from the Revenues provided that such obligations contain an express statement that such obligations are junior and subordinate to the Bonds issued under and secured by the General Resolution as to lien on and source and security for payment from the Revenues. No debt tests or restrictions are imposed by the General Resolution upon the incurrence of such subordinated obligations. Any such subordinated obligations may be paid on an ongoing basis from the Revenues after the payment of operation and maintenance expenses and after making the required monthly deposits to the Debt Service Fund, Reserve Fund and Emergency Fund.

Investments

Moneys held in the SCM Fund, the Debt Service Fund, the Reserve Fund, the Construction Funds and the Emergency Fund will be invested and reinvested as determined by the City, in such investments as the City is generally permitted to invest its funds subject to the restrictions set forth in the General Resolution and the restrictions set forth in any Supplemental Resolution. Moneys on deposit in the Debt Service Fund and the Reserve Fund shall, however, be invested solely in Permitted Investments and the Treasurer shall be authorized to invest such funds in Permitted Investments.

Emergency Fund

Amounts in the Emergency Fund may be used by the City, if other funds are not readily available and sufficient, to pay extraordinary and unexpected repair or replacement expenses of the System or

liability claims related to the System. Amounts will be withdrawn from the Emergency Fund only after delivery to the Treasurer of a certificate signed by an Authorized City Representative stating that an extraordinary and unexpected event has occurred or that an amount is due as a result of a liability claim, that the expense resulting from such event or the claim which is to be paid is in excess of \$500,000, that other funds are not readily available to pay such expense or claim, and that the expenditure of such funds has been duly authorized in accordance with City procedures. If, upon any valuation of the Emergency Fund, the value thereof is less than the Emergency Fund Requirement or if the City withdraws funds from the Emergency Fund and such withdrawal reduces the balance in such fund below the Emergency Fund Requirement, then deposits will be made into the Emergency Fund from the SCM Fund as provided in the General Resolution. Such deposits will be made after deposits to the Debt Service Fund and Reserve Fund and prior to the withdrawal or use of funds for the purpose of paying or providing for the payment of Subordinate Bonds.

Rate Covenant

The City has covenanted that it will, at all times while any of the Bonds remain Outstanding, establish, fix, prescribe and collect rates, fees and charges in connection with the use of the System so that Revenues in each Fiscal Year will be at least sufficient to pay the following amounts: (1) the interest on and principal of the Outstanding Bonds as they become due and payable; (2) all other payments required for compliance with the terms of the General Resolution and of any Supplemental Resolution including, but not limited to, the required deposits to the Debt Service Fund, Reserve Fund and Emergency Fund; (3) all other payments to meet any other obligations of the City which are charges, liens or encumbrances upon, or payable from, the Revenues; and (4) all current operation and maintenance costs of the System (but not including such operation and maintenance costs as are scheduled to be paid by the City from moneys other than Revenues). The City further agrees that it will establish, fix, prescribe and collect rates, fees and charges in connection with the use of the System so that during each Fiscal Year the Net Revenues are equal to at least 125% of the actual debt service becoming due on Outstanding Bonds in such year.

Operation and Maintenance of the System

The City covenants that it will maintain and preserve the System in good repair and working order, in conformity with standards customarily followed for municipal wastewater systems of like size and character. The City also covenants that it will from time to time make all necessary and proper repairs, renewals, replacements and substitutions to the properties of the System, so that at all times business carried on in connection with the System will and can be properly and advantageously conducted in an efficient manner and at reasonable cost and will operate the System in an efficient and economical manner, consistent with the protection of Bondholders.

Liens and Claims

The City agrees that, except for Permitted Encumbrances and except as provided by the next sentence, it will not impose any lien, mortgage or other encumbrance upon the System or any portion of the System nor permit any lien, mortgage or other encumbrance to be imposed or to remain upon the System or any portion of the System. The City may, however, in connection with the acquisition, construction or improvement of a specific part of the System, if otherwise permitted to do so under the City Charter and applicable law, encumber such specific part or permit such part to be encumbered provided that (i) any obligation of the City which is secured by such encumbrance or is incurred in connection therewith is incurred on the terms set forth and after meeting the conditions for the issuance of additional Series of Bonds or is incurred on a subordinated basis and (ii) if the property encumbered is an integral part of the System, the party to which the encumbrance is granted shall have no right to foreclose

on the property or otherwise evict the City from such property or prevent its use as intended as part of the System.

Ownership and Operation

The City covenants that it will continue to provide the System as the primary system and as a complete and fully operational system for the collection, transportation, treatment and disposal of sewage, wastewater and industrial wastewater within the City. The City covenants that it will not sell, transfer or otherwise dispose of the System or any part thereof essential to the proper operation of the System except in accordance with the following provisions. The City may sell, transfer or dispose of portions of the System which have become non-operative, worn out, obsolete or are otherwise not needed for the efficient and proper operation of the System. In addition, the City may transfer or sell portions of the System or enter into agreements with others permitting others to operate portions of the System provided that any such transfer, sale or agreement will not result in a reduction in the amount of Revenues the City is entitled to receive or materially increase the Expenses. If any facility or facilities to be transferred, sold or with respect to which the City proposes to enter into an operating agreement are an integral part of the System, such transfer or sale shall not occur or agreement be entered into until a Consultant has delivered a certificate showing that for the Fiscal Year in which the transfer, sale or change in operation occurs and each of the two immediately succeeding years (i) the estimated Net Revenues will be as great or greater than such Consultant estimates such Net Revenues would have been had the transfer, sale or change in operation not occurred or (ii) if estimates show a reduction in the Net Revenues, such reduction is not greater than 10% in any one or more of such years and in each of the three years the Net Revenues are estimated to be at least 125% of Maximum Annual Debt Service. The City will be unconditionally and irrevocably obligated, so long as any of the Bonds are Outstanding and unpaid, to take all lawful action necessary or required to continue to entitle the City to collect the Revenues and deposit the Revenues into the SCM Fund for use as provided in the General Resolution.

Insurance and Condemnation

The City agrees that, to the extent it is customary for sewer systems in metropolitan areas, it will insure or provide a self-insured reserve against loss or damage to the System from fire, storm or other causes. However, the City is not required to maintain insurance or reserve against earthquake damage if it determines that the cost thereof is excessive.

In addition, the City agrees that, to the extent it is customary for sewer systems in metropolitan areas, it will maintain insurance or provide a self-insured reserve against loss or damage from hazards and risks to persons and property of others. Notwithstanding the foregoing, the City will not be required to maintain such liability insurance or self-insurance reserves for any period for which the City agrees to hold the SCM Fund harmless from all general, automobile and public liability claims filed during such period.

The proceeds of any property damage insurance will be applied to the restoration, replacement or reconstruction of the property or facility lost or damaged, unless the City determines that such property or facility is not necessary to the efficient or proper operation of the System and therefore determines not to restore, replace or reconstruct such property or facilities. Any proceeds of such insurance not applied to restoration, replacement or reconstruction or remaining after such work is completed will be deposited in the SCM Fund and be available for other proper uses of funds deposited in the SCM Fund. The proceeds of any liability insurance will be applied by the City in satisfaction of the applicable claim. If the City has elected to self-insure its property damage risks, then, unless the City determines that such property or facility is not necessary to the efficient or proper operation of the System and therefore determines not to restore, replace or reconstruct such property or facilities, amounts in the self-insurance fund will be

withdrawn and used to restore, replace or reconstruct the property or facility lost or damaged as a result of a casualty for which such fund was created. If the City has elected to self-insure its liability risk, then amounts in the self-insurance fund of the SCM Fund will be withdrawn and applied in satisfaction of claims arising as a result of events for which such fund was created.

If any property or facilities comprising part of the System shall be taken through the exercise of the power of eminent domain, the City will apply the proceeds of any award received on account of such taking to the replacement of the property or facilities so taken, unless the City determines that such property or facility is not necessary to the efficient or proper operation of the System and therefore determines not to replace such property or facilities. Any proceeds of such award not applied to replacement or remaining after such work has been completed will be deposited in the SCM Fund and be available for other proper uses of funds deposited in the SCM Fund.

Defeasance

Bonds or portions thereof (such portions to be in integral multiples of the Authorized Denominations) which have been paid in full or which are deemed to have been paid in full shall no longer be secured by or entitled to the benefits of the General Resolution except for the purposes of payment from moneys or Government Obligations held for such purpose. When all Bonds which have been issued under the General Resolution have been paid in full or are deemed to have been paid in full, and all other sums payable thereunder by the City, including all necessary and proper fees, compensation and expenses of any Registrar or Paying Agent, have been paid or are duly provided for, the pledge of the Revenues granted under the General Resolution shall cease, terminate and become void, and the General Resolution shall cease to be a lien on such Revenues and shall be discharged, except that funds or securities which are held by the City or Paying Agent for the payment of the principal of, premium if any, and interest on the Bonds shall continue to be held in trust for such purpose.

A Bond shall be deemed to be paid when payment of the principal, interest and premium, if any, either (i) shall have been made in accordance with the terms of the Bonds and the General Resolution or (ii) shall have been provided for by irrevocably setting aside exclusively for such payment, (1) moneys sufficient to make such payment and/or (2) Government Obligations, maturing as to principal and interest or payable to the City or its agent on demand in such amounts and at such times as will insure the availability of sufficient moneys to make such payment. At such times as Bonds are deemed to be paid, such Bonds shall no longer be secured by or entitled to the benefits of the General Resolution, except for the purposes of payment from such moneys or Government Obligations.

Events of Default and Remedies

Each of the following events constitutes an “Event of Default” under the General Resolution:

- (a) a failure to pay the principal of or premium, if any, on any of the Bonds when the same shall become due and payable at maturity or upon redemption;
- (b) a failure to pay any installment of interest on any of the Bonds when such interest shall become due and payable;
- (c) a failure to pay the purchase price of any Bond when such purchase price shall be due and payable upon an optional or mandatory tender date as provided in the Bond;
- (d) a failure in a given Fiscal Year to achieve the level of debt service coverage required by the General Resolution, provided that such event shall not constitute an Event of

Default if (i) the budget for such Fiscal Year and the rates and charges implemented in accordance with such budget were such that the required level of debt service coverage was projected to be achieved, (ii) the actual debt service coverage provided by the Net Revenues was at least 100% or greater and (iii) immediately upon discovery of the failure to achieve the required coverage the City commences such action as is necessary to assure that required coverage is achieved in the succeeding year;

(e) a failure by the City to observe and perform any covenant, condition, agreement or provision (other than as specified in the foregoing paragraphs (a), (b), (c) and (d)) contained in the Bonds or in the General Resolution on the part of the City to be observed or performed, which failure shall continue for a period of 60 days after written notice, specifying such failure and requesting that it be remedied, shall have been given to the City by an Insurer or by the Holders of 25% or more of the principal amount of the Bonds then Outstanding, unless such Insurer (if the Insurer has given the notice of such default) or, if the notice has been given by the Holders, the Holders of Bonds in a principal amount not less than the principal amount of Bonds the Holders of which gave such notice, shall agree in writing to an extension of such period; provided, however, that the Insurer and the Holders shall be deemed to have agreed to an extension of such period if corrective action is initiated by the City within 60 days after receipt of such written notice and is being diligently pursued;

(f) the use of amounts in the Reserve Fund to pay principal and/or interest on the Bonds or to make a deposit to a Rebate Fund and the failure to restore the amount on deposit in the Reserve Fund to the Reserve Fund Requirement within one year from the date of such withdrawal;

(g) a failure on the part of the City to collect the Revenues, or an attempt to divert the Revenues for any use prior to the deposit into the SCM Fund or creation of a lien on or a charge against the Revenues or the SCM Fund, the Debt Service Fund, the Reserve Fund or a Construction Fund, which lien or charge is prior to, or, except to the extent permitted by the General Resolution, on a parity with that granted to secure the Bonds; or

(h) the occurrence of any other Event of Default as is provided in a Supplemental Resolution.

Certain of the Supplemental Resolutions under which various Series of the Bonds were issued provide that the occurrence of an event or the failure to comply with any provisions of the tax certificate which causes interest on such Series to be includable in gross income for federal income tax purposes will be an Event of Default for so long as any of the Bonds of such Series are unpaid.

Acceleration; Other Remedies

Upon the occurrence and continuance of an Event of Default, any Insurer or the Holders of 25% or more of the principal amount of the Bonds which are then Outstanding may, by written notice to the City, declare the Bonds to be immediately due and payable whereupon the Bonds shall, without further action, become and be immediately due and payable; provided that, with respect to any Series of Bonds which is credit enhanced, no acceleration shall be effective unless the declaration is given by the Insurer or is consented to by the Insurer.

The provisions of the preceding paragraph are subject to the condition that, if after the principal of the Bonds shall have been declared to be due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the City shall cause to be paid all

matured installments of interest upon all Bonds and the principal of any and all Bonds which shall have become due otherwise than by reason of such declaration (with interest upon such principal and, to the extent permissible by law, on overdue installments of interest, at the rate per annum specified in the Bonds) and all Events of Default other than nonpayment of the principal of Bonds which shall have become due by such declaration shall have been remedied, then the Holders of a majority in principal amount of Bonds Outstanding may, if all Insurers consent to such waiver, waive the Event of Default and rescind or annul the acceleration and its consequences. But no such waiver, rescission and annulment shall extend to or affect any subsequent Event of Default or impair any right or remedy consequent thereon.

Upon the occurrence and continuance of any Event of Default, the Holders of 10% or more of the principal amount of the Bonds then Outstanding or any Insurer shall have the right:

- (i) by mandamus, or other suit, action or proceeding at law or in equity, to enforce all rights of the Bondholders, and require the City to carry out any agreements with or for the benefit of the Bondholders and to perform its duties or agreements under the General Resolution or any Supplemental Resolution, provided that any such remedy may be taken only to the extent permitted under the applicable provisions of the General Resolution;
- (ii) to bring suit upon the Bonds;
- (iii) to commence an action or suit in equity to require the City to account as if it were the trustee of an express trust for the Bondholders; or
- (iv) by action or suit in equity to enjoin any acts or things which may be unlawful or in violation of the rights of the Bondholders.

In the event of a conflict between the actions taken or proposed to be taken by any Insurer and the Holders of the Bonds or between the Insurers on different Series of Bonds, the position taken by the entity or group of Bondholders representing the greatest principal amount of Bonds shall prevail. For such purposes, the Insurer of a Series of Bonds shall be deemed to represent the entire principal amount of Bonds for which such Insurer provides credit enhancement.

Any Holder of any Bonds issued under the terms of the Revenue Bond Law of 1941 (Section 54300 *et seq.* of the California Government Code) may compel the use of any or all of the remedies provided therein.

Supplemental Resolutions Without the Consent of Bondholders

The City Council may, from time to time, and at any time, without the consent of or notice to the Bondholders, adopt Supplemental Resolutions supplementing and/or amending the General Resolution or any Supplemental Resolution as follows:

- (a) to provide for the issuance of additional Series of Bonds and to set forth the terms of such Bonds and the special provisions which shall apply to such Bonds;
- (b) to cure any formal defect, omission, inconsistency or ambiguity in the General Resolution or any Supplemental Resolution;

(c) to add to the covenants and agreements of the City in the General Resolution or to surrender any right or power reserved or conferred upon the City, and which shall not adversely affect the interests of the Bondholders;

(d) to confirm, as further assurance, any interest in and to the Revenues or in and to the funds required to be established as provided in the General Resolution or in and to any other moneys, securities or funds of the City provided pursuant to the General Resolution or to otherwise add additional security for the Bondholders;

(e) to evidence any change in the terms of any Series of Bonds if such changes are authorized by the Supplemental Resolution at the time the Series of Bonds is issued and such change is made in accordance with the terms of such Supplemental Resolution;

(f) to comply with the requirements of the Trust Indenture Act of 1939, as from time to time amended or any statutory provisions substituted therefor;

(g) to modify, alter, amend or supplement the General Resolution or any Supplemental Resolution in any other respect which, in the opinion of a Consultant, the City Attorney or Bond Counsel, in each case evidenced by a written opinion or determination delivered to the City, is not materially adverse to the Bondholders and which will not, in itself, result in a reduction in any credit rating then assigned to any Series of Bonds;

(h) to provide for uncertificated Bonds or for the issuance of coupons and bearer Bonds or Bonds registered only as to principal;

(i) to qualify the Bonds or a Series of Bonds for a rating or ratings or an upgrade in a rating or ratings by Moody's and/or S&P;

(j) to comply with the requirements of the Code as are necessary, in the opinion of Bond Counsel, to prevent the interest on the Bonds or a Series of Bonds from being included in gross income of the recipient for federal income taxation purposes;

(k) to provide that in lieu of a Reserve Fund securing all Bonds, a separate reserve for each Series of Bonds be established and maintained in the amount of the Maximum Annual Debt Service on the Series of Bonds to which it applies; and

(l) to provide that Beneficial Owners may be included as Bondholders for any or all purposes and to set forth provisions related thereto, provided that no such provision shall result in any duplication of ownership rights with respect to any Bonds.

Supplemental Resolutions with the Consent of Bondholders

Except for any Supplemental Resolution as described above which does not require Bondholder consent and any Supplemental Resolution adopted pursuant to the provisions described in the next succeeding paragraph below, the City shall not adopt any Supplemental Resolution unless all Insurers and the Holders of not less than 51% in aggregate principal amount of the Bonds then Outstanding shall have consented to and approved the adoption of such Supplemental Resolution. With such consents and approval, the City may, from time to time, adopt any Supplemental Resolution deemed necessary or desirable by the City for the purposes of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in the General Resolution or in a Supplemental Resolution; provided, however, that, unless approved in writing by the Holders of all the Bonds which

would be affected by such change or unless such change affects less than all Series of Bonds and the provisions described in next succeeding paragraph below are applicable, no Supplemental Resolution shall cause (i) a change in the times, amounts or currency of payment of the principal of or interest on any Outstanding Bonds or (ii) a reduction in the principal amount or redemption price of any Outstanding Bonds or the rate of interest thereon; and nothing contained in the General Resolution shall, unless approved in writing by the Holders of all the Bonds then Outstanding, permit or be construed as permitting (iii) the creation of a lien (except as expressly permitted by the General Resolution as originally executed) upon or pledge of the Revenues, ranking prior to or on a parity with the claim created by the General Resolution, or (iv) except with respect to additional security which may be provided for a particular Series of Bonds, a preference or priority of any Bond or Bonds over any other Bond or Bonds, or (v) a reduction in the aggregate principal amount of Bonds the consent of the Bondholders of which is required prior to the adoption of a Supplemental Resolution.

The City may, from time to time and at any time adopt a Supplemental Resolution which amends the provisions of an earlier Supplemental Resolution under which a Series or multiple Series of Bonds were issued. If such Supplemental Resolution is adopted for one of the purposes that does not require Bondholder consent as described above, no notice to or consent of the Bondholders shall be required. With respect to other Supplemental Resolutions which affect the rights and interests of less than all Series of Bonds Outstanding, then the Holders of not less than 51% in aggregate principal amount of the Bonds of all Series which are directly affected by such changes and all Insurers of Bonds of such Series which are directly affected shall have the right from time to time to consent to and approve the adoption of any Supplemental Resolution deemed necessary or desirable by the City for the purposes of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in such Supplemental Resolution and affecting only the Bonds of such Series; provided, however, that, unless approved in writing by the Holders of all the Bonds which would be affected by such change, no Supplemental Resolution shall cause (i) a change in the times, amounts or currency of payment of the principal of or interest on any Outstanding Bonds of such Series or (ii) a reduction in the principal amount or redemption price of any Outstanding Bonds of such Series or the rate of interest thereon.

No Personal Liability of City Officials

No covenant or agreement contained in the Bonds or the General Resolution will be deemed to be the covenant or agreement of any present or future official, officer, agent or employee of the City in his or her individual capacity, and neither the officers of the City nor any person executing the Bonds shall be liable personally on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof.

THE TWENTY-EIGHTH SUPPLEMENTAL RESOLUTION

The following is a summary of certain provisions of the Twenty-Eighth Supplemental Resolution. The summary is only a brief description of limited provisions of such document and is qualified in its entirety by reference to the full text of the Twenty-Eighth Supplemental Resolution. Other terms and provisions contained in the Twenty-Eighth Sixth Supplemental Resolution are described earlier in this Official Statement.

