

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: April 11, 2013

CAO File No. 067000037
Council File No. 12-1861
Council District: ALL

To: The Mayor
The Council

From: Miguel A. Santana, City Administrative Officer 

Reference: Los Angeles Wastewater System Debt Financing Program

Subject: **REVISED RESOLUTION AND RELATED DOCUMENTS FOR THE LOS ANGELES WASTEWATER SYSTEM COMMERCIAL PAPER PROGRAM CREDIT FACILITIES**

SUMMARY

The City Administrative Officer (CAO) requests approval of administrative amendments to documents previously approved as part of the recent replacement of credit facilities for the Wastewater System Commercial Paper (CP) Program.

In December 2012, Council and the Mayor approved Bank of New York Mellon (BNY) and Sumitomo Mitsui Banking Corporation (Sumitomo, and together, the Banks) to provide Letters of Credit (LOCs) each for \$100 million plus interest for the Wastewater CP Program. Subsequent to the release of the CAO report dated November 29, 2012 which included the documents for these LOCs, the rating agencies submitted comments recommending technical clarifications to the LOCs. Amendments to the Fifteenth Supplemental Resolution and Offering Memorandum are necessary to memorialize these clarifications (Attachments A and B). It is also necessary to execute a Letter Agreement to replace references in the documents to the Fifteenth Supplemental Resolution with references to the Amended and Restated Fifteenth Supplemental Resolution (Attachment C). In addition to the Banks, the parties subject to the Letter Agreement include Samuel A. Ramirez and Co. and Wells Fargo Bank, N.A., as the current CP note dealers, and Public Resources Advisory Group as the Financial Advisor to the Wastewater System.

These recommendations are in compliance with the City's Financial Policies.

RECOMMENDATIONS

That the Council, subject to the approval of the Mayor:

1. ADOPT the Amended and Restated Fifteenth Supplemental Resolution and Amended and Restated Offering Memorandum;

2. AUTHORIZE the City Administrative Officer to execute the Letter Agreement with Bank of New York Mellon, Sumitomo Mitsui Banking Corporation, Samuel A. Ramirez and Co., Wells Fargo Bank, N.A., and Public Resources Advisory Group; and
3. AUTHORIZE the City Administrative Officer to make technical changes to implement the intent of the Council and Mayor.

FISCAL IMPACT STATEMENT

There is no impact on the General Fund as a result of the recommendations contained in this report.

DEBT IMPACT STATEMENT

There is no debt impact to the City's General Fund from the approval of the recommendations in this report.

MAS:SMB:09130231

Attachments

- Attachment A – Amended and Restated Fifteenth Supplemental Resolution
- Attachment B – Amended and Restated Offering Memorandum
- Attachment C – Letter Agreement

ATTACHMENT A

AMENDED AND RESTATED FIFTEENTH SUPPLEMENTAL RESOLUTION

THE COUNCIL OF THE CITY OF LOS ANGELES

AMENDED AND RESTATED FIFTEENTH SUPPLEMENTAL RESOLUTION
Adopted by the Council of the City

SUPPLEMENTING AND AMENDING

THE WASTEWATER SYSTEM SUBORDINATE REVENUE BONDS
GENERAL RESOLUTION
and certain
SUPPLEMENTAL RESOLUTIONS thereto
Previously Adopted by the Council of the City

\$400,000,000
Maximum Aggregate Authorized Amount
City of Los Angeles
Wastewater System
Commercial Paper Revenue Notes

**AMENDED AND RESTATED
FIFTEENTH SUPPLEMENTAL RESOLUTION**

RELATED TO THE

\$400,000,000

**Maximum Aggregate Authorized Amount
City of Los Angeles
Wastewater System
Commercial Paper Revenue Notes**

WHEREAS, the Council (the "Council") of the City of Los Angeles (the "City") by resolutions submitted to the voters of the City and such voters have authorized the issuance of an aggregate amount of \$3,500,000,000 of indebtedness pursuant to the procedures set forth in the Revenue Bond Law of 1941, Government Code Sections 54300 *et seq.*, to finance a portion of a major wastewater system improvement program; and

WHEREAS, the Council determined that it was appropriate and beneficial to the City to issue a portion of the authorized indebtedness in the form of Subordinate Bonds (defined below), including commercial paper notes, and in connection therewith on March 26, 1991, the Council adopted a resolution entitled the "WASTEWATER SYSTEM SUBORDINATE REVENUE BONDS GENERAL RESOLUTION" (the "Subordinate General Resolution") which sets forth the basic terms under which the City may issue Subordinate Bonds (as defined in The Subordinate General Resolution); and

WHEREAS, on March 26, 1991, the Council also adopted a resolution designated as the "FIRST SUPPLEMENTAL RESOLUTION SUPPLEMENTING THE WASTEWATER SYSTEM SUBORDINATE REVENUE BONDS GENERAL RESOLUTION" (the "First Supplemental Resolution") to, among other actions, authorize the issuance of such Subordinate Bonds in the form of commercial paper notes which were designated therein as the "Commercial Paper Notes" (the "Commercial Paper Notes") in the maximum aggregate principal amount outstanding from time to time of \$130,000,000; and

WHEREAS, on August 13, 1996, the Council adopted a resolution entitled "SECOND SUPPLEMENTAL RESOLUTION SUPPLEMENTING AND AMENDING THE WASTEWATER SYSTEM SUBORDINATE REVENUE BONDS GENERAL RESOLUTION AND THE FIRST SUPPLEMENTAL RESOLUTION" (the "Second Supplemental Resolution") pursuant to which the Council, among other actions, increased the maximum authorized aggregate principal amount of Commercial Paper Notes to \$200,000,000; and

WHEREAS, on September 3, 1997, the Council adopted a resolution entitled "THIRD SUPPLEMENTAL RESOLUTION SUPPLEMENTING AND AMENDING THE WASTEWATER SYSTEM SUBORDINATE REVENUE BONDS GENERAL RESOLUTION AND THE FIRST SUPPLEMENTAL RESOLUTION AND THE WASTEWATER SYSTEM SECOND SUPPLEMENTAL RESOLUTION" (the "Third Supplemental Resolution") to,

among other actions, increase the maximum authorized amount of such Commercial Paper Notes from \$200,000,000 to \$400,000,000; and

WHEREAS, on August 15, 2000, the Council adopted a resolution entitled “FOURTH SUPPLEMENTAL RESOLUTION SUPPLEMENTING AND AMENDING THE WASTEWATER SYSTEM SUBORDINATE REVENUE BONDS GENERAL RESOLUTION AND CERTAIN SUPPLEMENTAL RESOLUTIONS THERETO” (the “Fourth Supplemental Resolution”) to, among other actions, substitute a letter of credit with a line of credit as the source of liquidity for the Commercial Paper Notes and to make certain other modifications to the then existing Supplemental Resolutions which added to the covenants and agreements of the City in such Supplemental Resolutions and which do not adversely affect the interests of the Bondholders; and

WHEREAS, on January 21, 2003, the Council adopted a resolution entitled “SIXTH SUPPLEMENTAL RESOLUTION SUPPLEMENTING AND AMENDING THE WASTEWATER SUBORDINATE REVENUE BONDS GENERAL RESOLUTION AND CERTAIN SUPPLEMENTAL RESOLUTIONS THERETO” (the “Sixth Supplemental Resolution”) to substitute a new line of credit agreement (the “2003 Credit Agreement”) for the credit agreement then in place with respect to the Commercial Paper Notes; and

WHEREAS, on June 25, 2010, the Council adopted a resolution entitled “ELEVENTH SUPPLEMENTAL RESOLUTION SUPPLEMENTING AND AMENDING THE WASTEWATER SYSTEM SUBORDINATE REVENUE BONDS GENERAL RESOLUTION AND CERTAIN SUPPLEMENTAL RESOLUTIONS THERETO” (the “Eleventh Supplemental Resolution” and together with the First Supplemental Resolution, the Second Supplemental Resolution, the Third Supplemental Resolution, the Fourth Supplemental Resolution, the Fifth Supplemental Resolution and the Sixth Supplemental Resolution, the “Previous CP Supplemental Resolutions”) to (i) substitute a new Line of Credit Agreement, dated as of June 1, 2010 (the “2010 Credit Agreement” and, as amended by Amendment No. 1 (defined below) and Amendment No. 2 (defined below), the “Prior Credit Agreement”), by and among the City, State Street Bank and Trust Company (“State Street”), California State Teachers’ Retirement System (“CalSTRS”), and Wells Fargo Bank, National Association (“Wells” and collectively with State Street and CalSTRS, the “2010 Banks”) for the 2003 Credit Agreement; (ii) reappoint Morgan Stanley & Co., Incorporated and Barclays Capital, Inc. (collectively, the “2010 Dealers”) as dealers for the Commercial Paper Notes; (iii) approve a form of Offering Memorandum for the Commercial Paper Notes; and (iv) approve the terms and form of an Amended and Restated Issuing and Paying Agent Agreement, dated as of June 1, 2010 (the “2010 Paying Agent Agreement”) with U.S. Bank National Association, as issuing and paying agent (the “Issuing and Paying Agent”), for the Commercial Paper Notes; and

WHEREAS, pursuant to an Amendment No. 1 to Line of Credit Agreement, dated as of June 1, 2012 (“Amendment No. 1”), by and among the City and the 2010 Banks, the parties to the 2010 Credit Agreement amended the 2010 Credit Agreement to eliminate CalSTRS as a party thereto, to terminate CalSTRS’ Available Commitment thereunder and to make other conforming amendments; and

WHEREAS, pursuant to Amendment No. 2 to Line of Credit Agreement, dated as of September 1, 2012 (“Amendment No. 2”), by and among the City, Wells and State Street, the parties amended Schedule I to the 2010 Credit Agreement to add Wells Fargo Bank, National Association (“Wells Fargo Securities”) and Samuel A. Ramirez & Co., Inc. (“Ramirez”) to the schedule of dealers; and

WHEREAS, pursuant to two separate dealer agreements, each dated as of September 1, 2012, the City has appointed each of Wells Fargo Securities and Ramirez as a non-exclusive dealer to replace the 2010 Dealers in connection with the offering and sale of the Commercial Paper Notes; and

WHEREAS, effective June 12, 2012, pursuant to Section 2.7 of the Prior Credit Agreement, State Street and Wells each extended the Commitment Expiration Date (as defined in the Prior Credit Agreement) with respect to their respective commitments under the Prior Credit Agreement, to December 28, 2012; and

WHEREAS, on December 11, 2012, the Council adopted a resolution entitled, “FIFTEENTH SUPPLEMENTAL RESOLUTION SUPPLEMENTING AND AMENDING THE WASTEWATER SYSTEM SUBORDINATE REVENUE BONDS GENERAL RESOLUTION AND CERTAIN SUPPLEMENTAL RESOLUTIONS THERETO PREVIOUSLY ADOPTED BY THE COUNCIL OF THE CITY” (the “Original Fifteenth Supplemental Resolution”) to (i) authorize the replacement of the Prior Credit Agreement and (a) authorize the execution and delivery of the Reimbursement Agreement, dated as of December 1, 2012, by and between the City and The Bank of New York Mellon, a New York state banking corporation (“BNYM”) and the related Fee Letter, dated December 18, 2012, by and between the City and BNYM, pursuant to which BNYM issued its irrevocable transferable direct pay letter of credit, dated December 18, 2012, and (b) authorize the execution and delivery of the Reimbursement Agreement, dated as of December 1, 2012, by and between the City and Sumitomo Mitsui Banking Corporation acting through its New York Branch (“Sumitomo”) and the related Fee Letter, dated December 18, 2012 by and between the City and Sumitomo, pursuant to which Sumitomo issued its irrevocable transferable direct pay letter of credit, dated December 18, 2012, (ii) authorize the execution and delivery of the Dealer Agreements with the Dealers; (iii) authorize the execution and delivery of the Amended and Restated Paying Agent Agreement, and (iv) give to any Authorized City Representative the discretion and approval to appoint successor or replacement dealers from the City’s approved underwriting pool if it is determined to be in the best interest of the City; and

WHEREAS, the City now desires to amend and restate the Original Fifteenth Supplemental Resolution in its entirety with this Amended and Restated Fifteenth Supplemental Resolution in order to make technical clarifications requested by the rating agencies, which were inadvertently omitted from the Original Fifteenth Supplemental Resolution; and

WHEREAS, Section 11.02 of the Subordinate General Resolution permits the City by supplemental resolution to amend and supplement the Subordinate General Resolution and any Supplemental Resolution thereto provided that certain conditions set forth in Section 11.02 of the Subordinate General Resolution have been met, and the City has been advised by bond counsel

that the proposed terms of this Amended and Restated Fifteenth Supplemental Resolution do not adversely affect the interests of the Bondholders and all such conditions have been met;

NOW, THEREFORE, BE IT RESOLVED by the Council of the City of Los Angeles as follows:

ARTICLE I
SUPPLEMENT AND AMENDMENT TO DEFINITIONS CONTAINED
IN THE PREVIOUS CP SUPPLEMENTAL RESOLUTIONS

The Previous CP Supplemental Resolutions are hereby amended to supplement and modify the definitions of the terms contained in the Previous CP Supplemental Resolutions, and the Original Fifteenth Supplemental Resolution is hereby amended and restated, replaced in its entirety and superceded by this Amended and Restated Fifteenth Supplemental Resolution. All capitalized terms in this Amended and Restated Fifteenth Supplemental Resolution that are not otherwise designated or defined below or in the preambles above shall have the meanings ascribed to them in the Subordinate General Resolution, the Original Fifteenth Supplemental Resolution and the Previous CP Supplemental Resolutions, the provisions of which, except as otherwise provided herein, are hereby ratified and confirmed or in the respective Credit Agreement (as defined below), as appropriate.

“Amended and Restated Issuing and Paying Agent Agreement” means that certain amended and restated issuing and paying agent agreement as authorized for execution pursuant to Section 4.03 hereof, and as subsequently amended and supplemented, including as amended and supplemented by the Letter Agreement.

“Authorized City Representative means any of the Mayor, the City Treasurer, the City Clerk, and the City Administrative Officer or any Assistant City Administrative Officer.

“Bank” means, individually, each of The Bank of New York Mellon and Sumitomo Mitsui Banking Corporation, acting through its New York Branch, or their respective successors and assigns, and “Banks” means, collectively, The Bank of New York Mellon and Sumitomo Mitsui Banking Corporation, acting through its New York Branch, or their respective successors and assigns, as Banks under the respective Credit Agreement.

“Bank Notes” shall have the meaning ascribed to such term in the respective Credit Agreement, and as subsequently amended and supplemented, including as amended and supplemented by the Letter Agreement.

“Credit Agreement” means, individually and collectively, as applicable, those certain Reimbursement Agreements, each dated as of December 1, 2012, by and between the City and the respective Bank, as authorized for execution pursuant to Section 3.01 hereof and any and all modifications, amendments and supplements thereto, including as amended and supplemented by the Letter Agreement.

“Credit Facility” means, individually and collectively, as applicable, those certain irrevocable transferable direct pay letters of credit issued by the respective Bank, and any and all modifications, amendments and supplements thereto, including the Letter Agreement.

“Dealer” means any of Wells Fargo Bank, National Association and Samuel A. Ramirez & Co., Inc. or any subsequent successor or assign to any one or more of such entities as permitted under the respective Dealer Agreements, or any other dealer for all or part of the Commercial Paper Notes which is appointed by the City and has entered into a Dealer Agreement.

“Dealer Agreement” means, with respect to each Dealer, the Dealer Agreement dated as of December 1, 2012, by and between the City and any such Dealer, and any and all modifications, amendments and supplements thereto, including the Letter Agreement, or any other Dealer Agreement entered into by the City and a Dealer with respect to the Commercial Paper Notes.

“Fee Letter” means, individually and collectively, as applicable, those certain Fee Letters, each dated as of December 18, 2012, by and between the City and the respective Bank, as authorized for execution pursuant to Section 3.01 hereof and any and all modifications, amendments and supplements thereto.

“Letter Agreement” means that certain Letter Agreement, dated May 1, 2013, by and among the City, Sumitomo, BNYM, Wells Fargo Securities; Ramirez, U.S. Bank National Association, and Public Resources Advisory Group.

“Related Bank” means the Bank whose Credit Facility is to support the payment of specific Series or subseries of Commercial Paper Notes.

“Reimbursement Obligations” shall have the meaning set forth in the respective Credit Agreement.

“Series” means any series of Commercial Paper Notes.

ARTICLE II AUTHORIZATION AND SECURITY

The Commercial Paper Notes, the Reimbursement Obligations and City’s obligations to pay the Bank Notes together with interest thereon under the respective Credit Agreement are hereby designated as “Subordinate Bonds” issued under the terms of the Subordinate General Resolution and are secured by and entitled to the security and the rights granted by the Subordinate General Resolution. The Commercial Paper Notes will be issued in two Series, each Series in the maximum principal amount as set forth in the Amended and Restated Issuing and Paying Agent Agreement, and a particular Series may be issued bearing interest at tax-exempt and/or taxable rates. The Commercial Paper Notes of each Series may be further designated by subseries as directed by the City.

The City’s obligation to pay principal of and interest on the Commercial Paper Notes, to pay the Reimbursement Obligations and to pay each Bank Note and to pay interest thereon in accordance with the terms of the respective Credit Agreement (collectively, the “Second Lien Obligations”) shall be and are special obligations of the City and the City shall be obligated to pay the Second Lien Obligations solely from the Revenues and from amounts in the SCM Fund, the CP Debt Service Fund and the CP Construction Funds into which the Revenues and

proceeds of the Commercial Paper Notes are deposited; provided that the payment of the Second Lien Obligations from the Revenues and from amounts in the SCM Fund shall be subordinate to the payment of the Senior Lien Bonds, and shall be on a parity with the City's obligations with respect to any Subordinate Bonds that are outstanding from time to time. THE GENERAL FUND OF THE CITY IS NOT LIABLE FOR THE PAYMENT OF THE PRINCIPAL OF, INTEREST ON OR PREMIUM, IF ANY, ON THE SECOND LIEN OBLIGATIONS. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY IS PLEDGED TO PAY THE SECOND LIEN OBLIGATIONS.

In addition to the lien granted to secure Subordinate Bonds under the Subordinate General Resolution (and referred to in Section 3.02 hereof), to secure the payment of the Second Lien Obligations, the City hereby pledges to the Holders of the Commercial Paper Notes and to the Banks, and places a first lien upon and assigns to the Holders of the Commercial Paper Notes and to the Banks, the proceeds of the issue of subsequent Commercial Paper Notes, the proceeds of drawings under the related Credit Facility, and all moneys and securities held in the CP Debt Service Fund and the CP Construction Funds. All amounts in the CP Debt Service Fund which have become due and payable but have not been presented for payment shall be held in trust solely as security for such specific Second Lien Obligations and shall be used to pay only such Second Lien Obligations and shall not be pledged as security for or be available to pay other obligations.

ARTICLE III
AUTHORIZATION OF CREDIT FACILITY AND CREDIT AGREEMENT AND
OBLIGATIONS UNDER THE CREDIT AGREEMENT

Section 3.01. Authorization of Credit Facility and Credit Agreement. The Council hereby determines that the marketability of the Commercial Paper Notes will be enhanced if the City provides assurance to the purchasers of the Commercial Paper Notes that the City has ready access to sufficient funds to pay maturing Commercial Paper Notes by providing credit support for the Commercial Paper Notes. The Council hereby determines that the payment, interest rate, currency, security, default, remedy and other terms and conditions of two separate reimbursement agreements and the repayment of Reimbursement Obligations and any Bank Notes and interest thereon shall be as set forth in this Amended and Restated Fifteenth Supplemental Resolution and in the respective Credit Agreement, the respective Credit Facility and the respective Bank Notes. The Council hereby approves the terms of each Credit Agreement, each Fee Letter, each Credit Facility and the Bank Notes, forms of which are on file with the City Clerk, and the Council hereby authorizes any one or more of the Authorized City Representatives to execute and deliver the respective Credit Agreement, the respective Fee Letter and the respective Bank Notes in substantially such forms, but with such modifications and changes therein as the Authorized City Representatives executing such documents shall approve, and to incur the obligations represented thereby and authorizes the incurrence of the obligations therein and approves the form of each Credit Facility. The execution and delivery of the respective Credit Agreement and the respective Fee Letter by an Authorized City Representative shall be conclusive proof of the approval of any modifications and changes therein by the Authorized City Representative executing such document and by this Council.

Section 3.02. Obligations Under the Credit Agreement. The City's obligations to repay Reimbursement Obligations and the Bank Notes and to pay interest thereon as set forth in the respective Credit Agreement are issued under, secured by and subject to the terms of the Subordinate General Resolution and are secured on a basis subordinate to the Senior Lien Bonds and on a parity with all Outstanding Subordinate Bonds, as provided in the Subordinate General Resolution. The City's obligations to pay the Reimbursement Obligations and the Bank Notes and to pay interest thereon as set forth in the respective Credit Agreement are special obligations of the City payable only from the Revenues, the SCM Fund, the CP Debt Service Fund, the CP Construction Funds and the proceeds of the Commercial Paper Notes and not from the general fund of the City and the City is not obligated to repay Advances or any Bank Notes nor the interest thereon from any other source. The Second Lien Obligations shall be paid as and when due from the SCM Fund for purposes of, subject to and in accordance with Section 5.03 and Section 6.06 of the Subordinate General Resolution, and from the other funds and accounts described above. The City shall create and maintain or cause the Issuing and Paying Agent to create and maintain funds and accounts for the purpose of making payments on the Second Lien Obligations as and when due under the respective Credit Agreements; the Revenues and other funds shall be deposited in and used and withdrawn from such funds and accounts as set forth in this Amended and Restated Fifteenth Supplemental Resolution, the Amended and Restated Issuing and Paying Agent Agreement and in the respective Credit Agreements with respect to such payments on Second Lien Obligations.

Section 3.03. Drawings. The Issuing and Paying Agent is hereby authorized and directed on each day any Commercial Paper Note of any Series and subseries matures to deliver to the Related Bank no later than 10:00 a.m. New York City time a drawing certificate (as provided in the related Credit Facility) and accompanying documentation and to take such action as necessary to comply with the terms of the related Credit Facility, if required, and to demand payment be made under such Credit Facility on such maturity date at such time and in such amount not in excess of the Stated Amount so as to be timely and sufficient to pay the entire amount of principal and interest becoming due on all Commercial Paper Notes on such date; provided that, in each case any certificates of the Issuing and Paying Agent shall be signed by one who states therein that such person is a duly authorized officer of the Issuing and Paying Agent.

**ARTICLE IV
DEALERS; OFFERING MEMORANDUM;
PAYING AGENT AGREEMENT; LETTER AGREEMENT**

Section 4.01. Dealers. The City hereby reappoints, as Dealers, Wells Fargo Bank, National Association and Samuel A. Ramirez & Co., Inc., and the City will enter into a Dealer Agreement with each of the Dealers.

The Council hereby authorizes any one or more of the Authorized City Representatives to execute and deliver the Dealer Agreements in substantially the form presented to this session of the Council with such modifications thereto as the Authorized Representative executing such Dealer Agreement shall approve. The execution and delivery of such Dealer Agreements by an Authorized City Representative shall be conclusive proof of the approval of any modifications therein by the Authorized City Representative executing such document and by this Council.

The Council hereby authorizes any one or more of the Authorized City Representatives the discretion and approval to take all action required and otherwise necessary to replace one or more of the Dealers with any dealer from the City's approved underwriting pool if it is determined to be in the best interest of the City.

Section 4.02. Offering Memorandum. There has been presented to this session of the Council a form of Offering Memorandum describing the Commercial Paper Notes and providing certain information concerning the City and the SCM Fund. The Council hereby authorizes the distribution of such Offering Memorandum in connection with the offer and sale of the Commercial Paper Notes, with such modifications and changes therein as the Authorized City Representatives shall approve. The execution and delivery of the Offering Memorandum by an Authorized City Representative shall be conclusive proof of the approval of any modifications and changes therein by the Authorized City Representative executing such document.

Section 4.03. Amended and Restated Issuing and Paying Agent Agreement. The Council hereby reappoints U.S. Bank National Association as issuing and paying agent for the Commercial Paper Notes and authorizes any one or more of the Authorized City Representatives to enter into an amended and restated issuing and paying agent agreement with the Issuing and Paying Agent to provide for the drawing and payment arrangements contemplated by the Credit Facility. The Council hereby approves the terms of the Amended and Restated Issuing and Paying Agent Agreement, a form of which was presented to the session of Council when the Council approved the Original Fifteenth Supplemental Resolution, as modified by the Letter Agreement, and hereby authorizes any one or more of the Authorized City Representatives to execute and deliver the Amended and Restated Issuing and Paying Agent Agreement in the form presented to this Council, but with such modifications and changes therein as the Authorized City Representatives executing such document shall approve. The execution and delivery of the Amended and Restated Issuing and Paying Agent Agreement by an Authorized City Representative shall be conclusive proof of the approval of any modifications and changes therein by the Authorized City Representative executing such document by this Council.

Section 4.04. Letter Agreement. The Council hereby approves the terms of the Letter Agreement, a form of which has been presented to this session of the Council, and hereby authorizes any one or more of the Authorized City Representatives to execute and deliver the Letter Agreement in the form presented to this Council, but with such modifications and changes therein as the Authorized City Representatives executing such document shall approve. The execution and delivery of the Letter Agreement by an Authorized City Representative shall be conclusive proof of the approval of any modifications and changes therein by the Authorized City Representative executing such document by this Council.

**ARTICLE V
NOTICES AND OTHER ACTIONS REGARDING
SUBSTITUTION OF CREDIT FACILITY**

The Council hereby ratifies all action taken by the Authorized City Representatives under the Original Fifteenth Supplemental Resolution, including the substitution of the Banks for the 2010 Banks and the replacement of the Prior Credit Agreement with each Credit Facility issued pursuant to the respective Credit Agreement and the entry into all documents relating thereto,

including the Credit Agreements and the Fee Letters with each respective Bank, and the Council hereby ratifies and confirms any such actions taken by the Authorized City Representatives prior to adoption of the Original Fifteenth Supplemental Resolution, including but not limited to, causing notice of the substitution and replacement to have been provided to the Dealers, the Issuing and Paying Agent and the Holders of the Commercial Paper Notes.

ARTICLE VI NON-PARITY OBLIGATIONS

Section 6.01. Priority of Payments; Obligations under the respective Credit Agreements and Fee Letters Not Constituting Parity Obligations; Pledge of Revenues.

Obligations under the respective Credit Agreements and the Fee Letters other than the obligation to pay the principal of and interest on the Commercial Paper Notes and the Reimbursement Obligations and the obligation to pay the Bank Notes and interest thereon (collectively, the "Other Obligations") shall be and are special, limited obligations of the City and shall be subordinated obligations pursuant to Section 6.06 of the Subordinate General Resolution payable solely from Revenues on a basis junior and subordinate to the Subordinate Bonds as to the lien on and source and security for payment from the Revenues. To secure the payment of all Other Obligations, the City hereby pledges and places a third lien upon the Revenues as defined in the Subordinate General Resolution and the Revenues held in the SCM Fund including the earnings on such Revenues, subject to the provisions of the General Resolution, the Subordinate General Resolution and this Amended and Restated Fifteenth Supplemental Resolution permitting the application thereof for the purposes and on the terms and conditions set forth therein and subject to the prior pledge and, assignment and lien thereon granted by the General Resolution to secure the Senior Lien Bonds and the prior subordinate pledge and assignment thereof and lien thereon granted by the Subordinate General Resolution to secure the Subordinate Bonds. The pledge of and lien on Revenues granted hereby to secure Other Obligations shall rank on a parity with the pledge of and third lien on such Revenues granted under the Fourteenth Supplemental Resolution supplementing the Wastewater System Subordinate Revenue Bonds General Resolution with respect to the particular obligations identified thereunder, and shall be subordinate only to the Senior Lien Bonds and the Subordinate Bonds. Nothing in this Amended and Restated Fifteenth Supplemental Resolution shall be deemed to limit the ability of the City to create additional liens on and pledges of the Revenues on a parity with the pledge of and lien on such Revenues granted hereby to secure the Other Obligations, provided that the terms and conditions of the General Resolution, the Subordinate Resolution and this Amended and Restated Fifteenth Supplemental Resolution are met.

Such Other Obligations shall be paid as and when due from the SCM Fund subject to and in accordance with Section 5.03 and Section 6.06 of the Subordinate General Resolution. The City shall create and maintain or cause the Issuing and Paying Agent to create and maintain funds and accounts for the purpose of making payments on Other Obligations and other payments; provided the Revenues may be used to fund such funds and accounts only if the conditions for the use of excess amounts in the SCM Fund are met as provided in Section 5.03 of the Subordinate General Resolution. Subject to the foregoing, Revenues shall be deposited in and used and withdrawn from such funds and accounts as set forth in this Amended and Restated Fifteenth Supplemental Resolution and the respective Credit Agreements, with respect to such payments on Other Obligations.

Section 6.02. Rate Covenant. The City further acknowledges that all Other Obligations shall constitute payments described under Section 6.03(a)(3) of the Subordinate General Resolution.

Section 6.03. Tests for Issuance of Subordinate Bonds. The City agrees that with respect to any money obligations included in Other Obligations, for purposes of calculating Maximum Annual Debt Service for compliance with Section 3.11 of the Subordinate General Resolution, such obligations will be treated as interest coming due in the year in which such obligations are first payable.

ARTICLE VII AMENDMENT OF FIRST SUPPLEMENTAL RESOLUTION

The first two paragraphs of Section 3.03 of the First Supplemental Resolution shall be amended and restated in their entirety to read as follows:

Section 3.03. Terms of the Commercial Paper Notes; Signature. The Commercial Paper Notes shall be dated the date of their respective authentication and issuance; shall be issued in bearer form or registered to bearer; shall be issued in minimum denominations of \$100,000 and \$1,000 increments in excess thereof; and interest on the Commercial Paper Notes shall be separately stated by rate and amount on the face of each Commercial Paper Note. Commercial Paper Notes of a subseries shall bear interest from their respective dates, at either the applicable tax-exempt or taxable rates, payable on their respective maturity dates.

Commercial Paper Notes (i) shall bear interest payable at maturity at an annual rate not in excess of 12% per annum (calculated, with respect to Commercial Paper Notes bearing interest at tax-exempt rates, on the basis of a year consisting of 365 or 366 days and actual number of days elapsed, and, with respect to Commercial Paper Notes bearing interest at taxable rates, on the basis of a year consisting of 360 days and actual number of days elapsed) or such lesser rate permitted by the Revenue Bond Law at the time of issuance of the respective Commercial Paper Note, (ii) shall mature not more than 270 days after their respective issuance dates, but in no event later than 15 days prior to the Termination Date of the related Credit Facility and (iii) shall be sold at a price of not less than 100% of the principal amount thereof. The stated interest rate, maturity date and other terms of each Commercial Paper Note, so long as not inconsistent with the terms of this Amended and Restated Fifteenth Supplemental Resolution, shall be as set forth in the Issuance Request required by Section 3.08 hereof directing the issuance of such Commercial Paper Note.

ARTICLE VIII MISCELLANEOUS

Section 8.01. Additional Actions. All actions heretofore taken by any officers, employees, agents or directors of the City, with respect to the negotiation, execution and delivery of each Credit Agreement and each Fee Letter and the Bank Notes, or in connection with any

amendment thereto, including the Letter Agreement, and the making of any filings with the Municipal Securities Rulemaking Board, are hereby approved, confirmed and ratified; and the officers of the City and their authorized representatives, and each of the foregoing acting alone is, hereby authorized and directed, for and in the name and on behalf of the City, to do any and all things and to take any and all actions, and to execute and deliver such documents, agreements and certificates, which they, or any of them, may deem necessary or advisable to effectuate the purposes of this Amended and Restated Fifteenth Supplemental Resolution.

Section 8.02. The Provisions of the Previous CP Supplemental Resolutions. Unless the context indicates otherwise or unless otherwise amended herein, the provisions in the Previous CP Supplemental Resolutions shall be incorporated herein by this reference and shall apply to this Amended and Restated Fifteenth Supplemental Resolution and all of the Commercial Paper Notes authorized pursuant hereto.

Section 8.03. Effective Date. This Amended and Restated Fifteenth Supplemental Resolution shall take effect from and upon its adoption.

I hereby certify that the foregoing Resolution was duly adopted by the Council of the City of Los Angeles this ___ day of _____, 2013.

JUNE LAGMAY
City Clerk

By: _____
Deputy

Approved as to Form
CARMEN A. TRUTANICH
City Attorney

By: _____
Assistant City Attorney

ATTACHMENT B

AMENDED AND RESTATED OFFERING MEMORANDUM

FULL BOOK-ENTRY
DTC Bond

In connection with the adoption of the Amended and Restated Fifteenth Supplemental Resolution, Bond Counsel will deliver its letter advising that an opinion previously rendered by Bond Counsel that the issuance of certain letters of credit would not adversely affect the exclusion from federal gross income of interest on the Notes has not been changed or withdrawn by virtue of such adoption. See "TAX MATTERS" herein.



City of Los Angeles
Wastewater System Commercial Paper
Revenue Notes
\$200,000,000 Maximum Aggregate
Principal Amount Outstanding at Any Time
Tax-Exempt Series A-1 and Tax-Exempt Series A-2
Taxable Series B-1 and Taxable Series B-2

The purpose of this Offering Memorandum is to provide certain information relating to the City of Los Angeles Wastewater System Commercial Paper Revenue Notes (the "Notes"). The proceeds of the Notes are used to provide funds to refund Notes previously issued by the City of Los Angeles, California (the "City").

The Notes are offered under the authority of the City Charter, voter approval at elections held in 1987, 1988 and 1992 authorizing the issuance of up to \$3.5 billion of wastewater system revenue bonds, a Wastewater System Subordinate Revenue Bonds General Resolution (the "Subordinate General Resolution") adopted by the Council of the City (the "City Council") on March 26, 1991, as amended and supplemented, and as further amended by an Amended and Restated Fifteenth Supplemental Resolution adopted by the City Council on _____, 2013, and an Amended and Restated Issuing and Paying Agent Agreement, dated as of December 1, 2012, as amended to date, by and between the City and U.S. Bank National Association, as issuing and paying agent (the "Issuing and Paying Agent").

The maximum aggregate principal amount of Notes offered by this Offering Memorandum may not exceed \$200,000,000.

The Notes are special, limited obligations of the City payable from and secured by a subordinate pledge of certain Revenues (as defined herein) derived from the ownership and operation of the wastewater collection and treatment system of the City (the "System"). The pledge of Revenues with respect to the Notes is subordinate to the pledge of Revenues which secures all Senior Lien Bonds (as defined herein) currently outstanding and those issued from time to time in the future. The pledge of Revenues with respect to the Notes is on a parity with the pledge of Revenues which secures all Subordinate Bonds (as defined herein) currently outstanding and those issued from time to time in the future.

The Notes of each subseries are additionally secured by a related letter of credit, as amended to date (each, a "Letter of Credit" and collectively, the "Letters of Credit"), issued pursuant to separate Reimbursement Agreements, each dated as of December 1, 2012, as amended to date (each, a "Reimbursement Agreement," and collectively, the "Reimbursement Agreements"), with The Bank of New York Mellon, with respect to the Tax-Exempt Series A-1 Notes and the Taxable Series B-1 Notes, and Sumitomo Mitsui Banking Corporation, acting through its New York Branch, with respect to the Tax-Exempt Series A-2 Notes and the Taxable Series B-2 Notes (each a "Bank," and collectively, the "Banks"), pursuant to which the respective Bank has (individually, and not on a joint basis), agreed to issue to the Issuing and Paying Agent, for the benefit of the holders of the related Series of Notes, its own Letter of Credit. See "THE LETTERS OF CREDIT" herein.

Tax-Exempt Series A-1 and Taxable Series B-1 – The Bank of New York Mellon—\$100,000,000
Tax-Exempt Series A-2 and Taxable Series B-2 – Sumitomo Mitsui Banking Corporation, acting through its New York Branch—
\$100,000,000

The expiration dates of the Letters of Credit issued by The Bank of New York Mellon and Sumitomo Mitsui Banking Corporation, acting through its New York Branch, are December 18, 2015 and December 15, 2017, respectively, unless terminated earlier or extended pursuant to the terms of the related Reimbursement Agreement. See "SECURITY AND SOURCE OF PAYMENT FOR THE NOTES—General" herein.

The Notes shall be dated the date of their respective authentication and issuance and shall be issued in fully-registered form and when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC") and shall be issued in minimum denominations of \$100,000 and \$1,000 increments in excess thereof. Interest on the Tax-Exempt Series A Notes shall be calculated on the basis of a year consisting of 365 or 366 days and the actual number of days elapsed. Interest on the Taxable Series B Notes shall be calculated on the basis of a year consisting of 360 days and the actual number of days elapsed. The Notes shall mature on a business day not more than 270 days after their respective dates but in no event later than 15 days prior to the Termination Date (as defined in the respective Letter of Credit) of the related Letter of Credit or any substitute liquidity arrangement.

The Notes are not subject to redemption prior to their maturity.

The General Fund of the City is not liable for the payment of the Notes and neither the full faith and credit nor the taxing power of the City is pledged to pay the Notes. The Notes do not constitute a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of the City's property, or upon its income, receipts or revenue, except to the extent of the subordinate pledge of the Revenues and the pledge of amounts on deposit in the CP Debt Service Fund and the CP Construction Funds, each as described herein, proceeds of the sale of new Notes and payments under the related Letter of Credit.

This cover page contains information for quick reference only. It is not a summary of the issue. Potential purchasers must read the entire Offering Memorandum and the information incorporated herein by reference to obtain information essential to making an informed investment decision. The Dealers may from time to time have a long or short position in, and buy or sell and make a market in, securities of the City and its affiliates. The Dealers from time to time may act as manager or co-manager of a public offering of such securities and perform investment banking and other services to the issuer of such securities.

Wells Fargo Securities

Ramirez & Co., Inc.

Dated: _____, 2013

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 Offering Memorandum does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Notes by a person in any jurisdiction in which it is unlawful for such person to make an offer, solicitation or sale.

This Offering Memorandum is not to be construed as a contract with the purchasers of the Notes. Statements contained in this Offering Memorandum 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 Offering Memorandum under the caption "THE BANKS" has been provided by the Banks. None of the City, the Dealers or any of their respective counsel, officers, agents or employees make any representations as to the accuracy or sufficiency of such information.

The information set forth in this Offering Memorandum has been obtained from the City, and other sources which are believed by the City to be reliable. The Dealers have provided the following sentence for inclusion in this Offering Memorandum. *The Dealers have reviewed the information in this Offering Memorandum 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 Dealers do not guarantee the accuracy or completeness of such information.*

Certain statements included or incorporated by reference in the Offering Memorandum constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Although 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.

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Offering Memorandum 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 Notes, the resolutions 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. See "FURTHER INFORMATION" herein.

CITY OF LOS ANGELES

Mayor

Antonio R. Villaraigosa

City Council

Ed Reyes (District 1)
Paul Krekorian (District 2)
Dennis P. Zine (District 3)
Tom LaBonge (District 4)
Paul Koretz (District 5)

Vacant (District 6)
Richard Alarcon (District 7)
Bernard C. Parks (District 8)
Jan Perry (District 9)
Herb J. Wesson, Jr. (District 10)

Bill Rosendahl (District 11)
Mitchell Englander (District 12)
Eric Garcetti (District 13)
José Huizar (District 14)
Joe Buscaino (District 15)

City Officials

Carmen A. Trutanich, *City Attorney*
Wendy Greuel, *City Controller*
Miguel A. Santana, *City Administrative Officer*
Antoinette Christovale, *City Treasurer*
June Lagmay, *City Clerk*

Board of Public Works

Valerie Lynne Shaw, Vice President
Jeryllyn López Mendoza, Commissioner

Capri Maddox, President

Steven T. Nutter, President Pro Tem
Warren T. Furutani, Commissioner

Bureau of Engineering

Gary Lee Moore, P.E.
City Engineer

Bureau of Sanitation

Enrique C. Zaldivar
Director

Office of Accounting

Victor A. Santiago
Director

SPECIAL SERVICES

BOND COUNSEL
Sidley Austin LLP
San Francisco, California

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

FINANCIAL ADVISOR
Public Resources Advisory Group
Los Angeles, California

ISSUING AND PAYING AGENT
U.S. Bank National Association
New York, New York

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OFFERING MEMORANDUM

The City of Los Angeles Wastewater System Commercial Paper Revenue Notes

\$200,000,000 Maximum Aggregate Principal Amount Outstanding at Any Time Tax-Exempt Series A-1 and Tax-Exempt Series A-2 Taxable Series B-1 and Taxable Series B-2

INTRODUCTION

This introduction is not a summary of this Offering Memorandum. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Offering Memorandum, 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 Offering Memorandum. References to, and summaries of provisions of the Constitution and laws of the State of California (the "State") 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.

This Offering Memorandum, including the cover page and appendices hereto, is being furnished in connection with the offering by the City of Los Angeles, California (the "City") of its Wastewater System Commercial Paper Revenue Notes (the "Notes") to be offered in two series (each a "Series") and four subseries (each a "Subseries"). The Notes are issued under the authority of the City Charter, voter approval at elections held in 1987, 1988 and 1992 authorizing the issuance of up to \$3.5 billion of wastewater system revenue bonds, a Wastewater System Subordinate Revenue Bonds General Resolution (the "Subordinate General Resolution") adopted by the Council of the City (the "City Council") on March 26, 1991, as amended and supplemented, and as further amended by an Amended and Restated Fifteenth Supplemental Resolution adopted by the City Council on _____, 2013, and an Amended and Restated Issuing and Paying Agent Agreement, dated as of December 1, 2012, as amended to date (the "Issuing and Paying Agent Agreement"), by and between the City and U.S. Bank National Association, as issuing and paying agent (the "Issuing and Paying Agent").

The maximum aggregate principal amount of Notes offered by this Offering Memorandum may not exceed \$200,000,000.

The Notes are special, limited obligations of the City payable from and secured by a subordinate pledge of certain Revenues (as defined herein) derived from the ownership and operation of the wastewater collection and treatment system of the City (the "System"). The pledge of Revenues with respect to the Notes is subordinate to the pledge of Revenues which secures all Senior Lien Bonds (as defined herein) currently outstanding and those issued from time to time in the future. The pledge of Revenues with respect to the Notes is on a parity with the pledge of Revenues which secures all Subordinate Bonds (as defined herein) currently outstanding and those issued from time to time in the future.

The payment of the Tax-Exempt Series A-1 Notes and the Taxable Series B-1 Notes (collectively, the "BNY Mellon Notes") and the Tax-Exempt Series A-2 Notes and the Taxable Series B-2 Notes (collectively, the "SMBC Notes") is additionally secured by a related letter of credit, as amended to date (each, a "Letter of Credit," and collectively, the "Letters of Credit"), issued pursuant to a related Reimbursement Agreement, each dated as of December 1, 2012, as amended to date (each, a

“Reimbursement Agreement,” and collectively, the “Reimbursement Agreements”), with The Bank of New York Mellon (“BNY Mellon”), with respect to the BNY Mellon Notes, and Sumitomo Mitsui Banking Corporation, acting through its New York Branch (“SMBC;” each, a “Bank,” and, collectively, the “Banks”), with respect to the SMBC Notes, pursuant to which the respective Bank has agreed (on an individual, and not a joint basis) to issue to the Issuing and Paying Agent, for the benefit of the holders of the related Notes, a Letter of Credit.

The expiration dates of the Letters of Credit issued by BNY Mellon and SMBC are December 18, 2015 and December 15, 2017, respectively, unless terminated earlier or extended pursuant to the terms of the related Reimbursement Agreement. See “LETTERS OF CREDIT” herein. The City expects to request an extension of the termination date of the Letters of Credit or negotiate and enter into one or more new credit facilities to secure the respective Subseries of Notes prior to the expiration date of the related Letters of Credit.

The City may issue wastewater system revenue bonds from time to time, the proceeds of which may be used to refund a portion of the Notes then outstanding. The City may also issue additional commercial paper notes from time to time, depending on market conditions. As a result of the adoption of a new City Charter effective on July 1, 2000, the issuance of wastewater system revenue bonds and commercial paper notes no longer requires a vote of the electorate, but can be authorized through a procedural ordinance.

The General Fund of the City is not liable for the payment of the Notes and neither the full faith and credit nor the taxing power of the City is pledged to pay the Notes. The Notes do not constitute a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of the City's property, or upon its income, receipts or revenue, except to the extent of the subordinate pledge of the Revenues and the pledge of amounts on deposit in the CP Debt Service Fund (as defined herein) and the CP Construction Funds (as defined herein), proceeds of the sale of new Notes and payments under the related Letters of Credit.

Certain information regarding the City and the System can be found in the City's Official Statement dated May 17, 2012 and attached hereto as Appendix A within Appendix A within APPENDIX A and in the City of Los Angeles Sewer Construction and Maintenance Fund Basic Financial Statements with Independent Auditor's Report for the Fiscal Years Ended June 30, 2011 and 2010 and Debt Service Compliance Report for the Fiscal Year Ended June 30, 2011 attached to the May 17, 2012 Official Statement as Appendix E thereto. No assurances can be given as to the absence of material adverse changes or events that affect the accuracy or adequacy of the information relating to the System in the City's Offering Memorandum attached hereto as APPENDIX A. No attempt has been made to update the information relating to the System in APPENDIX A in this Offering Memorandum.

THE COMMERCIAL PAPER NOTES

The Notes shall be dated the date of their respective authentication and issuance and shall be issued in fully-registered form and when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York (“DTC”) and shall be issued in minimum denominations of \$100,000 and \$1,000 increments in excess thereof. See “BOOK-ENTRY SYSTEM” herein.

The Notes shall bear interest payable at maturity at an annual rate not in excess of 12% per annum or such lesser rate permitted by the 1941 Act at the time of issuance of a Note. Interest on the Tax-Exempt Series A Notes shall be calculated on the basis of a year consisting of 365 or 366 days and the actual number of days elapsed. Interest on the Taxable Series B Notes shall be calculated on the basis of a year consisting of 360 days and the actual number of days elapsed. The Notes shall mature on a

Business Day not more than 270 days after their respective dates but in no event later than 15 days prior to the Termination Date of the related Letter of Credit or any substitute liquidity arrangement.

The Notes will be available for countersignature and issuance, and will be payable, at the offices of the Issuing and Paying Agent: U.S. Bank National Association, 100 Wall Street, Suite 1600, New York, New York 10005. The purchase price payable by an investor is required to be made, and the amount payable by the City at maturity, will be paid, in immediately available funds. Notes must be presented to the Issuing and Paying Agent by 1:00 p.m. New York time to assure same-day payment.

The Notes are not subject to redemption prior to maturity.

SECURITY AND SOURCE OF PAYMENT FOR THE NOTES

General

The Notes are payable on a subordinate basis from the Revenues derived by the City from the ownership or operation of the System and from amounts, if any, on deposit in the "CP Debt Service Fund" and the "CP Construction Funds" created pursuant to the Subordinate General Resolution. The CP Debt Service Fund currently consists of three separate accounts designated as the "CP Interest Account," the "CP Principal Account" and the "CP Matured Note Account." Pursuant to the terms of the Issuing and Paying Agent Agreement, the Issuing and Paying Agent will establish within the CP Debt Service Fund a new separate account designated as the "CP Bank Payment Account." All Revenues (as defined herein) of the System received by the City are deposited, after collection, into the Sewer Construction and Maintenance Fund (the "SCM Fund") held by the City Treasurer. The SCM Fund has been operated as a special fund of the City since 1970. See "FURTHER INFORMATION" herein.

Payment of the principal of and interest on the BNY Mellon Notes and the SMBC Notes offered pursuant to this Offering Memorandum is additionally secured by the related Letter of Credit. See "THE LETTERS OF CREDIT" herein. The City expects to request an extension of the termination date of each of the Letters of Credit or negotiate and enter into one or more new credit facilities to secure the respective Subseries of Notes prior to the expiration date of the related Letters of Credit.

Pursuant to the Issuing and Paying Agent Agreement, the Issuing and Paying Agent will establish within the CP Interest Account, the CP Principal Account, the CP Matured Note Account and the CP Bank Payment Account, a separate subaccount (each, a "Subaccount") for each Subseries of the Notes. The proceeds of the Notes of a Subseries and Drawings (as defined in the related Reimbursement Agreement) related to such Subseries made by the related Bank under the related Letter of Credit are pledged to the payment of Notes of the related Subseries. Moneys deposited into each Subaccount for a Subseries are held in trust solely to pay the principal of and interest on the Notes of such Subseries and cannot be used to pay the principal of and interest on the Notes of the other Subseries.

System Revenues; Senior and Other Subordinated Debt

"Revenues" are defined in the Subordinate General Resolution as 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, sewage facilities charges and bonded sewer fees and all other income and receipts derived by the City from 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 (as defined in the Senior Lien General Resolution, defined below), the Reserve Fund (as defined in the

Senior Lien General Resolution) and the Emergency Fund (as defined in the Senior Lien General Resolution); and all earnings received on the Debt Service Funds and, if any, Reserve Funds (as defined in the Senior Lien General Resolution) created for the Subordinate Bonds provided, however, that Revenues shall 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) grants received from the United States of America, from the State or other political bodies; (iv) earnings on the CP Construction Funds and earnings on the Construction Funds (as defined in the Senior Lien General Resolution); (v) the proceeds of borrowings; and (vi) proceeds of insurance. The Subordinate General Resolution provides that Revenues include amounts paid to the City under the Service Charge Agreements entered into by the City and other political entities which provide for the payment of supplemental service charges or other payments in recognition of the City's increased expenses as a result of providing System improvements and/or expansions which benefit the contracting political entities.

Under the provisions of the Wastewater System Revenue Bonds General Resolution adopted by the City Council on November 10, 1987, as amended and supplemented (the "Senior Lien General Resolution"), the City has previously pledged and assigned the Revenues and granted a senior lien upon the Revenues to secure Wastewater System Revenue Bonds (the "Senior Lien Bonds"), including Senior Lien Bonds issued from time to time in the future. The pledge, assignment and lien on the Revenues granted to secure the Senior Lien Bonds shall, in all respects, be prior to the pledge, assignment, and lien on the Revenues granted to secure the Notes, Subordinate Bonds and the Senior Lien Bonds shall be payable from the Revenues on a priority basis.

The City may issue additional Senior Lien Bonds provided certain requirements in the Senior Lien General Resolution are satisfied, including the requirement that Net Revenues (adjusted as provided in the Senior Lien General Resolution) for the immediately preceding Fiscal Year, or for any 12 consecutive months out of the 18 consecutive months preceding the issuance of such proposed additional Senior Lien Bonds, must have been equal to at least 125% of the Maximum Annual Debt Service for all Senior Lien Bonds which will be outstanding after their issuance. "Net Revenues" are defined in the Senior Lien General Resolution and in the Subordinate General Resolution as Revenues less Expenses (as defined in the Senior Lien General Resolution and in the Subordinate General Resolution). The City plans to continue to issue Senior Lien Bonds secured by Revenues. See "INTRODUCTION" herein.

In addition, the Subordinate General Resolution permits the City to issue additional commercial paper notes and Subordinate Bonds secured on a parity basis with the Notes provided certain requirements are satisfied, including the requirement that the Net Revenues (adjusted as provided in the Subordinate General Resolution) for the immediately preceding Fiscal Year, or for any 12 consecutive months out of the 18 consecutive months preceding the issuance of such proposed additional Subordinate Bonds, must have been equal to at least 110% of the Maximum Annual Debt Service for all Senior Lien Bonds and Subordinate Bonds which will be outstanding after their issuance. The City plans to continue to issue Subordinate Bonds secured by Revenues. See "INTRODUCTION" herein.

As of September 1, 2012, the City had \$1,146,930,000 of Senior Lien Bonds outstanding (including refunding bonds) under the Senior Lien General Resolution and \$1,307,115,000 of Subordinate Bonds (excluding the Notes) outstanding under the Subordinate General Resolution. None of such Subordinate Bonds will have any interest in the Letters of Credit, which secure solely the Notes offered by this Offering Memorandum. As of the date hereof, there are \$80,000,000 in Notes outstanding.

The City has agreed that it will at all times impose and collect rates, fees and charges at levels at least sufficient to allow it to comply with its covenants set forth in the Senior Lien General Resolution and Subordinate General Resolution. The City is required by the Senior Lien 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% of actual debt service on Senior Lien Bonds in such year. The City is also required by the Subordinate General Resolution to establish rates and charges for the use of the System to produce Net Revenues each year at least equal to 110% of actual debt service on Senior Lien Bonds and Subordinate Bonds in such year.

Rates and charges for use of the System are established by the City Council by ordinance and are not subject to regulatory approval by any other governmental entity. See also APPENDIX A – “THE DECEMBER 2012 OFFERING MEMORANDUM—Appendix A—THE SEPTEMBER 2012 OFFERING MEMORANDUM—Appendix A—THE 2012 OFFICIAL STATEMENT—FINANCIAL OPERATIONS OF THE WASTEWATER SYSTEM—Sewer Rates and Revenues” and “—Historical Sewer Rates and Charges.”

THE LETTERS OF CREDIT

General

The City has entered into separate Reimbursement Agreements with each Bank, pursuant to which the respective Bank has (individually but not jointly) agreed to issue to the City for the benefit of the holders of the related Subseries of Notes from time to time, a Letter of Credit in the amount shown in the table below:

Subseries	Letter of Credit Bank	Original Principal Amount of Series	Maximum Letter of Credit Amount
Tax-Exempt Series A-1 and Taxable Series B-1	BNY Mellon	\$100,000,000	\$109,000,000
Tax-Exempt Series A-2 and Taxable Series B-2	SMBC	\$100,000,000	\$109,000,000

The two Letters of Credit are collectively referred to as the “Letters of Credit.” Unless extended, the Letters of Credit issued by BNY Mellon and SMBC expire on December 18, 2015 and December 15, 2017, respectively, or on the earlier occurrence of certain events as described below. The City expects to request the extension of the termination date of each of the Letters of Credit or negotiate and enter into one or more new credit facilities to secure the respective Subseries of Notes prior to the respective expiration dates of the Letters of Credit.

The Letter of Credit issued by BNY Mellon (the “BNY Mellon Letter of Credit”) shall expire at 5:00 p.m., New York City time, on the date (the “BNY Mellon Termination Date”) that is the earliest of: (a) December 18, 2015 (as such date may be extended in a notice from BNY Mellon to the Issuing and Paying Agent and the City), (b) the date of payment of a Drawing, not subject to reinstatement, which equals the then Stated Amount (as defined in the BNY Mellon Reimbursement Agreement) and (c) the Bank’s receipt of a certificate purportedly signed by a duly authorized officer of the Issuing and Paying Agent, appropriately completed, providing that the Issuing and Paying Agent has accepted a substitute Credit Facility (as defined in the BNY Mellon Reimbursement Agreement) or that no Commercial Paper Notes remain outstanding under the Issuing and Paying Agent Agreement and the City has notified the Issuing and Paying Agent that the City does not intend to issue any additional Commercial Paper Notes and desires to terminate the BNY Mellon Letter of Credit. All Drawings under the BNY Mellon Letter of Credit shall be paid from immediately available funds of BNY Mellon.

The Letter of Credit issued by SMBC (the "SMBC Letter of Credit") shall expire at 5:00 p.m. New York City time on the date (the "SMBC Termination Date") which is the earliest to occur of: (a) December 15, 2017 (the "SMBC Letter of Credit Expiration Date"), as such date may be extended in a notice from SMBC to the Issuing and Paying Agent and the City; (b) the date of payment of a Drawing (as defined in the SMBC Letter of Credit), not subject to reinstatement, which when added to all other Drawings honored under the SMBC Letter of Credit which were not subject to reinstatement as provided in the SMBC Letter of Credit, in the aggregate equals the Stated Amount (as defined in the SMBC Letter of Credit) on the date of issuance of the SMBC Letter of Credit as adjusted pursuant to the terms and conditions of the SMBC Letter of Credit; (c) the date on which SMBC receives a termination certificate signed by a duly authorized officer of the Issuing and Paying Agent certifying that the Issuing and Paying Agent has accepted an alternate credit facility (after SMBC honors any properly presented and conforming Drawing, if any, on such date); (d) the date on which SMBC receives a termination certificate signed by a duly authorized officer of the Issuing and Paying Agent that the SMBC Notes are wholly defeased or no SMBC Notes remain outstanding under the Issuing and Paying Agent Agreement and the Resolution; (e) the earlier of (i) the 15th calendar day (or if such date is not a Business Day as defined in the SMBC Letter of Credit, the immediately succeeding Business Day) after the date on which the Issuing and Paying Agent receives the Tier One Final Drawing Notice (as defined in the SMBC Letter of Credit) from SMBC, and (ii) the date on which the Drawing resulting from the delivery of the Tier One Final Drawing Notice is honored under the SMBC Letter of Credit; or (f) the earlier of (i) the 60th day after the date on which the Issuing and Paying Agent receives a Tier Two Termination Notice (as defined in the SMBC Letter of Credit) from SMBC, (or if such date is not a Business Day, the immediately succeeding Business Day) in respect of a Tier Two Termination Notice that has not been rescinded and has not been superseded by a subsequent Tier Two Termination Notice relating to a New Tier Two Termination Date (as defined in the SMBC Letter of Credit) (after SMBC honors any properly presented and conforming Drawing, if any, on such date) and (ii) the new date specified in a New Tier Two Termination Notice (as defined in the SMBC Letter of Credit) which the Issuing and Paying Agent receives from SMBC (or if such date is not a Business Day, the immediately succeeding Business Day) in respect of a New Tier Two Termination Notice that has not been rescinded or superseded (after SMBC honors any properly presented and conforming Drawing, if any, on such date). All Drawings under the SMBC Letter of Credit shall be paid from immediately available funds of SMBC.

The respective Letter of Credit may be extended at the related Bank's sole and absolute discretion upon presentation of certain written requests of the City to such Bank as specified in the related Reimbursement Agreement. The City may at any time and at its sole option replace either or both Letter(s) of Credit and terminate the related Bank's commitment thereunder upon 30 days prior written notice to the applicable Bank and to the Issuing and Paying Agent, provided the terms and conditions set out in the Subordinate General Resolution, the Issuing and Paying Agent Agreement and the related Reimbursement Agreement are met. Prior to the replacement of a Letter of Credit or termination of the related Bank's commitment, the City is required, pursuant to the Subordinate General Resolution, to provide written notice to Holders of the related Subseries of Notes of such replacement or termination and to pay the principal of the related maturing Notes including such related Notes outstanding at the time of replacement of such Letter of Credit or termination of such Bank's respective commitment.

Events of Default and Termination Events

The occurrence and continuation of one or more of the following events shall constitute an Event of Default ("Event of Default") under the related Reimbursement Agreement. Capitalized terms used in this section and not otherwise defined herein shall have the meanings ascribed thereto in the related Reimbursement Agreement.

