City of Los Angeles, CA

Executive Summary

Kroll Bond Rating Agency (KBRA) has affirmed the long-term rating of **AA** with a **Stable Outlook** on the general obligation debt of the City of Los Angeles, California ("the City"). This rating applies to all of the City of Los Angeles' outstanding general obligation bonds. The City has approximately $775.4 million of general obligation bonds outstanding, as of June 30, 2017. This rating is based on KBRA's **U.S. Local Government General Obligation Rating Methodology**.

KBRA has also affirmed the long-term rating of **AA-** with a **Stable Outlook** on the Municipal Improvement Corporation of Los Angeles (MICLA or "the Corporation") Lease Revenue Bonds, Series 2014-A and Refunding Series 2014-B. This rating is based on the City's long-term general obligation rating AA with a Stable Outlook and an evaluation of the factors discussed in KBRA's **U.S. State and Local Government Abatement Lease Methodology**. Generally, ratings assigned to the majority of U.S. state and local abatement lease obligations by KBRA will be one to two notches below the government lessee's GO rating.

Security Provisions

The City may issue general obligation (GO) bonds, subject to approval by two-thirds of the voters. The City's GO bonds are payable from proceeds of ad valorem taxes that are levied without limitation as to rate or amount upon property subject to taxation by the City.

The lease revenue bonds are payable from lease rental payments paid by the City to the Corporation under the facility lease agreements for the Series 2014-A Bonds and the Series 2014-B Bonds, respectively. The City is required to make lease rental payments from any source of available funds in an amount sufficient to pay principal and interest on the respective Series of Bonds, as scheduled. Lease rental payments to be made by the City are subject to abatement during any period where there is substantial interference with the use and occupancy of the leased project by the City. Under the Series 2014-A Facility Lease, the City is leasing the Marvin Braude San Fernando Valley Constituent Service Center. Under the 2014-B Facility Lease, the property to be leased to the City consists of the Los Angeles Public Library's Central Library-East Wing Building, the San Pedro Municipal Building and Fire Station No. 67.

Bankruptcy Assessment

KBRA has consulted outside counsel and it is KBRA's understanding that, under California law, local governments are allowed to file for relief under Chapter 9 of the U.S. Bankruptcy Code ("Bankruptcy Code") after fulfilling certain pre-conditions. While local governments within the State are granted broad authority to file for Chapter 9 relief, Section 53760 of the California Government Code requires cities, counties, and special districts to first attempt to resolve their fiscal problems with creditors, employee groups and other interested parties through a mediation process, unless the government entity declares a fiscal emergency.

KBRA understands that, were the City to meet the requirements of the California Government Code (and certain eligibility requirements under the Bankruptcy Code) and file for relief under Chapter 9, such a filing could have consequences to bondholders. Under the Indenture, the Trustee has a security interest in the Revenues, including Basic Lease Payments, for the benefit of bondholders, but such security interest arises only when the Basic Lease Payments are actually received by the Trustee following payment by the City. Accordingly, there is a risk that, in a Chapter 9 case of the City, the bankruptcy court might hold that the lien and security interest in Revenues is limited to only the Revenues that have actually been deposited as of the date of the filing of the bankruptcy case. Further, because only statutory and special revenue liens continue after a bankruptcy filing, and the lien and security interest under the Indenture appears to lack the characteristics of either a statutory lien or consensual special revenue lien, the court could determine that the Indenture's lien and security interest does not apply to Revenues collected post-bankruptcy and thus bondholders could likely be treated as unsecured creditors.

The fact that the structure of these issuances involves undertakings denominated as leases raises an additional issue. The bankruptcy court is not constrained by the title of a document, and the debtor (and other parties) thus may seek, in connection with determining the proper treatment of a claim, a ruling by the court of the true nature of the transaction. Accordingly, a bankruptcy court in a Chapter 9 case of the City could determine that a Lease Agreement is a "true lease," permitting the City to accept or reject a Lease Agreement, which, under the Bankruptcy Code, could considerably limit the amount that the Trustee may recover in a City's bankruptcy proceeding if the City were to reject a Lease. KBRA also understands that, alternatively, were a Lease Agreement to be recharacterized by the bankruptcy court as a financing, the City would be unable to accept or reject the Lease Agreement. In this circumstance, it is likely that the investors would be treated as unsecured creditors in the City's Chapter 9, and the City could restructure the relevant Lease Agreement as a part of its plan of adjustment.