Authorization and Security for the Series 2015 Bonds

The Series 2015 Bonds authorized by the Twenty-Eighth Supplemental Resolution are Senior Bonds issued under the terms of the General Resolution and secured by and entitled to the security and the rights granted by the General Resolution. The Series 2015 Bonds authorized by the Twenty-Eighth Supplemental Resolution will be issued on a parity with the Prior Senior Bonds any other Senior Lien Bonds issued hereafter and will be senior to the Commercial Paper Notes, all Prior Subordinate Bonds and any other Subordinate Bonds issued hereafter, including the 2015 Subordinate Bonds, pursuant to the Subordinate General Resolution.

The Series 2015 Bonds authorized by the Twenty-Eighth Supplemental Resolution will be and are special, limited obligations of the City, and the City will be obligated to pay the principal of, premium, if any, and interest on the Series 2015 Bonds solely from the Revenues and from amounts in the SCM Fund, the Debt Service Fund, the Reserve Fund and the Construction Funds established pursuant to the Twenty-Eighth Supplemental Resolution. The general fund of the City is not liable for the payment of the principal of, interest on or premium, if any, on the Series 2015 Bonds. Neither the full faith and credit nor the taxing power of the City is pledged to pay the Series 2015 Bonds.

Construction Fund

The City will, by ordinance, create one or more separate funds within the City Treasury designated as the “Wastewater System Revenue Bonds Construction Fund, Series 2015” (with such further designation, if applicable, as the City deems appropriate) to pay Project Costs (each such fund, a “2015 Construction Fund”), and the City will, on the date of issuance of the Series 2015 Bonds authorized by the Twenty-Eighth Supplemental Resolution, deposit such proceeds of the Series 2015 Bonds into the 2015 Construction Fund as set forth in the Twenty-Eighth Supplemental Resolution. Amounts in the 2015 Construction Fund will be used to pay Project Costs related to the System in accordance with the City’s wastewater system of improvement program or to reimburse the City for amounts expended from other sources for such purposes provided that amounts in the 2015 Construction Fund will not be used for systems, plants, works or undertakings for the distribution of electric energy for lighting, heating and power for public or private uses or the generation, production, transmission and distribution of gas for public or private uses. These restrictions placed upon the use of amounts in the 2015 Construction Fund will not apply to systems, plants, works or undertakings which result in conversion of solid waste to energy and reusable materials.

Debt Service Fund

The City will, by ordinance, create one or more separate funds for the Series 2015 Bonds authorized by the Twenty-Eighth Supplemental Resolution, with such further designations identifying the Series (which may be one or more Series of the Series 2015 Bonds) to which such fund relates, within the City Treasury designated as the “Wastewater System Revenue Bonds Debt Service Fund, Series 2015-[insert Series designation]” (collectively, the “2015 Debt Service Fund”), which shall each be a Debt Service Fund as provided in the General Resolution for the respective Series of Series 2015 Bonds. Amounts in the 2015 Debt Service Fund shall be used to pay principal of, and interest and any premium on, the applicable Series of Series 2015 Bonds as the same become due and payable.

Costs of Issuance Account

The Twenty-Eighth Supplemental Resolution authorizes the creation, under any one or more Escrow Agreements, of a Costs of Issuance Account. Amounts in the Costs of Issuance Account will be used to pay Costs of Issuance of the related Series of Series 2015 Bonds. Any moneys remaining in the Cost of Issuance Account after payment of all Costs of Issuance will be transferred to the 2015 Debt Service Fund.

Rebate Funds

The City will by ordinance create one or more separate funds for the Series 2015 Bonds authorized by the Twenty-Eighth Supplemental Resolution designated as a “Wastewater System Revenue Bonds Rebate Fund” (collectively, the “2015 Rebate Fund”), which funds will be held by the City and will be funded, if so required, under the Tax Certificate of any Series, and amounts in such 2015 Rebate Fund shall be held and disbursed in accordance with the ordinance creating such funds and with the Tax Certificate of any Series. Any 2015 Rebate Fund so created may be combined with any other rebate fund or funds of the City, as the City deems appropriate.

Tax Compliance

In furtherance of the tax covenants contained in the Twenty-Eighth Supplemental Resolution, the City covenants that it will comply with those covenants and agreements set forth in the Tax Certificate of any Series of Series 2015 Bonds.

The City will not use or permit the use of any proceeds of Series 2015 Senior Lien Bonds or any other funds of the City held under the Twenty-Eighth Supplemental Resolution or the General Resolution, or in the General Wastewater System Construction Fund, directly or indirectly, to acquire any securities or obligations, and shall not use or permit the use of any amounts received by the City, and shall not take or permit to be taken any other action or actions, which would cause any Series 2015 Senior Lien Bond which is Tax-Exempt to be “federally guaranteed” within the meaning of Section 149(b) of the Code or an “arbitrage bond” within the meaning of Section 148 of the Code and applicable regulations promulgated from time to time thereunder.

Continuing Disclosure

The City agrees that the City will enter into a Continuing Disclosure Certificate in order to undertake the continuing disclosure obligations promulgated under S.E.C. Rule 15c2-12, as the same may be amended from time to time. The City covenants and agrees that it will comply with and carry out all of its respective obligations under any such Continuing Disclosure Certificate for the Series 2015 Bonds. Notwithstanding any other provision of the General Resolution or the Twenty-Eighth Supplemental Resolution, failure of the City to comply with any such Continuing Disclosure Certificate shall not be considered an Event of Default; however, any Beneficial Owner of the applicable Series 2015 Bonds covered by such Continuing Disclosure Certificate may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under the Twenty-Eighth Supplemental Resolution with respect to such Continuing Disclosure Certificate. For purposes of this covenant only, “Beneficial Owner” means any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any applicable Series 2015 Bonds covered by such Continuing Disclosure Certificate (including persons holding such applicable Series 2015 Bonds covered by such Continuing Disclosure Certificate through nominees, depositories or other intermediaries).

APPENDIX D
GLOSSARY OF SYSTEM TERMS

The following are definitions of certain terms used in the Official Statement with respect to the Wastewater System.

“Agencies” means the agencies, including the Cities of Beverly Hills, Burbank, Culver City, El Segundo, Glendale, La Cañada Flintridge, Long Beach, San Fernando and Santa Monica, the Crescenta Valley Water District, the Las Virgenes Municipal Water District, several Los Angeles County Sanitation Districts, the community of Marina Del Rey and Universal City, to which the City currently provides wastewater conveyance, treatment and disposal services on a wholesale basis pursuant to Universal Terms Contracts.

“Authorizations” means, collectively, the City Charter of the City of Los Angeles, and the authority of elections held in the City in 1987, 1988 and 1992, under which the voters of the City authorized the issuance of wastewater system revenue bonds and notes in an aggregate principal amount of \$3,500,000,000.

“AVORS” means Additional Valley Outfall Relief Sewer.

“BMPs” means best management practices.

“BOD” means biochemical oxygen demand whose strengths are measured as part of the QSF.

“CARB” means the California Air Resources Board.

“CEQA” means California Environmental Quality Act.

“CIP” means the Wastewater System Capital Improvement Program.

“CIS” means the Coastal Interceptor Sewer.

“Clean Water Act” means the Federal Water Pollution Control Act as amended.

“COS” means the Central Outfall Sewer.

“CSSA” means Collection System Settlement Agreement.

“DCTWRP” means the Donald C. Tillman Water Reclamation Plant.

“Entities” means, collectively, the 29 sanitation districts, cities, governmental entities and private businesses adjoining the City, which are provided wastewater conveyance, treatment and disposal services by the System.

“EPA” means the United States Environmental Protection Agency.

“EVIS” means the East Valley Interceptor Sewer.

“FEMA” means the Federal Emergency Management Agency.

“FOG Control Program” means the Fats, Oils and Grease Control Program, a commercial and industrial grease control ordinance implemented by the City.

“FSEs” means food service establishments.

“HTP” means the Hyperion Treatment Plant.

“IRP” means the City’s Integrated Resources Plan for the System.

“IU” means Industrial User.

“LAGWRP” means the Los Angeles – Glendale Water Reclamation Plant.

“LARWQCB” means the Los Angeles Regional Water Quality Control Board.

“mgd” means million gallons per day.

“NCOS” means the North Central Outfall Sewer.

“NDN” means Nitrification-Denitrification.

“NORS” means the North Outfall Replacement Sewer.

“NOS” means the North Outfall Sewer.

“NPDES” means the National Pollutant Discharge Elimination System.

“OM&R” means the operation and maintenance costs, including renewal and replacement, of the System.

“POTWs” means publicly owned treatment works.

“PRC” means Program Review Committee consisting of the Director, Assistant Directors, and Financial Manager of the Bureau of Sanitation, which annually evaluates the CIP and meets monthly to consider any changes affecting the scope, cost, schedule, and overall implementation of the program.

“QSF” means the Quality Surcharge Fee assessed on users of the wastewater system whose wastewater discharge strength, as measured by SS and BOD, is higher than 265 milligrams per liter of BOD and/or 275 milligrams per liter of SS (domestic strength).

“SCAP” means the Southern California Alliance of Publicly Owned Treatment Works, which consists of the Los Angeles and Orange County Sanitation Districts, the City, and many smaller cities and other jurisdictions, which meet periodically to coordinate efforts to develop a unified strategy and to address air quality issues related to POTWs.

“SCAQMD” means the South Coast Air Management District.

“SCM Fund” means the City’s Sewer Construction and Maintenance Fund.

“SDC” means Sewage Disposal Contracts.

“SFC” means the Sewerage Facilities Charge, which is designed to recover the cost of the System capacity required by new sewer connections and increases in capacity required by current System users.

“SIU” means Significant Industrial User.

“SRF” means the Clean Water State Revolving Fund.

“SS” means suspended solids whose strengths are measured as part of the QSF.

“SSC” means the Sewer Service Charge imposed by the City in connection with wastewater discharged into the System.

“SSRP” means the City’s Secondary Sewer Renewal Program.

“SWRCB” means the California State Water Resources Control Board.

“TIWRP” means the Terminal Island Treatment Plant.

“TMDLs” means total maximum daily loads, whose processes are developed by the LARWQCB and regulated by the Clean Water Act.

“WSC” means Wastewater Service Contracts.

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APPENDIX E

**CITY OF LOS ANGELES SEWER CONSTRUCTION AND MAINTENANCE FUND
FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2013 (WITH INDEPENDENT AUDITOR'S
REPORT THEREON) AND DEBT SERVICE COMPLIANCE REPORT FOR THE FISCAL YEAR ENDED
JUNE 30, 2014 (WITH INDEPENDENT AUDITOR'S REPORT THEREON)**

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**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
(An Enterprise Fund of the City of Los Angeles)**

Financial Statements and
Required Supplementary Information

For the Fiscal Years Ended June 30, 2014 and 2013
(With Independent Auditor's Report Thereon)

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
 Financial Statements and Required Supplementary Information
 For the Fiscal Years Ended June 30, 2014 and 2013

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Independent Auditor's Report

Honorable Members of the City Council
City of Los Angeles, California

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Los Angeles Sewer Construction and Maintenance Fund (Fund), an enterprise fund of the City of Los Angeles, California, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Los Angeles Sewer Construction and Maintenance Fund as of June 30, 2014, and the changes in financial position and cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Basis of Presentation

As discussed in Note 1 to the financial statements, the financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of the City of Los Angeles, California, as of June 30, 2014 and 2013, the changes in its financial position, or, where applicable, its cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, the Fund adopted the provisions of Governmental Accounting Standards Board Statement (GASB) No. 65, *Items Previously Reported as Assets and Liabilities*, effective July 1, 2012. Our opinion is not modified with respect to this matter.

Other Matters

Adjustments to Prior Period Financial Statements

The financial statements of the Fund as of June 30, 2013 were audited by other auditors whose report dated December 27, 2013, expressed an unmodified opinion on those financial statements. As discussed in Note 2 to the financial statements, the Fund adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective July 1, 2012. As a result of the retrospective application of GASB Statement No. 65, the Fund adjusted its 2013 financial statements to restate the beginning net position at July 1, 2012 by \$14.1 million to write off unamortized bond issuance costs previously reported as an asset and to reclassify the deferred loss on debt refundings of \$113.6 million to deferred outflows of resources. The other auditors reported on the financial statements before the retrospective adjustment.

As part of our audit of the 2014 financial statements, we also audited the adjustments to the 2013 financial statements to retrospectively apply the change in accounting as described in Note 2. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the Fund's 2013 financial statements other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2013 financial statements as a whole.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 14 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2015 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Los Angeles, California
March 31, 2015

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CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
Management's Discussion and Analysis
June 30, 2014 and 2013
(Unaudited)

The City of Los Angeles' (City) Sewer Construction and Maintenance Fund (Fund) is one of the major funds of the City. It is structured as an enterprise fund by virtue of City Ordinance No. 140190 effective on May 11, 1970, and as amended by City Ordinance No. 162864 effective on November 22, 1987. The Fund accounts for the City's wastewater collection and treatment systems.

This section of the financial report of the Fund presents our discussion and analysis of the Fund's financial performance for the fiscal years ended June 30, 2014 and 2013 and should be read in conjunction with the Fund's financial statements that begin on page 15. Descriptions and other details pertaining to the Fund are included in the notes to the Fund financial statements (Notes). A reference to the Notes is indicated where applicable.

OVERVIEW OF THE FINANCIAL REPORT

The Fund's financial statements are prepared on an accrual basis of accounting in accordance with generally accepted accounting principles (GAAP) practiced in the United States of America.

This financial report consists of management's discussion and analysis (MD&A), the Fund financial statements, which includes the accompanying notes to the Fund financial statements.

The *statement of net position* presents information on all of the Fund's assets, deferred outflows of resources, liabilities and deferred inflows of resources with the difference between total assets and deferred outflows of resources and total liabilities and deferred inflows of resources reported as *net position*. Net position indicates the net worth of the Fund after all obligations. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the Fund is improving or deteriorating.

The *statement of revenues, expenses and changes in net position*, presents information that shows how the Fund's net position changed between the recent fiscal years. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

The *statement of cash flows* presents the cash provided and used by operating activities, as well as other cash sources and uses, including but not limited to, investment income, proceeds from issuance of long-term debt, payments for bond principal and interest, and capital assets additions and betterments.

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
Management's Discussion and Analysis (Continued)
June 30, 2014 and 2013
(Unaudited)

FINANCIAL HIGHLIGHTS AND ANALYSIS

The following tables summarize the Fund's financial position and changes in net position as of the fiscal years ended June 30, 2014, 2013, and 2012. Please see Note 2 for information on the restatement for 2013.

Table 1 – Condensed Statement of Net Position
(amount in thousands)

	As of June 30		
	2014	(Restated) 2013	(Restated) 2012
Assets			
Current assets	\$ 523,037	\$ 463,979	\$ 325,193
Non-current assets:			
Capital assets	3,895,191	3,863,746	3,918,091
Others	148,045	145,882	164,264
Total assets	<u>4,566,273</u>	<u>4,473,607</u>	<u>4,407,548</u>
Deferred outflows of resources:			
Deferred loss on debt refunding	104,724	113,645	-
Deferred outflows on derivative instruments	25,457	24,733	38,745
Total assets and deferred outflows	<u>\$ 4,696,454</u>	<u>\$ 4,611,985</u>	<u>\$ 4,446,293</u>
Liabilities and Net Position			
Current liabilities:			
Long-term debt, current portion	\$ 84,675	\$ 71,977	\$ 72,412
Others	40,784	63,132	90,685
Non-current liabilities:			
Long-term debt, net of current portion	2,770,717	2,769,625	2,581,540
Derivative instrument liabilities	25,457	24,733	38,745
Others	56,605	19,540	15,151
Total liabilities	<u>2,978,238</u>	<u>2,949,007</u>	<u>2,798,533</u>
Net position			
Net investment in capital assets	1,398,714	1,352,339	1,278,863
Restricted for debt service, operations and maintenance and other reserves	65,992	62,521	195,217
Unrestricted	253,510	248,118	173,680
Total net position	<u>1,718,216</u>	<u>1,662,978</u>	<u>1,647,760</u>
Total liabilities and net position	<u>\$ 4,696,454</u>	<u>\$ 4,611,985</u>	<u>\$ 4,446,293</u>

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
Management's Discussion and Analysis (Continued)
June 30, 2014 and 2013
(Unaudited)

Table 2 - Condensed Statement of Revenues, Expenses and Changes in Net Position
(amount in thousands)

	As of June 30		
	2014	(Restated) 2013	(Restated) 2012
Operating revenues			
Sewer service charges	\$ 513,154	\$ 529,773	\$ 470,057
Others	58,416	47,297	46,802
Total operating revenues	571,570	577,070	516,859
Operating expenses			
Operations and maintenance	265,284	279,587	254,980
Depreciation	144,250	166,161	155,217
Total operating expenses	409,534	445,748	410,197
Operating income	162,036	131,322	106,662
Nonoperating revenues (expenses)			
Nonoperating revenues	13,001	11,917	15,167
Nonoperating expenses	(132,473)	(124,124)	(132,653)
Net nonoperating expenses	(119,472)	(112,207)	(117,486)
Income (loss) before capital contributions	42,564	19,115	(10,824)
Capital contributions	12,674	10,234	10,153
Change in Net Position	55,238	29,349	(671)
Net Position, Beginning of Year	1,662,978	1,647,760	1,565,502
Restatement of beginning net position	-	(14,131)	82,929
Net Position, End of Year	<u>\$ 1,718,216</u>	<u>\$ 1,662,978</u>	<u>\$ 1,647,760</u>

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
Management's Discussion and Analysis (Continued)
June 30, 2014 and 2013
(Unaudited)

Assets

Capital Assets

The Fund's assets consist mainly of capital assets, comprising 85.3% of the total assets. For fiscal year 2014, net capitalized additions and betterments to the Fund's depreciable assets, including transfers from construction in progress, amounted to \$117.1 million. Of this amount, \$20.3 million, or 17.3% was capitalized for treatment plants and equipment, while \$86.0 million or 73.4% was capitalized for the wastewater collection system. Charges to the construction in progress totaled \$114.3 million.

For fiscal year 2013, net capitalized additions and betterments to the Fund's depreciable assets, including transfers from construction in progress, amounted to \$153.1 million. Of this amount, \$56.3 million, or 36.8% was capitalized for wastewater collection system, while \$90.9 million or 59.4% was capitalized for treatment plants and equipment. Charges to the construction in progress account totaled \$82.8 million.

The ongoing capital improvement program (CIP) of the Fund includes the following large projects and the respective amounts capitalized during fiscal years 2014 and 2013: Secondary Sewer Renewal Program - \$45.0 million and \$37.0 million, the Hyperion Treatment Plant Primary Sludge Centrifuge Procurement and Installation - \$19.0 thousand and \$25.0 million, and the Donald C. Tillman In Plant Storage - \$137.0 thousand and \$16.0 million. Additional CIP large projects capitalized during fiscal year 2014 are the 4th Avenue Slauson Sewer Rehabilitation - \$14.0 million, the Hyperion Treatment Plant Auxiliary Boiler No. 2 Replacement - \$8.0 million and the Washington Griffith Long Beach Sewer Replacement - \$6.0 million.

The objectives of the Fund's CIP are: to meet Federal and State requirements and City policy regarding water pollution control; to provide satisfactory levels of service to users of the wastewater system; and to maintain the integrity of the wastewater system. The CIP includes installation of major interceptor sewers, renovation or replacement of other major sewers and pumping stations, and modernization and upgrading of wastewater treatment or reclamation facilities.