(a) the City fails to pay, or cause to be paid, when due any principal of or interest on any Drawing or any Advance;

(b) the City fails to pay, or cause to be paid, when due any Letter of Credit Fee or any other Obligation within five (5) calendar days of the date such Letter of Credit Fee is due or other Obligation, as applicable, is due;

(c) any representation or warranty made by or on behalf of the City in the related Reimbursement Agreement or in any other Program Document or in any certificate or statement delivered thereunder shall be incorrect or untrue in any material respect when made or deemed to have been made or delivered;

(d) the City shall default in the due performance or observance by it of any Incorporated Provision and/or default in the due performance or observance of any of certain specified covenants set forth in the related Reimbursement Agreement;

(e) the City shall (i) default in the due performance or observance of any other term, covenant or agreement contained in a specific covenant of the related Reimbursement Agreement relating to reporting requirements and such default shall remain unremedied for a period of five (5) Business Days after the occurrence thereof and/or (ii) default in the due performance or observance of any other term, covenant or agreement contained in the related Reimbursement Agreement or any other Program Document and such default shall remain unremedied for a period of thirty (30) calendar days after the occurrence thereof;

(f) the City shall (i) have entered involuntarily against it an order for relief under the United States Bankruptcy Code, as amended, (ii) become insolvent or shall not pay, or be unable to pay, or admit in writing its inability to pay, its debts generally as they become due, (iii) make an assignment for the benefit of creditors, (iv) apply for, seek, consent to, or acquiesce in, the appointment of a receiver, custodian, trustee, examiner, liquidator or similar official for it or any substantial part of its Property (including, without limitation, the System), (v) institute any proceeding seeking to have entered against it an order for relief under the United States Bankruptcy Code, as amended, to adjudicate it insolvent, or seeking dissolution, winding up, liquidation, reorganization, arrangement, marshalling of assets, adjustment or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors or fail to file an answer or other pleading denying the material allegations of any such proceeding filed against it, (vi) take any corporate action in furtherance of any matter described in parts (i) through (v) above, or (vii) fail to contest in good faith any appointment or proceeding described in subparagraph (g) below under this subcaption "Events of Default and Termination Events" ;

(g) a custodian, receiver, trustee, examiner, liquidator or similar official shall be appointed for the City or any substantial part of its Property (including, without limitation, the System), or a proceeding described in clause (v) of subparagraph (f) above under this subcaption "Events of Default and Termination Events" shall be instituted against the City and such proceeding continues undischarged or any such proceeding continues undismissed or unstayed for a period of thirty (30) or more calendar days;

(h) a debt moratorium, debt restructuring (other than a refinancing or refunding in the ordinary course of the City's business), debt adjustment or comparable restriction is imposed on the repayment when due and payable of the principal of or interest on any Debt of the City by the City or any Governmental Authority with appropriate jurisdiction;

(i) (i) any provision of the related Reimbursement Agreement or any Program Document related to (A) payment of principal of or interest on the related Subseries of Notes or other Obligations or any Parity Debt or Senior Debt or (B) the validity or enforceability of the pledge of the Revenues, Trust Assets or any other pledge or lien created by the Resolution shall at any time for any reason cease to be valid and binding on the City as a result of a finding or ruling by a court or Governmental Authority with competent jurisdiction, or shall be declared, in a final nonappealable judgment by any court of competent jurisdiction, to be null and void, invalid or unenforceable;

(ii) the validity or enforceability of any material provision of the related Reimbursement Agreement or any Program Document related to (A) payment of principal of or interest on the related Subseries of Notes or other Obligations or any Parity Debt or Senior Debt, or (B) the validity or enforceability of the pledge of the Revenues, Trust Assets or any other pledge or lien created by the Resolution shall be publicly contested by the City; or

(iii) any other material provision of the related Reimbursement Agreement or any other Program Document, other than a provision described in clause (i) above, shall at any time for any reason cease to be valid and binding on the City as a result of a ruling or finding by a court or a Governmental Authority with competent jurisdiction or shall be declared in a final non appealable judgment by any court with competent jurisdiction to be null and void, invalid, or unenforceable, or the validity or enforceability thereof shall be publicly contested by the City;

(j) dissolution or termination of the existence of the City or the System;

(k) the City shall (i) default on the payment of the principal of or interest on any Parity Debt or Senior Debt including, without limitation, any regularly scheduled payments on Swap Agreements which constitute Parity Debt or Senior Debt, beyond the period of grace, if any, provided in the instrument or agreement under which such Parity Debt or Senior Debt was created or incurred; or (ii) default in the observance or performance of any agreement or condition relating to any Parity Debt or Senior Debt or contained in any instrument or agreement evidencing, securing or relating thereto, or any other default, event of default or similar event shall occur or condition exist, the effect of which default, event of default or similar event or condition is to cause (determined without regard to whether any notice is required) any such Parity Debt or Senior Debt to become immediately due and payable in full or enables the holder thereof to accelerate such Parity Debt or Senior Debt (in each such case whether by the acceleration, mandatory redemption or mandatory tender of such Parity Debt or Senior Debt);

(l) the City shall (i) default on the payment of the principal of or interest on any Debt secured by or payable from Revenues (other than Parity Debt or Senior Debt) including, without limitation, any regularly scheduled payments on Swap Agreements, aggregating in excess of \$10,000,000, beyond the period of grace, if any, provided in the instrument or agreement under which such Debt was created or incurred; or (ii) default in the observance or performance of any agreement or condition relating to any Debt secured by or payable from Revenues (other than Parity Debt or Senior Debt) aggregating in excess of \$10,000,000, or contained in any instrument or agreement evidencing, securing or relating thereto, or any other default, event of default or similar event shall occur or condition exist, the effect of which default, event of default or similar event or condition is to cause (determined without regard to whether any notice is required) any such Debt to become immediately due and payable in full or enables the holder thereof to

accelerate such Debt (in each such case whether by acceleration, mandatory redemption or mandatory tender of such Debt);

(m) any final non-appealable judgment or judgments, writ or writs or warrant or warrants of attachment, or any similar process or processes, which are not covered in full by insurance, with written acknowledgement of such coverage having been provided by the provider of such insurance coverage to the related Bank, in an aggregate amount not less than \$25,000,000 payable from Revenues shall be entered or filed against the City or against any of its Property (including, without limitation, the System) and remain unsatisfied, unvacated, unbonded or unstayed for a period of ninety (90) calendar days;

(n) any Event of Default under any Program Document (as defined respectively therein, other than the related Reimbursement Agreement) shall have occurred;

(o) any of Fitch, Moody's or S&P shall have downgraded its rating of any long term unenhanced Parity Debt or Senior Debt of the City to below "Baa2" (or its equivalent) by Moody's or "BBB" (or its equivalent) by S&P or Fitch, or suspended or withdrawn or made unavailable any such rating for credit-related reasons;

(p) any of the funds or accounts established pursuant to the Subordinate General Resolution or any funds or accounts on deposit, or otherwise to the credit of, such funds or accounts shall become subject to any stay, writ, judgment, warrant of attachment, execution or similar process by any of the creditors of the City and such stay, writ, judgment, warrant of attachment, execution or similar process shall not be released, vacated or stayed within thirty (30) calendar days after its issue or levy;

(q) any event which materially and adversely affects the financial condition of the System and the City's ability to observe and perform its obligations under the related Reimbursement Agreement and the other Program Documents shall have occurred and be continuing; or

(r) the Lien created by the Resolution or the related Reimbursement Agreement shall at any time and for any reason not constitute a valid and perfected Lien on the Trust Assets with the priority purported to be created thereby or the City shall so assert in writing.

Remedies

Upon the occurrence of an Event of Default under the related Reimbursement Agreement, the related Bank, in its sole discretion, may do any, none or all of the following. Capitalized terms used in this section and not otherwise defined herein shall have the meanings ascribed thereto in the related Reimbursement Agreement.

(a) by notice to the City, declare all Obligations to be, and such amounts shall thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the City; provided that upon the occurrence of an Event of Default described under subparagraphs (f), (g) and (h) under the subcaption "Events of Default and Termination Events" above, such acceleration shall automatically occur (unless such automatic acceleration is waived by the related Bank in writing);

(b) by notice of the occurrence of any Event of Default to the Issuing and Paying Agent (which notice shall constitute a "Stop Issuance Instruction" under the BNY Mellon

Reimbursement Agreement or a “Tier One Stop Issuance Instruction” under the SMBC Reimbursement Agreement for purposes of the Supplemental Resolution and Issuing and Paying Agent Agreement) prohibit, until such time, if any, as the related Bank shall withdraw (in writing) such notice, the issuance of additional related Subseries of Notes, reduce the Stated Amount of the related Letter of Credit to the principal amount of the then Outstanding related Subseries of Notes supported by the related Letter of Credit and interest payable thereon at maturity of such related Subseries of Notes (with respect to the SMBC Notes only, pursuant to an Event of Default under SMBC Reimbursement Agreement and Permanent Reduction Notice in the form attached to the SMBC Letter of Credit) and/or terminate and/or permanently reduce such Stated Amount as the then Outstanding related Subseries of Notes are paid;

(c) with respect to the SMBC Notes only, issue the Tier One Final Drawing Notice (the effect of which shall be to cause the Termination Date of the related Letter of Credit to occur on the 15th day after the date of receipt thereof by the Issuing and Paying Agent);

(d) pursue any rights and remedies it may have under the Program Documents; or

(e) pursue any other action available at law or in equity.

THE BANKS

The following information concerning the Banks has been provided by the respective representatives of the Banks and has not been independently confirmed or verified by the City or the Dealers. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof or that the information given below or incorporated herein by reference is correct as of any time subsequent to its date.

The Bank of New York Mellon

The following four paragraphs were provided by BNY Mellon:

The Bank of New York Mellon, a New York state chartered bank (“BNY Mellon”), is one of the two principal banking subsidiaries of The Bank of New York Mellon Corporation (NYSE: BK), a bank holding company and a financial holding company (the “BNY Mellon Holding Company”). BNY Mellon is a global financial services company focused on helping clients manage and service their financial assets, operating in 36 countries and serving more than 100 markets. The BNY Mellon Holding Company is a leading provider of financial services for institutions, corporations and high-net-worth individuals, offering investment management and investment services through a worldwide team.

As of September 30, 2012, the BNY Mellon Holding Company had \$27.9 trillion in assets under custody and administration and \$1.4 trillion in assets under management, serviced \$11.6 trillion in outstanding debt and processed global payments averaging \$1.4 trillion per day. Additional information is available at www.bnymellon.com.

The BNY Mellon Holding Company’s and BNY Mellon’s ratings information is available at <http://www.bnymellon.com/investorrelations/creditratings.html>. A debt rating is not a recommendation to buy, sell or hold securities, and may be subject to revision or withdrawal at any time by the assigning rating organization. Each rating should be evaluated independently of any other rating.

The BNY Mellon Holding Company’s principal office is located at One Wall Street, New York, New York 10286. A copy of the most recent Annual Report on Form 10-K of the BNY Mellon Holding

Company may be obtained from the BNY Mellon Holding Company's Public Relations Department, One Wall Street, 31st Floor, (212) 635-1569. For additional information about the BNY Mellon Holding Company, please refer to the reports filed with the Securities Exchange Commission, including the BNY Mellon Holding Company's Form 10-K, proxy statement, quarterly reports on Form 10-Q and current reports on Form 8-K, available at www.sec.gov.

Sumitomo Mitsui Banking Corporation

The following six paragraphs were provided by SMBC:

General. Sumitomo Mitsui Banking Corporation (*Kabushiki Kaisha Mitsui Sumitomo Ginko*) ("SMBC") is a joint stock corporation with limited liability (*Kabushiki Kaisha*) under the laws of Japan. The registered head office of SMBC is located at 1-2, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-0005, Japan.

SMBC was established in April 2001 through the merger of two leading banks, The Sakura Bank, Limited and The Sumitomo Bank, Limited. In December 2002, Sumitomo Mitsui Financial Group, Inc. ("SMFG") was established through a stock transfer as a holding company under which SMBC became a wholly owned subsidiary. SMFG reported ¥ 138,120,170 million (USD1,736,705,268) in consolidated total assets as of June 30, 2012.

SMBC is one of the world's leading commercial banks and provides an extensive range of banking services to its customers in Japan and overseas. In Japan, SMBC accepts deposits, makes loans and extends guarantees to corporations, individuals, governments and governmental entities. It also offers financing solutions such as syndicated lending, structured finance and project finance. SMBC also underwrites and deals in bonds issued by or under the guarantee of the Japanese government and local government authorities, and acts in various administrative and advisory capacities for certain types of corporate and government bonds. Internationally, SMBC operates through a network of branches, representative offices, subsidiaries and affiliates to provide many financing products including syndicated lending and project finance.

The New York Branch of SMBC is licensed by the State of New York Banking Department to conduct branch banking business at 277 Park Avenue, New York, New York, and is subject to examination by the State of New York Banking Department and the Federal Reserve Bank of New York.

Financial and Other Information. Audited consolidated financial statements for SMFG and its consolidated subsidiaries for the fiscal years ended March 31, 2012, as well as other corporate data, financial information and analyses are available in English on the website of SMFG at www.smfg.co.jp/english.

The information herein has been obtained from SMBC, which is solely responsible for its content. The delivery of this Offering Memorandum shall not create any implication that there has been no change in the affairs of SMBC since the date hereof, or that the information contained or referred herein is correct as of any time subsequent to its date.

THE SYSTEM

General

The System provides wastewater collection, treatment and disposal services for an area of approximately 600 square miles including 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. Parts of the City are served by other agencies and likewise the City provides wastewater service for other communities and adjacent areas because of the economics associated with gravity flow. Areas within the City limits that are not served by the City are served by Los Angeles County Sanitation Districts. Certain information regarding the City and the System can be found in the City's Official Statement dated May 17, 2012 and attached hereto as Appendix A within Appendix A within APPENDIX A and in the City of Los Angeles Sewer Construction and Maintenance Fund Basic Financial Statements with Independent Auditor's Report for the Fiscal Years Ended June 30, 2011 and 2010 and Debt Service Compliance Report for the Fiscal Year Ended June 30, 2011 attached to such Official Statement as Appendix E thereto. No assurances can be given as to the absence of material adverse changes or events that affect the accuracy or adequacy of the information in the City's Offering Memorandum relating to the System attached hereto as APPENDIX A. No attempt has been made to update the information in APPENDIX A relating to the System in this Offering Memorandum.

BOOK-ENTRY SYSTEM

The information concerning DTC 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 (as defined herein) will distribute to the Beneficial Owners (as defined herein) (a) payments of interest, principal or premium, if any, with respect to the Notes, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Notes, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Notes, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described herein. 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.

Book-Entry System

DTC will act as securities depository for the Notes. The Notes 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 security certificate will be issued for each Series of the Notes, in the aggregate principal amount of the Notes for each Series, and will be deposited with DTC.

DTC, the world's largest depository, 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 been rated AA+ by Standard & Poor’s. 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 and www.dtc.org.

Purchases of the Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC’s records. The ownership interest of each actual purchaser of each Note (“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 Notes 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 the Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes 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 the Notes 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 Notes; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Notes 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.

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 the Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Notes. For example, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Notes unless authorized by a Direct Participant in accordance with DTC’s Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer 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 the Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of and interest on the Notes 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 or the Issuing and Paying Agent, 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 (nor its nominee), the Issuing and Paying Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of and interest evidenced by the Notes to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Issuing and Paying Agent, 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.

NEITHER THE CITY, THE DEALERS NOR THE ISSUING AND 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.

None of the City, the Dealers nor the Issuing and Paying Agent can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal of and interest on the Notes paid to DTC or its nominee, as the registered Owner, or any redemption or other notice, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Offering Memorandum.

Discontinuation of the Book-Entry Only System

DTC may discontinue providing its services as securities depository with respect to the Notes at any time by giving reasonable notice to the City or the Issuing and Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Note certificates will be printed and delivered as described in the Issuing and Paying Agent Agreement.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Note certificates will be printed and delivered as described in the Issuing and Paying Agent Agreement.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE NOTES, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE OWNERS OR HOLDERS OF THE NOTES (OTHER THAN UNDER THE CAPTION "TAX MATTERS" HEREIN) SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE NOTES.

NEITHER THE CITY, THE ISSUING AND PAYING AGENT, NOR THE DEALERS WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DTC DIRECT PARTICIPANT, OR INDIRECT PARTICIPANT; (II) THE DELIVERY OF ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE NOTES UNDER THE ISSUING AND PAYING AGENT AGREEMENT; (III) THE PAYMENT BY DTC OR ANY DTC DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR INTEREST DUE WITH RESPECT TO THE NOTES; (IV) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE REGISTERED OWNER OF NOTES; OR (V) ANY OTHER MATTER.

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 Notes or in any way contesting or affecting the validity of the Notes 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 Notes or the use of the proceeds of the Notes.

See APPENDIX A – "THE DECEMBER 2012 OFFERING MEMORANDUM—Appendix A—THE SEPTEMBER 2012 OFFERING MEMORANDUM—Appendix A—THE 2012 OFFICIAL STATEMENT—LITIGATION" for a description of certain claims and lawsuits (with any potential loss exceeding \$5,000,000) pending against the SCM Fund for construction claims and certain other alleged

liabilities arising during the ordinary course of operations of the System. The modified total cost claim against the City that was remanded to the trial court following the jury verdict in the *Dillingham-Ray Wilson, etc. v. City of Los Angeles* case described in Appendix A has been settled, with the City agreeing to pay \$31.5 million to the claimants. The City has paid \$27 million of this amount and will pay the balance in three years.

The City believes that 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.

CONTINUING DISCLOSURE

The Notes are exempt from the rules of the Securities and Exchange Commission relating to continuing disclosure of annual financial information and certain material events. In connection with prior issues of the Senior Lien Bonds and Subordinate Bonds (collectively, the "Bonds"), the City has agreed to provide to the Municipal Securities Rulemaking Board (the "MSRB") for the purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission audited financial statements of the City for the SCM Fund and other financial and operating data relating to the System and notice of certain listed events with respect to the Bonds. Holders of the Notes may obtain from the MSRB such information provided by the City in connection with such Bonds so long as such Bonds are outstanding.

RATINGS

Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's, a Standard & Poor's Financial Services LLC business ("S&P"), and Fitch, Inc. ("Fitch") have assigned their ratings of "P-1," "A-1+" and "F1+," respectively, to the BNY Mellon Notes, with the understanding that the related Letter of Credit will be issued by BNY Mellon. Moody's, S&P and Fitch have assigned their ratings of "P-1," "A-1" and "F1," respectively, to the SMBC Notes, with the understanding the the related Letter of Credit will be issued by SMBC. Such ratings reflect only the views of such organizations and are not a recommendation to buy, sell or hold the Notes. Explanations of the significance of such ratings may be obtained only from the respective organizations at: Moody's Investors Services, Inc., 99 Church Street, New York, New York, 10007, Standard & Poor's, 55 Water Street, New York, New York 10004 and Fitch Ratings, One State Street Plaza, New York, New York 10004. 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 that such ratings will continue for any given period or that they will not be revised downward or withdrawn entirely by the respective rating agencies, if in the judgment of each such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Notes.

TAX MATTERS

On September 13, 2012, Sidley Austin LLP, Bond Counsel to the City ("Bond Counsel"), delivered its opinion in connection with the offering of the Notes, that under then existing law, and subject to certain conditions, assumptions and limitations, interest on the Notes would not be includable in the gross income of the owners of the Notes for federal income tax purposes. Such opinion also stated that interest on the Notes would not be treated as an item of tax preference for purposes of the alternative minimum tax on individuals and corporations (although Bond Counsel observed that such interest would be included as an adjustment in the calculation of corporate alternative minimum taxable income). A copy of such opinion is included in the Offering Memorandum attached hereto as Appendix A to APPENDIX A.

On December 18, 2012, in connection with the reoffering of the Notes, Bond Counsel delivered its opinion that the issuance of the BNY Mellon Letter of Credit and the SMBC Letter of Credit would not adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Series A Notes (the "No Adverse Effect Opinion"). A copy of such opinion is attached hereto as Appendix B to APPENDIX A.

In connection with the adoption of the Amended and Restated Fifteenth Supplemental Resolution, Bond Counsel will deliver its letter advising that its No Adverse Effect Opinion has not been changed or withdrawn by virtue of such adoption. A copy of such letter is attached hereto as APPENDIX B.

Other than as described above, Bond Counsel will express no opinion as to the current exclusion from gross income of the interest on the Series A Notes for federal income tax purposes. Further, Bond Counsel has not been engaged to make, and has not made, any inquiry or investigation with respect to any circumstances that may have occurred since the date of issuance of the Series A Notes that would adversely affect the exclusion from gross income of the interest on the Series A Notes for federal income tax purposes.

THE DEALERS

The City has appointed Wells Fargo Securities and Samuel A. Ramirez & Co., Inc., each as a non-exclusive dealer with respect to the offering and sale of the Notes.

Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association.

FINANCIAL ADVISOR

Public Resources Advisory Group (the "Financial Advisor") has served as financial advisor to the City in connection with the authorization and issuance of the Notes.

The Financial Advisor has assisted the City in matters relating to the planning, structuring and issuance of the Notes. The Financial Advisor has not audited, authenticated or otherwise independently verified the information set forth in the Offering Memorandum, or any other related information available to the City, with respect to accuracy and completeness of disclosure of such information. The Financial Advisor makes no guaranty, warranty or other representation respecting accuracy and completeness of the Offering Memorandum.

LEGAL MATTERS

The Notes are subject to approval as to their legality by Sidley Austin LLP, Bond Counsel. A copy of the proposed form of letter of Bond Counsel is attached as APPENDIX B. Certain legal matters will be passed upon for the City by the City Attorney of the City of Los Angeles.

FURTHER INFORMATION

Copies of the Subordinate General Resolution, the Senior General Resolution, the form of the Reimbursement Agreements and other documents referred to herein may be obtained from the City by contacting the Office of the City Administrative Officer, 200 North Main Street, Room 1500, City Hall East, Los Angeles, California 90012, Attention: Debt Management Group, (213) 485-2881. Reference is made to the legal documents listed above for the definitions of capitalized terms used and not otherwise defined herein.

This Offering Memorandum has been duly approved, executed and delivered by the City.

By: _____
City Administrative Officer

APPENDIX A

THE DECEMBER 2012 OFFERING MEMORANDUM

In connection with the offering of the Notes, Sidley Austin LLP, Bond Counsel, will deliver its opinion that the issuance of the BNY Mellon Letter of Credit and the SMBC Letter of Credit will not adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Series A Notes. See "TAX MATTERS" herein.



City of Los Angeles
Wastewater System Commercial Paper
Revenue Notes
\$200,000,000 Maximum Aggregate
Principal Amount Outstanding at Any Time
Tax-Exempt Series A-1 and Tax-Exempt Series A-2 – \$100,000,000
Taxable Series B-1 and Taxable Series B-2 – \$100,000,000

The purpose of this Offering Memorandum is to provide certain information relating to the City of Los Angeles Wastewater System Commercial Paper Revenue Notes (the "Notes"). The proceeds of the Notes are used to provide funds to refund Notes previously issued by the City of Los Angeles, California (the "City").

The Notes are offered under the authority of the City Charter, voter approval at elections held in 1987, 1988 and 1992 authorizing the issuance of up to \$3.5 billion of wastewater system revenue bonds, a Wastewater System Subordinate Revenue Bonds General Resolution (the "Subordinate General Resolution") adopted by the Council of the City (the "City Council") on March 26, 1991, as amended and supplemented, and as further amended by a Fifteenth Supplemental Resolution adopted by the City Council on December 11, 2012, and an Amended and Restated Issuing and Paying Agent Agreement, dated as of December 1, 2012, by and between the City and U.S. Bank National Association, as issuing and paying agent (the "Issuing and Paying Agent").

The maximum aggregate principal amount of Notes offered by this Offering Memorandum may not exceed \$200,000,000.

The Notes are special, limited obligations of the City payable from and secured by a subordinate pledge of certain Revenues (as defined herein) derived from the ownership and operation of the wastewater collection and treatment system of the City (the "System"). The pledge of Revenues with respect to the Notes is subordinate to the pledge of Revenues which secures all Senior Lien Bonds (as defined herein) currently outstanding and those issued from time to time in the future. The pledge of Revenues with respect to the Notes is on a parity with the pledge of Revenues which secures all Subordinate Bonds (as defined herein) currently outstanding and those issued from time to time in the future.

The Notes of each subseries are additionally secured by a related letter of credit (each, a "Letter of Credit" and collectively, the "Letters of Credit") issued pursuant to separate Reimbursement Agreements, each dated as of December 1, 2012 (each, a "Reimbursement Agreement," and collectively, the "Reimbursement Agreements"), with The Bank of New York Mellon, with respect to the Tax-Exempt Series A-1 Notes and the Taxable Series B-1 Notes, and Sumitomo Mitsui Banking Corporation, acting through its New York Branch, with respect to the Tax-Exempt Series A-2 Notes and the Taxable Series B-2 Notes (each a "Bank," and collectively, the "Banks"), pursuant to which the respective Bank has (individually, and not on a joint basis), agreed to issue to the Issuing and Paying Agent, for the benefit of the holders of the related Series of Notes, its own Letter of Credit. See "THE LETTERS OF CREDIT" herein.

Tax-Exempt Series A-1 and Taxable Series B-1 – The Bank of New York Mellon
Tax-Exempt Series A-2 and Taxable Series B-2 – Sumitomo Mitsui Banking Corporation, acting through its New York Branch

The expiration dates of the Letters of Credit issued by The Bank of New York Mellon and Sumitomo Mitsui Banking Corporation, acting through its New York Branch, are December 18, 2015 and December 15, 2017, respectively, unless terminated earlier or extended pursuant to the terms of the related Reimbursement Agreement. See "SECURITY AND SOURCE OF PAYMENT FOR THE NOTES—General" herein.

The Notes shall be dated the date of their respective authentication and issuance and shall be issued in fully-registered form and when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC") and shall be issued in minimum denominations of \$100,000 and \$1,000 increments in excess thereof. Interest on the Tax-Exempt Series A Notes shall be calculated on the basis of a year consisting of 365 or 366 days and the actual number of days elapsed. Interest on the Taxable Series B Notes shall be calculated on the basis of a year consisting of 360 days and the actual number of days elapsed. The Notes shall mature on a business day not more than 270 days after their respective dates but in no event later than 15 days prior to the Termination Date (as defined in the respective Letter of Credit) of the related Letter of Credit or any substitute liquidity arrangement.

The Notes are not subject to redemption prior to their maturity.

The General Fund of the City is not liable for the payment of the Notes and neither the full faith and credit nor the taxing power of the City is pledged to pay the Notes. The Notes do not constitute a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of the City's property, or upon its income, receipts or revenue, except to the extent of the subordinate pledge of the Revenues and the pledge of amounts on deposit in the CP Debt Service Fund and the CP Construction Funds, each as described herein, proceeds of the sale of new Notes and payments under the related Letter of Credit.

This cover page contains information for quick reference only. It is not a summary of the issue. Potential purchasers must read the entire Offering Memorandum and the information incorporated herein by reference to obtain information essential to making an informed investment decision. The Dealers may from time to time have a long or short position in, and buy or sell and make a market in, securities of the City and its affiliates. The Dealers from time to time may act as manager or co-manager of a public offering of such securities and perform investment banking and other services to the issuer of such securities.

Wells Fargo Securities

Ramirez & Co., Inc.

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 Offering Memorandum does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Notes by a person in any jurisdiction in which it is unlawful for such person to make an offer, solicitation or sale.

This Offering Memorandum is not to be construed as a contract with the purchasers of the Notes. Statements contained in this Offering Memorandum 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 Offering Memorandum under the caption "THE BANKS" has been provided by the Banks. None of the City, the Dealers or any of their respective counsel, officers, agents or employees make any representations as to the accuracy or sufficiency of such information.

The information set forth in this Offering Memorandum has been obtained from the City, and other sources which are believed by the City to be reliable. The Dealers have provided the following sentence for inclusion in this Offering Memorandum. *The Dealers have reviewed the information in this Offering Memorandum 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 Dealers do not guarantee the accuracy or completeness of such information.*

Certain statements included or incorporated by reference in the Offering Memorandum constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Although 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.

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Offering Memorandum 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 Notes, the resolutions 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. See "FURTHER INFORMATION" herein.

CITY OF LOS ANGELES

Mayor

Antonio R. Villaraigosa

City Council

Ed Reyes (District 1)
Paul Krekorian (District 2)
Dennis P. Zine (District 3)
Tom LaBonge (District 4)
Paul Koretz (District 5)

Tony Cárdenas (District 6)
Richard Alarcon (District 7)
Bernard C. Parks (District 8)
Jan Perry (District 9)
Herb J. Wesson, Jr. (District 10)

Bill Rosendahl (District 11)
Mitchell Englander (District 12)
Eric Garcetti (District 13)
Jose Huizar (District 14)
Joe Buscaino (District 15)

City Officials

Carmen A. Trutanich, *City Attorney*
Wendy Greuel, *City Controller*
Miguel A. Santana, *City Administrative Officer*
Antoinette Christovale, *City Treasurer*
June Lagmay, *City Clerk*

Board of Public Works

Andrea A. Alarcón, President

Jerilyn Lopez Mendoza, Vice President

John J. Choi, Commissioner

Steven T. Nutter, Commissioner

Valerie Lynne Shaw, Commissioner

Bureau of Engineering

Gary Lee Moore, P.E.
City Engineer

Bureau of Sanitation

Enrique C. Zaldivar
Director

Office of Accounting

Victor A. Santiago
Director

SPECIAL SERVICES

BOND COUNSEL

Sidley Austin LLP
San Francisco, California

CITY DEPARTMENT ISSUING DEBT

City Administrative Officer of the City of Los Angeles
Debt Management Group
Los Angeles, California

FINANCIAL ADVISOR
Public Resources Advisory Group
Los Angeles, California

ISSUING AND PAYING AGENT
U.S. Bank National Association
New York, New York

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OFFERING MEMORANDUM

The City of Los Angeles Wastewater System Commercial Paper Revenue Notes

**\$200,000,000 Maximum Aggregate
Principal Amount Outstanding at Any Time
Tax-Exempt Series A-1 and Tax-Exempt Series A-2 – \$100,000,000
Taxable Series B-1 and Taxable Series B-2 – \$100,000,000**

INTRODUCTION

This introduction is not a summary of this Offering Memorandum. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Offering Memorandum, 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 Offering Memorandum. References to, and summaries of provisions of the Constitution and laws of the State of California (the "State") 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.

This Offering Memorandum, including the cover page and appendices hereto, is being furnished in connection with the offering by the City of Los Angeles, California (the "City") of its Wastewater System Commercial Paper Revenue Notes (the "Notes") to be offered in two series (each a "Series") and four subseries (each a "Subseries"). The Notes are issued under the authority of the City Charter, voter approval at elections held in 1987, 1988 and 1992 authorizing the issuance of up to \$3.5 billion of wastewater system revenue bonds, a Wastewater System Subordinate Revenue Bonds General Resolution (the "Subordinate General Resolution") adopted by the Council of the City (the "City Council") on March 26, 1991, as amended and supplemented, and as further amended by a Fifteenth Supplemental Resolution adopted by the City Council on December 11, 2012, and an Amended and Restated Issuing and Paying Agent Agreement (the "Issuing and Paying Agent Agreement"), dated as of December 1, 2012, by and between the City and U.S. Bank National Association, as issuing and paying agent (the "Issuing and Paying Agent").

The maximum aggregate principal amount of Notes offered by this Offering Memorandum may not exceed \$200,000,000.

The Notes are special, limited obligations of the City payable from and secured by a subordinate pledge of certain Revenues (as defined herein) derived from the ownership and operation of the wastewater collection and treatment system of the City (the "System"). The pledge of Revenues with respect to the Notes is subordinate to the pledge of Revenues which secures all Senior Lien Bonds (as defined herein) currently outstanding and those issued from time to time in the future. The pledge of Revenues with respect to the Notes is on a parity with the pledge of Revenues which secures all Subordinate Bonds (as defined herein) currently outstanding and those issued from time to time in the future.

The payment of the Tax-Exempt Series A-1 Notes and the Taxable Series B-1 Notes (collectively, the "BNY Mellon Notes") and the Tax-Exempt Series A-2 Notes and the Taxable Series B-2 Notes (collectively, the "SMBC Notes") is additionally secured by a related letter of credit (each, a "Letter of Credit," and collectively, the "Letters of Credit") issued pursuant to a related Reimbursement Agreement, each dated as of December 1, 2012 (each, a "Reimbursement Agreement," and collectively,

the "Reimbursement Agreements"), with The Bank of New York Mellon ("BNY Mellon"), with respect to the BNY Mellon Notes, and Sumitomo Mitsui Banking Corporation, acting through its New York Branch ("SMBC;" each, a "Bank," and, collectively, the "Banks"), with respect to the SMBC Notes, pursuant to which the respective Bank has agreed (on an individual, and not a joint basis) to issue to the Issuing and Paying Agent, for the benefit of the holders of the related Notes, a Letter of Credit.

The expiration dates of the Letters of Credit issued by BNY Mellon and SMBC are December 18, 2015 and December 15, 2017, respectively, unless terminated earlier or extended pursuant to the terms of the related Reimbursement Agreement. See "LETTERS OF CREDIT" herein. The City expects to request an extension of the termination date of the Letters of Credit or negotiate and enter into one or more new credit facilities to secure the respective Subseries of Notes prior to the expiration date of the related Letters of Credit.

The City may issue wastewater system revenue bonds from time to time, the proceeds of which may be used to refund a portion of the Notes then outstanding. The City may also issue additional commercial paper notes from time to time, depending on market conditions. As a result of the adoption of a new City Charter effective on July 1, 2000, the issuance of wastewater system revenue bonds and commercial paper notes no longer requires a vote of the electorate, but can be authorized through a procedural ordinance.

The General Fund of the City is not liable for the payment of the Notes and neither the full faith and credit nor the taxing power of the City is pledged to pay the Notes. The Notes do not constitute a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of the City's property, or upon its income, receipts or revenue, except to the extent of the subordinate pledge of the Revenues and the pledge of amounts on deposit in the CP Debt Service Fund (as defined herein) and the CP Construction Funds (as defined herein), proceeds of the sale of new Notes and payments under the related Letters of Credit.

Certain information regarding the City and the System can be found in the City's Official Statement dated May 17, 2012 and attached hereto as Appendix A within APPENDIX A and in the City of Los Angeles Sewer Construction and Maintenance Fund Basic Financial Statements with Independent Auditor's Report for the Fiscal Years Ended June 30, 2011 and 2010 and Debt Service Compliance Report for the Fiscal Year Ended June 30, 2011 attached to the May 17, 2012 Official Statement as Appendix E thereto. No assurances can be given as to the absence of material adverse changes or events that affect the accuracy or adequacy of the information relating to the System in the City's Offering Memorandum attached hereto as APPENDIX A. No attempt has been made to update the information relating to the System in APPENDIX A in this Offering Memorandum.

THE COMMERCIAL PAPER NOTES

The Notes shall be dated the date of their respective authentication and issuance and shall be issued in fully-registered form and when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC") and shall be issued in minimum denominations of \$100,000 and \$1,000 increments in excess thereof. See "BOOK-ENTRY SYSTEM" herein.

The Notes shall bear interest payable at maturity at an annual rate not in excess of 12% per annum or such lesser rate permitted by the 1941 Act at the time of issuance of a Note. Interest on the Tax-Exempt Series A Notes shall be calculated on the basis of a year consisting of 365 or 366 days and the actual number of days elapsed. Interest on the Taxable Series B Notes shall be calculated on the basis of a year consisting of 360 days and the actual number of days elapsed. The Notes shall mature on a

Business Day not more than 270 days after their respective dates but in no event later than 15 days prior to the Termination Date of the related Letter of Credit or any substitute liquidity arrangement.

The Notes will be available for countersignature and issuance, and will be payable, at the offices of the Issuing and Paying Agent: U.S. Bank National Association, 100 Wall Street, Suite 1600, New York, New York 10005. The purchase price payable by an investor is required to be made, and the amount payable by the City at maturity, will be paid, in immediately available funds. Notes must be presented to the Issuing and Paying Agent by 1:00 p.m. New York time to assure same-day payment.

The Notes are not subject to redemption prior to maturity.

SECURITY AND SOURCE OF PAYMENT FOR THE NOTES

General

The Notes are payable on a subordinate basis from the Revenues derived by the City from the ownership or operation of the System and from amounts, if any, on deposit in the "CP Debt Service Fund" and the "CP Construction Funds" created pursuant to the Subordinate General Resolution. The CP Debt Service Fund currently consists of three separate accounts designated as the "CP Interest Account," the "CP Principal Account" and the "CP Matured Note Account." Pursuant to the terms of the Issuing and Paying Agent Agreement, the Issuing and Paying Agent will establish within the CP Debt Service Fund a new separate account designated as the "CP Bank Payment Account." All Revenues (as defined herein) of the System received by the City are deposited, after collection, into the Sewer Construction and Maintenance Fund (the "SCM Fund") held by the City Treasurer. The SCM Fund has been operated as a special fund of the City since 1970. See "FURTHER INFORMATION" herein.

Payment of the principal of and interest on the BNY Mellon Notes and the SMBC Notes offered pursuant to this Offering Memorandum is additionally secured by the related Letter of Credit. See "THE LETTERS OF CREDIT" herein. The City expects to request an extension of the termination date of each of the Letters of Credit or negotiate and enter into one or more new credit facilities to secure the respective Subseries of Notes prior to the expiration date of the related Letters of Credit.

Pursuant to the Issuing and Paying Agent Agreement, the Issuing and Paying Agent will establish within the CP Interest Account, the CP Principal Account, the CP Matured Note Account and the CP Bank Payment Account, a separate subaccount (each, a "Subaccount") for each Subseries of the Notes. The proceeds of the Notes of a Subseries and Drawings (as defined in the related Reimbursement Agreement) related to such Subseries made by the related Bank under the related Letter of Credit are pledged to the payment of Notes of the related Subseries. Moneys deposited into each Subaccount for a Subseries are held in trust solely to pay the principal of and interest on the Notes of such Subseries and cannot be used to pay the principal of and interest on the Notes of the other Subseries.

System Revenues; Senior and Other Subordinated Debt

"Revenues" are defined in the Subordinate General Resolution as 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, sewage facilities charges and bonded sewer fees and all other income and receipts derived by the City from 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 (as defined in the Senior Lien General Resolution, defined below), the Reserve Fund (as defined in the

Senior Lien General Resolution) and the Emergency Fund (as defined in the Senior Lien General Resolution); and all earnings received on the Debt Service Funds and, if any, Reserve Funds (as defined in the Senior Lien General Resolution) created for the Subordinate Bonds provided, however, that Revenues shall 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) grants received from the United States of America, from the State or other political bodies; (iv) earnings on the CP Construction Funds and earnings on the Construction Funds (as defined in the Senior Lien General Resolution); (v) the proceeds of borrowings; and (vi) proceeds of insurance. The Subordinate General Resolution provides that Revenues include amounts paid to the City under the Service Charge Agreements entered into by the City and other political entities which provide for the payment of supplemental service charges or other payments in recognition of the City's increased expenses as a result of providing System improvements and/or expansions which benefit the contracting political entities.

Under the provisions of the Wastewater System Revenue Bonds General Resolution adopted by the City Council on November 10, 1987, as amended and supplemented (the "Senior Lien General Resolution"), the City has previously pledged and assigned the Revenues and granted a senior lien upon the Revenues to secure Wastewater System Revenue Bonds (the "Senior Lien Bonds"), including Senior Lien Bonds issued from time to time in the future. The pledge, assignment and lien on the Revenues granted to secure the Senior Lien Bonds shall, in all respects, be prior to the pledge, assignment, and lien on the Revenues granted to secure the Notes, Subordinate Bonds and the Senior Lien Bonds shall be payable from the Revenues on a priority basis.

The City may issue additional Senior Lien Bonds provided certain requirements in the Senior Lien General Resolution are satisfied, including the requirement that Net Revenues (adjusted as provided in the Senior Lien General Resolution) for the immediately preceding Fiscal Year, or for any 12 consecutive months out of the 18 consecutive months preceding the issuance of such proposed additional Senior Lien Bonds, must have been equal to at least 125% of the Maximum Annual Debt Service for all Senior Lien Bonds which will be outstanding after their issuance. "Net Revenues" are defined in the Senior Lien General Resolution and in the Subordinate General Resolution as Revenues less Expenses (as defined in the Senior Lien General Resolution and in the Subordinate General Resolution). The City plans to continue to issue Senior Lien Bonds secured by Revenues. See "INTRODUCTION" herein.

In addition, the Subordinate General Resolution permits the City to issue additional commercial paper notes and Subordinate Bonds secured on a parity basis with the Notes provided certain requirements are satisfied, including the requirement that the Net Revenues (adjusted as provided in the Subordinate General Resolution) for the immediately preceding Fiscal Year, or for any 12 consecutive months out of the 18 consecutive months preceding the issuance of such proposed additional Subordinate Bonds, must have been equal to at least 110% of the Maximum Annual Debt Service for all Senior Lien Bonds and Subordinate Bonds which will be outstanding after their issuance. The City plans to continue to issue Subordinate Bonds secured by Revenues. See "INTRODUCTION" herein.

As of September 1, 2012, the City had \$1,146,930,000 of Senior Lien Bonds outstanding (including refunding bonds) under the Senior Lien General Resolution and \$1,307,115,000 of Subordinate Bonds (excluding the Notes) outstanding under the Subordinate General Resolution. None of such Subordinate Bonds will have any interest in the Letters of Credit, which secure solely the Notes offered by this Offering Memorandum. As of the date hereof, there are \$80,000,000 in Notes outstanding.

The City has agreed that it will at all times impose and collect rates, fees and charges at levels at least sufficient to allow it to comply with its covenants set forth in the Senior Lien General Resolution and Subordinate General Resolution. The City is required by the Senior Lien 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% of actual debt service on Senior Lien Bonds in such year. The City is also required by the Subordinate General Resolution to establish rates and charges for the use of the System to produce Net Revenues each year at least equal to 110% of actual debt service on Senior Lien Bonds and Subordinate Bonds in such year.

Rates and charges for use of the System are established by the City Council by ordinance and are not subject to regulatory approval by any other governmental entity. See also APPENDIX A – “THE SEPTEMBER 2012 OFFERING MEMORANDUM—Appendix A—THE 2012 OFFICIAL STATEMENT—FINANCIAL OPERATIONS OF THE WASTEWATER SYSTEM—Sewer Rates and Revenues” and “—Historical Sewer Rates and Charges.”

THE LETTERS OF CREDIT

General

The City has entered into separate Reimbursement Agreements with each Bank, pursuant to which the respective Bank has (individually but not jointly) agreed to issue to the City for the benefit of the holders of the related Subseries of Notes from time to time, a Letter of Credit in the amount shown in the table below:

Subseries	Letter of Credit Bank	Original Principal Amount of Series	Maximum Letter of Credit Amount
Tax-Exempt Series A-1 and Taxable Series B-1	BNY Mellon	\$100,000,000	\$109,000,000
Tax-Exempt Series A-2 and Taxable Series B-2	SMBC	\$100,000,000	\$109,000,000

The two Letters of Credit are collectively referred to as the “Letters of Credit.” Unless extended, the Letters of Credit issued by BNY Mellon and SMBC expire on December 18, 2015 and December 15, 2017, respectively, or on the earlier occurrence of certain events as described below. The City expects to request the extension of the termination date of each of the Letters of Credit or negotiate and enter into one or more new credit facilities to secure the respective Subseries of Notes prior to the respective expiration dates of the Letters of Credit.

The Letter of Credit issued by BNY Mellon (the “BNY Mellon Letter of Credit”) shall expire at 5:00 p.m., New York City time, on the date (the “BNY Mellon Termination Date”) that is the earliest of: (a) December 18, 2015 (as such date may be extended in a notice from BNY Mellon to the Issuing and Paying Agent and the City), (b) the date of payment of a Drawing, not subject to reinstatement, which equals the then Stated Amount (as defined in the BNY Mellon Reimbursement Agreement) and (c) the Bank’s receipt of a certificate purportedly signed by a duly authorized officer of the Issuing and Paying Agent, appropriately completed, providing that the Issuing and Paying Agent has accepted a substitute Credit Facility (as defined in the BNY Mellon Reimbursement Agreement) or that no Commercial Paper Notes remain outstanding under the Issuing and Paying Agent Agreement and the City has notified the Issuing and Paying Agent that the City does not intend to issue any additional Commercial Paper Notes and desires to terminate the BNY Mellon Letter of Credit. All Drawings under the BNY Mellon Letter of Credit shall be paid from immediately available funds of BNY Mellon.

The Letter of Credit issued by SMBC (the "SMBC Letter of Credit") shall expire at 5:00 p.m. New York City time on the date (the "SMBC Termination Date") which is the earliest to occur of: (a) December 15, 2017 (the "SMBC Letter of Credit Expiration Date"), as such date may be extended in a notice from SMBC to the Issuing and Paying Agent and the City; (b) the date of payment of a Drawing (as defined in the SMBC Letter of Credit), not subject to reinstatement, which when added to all other Drawings honored under the SMBC Letter of Credit which were not subject to reinstatement as provided in the SMBC Letter of Credit, in the aggregate equals the Stated Amount (as defined in the SMBC Letter of Credit) on the date of issuance of the SMBC Letter of Credit as adjusted pursuant to the terms and conditions of the SMBC Letter of Credit; (c) the date on which SMBC receives a termination certificate signed by a duly authorized officer of the Issuing and Paying Agent certifying that the Issuing and Paying Agent has accepted an alternate credit facility (after SMBC honors any properly presented and conforming Drawing, if any, on such date); (d) the date on which SMBC receives a termination certificate signed by a duly authorized officer of the Issuing and Paying Agent that the SMBC Notes are wholly defeased or no SMBC Notes remain outstanding under the Issuing and Paying Agent Agreement and the Resolution; (e) the earlier of (i) the 15th calendar day (or if such date is not a Business Day as defined in the SMBC Letter of Credit, the immediately succeeding Business Day) after the date on which the Issuing and Paying Agent receives the Tier One Final Drawing Notice (as defined in the SMBC Letter of Credit) from SMBC, and (ii) the date on which the Drawing resulting from the delivery of the Tier One Final Drawing Notice is honored under the SMBC Letter of Credit; or (f) the earlier of (i) the 60th day after the date on which the Issuing and Paying Agent receives a Tier Two Termination Notice (as defined in the SMBC Letter of Credit) from SMBC, (or if such date is not a Business Day, the immediately succeeding Business Day) in respect of a Tier Two Termination Notice that has not been rescinded and has not been superseded by a subsequent Tier Two Termination Notice relating to a New Tier Two Termination Date (as defined in the SMBC Letter of Credit) (after SMBC honors any properly presented and conforming Drawing, if any, on such date) and (ii) the new date specified in a New Tier Two Termination Notice (as defined in the SMBC Letter of Credit) which the Issuing and Paying Agent receives from SMBC (or if such date is not a Business Day, the immediately succeeding Business Day) in respect of a New Tier Two Termination Notice that has not been rescinded or superseded (after SMBC honors any properly presented and conforming Drawing, if any, on such date). All Drawings under the SMBC Letter of Credit shall be paid from immediately available funds of SMBC.

The respective Letter of Credit may be extended at the related Bank's sole and absolute discretion upon presentation of certain written requests of the City to such Bank as specified in the related Reimbursement Agreement. The City may at any time and at its sole option replace either or both Letter(s) of Credit and terminate the related Bank's commitment thereunder upon 30 days prior written notice to the applicable Bank and to the Issuing and Paying Agent, provided the terms and conditions set out in the Subordinate General Resolution, the Issuing and Paying Agent Agreement and the related Reimbursement Agreement are met. Prior to the replacement of a Letter of Credit or termination of the related Bank's commitment, the City is required, pursuant to the Subordinate General Resolution, to provide written notice to Holders of the related Subseries of Notes of such replacement or termination and to pay the principal of the related maturing Notes including such related Notes outstanding at the time of replacement of such Letter of Credit or termination of such Bank's respective commitment.

Events of Default and Termination Events

The occurrence and continuation of one or more of the following events shall constitute an Event of Default ("Event of Default") under the related Reimbursement Agreement. Capitalized terms used in this section and not otherwise defined herein shall have the meanings ascribed thereto in the related Reimbursement Agreement.

(a) the City fails to pay, or cause to be paid, when due any principal of or interest on any Drawing or any Advance;

(b) the City fails to pay, or cause to be paid, when due any Letter of Credit Fee or any other Obligation within five (5) calendar days of the date such Letter of Credit Fee is due or other Obligation, as applicable, is due;

(c) any representation or warranty made by or on behalf of the City in the related Reimbursement Agreement or in any other Program Document or in any certificate or statement delivered thereunder shall be incorrect or untrue in any material respect when made or deemed to have been made or delivered;

(d) the City shall default in the due performance or observance by it of any Incorporated Provision and/or default in the due performance or observance of any of certain specified covenants set forth in the related Reimbursement Agreement;

(e) the City shall (i) default in the due performance or observance of any other term, covenant or agreement contained in a specific covenant of the related Reimbursement Agreement relating to reporting requirements and such default shall remain unremedied for a period of five (5) Business Days after the occurrence thereof and/or (ii) default in the due performance or observance of any other term, covenant or agreement contained in the related Reimbursement Agreement or any other Program Document and such default shall remain unremedied for a period of thirty (30) calendar days after the occurrence thereof;

(f) the City shall (i) have entered involuntarily against it an order for relief under the United States Bankruptcy Code, as amended, (ii) become insolvent or shall not pay, or be unable to pay, or admit in writing its inability to pay, its debts generally as they become due, (iii) make an assignment for the benefit of creditors, (iv) apply for, seek, consent to, or acquiesce in, the appointment of a receiver, custodian, trustee, examiner, liquidator or similar official for it or any substantial part of its Property (including, without limitation, the System), (v) institute any proceeding seeking to have entered against it an order for relief under the United States Bankruptcy Code, as amended, to adjudicate it insolvent, or seeking dissolution, winding up, liquidation, reorganization, arrangement, marshalling of assets, adjustment or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors or fail to file an answer or other pleading denying the material allegations of any such proceeding filed against it, (vi) take any corporate action in furtherance of any matter described in parts (i) through (v) above, or (vii) fail to contest in good faith any appointment or proceeding described in subparagraph (g) below under this subcaption "Events of Default and Termination Events" ;

(g) a custodian, receiver, trustee, examiner, liquidator or similar official shall be appointed for the City or any substantial part of its Property (including, without limitation, the System), or a proceeding described in clause (v) of subparagraph (f) above under this subcaption "Events of Default and Termination Events" shall be instituted against the City and such proceeding continues undischarged or any such proceeding continues undismissed or unstayed for a period of thirty (30) or more calendar days;

(h) a debt moratorium, debt restructuring (other than a refinancing or refunding in the ordinary course of the City's business), debt adjustment or comparable restriction is imposed on the repayment when due and payable of the principal of or interest on any Debt of the City by the City or any Governmental Authority with appropriate jurisdiction;

(i) (i) any provision of the related Reimbursement Agreement or any Program Document related to (A) payment of principal of or interest on the related Subseries of Notes or other Obligations or any Parity Debt or Senior Debt or (B) the validity or enforceability of the pledge of the Revenues, Trust Assets or any other pledge or lien created by the Resolution shall at any time for any reason cease to be valid and binding on the City as a result of a finding or ruling by a court or Governmental Authority with competent jurisdiction, or shall be declared, in a final nonappealable judgment by any court of competent jurisdiction, to be null and void, invalid or unenforceable;

(ii) the validity or enforceability of any material provision of the related Reimbursement Agreement or any Program Document related to (A) payment of principal of or interest on the related Subseries of Notes or other Obligations or any Parity Debt or Senior Debt, or (B) the validity or enforceability of the pledge of the Revenues, Trust Assets or any other pledge or lien created by the Resolution shall be publicly contested by the City; or

(iii) any other material provision of the related Reimbursement Agreement or any other Program Document, other than a provision described in clause (i) above, shall at any time for any reason cease to be valid and binding on the City as a result of a ruling or finding by a court or a Governmental Authority with competent jurisdiction or shall be declared in a final non appealable judgment by any court with competent jurisdiction to be null and void, invalid, or unenforceable, or the validity or enforceability thereof shall be publicly contested by the City;

(j) dissolution or termination of the existence of the City or the System;

(k) the City shall (i) default on the payment of the principal of or interest on any Parity Debt or Senior Debt including, without limitation, any regularly scheduled payments on Swap Agreements which constitute Parity Debt or Senior Debt, beyond the period of grace, if any, provided in the instrument or agreement under which such Parity Debt or Senior Debt was created or incurred; or (ii) default in the observance or performance of any agreement or condition relating to any Parity Debt or Senior Debt or contained in any instrument or agreement evidencing, securing or relating thereto, or any other default, event of default or similar event shall occur or condition exist, the effect of which default, event of default or similar event or condition is to cause (determined without regard to whether any notice is required) any such Parity Debt or Senior Debt to become immediately due and payable in full or enables the holder thereof to accelerate such Parity Debt or Senior Debt (in each such case whether by the acceleration, mandatory redemption or mandatory tender of such Parity Debt or Senior Debt);

(l) the City shall (i) default on the payment of the principal of or interest on any Debt secured by or payable from Revenues (other than Parity Debt or Senior Debt) including, without limitation, any regularly scheduled payments on Swap Agreements, aggregating in excess of \$10,000,000, beyond the period of grace, if any, provided in the instrument or agreement under which such Debt was created or incurred; or (ii) default in the observance or performance of any agreement or condition relating to any Debt secured by or payable from Revenues (other than Parity Debt or Senior Debt) aggregating in excess of \$10,000,000, or contained in any instrument or agreement evidencing, securing or relating thereto, or any other default, event of default or similar event shall occur or condition exist, the effect of which default, event of default or similar event or condition is to cause (determined without regard to whether any notice is required) any such Debt to become immediately due and payable in full or enables the holder thereof to

accelerate such Debt (in each such case whether by acceleration, mandatory redemption or mandatory tender of such Debt);

(m) any final non-appealable judgment or judgments, writ or writs or warrant or warrants of attachment, or any similar process or processes, which are not covered in full by insurance, with written acknowledgement of such coverage having been provided by the provider of such insurance coverage to the related Bank, in an aggregate amount not less than \$25,000,000 payable from Revenues shall be entered or filed against the City or against any of its Property (including, without limitation, the System) and remain unsatisfied, unvacated, unbonded or unstayed for a period of ninety (90) calendar days;

(n) any Event of Default under any Program Document (as defined respectively therein, other than the related Reimbursement Agreement) shall have occurred;

(o) any of Fitch, Moody's or S&P shall have downgraded its rating of any long term unenhanced Parity Debt or Senior Debt of the City to below "Baa2" (or its equivalent) by Moody's or "BBB" (or its equivalent) by S&P or Fitch, or suspended or withdrawn or made unavailable any such rating for credit-related reasons;

(p) any of the funds or accounts established pursuant to the Subordinate General Resolution or any funds or accounts on deposit, or otherwise to the credit of, such funds or accounts shall become subject to any stay, writ, judgment, warrant of attachment, execution or similar process by any of the creditors of the City and such stay, writ, judgment, warrant of attachment, execution or similar process shall not be released, vacated or stayed within thirty (30) calendar days after its issue or levy;

(q) any event which materially and adversely affects the financial condition of the System and the City's ability to observe and perform its obligations under the related Reimbursement Agreement and the other Program Documents shall have occurred and be continuing; or

(r) the Lien created by the Resolution or the related Reimbursement Agreement shall at any time and for any reason not constitute a valid and perfected Lien on the Trust Assets with the priority purported to be created thereby or the City shall so assert in writing.

Remedies

Upon the occurrence of an Event of Default under the related Reimbursement Agreement, the related Bank, in its sole discretion, may do any, none or all of the following. Capitalized terms used in this section and not otherwise defined herein shall have the meanings ascribed thereto in the related Reimbursement Agreement.

(a) by notice to the City, declare all Obligations to be, and such amounts shall thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the City; provided that upon the occurrence of an Event of Default described under subparagraphs (f), (g) and (h) under the subcaption "Events of Default and Termination Events" above, such acceleration shall automatically occur (unless such automatic acceleration is waived by the related Bank in writing);

(b) by notice of the occurrence of any Event of Default to the Issuing and Paying Agent (which notice shall constitute a "Stop Issuance Instruction" under the BNY Mellon

Reimbursement Agreement or a "Tier One Stop Issuance Instruction" under the SMBC Reimbursement Agreement for purposes of the Supplemental Resolution and Issuing and Paying Agent Agreement) prohibit, until such time, if any, as the related Bank shall withdraw (in writing) such notice, the issuance of additional related Subseries of Notes, reduce the Stated Amount of the related Letter of Credit to the principal amount of the then Outstanding related Subseries of Notes supported by the related Letter of Credit and interest payable thereon at maturity of such related Subseries of Notes (with respect to the SMBC Notes only, pursuant to an Event of Default under SMBC Reimbursement Agreement and Permanent Reduction Notice in the form attached to the SMBC Letter of Credit) and/or terminate and/or permanently reduce such Stated Amount as the then Outstanding related Subseries of Notes are paid;

(c) with respect to the SMBC Notes only, issue the Tier One Final Drawing Notice (the effect of which shall be to cause the Termination Date of the related Letter of Credit to occur on the 15th day after the date of receipt thereof by the Issuing and Paying Agent);

(d) pursue any rights and remedies it may have under the Program Documents; or

(e) pursue any other action available at law or in equity.

THE BANKS

The following information concerning the Banks has been provided by the respective representatives of the Banks and has not been independently confirmed or verified by the City or the Dealers. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof or that the information given below or incorporated herein by reference is correct as of any time subsequent to its date.

The Bank of New York Mellon

The following four paragraphs were provided by BNY Mellon:

The Bank of New York Mellon, a New York state chartered bank ("BNY Mellon"), is one of the two principal banking subsidiaries of The Bank of New York Mellon Corporation (NYSE: BK), a bank holding company and a financial holding company (the "BNY Mellon Holding Company"). BNY Mellon is a global financial services company focused on helping clients manage and service their financial assets, operating in 36 countries and serving more than 100 markets. The BNY Mellon Holding Company is a leading provider of financial services for institutions, corporations and high-net-worth individuals, offering investment management and investment services through a worldwide team.

As of September 30, 2012, the BNY Mellon Holding Company had \$27.9 trillion in assets under custody and administration and \$1.4 trillion in assets under management, serviced \$11.6 trillion in outstanding debt and processed global payments averaging \$1.4 trillion per day. Additional information is available at www.bnymellon.com.

The BNY Mellon Holding Company's and BNY Mellon's ratings information is available at <http://www.bnymellon.com/investorrelations/creditratings.html>. A debt rating is not a recommendation to buy, sell or hold securities, and may be subject to revision or withdrawal at any time by the assigning rating organization. Each rating should be evaluated independently of any other rating.

The BNY Mellon Holding Company's principal office is located at One Wall Street, New York, New York 10286. A copy of the most recent Annual Report on Form 10-K of the BNY Mellon Holding

Company may be obtained from the BNY Mellon Holding Company's Public Relations Department, One Wall Street, 31st Floor, (212) 635-1569. For additional information about the BNY Mellon Holding Company, please refer to the reports filed with the Securities Exchange Commission, including the BNY Mellon Holding Company's Form 10-K, proxy statement, quarterly reports on Form 10-Q and current reports on Form 8-K, available at www.sec.gov.

Sumitomo Mitsui Banking Corporation

The following six paragraphs were provided by SMBC:

General. Sumitomo Mitsui Banking Corporation (*Kabushiki Kaisha Mitsui Sumitomo Ginko*) ("SMBC") is a joint stock corporation with limited liability (*Kabushiki Kaisha*) under the laws of Japan. The registered head office of SMBC is located at 1-2, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-0005, Japan.

SMBC was established in April 2001 through the merger of two leading banks, The Sakura Bank, Limited and The Sumitomo Bank, Limited. In December 2002, Sumitomo Mitsui Financial Group, Inc. ("SMFG") was established through a stock transfer as a holding company under which SMBC became a wholly owned subsidiary. SMFG reported ¥ 138,120,170 million (USD1,736,705,268) in consolidated total assets as of June 30, 2012.

SMBC is one of the world's leading commercial banks and provides an extensive range of banking services to its customers in Japan and overseas. In Japan, SMBC accepts deposits, makes loans and extends guarantees to corporations, individuals, governments and governmental entities. It also offers financing solutions such as syndicated lending, structured finance and project finance. SMBC also underwrites and deals in bonds issued by or under the guarantee of the Japanese government and local government authorities, and acts in various administrative and advisory capacities for certain types of corporate and government bonds. Internationally, SMBC operates through a network of branches, representative offices, subsidiaries and affiliates to provide many financing products including syndicated lending and project finance.

The New York Branch of SMBC is licensed by the State of New York Banking Department to conduct branch banking business at 277 Park Avenue, New York, New York, and is subject to examination by the State of New York Banking Department and the Federal Reserve Bank of New York.

Financial and Other Information. Audited consolidated financial statements for SMFG and its consolidated subsidiaries for the fiscal years ended March 31, 2012, as well as other corporate data, financial information and analyses are available in English on the website of SMFG at www.smfg.co.jp/english.

The information herein has been obtained from SMBC, which is solely responsible for its content. The delivery of this Offering Memorandum shall not create any implication that there has been no change in the affairs of SMBC since the date hereof, or that the information contained or referred herein is correct as of any time subsequent to its date.

THE SYSTEM

General

The System provides wastewater collection, treatment and disposal services for an area of approximately 600 square miles including 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. Parts of the City are served by other agencies and likewise the City provides wastewater service for other communities and adjacent areas because of the economics associated with gravity flow. Areas within the City limits that are not served by the City are served by Los Angeles County Sanitation Districts. Certain information regarding the City and the System can be found in the City's Official Statement dated May 17, 2012 and attached hereto as Appendix A within APPENDIX A and in the City of Los Angeles Sewer Construction and Maintenance Fund Basic Financial Statements with Independent Auditor's Report for the Fiscal Years Ended June 30, 2011 and 2010 and Debt Service Compliance Report for the Fiscal Year Ended June 30, 2011 attached to such Official Statement as Appendix E thereto. No assurances can be given as to the absence of material adverse changes or events that affect the accuracy or adequacy of the information in the City's Offering Memorandum relating to the System attached hereto as APPENDIX A. No attempt has been made to update the information in APPENDIX A relating to the System in this Offering Memorandum.

BOOK-ENTRY SYSTEM

The information concerning DTC 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 (as defined herein) will distribute to the Beneficial Owners (as defined herein) (a) payments of interest, principal or premium, if any, with respect to the Notes, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Notes, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Notes, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described herein. 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.

Book-Entry System

DTC will act as securities depository for the Notes. The Notes 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 security certificate will be issued for each Series of the Notes, in the aggregate principal amount of the Notes for each Series, and will be deposited with DTC.