Key Rating Strengths
• Broad and diversified economic base with a steadily improving employment environment
• Seasoned leadership team and established financial management policies and procedures for budgeting, forecasting, and monitoring financial operations
• Sustained improvement in financial operations and increases in reserves with unassigned fund balance equal to 12.9% of general fund expenditures in fiscal year 2016
• A manageable debt burden with minimal variable rate debt exposure
Key Rating Concerns
• Continued, though reduced, use of nonrecurring revenues and expenditures to balance annual financial operations
• Reserve fund balance has dipped below 5% of the budgeted general fund revenues target in FY 2017 for the first time in recent years

Rating Summary

The Municipal Improvement Corporation of Los Angeles Lease Revenue Bonds, Series 2014-A and Refunding Series 2014-B are rated AA- with a Stable Outlook, one notch lower than the City's long-term general obligation rating of AA with a Stable Outlook. The AA- rating and Stable Outlook is based on the evaluation of certain risks associated with abatement leases. The bonds are payable from lease rental payments which are subject to abatement to the extent that the City does not have use and occupancy of the leased properties. The rating reflects KBRA's assessment of the risk of abatement of lease payments based on the lack of acquisition and construction risk, sufficient property and casualty insurance and rental interruption insurance for insured risks, essentiality of leased facilities to city operations, a fully funded debt service reserve fund for both series of bonds, and the strong financial condition of the City, as evidenced by healthy reserve levels and strong liquidity. It also reflects a relatively low risk of significant damage from earthquake for the leased facilities as indicated by the initial seismic analysis and confirmation by the City management that there has been no change in conditions that would impact the use and occupancy of the leased assets under the Series 2014-A and Refunding Series 2014-B Lease Agreement.

In KBRA's view, the risk of abatement of lease payments for these bonds due to loss of use and occupancy is mitigated by the ability of the City to substitute leased property under its lease agreements and by the

City's strong management, financial flexibility and level of available resources, as outlined in KBRA's Abatement Lease Rating Methodology.

Based on review of the four KBRA Rating Determinants included in the KBRA Methodology for rating U.S. Local Government General Obligation Bonds, KBRA has assigned Rating Determinant ratings, as summarized below:

- Governance, Management Structure and Policies: AA+
- Municipal Resource Base: AA
- Debt and Additional Continuing Obligations: AA
- Financial Performance and Liquidity Position: AA

Outlook: Stable

The Stable Outlook on MICLA Lease Revenue Bonds, Series 2014-A and Refunding Series 2014-B reflects KBRA's Stable outlook on the general obligation rating of the City. KBRA expects that the City will continue to manage its structural deficit and increase in levels of operating reserves and unassigned fund balances. The Stable Outlook also reflects the expectation that the City will continue to manage its pension obligations as well as continue to actuarially fund its other post-employment benefits (OPEB) obligations.

In KBRA's view, the following factors may contribute to a rating upgrade:

- Continued trend of operating surpluses and unassigned fund balance reserve in the general fund.
- Significant increases in the level of funded ratios in its retirement and other post-employment benefits (OPEB) plans.

In KBRA's view, the following factors may contribute to a rating downgrade:

- Significant deterioration in the level of available fund balance and operating reserves.
- Significant decline in the funded ratios for its pension and OPEB plans.

Structure and Legal Framework

Under the Series 2014-A Facility Lease, the City is leasing the Marvin Braude San Fernando Valley Constituent Service Center, which was constructed in 2002. Under the 2014-B Facility Lease, the property to be leased to the City consists of the Los Angeles Public Library's Central Library-East Wing Building, constructed in 1993, the San Pedro Municipal Building, constructed in 1943, and Fire Station No. 67, constructed in 2008. The terms of the respective facility leases are substantially similar. Under the terms of each facility lease, the City will lease the respective projects for a term which exceeds the term of the bonds.