Liabilities and Net Position

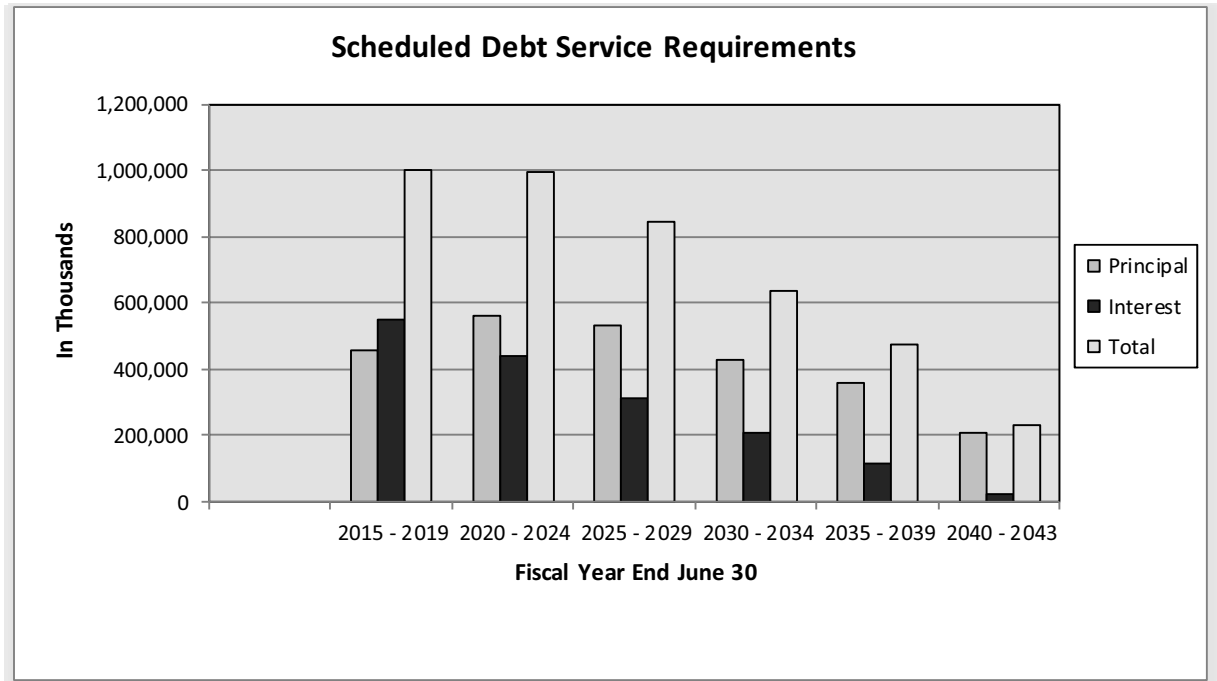
Long-term Debt

As of June 30, 2014, the Fund's total long-term debt balance was \$2,855 million, a slight net increase of \$13.0 million or .5% from the prior fiscal year balance of \$2,842 million. The increase was mainly due to the issuance of commercial paper notes of \$110.0 million, bond redemption, and amortization of bond premium of \$72.0 million and \$24.2 million, respectively.

As of June 30, 2013, the Fund's total long-term debt balance was \$2,842 million, a net increase of \$74.0 million from the prior fiscal year. The increase was mainly in unamortized bond premiums/discounts of \$70.1 million that was due to the issuance of Subordinate Series 2013-A, Senior Series 2013-A and Senior Series 2013-B of \$643.4 million and a restatement in FY 2012 for the change in the amortization of bond premiums/discounts from the straight-line method to the effective yield method as a result of GASB No. 62 implementation. As part of the implementation of GASB No. 65, the Fund reclassified \$113.6 million of deferred loss on debt refunding to deferred outflows of resources.

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SEWER CONSTRUCTION AND MAINTENANCE FUND
 Management's Discussion and Analysis (Continued)
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 (Unaudited)

The Fund's long-term debt final maturities range from June 1, 2022 to June 1, 2043. The total debt service for the next fiscal year 2015 is \$201.4 million, of which \$116.7 million and \$84.7 million is for interest and principal, respectively. The scheduled annual debt service (principal maturities and interest payments) requirements from June 30, 2015 to June 30, 2043 are presented in the chart below.



The Fund's bond issuances maintained high bond ratings. The most recent ratings of the senior debt were "Aa2" by Moody's Investors Service, Inc., "AA+" by Standard & Poor's Rating Services and "AA+" by Fitch Ratings. These ratings did not change from fiscal year 2013.

Derivative Instruments

The Fund has recorded the fair value of interest rate swaps and corresponding deferred outflows on the statement of net position as of June 30, 2014 for \$25.4 million. The interest rate swap meets the definition of effective hedging derivatives in accordance with the GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments."

Net Position

Of the total fund net position of \$1.7 billion in fiscal year 2014, 81.41% reflects the Fund's significant investment in capital assets compared to 81.32% in fiscal year 2013. The increase was mainly due to the net increase in capital assets from additions of \$175 million less depreciation expense of \$144 million. The Fund uses this portion of net position to provide services to the citizens and contract agencies using the City's wastewater collection and treatment facilities, and therefore, these assets are not available for future spending. The Fund's restricted net position represents 3.84% (3.76% in fiscal year 2013) of total

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
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Fund net position and which represents the resources that are restricted for debt service, operations and maintenance and other reserves required by bond covenants. The remaining 14.75% of the total Fund net position (14.92% in fiscal year 2013) consist of the unrestricted portion which may be used to meet the Fund's ongoing obligations for operations and maintenance, debt service and capital projects expenses.

The Fund has restated the beginning net position in fiscal year 2013, which decreased the Fund's beginning net position by \$14.1 million. The restatement was to reflect the write off of unamortized bond issuance costs incurred in prior years previously reported as an asset. In addition, the remaining unamortized loss on refunding in the amount of \$113.6 million in fiscal year 2013 was reclassified from a contra-liability account to deferred outflows of resources. The changes are a result of GASB Statement No. 65 implementation.

Revenues, Expenses and Changes in Net Position

Operating Revenues

The Fund recovers the cost of operations and maintenance and a portion of major capital expenditures of the City's wastewater system through five types of user fees enumerated below, in addition to Federal and State grants, interest earnings and miscellaneous revenues. The five user fees currently imposed by the City are:

Sewer Service Charge: This charge is based on metered water usage and includes reduced rates for low income households and a compensating surcharge for non-low income households and commercial customers.

Sewerage Facilities Charge: This charge is designed to recover the cost of the system capacity required by new sewer connections and increases in capacity required by current users.

Wastewater Service Contract: The City provides wastewater conveyance, treatment and disposal services to certain local entities. Payments from these entities provide for reimbursement of capital and operation and maintenance expenses.

Industrial Wastewater Surcharge and Fees: The Quality Surcharge Fee is designed to recover the costs related to suspended solids and biochemical oxygen demand strengths above normal or domestic strength values as well as cost for administering and maintaining the surcharge program. Industrial Wastewater Permit Application Fee is designed to recover the costs required to process permit applications for applicable users. Inspection and Control Fee is designed to recover the costs of necessary inspections of permitted users. Significant Industrial User Fee recovers a portion of additional costs incurred in monitoring and inspection of certain industrial users subject to EPA categorical pretreatment requirements.

Miscellaneous Fee: These include bonded sewer fee, septage fee, sewer tap fee and other miscellaneous revenue sources.

For fiscal year 2014, the Fund's total operating revenues of \$571.6 million decreased by \$5.5 million or 0.95% from fiscal year 2013. \$513.2 million or 89.8% of the total operating revenues were from sewer service charges, which decreased by \$16.6 million or 3.1% compared to fiscal year 2013. Even though

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SEWER CONSTRUCTION AND MAINTENANCE FUND
 Management's Discussion and Analysis (Continued)
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Ordinance No. 182076 dated March 1, 2012 authorized an increase in sewer service charge of 4.5% on July 1, 2013, there was a decrease in revenue due to the transition in the billing system and the possible impact of water conservation in the City. Please see Note 9 for further details.

In fiscal year 2013, the Fund's total operating revenues of \$577.1 million increased by \$60.2 million or 11.6% from fiscal year 2012. \$529.8 million or 91.8% of the total operating revenues were from sewer service charges, which increased by \$59.7 million or 12.7% compared to fiscal year 2012. The increase was due to the sewer service charge rate increase per Ordinance No. 182076. The rates were increased by 4.5% on April 6, 2012 and again on July 1, 2012.

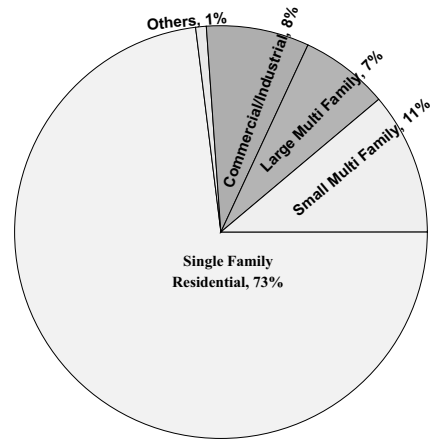
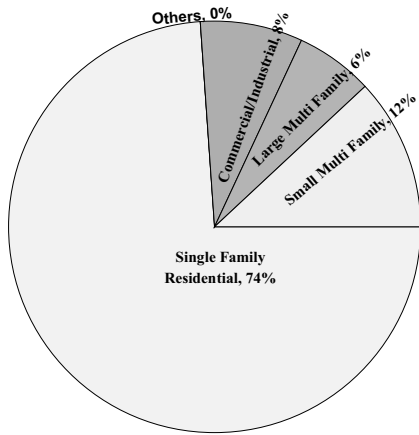
Customers Class and Wastewater Volume

The Fund has five major customer classes. These classes include single family, small multi-family, large multi-family, commercial/industrial and other. The charts below present the number of customers and billable wastewater volume subject to sewer service charges in fiscal years 2014 and 2013.

Chart: Wastewater System Customers

Fiscal Year 2014 Total Number of customers: 631,000

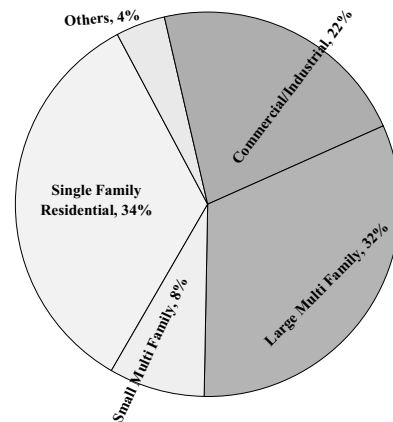
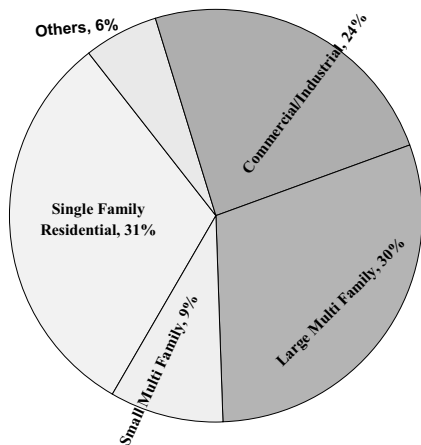
Fiscal Year 2013 Total Number of Customers: 660,000



Fiscal Year 2014 Wastewater Volume: 146.9 Million Cubic Feet

Fiscal Year 2013 Wastewater Volume: 150.6 Million Cubic Feet

Chart: Billable Wastewater Volume



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SEWER CONSTRUCTION AND MAINTENANCE FUND
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The billable wastewater volume for single family and small multi-family dwellings of up to four units, representing 86% of total wastewater system customers, is based on each residential customer's minimum average daily water consumption during winter, further reduced by a dry winter compensation factor.

The default billable wastewater volume for large multi-family, commercial/industrial and other customers, representing the remaining 14% total wastewater system customers, is 93% of their total annual water consumption. It was 90% prior to April 6, 2012. All customers who can demonstrate that their billable wastewater volume is less than 74% of their annual water consumption, (or 72% prior to April 6, 2012), can be billed at the lower estimate.

During fiscal year 2014, there was a 29,000 or 4.4% reduction in the reported number of wastewater system customers, with total billable wastewater volume of 146.9 million cubic feet, a 2.5% or 3.7 million cubic feet decrease compared to fiscal year 2013's 150.6 million cubic feet. The apparent reduction in the number of customers in 2014 was due to the September 2013 implementation of a new billing system by the Los Angeles Department of Water and Power (LADWP), the billing agent for the sewer service charges. With the new system, a single customer account can include service at multiple addresses and have multiple service agreements per address. These were treated as separate accounts under the old system; therefore, there is no true reduction in the number of customers, just in the way they are reported. The reduction in billable wastewater volume reflects water conservation in California's ongoing drought.

Operating Expenses

The Fund's major operating expenses include operations and maintenance expenses, reimbursements to the General Fund for services rendered to the Fund and depreciation expense. The Fund's operating expenses for fiscal years 2014 and 2013 were \$409.5 million and \$445.7 million, respectively.

For fiscal year 2014, operating expenses decreased by \$36.2 million or 8.1%. Operations and maintenance expenses decreased by \$14.3 million or 5.1% compared to fiscal year 2013. The decrease was mainly due to the change in the collection protocols of the LADWP, which resulted in a decrease of bad debts expense of \$8.3 million, and an increase of \$10.2 million in capitalized labor and overhead costs in comparison to fiscal year 2013.

For fiscal year 2013, operating expenses increased by \$35.6 million or 8.7%. The increase was mainly due to the operations and maintenance expenses incurred during the year, which included increases of: \$1.3 million in utilities expense, \$7.3 million in related costs, \$8.0 million in construction related non-capitalizable costs, and \$3.6 million in vehicle and equipment non-capitalizable costs.

Nonoperating Revenues

Major components of nonoperating revenues are investment income, grants, non-recurring fees and other nonoperating revenues. Interest rate on the City's investment pool reflects the current economic trend which averaged 0.61% in fiscal year 2014. The Fund's investment income for fiscal year 2014 was \$2.2 million as compared to an investment loss of \$0.5 million in fiscal year 2013. The Fund's other non-operating revenues for fiscal years 2014 and 2013 were \$10.8 million and \$12.4 million, respectively.

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
Management's Discussion and Analysis (Continued)
June 30, 2014 and 2013
(Unaudited)

For fiscal year 2014, investment income increased by \$2.7 million or 525.0% from fiscal year 2013. The higher investment income was primarily due to changes in the fair values of investments. Other nonoperating revenues decreased by \$1.6 million or 13.2% mainly due to a Federal grant of \$3 million received in fiscal year 2013.

For fiscal year 2013, investment income decreased by \$4.3 million or 113.6% from fiscal year 2012 due to changes in the fair values of investments.

Nonoperating Expenses

Major components of the nonoperating expenses are interest expense, litigation settlement, and other nonoperating expenses. The Fund's interest expense for fiscal years 2014 and 2013 were \$100.0 million and \$108.9 million, respectively; whereas, the other nonoperating expenses for fiscal years 2014 and 2013 were \$32.5 million and \$15.2 million, respectively.

For fiscal year 2014, interest expense decreased by \$8.9 million or 8.2% mainly due to the refunding of portions or all of Subordinate or Senior Series 2003-A, 2003-B, Series 2005-A, and Series 2008 A-H in the prior year. Other nonoperating expenses increased by \$17.3 million or 113.7% primarily due to increase in litigation settlement expenses of \$26.4 million offset by a decrease in loss on abandonment of capital assets of \$8.4 million and \$2.3 million in bond and note issuance fees.

For fiscal year 2013, the decrease in interest expense was mainly the result of the refunding of the bonds, and the increase in nonoperating expenses was due to the increase in loss on abandonment offset by decreases in litigation settlement expenses and bond and note issuance fees.

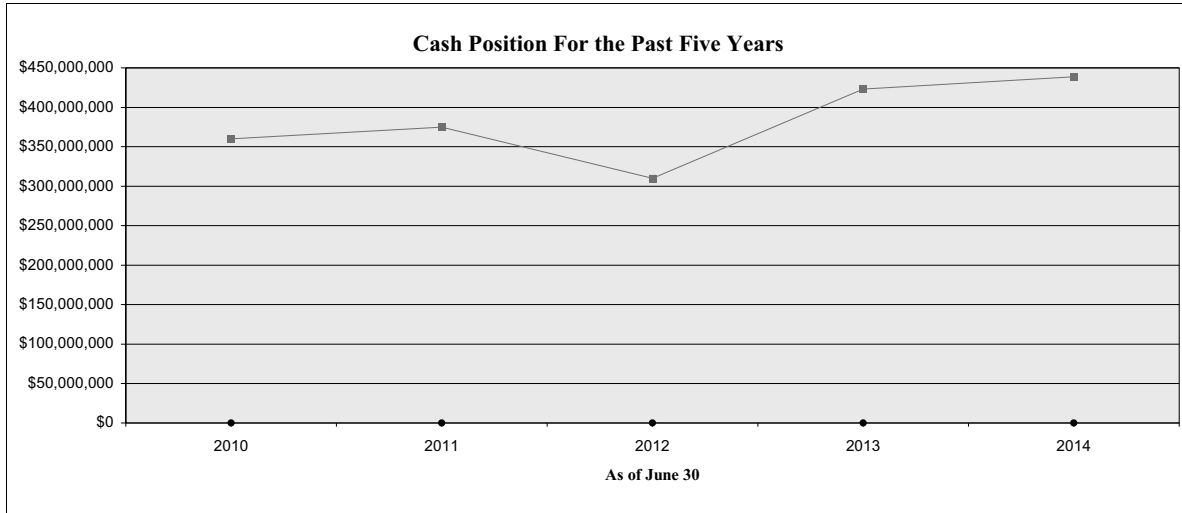
Capital Contributions

Certain agencies located outside the City receive wastewater disposal service from the City by contract. These agencies share the costs of the City's treatment and reclamation plants and of the City's larger trunk sewers (known as the Amalgamated System). The agencies pay shares of the operation and maintenance and capital costs of the Amalgamated System as the costs are incurred by the City and do not participate in the City's debt financing program. Payment received from these billings is recorded in the Fund's financial statements as capital contributions, stated at gross amount, without any adjustments for abandonment and maintenance costs. Capital contributions for fiscal years 2014 and 2013 amount to \$12.7 million and \$10.2 million, respectively.

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
 Management's Discussion and Analysis (Continued)
 June 30, 2014 and 2013
 (Unaudited)

Cash Position

Cash and pooled investments held by the City Treasurer in the Statement of Net Position include adjustments for the increase or decrease in the fair value (FV) of investments (see Note 1 of the Notes to Fund Financial Statements). The cash position of the Fund without the adjustment for the increase or decrease in the FV of investments is shown in the chart below.



As of June 30, 2014, the cash position of the Fund was \$438.8 million, an increase of \$15.5 million over last fiscal year's cash position of \$423.3 million or 3.7%. The increase was mainly due to the issuance of commercial paper notes of \$110 million less operating expenses paid in fiscal year 2014.

Requests for Information

This financial report is designed to provide interested parties, public and private sector alike, a general overview of the Fund's financial performance for fiscal year 2014. Questions concerning any of the information presented in this report or requests for additional financial information should be addressed to Victoria A. Santiago, Director, Department of Public Works Office of Accounting, City Hall 9th Floor, 200 North Spring Street, Los Angeles, CA 90012.

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND

Statements of Net Position
June 30, 2014, and 2013
(amounts expressed in thousands)

	2014	(Restated) 2013
ASSETS		
Current assets		
Cash and pooled investments held by the City Treasurer - unrestricted	\$ 118,576	\$ 144,264
Cash and pooled investments held by the City Treasurer - restricted	218,101	180,834
Accounts receivable, net of allowance for doubtful accounts of \$4,090 and \$8,420 for 2014 and 2013, respectively	96,111	64,069
Accrued unbilled revenue	34,135	35,957
Grants receivable	2,613	2,613
Due from other City funds	38,745	18,551
Investment income receivable	459	824
Other receivable	-	2,689
Materials and supplies inventory	14,297	14,178
Total current assets	523,037	463,979
Noncurrent assets		
Restricted assets		
Cash and pooled investments held by the City Treasurer	102,082	98,236
Cash held in escrow	3,817	4,206
Total restricted assets	105,899	102,442
Capital assets		
Not depreciated	327,234	268,521
Depreciated, net of accumulated depreciation of \$3,280,838 and \$3,136,588 for 2014 and 2013, respectively	3,567,957	3,595,225
Total capital assets	3,895,191	3,863,746
Other noncurrent assets		
Advances to other City funds	8,360	8,430
Grant receivable	33,786	35,010
Total other noncurrent assets	42,146	43,440
Total noncurrent assets	4,043,236	4,009,628
TOTAL ASSETS	4,566,273	4,473,607
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on debt refundings	104,724	113,645
Deferred outflows on derivative instruments	25,457	24,733
TOTAL DEFERRED OUTFLOWS OF RESOURCES	130,181	138,378
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 4,696,454	\$ 4,611,985

(Continued)

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
Statements of Net Position (Continued)
June 30, 2014, and 2013
(amounts expressed in thousands)

	2014	(Restated) 2013
LIABILITIES		
Current liabilities		
Accounts, contracts and retainage payable	\$ 24,878	\$ 22,125
Interest payable	11,190	11,575
Current portion of due to other City funds	3,078	26,551
Current portion of long-term debt	84,675	71,977
Current portion of claims payable	1,638	2,881
Total current liabilities	125,459	135,109
Noncurrent liabilities		
Due to other City funds, net of current portion	22,041	4,436
Long-term debt, net of current portion	2,770,717	2,769,625
Claims payable, net of current portion	30,216	10,756
Derivative instrument liabilities	25,457	24,733
Unearned revenue	4,348	4,348
Total noncurrent liabilities	2,852,779	2,813,898
TOTAL LIABILITIES	2,978,238	2,949,007
 NET POSITION		
Net investment in capital assets	1,398,714	1,352,339
Restricted		
Debt service	20,538	17,468
Operations and maintenance and other reserves	45,454	45,053
Unrestricted	253,510	248,118
TOTAL NET POSITION	\$ 1,718,216	\$ 1,662,978

The accompanying notes are an integral part of the financial statements.