DTC, the world's largest depository, 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 been rated AA+ by Standard & Poor’s. 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 and www.dtc.org.

Purchases of the Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC’s records. The ownership interest of each actual purchaser of each Note (“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 Notes 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 the Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes 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 the Notes 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 Notes; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Notes 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.

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 the Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Notes. For example, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Notes unless authorized by a Direct Participant in accordance with DTC’s Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer 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 the Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of and interest on the Notes 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 or the Issuing and Paying Agent, 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 (nor its nominee), the Issuing and Paying Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of and interest evidenced by the Notes to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Issuing and Paying Agent, 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.

NEITHER THE CITY, THE DEALERS NOR THE ISSUING AND 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.

None of the City, the Dealers nor the Issuing and Paying Agent can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal of and interest on the Notes paid to DTC or its nominee, as the registered Owner, or any redemption or other notice, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Offering Memorandum.

Discontinuation of the Book-Entry Only System

DTC may discontinue providing its services as securities depository with respect to the Notes at any time by giving reasonable notice to the City or the Issuing and Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Note certificates will be printed and delivered as described in the Issuing and Paying Agent Agreement.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Note certificates will be printed and delivered as described in the Issuing and Paying Agent Agreement.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE NOTES, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE OWNERS OR HOLDERS OF THE NOTES (OTHER THAN UNDER THE CAPTION "TAX MATTERS" HEREIN) SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE NOTES.

NEITHER THE CITY, THE ISSUING AND PAYING AGENT, NOR THE DEALERS WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DTC DIRECT PARTICIPANT, OR INDIRECT PARTICIPANT; (II) THE DELIVERY OF ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE NOTES UNDER THE ISSUING AND PAYING AGENT AGREEMENT; (III) THE PAYMENT BY DTC OR ANY DTC DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR INTEREST DUE WITH RESPECT TO THE NOTES; (IV) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE REGISTERED OWNER OF NOTES; OR (V) ANY OTHER MATTER.

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 Notes or in any way contesting or affecting the validity of the Notes 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 Notes or the use of the proceeds of the Notes.

See APPENDIX A – "THE SEPTEMBER 2012 OFFERING MEMORANDUM—Appendix A—LITIGATION" for a description of certain claims and lawsuits (with any potential loss exceeding \$5,000,000) pending against the SCM Fund for construction claims and certain other alleged liabilities arising during the ordinary course of operations of the System. The modified total cost claim against the

City that was remanded to the trial court following the jury verdict in the *Dillingham-Ray Wilson, etc. v. City of Los Angeles* case described in Appendix A has been settled, with the City agreeing to pay \$31.5 million to the claimants. The City has paid \$27 million of this amount and will pay the balance in three years.

The City believes that 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.

CONTINUING DISCLOSURE

The Notes are exempt from the rules of the Securities and Exchange Commission relating to continuing disclosure of annual financial information and certain material events. In connection with prior issues of the Senior Lien Bonds and Subordinate Bonds (collectively, the "Bonds"), the City has agreed to provide to the Municipal Securities Rulemaking Board (the "MSRB") for the purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission audited financial statements of the City for the SCM Fund and other financial and operating data relating to the System and notice of certain listed events with respect to the Bonds. Holders of the Notes may obtain from the MSRB such information provided by the City in connection with such Bonds so long as such Bonds are outstanding.

RATINGS

Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's, a Standard & Poor's Financial Services LLC business ("S&P"), and Fitch, Inc. ("Fitch") have assigned their ratings of "P-1," "A-1+" and "F1+," respectively, to the BNY Mellon Notes, with the understanding that the related Letter of Credit will be issued by BNY Mellon. Moody's, S&P and Fitch have assigned their ratings of "P-1," "A-1" and "F1," respectively, to the SMBC Notes, with the understanding the the related Letter of Credit will be issued by SMBC. Such ratings reflect only the views of such organizations and are not a recommendation to buy, sell or hold the Notes. Explanations of the significance of such ratings may be obtained only from the respective organizations at: Moody's Investors Services, Inc., 99 Church Street, New York, New York, 10007, Standard & Poor's, 55 Water Street, New York, New York 10004 and Fitch Ratings, One State Street Plaza, New York, New York 10004. 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 that such ratings will continue for any given period or that they will not be revised downward or withdrawn entirely by the respective rating agencies, if in the judgment of each such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Notes.

TAX MATTERS

On September 13, 2012, Sidley Austin LLP, Bond Counsel to the City ("*Bond Counsel*"), delivered its opinion in connection with the offering of the Notes, that under then existing law, and subject to certain conditions, assumptions and limitations, interest on the Notes would not be includable in the gross income of the owners of the Notes for federal income tax purposes. Such opinion also stated that interest on the Notes would not be treated as an item of tax preference for purposes of the alternative minimum tax on individuals and corporations (although Bond Counsel observed that such interest would be included as an adjustment in the calculation of corporate alternative minimum taxable income). A copy of such opinion is included in the Offering Memorandum attached hereto as APPENDIX A.

In connection with the offering of the Notes, Bond Counsel will deliver its opinion that the issuance of the BNY Mellon Letter of Credit and the SMBC Letter of Credit will not adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Series A Notes. A copy of such opinion is attached hereto as APPENDIX B.

Other than as described above, Bond Counsel will express no opinion as to the current exclusion from gross income of the interest on the Series A Notes for federal income tax purposes. Further, Bond Counsel has not been engaged to make, and has not made, any inquiry or investigation with respect to any circumstances that may have occurred since the date of issuance of the Series A Notes that would adversely affect the exclusion from gross income of the interest on the Series A Notes for federal income tax purposes.

THE DEALERS

The City has appointed Wells Fargo Securities and Samuel A. Ramirez & Co., Inc., each as a non-exclusive dealer with respect to the offering and sale of the Notes.

Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association.

FINANCIAL ADVISOR

Public Resources Advisory Group (the "Financial Advisor") has served as financial advisor to the City in connection with the authorization and issuance of the Notes.

The Financial Advisor has assisted the City in matters relating to the planning, structuring and issuance of the Notes. The Financial Advisor has not audited, authenticated or otherwise independently verified the information set forth in the Offering Memorandum, or any other related information available to the City, with respect to accuracy and completeness of disclosure of such information. The Financial Advisor makes no guaranty, warranty or other representation respecting accuracy and completeness of the Offering Memorandum.

LEGAL MATTERS

The Notes are subject to approval as to their legality by Sidley Austin LLP, Bond Counsel. A copy of the proposed form of opinion of Bond Counsel is attached as APPENDIX B. Certain legal matters will be passed upon for the City by the City Attorney of the City of Los Angeles.

FURTHER INFORMATION

Copies of the Subordinate General Resolution, the Senior General Resolution, the form of the Reimbursement Agreements and other documents referred to herein may be obtained from the City by contacting the Office of the City Administrative Officer, 200 North Main Street, Room 1500, City Hall East, Los Angeles, California 90012, Attention: Debt Management Group, (213) 485-2881. Reference is made to the legal documents listed above for the definitions of capitalized terms used and not otherwise defined herein.

This Offering Memorandum has been duly approved, executed and delivered by the City.

By: /s/ Raymond P. Ciranna
City Administrative Officer

APPENDIX A

THE SEPTEMBER 2012 OFFERING MEMORANDUM

In the opinion of Sidley Austin LLP, San Francisco, California, Bond Counsel, under current law and assuming compliance with certain covenants in the Subordinate General Resolution and other documents pertaining to the Notes (defined herein) and requirements of the Internal Revenue Code of 1986, as amended, as described herein, interest on the Notes is not includable in the gross income of the holders of the Notes for federal income tax purposes. In the further opinion of Bond Counsel, interest on the Notes is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the Notes, however, is included in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's federal alternative minimum tax liability. In the further opinion of Bond Counsel, interest on the Notes is exempt from personal income taxes imposed by the State of California.



City of Los Angeles
Wastewater System Commercial Paper
Revenue Notes
\$200,000,000 Maximum Aggregate
Principal Amount Outstanding at Any Time
Series A – \$100,000,000
Series C – \$100,000,000

The purpose of this Offering Memorandum is to provide certain information relating to the City of Los Angeles Wastewater System Commercial Paper Revenue Notes (the "Notes"). The proceeds of the Notes are used to provide funds to refund Notes previously issued by the City of Los Angeles, California (the "City").

The Notes are offered under the authority of the City Charter, voter approval at elections held in 1987, 1988 and 1992 authorizing the issuance of up to \$3.5 billion of wastewater system revenue bonds, a Wastewater System Subordinate Revenue Bonds General Resolution (the "Subordinate General Resolution") adopted by the Council of the City (the "City Council") on March 26, 1991, as amended and supplemented, and as further amended by an Eleventh Supplemental Resolution adopted by the City Council on June 18, 2010, and an Amended and Restated Issuing and Paying Agent Agreement, dated as of September 1, 2012, by and between the City and U.S. Bank National Association, as issuing and paying agent.

The maximum aggregate principal amount of Notes offered by this Offering Memorandum may not exceed \$200,000,000.

The Notes are special, limited obligations of the City payable from and secured by a subordinate pledge of certain Revenues (as defined herein) derived from the ownership and operation of the wastewater collection and treatment system of the City (the "System"). The pledge of Revenues with respect to the Notes is subordinate to the pledge of Revenues which secures all Senior Lien Bonds (as defined herein) currently outstanding and those issued from time to time in the future. The pledge of Revenues with respect to the Notes is on a parity with the pledge of Revenues which secures all Subordinate Bonds (as defined herein) currently outstanding and those issued from time to time in the future.

The Notes of each Series are additionally secured by a related line of credit (each, a "Line of Credit" and collectively, the "Lines of Credit") issued pursuant to a Line of Credit Agreement, dated as of June 1, 2010, as amended by that certain Amendment No. 1 to Line of Credit Agreement, dated as of June 1, 2012 (as so amended, the "Credit Agreement"), with State Street Bank & Trust Company and Wells Fargo Bank, National Association (collectively, the "Banks"), pursuant to which each of the Banks has severally, but not jointly, agreed to extend to the City, for the benefit of the holders of a particular Series of Notes (as identified below), a revolving Line of Credit. See "LINES OF CREDIT" herein.

Series A – State Street Bank & Trust Company
Series C – Wells Fargo Bank, N.A.

The expiration date of the Lines of Credit is December 28, 2012 unless terminated earlier or extended pursuant to the terms of the Credit Agreement. See "SECURITY AND SOURCE OF PAYMENT FOR THE NOTES—General" herein.

The Notes shall be dated the date of their respective authentication and issuance and shall be issued in fully-registered form and when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC") and shall be issued in minimum denominations of \$100,000 and \$1,000 increments in excess thereof. Interest on the Notes shall be calculated on the basis of a year consisting of 365 or 366 days and the actual number of days elapsed. The Notes shall mature on a business day not more than 270 days after their respective dates but in no event later than one business day immediately prior to the expiration date of the Credit Agreement or any substitute liquidity arrangement.

The Notes are not subject to redemption prior to their maturity.

The General Fund of the City is not liable for the payment of the Notes and neither the full faith and credit nor the taxing power of the City is pledged to pay the Notes. The Notes do not constitute a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of the City's property, or upon its income, receipts or revenue, except to the extent of the subordinate pledge of the Revenues and the pledge of amounts on deposit in the CP Debt Service Fund and the CP Construction Funds, each as described herein, proceeds of the sale of new Notes and payments under the related Line of Credit.

This cover page contains information for quick reference only. It is not a summary of the issue. Potential purchasers must read the entire Offering Memorandum and the information incorporated herein by reference to obtain information essential to making an informed investment decision. The Dealers may from time to time have a long or short position in, and buy or sell and make a market in, securities of the City and its affiliates. The Dealers from time to time may act as manager or co-manager of a public offering of such securities and perform investment banking and other services to the issuer of such securities.

Wells Fargo Securities

Ramirez & Co., Inc.

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 Offering Memorandum does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Notes by a person in any jurisdiction in which it is unlawful for such person to make an offer, solicitation or sale.

This Offering Memorandum is not to be construed as a contract with the purchasers of the Notes. Statements contained in this Offering Memorandum 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 Offering Memorandum under the caption "THE BANKS" has been provided by the Banks. None of the City, the Dealers or any of their respective counsel, officers, agents or employees make any representations as to the accuracy or sufficiency of such information.

The information set forth in this Offering Memorandum has been obtained from the City, and other sources which are believed by the City to be reliable. The Dealers have provided the following sentence for inclusion in this Offering Memorandum. *The Dealers have reviewed the information in this Offering Memorandum 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 Dealers do not guarantee the accuracy or completeness of such information.*

Certain statements included or incorporated by reference in the Offering Memorandum constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Although 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.

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Offering Memorandum 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 Notes, the resolutions 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. See "FURTHER INFORMATION" herein.

CITY OF LOS ANGELES

Mayor

Antonio R. Villaraigosa

City Council

Ed Reyes (District 1)
Paul Krekorian (District 2)
Dennis P. Zine (District 3)
Tom LaBonge (District 4)
Paul Koretz (District 5)

Tony Cárdenas (District 6)
Richard Alarcon (District 7)
Bernard C. Parks (District 8)
Jan Perry (District 9)
Herb J. Wesson, Jr. (District 10)

Bill Rosendahl (District 11)
Mitchell Englander (District 12)
Eric Garcetti (District 13)
Jose Huizar (District 14)
Joe Buscaino (District 15)

City Officials

Carmen A. Trutanich, *City Attorney*
Wendy Greuel, *City Controller*
Miguel A. Santana, *City Administrative Officer*
Antoinette Christovale, *City Treasurer*
June Lagmay, *City Clerk*

Board of Public Works

Jerilyn Lopez Mendoza, Vice President
John J. Choi, Commissioner

Andrea A. Alarcón, President

Steven T. Nutter, Commissioner
Valerie Lynne Shaw, Commissioner

Bureau of Engineering

Gary Lee Moore, P.E.
City Engineer

Bureau of Sanitation

Enrique C. Zaldivar
Director

Office of Accounting

Victor A. Santiago
Director

SPECIAL SERVICES

BOND COUNSEL
Sidley Austin LLP
San Francisco, California

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

FINANCIAL ADVISOR
Public Resources Advisory Group
Los Angeles, California

ISSUING AND PAYING AGENT
U.S. Bank National Association
New York, New York

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OFFERING MEMORANDUM

The City of Los Angeles Wastewater System Commercial Paper Revenue Notes

**\$200,000,000 Maximum Aggregate
Principal Amount Outstanding at Any Time**
Series A – \$100,000,000
Series C – \$100,000,000

INTRODUCTION

This introduction is not a summary of this Offering Memorandum. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Offering Memorandum, 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 Offering Memorandum. References to, and summaries of provisions of the Constitution and laws of the State of California (the "State") 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.

This Offering Memorandum, including the cover page and appendices hereto, is being furnished in connection with the offering by the City of Los Angeles, California (the "City") of its Wastewater System Commercial Paper Revenue Notes (the "Notes") to be offered in three series (each a "Series"). The Notes are issued under the authority of the City Charter, voter approval at elections held in 1987, 1988 and 1992 authorizing the issuance of up to \$3.5 billion of wastewater system revenue bonds, a Wastewater System Subordinate Revenue Bonds General Resolution (the "Subordinate General Resolution") adopted by the Council of the City (the "City Council") on March 26, 1991, as amended and supplemented, and as further amended by an Eleventh Supplemental Resolution adopted by the City Council on June 18, 2010, and an Amended and Restated Issuing and Paying Agent Agreement (the "Issuing and Paying Agent Agreement"), dated as of September 1, 2012, by and between the City and U.S. Bank National Association, as issuing and paying agent (the "Issuing and Paying Agent").

The maximum aggregate principal amount of Notes offered by this Offering Memorandum may not exceed \$200,000,000.

The Notes are special, limited obligations of the City payable from and secured by a subordinate pledge of certain Revenues (as defined herein) derived from the ownership and operation of the wastewater collection and treatment system of the City (the "System"). The pledge of Revenues with respect to the Notes is subordinate to the pledge of Revenues which secures all Senior Lien Bonds (as defined herein) currently outstanding and those issued from time to time in the future. The pledge of Revenues with respect to the Notes is on a parity with the pledge of Revenues which secures all Subordinate Bonds (as defined herein) currently outstanding and those issued from time to time in the future.

The payment of each Series of Notes is additionally secured by a related line of credit (each, a "Line of Credit" and collectively, the "Lines of Credit") issued pursuant to a Line of Credit Agreement, dated as of June 1, 2010, as amended by that certain Amendment No. 1 to Line of Credit Agreement, dated as of June 1, 2012 (as so amended, the "Credit Agreement"), with State Street Bank & Trust Company ("State Street") and Wells Fargo Bank, National Association ("Wells Fargo," and together with State Street, the "Banks"), pursuant to which each of the Banks has severally, but not jointly, agreed to

extend to the City, for the benefit of the holders of a particular series of Notes, a revolving Line of Credit. The Series A and C Notes are secured by the Lines of Credit issued by State Street and Wells Fargo, respectively. See "LINES OF CREDIT" herein.

The expiration date of the Lines of Credit is December 28, 2012 unless terminated earlier or extended pursuant to the terms of the Credit Agreement. See "LINES OF CREDIT" herein. The City expects to negotiate and enter into one or more new credit facilities to secure the Notes prior to the expiration date of the Lines of Credit.

The City may issue wastewater system revenue bonds from time to time, the proceeds of which may be used to refund a portion of the Notes then outstanding. The City may also issue additional commercial paper notes from time to time, depending on market conditions. As a result of the adoption of a new City Charter effective on July 1, 2000, the issuance of wastewater system revenue bonds and commercial paper notes no longer requires a vote of the electorate, but can be authorized through a procedural ordinance.

The General Fund of the City is not liable for the payment of the Notes and neither the full faith and credit nor the taxing power of the City is pledged to pay the Notes. The Notes do not constitute a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of the City's property, or upon its income, receipts or revenue, except to the extent of the subordinate pledge of the Revenues and the pledge of amounts on deposit in the CP Debt Service Fund (as defined herein) and the CP Construction Funds (as defined herein), proceeds of the sale of new Notes and payments under the related Line of Credit.

Certain information regarding the City and the System can be found in the City's Official Statement dated May 17, 2012 and attached hereto as APPENDIX A and in the City of Los Angeles Sewer Construction and Maintenance Fund Basic Financial Statements with Independent Auditor's Report for the Fiscal Years Ended June 30, 2011 and 2010 and Debt Service Compliance Report for the Fiscal Year Ended June 30, 2011 attached to such Official Statement as Appendix E thereto. No assurances can be given as to the absence of material adverse changes or events that affect the accuracy or adequacy of the information relating to the System in the City's Official Statement attached hereto as APPENDIX A. No attempt has been made to update the information relating to the System in APPENDIX A in this Offering Memorandum.

THE COMMERCIAL PAPER NOTES

The Notes shall be dated the date of their respective authentication and issuance and shall be issued in fully-registered form and when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC") and shall be issued in minimum denominations of \$100,000 and \$1,000 increments in excess thereof. See "BOOK-ENTRY SYSTEM" herein.

The Notes shall bear interest payable at maturity at an annual rate not in excess of 12% per annum or such lesser rate permitted by the 1941 Act at the time of issuance of a Note. Interest on the Notes shall be calculated on the basis of a year consisting of 365 or 366 days and the actual number of days elapsed. The Notes shall mature on a Business Day not more than 270 days after their respective dates but in no event later than one Business Day immediately prior to the expiration date of the Credit Agreement or any substitute liquidity arrangement.

The Notes will be available for countersignature and issuance, and will be payable, at the offices of the Issuing and Paying Agent: U.S. Bank National Association, 100 Wall Street, Suite 1600, New York, New York 10005. The purchase price payable by an investor is required to be made, and the

amount payable by the City at maturity, will be paid, in immediately available funds. Notes must be presented to the Issuing and Paying Agent by 1:00 p.m. New York time to assure same-day payment.

The Notes are not subject to redemption prior to maturity.

SECURITY AND SOURCE OF PAYMENT FOR THE NOTES

General

The Notes are payable on a subordinate basis from the Revenues derived by the City from the ownership or operation of the System and from amounts, if any, on deposit in the "CP Debt Service Fund" and the "CP Construction Funds" created pursuant to the Subordinate General Resolution. The CP Debt Service Fund consists of three separate accounts designated as the "CP Interest Account," the "CP Principal Account" and the "CP Matured Note Account." All Revenues (as defined herein) of the System received by the City are deposited, after collection, into the Sewer Construction and Maintenance Fund (the "SCM Fund") held by the City Treasurer. The SCM Fund has been operated as a special fund of the City since 1970. See "FURTHER INFORMATION" herein.

Payment of the principal of and interest on each Series of Notes offered pursuant to this Offering Memorandum is additionally secured by a related Line of Credit. See "LINES OF CREDIT" herein. The City expects to negotiate and enter into one or more new credit facilities to secure the Notes prior to the expiration date of the Lines of Credit.

Pursuant to the Issuing and Paying Agent Agreement, the Issuing and Paying Agent will establish within the CP Interest Account, the CP Principal Account and the CP Matured Note Account, a separate subaccount (each, a "Subaccount") for each Series of the Notes. The proceeds of the Notes of a Series and Advances (as defined in the Credit Agreement) related to such Series made by any related Bank under a Line of Credit are pledged to the payment of Notes of the related Series. Moneys deposited into each Subaccount for a Series are held in trust solely to pay the principal of and interest on the Notes of such Series and cannot be used to pay the principal of and interest on the Notes of any other Series.

System Revenues; Senior and Other Subordinated Debt

"Revenues" are defined in the Subordinate General Resolution as 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, sewage facilities charges and bonded sewer fees and all other income and receipts derived by the City from 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 (as defined in the Senior Lien General Resolution, defined below), the Reserve Fund (as defined in the Senior Lien General Resolution) and the Emergency Fund (as defined in the Senior Lien General Resolution); and all earnings received on the Debt Service Funds and, if any, Reserve Funds (as defined in the Senior Lien General Resolution) created for the Subordinate Bonds provided, however, that Revenues shall 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) grants received from the United States of America, from the State or other political bodies; (iv) earnings on the CP Construction Funds and earnings on the Construction Funds (as defined in the Senior Lien General Resolution); (v) the proceeds of borrowings; and (vi) proceeds of insurance. The Subordinate General Resolution provides that Revenues include amounts paid to the City under the Service Charge Agreements entered into by the City and other political entities which provide for the

payment of supplemental service charges or other payments in recognition of the City's increased expenses as a result of providing System improvements and/or expansions which benefit the contracting political entities.

Under the provisions of the Wastewater System Revenue Bonds General Resolution adopted by the City Council on November 10, 1987, as amended and supplemented (the "Senior Lien General Resolution"), the City has previously pledged and assigned the Revenues and granted a senior lien upon the Revenues to secure Wastewater System Revenue Bonds (the "Senior Lien Bonds"), including Senior Lien Bonds issued from time to time in the future. The pledge, assignment and lien on the Revenues granted to secure the Senior Lien Bonds shall, in all respects, be prior to the pledge, assignment, and lien on the Revenues granted to secure the Notes, Subordinate Bonds and the Senior Lien Bonds shall be payable from the Revenues on a priority basis.

The City may issue additional Senior Lien Bonds provided certain requirements in the Senior Lien General Resolution are satisfied, including the requirement that Net Revenues (adjusted as provided in the Senior Lien General Resolution) for the immediately preceding Fiscal Year, or for any 12 consecutive months out of the 18 consecutive months preceding the issuance of such proposed additional Senior Lien Bonds, must have been equal to at least 125% of the Maximum Annual Debt Service for all Senior Lien Bonds which will be outstanding after their issuance. "Net Revenues" are defined in the Senior Lien General Resolution and in the Subordinate General Resolution as Revenues less Expenses (as defined in the Senior Lien General Resolution and in the Subordinate General Resolution). The City plans to continue to issue Senior Lien Bonds secured by Revenues. See "INTRODUCTION" herein.

In addition, the Subordinate General Resolution permits the City to issue additional commercial paper notes and Subordinate Bonds secured on a parity basis with the Notes provided certain requirements are satisfied, including the requirement that the Net Revenues (adjusted as provided in the Subordinate General Resolution) for the immediately preceding Fiscal Year, or for any 12 consecutive months out of the 18 consecutive months preceding the issuance of such proposed additional Subordinate Bonds, must have been equal to at least 110% of the Maximum Annual Debt Service for all Senior Lien Bonds and Subordinate Bonds which will be outstanding after their issuance. The City plans to continue to issue Subordinate Bonds secured by Revenues. See "INTRODUCTION" herein.

As of September 1, 2012, the City had \$1,146,930,000 of Senior Lien Bonds outstanding (including refunding bonds) under the Senior Lien General Resolution and \$1,307,115,000 of Subordinate Bonds (excluding the Notes) outstanding under the Subordinate General Resolution. None of such Subordinate Bonds will have any interest in the Lines of Credit, which secure solely the Notes offered by this Offering Memorandum. As of the date hereof, there are no Notes outstanding.

The City has agreed that it will at all times impose and collect rates, fees and charges at levels at least sufficient to allow it to comply with its covenants set forth in the Senior Lien General Resolution and Subordinate General Resolution. The City is required by the Senior Lien 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% of actual debt service on Senior Lien Bonds in such year. The City is also required by the Subordinate General Resolution to establish rates and charges for the use of the System to produce Net Revenues each year at least equal to 110% of actual debt service on Senior Lien Bonds and Subordinate Bonds in such year.

Rates and charges for use of the System are established by the City Council by ordinance and are not subject to regulatory approval by any other governmental entity. See also APPENDIX A - "THE 2012 OFFICIAL STATEMENT—FINANCIAL OPERATIONS OF THE WASTEWATER SYSTEM—Sewer Rates and Revenues" and "—Historical Sewer Rates and Charges."

LINES OF CREDIT

General

The City has entered into the Credit Agreement with the Banks, pursuant to which each of the Banks has each severally, but not jointly, agreed to extend to the City for the benefit of the holders of a related Series of Notes from time to time, a Line of Credit in the amount shown in the table below:

<u>Series</u>	<u>Line of Credit Bank</u>	<u>Original Principal Amount of Series</u>	<u>Maximum Amount of Line of Credit Amount</u>
A	State Street	\$100,000,000	\$108,876,712.33
C	Wells Fargo	\$100,000,000	\$108,876,712.33

The two Lines of Credit are collectively referred to as the "Lines of Credit." Unless extended, the Lines of Credit expire on December 28, 2012 or on the earlier occurrence of certain events as described below. The City expects to negotiate and enter into one or more new credit facilities to secure the Notes prior to the expiration date of the Lines of Credit.

Each Line of Credit may be extended at the related Bank's sole and absolute discretion upon presentation of certain written requests of the City to the Banks as specified in the Credit Agreement. The City may at any time and at its sole option replace any Line of Credit and terminate any of the Bank's respective commitment thereunder upon 15 days prior written notice to the applicable Bank and to the Issuing and Paying Agent, provided the terms and conditions set out in the Subordinate General Resolution, the Issuing and Paying Agent Agreement and the Credit Agreement are met. Prior to the replacement of any Line of Credit or termination of any Bank's respective commitment the City is required, pursuant to the Subordinate General Resolution, to provide written notice to Holders of the Notes of such replacement or termination and to pay the principal of maturing Notes including Notes outstanding at the time of replacement of any Line of Credit or termination of any Bank's respective commitment.

Events of Default and Termination Events

The occurrence and continuation of one or more of the following events shall constitute an Event of Default ("Event of Default") under the Credit Agreement:

(a) The City fails to pay, or cause to be paid, when due (i) any principal and interest due under the Credit Agreement, including under a Bank Note (as defined in the Credit Agreement) or (ii) any other amounts due under the Credit Agreement; or

(b) (i) The City fails to perform or observe any term, covenant or agreement contained in Section 8.2(g), (h) or (j), 8.11, 8.13, 9.1 or 9.2 of the Credit Agreement or (ii) the City fails to perform or observe any term, covenant or agreement contained in the Credit Agreement (other than those referred to in Section 10.1(a) and (b)(i) of the Credit Agreement) and any such failure is irremediable or, if remediable, remains unremedied for 30 days after notice thereof to the City; or

(c) (i) The City shall fail to make any payment in respect of any of its Senior Lien Bonds or Subordinate Bonds when due (whether by scheduled maturity, required prepayment, acceleration, demand

or otherwise) (excluding for purposes of Section 10.2(a) of the Credit Agreement only any failure to make a payment of principal on any Note and any other commercial paper note payable from Revenues that has liquidity support from an entity other than the City) and such failure shall continue after the applicable grace period, if any, specified in the Senior Lien General Resolution or the Subordinate General Resolution or, if applicable, in any other resolution, agreement, contract, lease or other instrument relating to such Senior Lien Bond or Subordinate Bond or other debt senior to or on a parity with the Subordinate Bonds, evidenced by bonds, notes or other similar instrument; or (ii) an "Event of Default" as defined in the Senior Lien General Resolution or the Subordinate Resolution or any other "event of default" under any other Program Document (as defined in the Credit Agreement) shall have occurred and be continuing; or

(d) The City has taken or permitted to be taken any action which would materially adversely affect the enforceability of the Credit Agreement, either Bank Note, the Subordinate General Resolution or Senior Lien General Resolution against the City or the legal ability of the City to pay Payment Obligations (as defined in the Credit Agreement), the Notes or any Senior Lien Bonds or Subordinate Bonds when due; or

(e) A court of competent jurisdiction shall enter a final, non-appealable order or judgment to the effect that (i) any Senior Lien Bonds are illegal or unenforceable, or (ii) Subordinate Bonds are illegal or unenforceable; or

(f) The issuance of any Senior Lien Bonds or Subordinate Bonds shall result in a violation by the City of any material law, rule or regulation, or any order of any court, governmental agency or regulatory body, or any indenture or loan or credit agreement (including the Credit Agreement), or any other agreement or instrument, applicable to the City or to such issuance; or

(g) Any representation or warranty on the part of the City contained in any Program Document or in any certificate, letter or other writing or instrument furnished or delivered by the City to the Banks pursuant to the Credit Agreement or thereto or in connection with the Credit Agreement or therewith, shall at any time prove to have been incorrect in any material respect when made or when effective or when reaffirmed, as the case may be, whether by misstatement or omission; or

(h) (i) Any provision of the Senior Lien General Resolution relating to or otherwise affecting the City's obligation to pay the principal of or interest on any Senior Lien Bonds or the Senior Lien General Resolution, shall at any time for any reason cease to be valid and binding on the City or shall be declared to be null and void by any court or governmental authority or agency having jurisdiction over the City, or (ii) the validity or the enforceability of any provision of the Senior Lien General Resolution relating to or otherwise affecting the City's obligation to pay the principal of or interest on any Senior Lien Bond or the pledge of Revenues shall at any time be contested by the City in a judicial or administrative proceeding, or (iii) the Credit Agreement, the Issuing and Paying Agent Agreement, any Bank Note, any Note, the Subordinate General Resolution, or any provision of the foregoing relating to or otherwise affecting the City's obligation to pay the principal of or interest on any Subordinate Bond or the pledge of Revenues, shall at any time for any reason cease to be valid and binding on the City or shall be declared to be null and void by any court or governmental authority or agency having jurisdiction over the City, or the validity or the enforceability thereof shall be contested by the City, in a judicial or administrative proceeding; or

(i) The City fails to pay when due a final, nonappealable judgment or order against it, which judgment is payable from Revenues and is in, excess of \$10,000,000 and for which insurance proceeds shall not be available shall be rendered against the City or the System that are payable from Revenues and

such judgement or order shall continue unstayed, undischarged, unbounded or unsatisfied for a period of 90 days; or

(j) (i) the City imposes a debt moratorium, debt restructuring, debt adjustment or comparable restriction on repayment when due and payable of the principal of or interest on any Senior Lien Bond or Subordinate Bond, or (ii) under any existing or future law of any jurisdiction relating to bankruptcy, insolvency, reorganization or relief of debtors, the City seeks to have an order for relief entered with respect to it or the System or seeking to adjudicate it or the System insolvent or bankrupt or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or the System or its debts or those of the System, or (iii) the City seeks appointment of a receiver, trustee, custodian or other similar official for itself or the System or for any substantial part of the City's property, or the City shall make a general assignment for the benefit of its creditors, or (iv) there shall be commenced against the City or the System any case, proceeding or other action of a nature referred to in clause (ii) and the same shall remain undismissed, or (v) there shall be commenced against the City or the System any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its property which results in the entry of an order for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal, within sixty (60) days from the entry thereof, or (vi) the City takes action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (i) (ii), (iii), (iv), (v) above, or (vii) the City or the System shall generally not, or shall be unable to, or shall admit in writing its inability to, pay its debts as they become due; or

(k) Each of the Rating Agencies suspends, withdraws or downgrades the Senior Lien Bonds or the Subordinate Bonds ratings below investment grade.

(l) Any of the Rating Agencies suspends, withdraws or downgrades the Senior Lien Bonds or Subordinate Bond ratings below investment grade.

In the case of any Event of Default specified in clause (a)(i), (c)(i), (e)(ii), (h)(ii), (h)(iii), (i), (j) or (k) specified above that has occurred (each such event a "Termination Event"), (i) the Commitment of the Banks under the Credit Agreement shall immediately terminate automatically and each Available Commitment (as defined in the Credit Agreement) shall be reduced to zero and (ii) all amounts due under the Credit Agreement and under the Bank Notes shall immediately become due and payable; provided, that (i) the Event of Default described in clause (a) or (c) above shall constitute a Termination Event only if the unpaid principal or interest referred to in such clause has become due and payable other than by reason of acceleration of the maturity thereof. Upon such termination, the Banks shall send a notice thereof to the City; provided, further, however, that failure to send or receive such notice shall not affect the termination of the Commitment as provided under the Credit Agreement.

In the case of any Event of Default, including any Termination Event, that has occurred and is continuing, the Banks, in their discretion, may exercise certain other rights and remedies specified in the Credit Agreement. Except as expressly provided in the Credit Agreement, procurement, demand, protest and all other notices of every kind are expressly waived in the Credit Agreement.

THE BANKS

The following information concerning the Banks has been provided by the respective representatives of the Banks and has not been independently confirmed or verified by the City or the Dealers. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof or that the

information given below or incorporated herein by reference is correct as of any time subsequent to its date.

State Street Bank

State Street is a wholly-owned subsidiary of State Street Corporation (the "Corporation"). The Corporation (NYSE: STT) is the world's leading provider of financial services to institutional investors including investment servicing, investment management and investment research and trading. With \$21.81 trillion in assets under custody and administration and \$1.86 trillion in assets under management, the Corporation operates in 29 countries and more than 100 markets worldwide. The consolidated total assets of State Street as of December 31, 2011 accounted for approximately 98% of the consolidated total assets of the Corporation as of the same date. As of December 31, 2011, the Corporation had consolidated total assets of \$216.83 billion, total deposits (including deposits in non-U.S. offices) of \$157.29 billion, total loans and leases, net of unearned income and allowance for loan losses, of \$10.03 billion and total shareholders' equity of \$19.40 billion.

State Street's *Consolidated Reports of Condition and Income for A Bank With Domestic and Foreign Offices Only -- FFIEC 031* at December 31, 2011 (the "Call Reports"), as filed with the Federal Deposit Insurance Corporation, are incorporated by reference in this Appendix and shall be deemed to be a part hereof.

In addition, all Call Reports filed by State Street pursuant to 12 U.S.C. §324 after the date of this Offering Memorandum shall be deemed to be incorporated herein by reference and shall be deemed to be a part hereof from the date of filing of any such report.

Additional information, including financial information relating to the Corporation and State Street, is set forth in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2011. The Form 10-K can be found on the Corporation's web site, www.statestreet.com. Such report and all reports filed by the Corporation pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, after the date of this Offering Memorandum are incorporated herein by reference and shall be deemed a part hereof from the date of filing of any such report. The Line of Credit is an obligation of State Street and not of the Corporation.

Any statement contained in any document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Offering Memorandum to the extent that a statement contained herein or in any subsequently filed document that also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Memorandum.

State Street hereby undertakes to provide, without charge to each person to whom a copy of this Offering Memorandum has been delivered, on the written request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated in this Offering Memorandum by reference, other than exhibits to such documents. Written requests for such copies should be directed to Investor Relations, State Street Corporation, One Lincoln Street, Boston, Massachusetts 02111, telephone number 617-786-3000.

Neither State Street nor its affiliates make any representation as to the contents of this Offering Memorandum (except as to this Appendix to the extent it relates to State Street), the suitability of the Notes for any investor, the feasibility or performance of any project or compliance with any securities or tax laws or regulations.

Wells Fargo Bank, National Association

The information under this heading has been provided solely by Wells Fargo and is believed to be reliable. This information has not been verified independently by the City or the Dealers. The City and the Dealers make no representation whatsoever as to the accuracy, adequacy or completeness of such information.

Wells Fargo is a national banking association organized under the laws of the United States of America with its main office at 101 North Phillips Avenue, Sioux Falls, South Dakota 57104, and engages in retail, commercial and corporate banking, real estate lending and trust and investment services. Wells Fargo is an indirect, wholly-owned subsidiary of Wells Fargo & Company ("Wells Fargo & Company"), a diversified financial services company, a financial holding company and a bank holding company registered under the Bank Holding Company Act of 1956, as amended, with its principal executive offices located in San Francisco, California.

Wells Fargo prepares and files Call Reports on a quarterly basis. Each Call Report consists of a balance sheet as of the report date, an income statement for the year-to-date period to which the report relates and supporting schedules. The Call Reports are prepared in accordance with regulatory instructions issued by the Federal Financial Institutions Examination Council. While the Call Reports are supervisory and regulatory documents, not primarily accounting documents, and do not provide a complete range of financial disclosure about Wells Fargo, the reports nevertheless provide important information concerning Wells Fargo's financial condition and results of operations. Wells Fargo's Call Reports are on file with, and are publicly available upon written request to the FDIC, 550 17th Street, N.W., Washington, D.C. 20429, Attention: Division of Insurance and Research. The FDIC also maintains an internet website that contains the Call Reports. The address of the FDIC's website is <http://www.fdic.gov>. Wells Fargo's Call Reports are also available upon written request to the Wells Fargo & Company Corporate Secretary's Office, Wells Fargo Center, MAC N9305-173, 90 South 7th Street, Minneapolis, MN 55479.

The Line of Credit will be solely an obligation of Wells Fargo and will not be an obligation of, or otherwise guaranteed by, Wells Fargo & Company, and no assets of Wells Fargo & Company or any affiliate of Wells Fargo or Wells Fargo & Company will be pledged to the payment thereof. Payment of the Line of Credit will not be insured by the FDIC.

The information contained in this section, including financial information, relates to and has been obtained from Wells Fargo, and is furnished solely to provide limited introductory information regarding Wells Fargo and does not purport to be comprehensive. Any financial information provided in this section is qualified in its entirety by the detailed information appearing in the Call Reports referenced above. The delivery hereof shall not create any implication that there has been no change in the affairs of Wells Fargo since the date hereof.

THE SYSTEM

General

The System provides wastewater collection, treatment and disposal services for an area of approximately 600 square miles including 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. Parts of the City are served by other agencies and likewise the City provides wastewater service for other communities and adjacent areas because of the economics associated with gravity flow. Areas within the City limits that are not served by the City are served by Los Angeles County Sanitation Districts. Certain information regarding the City and the System can be found in the City's Official

Statement dated May 17, 2012 and attached hereto as APPENDIX A and in the City of Los Angeles Sewer Construction and Maintenance Fund Basic Financial Statements with Independent Auditor's Report for the Fiscal Years Ended June 30, 2011 and 2010 and Debt Service Compliance Report for the Fiscal Year Ended June 30, 2011 attached to such Official Statement as Appendix E thereto. No assurances can be given as to the absence of material adverse changes or events that affect the accuracy or adequacy of the information in the City's Official Statement relating to the System attached hereto as APPENDIX A. No attempt has been made to update the information in APPENDIX A relating to the System in this Offering Memorandum.

BOOK-ENTRY SYSTEM

The information concerning DTC 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 (as defined herein) will distribute to the Beneficial Owners (as defined herein) (a) payments of interest, principal or premium, if any, with respect to the Notes, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Notes, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Notes, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described herein. 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.

Book-Entry System

DTC will act as securities depository for the Notes. The Notes 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 security certificate will be issued for each Series of the Notes, in the aggregate principal amount of the Notes for each Series, and will be deposited with DTC.

DTC, the world's largest depository, 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 been rated AA+ by Standard & Poor's. 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 and www.dtc.org.

Purchases of the Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC's records. The ownership interest of each actual purchaser of each Note ("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 Notes 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 the Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes 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 the Notes 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 Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes 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.

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 the Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Notes. For example, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Notes unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer 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 the Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of and interest on the Notes 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 or the Issuing and Paying Agent, 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 (nor its nominee), the Issuing and Paying Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of and interest evidenced by the Notes to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Issuing and Paying Agent, 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.

NEITHER THE CITY, THE DEALERS NOR THE ISSUING AND 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.

None of the City, the Dealers nor the Issuing and Paying Agent can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal of and interest on the Notes paid to DTC or its nominee, as the registered Owner, or any redemption or other notice, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Offering Memorandum.

Discontinuation of the Book-Entry Only System

DTC may discontinue providing its services as securities depository with respect to the Notes at any time by giving reasonable notice to the City or the Issuing and Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Note certificates will be printed and delivered as described in the Issuing and Paying Agent Agreement.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Note certificates will be printed and delivered as described in the Issuing and Paying Agent Agreement.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE NOTES, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE OWNERS OR HOLDERS OF THE NOTES (OTHER THAN UNDER THE CAPTION "TAX MATTERS" HEREIN) SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE NOTES.

NEITHER THE CITY, THE ISSUING AND PAYING AGENT, NOR THE DEALERS WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DTC DIRECT PARTICIPANT, OR INDIRECT PARTICIPANT; (II) THE DELIVERY OF ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE NOTES UNDER THE ISSUING AND PAYING AGENT AGREEMENT; (III) THE PAYMENT BY DTC OR ANY DTC DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR INTEREST DUE WITH RESPECT TO THE NOTES; (IV) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE REGISTERED OWNER OF NOTES; OR (V) ANY OTHER MATTER.

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 Notes or in any way contesting or affecting the validity of the Notes 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 Notes or the use of the proceeds of the Notes.

See APPENDIX A – "THE 2012 OFFICIAL STATEMENT—LITIGATION" for a description of certain claims and lawsuits (with any potential loss exceeding \$5,000,000) 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 believes that 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.

CONTINUING DISCLOSURE

The Notes are exempt from the rules of the Securities and Exchange Commission relating to continuing disclosure of annual financial information and certain material events. In connection with prior issues of the Senior Lien Bonds and Subordinate Bonds (collectively, the "Bonds"), the City has agreed to provide to the Municipal Securities Rulemaking Board (the "MSRB") for the purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission audited financial statements of the City for the SCM Fund and other financial and operating data relating to the System and notice of certain listed events with respect to the Bonds. Holders of the Notes may obtain from the MSRB such information provided by the City in connection with such Bonds so long as such Bonds are outstanding.

RATINGS

Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's, a division of The McGraw-Hill Companies ("S&P"), and Fitch, Inc. ("Fitch") have assigned their ratings of "P-1," "A-1+" and "F1+," respectively, to the Notes, with the understanding that the Lines of Credit will be issued by the Banks. Moody's has assigned an underlying rating of "MIG 1" to the Notes. Moody's, S&P and Fitch have assigned their ratings of "Aa2," "AA+" and "AA+," respectively, to the Senior Lien Bonds and ratings of "Aa3," "AA" and "AA" respectively, to the Subordinate Bonds. Such ratings reflect only the views of such organizations and are not a recommendation to buy, sell or hold the Notes. Explanations of the significance of such ratings may be obtained only from the respective organizations at: Moody's Investors Services, Inc., 99 Church Street, New York, New York, 10007, Standard & Poor's, 55 Water Street, New York, New York 10004 and Fitch Ratings, One State Street Plaza, New York, New York 10004. 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 that such ratings will continue for any given period or that they will not be revised downward or withdrawn entirely by the respective rating agencies, if in the judgment of each such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Notes.

TAX MATTERS

Notes

In the opinion of Sidley Austin LLP, San Francisco, California, Bond Counsel, based on existing statutes, regulations, rulings and judicial decisions and assuming compliance with certain covenants set forth in the Subordinate General Resolution and other documents pertaining to the Notes and requirements of the Internal Revenue Code of 1986, as amended, regarding the use, expenditure and investment of proceeds of the Notes and the timely payment of certain investment earnings to the United States, interest on the Notes is not includable in the gross income of the owners of the Notes for federal income tax purposes. Failure to comply with such covenants and requirements may cause interest on the Notes to be included in gross income retroactively to the date of issuance of the Notes.

In the further opinion of Bond Counsel, interest on the Notes is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the Notes, however, is included in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's federal alternative minimum tax liability.

Ownership of, or the receipt of interest on, tax-exempt obligations may result in collateral income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual receipts of Social Security or Railroad Retirement benefits, and taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers who may be eligible for the earned income tax credit. Bond Counsel expresses no opinion as to any collateral tax consequences and, accordingly, prospective purchasers of the 2012 Program Notes should consult their tax advisors as to the applicability of any such collateral tax consequences.

Certain requirements and procedures contained or referred to in the Issuing and Paying Agent Agreement, the Subordinate General Resolution, the Tax Certificate of the City or other documents pertaining to the 2012 Program Notes may be changed, and certain actions may be taken or not taken under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of state and local obligations. Bond Counsel expresses no opinion as to the effect of any change to any document pertaining to the 2012 Program Notes or of any action taken or not taken where such change is made or action is taken or not taken without Bond Counsel's approval, or in reliance upon the advice of counsel other than Bond Counsel with respect to the exclusion from gross income of interest on the 2012 Program Notes for federal income tax purposes.

From time to time, in accordance with Treasury Regulations applicable to the issuance of commercial paper notes, the City "re-declares" the "program" (for federal income tax purposes) under which the Notes are issued. It is possible that the City may also issue Notes after the end of the 18-month period beginning on the date of first issuance after the date hereof (the "deemed date of issuance"). Bond Counsel's opinions above may continue to be relied upon after 18 months from the deemed date of issuance date only if there has been a "re-declaration" by the City of its commercial paper program and, in that event, only to the extent that (i) there has been no change in existing law subsequent to the date hereof, and (ii) no amendment has been made to the Subordinate General Resolution or the Paying Agent Agreement without our prior written consent.

Information Reporting and Backup Withholding

Interest paid on tax-exempt obligations is subject to information reporting in a manner similar to interest paid on taxable obligations. While this reporting requirement does not, by itself, affect the excludability of interest from gross income for federal income tax purposes, the reporting requirement causes the payment of interest with respect to the Notes to be subject to backup withholding if such interest is paid to beneficial owners that (a) are not "exempt recipients," and (b) either fail to provide certain identifying information (such as the beneficial owner's taxpayer identification number) in the required manner or have been identified by the IRS as having failed to report all interest and dividends required to be shown on their income tax returns. Generally, individuals are not exempt recipients, whereas corporations and certain other entities are exempt recipients. Amounts withheld under the backup withholding rules from a payment to a beneficial owner are allowed as a refund or credit against such beneficial owner's federal income tax liability so long as the required information is furnished to the IRS.

State Tax Exemption

In the further opinion of Bond Counsel, interest on the Notes is exempt from personal income taxes imposed by the State of California.

Future Developments

Future or pending legislative proposals, if enacted, regulations, rulings or court decisions may cause interest on the Notes to be subject, directly or indirectly, to federal income taxation or to state or local income taxation, or may otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. Legislation or regulatory actions and future or pending proposals may also affect the economic value of the federal or state tax exemption or the market value of the Notes. Prospective purchasers of the Notes should consult their tax advisors regarding any future, pending or proposed federal or state tax legislation, regulations, rulings or litigation as to which Bond Counsel expresses no opinion.

For example, based on a proposal by the President, the Senate Majority Leader introduced a bill, S. 1549 (the "Proposed Legislation"), which, if enacted, would subject interest on bonds or other obligations that is otherwise excludable from gross income for federal income tax purposes, including interest on the Notes, to a tax payable by certain noteholders that are individuals, estates or trusts with adjusted gross income in excess of thresholds specified in the Proposed Legislation in tax years beginning after December 31, 2012. The Proposed Legislation would also provide special rules for such noteholders that are also subject to the alternative minimum tax. It is unclear if the Proposed Legislation will be enacted, whether in its current or an amended form, or if other legislation that would subject interest on the Notes to a tax or cause interest on the Notes to be included in the computation of a tax, will be introduced or enacted. Prospective purchasers should consult their tax advisors as to the effect of the Proposed Legislation, if enacted, in its current form or as it may be amended, or such other legislation on their individual situations.

A copy of the form of opinion of Bond Counsel is attached hereto as APPENDIX B.

THE DEALERS

The City has appointed Wells Fargo Securities and Samuel A. Ramirez & Co., Inc., each as a non-exclusive dealer with respect to the offering and sale of the Notes.

Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association. Wells Fargo Bank, National Association is serving as both a dealer and line of credit provider for the Notes.

FINANCIAL ADVISOR

Public Resources Advisory Group (the "Financial Advisor") has served as financial advisor to the City in connection with the authorization and issuance of the Notes.

The Financial Advisor has assisted the City in matters relating to the planning, structuring and issuance of the Notes. The Financial Advisor has not audited, authenticated or otherwise independently verified the information set forth in the Offering Memorandum, or any other related information available to the City, with respect to accuracy and completeness of disclosure of such information. The Financial Advisor makes no guaranty, warranty or other representation respecting accuracy and completeness of the Offering Memorandum.

LEGAL MATTERS

The Notes are subject to approval as to their legality by Sidley Austin LLP, Bond Counsel. A copy of the proposed form of opinion of Bond Counsel is attached as APPENDIX B. Certain legal matters will be passed upon for the City by the City Attorney of the City of Los Angeles.

FURTHER INFORMATION

Copies of the Subordinate General Resolution, the Senior General Resolution, the form of Credit Agreement and other documents referred to herein may be obtained from the City by contacting the Office of the City Administrative Officer, 200 North Main Street, Room 1500, City Hall East, Los Angeles, California 90012, Attention: Debt Management Group, (213) 485-2881. Reference is made to the legal documents listed above for the definitions of capitalized terms used and not otherwise defined herein.

This Offering Memorandum has been duly approved, executed and delivered by the City.

By: /s/ Miguel A. Santana
City Administrative Officer

APPENDIX A
THE 2012 OFFICIAL STATEMENT

DTC Bond

NEW ISSUE - BOOK-ENTRY ONLY SYSTEM

	Series 2012-A	RATINGS:
	Senior Lien Bonds	Series 2012-C
		Subordinate Bonds
Moody's:	"Aa2"	"Aa3"
Fitch:	"AA+"	"AA"
S&P:	"AA+"	"AA"
		See "Ratings" herein.

In the opinion of Sidley Austin LLP, San Francisco, California, Bond Counsel, under current law and assuming compliance with certain covenants in the documents pertaining to the Series 2012 Bonds and requirements of the Internal Revenue Code of 1986, as amended, as described herein, interest on the Series 2012 Bonds is not includable in the gross income of the owners of such Series 2012 Bonds for federal income tax purposes. In the further opinion of Bond Counsel, interest on the Series 2012 Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the Series 2012 Bonds, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability. In the further opinion of Bond Counsel, interest on the Series 2012 Bonds is exempt from personal income taxes imposed by the State of California. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on the Series 2012 Bonds. See "Tax Matters" herein for further information.



\$49,650,000
CITY OF LOS ANGELES
Wastewater System Revenue Bonds,
Refunding Series 2012-A

\$133,715,000
CITY OF LOS ANGELES
Wastewater System Subordinate Revenue Bonds,
Refunding Series 2012-C

Dated: Date of Delivery

Due: June 1, as shown on the inside cover

The \$49,650,000 City of Los Angeles Wastewater System Revenue Bonds, Refunding Series 2012-A (the "Series 2012-A Senior Lien Bonds") and the \$133,715,000 City of Los Angeles Wastewater System Subordinate Revenue Bonds, Refunding Series 2012-C (the "Series 2012-C Subordinate Bonds", together with the Series 2012-A Senior Lien Bonds, the "Series 2012 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") and California Government Code Sections 53570 *et seq.* (as amended, the "Refunding Law"). The Series 2012-A Senior Lien Bonds are 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-Sixth Supplemental Resolution, adopted by the City Council on March 23, 2012. The Series 2012-C Subordinate Bonds are issued pursuant to the Wastewater System Subordinate Revenue Bonds General Resolution, adopted by the City Council on March 26, 1991, as amended and supplemented (the "Subordinate General Resolution"), including as amended and supplemented by the Thirteenth Supplemental Resolution, adopted by the City Council on March 23, 2012.

The proceeds of the Series 2012-A Senior Lien Bonds and the Series 2012-C Subordinate Bonds, together with certain other amounts described herein, will be used to (i) pay the purchase price of certain outstanding Senior Lien Bonds and Subordinate Bonds to be purchased by the City pursuant to a tender offer therefor, and (ii) pay certain costs of issuing the Series 2012-A Senior Lien Bonds and the Series 2012-C Subordinate Bonds, respectively. See "Plan of Finance" herein.

The pledge, assignment and lien on the Revenues (herein defined) granted pursuant to the General Resolution to secure the Series 2012-A Senior Lien Bonds and other Senior Lien Bonds (herein defined) issued and to be issued under the General Resolution are, in all respects, prior to the pledge, assignment and lien on the Revenues granted pursuant to the Subordinate General Resolution, including the pledge, assignment and lien with respect to the Series 2012-C Subordinate Bonds and other Subordinate Bonds issued and to be issued pursuant to the Subordinate General Resolution. In addition to the Series 2012 Bonds, to achieve debt service savings or other desired debt restructurings, the City has issued its Wastewater System Subordinate Revenue Bonds, Refunding Series 2012-A (the "Series 2012-A Subordinate Bonds") and intends to issue its Wastewater System Subordinate Revenue Bonds, Refunding Series 2012-B (the "Series 2012-B Subordinate Bonds"). The Series 2012-A Senior Lien Bonds, when issued pursuant to the General Resolution, will be payable solely from Revenues on parity with the Senior Lien Bonds issued and to be issued under the General Resolution and prior to all Subordinate Bonds, including the Series 2012-A Subordinate Bonds, the Series 2012-B Subordinate Bonds and the Series 2012-C Subordinate Bonds, issued and to be issued under the Subordinate General Resolution. The Series 2012-B Subordinate Bonds, when issued pursuant to the Subordinate General Resolution, will be payable solely from Revenues on a basis subordinate to the Senior Lien Bonds, including the Series 2012-A Senior Lien Bonds, and on parity with the Series 2012-C Subordinate Bonds and all other Subordinate Bonds issued and to be issued under the Subordinate General Resolution.

The Series 2012-A 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 Series 2012-C Subordinate Bonds are special, limited obligations of the City payable solely from the Revenues, on a basis subordinate to the Senior Lien Bonds, and from amounts on deposit in the 2012 Subordinate Debt Service Fund created pursuant to the Subordinate General Resolution. The City is not obligated to make payment from any other source. The Series 2012 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 2012 Bonds.

Interest on the Series 2012 Bonds will be payable on June 1 and December 1, commencing on December 1, 2012. The Series 2012 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 2012 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 2012 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 2012 Bonds, payments of the principal of, redemption premium, if any, and interest on the Series 2012 Bonds will be made as described in APPENDIX G - "Book-Entry Only System" attached hereto.

The Series 2012 Bonds are subject to optional redemption prior to maturity. See "Redemption of the Series 2012 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 2012 Bonds are offered when, as and if issued, subject to the approval of legality by Sidley Austin LLP, San Francisco, 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 Carmen A. Trutanich, City Attorney, and for the Underwriters by their counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation, Sacramento, California. It is anticipated that the Series 2012 Bonds will be available for delivery to DTC in New York, New York on or about May 24, 2012.

De La Rosa & Co.

Wells Fargo Securities

Dated: May 17, 2012

MATURITY SCHEDULES

\$49,650,000 Series 2012-A Senior Lien Bonds

Year (June 1)	Principal Amount	Interest Rate	Yield	CUSIP [†] (Base: 544653)
2024*	\$49,650,000	5.000%	2.510%	AA6

\$133,715,000 Series 2012-C Subordinate Bonds

Year (June 1)	Principal Amount	Interest Rate	Yield	CUSIP [†] (Base: 544653)
2014	\$ 2,615,000	4.000%	0.380%	AB4
2015	685,000	4.000	0.560	AC2
2016	2,440,000	4.000	0.710	AD0
2017	7,380,000	4.000	0.960	AE8
2018	3,050,000	4.000	1.170	AF5
2019	2,845,000	4.000	1.420	AG3
2020	595,000	4.000	1.730	AH1
2021	6,225,000	4.000	2.040	AJ7
2021	22,275,000	5.000	2.040	AK4
2022	11,520,000	5.000	2.260	AL2
2023*	2,500,000	4.000	2.510	AM0
2023*	11,835,000	5.000	2.460	AN8
2025*	34,405,000	5.000	2.730	AP3
2026*	400,000	4.000	2.980	AQ1
2026*	20,045,000	5.000	2.830	AR9
2027*	4,900,000	5.000	2.910	AS7

* Priced to par call on June 1, 2022.

† Copyright 2012, 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 applicable Series 2012 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 Series 2012 Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2012 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance and other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2012 Bonds.

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 2012 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 2012 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 2012 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 2012 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 2012 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 2012 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 2012 Bonds.

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CITY OF LOS ANGELES

Mayor

Antonio R. Villaraigosa

City Council

Ed P. Reyes (District 1)
Paul Krekorian (District 2)
Dennis P. Zine (District 3)
Tom LaBonge (District 4)
Paul Koretz (District 5)

Tony Cárdenas (District 6)
Richard Alarcón (District 7)
Bernard C. Parks (District 8)
Jan Perry (District 9)
Herb J. Wesson, Jr. (District 10)

Bill Rosendahl (District 11)
Mitchell Englander (District 12)
Eric Garcetti (District 13)
José Huizar (District 14)
Joe Buscaino (District 15)

City Officials

Carmen A. Trutanich, *City Attorney*
Wendy Greuel, *City Controller*
Miguel A. Santana, *City Administrative Officer*
June Lagmay, *City Clerk*
Antoinette D. Christovale, *City Treasurer*

Board of Public Works

Andrea A. Alarcón, President
Jerilyn López Mendoza, Vice President
John J. Choi, President Pro Tempore
Steven T. Nutter, Commissioner
Valerie Lynne Shaw, 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

BOND COUNSEL
Sidley Austin LLP
San Francisco, California

DISCLOSURE COUNSEL
Hawkins Delafield & Wood LLP
Los Angeles, California

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

FINANCIAL ADVISORS
Public Resources Advisory Group
Frasca & Associates, L.L.C.

ESCROW AGENT
U.S. Bank National Association

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OFFICIAL STATEMENT

\$49,650,000
CITY OF LOS ANGELES
Wastewater System Revenue Bonds,
Refunding Series 2012-A

\$133,715,000
CITY OF LOS ANGELES
Wastewater System Subordinate
Revenue Bonds,
Refunding Series 2012-C

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

Authorization and Description of the Series 2012 Bonds. The \$49,650,000 City of Los Angeles Wastewater System Revenue Bonds, Refunding Series 2012-A (the "Series 2012-A Senior Lien Bonds") and the \$133,715,000 City of Los Angeles Wastewater System Subordinate Revenue Bonds, Refunding Series 2012-C (the "Series 2012-C Subordinate Bonds", together with the Series 2012-A Senior Lien Bonds, the "Series 2012 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") and California Government Code Sections 53570 *et seq.* (as amended, the "Refunding Law"). The Series 2012-A Senior Lien Bonds are 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-Sixth Supplemental Resolution, adopted by the City Council on March 23, 2012 (the "Twenty-Sixth Supplemental Resolution") pertaining to the Series 2012-A Senior Lien Bonds. The Series 2012-C Subordinate Bonds are issued pursuant to the Wastewater System Subordinate Revenue Bonds General Resolution, adopted by the City Council on March 26, 1991, as amended and supplemented (the "Subordinate General Resolution" and, together with the General Resolution, the "Resolutions"), including as amended and supplemented by the Thirteenth Supplemental Resolution, adopted by the City Council on March 23, 2012 (the "Thirteenth Supplemental Resolution") pertaining to the Series 2012-C Subordinate Bonds and the other Series 2012 Subordinate Bonds (herein described).