The City covenants to budget and appropriate lease rental payments in an amount equal to principal and interest on the bonds and additional lease payments to cover other obligations under the facility leases. The covenant to budget and appropriate is a ministerial duty imposed by law and, as such, the obligations to pay lease rental payments is an absolute obligation of the City. Lease rental payments are subject to abatement to the extent that the City does not have use and occupancy of the leased properties.

Under the facility leases, the City is required to maintain insurance and extended coverage against loss or damage from fire, lightning, vandalism, malicious mischief, and other events to the leased property or equipment. Such insurance shall be in an amount equal to the lesser of the outstanding principal of the bonds and 100% replacement cost of the leased property. The City is also required to maintain rental interruption insurance for a 24 month period to cover lease payments in the event of abatement. Under the facility leases, insurance provisions may be satisfied by a combination of commercial insurance, risk pooling under a joint powers authority, self-funded loss reserves and risk retention programs, as deemed appropriate by professional risk management personnel. Based on discussions with city management, it is the long established policy of the City to maintain commercial insurance against the losses discussed above on city property leased under a facility lease.

The City is not required to maintain insurance against loss from earthquake, flood or terrorism. Rental interruption insurance is available through a rider on commercial insurance and so is not available to cover lease rental payments on uninsured losses. The facility leases provide that, in the event of an uninsured loss resulting from earthquake, the City shall apply and use its best efforts to obtain financial assistance from the federal government to be used for repair and replacement of the leased property or defeasance of the Bonds.

Under the Facility Leases, the City has the right to substitute for all or a portion of the leased property with other property of comparable value and essential nature to the City. The substituted property is required to have a remaining useful life of not less than the original leased property.

The Series 2014-A and Series 2014-B Bonds are also secured by a debt service reserve fund, which is funded from Bond proceeds to an amount equal to 50% of maximum annual principal and interest on both series.

Leased Property

All the leased properties under the Series 2014-A and Series 2014-B Facility Leases are existing essential facilities to the City's operations and bear no abatement risk associated with potential delays in construction.

Given the location of the City in relation to known seismic faults, city properties are subject to the risk of damage or destruction from seismic activity. As discussed above, the City is not required to maintain insurance against damage due to earthquake. The City relies, instead, on its general reserves and receipt of disaster relief funds from the Federal Emergency Management Agency (FEMA) to replace and repair leased facilities. In the event that a leased facility is significantly damaged by an earthquake, the City may choose to substitute for all or a portion of the leased property with other property, as allowed under each Lease Agreement.

As part of the initial rating assessment process, KBRA utilizes an independent seismic consultant to perform an analysis of the impact of a seismic event on leased real property in seismically active areas. The analysis incorporates a number of factors including proximity to a fault line, soil and geologic conditions, and structural and engineering characteristics of the leased asset. KBRA considers this analysis in its evaluation of the abatement lease risk factors.

Based on evaluation of the initial seismic analysis for the leased property under the Series 2014-A and Series 2014-B Lease Agreement and discussion with city management, there has been no change in conditions that would impact the use and occupancy of the leased assets. It is KBRA's view that the probability that damage from a seismic event will be the cause of abatement of lease payments over the life of the Bonds continues to be consistent with a rating of one notch below the general obligation rating, when considered with all of the other abatement risk factors.

In KBRA's view, the risk of abatement of lease payments for these Bonds due to a seismic event is mitigated by the ability of the City to substitute leased property under its lease agreements and by the City's financial flexibility and level of available resources, as outlined in KBRA's **Abatement Lease Rating Methodology**

City of Los Angeles

Update on Financial Performance and Liquidity Position

KBRA continues to view the City's financial condition as strong based on the City's proactive general fund budget management, stable levels of reserves, and strong liquidity since 2010. The City monitors its fiscal performance throughout the year in addition to its year end audited financial statements. The Los Angeles city administrative officer (CAO) publishes financial status reports (FSR) regularly throughout the fiscal year, tracking the City's operating performance. In recent years, city management has taken a more proactive approach to manage its litigation risks and, as a result, the City has utilized general fund reserves to pay out a number of legal settlements over FY 2016 and FY 2017.