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2014 and 2013
(amounts expressed in thousands)

	2014	(Restated) 2013
OPERATING REVENUES		
Sewer service charges	\$ 513,154	\$ 529,773
Wastewater service contracts	22,417	20,115
Industrial waste surcharges	16,782	14,507
Sewerage facilities charges	12,079	9,328
Other operating revenues	7,138	3,347
Total operating revenues	571,570	577,070
OPERATING EXPENSES		
Operations and maintenance	265,284	279,588
Depreciation	144,250	166,160
Total operating expenses	409,534	445,748
OPERATING INCOME	162,036	131,322
NONOPERATING REVENUES (EXPENSES)		
Investment income (loss)	2,202	(518)
Interest expense	(99,956)	(108,905)
Other nonoperating revenues	10,799	12,435
Other nonoperating expenses	(32,517)	(15,219)
Total nonoperating expenses	(119,472)	(112,207)
Income before capital contributions	42,564	19,115
Capital contributions	12,674	10,234
CHANGE IN NET POSITION	55,238	29,349
NET POSITION, BEGINNING OF YEAR	1,662,978	1,647,760
Restatement of beginning net position	-	(14,131)
NET POSITION, END OF YEAR	\$ 1,718,216	\$ 1,662,978

The accompanying notes are an integral part of the financial statements.

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
 Statements of Cash Flows
 For the Fiscal Years Ended June 30, 2014 and 2013
 (amounts expressed in thousands)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 546,106	\$ 570,889
Receipts from interfund services	3,784	632
Payments to suppliers for goods and services	(81,765)	(94,931)
Payments for interfund services	(202,044)	(190,583)
Other cash payments	-	(1,224)
Net cash provided by operating activities	266,081	284,783
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Amounts received on advances to other funds	70	150
Cash received from noncapital grants	1,418	1,726
Net cash provided by noncapital financing activities	1,488	1,876
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(180,716)	(121,075)
Payments on construction litigation settlement	(9,055)	(27,000)
Cash received from grants for capital construction	-	533
Proceed from sale of bonds and notes	110,000	171,626
Payments on bonds and notes - principal	(71,977)	(72,412)
Payments on bonds and notes - interest	(119,011)	(134,553)
Payments of bonds and notes expenses	(1,208)	(4,570)
Deposits to refunds debt escrow account	-	(1,524)
Sewage disposal contracts capital contributions	12,153	8,196
Interest subsidies from U.S. Treasury	5,467	8,845
Net cash used for capital and related financing activities	(254,347)	(171,934)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income (loss)	2,203	(293)
Net cash provided by (used for) investing activities	2,203	(293)
Net increase in cash and cash equivalents	15,425	114,432
CASH AND CASH EQUIVALENTS, JULY 1	423,334	308,902
CASH AND CASH EQUIVALENTS, JUNE 30	\$ 438,759	\$ 423,334

(Continued)

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
Statements of Cash Flows (Continued)
For the Fiscal Years Ended June 30, 2014 and 2013
(amounts expressed in thousands)

	2014	2013
CASH AND CASH EQUIVALENTS COMPONENTS:		
Cash and pooled investments held by the City Treasurer		
Unrestricted	\$ 118,576	\$ 144,264
Restricted		
Current	218,101	180,834
Noncurrent	102,082	98,236
Cash and cash equivalents, June 30	\$ 438,759	\$ 423,334
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 162,036	\$ 131,322
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	144,250	166,160
Provision for uncollectible accounts	(4,330)	228
Cash provided by other nonoperating revenues	5,330	3,841
Changes in assets and liabilities		
Accounts receivable and accrued unbilled revenue	(22,680)	(9,543)
Materials and supplies inventory	(119)	(594)
Accounts, contracts and retainage payable	3,142	2,933
Claims payable/Other liabilities	3,391	523
Due to other City Funds	(24,939)	(10,087)
Total adjustments	104,045	153,461
 NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 266,081	\$ 284,783
 NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:		
Net proceeds of refunding bonds deposited with an irrevocable trust account	\$ -	\$ 926,408
Amortization of deferred loss on debt refundings	8,921	10,286
Acquisition of capital assets included in liabilities	16,293	15,460
Loss on abandonment of capital assets	3,898	12,342
Wastewater service contracts capital contributions	521	-

The accompanying notes are an integral part of the financial statements.

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CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
Notes to the Fund Financial Statements
June 30, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

The City of Los Angeles (City) Sewer Construction and Maintenance Fund (Fund) was established as an enterprise fund of the City by City Ordinance No. 140190 on May 11, 1970, which was later amended by City Ordinance No. 162864 effective on November 22, 1987. The Fund was established to account for the operations of the City's wastewater collection and treatment system. All monies received from sewer fees are deposited to the Fund and are expended only for sewerage related purposes.

The Fund is reported as a major enterprise fund in the City's basic financial statements presented in its Comprehensive Annual Financial Report. The accompanying Fund financial statements are exclusively for the Fund and must not be construed to represent the fair presentation

Basis of Accounting and Financial Statement Presentation

The Fund is reported as an enterprise fund and maintains its records on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred.

Cash, Cash Equivalents, and Investments

The Fund's cash, cash equivalents, and investments and a significant portion of its restricted cash and investments are maintained as part of the City's pool of cash and investments. The Fund's portion of the pool is presented on the statements of net position as "Cash and Pooled Investments held by the City Treasurer." The Fund's investments, including its share in the City's investment pool, are stated at fair value based on quoted market prices except for money market investments that have remaining maturities of one year or less at time of purchase, which are reported at amortized cost. Interest earned on such pooled investments is allocated to the participating City funds based on each fund's average daily cash balance during the allocation period.

As permitted by the California Government Code, the City engages in securities lending activities. The Fund's share of assets and liabilities arising from the reinvested cash collateral has been recognized in the statements of net position.

The Fund considers its unrestricted and restricted cash and pooled investments held in the City Treasury as demand deposits and therefore these amounts are reported as cash equivalents. Investments with maturities of three months or less at the time of purchase are considered cash equivalents.

For the purpose of reporting cash flows, the Fund's cash and pooled investments held by the City Treasurer plus any other cash deposits or other short-term investments that are both readily convertible to known amounts of cash and have maturity dates of three months or less at the time of purchase, are considered to be cash and cash equivalents.

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
Notes to the Fund Financial Statements (Continued)
June 30, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash Held in Escrow

Agreements with the City allow contractors to place securities or cash in escrow with banks, pending satisfactory completion of a contract, in lieu of retention. Such balances are reported as restricted assets and retainage payable on the statements of net position.

Accounts Receivable and Unbilled Receivables

The Fund recognizes revenue in the period earned. In general, receivables outstanding beyond 70 days from the invoice date are put into the collection process and referred to the City's collection agency for amounts under \$5,000, and Office of Finance for those \$5,000 or more. Allowance for uncollectible accounts for sewer services charges amount to 3% of outstanding receivables based on the Los Angeles Department of Water and Power (LADWP) report. Allowance for uncollectible accounts for industrial wastewater surcharges amount to 80% of active accounts over 120 days, 100% of all inactive accounts, and 100% of pending accounts over 120 days.

Materials and Supplies Inventory

Materials and supplies inventory is valued at weighted average cost.

Capital Assets

Purchased or constructed capital assets including intangible assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Estimated historical cost is computed by deflating current replacement costs to the year in which the asset was purchased or constructed. The dollar value threshold amounts for capitalization are as follows:

Buildings and structures	\$25,000
Collection system	\$25,000
Site improvements	\$10,000
Equipment and vehicles	\$ 5,000

The Fund capitalizes interest costs of bond borrowings used during construction. Interest costs capitalized during the fiscal years ended June 30, 2014 and 2013 were \$2.9 million and \$3.1 million, respectively.

Depreciation

Depreciation is computed on a straight-line basis over the estimated useful life of the related asset. The estimated useful lives of property, plants and equipment are as follows:

Collection system	80 years
Site improvements	40 years
Treatment plants and equipment	5 – 50 years
Pumping plants and equipment	7 – 40 years
Other equipment and vehicles	3 – 15 years

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
Notes to the Fund Financial Statements (Continued)
June 30, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Self-Insurance Program

The City is self-insured for workers' compensation, general, automobile and public liability claims. The City's self-insurance program is administered by the General Fund. Claims from the Fund are charged to the Fund based on estimated cash payment in the following fiscal year.

The Fund has commercial insurance for risks of physical damage to real and personal properties and for business interruption expenses. Claims settlements have not exceeded commercial insurance coverage during the last three fiscal years.

Employee Compensation

The Fund has no direct employees. All services related to wastewater collection and treatment operations are performed by employees of the City's General Fund. The Fund reimburses the City's General Fund on a monthly basis based on the budgeted costs of providing these services and adjusts such reimbursements to actual costs at year-end. Compensated absences related to the General Fund employees providing services to the Fund are accrued in accordance with the City policy and are included in Due to Other City Funds.

Revenue Recognition

The Fund's user charges, such as sewer service charges, industrial waste surcharges, wastewater service contract revenues, and sewerage facilities charges, are adopted by the City Council based on estimated operations and maintenance costs and a portion of capital replacement costs. Except for sewerage facilities charges which are recognized as income when cash is collected, the rest of the user charges are recognized as income when the service is provided.

Certain capital improvements are financed by the Federal and State of California (State) grants. When eligible costs are incurred, grant revenue with a corresponding grant receivable are recognized. Disaster assistance grants from Federal and State agencies are recognized as revenue when the damage survey report is approved by said agencies and eligible expenses have been incurred by the Fund.

The capital component of wastewater service contracts that represents capital contributions from contracting agencies using the City's wastewater collection and treatment system is recognized as capital contributions in the statements of revenues, expenses and changes in net position.

Operating and Nonoperating Revenues and Expenses

Operating revenues and expenses generally result and occur, respectively, from providing services and producing and delivering goods in connection with the Fund's normal and regular ongoing operations. The Fund's major operating expenses include operations and maintenance expenditures. All revenues and expenses that do not meet this definition are reported as nonoperating revenues and expenses.

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
Notes to the Fund Financial Statements (Continued)
June 30, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Premiums and Discounts

Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable is reported net of the applicable bond premium or discount.

Deferred Outflows/Inflows of Resources

Unamortized gains and losses on extinguishment of refunding debt are reported as deferred inflows and deferred outflows of resources, respectively, and amortized over the life of the bonds.

The annual change in the fair value of a hedging derivative is reported as deferred outflows of resources on the statement of net position. Please see note 6 for further details.

Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

- *Net Investment in Capital Assets*– This category of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings and any deferred outflows of resources related to such borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is offset by unspent proceeds.
- *Restricted Net Position* – This category presents restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Those assets are restricted due to external restrictions imposed by creditors (such as through bond covenants), grantors or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. There were no amounts restricted by enabling legislation as of June 30, 2014 and 2013.
- *Unrestricted* – This category represents net position of the Fund that is not restricted for any project or other purposes.

Use of Restricted/Unrestricted Net Position

When both restricted and unrestricted resources are available for use, the Fund’s policy is to use restricted resources first, then unrestricted resources as they are needed.

Use of Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions, in some cases when applicable, that affect the amounts in the financial statements and accompanying notes. Actual results could differ from the estimates.

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
Notes to the Fund Financial Statements (Continued)
June 30, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications

Certain reclassifications have been made in the 2013 financial statements to conform to the current year presentation.

Effects on Recent GASB Pronouncements

The following GASB Statements have been implemented beginning fiscal year 2014:

Issued in March 2012, GASB Statement No. 65, *“Items Previously Reported as Assets and Liabilities,”* establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

The Fund adopted the provisions of GASB Statement No. 65 and restated the beginning net position of fiscal year 2013 by \$14.1 million to write off unamortized bond issuance costs previously reported as an asset. In addition, the remaining unamortized loss on refunding in the amount of \$113.7 million at June 30, 2013 was reclassified from a contra-liability account to deferred outflows of resources.

Issued in March 2012, GASB Statement No. 66, *“Technical Corrections – 2012, an Amendment of GASB Statements No. 10 and No. 62,”* resolves conflicting guidance that resulted from the issuance of previously issued pronouncements. This statement had no impact on the Fund’s financial statements.

Issued in April 2013, GASB Statement No. 70, *“Accounting and Financial Reporting for Nonexchange Financial Guarantees,”* requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability in its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. A nonexchange financial guarantee is a credit enhancement or assurance offered by a guarantor without receiving equal or approximately equal value in exchange. This statement had no material impact on the Fund’s financial statements.

The GASB has issued several pronouncements that have effective dates that may impact future presentations. The Fund is evaluating the potential impacts of the following GASB statements on its accounting practices and financial statements.

Issued in June 2012, GASB Statement No. 68, *“Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27”* replaces the requirements of previously issued statements as they relate to governments that provide pensions through pension plans administered by trusts or similar arrangements that meet certain criteria. This statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability. Governments will report in their financial statements a net pension liability that represents the difference between the total pension liability and the pension plan’s fiduciary net position. This statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information, including descriptive information about the types of benefits available, how to determine the amount of pension plan

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
Notes to the Fund Financial Statements (Continued)
June 30, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

contributions, and assumptions and methods used in calculating the pension liability. This statement requires the Fund to record a liability and expense equal to their proportionate share of the collective net pension liability and expense of the City’s single-employer defined benefit pension plan. Implementation of this statement is effective fiscal year 2015.

Issued in January 2013, GASB Statement No. 69, “*Government Combinations and Disposals of Government Operations*,” establishes accounting and financial reporting standards related to mergers, acquisitions, transfers of operations, and disposal of operations applicable to state and local governmental entities. Implementation of this statement is effective fiscal year 2015.

Issued in November 2013, GASB Statement No. 71, “*Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*,” amends GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.

GASB Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this Statement are required to be applied simultaneously with the provisions of GASB Statement No. 68. Implementation of this statement is effective fiscal year 2015.

NOTE 2 – RESTATEMENT OF BEGINNING NET POSITION

The accompanying financial statements contain a restatement of beginning net position at July 1, 2012, due to the implementation of GASB Statement No. 65 to expense bond issuance costs in the amount of \$14.1 million.

In addition, the 2013 statement of net position was restated due to the implementation of GASB Statement No. 65 resulting in a reclassification of the unamortized portion of the difference between the reacquisition price and the net carrying amount of the old debts for refunding of bonds as deferred outflows of resources in the amount of \$113.6 million.

Net Position, beginning of year	\$	1,647,760
Restatement of beginning net position		(14,131)
Net Position, end of year	\$	<u>1,633,629</u>

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
Notes to the Fund Financial Statements (Continued)
June 30, 2014 and 2013

NOTE 3 – CASH AND INVESTMENTS

Cash and investments as of June 30, 2014 and 2013, consist of the following:

	2014	2013
Cash deposited with the City	\$ 21,541	\$ 27,154
Investments	417,218	396,180
Total Cash and Investments	\$ 438,759	\$ 423,334

Cash and Pooled Investments Held by the City Treasurer

The cash balances of substantially all funds on deposit in the City Treasury are pooled and invested by the City Treasurer for the purpose of maximizing interest earnings through pooled investment activities but safety and liquidity still take precedence over return. Interest earned on pooled investments is allocated to the participating funds based on each fund's average daily deposit balance during the allocation period with all remaining interest allocated to the General Fund. The Fund receives all interest earned on its deposits in the City Treasury. Investments in the City Treasury are stated at fair value based on quoted market prices except for money market investments that have remaining maturities of one year or less at time of purchase, which are reported at amortized cost.

Pursuant to California Government Code Section 53607 and the Los Angeles City Council (City Council) File No. 94-2160, the City Treasurer shall render to the City Council a statement of investment policy (the Policy) annually. City Council File No. 11-1740 was adopted on February 12, 2014, as the City's investment policy. This Policy shall remain in effect until the City Council and the Mayor approve a subsequent revision. The Policy governs the City's pooled investment practices. The Policy addresses soundness of financial institutions in which the Treasurer will deposit funds and types of investment instruments permitted by California Government Code Sections 53600-53635 and 16429.1.

Each investment transaction and the entire portfolio must comply with the California Government Code and Policy. Examples of investments permitted by the Policy are obligations of the U.S. Treasury and government agencies, local agency bonds, commercial paper notes, certificates of deposit (CD) placement service, bankers' acceptances, medium-term notes, repurchase agreements, mutual funds, money market mutual funds, and the State of California Local Agency Investment Fund.

The City issues a publicly available financial report that includes complete disclosures related to the entire cash and investment pool. The financial report may be obtained by writing to the City of Los Angeles, Office of the Controller, 200 North Main Street, City Hall East Suite 300, Los Angeles, CA 90012 or by calling (213) 978-7200.

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
Notes to the Fund Financial Statements (Continued)
June 30, 2014 and 2013

NOTE 3 – CASH AND INVESTMENTS (Continued)

The Fund's investment in the City's cash and investment pool is tracked separately. At June 30, 2014, the investments held in the City Treasury's Special Investment Pool Program and their maturities are as follows (in thousands):

Type of Investments	Amount	Investment Maturities June 30, 2014				
		1 to 30 Days	31 to 60 Days	61 to 365 Days	366 Days To 5 Years	Over 5 Years
U.S. Treasury Notes	\$ 62,590	\$ -	\$ -	\$ 26,888	\$ 35,702	\$ -
U.S. Sponsored Agency Issues	302,181	36,240	63,912	162,666	25,298	14,065
Commercial Paper	52,443	11,801	30,485	10,157	-	-
Short Term Investment Funds	4	4	-	-	-	-
Total Special Pool	\$ 417,218	\$ 48,045	\$ 94,397	\$ 199,711	\$ 61,000	\$ 14,065

Type of Investments	Amount	Investment Maturities June 30, 2013				
		1 to 30 Days	31 to 60 Days	61 to 365 Days	366 Days To 5 Years	Over 5 Years
U.S. Treasury Notes	\$ 20,267	\$ -	\$ -	\$ -	\$ 2,973	\$ 17,294
U.S. Sponsored Agency Issues	222,213	35,279	28,201	134,897	10,090	13,746
U. S. Treasury Bills	54,516	-	-	54,516	-	-
Commercial Paper	99,181	40,071	33,999	25,111	-	-
Short Term Investment Funds	3	3	-	-	-	-
Total Special Pool	\$ 396,180	\$ 75,353	\$ 62,200	\$ 214,524	\$ 13,063	\$ 31,040

Disclosure Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of year-end for each of the Fund's investment types.

Investment Type June 30, 2014	Total	AAAm	AA	A-1	Unrated
U.S. Treasury Notes	\$ 62,590	\$ -	\$ 62,590	\$ -	\$ -
U.S. Sponsored Agency Issues	302,181	-	48,319	-	253,862
Commercial Paper	52,443	-	-	52,443	-
Short Term Investment Funds	4	4	-	-	-
Total Investments	417,218	4	110,909	52,443	253,862

Investment Type June 30, 2013	Total	AAAm	AA	A-1	Unrated
U.S. Treasury Notes	\$ 20,267	\$ -	\$ 20,267	\$ -	\$ -
U.S. Sponsored Agency Issues	222,213	-	93,020	-	129,193
U. S. Treasury Bills	54,516	-	54,516	-	-
Commercial Paper	99,181	-	-	66,068	33,113
Short Term Investment Funds	3	3	-	-	-
Total Investments	396,180	3	167,803	66,068	162,306

In accordance with the terms of the Fund's revenue bond agreements, cash is deposited in segregated funds for specified purposes as follows:

Unrestricted Funds

For receiving revenue and to pay or provide for the ordinary and reasonable expenses of the operations and maintenance, debt service and capital expenditures of the sewerage system.