Under the General Resolution, the City will have issued thirty series of Senior Lien Bonds (the "Existing Senior Lien Bonds") in the original aggregate principal amount of \$4,823,761,473.50, of which \$1,186,760,000 will be Outstanding subsequent to the issuance of the Series 2012 Bonds and the Series 2012-B Subordinate Bonds and the completion of the refundings relating thereto. Under the Subordinate General Resolution, the City will have issued twenty-four series of Subordinate Bonds (the "Existing Subordinate Bonds") having a lien on Revenues (herein defined) subordinate to that of the Senior Lien Bonds, in the original aggregate principal amount of \$2,449,385,000, of which \$1,325,660,000 will be Outstanding subsequent to the issuance of the Series 2012 Subordinate Bonds and the completion of the

refundings relating thereto. 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 Line of Credit (the "Line of Credit") for the CP Notes is \$300,000,000. No CP Notes are currently Outstanding. See "Financial Operations of the Wastewater System – Outstanding Indebtedness" herein. 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 "Security and Sources of Payment for the Series 2012 Bonds – Additional Senior Lien Bonds" and "– Additional Subordinate Bonds" herein.

Use of Proceeds of the Series 2012 Bonds. The proceeds of the Series 2012-A Senior Lien Bonds, together with certain other amounts described herein, will be used to (i) pay the purchase price of certain of the City's Wastewater System Revenue Bonds, Refunding Series 2003-B (the "Series 2003-B Senior Lien Bonds") to be purchased by the City pursuant to a tender offer therefor, and (ii) pay certain costs of issuing the Series 2012-A Senior Lien Bonds. The proceeds of the Series 2012-C Subordinate Bonds, together with certain other amounts described herein, will be used to (i) pay the purchase price of certain of the City's Series 2003-B Senior Lien Bonds, Wastewater System Subordinate Revenue Bonds, Refunding Series 2003-A, and Wastewater System Subordinate Revenue Bonds, Refunding Series 2003-B (the "Series 2003-B Subordinate Bonds"), to be purchased by the City pursuant to a tender offer therefor, and (ii) pay certain costs of issuing the Series 2012-C Subordinate Bonds. See "Plan of Finance" herein.

Additional Anticipated 2012 Issuances. As described herein under "Plan of Finance," in addition to the Series 2012-A Senior Lien Bonds and the Series 2012-C Subordinate Bonds, the City is undertaking several refundings of its Senior Lien Bonds and Subordinate Bonds to achieve debt service savings or other desired debt restructurings. As part of this plan of finance, the City has issued its Wastewater System Subordinate Revenue Bonds, Refunding Series 2012-A (the "Series 2012-A Subordinate Bonds") and intends to issue its Wastewater System Subordinate Revenue Bonds, Refunding Series 2012-B (the "Series 2012-B Subordinate Bonds," together with the Series 2012-A Subordinate Bonds, the "Additional Series 2012 Subordinate Bonds"; and the Additional Series 2012 Subordinate Bonds and the Series 2012-C Subordinate Bonds are referred to herein as the "Series 2012 Subordinate Bonds"). The pledge, assignment and lien on the Revenues (herein defined) granted pursuant to the General Resolution to secure the other Senior Lien Bonds (herein defined) issued and to be issued under the General Resolution will be, in all respects, on parity with the pledge, assignment and lien on the Revenues securing the Series 2012-A Senior Lien Bonds and prior to the pledge, assignment and lien on the Revenues granted pursuant to the Subordinate General Resolution, including the pledge, assignment and lien with respect to the Series 2012-C Subordinate Bonds and the Additional Series 2012 Subordinate Bonds. The Series 2012-B Subordinate Bonds, when issued pursuant to the Subordinate General Resolution, will be payable solely from Revenues on a basis subordinate to the Senior Lien Bonds, including the Series 2012-A Senior Lien Bonds, and on parity with the Series 2012-C Subordinate Bonds.

The System

The City owns and operates the wastewater collection and treatment system (the "System"), which serves an approximately 600 square mile area with a population in excess of 4 million. 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 2011 was 383 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 2012 Bonds

Series 2012-A Senior Lien Bonds. The Series 2012-A 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 2012-A 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 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. "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 2012 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.

Series 2012-C Subordinate Bonds. The Series 2012-C Subordinate Bonds, the Existing Subordinate Bonds and any bonds issued in the future under the Subordinate General Resolution (collectively, the "Subordinate Bonds") are secured by a pledge of and second lien on the Revenues, on a basis subordinate to the pledge of and lien on Revenues to the Senior Lien Bonds. The pledge, assignment and lien on the Revenues granted to secure the Senior Lien Bonds is, in all respects, prior to the pledge, assignment and lien granted by the Subordinate General Resolution for the benefit of the Subordinate Bonds. The Revenues, including Revenues held in the SCM Fund and the earnings on such Revenues, will be used first to pay the Senior Lien Bonds as the same become due, and to make current deposits into the funds held pursuant to the General Resolution before such Revenues will be available for deposit into the funds and accounts held under the Subordinate General Resolution for the benefit of the Subordinate Bonds. The Series 2012-C Subordinate Bonds are also secured by a pledge and lien on the 2012 Subordinate Debt Service Fund created pursuant to the Thirteenth Supplemental Resolution. See "Security and Sources of Payment for the Series 2012 Bonds" herein. No reserve fund is established for payment of the Series 2012-C Subordinate Bonds.

Limited Obligations. The Series 2012-A 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 Series 2012-C Subordinate Bonds are special, limited obligations of the City payable solely from the Revenues, on a basis subordinate to the Senior Lien Bonds, and from amounts on deposit in the 2012 Subordinate Debt Service Fund created pursuant to the Subordinate General Resolution. The City is not obligated to make payment from any other source. The Series 2012 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 2012 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, 2013 for the report for Fiscal Year 2011-12, 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) 485-2881. 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

General. The City has undertaken and is undertaking several refundings of its Senior Lien Bonds and Subordinate Bonds in order to achieve debt service savings or other desired debt restructurings. The Series 2012-A Senior Lien Bonds and the Series 2012-C Subordinate Bonds are expected to be the final series of such bonds to be issued under this financing plan.

Series 2012 Bonds. The proceeds of the Series 2012-A Senior Lien Bonds and the Series 2012-C Subordinate Bonds will be used to (i) pay the purchase price of the Purchased Senior Lien Bonds and the Purchased Subordinate Bonds (as such terms are defined below) and (ii) pay certain costs of issuing the Series 2012-A Senior Lien Bonds and the Series 2012-C Subordinate Bonds, respectively. In addition, certain amounts currently held under the General Resolution and the Subordinate General Resolution will be used for the payment of the Purchased Bonds. See “Estimated Sources and Uses of Funds” herein.

The City and E.J. De La Rosa & Co., Inc., as dealer-manager (the “Dealer-Manager”), have entered into a Dealer-Manager Agreement pursuant to which the Dealer-Manager facilitated the solicitation of offers for tender for purchase by the City of certain Outstanding Senior Lien Bonds and certain Outstanding Subordinate Bonds. The City caused an Invitation to Tender Bonds, dated March 26, 2012, to be distributed to the holders of the Existing Senior Lien Bonds and Existing Subordinate Bonds set forth in the table. The Senior Lien Bonds and the Subordinate Bonds that were tendered and will be purchased are referred to herein as the “Purchased Senior Lien Bonds” and the “Purchased Subordinate Bonds,” respectively.

The Purchased Senior Lien Bonds and Purchased Subordinate Bonds consist of the following:

Series 2003-B Senior Lien Bonds

Maturity Date (June 1)	Principal Amount	CUSIP No.† (Base: 544652)
2014	\$ 2,355,000	U32
2015	245,000	U40
2016	1,130,000	U57
2017	50,000	U65
2018	75,000	U73
2019	25,000	U81
2021	1,080,000	U99
2022	1,665,000	V23
2023	250,000	V31
2024	54,810,000	V49

Series 2003-A Subordinate Bonds

Maturity Date (June 1)	Principal Amount	CUSIP No.† (Base: 544652)
2014	\$ 430,000	N63
2015	465,000	N71
2016	895,000	N89
2017	8,055,000	N97
2018	3,255,000	P20
2019	2,935,000	P38
2020	250,000	P46
2021	30,630,000	P53
2025	38,235,000	P61
2026	22,715,000	P79
2027	5,445,000	P87

Series 2003-B Subordinate Bonds

Maturity Date (June 1)	Principal Amount	CUSIP No.† (Base: 544652)
2014	\$ 105,000	R69
2016	705,000	R85
2017	85,000	R93
2018	35,000	S27
2019	220,000	S35
2020	435,000	S43
2022	11,210,000	S50
2023	15,670,000	S68

† Copyright 2003, 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.

On the date of delivery of the Series 2012-A Senior Lien Bonds and the Series 2012-C Subordinate Bonds, the City will deposit a portion of the proceeds of the Series 2012-A Senior Lien Bonds and the Series 2012-C Subordinate Bonds into certain escrow accounts (collectively, the "Escrow Accounts") to be held by U.S. Bank National Association (the "Escrow Agent") in an amount sufficient to pay the purchase price of the Purchased Bonds, determined as described in the Invitation to Tender Bonds, through and including the settlement date, being the date after the issuance of the Series 2012 Bonds (the "Settlement Date"). The Escrow Accounts will be established under an escrow deposit agreement (the "Escrow Agreement") between the City and the Escrow Agent. After the deposit into the Escrow Accounts of such proceeds of the Series 2012-A Senior Lien Bonds and Series 2012-C Subordinate Bonds and certain other amounts described herein, the City will be discharged from all obligations with respect to the Purchased Bonds. Upon purchase, the Purchased Bonds will be promptly surrendered to the Paying Agent for cancellation in accordance with the Resolutions. The purchase of the Purchased Bonds is expected to occur on the day after the date of issuance of the Series 2012-A Senior Lien Bonds and the Series 2012-C Subordinate Bonds.

Additional 2012 Issuances. The City has heretofore issued its Series 2012-A Subordinate Bonds and used the proceeds thereof to (i) current refund a portion of the City's Wastewater System Subordinate Revenue Bonds, Variable Rate Refunding, Series 2008-A, Series 2008-B, Series 2008-C, Series 2008-D, Series 2008-E and Series 2008-F-1 (the "Series 2008-A-F1 Bonds" and the refunded portion thereof being referred to herein as the "Refunded 2008 Bonds") and (ii) fund the termination payment with respect to a partial termination of the swap agreements relating to the Refunded 2008 Bonds. The City expects to issue its Series 2012-B Subordinate Bonds and use the proceeds thereof, together with certain other amounts, to advance refund all of the City's Wastewater System Revenue Bonds, Refunding Series 2003-A and a portion of the Series 2003-B Subordinate Bonds.

ESTIMATED SOURCES AND USES OF FUNDS

The Series 2012 Bond proceeds, together with certain other amounts, are expected to be applied as set forth below:

	Series 2012-A Senior Lien Bonds	Series 2012-C Subordinate Bonds	Total
Estimated Sources of Funds			
Principal Amount	\$49,650,000.00	\$133,715,000.00	\$183,365,000.00
Original Issue Premium	10,891,720.50	26,467,434.30	37,359,154.80
Funds on Deposit under Resolutions for the Purchased Bonds	1,269,675.83	3,447,106.09	4,716,781.92
Total	<u>\$61,811,396.33</u>	<u>\$163,629,540.39</u>	<u>\$225,440,936.72</u>
Estimated Uses of Funds			
Pay Purchase Price for Purchased Senior Lien Bonds and Purchased Subordinate Bonds	\$61,320,576.83	\$162,318,976.19	\$223,639,553.02
Costs of Issuance ⁽¹⁾	490,819.50	1,310,564.20	1,801,383.70
Total	<u>\$61,811,396.33</u>	<u>\$163,629,540.39</u>	<u>\$225,440,936.72</u>

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

DESCRIPTION OF THE SERIES 2012 BONDS

The Series 2012 Bonds will be dated and will bear interest from their date of delivery. Interest on the Series 2012 Bonds will be payable semi-annually on June 1 and December 1, commencing on December 1, 2012. Interest will be calculated on the basis of a year of 360 days and twelve 30-day months. The Series 2012 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 2012 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 2012 Bonds. Ownership interests in the Series 2012 Bonds may be purchased in book-entry form only. So long as DTC or its nominee is the Owner of the Series 2012 Bonds, payments of the principal of, redemption premium, if any, and interest on the Series 2012 Bonds will be made as described in Appendix G – "Book-Entry Only System" attached hereto.

REDEMPTION OF THE SERIES 2012 BONDS

Redemption of the Series 2012 Bonds

Optional Redemption. The Series 2012-A Senior Lien Bonds 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 2012-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, 2022, at a redemption price equal to the principal amount of the Series 2012-A Senior Lien Bonds to be redeemed plus accrued interest thereon to the date of redemption, without premium.

The Series 2012-C Subordinate Bonds maturing on or before June 1, 2022 are not subject to redemption before their stated maturities. The Series 2012-C Subordinate Bonds maturing on or after June 1, 2023 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 2012-C Subordinate 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, 2022, at a redemption price equal to the principal amount of the Series 2012-C Subordinate Bonds to be redeemed plus accrued interest thereon to the date of redemption, without premium.

Selection of Series 2012 Bonds for Redemption. The Series of Series 2012 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 of Series 2012 Bonds shall be redeemed by lot within any maturity, in any manner the City shall deem appropriate.

Notice of Redemption of Series 2012 Bonds

At least 30 days and no more than 60 days before each date of redemption, the City will give notice by mail to each owner of a Series 2012 Bond to be redeemed at the owner's registered address. So long as DTC is the registered owner of Series 2012 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 2012 Bond in respect of which no failure occurs.

The notice of redemption shall (i) specify the Series 2012 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 2012 Bonds of a Series are to be redeemed, the numbers of the Series 2012 Bonds, and the portions of Series 2012 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 2012 Bonds to be redeemed shall cease to bear interest; (iv) the CUSIP numbers of all Series 2012 Bonds or portions thereof being redeemed; (v) the date of original issuance of the Series 2012 Bonds; (vi) the rate of interest borne by the Series 2012 Bonds being redeemed; (vii) the maturity date of the Series 2012 Bonds being redeemed; and (viii) any other descriptive information to identify accurately the Series 2012 Bonds or portions thereof being redeemed.

Any notice of redemption may be rescinded by written notice given by the City no later than five Business Days prior to the date specified for redemption. The City shall give notice of such rescission in the same manner, and to the same persons, as notice of such redemption was given.

Effect of Redemption of Series 2012 Bonds

On the date designated for redemption, notice having been given in the manner and under the conditions provided in the Resolutions and moneys for payment of the redemption price being held in trust to pay the redemption price, the Series 2012 Bonds called for redemption shall become due and payable, interest on such Series 2012 Bonds shall cease to accrue, such Series 2012 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 2012 Bonds shall have no rights in respect thereof except to receive payment of the redemption price.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 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, 2011 and 2010 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 for the Series 2012-A Senior Lien Bonds

Under the terms of the General Resolution and the Revenue Bond Law, the City has pledged the Revenues to secure the payment of the Senior Lien Bonds, including the Series 2012-A 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 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.

The Revenue Bond Law, 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 has received and expects to continue to receive periodic payments (“Refundable Credits”) from the United States Treasury equal to 35% of the interest payable on the Series 2010-A Senior Lien Bonds. 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. The City has received and expects to continue to receive periodic Refundable Credits from the United States Treasury equal to 45% of the interest payable on the Series 2010-B Senior Lien Bonds.

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 2012 Bonds. The Refundable Credits are included in the calculation of Revenues under the General Resolution.

Senior Lien Bonds 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.

Reserve Fund for Senior Lien Bonds

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. The Reserve Fund is valued annually under the General Resolution on or about January 15. Upon issuance of the Series 2012-A Senior Lien Bonds, amounts in the Reserve Fund will be at least equal to the Reserve Requirement, which shall equal \$107,080,146.

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 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. The Reserve Fund does not currently include any Reserve Fund Insurance Policy.

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").

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.

Additional Senior Lien Bonds

In addition to the Existing Senior Lien Bonds and the Series 2012-A 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 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.

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.

Subordinate Pledge of Revenues for the Series 2012-C Subordinate Bonds

To secure the payment of all Subordinate Bonds issued pursuant to the terms of the Subordinate General Resolution, the City has pledged, placed a second lien upon and assigned to the Owners of the Subordinate Bonds (1) the Revenues and (2) the Revenues held in the SCM Fund including the earnings on such Revenues. The City has previously pledged and assigned the Revenues and granted a lien upon

the Revenues to secure all Senior Lien Bonds, whenever issued, including Senior Lien Bonds issued subsequent to the issuance of Subordinate Bonds (including the Series 2012-C Subordinate Bonds). The pledge, assignment and lien on the Revenues granted to secure the Senior Lien Bonds is, in all respects, prior to the pledge, assignment and lien granted by the Subordinate General Resolution. The Revenues, including Revenues held in the SCM Fund and the earnings on such Revenues, will be used first to pay the Senior Lien Bonds as the same become due and make current deposits into the funds held pursuant to the General Resolution before such Revenues will be available to pay Subordinate Bonds. This pledge of and lien upon the Revenues will be for the equal and proportionate benefit and security of all Subordinate Bonds issued under the terms of the Subordinate 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. The pledge and lien granted by the Subordinate General Resolution will remain effective for so long as any Subordinate Bonds are Outstanding thereunder. Amounts in the Subordinate Debt Service Fund and Construction Fund established for any Series of the Subordinate Bonds are pledged to secure such Subordinate Bonds in accordance with the terms of the applicable Supplemental Resolution.

In the Subordinate General Resolution, the City represents and states that except for the pledge granted to secure the Senior Lien Bonds, the City has not previously pledged the Revenues or the SCM Fund nor created any lien thereon, and the City covenants that, until all the Subordinate Bonds issued under the provisions of the Subordinate General Resolution and the interest thereon will have been paid or are deemed to have been paid, it will not, except to the extent additional Senior Lien Bonds are issued under the terms of the General Resolution, grant any prior or parity pledge of Revenues of the SCM Fund, or 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 the Subordinate Bonds issued pursuant to the Subordinate General Resolution. The City will not, by the provisions of the Subordinate General Resolution, be restricted or limited in its ability to issue additional Senior Lien Bonds, all of which will rank prior to the Subordinate Bonds with respect to the pledge of, lien on and assignment of the Revenues. The City may create or permit to be created a charge or lien on the Revenues ranking junior and subordinate to the charge and lien which secures the Subordinate Bonds issued pursuant to the Subordinate General Resolution.

Subordinate Bonds Rate Covenant

The City covenants in the Subordinate General Resolution that it will at all times while any Subordinate Bonds remain Outstanding, establish, fix, prescribe and collect rates, fees and charges in connection with the use of the System so that Revenues for each Fiscal Year will be at least sufficient to pay the following amounts: (1) the interest on and principal of the Outstanding Senior Lien Bonds and Subordinate Bonds as they become due and payable; (2) all other payments required for compliance with the terms of the Senior Lien Resolution and the Subordinate General Resolution and of any Supplemental Resolutions issued thereunder; (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, such moneys to be clearly available for such purpose). 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 110% of the actual debt service becoming due on Outstanding Senior Lien Bonds and Subordinate Bonds in such year provided that for such purposes, the principal amount of Senior Lien Bonds and Subordinate Bonds becoming due in such year which is paid from the proceeds of other borrowings shall not be included as debt service becoming due in such year.

No Reserve Fund for Series 2012-C Subordinate Bonds

There is no reserve fund for any Subordinate Bonds (including the Series 2012-C Subordinate Bonds). Moneys held in the Reserve Fund (as defined in the General Resolution) and attributable to the Senior Lien Bonds may not be used to pay the principal of, premium, if any, and interest on the Series 2012-C Subordinate Bonds.

Additional Subordinate Bonds

As a condition to the issuance of any additional Subordinate Bonds, the City will first be required to obtain a certificate or certificates prepared by a Consultant or by Consultants showing 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 Subordinate Bonds were at least equal to 110% of the Maximum Annual Debt Service for all Senior Lien Bonds and Subordinate Bonds which will be Outstanding immediately after issuance of the proposed Subordinate Bonds. For purposes of preparing the certificate or certificates described above, the Consultant or Consultants 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 the preceding paragraph, the determination of Net Revenues may take into account any increases in rates and charges which relate to the System and will take into account any reductions in such rates and charges, which increases or decreases have been authorized by the City to be implemented and which will be effective prior to or at the time of issuance of such proposed Subordinate Bonds.

Except as described in the last sentence of this paragraph, the certificate or certificates described above will not be required if the Subordinate Bonds being issued are for purposes of refunding the Outstanding Senior Lien Bonds or Subordinate Bonds, and if at the time of the issuance of such Subordinate Bonds, a certificate of an Authorized City Representative will be delivered showing that Maximum Annual Debt Service on all Senior Lien Bonds and Subordinate Bonds Outstanding after the issuance of the refunding Subordinate Bonds will not exceed Maximum Annual Debt Service on all Senior Lien Bonds and Subordinate Bonds Outstanding prior to the issuance of such Subordinate Bonds. The exception provided by this paragraph will not apply with respect to Subordinate Bonds not constituting part of a Commercial Paper Program issued to refund Subordinate Bonds constituting part of a Commercial Paper Program unless the authorized principal amount of the Commercial Paper Program is reduced by an amount equal to the Subordinate Bonds refunded.

If any of the Outstanding Series of Subordinate Bonds or Senior Lien Bonds constitutes Variable Rate Indebtedness, for purposes of the Subordinate General Resolution (except as otherwise provided in the Subordinate General Resolution), such Subordinate Bonds or Senior Lien Bonds will 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 calculation of Maximum Annual Debt Service, 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 Subordinate Bonds or Senior Lien Bonds for which the interest rate is to be assumed or having an equivalent maturity as the additional Subordinate 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.

Flow of Funds Under the General Resolution and the Subordinate Resolution

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 Under the General Resolution. 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.

Deposit of Revenues to Funds and Accounts Under the Subordinate Resolution. So long as the requirements set forth below are met, the City may, at any time, as provided by Supplemental Resolution, withdraw amounts from the SCM Fund to make deposits to the debt service funds and reserve funds created under Supplemental Resolutions or otherwise to make payments or provide for payments on Subordinate Bonds. The foregoing provisions are, however, restricted to the extent that no amount will be withdrawn from the SCM Fund to make deposits to funds created under Supplemental Resolutions or otherwise make payments or provide for payments on Subordinate Bonds unless:

(a) all operation and maintenance expenses are being or have been paid as they become due;

(b) the monthly deposits to be made into the Debt Service Fund, the Reserve Fund and the Emergency Fund (each such fund as defined in and held under the General Resolution) for all prior months have been made in full and no deficiency exists with respect to the Debt Service Fund under the General Resolution;

(c) the amounts which are or will be required to be deposited into the Debt Service Fund, the Reserve Fund and the Emergency Fund (each as defined in the General Resolution) and held under the General Resolution during the then current calendar month have been deposited into such funds or such amounts are segregated within the SCM Fund to be used to make such deposits prior to the withdrawal or use of funds for the purpose of paying or providing for the payment of Subordinate Bonds; and

(d) after any such withdrawal or segregation as provided in (c) above and after the withdrawal for the purpose of paying or providing for the payment of Subordinate Bonds, 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.

So long as the conditions (a), (b), (c), and (d) above are met, then the City may at any time and, subject to the conditions set forth above, shall, as required by Supplemental Resolutions, withdraw from the SCM Fund such amounts as are needed to pay debt service on Subordinate Bonds and fulfill other funding requirements contained in Supplemental Resolutions under which Subordinate Bonds have been issued.

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; and all payments to be made to pay or provide for payment of Subordinate Bonds under the terms of Supplemental Resolutions which payments have become due have been paid in full and no deficiency then exists in any Debt Service Fund or Reserve Fund;
- (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 all amounts to be paid on the Subordinate Bonds or otherwise required under the terms of Supplemental Resolutions to be deposited to provide for the payment of Subordinate Bonds during the then current calendar month have been paid or deposited or such amounts (which may be an estimated amount deemed appropriate by the City) are segregated within 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 and the Subordinate Resolution, that the various funds described in the General Resolution and the Subordinate Resolution, respectively, and the balances required to be maintained in the SCM Fund are to be maintained from the Revenues.

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 Basic Financial Statements with Independent Auditor's Report for the Fiscal Years Ended June 30, 2011 and 2010 and Debt Service Compliance Report for the Fiscal Year Ended June 30, 2011” 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.

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 2012 Bonds – Flow of Funds Under the General Resolution and the Subordinate General Resolution" 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 to real and personal property is insured up to \$100 million per occurrence, excluding damage caused by earthquake and flood. The deductible for this policy is \$1 million which is covered by the SCM Fund. These

insurance policies do not include business interruption protection. 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 amended each of the Resolutions to provide for an offset to Revenues in the amount of the Refundable Credits. The Resolutions, as amended, 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).

These amendments are not yet effective. These amendments shall become effective 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 or Credit Provider thereof, if any (in the case of the

General Resolution) and the written consent of the Owners of not less than 51% in aggregate principal amount of Outstanding Subordinate Bonds and of each Insurer or Credit Provider thereof, if any (in the case of the Subordinate General Resolution), 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 2012 Bonds, will be deemed to have granted such consent by their purchase of such bonds. Prior to the issuance of the Series 2012 Bonds, there has been obtained, in the case of the General Resolution, the consent of 10.38 percent in aggregate principal amount of Outstanding Senior Lien Bonds and, in the case of the Subordinate General Resolution, the consent of 7.77 percent in aggregate principal amount of Outstanding Subordinate Bonds. No Insurers and Credit Providers have consented to the amendments.

Swap Agreements

The City has entered into two Swap Agreements (the "Swap Agreements") that are associated with the Series 2008-A-F1 Bonds. The City's payments under the Swap Agreements are special, limited obligations of the City payable from Revenues of the System and are subordinated obligations pursuant to the Subordinate General Resolution which are junior and subordinate to the Subordinate Bonds as to the lien on and source and security for the payment from the Revenues. Payments received by the City under the Swap Agreements constitute Revenues of the System. However, such payments are not a source of credit or security for the Series 2012 Bonds. The City's obligation to pay the principal of, premium, if any, and the interest on the Series 2008-A-F1 Bonds is not affected by any failure of a Swap Counterparty to perform its obligations under the respective Swap Agreement. In certain circumstances, the City could be required to make an unanticipated termination payment to a Swap Counterparty and such termination payment could be substantial. See "Financial Operations of the Wastewater System – Swap Agreements" herein. Upon the delivery of the Series 2012-A Subordinate Bonds, the City partially terminated and reduced the notional amount payable under each Swap Agreement relating to the Refunded 2008 Bonds such that the remaining outstanding notional amount is \$75,542,500. The City financed the termination payment with a portion of the proceeds of the Series 2012-A Subordinate Bonds. See "Plan of Finance" herein.

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 likewise the City provides wastewater service for other communities and adjacent areas. Areas within the City limits that are not served by the City are served by Los Angeles County Sanitation Districts. See page 23 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**

<u>Treatment Facility</u>	<u>Approximate First Year of Operation</u>	<u>Current Design Capacity (mgd) ⁽¹⁾</u>	<u>Average Flow (mgd) ⁽²⁾</u>
HYPERION SYSTEM			
Hyperion ⁽³⁾	1923	450	300
Los Angeles-Glendale ⁽⁴⁾	1976	20	20
Tillman ⁽⁴⁾	1984	<u>80</u>	<u>47</u>
Total Hyperion System		<u>550</u>	<u>367</u>
TERMINAL ISLAND SYSTEM			
Terminal Island ⁽⁵⁾	1935	<u>30</u>	<u>16</u>
TOTAL BOTH SYSTEMS		<u>580</u>	<u>383</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 2011.

(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.

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.

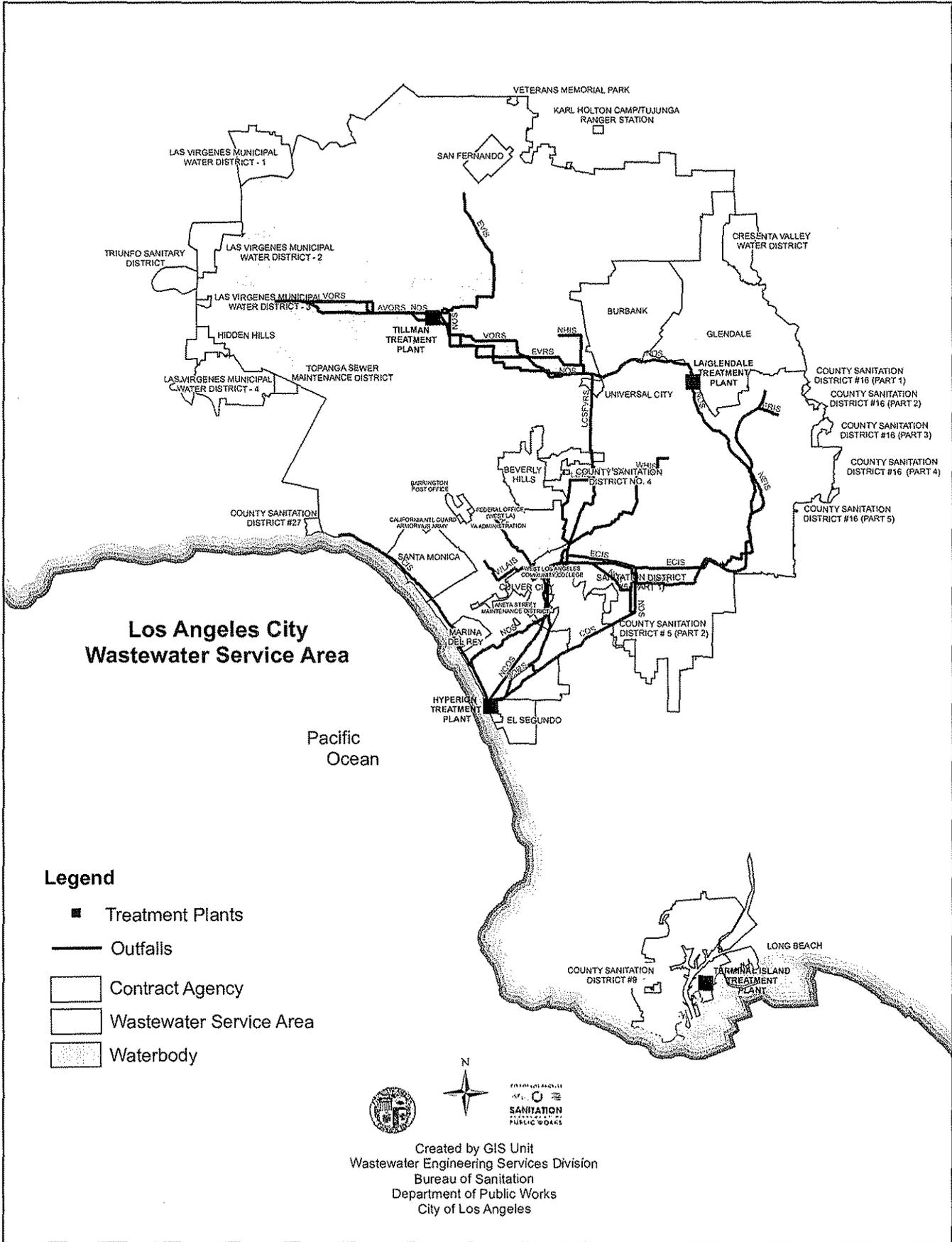
The City's storm water collection and conveyance system is separate from the wastewater collection and conveyance system. Storm water is discharged into the Santa Monica Bay and Los Angeles Harbor through a series of storm drains. Under certain circumstances, some dry weather urban runoff is diverted 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 300 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, the 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 DWP has notified the City of its intent to terminate the steam and power agreements at the end of 2014. The City is evaluating alternatives for digester gas reuse and steam production, including a contemplated digester gas utilization project (the "DGUP") at the HTP.



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 and Glendale. Sludge produced by the two water reclamation plants is returned to the interceptor system for treatment at the HTP. In Fiscal Year 2011, the DCTWRP and the LAGWRP returned a total of 8.6 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 treatment facilities that use microfiltration and reverse osmosis to recycle 5 mgd of wastewater. Reclaimed water from the TIWRP is sold by DWP for its own account.

The following table sets forth the System wastewater flows for Fiscal Years 2002 through 2011 for each treatment plant.

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

<u>Fiscal Year Ended June 30</u>	<u>HTP</u>	<u>LAGWRP</u>	<u>DCTWRP</u>	<u>TIWRP</u>	<u>TOTAL</u>
2002	342	18	52	15	427
2003	342	16	61	16	435
2004	339	16	61	15	431
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

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.

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 0.5 mgd, which is 1% of the 29 Entities' total flow. 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 13 percent of the System flow in Fiscal Year 2011. The five largest Entities (Beverly Hills, Los Angeles County Sanitation District Number 4, Culver City, Glendale and Santa Monica) accounted for approximately 79 percent of the 29 Entities' total flow. The next five largest Entities accounted for approximately 14 percent of the major subscribing 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 2011

<u>Entities</u>	<u>Actual Flow (mgd)⁽¹⁾</u>
Glendale	14.67
Santa Monica	11.27
Beverly Hills	5.06
Los Angeles County Sanitation District #4	4.57
Culver City	3.69
San Fernando	1.79
El Segundo	1.49
Crescenta Valley Water District	1.41
Marina Del Rey	1.27
Burbank ⁽²⁾	1.03
Los Angeles County Sanitation District #5	0.85
Universal City	0.62
Los Angeles County Sanitation District #16	0.50
Veterans Administration	0.38
Las Virgenes Municipal Water District	0.36
Los Angeles County Sanitation District #9	0.27
All Others	<u>0.53</u>
Total	<u>49.76</u>

Source: City of Los Angeles, Bureau of Sanitation.

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

⁽²⁾ Burbank flow shown is from Fiscal Year 2008 due to flow monitoring issues that are still being resolved.

Other Treatment Facilities. The City of 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 2007 through 2011. These amounts constituted approximately 4% of total System revenues in Fiscal Year 2011.

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

<u>Wastewater Service Contract Receipts</u>	<u>Fiscal Year Ended June 30</u>				
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Operation and Maintenance	\$19,905 ⁽¹⁾	\$13,041	\$12,887	\$16,097	\$12,991
Capital	<u>27,814</u>	<u>14,942</u>	<u>13,411</u>	<u>15,382</u>	<u>9,757</u>
Total ⁽²⁾	<u>\$47,719</u>	<u>\$27,982</u>	<u>\$26,298</u>	<u>\$31,479</u>	<u>\$22,748</u>

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

⁽¹⁾ Includes payments relating to higher than usual wastewater flows from certain Agencies.

⁽²⁾ 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 2012 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 and controls 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.

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 and four Assistant Directors, 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 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 Director of the Bureau of Sanitation.

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 2012 Capital Program includes approximately 87 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 \$849 million during the five-year period from Fiscal Year 2012 through Fiscal Year 2016.

Prior Year Expenditures

The following table sets forth the capital expenditures made by the City for the CIP from Fiscal Years 1987 through 2011.

TABLE 5
WASTEWATER CAPITAL IMPROVEMENT PROGRAM EXPENDITURES
Fiscal Years 1987 through 2011⁽¹⁾ (Unaudited)
(in Thousands)

<u>Fiscal Year Ended June 30</u>	<u>System-Wide Collection and Pumping</u>	<u>Wastewater Treatment</u>			<u>Major Capital Improvement⁽⁴⁾</u>	<u>Capital Labor⁽⁵⁾</u>	<u>Total⁽⁶⁾</u>
		<u>Hyperion</u>	<u>Other⁽³⁾</u>	<u>Total</u>			
Prior Years ⁽²⁾	\$ 908,761	\$1,759,104	\$211,355	\$1,970,459	\$2,879,220	\$ 964,673	\$3,843,893
2002	190,685	12,525	8,591	21,116	211,801	58,210	270,011
2003	239,377	29,681	8,101	37,782	277,159	63,310	340,469
2004	172,032	27,120	8,303	35,423	207,455	67,024	274,479
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⁾	<u>83,180</u>	<u>44,248</u>	<u>9,501</u>	<u>53,749</u>	<u>136,929</u>	<u>61,549</u>	<u>198,478</u>
Total	<u>\$2,333,919</u>	<u>\$2,017,909</u>	<u>\$428,696</u>	<u>\$2,446,605</u>	<u>\$4,780,524</u>	<u>\$1,672,484</u>	<u>\$6,463,008</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 2001.

⁽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 Year 2011 were reduced pending the outcome of the rate adjustment process.

Current Major Projects of the Wastewater Capital Improvement Program

Projects under Construction. The following projects are currently under construction. The cost estimates set forth below may be increased and expected completion dates may be delayed due to unexpected events, circumstances or conditions. See "– Financing Plans for the Wastewater Capital Improvement Program" herein.

Air Treatment Facilities. The City is constructing three air treatment facilities along large interceptor sewers at an estimated cost of \$45 million, of which \$15 million remains to be spent. Construction of the first two air treatment facilities has been completed. Construction of the third facility is scheduled to begin in October 2012, with completion scheduled for June 2014.

Donald C. Tillman Water Reclamation Plant Wet Weather Underground Storage Tank. The City began construction of a storage tank in June 2010 to restore peaking capacity at an estimated cost of \$13 million, of which \$5 million remains to be spent. The project is scheduled for completion in August 2012.

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 to be spent before 2016.

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 of this project is \$53 million. The start date for this project is unknown because of litigation relating to requirements under the California Environmental Quality Act.

Secondary Sewer Renewal Program. In addition to these individual projects, the City's Secondary Sewer Renewal Program ("SSRP") will comprise a large portion of the CIP. The City has agreed to renew a rolling three-year average of 60 miles of sewers per year starting from Fiscal Year 2008 through 2014 pursuant to the Collection System Settlement Agreement ("CSSA"). The majority of these projects will be renewals of secondary sewers. The SSRP includes 69 projects for Fiscal Years 2012 through 2016 and is projected to cost an aggregate \$90 million. See "Regulatory Requirements Affecting Operation of the System— Collection System Settlement Agreement" herein.

Additional Projects. In addition to the above, the City plans to spend \$646 million through Fiscal Year 2016 to fund over 67 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 2012 through 2016.

TABLE 6
SUMMARY OF CAPITAL IMPROVEMENT PROGRAM
Fiscal Years 2012 through 2016
(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			
2012 ⁽⁴⁾	\$ 46,500	\$ 49,000	\$ 19,400	\$114,900	\$ 71,200	\$ 186,100
2013	60,800	51,300	27,200	139,300	75,000	214,300
2014	93,900	61,500	24,200	179,600	77,700	257,300
2015	118,900	71,500	17,100	207,500	82,700	290,200
2016	<u>114,100</u>	<u>77,500</u>	<u>16,000</u>	<u>207,600</u>	<u>86,500</u>	<u>294,100</u>
Total	<u>\$434,200</u>	<u>\$310,800</u>	<u>\$103,900</u>	<u>\$848,900</u>	<u>\$393,100</u>	<u>\$1,242,000</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).

(4) Capital expenditures in Fiscal Year 2012 were reduced pending the outcome of the rate adjustment process.

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 storm water management. The projects set forth under the IRP constitute a portion of the projects to be completed pursuant to the City's CIP, which accounts for projects for the next ten years. The timing and cost of individual projects depends on actual and projected wastewater flow, and other factors affecting operation and maintenance. Additional projects may be required pursuant the IRP depending on system flow, regulatory requirements and other factors. The IRP proposes capital improvements in the last five years of the plan (2016 through 2020) that are currently estimated to cost \$257 million. As described above, the CIP includes an additional \$849 million of capital projects.

The City is currently preparing a five-year review of the IRP, scheduled to be completed in June, 2012. Any modifications to the IRP resulting from the review may cause projects to be delayed and a reduction in the IRP-related expenditures contained herein. 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.

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 \$724 million of the CIP expenditures from Fiscal Years 2012 through 2016 (updated from the \$744 million estimate set forth in the Preliminary Official Statement dated March 26, 2012 (the “Preliminary Official Statement”) relating to the Series 2012 Bonds) will be financed through the issuance of bonds, notes or other forms of indebtedness.

Senior Lien Bonds and Subordinate Bonds are issued pursuant to the Charter of the City and the authority of elections held in the City in 1987, 1988 and 1992 (collectively, the “Authorizations”) 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, of which \$116,855,691 remains to be issued. The voters of the City subsequently approved a new Charter which became effective July 1, 2000. Under the new

Charter additional revenue bonds and notes of the City may be issued without regard to the Authorizations and without any further authorization by the voters of the City.

The City had \$177 million aggregate principal amount of outstanding loans from the Clean Water State Revolving Fund (the "SRF") as of March 1, 2012. The City's existing SRF Clean Water loans will be paid through Fiscal Year 2025. The City is currently in negotiations with the State Water Resources Control Board ("SWRCB") to obtain a \$3 million SRF loan for an upcoming sewer rehabilitation project, a loan which will be forgiven by the SWRCB if the City complies with the terms of the loan. 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, 2012, the SCM Fund had received a total of \$170 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 \$35 million reimbursement from FEMA. The City continually evaluates opportunities for grant funds, but is not currently constructing any large projects funded by federal or State grants.

The following table sets forth the projected major funding sources for the CIP for Fiscal Years 2012 through 2016.

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

<u>Description</u>	<u>Fiscal Year Ending June 30</u>					<u>Total</u>
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	
Net Debt Financing ⁽²⁾	\$ 62,492	\$114,458	\$176,093	\$190,632	\$180,580	\$ 724,255
Grants / FEMA	6,000	20,000	9,000	0	0	35,000
WSC ⁽³⁾ Capital Payments	12,118	12,989	13,977	14,692	16,051	69,827
System Revenues	31,799	63,912	53,636	79,515	92,144	321,006
Interest Income	3,094	2,941	4,594	5,361	5,325	21,315
Other:						
Use of available fund balances	<u>70,597</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>70,597</u>
Total ⁽⁴⁾	<u>\$186,100</u>	<u>\$214,300</u>	<u>\$257,300</u>	<u>\$290,200</u>	<u>\$294,100</u>	<u>\$1,242,000</u>

Source: City of Los Angeles, Bureau of Sanitation.

⁽¹⁾ Updated from the data set forth in the Preliminary Official Statement to reflect revised Net Debt Financing and other amounts as a result of the refundings described herein.

⁽²⁾ See Table 21 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. 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.
- *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.
- *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.
- *Wastewater Service Contracts:* The wastewater service contracts with the Entities provide for cost reimbursement of capital and operation and maintenance expenses.
- *Miscellaneous Fees:* These fees include bonded sewer fee, 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 \$3.27 per 100 cubic feet of wastewater discharged into the System. As described below, the City has adopted a series of annual SSC rate increases that will go into effect through Fiscal Year 2021, beginning with an increase in the SSC to \$3.42 per 100 cubic feet of wastewater discharged into the System effective April 6, 2012. The adopted SSC rate increases are expected to provide approximately \$1.89 billion in additional revenues over the next ten years to fund \$1.73 billion additional capital projects and debt financing relating thereto. The SSC is expected to provide approximately \$481 million in revenue for Fiscal Year 2012. This amount is approximately 90 percent of estimated Revenues for Fiscal Year 2012. 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	3.27	--
April 6, 2012	3.42	4.5%
July 1, 2012	3.57	4.5
July 1, 2013	3.73	4.5
July 1, 2014	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 Sewer Service Charge (the “SSC”) for residential customers, including multiple family dwellings up to four units, is based on winter water uses, 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 SSC of all other users who do not qualify as low-income residential customers.

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 \$3.42 per 100 cubic of 93 percent of total metered water usage effective April 6, 2012. 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. 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 2011 provided approximately four percent of the SSC revenue. 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 2011**

<u>User</u>	<u>Customer Type</u>	<u>SSC Billed</u>
City of Los Angeles	Government	\$3,776,154
County of Los Angeles	Government	3,527,734
Los Angeles Unified School District	School district	2,827,736
Anheuser-Busch, Inc.	Brewing company	2,442,524
ConocoPhillips	Petroleum product refiner	2,175,434
University of California – Los Angeles	Education	1,790,024
Henry Weiss	Property maintenance; real estate agents and managers	1,287,486
University of Southern California	Education	1,254,505
Park La Brea	Apartment complex	1,081,775
Kaiser Foundation	Health-related services	1,016,358
TOTAL		<u>\$21,179,730⁽¹⁾</u>

Source: City of Los Angeles, Bureau of Sanitation.

⁽¹⁾ Total cash basis SSC revenue for Fiscal Year 2011 was \$477,117,751.

Through 2011, certain governmental agencies were generally not charged the capital component of the SSC because of ambiguities regarding the definition of “capital fees” in the California Government Code. The California Government Code has been modified to clarify the types of capital fees that cannot be charged to these public agencies. As a result, the City’s capital component of the SSC will be charged to such governmental entities, including State agencies, the Los Angeles County Offices of Education, community college districts, the California State University system and the University of California. These agencies previously received a 38% discount on the SSC. This discount was discontinued and removed from the System’s rate structure effective April 6, 2012.

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, 2008, the QSF rates have been \$0.349/lb for BOD and \$0.351/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 \$122 million in additional revenues over the next ten years. The QSF is expected to provide approximately \$7 million in revenue for Fiscal Year 2012. This amount is approximately one percent of estimated Revenues for Fiscal Year 2012. 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**

<u>Effective Date</u>	<u>BOD Rate (\$/pounds of BOD)</u>	<u>Percentage Increase from Prior Year</u>	<u>SS Rate (\$/pounds of SS)</u>	<u>Percentage Increase from Prior Year</u>
Current Rate	\$0.349	--	\$0.351	--
April 6, 2012	0.363	4.0%	0.365	4.0%
July 1, 2012	0.377	4.0	0.380	4.0
July 1, 2013	0.393	4.0	0.395	4.0
July 1, 2014	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 \$3,175,017, accounted for approximately 50 percent of the QSF revenue in Fiscal Year 2011. Baxter Healthcare Corporation is the second largest QSF revenue contributor with a total surcharge of \$1,156,856. Juanita Foods, Coca Cola, and Interstate Brands followed with total surcharges of \$532,580, \$257,783 and \$256,030 in Fiscal Year 2011, 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	2.268	--
April 6, 2012	2.370	4.5%
July 1, 2012	2.477	4.5
July 1, 2013	2.588	4.5
July 1, 2014	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 \$244 to \$2,928 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 2011, 16,146 local IUs were permitted to discharge to the System. Permit Application Fees are currently \$356. 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 230 SIUs currently regulated by the City. Existing SIU fees range from \$2,219 to \$4,191, 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 three percent of estimated Revenues for Fiscal Year 2012.

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, 2011, approximately 9,671 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 \$370 and pay an annual Inspection and Control Fee of \$254.

As of June 2011, the City also permits and regulates approximately 1,549 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 5 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. The City estimates that the SFC will account for approximately one percent of estimated Revenues for Fiscal Year 2012.

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 2012 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. The City estimates that WSC operation and maintenance payments will account for approximately three percent of estimated Revenues for Fiscal Year 2012.

Historical Sewer Rates and Charges

The following table sets forth the City's SSC, QSF and SFC from Fiscal Years 2008 through 2012.

TABLE 12
SEWER CONSTRUCTION AND MAINTENANCE FUND RATES AND CHARGES
Fiscal Year 2008 through 2012

<u>Fiscal Year Ended June 30</u>	<u>Sewer Service Charge⁽¹⁾</u>	<u>Quality Surcharge Fees⁽²⁾</u>		<u>Sewerage Facilities Charge (per 100 gal. avg. flow)⁽³⁾</u>	<u>Typical Monthly Single Family Residential SSC⁽⁴⁾</u>
		<u>BOD</u>	<u>SS</u>		
2008	\$3.05	\$0.326	\$0.328	\$325.00	\$28.01
2009	3.27	0.349	0.351	325.00	29.97
2010	3.27	0.349	0.351	325.00	29.97
2011	3.27	0.349	0.351	325.00	29.97
2012 ⁽⁵⁾	3.42	0.363	0.365	413.00	30.78

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 Fiscal Year 2011. 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 beginning April 6, 2012.

⁽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 hcf per month, projected as of the end of 2012.

⁽⁵⁾ Rates and charges effective as of April 6, 2012 through the end of fiscal year 2012. The rates and charges will be increased on July 1, 2012 and each year thereafter until 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 go into effect from April 6, 2012 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.

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 2012 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.

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 XIII C 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 XIII D (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. MWD has developed an Integrated Resources Plan that seeks to implement a balanced water supply mix which will allow it to provide a reliable, long-term water supply for Southern California. However, 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. 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.

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**

<u>Customer Class</u>	<u>Number of Customers</u> <u>Fiscal Year Ended June 30</u>				
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Single Family	463,450	461,988	461,209	463,999	474,442
Small Multifamily	72,083	72,114	72,063	71,909	71,471
Large Multifamily	43,253	43,442	43,429	43,391	43,749
Commercial/Industrial	57,175	57,204	56,818	56,406	56,221
All Others	4,748	4,911	4,963	4,992	4,974
Total Customers	<u>640,709</u>	<u>639,659</u>	<u>638,482</u>	<u>640,697</u>	<u>650,857</u>
<u>Customer Class</u>	<u>Billable Wastewater Volume⁽¹⁾</u> <u>Fiscal Year Ended June 30</u>				
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Single Family ⁽²⁾	55,640	56,702	54,230	55,736	51,125
Small Multifamily ⁽²⁾	14,841	13,903	14,496	14,727	14,183
Large Multifamily ⁽³⁾	51,634	50,210	49,003	46,032	45,836
Commercial/Industrial ⁽³⁾	37,734	36,523	34,533	31,912	31,767
All Others ⁽³⁾	4,730	4,862	4,790	3,942	4,276
Total Billable Wastewater Volume	<u>164,579</u>	<u>162,201</u>	<u>157,052</u>	<u>152,349</u>	<u>147,187</u>

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⁾ Billable wastewater volume was generally equal to 90 percent of total annual water sales volume. All customers who can demonstrate that their billable wastewater volume is 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 beginning April 6, 2012.

Reductions in billable wastewater volume in Fiscal Years 2008, 2009 and 2010 were caused by slight reductions in the number of customers and the success of water conservation measures, which were voluntary in Fiscal Years 2008 and 2009 and mandatory beginning June 1, 2009. Although the number of customers increased in 2010 and 2011, the billable wastewater volume continued to decrease 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 2008 through 2011 of approximately \$7 million, \$24 million, \$40 million, and \$57 million, respectively. However, the adjustment to the default percentage discharge for commercial customers and projected population increases are expected to result in an increase of billable wastewater volume in the future. 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 2012 through 2016.

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

<u>Customer Class⁽¹⁾</u>	<u>Number of Customers Fiscal Year Ended June 30</u>				
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Single Family	474,600	474,800	475,000	475,200	475,400
Small Multifamily	71,500	71,500	71,500	71,500	71,500
Large Multifamily	43,800	43,800	43,800	43,800	43,900
Commercial/Industrial	56,200	56,300	56,300	56,300	56,300
All Others	5,000	5,000	5,000	5,000	5,000
Total Customers	<u>651,100</u>	<u>651,400</u>	<u>651,600</u>	<u>651,800</u>	<u>652,100</u>

<u>Customer Class⁽¹⁾</u>	<u>Billable Wastewater Volume⁽²⁾ Fiscal Year Ended June 30</u>				
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Single Family ⁽³⁾	51,014	51,034	51,055	51,075	51,096
Small Multifamily ⁽³⁾	14,412	14,414	14,416	14,418	14,419
Large Multifamily ⁽⁴⁾	46,572	47,629	47,685	47,741	47,797
Commercial/Industrial ⁽⁴⁾	32,282	32,794	32,807	32,819	32,831
All Others ⁽⁴⁾	4,476	5,082	5,086	5,090	5,094
Total Billable Water Sales	<u>148,756</u>	<u>150,953</u>	<u>151,049</u>	<u>151,143</u>	<u>151,237</u>

Source: City of Los Angeles, Bureau of Sanitation.

(1) Assumes growth rate of 0.04 percent.

(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 beginning April 6, 2012. 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 the DWP. Residential customers are predominately billed bimonthly and commercial customers are generally billed on a monthly basis. Some customers whose bills are disputed are billed by the Office of Finance. The 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. The DWP transfers projected SSC revenue to the SCM Fund on a weekly basis. The first three transfers of the month are 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 following billing period are credited first to the services in arrears, and then 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.

The 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, the 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.

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 in advance 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 15
BUREAU OF SANITATION AUTHORIZED POSITIONS**

Fiscal Year Ending <u>June 30</u>	Authorized Number <u>of Positions</u>
2008	1,465
2009	1,475
2010	1,350
2011	1,318
2012	1,251

The Bureau of Sanitation workforce is 99% unionized under the Coalition of Los Angeles City Unions, the non-coalition Engineers and Architects Association, and the non-coalition Service Employees International Union – Units 8 and 17. The City’s memorandum of understandings with the Coalition of Los Angeles City Unions and the Service Employees International Union – Units 8 and 17 are effective through Fiscal Year 2014. The City’s contract with the Engineers and Architects Association expired on

June 30, 2011. Members of the Engineers and Architects Association are continuing to work under the terms of the expired contract until a new contract is executed. See Appendix A “City of Los Angeles Information Statement – Financial Operations – Labor Relations” attached hereto.

During Fiscal Year 2010, many employees performing work for the System received work hour reductions ranging from 59.5 hours to 26 days. These reductions were not continued in Fiscal Year 2011 and no work hour reductions are expected for Fiscal Year 2012. The System has not experienced any work stoppage since 2006 and does not 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 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, 2011, the System’s percentage share of the City’s pension and OPEB costs was 6.72%. 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 2007 through 2011.

**TABLE 16
SEWER CONSTRUCTION AND MAINTENANCE FUND
RETIREMENT AND OPEB CONTRIBUTIONS**

<u>Fiscal Year</u>	<u>Total City Contribution</u>	<u>Wastewater System Contribution⁽¹⁾</u>	<u>Wastewater System Percentage</u>
2007	\$342,993,000	\$25,328,581	7.38%
2008	338,914,000	23,802,612	7.02
2009	312,658,000	22,726,656	7.27
2010	298,215,000	21,539,812	7.22
2011	339,135,429	22,787,102	6.72

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

⁽¹⁾ 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 2012 is expected to be \$28,896,535, which is approximately 7.32% of the City’s pension cost and 4.03% 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 labor-related projections set forth in the forepart of this Official Statement include projected retirement cost components that were based on data available as of June 1, 2011. Such projected retirement costs preceded the City's current retirement contribution projections, as set forth in Appendix A, which are expected to change based on the strategies used by the City to address its projected retirement contribution increases. The City's current retirement contribution projections, as set forth in Appendix A, are based on information provided by LACERS' actuary. As described in Appendix A, LACERS has adopted actuarial assumptions based on the results of its recent triennial experience study for three-year period from July 1, 2008 through June 30, 2011, dated September 30, 2011. These assumptions include a reduced assumed investment rate of return (from 8% to 7.75%), which became effective with the actuarial valuation for the year ended June 30, 2011 and will be phased in over five years. 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 2007 through 2011.

TABLE 17
SEWER CONSTRUCTION AND MAINTENANCE FUND
SUMMARY OF OPERATIONS AND DEBT SERVICE COVERAGE
CASH BASIS (UNAUDITED) (in Thousands)

	Fiscal Year Ended June 30				
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
OPERATING RECEIPTS					
Sewer Service Charge	\$453,341	\$468,964	\$480,840	\$478,333	\$477,118
Sewerage Facilities Charge	10,116	10,520	6,082	4,172	10,219
Industrial Waste Fees ⁽¹⁾	17,421	17,016	17,516	16,065	17,135
Wastewater Service Contracts ⁽²⁾	19,905	13,041	12,887	16,097	12,991
Interest Income ⁽³⁾	11,507	16,695	6,310	3,743	3,789
Other	<u>5,131</u>	<u>4,201</u>	<u>2,743</u>	<u>7,890</u>	<u>4,317</u>
Total Operating Receipts	\$517,421	\$530,437	\$526,378	\$526,300	\$525,569
Non-Operating Revenues ⁽⁴⁾	<u>3,381</u>	<u>3,401</u>	<u>7,179</u>	<u>2,756</u>	<u>6,179</u>
TOTAL REVENUES	\$520,802	\$533,838	\$533,557	\$529,056	\$531,748
LESS OPERATING EXPENSES⁽⁵⁾	<u>232,332</u>	<u>257,592</u>	<u>275,179</u>	<u>238,635</u>	<u>254,727</u>
NET REVENUES	<u>\$288,470</u>	<u>\$276,246</u>	<u>\$258,378</u>	<u>\$290,421</u>	<u>\$277,021</u>
SENIOR DEBT					
Debt Service ⁽⁶⁾	\$ 79,585	\$ 80,433	\$ 82,176	\$102,818	\$107,579
Debt Service Coverage ⁽⁶⁾	3.62x	3.43x	3.14x	2.82x	2.58x
SUBORDINATE DEBT SERVICE					
Commercial Paper Notes	\$ 1,354	\$ 3,677	\$ 4,206	\$ 875	\$ 301
Variable and Fixed Rate Subordinate Bonds	70,066	72,424	54,121	56,760	59,010
State Revolving Fund Loan	9,000	13,605	13,605	13,605	13,605
TOTAL DEBT	\$160,005	\$170,139	\$154,108	\$174,058	\$180,495
Debt Service without SRF Loans ⁽⁶⁾	151,005	156,534	140,503	160,453	166,890
Debt Service Coverage ⁽⁶⁾	1.91x	1.76x	1.84	1.81x	1.66x
NET REVENUES AFTER DEBT SERVICE	<u>\$128,465</u>	<u>\$106,107</u>	<u>\$104,270</u>	<u>\$116,363</u>	<u>\$ 96,526</u>
NON-OPERATING REVENUES					
Grant Reimbursement	\$ 3,633	\$ 3,471	\$ 0	\$ 0	\$ 0
Wastewater Service Contracts ⁽⁷⁾	27,814	14,942	13,411	15,382	9,757
FEMA Reimbursement	<u>18,167</u>	<u>2,922</u>	<u>211</u>	<u>5</u>	<u>1,088</u>
Total Non-operating Revenues	<u>\$ 49,614</u>	<u>\$ 21,334</u>	<u>\$ 13,622</u>	<u>\$ 15,387</u>	<u>\$ 10,845</u>
NON-OPERATING EXPENSES					
Deposits to Escrow Accounts ⁽⁸⁾	<u>\$ 0</u>	<u>\$ 1,412</u>	<u>\$ 3,628</u>	<u>\$ 0</u>	<u>4,335</u>
BALANCE AVAILABLE⁽⁹⁾	<u>\$178,079</u>	<u>\$126,029</u>	<u>\$114,264</u>	<u>\$131,750</u>	<u>\$103,036</u>

Source: City of Los Angeles, Office of Accounting.

⁽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.

⁽⁴⁾ Includes non-operating revenues considered in the debt service coverage calculation as defined in the Wastewater General Resolution.

⁽⁵⁾ Operating expenses for Fiscal Years 2007, 2008, 2009, 2010 and 2011 include SSC refunds of approximately \$4,724,000, \$1,221,000, \$404,000, \$1,003,000 and \$149,000, respectively. Operating expenses in 2010 were lower due to mandatory 10% staff furloughs.

⁽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, net of credits from the SRF Loan which amounted to \$4,243,283 in Fiscal Year 2008.

⁽⁸⁾ Release of Debt Service Fund and Reserve Fund monies 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.

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 18
SEWER CONSTRUCTION AND MAINTENANCE FUND
CASH BALANCES IN ALL FUNDS (UNAUDITED)
(in Thousands)

	As of June 30				
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
UNRESTRICTED FUNDS					
Sewer Construction and Maintenance ⁽¹⁾	\$ 54,076	\$130,693	\$ 13,137	\$ 56,768	\$ 63,457
Sewer Operation and Maintenance ⁽²⁾	42,106	9,073	7,898	31,124	27,595
Sewer Capital ⁽³⁾	<u>17,628</u>	<u>13,361</u>	<u>11,856</u>	<u>25,496</u>	<u>19,947</u>
Total Unrestricted Funds	<u>\$113,810</u>	<u>\$153,127</u>	<u>\$32,891⁽⁴⁾</u>	<u>\$ 113,388</u>	<u>\$110,999</u>
RESTRICTED FUNDS					
Construction Funds ⁽⁵⁾	\$ 75,511	\$ 4,511	\$ 120,362	\$ 94,099	\$ 95,412
Reserve Funds ⁽⁶⁾	89,010	89,610	98,651	95,902	107,605
Debt Service Funds	16,870	15,091	18,045	13,298	19,045
Operation and Maintenance Reserve Insurance and Liability Claims Funds ⁽⁷⁾	3,000	3,000	3,000	3,000	3,000
Emergency Fund	5,000	5,000	5,000	5,000	5,000
Rebate Funds	<u>431</u>	<u>431</u>	<u>532</u>	<u>431</u>	<u>431</u>
Total Restricted Funds	<u>\$220,721</u>	<u>\$150,998</u>	<u>\$280,552</u>	<u>\$ 246,007</u>	<u>\$264,770</u>
TOTAL FUNDS	<u>\$334,531</u>	<u>\$304,125</u>	<u>\$313,443</u>	<u>\$ 359,395</u>	<u>\$375,769</u>

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

(1) All Revenues are deposited into this account.