The City budgets and operates on a modified cash (budgetary) basis. Generally, KBRA monitors the City's operating performance as well as reserve levels on a budgetary basis during the fiscal year based on review of periodic financial status reports and reviews its year end fiscal performance based on the annual audited financial statements presented on a modified accrual basis. The fiscal year ends June 30.

The City maintains several reserves within the general fund that include a formal reserve fund with a minimum requirement of 5% of budgeted general fund revenues, a budget stabilization fund, an unappropriated balance reserve and other reserves. The U.B. reserve is funded annually in the budget as a contingency amount. In the annual audited financial statements prepared on a modified accrual basis, these reserves are included in the unassigned fund balance.

General Fund FY 2012-FY 2016

Revenues, Expenditures and Changes in Fund Balance (Modified Accrual Basis)

Amount shown in ('000)	**2016**	**2015**	**2014**	**2013**	**2012**
General Fund Revenue	$4,893,037	$5,007,288	$4,789,258	$4,521,047	$4,317,334
percent change	-2.3%	4.6%	5.9%	4.7%	
General Fund Expenditures	$4,574,972	$4,690,923	$4,376,691	$4,155,534	$4,053,262
percent change	-2.5%	7.2%	5.3%	2.5%	
Surplus (Deficit) from Operations	318,065	316,365	412,567	365,513	264,072
Total Other Financing Sources (Uses)	($250,599)	($271,346)	($239,880)	($212,640)	($215,676)
Net Change in Fund Balance	67,466	45,019	172,687	152,873	48,396
Total Fund Balance	$1,028,365	$945,549	$896,071	$722,616	$571,684
Nonspendable	$44,210	$42,146	$43,146	$43,115	$31,134
Restricted				$69,712	
Assigned	$392,418	$253,388	$230,717	$242,643	$267,645
Committed	$1,296	$2,457			
Unassigned	$590,441	$647,558	$622,208	$367,146	$272,905
Unassigned Fund Balance as a % of General Fund Expenditures	**12.9%**	**13.8%**	**14.2%**	**8.8%**	**6.7%**

Source: City of Los Angeles Audited Financial Statements FY 2012 - FY 2016

FY 2016 Financial Operations

Despite slower growth in general fund revenue, the City ended the fiscal year with an operating surplus of $318 million on a modified accrual basis through ongoing control of expenditures. As shown in the table above, the FY 2016 general fund unassigned fund balance on a modified accrual basis was 12.9% of FY 2016 general fund expenditures, which KBRA still considers very strong. Beginning in FY 2015, the City established a policy of funding its budget stabilization fund from growth in the combined seven economically-sensitive general fund revenues[1] beyond 3.4% annual growth. In FY 2016, the combined growth in the seven economically-sensitive revenues did not grow sufficiently for additional deposits into the BSF. As a result, the BSF's fund balance remained at $93.9 million at the end of FY 2016.

[1] The seven economically-sensitive revenue sources are: property tax, utility users' tax, business tax, sales tax, transient occupancy tax, documentary transfer tax, and parking users' tax.

Liquidity Position

As of June 30, 2016, the City's available cash position in its governmental funds totaled $4.4 billion or 214 days cash on hand, which was available for general cash flow purposes. This figure includes cash and pooled investments, cash deposits and other short-term investments that have maturities of less than three months. KBRA considers this level of liquidity very strong. The City also continues to have strong access to the capital markets for its annual issuance of general fund tax and revenue anticipation notes (TRANs). For the past five years, the City has issued TRANS in amounts in the $1.3 billion-$1.4 billion range. The City issued $1.5 billion in TRANS on June 21, 2017. Of this amount, $400 million will be used in FY 2018 for short term cash flow needs and the balance will be used to pre pay the FY 2018 pension contribution for the LACERS and LAFPP pension funds.