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
Notes to the Fund Financial Statements (Continued)
June 30, 2014 and 2013

NOTE 3 – CASH AND INVESTMENTS (Continued)

Restricted Funds

- *Capital Construction Projects* – to receive bond proceeds and other capital funds and to pay for capital construction and reconstruction projects, other capital acquisitions and certain maintenance costs for the sewerage system.
- *Debt Service Reserve*– to be held as a reserve from which payments of principal and interest on the bonds can be made.
- *Debt Service*– to receive money to be used to pay debt service on the bonds issued by the Fund.
- *Operations and Maintenance Reserve*– an amount to be held that is at least equal to the amount reasonably estimated by the City to provide for the Fund’s operations and maintenance expenses for the next 45 days.
- *Other Reserves*– includes the Emergency, Rebate, and Insurance and Liability Claims Funds.

The Fund's cash on hand and pooled investments held by the City Treasurer as of June 30, 2014 and 2013 were allocated to the following funds (in thousands):

	2014	2013
Unrestricted funds	\$ 118,576	\$ 144,264
Restricted funds		
Current		
Capital construction projects	152,109	118,313
Debt service	20,538	17,468
Operations and maintenance reserve	40,081	39,613
Other reserves	5,373	5,440
	218,101	180,834
Noncurrent		
Debt service reserve	102,082	98,236
Total restricted funds	320,183	279,070
Total cash and pooled investments held by the City Treasurer	\$ 438,759	\$ 423,334

Cash Held by Escrow Agents

Pursuant to Section 22300 of the Public Contract Code of the State of California, a contractor has the option to deposit securities with the escrow agent as a substitute for retention earnings required to be withheld by the City based on the construction contract entered into between the City and the contractor.

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
Notes to the Fund Financial Statements (Continued)
June 30, 2014 and 2013

NOTE 3 – CASH AND INVESTMENTS (Continued)

The escrow agent must be a member of the Federal Deposit Insurance Corporation and must be federally insured pursuant to California Government Code Section 53648 and chartered to transact business in California. The contract to implement this type of agreement is called the Escrow Agreement for Security Deposits In Lieu of Retention (Escrow Agreement). The three parties to the Escrow Agreement are the contractor, the escrow company and the City. There are times when cash with escrow is invested in accordance with the direction of the contractor. Interest earned when funds are invested by escrow accrues for the benefit of the contractor. The City has the right to draw upon the securities in the event of default by the contractor. The escrow agent holds the securities for a market value at least equal to the cash amount required to be withheld as retention. As of June 30, 2014 and 2013, cash held by escrow agents amounted to \$3.8 million and \$4.2 million respectively. The decrease in cash was due to decrease in number of escrow accounts during the year.

In accordance with the Escrow Agreement, the escrow agents agree to insure the deposits or collateralize any deposits in excess of \$100,000 pursuant to federal law in compliance with Government Code Section 53652. Thus, assets held by escrow agents are not exposed to custodial credit risk.

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable balances as of June 30, 2014, are summarized as follows (in thousands):

	<u>Billed</u>	<u>Unbilled</u>	<u>Total</u>
Sewer service charges	\$ 77,090	\$ 33,829	\$ 110,919
Sewage disposal contracts			
Operations and maintenance	11,955	4	11,959
Capital	5,292	302	5,594
Industrial waste surcharges	5,734	-	5,734
Bonded sewer fees	130	-	130
Allowance for doubtful accounts	<u>(4,090)</u>	<u>-</u>	<u>(4,090)</u>
Total	<u>\$ 96,111</u>	<u>\$ 34,135</u>	<u>\$ 130,246</u>

Accounts receivable balances as of June 30, 2013, are summarized as follows (in thousands):

	<u>Billed</u>	<u>Unbilled</u>	<u>Total</u>
Sewer service charges	\$ 53,536	\$ 35,651	\$ 89,187
Sewage disposal contracts			
Operations and maintenance	8,838	3	8,841
Capital	4,771	303	5,074
Industrial waste surcharges	5,214	-	5,214
Bonded sewer fees	130	-	130
Allowance for doubtful accounts	<u>(8,420)</u>	<u>-</u>	<u>(8,420)</u>
Total	<u>\$ 64,069</u>	<u>\$ 35,957</u>	<u>\$ 100,026</u>

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
Notes to the Fund Financial Statements (Continued)
June 30, 2014 and 2013

NOTE 5 – CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2014 was as follows (in thousands):

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
Capital assets, non-depreciable				
Land	\$ 40,093	\$ -	\$ -	\$ 40,093
Construction in progress	228,428	114,274	(55,561)	287,141
Total capital assets, non-depreciable	<u>268,521</u>	<u>114,274</u>	<u>(55,561)</u>	<u>327,234</u>
Capital assets depreciated				
Collection system	2,638,463	85,991	-	2,724,454
Treatment plants and equipment	3,786,403	20,290	-	3,806,693
Pumping plants	196,241	670	-	196,911
Site improvements	25,457	595	(4)	26,048
Other equipment and vehicles	85,249	9,539	(99)	94,689
Total capital assets depreciated	<u>6,731,813</u>	<u>117,085</u>	<u>(103)</u>	<u>6,848,795</u>
Less: accumulated depreciation				
Collection system	(530,798)	(31,624)	3	(562,419)
Treatment plants and equipment	(2,408,466)	(102,119)	(7)	(2,510,592)
Pumping plants	(131,078)	(5,573)	-	(136,651)
Site improvements	(3,750)	(1,205)	-	(4,955)
Other equipment and vehicles	(62,496)	(3,729)	4	(66,221)
Total accumulated depreciation	<u>(3,136,588)</u>	<u>(144,250)</u>	<u>-</u>	<u>(3,280,838)</u>
Capital assets depreciated, net	<u>\$ 3,595,225</u>	<u>(27,165)</u>	<u>(103)</u>	<u>\$ 3,567,957</u>
Total capital assets	<u>\$ 3,863,746</u>	<u>\$ 87,109</u>	<u>\$ (55,664)</u>	<u>\$ 3,895,191</u>

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
Notes to the Fund Financial Statements (Continued)
June 30, 2014 and 2013

NOTE 5 – CAPITAL ASSETS (Continued)

Capital assets activity for the fiscal year ended June 30, 2013 was as follows (in thousands):

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
Capital assets, non-depreciable				
Land	\$ 40,093	\$ -	\$ -	\$ 40,093
Construction in progress, restated	269,724	82,750	(124,046)	228,428
Total capital assets, non-depreciable, restated	<u>309,817</u>	<u>82,750</u>	<u>(124,046)</u>	<u>268,521</u>
Capital assets depreciated				
Collection system	2,582,164	56,299	-	2,638,463
Treatment plants and equipment	3,695,536	90,867	-	3,786,403
Pumping plants	196,206	35	-	196,241
Site improvements	22,815	2,642	-	25,457
Other equipment and vehicles	81,995	3,268	(14)	85,249
Total capital assets depreciated	<u>6,578,716</u>	<u>153,111</u>	<u>(14)</u>	<u>6,731,813</u>
Less: accumulated depreciation				
Collection system	(500,149)	(30,649)	-	(530,798)
Treatment plants and equipment	(2,283,881)	(124,585)	-	(2,408,466)
Pumping plants	(124,614)	(6,464)	-	(131,078)
Site improvements	(2,772)	(978)	-	(3,750)
Other equipment and vehicles	(59,026)	(3,484)	14	(62,496)
Total accumulated depreciation	<u>(2,970,442)</u>	<u>(166,160)</u>	<u>14</u>	<u>(3,136,588)</u>
Capital assets depreciated, net	<u>\$ 3,608,274</u>	<u>(13,049)</u>	<u>-</u>	<u>\$ 3,595,225</u>
Total capital assets, restated	<u>\$ 3,918,091</u>	<u>\$ 69,701</u>	<u>\$ (124,046)</u>	<u>\$ 3,863,746</u>

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
Notes to the Fund Financial Statements (Continued)
June 30, 2014 and 2013

NOTE 6 – LONG-TERM DEBT

Refunding revenue bonds and loans outstanding at June 30, 2014 and 2013 are summarized as follows (in thousands):

	Amount of original issue	Final maturity date	Outstanding At June 30, 2014	Outstanding At June 30, 2013
Refunding Series 2002-A, 4.0% to 6.0%	\$ 102,850	6/1/2022	\$ 37,110	\$ 37,110
Refunding Series 2005-A, 4.0% to 5.0%	300,655	6/1/2035	52,455	57,605
Refunding Series 2009-A, 1.6% to 5.75%	454,785	6/1/2039	365,720	392,620
Refunding Series 2010-A, 5.713%	177,420	6/1/2039	177,420	177,420
Refunding Series 2010-B, 5.813%	89,600	6/1/2040	89,600	89,600
Refunding Series 2010-A, Subordinate, 2.0% to 5.0%	199,790	6/1/2032	195,740	198,140
Refunding Series 2012-A, 5.0%	49,650	6/1/2024	49,650	49,650
Refunding Series 2012-A, Subordinate, 1.0% to 5.0%	157,055	6/1/2024	153,850	154,645
Refunding Series 2012-B, Subordinate, 2.0% to 5.0%	253,880	6/1/2032	252,510	253,880
Refunding Series 2012-C, Subordinate, 4.0% to 5.0%	133,715	6/1/2027	131,100	133,715
Refunding Series 2012-D, Subordinate, variable	280,860	6/1/2032	280,860	280,860
Refunding Series 2013-A, Subordinate, 2% to 5%	349,505	6/1/2035	336,720	349,505
Refunding Series 2013-A, 5.0%	149,980	6/1/2043	149,980	149,980
Refunding Series 2013-B, 2.0% to 5.0%	143,880	6/1/2035	134,815	143,880
Total principal amount			<u>2,407,530</u>	<u>2,468,610</u>
Unamortized bond premium			203,695	227,928
Debt due within one year			<u>(73,575)</u>	<u>(61,080)</u>
			<u>2,537,650</u>	<u>2,635,458</u>
Commercial paper notes - current year's issue, variable			<u>110,000</u>	<u>-</u>
State Revolving Fund loan, 1.8%	219,081	8/9/2024	134,167	145,064
Debt due within one year			<u>(11,100)</u>	<u>(10,897)</u>
			<u>123,067</u>	<u>134,167</u>
Long-term debt due in more than one year			<u>\$ 2,770,717</u>	<u>\$ 2,769,625</u>

Wastewater revenue bonds and commercial paper notes are issued under Senior Lien and Subordinate Lien General Resolutions dated November 10, 1987 and March 26, 1991, respectively, with a total authorization of \$3.5 billion. Proceeds of wastewater revenue bonds and notes are restricted for the funding of the costs of construction, replacement and improvement of the sewerage system of the City. Under the terms of the General Resolution, the City has pledged the Fund's revenues (as defined) to secure the payment of all bonds issued under the General Resolution. Certain bond agreements provide for the early redemption of the revenue bonds at the City's option at various dates with redemption prices ranging from 100% to 102% of the principal amount of the bonds called for redemption.

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
Notes to the Fund Financial Statements (Continued)
June 30, 2014 and 2013

NOTE 6 – LONG-TERM DEBT (Continued)

Long-term Debt Activity

The Fund had the following activity in long-term debt during fiscal year 2014 (in thousands):

	<u>July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2014</u>	<u>Due within one year</u>
Revenue bonds	\$ 2,468,610	\$ -	\$ (61,080)	\$ 2,407,530	\$ 73,575
Unamortized bond premium	227,928	-	(24,233)	203,695	-
Net revenue bonds	2,696,538	-	(85,313)	2,611,225	73,575
State Revolving Fund loan	145,064	-	(10,897)	134,167	11,100
Commercial paper notes	-	110,000	-	110,000	-
Total	<u>\$ 2,841,602</u>	<u>\$ 110,000</u>	<u>\$ (96,210)</u>	<u>\$ 2,855,392</u>	<u>\$ 84,675</u>

The Fund had the following activity in long-term debt during fiscal year 2013 (in thousands):

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2013</u>	<u>Due within one year</u>
Revenue bonds	\$ 2,454,045	\$ 924,225	\$ (909,660)	\$ 2,468,610	\$ 61,080
Unamortized bond premium	157,779	99,991	(29,842)	227,928	-
Net revenue bonds	2,611,824	1,024,216	(939,502)	2,696,538	61,080
State Revolving Fund loan	155,761	-	(10,697)	145,064	10,897
Commercial paper notes	-	80,000	(80,000)	-	-
Total	<u>\$ 2,767,585</u>	<u>\$ 1,104,216</u>	<u>\$(1,030,199)</u>	<u>\$ 2,841,602</u>	<u>\$ 71,977</u>

New Issuances

Fiscal Year 2014

On May 7, 2013, the City Council authorized the issuance of up to \$400,000,000 maximum aggregate principal amount of commercial paper notes but the City has determined to limit the aggregate principal amount of Wastewater System Commercial Paper Revenue Notes to be issued to the principal amount supported by reimbursement agreements, which is \$200,000,000. On June 20, 2014, the City issued \$110,000,000 in new commercial paper notes.

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
Notes to the Fund Financial Statements (Continued)
June 30, 2014 and 2013

NOTE 6 – LONG-TERM DEBT (Continued)

Fiscal Year 2013

On December 11, 2012, the City Council adopted the Fourteenth Supplemental Resolution to supplement the Wastewater System Subordinate Revenue Bonds Resolution adopted on March 26, 1991. The Resolution provides that additional Subordinate Bonds, designated as variable rate Refunding Bonds Series 2012-D in the amount of \$280.9 million be issued to current refund all of the outstanding Subordinate Refunding Series 2008A-H. As a result, the variable rate Subordinate Series 2008A-H totaling \$280.9 million are considered defeased and the liability for those bonds has been removed from the statements of net position.

On May 14, 2013, the Fund issued Wastewater System Subordinate Revenue Bonds Refunding Series 2013 A in the amount of \$349.5 million with interest rates ranging from 2% to 5%. The bond proceeds were used to current refund a portion of the Subordinate Series 2003-A of \$232.5 million and Subordinate Series 2003-B of \$33.4 million, and advance refund a portion of the Senior Series 2005-A of \$142.6 million. As a result, the Subordinate Series 2003-A of \$232.5 million, Subordinate Series 2003-B of \$33.4 million and Senior Series 2005-A of \$142.6 million are considered defeased and the liability for those bonds has been removed from the statements of net position.

On June 4, 2013, the Fund issued Wastewater System Revenue Bonds Series 2013-A and 2013-B in the amount of \$150.0 million with an interest rate of 5% and \$143.9 million with interest rates ranging from 2% to 5%, respectively. The proceeds of the Senior Series 2013-A were used to finance the construction and improvement of the wastewater system, refund all outstanding Commercial Paper notes, fund a deposit to the Reserve Fund and pay a portion of issuance costs. The Senior Series 2013-B proceeds were used to current refund all of the Senior Series 2003-B of \$100.5 million, advance refund a portion of the Senior Series 2005-A of \$58 million, fund a deposit to the Reserve Fund and pay its share of issuance costs. As a result of the refunding, the principal balances of \$100.5 million of Senior Series 2003-B and \$58 million of Senior Series 2005-A are considered defeased and the liability for those bonds has been removed from the statements of net position.

The total cash flow saving and economic gain for the refunding transactions Subordinate Series 2013-A and Senior Series 2013-A and 2013-B were \$124.2 million and \$76.2 million, respectively. The Variable Rate Refunding Series 2012-D was not intended to change the overall economics of the refunded Subordinate Series 2008A-H variable rate bonds. Rather, the transaction was performed to enable the Fund to realize the lowest costing of a bank credit product, upon the expiration of the outstanding letter of credit associated with the refunded Series 2008A-H Bonds. Thus, there is no resulting cash flow saving and economic gain or loss that are being calculated for the Series 2012-D refunding bonds.

The differences between the net carrying amount of the old debt and the amount required to retire the debt in the amount of \$34.1 million are deferred and amortized over the original remaining life of the old debt or the life of the new debt, whichever is shorter.

Debt Defeasance

During the fiscal year 2014 there were no outstanding bonds defeased. During the fiscal year 2013, the Fund defeased outstanding bonds by placing the proceeds of the refunding issues into irrevocable trusts to provide for all future debt service payments on the old bonds.

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
Notes to the Fund Financial Statements (Continued)
June 30, 2014 and 2013

NOTE 6 – LONG-TERM DEBT (Continued)

Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the Fund's financial Statements. At June 30, 2014 and 2013, \$211.4 million and \$301.2 million of defeased bonds remain outstanding, respectively.

Interest Subsidies

The City has designated the Senior Lien Bonds Series 2010-A and 2010-B as "Build America Bonds" and "Recovery Zone Economic Development Bonds", respectively, under the provisions of the American Recovery and Reinvestment Act of 2009. The City expects to receive a direct subsidy of 35% and 45% of the interest due to bondholders from the United States Treasury for the Series 2010-A and 2010-B, respectively. As of June 30, 2014 and 2013, the Fund recorded interest subsidies of \$5.48 million and \$5.64 million, respectively, as other nonoperating revenues. As of June 30, 2013, the fund had \$2.7 million of the interest subsidies as current other receivables.

State Revolving Fund Loan

In 2003, the City Council adopted a resolution, approved by the Mayor, authorizing a State Revolving Fund Loan (Loan) from the State Water Resources Control Board (SWRCB) in the amount of \$262.9 million to assist in financing the construction of the North Outfall Sewer-East Central Interceptor Project (Project). The Project fulfills certain requirements of the Cease and Desist Order issued by the Regional Water Quality Control Board. The Project is shared by other contract agencies.

As of June 30, 2014 and 2013, the Loan balance amounted to \$134.2 million and \$145.1 million, respectively. The Loan matures in fiscal year 2025 and annual repayment commenced in August 2005 based on a standard fully amortized loan calculation at an effective interest rate of 1.8%. The Loan is paid from the Fund's revenues subordinate to the Wastewater System revenue bonds and commercial paper notes. The contract agencies were billed beginning August 2005 for their proportionate share of the debt service costs. Payments received from the contract agencies are recorded as capital contribution, which represents their proportionate share of the costs of the Project.

Commercial Paper Notes

The City issues commercial paper notes (Notes) at prevailing interest rates for periods of maturity not to exceed 270 days under the commercial paper program on behalf of the Fund. The Notes are secured by letters of credits (LOCs) from the Bank of New York and the Sumitomo Mitsui Banking Corporation that expire on December 18, 2015 and December 17, 2017, respectively. The aggregate maximum principal amount of the two LOCs is \$218.0 million, which consists of \$100.0 million in principal plus interest for each bank. The Fund is responsible for the payment of a non-refundable letter of credit fee for each of the LOCs. Should the City draw on the LOCs and not repay the advance within six months, the advance is converted to a term loan with semiannual payments due for three years at interest rates not to exceed 12.0% or the maximum rate as permitted by law. Since these Notes are secured by LOCs with expiration dates in excess of one year after June 30, 2014, the Fund reported these Notes as long-term liabilities. The outstanding principal balance of the Notes as of June 30, 2014 was \$110.0 million. There were no outstanding Notes as of June 30, 2013.

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
Notes to the Fund Financial Statements (Continued)
June 30, 2014 and 2013

NOTE 6 – LONG-TERM DEBT (Continued)

Scheduled Principal Maturities and Interest

Scheduled annual principal maturities and interest are as follows (in thousands):

<u>Fiscal year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 84,675	\$ 116,703	\$ 201,378
2016	87,633	113,443	201,076
2017	90,779	109,689	200,468
2018	94,889	105,858	200,747
2019	96,983	101,653	198,636
2020 - 2024	559,812	436,957	996,769
2025 - 2029	532,046	312,332	844,378
2030 - 2034	426,525	208,614	635,139
2035 - 2039	361,140	114,543	475,683
2040 - 2043	207,215	23,172	230,387
Subtotal	<u>2,541,697</u>	<u>1,642,964</u>	<u>4,184,661</u>
Unamortized bond premiums	203,695	-	203,695
Total	<u><u>\$ 2,745,392</u></u>	<u><u>\$ 1,642,964</u></u>	<u><u>\$ 4,388,356</u></u>

The maturity schedule presented above reflects the scheduled debt service requirements for all of the Fund's long-term debt except for the \$110 million outstanding commercial paper notes. The maturity date of the commercial paper notes shall not exceed 270 days of issuance. Upon maturity, the notes will be either re-sold in the open market or refinanced with issuance of revenue bonds, as such, they are presented as part of noncurrent liabilities in the accompanying financial statements. The notes bear a coupon rate not to exceed 0.11% at June 30, 2014.