(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) The reduction in total unrestricted funds for Fiscal Year 2009 was caused by the City delaying debt issuance for the System due to market conditions, and instead using cash to finance a larger than expected percentage of construction projects during the year. Proceeds of debt issuances late in Fiscal Year 2009 and during Fiscal Year 2010 were used for construction projects, allowing the balance of the unrestricted funds to increase.

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

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

(7) 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 \$6.7 billion in Fiscal Year 2011, representing an approximate 39 percent increase in investment in the last ten Fiscal Years. Net debt represented approximately 64 percent of net plant as of June 30, 2011, 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 19
SEWER CONSTRUCTION AND MAINTENANCE FUND
GROWTH IN PROPERTY, PLANT AND EQUIPMENT
(in Thousands)

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Property,</u> <u>Plant and</u> <u>Equipment</u> <u>(at cost)</u>	<u>Net</u> <u>Property, Plant</u> <u>and</u> <u>Equipment</u> <u>(depreciated)</u>	<u>Total</u> <u>Debt</u>	<u>Net</u> <u>Debt</u> ⁽¹⁾	<u>Net</u> <u>Debt as</u> <u>Percent of</u> <u>Net Plant</u>
2002	\$4,822,399	\$3,203,436	\$2,033,780	\$1,893,679	59.11%
2003	5,122,144	3,334,472	2,297,320	2,161,327	64.82
2004	5,369,047	3,451,307	2,217,464	2,129,139	61.69
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

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 2012 through 2016.

TABLE 20
PROJECTED OPERATION AND MAINTENANCE EXPENSES
(in Thousands)

	As of June 30				
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Conveyance System	\$ 32,844	\$ 34,587	\$ 35,395	\$ 36,998	\$ 38,250
Wastewater Treatment:					
Hyperion System	111,776	115,116	116,642	119,735	122,043
Terminal Island System	<u>12,910</u>	<u>13,388</u>	<u>13,619</u>	<u>14,093</u>	<u>14,452</u>
Total Treatment	<u>\$124,686</u>	<u>\$128,504</u>	<u>\$130,261</u>	<u>\$133,828</u>	<u>\$136,495</u>
Industrial Waste Management	15,314	16,504	17,078	18,267	19,200
Environmental Monitoring and Regulation	16,195	17,041	17,491	18,422	19,149
Administration and General ⁽¹⁾	75,656	73,861	77,081	84,972	92,109
City Support Services ⁽²⁾	<u>14,604</u>	<u>18,988</u>	<u>22,076</u>	<u>25,377</u>	<u>28,624</u>
Total O&M Expenses ⁽³⁾	<u>\$279,299</u>	<u>\$289,485</u>	<u>\$299,382</u>	<u>\$317,864</u>	<u>\$333,827</u>

Source: City of Los Angeles, Bureau of Sanitation.

⁽¹⁾ Includes 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. Reflects projected reductions in retirement and postemployment healthcare benefits costs in Fiscal Year 2013 due to increased employee contributions. See Appendix A – “City of Los Angeles Information Statement – Financial Operations – Retirement and Pension Systems” and “– Other Post-Employment Benefits”.

⁽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.

⁽³⁾ Includes the System’s projected share of the City’s projected contributions to LACERS, based on projected contributions as of June 1, 2011. See “Financial Operations of the Wastewater System – Retirement Contributions” herein.

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. 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 21
PRO FORMA STATEMENT OF FINANCIAL OPERATIONS
UNDER INDICATED REVENUE LEVELS
(in Thousands)

<u>Description</u>	<u>Fiscal Year Ending June 30</u>				
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
REVENUES					
Total User Charges Revenue ⁽¹⁾	\$487,628	\$525,157	\$549,172	\$583,972	\$622,365
BABs and RZEDB subsidies	5,343	6,390	6,390	6,390	6,390
Other Revenue ⁽²⁾	<u>44,096</u>	<u>45,186</u>	<u>46,021</u>	<u>47,079</u>	<u>48,378</u>
Total Revenues	<u>\$537,067</u>	<u>\$576,733</u>	<u>\$601,583</u>	<u>\$637,441</u>	<u>\$677,133</u>
EXPENDITURES					
Operation & Maintenance Expense ⁽³⁾	\$279,299	\$289,485	\$299,382	\$317,864	\$333,827
Debt Service					
Senior Lien Bonds					
Existing Senior Lien Bonds ⁽⁴⁾	105,989	99,547	96,722	98,946	92,457
Series 2012-A Senior Lien Bonds ⁽⁵⁾	0	2,531	2,483	2,483	2,483
Additional Senior Lien Bonds	0	0	6,075	15,600	25,225
Subordinate Bonds					
Existing Subordinate Bonds ⁽⁶⁾⁽⁷⁾	64,300	73,883	73,212	83,343	87,812
Series 2012-C Subordinate Bonds	0	6,523	9,013	6,979	8,706
Accruals for Subsequent Years ⁽⁸⁾	5,977	(8)	1,536	755	742
CP Notes ⁽⁹⁾	650	5,933	7,847	8,000	8,000
SRF Clean Water Loans	13,605	13,605	13,605	13,605	13,605
Operating Reserve	158	1,256	1,220	2,279	1,968
Cash Financing of Construction	31,799	63,912	53,636	79,515	92,144
Additions to Minimum Operating Balance	<u>35,290</u>	<u>20,066</u>	<u>36,852</u>	<u>8,073</u>	<u>10,163</u>
Total Expenditures ⁽¹⁰⁾	<u>\$537,067</u>	<u>\$576,733</u>	<u>\$601,583</u>	<u>\$637,441</u>	<u>\$677,133</u>

Source: City of Los Angeles, Bureau of Sanitation.

⁽¹⁾ Includes increases effective on each of July 1 from 2012 through 2015.

⁽²⁾ 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.

⁽³⁾ See Table 20 (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, 2011. See "Financial Operations of the Wastewater System – Retirement and Other Postemployment Benefits Contributions" herein.

⁽⁴⁾ Represents principal and interest becoming due and payable on all Senior Lien Bonds issued and Outstanding in each Fiscal Year subsequent to the issuance of the Series 2012 Bonds and the Series 2012-B Subordinate Bonds and the completion of the refundings relating thereto described under "Plan of Finance".

⁽⁵⁾ Assumes interest rate of 5.0 percent for additional Senior Lien Bond issuances and 30-year wrapped debt service principal amortization structures. Assumes issuances of \$162 million, \$216 million and \$207 million in 2014, 2015 and 2016, respectively.

⁽⁶⁾ Represents principal and interest becoming due and payable on all Subordinate Bonds issued and Outstanding in each Fiscal Year subsequent to the issuance of the Series 2012 Subordinate Bonds and the completion of the refundings relating thereto described under "Plan of Finance".

⁽⁷⁾ Assumes the payment by the Swap Counterparties to the City of a variable interest rate equal to a variable index identified in the Swap Agreements and the payment by the City to the respective Swap Counterparties of a fixed interest rate, accounting for completion of the partial termination of the Swap Agreements relating to the Refunded 2008 Bonds described under "Plan of Finance". Includes interest at an assumed annual interest rate of 5.0 percent on the Series 2008F2-H Subordinate Bonds.

⁽⁸⁾ Additional deposits in the Debt Service Fund; amounts are in excess of required monthly principal and interest deposits.

⁽⁹⁾ Interest at an assumed annual interest rate of 4.0 percent on projected CP Notes for Fiscal Years 2013 through 2016.

⁽¹⁰⁾ Total may not equal sum of components due to individual rounding.

Outstanding Indebtedness

The City Charter, approved by the voters and effective on July 1, 2000, allows for revenue bonds and notes of the City, including Senior Lien Bonds and Subordinate Bonds, to be issued upon adoption of a procedural ordinance. The City will have issued a total of \$4,823,761,473.50 principal amount of Senior Lien Bonds, of which \$1,186,760,000 will be Outstanding subsequent to the issuance of the Series 2012 Bonds and the Series 2012-B Subordinate Bonds and the completion of the refundings relating thereto. The City will have issued a total of \$2,449,385,000 principal amount of Subordinate Bonds in the form of fixed and variable rate bonds, of which \$1,325,660,000 will be Outstanding subsequent to the issuance of the Series 2012 Subordinate Bonds and the completion of the refundings relating thereto. 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 Lines of Credit for the CP Notes is \$300,000,000. No CP Notes are currently Outstanding. The following table sets forth the Wastewater System Revenue Bonds and CP Notes issued to date and the respective principal amounts Outstanding, if any.

TABLE 22
CITY OF LOS ANGELES WASTEWATER SYSTEM
REVENUE BONDS AND COMMERCIAL PAPER REVENUE NOTES
AMOUNTS ISSUED AND OUTSTANDING
(in Thousands) (as of May 30, 2012)⁽¹⁾

<u>Issue</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>	<u>Final Maturity</u>
Series 1987	\$ 125,000	--	*
Series 1988	130,000	--	*
Series 1989	160,076	--	*
Series 1990-A	108,715	--	*
Series 1990-B	190,000	--	*
Series 1991-A	112,410	--	*
Series 1991-B	112,875	--	*
Series 1991-C (Refunding)	87,125	--	*
Series 1991-D	200,000	--	*
Series 1992-A (Refunding)	91,890	--	*
Series 1992-B	200,000	--	*
Series 1993-A (Refunding)	301,015	--	*
Series 1993-B	150,000	--	*
Series 1993-C (Refunding)	76,885	--	*
Series 1993-D (Refunding)	388,290	--	*
Series 1994-A	150,000	--	*
Series 1996-A (Refunding)	72,520	--	*
Series 1997-A (Refunding)	35,250	--	*
Series 1998-A	253,955	--	*
Series 1998-B (Refunding)	120,855	--	*
Series 1998-C (Refunding)	63,705	17,140	6/1/2013
Series 1999-A (Refunding)	88,390	--	*
Series 2001-A, B, C and D (Subordinate Refunding)	308,600	--	*
Series 2002-A (Refunding)	102,850	37,110	6/1/2022
Series 2003-A (Subordinate Refunding)	365,510	249,980 ⁽¹⁾	6/1/2027
Series 2003-A (Refunding)	204,335	--	*
Series 2003-B (Subordinate Refunding)	269,450	50,380 ⁽¹⁾	6/1/2024
Series 2003-B (Refunding)	225,510	109,040 ⁽¹⁾	6/1/2023
Series 2005-A (Refunding)	300,655	280,450	6/1/2035
Series 2006-A, B1, B2, C, and D (Subordinate Refunding)	316,785	--	*
Series 2008 A, B, C, D, E, F-1, F-2, G and H (Subordinate Refunding) ⁽²⁾	444,600	280,860 ⁽¹⁾	6/1/2032
Series 2009-A (Refunding)	454,785	426,350	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	199,790	6/1/2032
Series 2012-A (Subordinate Refunding)	157,055	157,055	6/1/2024
Series 2012-B (Subordinate Refunding)	253,880	253,880	6/1/2032
Series 2012-A (Refunding)	49,650	49,650	6/1/2024
Series 2012-C (Subordinate Refunding)	133,715	133,715	6/1/2027
CP Notes ⁽³⁾	300,000	0	
Total	<u>\$7,573,146</u>	<u>\$2,512,420</u>	

⁽¹⁾ Includes the issuance of the Series 2012 Bonds and Additional Series 2012 Subordinate Bonds and the completion of the refundings relating thereto described under "Plan of Finance" herein.

⁽²⁾ The Series 2008-A Subordinate Bonds, the Series 2008-B Subordinate Bonds, the Series 2008-C Subordinate Bonds, the Series 2008-D Subordinate Bonds and the Series 2008-E Subordinate Bonds are secured by and payable from separate irrevocable direct-pay letters of credit issued by JPMorgan Chase. The Series 2008-F-1 Subordinate Bonds, Series 2008-F-2 Subordinate Bonds, Series 2008-G Subordinate Bonds, and Series 2008-H Subordinate Bonds are secured by and payable from separate irrevocable direct-pay letters of credit issued by Bank of America, N.A. See "– Variable Rate Bonds" 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 Line of Credit for the CP Notes is \$300,000,000.

* No longer Outstanding.

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 23
CITY OF LOS ANGELES
WASTEWATER SYSTEM REVENUE BONDS
DEBT SERVICE ON ALL SENIOR LIEN BONDS AND SUBORDINATE BONDS⁽¹⁾

Fiscal Year Ending June 30	Series 2012-A Senior Lien Bonds	Existing Senior Lien Bonds	All Senior Lien Bonds	Series 2012-C Subordinate Bonds	Existing Subordinate Bonds	All Subordinate Bonds	Total Debt Service on All Bonds
2012	\$ 0	\$ 105,989,321	\$ 105,989,321	\$ 0	\$ 64,299,957	\$ 64,299,957	\$ 170,289,279
2013	2,530,771	99,546,828	102,077,598	6,522,813	73,882,723	80,405,536	182,483,135
2014	2,482,500	96,722,309	99,204,809	9,013,400	73,211,498	82,224,898	181,429,707
2015	2,482,500	98,946,059	101,428,559	6,978,800	83,342,973	90,321,773	191,750,332
2016	2,482,500	92,457,109	94,939,609	8,706,400	87,811,723	96,518,123	191,457,732
2017	2,482,500	77,621,459	80,103,959	13,548,800	97,170,943	110,719,743	190,823,701
2018	2,482,500	77,609,459	80,091,959	8,923,600	102,101,933	111,025,533	191,117,492
2019	2,482,500	55,534,296	58,016,796	8,596,600	122,389,358	130,985,958	189,002,754
2020	2,482,500	65,732,953	68,215,453	6,232,800	116,297,083	122,529,883	190,745,336
2021	2,482,500	81,249,690	83,732,190	34,114,000	70,615,208	104,729,208	188,461,398
2022	2,482,500	99,591,015	102,073,515	15,771,250	71,518,539	87,289,789	189,363,304
2023	2,482,500	51,174,015	53,656,515	18,010,250	113,409,089	131,419,339	185,075,854
2024	52,132,500	48,847,415	100,979,915	2,983,500	81,577,739	84,561,239	185,541,154
2025	0	48,845,990	48,845,990	37,388,500	101,448,714	138,837,214	187,683,204
2026	0	48,843,828	48,843,828	21,708,250	118,886,635	140,594,885	189,438,713
2027	0	48,845,328	48,845,328	5,145,000	124,857,576	130,002,576	178,847,904
2028	0	48,845,978	48,845,978	0	87,053,418	87,053,418	135,899,396
2029	0	61,758,128	61,758,128	0	77,174,925	77,174,925	138,933,052
2030	0	61,795,434	61,795,434	0	76,481,750	76,481,750	138,277,184
2031	0	61,833,459	61,833,459	0	75,803,750	75,803,750	137,637,209
2032	0	61,759,334	61,759,334	0	75,062,347	75,062,347	136,821,681
2033	0	107,079,509	107,079,509	0	0	0	107,079,509
2034	0	107,080,146	107,080,146	0	0	0	107,080,146
2035	0	107,079,371	107,079,371	0	0	0	107,079,371
2036	0	86,306,146	86,306,146	0	0	0	86,306,146
2037	0	85,310,529	85,310,529	0	0	0	85,310,529
2038	0	84,282,799	84,282,799	0	0	0	84,282,799
2039	0	83,221,400	83,221,400	0	0	0	83,221,400
2040	0	60,562,071	60,562,071	0	0	0	60,562,071
TOTAL⁽²⁾	\$79,488,271	\$ 2,214,471,375	\$ 2,293,959,646	\$203,643,963	\$ 1,894,387,880	\$ 2,098,041,844	\$ 4,392,001,490

⁽¹⁾ Reflects issuance of the Series 2012 Bonds and the Additional Series 2012 Subordinate Bonds and the completion of the refunding relating thereto described under "Plan of Finance" herein.

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

Variable Rate Bonds

The Wastewater System Subordinate Revenue Bonds 2008 Series A-H (the “Series 2008 Variable Rate Bonds”) are variable rate demand obligations whose interest rates periodically reset to the rate at which such Series 2008 Variable Rate Bonds could be sold at par, as determined by the remarketing agent for such 2008 Variable Rate Bonds. The Series 2008 Variable Rate Bonds are outstanding in the aggregate principal amount of \$280,860,000. Payment of the principal of and interest on the Series 2008 Variable Rate Bonds is secured by and payable from payments made under irrevocable letters of credit issued by letter of credit providers for the benefit of the trustee of the applicable Series 2008 Variable Rate Bonds. The City is obligated to reimburse draws on such letters of credit from Revenues as described in the respective reimbursement agreements between the City and each letter of credit provider, and such obligation is secured by a pledge of Revenues on a parity with the pledge of Revenues set forth in the Subordinate General Resolution. Certain terms of the letters of credit relating to the Series 2008 Variable Rate Bonds are as follows:

**TABLE 24
VARIABLE RATE BONDS CREDIT ENHANCEMENT**

<u>Series 2008 Variable Rate Bonds</u>	<u>Outstanding Principal</u>	<u>Letter of Credit Provider</u>	<u>Scheduled Expiration of Letters of Credit</u>
Series A-E	\$118,200,000	JPMorgan Chase Bank, National Association	July 26, 2012
Series F-H	\$162,660,000	Bank of America, N.A.	July 26, 2012

The City is in the process of renewing or replacing these letters of credit.

Owners of the Series 2008 Variable Rate Bonds have a right to tender their Series 2008 Variable Rate Bonds for purchase at a price equal to par plus accrued interest, upon notice as described in the resolution for the Series 2008 Variable Rate Bonds. In the event such tendered Series 2008 Variable Rate Bonds cannot be remarketed, the letter of credit supporting payment thereof will be drawn on and the proceeds of such draw will be used to pay the purchase price to the tendering holders of the Series 2008 Variable Rate Bonds. The obligation of the City to reimburse the letter of credit provider for such draw on the letter of credit, assuming no event of default under the applicable reimbursement agreement and assuming certain other conditions are met, may convert the term of the Series 2008 Variable Rate Bonds paid from such a draw into a term loan amortizable over a period of three years, and bearing a variable interest rate that could be significantly higher than the variable rate that was borne by the Series 2008 Variable Rate Bonds prior to the failed remarketing. The accelerated amortization and increased interest rate would significantly increase the size of current debt service payments due and owing on the Series 2008 Variable Rate 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 2008 Variable Rate 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”). These swap agreements are currently associated with the Series 2008-A-F1 Bonds. The Bank of New York Mellon is rated Aa1/AA-/AA- by Moody’s, S&P, and Fitch, respectively, and Dexia is rated Baa2/BBB/A+ by Moody’s, S&P, and Fitch, respectively. In connection with the issuance of the Series

2012-A Subordinate Bonds and the completion of the refunding relating thereto, each Swap Agreement was partially terminated and each has a remaining 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. If the variable rate received by the City, over time, approximates the variable rate interest payment on the bonds, the net effective cost of borrowing to the City will approximate the fixed rate paid under the swap agreements by the City.

As of April 17, 2012, the remaining portion of each Swap Agreement had a market value of approximately \$(17,950,000), for a combined total market value of \$(35,900,000), with negative amounts indicating a City liability in the event of a termination requiring a termination payment. Such market value changes with fluctuations in market interest rates, agreement duration, and other factors. 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. However, in such instance, the City would be required to make a termination payment to Dexia.

The City's payments under the Swap Agreements are special, limited obligations of the City payable from Revenues on a basis subordinate to the Subordinate Bonds as to the lien on and source and security of payment from the Revenues. See "Security and Sources of Payment for the Series 2012 Bonds – Swap Agreements" herein. Swap agreements entail certain risks. See "Risk Factors – Swap Agreements" herein.

Anticipated Financings

The City 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 2012 through 2016. 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)

<u>Category</u>	<u>Fiscal Year Ending June 30</u>				
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Net Revenues – Current Rates ⁽¹⁾	\$247,678	\$239,391	\$230,779	\$213,698	\$199,078
Additional Revenue from Future Rate Increases ⁽²⁾	4,763	41,688	65,366	99,828	137,884
Additional Interest Income ⁽³⁾	(16)	(221)	(334)	(339)	(46)
BABs and RZEDB Subsidiaries	5,343	6,390	6,390	6,390	6,390
Projected Net Revenue	<u>\$257,768</u>	<u>\$287,248</u>	<u>\$302,201</u>	<u>\$319,577</u>	<u>\$343,306</u>
Debt Service					
Existing Senior Lien Bonds ⁽⁴⁾	\$105,989	\$99,547	\$96,722	\$98,946	\$92,457
Senior 2012-A Lien Bonds	0	2,531	2,483	2,483	2,483
Additional Senior Lien Bonds ⁽⁵⁾	0	0	6,075	15,600	25,225
Total Senior Lien Bonds	<u>\$105,989</u>	<u>\$102,078</u>	<u>\$105,280</u>	<u>\$117,029</u>	<u>\$120,165</u>
Existing Subordinate Bonds ⁽⁶⁾⁽⁷⁾	\$ 64,300	\$ 73,883	\$ 73,212	\$ 83,343	\$ 87,812
Series 2012-C Subordinate Bonds	0	6,523	9,013	6,979	8,706
CP Notes ⁽⁸⁾	650	5,933	7,847	8,000	8,000
Total Subordinate Bonds and CP Notes	<u>\$ 64,950</u>	<u>\$ 86,339</u>	<u>\$ 90,072</u>	<u>\$ 98,322</u>	<u>\$104,518</u>
Total All Bonds and CP Notes	<u>\$170,939</u>	<u>\$188,417</u>	<u>\$195,352</u>	<u>\$215,351</u>	<u>\$224,683</u>
Projected Debt Service Coverage					
Total Senior Debt	243%	281%	287%	273%	286%
Total Senior, Subordinate and CP Debt	151%	152%	155%	148%	153%

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.

⁽²⁾ Includes projected increases effective on each of July 1 from 2012 through 2015. There is no assurance that debt service coverage for Fiscal Years 2012 through 2016, inclusive, will be at the levels currently projected.

⁽³⁾ Includes assumed annual interest earnings of 3.5 percent on increased reserve funds resulting from proposed additional Bond sales.

⁽⁴⁾ Principal and interest becoming due and payable on all Senior Lien Bonds issued and outstanding in each Fiscal Year, subsequent to the issuance of the Series 2012 Bonds and the Series 2012-B Subordinate Bonds and the completion of the refundings relating thereto. See "Plan of Finance".

⁽⁵⁾ Principal and interest becoming due and payable on projected additional revenue bonds in each Fiscal Year. Assumes interest rate of 5.0 percent for additional Senior Lien Bond issuances and 30-year wrapped debt service principal amortization structures. See Table 21 for additional information on projected debt issuance.

⁽⁶⁾ Debt service reflects the issuance of the Series 2012-A Subordinate Bonds and the Series 2012-B Subordinate Bonds and the completion of the refundings relating thereto described under "Plan of Finance".

⁽⁷⁾ Principal and interest becoming due on existing Subordinate Bonds in each Fiscal Year. Assumes the payment by the Swap Counterparties to the City of a variable interest rate equal to a variable index identified in the Swap Agreements (as modified after the issuance of the Series 2012-A Subordinate Bonds) and the payment by the City to the respective Swap Counterparties of a fixed interest rate. Includes interest at an assumed annual interest rate of 5.0 percent on the Series 2008F2-H Subordinate Bonds.

⁽⁸⁾ Interest at an assumed annual interest rate of 4.0 percent on projected CP Notes for Fiscal Years 2012 through 2016.

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 National Pollutant Discharge Elimination System ("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 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 130 million gallons of biosolids have been injected. The permit for the TIWRP pilot program expired in November 2011 and the City has submitted an application for a new five-year permit to the US EPA to continue the project with certain modifications. The US EPA is reviewing the permit application but has allowed the City to continue operating the project under the conditions of the expired permit. The City considers the likelihood of being granted a new permit to be very high. 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. The City is also exploring the feasibility of pelletizing biosolids for use as fuel.

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 Bureau of Engineering coordinates and tracks South Coast Air Quality Management District ("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. SCAQMD requires Annual Emissions Reports ("AERs") of air contaminants from each of the City's treatment plants. Pursuant to the Air Toxics "Hot Spots" Information and Assessment Act (the "Hot Spots Act") administered through SCAQMD, an emission inventory or Hot Spots Report setting forth the types and quantities of certain substances routinely released by the City's treatment plants is submitted every four years. Under certain circumstances, the SCAQMD may require a health risk assessment ("HRA"), which 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. SCAQMD required a Health Risk Assessment for the HTP, which was last updated in 2009. SCAQMD may determine that additional HRAs are required based on a facility's air toxics emissions. No issues have arisen and no issues are expected to arise from AERS, Hot Spots Reports, HRAs or priority levels.

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, including wastewater treatment facilities. Rule 1315 had established a federally approved banking or tracking system through which priority reserve offsets under Rule 1309.1 could be distributed by the SCAQMD to enable essential public service entities, such as wastewater treatment plants, to construct or modify facilities. The legal challenges have impacted the SCAQMD's ability to issue permits. The enactment of SB 827 in 2009 allowed SCAQMD to lift its permit moratorium on January 4, 2010 and continue issuing permits using the priority reserve credits through May 1, 2012. On February 4, 2011, the SCAQMD Governing Board adopted a new Rule 1315 and certified the associated CEQA document. SCAQMD expects that the US EPA will approve the new rule and CEQA in the next few months. No assurance can be given that implementation of the new Rule 1315 will not be challenged by a non-governmental organization.

National Ambient Air Quality Standards. The SCAQMD implements portions of the National Ambient Air Quality Standards of the federal Clean Air Act, which sets forth duration limits for exposure to certain criteria pollutants. On December 5, 2008, the SCAQMD Governing Board adopted Rule 317 to implement Section 185 of the federal Clean Air Act, which requires that major stationary sources for volatile organic compounds emissions or nitrogen oxides in non-attainment areas to either reduce their emissions by 20% from a baseline amount or pay a fee. Pursuant to Rule 317, major stationary sources in areas of severe or extreme non-attainment of the federal one-hour standard for ozone would be required to pay fees for nitrogen oxides and volatile organic emissions that exceed 80 percent of the facility's baseline emissions. The fees would be based on annual emissions and begin two years after the "attainment year", which is 2010 for all entities in the South Coast Air Basin, and would not distinguish between well-controlled emissions (those using the best-available control technology) and other emissions. Rule 317, as adopted by the SCAQMD Governing Board, would have potentially resulted in an additional \$1 million per year assessed to the City's System, depending on the nature of the HTP's DGUP and the final assessment arrangement.

Since then, the SCAQMD has amended Rule 317 to follow the US EPA's fee-equivalency approach, which would allow expenditures by US EPA, CARB and SCAQMD on 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. The fee-equivalency approach has experienced certain legal challenges and no assurance can be given that the SCAQMD will be permitted to implement a fee-equivalency approach as set forth in Rule 317 or that revenues will be sufficient to pay any penalties relating to noncompliance. However, if Rule 317 is implemented, 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 Clean Air Act.

California Air Resources Board. Since 2002, the City has been participating in the rule making process with the California Air Resources Board ("CARB") by providing information to CARB staff and presenting the Bureau of Sanitation's concerns with respect to proposed regulations being considered by CARB. CARB adopted a rule in December 2007 that requires the reporting of greenhouse gas emissions from the largest sources, including large facilities such as refineries, general stationary combustion

facilities, and hydrogen plants that emit at least 25,000 metric tons of carbon dioxide per year. The City has demonstrated to CARB that the System facilities are not subject to the State reporting rule because the facilities' emissions were considerably less than the 25,000 metric ton threshold. In 2010, CARB amended its regulations to require that entities emitting between 10,000 and 25,000 metric tons of carbon dioxide per year would be required to report emissions, but the reports would not be subject to third party verification. Depending on which option is selected for the HTP DGUP, the HTP's carbon dioxide emissions could increase to more than 10,000 metric tons, requiring the City to begin reporting its emissions.

Southern California Alliance of Publicly Owned Treatment Works and California Wastewater Climate Change Group. The City is a member of Southern California Alliance of Publicly Owned Treatment Works ("SCAP") consisting of the Los Angeles and Orange County Sanitation Districts, the City, and many smaller cities and other jurisdictions. SCAP, through its membership in the California Wastewater Climate Change Group ("CWCCG"), addresses climate change, greenhouse gases and renewable energy-related issues of publicly owned treatment works and other issues that affect capital and operations budgets for the Bureau of Sanitation. 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 2012-A Subordinate Bonds.

NPDES Permits

The City's four treatment plants are required to obtain five-year NPDES permits that are issued by the Los Angeles Regional Water Quality Control Board ("LARWQCB"). All of the NPDES permits for the City's wastewater and water reclamation facilities have been renewed. The City received the NPDES permit for TIWRP on May 6, 2010. HTP's permit was renewed on November 4, 2011.

The LARWQCB issued new permits for DCTWRP and LAGWRP on December 8, 2011 (collectively, the "Permits"). The Permits incorporate certain provisions of the previous permits issued by LARWQCB for DCTWRP and LAGWRP in December 2006 (the "2006 Permits"). The City had filed an appeal of the 2006 Permits because they were "more stringent" than required under federal law and thus should have been subject to "economic considerations" by the LARWQCB. In March 2010, all parties to the lawsuit agreed to a negotiated settlement agreement. As a result of the settlement agreement, most of the Groundwater Monitoring Requirements in the DCTWRP and LAGWRP permits were removed and both DCTWRP and LAGWRP were given additional time to comply with the provisions of the California Toxics Rule, which sets forth numeric water quality criteria for priority toxic pollutants and other water quality standards provisions to be applied to waters in the State. 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. In anticipation of the expiration of the copper interim 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. A water effects ratio adjustment could be applied to the final copper limits if the plants have difficulty meeting their final effluent limits in the future. Currently, both plants are meeting their final effluent limits. However, 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.

The 2006 Permits also required compliance with the Nitrogen Total Maximum Daily Loads ("TMDLs") and construction of Nitrification-Denitrification ("NDN") facilities. NDN facilities have been constructed and are operating in full NDN mode at DCTWRP and LAGWRP. An Ammonia Site-Specific

Objective Study has been approved by the LARWQCB and adopted by the SWRCB, Office of Administrative Law, and US EPA. The LARWQCB still needs to re-open the Nitrogen TMDLs to revise its Waste Load Allocations for Ammonia and incorporate the new limits in the permits. The final adoption of this study will adjust the final effluent limits higher, which will allow operational flexibility in the disinfection process. The revision of the ammonia TMDL is expected to take additional time; meanwhile, the Bureau of Sanitation has received a time schedule order from the LARWQCB for the ammonia effluent limit for the DCTWRP until the nitrogen TMDL has been revised. The Bureau of Sanitation is also pursuing the possibility of de-listing the Los Angeles River, which would also provide relief from the ammonia wasteload allocation. If the results of the study are not incorporated into the permits, then plant operational flexibility may be limited. However, DCTWRP has consistently met its final ammonia effluent limit in the past and, with the adoption of the new time schedule order by the LARWQCB, no major potential financial impact to the System is anticipated.

Total Maximum Daily Loads

The 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 are 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 NPDES effluent limits at the City's four treatment plants. However, it is expected that significant capital improvements funded by the System may be required to comply with the TMDLs.

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 builds on the Bureau of Sanitation's existing 10-year, \$2 billion plan to maintain and enhance the City's sewer system. The enhancements to the existing sewer program required by the CSSA are expected to necessitate an additional \$300 million over 10 years, which have already occurred or are included in the financial projections included herein. See "Financial Operations of the Wastewater System – Projected Operation and Maintenance Expenses," "– Projected Statement of Revenues and Expenditures," and "Wastewater System Capital Improvement Program – Financing Plans for the Wastewater Capital Improvement Program" herein. The additional cost is mainly due to the increases in the number of sewers to be repaired under the settlement agreement. The CSSA requires a

three-year rolling average of 60 miles of sewers per year to be renewed in Fiscal Years 2008 through 2014. In addition, the City is required to clean a three-year rolling average of 2,800 miles of sewers annually (with a minimum of 2,600 miles each of the first two years), visually inspect at least 600 miles of sewers annually, and continue odor mitigation efforts, including the construction of seven air treatment facilities. In each of the first four years of the CSSA, the City has exceeded the requirements for cleaning and visual inspection. In Fiscal Year 2011, the City performed 62 miles of sewer rehabilitation, exceeding the required annual minimum of 50 miles. In addition, the City has completed construction of 77 of the 88 required projects. Of the 11 remaining projects, four were cancelled and the remaining seven are on schedule.

RISK FACTORS

The ability of the City to pay principal of and interest on the Series 2012 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 2012 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 2012 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 2012 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 2012 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 2012 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 2012 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 for in amounts sufficient to pay debt service on the Series 2012 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 2012 Bonds. See "Financial Operations of the Wastewater System – Proposition 218" herein.

Proposition 218, as incorporated in the California Constitution under Article XIIC, 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 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. 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 2012 Bonds.

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 2012 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.

Risks Relating to the Water Supply

The ability of the Wastewater System to operate effectively can be affected by the water supply available to the City, which is situated in an arid and semi-desert environment that is currently subject to drought conditions. 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. See “Financial Operations of the Wastewater System – Water Usage” herein.

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 2012 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 Current Economic Conditions on System Revenues

The major economic disruptions and recession of the past few years have 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 this or 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 2012 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 2012 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 2012 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 risks to the City. Actual interest rates may vary from assumptions made at the time the swap transaction was executed, and the City may not realize the expected financial benefits from the swap transaction. 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 affect 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. The City has partially terminated the Swap Agreements relating to the Refunded 2008 Bonds and financed the termination payment with a portion of the proceeds of the Series 2012-A Subordinate Bonds. See "Plan of Finance" herein. The City may enter into additional swap agreements in the future.

Risks Related to Variable Rate Bonds

The variable rate of interest that is borne by the Series 2008 Variable Rate Bonds is dependent in part upon the creditworthiness of the applicable letter of credit provider. A decline in the creditworthiness of a letter of credit provider will likely result in an increase in the interest rate on the Series 2008 Variable Rate Bonds secured by that letter of credit provider, as well as an increase in the risk of a failed remarketing of such tendered Series 2008 Variable Rate Bonds. In the event the Series 2008 Variable Rate Bonds are not remarketed upon the tender thereof, the letter of credit supporting the tendered Series 2008 Variable Rate Bonds will be drawn upon to make payments of the purchase price thereof. The obligation of the City to reimburse the letter of credit provider for a draw on the letter of credit may convert the term of the Series 2008 Variable Rate bonds paid from such a draw into a term loan amortizable over a period of three years, and bearing a variable interest rate that could be significantly higher than the variable rate that was borne by the Series 2008 Variable Rate Bonds prior to the failed remarketing. The accelerated amortization and increased interest rate would significantly increase the size of current debt service payments due and owing on such Series 2008 Variable Rate

Bonds. In such a case, the City may seek to replace the letter of credit provider with one with a higher credit rating, but there can be no assurance that such replacement credit enhancement could be obtained at a reasonable cost, if at all. The City may also convert the Series 2008 Variable Rate Bonds to a fixed interest rate or other rate not requiring credit enhancement, but there can be no assurance with respect to the timing or terms of any such refunding.

The letters of credit supporting the Series 2008 Variable Rate Bonds are scheduled to expire on July 26, 2012. The City is in the process of renewing or replacing such letters of credit. See “Financial Operations of the Wastewater System – Variable Rate Bonds” herein.

TAX MATTERS

General

In the opinion of Sidley Austin LLP, San Francisco, California, Bond Counsel, under existing laws and assuming compliance with certain covenants in the General Resolution, the Subordinate General Resolution, the Tax Certificate and other documents pertaining to the Series 2012 Bonds and requirements of the Internal Revenue Code of 1986, as amended (the “Code”), regarding the use, expenditure and investment of proceeds of the Series 2012 Bonds and the timely payment of certain investment earnings to the United States, interest on the Series 2012 Bonds is not includable in the gross income of the owners of the Series 2012 Bonds for federal income tax purposes. Failure to comply with such covenants and requirements may cause interest on the Series 2012 Bonds to be included in gross income retroactively to the date of issuance of the Series 2012 Bonds.

In the further opinion of Bond Counsel, interest on the Series 2012 Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the Series 2012 Bonds, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation’s alternative minimum tax liability.

Ownership of, or the receipt of interest on, tax-exempt obligations may result in collateral tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers who may be eligible for the earned income tax credit. Bond Counsel expresses no opinion with respect to any collateral tax consequences and, accordingly, prospective purchasers of the Series 2012 Bonds should consult their tax advisors as to the applicability of any collateral tax consequences.

Certain requirements and procedures contained or referred to in the General Resolution, the Subordinate General Resolution or in other documents pertaining to the Series 2012 Bonds may be changed, and certain actions may be taken or not taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. Bond Counsel expresses no opinion as to the effect of any change to any document pertaining to the Series 2012 Bonds or of any action taken or not taken where such change is made or action is taken or not taken without the approval of Bond Counsel or in reliance upon the advice of counsel other than Bond Counsel with respect to the exclusion from gross income of the interest on the Series 2012 Bonds for federal income tax purposes.

Premium Bonds

The excess, if any, of the tax adjusted basis of the Series 2012 Bonds purchased as part of the initial public offering to a purchaser (other than a purchaser who holds such Series 2012 Bonds as inventory, stock in trade or for sale to customers in the ordinary course of business) over the amount payable at maturity is “bond premium.” Bond premium is amortized over the term of such Series 2012 Bonds for federal income tax purposes (or, in the case of a bond with bond premium callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). Owners of Series 2012 Bonds with bond premium are required to decrease their adjusted basis in such Series 2012 Bonds by the amount of amortizable bond premium attributable to each taxable year such Series 2012 Bonds are held. The amortizable bond premium on such Series 2012 Bonds attributable to a taxable year is not deductible for federal income tax purposes. Such amortizable bond premium is treated as an offset to qualified stated interest received on such Series 2012 Bonds. Owners of such Series 2012 Bonds should consult their tax advisors with respect to the determination for federal income tax purposes of the treatment of bond premium upon the sale or other disposition of such Series 2012 Bonds and with respect to the state and local tax consequences of owning and disposing of such Series 2012 Bonds.

Information Reporting and Backup Withholding

Interest paid on the Series 2012 Bonds will be subject to information reporting in a manner similar to interest paid on taxable obligations. Although such reporting requirement does not, in and of itself, affect the excludability of such interest from gross income for federal income tax purposes, such reporting requirement causes the payment of interest on the Series 2012 Bonds to be subject to backup withholding if such interest is paid to beneficial owners who (a) are not “exempt recipients,” and (b) either fail to provide certain identifying information (such as the beneficial owner’s taxpayer identification number) in the required manner or have been identified by the Internal Revenue Service as having failed to report all interest and dividends required to be shown on their income tax returns. Generally, individuals are not exempt recipients. Amounts withheld under the backup withholding rules from a payment to a beneficial owner would be allowed as a refund or a credit against such beneficial owner’s federal income tax liability provided the required information is furnished to the Internal Revenue Service.

State Tax Exemption

In the further opinion of Bond Counsel, interest on the Series 2012 Bonds is exempt from personal income taxes imposed by the State of California.

Future Developments

Future or pending legislative proposals, if enacted, regulations, rulings or court decisions may cause interest on the Series 2012 Bonds to be subject, directly or indirectly, to federal income taxation or to State or local income taxation, or may otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. Legislation or regulatory actions and future or pending proposals may also affect the economic value of the federal or state tax exemption or the market value of the Series 2012 Bonds. Prospective purchasers of the Series 2012 Bonds should consult their tax advisors regarding any future, pending or proposed federal or State tax legislation, regulations, rulings or litigation as to which Bond Counsel expresses no opinion.

For example, based on a proposal by the President, the Senate Majority Leader introduced a bill, S. 1549 (the “Proposed Legislation”), which, if enacted, would subject interest on Series 2012 Bonds that

is otherwise excludable from gross income for federal income tax purposes, including interest on the Series 2012 Bonds, to a tax payable by certain bondholders that are individuals, estates or trusts with adjusted gross income in excess of thresholds specified in the Proposed Legislation in tax years beginning after December 31, 2012. The Proposed Legislation would also provide special rules for such bondholders that are also subject to the alternative minimum tax. It is unclear if the Proposed Legislation will be enacted, whether in its current or an amended form, or if other legislation that would subject interest on the Series 2012 Bonds to a tax or cause interest on the Series 2012 Bonds to be included in the computation of a tax, will be introduced or enacted. Prospective purchasers should consult their tax advisors as to the effect of the Proposed Legislation, if enacted, in its current form or as it may be amended, or such other legislation on their individual situations.

Copies of the proposed forms of opinions of Bond Counsel are attached hereto as Appendix F.

CONTINUING DISCLOSURE

In order to provide certain continuing disclosure with respect to the Series 2012 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 2012 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 2012 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, 2013 for the report for the 2011-12 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"), if material. 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 2012 Bonds in complying with the Rule. The City has not failed in the past five years to comply in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of material events.

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 2012 Bonds or in any way contesting or affecting the validity of the Series 2012 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 2012 Bonds or the use of the proceeds of the Series 2012 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 2012-A Subordinate 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 May 17, 2012, of certain claims and lawsuits (with any potential loss exceeding \$5,000,000) 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 City is not yet a named party; if sued, the City would be one of more than 1,500 potentially responsible parties. The City believes that its potential loss in this matter, based on the quantities of hazardous materials alleged to have been contributed by the City, would be significantly less than \$5,000,000; however, the ultimate outcome of the matter cannot now be predicted.
- *Dillingham-Ray Wilson, etc. v. City of Los Angeles* is an action brought in state court by the general contractor and subcontractors of the C-741 construction project at the HTP, based on contract and construction law. On June 19, 2006, a judgment on a jury verdict was entered for the plaintiffs, and on July 8, 2010, after exhausting its appeals, the City paid \$48,772,844 in full payment of the judgment. The question whether the plaintiffs can bring a modified total cost claim against the City has been remanded to the trial court and an adverse decision in any such further proceeding could result in additional liability of the City in an amount the City estimates at between \$5,000,000 and \$40,000,000. The City currently anticipates that any additional liability would initially be satisfied through the issuance of commercial paper.
- *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. Kern County has appealed the court's granting of the injunction and the appeal before the California Court of Appeal is pending. If Kern County ultimately prevails, alternative methods of biosolids disposal could cost the City in excess of \$3 million per year.

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 2012 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 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 2012 Bonds and certain other matters are subject to the approval of legality by Sidley Austin LLP, San Francisco, 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 Carmen A. Trutanich, City Attorney, and for the Underwriters by their counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation, Sacramento, California.

RATINGS

Moody’s Investors Service, Inc. (“Moody’s”), Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc. (“S&P”), and Fitch Ratings (“Fitch”) have assigned the Series 2012-A Senior Lien Bonds their ratings of “Aa2,” “AA+” and “AA+,” respectively, and the Series 2012-C Subordinate Bonds their ratings of “Aa3,” “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: Moody’s Investors Service, Inc., 7 World Trade Center at 250 Greenwich Street, New York, New York 10007; Standard & Poor’s Ratings Services, 55 Water Street, New York, New York 10041; Fitch Ratings, One State Street Plaza, New York, New York 10004. 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 2012 Bonds.

UNDERWRITING

The Series 2012-A Senior Lien Bonds are being purchased by the Underwriters at a price of \$60,341,262.57 (which amount represents the principal amount of the Series 2012-A Senior Lien Bonds of \$49,650,000.00, plus an original issue premium of \$10,891,720.50, and less an underwriters’ discount of \$200,457.93). The Series 2012-C Subordinate Bonds are being purchased by the Underwriters at a price of \$159,649,150.63 (which amount represents the principal amount of the Series 2012-C Subordinate Bonds of \$133,715,000.00, plus an original issue premium of \$26,467,434.30, and less an underwriters’ discount of \$533,283.67). The Underwriters may offer and sell the Series 2012 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.

The following two sentences have been provided by De La Rosa & Co., one of the underwriters for the Series 2012 Bonds: De La Rosa & Co., one of the Underwriters of the Series 2012 Bonds, has entered into separate agreements with Credit Suisse Securities USA LLC, UnionBanc Investment Services LLC and City National Securities, Inc. for retail distribution of certain municipal securities offerings, at the original issue prices. Pursuant to said agreement, if applicable to the Series 2012 Bonds, De La Rosa & Co. will share a portion of its underwriting compensation with respect to the Series 2012

Bonds, with Credit Suisse Securities USA LLC, UnionBanc Investment Services LLC or City National Securities, Inc.

The following two paragraphs have been provided by Wells Fargo Bank, N.A., one of the underwriters for the Series 2012 Bonds.

Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association.

Wells Fargo Bank, National Association (“WFBNA”), one of the underwriters of the Series 2012 Bonds, has entered into an agreement (the “Distribution Agreement”) with Wells Fargo Advisors, LLC (“WFA”) for the retail distribution of certain municipal securities offerings, including the Series 2012 Bonds. Pursuant to the Distribution Agreement, WFBNA will share a portion of its underwriting compensation with respect to the Series 2012 Bonds with WFA. WFBNA and WFA are both subsidiaries of Wells Fargo & Company.

FINANCIAL ADVISORS

Public Resources Advisory Group, and Frasca & Associates, L.L.C. have served as Financial Advisors to the City in connection with the issuance of the Series 2012 Bonds. The Financial Advisors have assisted the City in matters relating to the planning, structuring, issuance of the Series 2012 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.

FINANCIAL STATEMENTS AND DEBT COMPLIANCE REPORT

The SCM Fund financial statements for the Fiscal Years ended June 30, 2011 and 2010, the Independent Auditor’s Report regarding the financial statements and the Debt Service Compliance Report for the Fiscal Year ended June 30, 2011 regarding the Debt Service Compliance Report are included as Appendix E. The financial statements of the SCM Fund for the Fiscal Years ended June 30, 2011 and 2010 have been audited by Simpson & Simpson, independent certified public accountants, as stated in their report. Simpson & Simpson has not consented to the inclusion of its report as Appendix E and has not undertaken to update its report 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 Simpson & Simpson with respect to any event subsequent to the date of the Independent Auditor’s Report.

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 2012 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: /s/ Raymond P. Ciranna
Assistant City Administrative Officer

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 2012 Bonds. The Series 2012 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 2012 Bonds" in the forepart of this Official Statement.

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INTRODUCTION

The City of Los Angeles, California (the “City”) is the second most populous city in the United States with an estimated 2011 population of 3.8 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 rank first in the nation in volume of cargo shipped and received. As home to the film, television and recording industries, as well as important cultural facilities, the City serves as a principal global cultural center.

ECONOMIC AND DEMOGRAPHIC INFORMATION

The economic and demographic information provided below has been collected from sources that the City considers to be reliable. Because it is difficult to obtain timely economic and demographic information, the City's economic condition may not be fully apparent in all of the publicly available local and regional economic statistics provided herein. In particular, the economic statistics provided herein may not fully capture the negative impact of current economic conditions.

Population

Table 1 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 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	1.67%	8,121,000	1.72%	26,113,000	2.07%
1990	3,476,000	1.61	8,832,500	1.75	29,558,000	2.64
1995	3,544,966	0.40	9,103,896	0.61	31,617,770	1.39
2000	3,679,600	0.76	9,477,651	0.82	33,721,583	1.33
2005	3,769,130	0.49	9,816,153	0.71	35,869,173	1.27
2006	3,768,645	-0.01	9,798,609	-0.18	36,116,202	0.69
2007	3,764,062	-0.12	9,780,808	-0.18	36,399,676	0.78
2008	3,774,497	0.28	9,785,474	0.05	36,704,395	0.84
2009	3,781,951	0.20	9,801,096	0.16	36,966,718	0.71
2010	3,793,106	0.29	9,822,121	0.21	37,223,900	0.70
2011	3,810,129	0.45	9,858,989	0.38	37,510,766	0.77

⁽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 Benchmark. September 2011. State of California, Department of Finance, E-1 Population Estimates for Cities, Counties and the State with Annual Percent Change — January 1, 2010 and 2011. Sacramento, California, May 2011.

Industry and Employment

Table 2 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 February 2012 of 11.4% statewide, 12.1% for Los Angeles County, and 13.3% for the City (not seasonally adjusted).

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

<u>Civilian Labor Force</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
City of Los Angeles					
Employed	1,788,900	1,764,200	1,676,600	1,647,900	1,669,800
Unemployed	<u>107,100</u>	<u>159,000</u>	<u>243,700</u>	<u>266,900</u>	<u>261,800</u>
Total	1,895,900	1,923,200	1,920,300	1,914,700	1,931,500
County of Los Angeles					
Employed	4,625,600	4,565,500	4,335,200	4,291,500	4,318,900
Unemployed	<u>246,900</u>	<u>369,500</u>	<u>569,000</u>	<u>619,100</u>	<u>605,500</u>
Total	4,872,500	4,934,800	4,904,300	4,910,500	4,924,400
Unemployment Rates					
City	5.6%	8.3%	12.7%	13.9%	13.6%
County	5.1	7.5	11.6	12.6	12.3
State	5.4	7.2	11.3	12.4	11.7
United States	4.6	5.8	9.3	9.6	8.9

⁽¹⁾ March 2011 Benchmark report; not seasonally adjusted.

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

Table 3 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 2011, employing 19.7% of wage and salary workers. Government, at 14.9%, was the second highest employment sector in the County, followed by Professional and Business Services, which employed 14.2% of wage and salary workers.

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

	County				State of California	
	2000	% of Total	2011	% of Total	2011	% of Total
Agricultural	7,700	0.2%	5,500	0.1	385,300	2.7%
Natural Resources and Mining	3,400	0.1	4,000	0.1	28,500	0.2
Construction	131,700	3.2	103,500	2.7	553,700	3.8
Manufacturing	612,200	15.0	365,400	9.6	1,245,800	8.6
Trade, Transportation and Utilities	786,000	19.3	748,000	19.7	2,662,900	18.4
Information	243,700	6.0	195,600	5.1	432,400	3.0
Financial Activities	222,800	5.5	209,400	5.5	761,500	5.3
Professional and Business Services	587,900	14.4	540,400	14.2	2,126,300	14.7
Educational and Health Services	418,500	10.2	534,800	14.1	1,833,600	12.7
Leisure and Hospitality	344,700	8.4	392,800	10.3	1,530,300	10.6
Other Services	140,000	3.4	135,000	3.6	486,900	3.4
Government	<u>581,300</u>	<u>14.2</u>	<u>565,200</u>	<u>14.9</u>	<u>2,398,700</u>	<u>16.6</u>
Total ⁽²⁾	4,079,800	100.0%	3,799,600	100.0%	14,445,700	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 2011 Benchmark report released March 9, 2012.

Major Employers

The top 25 major non-governmental employers in the County are listed in Table 4. The employees of these non-governmental employers represent approximately 6.9% of the labor force (based on total employment in 2011). In addition, government employment represents approximately 14.9% of the labor force (see Table 3 – Estimated Industry Employment and Labor Force).

Table 4
LOS ANGELES COUNTY
2011 MAJOR NON-GOVERNMENTAL EMPLOYERS

<u>Employer</u>	<u>Product/Service</u>	<u>Employees</u>
Kaiser Permanente	Nonprofit health care plan	33,600
Northrop Grumman Corp.	Defense contractor	21,000
University of Southern California	Private university	16,180
Target Corp.	Retailer	15,000
Ralphs/Food 4 Less (Kroger Co. Division)	Grocery retailer	13,500 ⁽¹⁾
Cedars-Sinai Medical Center	Medical center	12,068
Bank of America Corp.	Banking and financial services	12,000 ⁽¹⁾
Boeing Co.	Integrated aerospace and defense systems	11,520
Providence Health & Services Southern California	Health care	10,616
Home Depot	Home improvement specialty retailer	10,250
Vons	Retail grocer	10,152
Wells Fargo	Diversified financial services	9,723
Edison International	Electric utility	9,171
AT&T Inc.	Telecommunications	8,500
California Institute of Technology	Private university; Operator of Jet Propulsion Laboratory	8,400
ABM Industries Inc.	Facility services, janitorial, parking, security, engineering and lighting	8,300
FedEx Corp.	Shipping and logistics	8,000
Catholic Healthcare West	Hospitals	7,192
JPMorgan Chase	Banking and financial services	6,500
Amgen Inc.	Biotechnology	6,200
Costco Wholesale	Membership chain of warehouse stores	5,605
American Apparel Inc.	Apparel manufacturer and retailer	5,000
Toyota Motor Sales USA Inc.	Auto manufacturer	4,914
UPS	Transportation and freight	4,761
99 Cents Only Stores	Retailer	4,503

⁽¹⁾ Business Journal estimate.

Source: Los Angeles Business Journal, Weekly Lists, originally published September 5, 2011.

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.

Table 5 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 (dollars)
2005		
County	\$ 357,186,377	\$ 36,433
State	1,387,661,013	38,731
United States	10,485,900,000	35,426
2006		
County	\$ 385,724,212	\$ 39,519
State	1,495,533,388	41,518
United States	11,268,100,000	37,209
2007		
County	\$ 400,366,343	\$ 41,128
State	1,566,400,134	43,211
United States	11,912,300,000	39,484
2008		
County	\$ 412,638,667	\$42,195
State	1,610,319,388	43,993
United States	12,460,200,000	40,914
2009		
County	\$ 402,459,119	\$ 40,867
State	1,528,457,253	41,353
United States	11,930,200,000	38,830
2010⁽¹⁾		
County	n/a	n/a
State	\$ 1,590,279,298	\$42,578
United States	12,393,500,000	39,944

⁽¹⁾ On September 30, 2011, the Bureau of Economic Analysis (BEA) updated its advance estimates of per capita real GDP by metropolitan area and per capita personal income by metropolitan area for 2000-2010 to incorporate the newly available intercensal county population estimates released by the US Census Bureau on September 28, 2011. The remaining local area per capita personal income estimates will not be revised at this time. In April 2012, BEA is expected to release revised personal income estimates for 2008-2009 and estimates of per capita personal income for 2000-2009, along with new estimates for 2010, for all local areas.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, updated as of January 27, 2012.

Retail Sales

As the largest city in the County, the City accounted for \$34.8 billion (or 29.7%) of the total \$116.9 billion in County taxable sales for 2010. Table 6 sets forth a history of taxable sales for the City for calendar years 2006 through 2010, 2010 being the last full year for which data is currently available. The information under this section, including information in the table below, has been revised since the Preliminary Official Statement to reflect retail sales data subsequently released by the California State Board of Equalization.

The City experienced a 5.9% increase in sales tax receipts during Fiscal Year 2010-11, suggesting growth in taxable sales. Sales tax receipts are projected to increase by 3.3% for Fiscal Year 2011-12.

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

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Apparel stores	\$ 1,798,035	\$ 1,897,411	\$ 2,097,824	\$ 2,404,735	\$ 2,551,905
General merchandise stores	3,932,407	3,952,550	3,542,908	2,448,694	2,534,482
Food stores	1,736,111	1,834,470	1,888,581	2,126,677	2,123,626
Eating and drinking establishments	5,282,931	5,632,290	5,743,366	5,437,781	5,637,405
Home furnishings and appliances	1,300,167	1,294,546	1,338,890	1,566,716	1,590,667
Building materials and farm implements	2,430,287	2,252,227	1,924,786	1,700,820	1,711,735
Auto dealers and auto supplies	4,158,144	4,077,862	3,302,737	2,760,647	2,865,868
Service stations	4,292,157	4,494,346	5,159,799	3,621,498	4,114,016
Other retail stores	<u>5,002,642</u>	<u>5,070,023</u>	<u>4,383,989</u>	<u>3,425,579</u>	<u>3,451,949</u>
Retail stores total	29,932,881	30,505,725	29,382,881	25,493,148	26,581,623
All other outlets ⁽¹⁾	<u>9,440,519</u>	<u>9,626,679</u>	<u>9,909,316</u>	<u>8,098,716</u>	<u>8,233,833</u>
TOTAL ALL OUTLETS ⁽²⁾	\$39,373,400	\$40,132,404	\$39,292,197	\$33,591,864	\$34,815,457

⁽¹⁾ Primarily manufacturing and wholesale businesses.

⁽²⁾ Items may not add to totals due to rounding.

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

Residential Construction Activity

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

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

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Valuation ⁽¹⁾					
Residential ⁽²⁾	\$ 2,079	\$ 1,280	\$ 604	\$ 878	\$1,131
Miscellaneous ⁽³⁾	<u>4</u>	<u>17</u>	<u>11</u>	<u>15</u>	<u>26</u>
Total Valuation	\$ 2,083	\$ 1,297	\$ 615	\$ 893	\$1,157
Number of Units:					
Single family ⁽⁴⁾	2,032	1,070	781	772	726
Multi-family ⁽⁵⁾	<u>7,724</u>	<u>5,333</u>	<u>1,892</u>	<u>3,374</u>	<u>5,258</u>
Subtotal Residential	9,756	6,403	2,673	4,146	5,984
Miscellaneous ⁽⁶⁾	<u>746</u>	<u>278</u>	<u>185</u>	<u>370</u>	<u>390</u>
Total Units	10,502	6,681	2,858	4,516	6,374

⁽¹⁾ In millions of dollars. "Valuation" represents the total valuation of all construction work for which the building permit is issued.

⁽²⁾ Valuation 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

Table 8 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 8
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>
2007	13.7%	8.5%	9.3%	7.3%
2008	13.5	11.1	11.5	5.4
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

⁽¹⁾ Second quarter of year

Source: California Department of Finance, California Economic Indicators

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 territory. 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.

Seismic Considerations

Like most regions in the State, 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.

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, Antonio R. Villaraigosa, was elected on May 17, 2005 and took office on July 1, 2005. He was re-elected Mayor on March 3, 2009 for a second 4-year term.

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. Wendy Greuel assumed the office as of July 1, 2009. The City Attorney is attorney and legal advisor to the Council and all officers, boards, and departments of the City, and prosecutes misdemeanors. Carmen A. Trutanich assumed the office as of July 1, 2009.

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 General Manager of the Office of Finance, also serves as the City Treasurer.

As of July 1, 2011, the City had 36 departments, bureaus, commissions and offices for which operating funds are annually budgeted by the Council. In addition, four departments (the Department of Water and Power (“DWP”), the Harbor Department, the Department of Airports, and the Housing Authority of the City) are under the control of boards appointed by the Mayor and confirmed by the Council. Two departments, the City Employees’ Retirement System Department and the Fire and Police Pension System Department, are under the control of boards whose membership is comprised of Mayoral appointees and representatives elected by system

members. The Community Redevelopment Agency of the City was abolished effective February 1, 2012, pursuant to State law.

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

The City obtains water and electricity from DWP, the largest municipally-owned utility in the nation.

FINANCIAL OPERATIONS

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 Table 9.

Table 9
HUMAN RESOURCES BENEFITS⁽¹⁾
(in thousands)

	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>Adopted Budget 2011-12</u>
Workers' Compensation/Rehabilitation	\$128,452	\$127,736	\$131,000	\$139,152	\$162,383
Civilian FLEX Program ⁽²⁾	203,219	189,222	214,269	211,434	215,628
Supplemental Civilian Union Benefits	4,954	4,756	5,088	4,352	4,316
Police Health and Welfare Program	88,503	100,077	105,368	114,046	117,557
Fire Health and Welfare Program	37,219	41,037	41,725	43,675	44,664
Unemployment Insurance	2,858	3,672	8,000	14,764	7,650
Employee Assistance Program	1,304	1,137	1,331	1,277	1,290
Total	<u>\$466,509</u>	<u>\$467,637</u>	<u>\$506,281</u>	<u>\$528,700</u>	<u>\$553,488</u>

⁽¹⁾ Cash basis.

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

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

Labor Relations

In 1971, the City adopted an employee relations ordinance under the provisions of the Meyers-Milias-Brown Act ("MMBA"). Under the MMBA, management must bargain with recognized employee organizations on terms and conditions of employment, including wages, hours, and other working conditions. The CAO is the formal management representative on employee relations matters, representing the Mayor and Council in negotiations with 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 Committees. Formal Memoranda of Understanding ("MOUs") are executed between the City and the bargaining units incorporating the negotiated wages and working conditions.

There are 42 individual MOUs, representing over 36,000 full-time City employees (these bargaining units include employees of the Airport and Harbor departments, but exclude DWP employees). The 42 MOUs are represented by 22 labor unions/employee associations and 769 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 two 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 beginning to reform 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 2011-12 is 32,271, the lowest level in 18 years, since Fiscal Year 1993-94.

During Fiscal Year 2010-11, the City negotiated and implemented significant reductions in the ongoing cost of its workforce. The City entered into an agreement with labor unions representing nearly 14,000 full-time civilian employees that is anticipated to offset over \$60 million in Fiscal Year 2011-12. The agreement secured a 4% active employee contribution towards retiree healthcare, restructured cost-of-living-adjustments, decreased salaries by 1.5%, and froze scheduled salary step increases for one year. In exchange, these employees will receive future salary increases, including a 5.5% increase on January 1, 2014, and the City will deem their post-employment health subsidy benefits as vested. The 5.5% salary increase is anticipated to cost approximately \$28 million in Fiscal Year 2013-14. In addition, the City entered into a separate agreement with a labor union representing over 4,000 civilian employees that was expected to offset \$19 million by securing concessions, including 10 unpaid holidays, changing employee healthcare benefits, flat-rating bonuses, and extending salary step movement by an additional six months.