FY 2017 Financial Status Reports (FSR)

The CAO tracks the City's operating results and reserve balance in the FSR four to five times a year. Each FSR compares the City's current fiscal performance to the adopted budget using a modified cash basis of accounting (or budgetary basis).

The FY 2017 midyear FSR (March 2017) indicated that general fund revenue received through January 2017 was $5 million below budget, despite strong growth in transient occupancy tax (including new tax revenues collected from Airbnb) and documentary transfer tax. As of March 2017, the City identified further risks of revenue shortfalls due to projected lower than anticipated revenue collections including property taxes, power revenue transfers, utility users' taxes, and franchise fee revenues. Shortfalls related to property tax revenue were due to early remittances made in FY 2016. The midyear FSR projected a year-end operating deficit of $57.3 million, which represents a reduction from $81.7 million estimated in the second FSR. The reduction of the budget gap was achieved largely by the use of reserve funds to fund $23 million in unbudgeted liability claims as well as reductions in fire department expenditures.

Lower than projected power sales in the last two years have resulted in lower utility users' tax revenues. In January 2017, the city council adopted an ordinance that reduced the amount of power revenue transfer from Department of Water and Power in the budget from $291 million to $264.4 million. City management states that the City will continue to monitor revenue performance and adjust expenditures as necessary throughout the fiscal year.

Based on the 2017 year-end FSR, the general fund revenue shortfalls projected for year-end have been more than offset by unanticipated receipts from the sale of former community redevelopment agency property, higher than projected transient occupancy tax collections and higher growth in business tax receipts. However, the year-end FSR projects that the general fund will end the year with a deficit of $20.8 million due to unbudgeted fire department labor costs and additional expenditures for police overtime and other costs. The City plans to balance FY 2017 operations through transfers from the UB reserve, transfers from other City funds and cost savings.

The City's history of general fund reserve balances on a budgetary basis is presented in the table below. In general, the City has been able to meet or exceed the reserve fund requirement of 5% with an average actual balance of 6.7% for the past five years, as shown below. The City started FY 2017 with reserve fund balance of $334.2 million or 5.99% of budgeted general fund revenues. Combined with the U.B. and BSF, the City's total budgetary balance equaled $442.9 million or 7.9% of budgeted general fund revenues. The reserve fund balances are reported as of the beginning of the subsequent fiscal year (July 1) to capture the results of year end reversions and any transfers made after the end of the fiscal year.

City of Los Angeles Budgetary Reserve Balances Budgetary Basis ($ millions)* As of July 1 in Subsequent Fiscal Year	Adopted Budget	Budget	Actual		
	FY 2017-2018	FY 2017	FY 2016	FY 2015	FY 2014
Emergency Reserve (min 2.75%)	160.20	153.4	148.8	141.3	133.8
Contingency Reserve	138.10	180.9	308.9	241.7	192.8
Total Reserve Fund	**298.3**	**334.4**	**457.7**	**383.0**	**326.7**
Reserve Fund as % of GF Budget Revenues (min 5%)	**5.12%**	**5.99%**	**8.46%**	**7.45%**	**6.71%**
Budget Stabilization Fund (BSF)	95.1	93.7	91.7	64.1	69.5
Unappropriated Balance (UB)	20.0	15.0	17.0	20.7	21.0
Total Budgetary Balance	**413.3**	**442.9**	**566.4**	**467.8**	**417.2**
(Total) Budgetary Balance as % of Budgeted GF Revenues	**7.09%**	**7.94%**	**10.47%**	**9.10%**	**8.57%**
Budgeted GF Revenues	5,826.5	5,576.4	5,410.4	5,138.3	4,866.9

Source: City of Los Angeles, CAO

*The numbers in the chart differs from the May 10, 2017 MICLA KBRA report due to the City's decision to modify its reporting of the General Fund Reserves

Based on the 2017 Year End FSR, the City's reserve fund balance is projected at 4.90% of budgeted general fund revenues, slightly below the 5% reserve requirement, due to a significant increase in liability claims expenditures during the fiscal year. The City expects the reserve fund to end the 2017 fiscal year above the 5% requirement. Combining the reserve fund with the BSF, the City is projected to end the 2017 fiscal year with a total budgetary reserve balance equal to 7.9% of general fund revenues.