Due to the implementation of GASB 65, the unamortized loss on debt refunding was reclassified from long-term debt to deferred outflows of resources. See note 2 for further details.

Additionally, the above schedule includes interest requirements for the variable rate Refunding Series 2012-D Subordinated Revenue Bonds using the weighted average rate in effect as of June 30, 2014 of 0.101%.

Interest Rate Swap Agreements

Objective of the swaps. In March 2006, in order to protect against the potential of rising interest rates, the Fund entered into two separate pay-fixed, receive-variable interest rate swap agreements (Swap Agreements) on the \$316.8 million Wastewater System Subordinate Variable Rate Revenue Refunding Bonds Series 2006 A-D (Series 2006 A-D). The expected costs associated with the swaps are less than what the Fund would have paid if it had issued fixed-rate debt.

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
Notes to the Fund Financial Statements (Continued)
June 30, 2014 and 2013

NOTE 6 – LONG-TERM DEBT (Continued)

On May 1, 2008, the Fund refunded Series 2006 A-D with the issuance of \$314.8 million Wastewater System Subordinate Revenue Bonds Variable Rate Revenue Refunding Series 2008 A-H (Series 2008 A-H). The proceeds of this issue were used to current refund certain outstanding debt that included the outstanding balance of the Series 2006 A-D referred to in the preceding paragraph. The Series 2008 A-H issuance for \$444.6 million exceeded the Swap Agreements' notional amount; therefore, the Swap Agreements are only in connection with Series 2008 A-F1. On April 17, 2012, the Fund refunded a portion of the Series 2008 A-F1 and partially terminated the Swap Agreements by issuing the Series 2012-A Subordinate Bonds. On December 18, 2012, the Fund refunded the remaining outstanding Series 2008 A-H with the issuance of \$280.9 million Wastewater System Subordinate Revenue bonds, Variable Rate Refunding Series 2012-D. Of this amount, the swaps serve as a hedge for \$151.1 million of the Series 2012-D Bonds as of June 30, 2014.

The fair value and notional amounts of the interest rate swaps outstanding at June 30, 2014, and 2013, classified by type, and changes in fair value for the fiscal years then ended as reported in the financial statements are as follows (dollar amounts in thousands):

	Changes in Fair Value		Fair Value at June 30, 2014		Notional
	Classification	Amount	Classification	Amount	
Cash flow hedges:					
Interest rate swaps	Deferred outflows of resources	\$ (724)	Liabilities	\$ (25,457)	\$ 151,085

	Changes in Fair Value		Fair Value at June 30, 2013		Notional
	Classification	Amount	Classification	Amount	
Cash flow hedges:					
Interest rate swaps	Deferred outflows of resources	\$ 14,012	Liabilities	\$ (24,733)	\$ 151,085

Terms, fair values and credit risk. Under the Swap Agreements, the Fund owes interest to the counterparties calculated on a notional amount at a fixed rate and the counterparties owe the Fund interest on the same notional amount at a variable rate.

Specific terms, including the fair values and counterparty credit ratings of the outstanding swaps as of June 30, 2014, are as follows (dollar amounts in thousands):

Notional	Effective	Fixed Rate	Variable		Swap	Counterparty
Amount	Date	Paid	Rate	Fair Value	Termination	Credit
			Received		Date	Ratings ⁽¹⁾
\$ 75,543	4/6/2006	3.34%	64.1% of LIBOR ⁽²⁾	\$ (12,729)	6/1/2028	Aa2/AA-/AA-
75,542	4/6/2006	3.34%	64.1% of LIBOR ⁽²⁾	(12,728)	6/1/2028	Baa2/BBB/A

(1) Moody's Investors Service, Standard & Poor's, and Fitch Ratings, respectively as of June 30, 2014.

(2) One-month LIBOR reset monthly. One-Month LIBOR as of June 30, 2014 was 0.16%.

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
Notes to the Fund Financial Statements (Continued)
June 30, 2014 and 2013

NOTE 6 – LONG-TERM DEBT (Continued)

The notional amounts of the swaps match the principal amount of the associated debt. The Swap Agreements contain scheduled reductions to outstanding notional amounts that follow scheduled reductions in the associated debt.

Method of calculating fair value. Because swap interest rates were lower on June 30, 2014, than at the date the Swap Agreements were entered into, the swaps have a negative fair value as of June 30, 2014 and 2013. The fair values were estimated using the zero-coupon method and include accrued interest. This method calculates the future net settlement payments required by the swap agreements, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Risks and description of risks that the Swap Agreements are exposed to that could give rise to financial loss are extant as of June 30, 2014.

Credit risk. The fair values of the swaps represented the Fund's credit exposure to the swap counterparties as of June 30, 2014 and 2013. If a counterparty to a swap transaction failed to perform according to the terms of the swap contract, and the Fund chose to terminate the swap, the Fund would be owed a termination payment by the counterparty. If the swaps had a negative fair value at the time the counterparty failed to perform, the Fund would be required to make a payment to the counterparty. To mitigate credit risk, a counterparty must fully collateralize the fair value of the swap with U.S. government securities if two of its credit ratings fall below Moody's Investors Service Aa3, or AA- of Fitch Ratings or Standard & Poor's. Collateral would be posted with a third-party custodian. Dexia Credit Locale, New York Branch was rated below the specified requirements as of June 30, 2014; however, no collateralization was necessary because the fair value of the swap indicated that Dexia Credit Locale would not be required to make a payment to the Fund in the event of a termination at that time.

Basis risk. The Fund is exposed to basis risk when the relationship between 64.1% of LIBOR and the actual rates on the associated variable rate bonds diverge. In this situation the expected savings may not be realized. As of June 30, 2014, the weighted average rate on the variable rate bonds was 0.10% whereas 64.1% of applicable LIBOR was equal to 0.10%.

Termination risk. The Fund or the counterparties may terminate the Swap Agreements if the other party fails to perform under the terms of the contract or if various other events occur. If at the time of the termination the swap has a negative fair value, the Fund would be liable to the counterparty for a payment equal to the swap's fair value. If any of the swaps were terminated and not replaced, the Fund would not receive a payment from the counterparty to offset its variable interest expense on the associated variable rate bonds. Annual net interest paid and or received started July 1, 2014 through termination date.

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
Notes to the Fund Financial Statements (Continued)
June 30, 2014 and 2013

NOTE 6 – LONG-TERM DEBT (Continued)

Swap Payments and Associated Debt. Using rates as of June 30, 2014, net swap payments and debt service requirements of the associated variable-rate debt are as follows (in thousands):

Fiscal year ending June 30	Variable-rate bonds		Interest rate	Total
	Principal	Interest ⁽¹⁾	swaps, net ⁽²⁾	
2015	\$ -	\$ 153	\$ 4,896	\$ 5,049
2016	-	153	4,896	5,049
2017	-	153	4,896	5,049
2018	-	153	4,896	5,049
2019	-	153	4,896	5,049
2020-2024	-	764	24,480	25,244
2025-2028	151,085	388	12,440	163,913
Total	<u>\$ 151,085</u>	<u>\$ 1,917</u>	<u>\$ 61,400</u>	<u>\$ 214,402</u>

(1) Assumes rate of 0.10% (the applicable rate on June 30, 2014), excluding fixed rate component.

(2) Assumes swap rate of 3.34% less 0.10% (64.1% of applicable LIBOR on June 30, 2014).

As rates vary, variable-rate bond interest payments and net swap payments will vary.

NOTE 7 – DISASTER ASSISTANCE GRANT

Earthquake Damage

On January 17, 1994, a 6.8 magnitude earthquake centered in Northridge, California, caused widespread damage to commercial and residential structures. Since the Northridge earthquake, the Fund has systemically made repairs to its wastewater facilities that were damaged. Much of this work is eligible for reimbursement from the Federal Emergency Management Agency (FEMA) and the California Emergency Management Agency (CalEMA), now the California Office of Emergency Services (CalOES). As of June 30, 2014, the Fund expended \$225.5 million in earthquake related repair costs, of which \$211.2 million is eligible for reimbursement from FEMA and CalOES. Grants receivable from FEMA and CalOES amounted to \$33.8 million and \$35.0 million at June 30, 2014 and 2013, respectively.

During fiscal year 2009, the Fund was informed of a de-obligation of the City's FEMA Northridge earthquake grant in the amount of \$35.7 million to offset a portion of the \$75.0 million advance from FEMA received by the City immediately after the Northridge earthquake. The advance was used for earthquake related costs incurred by various City Council controlled departments. The de-obligation may result in FEMA and CalOES withholding the Fund's outstanding grant receivables. The Fund continues to pursue this outstanding receivable and was informed by the Office of the City Administrative Officer that the City's Inspector General will focus on the final closeout and payment in fiscal year 2015.

Also, as a result of the de-obligation, \$10.3 million of the Fund's grants receivable was reclassified from grants receivable to advances to other City funds in fiscal year 2010. In October 2011, the City Council adopted Council File 10-1947 that provides for the offsetting of receivables between the Fund and the City's

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND

Notes to the Fund Financial Statements (Continued)
June 30, 2014 and 2013

NOTE 7 – DISASTER ASSISTANCE GRANT (Continued)

General Fund in the amount of \$4.2 million. Consequently, the Fund’s advances to other City funds that arose from the de-obligation of the City’s FEMA Northridge earthquake grant decreased from \$10.3 million to \$6.1 million. The same Council File instructed the elimination of the remaining \$6.1 million General Fund obligation through write-offs or other similar means. The feasibility of the Council instruction for write-off is continually being determined by the City.

NOTE 8 – RELATED PARTY TRANSACTIONS

During the normal course of business, the Fund is charged for operations and maintenance services, including salaries and employee benefits, performed on behalf of the Fund by various City General Fund departments. The department performing the most significant services is the Department of Public Works. The Fund makes advances to the City’s General Fund at certain intervals throughout the year. At year-end, advances are reconciled with actual amounts incurred by the General Fund on behalf of the Fund and accounts are appropriately adjusted and the General Fund owed the Fund \$38,745 million and \$18,551 million at June 30, 2014 and 2013, respectively.. The related charges of approximately \$243.1 million and \$226.0 million were incurred to the City’s General Fund during the fiscal years ended June 30, 2014 and 2013, respectively.

The City of Los Angeles Department of Water and Power (DWP) performs the billing and collection function for the Fund’s sewer service charges. Accordingly, accounts receivable related to sewer service charges are collected by DWP on behalf of the Fund. DWP’s charges for performing the billing and collection functions were \$3 million for each of the fiscal years ended June 30, 2014 and 2013.

The Fund provided \$4.4 million funding for the construction of the Los Angeles Zoo wastewater facilities. Repayment of the construction costs by the City’s Zoo Department (Zoo) will be provided primarily through a \$0.25 surcharge on the Zoo’s admission fees. As of June 30, 2014 and 2013, the amounts due from the Zoo were \$2.5 million and \$2.5 million, respectively, and were included in advances to other City funds.

Due from/ (to) and advances to other City funds as of June 30, 2014 and 2013 are as follows (in thousands):

	2014	2013
Current portion		
Due from other City funds	\$ 38,745	\$ 18,551
Due to other City funds	(3,078)	(26,551)
Total	\$ 35,667	\$ (8,000)
Noncurrent portion		
Advances to other City funds	\$ 8,360	\$ 8,430
Due to other City funds	(22,040)	(4,436)
Total	\$ (13,680)	\$ 3,994

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
Notes to the Fund Financial Statements (Continued)
June 30, 2014 and 2013

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Pollution Remediation Obligations

The City was named as a potentially responsible party in a case of contamination which migrated in the soil and ground onto the adjacent property. Cross-claimants assert that their records show that hazardous material was transported to the site from the Hyperion Treatment Plant. There are more than 1,500 potentially responsible parties. The parties are still working on the investigation and extent of contamination. As of June 30, 2014, the City has not been served with a complaint. The City is unable to estimate the amount of the potential liability as of June 30, 2014.

The County of Los Angeles (County) has notified the City and other entities of potential liabilities for cleanup and maintenance of a public golf course, which was created over an old landfill due to environmental issues including leachate and gas migration. According to the County’s review of prior customer records, the Fund used the site for disposal of grit waste from the Hyperion Treatment Plan. Prior to 2014 the City entered into and paid a settlement with the County for \$0.2 million and remained an active participant in the site investigation. The next phase for site cleanup and maintenance is under review by the California Department of Toxic Substance Control (SDTSC) and, hence, additional remediation costs, if any, are not known at this time.

Pending Lawsuits and Claims

Certain claims and lawsuits are pending against the Fund for construction claims and other alleged liabilities arising during the ordinary course of Fund operations. The Fund recognizes liabilities for claims and lawsuits when it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated.

The City Attorney estimates the amount of liabilities that are probable of occurring from these claims and lawsuits. For fiscal years 2014 and 2013, \$31.8 million and \$13.6 million were accrued as claims payable, respectively.

The changes in claims payable of the Fund are as follows (in thousands):

	2014	2013
Balance, July 1	\$ 13,637	\$ 40,114
Provisions for current year and changes in estimates for prior years	45,490	1,940
Claims payments	(27,273)	(28,417)
Balance, June 30	\$ 31,854	\$ 13,637
Estimated to be payable in one year	\$ 1,638	\$ 2,881
Payable in more than one year	\$ 30,216	\$ 10,756

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
Notes to the Fund Financial Statements (Continued)
June 30, 2014 and 2013

NOTE 9 – COMMITMENTS AND CONTINGENCIES (Continued)

Outstanding Contractual Commitments

As of June 30, 2014 and 2013, the Fund had outstanding commitments to fund planned modification and improvement of the City's wastewater collection and treatment system of approximately \$105.4 million and \$107.8 million, respectively.

Other Matters

Judicial Interpretation of Articles XIIC and XIID of Proposition 218

In *Bighorn-Desert View Water Agency v. Beringson* (Bighorn), the California Supreme Court held that fees and charges for ongoing water service through an existing connection were property related fees and charges imposed on a person as an incident of property ownership for purposes of Article XIID, whether the fees and charges are calculated based on consumption or are imposed as a fixed monthly fee.

The City believes that the Bighorn decision, which applied to water fees and charges, would apply equally to sewer service charges. As a result, if the sewer service charges are a "fee" or "charge" under Article XIID, any increase would require a public hearing, preceded by mailed notices, and would be subject to a majority written protest. The City currently provides written notices to all property owners and rate-payers receiving service in connection with proposed increases in sewer service charges and holds public hearings with respect to such increases.

Article XIIC provides that the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments. Article XIIC does not define the terms "local tax," "assessment," "fee" or "charge."

No assurance can be given that the voters of the City will not, in the future, approve an initiative, which reduces or repeals local taxes, assessments, fees or charges, including a reduction of all or any portion of the sewer service charge. The use of the initiative power is arguably limited in the case of levies directly pledged to bonded indebtedness, such as the sewer service charge. However, there is no assurance that the voters of the City will not approve an initiative that attempts to reduce the sewer service charge. The interpretation and application of Proposition 218 will likely be subject to further judicial determinations, and it is not possible at this time to predict with certainty the outcome of such determinations.

Revenue and Financial Issues

Sewer Service Charge Revenues

The Los Angeles Department of Water and Power (LADWP) acts as the billing agent for the Sewer Service Charges (SSCs) assessed to customers who use the wastewater system. The LADWP transfers revenues to the Fund on a weekly basis, based on anticipated revenues. After the end of the month, a reconciliation between the transfers and the actual SSC revenues is made. The final SSC revenue for FY 2013-14 was approximately \$50.9 million, or 9.4 percent, below the budgeted revenue. Approximately twenty-five percent of this shortfall may be due to water conservation by the wastewater customers, but the remaining shortfall is due to billing and collection issues arising from implementation of LADWP's new billing system, discussed below.

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
Notes to the Fund Financial Statements (Continued)
June 30, 2014 and 2013

NOTE 9 – COMMITMENTS AND CONTINGENCIES (Continued)

LADWP transitioned to its new billing system in September 2013. As part of that transition, LADWP encountered some problems with billings; for instance, the parameters for the system identifying if a water read was "too high" or "too low" were set too narrowly, resulting in some meter reads that were correct being replaced with an estimated read. While these billing issues were being resolved, LADWP suspended the normal collections protocols. Certain customers who were not experiencing billing issues appear to have taken advantage of this suspension and have fallen in arrears with their payments. During the past few months, LADWP has been returning to their collections protocols, which involve notifying customers of past due amounts, sending a final notice, and turning off power or water service, although it may be several months before these protocols are fully implemented for all residential customers.

Monthly revenue transfers to the Fund were significantly lower in FY 2013-14 than budgeted. The shortfall of SSC collections by LADWP has continued in FY 2014-15, being \$60 million, or 15 percent, below budget in the first eight months of the fiscal year. Approximately thirty percent of this shortfall may be due to water conservation. In its proposed budget submittal, City has projected SSC revenues of \$556 million, only 1.5 percent more than was estimated for FY 2014-15. The projected revenues have been revised to \$541 million. However, the estimate of the impacts in the remainder of FY 2014-15 is highly uncertain because it is unknown how many customers might leave the service area, resulting in the need to write-off their past due amounts, and how soon all residential past due customers will receive service shut-off notices. A positive feature of the new billing system is that past-due amounts will follow customers even if they move within the service area.

The Los Angeles City Council approved a ten-year series of SSC rate adjustments on February 29, 2012 and the Mayor concurred on March 1, 2012. The rates were increased by 4.5 percent on April 6, 2012, July 1, 2012 and July 1, 2013. The last rate adjustment increased revenue by \$9 million in FY 2013-14. An additional 6.5 percent rate increase occurred on July 1, 2014. The rates will be further increased by 6.5 percent on July 1 in each of the following six years.

SSC rates will increase by 6.5 percent on July 1, 2015. However, in its proposed budget submittal for FY 2015-16, City has projected SSC revenues of \$541 million, only 2.5 percent more than is estimated for FY 2014-15. This is because of an assumed five percent further reduction in the amount of wastewater generated by the customers resulting from the Mayor's goal of reducing overall water consumption in the City by twenty percent by 2017. By FY 2016-17, however, even with lower revenues, there will be no negative impact to the operations or capital program and debt service coverage ratios will remain above the minimum requirement.

Sewerage Facilities Charge Credit

Effective April 6, 2012, the City Council and Mayor authorized credits of past Sewerage Facilities Charges (SFCs) paid by Significant Industrial Users (SIUs) to offset Quality Surcharge Fees (QSFs) paid by the customers. It is anticipated that a small number of SIUs are eligible for this program. Granting of a credit will reduce the amount of wastewater an SIU is allowed to discharge, allowing that capacity to be used by other customers who will be required to pay the SFCs. \$710,000 in credits were given in FY 2013-14. Until all of the SIUs have been evaluated, the extent that QSF revenue after FY 2013-14 will be reduced due to future credits is unknown, but will exceed \$950,000 due to credits already authorized, with \$900,000 projected to be credited in FY 2014-15.

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
Notes to the Fund Financial Statements (Continued)
June 30, 2014 and 2013

NOTE 9 – COMMITMENTS AND CONTINGENCIES (Continued)

Contract Agencies

City has entered into universal terms agreements with twenty contract agencies for which the City provides wastewater treatment services. The billings for the contract agencies under the universal terms include a reconciliation process. Billings for a fiscal year are estimated based on the City's budgeted costs and the agencies' projected wastewater flow and strength. After the close of the fiscal year, these bills are then reconciled based on actual costs, flows and strengths. Revenues from the estimated and reconciled bills were \$5.5 million more than projected in FY 2013-14. The projections had not included receipts from the City of Glendale for its share of costs at the Los Angeles-Glendale Water Reclamation Plant (LAGWRP) or agency payments pursuant to the reconciliation of the FY 2012-13 expenses, which occurred after the projections were made. Reconciliation bills for service in FY 2013-14 have been prepared and when paid, will increase Fund revenues by \$210 thousand in FY 2014-15.

Disagreements over flow and strength measurements of the City of Burbank's wastewater will soon be addressed with the joint hiring of a consultant to investigate the differences. The City of Los Angeles has sent invoices to Burbank for FY 2009-10 to 2014-15, though Burbank rejected the invoices until the disagreements can be resolved. Potential reasons for the flow and strength differences include errors in the measuring devices, inaccurate calibration of the devices, and a net flow equation that does not reflect a representative flow calculation. At this time, City does not have sufficient data to determine the likelihood of a material impact to the Fund.

City has discovered a discrepancy between two gauging devices that monitor its wastewater flow into the City of Santa Monica. City is working with its flow-monitoring vendor and with Santa Monica to identify the source of the discrepancy. City has removed sediment in the area of the devices in an attempt to correct the discrepancy. Correction of the discrepancy could potentially reduce revenues previously recorded from Santa Monica for wastewater service provided to Santa Monica in FY 2009-10 to FY 2013-14 by \$1,140,000. The Fund's financial statements have not been adjusted for this amount.

The contract agencies' share in the Fund's capital expenditures, billed to and paid by said contract agencies are recorded as capital contributions in the equity fund. A portion of the amount in the capital contributions may not be capitalized at the end of the year as projects are later determined as either abandoned or maintenance costs. The capital contribution, as of this fiscal year, is stated at gross amount, without any adjustments for abandonment and maintenance costs.

The City's service agreements with twenty of the twenty-nine contract agencies require the City to reimburse an agency the depreciated value of its capital contributions to the City's wastewater system in the event that the agency removes its wastewater from the system. This would require a refund of some of the capital contributions made by the contract agencies to the fund. None of the contract agencies has informed the City of its intent to cease utilizing the City's wastewater system and it is management's opinion that such an event is very unlikely in the future.

Removal of Uncollectible Accounts Receivable Balance Owed by Inactive Industrial Users

In FY 2013-14, City's Industrial Waste Management Division referred uncollectible delinquent accounts receivable to the Board of Review for write-off on a quarterly basis. During FY 2014 the uncollectible receivable balances that were referred to the board totaled \$393,356. In FY 2014-15, the Board of Public

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
Notes to the Fund Financial Statements (Continued)
June 30, 2014 and 2013

NOTE 9 – COMMITMENTS AND CONTINGENCIES (Continued)

Works instructed the division to attempt to revoke industrial waste permits for some of the active permit-holders for nonpayment, before proposing write-offs for non-active permit-holders.

Future Pension and Healthcare Costs

The City has been informed by the CAO to plan for substantial increases to the wastewater program's healthcare costs over the next few years, while projected pension costs have stabilized. The City's current financial projections have been modified to include these increases. However, if the increases are larger than the amounts projected by the CAO, there could be material impacts to the Fund. In addition, if challenges to the City's Tier 2 pension system are upheld and current Tier 2 employees are moved to Tier I, there will be additional pension costs to the Fund that cannot be estimated at this time.

Front-funded Grants

The Fund has provided grant front-funding of \$1,983,771 for the Integrated Regional Water Management Plan (IRWMP) – North Atwater Creek Restoration and Water Quality Enhancement Project. The Fund is reimbursed the funded amounts when the City receives the grant reimbursements. This grant is reduced by a 2.5 percent administrative fee, in accordance with the memorandum of understanding between City and the Los Angeles County Flood Control District. \$1. 7 million, or 91 percent, of the expected grant receipts have already been received. The remaining amount, which is retention, is expected to be received when the project is closed out in 2016.

Front-funded Programs

In 2005, City entered into a memorandum of understanding with the Los Angeles Regional Water Quality Control Board (LARWQCB) to regulate Onsite Wastewater Treatment Systems. During the time that the City has been developing this program, it has been front-funded by the Fund. The costs incurred as of June 30, 2014 were \$2.7 million. When the ordinance governing this program is adopted, a schedule of fees will be included. These fees will be required to recover the past program costs as well as the ongoing operational costs of the program in order to remain in compliance with Proposition 218. At this time it is unknown how long it may take for the Fund to fully recover these costs.

On August 11, 2014, the Mayor and City Council authorized a loan from the Fund to the Stormwater Pollution Abatement Fund (CF 09-0914) in the amount of \$6,863,853 for construction of the Ballona Creek Water Quality Improvement and Beneficial Use Project. The loan is to be repaid by grant proceeds and Stormwater Pollution Abatement funds and is contingent upon the City receiving a 2012 Clean Beaches Initiative Grant Program award of at least \$2,500,000 from the State Water Resources Control Board (SWRCB).

The project will include construction of an inflatable rubber dam in the Ballona Creek channel for low-flow diversion, installation of a temporary pump station, and rehabilitation of the existing North Outfall Wastewater Treatment Facility to treat dry weather flow in Ballona Creek. The City is awaiting a draft grant agreement from the State for negotiation by the parties. Additionally, funding information will be included in a Board of Public Works report to award the project. At this time it is unknown how long it may take for the Fund to fully recover these costs.

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
Notes to the Fund Financial Statements (Continued)
June 30, 2014 and 2013

NOTE 9 – COMMITMENTS AND CONTINGENCIES (Continued)

Capital Projects

Collection System Settlement Agreement (CSSA)

The CSSA has required the construction of several projects including, but not limited to, the Figueroa Meridian York Relief Sewer project, Air Treatment Facility - ECIS Mission and Jesse project, Central Outfall Sewer - 59th Street and Fourth Avenue project, Supplemental Environmental Projects (SEPs) and numerous projects in the Secondary Sewer Renewal Program. All of these projects were successfully completed on or before the end of the term of the agreement on June 30, 2014. The City's CSSA obligations are completed and the United States Environmental Protection Agency (USEPA), Department of Justice and Odor Advisory Board have been notified.

Air Treatment Facilities (ATFs)

The CSSA required the construction of seven ATFs as a means of controlling odors that developed in areas of the City due to high pressures in the North Outfall Relief Sewer, North Outfall Sewer and East Central Interceptor. Two of the facilities have been constructed and the City has installed and is operating odor scrubbers at the remaining five locations. The City conducted a study to determine the necessity of constructing the remaining five ATFs. The study indicates that four of the ATFs are not required for odor treatment because the existing odor scrubbers are providing adequate treatment. The USEPA accepted the City's study on March 22, 2012 and now requires completion of only the ATF - ECIS Mission and Jesse project, as well as other odor measures identified in the study. The City has met the intent of the CSSA for the project by the CSSA due date. However, the total construction, including successful start-up of the facility, is currently scheduled to be completed by May 2015.

Hyperion Digester Gas Utilization Project

The City and LADWP currently have energy exchange agreements whereby digester gas is transferred from the Hyperion Treatment Plant (HTP) to LADWP's Scattergood Generating Station to be burned as fuel. In return, LADWP provides HTP with electricity at a discounted rate and steam at a negotiated price. The City expects the current agreements to remain in effect through 2016.

In response to a request for proposals, various energy management firms provided proposals for projects that will beneficially reuse the digester gas to produce steam and electricity. A contractor was selected and the notice to proceed for the project was issued on February 19, 2014. The costs are anticipated to be \$227 million over the next thirteen years. The currently adopted schedule of rate adjustments and the Fund's bonding capacity are sufficient to fund this project.

Pending Construction Issues with Collection System Projects

Certain construction projects have pending construction issues that could exceed the project budgets. The aggregate amounts requested by the contractors are approximately \$2 million, not including the ATF - ECIS Mission and Jesse project discussed below; however, the City believes it has sufficient defenses to allow the resolution of the issues at a lower price. There is a good potential for an upward of \$1 million claim from the ATF - ECIS Mission and Jesse contractor, mostly because of delays attributable to not receiving LADWP power in a timely manner. The contractor has not yet filed a claim or lawsuit.

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
Notes to the Fund Financial Statements (Continued)
June 30, 2014 and 2013

NOTE 9 – COMMITMENTS AND CONTINGENCIES (Continued)

Regulatory and Legal Issues

Biosolids

The City currently reuses biosolids, a byproduct and residual of wastewater treatment, as a soil amendment at the City-owned Green Acres Farm in Kern County. However, a Kern County voter-approved initiative (Measure E) was passed in July 2006 that prohibits biosolids land application in the unincorporated areas of the County, essentially eliminating the future use of the City's farm for biosolids management. The initiative was overturned by a trial court on August 10, 2007, and subsequently appealed by the Board of Supervisors of Kern County. On November 9, 2010, the United States District Court granted Kern County's motion to dismiss the remaining claims in the federal litigation challenging Measure E. In January 2011, the City filed a state claim challenging Measure E. The court granted a preliminary injunction in July 2011 allowing the City to maintain biosolids operations at Green Acres while the litigation is pending. Kern County filed an appeal against the court's decision granting the preliminary injunction. The California Supreme Court heard the matter related to tolling in May 2014 and issued its ruling in July 2014 reversing the Appellate Court's decision on the statute of limitation for filing the State lawsuit on the Measure E litigation. The ruling went against the City of Los Angeles. In September 2014, the City petitioned the Tulare Superior Court for a summary judgment motion on the case. Kern filed a summary judgment motion of its own, challenging only the federal cause of action (dormant commerce clause) in the case. Both the City's and Kern's motions were rejected by the Court in January 2015. The trial is set for April 2015.

While the legal issues are ongoing, the City is investigating and evaluating new beneficial use options, including the Terminal Island Renewable Energy (TIRE) demonstration project, and composting operations at contract sites in the LA area. The City received a new permit in December 2013 to continue the TIRE demonstration project, which has been very successful, for another five years. If the provisions of the Measure E initiative are upheld, the City would no longer be able to land apply biosolids at its farm in Kern County and would have to landfill it, dispose of it out of state, or consider other use options at an increased cost of approximately \$3 million per year.

Total Maximum Daily Loads (TMDLs)

The USEPA and the LARWQCB are required to develop TMDLs for impaired water bodies. Various watersheds in the Los Angeles area have water body segments that are listed as impaired due to a variety of pollutants. Although some TMDLs have already been released, additional TMDLs will be under development and compliance with both existing and new TMDLs will continue into the next decade. At this time, it is difficult to predict the full impact of TMDLs on the National Pollutant Discharge Elimination System (NPDES) effluent limits at the City's four water reclamation and wastewater treatment plants. In addition, the proposed Greater Los Angeles County Municipal Separate Stormwater Sewer Systems (MS4) permit, adopted by the LARWQCB in November 2012, contains provisions that require compliance with all the adopted TMDLs. It is expected that significant capital improvements funded by the Fund may be required to comply with the TMDLs and their resulting impact on the City's NPDES permits.

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND

Notes to the Fund Financial Statements (Continued)

June 30, 2014 and 2013

NOTE 9 – COMMITMENTS AND CONTINGENCIES (Continued)

NPDES Permits

The LARWQCB adopted new NPDES permits for the DC Tillman Water Reclamation Plant (DCTWRP) and LAGWRP on December 8, 2011. Currently, both DCTWRP and LAGWRP are complying with their final permit limits for copper, and neither plant is expected to experience difficulty meeting these final copper effluent limits. The Cities of Burbank and Los Angeles completed a Copper Site-Specific Objective Study for the Los Angeles River. The study was adopted by the LARWQCB on May 6, 2010. The study has been approved by the SWRCB, USEPA and the Office of Administrative Law. The study has been incorporated into the Los Angeles River heavy metal TMDL. Based upon the new copper effluent limit in the permits and the current level of copper removal achieved, it is anticipated that there will be no potential financial impact to the City.

The previous permits also required compliance with the Nitrogen TMDL and construction of Nitrification-Denitrification (NDN) facilities. NDN facilities have been constructed at DCTWRP and LAGWRP. DCTWRP and LAGWRP have been operating in full NDN mode since September 2007 and have met their final ammonia effluent limits. An Ammonia Site Specific Objective (SSO) Study was approved by the LARWQCB and recently was adopted by the SWRCB, Office of Administrative Law and USEPA. The final adoption of the SSO study into the DCTWRP and LAGWRP NPDES's permits will allow adjustment of the final ammonia limits, allowing operators flexibility in the disinfection process. The LARWQCB reopened the Nitrogen TMDL and revised the Waste Load Allocations for Ammonia.

Consideration to include the new limits in the permits is ongoing. The inclusion of the ammonia effluent limit in the NPDES permit is expected to take place in the next permit cycle; meanwhile, City has received a Time Schedule Order from the LARWQCB for the ammonia effluent limit for the DCTWRP until the adoption of the new NPDES permit, when the new limits are expected to be included in the permit.

If the results of the SSO study are not incorporated into the permits, then operator flexibility may be limited and additional modifications to the treatment process may be required. Potential costs for compliance are unknown at this time.

The SWRCB has initiated a process to develop a nutrient policy for inland surface waters in California. The proposed policy will establish methods to develop numeric or narrative water quality objectives for nutrients. Potential impacts of the policy for DCTWRP and LAGWRP may include significant upgrades to the facilities and increased energy demand. Potential cost impacts are unknown at this time.

On May 6, 2010, the LARWQCB adopted the Terminal Island Water Reclamation Plant's (TIWRP's) current NPDES permit, expiring in April 2015. The City is in the process of renewing the permit, and although the current permit expires April 2015, its provisions remain in effect until the new permit is issued in June 2015 (expected date). The City has submitted a Report of Waste Discharge application for the renewal of TIWRP's NPDES permit. The permit has the goal of removing the discharge of treated municipal wastewater, except brine waste, from the Los Angeles Harbor by 2020. The NPDES permit is based upon Resolution 94-009 adopted by LARWQCB in 1994 and, as required by the 1974 Bay and Estuary policy, calls for the City to eliminate TIWRP tertiary discharge to the Harbor. Resolution 94-009 sets the goal of eliminating the effluent discharge by 2020 through expansion of the Advance Water Purification Facility (AWPF) and increasing water reuse. City has submitted new NPDES and Water Recycling Requirements permit renewal applications to the RWQCB for expansion of the AWPF facility, including the future

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
Notes to the Fund Financial Statements (Continued)
June 30, 2014 and 2013

NOTE 9 – COMMITMENTS AND CONTINGENCIES (Continued)

discharge of the AWPf recycled water to Machado Lake. Previous water recycling facilities constructed and operated at TIWRP received funding from the LADWP. However, City and LADWP have agreed that City will pay for and own the AWPf expansion and will recover the costs of the facility by selling the recycled water from the facility to LADWP. HTP's NPDES permit was adopted in November 2010 and will expire on December 23, 2015. The City is in the process of submitting a renewal application before the June 2015 deadline.

In the future, and if the plants cannot meet future permit requirements, it is possible that the City may be required to install new treatment processes at a substantial cost to the City. The City cannot currently estimate the cost of such permit requirements, and such permit requirements are not included in the current Capital Improvement Program.

Statute of Limitations with LADWP

Currently, the Fund is experiencing inconsistencies with how the LADWP applies statutes of limitations with regards to billing corrections and claims for damages. LADWP has been denying claims filed by City for damages that LADWP crews or infrastructure have caused to the wastewater system on the basis that they were filed more than one year after the cause of action accrued. At the same time, they have submitted revised bills for power and steam provided to HTP, with the revisions going back several years.

The statute of limitations issues related to the HTP have been resolved and City is current with all utility payments. City continues to work with LADWP on the statute of limitations associated with claims for damages to City sewers.

Employment Claims

There are three outstanding lawsuits involving City employees. These lawsuits do not state amounts. At this time, it is not believed that two of the lawsuits will be material to the Fund. The third lawsuit is a potential class-action lawsuit filed over City's control of the sewer maintenance workers at lunch time, which, if successful, could result in the payment of retroactive overtime pay to the workers. This lawsuit is similar to one involving truck drivers in City's solid resources program that was successful. However, the lawsuit was filed without attempts having been made to resolve the employee grievances administratively.



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**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

Honorable Members of the City Council
City of Los Angeles, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the City of Los Angeles' Sewer Construction and Maintenance Fund (Fund), an Enterprise Fund of the City of Los Angeles (City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated March 31, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Los Angeles, California
March 31, 2015

CITY OF LOS ANGELES

**SEWER CONSTRUCTION AND
MAINTENANCE FUND**

(An Enterprise Fund of the City of Los Angeles)

Debt Service Compliance Report

For the Fiscal Year Ended June 30, 2014

(With Independent Auditor's Report Thereon)



Certified Public Accountants.

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
(An Enterprise Fund of the City of Los Angeles)

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Independent Auditor's Report

Honorable Members of the City Council
City of Los Angeles, California:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Sewer Construction and Maintenance Fund (Fund) of the City of Los Angeles, California, which comprise the statement of net position as of June 30, 2014 and the related statements of revenues, expenses and changes in net position and cash flows for the fiscal year then ended, and the related notes to the financial statements,, and have issued our report thereon dated March 31, 2015.

In connection with our audit, nothing came to our attention that caused us to believe that the Fund failed to comply with the terms, covenants, provisions, or conditions of Section 6.03(b) of the City of Los Angeles Wastewater System Revenue Bonds General Resolution of the City Council dated November 10, 1987, and Section 6.03(b) of the City of Los Angeles Wastewater System Subordinate Revenue Bonds General Resolution of the City Council dated March 26, 1991 (collectively, the General Resolutions), insofar as such terms, covenants, provisions, or conditions relate to the ratios of net revenues to debt service for the fiscal year ended June 30, 2014. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Fund's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the General Resolutions, insofar as they relate to accounting matters.

This report is solely for the information and use of the City Council and other City management and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Los Angeles, California
March 31, 2015

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CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
(An Enterprise Fund of the City of Los Angeles)

**Schedule of Ratios of Net Revenues to Debt Service for Revenue Bonds,
Subordinate Revenue Bonds, and Commercial Paper Revenue Notes
Issued Under Senior Lien and Subordinate Lien General Resolutions, and
State Revolving Fund Loan of the Wastewater System
For the Fiscal Year Ended June 30, 2014
(dollar amounts expressed in thousands)**

**Ratio of Net Revenues to Debt Service for Wastewater System Revenue
Bonds (Senior Lien Bonds):**

Net revenues of the Fund (as defined in Notes 1 and 2)	\$ 313,534
125% of the debt service for Senior Lien Bonds of the Fund (as defined in Notes 1 and 3)	<u>122,405</u>
Excess of the net revenues over 125% of the debt service for Senior Lien Bonds	<u><u>\$ 191,129</u></u>
Ratio of net revenues to actual debt service for Senior Lien Bonds (minimum requirement 1.25 to 1)	<u><u>3.2 to 1</u></u>

**Ratio of Net Revenues to Debt Service for Wastewater System Revenue
Bonds (Senior Lien Bonds), Subordinate Revenue Bonds and Commercial
Paper Revenue Notes (Subordinate Bonds), and State Revolving Fund Loan:**

Net revenues of the Fund (as defined in Notes 1 and 2)	\$ 313,534
110% of the debt service for Senior Lien bonds, Subordinate Bonds, and State Revolving Fund Loan (as defined in Notes 3, 4 and 5)	<u>209,664</u>
Excess of the net revenues over 110% of the debt service for Senior Lien Bonds, Subordinate Bonds, and State Revolving Fund Loan	<u><u>\$ 103,870</u></u>
Ratio of net revenues to actual debt service for Senior Lien Bonds, Subordinate Bonds, and State Revolving Fund Loan (minimum requirement 1.10 to 1)	<u><u>1.64 to 1</u></u>

See accompanying notes to Schedule.

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
(An Enterprise Fund of the City of Los Angeles)

**Notes to Schedule of Ratios of Net Revenues to Debt Service for Revenue Bonds,
Subordinate Revenue Bonds, and Commercial Paper Revenue Notes
Issued Under Senior Lien and Subordinate Lien General Resolutions, and
State Revolving Fund Loan of the Wastewater System
For the Fiscal Year Ended June 30, 2014**

- Note 1 The “Fund” represents the Sewer Construction and Maintenance Fund.
- Note 2 “Net revenues represent the change in net position reflected in the financial statements reduced by amounts received under contract of agreements with governmental or private entities and designated for capital costs, interest subsidy from U.S. Treasury, grants received from federal and state, and interest income of the bond construction funds. It is increased by depreciation, and bond discounts/premiums, amortization of advance and current refunding charges, debt interest expense, and other nonoperating expenses.
- Note 3 Debt service for “Senior Lien Bonds” represents interest and principal, if any, becoming due during the year, on bonds issued under the Wastewater System Revenue Bonds General Resolution of the City of Los Angeles dated November 10, 1987.
- Note 4 Debt service for “Subordinate Bonds” represents interest and principal, if any, becoming due during the year on subordinate revenue bonds and commercial paper revenue notes issued under the Wastewater System Subordinate Revenue Bonds General Resolution of the City of Los Angeles dated March 26, 1991.
- Note 5 Debt service for “State Revolving Fund Loan” represents interest and principal becoming due during the year on the state revolving fund loan issued under the State Revolving Fund Loan agreement dated June 5, 2003.

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
(An Enterprise Fund of the City of Los Angeles)

**Supplementary Schedule for Calculation of Net Revenues and
Debt Service for Senior Lien Bonds, Subordinate Bonds, and
State Revolving Fund Loan**
For the Fiscal Year Ended June 30, 2014
(dollars amounts expressed in thousands)

Calculation of Net Revenues as Defined by Senior Lien General Resolution

Change in net position as reflected in the audited financial statements	<u>\$ 55,238</u>
Less:	
Amounts received under contracts or agreements with governmental or private entities and designated for capital costs	(12,674)
Interest income on bond construction funds	(92)
Grants received from federal or state	(194)
Interest subsidy from U. S. Treasury	(5,467)
Subtotal	<u>(18,427)</u>
Add:	
Depreciation expense	144,250
Interest on bonds, commercial paper revenue notes, and state revolving fund loan (including amortization of discounts, premiums, and advance and current refunding deferred charges)	99,956
Other nonoperating expenses	32,517
Sub-total	<u>276,723</u>
Net revenues	A <u>\$ 313,534</u>

**Calculation of Debt Service for Senior Lien Bonds as Defined by Senior Lien
General Resolution**

Principal maturities - Senior Lien Bonds	41,115
Interest payments - Senior Lien Bonds	<u>56,809</u>
Actual debt service	B 97,924
x 125%	<u>1.25</u>
Modified debt service	C <u>\$ 122,405</u>
Excess of net revenues over modified debt service	(A-C) <u>\$ 191,129</u>
Ratio of net revenues over actual debt service for Senior Lien Bonds Only	(A/B) <u>3.2 to 1</u>

CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND
(An Enterprise Fund of the City of Los Angeles)

**Supplementary Schedule for Calculation of Net Revenues and
Debt Service for Senior Lien Bonds, Subordinate Bonds, and
State Revolving Fund Loan (Continued)**
For the Fiscal Year Ended June 30, 2014
(dollars amounts expressed in thousands)

**Calculation of Debt Service for Senior Lien Bonds, Subordinate Bonds, and
State Revolving Fund Loan as Defined by Senior Lien, Subordinate Lien
General Resolutions, and State Revolving Fund Loan Agreement**

Principal maturities - Senior Lien and Subordinate Bonds		\$	61,080
Principal maturities - State Revolving Fund Loan			10,897
Interest payments - Senior Lien and Subordinate Bonds and CP Notes			115,918
Interest payments - State Revolving Fund Loan			<u>2,709</u>
Actual debt service	D		190,604
x 110%			<u>1.1</u>
Modified debt service	E		<u>209,664</u>
Excess of net revenues over modified debt service	(A-E)		<u>103,870</u>
Ratio of net revenues over actual debt for Senior Lien Bonds, Subordinate Bonds, and State Revolving Fund Loan	(A/D)		<u>1.64 to 1</u>

APPENDIX F

FORM OF OPINION OF BOND COUNSEL

[Closing Date]

City of Los Angeles
Los Angeles, California

\$ _____
City of Los Angeles
Wastewater System Revenue Bonds,
Series 2015-A (Green Bonds)

\$ _____
City of Los Angeles
Wastewater System Revenue Bonds,
Refunding Series 2015-B

Ladies and Gentlemen:

We have acted as bond counsel to the City of Los Angeles, California (the “City”) in connection with the issuance of its Wastewater System Revenue Bonds, Series 2015-A (Green Bonds) in the aggregate par amount of \$ _____ (the “Series 2015-A Senior Lien Bonds”) and Wastewater System Revenue Bonds, Refunding Series 2015-B, in the aggregate principal amount of \$ _____ (the “Series 2015-B Senior Lien Refunding Bonds” and, together with the Series 2015-A Senior Lien Bonds, the “Series 2015AB Senior Lien Bonds”). The Series 2015AB Senior Lien Bonds are being issued pursuant to the Charter of the City, Article 6.7 of Chapter 1 of Division 11 of the Administrative Code of the City (the “Procedural Ordinance”) and, with respect to the Series 2015-B Senior Lien Refunding Bonds, Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 (Section 53570 *et seq.* and Section 53580 *et seq.*, respectively) of the California Government Code (collectively, the “Law”). The Series 2015AB Senior Lien Bonds are also issued pursuant to the Wastewater System Revenue Bonds General Resolution, adopted by the Council of the City (the “Council”) on November 10, 1987, as heretofore amended and supplemented and as further amended and supplemented by the Twenty-Eighth Supplemental Resolution, adopted by the Council on May 12, 2015, providing for the issuance of the Series 2015AB Senior Lien Bonds (collectively, the “General Resolution”).

The Series 2015-A Senior Lien Bonds are being issued for the purpose of providing moneys to finance the construction and improvement of the City’s wastewater collection and treatment system (including environmentally beneficial projects or portions thereof), fund a deposit to the Reserve Fund and pay certain costs of issuing the Series 2015-A Senior Lien Bonds. The Series 2015-B Senior Lien Refunding Bonds are being issued for the purpose of providing moneys to current refund certain of the City’s outstanding Wastewater System Revenue Bonds, Refunding Series 2005-A, fund a deposit to the Reserve Fund and pay certain costs of issuing the Series 2015-B Senior Lien Refunding Bonds.

In our capacity as bond counsel, we have reviewed the Law, the General Resolution, certifications of the City, and others, opinions of the City Attorney and such other documents, opinions and instruments as we deemed necessary to render the opinions set forth herein. Capitalized terms used and not otherwise defined herein shall have the meanings ascribed thereto in the General Resolution.

We have assumed the genuineness of all documents and signatures presented to us. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in such documents. Furthermore, we have assumed compliance with all covenants

and agreements contained in the General Resolution, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Series 2015AB Senior Lien Bonds to be included in gross income for federal income tax purposes.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Series 2015AB Senior Lien Bonds have been duly authorized, executed and delivered by, and constitute the valid and binding special, limited obligations of, the City.

2. The Series 2015AB Senior Lien Bonds are payable exclusively from and secured by a pledge of and lien upon Revenues and certain amounts held under or pursuant to the General Resolution. The general fund of the City is not liable, and the credit or taxing power of the City is not pledged, for the payment of the Series 2015AB Senior Lien Bonds or the interest thereon.

3. The General Resolution has been duly adopted by the City Council of the City and constitutes the valid and binding obligation of the City. The General Resolution creates a valid pledge, to secure the payment of the principal of and interest on the Series 2015AB Senior Lien Bonds, of the Revenues of the City, and certain other amounts held by the City under the General Resolution subject to the provisions of the General Resolution permitting the application thereof for the purposes and on the terms and conditions set forth therein.

4. The Series 2015AB Senior Lien Bonds and other parity debt of the City have been and may from time to time hereafter be issued under the General Resolution and are payable from Revenues on a parity basis with the Series 2015AB Senior Lien Bonds.

5. Under existing law, interest on the Series 2015AB Senior Lien Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the covenant described below, interest on the Series 2015AB Senior Lien Bonds is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 (the "Code") from the gross income of the owners thereof for federal income tax purposes. The Series 2015AB Senior Lien Bonds are not "specified private activity bonds" within the meaning of section 57(a)(5) of the Code and, therefore, the interest on the Series 2015AB Senior Lien Bonds is not treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code; however, the receipt or accrual of interest on the Series 2015AB Senior Lien Bonds owned by a corporation may affect the computation of its alternative minimum taxable income, upon which the alternative minimum tax is imposed.

The Code imposes certain requirements that must be met subsequent to the issuance and delivery of the Series 2015AB Senior Lien Bonds for interest thereon to be and remain excluded from the gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Series 2015AB Senior Lien Bonds to be included in gross income retroactive to the date of issue of the Series 2015AB Senior Lien Bonds. The City has covenanted in the General Resolution to maintain the exclusion of interest on the Series 2015AB Senior Lien Bonds from the gross income of the owners thereof for federal income tax purposes.

The opinions expressed in paragraphs 1 and 3 above are qualified to the extent that the enforceability of the Series 2015AB Senior Lien Bonds and the General Resolution may be limited by applicable bankruptcy, insolvency, debt adjustment, reorganization, arrangement, fraudulent conveyance, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally or as to the availability of any particular remedy. The enforceability of the Series 2015AB Senior Lien Bonds and the General Resolution is also subject to the effect of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing, to the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law, and to the limitations on legal remedies against governmental entities in California (including, but not limited to, rights of indemnification). Furthermore, the imposition of certain fees and charges by the City relating to the Wastewater System is subject to the provisions of Articles XIII C and XIII D of the California Constitution.

Our opinion expressed in paragraph 5 above is rendered in reliance on representations and certifications of the City made in a Tax Certificate dated the date hereof pertaining to the use, expenditure, and investment of the proceeds of the Series 2015AB Senior Lien Bonds. Except as stated in paragraph 5 above, we express no opinion as to any federal or state tax consequences of the ownership or disposition of the Series 2015AB Senior Lien Bonds. Furthermore, we express no opinion as to any federal, state or local tax law consequences with respect to the Series 2015AB Senior Lien Bonds, or the interest thereon, if any action is taken with respect to the Series 2015AB Senior Lien Bonds or the proceeds thereof upon the advice or approval of other counsel.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

These opinions are limited to the laws of the State of California and the federal laws of the United States.

No opinion is expressed herein on the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Series 2015AB Senior Lien Bonds.

Respectfully submitted,

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APPENDIX G

BOOK-ENTRY ONLY SYSTEM

The information in this Appendix G concerning The Depository Trust Company (“DTC”), New York, New York, and DTC’s Book-Entry system has been obtained from DTC and the City takes no responsibility for the completeness or accuracy thereof. The City cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Series 2015AB Senior Lien Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Series 2015AB Senior Lien Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series 2015AB Senior Lien Bonds, or that they will do so on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The City, the Paying Agent and the Underwriters are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner with respect to the Series 2015AB Senior Lien Bonds or an error or delay relating thereto. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company, New York, NY, will act as securities depository for the Series 2015AB Senior Lien Bonds. The Series 2015AB Senior Lien Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Series 2015AB Senior Lien Bonds, each in the aggregate principal amount of such maturity of such issue, and will be deposited with DTC.

2. DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. Information on the website is not incorporated herein.

3. Purchases of Series 2015AB Senior Lien Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2015AB Senior Lien Bonds on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is

in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2015AB Senior Lien Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2015AB Senior Lien Bonds, except in the event that use of the book-entry system for the Series 2015AB Senior Lien Bonds is discontinued.

4. To facilitate subsequent transfers, all Series 2015AB Senior Lien Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2015AB Senior Lien Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2015AB Senior Lien Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2015AB Senior Lien Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2015AB Senior Lien Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2015AB Senior Lien Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Series 2015AB Senior Lien Bonds may wish to ascertain that the nominee holding the Series 2015AB Senior Lien Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Series 2015AB Senior Lien Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2015AB Senior Lien Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2015AB Senior Lien Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and other payments on the Series 2015AB Senior Lien Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the City or its agent, subject to any statutory or regulatory requirements as

may be in effect from time to time. Payment of redemption proceeds, distributions, and other payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. If applicable, a Beneficial Owner shall give notice to elect to have its Series 2015AB Senior Lien Bonds purchased or tendered, through its Participant, to the City's designated agent, and shall effect delivery of such Series 2015AB Senior Lien Bonds by causing the Direct Participant to transfer the Participant's interest in the Series 2015AB Senior Lien Bonds, on DTC's records, to the City's designated agent. The requirement for physical delivery of Series 2015AB Senior Lien Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Series 2015AB Senior Lien Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Series 2015AB Senior Lien Bonds to the DTC account of the City's designated agent.

10. DTC may discontinue providing its services as depository with respect to the Series 2015AB Senior Lien Bonds at any time by giving reasonable notice to the City. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

11. The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered to DTC and the requirements of the Trust Agreement with respect to certificated Series 2015AB Senior Lien Bonds will apply.

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

NEITHER THE CITY NOR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF SERIES 2015AB SENIOR LIEN BONDS FOR REDEMPTION.

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APPENDIX H

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the City of Los Angeles (the “City”) in connection with the issuance by the City of its \$_____ City of Los Angeles Wastewater System Revenue Bonds, Series 2015-A (Green Bonds) (the “Series 2015-A Senior Lien Bonds”) and its \$_____ City of Los Angeles Wastewater System Revenue Bonds, Refunding Series 2015-B (the “Series 2015-B Senior Lien Bonds” and, together with the Series 2015-A Senior Lien Bonds, the “Series 2015AB Senior Lien Bonds”), pursuant to a General Resolution adopted by the Council of the City (the “City Council”) on November 10, 1987, as amended and supplemented, including as amended and supplemented by the Twenty-Eighth Supplemental Resolution, adopted by the City Council on May 12, 2015 (collectively, the “General Resolution”).

The City covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City pursuant to Rule 15c2-12(b)(5) (the “Rule”) adopted by the Securities and Exchange Commission, for the benefit of the Bondowners and Beneficial Owners in order to assist the Participating Underwriters in complying with the Rule.

Section 2. Definitions. In addition to the definitions set forth in the General Resolution, which shall apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Beneficial Owner” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Series 2015AB Senior Lien Bonds (including persons holding Series 2015AB Senior Lien Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Series 2015AB Senior Lien Bonds for federal income tax purposes.

“DAC” shall mean Digital Assurance Certification L.L.C.

“Dissemination Agent” shall mean each of the City Administrative Officer of the City or any other person authorized to act on his behalf, acting in the capacity of Dissemination Agent, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation. The initial Dissemination Agent hereunder shall be DAC.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

“MSRB” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, as amended, or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (“EMMA”) website of the MSRB, currently located at <http://emma.msrb.org>.

“Official Statement” shall mean the Official Statement dated May __, 2015, issued by the City in connection with the sale of the Series 2015AB Senior Lien Bonds.

“Participating Underwriter” shall mean any of the original underwriters of the Series 2015AB Senior Lien Bonds required to comply with the Rule in connection with offering of the Series 2015AB Senior Lien Bonds.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. Provision of Annual Reports.

(a) The City shall cause the Dissemination Agent to provide not later than June 30 of each fiscal year, commencing on June 30, 2016 for the report for the 2014-15 fiscal year, or if the fiscal year-end changes from June 30, not later than 365 days after the end of the City’s fiscal year, to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. If the Dissemination Agent is other than the City or the City Administrative Officer, not later than fifteen (15) days prior to said date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Fund (defined below) may be submitted separately from the balance of the Annual Report and not later than the date required above for the filing of the Annual Report if they are not available by that date. If the City’s fiscal year changes (the “new fiscal year”), the City shall give notice of such change in the same manner as for a Listed Event under Section 5(d), and the annual date by which the City must provide its annual report shall change to the last day of the fiscal year immediately following the new fiscal year for which such Annual Report is given.

(b) If the City is unable to provide to the Dissemination Agent an Annual Report by the date required in subsection (a), the Dissemination Agent shall send a notice to the MSRB in substantially the form prescribed thereby.

(c) The Dissemination Agent shall, if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been provided to the MSRB pursuant to this Disclosure Certificate, and stating the date it was provided.

4. Content of Annual Reports. The City’s Annual Report shall contain or incorporate by reference the following:

(a) The audited financial statements of the City of Los Angeles Sewer Construction and Maintenance Fund (the “Fund”) for the prior fiscal year prepared in accordance with significant accounting policies of the City with respect to the Fund as is set forth in Note 1 to said audited financial statements for the Fund for the Fiscal years Ended June 30, 2014 and 2013, included as Appendix E to the Official Statement. If such audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) An update to the following tables and other information set forth in the Official Statement:

“EXISTING WASTEWATER TREATMENT FACILITIES” table.

“WASTEWATER CAPITAL IMPROVEMENT PROGRAM EXPENDITURES” table.

“SEWER SERVICE CHARGE BILLED TO TEN LARGEST CUSTOMERS” table.

“SEWER CONSTRUCTION AND MAINTENANCE FUND RATES AND CHARGES” table.

“WASTEWATER SYSTEM CUSTOMERS AND BILLABLE WASTEWATER VOLUME” table.

“BUREAU OF SANITATION AUTHORIZED POSITIONS” table.

“SEWER CONSTRUCTION AND MAINTENANCE FUND RETIREMENT AND OPEB CONTRIBUTIONS” table.

“SEWER CONSTRUCTION AND MAINTENANCE FUND SUMMARY OF OPERATIONS AND DEBT SERVICE COVERAGE CASH BASIS (UNAUDITED)” table.

“SEWER CONSTRUCTION AND MAINTENANCE FUND CASH BALANCES IN ALL FUNDS (UNAUDITED)” table.

“CITY OF LOS ANGELES WASTEWATER SYSTEM REVENUE BONDS AND COMMERCIAL PAPER NOTES AMOUNTS ISSUED AND OUTSTANDING” table.

(c) An update to the following Sections in Appendix A to the Official Statement: “FINANCIAL OPERATIONS,” “BONDED AND OTHER INDEBTEDNESS” and “LITIGATION.”

The City need not update any particular table or chart so long as (i) the City provides updated information generally of the type previously included in such table or chart, or (ii) such table or chart constitutes information not deemed to be operating data under the Rule.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the City or related public entities, which have been submitted to the MSRB or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The City shall clearly identify each such other document so incorporated by reference.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2015AB Senior Lien Bonds:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;

- (iii) unscheduled draws on debt service reserves reflecting financial difficulties of the City;
- (iv) unscheduled draws on any credit enhancements reflecting financial difficulties of the City;
- (v) substitution of any credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices of determinations with respect to the tax status of the Series 2015AB Senior Lien Bonds, or other material events affecting the tax status of the Series 2015AB Senior Lien Bonds;
- (vii) modifications to the rights of Owners of the Series 2015AB Senior Lien Bonds, if material;
- (viii) bond calls other than scheduled sinking fund redemptions, if material, and tender offers;
- (ix) defeasances;
- (x) release, substitution, or sale of property, if any, securing repayment of the Series 2015AB Senior Lien Bonds, if material;
- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership or similar event of the City; provided that for the purposes of the event identified in this clause (xii), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City;
- (xiii) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) If the Dissemination Agent is other than the City, the Dissemination Agent shall, as soon as reasonably practicable after obtaining actual knowledge of the occurrence of any of the Listed Events contact the City and request that the City promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to Subsections (a) and promptly direct the Dissemination Agent whether or not to report such event to the owners of the Bonds. In the absence of such direction, the Dissemination Agent shall not report such event unless required to be reported by the Dissemination

Agent to the owners of the Bonds under the Indenture. The Dissemination Agent may conclusively rely upon such direction or lack thereof. For purposes of this Disclosure Certificate, actual knowledge of the occurrence of such Listed Events shall mean actual knowledge by the Dissemination Agent. The Dissemination Agent shall have no responsibility to determine the materiality of any of the Listed Events. Notwithstanding the foregoing, notice of any Listed Event shall be filed with the Repository through its EMMA system, in an electronic format as prescribed by the Repository, in a timely manner but not in excess of 10 business days after the occurrence of such Listed Event.

(c) Whenever the City obtains knowledge of the occurrence of a Listed Event, but, in the case of a Listed Event described in Subsection (ii), (vii), (viii) (but only with respect to bond calls), (x), (xiii) and (xiv) of Section 5(a), only in the event the City determines that knowledge of occurrence of a Listed Event would be material under applicable federal securities laws, the City shall file or cause to be filed a notice of such occurrence with the Repository through its EMMA system, in an electronic format as prescribed by the Repository, in a timely manner but not in excess of 10 business days after the occurrence of such Listed Event.

Section 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Series 2015AB Senior Lien Bonds. If such termination occurs prior to the final maturity of the Series 2015AB Senior Lien Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(d) hereof.

Section 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent other than the original Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Agreement.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arise from a change in legal requirements, change in law, or change in identity, nature or status of an obligated person with respect to the Series 2015AB Senior Lien Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the bond, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Series 2015AB Senior Lien Bonds in the same manner as provided in the General Resolution for amendments to the General Resolution with the consent of Bondowners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Bondowners or Beneficial Owners of the Series 2015AB Senior Lien Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative

explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the principles or the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to a change in the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(d), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure by the City to comply with any provision of this Disclosure Certificate any Bondowners or Beneficial Owners of Series 2015AB Senior Lien Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the General Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Series 2015AB Senior Lien Bonds.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriters, Bondowners and Beneficial Owners from time of the Series 2015AB Senior Lien Bonds, and shall create no rights in any other person or entity.

Section 13. Governing Law. The laws of the State of California shall govern this Disclosure Certificate, the interpretation hereof and any right or liability arising hereunder, without regard to principles of conflict of law.

Date: June __, 2015

CITY OF LOS ANGELES

By: _____
Assistant City Administrative Officer

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