On May 27, 2011, the City adopted an Emergency Resolution, authorizing departments to continue utilizing reduced work schedules or alternative means of generating payroll savings and to reduce total employee compensation costs, including pension and retiree healthcare. The reductions may be in the form of working hour reductions, layoffs, unpaid floating holidays, office closures, abolishment of positions, or any other methods necessary to ensure and improve the City's fiscal stability. As a result of the Emergency Resolution, some civilian employees in certain bargaining units are being furloughed in Fiscal Year 2011-12. The City anticipates that furloughs will save approximately \$27 million in the current fiscal year.

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

retirement tier that is anticipated to save \$152 million over the next 10 years. Multi-year agreements have also been reached with the Los Angeles Police Protective League, representing approximately 9,800 sworn employees, and with the United Firefighters of Los Angeles City, representing 3,429 sworn employees. These contracts will expire in 2014 with salary increases occurring in the out years (as shown on the table below). In addition to the MOU, an agreement was reached that gives members the option to contribute an additional 2% (post-tax) toward vesting their current retiree health benefit and any future increases; approximately 70% of the eligible sworn workforce (representing 64% of the total sworn workforce) has elected to make this contribution. Those that did not choose to make the additional contribution had their current subsidy level frozen.

The City Administrative Officer is currently negotiating with those labor unions whose contracts expired on June 30, 2011. If an agreement expires without a replacement, the terms of the expired agreement remain operative. If the City is unable to reach mutually acceptable agreements with its bargaining units, the City may elect to utilize the impasse procedure under the City's Employee Relations Ordinance and ultimately can impose its last, best and final offer. The City cannot predict at this time with certainty the outcome of its negotiations or the impact on the City's long-term fiscal outlook.

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

Table 10
STATUS OF LABOR CONTRACTS
LARGEST EMPLOYEE ORGANIZATIONS
(As of July 1, 2011)

<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</u>
Los Angeles Police Protective League	9,792	1	Contract expires 6/30/14	1% on 7/1/12 2% on 1/1/13 1% on 7/1/13 1% on 11/1/13 2% on 3/1/14
United Firefighters of Los Angeles City	3,429	1	Contract expires 6/30/14	1% on 7/1/12 2% on 1/1/13 1% on 7/1/13 1% on 11/1/13 2% on 3/1/14
Coalition of Los Angeles City Unions ⁽²⁾	13,820	16	Contract expires 6/30/14 April/May 2011 contracts restructured.	3% on 7/1/2010 2.75% on 1/1/2011 2.25% on 7/1/11 2.25% on 7/1/12 1.75% cash payment on 11/1/12 converted to time-off 1.75% deferral recovery on 7/1/13 5.5% on 1/1/14
Engineers and Architects Association	4,670	4	Currently in negotiations, contract expired 6/30/11.	
Service Employees International Union – Units 8 & 17	1,733	2	Contract expires 6/30/14.	2% on 7/3/11 3% on 6/30/13
Municipal Construction Inspectors Association (MCLA)	837	1	Contract expires 6/30/14.	2% on 7/3/11 1.5% first full pay period January 2013 1.5% first full pay period January 2014

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

⁽²⁾ Excludes IBOE, Local 501 and Deputy City Attorneys who maintain the original Coalition contract expiring 6/30/13. Remaining coalition member units are represented by Service Employee 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, and the Teamsters, Local 911.

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

Table 11 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 11
AUTHORIZED CITY STAFFING⁽¹⁾**

	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	Adopted Budget <u>2011-12</u>
Police	14,244	14,253	14,012	13,740	13,677
All Others	<u>22,929</u>	<u>22,718</u>	<u>21,852</u>	<u>19,225</u>	<u>18,594</u>
Total	37,173	36,971	35,864	32,965	32,271

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

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

Retirement and Pension System

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.

LACERS provides retirement, disability, death benefits, post-employment healthcare and annual cost-of-living adjustments to plan members and beneficiaries, including employees of the Wastewater System. As required by the City Charter, the actuarial valuations are prepared on an annual basis and the applicable actuary recommends contribution rates for the fiscal year beginning after the completion of that actuarial valuation. When approved by the board of administration, these become the City's contribution rates for such years. The City generally makes its actuarially determined Annual Required Contribution ("ARC"), although from time to time phasing-in of changes has resulted in a small net pension obligation or net OPEB obligation for specific years.

The 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 and the actuarial value of assets currently available to pay these liabilities. The valuation for each plan is an estimate based on relevant economic and demographic assumptions, with the goal of determining the contributions necessary to sufficiently fund over time the accrued costs attributable to currently active, vested terminated and retired employees and their beneficiaries. The valuation incorporates a variety of actuarial methods, some of which are designed to reduce the volatility of contributions from year to year. Examples of the actuarial assumptions that are used in this process are the assumed rate of earnings on the assets of the plan in the future, the assumed rates of general inflation, salary inflation, and 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 contemplated based on the assumptions. The contribution rates in the next year's valuations are adjusted to take into account actual performance in the current and prior years. In addition, each plan performs an experience study every three years and further adjusts its assumptions accordingly.

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, both systems have 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 Table 12. The unaudited investment return for LACERS for the current fiscal year through February 7, 2012 is a gain of 0.08%. Any return below the actuarial assumed rate of return (currently 7.75% for LACERS) represents an actuarial investment loss.

Table 12
LACERS
HISTORICAL MARKET VALUE INVESTMENT RETURNS

<u>Fiscal Year</u>	<u>LACERS⁽¹⁾</u>
2001-02	(5.25)%
2002-03	3.61%
2003-04	18.84%
2004-05	9.71%
2005-06	12.34%
2006-07	19.1%
2007-08	(5.8%)
2008-09	(20.3%)
2009-10	12.8%
2010-11	21.3%

⁽¹⁾ The 10-year annualized average rate of return for LACERS is 6.2%. The 20-year average is 8.4%.

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

The City has never issued pension obligation bonds to fund any of its pension systems.

This section, "**Retirement and Pension System**," 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 LACERS and 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 website, at <http://www.lacERS.org/aboutlacERS/reports/index.html>. Such information is not incorporated by reference herein. For additional information regarding the City's pension systems, see also Note 5 in the "Notes to the City's Basic Financial Statements" in the City's Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2010.

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 board of LACERS and its actuaries as to the amount of assets that LACERS will be required to accumulate to fund 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, 2011, the date of its most recent actuarial valuation, LACERS had 25,449 active members, 17,197 retired members and beneficiaries, and 5,623 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 Projected Unit Credit Cost Method, a method under which the projected benefits of each individual included in an actuarial valuation are allocated by a consistent formula to valuation years.

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, 2011.

Table 13
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
Actuarial Assumptions
As of June 30, 2011

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

Source: LACERS Actuarial Valuation and Review of Pension and Other Postemployment Benefits (OPEB) as of June 30, 2011

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

impacts of these changes in assumptions over 5 years, which will result in a projected 0.28% increase to the City's contribution rate beginning with Fiscal Year 2012-13.

In the past three years, LACERS' Board took several actions to change its asset smoothing method. First, it extended the period of time over which it recognizes market gains and loss from five to seven years, effective with the June 30, 2010 actuarial evaluation. Under this asset smoothing, only 1/7th of annual market gains or losses are recognized in the actuarial value of assets each year. LACERS also amended the manner by which it recognizes extraordinary losses or gains in the market value of assets. LACERS, like a number of pension systems, maintains a policy that whenever market value falls outside a certain range or "corridor" relative to actuarial value, the excess portion must be recognized in that year's valuation. Previously, losses that resulted in market value being less than 80% of the calculated actuarial value, or gains resulting in market values greater than 120% 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 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, reducing the City's Fiscal Year 2010-11 contribution by \$84 million and reducing the contribution by \$80 million in Fiscal Year 2011-12. However, the unrecognized losses will have to be paid in future years. In connection with the revised smoothing method discussed above, LACERS again, as of June 30, 2010, revised its market corridor, narrowing it to 60%-140%.

The following table shows unrecognized gains and losses as of June 30, 2011. As of the valuation date, approximately \$587.0 million of net investment return losses are being deferred. These deferred losses will be reflected in future valuations and will likely increase the City's contribution in the future, unless offset by other favorable plan experience.

Table 14
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
CALCULATION OF UNRECOGNIZED RETURN DUE TO ASSET SMOOTHING
As of June 30, 2011

<u>Year Ended June 30</u>	<u>Original Actuarial Gain (Loss)</u>	<u>Percent Not Yet Phased in</u>	<u>Amount Not Recognized</u>
2011	\$1,208,621,516	85.71%	\$1,035,961,299
2010	392,956,483	71.43%	280,683,202
2009	(2,964,832,484)	53.33%	(1,581,243,991)
2008	(1,549,293,380)	36.00%	(557,745,617)
2007	1,054,377,186	20.00%	210,875,437
2006	366,478,652	6.67%	24,431,910
Total unrecognized return (loss)			\$ (587,037,760)

Source: LACERS Actuarial Valuation and Review of Pension and Other Postemployment Benefits (OPEB) as of June 30, 2011

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. Existing liabilities as of July 1, 2005 have been amortized over a fixed period of 30 years. 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. LACERS shortened certain amortization periods beginning with the June 30, 2010 actuarial valuation; for example, liabilities caused by early retirement incentives will be funded over 5 years; other benefit changes will be amortized over 15 years.

Table 15 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 15
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS FOR RETIREMENT BENEFITS
ACTUARIAL VALUE BASIS
(Dollars in Thousands)⁽¹⁾

Actuarial Valuation As of June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded Or (Overfunded) AAL ⁽²⁾	Funded Ratio ⁽³⁾	Covered Payroll ⁽⁴⁾	Underfunded or (Overfunded) AAL as a Percentage Of Covered Payroll ⁽⁵⁾
2002	\$7,060,188	\$ 7,252,118	\$ 191,930	97.4%	\$1,334,335	14.4%
2003	6,999,647	7,659,846	660,199	91.4%	1,405,058	47.0%
2004	7,042,108	8,533,864	1,491,756	82.5%	1,575,285	94.7%
2005	7,193,142	9,321,525	2,128,383	77.2%	1,589,306	133.9%
2006	7,674,999	9,870,662	2,195,663	77.8%	1,733,340	126.7%
2007	8,599,700	10,526,874	1,927,174	81.7%	1,896,609	101.6%
2008	9,438,318	11,186,404	1,748,085	84.4%	1,977,645	88.4%
2009	9,577,747	12,041,984	2,464,237	79.5%	1,816,171	135.7%
2010	9,554,027	12,595,025	3,040,998	75.9%	1,817,662	167.3%
2011	9,691,011	13,391,704	3,700,693	72.4%	1,833,392	201.9%

⁽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: The City of Los Angeles City Employees' Retirement System Actuarial Valuation as of June 30, 2011.

The actuarial value of assets is different from the market value of assets as gains and losses are smoothed over a number of years. Table 16 shows the funding progress of LACERS based on the market value of the portion of system assets allocated to retirement benefits.

Table 16
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS FOR RETIREMENT BENEFITS
MARKET VALUE BASIS
(Dollars in Thousands)⁽¹⁾

Actuarial Valuation As of June 30	Market Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded Or (Overfunded) Liability ⁽²⁾	Funded Ratio (Market Value) ⁽³⁾	Covered Payroll ⁽⁴⁾	Unfunded Liability as a Percentage Of Covered Payroll (Market Value) ⁽⁵⁾
2004	\$6,879,278	8,533,864	\$1,654,586	80.6%	1,575,285	105.03%
2005	7,393,707	9,321,525	1,927,818	79.3%	1,589,306	121.30%
2006	8,204,603	9,870,662	1,666,059	83.1%	1,733,340	96.12%
2007	9,708,718	10,526,874	818,156	92.2%	1,896,609	43.14%
2008	9,059,551	11,186,404	2,126,853	81.0%	1,977,645	107.54%
2009	7,122,911	12,041,984	4,919,073	59.2%	1,816,171	270.85%
2010	7,804,223	12,595,025	4,790,802	62.0%	1,817,662	263.57%
2011	9,186,697	13,391,704	4,205,007	63.6%	1,833,392	229.36%

- (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: The City of Los Angeles City Employees' Retirement System Actuarial Valuation as of June 30, 2010.

Table 17 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 17
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
SOURCES AND USES OF CONTRIBUTIONS
(Dollars in Thousands)⁽¹⁾

	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	Adopted Budget ⁽³⁾ <u>2011-12</u>
Sources of Contributions					
Contributions for Council-Controlled Departments	\$338,914	\$312,661	\$298,217	\$339,136	\$394,969
Airport and Harbor Departments	<u>58,542</u>	<u>57,527</u>	<u>57,548</u>	<u>72,701</u>	<u>87,530</u>
Total	<u>\$397,456</u>	<u>\$370,188</u>	<u>\$355,765</u>	<u>\$411,837</u>	<u>\$482,499</u>
Percent of payroll	22.8%	20.2%	19.4%	24.49%	27.66%
Uses of Contributions					
Current Service Liability (Normal cost)	\$226,441	\$235,148	\$238,536	\$230,398	\$236,164
UAAL	170,527	134,527	116,618	180,559	245,569
Adjustments ⁽²⁾	<u>488</u>	<u>513</u>	<u>611</u>	<u>880</u>	<u>766</u>
Total	<u>\$397,456</u>	<u>\$370,188</u>	<u>\$355,765</u>	<u>\$411,837</u>	<u>\$482,499</u>

⁽¹⁾ Includes funding for other post-employment benefits.

⁽²⁾ Includes the excess benefit plan, the family death benefit plan, and the limited term plan fund.

⁽³⁾ The City contribution noted above reflects the projected contribution based on the City's 2011-12 Adopted Budget. The actual amount paid to LACERS for Council-Controlled Departments, Airports and Harbor was reduced to \$417.5 million due to subsequent amendments to various employee agreements. (See "FINANCIAL OPERATIONS—Labor Relations, herein.") The actual contribution for Council-Controlled Departments only totaled \$341.5 million, which is about \$53.4 million less than the Adopted Budget, due to revised contribution amounts for different bargaining units.

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

The City makes its contributions to LACERS in July of each fiscal year. Recent civilian labor agreements with unions representing approximately 70% of the civilian workforce will have the effect of reducing the City's contributions to LACERS. As a result of ongoing negotiations with the remaining unions, the City's payment to LACERS for Fiscal Year 2011-12 was reduced from the contribution assumed in the Adopted Budget of \$395 million to \$342 million. This was approximately \$13.5 million less than LACERS reported as the ARC for Fiscal Year 2011-12. The City has requested that LACERS recalculate a supplemental contribution rate for Fiscal Year 2011-12 based on freezing retiree health care benefits for certain employees. If LACERS recalculates the contribution rate, it is anticipated that the supplemental rate will reduce the remaining balance of \$13.5 million for the current year.

The following table sets forth LACERS' investments and asset allocation targets as of June 30, 2011.

Table 18
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
ASSET CLASS MARKET VALUE AND ALLOCATION
(in millions)
As of June 30, 2011

<u>Asset Class</u>	<u>Market Value</u>	<u>Current Asset Allocation Mix⁽¹⁾</u>	<u>Target Asset Allocation Mix</u>
U.S. Equity			
Common Stock	\$ 4,112.5	39.1%	37.0%
Non-U.S. Equity			
Common Stock	2,076.3	19.7	
Preferred Stock	36.5	0.3	
Others	<u>0.3</u>	<u>0.0</u>	
		20.0	20.0
Fixed Income Securities			
Domestic	2,239.6	21.3	
International	<u>238.9</u>	<u>2.3</u>	
		23.6	26.0
Alternative Investment			
Domestic	932.5	8.9	
International	<u>147.8</u>	<u>1.4</u>	
		10.3	9.0
Real Estate	579.2	5.5	7.0
Unallocated Cash	<u>151.0</u>	<u>1.4</u>	<u>1.0</u>
Total MV	<u>\$10,514.6</u>	<u>100.0%</u>	<u>100.0%</u>

⁽¹⁾ Total does not add due to rounding.

Source: City of Los Angeles Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2011.

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 and dental insurance. 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. Since implementation of GASB 43 and 45, the City has contributed its actuarially determined ARC in each year. The calculations of OPEB liabilities are made by the same actuaries that perform the analysis of LACERS, and generally rely on the same actuarial assumptions, other than those assumptions specific to OPEB.

As of June 30, 2011, the unfunded healthcare benefits liabilities of LACERS are as follows:

Table 19
OTHER POST-EMPLOYMENT BENEFITS
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
(Dollars in thousands)

Actuarial Valuation As of June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded Or (Overfunded) AAL ⁽¹⁾	Funded Ratio ⁽²⁾	Covered Payroll ⁽³⁾	Underfunded or (Overfunded) AAL as a Percentage Of Covered Payroll ⁽⁴⁾
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%

⁽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, that include a 4% active employee contribution toward retiree healthcare for 70% of its civilian workforce and a 2% active employee contribution toward retiree healthcare for 70% 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 current maximum subsidy level. The combined reduction to the City contribution rate resulting from members electing the additional contribution or medical subsidy freeze are projected to reduce City OPEB contributions by approximately \$71 million in Fiscal Year 2011-12 to both systems

On November 21, 2011, the California Supreme Court in *Retired Employees Association of Orange County, Inc. v. County of Orange* held that a vested right to retiree health benefits may be implied from an ordinance or resolution where the language therein or the circumstances associated with its passage evidenced a clear legislative intent to create "private rights of a contractual nature," despite the absence of any express vesting language or other such guarantee. The City does not believe that it has passed any legislation, ordinance or resolution from which a vested right in health benefits for City retirees may be implied.

Two lawsuits have been filed challenging the City's actions relative to freezing OPEB benefits (*Los Angeles City Attorneys Association v. City of Los Angeles* and *Engineers & Architects v. City of Los Angeles*). Relying in part on the *Orange County* decision, the plaintiffs allege that the City's OPEB benefits, including increases to reflect medical inflation, are a vested contractual retirement benefit. The plaintiffs seek, among other things, invalidation of the ordinance which froze OPEB benefits for those employees who are not contributing to this benefit. If the plaintiffs were to prevail, the City's costs would increase; as noted above, the benefit of freezing such benefits and instituting employee contributions toward retiree health benefits is estimated to save the City approximately \$71 million during Fiscal Year 2011-12. The City continues to review the complaints and its potential financial impacts.

Projected Retirement and Other Post-Retirement Benefit Expenditures

Table 20 below sets forth the City's projected contributions to LACERS for the next four fiscal years, based on information provided by LACERS actuary and which take into account recent labor negotiations and concessions by a majority of active LACERS members. These contributions include the projected cost of both pension and other post-employment benefits. These projections reflect deferred investment losses from the previous years and the actuarial assumptions described above.

Table 20
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
PROJECTED CONTRIBUTIONS
(Dollars in Thousands)

	Adopted Budget 2011-12 ⁽¹⁾	2012-13	2013-14	2014-15	2015-16
LACERS					
Contributions for Council-Controlled Departments ⁽¹⁾⁽²⁾	\$394,969	\$348,315	\$386,488	\$427,644	\$467,149
Percentage of payroll	27.66%	24.14%	26.07%	28.47%	31.10%
Incremental Change	\$53,834	(\$46,654)	\$38,173	\$41,156	\$39,505
% Change		(11.8%)	11.0%	10.6%	9.2%

⁽¹⁾ Includes the General Fund and various special funds.
⁽²⁾ Assumes 0% return on market value of assets for 2011-12 and 7.75% per year thereafter.
⁽³⁾ The City contribution noted above reflects the projected contribution based on the City's 2011-12 Adopted Budget. The actual contribution for Council-Controlled Departments totaled \$341.5 million, which is about \$53.4 million less than the Adopted Budget, due to revised contribution amounts for different bargaining units. (See "FINANCIAL OPERATIONS—Labor Relations, herein.")

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

The projections in Table 20 illustrate that the City's contribution rates for LACERS will increase substantially over the next few years. A number of factors will determine actual contributions; for example, if investment returns are lower than investment assumptions, actual contribution rates could be higher than these projections.

City Treasury Investment Practices and Policies

The Treasurer invests temporarily idle cash for the City, including that of the proprietary departments, as part of a pooled investment program 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. This portfolio holds investments ranging from one day to five years.

Table 21
POOLED INVESTMENT FUND
GENERAL POOL
Investments as of January 31, 2012

Description	Par Value	Market Value	Percent of Total Funds	Average Days
Bank Deposits ⁽¹⁾	\$96,846,988	\$96,846,988	1.42%	1.0
Money Market Funds	0	0	0.00%	1.0
LAIIF (State of California)	0	0	0.00%	1.0
Subtotal Cash and Overnight Investments	\$96,846,988	\$96,846,988	1.42%	1.0
BNY Sweep Account	\$ 0	\$ 0	0.00%	0.0
CDARS	6,000,000	6,000,000	0.09%	135.0
Commercial Paper	490,508,000	490,351,760	7.21%	38.0
Negotiable Certificates of Deposit	0	0	0.00%	0.0
Corporate Notes	202,969,000	207,440,186	3.05%	187.0
U.S. Federal Agencies	477,510,000	478,191,694	7.03%	56.0
U.S. Treasuries	100,003,000	101,199,169	1.49%	227.0
Subtotal: Pooled Investments	\$1,276,990,000	\$1,283,182,808	18.87%	84.0
Total Short Term Core Portfolio	\$1,373,836,988	\$1,380,029,796	20.29%	78.0
BNY Sweep Account	\$ 0	\$ 0	0.00%	0.0
Commercial Paper	0	0	0.00%	0.0
Negotiable Certificates of Deposit	0	0	0.00%	0.0
Corporate Notes	989,717,000	1,025,007,051	15.07%	1045.0
U.S. Federal Agencies	1,073,735,000	1,120,262,743	16.47%	982.0
U.S. Treasuries	3,147,000,000	3,275,633,541	48.16%	1020.0
Total Long-Term Reserve Portfolio	\$5,210,452,000	\$5,420,903,335	79.71%	1017.0
Total Cash and Pooled Investments	\$6,584,288,988	\$6,800,933,131	100.00%	826.0
	Short-Term Core Portfolio	Long-Term Reserve Portfolio	Consolidated	
Average Weighted Maturity	78 Days	2.8 Years	2.3 Years	
Effective Yield	.92%	1.65%	1.50%	

⁽¹⁾ Collected balance for Wells Fargo and Wachovia Active Accounts.

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

The City's treasury operations are managed in compliance with the California Government Code and according to the City's Statement of Investment Policy (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 Association of Public Treasurers of the United States and Canada (formerly

the Municipal Treasurers Association of the United States and Canada) has certified the City's Investment Policy.

The City's General Investment Pool had maintained a AAf/S1 rating from Standard & Poor's Ratings Services since May 2002. On July 15, 2011, Standard & Poor's placed that rating on CreditWatch with negative implications, following its placement of the ratings of the United States of America on CreditWatch Negative. Following its downgrade of the United States, Standard & Poor's lowered the rating of the City's General Investment Pool to AAf/S1 on August 8, 2011. This rating has subsequently been withdrawn at the City's request.

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.

LITIGATION

The following is a list prepared by the Office of the City Attorney updated as of March 21, 2012, of completed, pending or threatened litigation involving the City, excluding most personal injury cases and single plaintiff cases, in which the City has a possible financial exposure of \$5 million or more which, either individually or in the aggregate, could materially affect the City's General Fund financial position.

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

1. *Fair Labor Standards Act Litigation*: The City has been sued in six separate class action cases for alleged violations of the Act. The various cases involve classes of police officers, firefighters or Bureau of Sanitation employees, and involve allegations of failure to compensate for time spent "donning and doffing" safety equipment, off-the-clock hours worked, uncompensated overtime, meal breaks worked and retaliatory disciplinary action. Resolution of these cases will not occur concurrently, but over an extended period of time maximum cumulative liability could reach \$90 million to the General Fund.
2. *640 South Main Street v. City of Los Angeles* is an action in U. S. District Court challenging the constitutionality of the City's ordinance (LAMC section 47.70 et seq.), which prohibits the demolition or conversion of residential hotel units. The case was settled and the lawsuit was dismissed. The City is not obligated to make any payments as a result of the settlement.
3. A number of claims have been filed in connection with the City's utility users' tax on telephone services, which was recently amended to clarify such claims. *Ardon v. City of Los Angeles* is a class action challenging the validity of the City's telephone users' tax based on a federal government interpretation of the federal excise tax. On the issues

related to class actions, the appellate court held that class actions against local taxes are not permitted under State law. The plaintiffs appealed to the California Supreme Court, which reversed the appellate court decision on July 25, 2011. The Supreme Court concluded that class claims for tax refunds against a local governmental entity are permissible, and remanded the matter back to the trial court. The class has not yet been certified. If the class is certified and plaintiffs prevail on the merits, City liability could be up to \$750 million. In *Nextel Boost of California LLC v. City of Los Angeles*, the plaintiff, a provider of prepaid wireless services, seeks a refund of \$6.3 million, which it alleges it overpaid for the period February 2007 through February 2008 in connection with the telephone users' tax. The matter has been stayed pending resolution of the *Ardon* matter. In *J2 Global Communications, Inc. v. City of Los Angeles*, the plaintiff seeks a \$5.5 million refund for telephone users' taxes incurred for the years 2005, 2006 and 2007. Plaintiffs argue that the City's amendment to the Municipal Code was improper prior to voter approval in 2008. The plaintiffs in the *J2 Global Communications, Inc.* case filed a second lawsuit for \$175,000 in damages in which they claim that the City's utility users tax as amended does not apply to telecommunications services it purchased in connection with its service of delivering faxes to customers' email accounts. The City prevailed on its motion for summary judgment and the plaintiff recovered nothing, although the plaintiff intends to appeal. In *Sprint Telephone PCS, L.P. v. City of Los Angeles*, the plaintiff seeks a refund in the amount of \$8,320,000 for overpaid telephone users tax for the period January 1, 1998 through December 1, 2003 (the "Refund Period"). Plaintiff argues that it was not subject to the federal excise tax during the Refund Period. In *TracFone Wireless, Inc. v. City of Los Angeles*, the plaintiff, a national vendor of prepaid telephone cards, filed a complaint in December 2006, seeking a refund of amounts remitted to the City. The trial court and Court of Appeal have issued various decisions on various procedural matters. Sprint Communications recently filed a lawsuit seeking a \$2.5 million refund related to the telephone users' tax. The *Nextel Boost*, *TracFone*, *Ardon*, the first *J2 Global* case and the two *Sprint* cases were consolidated and the trial court placed a stay on all but *Ardon*. Sprint Communications filed a lawsuit for \$2.5 million and T-Mobile filed a claim for \$1.4 million related to the utility users' tax.

4. *Lee v. City of Los Angeles*. The plaintiff firefighter alleges discrimination and retaliation due to her race and sexual orientation. The trial court awarded the plaintiff \$6.2 million plus attorneys fees, but the City prevailed on appeal and the case was remanded to the trial court. An unfavorable ultimate result could give rise to a liability of as much as \$8 million.
5. *Lisker v. City of Los Angeles, et al.* This case arises from plaintiff being arrested in 1983 and subsequently being convicted of murdering his mother. Plaintiff was released in August 2009, after a federal court determined that plaintiff received ineffective assistance of counsel and the evidence used against him was false. Plaintiff filed suit against the City and two former detectives, alleging the investigating detectives fabricated evidence and/or testified falsely at his trial. Potential loss to the City could be \$25 million or more.
6. *Estate of Devin Leigh Petelski*. This case is a wrongful death action arising from an LAPD officer driving at a high rate of speed and hitting the deceased's vehicle. The City recently settled the case for \$5 million.

7. *Los Angeles Unified School District v. County of Los Angeles, et al.* The Los Angeles Unified School District (“LAUSD”) filed a Petition for Writ of Mandate against the County of Los Angeles, thirteen redevelopment agencies, and 44 cities and special districts, including the City, as real parties in interest. The Petition challenges the County’s calculation of the amount of tax increment that LAUSD receives each year and seeks to have the County recalculate LAUSD’s share of tax increment back to 1993 and prospectively. LAUSD alleges it is entitled to an additional \$2.4 billion in tax increment funds. The trial court denied LAUSD’s petition on December 11, 2008. LAUSD appealed and the Court of Appeal reversed and found in favor of LAUSD. The case has been returned to the trial court for the determination of LAUSD’s claim for damages. The potential damage liability of the City may be as high as \$9 million. A similar lawsuit, *Los Angeles Community College District v. County of Los Angeles et al* was filed. The potential damage liability to the City is unknown at this time, but will be significantly less than any liability arising from the LAUSD lawsuit because the plaintiff receives a smaller share of tax increment and the plaintiff’s lawsuit was filed much later than the LAUSD lawsuit.
8. *Americans For Safe Access v. City of Los Angeles.* The City is a party to approximately 44 related state court actions challenging the City’s original medical marijuana ordinance with this case as the lead case. On December 10, 2010, the trial court judge granted plaintiffs an injunction halting enforcement of the ordinance. The case is now on appeal. If plaintiffs prevail, the City could have liability in excess of \$5 million. In a related case in which Americans for Safe Access is also the primary plaintiff, the City’s amended medical marijuana ordinance was challenged; the City recently prevailed in the trial court on this challenge.
9. The City Attorney has been advised by letter dated November 30, 2011, that the Civil Fraud Section of the U.S. Department of Justice is currently investigating whether the City violated the False Claims Act in connection with certifications to the U.S. Department of Housing and Urban Development regarding compliance with federal accessibility laws and regulations protecting individuals with handicaps. The City’s participation in the investigation is in the preliminary stage. Potential liability could exceed \$5 million.

In addition to the cases listed above, the City has been sued by two organizations representing employees of the City Attorney’s office (*Los Angeles City Attorneys Association v. City of Los Angeles*) and members of the Engineers & Architects Association (*Engineers & Architects v. City of Los Angeles*), challenging the City’s action to freeze the level of retiree health benefits at current levels for employees who elected not to contribute to such benefits. The plaintiffs allege that retiree health benefits, including increases to reflect medical inflation, is a vested contractual retirement benefit, and seeks to invalidate the City’s prior action. (See “**FINANCIAL OPERATIONS—Other Post-Employment Benefits,**” above). If the plaintiffs were to prevail, the savings resulting from its retiree health benefit-related actions (approximately \$71 million in Fiscal Year 2011-12) would be reduced. The City continues to review the complaints and its potential financial impacts.

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APPENDIX B

GLOSSARY OF DEFINED TERMS

The following are definitions of certain terms contained in the General Resolution, the Subordinate General Resolution, the Twenty-Sixth Supplemental Resolution and the Thirteenth Supplemental Resolution.

“Accrued Interest” as defined in the General Resolution 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” as defined in the General Resolution 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 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” as defined in the General Resolution means, for any calendar month, the sum of the Accrued Interest for that month for all Series of Outstanding Bonds.

“Aggregate Accrued Principal” as defined in the General Resolution 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 such other officer or employee of the City or other person who has been designated as such representative by resolution of the City Council.

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

“Balloon Indebtedness” means, with respect to any Series of Bonds or Subordinate 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 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 or Subordinate Bond or Subordinate 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 or the Subordinate General Resolution, as applicable, and shall, except as specifically provided in the General Resolution or the Subordinate General Resolution, derive their rights only through the entity which is the Registered Owner of the Bond or Subordinate Bond in which they are a Beneficial Owner.

“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.

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

“Commercial Paper Notes” or “CP Notes” means the City's Wastewater System Commercial Paper Revenue Notes which the City has issued and will issue from time to time on a parity with the Subordinate Bonds, as authorized as of the date hereof under the Subordinate General Resolution, a First Supplemental Resolution adopted by the Council on March 26, 1991, a Second Supplemental Resolution adopted by the Council on August 13, 1996, a Third Supplemental Resolution adopted by the Council on September 3, 1997, a Fourth Supplemental Resolution adopted by the Council on August 15, 2000, a Sixth Supplemental Resolution adopted by the Council on January 21, 2003 and an Eleventh Supplemental Resolution adopted by the Council on June 23, 2010, none of which remain outstanding as of the effective date of the Twenty-Sixth Supplemental Resolution.

“Construction Fund” as defined in the General Resolution 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. “Construction Fund” as defined in the Subordinate General Resolution means any

of the Construction Funds permitted by the Subordinate General Resolution to be created by a Supplemental Resolution thereto.

“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 or the Subordinate 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 2012 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 2012 Bonds and the refunding of the Refunded Obligations, including, but not limited to, costs and expenses of printing and copying documents and the Series 2012 Bonds, any fees incurred in connection with agreements authorized by the Thirteenth Supplemental Resolution and the Twenty-Sixth 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.

“Costs of Issuance Account” means the Costs of Issuance Account established under the Escrow Agreement pursuant to the Twenty-Sixth Supplemental Resolution or the Thirteenth Supplemental Resolution.

“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. “Debt Service Fund” in the Subordinate General Resolution means any of the Debt Service Funds permitted by the Subordinate General Resolution to be established pursuant to a Supplemental Resolution thereto.

“Deficiency” as defined in the General Resolution 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.

“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 Series of Series 2012 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 2012 Bonds.

“Event of Default” means any occurrence or event specified in the General Resolution or Subordinate General Resolution, as applicable, as described below under the captions “Events of Default and Remedies.”

“Excess” as defined in the General Resolution 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.

“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” as defined in the Subordinate General Resolution means, at any point in time, with respect to Subordinate Bonds and Senior Lien 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 Senior Lien Bonds or Subordinate 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 Subordinate Bonds or Senior Lien Bonds constitutes Balloon Indebtedness or if all or any portion or portions of a Series of Subordinate 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 30 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 Subordinate Bonds and Senior Lien 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 Subordinate Bonds or Senior Lien Bonds constitutes Tender Indebtedness or if Subordinate 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 Subordinate Bonds were to be amortized in substantially equal annual installments of principal and interest over a term of 30 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) below;
- (iv) if any of the Outstanding Series of Subordinate Bonds or Senior Lien Bonds constitutes Variable Rate Indebtedness or if Subordinate Bonds proposed to be issued would constitute Variable Rate Indebtedness (except to the extent subsection (ii) relating to Balloon Indebtedness, (iii) relating to Tender Indebtedness or subsection (v) relating to a Commercial Paper Program apply), then, such Subordinate Bonds or Senior Lien 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 calculation of Maximum Annual Debt Service, 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 Subordinate Bonds or Senior Lien Bonds for which the interest rate is to be assumed or having an equivalent maturity as the additional Subordinate 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;

- (v) if Outstanding Subordinate Bonds or Senior Lien Bonds are, or Subordinate Bonds proposed to be issued will be, part of a Commercial Paper Program, such bonds shall be deemed to be Balloon Indebtedness for purposes of this definition of Maximum Annual Debt Service and the entire principal amount of such obligations shall be deemed to mature on the final date of the program, and, prior to the final date of the program, interest shall be calculated as for Variable Rate Indebtedness under (iv) above; provided, however, that if Subordinate Bonds are issued to an Insurer or a liquidity provider as part of or in connection with a Commercial Paper Program, if any calculation of Maximum Annual Debt Service is made after the termination of the Commercial Paper Program but prior to the time all obligations to the Insurer or liquidity provider have been satisfied, then the Subordinate Bonds held by the Insurer or liquidity provider shall be treated in accordance with provisions (i) through (iv) of this definition and not as part of a Commercial Paper Program; for purposes of calculating Maximum Annual Debt Service for a Commercial Paper Program, the entire maximum authorized principal amount of the program shall be deemed to be Outstanding and shall be included in the calculations as Outstanding whether or not such amount has been issued and whether or not such amount is actually Outstanding; 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 Subordinate Bonds or Senior Lien 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.

“1941 Act” means the Revenue Bond Law of 1941, Sections 54300 et seq. of the California Government Code.

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

“Outstanding” as defined in the Subordinate General Resolution and when used with respect to Subordinate Bonds or Senior Lien Bonds shall mean Subordinate Bonds which have been authenticated and delivered under the Subordinate Resolution, or Senior Lien Bonds which have been authenticated and delivered under the General Resolution, except:

- (i) Subordinate Bonds or Senior Lien 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) Subordinate Bonds or portions of Subordinate Bonds which have been paid or are deemed to be paid in accordance with the Subordinate General Resolution and Senior Lien Bonds or portions of Senior Lien Bonds which have been paid or are deemed to be paid in accordance with the terms of the General Resolution;
- (iii) Subordinate Bonds in lieu of which other Subordinate Bonds have been authenticated under the Subordinate General Resolution;
- (iv) Subordinate Bonds or Senior Lien Bonds or portions of Subordinate Bonds or Senior Lien 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) Subordinate 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 Subordinate Bonds under the Subordinate General Resolution, Subordinate Bonds held by or for the account of City, unless such Subordinate Bonds are pledged to secure a debt to an unrelated party, in which case such Subordinate Bonds shall, for purposes of consents and other Bondholder action, be deemed to be Outstanding and owned by the party to which such Subordinate Bonds are pledged.

“Paying Agent” means any paying agent appointed in accordance with the terms of the Twenty-Sixth Supplemental Resolution or Thirteenth Supplemental Resolution.

“Paying Agent Agreement” means such trust agreement, paying agent agreement or such other instrument or instruments executed and delivered in connection with the issuance of the Variable Rate Subordinate Bonds which sets forth the terms and conditions of such Variable Rate Subordinate Bonds.

“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, (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 and (x) under the Subordinate General Resolution, with respect to funds held in funds and accounts required under the terms of a specific Supplemental Resolution or securing specific Subordinate Bonds or Subordinate Bonds of a specific Series of Subordinate Bonds, such other securities or investment vehicles as are specified as Permitted investments under the terms of the Supplemental Resolution creating such funds and accounts or setting forth the terms of such Series.

“Prior Senior Bonds” means the Senior Lien Bonds which as of the date hereof consist of, collectively, the Series 1987 Bonds, the Series 1988 Bonds, the Series 1989 Bonds, the Series 1990-A Bonds, the Series 1990-B Bonds, the Series 1991-A Bonds, the Series 1991-B Bonds, the Refunding Series 1991-C Bonds, the Series 1991-D Bonds, the Refunding Series 1992-A Bonds, the Series 1992-B Bonds, the Refunding Series 1993-A Bonds, the Series 1993-B Bonds, the Refunding Series 1993-C Bonds, the Refunding Series 1993-D Bonds, the Series 1994-A Bonds, the Refunding Series 1996-A Bonds, the Refunding Series 1997-A Bonds, the Series 1998-A Bonds, the Refunding Series 1998-B Bonds, the Refunding Series 1998-C Bonds, the Refunding Series 1999-A Bonds, the Refunding Series 2002-A Bonds, the Refunding Series 2003-A Bonds, the Refunding Series 2003-B Bonds, the Refunding Series 2005-A Bonds, the Refunding Series 2009-A Bonds, the Series 2010-A Bonds and the Series 2010-B Bonds previously issued by the City pursuant to the General Resolution.

“Prior Subordinate Bonds” means the Subordinate Bonds which as of the date hereof consist of, collectively, the Subordinate Refunding Series 2001-A Bonds, the Subordinate Refunding Series 2001-B Bonds, the Subordinate Refunding Series 2001-C Bonds, the Subordinate Refunding Series 2001-D Bonds, the Subordinate Refunding Series 2003-A Bonds, the Subordinate Refunding Series 2003-B Bonds, the Subordinate Refunding Series 2006-A Bonds, the Subordinate Refunding Series 2006-B-1 Bonds, the Subordinate Refunding Series 2006-B-2 Bonds, the Subordinate Refunding Series 2006-C Bonds, the Subordinate Refunding Series 2006-D Bonds, the Subordinate Refunding Series 2008-A Bonds, the Subordinate Refunding Series 2008-B Bonds, the Subordinate Refunding Series 2008-C Bonds, the Subordinate Refunding Series 2008-D Bonds, the Subordinate Refunding Series 2008-E Bonds, the Subordinate Refunding Series 2008-F-1 Bonds, the Subordinate Refunding Series 2008-F-2 Bonds, the Subordinate Refunding Series 2008-G Bonds, the Subordinate Refunding Series 2008-H Bonds and the Subordinate Series 2010-A Bonds, previously issued by the City pursuant to the Subordinate General Resolution.

“Project” means any purpose for which a Series of Bonds is issued under the terms of the General Resolution or the Subordinate 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 in Attachment 1 with respect to such Series.

“Refunded Obligations” means all or any of the Refunded Senior Bonds, the Refunded Subordinate Bonds and the Commercial Paper Notes.

“Refunded Senior Bonds” means all or any of the Prior Senior Bonds to be refunded by the Series 2012 Bonds.

“Refunded Subordinate Bonds” means all or any of the Prior Subordinate Bonds to be refunded by the Series 2012 Bonds.

“Reserve Fund” as defined in the General Resolution 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” as defined in the General Resolution 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 or Subordinate Bonds, as applicable, issued at the same time or sharing some other common term or characteristic and designated as a separate Series and, under the Subordinate General Resolution, also means a Commercial Paper Program authorized by the Council notwithstanding the fact that the Subordinate Bonds constituting part of such program are issued at different times and from time to time.

“Series 2012 Bonds” means the Series 2012 Senior Lien Bonds and the Series 2012 Subordinate Bonds.

“Series 2012 Senior Lien Bonds” means the City of Los Angeles Wastewater System Revenue Bonds, Series 2012 of each Series or subseries authorized to be issued pursuant to the Twenty-Sixth Supplemental Resolution.

“Series 2012 Subordinate Bonds” means the City of Los Angeles Wastewater System Subordinate Revenue Bonds’ Series 2012 of each Series or subseries authorized to be issued pursuant to the Thirteenth Supplemental Resolution.

“Subordinate Bonds” means any bonds or other obligations, including Commercial Paper Notes, issued under 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 or Subordinate Bonds, as applicable, amending and/or supplementing the General Resolution or the Subordinate General Resolution, respectively, or amending and/or supplementing another Supplemental 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 2012 Bonds and as amended from time to time.

“Tender Indebtedness” means any Bonds or Subordinate Bonds, as applicable, or portions of Bonds or Subordinate Bonds, as applicable, a feature of which is an option, on the part of the Bondholders, or an obligation, under the terms of such Bonds or Subordinate Bonds, as applicable, to tender all or a portion of such Bonds or Subordinate Bonds, as applicable, to the City, a Paying Agent or other fiduciary or agent for payment or purchase and requiring that such Bonds or portions of Bonds or Subordinate Bonds, as applicable, 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 GENERAL RESOLUTION, THE SUBORDINATE GENERAL RESOLUTION, THE TWENTY-SIXTH SUPPLEMENTAL RESOLUTION AND THE THIRTEENTH SUPPLEMENTAL RESOLUTION

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 the Bonds, the City pledges to the owners of the Bonds and for such purpose grants the Owners a lien upon (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, 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.

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. See "Security for the Series 2008 Subordinate Bonds - Flow of Funds" in the forepart of this Official Statement.

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 in each Fiscal Year Revenues will be at least sufficient to pay the following amounts: (1) the interest on and principal of the Outstanding Senior Lien Bonds and Subordinate Bonds as they become due and payable; (2) all other payments required for compliance with the terms of the General Resolution and the Subordinate General Resolution and of any Supplemental Resolution including, but not limited to, the required deposits under the General Resolution and to the Debt Service Funds and Reserve Funds, if any, created under Supplemental Resolutions and Emergency Funds; (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 Senior Lien Bonds in such year provided that for such purposes, the principal amount of Senior Lien Bonds becoming due in such year which is paid from the proceeds of other borrowings will not be included as debt service becoming due 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 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.

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 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 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 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 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.

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 of the failure 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.

The Supplemental Resolutions under which each 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 any such Series, respectively, 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

- (a) 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.
- (b) 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.

- (c) 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.

- (d) Any Holder of any Bonds issued under the terms of the 1941 Act may compel the use of any or all of the remedies provided in the 1941 Act.

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 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

- (a) Except for any Supplemental Resolution as described above which does not require Bondholder consent and any Supplemental Resolution adopted pursuant to subsection (b) 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 following subsection (b) is 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.

- (b) 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, 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.

THE SUBORDINATE GENERAL RESOLUTION

The following is a summary of certain provisions of the Subordinate 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 Subordinate General Resolution.

Pledge To Secure Subordinate Bonds

To secure the payment of the Subordinate Bonds, the City pledges, places a second lien upon and assigns to the Owners of the Subordinate Bonds (1) the Revenues and (2) the Revenues held in the SCM Fund including the earnings on such Revenues. The pledge, assignment and lien granted to the Senior Lien Bonds shall, in all respects, be prior to the pledge, assignment and lien granted by the Subordinate General Resolution. The Revenues, including Revenues held in the SCM Fund and the earnings on such Revenues, shall be used first to pay the Senior Lien Bonds as the same become due and make current deposits into the funds held pursuant to the General Resolution before such Revenues will be available to pay Subordinate Bonds. The pledge of and lien upon the Revenues shall be for the equal and

proportionate benefit and security of all Subordinate Bonds issued under the terms of the Subordinate General Resolution, all of which, regardless of the time or times of their authentication and delivery or maturity, shall be of equal rank without preference, priority or distinction as to lien or otherwise. The pledge and lien granted under the Subordinate General Resolution shall remain effective for so long as any Subordinate Bonds are Outstanding thereunder. Amounts in any Debt Service Fund, Reserve Fund and Construction Fund established for any Series of Subordinate Bonds shall, by the terms of the Supplemental Resolution setting forth the terms of such Series, be pledged to secure the Subordinate Bonds of such Series in accordance with the terms of such Supplemental Resolution.

In the Subordinate General Resolution the City represents and states that except for the pledge granted to secure the Senior Lien Bonds, the City has not previously pledged the Revenues or the SCM Fund nor created any lien thereon, and the City covenants that, until all the Subordinate Bonds issued under the provision of the Subordinate General Resolution and the interest thereon shall have been paid or are deemed to have been paid, it will not, except to the extent additional Senior Lien Bonds are issued under the terms of the General Resolution, grant any prior or parity pledge of Revenues or the SCM Fund, or 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 the Subordinate Bonds issued pursuant to the Subordinate General Resolution. The City shall not, by the provisions of the Subordinate General Resolution, be restricted or limited in any way in its ability to issue additional Senior Lien Bonds, all of which shall rank prior to the Subordinate Bonds with respect to the pledge of, lien on and assignment of the Revenues. The City may create or permit to be created a charge or lien on the Revenues ranking junior and subordinate to the charge and lien which secures the Subordinate Bonds issued pursuant to the Subordinate General Resolution.

Investments

Moneys held in the SCM Fund, the Debt Service Funds, the Reserve Funds and the Construction Funds are permitted to be invested and reinvested as determined by the City in such investments as the City is generally permitted to invest its funds.

The Debt Service Funds

Amounts in the Debt Service Funds established pursuant to the Supplemental Resolutions shall be used to pay interest and principal on the Subordinate Bonds of the Series for which such Fund was created as the same becomes due and payable. Such Debt Service Funds may be established and held by the City or established by the City, but held by a Paying Agent, but in any case, the fund shall be held in trust as security and a source of payment for the Series of Subordinate Bonds for which it was created. Amounts which are held in a Debt Service Fund for the payment of Subordinate Bonds which are due and payable but which have not been presented for payment and amounts which are in a Debt Service Fund to pay the redemption price of Subordinate Bonds which have been called for redemption but which have not been presented for payment shall be so designated, segregated in such fund, held in trust for the Owners of such Subordinate Bonds and be available only to make payments on such specific Subordinate Bonds when presented. In addition to the direct payment of principal, interest and redemption price, if interest, principal or redemption price on a Series of Subordinate Bonds is paid by or through a form of credit enhancement provided for such Series of Subordinate Bonds, amounts in the Debt Service Fund created for such Series may, if so provided by Supplemental Resolution, be used to reimburse such amounts to the Insurer providing the credit support.

Reserve Fund

The City may, by Supplemental Resolution, at the time of authorization of any Series of Subordinate Bonds or at any time thereafter, provide for the creation of a Reserve Fund, as security for such Series. The Supplemental Resolution shall provide for the size and manner of funding and replenishing of such Reserve Fund and shall establish such other terms with respect to such Reserve Fund as the City deems to be appropriate. The provisions for funding or replenishing any Reserve Fund shall not permit any deposit into the Reserve Fund to be made from the SCM Fund unless all payments of principal of and interest on all Subordinate Bonds which have become due and payable have been paid in full or provision has been made for the payment thereof. Moneys held in a Reserve Fund shall be used for the purpose of paying principal and interest on Subordinate Bonds in accordance with the Supplemental Resolution under which such Subordinate Bonds are issued and the Reserve Fund created.

Rate Covenant

The City has covenanted that it will, at all times while any of the Subordinate 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 Revenues will be at least sufficient to pay the following amounts: (1) the interest on and principal of the Outstanding Senior Lien Bonds and Subordinate Bonds as they become due and payable; (2) all other payments required for compliance with the terms of the General Resolution and the Subordinate General Resolution and of any Supplemental Resolution including, but not limited to, the required deposits under the General Resolution and to the Debt Service Funds and Reserve Funds, if any, created under Supplemental Resolutions; (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 110% of the actual debt service becoming due on Outstanding Senior Lien Bonds and Subordinate Bonds in such year provided that for such purposes, the principal amount of Senior Lien Bonds and Subordinate Bonds becoming due in such year which is paid from the proceeds of other borrowings will not be included as debt service becoming due 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 the holders of the Subordinate Bonds.

Insurance and Condemnation

The City agrees that it will, to the extent it determines that such insurance or reserves are customary for sewer systems in metropolitan areas, insure or provide a self-insured 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 the City determines the cost thereof excessive.

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 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 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.

Defeasance

Subordinate Bonds or portions thereof (such portions to be in integral multiples of the Authorized Denomination) 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 Subordinate General Resolution except for the purposes of payment from moneys or Government Obligations held for such purpose. When all Subordinate Bonds which have been issued under the Subordinate 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 Subordinate General Resolution shall cease, terminate and become void, and the Subordinate 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 Subordinate Bonds shall continue to be held in trust for such purpose.

A Subordinate 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 Subordinate Bonds and the Subordinate 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 Subordinate Bonds are deemed to be paid, such Subordinate Bonds shall no longer be secured by or entitled to the benefits of the Subordinate 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 Subordinate General Resolution:

- (a) a failure to pay the principal of or premium, if any, on any of the Senior Lien Bonds or the Subordinate 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 Senior Lien Bonds or the Subordinate Bonds when such interest shall become due and payable;
- (c) a failure to pay the purchase price of any Senior Lien Bonds or the Subordinate Bond when such purchase price shall be due and payable upon an optional or mandatory tender date as provided in the Senior Lien Bonds or the Subordinate Bonds;
- (d) a failure in a given Fiscal Year to comply with the rate covenant; 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 Subordinate Bonds or in the Subordinate 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 Subordinate Bonds then Outstanding, unless such Insurer (if the Insurer has given the notice of such default) or, if the notice of the failure has been given by the Holders, the Holders of Subordinate Bonds in a principal amount not less than the principal amount of Subordinate 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) 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, which lien or charge is prior to (except to the extent such lien secures Senior Lien Bonds) or except to the extent permitted by the Subordinate General Resolution, on a parity with that granted to secure the Subordinate Bonds; or the creation of a lien or charge against a Debt Service Fund, the Reserve Fund or a Construction Fund (all as defined in the Subordinate General Resolution), which lien or charge is prior to or on a parity with that granted to secure a Series of the Subordinate Bonds; and
- (g) the occurrence of any other Event of Default as is provided in a Supplemental Resolution.

The Thirteenth Supplemental Resolution under which the Series 2012 Subordinate Bonds are being issued provides that the occurrence of an event which causes interest on any such Series, respectively, to be includable in gross income for federal income tax purposes will be an Event of Default for so long as any of the Series 2012 Subordinate Bonds are unpaid.

Acceleration; Other Remedies

- (a) 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 Subordinate Bonds which are then Outstanding and which are subject to acceleration may, by written notice to the City, declare the Subordinate Bonds which are subject to acceleration to be immediately due and payable whereupon the Subordinate Bonds which are subject to acceleration shall, without further action, become and be immediately due and payable; provided that, with respect to any Series of Subordinate 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.
- (b) The provisions of the preceding paragraph are subject to the conditions that, if after the principal of the Subordinate 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 Subordinate Bonds and the principal of any and all Subordinate 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 Subordinate Bonds) and all Events of Default other than nonpayment of the principal of Subordinate Bonds which shall have become due by such declaration shall have been remedied, then the Holders of a majority in principal amount of Subordinate Bonds outstanding may, if all Insurers consent in writing 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.
- (c) Upon the occurrence and continuance of any Event of Default, the Holders of 10% or more of the principal amount of the Subordinate 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 Subordinate 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 Subordinate General Resolution;
 - (ii) to bring suit upon the Subordinate 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 Subordinate Bonds or between the Insurers on different Series of Subordinate Bonds, the position taken by the entity or group of Bondholders representing the greatest principal amount of Subordinate Bonds Outstanding shall prevail. For such purposes, the Insurer

of a Series of Subordinate Bonds shall be deemed to represent the entire principal amount of Subordinate Bonds for which such Insurer provides credit enhancement.

- (d) Any Holder of any Subordinate Bond issued under the terms of the 1941 Act may compel the use of any or all of the remedies provided in the 1941 Act,

Supplemental Resolutions Without the Consent of Bondholders

The 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 Subordinate General Resolution or any Supplemental Resolution as follows:

- (a) to provide for the issuance of a Series or multiple Series of Subordinate Bonds and to set forth the terms of such Subordinate Bonds and the special provisions which shall apply to such Subordinate Bonds;
- (b) to cure any formal defect, omission, inconsistency or ambiguity in the Subordinate General Resolution or any Supplemental Resolution;
- (c) to add to the covenants and agreements of the City in the Subordinate 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 Subordinate General Resolution or in and to any other moneys, securities or funds of the City provided pursuant to the Subordinate General Resolution or to otherwise add additional security for the Bondholders;
- (e) to evidence any change in the terms of any Series of Subordinate Bonds if such changes are authorized by the Supplemental Resolution at the time the Series of Subordinate 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 Subordinate 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 Subordinate Bonds;
- (h) to provide for uncertificated Subordinate Bonds or for the issuance of coupons and bearer Subordinate Bonds or Subordinate Bonds registered only as to principal;
- (i) to qualify the Subordinate Bonds or a Series of Subordinate Bonds for a rating or ratings or an upgrade in a rating or ratings by Moody's, S&P and/or Fitch;
- (j) to comply with the requirements of the Code as are necessary, in the opinion of Bond Counsel, to prevent the interest on the Subordinate Bonds or a Series of Subordinate

Bonds from being included in gross income of the recipient for federal income taxation purposes; and.

- (k) 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 Subordinate Bonds.

Supplemental Resolutions with the Consent of Bondholders

- (a) Except for any Supplemental Resolution as described above which does not require Bondholder consent and any Supplemental Resolution adopted pursuant to subsection (b) 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 Subordinate 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 Subordinate General Resolution or in a Supplemental Resolution; provided, however, that, unless approved in writing by the Holders of all the Subordinate Bonds which would be affected by such change or unless such change affects less than all Series of Subordinate Bonds and the following subsection (b) is applicable, nothing contained in the Subordinate General Resolution shall permit, or be construed as permitting (i) a change in the times, amounts or currency of payment of the principal of or interest on any outstanding Subordinate Bonds or (ii) a reduction in the principal amount or redemption price of any outstanding Subordinate Bonds or the rate of interest thereon; and nothing contained in the Subordinate General Resolution shall, unless approved in writing by the Holders of all the Subordinate Bonds then outstanding, permit or be construed as permitting (iii) the creation of a lien (except as expressly permitted by the Subordinate General Resolution as originally executed) upon or pledge of the Revenues, ranking prior to or on a parity with the claim created by the Subordinate General Resolution, or (iv) except with respect to additional security which may be provided for a particular Series of Subordinate Bonds, a preference or priority of any Subordinate Bond or Subordinate Bonds over any other Subordinate Bond or Subordinate Bonds, or (v) a reduction in the aggregate principal amount of Subordinate Bonds the consent of the Bondholders of which is required prior to the adoption of a Supplemental Resolution.
- (b) 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 Subordinate Bonds were issued. If such Supplemental Resolution is adopted for one of the purposes permitting adoption of a Supplemental Resolution without 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 Subordinate Bonds outstanding, then the Holders of not less than 51% in aggregate principal amount of the Subordinate Bonds of all Series which are directly affected by such changes and all Insurers of Subordinate 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 Subordinate Bonds of

such Series; provided, however, that, unless approved in writing by the Holders of all Subordinate Bonds which would be affected by such change, shall permit, or be construed as permitting (i) a change in the times, amounts or currency of payment of the principal of or interest on any Outstanding Subordinate Bonds of such Series or (ii) a reduction in the principal amount or redemption price of any outstanding Subordinate Bonds of such Series or the rate of interest thereon.

THE TWENTY-SIXTH SUPPLEMENTAL RESOLUTION

The following is a summary of certain provisions of the Twenty-Sixth 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-Sixth Supplemental Resolution. Other terms and provisions contained in the Twenty-Sixth Supplemental Resolution are described earlier in this Official Statement.

Pledge to Secure the Series 2012 Senior Lien Bonds

The Series 2012 Senior Lien Bonds authorized by the Twenty-Sixth 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 2012 Senior Bonds will be issued on a parity with the Prior Senior Bonds any other Senior 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 2012 Subordinate Bonds, pursuant to the Subordinate General Resolution.

The Series 2012 Senior Lien Bonds 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 2012 Senior Lien 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-Sixth 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 2012 Senior Lien Bonds. Neither the full faith and credit nor the taxing power of the City is pledged to pay the Series 2012 Senior Lien Bonds.

Construction Fund

The City will, by ordinance, create a separate fund within the City Treasury designated as the "Wastewater System Revenue Bonds Construction Fund, Series 2012" for each Series of Series 2012 Senior Lien Bonds issued to pay Project Costs (each such fund, a "2012 Construction Fund"), and the City will, on the date of issuance of such Series of Series 2012 Senior Lien Bonds, deposit proceeds of the Series 2012 Senior Lien Bonds into the 2012 Construction Fund as set forth in the Twenty-Sixth Supplemental Resolution. Amounts in the 2012 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 2012 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 2012 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 a separate fund within the City Treasury designated as the “Wastewater System Revenue Bonds Debt Service Fund, Series 2012” (the “2012 Debt Service Fund”) which will be the Debt Service Fund as provided in the General Resolution for the Series 2012 Senior Lien Bonds. Amounts in the 2012 Debt Service Fund will be used to pay principal of, and interest and any premium on, the Series 2012 Senior Lien Bonds, as the same become due and payable.

Costs of Issuance Account

The Twenty-Sixth Supplemental Resolution authorizes the creation, under the Escrow Agreement, of a Costs of Issuance Account. Amounts in the Costs of Issuance Account will be used to pay Costs of Issuance relating to the Series 2012 Senior Bonds. Any moneys remaining in the Cost of Issuance Account after payment of all Costs of Issuance will be transferred to the 2012 Debt Service Fund.

Rebate Fund

The City will by ordinance create the Wastewater System Revenue Bonds Rebate Fund, Series 2012 [insert Series Designation] Tax-Exempt for one or more Series of Series 2012 Bonds which is Tax-Exempt (each such fund, a “2012 Tax Exempt Rebate Fund”), which fund will be held by the City and will be funded, if so required, under the Tax Certificate of any Series, and amounts in such 2012 Tax Exempt Rebate Fund will be held and disbursed in accordance with the ordinance creating such funds and with the Tax Certificate of any Series. Separate accounts within a 2012 Tax Exempt Rebate Fund may be established for any Series or subseries of Series 2012 Bonds if provided in Attachment 1 related to such Series. A 2012 Tax Exempt Rebate Fund may be combined with any other rebate fund also established by ordinance for the 2012 Subordinate Bonds issued under the Thirteenth Supplemental Resolution in accordance with the Tax Certificate.

Tax Compliance

In furtherance of the tax covenants contained in the Twenty-Sixth Supplemental Resolution, the City covenants that it will comply with those covenants and agreements set forth in the Tax Certificate of any Series.

The City will not use or permit the use of any proceeds of Series 2012 Senior Lien Bonds or any other funds of the City held under the Twenty-Sixth 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 2012 Senior Lien Bond 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 2012 Senior Lien Bonds. Notwithstanding any other provision of the General Resolution or the Twenty-Sixth

Supplemental Resolution, failure of the City to comply with any such Continuing Disclosure Certificate shall not be considered an Event of Default under the Twenty-Sixth Supplemental Resolution; however, any Beneficial Owner or the applicable Series 2012 Senior Lien 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, as the case may be, to comply with its obligations under the Twenty-Sixth Supplemental Resolution. 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 2012 Bonds covered by such Continuing Disclosure Certificate (including persons holding such applicable Series 2012 Bonds covered by such Continuing Disclosure Certificate through nominees, depositories or other intermediaries).