KBRA recognizes that the reduction in reserve fund balance is the result of the City's decision to settle various outstanding litigations and that it is difficult to project the timing of such settlements. City management recognizes it is necessary for the City to maintain a healthy reserve balance and the City Council has recently adopted a resolution to proceed with the validation process of $60 million judgement obligation bonds (JOB) to reimburse the reserve fund loans for various liability settlements. The Council requested that the CAO report back on a recommendation on whether to proceed with a JOB issuance after the validation is completed. In KBRA's view, though the current total budgetary reserve is lower than the City's historic levels, we still consider the total reserve level to be strong. KBRA will continue to monitor the City's progress in replenishing and maintaining its reserve fund balance.

KBRA notes that several lawsuits were filed challenging the City's long established practice of transferring a portion of surplus power revenues from the Department of Water and Power to the general fund as a violation of Proposition 26, which was passed in 2010. Based on recent discussions with the City, a settlement is in process that will allow surplus power revenues, up to a limit of 8% of the Department of Water and Power retail operating revenues of the 2008 electric rate ordinance, to be transferred to the general fund. This is estimated to be capped at approximately $240 million annually. Under the proposed settlement, the City is not required to pay any refunds of past transfers. This settlement, though still in process, represents a significant reduction in risk to the financial operations of the City and KBRA will continue to monitor the final resolution.

FY 2018 Revenue Outlook

On March 1, 2017, the controller published a revenue forecast report for FY 2018 through FY 2021, projecting general fund revenues for FYE 2017 to be $5.5 billion, which represents a 4.0% increase over FY 2016. The revenue forecast report estimates that power revenue transfer, utility users' taxes, departmental receipts, and parking fine receipts will continue to fall short of budgeted amounts in FY 2017. The controller expects that the shortfall will be offset by strong growth in the ex-community redevelopment agency tax increment, property tax, and the transient occupancy tax receipts.

Looking ahead, the controller projects that total general fund revenues will grow by 2% in FY 2018, from $5.549 billion to $5.562 billion. Revenue growth is expected in five of the seven economically-sensitive general fund revenues, except for business tax and parking users' tax where receipts are expected to remain flat in FY 2018. The City anticipants several new revenue sources on the horizon. Most significantly, additional revenues from marijuana regulation and taxation legislation, known as Measure M, were approved by voters during the March 2017 municipal election. Measure M is expected to generate additional funding for new transportation projects in the City.

FY 2018 Adopted Budget

The City Council adopted the FY 2018 Budget on May 24, 2017. The FY 2018 adopted budget includes $5.83 billion in general fund revenues, representing a 4.5% increase from the FY 2017 adopted revenue budget. The FY 2017 budget includes $20 million in UB contingency reserves and appropriations equal to 1.28% of general fund revenues for capital improvements, which exceeds the target of 1%. Nominal deposits to the BSF are budgeted and $75 million in revenues related to growth in economically sensitive revenues are also budgeted for capital improvements. The budget includes use of one time revenues of $65 million which are applied to one time expenditures. The reserve fund is funded at 5.12% of general fund revenues, above the 5% requirement. Total budgetary reserves are projected to equal 7.09% of general fund revenues.

Funding for initiatives such as public safety, transportation projects, and permanent housing projects for the homeless continue to be a main focus of the City. Proposition HHH was passed in the November 2016 election and is expected provide a total of $1.2 billion over the next ten years to construct 10,000 permanent housing units throughout the City. The City anticipates using funds generated from Measure M to fund transportation projects as well as other programs.