THE THIRTEENTH SUPPLEMENTAL RESOLUTION

The following is a summary of certain provisions of the Thirteenth 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 Thirteenth Supplemental Resolution. Other terms and provisions contained in the Thirteenth Supplemental Resolution are described earlier in this Official Statement.

Pledge to Secure the Series 2012 Subordinate Bonds

The Series 2012 Subordinate Bonds authorized by the Thirteenth Supplemental Resolution are Subordinate Bonds issued under the terms of the Subordinate General Resolution and secured by and entitled to the security and the rights granted by the Subordinate General Resolution. The Series 2012 Subordinate Bonds will be issued subordinate to the Prior Senior Bonds or any Senior Lien Bonds and will be issued on a parity with the Commercial Paper Notes, the Prior Subordinate Bonds any other Subordinate Bonds issued hereafter.

The Series 2012 Subordinate Bonds 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 2012 Subordinate Bonds solely from the Revenues and from amounts in the SCM Fund and the Debt Service Fund established pursuant to the Thirteenth 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 2012 Subordinate Bonds. Neither the full faith and credit nor the taxing power of the City is pledged to pay the Series 2012 Subordinate Bonds. The pledge, assignment and lien on the Revenues granted pursuant to the General Resolution to secure the Senior Lien Bonds shall, in all respects, be prior to the pledge, assignment and lien on the Revenues granted by the Subordinate General Resolution and the Thirteenth Supplemental Resolution.

Construction Fund

The City will, by ordinance, create a separate fund within the City Treasury, designated as the Wastewater System Subordinate Revenue Bonds Construction Fund, Series 2012 for each Series of Series 2012 Subordinate Bonds issued to pay Project Costs (each such fund, a "2012 Subordinate Construction Fund"), and the City shall, on the date of issuance of such Series of Series 2012 Subordinate Bonds, deposit proceeds of the Series 2012 Subordinate Bonds into the 2012 Subordinate Construction Fund as set forth in the Thirteenth Supplemental Resolution. Amounts in a 2012 Subordinate Construction Fund shall be used to pay Project Costs related to the System in accordance with the City's wastewater system improvement program or to reimburse the City for amounts expended from other sources for such purposes provided that amounts in a 2012 Subordinate Construction Fund shall 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 a 2012 Subordinate Construction Fund shall 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 a separate fund within the City Treasury designated as the “Wastewater System Subordinate Revenue Bonds Debt Service Fund, Series 2012” (the “2012 Subordinate Debt Service Fund”) which will be the Debt Service Fund as provided in the Subordinate General Resolution for the Series 2012 Subordinate Bonds. Amounts in the 2012 Subordinate Debt Service Fund will be used to pay principal of, and interest and any premium on, the Series 2012 Subordinate Bonds, as the same become due and payable.

Cost of Issuance Account

The Thirteenth Supplemental Resolution authorizes the creation, under the Escrow Agreement, of a Costs of Issuance Account. Amounts in the Costs of Issuance Account will be used to pay Costs of Issuance relating to the Series 2012 Subordinate Bonds. Any moneys remaining in the Cost of Issuance Account after payment of all Costs of Issuance will be transferred to the applicable Debt Service Fund.

Rebate Fund

The City agrees that it will deliver and abide by the Tax Certificate of any Series and that it will by ordinance create a “Wastewater System Subordinate Revenue Bonds Rebate Fund, Series 2012 [insert Series Designation] Tax-Exempt” for one or more Series of Series 2012 Subordinate Bonds which is Tax-Exempt (each such account, a “2012 Tax-Exempt Rebate Fund”), which fund will be held by the City and will be funded, if so required, under the Tax Certificate of any Series, and amounts in such 2012 Tax-Exempt Rebate Fund shall be held and disbursed in accordance with the ordinance creating such funds and with the Tax Certificate of any Series. Separate accounts within a 2012 Tax-Exempt Rebate Fund may be established for any Series or subseries of Series 2012 Subordinate Bonds if provided in Attachment 1 related to such Series. A 2012 Tax-Exempt Rebate Fund may be combined with any other rebate fund also established by ordinance for the 2012 Senior Bonds issued under the Twenty-Sixth Supplemental Resolution in accordance with the Tax Certificate.

Tax Compliance

In furtherance of the tax covenants contained in the Thirteenth Supplemental Resolution, the City covenants that it will comply with the provisions of the Tax Certificate.

The City will not use or permit the use of any proceeds of Series 2012 Subordinate Bonds or any other funds of the City held under this Thirteenth Supplemental Resolution or the Subordinate General Resolution, or in the General 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 2012 Subordinate 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 applicable Series of Series 2012 Subordinate Bonds. Notwithstanding any other provision of the Subordinate General Resolution or the Thirteenth 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 2012 Subordinate 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, as the case may be, to comply with its obligations under the Thirteenth Supplemental Resolution. 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 2012 Subordinate Bonds covered by such Continuing Disclosure Certificate (including persons holding such applicable Series 2012 Subordinate 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 22 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
BASIC FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORT FOR
THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2010 AND
DEBT SERVICE COMPLIANCE REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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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, 2011 and 2010
(With Independent Auditor's Report Thereon)**

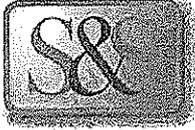


**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND**

**Financial Statements and Required Supplementary Information
For the Fiscal Years Ended June 30, 2011 and 2010**

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FOUNDING PARTNERS
 BRAINARD C. SIMPSON, CPA
 MELBA W. SIMPSON, CPA

Honorable Members of the City Council
 City of Los Angeles, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of net assets of the Sewer Construction and Maintenance Fund (Fund) of the City of Los Angeles, California (City) as of June 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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, as of June 30, 2011 and 2010, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Sewer Construction and Maintenance Fund as of June 30, 2011 and 2010, and the respective changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) on pages 2 through 10 and Required Supplementary Information (other than MD&A) on page 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Los Angeles, California
 February 7, 2012



**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND**

**Management's Discussion and Analysis
June 30, 2011 and 2010
(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, 2011 and 2010 and should be read in conjunction with the Fund's financial statements that begin on page 11. Descriptions and other details pertaining to the Fund are included in the notes to the basic 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), basic financial statements which includes the accompanying notes to the basic financial statements, and required supplementary information (other than MD&A).

The *statement of net assets* presents information on all of the Fund's assets and liabilities, with the difference between the two reported as *net assets*. Net assets indicate the net worth of the fund after all obligations. Over time, increases and decreases in net assets 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 assets*, presents information that shows how the Fund's net assets changed between the recent fiscal years. All changes in net assets 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* present 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 sale of long-term debt, payments for bond principal and interest, and capital assets additions and betterments.

Continued...

**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND**

**Management's Discussion and Analysis
June 30, 2011 and 2010
(Unaudited)**

FINANCIAL HIGHLIGHTS AND ANALYSIS

The following tables summarize the Fund's financial condition and changes in net assets as of the fiscal years ended June 30, 2011, 2010, and 2009

Table 1 – Condensed Schedule of Assets, Liabilities and Net Assets
(amounts in thousands)

	As of June 30		
	2011	2010	2009
Assets			
Current assets	\$ 412,009	\$ 410,403	\$ 350,050
Non-current assets:			
Capital assets	3,865,683	3,891,258	3,831,965
Others	135,626	142,025	145,204
Total assets	4,413,318	4,443,686	4,327,219
Derivative outflows on derivative instruments	37,372	42,501	28,979
Total assets and deferred outflows	<u>\$ 4,450,690</u>	<u>\$ 4,486,187</u>	<u>\$ 4,356,198</u>
Liabilities and Fund Net Assets			
Current liabilities:			
Long-term debt, current portion	\$ 68,381	\$ 65,794	\$ 64,465
Others	77,614	128,688	102,606
Non-current liabilities:			
Long-term debt, net of current portion	2,664,966	2,616,486	2,527,742
Others	36,855	37,574	47,403
Total liabilities	2,847,816	2,848,542	2,742,216
Derivative instrument liabilities	37,372	42,501	28,979
Total liabilities and derivative instrument liabilities	<u>2,885,188</u>	<u>2,891,043</u>	<u>2,771,195</u>
Fund net assets			
Invested in capital assets, net of related debt	1,146,865	1,221,818	1,253,112
Restricted	270,014	252,081	280,551
Unrestricted	148,623	121,245	51,340
Total fund net assets	1,565,502	1,595,144	1,585,003
Total liabilities and fund net assets	<u>\$ 4,450,690</u>	<u>\$ 4,486,187</u>	<u>\$ 4,356,198</u>

Continued...

**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND**

**Management's Discussion and Analysis
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Table 2 – Condensed Schedule of Revenues, Expenses and Changes in Fund Net Assets
(amounts in thousands)

	Fiscal year ended June 30		
	2011	2010	2009
Operating revenues			
Sewer service charges	\$ 464,497	\$ 490,168	\$ 488,103
Others	42,040	45,171	43,730
Total operating revenues	<u>506,537</u>	<u>535,339</u>	<u>531,833</u>
Operating expenses			
Operations and maintenance	256,664	264,072	287,135
Depreciation	167,775	150,216	156,143
Total operating expenses	<u>424,439</u>	<u>414,288</u>	<u>443,278</u>
Operating income	<u>82,098</u>	<u>121,051</u>	<u>88,555</u>
Nonoperating revenues (expenses)			
Nonoperating revenues	10,675	10,628	15,833
Nonoperating expenses	<u>(132,830)</u>	<u>(137,811)</u>	<u>(109,973)</u>
Net nonoperating expenses	<u>(122,155)</u>	<u>(127,183)</u>	<u>(94,140)</u>
Loss before capital contributions	<u>(40,057)</u>	<u>(6,132)</u>	<u>(5,585)</u>
Capital contributions	<u>10,415</u>	<u>16,273</u>	<u>11,543</u>
Increase (Decrease) in fund net assets	<u>(29,642)</u>	<u>10,141</u>	<u>5,958</u>
Beginning balance of fund net assets	<u>1,595,144</u>	<u>1,585,003</u>	<u>1,579,045</u>
Ending balance of fund net assets	<u>\$ 1,565,502</u>	<u>\$ 1,595,144</u>	<u>\$ 1,585,003</u>

Continued...

**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND**

**Management's Discussion and Analysis
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Assets

Capital Assets

The Fund's assets consist mainly of capital assets, comprising 86.9% of the total. During fiscal year 2011, net capitalized additions and betterments to the Fund's depreciable assets, including transfers from construction in progress, amounted to \$405.5 million. Of this amount, \$282.0 million, or 69.5% was capitalized for wastewater collection system while \$106.3 million or 26.2% was capitalized for treatment plants and equipment. Charges to the construction in progress account totaled \$87.1 million.

During fiscal year 2010, capitalized additions and betterments to the Fund's depreciable assets, including transfers from construction in progress, were \$195.2 million. Of this amount, \$118.4 million, or 60.7%, was capitalized for treatment plants and equipment, while \$69.8 million or 35.8% was capitalized for wastewater collection system. Charges to the construction in progress account totaled \$205.1 million.

The ongoing capital improvement program (CIP) of the Fund includes the following large projects and the respective amounts capitalized during fiscal years 2011 and 2010: Air Treatment Facilities- \$55.9 million and \$67 million; Hyperion Treatment Plant Primary Battery C Rehabilitation- \$41.7 million and \$39.9 million; North Outfall Sewer Rehabilitation Projects- \$74.7 million and \$38.4 million; Secondary Sewer Renewal Program- \$41.5 million and \$66.8 million. An additional CIP large project capitalized as of June 30, 2011 is Avenue 45 Arroyo Drive Relief Sewer in the amount of \$69.4 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, the renovation or replacement of other major sewers and pumping stations, and the modernization and upgrading of wastewater treatment or reclamation facilities.

Liabilities and Fund Net Assets

Long-term Debt

As of June 30, 2011, the Fund's total long-term debt balance was \$2.7 billion, a net increase of \$51.1 million from the prior fiscal year. The only addition during the year was the proceeds from the issuance of \$466.8 million revenue bonds. However, the increase was offset by payments of revenue bond debt service of \$129.8 million, inclusive of scheduled principal maturities of \$65.8 million, and payment of commercial paper notes and other loans of \$310.3 million. The net increase in unamortized bond premiums, discounts and deferred charges was \$24.4 million.

As of June 30, 2010, the Fund's total long-term debt balance was \$2.7 billion, a net increase of \$90.0 million from the prior fiscal year. The only addition during the year was the \$150.0 million proceeds from commercial paper notes sold which was subsequently paid in fiscal year 2011. Scheduled principal maturities of \$64.5 million were paid during the year. The net increase in unamortized bond premiums, discounts and deferred charges was \$4.5 million.

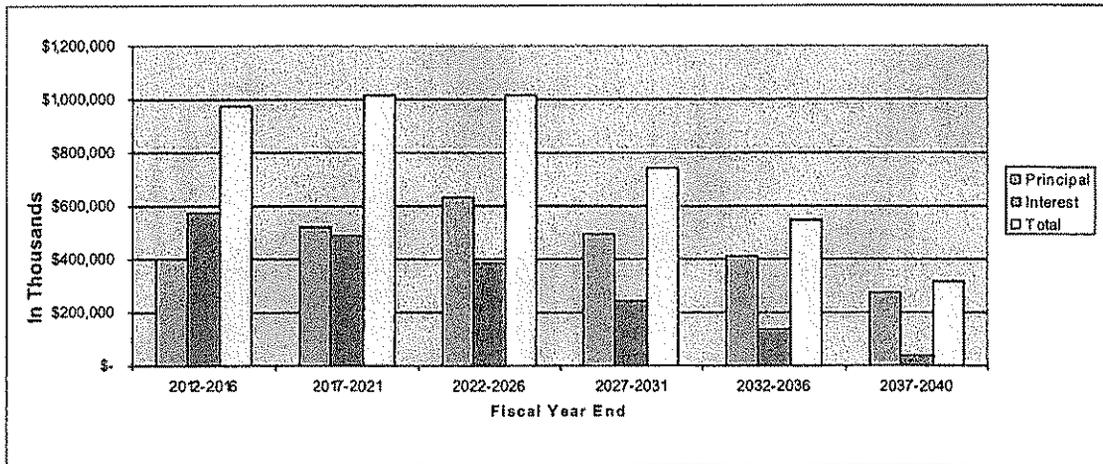
Continued...

**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND**

**Management's Discussion and Analysis
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The Fund's long-term debt final maturities range from June 1, 2019 to June 1, 2040. The total debt service for fiscal year 2012 is \$189.0 million of which \$68.4 million and \$120.6 million is for principal and interest payment, respectively. The scheduled annual debt service (principal maturities and interest payments) requirements as of June 30, 2011 is presented in the chart below.

Chart: Scheduled Debt Service Requirements



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. and "AA" by Standard & Poor's Rating Services.

Derivative Instruments

The Fund has recorded the fair value of interest rate swap and corresponding deferred outflows on the statement of net assets as of June 30, 2011 for \$37.4 million, a decrease of \$5.1 million over last year's \$42.5 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."

Fund Net Assets

Of the total fund net assets of \$1.6 billion in fiscal year 2011, 73.3% reflects the Fund's significant investments in capital assets compared to 76.6% in fiscal year 2010. The Fund uses these assets 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. 17.2% of the total fund net assets in fiscal year 2011 (15.8% in fiscal year 2010) represent the resources that are restricted for debt service, capital construction projects, operations and maintenance and other reserves required by bond covenants. The remaining 9.5% of the total fund net assets in fiscal year 2011 (7.6% in 2010) 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.

Continued...

**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND**

**Management's Discussion and Analysis
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Revenues, Expenses and Changes in Fund Net Assets

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 a user fee consisting of five major components enumerated below, in addition to Federal and State grants, interest earnings and miscellaneous revenues. The five components of the 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.

The Fund's total operating revenues of \$506.5 million for fiscal year 2011 decreased by \$28.8 million, or a decrease of 5.4% from the prior fiscal year. For fiscal year 2011, \$464.5 million or 91.7% of the total operating revenues were from sewer service charges, which decreased by \$25.7 million or 5.2% compared to fiscal year 2010. The decrease in sewer service charges was due to the conversion of about 8,000 residential customers to low-income subsidized rate, and the reduction in billable wastewater volume due to water conservation program ordained by the City Council to the residents of the City of Los Angeles. The remaining operating revenues for fiscal year 2011 decreased by \$3.1 million or 6.9%, brought about by the decrease in other operating revenues of \$3.2 million from the prior fiscal year and offset by the increase in sewerage facilities charges by \$1.7 million.

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**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND**

**Management's Discussion and Analysis
June 30, 2011 and 2010
(Unaudited)**

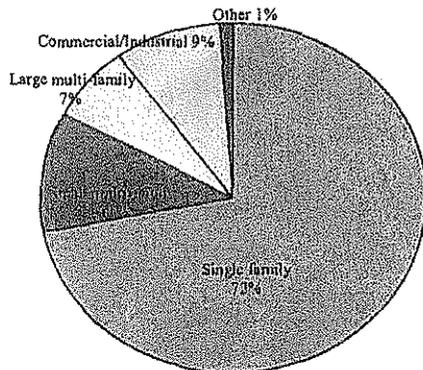
In fiscal year 2010, the Fund's total operating revenues increased by \$3.5 million, or 0.7%, from the prior fiscal year. Of this increase, sewer service charges brought in \$2.1 million which was a mere 0.4% increase compared to prior year. The remaining increases of \$1.4 million were brought about by the increase in wastewater service contracts and other revenues.

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 2011 and 2010.

Chart: Wastewater System Customers

Fiscal Year 2011 Total Number of Customers: 650.9 Thousand



Fiscal Year 2010 Total Number of Customers: 640.7 Thousand

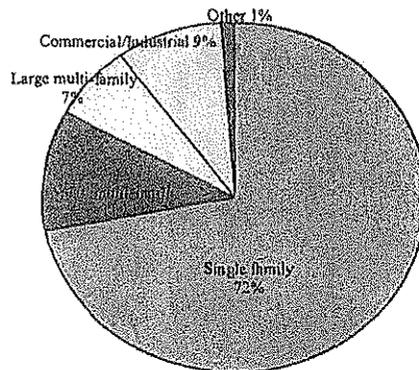
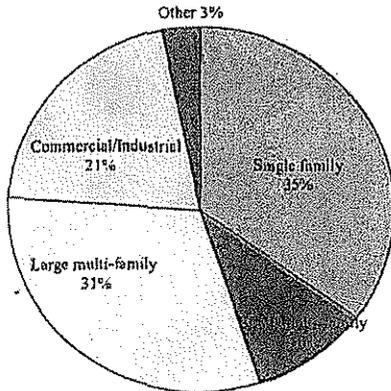
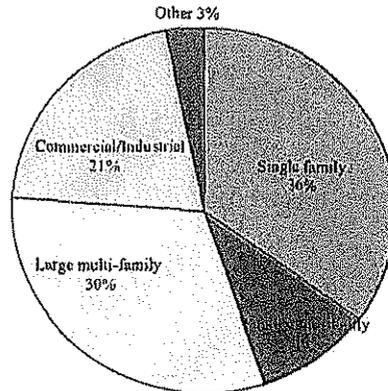


Chart: Billable Wastewater Volume

Fiscal Year 2011 Wastewater Volume: 14,719 Million Cubic Feet



Fiscal Year 2010 Wastewater Volume: 15,235 Million Cubic Feet



Continued...

**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND**

**Management's Discussion and Analysis
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Billable wastewater volume for single family and small multi-family dwellings of up to four units, (representing 83% of total wastewater system customers in fiscal years 2011 and 2010) is based on each residential customer's minimum average daily water consumption during winter, further reduced by a dry winter compensation factor.

Billable wastewater volume for large multi-family, commercial/industrial and other customers, (representing the remaining 17% total wastewater system customers in fiscal years 2011 and 2010) is generally equal to 90 percent of total annual water sales volume. All customers who can demonstrate that their billable wastewater volume is less than 72 percent of annual water sales are billed at the lower estimate.

During fiscal year 2011, despite a 10,160 or 1.6% increase in wastewater system customers, total billable wastewater volume of 14,719 million cubic feet dropped 3.4% or 516 million cubic feet compared to fiscal year 2010's 15,235 million cubic feet. Although the number of customers increased in 2011, the billable wastewater volume continued to decrease due to water conservation.

Operating Expenses

The Fund's major operating expenses include operations and maintenance expenses and reimbursements to the General Fund for services rendered to the Fund. The Fund's operating expenses for fiscal years 2011 and 2010 were \$424.4 million and \$414.3 million, respectively. For fiscal year 2011, operating expenses increased by \$10.1 million or 2.5%. The increase was mainly due to the increase in depreciation expense by \$17.6 million from prior fiscal year brought about by the increase of \$405.5 million in capital assets depreciated in fiscal year 2011.

Non-operating Revenues and Expenses

For fiscal year 2011, \$3.7 million of the non-operating revenue of the Fund were from investment earnings and increase in the fair value of investments. This represents a decrease of 53.6% from last fiscal year 2010 whereby \$7.9 million investment earnings were recorded. The decrease can be attributed to the declining market interest rates. Major component of the non-operating expenses was interest expense of \$114.1 million for fiscal year 2011 for the debt service, an increase of \$8.1 million or 7.7% from fiscal year 2010 interest expense of \$106.0 million. The increase in interest expense was brought about by the interest paid on the \$466.8 million Wastewater System Revenue Bonds issued in October 2010.

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 contribution. As of June 30, 2011, capital contributions amount to \$10.4 million compared to \$16.3 million in 2010, reflecting a decrease of \$5.9 million. The lower capital contributions for fiscal year 2011 can be attributed partly to a decrease in the Amalgamated System capital expenditures.

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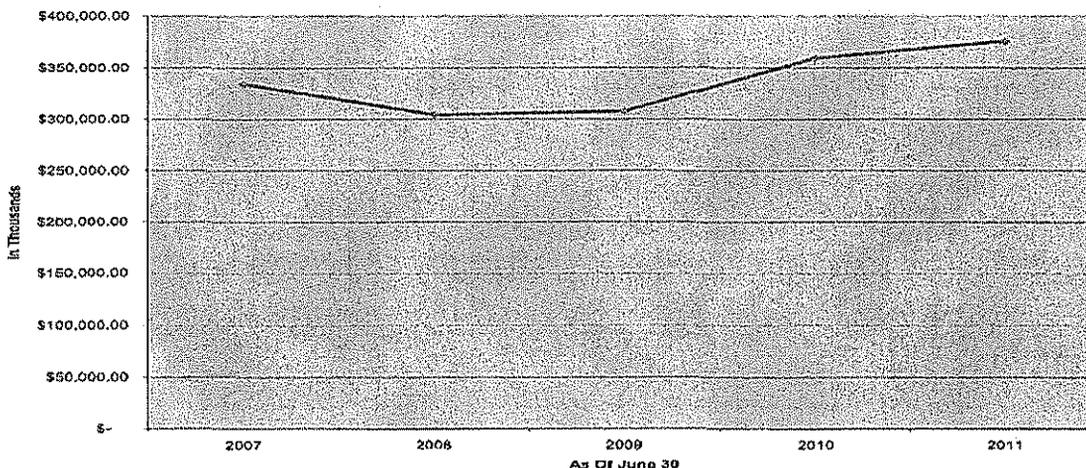
**CITY OF LOS ANGELES
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Cash Position

Cash and pooled investments held by the City Treasurer in the Statement of Net Assets and Statement of Cash Flows include adjustments for the increase or decrease in the fair market value (FMV) of investments (see Note 1 of the Notes to Basic Financial Statements). The cash position of the Fund without the adjustment for the increase or decrease in the FMV of investments is shown in the chart below.

Chart: Cash Position For The Past Five Years



As of June 30, 2011, the cash position of the Fund was \$375.8 million, an increase of \$16.4 million over the cash position of \$359.4 as of June 30, 2010. The increase was mainly due to the issuance of Wastewater System Revenue Bonds in October 2010 and the decrease in reimbursements to budgetary departments due to the furloughs and vacancies as a result of the ERIP. In the years preceding 2009, increases and/or decreases in the Fund's cash position were mainly due to issuance or non-issuance of long term debts, with the exception of the fiscal year 2007 when there was a combined increase of 13.9% in the sewer service and wastewater service contracts revenues due to a 7% rate increase that became effective on July 1, 2006.

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 2011. 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 Assets
June 30, 2011 and 2010
(amounts expressed in thousands)**

	<u>2011</u>	<u>2010</u>
ASSETS		
Current assets		
Cash and pooled investments held by the City Treasurer - unrestricted	\$ 113,198	\$ 116,188
Cash and pooled investments held by the City Treasurer - restricted	160,277	153,811
Accounts receivable, net of allowance for doubtful accounts of \$9,253 and \$8,350 for 2011 and 2010, respectively	52,378	55,863
Accrued unbilled revenue	37,066	35,906
Grants receivable	35,010	35,010
Investment income receivable	1,064	902
Materials and supplies inventory	<u>13,016</u>	<u>12,723</u>
Total current assets	<u>412,009</u>	<u>410,403</u>
Noncurrent assets		
Restricted assets		
Cash and pooled investments held by the City Treasurer	109,736	98,270
Cash held in escrow	<u>2,635</u>	<u>17,841</u>
Total restricted assets	<u>112,371</u>	<u>116,111</u>
Capital assets		
Not depreciated	230,451	493,708
Depreciated, net of accumulated depreciation of \$2,818,433 and \$2,650,720 for 2011 and 2010, respectively	<u>3,635,232</u>	<u>3,397,550</u>
Total capital assets	<u>3,865,683</u>	<u>3,891,258</u>
Other noncurrent assets		
Unamortized bond issuance costs	14,532	12,919
Advances to other City funds	8,721	12,992
Other receivables	<u>2</u>	<u>3</u>
Total other noncurrent assets	<u>23,255</u>	<u>25,914</u>
Total noncurrent assets	<u>4,001,309</u>	<u>4,033,283</u>
TOTAL ASSETS	4,413,318	4,443,686
Deferred outflows on derivative instruments	<u>37,372</u>	<u>42,501</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$ 4,450,690</u>	<u>\$ 4,486,187</u>

Continued...

**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND**

**Statements of Net Assets (Continued)
June 30, 2011 and 2010
(amounts expressed in thousands)**

	<u>2011</u>	<u>2010</u>
LIABILITIES		
Current liabilities		
Accounts, contracts and retainage payable	\$ 29,402	\$ 44,763
Interest payable	12,516	11,065
Current portion of due to other City funds	33,946	29,975
Current portion of long-term debt	68,381	65,794
Current portion of claims payable	1,750	42,885
Total current liabilities	<u>145,995</u>	<u>194,482</u>
Noncurrent liabilities		
Due to other City funds, net of current portion	5,457	10,244
Long-term debt, net of current portion	2,664,966	2,616,486
Claims payable, net of current portion	27,050	27,330
Derivative instrument liabilities	37,372	42,501
Deferred revenue	4,348	-
Total noncurrent liabilities	<u>2,739,193</u>	<u>2,696,561</u>
TOTAL LIABILITIES AND DEFERRED OUTFLOWS	<u>2,885,188</u>	<u>2,891,043</u>
NET ASSETS		
Invested in capital assets, net of related debt	1,146,865	1,221,818
Restricted		
Debt service	129,158	111,897
Capital construction projects	97,302	96,422
Operations and maintenance and other reserves	43,554	43,762
Unrestricted	<u>148,623</u>	<u>121,245</u>
TOTAL NET ASSETS	<u>\$ 1,565,502</u>	<u>\$ 1,595,144</u>

The accompanying notes are an integral part of the basic financial statements.

**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND**

**Statements of Revenues, Expenses and Changes in Net Assets
For the Fiscal Years Ended June 30, 2011 and 2010
(amounts expressed in thousands)**

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES		
Sewer service charges	\$ 464,497	\$ 490,168
Sewage disposal contracts	15,080	15,980
Industrial waste surcharges	16,401	17,135
Sewerage facility charges	5,871	4,172
Other operating revenues	4,688	7,884
TOTAL OPERATING REVENUES	<u>506,537</u>	<u>535,339</u>
OPERATING EXPENSES		
Operations and maintenance	256,664	264,072
Depreciation	167,775	150,216
TOTAL OPERATING EXPENSES	<u>424,439</u>	<u>414,288</u>
OPERATING INCOME	<u>82,098</u>	<u>121,051</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	3,677	7,919
Interest expense	(114,093)	(105,980)
Other nonoperating revenues	6,998	2,709
Other nonoperating expenses	(18,737)	(31,831)
TOTAL NONOPERATING EXPENSES	<u>(122,155)</u>	<u>(127,183)</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS	(40,057)	(6,132)
Capital contributions	<u>10,415</u>	<u>16,273</u>
CHANGE IN NET ASSETS	(29,642)	10,141
NET ASSETS, JULY 1	<u>1,595,144</u>	<u>1,585,003</u>
NET ASSETS, JUNE 30	<u>\$ 1,565,502</u>	<u>\$ 1,595,144</u>

The accompanying notes are an integral part of the basic financial statements.

**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND**

**Statements of Cash Flows
For the Fiscal Years Ended June 30, 2011 and 2010
(amounts expressed in thousands)**

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 514,794	\$ 530,496
Receipts from interfund services	2,463	2,827
Payments to suppliers for goods and services	(129,539)	(102,274)
Payments for interfund services	(173,056)	(165,508)
NET CASH PROVIDED BY OPERATING ACTIVITIES	214,662	265,541
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Amounts received on advances to other funds	4,271	46
Cash received from disaster assistance grants	1,087	6
CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	5,358	52
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(151,489)	(209,961)
Proceeds from sale of bonds and notes	115,344	150,000
Payments on bonds and notes - principal	(65,794)	(64,465)
Payments on bonds and notes - interest	(109,010)	(105,948)
Payments of bonds and notes expenses	(6,561)	(3,846)
Deposits to refunded debt escrow account	(4,440)	--
Sewage disposal contracts capital contributions	9,757	15,382
Interest subsidy from U.S. Treasury	3,600	--
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(208,593)	(218,838)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income received	4,946	4,860
Increase (Decrease) in fair value of investments	(1,431)	3,211
CASH PROVIDED BY INVESTING ACTIVITIES	3,515	8,071
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	14,942	54,826
CASH AND CASH EQUIVALENTS, JULY 1	368,269	313,443
CASH AND CASH EQUIVALENTS, JUNE 30	\$ 383,211	\$ 368,269

Continued...

**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND**

**Statements of Cash Flows (Continued)
For the Fiscal Years Ended June 30, 2011 and 2010
(amounts expressed in thousands)**

	2011	2010
CASH AND CASH EQUIVALENTS COMPONENTS		
Cash and pooled investments held by the City Treasurer		
Unrestricted	\$ 113,198	\$ 116,188
Restricted		
Current	160,277	153,811
Noncurrent	109,736	98,270
CASH AND CASH EQUIVALENTS, JUNE 30	\$ 383,211	\$ 368,269
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 82,098	\$ 121,051
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	167,775	150,216
Provision for uncollectible accounts	903	2,726
Cash provided by other nonoperating revenues	3,387	2,709
Cash used for other nonoperating expenses	(43,298)	(3,702)
Changes in assets and liabilities		
Accounts receivable	2,081	(7,451)
Materials and supplies inventory	(293)	(850)
Other receivable	1	--
Accounts, contracts and retainage payable	(450)	(6,872)
Due to other City Funds	(1,890)	7,714
Deferred revenue	4,348	--
Total adjustments	132,564	144,490
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 214,662	\$ 265,541
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Net proceeds of refunding bonds deposited with an irrevocable trust account	\$ 376,721	\$ --
Amortization of deferred charges on refundings	6,413	7,131
Acquisition of capital assets included in liabilities	15,818	22,120

The accompanying notes are an integral part of the basic financial statements.

**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND**

**Notes to the Basic Financial Statements
June 30, 2011 and 2010**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

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. It 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.

Basis of Accounting and Financial Statement Presentation

The accompanying financial statements were prepared using the accrual basis of accounting. Accordingly, revenues are recognized in the period earned and expenses are recognized in the period incurred.

Standards of accounting and financial reporting, specifically, the Financial Accounting Standards Board (FASB) pronouncements and guidelines, issued prior to December 1, 1989, applicable to private sectors, generally are applied in the Fund's financial statements to the extent that those standards do not conflict with, or contradict guidelines of, the Governmental Accounting Standards Board (GASB). The Fund has the option to apply subsequent FASB guidelines and pronouncements subject to this same limitation. The Fund has elected not to follow subsequent FASB guidelines and pronouncements.

The accompanying Statements of Net Assets, Statements of Revenues, Expenses and Changes in Net Assets, and Statements of Cash Flows present fairly the net assets, changes in net assets and cash flows of the Fund, in conformity with generally accepted accounting principles (GAAP). These Statements are exclusively for the Fund and must not be construed to represent the fair presentation of the City's net assets, changes in net assets and cash flows.

Revenue Recognition

The Fund's user rates, such as sewer service charges, industrial waste surcharges, sewage disposal contract revenues, and sewerage facility charges, are adopted by the City Council based on estimated operations and maintenance costs and a provision for replacement of capital assets. Except for sewerage facility charges which are recognized as income when cash is collected, the rest of the user rates 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 sewage disposal 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 Assets.

**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND**

**Notes to the Basic Financial Statements
June 30, 2011 and 2010**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating and Non-Operating 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 non-operating revenues and expenses.

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.

Bond Issuance Costs, Premiums and Discounts, and Deferred Amounts on Refundings

Underwriting and other issuance costs associated with the issuance of the Fund's revenue bonds as well as bond premiums, discounts and gains/losses on refundings are deferred and amortized on a straight-line basis over the life of the revenue bonds.

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.

Cash and Pooled Investments and Cash Flows

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.

The Fund's investments held by the City Treasurer 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.

**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND**

**Notes to the Basic Financial Statements
June 30, 2011 and 2010**

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 Assets.

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 in accordance with the Statement of the Financial Accounting Standards No. 34, "*Capitalization of Interest Costs*". Interest costs capitalized during the fiscal years ended June 30, 2011 and 2010 were \$4.4 million and \$3.6 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 – 50 years
Other equipment and vehicles	3 – 15 years

Preliminary Costs of Capital Projects

Preliminary costs of capital projects incurred prior to the finalization of formal construction contracts are capitalized. In the event the proposed capital project is discontinued, the associated preliminary costs are charged to expense in the year the project is discontinued.

**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND**

**Notes to the Basic Financial Statements
June 30, 2011 and 2010**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

The financial statements utilize a net assets presentation. Net assets are categorized as follows:

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets into one component. Accumulated depreciation and the outstanding balance of debts that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* – This category consists of net assets with constraints placed on their use. Constraints include those imposed by creditors (such as through bond covenants), grants or laws and regulations of other governments, or by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Assets* – This category represents net assets of the Fund that are not restricted for any project or other purposes.

Use of Estimates

The preparation of the financial statements in conformity with 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.

Implementation of New GASB Pronouncement

GASB Statement No. 59

During fiscal year 2011, the Fund adopted GASB Statement No. 59, "*Financial Instruments Omnibus.*" This statement issued in June 30, 2010 updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2010. There was no impact to the Fund's financial statements as of June 30, 2011.

**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND**

**Notes to the Basic Financial Statements
June 30, 2011 and 2010**

NOTE 2 – CASH AND INVESTMENTS

Cash and Pooled Investments Held by the City Treasurer

Cash is deposited with the City Treasurer and invested under the City Treasurer's general and special investment pool programs. The Fund's participation in the City Treasurer's general and special investment pool programs is approximately 4.44% and 5.01% at June 30, 2011 and 2010, respectively.

The Los Angeles City Treasury Investment Procedures and Guidelines, established pursuant to the California Government Code and the Los Angeles City Council action, govern the City's investment practices. The primary objectives of the City's investment policy are the safety of capital, the liquidity of the portfolio, and the yield on investments. The City's investment policy permits investments in obligations of the United States Treasury, federal agencies, municipalities, certain commercial paper, bankers' acceptances, negotiable certificates of deposit, medium-term corporate notes, repurchase agreements, and state and local government investment pools, which meet certain investment quality criteria and up to certain specified allowable percentages of the pool. Interest earned on special wastewater pooled investments is allocated to the Fund.

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.

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.

**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND**

**Notes to the Basic Financial Statements
June 30, 2011 and 2010**

NOTE 2 – CASH AND INVESTMENTS (Continued)

The Fund's cash and pooled investments held by the City Treasury as of June 30, 2011 and 2010 were allocated to the following funds (in thousands):

	2011	2010
Unrestricted funds	<u>\$ 113,198</u>	<u>\$ 116,188</u>
Restricted funds		
Current		
Capital construction projects	97,301	96,422
Debt service	19,422	13,627
Operations and maintenance reserve	38,015	38,197
Other reserves	<u>5,539</u>	<u>5,565</u>
	160,277	153,811
Noncurrent		
Debt service reserve	<u>109,736</u>	<u>98,270</u>
Total restricted funds	<u>270,013</u>	<u>252,081</u>
Total cash and pooled investments held by the City Treasurer	<u>\$ 383,211</u>	<u>\$ 368,269</u>

At June 30, 2011, the investments held in the City Treasury's General and Special Investment Pool Programs and their maturities are as follows (in thousands):

Type of investments	Amount	Investment maturities				
		1 to 30 days	31 to 60 days	61 to 365 days	366 days to 5 years	Over 5 years
U.S. Treasury notes	\$ 3,541,794	\$ --	\$ --	\$ 38,482	\$ 3,490,201	\$13,111
U.S. Treasury bills	92,789	5,984	15,864	70,941	--	--
U.S. Sponsored Agency issues	2,563,178	455,933	110,660	782,630	1,212,938	1,017
Medium term notes	1,126,648	--	--	148,980	977,668	--
Commercial paper notes	607,177	388,945	130,749	87,483	--	--
Certificates of deposit	8,000	--	--	8,000	--	--
Short term investment funds	22,425	22,425	--	--	--	--
Securities lending cash collateral						
U.S. Government and Agency issues	665,492	--	--	--	665,492	--
Total general and special pools	<u>\$ 8,627,503</u>	<u>\$ 873,287</u>	<u>\$ 257,273</u>	<u>\$ 1,136,516</u>	<u>\$ 6,346,299</u>	<u>\$14,128</u>

**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND**

**Notes to the Basic Financial Statements
June 30, 2011 and 2010**

NOTE 2 – CASH AND INVESTMENTS (Continued)

At June 30, 2010, the City Treasury's General and Special Investment Pool Programs and their maturities are as follows (in thousands):

Type of investments	Amount	Investment maturities			
		1 to 30 days	31 to 60 days	61 to 365 days	366 days to 5 years
U.S. Treasury notes	\$ 1,977,346	\$ --	\$ --	\$ --	\$ 1,977,346
U.S. Treasury bills	1,002,601	474,965	288,831	238,805	--
U.S. Sponsored Agency issues	2,830,258	474,135	590,834	693,595	1,071,694
Medium term notes	735,133	--	--	20,036	715,097
Commercial paper notes	594,181	322,519	117,918	153,744	--
Certificates of deposit	9,000	--	--	9,000	--
Short term investment funds	41,770	41,770	--	--	--
Securities lending cash collateral					
U.S. Government and Agency issues	165,099	--	--	--	165,099
Total general and special pools	<u>\$ 7,355,388</u>	<u>\$ 1,313,389</u>	<u>\$ 997,583</u>	<u>\$ 1,115,180</u>	<u>\$ 3,929,236</u>

Interest Rate Risk. The City's pooled investment policy limits the maturity of its investments to a maximum of five years for U.S. Treasury and government agency securities, medium term notes, CD placement service, collateralized bank deposits, mortgage pass-through securities, and bank/time deposits; one year for repurchase agreements; 270 days for commercial paper; 180 days for bankers' acceptances, and 92 days for reverse repurchase agreements. The City's pooled investment policy also allows the City's funds with longer-term investments horizons, to be invested in securities that at the time of the investment have a term remaining to maturity in excess of five years, but with a maximum final maturity of thirty years.

Credit Risk. The City's pooled investment policy establishes minimum credit ratings requirements for investments. There is no credit quality requirement for local agency bonds, U.S. Treasury Obligations, State of California Obligations, California Local Agency Obligations, and U.S. Sponsored Agencies (U.S. government sponsored enterprises) securities. The City's \$2.6 billion investments in U.S. government sponsored enterprises consist of securities issued by the Federal Home Loan Bank - \$866.0 million, Federal National Mortgage Association - \$748.1 million, Federal Home Loan Mortgage Corporation - \$738.9 million, Federal Farm Credit Bank - \$164.4 million, Tennessee Valley Authority - \$37.9 million, and Federal Agricultural Mortgage Corporation - \$7.8 million. Of the City's \$2.6 billion investments in U.S. Sponsored Agencies securities, \$1,733.9 million are rated "AAA" by S&P and "Aaa" by Moody's; \$821.5 million are not rated individually by S&P nor Moody's; and \$7.8 million are not rated. Of the City's \$665.5 million investments in U.S. Government and Agency Issues purchased using the securities lending cash collateral, \$8.5 million were individually rated "AAA" by S&P and "Aaa" by Moody's. Issuers of the remaining \$657.0 million were rated "AAA" by S&P and "Aaa" by Moody's. In August 2011, Standard & Poor's lowered the long-term U.S. debt credit rating from AAA to AA+. This downgrade affects the credit risk associated with the City's investments in certain U.S. Sponsored Agencies securities.

Medium term notes must be issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Medium term notes must have at least an "A" rating. The City's \$1.1 billion investments in medium term notes consist of securities issued by banks and corporations that comply with these requirements and were rated "A" or better by S&P and "A3" or better by Moody's.

**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND**

**Notes to the Basic Financial Statements
June 30, 2011 and 2010**

NOTE 2 – CASH AND INVESTMENTS (Continued)

Commercial paper issues must have a minimum of "A-1" or equivalent rating. If the issuer has issued long term debt, it must be rated "A" without regard to modifiers. Issuing corporation must be organized and operating within the United States and have assets in excess of \$500 million. The City's \$607.2 million investments in commercial paper comply with these requirements and were rated A-1+/A-1 by S&P and P-1 by Moody's.

The issuers of the certificates of deposits are not rated.

Concentration of Credit Risk. The City's investment policy does not allow more than 40% of its investment portfolio be invested in commercial paper and bankers' acceptances, 30% in certificates of deposit and medium term notes, 20% in mutual funds and money market mutual funds and mortgage pass-through securities. The City's investment policy further provides for a maximum concentration limit of 10% in any one issuer of commercial paper as well as in any one mutual fund, and 30% in bankers' acceptances of any one commercial bank. There is no percentage limitation on the amount that can be invested in the U.S. government agencies. The City's pooled investments comply with these requirements. GAAP requires disclosure of certain investments in any one issuer that represents 5% or more of total investments. Of the City's total pooled investments as of June 30, 2011, \$899.3 million (10%) was invested in securities issued by the Federal Home Loan Bank, \$796.0 million (9%) was invested in securities issued by the Federal Home Loan Mortgage Corporation, \$917.1 million (11%) was invested in securities issued by the Federal National Mortgage Association.

Cash Held by Escrow Agents

Pursuant to Section 22300 of the Public Contract Code of the State of California, the 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. 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 are 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, 2011 and 2010, cash held by escrow agents amounted to \$2.6 million and \$17.8 million respectively. The decrease was due to a payment in case settlement and escrow accounts closing.

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.

**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND**

**Notes to the Basic Financial Statements
June 30, 2011 and 2010**

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable balances as of June 30, 2011 are summarized as follows (in thousands):

	<u>Billed</u>	<u>Accrued Unbilled</u>	<u>Total</u>
Sewer service charges	\$ 53,178	\$ 32,847	\$ 86,025
Sewage disposal contracts			
Operations and maintenance	1,476	2,407	3,883
Capital	714	1,812	2,526
Industrial waste surcharges	6,263	--	6,263
Allowance for doubtful accounts	<u>(9,253)</u>	<u>--</u>	<u>(9,253)</u>
Total	<u>\$ 52,378</u>	<u>\$ 37,066</u>	<u>\$ 89,444</u>

Accounts receivable balances as of June 30, 2010 are summarized as follows (in thousands):

	<u>Billed</u>	<u>Accrued unbilled</u>	<u>Total</u>
Sewer service charges	\$ 55,839	\$ 33,617	\$ 89,456
Sewage disposal contracts			
Operations and maintenance	590	1,204	1,794
Capital	783	1,085	1,868
Industrial waste surcharges	6,997	--	6,997
Bonded sewer fees	4	--	4
Allowance for doubtful accounts	<u>(8,350)</u>	<u>--</u>	<u>(8,350)</u>
Total	<u>\$ 55,863</u>	<u>\$ 35,906</u>	<u>\$ 91,769</u>

**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND**

**Notes to the Basic Financial Statements
June 30, 2011 and 2010**

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2011 was as follows (in thousands):

	Balance July 1, 2010	Additions/ Transfers	Deductions/ Transfers	Balance June 30, 2011
Capital assets not depreciated				
Land	\$ 43,824	\$ --	\$ --	\$ 43,824
Construction in progress	449,884	87,145	(350,402)	186,627
Total capital assets not depreciated	<u>493,708</u>	<u>87,145</u>	<u>(350,402)</u>	<u>230,451</u>
Capital assets depreciated				
Collection system	2,197,782	281,962	--	2,479,744
Treatment plants and equipment	3,569,387	106,339	--	3,675,726
Pumping plants	195,395	381	--	195,776
Site improvements	8,812	12,488	--	21,300
Other equipment and vehicles	76,894	4,287	(62)	81,119
Total capital assets depreciated	<u>6,048,270</u>	<u>405,457</u>	<u>(62)</u>	<u>6,453,665</u>
Less accumulated depreciation				
Collection system	(442,738)	(27,650)	--	(470,388)
Treatment plants and equipment	(2,041,339)	(128,938)	--	(2,170,277)
Pumping plants	(110,331)	(7,229)	--	(117,560)
Site improvements	(1,137)	(707)	--	(1,844)
Other equipment and vehicles	(55,175)	(3,251)	62	(58,364)
Total accumulated depreciation	<u>(2,650,720)</u>	<u>(167,775)</u>	<u>62</u>	<u>(2,818,433)</u>
Capital assets depreciated, net	<u>3,397,550</u>	<u>237,682</u>	<u>--</u>	<u>3,635,232</u>
Total capital assets	<u>\$ 3,891,258</u>	<u>\$ 324,827</u>	<u>\$ (350,402)</u>	<u>\$ 3,865,683</u>

**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND**

**Notes to the Basic Financial Statements
June 30, 2011 and 2010**

NOTE 4 – CAPITAL ASSETS (Continued)

Capital assets activity for the fiscal year ended June 30, 2010 was as follows (in thousands):

	Balance July 1, 2009	Additions/ Transfers	Deductions/ Transfers	Balance June 30, 2010
Capital assets not depreciated				
Land	\$ 43,824	\$ --	\$ --	\$ 43,824
Construction in progress	435,528	205,136	(190,780)	449,884
Total capital assets not depreciated	<u>479,352</u>	<u>205,136</u>	<u>(190,780)</u>	<u>493,708</u>
Capital assets depreciated				
Collection system	2,128,029	69,753	--	2,197,782
Treatment plants and equipment	3,450,972	118,415	--	3,569,387
Pumping plants	193,704	1,691	--	195,395
Site improvements	6,422	2,390	--	8,812
Other equipment and vehicles	74,364	2,904	(374)	76,894
Total capital assets depreciated	<u>5,853,491</u>	<u>195,153</u>	<u>(374)</u>	<u>6,048,270</u>
Less accumulated depreciation				
Collection system	(418,861)	(23,877)	--	(442,738)
Treatment plants and equipment	(1,926,723)	(114,616)	--	(2,041,339)
Pumping plants	(102,941)	(7,390)	--	(110,331)
Site improvements	(824)	(313)	--	(1,137)
Other equipment and vehicles	(51,529)	(4,020)	374	(55,175)
Total accumulated depreciation	<u>(2,500,878)</u>	<u>(150,216)</u>	<u>374</u>	<u>(2,650,720)</u>
Capital assets depreciated, net	<u>3,352,613</u>	<u>44,937</u>	<u>--</u>	<u>3,397,550</u>
Total capital assets	<u>\$ 3,831,965</u>	<u>\$ 250,073</u>	<u>\$ (190,780)</u>	<u>\$ 3,891,258</u>

**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND**

**Notes to the Basic Financial Statements
June 30, 2011 and 2010**

NOTE 5 – LONG-TERM DEBT

Outstanding Long-term Debt

Refunding revenue bonds, commercial paper notes, and loans outstanding at June 30, 2011 and 2010 are summarized as follows (in thousands):

	Amount of original issue	Final maturity date	Outstanding at June 30, 2011	Outstanding at June 30, 2010
Refunding Series 1998-C, 4.0% to 5.375%	\$ 63,705	6/1/2019	\$ 17,140	\$ 29,295
Refunding Series 2002-A, 4.0% to 6.0%	102,850	6/1/2032	37,110	99,795
Refunding Series 2003-A, Subordinate 3.6% to 5.0%	365,510	6/1/2027	363,290	365,510
Refunding Series 2003-A, 4.75 to 5.0%	204,335	6/1/2032	204,335	204,335
Refunding Series 2003-B, Subordinate 1.25% to 5.0%	269,450	6/1/2024	165,010	178,935
Refunding Series 2003-B, 2.5% to 5.0%	225,510	6/1/2024	170,725	174,825
Refunding Series 2005-A, 4.0% to 5.0%	300,655	6/1/2035	280,450	290,745
Refunding Series 2008-A-H, Subordinate, variable	444,600	6/1/2032	441,415	442,510
Refunding Series 2009-A, 1.6% to 5.75%	454,785	6/1/2039	426,350	449,720
Series 2010-A, 5.71%	177,420	6/1/2039	177,420	--
Series 2010-B, 5.81%	89,600	6/1/2040	89,600	--
Series 2010-A, Subordinate, 2.0% to 5.0%	199,790	6/1/2032	199,790	--
Total principal amount			2,572,635	2,235,670
Unamortized bond premium			68,100	44,775
Unamortized bond discount			(69)	(120)
Unamortized deferred charges on refundings			(73,581)	(74,616)
Debt due within one year			(57,880)	(55,485)
			<u>2,509,205</u>	<u>2,150,224</u>
Commercial paper notes- current year's issues, variable	--	--	--	150,000
Commercial paper notes- prior years' issues, variable	--	--	--	150,000
			--	<u>300,000</u>
State Revolving Fund loan, 1.8%	219,081	8/9/2024	166,262	176,571
Debt due within one year			(10,501)	(10,309)
			<u>155,761</u>	<u>166,262</u>
Long-term debt due in more than one year			<u>\$ 2,664,966</u>	<u>\$ 2,616,486</u>

**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND**

**Notes to the Basic Financial Statements
June 30, 2011 and 2010**

NOTE 5 – LONG-TERM DEBT (Continued)

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.

Long-term Debt Activity

The Fund had the following activity in long-term debt during fiscal year 2011 (in thousands):

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Due within one year
Revenue bonds	\$ 2,235,670	\$ 466,810	\$ (129,845)	\$ 2,572,635	\$ 57,880
Unamortized bond premium	44,775	27,630	(4,305)	68,100	--
Unamortized bond discount	(120)	--	51	(69)	--
Unamortized deferred charges on refundings	(74,616)	(6,384)	7,419	(73,581)	--
Net revenue bonds	2,205,709	488,056	(126,680)	2,567,085	57,880
Commercial paper notes	300,000	--	(300,000)	--	--
State Revolving Fund loan	176,571	--	(10,309)	166,262	10,501
Total	\$ 2,682,280	\$ 488,056	\$ (436,989)	\$ 2,733,347	\$ 68,381

The Fund had the following activity in long-term debt during fiscal year 2010 (in thousands):

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Due within one year
Revenue bonds	\$ 2,290,015	\$ --	\$ (54,345)	\$ 2,235,670	\$ 55,485
Unamortized bond premium	47,420	--	(2,645)	44,775	--
Unamortized bond discount	(172)	--	52	(120)	--
Unamortized deferred charges on refundings	(81,747)	--	7,131	(74,616)	--
Net revenue bonds	2,255,516	--	(49,807)	2,205,709	55,485
Commercial paper notes	150,000	150,000	--	300,000	--
State Revolving Fund loan	186,691	--	(10,120)	176,571	10,309
Total	\$ 2,592,207	\$ 150,000	\$ (59,927)	\$ 2,682,280	\$ 65,794

**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND**

**Notes to the Basic Financial Statements
June 30, 2011 and 2010**

NOTE 5 – LONG-TERM DEBT (Continued)

New Issues

Fiscal Year 2011

On October 14, 2010, the Fund issued Wastewater System Revenue Senior Lien Bonds Series 2010-A, Series 2010-B, and Wastewater System Subordinate Revenue Bonds Series 2010-A in the amount of \$177.4 million with interest rate of 5.71%, \$89.6 million with interest rate of 5.81%, and \$199.8 million with interest rate ranging from 2.00% to 5.00%, respectively.

As of June 30, 2011, in compliance with the bond covenants pursuant to the Resolutions, both Series 2010 Senior Lien and Subordinate Bonds refunded outstanding commercial paper notes of \$300 million and paid for bond issuance costs. In addition, the Subordinate Bonds current refunded Series 1998-C of \$11.7 million and advance refunded Series 2002-A of \$62.7 million totaling \$74.4 million. Proceeds of the refunding issue, including available debt service monies, were deposited in an escrow account to provide debt service payments on the refunded bonds. As of June 30, 2011, refunded portion of Series 1998-C and Series 2002-A were considered to be defeased and the liability for those bonds has been removed from the Fund's financial statements.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debts of \$6.4 million which is deferred and amortized through 2032. The cash flow savings and economic gain for this refunding transaction were \$10.9 million and \$7.9 million, respectively.

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, 2011, the Fund received \$3.6 million of the interest subsidies and is reported as other nonoperating revenues in the Fund's financial statements.

Fiscal Year 2010

In fiscal year 2010, commercial paper notes of \$25 million, \$75 million and \$50 million were issued on December 22, 2009, February 10, 2010 and June 14, 2010, respectively. The notes were issued as a means of interim financing for the construction of sewer facilities.

Debt Defeasance

During fiscal year 2011, the Fund defeased certain Wastewater System Revenue Bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the Fund's financial statements. At June 30, 2011, bonds outstanding in the amount of \$62.7 million were considered defeased.

**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND**

**Notes to the Basic Financial Statements
June 30, 2011 and 2010**

NOTE 5 – LONG-TERM DEBT (Continued)

State Revolving Fund Loan

In May 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 \$264.6 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, 2011 and 2010, the Loan balance amounted to \$166.3 million and \$176.6 million, respectively. The Loan matures in 2024 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.

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>
2012	\$ 68,381	\$ 120,599	\$ 188,980
2013	72,802	117,852	190,654
2014	76,147	114,844	190,991
2015	89,355	111,723	201,078
2016	92,983	108,124	201,107
2017 - 2021	522,905	490,609	1,013,514
2022 - 2026	632,999	382,239	1,015,238
2027 - 2031	496,535	244,733	741,268
2032 - 2036	411,465	136,374	547,839
2037 - 2040	<u>275,325</u>	<u>38,052</u>	<u>313,377</u>
Subtotal	2,738,897	1,865,149	4,604,046
Unamortized bond premiums, discounts and deferred charges, net	<u>(5,550)</u>	<u>—</u>	<u>(5,550)</u>
Total	<u>\$ 2,733,347</u>	<u>\$ 1,865,149</u>	<u>\$ 4,598,496</u>

The maturity schedule presented above reflects the scheduled debt service requirements for all of the Fund's long-term debt. Interest presented in the above schedule includes interest requirements for the variable rate Refunding Series 2008 A-H Revenue Bonds using the weighted average rate in effect as of June 30, 2011 of 0.046%.

**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND**

**Notes to the Basic Financial Statements
June 30, 2011 and 2010**

NOTE 5 – LONG-TERM DEBT (Continued)

Interest Rate Swap Agreement

On April 6, 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 on the \$316.8 million Wastewater System Subordinate Variable Rate Revenue Bonds Refunding 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.

On April 28, 2008, the Fund issued \$444.6 million in variable rate Wastewater System Subordinate Revenue Bonds, Refunding Series 2008 A-H (Series 2008 A-H). The proceeds of this issue were used to current refund certain outstanding debts that included the outstanding balance of the Series 2006 A-D referred to in the preceding paragraph. As neither of the swaps were actually terminated by the Fund and the counterparties, the Fund issued a certificate to re-associate the swap agreements with Series 2008 A-F1 (of Series 2008 A-H) aggregating \$314.8 million. As of the date of the certificate, the aggregate notional amount of the swap agreements has been reduced to \$314.8 million.

The reduction is equal to the amount of the principal of the refunded bonds that would have been due and payable had the refunded Series 2006 A-D bonds remained outstanding to such date. The reduced aggregate notional amount of the swap agreements matches the aggregate principal amount of the underlying reassociated bonds.

The fair value and notional amounts of the interest rate swap outstanding at June 30, 2011 and 2010, classified by type, and changes in fair value for the 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, 2011		Notional
	Classification	Amount	Classification	Amount	
Cash flow hedges:					
Interest rate swaps	Deferred outflow of resources	\$ 5,129	Liabilities	\$ (37,372)	\$ 311,640
	Changes in Fair Value		Fair Value at June 30, 2010		Notional
	Classification	Amount	Classification	Amount	
Cash flow hedges:					
Interest rate swaps	Deferred outflow of resources	\$ (13,522)	Liabilities	\$ (42,501)	\$ 312,736

Terms, Fair Values, and Credit Risks. Under the interest rate 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.

**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND**

**Notes to the Basic Financial Statements
June 30, 2011 and 2010**

NOTE 5 – LONG-TERM DEBT (Continued)

Specific terms, including the fair values and counterparty credit ratings of the outstanding swaps as of June 30, 2011, are as follows (dollar amounts in thousands):

Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Value	Swap Termination Date	Counterparty Credit Ratings ⁽¹⁾
\$ 155,820	4/6/2006	3.34%	64.1% of LIBOR ⁽²⁾	\$ (18,686)	6/1/2028	Aaa/AA/AA-
155,820	4/6/2006	3.34%	64.1% of LIBOR ⁽²⁾	(18,686)	6/1/2028	A1/A/A+

⁽¹⁾ Moody's Investors Service, Standard & Poor's and Fitch Ratings, respectively as of June 30, 2011.

⁽²⁾ One-month LIBOR reset monthly. One-month LIBOR as of June 30, 2011 was 0.19%.

Fair Values. Because interest rates were lower on June 30, 2011 than at the date the swap agreements were entered into, the swaps have a negative fair value as of June 30, 2011. 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 swaps.

Credit Risk. The fair values of the swaps represented the Fund's credit exposure to the swap counterparties as of June 30, 2011. 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, 2011; however, no collateralization was necessary because 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. To illustrate, as of June 30, 2011, the weighted average rate on the variable bonds was 0.05% whereas 64.1% of the LIBOR was equal to 0.12%.

Termination Risk. The Fund or the counterparties may terminate the swap 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.

**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND**

**Notes to the Basic Financial Statements
June 30, 2011 and 2010**

NOTE 5 – LONG-TERM DEBT (Continued)

Swap Payments and Associated Debt. Using rates as of June 30, 2011, 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 swaps, net (2)	Total
	Principal	Interest (1)		
2012	\$ 1,135	\$ 145	\$ 10,038	\$ 11,318
2013	1,170	144	10,002	11,316
2014	1,210	144	9,964	11,318
2015	1,250	143	9,925	11,318
2016	7,145	142	9,885	17,172
2017 - 2021	130,070	567	39,268	169,905
2022 - 2026	91,645	352	24,360	116,357
2027 - 2028	78,015	55	3,790	81,860
Total	<u>\$ 311,640</u>	<u>\$ 1,692</u>	<u>\$ 117,232</u>	<u>\$ 430,564</u>

(1) Assumes rate of 0.05% (the weighted average rate for period beginning June 30, 2011), thereafter.

(2) Assumes swap rate of 3.34% less 0.12% (64.1% of LIBOR as of June 30, 2011), thereafter.

As rates vary, variable-rate bond interest payments and net swap payments will vary.

**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND**

**Notes to the Basic Financial Statements
June 30, 2011 and 2010**

NOTE 6 – PENSION AND OTHER POSTEMPLOYMENT BENEFIT PLANS

Description of Plans

The City contributes to a single-employer defined benefit pension plan, the Los Angeles City Employees' Retirement System (LACERS), to provide retirement benefits to its civilian (other than Department of Water and Power) employees. The City also provides single-employer substantive other postemployment benefit (OPEB) healthcare plan through LACERS. The City Charter assigns the administration of the plans to the LACERS Board of Administration. The LACERS issues a publicly available financial report that includes financial statements and required supplementary information for the plans. That report may be obtained by writing or calling: Los Angeles City Employees' Retirement System, 360 E. Second Street 2nd Floor, Los Angeles, CA 90012, (213) 473-7200.