The City has identified several areas of risk in the FY 2018 budget including the sufficiency of the funding level for liability settlements and several fee revenue sources that have not been passed by the City Council. In addition, the CAO is closely monitoring the federal appropriations process and any potential impacts of cuts to federal grants by the Trump administration on the City, including potential elimination of community development block grants and home investment partnership programs, among other programs, in the proposed FY 2018 federal budget.

Update on Debt and Additional Continuing Obligations

KBRA views the City's overall direct and overlapping debt to AV of 3.0% and per capita debt of $3,732 as moderate. Debt service totals $339.7 million in FY 2018 and comprises 4.5% of FY 2016 total governmental expenditures. Debt amortization is rapid with 74.8% of principal being retired in the next ten years and 98.9% being retired in fifteen years. The City's total direct debt as of July 1, 2017, which includes general obligation bonds, lease obligations and judgment obligation bonds, equals $2.3 billion.

The City's retirement plans for its civilian employees and the Fire and Police Employees are defined benefit plans established under the City Charter. The plans include the Los Angeles City Employees' Retirement System (LACERS) and the City of Los Angeles Fire and Police Pension Plan (LAFPP). The City includes its post-employment healthcare benefits as part of its retirement systems. The City Charter requires annual actuarial valuations for both pension retirement systems which are used to determine the contribution rates for funding both the pension plans and the OPEB obligations. The investment return assumption for both LACERS and LAFPP is currently 7.5%; on June 1, 2017 the LAFPP Board adopted an investment rate of return of 7.25%. The City generally pays the full actuarially required contribution for both its pension contributions and OPEB obligations to the LACERS and LAFPP retirement systems.

As of June 30, 2016, the funded ratio for LACERS on an actuarial basis was 71.4% and the funded ratio on an actuarial basis for LAFPP was 93.9%. Based on GASB 68 reporting in the audited financial statements, the fiduciary net position as a percentage of total pension liability was 70.5% for LACERS and 89.5% for LAFPP. The City generally contributes the full actuarially based annual pension contribution for its pension funds. For FY 2018, the City's combined pension contribution for LACERS and LAFPP totaled $1.1 billion or 15.8% of FY 2016 total governmental expenditures.

The City began making payments to actuarially prefund its OPEB obligations in FY 1990. As of June 30, 2016, the funded ratio for the City's OPEB fund was 80.5%. KBRA views the City's actuarial funding of its OPEB obligations very positively as there are relatively few U.S. cities that pre-fund their OPEB obligations. The combined cost of FY 2018 debt service and FY 2018 pension and OPEB contributions was $1.5 billion or approximately 20.3% of FY 2016 total governmental expenditures in audited financial statements.

Update on Municipal Resource Base

KBRA views the economic base of the City of Los Angeles as strong and well diversified. Recent improvements in the global economy generated positive momentum for growth in employment and full market value.

The City of Los Angeles is the second largest city in the nation by population and is the principal city in Southern California. The City is the county seat of Los Angeles County and home to nearly 40% of the county's 10.2 million residents. An established center for the media and entertainment industry, the greater Los Angeles area is supported by the presence of diverse companies and serves as headquarters to 13 Fortune 500 firms. Additionally, in 2016, the City was ranked sixth on the Global Cities Index based on business activity, human capital, and information exchange. The City is home to Los Angeles International Airport, which had 58 million domestic passengers and 23 million international passengers in 2016. Those figures represent increases of 8.4% and 11.2%, respectively, since 2015. The City has also seen the hotel occupancy rate increase by 2.2 percentage points since 2015 to 82.2% in 2016. The County remains one of the larger manufacturing centers in the nation and is home to the ports of Los Angeles and Long Beach, which combined to form one of the busiest container ports in the United States. These two ports account for more than 40% of exports from the State.

	City of Los Angeles		Los Angeles County			California			United States		
	2015	Chg from 2010	2015	Chg from 2010	City of Los Angeles as % of Los Angeles County	2015	Chg from 2010	City of Los Angeles as % of California	2015	Chg from 2010	City of Los Angeles as % of United States
Population	3,971,883	4.7%	10,170,292	3.5%	**39.1%**	39,144,818	4.8%		321,418,821	3.9%	
Age Dependency Ratio[1,2]	48.0%	-3.3	53.8%	-0.8	**89.2%**	57.6%	0.5	**83.3%**	60.8%	1.9	**79.0%**
Population with B.A. Degree or higher[2]	32.6%	1.9	39.9%	10.7	**81.7%**	32.3%	2.2	**101.1%**	30.6%	2.4	**106.5%**
Poverty Level[2]	20.5%	-1.1	16.6%	-0.9	**123.5%**	15.3%	-0.5	**134.0%**	13.4%	-1.9	**153.0%**
Income per capita	$30,136	9.1%	$29,403	7.5%	**102.5%**	$32,587	11.6%	**92.5%**	$29,979	15.0%	**100.5%**

Source: U.S. Census Bureau is used as the source in order to provide a consistent comparison among different units of government.

[1] Age dependency ratio is the sum of the population under 18 yrs and over 65 yrs divided by persons age 18 to 64 yrs.

[2] Year over year change shown as nominal change in percentage points.

The City's resource base metrics showed overall improvement in 2015. Growth in population has exceeded that of the state and of the nation. The City has above average education attainment levels, which have kept pace with those of the nation. At the same time, the age dependency ratio has come down slightly and continues to be lower than the national rate.

The poverty level in the City has been higher than the state and national averages and was a high 20.5% in 2015, although it has trended down slightly compared with 2014. KBRA notes that a high poverty level is typical for large cities. In 2015, income per capita in the City was $30,136, which represented a 9.1% increase since 2010. The City's income per capita is higher than the state level and on par with the national level. Taxpayer concentration continues to be low, with the City's ten largest taxpayers representing a modest 2.0% of total valuation in 2016.

Assessed value net of the homeowner exemption grew by 5.1% in 2014 and 6.0% in 2015. In 2016, A.V. increased by another 7.2% to $497.9 billion. KBRA views the increase in the City's tax base as a positive credit factor. Total employment has grown at an annual rate of 1.8% since 2010 or an overall employment growth rate of almost 13%. The average year-to-date 2016 employment level is 7% higher than the pre-recession peak.

The largest employment sector is trade, transportation, and utilities. The second largest employment sector is education and healthcare due to the presence of many public and private higher-education institutions located within the City, followed by professional and business services, supporting the large number of corporations that operate in the City. Leisure and hospitality is another important economic driver. In 2016, the City welcomed a record 47.3 million visitors, which was 4% more than in 2015. The City has a goal of reaching 50 million visitors by 2020.

The City's employment base shows an above average concentration in the information technology industry, reflecting recent technology sector growth. A number of large high-tech companies have set up offices in the City, including Google, YouTube, Yahoo Inc., Belkin, Facebook, and Microsoft. Tech industry growth is also driven by a diverse mix of small start-ups that have established offices in Los Angeles due to the relatively lower real-estate costs compared with costs in the San Francisco Bay Area.

Unemployment

The City has experienced modest employment gains in each of the years since its peak of 13.8% in 2010. As of December 2015, the City recovered 100% of the jobs lost and added an additional 4%, which is similar to the state's record, but better than recovery within the county and the nation. In 2016, the annual unemployment rate of the City was 5.6%, still higher than the county (5.2%), state (5.0%), and U.S. (4.9%) levels. However, the city unemployment rate in May 2017 was 4.3%, which was slightly higher than the state level but lower than the U.S. level.

Conclusion

Kroll Bond Rating Agency (KBRA) has affirmed the long-term rating of **AA** with a **Stable Outlook** on the general obligation debt of the City of Los Angeles, California. This rating applies to all of the City of Los Angeles' outstanding general obligation bonds. KBRA has also affirmed the long-term rating of **AA-** with a **Stable Outlook** on the Municipal Improvement Corporation of Los Angeles Lease Revenue Bonds, Series 2014-A and Refunding Series 2014-B.

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Related Publications:

- **City of Los Angeles, CA General Obligation Bonds Rating Report**
- **Municipal Improvement Corporation of Los Angeles Rating Report**