Funding Policy

The City's annual costs for the plans are calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of the applicable GASB Statements. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize unfunded actuarial liabilities over a period not to exceed thirty years. The City Administrative Code and related ordinance define member contributions of the pension, and the postemployment healthcare benefits.

The Fund indirectly contributes to the LACERS through the reimbursement of personnel costs incurred by other City departments on behalf of the Fund.

Benefit Pension Plan

Annual Pension Cost and Net Pension Obligation. For the fiscal years ended June 30, 2011 and 2010, the City's annual required contribution rates were 18.09% and 14.2% of covered payroll, respectively. Prior to the City's Early Retirement Incentive Plan (ERIP), the member contribution rate was 8.22% to 13.33% of salaries at entry age with City subsidy for members prior to January 1983. Members hired on or after January 1983 contributed 6% of pay. Effective November 8, 2009, upon implementation of ERIP, all members contribute 6% of pay regardless of entry date. Further, ERIP ordinance stipulates the member contribution rate for all employees shall increase to 7% on July 1, 2011 for a period of 15 years, or until ERIP cost obligation is fully paid, whichever comes first.

New ordinances adopted by the City Council in 2011 provide that members represented by certain bargaining groups are required to contribute an additional 2% or 4% of pay beginning April 24, 2011. As a result, members' contribution rates at the end of reporting period are either 6% or 8% of pay. Effective July 1, 2011, rates will be 7%, 9% or 11% of pay, depending upon the terms and conditions of specific Memoranda of Understanding to which a member is subject.

**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND**

**Notes to the Basic Financial Statements
June 30, 2011 and 2010**

NOTE 6 – PENSION AND OTHER POSTEMPLOYMENT BENEFIT PLANS (Continued)

The City's annual pension cost is as follows (in thousands):

	Year ended June 30	
	2011	2010
Annual required contribution	\$ 303,561	\$ 258,643
Interest on net pension obligation	6,008	6,220
Adjustment to annual required contribution	(9,240)	(8,864)
Annual pension cost	300,329	255,999
Contributions made	303,561	258,643
Change in net pension obligation	3,232	2,644
Net pension obligation, beginning of year	(75,105)	(77,749)
Net pension obligation, end of year	\$ (71,873)	\$ (75,105)

The Fund's allocated portion of the net pension obligation amounted to \$5.5 million and \$6.5 million, of which \$1.6 million and \$1.6 million were capitalized and reported in construction in progress as of June 30, 2011 and 2010, respectively. The corresponding liabilities of the capitalized amounts were reported as Due to Other City Funds under noncurrent liabilities. The portion of Fund reimbursements related to contributions to the LACERS (pension and postemployment healthcare benefits) was approximately \$31.1 million and \$30.9 million, of which \$9.4 million and \$7.6 million were capitalized for the fiscal years ended June 30, 2011 and 2010, respectively.

The City's annual pension cost, the percentage of annual pension cost contributed to the plan, and the net pension obligation for the fiscal year 2011 and the two preceding years are as follows (dollar amounts in thousands):

Fiscal year	Annual pension cost (APC)	Percentage of APC contributed	Net pension obligation
2009	\$ 272,332	101%	\$ 77,749
2010	255,999	101%	75,105
2011	300,329	101%	71,873

Funded Status and Funding Progress. As of June 30, 2011, the most recent actuarial valuation date, the plan was 72.4% funded. The actuarial accrued liability for benefits was \$13.4 billion while the actuarial value of assets was \$9.7 billion, resulting in an unfunded actuarial accrued liability (UAAL) of \$3.7 billion. The covered payroll as of June 30, 2011 valuation was \$1.8 billion. The ratio of UAAL to the covered payroll was 201.9%.

**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND**

**Notes to the Basic Financial Statements
June 30, 2011 and 2010**

NOTE 6 – PENSION AND OTHER POSTEMPLOYMENT BENEFIT PLANS (Continued)

Actuarial valuations involve estimate of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and the annual required contributions of the City are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits are based on the substantive plan and include the types of benefits in force at the valuation date. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The funded status of the pension plan as of June 30, 2011 was based on the following actuarial assumptions:

Actuarial valuation date	June 30, 2011
Actuarial cost method	Projected Unit Credit Cost Method—assuming a closed group
Amortization method	Level percent of payroll – assuming a 4.25% increase in total covered payroll.
Remaining amortization period	Multiple layers. Actuarial gains/losses are amortized over 15 years. Assumption or method changes are amortized over 30 years. Plan changes, including the 2009 ERIP, are amortized over 15 years. Future ERIPs will be amortized over 5 years. Actuarial surplus is amortized over 30 years. The existing layers on June 30, 2005, except those arising from the phase-in of contribution rates for the May 30, 2002 experience study, were combined and amortized over 30 years
Asset valuation method	Market value of assets less unrecognized returns in each of the last seven years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a seven-year period. The result of such smoothing process shall fall between 60% - 140% of market value.
Actuarial assumptions:	
Investment rate of return	7.75%
Inflation rate	3.5%
Real across-the-board salary increase	0.75%
Projected salary increases	Ranges from 11.25% to 6.5% for members with less than 5 years of service. Ranges from 6.50% to 4.65% for members with 5 or more years of service.
Cost-of-living adjustment	3%

**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND**

**Notes to the Basic Financial Statements
June 30, 2011 and 2010**

NOTE 6 – PENSION AND OTHER POSTEMPLOYMENT BENEFIT PLANS (Continued)

Other Postemployment Benefits (OPEB)

Annual OPEB Cost. The City provides postemployment healthcare benefits to qualified employees who retire from City service. For the fiscal years ended June 30, 2011 and 2010, the City's annual required contribution rates were 6.4% and 5.3% of covered payroll, respectively.

During the fiscal year, the City adopted an ordinance to freeze the maximum medical subsidy at the current year level of \$1,190 for those members who retire on or after July 1, 2011.

The City's annual OPEB cost and the percentage of annual OPEB cost contributed to the plan for the fiscal year 2011 and the two preceding years are as follows (dollar amounts in thousands):

<u>Fiscal year</u>	<u>Annual OPEB cost (AOC)</u>	<u>Percentage of AOC contributed</u>	<u>Net OPEB obligation</u>
2009	\$ 95,122	100%	\$ --
2010	96,511	100%	--
2011	107,396	100%	--

Contributed amounts attributable to the Fund are not determinable; however, a portion of the amounts charged to the Fund by the City for employee benefits is associated with funding such retiree's healthcare benefits.

Funded Status and Funding Progress. As of June 30, 2011, the most recent actuarial valuation date, the plan was 78.6% funded. The actuarial accrued liability for benefits was \$2.0 billion while the actuarial value of assets was \$1.5 billion, resulting in an unfunded actuarial accrued liability (UAAL) of \$421.8 million. The covered payroll as of June 30, 2011 valuation was \$1.8 billion. The ratio of UAAL to the covered payroll was 23.0%.

Actuarial valuations involve estimate of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and the annual required contributions of the City are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND**

**Notes to the Basic Financial Statements
June 30, 2011 and 2010**

NOTE 6 – PENSION AND OTHER POSTEMPLOYMENT BENEFIT PLANS (Continued)

Actuarial Methods and Assumptions. Projections of benefits are based on the substantive plan and include the types of benefits in force at the valuation date. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The funded status of the OPEB plan as of June 30, 2011 was based on the following actuarial assumptions:

Valuation date	June 30, 2011
Actuarial cost method	Projected Unit Credit Cost method - assuming a closed group
Amortization method	Level percent of payroll – assuming a 4.25% increase in total covered payroll
Remaining amortization period	Multiple layers. Actuarial gains/losses are amortized over 15 years. Assumption changes resulting from triennial experience study are amortized over 30 years. Health trend and premium assumption changes amortized over 15 years. The unfunded layers on June 30, 2005 were combined and amortized over 30 years. Plan changes, including the liability change due to ERIP are amortized over 15 years. Future ERIPs will be amortized over 5 years. Actuarial surplus is amortized over 30 years.
Asset valuation method	Market value of assets less unrecognized returns in each of the last 7 years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a seven-year period. The result of such smoothing process shall fall between 60% - 140% of Market Value.
Actuarial assumptions:	
Investment rate of return	7.75%
Surviving Spouse Coverage	With regard to members who are currently alive, 100% of eligible spouses or domestic partners are assumed to elect continued health coverage after the member's death.
Participation	50% of inactive members are assumed to receive a subsidy for a City approved health carrier. 100% of retirees becoming eligible for Medicare is assumed to be covered by both Parts A and B.

**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND**

**Notes to the Basic Financial Statements
June 30, 2011 and 2010**

NOTE 6 – PENSION AND OTHER POSTEMPLOYMENT BENEFIT PLANS (Continued)

Employee Retirement Incentive Program (ERIP)

On November 2, 2009, the City adopted the Employee Retirement Incentive Program (ERIP) to encourage eligible employees to retire in order to reduce City payroll costs. The ERIP enrollment period was for 45 days beginning on November 2, 2009. There were 2,400 employees citywide that applied for ERIP.

Eligible employees shall receive ERIP benefits as defined in the ordinance, including retirement benefit enhancements and separation pay incentives. The separation pay incentives shall be paid over two calendar years 2010 and 2011, and depending on the employee's length of service, \$1,000 for each year of service or \$15,000. The costs related to the retirement benefit enhancements shall be the obligation of LACERS' active members.

As stated in Note 1 under Employee Compensation, the Fund has no direct employees and reimburses the General Fund for services performed on behalf of the Fund. The Fund is expected to reimburse the General Fund in the amount of \$7.4 million for ERIP related payouts (separation pay incentives of \$3.8 million and accumulated sick and vacation time payment of \$3.6 million.) Of the \$7.4 million, 50% or \$3.7 million was paid in fiscal year 2011. The remaining 50% will be paid in fiscal year 2012 and is included in due to other City funds under current liabilities.

NOTE 7 – DISASTER ASSISTANCE GRANT

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), formerly the Office of Emergency Services (OES). As of June 30, 2011, the Fund expended \$225.5 million in earthquake related repair costs, of which \$211.2 million is eligible for reimbursement from FEMA and CalEMA. Grants receivable from FEMA and CalEMA amounted to \$35 million at June 30, 2011 and 2010.

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 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 CalEMA withholding the Fund's outstanding grant receivables. 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.

The City Council has adopted a Council File that provides for the offsetting of receivables between the Fund and the City's 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 still being determined by the City.

**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND**

**Notes to the Basic Financial Statements
June 30, 2011 and 2010**

NOTE 8 – RELATED PARTY TRANSACTIONS

During the normal course of business, the Fund is charged for 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. The related charges of approximately \$222.9 million and \$214.8 million were paid to the City's General Fund during the fiscal years ended June 30, 2011 and 2010, 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, 2011 and 2010.

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, 2011 and 2010, the amounts due from the Zoo were \$2.6 million and \$2.7 million, respectively, and were included in Advances to Other City Funds.

Due from/(to) and advances to other City funds as of June 30, 2011 and 2010 are as follows (in thousands):

	<u>2011</u>	<u>2010</u>
Current portion		
Due from other City funds	\$ 6,560	\$ 1,078
Due to other City funds	<u>(40,506)</u>	<u>(31,053)</u>
Total	<u>\$ (33,946)</u>	<u>\$ (29,975)</u>
Noncurrent portion		
Advances to other City funds	\$ 8,721	\$ 12,992
Due to other City funds	<u>(5,457)</u>	<u>(10,244)</u>
Total	<u>\$ 3,264</u>	<u>\$ 2,748</u>

**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND**

**Notes to the Basic Financial Statements
June 30, 2011 and 2010**

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Pollution Remediation Obligations

During fiscal year 2010, a lawsuit was filed against the City for contamination remediation costs incurred by an adjacent property owner caused by hazardous substance emanating from a property owned by the City. This property was used by the Fund as part of the work performed on the Northeast Interceptor Sewer. The case settled in January 2012 and the \$2.5 million settlement was accrued as Pollution Remediation Obligation under accounts, contracts and retainage payable at June 30, 2011.

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 record, the Fund used the site for disposal of grit waste from the Hyperion Treatment Plan. The City entered into 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.

The Fund was named by SDTSC as one of the responsible agencies involved in the investigation and cleanup of a landfill. The site is complex regarding the environmental issues to be addressed and the total costs for cleanup and long term maintenance 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 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 2011 and 2010, \$28.8 million and \$70.2 million were accrued as claims payable, respectively. The decrease was due to a payment in case settlement.

The changes in claims payable of the Fund are as follows (in thousands):

	2011	2010
Balance, July 1	\$ 70,215	\$ 47,235
Provisions for current year and changes in estimates for prior years	345	27,104
Claims payments	(41,760)	(4,124)
Balance, June 30	<u>\$ 28,800</u>	<u>\$ 70,215</u>
Estimated to be payable in one year	\$ 1,750	\$ 42,885
Payable in more than one year	27,050	27,330

**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND**

**Notes to the Basic Financial Statements
June 30, 2011 and 2010**

NOTE 9 – COMMITMENTS AND CONTINGENCIES (Continued)

Outstanding Contractual Commitments

As of June 30, 2011 and 2010, the Fund had outstanding commitments to fund planned modification and improvement to the City's wastewater collection and treatment system of approximately \$76.4 million and \$115.7 million, respectively.

Other Matters

Land Application of Biosolids

The City reuses biosolids, a by-product or residual of wastewater treatment, as a soil amendment at a City-owned farm in Kern County. The City is producing Exceptional Quality (EQ) biosolids, using the highest level of treatment, at the Hyperion Treatment Plant and Terminal Island Water Reclamation Treatment Plant (TIWRP), which permits the continuation of land application. However, a number of counties and other jurisdictions currently ban or are considering banning the land application of biosolids.

In July 2006, a Kern County voter-approved initiative (Measure E) prohibits biosolids land application in the unincorporated areas of Kern County, including the City-owned farm. In August 2007, the Kern County initiative was overturned in the courts, subsequently appealed by the Kern County Board of Supervisors and granted by the Ninth Circuit Court. The City filed a petition for certiorari before the United States Supreme Court which was denied on June 1, 2010. While the legal issues are ongoing, the City is investigating new beneficial use options and began a demonstration program to inject biosolids in wells at TIWRP in July 2008.

On November 9, 2010, the United States District Court dismissed all the claims in the 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 a preliminary injunction.

If Measure E provisions are upheld, the City will no longer be able to land apply biosolids and would have to landfill the Kern County City-owned farm, dispose of it out of state or consider other use options at an increased cost of approximately \$3 million per year.

National Pollutant Discharge Elimination System (NPDES) Permits

In October 1998, the City filed an appeal of its National Pollutant Discharge Elimination System (NPDES) permits for the DC Tillman Water Reclamation Plant (DCTWRP) and the Los Angeles-Glendale Water Reclamation Plant (LAGWRP) to the Los Angeles Regional Water Resources Control Board (LARWQCB). The City filed an appeal of the permits since they are "more stringent" than required under federal law and thus should have been subject to "economic considerations" by the LARWQCB before inclusion in the permits. In March 2010, all parties to the lawsuit agreed to a negotiated settlement agreement. As a result of the settlement agreement, most of the Groundwater Monitoring Requirements in the DCTWRP and LAGWRP permits were removed. Also, the revised permit changed the deadline for compliance with the State Implemental Policy of the California Toxics Rule for both plants to January 11, 2011. Currently, DCTWRP and LAGWRP are complying with their final permit limits for copper, but may experience difficulty meeting these final copper limits in the future. In anticipation of the expiration of the copper interim limits, the Cities of Burbank and Los Angeles completed a Copper Site-Specific Objective

**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND**

**Notes to the Basic Financial Statements
June 30, 2011 and 2010**

NOTE 9 – COMMITMENTS AND CONTINGENCIES (Continued)

Study for the Los Angeles River. The study was adopted by the LARWQCB on May 6, 2010 and a Water Effects Ratio adjustment will be applied to the final copper limits which will enable both plants to comply with their permits. The study must also be approved by State Water Resources Control Board (SWRCB), U.S. Environmental Protection Agency (EPA), and the Office of Administrative Law before being incorporated into the permits. It is difficult to predict the potential financial impact to the City until final copper limits are incorporated into the permits. 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.

The new permits also required compliance with the Nitrogen TMDL and construction of Nitrification-Denitrification (NDN) facilities. NDN facilities have been constructed at DCTWRP and LAGWRP and both plants are operating in full NDN mode. An Ammonia Site-Specific Objective Study was approved by the LARWQCB and adopted by the SWRCB, Office of Administrative Law and EPA. The adoption of this study will allow the adjustment of ammonia limits that will allow operators flexibility in the disinfection process. The RWQCB still needs to re-open the Nitrogen TMDL to revise its Waste Load Allocations for Ammonia and the permits to revise Ammonia permit limits. The Fund is also pursuing the possibility of delisting the Los Angeles River which would also provide relief from the Ammonia Wasteload Allocations. If the results of the 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.

On May 6, 2010 the LARWQCB adopted TIWRP's new NPDES permit, which will expire on June 25, 2015. 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 Los Angeles Harbor by 2020. Resolution 94-009 sets the goal of eliminating the effluent discharge by expanding the Advance Water Treatment Facility (AWTF) and increasing water reuse. At this time, it is difficult to project whether this permit requirement will result in additional costs to the Fund. Previous water recycling facilities constructed and operated at TIWRP received funding from the LADWP. While it is expected that LADWP will participate in a cost-sharing agreement for future water recycling facilities, no agreement is currently in place.

Total Maximum Daily Loads (TMDLs)

The LARWQCB is required to develop TMDLs for impaired waterbodies. 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. The Bureau of Sanitation is participating in the stakeholder process for TMDL development. At this time, it is difficult to predict the full impact of TMDLs on the NPDES effluent limits at the City's four treatment plants. However, it is expected that significant capital improvements funded by the Fund may be required to comply with the TMDLs.

**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND**

**Notes to the Basic Financial Statements
June 30, 2011 and 2010**

NOTE 9 – COMMITMENTS AND CONTINGENCIES (Continued)

Glendale-Burbank Interceptor Sewer (GBIS) Environmental Impact Report (EIR) Challenge

On December 7, 2006, the City was served with a Notice of Commencement of Action arising under the California Environmental Quality Act by the City of Burbank. The City of Burbank challenged the adequacy of the EIR prepared for the GBIS project. In October 2007, the court ruled that the City must clarify certain elements in the EIR as it relates to GBIS. On December 19, 2008, the City Council adopted recommendations to decertify and immediately recertify the Integrated Resources Plan's EIR without the GBIS portion. The City Council adopted and certified the EIR Addendum on November 9, 2010 which addressed the six mitigation measures that the Court requested. On November 12, 2010, the Notice of Determination was filed with the County Clerk. On November 22, 2010, the Los Angeles County Superior Court sided with the City that the Second Addendum to the IRP EIR was sufficient in addressing the environmental concerns. In light of the November 2010 Court decision, the GBIS project as identified in the recent approvals and addendum is now free from any legal impediments. The EIR Addendum did not identify mitigations that would add to the cost of the GBIS project.

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.

Contract Agencies

The Fund entered into universal terms agreements with 20 contract agencies for which the Fund provides wastewater treatment services. The contract agencies are billed based on the City's budgeted costs and agencies' projected wastewater flow and strength. According to the agreement, the annual billings are reconciled to the City's actual costs and agencies' actual flow and strength after the close of the fiscal year. In general only one fiscal year is being reconciled. The reconciliation process for fiscal year 2011 is still in progress and adjustments to the amounts billed are not determinable at this time.

**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND**

**Notes to the Basic Financial Statements
June 30, 2011 and 2010**

NOTE 9 – COMMITMENTS AND CONTINGENCIES (Continued)

The City of Burbank disagreed with the wastewater flow used in the City's billings. As a result, the billings to the City of Burbank have been on hold. Depending on the outcome of the study to be performed by the Fund and City of Burbank, the existing and possibly past billings to the City of Burbank will be recalculated and adjusted.

A discrepancy was discovered between two gauging devices that monitor its wastewater flow into the City of Santa Monica. Correction of the discrepancy could potentially reduce wastewater revenues from the City of Santa Monica in fiscal year 2012. The amount cannot be reasonably estimated at June 30, 2011.

Air Treatment Facilities (ATFs)

The Collection System Settlement Agreement (CSSA) requires the construction of seven ATFs as a means of controlling odors that were expected to develop due to the East Central Interceptor Sewer coming on-line. Two of the facilities have been constructed and the City has installed and is operating temporary odor scrubbers that are currently providing adequate treatment in 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. The City has requested a release from the requirement to construct the four ATFs from the court and plaintiffs. If not granted, the additional construction cost to the program is estimated at \$60 million.

NOTE 10 – SUBSEQUENT EVENTS

Sewer Service Charge Increase

The City Council approved a ten-year series of sewer service charges rate increases in a first hearing held on October 19, 2011. If the City Council approves the increases in the final hearing, and the Mayor subsequently concurs, a 4.5% increase will be effective approximately in March 2012, and 4.5% effective July 1 in each of fiscal years 2012-2013 and 2013-2014, and 6.5% effective July 1 in each of fiscal years 2014-2015 through 2020-2021. It is estimated that this will result in approximately \$3 million additional revenue for fiscal year 2012.

**CITY OF LOS ANGELES
SEWER CONSTRUCTION AND MAINTENANCE FUND**

**Required Supplementary Information
June 30, 2011
(Unaudited)**

Los Angeles City Employees' Retirement Plan – Schedule of Funding Progress

The following is the City's schedule of funding progress for the pension plan. Separate information for the Fund is not available (dollar amounts in thousands):

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Underfunded AAL	Funded ratio	Covered payroll	Underfunded AAL as a percentage of covered payroll
6/30/09	\$ 9,577,747	\$ 12,041,984	\$ 2,464,237	79.5%	\$ 1,816,171	135.7%
6/30/10	9,554,027	12,595,025	3,040,998	75.9%	1,817,662	167.3%
6/30/11	9,691,011	13,391,704	3,700,693	72.4%	1,833,392	201.9%

Los Angeles City Employees' Postemployment Healthcare Plan – Schedule of Funding Progress

The following is the City's schedule of funding progress for the OPEB plan. Separate information for the Fund is not available (dollar amounts in thousands):

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Underfunded AAL	Funded ratio	Covered payroll	Underfunded AAL as a percentage of covered payroll
6/30/09	\$ 1,342,497	\$ 2,058,177	\$ 715,680	65.2%	\$ 1,816,171	39.4%
6/30/10	1,425,726	2,233,874	808,148	63.8%	1,817,662	44.5%
6/30/11	1,546,884	1,968,708	421,824	78.6%	1,833,392	23.0%

The figures shown for actuarial valuation dated 6/30/09 are based on the revised actuarial valuation at June 30, 2009.

**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, 2011

(With Independent Auditor's Report Thereon)





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Honorable Members of the City Council
City of Los Angeles, California

INDEPENDENT AUDITOR'S REPORT

We have audited, in accordance with auditing standards generally accepted in the United States of America, the statement of net assets of the Sewer Construction and Maintenance Fund (Fund) of the City of Los Angeles, California as of June 30, 2011, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended, and have issued our report thereon dated February 7, 2012.

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, and 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, 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, 2011 (see attached schedules). It should be noted, however, that our audit was not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended 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.

Los Angeles, California
February 7, 2012



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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, 2011
(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)	\$ 255,683
125% of the debt service for Senior Lien Bonds of the Fund (as defined in Notes 1 and 3)	<u>132,973</u>
Excess of the net revenues over 125% of the debt service for Senior Lien Bonds	<u>\$ 122,710</u>
Ratio of net revenues to actual debt service for Senior Lien Bonds (minimum requirement 1.25 to 1)	<u>2.40 to 1</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)	\$ 255,683
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>197,226</u>
Excess of the net revenues over 110% of the debt service for Senior Lien Bonds, Subordinate Bonds, and State Revolving Fund Loan	<u>\$ 58,457</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>1.43 to 1</u>

See accompanying notes to the 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, 2011**

- Note 1 The "Fund" represents the Sewer Construction and Maintenance Fund.
- Note 2 "Net revenues" represent the change in net assets reflected in the financial statements reduced by amounts received under contracts or agreements with governmental or private entities and designated for capital costs, interest subsidy from U.S. Treasury, grants received from federal or state, and interest income on the bond construction funds. It is increased by depreciation, amortization of bond issuance costs and bond discounts/premiums, amortization of advance and current refunding charges, debt interest expenses, 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, 2011
(dollar amounts expressed in thousands)

Calculation of Net Revenues as Defined by Senior Lien General Resolution

Change in net assets as reflected in the audited financial statements	<u>\$ (29,642)</u>
Less:	
Amounts received under contracts or agreements with governmental or private entities and designated for capital costs	(10,415)
Interest income on bond construction funds	(1,252)
Grants received from federal or state	(13)
Interest subsidy from U.S. Treasury	<u>(3,600)</u>
Subtotal	<u>(15,280)</u>
Add:	
Depreciation expense	167,775
Interest on bonds, commercial paper revenue notes, and state revolving fund loan (including amortization of discounts, premiums, and advance and current refunding deferred charges)	114,093
Amortization of bond issuance costs	711
Other nonoperating expenses	<u>18,026</u>
Subtotal	<u>300,605</u>
Net revenues	(A) <u><u>\$ 255,683</u></u>

Calculation of Debt Service for Senior Lien Bonds as Defined by Senior Lien General Resolution

Principal maturities - Senior Lien Bonds	\$ 38,245
Interest payments - Senior Lien Bonds	<u>68,133</u>
Actual debt service	(B) 106,378
x 125%	<u>1.25</u>
Modified debt service	(C) <u><u>\$ 132,973</u></u>
Excess of net revenues over modified debt service	(A)-(C) <u><u>\$ 122,710</u></u>
Ratio of net revenues over actual debt service for Senior Lien Bonds Only	(A)/(B) <u><u>2.40 to 1</u></u>

Continued...

**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, 2011
(dollar 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	\$	55,485
Principal maturities - state revolving fund loan		10,309
Interest payments - Senior Lien and Subordinate Bonds		109,904
Interest payments - state revolving fund loan		3,297
Interest payments - commercial paper revenue notes		<u>301</u>
Actual debt service	(D)	179,296
x 110%		<u>1.10</u>
Modified debt service	(E)	<u>\$ 197,226</u>
Excess of net revenues over modified debt service	(A)-(E)	<u>\$ 58,457</u>
Ratio of net revenues over actual debt for Senior Lien Bonds, Subordinate Bonds, and State Revolving Fund Loan	(A)/(D)	<u>1.43 to 1</u>

APPENDIX F

FORM OF OPINIONS OF BOND COUNSEL

May 24, 2012

City of Los Angeles
Los Angeles, California

\$49,650,000
City of Los Angeles
Wastewater System
Revenue Bonds,
Refunding Series 2012-A

Ladies and Gentlemen:

We have acted as bond counsel to the City of Los Angeles (the "City") in connection with the issuance of its Wastewater System Revenue Bonds, Refunding Series 2012-A, in the aggregate principal amount of \$49,650,000 (the "Series 2012-A Bonds"). The Series 2012-A Bonds are being issued pursuant to the Charter of the City and California Government Code, Title 5, Division 2, Part 1, Chapter 3, Articles 10 and 11 (Sections 53570 *et seq.*) (collectively, the "Law") and a 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-Sixth Supplemental Resolution, adopted by the Council on March 23, 2012, providing for the issuance of the Series 2012-A Bonds (collectively, the "General Resolution").

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 have deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the General Resolution.

We have assumed, but have not independently verified, that the signatures on all documents, certificates and opinions that we have reviewed are genuine. In our examination, we have assumed, but have not independently verified, the legal capacity of all natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies or by facsimile or other means of electronic transmission or which we obtained from sites on the internet, and the authenticity of the originals of such latter documents. As to facts and certain other matters and the consequences thereof relevant to the opinions expressed herein and the other statements made herein, we have relied without independent investigation or verification upon, and assumed the accuracy and completeness of certificates, letters (including opinion letters), and oral and written statements and representations of the City Attorney, other public officials, officers and representatives of the City, and others.

Furthermore, we have assumed compliance with all covenants and agreements contained in the General Resolution, including (without limitation) such covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Series 2012-A Bonds to be included in gross income for federal income tax purposes.

In addition, we call attention to the fact that the rights and obligations under the Series 2012-A Bonds and the General Resolution are subject to bankruptcy, insolvency, reorganization, arrangement, moratorium and other similar laws affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public agencies in the State of California. Furthermore, the imposition of certain fees and charges by the City relating to the Wastewater System may be subject to the provisions of Articles XIII C and XIII D of the California Constitution.

Based upon the foregoing and subject to the limitations and qualifications herein specified, as of the date hereof, we are of the opinion, under existing law, that:

1. The Series 2012-A Bonds have been duly authorized, executed and delivered by, and constitute the valid and binding special, limited obligations of the City.

2. The Series 2012-A Bonds are payable exclusively from and are secured by a pledge of and secured 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 2012-A Bonds or the interest thereon.

3. The General Resolution has been duly adopted by the Council 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 2012-A 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. Series 2012-A 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 2012-A Bonds.

5. Assuming continuing compliance by the City with certain covenants in the General Resolution and other documents pertaining to the Series 2012-A Bonds and requirements of the Internal Revenue Code of 1986, as amended, regarding the use, expenditure and investment of the proceeds of the Series 2012-A Bonds and the timely payment of certain investment earnings to the United States, interest on the Series 2012-A Bonds is not includable in the gross income of the owners of the Series 2012-A Bonds for purposes of federal income taxation. Interest on the Series 2012-A Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals or corporations. Interest on the Series 2012-A Bonds, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may, therefore, affect a corporation's alternative minimum tax liability.

6. Interest on the Series 2012-A Bonds is exempt from personal income tax imposed by the State of California.

Other than as described herein, we have not addressed, and are not opining on, the tax consequences to any person of the investment in, or of the receipt of interest on, the Series 2012-A Bonds. Further, we express no opinion as to the effect of any change to any document pertaining to the Series 2012-A Bonds or of any action taken or not taken where such change is made or action is taken or not taken without our approval or in reliance upon the advice of counsel other than ourselves with respect to the exclusion from gross income for federal income tax purposes of the interest on the Series 2012-A Bonds.

The opinions expressed and the statements made herein are based on an analysis of existing laws, regulations, rulings and court decisions. Such opinions and statements may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur, and we have no obligation to update this letter in light of such actions or events or for any other reason.

This opinion letter is limited to the laws of the State of California and the federal laws of the United States. The opinions in this letter are expressed solely as of the date hereof for your benefit and may not be relied upon in any manner for any purposes by any other person.

Respectfully submitted,

May 24, 2012

City of Los Angeles
Los Angeles, California

\$133,715,000
City of Los Angeles
Wastewater System
Subordinate Revenue Bonds,
Refunding Series 2012-C

Ladies and Gentlemen:

We have acted as bond counsel to the City of Los Angeles (the "City") in connection with the issuance of its Wastewater System Subordinate Revenue Bonds, Refunding Series 2012-C, in the aggregate principal amount of \$133,715,000 (the "Series 2012-C Subordinate Bonds"). The Series 2012-C Subordinate Bonds are being issued pursuant to the Charter of the City and California Government Code, Title 5, Division 2, Part 1, Chapter 3, Articles 10 and 11 (Sections 53570 *et seq.*) (collectively, the "Law") and a Wastewater System Subordinate Revenue Bonds General Resolution, adopted by the Council of the City (the "Council") on March 26, 1991, as heretofore amended and supplemented and as further amended and supplemented by the Thirteenth Supplemental Resolution, adopted by the Council on March 23, 2012, providing for the issuance of the Series 2012-C Subordinate Bonds (collectively, the "Subordinate General Resolution").

In our capacity as bond counsel, we have reviewed the Law, the Subordinate General Resolution, certifications of the City and others, opinions of the City Attorney and such other documents, opinions and instruments as we have deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Subordinate General Resolution.

We have assumed, but have not independently verified, that the signatures on all documents, certificates and opinions that we have reviewed are genuine. In our examination, we have assumed, but have not independently verified, the legal capacity of all natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies or by facsimile or other means of electronic transmission or which we obtained from sites on the internet, and the authenticity of the originals of such latter documents. As to facts and certain other matters and the consequences thereof relevant to the opinions expressed herein and the other statements made herein, we have relied without independent investigation or verification upon, and assumed the accuracy and completeness of certificates, letters (including opinion letters), and oral and written statements and representations of the City Attorney, other public officials, officers and representatives of the City, and others.

Furthermore, we have assumed compliance with all covenants and agreements contained in the Subordinate General Resolution, including (without limitation) such covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Series 2012-C Subordinate Bonds to be included in gross income for federal income tax purposes.

In addition, we call attention to the fact that the rights and obligations under the Series 2012-C Subordinate Bonds and the Subordinate General Resolution are subject to bankruptcy, insolvency, reorganization, arrangement, moratorium and other similar laws affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public agencies in the State of California. Furthermore, the imposition of certain fees and charges by the City relating to the Wastewater System may be subject to the provisions of Articles XIII C and XIII D of the California Constitution.

Based upon the foregoing and subject to the limitations and qualifications herein specified, as of the date hereof, we are of the opinion, under existing law, that:

1. The Series 2012-C Subordinate Bonds have been duly authorized, executed and delivered by, and constitute the valid and binding special, limited obligations of the City.

2. The Series 2012-C Subordinate Bonds are payable exclusively from and are secured by a pledge of and secured lien upon Revenues and certain amounts held under or pursuant to the Subordinate General Resolution. The pledge, assignment and lien on the Revenues granted pursuant to the Wastewater System Revenue Bonds General Resolution, adopted by the Council on November 10, 1987, as amended and supplemented from time to time (the "General Resolution") to secure Senior Lien Bonds (as defined in the Subordinate General Resolution) is in all respects prior to the pledge, assignment and lien on the Revenues granted by the Subordinate General Resolution to secure the Series 2012-C Subordinate Bonds and all other Subordinate Bonds (as defined in the Subordinate 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 2012-C Subordinate Bonds or the interest thereon.

3. The Subordinate General Resolution has been duly adopted by the Council and constitutes the valid and binding obligation of, the City. The Subordinate General Resolution creates a valid pledge, to secure the payment of the principal of and interest on the Series 2012-C Subordinate Bonds, of the Revenues of the City, and certain other amounts held by the City under the Subordinate General Resolution subject to the provisions of the Subordinate General Resolution permitting the application thereof for the purposes and on the terms and conditions set forth therein and subject to the prior pledge and assignment thereof granted by the General Resolution to secure the Senior Lien Bonds.

4. Series 2012-C Subordinate Bonds and other subordinate parity debt of the City have been and may from time to time hereafter be issued under the Subordinate General Resolution and are payable from Revenues on a parity basis with the Series 2012-C Subordinate Bonds. Senior Lien Bonds have been and may from time to time be issued under the General Resolution and are payable from Revenues in all respects prior to the pledge, assignment and lien on the Revenues granted by the Subordinate General Resolution to secure the Series 2012-C Subordinate Bonds and all other Subordinate Bonds.

5. Assuming continuing compliance by the City with certain covenants in the Subordinate General Resolution and other documents pertaining to the Series 2012-C Subordinate Bonds and requirements of the Internal Revenue Code of 1986, as amended, regarding the use, expenditure and investment of the proceeds of the Series 2012-C Subordinate Bonds and the timely payment of certain investment earnings to the United States, interest on the Series 2012-C Subordinate Bonds is not includable in the gross income of the owners of the Series 2012-C Subordinate Bonds for purposes of federal income taxation. Interest on the Series 2012-C Subordinate Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals or corporations. Interest on the Series 2012-C Subordinate Bonds, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may, therefore, affect a corporation's alternative minimum tax liability.

6. Interest on the Series 2012-C Subordinate Bonds is exempt from personal income tax imposed by the State of California.

Other than as described herein, we have not addressed, and are not opining on, the tax consequences to any person of the investment in, or of the receipt of interest on, the Series 2012-C Subordinate Bonds. Further, we express no opinion as to the effect of any change to any document pertaining to the Series 2012-C Subordinate Bonds or of any action taken or not taken where such change is made or action is taken or not taken without our approval or in reliance upon the advice of counsel other than ourselves with respect to the exclusion from gross income for federal income tax purposes of the interest on the Series 2012-C Subordinate Bonds.

The opinions expressed and the statements made herein are based on an analysis of existing laws, regulations, rulings and court decisions. Such opinions and statements may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur, and we have no obligation to update this letter in light of such actions or events or for any other reason.

This opinion letter is limited to the laws of the State of California and the federal laws of the United States. The opinions in this letter are expressed solely as of the date hereof for your benefit and may not be relied upon in any manner for any purposes by any other person.

Respectfully submitted,

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 2012 Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Series 2012 Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series 2012 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 2012 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 2012 Bonds (the “Series 2012 Bonds”). The Series 2012 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 2012 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 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. The information on this website is not incorporated herein by reference.

3. Purchases of Series 2012 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2012 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 2012 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 2012 Bonds, except in the event that use of the book-entry system for the Series 2012 Bonds is discontinued.

4. To facilitate subsequent transfers, all Series 2012 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 2012 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 2012 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2012 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 2012 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2012 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Series 2012 Bonds may wish to ascertain that the nominee holding the Series 2012 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 2012 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 2012 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 2012 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 2012 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 2012 Bonds purchased or tendered, through its Participant, to the City's designated agent, and shall effect delivery of such Series 2012 Bonds by causing the Direct Participant to transfer the Participant's interest in the Series 2012 Bonds, on DTC's records, to the City's designated agent. The requirement for physical delivery of Series 2012 Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Series 2012 Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Series 2012 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 2012 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 2012 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 2012 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 \$49,650,000 City of Los Angeles Wastewater System Revenue Bonds, Refunding Series 2012-B (the "Series 2012-A 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-Sixth Supplemental Resolution, adopted by the City Council on March 23, 2012 (collectively, the "General Resolution"), and its \$133,715,000 City of Los Angeles Wastewater System Subordinate Revenue Bonds, Refunding Series 2012-C (the "Series 2012-C Subordinate Bonds" and, together with the Series 2012-A Senior Lien Bonds, the "Series 2012 Bonds") pursuant to a Subordinate General Resolution adopted by the City Council on March 26, 1991, as amended and supplemented, including as amended and supplemented by the Thirteenth Supplemental Resolution, adopted by the City Council on March 23, 2012 (collectively, the "Subordinate General Resolution" and together with the General Resolution, the "Resolutions").

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 Resolutions, 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 2012 Bonds (including persons holding Series 2012 Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Series 2012 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 17, 2012, issued by the City in connection with the sale of the Series 2012 Bonds.

“Participating Underwriter” shall mean any of the original underwriters of the Series 2012 Bonds required to comply with the Rule in connection with offering of the Series 2012 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, 2012 for the report for the 2010-11 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, 2011 and 2010, 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.

“VARIABLE RATE BONDS CREDIT ENHANCEMENT” 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 2012 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 2012 Bonds, or other material events affecting the tax status of the Series 2012 Bonds;
- (vii) modifications to the rights of Owners of the Series 2012 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 2012 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 2012 Bonds. If such termination occurs prior to the final maturity of the Series 2012 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 2012 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 2012 Bonds in the same manner as provided in the Resolution for amendments to the 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 2012 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 2012 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 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 2012 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 2012 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: May 24, 2012

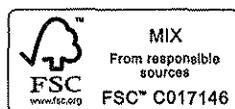
CITY OF LOS ANGELES

By: _____
Assistant City Administrative Officer

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APPENDIX B

PROPOSED FORM OF OPINION OF BOND COUNSEL

_____, 2012

City of Los Angeles
Los Angeles, California

\$200,000,000 (Maximum Principal Amount)
City of Los Angeles
Wastewater System Commercial Paper Revenue Notes
Series A and C

Ladies and Gentlemen:

We have acted as bond counsel to the City of Los Angeles (the "City") in connection with the issuance of up to \$200,000,000 Wastewater System Commercial Paper Revenue Notes (the "Notes"). The Notes are being issued, and will continued to be issued, from time to time, pursuant to the Charter of the City, a Wastewater System Subordinate Revenue Bonds General Resolution, adopted by the Council of the City (the "Council") on March 26, 1991, as heretofore amended and supplemented and as further amended and supplemented by the Eleventh Supplemental Resolution, adopted by the Council on June 25, 2010, providing for the issuance of the Notes (collectively, the "Subordinate General Resolution"), and an Amended and Restated Issuing and Paying Agent Agreement, dated as of September 1, 2012 (the "Paying Agent Agreement"), by and between the City and U.S. Bank National Association (the "Issuing and Paying Agent"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Subordinate General Resolution.

The Notes are being issued in two Series. The Notes of each Series are additionally secured by a related line of credit issued pursuant to a Line of Credit Agreement, dated as of June 1, 2010, as amended by that certain Amendment No. 1 to Line of Credit Agreement, dated as of June 1, 2012 (as so amended, the "Credit Agreement"), with State Street Bank and Trust Company and Wells Fargo Bank, National Association (collectively, the "Banks"), pursuant to which each of the Banks has severally, but not jointly, agreed to extend to the City, for the benefit of the holders of a particular Series of Notes, a revolving line of credit.

In our capacity as bond counsel, we have reviewed the Law, copies, certified or otherwise identified to our satisfaction, of the Subordinate General Resolution, the Paying Agent Agreement and the Credit Agreement, certifications of the City, the Banks and others, opinions of the City Attorney and of counsel to the Banks, and such other documents, opinions and instruments, and have made such investigation of law, as we have considered necessary or appropriate for the purpose of this opinion.

We have assumed, but have not independently verified, that the signatures on all documents, certificates and opinions that we have reviewed are genuine. In our examination, we have assumed, but have not independently verified, the legal capacity of all natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies or by facsimile or other means of electronic transmission or which we

obtained from sites on the internet, and the authenticity of the originals of such latter documents. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents. Furthermore, we have assumed compliance with all covenants and agreements contained in the Subordinate General Resolution, the Paying Agent Agreement and the Tax Certificate, 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 Notes to be included in gross income for federal income tax purposes.

In addition, we call attention to the fact that the rights and obligations under the Notes, the Subordinate General Resolution and the Paying Agent Agreement are subject to bankruptcy, insolvency, reorganization, arrangement, moratorium and other similar laws affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public agencies in the State of California. Furthermore, the imposition of fees and charges by the City relating to the Wastewater System may be subject to the provisions of Articles XIII C and XIII D of the California Constitution.

Certain requirements and procedures contained or referred to in the Subordinate General Resolution, the Resolution, the Tax Certificate or other documents pertaining to the Notes may be changed, and certain actions may be taken or not taken under the circumstances and subject to the terms and conditions set forth in such documents with the approval of counsel nationally recognized in the area of state and local obligations. No opinion is expressed herein as to the effect on the exclusion from gross income of interest on the Notes of any change to the aforementioned requirements and procedures or of any action taken or not taken after the date of this opinion without our approval.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Notes constitute the valid and binding special limited obligations of the City.
2. The Notes are special limited obligations of the City and are payable exclusively from and are secured by a pledge of and secured lien upon Revenues and certain amounts held under or pursuant to the Subordinate General Resolution and the Paying Agent Agreement. The pledge, assignment and lien on the Revenues granted pursuant to the Wastewater System Revenue Bonds General Resolution, adopted by the Council on November 10, 1987, as amended and supplemented from time to time (the "General Resolution") to secure Senior Lien Bonds (as defined in the Subordinate General Resolution) is in all respects prior to the pledge, assignment and lien on the Revenues granted by the Subordinate General Resolution to secure the Notes and all other Subordinate Bonds (as defined in the Subordinate 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 Notes or the interest thereon.
3. The Subordinate General Resolution has been duly adopted by the Council and constitutes the valid and binding obligation of the City. The Subordinate General Resolution creates a valid pledge, to secure the payment of the principal of and interest on the Notes, of the Revenues of the City, and certain other amounts held by the City under the Subordinate General Resolution and the Paying Agent Agreement, subject to the provisions of the Subordinate General Resolution permitting the application thereof for the purposes and on the terms and conditions set forth therein and subject to the prior pledge and assignment thereof granted by the General Resolution to secure the Senior Lien Bonds.
4. Bonds and other subordinate parity debt of the City have been and may from time to time hereafter be issued under the Subordinate General Resolution which are payable from Revenues on a parity basis with the Notes.

5. Based on existing statutes, regulations, rulings and judicial decisions and assuming continuing compliance by the City with certain covenants in the Subordinate General Resolution and other documents pertaining to the Notes, and requirements of the Internal Revenue Code of 1986, as amended, regarding the use, expenditure and investment of proceeds of the Notes and the timely payment of certain investment earnings in the United States, interest on the Notes is not includable in gross income of the owners of the Notes for purposes of federal income taxation. Failure to comply with such covenants and requirements may cause interest on the Notes to be included in federal gross income retroactive to the date of issuance of the Notes.

6. Interest on the Notes is not treated as an item of tax preference in calculating the alternative minimum taxable income of individuals or corporations. Interest on the Notes, however, is included in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's federal alternative minimum tax liability.

7. Interest on the Notes is exempt from personal income tax imposed by the State of California.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions as of the date hereof. Such opinions may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur, and we have no obligation to update this opinion in light of any such actions or events.

From time to time, in accordance with Treasury Regulations applicable to the issuance of commercial paper notes, the City "re-declares" the "program" (for federal income tax purposes) under which the Notes are issued. It is possible that the City may also issue Notes after the end of the 18-month period beginning on the date hereof. The opinions set forth in paragraphs 5 and 6 above may continue to be relied upon after 18 months from the date hereof only if there has been a "re-declaration" by the City of its commercial paper program and, in that event, only to the extent that (i) there has been no change in existing law subsequent to the date hereof, and (ii) no amendment has been made to the Subordinate General Resolution or the Paying Agent Agreement without our prior written consent.

Other than as described herein, we have neither addressed nor are we opining on the tax consequences to any person of the investment in, or the receipt of interest on, the Notes.

Respectfully submitted,

APPENDIX B

(TO OFFERING MEMORANDUM DATED DECEMBER 18, 2012)

PROPOSED FORM OF OPINION OF BOND COUNSEL

[Date of Closing]

City of Los Angeles
Los Angeles, California

U.S. Bank National Association,
as Paying Agent
Los Angeles, California

City of Los Angeles
Wastewater System Commercial Paper Notes
\$200,000,000 Maximum Aggregate Authorized
Principal Amount Outstanding at Any Time
Tax-Exempt Series A-1 and Tax-Exempt Series A-2
Taxable Series B-1 and Taxable Series B-2

Ladies and Gentlemen:

We previously acted as bond counsel to the City of Los Angeles, California (the "City") in connection with the issuance of up to \$200,000,000 Wastewater System Commercial Paper Revenue Notes, Series A (the "Series A Notes") and Series C (the "Series C Notes," and collectively with the Senior A Notes, the "Notes"). The Notes were authorized to be issued, from time to time, pursuant to the Charter of the City (the "Charter"), a Wastewater System Subordinate Revenue Bonds General Resolution, adopted by the Council of the City (the "City Council") on March 26, 1991, as heretofore amended and supplemented (the "Subordinate General Resolution"), including as amended and supplemented by an Eleventh Supplemental Resolution adopted by the City Council on June 18, 2010, and an Amended and Restated Issuing and Paying Agent Agreement, dated as of September 1, 2012, by and between the City and U.S. Bank National Association, as issuing and paying agent (the "Issuing and Paying Agent"). Capitalized terms not defined herein shall have the meanings ascribed to them in the Subordinate General Resolution.

Each Series of the Series A Notes and the Series C Notes were additionally secured by a related line of credit issued pursuant to a Line of Credit Agreement, dated as of June 1, 2010, with State Street Bank and Trust Company ("State Street") and Wells Fargo Bank, National Association ("Wells Fargo," and collectively with State Street, the "Banks"), pursuant to which each of the Banks had severally but not jointly, agreed to extend to the City, for the benefit of the holders of the Series A Notes and the Series B Notes, respectively, a revolving line of credit.

On September 13, 2012, the date of issuance of the Notes, we rendered an opinion that, subject to certain conditions, assumptions and limitations, interest on the Notes would not be includable in the gross income of owners of the Notes for federal income tax purposes. We rendered a further opinion on such date that interest on the Notes would not be treated as an item of tax preference for purposes of the alternative minimum tax on individuals and corporations (though we observed that such interest would be included as an adjustment in the calculation of corporate alternative minimum taxable income).

This opinion is being rendered pursuant to Section 8.02 of the First Supplemental Resolution, adopted by the Council on March 26, 1991, in connection with (a) the reoffering of the Notes, to be styled as Tax-Exempt Series A-1 (the "Series A-1 Notes"), Tax-Exempt Series A-2 (the "Series A-2 Notes," and together with the Series A-1 Notes, the "Tax-Exempt Notes"), Taxable Series B-1 (the "Series B-1 Notes"), and Taxable Series B-2 (the "Series B-2 Notes," and together with the Series B-1 Notes, the "Taxable Notes"), pursuant to a Fifteenth Supplemental Resolution, supplementing and amending the Subordinate General Resolution, adopted by the City Council on December 11, 2012, and an Amended and Restated Issuing and Paying Agent Agreement, dated as of December 1, 2012 (the "Issuing and Paying Agent Agreement"), by and between the City and the Issuing and Paying Agent, and (b) the issuance of (i) a Letter of Credit (the "BNY Mellon Letter of Credit") pursuant to a Reimbursement Agreement, dated as of December 1, 2012, by and between the City and The Bank of New York Mellon, securing the Series A-1 Notes and the Series B-1 Notes, and (ii) a Letter of Credit (the "SMBC Letter of Credit," and together with the BNY Mellon Letter of Credit, the "Letters of Credit") pursuant to a Reimbursement Agreement, dated as of December 1, 2012, by and between the City and Sumitomo Mitsui Banking Corporation, acting through its New York Branch, securing the Series A-2 Notes and the Series B-2 Notes. The Tax-Exempt Notes are being treated as part of the same issue of obligations as the Notes for purposes of Sections 103 and 141 through 150 of the Code.

In connection with our rendering the opinions set forth herein, we have reviewed the Subordinate General Resolution, the Fifteenth Supplemental Resolution, the Issuing and Paying Agent Agreement, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the City. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to above. Further, we have assumed compliance with all covenants contained in the Subordinate General Resolution, the Fifteenth Supplemental Resolution and the Issuing and Paying Agent Agreement, including (without limitation) covenants and agreements compliance with which is necessary to assure that actions, omissions or events on and after the date of issuance of the Notes have not caused and will not cause interest on the Tax-Exempt Notes to be included in gross income for federal income tax purposes.

We have not been engaged to undertake and we have not undertaken to determine compliance with any of such covenants and agreements or any other requirements of law, and, except as expressly set forth herein, we have not otherwise reviewed any actions, omissions or events occurring after the date of issuance of the Notes or the exclusion of interest on the Notes from gross income for federal income tax purposes. Accordingly, except as expressly set forth below, no opinion is expressed herein as to whether interest on the Notes is excludable from gross income for federal income tax purposes or as to any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Notes.

Based on the foregoing, we are of the opinion that the issuance of the BNY Mellon Letter of Credit and the SMBC Letter of Credit will not cause the interest on the Tax-Exempt Notes to become included in gross income for federal income tax purposes of the interest on the Tax-Exempt Notes.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and speak as of the date hereof. Such opinions may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling) after such date. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur, and we have no obligation to update this opinion in light of any such actions or events.

Respectfully submitted,

APPENDIX B

(TO OFFERING MEMORANDUM DATED _____, 2013)

PROPOSED FORM OF LETTER OF BOND COUNSEL

[_____, 2013]

City of Los Angeles
Los Angeles, California

U.S. Bank National Association,
as Paying Agent
Los Angeles, California

City of Los Angeles
Wastewater System Commercial Paper Notes
\$200,000,000 Maximum Aggregate Authorized
Principal Amount Outstanding at Any Time
Tax-Exempt Series A-1 and Tax-Exempt Series A-2
Taxable Series B-1 and Taxable Series B-2

Ladies and Gentlemen:

We previously acted as bond counsel to the City of Los Angeles, California (the "City") in connection with the issuance of up to \$200,000,000 Wastewater System Commercial Paper Revenue Notes, Series A (the "Series A Notes") and Series C (the "Series C Notes," and collectively with the Series A Notes, the "Notes"). The Notes were authorized to be issued, from time to time, pursuant to the Charter of the City (the "Charter"), a Wastewater System Subordinate Revenue Bonds General Resolution, adopted by the Council of the City (the "City Council") on March 26, 1991, as heretofore amended and supplemented (the "Subordinate General Resolution"), including as amended and supplemented by an Eleventh Supplemental Resolution adopted by the City Council on June 18, 2010, and an Amended and Restated Issuing and Paying Agent Agreement, dated as of September 1, 2012, by and between the City and U.S. Bank National Association, as issuing and paying agent (the "Issuing and Paying Agent"). Capitalized terms not defined herein shall have the meanings ascribed to them in the Subordinate General Resolution.

Each Series of the Notes was additionally secured by a related line of credit issued pursuant to a Line of Credit Agreement, dated as of June 1, 2010, with State Street Bank and Trust Company ("State Street") and Wells Fargo Bank, National Association ("Wells Fargo," and collectively with State Street, the "Banks"), pursuant to which each of the Banks had severally but not jointly, agreed to extend to the City, for the benefit of the holders of the Series A Notes and the Series C Notes, respectively, a revolving line of credit.

On September 13, 2012, the date of issuance of the Notes, we rendered an opinion that, subject to certain conditions, assumptions and limitations, interest on the Notes would not be includable in the gross income of owners of the Notes for federal income tax purposes. We rendered a further opinion on such date that interest on the Notes would not be treated as an item of tax preference for purposes of the alternative minimum tax on individuals and corporations (though we observed that such interest would be included as an adjustment in the calculation of corporate alternative minimum taxable income).

On December 18, 2012, we rendered an opinion (the "December 18 Opinion") pursuant to Section 8.02 of the First Supplemental Resolution, adopted by the Council on March 26, 1991, in connection with (a) the reoffering of the Notes, to be re-styled as Tax-Exempt Series A-1 (the "Series A-1 Notes"), Tax-Exempt Series A-2 (the "Series A-2 Notes," and together with the Series A-1 Notes, the "Tax-Exempt Notes"), Taxable Series B-1 (the "Series B-1 Notes"), and Taxable Series B-2 (the "Series B-2 Notes," and together with the Series B-1 Notes, the "Taxable Notes"), pursuant to a Fifteenth Supplemental Resolution, supplementing and amending the Subordinate General Resolution, adopted by the City Council on December 11, 2012 (the "Fifteenth Supplemental Resolution"), and an Amended and Restated Issuing and Paying Agent Agreement, dated as of December 1, 2012 (the "Issuing and Paying Agent Agreement"), by and between the City and the Issuing and Paying Agent, and (b) the issuance of (i) a Letter of Credit (the "BNY Mellon Letter of Credit") pursuant to a Reimbursement Agreement, dated as of December 1, 2012, by and between the City and The Bank of New York Mellon, securing the Series A-1 Notes and the Series B-1 Notes, and (ii) a Letter of Credit (the "SMBC Letter of Credit") pursuant to a Reimbursement Agreement, dated as of December 1, 2012, by and between the City and Sumitomo Mitsui Banking Corporation, acting through its New York Branch, securing the Series A-2 Notes and the Series B-2 Notes. The Tax-Exempt Notes, since their "deemed issue date," have been treated as part of the same issue of obligations as the Notes for purposes of Sections 10-3 and 141-150 of the Code. Our December 18 Opinion was to the effect that the issuance of the BNY Mellon Letter of Credit and the SMBC Letter of Credit would not cause the interest on the Tax-Exempt Notes to become included in gross income for federal income tax purposes.

Subsequent to the date of our December 18 Opinion, on February __, 2013, the Fifteenth Supplemental Resolution was amended and restated in its entirety by the Amended and Restated Fifteenth Supplemental Resolution (the "Amended and Restated Fifteenth Supplemental Resolution"), supplementing and amending the Subordinate General Resolution. This letter is to advise you that our December 18 Opinion has not changed or been withdrawn by virtue of the adoption of the Amended and Restated Fifteenth Supplemental Resolution.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and speak as of the date hereof. Such opinions may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling) after such date. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur, and we have no obligation to update this letter in light of any such actions or events.

Other than as described herein, we have neither addressed nor are we opining on the tax consequences to any person of the investment in, or the receipt of interest on, the Notes.

Respectfully submitted,

ATTACHMENT C
LETTER AGREEMENT

[City Letterhead]

_____, 2013

Sumitomo Mitsui Banking Corporation,
acting through its New York Branch
New York, New York

The Bank of New York Mellon
New York, New York

Wells Fargo Bank, National Association
Los Angeles, California

Samuel A. Ramirez & Co., Inc.
Los Angeles, California

U.S. Bank National Association
Los Angeles, California

Public Resources Advisory Group
Oakland, California

Re: **City of Los Angeles
Wastewater System Commercial Paper
Revenue Notes
\$200,000,000 Maximum Aggregate Authorized
Principal Amount Outstanding at Any Time
Tax-Exempt Series A-1 and Tax-Exempt Series A-2
Taxable Series B-1 and Taxable Series B-2**

Ladies and Gentlemen:

This letter is intended to memorialize our agreement respecting the adoption of the Amended and Restated Fifteenth Supplemental Resolution, adopted by the Council (the "City Council") of the City of Los Angeles (the "City") on _____, 2013 (the "Amended and Restated Fifteenth Supplemental Resolution"), which amended and restated in its entirety the Fifteenth Supplemental Resolution, adopted by the City Council on December 11, 2012 (the "Fifteenth Supplemental Resolution"), which Fifteenth Supplemental Resolution supplemented the Wastewater System Subordinate Revenue Bonds General Resolution, adopted by the City Council on March 26, 1991.

The parties hereto hereby state, represent and agree, as follows:

1. that in connection with the issuance of the City's Wastewater System Commercial Paper Revenue Notes, Tax-Exempt Series A-1 (the "Series A-1 Notes") and Tax-Exempt Series A-2 (the "Series A-2 Notes," and together with the Series A-1 Notes, the "Series A Notes") and Taxable Series B-1 (the "Series B-1 Notes") and Taxable Series B-2 (the "Series B-2 Notes," together with the Series B-1 Notes, the "Series B Notes," and collectively with the Series A Notes, the "Notes") the following documents described in subparagraphs (a) through (i) below (collectively, the "CP Documents") were executed and delivered:

(a) the Amended and Restated Issuing and Paying Agent Agreement, dated as of December 1, 2012, by and between the City and U.S. Bank National Association, as paying agent;

(b) the Reimbursement Agreement, dated as of December 1, 2012 (the "BNYM Reimbursement Agreement"), by and between the City and The Bank of New York Mellon ("BNYM");

(c) the Reimbursement Agreement, dated as of December 1, 2012 (the "SMBC Reimbursement Agreement"), by and between the City and Sumitomo Mitsui Banking Corporation, acting through its New York Branch ("SMBC," and together with BNYM, the "Banks");

(d) the Letter of Credit, dated December 18, 2012, issued SMBC, with respect to the Series A-2 Notes and the Series B-2 Notes, pursuant to the SMBC Reimbursement Agreement;

(e) the BNYM Bank Note, dated December 18, 2012;

(f) the SMBC Bank Note, dated December 18, 2012;

(g) the Dealer Agreement, dated as of December 1, 2012, by and between the City and Wells Fargo Bank, National Association;

(h) the Dealer Agreement, dated as of December 1, 2012, by and between the City and Samuel A. Ramirez & Co., Inc.; and

(i) various closing certificates and documents dated December 18, 2012, executed and delivered in connection with the issuance of the Notes.

2. that the CP Documents delivered in connection with the issuance of the Notes made reference throughout to the Fifteenth Supplemental Resolution, which Fifteenth Supplemental Resolution inadvertently omitted certain technical clarifications requested by the rating agencies;

3. that, to address such omissions, the Fifteenth Supplemental Resolution was subsequently amended and restated in its entirety by the Amended and Restated Fifteenth Supplemental Resolution;

4. that all references in the CP Documents to the Fifteenth Supplemental Resolution shall henceforth be deemed to refer to the Amended and Restated Fifteenth Supplemental Resolution; and

5. that this letter agreement may be executed in any number of counterparts, each of which shall for all purposes be deemed to be an original and all of which shall together constitute one and the same letter agreement.

Very truly yours,

CITY OF LOS ANGELES

By: _____
Raymond P. Ciranna
Assistant City Administrative Officer

[Additional Signatures on Following Page]

ACCEPTED AND AGREED TO:

SUMITOMO MITSUI BANKING
CORPORATION, acting through its
New York Branch

THE BANK OF NEW YORK MELLON

By: _____
Name:
Title:

By: _____
Name:
Title:

WELLS FARGO BANK, NATIONAL
ASSOCIATION

SAMUEL A. RAMIREZ & CO., INC.

By: _____
Name:
Title:

By: _____
Name:
Title:

U.S. BANK NATIONAL ASSOCIATION

PUBLIC RESOURCES ADVISORY GROUP

By: _____
Name:
Title:

By: _____
Name:
Title: