

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: March 30, 2017

CAO File No. 0670-00037

Council File No.

Council District: ALL

To: The Mayor
The Council

From: Richard H. Llewellyn, Jr., Interim City Administrative Officer



Reference: Los Angeles Wastewater System Debt Financing Program

Subject: **ISSUANCE OF LOS ANGELES WASTEWATER SYSTEM SUBORDINATE REVENUE REFUNDING BONDS, SERIES 2017 (GREEN BONDS)**

RECOMMENDATIONS

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

1. ADOPT the Twenty-First Supplemental Subordinate General Resolution, including various documents required to execute the transactions, and authorizes the City Administrative Officer to take certain actions required to manage the transactions, including costs of issuance,
2. INSTRUCT the City Clerk to place on the Council Agenda on April 19, 2017, or an alternate date as specified by the City Administrative Officer, the adoption of the Twenty-Ninth Supplemental Senior General Resolution; and
3. AUTHORIZE the City Administrative Officer to make technical changes to implement the intent of the Council and Mayor.

SUMMARY

The City Administrative Officer (CAO) requests authority to issue Los Angeles Wastewater System ("LAWW") Fixed-Rate Subordinate Revenue Refunding Bonds, Series 2017 (Green Bonds) (the "Series 2017 Bonds") for: 1) up to \$300 million in new money for future capital needs and 2) refinancing portions of LAWW Senior Revenue Bonds, Series 2009-A and LAWW Subordinate Revenue Bonds, Series 2010-A. The CAO recommends the adoption of the Twenty-First Supplemental Subordinate Resolution (Attachment A) that incorporates various documents required for the issuance and sale of the Series 2017 Bonds (Exhibits A to C).

The Series 2017 Bonds will be issued in three series. The Series 2017-A bonds will be comprised of new bonds for the financing of new capital projects in the amount of \$262 million. The Series 2017-B and 2017-C (Taxable) will be issued to advance refund Series 2009-A Senior Bonds and Series 2010-A Subordinate Bonds for present value savings, based on current market conditions,

of approximately \$21.8 million over the life of the bonds. Collectively, the refinancing achieves present value interest savings that are in accordance with the City's debt policy. The Series 2017-C Subordinate Refunding Bonds will be issued on a taxable basis as the 2009-A and 2010-A bonds were partially advance refunded on a tax-exempt basis in 2015. Federal tax law limits tax-exempt advance refundings set for a single bond series to one advance refunding. Since the interest rate spread between tax-exempt and taxable bonds is small relative to historical averages, it is economically sensible to refund the bonds on a taxable basis and still achieve savings that are in accordance with the City's Debt Management Policies.

The Series 2017 Bonds will contain "Green Bond" designation across all three bond series. Green Bonds are bonds issued for capital projects that are sustainable or environmentally-focused and are attractive to a growing group of investors who have mandates to invest in socially responsible endeavors. In 2015, the City issued its inaugural Green Bonds of the Wastewater System (Series 2015-A and Series 2015-C).

This Office recommends the sale of the Series 2017 Bonds on a negotiated basis with the following firms selected from the approved qualified list of underwriters for fixed-rate bond transactions (C.F. 10-1763): Morgan Stanley & Co. LLC (LBE) and Siebert Cisneros Shank & Co., LLC (LBE/MBE/WBE) as Senior Manager and Co-Senior Manager, respectively, and Academy Securities, Inc. (DVBE/MBE) and Fidelity Capital Markets as Co-Managers.¹

To proceed with the LAWW Series 2017 transaction, the Mayor and City Council will need to approve the Twenty-First Supplemental Subordinate Resolution (Subordinate Debt – Attachment A). This Resolution incorporates various documents required to execute the proposed transactions to authorize: 1) the issuance of up to \$300 million in new bonds for future capital projects; 2) the maximum amount of refunding bonds that are deemed to achieve interest savings, which will be determined at the time of sale; and, 3) the CAO to take certain actions to manage the various transactions.

The Twenty-First Supplemental Subordinate Resolution provides authority to issue up to \$300 million in new money should circumstances support increasing the amount issued at the time the transaction is priced. Specifically, the Bureau of Sanitation ("BOS") is currently projecting capital needs of \$262 million in Fiscal Year 2017-18. The Resolution incorporates the following documents for each of the proposed transactions (Exhibits A to C):

- Escrow Agreement (Exhibit A);
- Bond Purchase Agreement (Exhibit B); and
- Preliminary Official Statement (Exhibit C).

This Office further recommends that Council instruct the City Clerk to place on the Council

¹ LBE: Local Business Enterprises
MBE: Minority Business Enterprises
WBE: Women Business Enterprises
SBE: Small Business Enterprises
DVBE: Disabled Veteran Business Enterprises

Agenda on April 19, 2017, or an alternate date as specified by the City Administrative Officer, the adoption of the Twenty-Ninth Supplemental Senior Resolution (Attachment B). This Resolution will amend the Rate Covenant and definition of Maximum Annual Debt Service, allowing interest rate subsidies ("Refundable Credits") received from the Federal government, in connection with the LAWW Series 2010 Build America Bonds and Recovery Zone and Economic Development Bonds, to be treated as an offset to debt service instead of Wastewater System Revenues. Per the Wastewater System General Resolution, this Supplemental Resolution should be adopted two weeks after the delivery of a notice to bondholders informing them of such amendments. The notice to bondholders will be sent by the City on the week of March 27, 2017. In order to meet the required timeframe to adopt this Resolution, it is recommended that this Resolution be scheduled for Council consideration on April 19.

The Mayor and City Council will also need to approve an Ordinance establishing the special funds for the Series 2017-A Bonds. This report has been prepared by the City Attorney and will be submitted separately.

The sale of the bonds is scheduled for mid-April 2017. The sale and closing of the bonds is planned for early May 2017.

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

FISCAL IMPACT STATEMENT

There is no impact to the General Fund as a result of the recommended Los Angeles Wastewater System Subordinate Revenue Refunding Series 2017 bond issue. The debt service on the Wastewater System Revenue Bonds is paid from the Sewer Construction and Maintenance Fund. The costs of issuance will be paid from bond proceeds.

DEBT IMPACT STATEMENT

There is no debt impact to the City's General Fund from the approval of the recommendations in this report. The proposed transactions are expected to generate savings of approximately \$21.8 million over the life of the bonds for the Sewer Construction and Maintenance Fund. The actual amount of savings will be determined at the time of issuance subject to market conditions and the City's Debt Management Policies.

FINDINGS

1. Background

The Series 2017 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"). Under the Subordinate General Resolution, the City has previously issued multiple series of Subordinate Bonds (the "Existing Subordinate Bonds") that have a lien on Revenues subordinate to that of the Existing Senior Lien Bonds. The City has issued Existing Subordinate Bonds in the original aggregate principal amount of \$1.39 billion of which \$1.28 billion are outstanding. Per the General Resolution, a reserve fund is not required for Subordinate Bonds, including the Series 2017 Bonds.

Under the Wastewater System (Senior) Revenue Bonds General Resolution, the City has previously issued multiple series of Senior Lien Bonds (the "Existing Senior Lien Bonds"). The City has issued Existing Senior Lien Bonds in the original aggregate principal amount of \$1.5 billion, of which \$1.27 billion are outstanding. The Series 2017 Bonds do not include any Senior Lien Bonds.

2. Proposed Transactions

This Office regularly monitors for opportunities to refinance outstanding bonds to achieve interest rate savings. Several outstanding bonds have been identified and are eligible for refunding, and are likely to achieve savings, based on current market conditions, of approximately \$21.8 million over the life of the bonds. The extent of these savings will fluctuate and depend on market conditions at the time of the transaction. The Series 2017-B and 2017-C (Taxable) LAWW Subordinate Revenue Bonds will be used to advance refund 2009-A Senior Lien and 2010-A Subordinate Bonds. All or a portion thereof of these bonds will be refunded. In addition to generating present value savings of up to \$21.8 million, the refundings will also provide the opportunity to restructure payments to level out debt service over the next 30 years. The proposed transactions will also shift certain bonds from senior to subordinate liens, which will release debt service reserve funds and maximize savings. Collectively, the refinancing of the Series 2009-A Senior and Series 2010-A Subordinate Bonds achieves interest savings that are in accordance with the City's debt policy.

The Series 2017-C (Taxable) Subordinate Refunding Bonds will be issued on a taxable basis as the 2009-A and 2010-A bonds were previously partially advance refunded on a tax-exempt basis in 2015. Federal tax law limits tax-exempt advance refundings for a single bond series to one advance refunding. Since the interest rate spread between tax-exempt and taxable bonds is small relative to historical averages, it is economically sensible to refund the bonds on a taxable basis and still achieve savings that are in accordance with the City's Debt Management Policies.

The Twenty-First Supplemental Subordinate Resolution provides for authority to issue up to \$300 million in new money should circumstances support increasing the amount issued at the time the transaction is priced. Specifically, BOS is currently projecting capital needs of \$262 million in

Fiscal Year 2017-18.

The advance refunding bonds of the Series 2017 Bonds will be held by the escrow agent, US Bank Global Corporate Trust Services, in an irrevocable escrow account. The amount required to redeem the bonds will be verified by the Verification Agent, Grant Thornton LLP, Certified Public Accountant.

The costs of issuance (COI) for this transaction includes fees for bond counsel, special tax counsel, disclosure counsel, municipal advisors, verification agent, escrow agent, printing, rating agency fees, investor outreach costs, travel for pricing, and other associated costs. COI will be paid from bond proceeds. We believe this amount will not exceed \$750,000 for all three bond series. Other financing expenses include Underwriters' discount, which is the compensation the underwriters receive for marketing the bonds, will be paid from bond proceeds.

3. Green Bonds

The Series 2017 Bonds will be issued in three series, all designated as Green Bonds. Green Bonds are bonds issued for capital projects that are sustainable or environmentally-focused and are attractive to a growing group of investors who have mandates to invest in socially responsible endeavors. The LAWW Series 2015-B and Series 2015-C Bonds represented the Wastewater System's inaugural issuance of "Green Bonds."

Based on the environmental benefits of the capital facilitates of the Wastewater System, all capital improvement financed through this issuance fit the criteria of Green Bonds. The Bureau of Sanitation has reviewed its Wastewater System Capital Improvement Program and identified the following categories, which encompass all of its bond-funded projects:

1. Wastewater Treatment Facilities – Projects that support the overall treatment objective of meeting the discharge standards in the National Pollutant Discharge Elimination System permits;
2. Wastewater Collection and Pumping – Projects that reduce sewage spills;
3. Water Recycling – Projects that produce water for groundwater barrier and industrial uses, freeing up water from other sources that can be used by non-industrial customers and for environmental protection purposes;
4. Air Quality – Projects that support the construction and operation of the City's wastewater facilities.

The 2017 Bonds will be used to finance new capital projects in accordance with these categories and refinance capital projects paid for with Series 2009-A Senior and 2010 Subordinate. The City will file annual updates regarding the use of these proceeds to Electronic Municipal Market Access (EMMA), the official electronic platform for municipal securities disclosure.

4. Underwriting Team

This Office recommends the sale of the Series 2017 Bonds on a negotiated basis. This recommendation is based on the need to control the timing of the refunding to maximize savings and flexibility, given market conditions. We recommend the use of four firms selected from the approved qualified list of underwriters for the three fixed-rate bond transactions (C.F. 10-1763): Morgan Stanley & Co. LLC (LBE) and Siebert Cisneros Shank & Co., LLC (LBE/MBE/WBE) as Co-Senior Managers and Academy Securities (DVBE/MBE), Inc. and Fidelity Capital Markets as Co-Managers.

Recently, large transactions have gone to market with significant retail sales, which helps create competitive pricing on the institutional side. To secure the best pricing for this transaction, we need to successfully access the retail market. The proposed underwriters have well-established retail capabilities, which could be supplemented with a selling group comprised of additional underwriters. The members of the selling group would not be a party to this transaction in that they would not assume any underwriting liability; they would only assist with the marketing and sale of bonds and would be compensated accordingly. There is no increase in costs associated with the use of a selling group. This Office will establish a selling group, if the determination is made that it would be a cost-effective tool to improve retail access.

5. Financing Team

The firms providing municipal advisory services for this financing are Public Resources Advisory Group (PRAG) (LBE) & Frasca and Associates, LLC (WBE & LBE), previously approved by the Mayor and Council (C.F. 14-0412). Hawkins Delafield & Wood LLP serves as Bond and Tax Counsel and Norton Rose Fulbright LLP serves as Disclosure Counsel for these transactions. These firms are on the City's qualified list for legal services for the City's various bond programs, previously approved by the Mayor and Council (C.F. 12-0917).

6. Twenty-Ninth Supplemental Senior Resolution ("Refundable Credits")

This Office recommends that the Council instruct the City Clerk to place on the Council Agenda on April 19, 2017, or an alternate date as specified by the City Administrative Officer, the adoption of the Twenty-Ninth Supplemental Senior Resolution (Attachment B). This Resolution will amend the Rate Covenant and definition of Maximum Annual Debt Service to allow interest rate subsidies ("Refundable Credits") received from the Federal government, in connection with the 2010 Build America Bonds and Recovery Zone and Economic Development Bonds, to be treated as an offset to debt service instead of revenues, as is currently done. Specifically, this Resolution would decrease the annual debt service on outstanding LAWW bonds by the scheduled subsidy amounts for a given year, instead of recording subsidy receipts as Wastewater System revenues. This proposed change would more accurately record the System's receipt of the subsidy payments, as was intended at the time of issuance.

Per the General Resolution, this Supplemental Resolution should be adopted two weeks after the

delivery of a notice to bondholders informing them of such amendments. The notice to bondholders will be sent by the City on the week of March 27, 2017. In order to meet the required timeframe to adopt this Resolution, it is recommended that this Resolution be scheduled for Council consideration on April 19, 2017. This is the first date after the two week required period that Council is in session and before the pricing of the bonds.

7. Required Documents

To proceed with the recommended transactions, the Council will need to adopt the Twenty-First Supplemental Subordinate Resolution (Attachments A), which provides for the approval of the following:

- Escrow Agreements, which are agreements between the City and the Escrow Agent to provide for the administration of the bond proceeds to pay the refunded bonds (Exhibit A);
- Bond Purchase Agreement, which is the agreement between the City and the underwriters for the sale and purchase of the bonds by the underwriters (Exhibit B);
- Preliminary Official Statement, which is the primary disclosure and marketing document for the bonds (Exhibit C); and

The adoption of the Twenty-Ninth Supplemental Resolution (“Refundable Credits”) (Attachment B) is also recommended to amend the Rate Covenant and Maximum Annual Debt Service to record receipt of Federal subsidies as an offset to debt service instead of revenue. In order to comply with requirements established by the General Resolution, it is further recommended that this Resolution be scheduled for Council consideration on the week of April 17th.

An accompanying City Attorney report and draft ordinance, to be submitted under separate cover, will need to be approved to establish the necessary funds for the Series 2017 bonds.

RHL:NRB:AG:09170126

Attachments:

Attachment A – Twenty-First Supplemental Subordinate Resolution
 Exhibit A – Escrow Agreement
 Exhibit B – Bond Purchase Agreement
 Exhibit C – Preliminary Official Statement
Attachment B – Twenty-Ninth Supplemental Senior Resolution (“Refundable Credits”)

ATTACHMENT A –
Twenty-First Supplemental
Subordinate Resolution

THE COUNCIL OF THE CITY OF LOS ANGELES

TWENTY-FIRST SUPPLEMENTAL RESOLUTION

Adopted by the Council of the City on
April 7, 2017

SUPPLEMENTING THE
WASTEWATER SYSTEM SUBORDINATE REVENUE BONDS GENERAL RESOLUTION

Which Was
Adopted by the Council of the City on
March 26, 1991

AND AUTHORIZING AND APPROVING THE ISSUANCE OF
WASTEWATER SYSTEM SUBORDINATE REVENUE BONDS, SERIES 2017,
INCLUDING REFUNDING BONDS, IN ONE OR MORE SERIES ON A TAX-EXEMPT
AND TAXABLE BASIS, THE NEGOTIATED SALE OF SUCH BONDS, THE EXECUTION
AND DELIVERY OF DOCUMENTS RELATED THERETO AND RELATED ACTIONS

TWENTY-FIRST SUPPLEMENTAL RESOLUTION

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(This table of contents is not part of the Twenty-First Supplemental Resolution and has been added only for convenience of reference. The captions herein are of no legal effect and do not vary the meaning or legal effect of any part of this Twenty-First Supplemental Resolution.)

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TWENTY-FIRST SUPPLEMENTAL RESOLUTION

Providing for

City of Los Angeles
Wastewater System Subordinate Revenue Bonds
Series 2017

WHEREAS, the City Council (the "Council") of the City of Los Angeles (the "City") on November 10, 1987 adopted a resolution designated as the "Wastewater System Revenue Bonds General Resolution," as supplemented by supplemental resolutions thereto (collectively, the "General Resolution"), which sets forth the basic terms under which the City may issue wastewater system revenue bonds and which provides for a pledge of Revenues (as defined in the General Resolution) to secure all Bonds (defined below) issued thereunder; and

WHEREAS, the General Resolution provides that each Series of Bonds issued thereunder shall be authorized by, and the terms thereof set forth in, a Supplemental Resolution; and

WHEREAS, the Council, by resolution adopted on February 24, 1987, submitted to the qualified voters of the City the proposition of issuing bonds pursuant to the procedures set forth in the Revenue Bond Law of 1941, §54300 *et seq.* of the California Government Code (the "Revenue Bond Law") for the purpose of financing a portion of a major wastewater system improvement program; and

WHEREAS, at three elections, the voters voting on the respective propositions authorized a total of \$3,500,000,000 in bonds for the purpose of financing a portion of a major wastewater system improvement program; and

WHEREAS, on June 8, 1999, the City adopted a new Charter of the City (the "Charter"), which Charter became operative on and as of July 1, 2000; and

WHEREAS, pursuant to Article 6.7 of Chapter 1 of Division 11 of the Administrative Code of the City, the Council, exercising the powers reserved to the City under the Constitution of the State of California, and its powers under Section 361 of the Charter, may determine that revenue bonds, notes and other indebtedness or obligations (as defined in said Article 6.7 and as used for purposes of this preamble, "Bonds") be issued as provided in said Article 6.7 for the purpose of financing project costs, refunding outstanding Bonds, establishing reserves and paying costs of issuance in connection with such Bonds, payable from the SCM Fund (as defined in the General Resolution), and said Article 6.7 shall provide a complete alternative method of issuing such Bonds without a vote of qualified voters in the City; and

WHEREAS, the City has, under the General Resolution and individual supplemental resolutions thereto, issued wastewater system revenue bonds, all of which are Senior Lien Bonds (to the extent Outstanding) and are collectively referred to herein as the "Prior Senior Bonds," \$1,273,330,000 of which are Outstanding as of the date hereof; and

WHEREAS, the Council on March 26, 1991 adopted a resolution designated as the "Wastewater System Subordinate Revenue Bonds General Resolution," as supplemented by supplemental resolutions thereto (collectively, the "Subordinate General Resolution"), which sets forth the basic terms under which the City may issue wastewater system subordinate revenue bonds and which provides for a pledge of Revenues to secure all Subordinate Bonds (as defined in the Subordinate General Resolution) issued thereunder on a basis subordinate to the Senior Lien Bonds issued under the General Resolution; and

WHEREAS, the City has, under the Subordinate General Resolution and individual supplemental resolutions thereto, authorized the issuance of \$400,000,000 maximum authorized amount of its Wastewater System Commercial Paper Revenue Notes (the "Commercial Paper Notes"), and wastewater system subordinate revenue bonds, \$1,286,775,000 of which are outstanding as of the date hereof, all of which are Subordinate Bonds (to the extent Outstanding) and shall be collectively referred to herein as the "Prior Subordinate Bonds"; and

WHEREAS, the Subordinate General Resolution provides that additional Subordinate Bonds may be issued in one or more Series, and the City has determined that it is now appropriate to authorize the issuance of one or more Series of Subordinate Bonds, designated as Wastewater System Subordinate Revenue Bonds Series 2017, with such additional Series and subseries designations, including "Refunding Bonds," "Taxable" and "Green Bonds," as shall be deemed necessary or appropriate as provided herein (the "Series 2017 Subordinate Bonds"), through the adoption of this Twenty-First Supplemental Resolution (the "Twenty-First Supplemental Resolution") for the purpose of (i) refunding all or a portion of the outstanding Prior Senior Bonds and Prior Subordinate Bonds (collectively, the "Refunded Obligations"), whether through a current or advance refunding, (ii) funding any deposit into a 2017 Construction Fund in an amount needed to pay any Project Costs for improvements to the System, and (iii) paying the costs of issuance in connection with the issuance of any Series of Series 2017 Subordinate Bonds; and

WHEREAS, Series 2017 Subordinate Bonds shall be issued pursuant to and in accordance with the procedures set forth in the Charter, Article 6.7 of Chapter 1 of Division 11 of the Administrative Code of the City (hereinafter, the "Procedural Ordinance"), and, with respect to the Refunding Bonds, Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 (Section 53570 *et seq.* and Section 53580 *et seq.*, respectively) of the California Government Code (the "Refunding Law") and the provisions of the Subordinate General Resolution, including this Twenty-First Supplemental Resolution; and

WHEREAS, the Series 2017 Subordinate Bonds may be issued in one or more Series, in such amounts and with such payment terms and details as the City Administrative Officer, upon the advice of the City's municipal advisors shall determine to be in the City's best interests and which are otherwise consistent with the provisions and parameters of the Subordinate General Resolution and this Twenty-First Supplemental Resolution; and

WHEREAS, any refunding to be accomplished with the proceeds from the sale of any Series of Series 2017 Subordinate Bonds issued pursuant to this Twenty-First Supplemental Resolution will result in either (A) (1) a minimum present value savings equal to at least 70% of the maximum call option value of the Refunded Senior Bonds or Refunded Subordinate Bonds

being refunded or (2) a minimum average net present value savings of 3%, expressed as a percentage of the principal amount of the Refunded Senior Bonds or Refunded Subordinate Bonds being refunded, or (B) a desirable restructuring of debt or benefits to the manageability and convenience of the bond financing and refunding program for the System, as determined by the City Administrative Officer, upon the advice of the City's municipal advisors, at or before the time of issuance (the "Refunding Policy"); and

WHEREAS, the aggregate principal amount of Series 2017 Subordinate Bonds issued pursuant to this Twenty-First Supplemental Resolution for the purpose of refunding Prior Senior Bonds and/or Prior Subordinate Bonds shall not be limited in principal amount if such refunding satisfies either clause (1) or (2) of clause (A) of the preceding recitation; and

WHEREAS, the City has determined that refinancing certain of its Outstanding Bonds with one or more Series or subseries of Series 2017 Subordinate Bonds will comply with the City's Refunding Policy and Section 3.03 hereof; and

WHEREAS, Sections 5450 *et seq.* of the California Government Code (the "Government Code") provide statutory authority for pledging collateral for the payment of principal or redemption price of, and interest on bonds, and the Government Code creates a continuing perfected security interest which shall attach immediately to such collateral irrespective of whether the parties to the pledge documents have notice of the pledge and without the need for any physical delivery, recordation, filing, or further act, and the City hereby warrants and represents that pursuant to the Subordinate General Resolution and this Twenty-First Supplemental Resolution, the Owners of the Series 2017 Subordinate Bonds have a second priority perfected security interest in Revenues that serve as the collateral for the Series 2017 Subordinate Bonds pursuant to the Government Code; and

WHEREAS, the City has determined that one or more Series or subseries of the Series 2017 Subordinate Bonds may be issued as "Green Bonds"; and

WHEREAS, the City has determined, based upon the existing market conditions and upon the advice of its municipal advisors and the City Attorney, that it is in the best financial interests of the City to sell the Series 2017 Subordinate Bonds through a negotiated underwriting process, provided that, if market conditions should change, nothing herein shall preclude the City from selling the Series 2017 Subordinate Bonds on a competitive basis, and has further determined that it is not practicable or compatible with the City's best interests to select the other professionals for the Series 2017 Subordinate Bonds by sealed competitive bids, and the Council desires to make relevant findings in this regard in order to comply with judicial interpretations of such requirements; and

WHEREAS, the City has received an opinion of Bond Counsel in accordance with Section 11.02 of the Subordinate General Resolution;

WHEREAS, it is desirable that the Council provide for the issuance, securing and sale of the Series 2017 Subordinate Bonds; and

WHEREAS, the Twenty-First Supplemental Resolution is adopted in accordance with the provisions of the Subordinate General Resolution;

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

ARTICLE I

DEFINITIONS; INTERPRETATION

Section 1.01. Definitions. Unless otherwise specifically provided in this Section, capitalized terms used in this Twenty-First Supplemental Resolution shall have the meanings ascribed to them in the General Resolution or the Subordinate General Resolution. The following definitions shall apply to terms used in this Supplemental Resolution unless the context clearly requires otherwise:

“Attachment 1” means each Attachment 1 to this Twenty-First Supplemental Resolution, substantially in the form of Exhibit A hereto, completed, executed and delivered by the City Administrative Officer pursuant to Section 3.04 hereof in connection with the issuance of the related Series of Series 2017 Subordinate Bonds and setting forth the terms thereof as described in Article III hereof, each of which Attachment 1, upon execution and delivery, shall become a part of this Twenty-First Supplemental Resolution.

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

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

“Beneficial Owner” means, whenever used with respect to a Series 2017 Subordinate Bond, the person in whose name such Bond is recorded as the beneficial owner by a Participant on the records of such Participant or such person’s subrogee.

“Bond Purchase Agreement” means each agreement between the City and the respective Underwriters identified therein providing for the purchase by such Underwriters for reoffering of one or more Series of the Series 2017 Subordinate Bonds.

“Book-Entry Bonds” means the Series 2017 Subordinate Bonds held by DTC (or its nominee) as the registered owner thereof pursuant to the terms and provisions of Section 3.06 hereof.

“Cede & Co.” means Cede & Co., the nominee of DTC, and any successor nominee of DTC with respect to the Series 2017 Subordinate Bonds.

“Charter” means the Charter of the City of Los Angeles.

“City Administrative Officer” means the City Administrative Officer of the City, any Assistant City Administrative Officer of the City or any duly authorized designee thereof.

“Commercial Paper 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 other 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, an Eleventh Supplemental Resolution adopted by the Council on June 23, 2010, a Fifteenth Supplemental Resolution adopted by the Council on December 17, 2012, an Eighteenth Supplemental Resolution adopted by the Council on November 25, 2015, and a Twentieth Supplemental Resolution adopted by the Council on December 11, 2015.

“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 2017 Subordinate 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 of Series 2017 Subordinate Bonds and the refunding of the Refunded Obligations, including, but not limited to, costs and expenses of printing and copying documents and the Series 2017 Subordinate Bonds, any fees incurred in connection with agreements described in Section 9.05 hereof, and the fees, costs and expenses of rating agencies, counsel, accountants, verification specialists, Underwriters, municipal advisors, the Escrow Agent, insurance consultants and other consultants and agents.

“DTC” means The Depository Trust Company, a limited purpose trust company organized under the laws of the State of New York, and its successors and assigns.

“Escrow Agent” means a financial institution meeting the City’s capitalization requirements appointed pursuant to Section 8.01 hereof to serve as escrow agent under an Escrow Agreement.

“Escrow Agreement” means an agreement between the City and an Escrow Agent, and related to the deposit, investment and use of a portion of the proceeds of any one or more Series of Series 2017 Subordinate 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 2017 Subordinate Bonds.

“Fitch” means Fitch Ratings, Inc. and its successors and assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the City.

“General Resolution” or “Senior Lien Resolution” means the resolution entitled “Wastewater System Revenue Bonds General Resolution” adopted by the Council on November 10, 1987 and setting forth the terms under which wastewater system Senior Lien

Bonds may be issued and secured, as amended and supplemented from time to time in accordance with the terms thereof.

“Interest Payment Date,” for any Series of Series 2017 Subordinate Bonds, means December 1, 2017 and each June 1 and December 1 thereafter, or such other interest payment dates designated in Attachment 1 with respect to such Series.

“Kroll” means Kroll Bond Rating Agency and its successors and assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the City.

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

“Opinion of Counsel” means a written opinion of counsel who is acceptable to the City. The counsel may be an employee of or counsel to the City.

“Prior Senior Bonds” means, collectively, all Senior Lien Bonds issued by the City pursuant to the General Resolution prior to this Supplemental Resolution.

“Prior Subordinate Bonds” means, collectively, all Subordinate Bonds issued by the City pursuant to the Subordinate General Resolution prior to this Supplemental Resolution.

“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 and the Refunded Subordinate Bonds to be refunded by the Series 2017 Subordinate Bonds, as the context may require.

“Refunded Senior Bonds” means all or any of the Prior Senior Bonds which are to be refunded by the Series 2017 Subordinate Bonds, as described in Attachment 1 relating to such Series of Series 2017 Subordinate Bonds.

“Refunded Subordinate Bonds” means all or any of the Prior Subordinate Bonds which are to be refunded by the Series 2017 Subordinate Bonds, as described in Attachment 1 relating to such Series of Series 2017 Subordinate Bonds.

“Representation Letter” means the Blanket Letter of Representations from the City to DTC which Representation Letter applies to the Series 2017 Subordinate Bonds.

“Rule 15c2-12” means Rule 15c2-12 promulgated by the U.S. Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

“SCM Fund” means, collectively, the Sewer Construction and Maintenance Fund, the Sewer Operation and Maintenance Fund and the Sewer Capital Fund previously created by the City and more particularly described in Section 5.03 of the Senior Lien Resolution.

“Series” means any Series of Series 2017 Subordinate Bonds as designated in Attachment 1 attached hereto.

“Series 2017 Subordinate Bonds” means the City of Los Angeles Wastewater System Subordinate Revenue Bonds, Series 2017 of each Series authorized to be issued pursuant to this Twenty-First Supplemental Resolution.

“Service Charges Agreements” means, collectively, those Supplemental Service Charges Agreements or similar agreements entered into by the City and other political entities which agreements are supplemental to the basic and general contracts or agreements between the City and such entities relating to the use of the System and which supplemental agreements relate to the System and 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.

“S&P” means Standard & Poor’s Corporation and its successors and assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the City.

“Subordinate General Resolution” means the resolution entitled “Wastewater System Subordinate Revenue Bonds General Resolution” adopted by the Council on March 26, 1991, and setting forth the terms under which wastewater system Subordinate Bonds may be issued and secured, as amended and supplemented from time to time in accordance with the terms thereof.

“Tax Certificate” means the Tax Certificate relating to federal tax matters to be executed on behalf of the City at the time of issuance of any one or more Series of tax-exempt Series 2017 Subordinate Bonds, as amended from time to time.

“Underwriters” means the respective underwriters identified in a Bond Purchase Agreement with the City with respect to any one or more Series of the Series 2017 Subordinate Bonds.

Section 1.02. Incorporation of Definitions in the Subordinate General Resolution. Except as otherwise provided in Section 1.01 hereof, all words, terms and phrases defined in the Subordinate General Resolution shall have the same meanings in this Twenty-First Supplemental Resolution as in the Subordinate General Resolution. Except as otherwise provided in any Supplemental Resolution hereafter adopted, all terms which are defined in this Twenty-First Supplemental Resolution, unless the context otherwise requires, shall have the same meanings in such Supplemental Resolution as in this Twenty-First Supplemental Resolution.

Section 1.03. Article and Section References. Except as otherwise indicated, references to Articles and Sections are to Articles and Sections of this Twenty-First Supplemental Resolution.

Section 1.04. Treatment of Payments Received Under Service Charges Agreements. The City anticipates that, from time to time, it may enter into one or more Service Charges Agreements and it is hereby specifically provided that, for purposes of the definition of “Revenues” as set forth in the General Resolution, it shall be determined and such term shall be interpreted such that, amounts paid to the City under the Service Charges Agreements are and shall be designated as service charges and included as Revenues and are not designated for capital costs.

ARTICLE II

AUTHORIZATION AND SECURITY

Section 2.01. Subordinate General Resolution; Special Obligations. The Series 2017 Subordinate Bonds authorized by this Twenty-First 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 2017 Subordinate Bonds shall be issued subordinate to the Prior Senior Bonds and any other Senior Lien Bonds issued hereafter and shall be issued on a parity with the Commercial Paper Notes, the Prior Subordinate Bonds and any other Subordinate Bonds issued hereafter.

The Series 2017 Subordinate Bonds shall be and are special, limited obligations of the City, and the City shall be obligated to pay the principal of, premium, if any, and interest on the Series 2017 Subordinate Bonds solely from the Revenues and from amounts in the SCM Fund and the Debt Service Fund. 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 2017 Subordinate Bonds. Neither the full faith and credit nor the taxing power of the City is pledged to pay the Series 2017 Subordinate Bonds. The pledge, assignment and lien on the Revenues granted pursuant to the Senior Lien 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 this Twenty-First Supplemental Resolution. The principal of and interest on the Series 2017 Subordinate Bonds and any premiums upon the redemption of any thereof are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues except the Revenues and amounts in the SCM Fund and the Debt Service Fund.

Section 2.02. Authorization. The Series 2017 Subordinate Bonds are hereby declared to be issued under the terms of the Charter, the Procedural Ordinance and, with respect to Refunding Bonds, the Refunding Law, as applicable, and secured as provided for in the Charter, the Procedural Ordinance and the Subordinate General Resolution; and provided, that the security provided for the Series 2017 Subordinate Bonds is also granted subordinate to the prior and senior lien to secure Senior Lien Bonds issued under the Senior Lien Resolution, and, on a parity with the lien granted to secure other Subordinate Bonds, including Commercial Paper Notes, issued under the Subordinate General Resolution, and provided that liens on the Revenues which are subordinate to the liens securing the Subordinate Bonds may be granted. The Series 2017 Subordinate Bonds may recite that they are issued pursuant to the Charter, the Procedural Ordinance and/or the Refunding Law, as applicable. It is hereby declared that the proceeds of the Series 2017 Subordinate Bonds issued as refunding bonds may be held in part and for such

time as the City may deem advisable in trust for the protection of the owners of the Refunded Obligations.

ARTICLE III

DESCRIPTION OF THE SERIES 2017 SUBORDINATE BONDS

Section 3.01. Designation of the Series 2017 Subordinate Bonds; Principal Amounts. The Series 2017 Subordinate Bonds are hereby authorized to be issued in one or more Series (and any subseries thereof) under the Subordinate General Resolution and this Twenty-First Supplemental Resolution. The aggregate principal amount of Series 2017 Subordinate Bonds issued pursuant to this Twenty-First Supplemental Resolution for the purpose of financing improvements to the System shall not exceed \$300,000,000. The aggregate principal amount of Series 2017 Subordinate Bonds issued pursuant to this Twenty-First Supplemental Resolution for the purpose of refunding Prior Senior Bonds and/or Prior Subordinate Bonds shall not be limited except as provided in the preambles hereto and Section 3.03 hereof. The Series 2017 Subordinate Bonds shall be issued in such principal amounts and shall be designated as the “City of Los Angeles Wastewater System Subordinate Revenue Bonds, Series 2017,” with such additional Series and subseries designations (if any), including “Refunding,” “Taxable” and “Green Bonds,” as set forth in the Attachment 1 related to such Series of Series 2017 Subordinate Bonds. References herein to a Series of Series 2017 Subordinate Bonds shall be equally applicable to a subseries thereof.

Section 3.02. Series 2017 Subordinate Bonds Under the Subordinate General Resolution; Security. The Series 2017 Subordinate Bonds are issued under, secured by and subject to the terms of the Subordinate General Resolution and are secured by the Revenues in accordance with the terms of the Subordinate General Resolution. The Series 2017 Subordinate Bonds are special obligations of the City payable only from the Revenues, the SCM Fund and the Debt Service Fund, and not from the general fund of the City, and the City is not obligated to pay the Series 2017 Subordinate Bonds from any other source.

Section 3.03. Terms of the Series 2017 Subordinate Bonds; Signatures. The Series 2017 Subordinate Bonds shall be issued in Authorized Denominations, and shall be issuable only as fully registered bonds. The Series 2017 Subordinate Bonds shall be signed by the Mayor or the City Administrative Officer, and shall be authenticated by any Authorized City Representative. Any such signature may be by facsimile, except that there shall be at least one manual signature. The Series 2017 Subordinate Bonds shall be numbered as any Authorized City Representative shall determine.

The Series 2017 Subordinate Bonds of each Series, upon initial issuance, shall be dated the date of delivery (or have such other dated date as set forth in the Attachment 1 related to such Series). Each Series 2017 Subordinate Bond shall bear interest from the Interest Payment Date next preceding the date of authentication thereof unless such date of authentication is after a Record Date and on or prior to the next succeeding Interest Payment Date, in which event such Bond shall bear interest from such next succeeding Interest Payment Date or unless such date of authentication is on or before the first Interest Payment Date, in which event such Bond shall bear interest from its dated date. If interest on the Series 2017 Subordinate Bonds shall be in

default, Bonds issued in exchange for Bonds surrendered for transfer or exchange shall bear interest from the Interest Payment Date to which interest has been paid in full on the Bonds surrendered.

Interest on the Series 2017 Subordinate Bonds shall be paid on December 1, 2017 and semiannually thereafter on each June 1 and December 1 (or on such other semiannual interest payment dates as set forth in the Attachment 1 related to such Series). Interest shall be calculated on the basis of a year of 360 days and twelve 30-day months.

The Series 2017 Subordinate Bonds shall mature on June 1 (or on such other date as set forth in the Attachment 1 related to such Series) in the years and in the amounts, subject to prior redemption (if applicable), and bear interest at the annual rates set forth in the Attachment 1 related to such Series, provided, however, that the final maturity of the Series 2017 Subordinate Bonds will not be later than 40 years from the date of issuance of such Series and the true interest cost on the Series 2017 Subordinate Bonds of any Series will not exceed 7.0%.

Payment of principal of the Series 2017 Subordinate Bonds shall be made upon surrender of such Series 2017 Subordinate Bonds to the City Administrative Officer, provided that, with respect to the Series 2017 Subordinate Bonds which are Book-Entry Bonds, the Treasurer may make other arrangements for the payment of principal as provided in the Representation Letter. Payment of interest on Series 2017 Subordinate Bonds which are not Book-Entry Bonds shall be paid by check of the City or a Paying Agent, if a Paying Agent has been appointed, mailed by first-class mail, postage prepaid, to the registered owners at their addresses as they appear on the registration books maintained for the Series 2017 Subordinate Bonds. The payment of interest on Book-Entry Bonds shall be made as provided in Section 3.06 hereof. With respect to all Series 2017 Subordinate Bonds, interest shall be paid to the person who was, on the Record Date, the registered owner thereof. The Series 2017 Subordinate Bonds shall be substantially in the form set forth in Section 3.07 hereof. Principal, interest and premium, if any, will be paid in money of the United States that at the time of payment is legal tender for payment of public and private debts.

Interest on overdue principal of a Series 2017 Subordinate Bond and, to the extent lawful, on overdue interest on a Series 2017 Subordinate Bond will be payable at the stated interest rate on such Series 2017 Subordinate Bond on the day before the default occurred.

Any refunding to be accomplished with the proceeds from the sale of any Series of Series 2017 Subordinate Bonds issued pursuant to this Twenty-First Supplemental Resolution will result in either (A) (1) a minimum present value savings equal to at least 70% of the maximum call option value of the Refunded Senior Bonds or Refunded Subordinate Bonds being refunded or (2) a minimum average net present value savings of 3%, expressed as a percentage of the principal amount of the Refunded Senior Bonds or Refunded Subordinate Bonds being refunded, or (B) a desirable restructuring of debt or benefits to the manageability and convenience of the bond financing and refunding program for the System, as determined by the City Administrative Officer, upon the advice of the City's municipal advisors, at or before the time of issuance. Satisfaction of this requirement with respect to any Series of Series 2017 Subordinate Bonds shall be conclusively evidenced by the execution of the Attachment 1 related to such Series.

Section 3.04. Approval and Authorization of each Attachment 1 to Constitute a Part of this Resolution. The City Administrative Officer is hereby authorized to complete, execute and deliver, on or about the date of the delivery of each Series of Series 2017 Subordinate Bonds and any subseries thereof the related Attachment 1 substantially in the form of Exhibit A hereto, with such additions and modifications as are necessary or required to complete such document. The form of Attachment 1 is hereby approved and, upon execution and delivery by the City Administrative Officer each such Attachment 1 shall be made a part of this Twenty-First Supplemental Resolution, without any further authorization or approval of this Council or any other party. The City Administrative Officer shall transmit a final copy of each such Attachment 1 to the City Clerk on or prior to the date of issuance of the related Series of Series 2017 Subordinate Bonds (and any subseries thereof) so that each Attachment 1 can be attached to this Twenty-First Supplemental Resolution in the records of the City, provided that the failure of the City Administrative Officer to so deliver any Attachment 1 or the failure of the City Clerk to so attach the document shall not affect the validity of the Series 2017 Subordinate Bonds of any Series (or subseries thereof) issued pursuant to this Twenty-First Supplemental Resolution.

Section 3.05. Exchange and Transfer of Series 2017 Subordinate Bonds. Series 2017 Subordinate Bonds which are delivered to the Treasurer for exchange may be exchanged for an equal total unpaid principal amount of Series 2017 Subordinate Bonds of the same Series and maturity but of different Authorized Denominations. Series 2017 Subordinate Bonds presented to the Treasurer shall be transferred upon the registration books in accordance with the procedures determined by the Treasurer and as provided in Section 3.06 of the Subordinate General Resolution.

The Treasurer will not, however, be required to transfer or exchange any such Series 2017 Subordinate Bond during the period beginning 15 days before the mailing of notice calling any such Series 2017 Subordinate Bond for redemption and ending on the date notice of redemption is mailed nor to transfer or exchange any Series 2017 Subordinate Bond which has been selected for redemption.

Section 3.06. Book-Entry Bonds.

(a) Except as provided in subparagraph (c) of this Section 3.06, the registered owner of all of the Series 2017 Subordinate Bonds shall be DTC and the Series 2017 Subordinate Bonds shall be registered in the name of Cede & Co., as nominee for DTC. Payment of principal or interest for any Series 2017 Subordinate Bond registered in the name of Cede & Co. shall be made on the payment date by wire transfer of New York clearing house or equivalent next day funds or by wire transfer of same day funds to the account of Cede & Co. Such payments shall be made to Cede & Co. at the address which is, on the regular Record Date or special record date, as the case may be, shown for Cede & Co. in the registration books of the City.

(b) The Series 2017 Subordinate Bonds shall be initially issued in the form of a separate single authenticated fully registered Series 2017 Subordinate Bond for each separate stated maturity of the Series 2017 Subordinate Bonds. Upon initial issuance, the ownership of all Series 2017 Subordinate Bonds shall be registered on the registration books of the City in the name of Cede & Co., as nominee of DTC. The City may treat DTC (or its nominee) as the sole and exclusive owner of the Series 2017 Subordinate Bonds registered in its name for the

purposes of payment of the principal or redemption price of or interest on the Series 2017 Subordinate Bonds, respectively, selecting the Series 2017 Subordinate Bonds or portions thereof to be redeemed, giving any notice permitted or required to be given to Bondholders under the Subordinate General Resolution or this Twenty-First Supplemental Resolution, registering the transfer of Series 2017 Subordinate Bonds, as the case may be, obtaining any consent or other action to be taken by Bondholders and for all other purposes whatsoever, and the City shall not be affected by any notice to the contrary. The City shall not have any responsibility or obligation to any Participant, any person claiming a beneficial ownership interest in the Series 2017 Subordinate Bonds under or through DTC or any Participant, or any other person which is not shown on the registration books as being a Bondholder, with respect to the accuracy of any records maintained by DTC or any Participant; the payment to DTC or any Participant of any amount in respect of the principal of, redemption price of or interest on the Series 2017 Subordinate Bonds; any notice which is permitted or required to be given to Bondholders under the General Resolution or this Twenty-First Supplemental Resolution; the selection by DTC or any Participant of any person to receive payment in the event of a partial redemption of the Series 2017 Subordinate Bonds; or any consent given or other action taken by DTC as Bondholder. The City shall pay all principal of and premium, if any, and interest on the Series 2017 Subordinate Bonds only to or "upon the order of" DTC (as that term is used in the Uniform Commercial Code as adopted in the State of California), and all such payments shall be valid and effective to fully satisfy and discharge the City's obligations, with respect to the principal of and premium, if any, and interest on the Series 2017 Subordinate Bonds, respectively, to the extent of the sum or sums so paid. No person other than DTC shall receive an authenticated Series 2017 Subordinate Bond evidencing the obligation of the City to make payments of principal of and premium, if any, and interest pursuant to the Subordinate General Resolution or this Twenty-First Supplemental Resolution. Upon delivery by DTC to the City of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., and subject to the provisions herein with respect to Record Dates, the word "Cede & Co." in this Twenty-First Supplemental Resolution shall refer to such new nominee of DTC.

(c) If the City determines that it is in the best interest of the Beneficial Owners that they be able to obtain Bond certificates and that such certificates should, therefore, be made available, and notifies DTC of such determination, then DTC will notify the Participants of the availability through DTC of Bond certificates. In such event the Treasurer shall authenticate and shall transfer and exchange Bond certificates as requested by DTC and any other Bondholders in appropriate amounts. DTC may determine to discontinue providing its services with respect to the Series 2017 Subordinate Bonds at any time by giving written notice to the City and discharging its responsibilities with respect thereto under applicable law. Under such circumstances (if there is no successor securities depository), the City shall be obligated to deliver Bond certificates as described in this Twenty-First Supplemental Resolution. If Bond certificates are issued, the provisions of the General Resolution and this Twenty-First Supplemental Resolution shall apply to, among other things, the transfer and exchange of such certificates and the method of payment of principal of and interest on such certificates. Whenever DTC requests the City to do so, the City will cooperate with DTC in taking appropriate action after reasonable notice (a) to make available one or more separate certificates evidencing the Series 2017 Subordinate Bonds to any DTC Participant having Series 2017 Subordinate Bonds credited to its DTC account or (b) to arrange for another securities depository to maintain custody of certificates evidencing the Series 2017 Subordinate Bonds.

(d) Notwithstanding any other provision of the Subordinate General Resolution or this Twenty-First Supplemental Resolution to the contrary, so long as any Series 2017 Subordinate Bond is registered in the name of Cede & Co., as nominee of DTC, all payments with respect to the principal of and premium, if any, and interest on such Series 2017 Subordinate Bond and all notices with respect to such Series 2017 Subordinate Bond shall be made and given, respectively, to DTC as provided in the Representation Letter.

(e) In connection with any notice or other communication to be provided to Bondholders pursuant to the Subordinate General Resolution and this Twenty-First Supplemental Resolution by the City with respect to any consent or other action to be taken by Bondholders, the City shall establish a record date for such consent or other action and give DTC notice of such record date not less than 15 calendar days in advance of such record date to the extent possible. Notice to DTC shall be given only when DTC is the sole Bondholder.

Section 3.07. Form of Series 2017 Subordinate Bonds. The Series 2017 Subordinate Bonds of each Series (and any subseries thereof) shall be substantially in the following form, with such additions, deletions and modifications as shall be necessary or appropriate to conform such form to the Attachment 1 related to such Series:

UNITED STATES OF AMERICA
 STATE OF CALIFORNIA
 CITY OF LOS ANGELES
 WASTEWATER SYSTEM SUBORDINATE REVENUE BOND,
 [REFUNDING] SERIES 2017- _ (GREEN BONDS) [(TAXABLE)]

No.

| Interest | Maturity Date | Dated Date | CUSIP No. |
|----------|---------------|------------|-----------|
| % | | | |

THIS SUBORDINATE BOND IS A SPECIAL, LIMITED OBLIGATION OF THE CITY OF LOS ANGELES. THE PRINCIPAL HEREOF, PREMIUM, IF ANY, AND INTEREST HEREON ARE PAYABLE SOLELY FROM CERTAIN WASTEWATER SYSTEM REVENUES AND OTHER AMOUNTS ON DEPOSIT IN CERTAIN SPECIAL LIMITED FUNDS AS DESCRIBED HEREIN. THIS SUBORDINATE BOND IS AN OBLIGATION THAT IS JUNIOR AND SUBORDINATE TO SENIOR LIEN BONDS (DEFINED BELOW) ISSUED UNDER THE GENERAL RESOLUTION (DEFINED BELOW) AS TO LIEN AND SOURCE OF SECURITY FOR PAYMENT FROM REVENUES. THE CITY IS NOT OBLIGATED TO MAKE PAYMENT HEREON FROM ANY OTHER SOURCE. THIS SUBORDINATE BOND IS NOT PAYABLE FROM THE GENERAL FUND 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 THIS SUBORDINATE BOND.

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: \$ _____

The City of Los Angeles (the "City"), a municipal corporation and a political subdivision of the State of California, organized and operating under the terms of the Charter of the City of Los Angeles (the "Charter") and the Constitution of the State of California, promises to pay, from the sources described in this Subordinate Bond and not from any other sources, to the Registered Owner set forth above or registered assigns the Principal Amount set forth above on the Maturity Date set forth above and to pay interest as provided in this Subordinate Bond.

This Subordinate Bond is authorized, issued and secured under the terms of that Wastewater System Revenue Bonds Subordinate General Resolution adopted by the Council of the City on March 26, 1991 and the terms of that Twenty-First Supplemental Resolution Supplementing the Wastewater System Revenue Bonds Subordinate General Resolution, adopted by the Council on April 7, 2017 (as hereinafter defined, the "Twenty-First Supplemental Resolution"). This Subordinate Bond is issued pursuant to the authority of the Charter, Article 6.7 of Chapter 1 of Division 11 of the Administrative Code of the City [and Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 (Section 53570 *et seq.* and Section 53580 *et seq.*, respectively) of the Government Code of the State of California].

All bonds, notes and other indebtedness, obligations or securities of any kind or class issued or incurred pursuant to the terms of the Wastewater System Revenue Bonds General Resolution adopted on November 10, 1987 (as heretofore amended and supplemented, the "General Resolution") are referred to hereinafter as "Senior Lien Bonds" and are all equally and ratably secured by and payable from the Revenues and those funds described in this paragraph.

Additional Senior Lien Bonds and Subordinate Bonds may be issued from time to time under the terms of the General Resolution and Subordinate General Resolution, respectively, and all such additional Senior Lien Bonds and Subordinate Bonds will be equally and ratably secured with the outstanding Senior Lien Bonds and Subordinate Bonds, respectively, in accordance with the General Resolution and the Subordinate General Resolution, respectively, by the Revenues and those funds described in the preceding paragraphs and will be payable from the same source as the Series 2017 Subordinate Bonds, respectively. The General Resolution provides that operation and maintenance expenses of the System are to be paid from the Revenues in the SCM Fund as such expenses become due in the ordinary course of business.

The City's obligation to make payment of the principal of, interest on and premium, if any, on the Subordinate Bonds is only to the extent of the Revenues and amounts in the SCM Fund, the Debt Service Fund (defined in the Subordinate General Resolution), and the City has no obligation to make payments from any other sources. The general fund of the City is not liable for the payment of the Series 2017 Subordinate Bonds, or the premium, if any, or interest thereon, and neither the full faith and credit nor the taxing power of the City is pledged for the payment of the Series 2017 Subordinate Bonds, or the premium, if any, of the interest thereon.

The security for the Subordinate Bonds, the events that constitute Events of Default thereunder and the remedies therefor are set forth in the Subordinate General Resolution and Twenty-First Supplemental Resolution, and Holders of the Series 2017 Subordinate Bonds are referred to the Subordinate General Resolution and the Twenty-First Supplemental Resolution for description of those terms.

This Subordinate Bond shall bear interest until its Maturity Date or earlier redemption (if applicable) at the rate shown on the face of this Subordinate Bond. Interest on overdue principal and, to the extent lawful, all overdue interest will be payable at the stated interest rate on this Subordinate Bond on the day before the default occurred. Interest on this Subordinate Bond shall be calculated on the basis of a year of 360 days and twelve 30-day months. Interest will be due and payable on this Subordinate Bond on December 1, 2017, and each June 1 and December 1 thereafter until maturity or earlier redemption and will be paid to the party who is the owner hereof on the Record Date for such payment. The Record Date for a June 1 payment is the close of business on the preceding May 15, and the Record Date for a December 1 payment is the close of business on the preceding November 15, whether or not such day is a Business Day.

This Subordinate Bond is subject to redemption prior to its Maturity Date as provided in the Twenty-First Supplemental Resolution. When notice of redemption is given, Series 2017 Subordinate Bonds called for redemption become due and payable on the redemption date at the applicable redemption price; in such case, when funds are held in trust for payment of the redemption price and such amounts are sufficient to pay the redemption price, interest on the Series 2017 Subordinate Bonds to be redeemed will cease to accrue from and after the redemption date.

Holder must surrender Subordinate Bonds to the Treasurer of the City to collect principal except that with respect to Subordinate Bonds which are Book-Entry Bonds (as defined in the Twenty-First Supplemental Resolution), the City may make other agreements for payment of principal. Interest will be paid to each party who is, as of the Record Date, the registered owner of Subordinate Bonds. If this Subordinate Bond is not a Book-Entry Bond, as defined in the Twenty-First Supplemental Resolution, interest hereon will be paid by check mailed to the Holder's registered address, and, if this Subordinate Bond is a Book-Entry Bond, interest will be paid as provided in Section 3.06 of the Twenty-First Supplemental Resolution. Principal, interest and premium, if any, will be paid in money of the United States that at the time of payment is legal tender for payment of public and private debts. If any payment on the Subordinate Bonds is due on a non-Business Day, it will be made on the next Business Day, and no additional interest will accrue as a result.

The Series 2017 Subordinate Bonds are available in denominations of \$5,000 and integral multiples of \$5,000. A Bondholder may transfer or exchange Series 2017 Subordinate Bonds in accordance with the Subordinate General Resolution and the Twenty-First Supplemental Resolution. The City may require a Bondholder, among other things, to furnish appropriate endorsements and transfer documents and to pay any required taxes and fees associated therewith. The City need not transfer or exchange any Series 2017 Subordinate Bond for the period beginning 15 days before mailing a notice of redemption of such Series 2017 Subordinate Bond and ending on the date the notice of redemption is mailed nor transfer or exchange any Series 2017 Subordinate Bond which has been selected for redemption.

The registered owner of this Subordinate Bond shall be treated as the owner of it for all purposes.

If the City at any time irrevocably sets aside money or Government Obligations as described in the Subordinate General Resolution sufficient, together with the earnings thereon, to pay at redemption or maturity, the principal of, premium, if any, and interest on the outstanding Subordinate Bonds, and if the City also pays all other sums then payable by the City under the Subordinate General Resolution, the Subordinate General Resolution will be discharged. After discharge Bondholders must look only to the money and securities set aside for payment. If the City at any time irrevocably sets aside money or Government Obligations as described in the Subordinate General Resolution sufficient to pay at redemption or maturity principal of, premium, if any, and interest on all or any portion of the outstanding Series 2017 Subordinate Bonds, such Subordinate Bonds, with respect to which the money or securities were set aside, shall no longer be deemed to be outstanding and shall no longer be secured by the Subordinate General Resolution except to the extent of the moneys and securities set aside therefor.

The Subordinate General Resolution, the Twenty-First Supplemental Resolution and the Series 2017 Subordinate Bonds may be amended or supplemented, and any past default or compliance with any provision may be waived, as provided in the Subordinate General Resolution. Any consent given by the owner of this Subordinate Bond to any such action shall be irrevocable and shall bind any subsequent owner of this Subordinate Bond or any Subordinate Bond delivered in substitution for this Subordinate Bond.

The Subordinate General Resolution provides that the occurrences of certain events constitute Events of Default. If an Event of Default occurs and is continuing, the principal of this Subordinate Bond may be declared to be due and payable immediately on the terms set forth in the Subordinate General Resolution. Any such acceleration may be waived as provided in the Subordinate General Resolution. Bondholders may not enforce the Subordinate General Resolution or the Subordinate Bonds except as provided in the Subordinate General Resolution, and, if credit enhancement has been provided for all or a portion of the Subordinate Bonds issued under the Subordinate General Resolution, the provider or providers of such credit enhancement may be able to direct the exercise of remedies.

This Subordinate Bond shall not be valid until the City Clerk [or insert other Authenticating Agent], as Authenticating Agent, signs the certificate of authentication on this Subordinate Bond.

Customary abbreviations may be used in the name of a Bondholder or an assignee, such as TEN COM (= tenants in common), TEN ENT (= tenants by the entireties), JT TEN (= joint tenants with right of survivorship and not as tenants in common), CUST (= Custodian), and UGMA (= Uniform Gifts to Minors Act).

Dated:

CITY CLERK, as duly Authorized
AUTHENTICATING AGENT FOR THE
CITY OF LOS ANGELES, certifies that

CITY OF LOS ANGELES

this is one of the Subordinate Bonds referred to in the Subordinate General Resolution and Twenty-First Supplemental Resolution referred to herein.

By: _____
[Mayor or City Administrative Officer]

By: _____

ASSIGNMENT

FOR VALUE RECEIVED the undersigned hereby sells, assigns and transfers unto

(Please print or type, write Name and Address, including Zip Code, and Federal Taxpayer Identification or Social Security Number of Assignee)

this Subordinate Bond and all rights hereunder, and hereby irrevocably constitutes and appoints

Agent to transfer this Subordinate Bond on the books of the City, with full power of substitution in the premises.

Dated: _____, 20__

Signed by:

NOTICE: The signature to this assignment must correspond with the name as it appears on the face of this Subordinate Bond in every particular, without alteration or enlargement or any change whatsoever.

Signature Guaranteed by:

NOTICE: Signature must be guaranteed by a member firm of the New York Stock exchange or a commercial bank or trust company.

ARTICLE IV

REDEMPTION

Section 4.01. Notices to Bondholders. Prior to the redemption of any Series 2017 Subordinate Bonds, the City shall give notice to the registered owners of the Series 2017 Subordinate Bonds to be redeemed as provided in Section 4.03 of the Subordinate General Resolution. Such notice shall be given by Mail or by telecopy or other electronic means of communication, at least 20 days and not more than 60 days before the redemption date, and shall be given to each registered owner of a Series 2017 Subordinate Bond to be redeemed.

In addition to the notice required by Section 4.03 of the Subordinate General Resolution, if, at any time, the Series 2017 Subordinate Bonds are no longer Book-Entry Bonds, then, upon any redemption, further notice shall be given by the City as set out below, but no defect in any such further notice nor any failure to give all or any portion of such further notice shall in any manner defeat the effectiveness of a call for redemption if notice thereof is given as above prescribed.

Each further notice of redemption given hereunder shall contain the information required by Section 4.03 of the General Resolution plus (i) the CUSIP numbers of all Series 2017 Subordinate Bonds, or portions thereof being redeemed; (ii) the date of original issuance of the Series 2017 Subordinate Bonds; (iii) the rate of interest borne by the Series 2017 Subordinate Bonds being redeemed; (iv) the maturity date of the Series 2017 Subordinate Bonds being redeemed; (v) the redemption price or, if applicable, a description of the mechanism or method for determining the redemption price; and (vi) any other descriptive information to identify accurately the Series 2017 Subordinate Bonds or portions thereof being redeemed.

Each further notice of redemption shall be sent at least 20 days before the redemption date by telecopy, registered or certified mail or overnight delivery service to:

The Depository Trust Company
55 Water Street
New York, NY 10041

and to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System at <http://emma.msrb.org/>.

Any notice given pursuant to this Section 4.01 may be conditional, other than notice of redemption from mandatory sinking fund payments pursuant to Section 4.03, and may be rescinded by written notice given by the City. Upon such rescission, the City shall give notice of such rescission in the same manner (i.e. by Mail or by telecopy or other electronic means of communication), and to the same persons, as notice of such redemption was given pursuant to this section. Any optional redemption of the Series 2017 Subordinate Bonds and notice thereof shall be rescinded and cancelled if for any reason on the date fixed for redemption moneys are not available and held in trust for such purpose in an amount sufficient to pay in full on such date the principal of, interest, and any premium due on such Series 2017 Subordinate Bonds called for redemption.

Section 4.02. Optional Redemption of the Series 2017 Subordinate Bonds. The Series 2017 Subordinate Bonds of any Series may be subject to optional redemption as set forth in the Attachment 1 related to such Series.

Section 4.03. Mandatory Sinking Fund Redemption of the Series 2017 Subordinate Bonds. The Series 2017 Subordinate Bonds of any Series shall be subject to mandatory sinking fund redemption as set forth in the Attachment 1 related to such Series. On or before the forty-fifth day prior to any mandatory sinking fund redemption date, the City shall proceed to select for redemption (by lot in such manner as the City may determine), from all Series 2017 Subordinate Bonds subject to such redemption, an aggregate principal amount of such Subordinate Bonds equal to the amount for such year as set forth in the table in the Attachment 1 hereto related to such Series and shall call such Subordinate Bonds or portions thereof in Authorized Denominations for redemption and shall give notice of such call. At the option of the City, the City may credit against any mandatory sinking fund redemption requirement the Series 2017 Subordinate Bonds or portions thereof in Authorized Denominations of the stated maturity subject to such redemption which, prior to said date, have been purchased by the City or redeemed (otherwise than under the provisions of this 4.03) and canceled and not theretofore applied as a credit against any mandatory sinking fund redemption requirement. Each such Series 2017 Subordinate Bond or portion thereof so purchased or previously redeemed shall be credited by the City at one hundred percent (100%) of the principal amount thereof against the obligation of the City on such mandatory sinking fund redemption date.

Section 4.04. Payment of Series 2017 Subordinate Bonds Called for Redemption. Upon surrender to the Treasurer, the Series 2017 Subordinate Bonds called for redemption shall be paid at the redemption price, including accrued and unpaid interest, if any, to the redemption date, provided that, with respect to Book-Entry Bonds, the City may make other arrangements for payment as provided in the Representation Letter.

Section 4.05. Selection of Series 2017 Subordinate Bonds for Redemption; Series 2017 Subordinate Bonds Redeemed in Part. The Series 2017 Subordinate Bonds which 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 or as set forth in the Attachment 1 related to such Series. In the event of an optional redemption of less than the full amount of a maturity of the Series 2017 Subordinate Bonds, such Series 2017 Subordinate Bonds shall be redeemed by lot within any one maturity in a manner the City shall deem appropriate, except that the Series 2017 Subordinate Bonds which are taxable term bonds shall be redeemed pro rata among all such Series 2017 Subordinate Bonds.

Upon surrender of a Series 2017 Subordinate Bond to be redeemed, the Authenticating Agent will authenticate for the holder a new Series 2017 Subordinate Bond of the same Series and maturity equal in principal amount to the unredeemed portion of the Series 2017 Subordinate Bond surrendered.

ARTICLE V

APPLICATION OF PROCEEDS

Section 5.01. Application of Proceeds. The proceeds of the sale of any Series of Series 2017 Subordinate Bonds (and any subseries thereof) received by the City shall be applied by the City for the following purposes and in such amounts and in such manner as set forth in the Attachment 1 relating to such Series:

(a) the amount needed to pay Costs of Issuance associated with the issuance of such Series of Series 2017 Subordinate Bonds shall be transferred to the Escrow Agent to be disbursed to pay the Costs of Issuance;

(b) the amount needed to defease any Refunded Obligations shall be transferred to the Escrow Agent and held under the terms of an Escrow Agreement;

(c) the amount of such proceeds designated to finance improvements to the System shall be deposited in the 2017 Construction Fund of the related Series; and

(d) any accrued interest or other amounts specified in the related Attachment 1 shall be deposited into the Debt Service Fund for the Series 2017 Subordinate Bonds.

Any amounts may be held temporarily by the Escrow Agent for the purposes set forth in the Subordinate General Resolution.

Notwithstanding the foregoing provisions of this Article V, the amount to be “transferred” to the Escrow Agent(s) may be paid directly by the Underwriters to such Escrow Agent(s) and, in such event, shall be deemed to have been received by the City and transferred to such Escrow Agent(s).

ARTICLE VI

FUNDS

Section 6.01. Construction Fund. The City will, by ordinance, create one or more separate funds within the City Treasury, designated as the Wastewater System Subordinate Revenue Bonds Construction Fund, Series 2017 (with such further designation, if applicable, as the City deems appropriate) to pay Project Costs (the “2017 Construction Fund”), and the City shall, on the date of issuance of the Series 2017 Subordinate Bonds, deposit proceeds of the Series 2017 Subordinate Bonds into the 2017 Construction Fund as set forth in Section 5.01(c) above. Amounts in the 2017 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 2017 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 the 2017 Construction Fund shall not apply to

systems, plants, works or undertakings which result in conversion of solid waste to energy and reusable materials.

The City may use amounts in the 2017 Construction Fund to pay Project Costs either by payment directly from the 2017 Construction Fund or by payment to the General Wastewater System Revenue Bonds Construction Fund for use for the same purposes. A separate account within the 2017 Construction Fund may be established for any Series of Series 2017 Subordinate Bonds if provided in Attachment 1 related to such Series.

Section 6.02. Debt Service Fund. The City will, by ordinance create one or more separate funds for the Series 2017 Subordinate Bonds, with such further designations identifying the Series (which may be one or more Series of the Series 2017 Bonds) to which such fund shall relate, as the City deems appropriate, within the City Treasury for each Series of Series 2017 Subordinate Bonds, designated as the “Wastewater System Subordinate Revenue Bonds Debt Service Fund, Refunding Series 2017- [insert Series/subseries designation]” (collectively, the “2017 Subordinate Debt Service Fund”), which shall each be a Debt Service Fund as provided in the Subordinate General Resolution for the respective Series of Series 2017 Subordinate Bonds. Amounts in the 2017 Subordinate Debt Service Fund shall be used to pay principal of, and interest and any premium on, the Series 2017 Subordinate Bonds as the same become due and payable.

Section 6.03. Costs of Issuance Account. There is hereby authorized to be created under any one or more Escrow Agreements a Costs of Issuance Account. Amounts in the Costs of Issuance Account shall be used to pay Costs of Issuance of the related Series of Series 2017 Subordinate Bonds. Any moneys remaining in the Cost of Issuance Account after payment of all Costs of Issuance shall be transferred to the 2017 Subordinate Debt Service Fund.

ARTICLE VII

TAX COVENANTS

Section 7.01. Rebate Funds. With respect to Series 2017 Subordinate Bonds issued as tax-exempt bonds, the interest on which is exempt from federal income taxation (the “Tax-Exempt Series 2017 Subordinate Bonds”), the City hereby agrees that it will deliver and abide by the Tax Certificate for Tax-Exempt Series 2017 Subordinate Bonds and that it will by ordinance create one or more separate funds for the Tax-Exempt Series 2017 Subordinate Bonds designated as a “Wastewater System Subordinate Revenue Bonds Rebate Fund” (collectively, the “2017 Subordinate Rebate Fund”), which fund or funds will be held by the City and will be funded, if so required, under the Tax Certificate of any Series, and amounts in such 2017 Subordinate Rebate Fund shall be held and disbursed in accordance with the ordinance creating such funds and with the applicable Tax Certificate. Any fund created pursuant to this Section 7.01 may be combined with another rebate fund or funds of the City, as the City deems appropriate.

Section 7.02. Tax Compliance.

(a) The City shall comply with those covenants and agreements set forth in the Tax Certificate of any Series and the City Administrative Officer is authorized and directed to execute such Tax Certificate.

(b) The City shall not use or permit the use of any proceeds of Tax-Exempt Series 2017 Subordinate Bonds or any other funds of the City held under this Twenty-First Supplemental Resolution or the Subordinate 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 Tax-Exempt Series 2017 Subordinate 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.

Section 7.03. Additional Actions. The City shall at all times do and perform all acts and things permitted by law, the Subordinate General Resolution and this Twenty-First Supplemental Resolution which are necessary or desirable in order to assure that interest paid on the tax-exempt Series 2017 Subordinate Bonds (or any of them) will be excluded from gross income of the recipient thereof for federal income tax purposes and shall take no action that would result in such interest being included in gross income for federal income tax purposes.

ARTICLE VIII

AGENTS

Section 8.01. Appointment of Agent. The City Administrative Officer is authorized to appoint one or more banks, trust companies or financial institutions meeting the City’s capitalization requirements as Escrow Agent for the purpose of accepting, holding, investing and applying funds to be used to refund the Refunded Obligations and to pay the Costs of Issuance related to any one or more Series of Series 2017 Subordinate Bonds. The City may from time to time appoint a bank, trust company or other financial institution to serve as Paying Agent, Registrar or Authenticating Agent in place of or in addition to the City with respect to any Series of Series 2017 Subordinate Bonds.

Section 8.02. Resignation; Removal. Any entity at any time serving as Paying Agent, Authenticating Agent and/or Registrar may resign any one or more of such positions in accordance with the terms of its agreement with the City or may be removed by the City in accordance with the terms of such agreement. The Escrow Agent may resign or be removed as provided in the Escrow Agreement.

Section 8.03. Replacement. If the Paying Agent, Authenticating Agent or Registrar resigns or is removed, the City may appoint a new Paying Agent, Authenticating Agent or Registrar or may provide that such functions as were provided by the Paying Agent, Authenticating Agent and/or Registrar be undertaken directly by the City. A successor Escrow Agent can be appointed by the City only as provided in the Escrow Agreement.

ARTICLE IX

APPROVALS AND AUTHORIZATIONS

Section 9.01. Findings Related to Negotiated Sale of the Series 2017 Subordinate Bonds and Selection of Professionals. Pursuant to Section 371(e)(10) of the Charter, the Council hereby finds that, due to current market conditions, the use of sealed competitive bidding to sell the Series 2017 Subordinate Bonds would be undesirable and impractical and it is in the best financial interests of the City to sell the Series 2017 Subordinate Bonds through a negotiated sale with the Underwriters. Pursuant to Section 371(e)(2) of the Charter, the Council hereby finds that due to the technical expertise required for the performance of the professional and technical services necessary for the sale and issuance of the Series 2017 Subordinate Bonds, which services are of a temporary and occasional character, the use of sealed competitive bidding for the selection of Bond Counsel, Disclosure Counsel, Escrow Agent or municipal advisors is not practical or advantageous to the City.

Section 9.02. Approval of Escrow Agreements. The City Administrative Officer is hereby authorized to execute and enter into one or more Escrow Agreements in substantially the form before this Council with an Escrow Agent in form and substance acceptable to Bond Counsel and the City Attorney with respect to any one or more Series of Series 2017 Subordinate Bonds, with such changes as such City Administrative Officer, upon the advice of counsel, deems necessary and appropriate. The signature of the City Administrative Officer shall be sufficient to bind the City and cause the Escrow Agreement(s) to be a valid and binding obligation of the City.

Section 9.03. Approval of Bond Purchase Agreements. Each Bond Purchase Agreement in substantially the form before this Council is hereby approved. The City Administrative Officer is hereby authorized to execute and enter into each Bond Purchase Agreement with one or more of the Underwriters with respect to any one or more Series of Series 2017 Subordinate Bonds, with such changes as said City Administrative Officer, upon the advice of counsel, deems necessary and appropriate. The signature of the City Administrative Officer shall be sufficient to bind the City and cause the Bond Purchase Agreement to be a valid and binding obligation of the City. The Underwriters' discount under the Bond Purchase Agreement shall not exceed 0.50% of the aggregate principal amount of the Series 2017 Subordinate Bonds purchased thereunder.

Section 9.04. Official Statement. The form of the preliminary Official Statement relating to the Series 2017 Subordinate Bonds (the "Preliminary Official Statement") in substantially the form before this Council with such changes as may be approved by the City Administrative Officer is hereby approved for use in connection with the public offering of the Series 2017 Subordinate Bonds. Upon approval of such additions and changes, whether material or otherwise, by the City Administrative Officer, the Preliminary Official Statement shall be deemed final as of its date, as evidenced by a certificate to such effect, except for the omission of certain information as provided in and pursuant to Rule 15c2-12. The City Administrative Officer, for and on behalf of the City, is hereby authorized to execute a final official statement for one or more Series of Series 2017 Subordinate Bonds (the "Official Statement"), with such additions and changes therein, whether material or otherwise, as he or she may require or approve, such approval to be conclusively evidenced by execution and delivery thereof. The

distribution of the Official Statement in connection with the public offering of each Series of Series 2017 Subordinate Bonds is hereby approved.

Section 9.05. Execution of Documents; Additional Actions. The City Administrative Officer is hereby authorized to purchase or subscribe from time to time for the government obligations to be deposited in escrow in connection with the refundings contemplated by this Twenty-First Supplemental Resolution, to authorize the Escrow Agent(s) to so subscribe, to enter into cash flow agreements, debt service agreements, forward supply contracts and other similar contractual obligations necessary or appropriate to effectuate the transactions contemplated by this Twenty-First Supplemental Resolution, to execute any documents necessary to procure municipal bond insurance (if the City Administrative Officer, upon the advice of the City's municipal advisor, determines that such municipal bond insurance is cost effective) and to execute such certificates (including the Tax Certificate), agreements, forms and other closing documents, including those relating to the tax-exempt status of the tax-exempt Series 2017 Subordinate Bonds and those relating to the securities depository, and such other instruments as are necessary or appropriate to consummate the transactions contemplated by this Twenty-First Supplemental Resolution and to carry out the intent hereof. The City Administrative Officer is authorized and directed to do any and all things and to take any and all further actions to carry out the intent hereof. If the City procures municipal bond insurance for any Series of Series 2017 Subordinate Bonds, any terms and conditions of such insurance may be included in the Attachment 1 for the related Series, and such terms and conditions shall become a part of this Twenty-First Supplemental Resolution upon execution of such Attachment 1 by the City Administrative Officer.

ARTICLE X

MISCELLANEOUS

Section 10.01. Notices.

(a) Any notice, request, direction, designation, consent, acknowledgment, certification, appointment, waiver or other communication required or permitted by this Twenty-First Supplemental Resolution or the Series 2017 Subordinate Bonds shall be in writing except as expressly provided otherwise in this Twenty-First Supplemental Resolution or the Series 2017 Subordinate Bonds.

(b) Any notice or other communication, otherwise specified, shall be sufficiently given and deemed given when delivered by hand or by Mail or by such other means as is specifically provided therefor, and addressed as provided in the Subordinate General Resolution.

(c) Any addressee may designate additional or different addresses for purposes of this Section.

(d) If any of S&P, Fitch and/or Kroll shall have provided a credit rating for any of the Series 2017 Subordinate Bonds at the request of the City, the City shall give written notice to each of S&P, Fitch and/or Kroll then providing a credit rating on any of the Series 2017 Subordinate Bonds if at any time (i) payment of principal and interest on the Series 2017

Subordinate Bonds is accelerated pursuant to the provisions of Section 9.02(a) of the General Resolution or (ii) there is any amendment to the General Resolution or this Twenty-First Supplemental Resolution. Notice, in the case of an event referred to in clause (ii) hereof, shall include a copy of any such amendment. Notices sent to notices sent to S&P shall be addressed to Standard & Poor's, 55 Water Street, New York, New York 10041; notices sent to Fitch shall be addressed to Fitch at Fitch, Inc., One State Street Plaza, New York, New York 10004; notices sent to Kroll shall be addressed to Kroll Bond Rating Agency, 845 Third Avenue, New York, New York 10022, or to such other address as S&P, Fitch or Kroll, respectively, shall supply to the City.

Section 10.02. Limitation of Rights. Nothing expressed or implied in this Twenty-First Supplemental Resolution or the Series 2017 Subordinate Bonds shall give any person other than the City, and the Bondholders any right, remedy or claim under or with respect to this Twenty-First Supplemental Resolution.

Section 10.03. Supplemental Resolution a Contract. This Twenty-First Supplemental Resolution (excluding Article X hereof), together with the Subordinate General Resolution, is adopted by the City for the benefit of the Bondholders and together they constitute a contract with the Subordinate Bondholders.

Section 10.04. Severability. If any provision of the Twenty-First Supplemental Resolution shall be determined to be unenforceable, that shall not affect any other provision of this Twenty-First Supplemental Resolution.

Section 10.05. Payments due on Non-Business Days. If a payment date is not a Business Day, then payment may be made on the next Business Day, and no interest shall accrue for the intervening period.

Section 10.06. Governing Law. This Twenty-First Supplemental Resolution shall be governed by and construed in accordance with the laws of the State.

Section 10.07. Captions. The captions in this Twenty-First Supplemental Resolution are for convenience only and do not define or limit the scope or intent of any provisions or Sections of this Twenty-First Supplemental Resolution.

Section 10.08. Continuing Disclosure. The City Administrative Officer is hereby authorized to execute and enter into one or more Continuing Disclosure Certificates in substantially the form before this Council in form and substance acceptable to Bond Counsel and the City Attorney with respect to any one or more Series of Series 2017 Subordinate Bonds, with such changes as such City Administrative Officer, upon the advice of counsel, deems necessary and appropriate. The signature of the City Administrative Officer shall be sufficient to bind the City and cause the Continuing Disclosure Certificate(s) to be a valid and binding obligation of the City. The City hereby covenants and agrees that they will comply with and carry out all of their respective obligations under any such Continuing Disclosure Certificate for the Series 2017 Subordinate Bonds. Notwithstanding any other provision of the Subordinate General Resolution or this Twenty-First 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 2017 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 this Section. For purposes of this Section, "Beneficial Owner" means any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any applicable Series 2017 Subordinate Bonds covered by such Continuing Disclosure Certificate (including persons holding such applicable Series 2017 Subordinate Bonds covered by such Continuing Disclosure Certificate through nominees, depositories or other intermediaries).

Section 10.09. Municipal Bond Insurance. If the City obtains a policy of municipal bond insurance with respect to any Series of Series 2017 Subordinate Bonds, the Attachment 1 for such Series may contain such provisions relating to the payment of the bonds so insured and to the rights of the bond insurer as required by the bond insurer and approved by the City Administrative Office, as conclusively evidenced by the execution of such Attachment 1.

Section 10.10. Ratification of Prior Actions. All actions heretofore taken by any officers, employees, agents or directors of the City, with respect to the issuance, delivery or sale of the Series 2017 Subordinate Bonds, or in connection with or related to any of the agreements or documents referenced herein or to the refunding of the Refunded Obligations are hereby approved, confirmed and ratified.

Section 10.11. Effective Date. This Twenty-First Supplemental Resolution shall take effect from and upon its adoption.

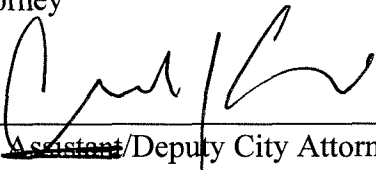
I hereby certify that the foregoing Twenty-First Resolution was adopted by the Council of the City of Los Angeles at its meeting held on April 7, 2017.

HOLLY L. WOLCOTT, City Clerk

By _____
Deputy

Approved as to Form

MICHAEL N. FEUER,
City Attorney

By: 
~~Assistant~~/Deputy City Attorney

C.F. No. _____

EXHIBIT A

FORM OF ATTACHMENT 1

**WASTEWATER SYSTEM SUBORDINATE REVENUE BONDS,
[REFUNDING] SERIES 2017 -_ (GREEN BONDS) [(TAXABLE)]**

Maturity Schedule

| Year (June 1) | Principal Amount | Interest Rate | Yield | CUSIP (Base:) |
|--------------------------|-----------------------------|--------------------------|--------------|---------------------------|
|--------------------------|-----------------------------|--------------------------|--------------|---------------------------|

Redemption Provisions

Optional Redemption.

The Series 2017-A Subordinate Bonds maturing before June 1, 20__ are not subject to redemption before their stated maturities. The Series 2017-A Subordinate Bonds maturing on and after June 1, 20__ are subject to redemption, as a whole or in part as designated by the City, or, absent such designation, pro rata among maturities and by lot within any one maturity if less than all of the Series 2017-A 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, 20__, at a redemption price equal to the principal amount of the Series 2017-A Subordinate Bonds to be redeemed plus accrued interest thereon to the date of redemption, without premium.

The Series 2017-B Subordinate Bonds maturing before June 1, 20__ are not subject to redemption before their stated maturities. The Series 2017-B Subordinate Bonds maturing on and after June 1, 20__ are subject to redemption, as a whole or in part as designated by the City, or, absent such designation, pro rata among maturities and by lot within any one maturity if less than all of the Series 2017-B 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, 20__, at a redemption price equal to the principal amount of the Series 2017-B Subordinate Bonds to be redeemed plus accrued interest thereon to the date of redemption, without premium.

The Series 2017-C Subordinate Bonds (Taxable) maturing on and after June 1, 20__ are subject to redemption, as a whole or in part as designated by the City, or, absent such designation, pro rata among maturities and by lot within any one maturity if less than all of the Series 2017-C Subordinate Bonds (Taxable) of such maturity are to be redeemed, except that in the event of an optional redemption of less than the full amount of the Series 2017-C Subordinate Bonds maturing on June 1, 20__, such Series 2017 Subordinate Bonds shall be redeemed pro rata among all such Series 2017 Subordinate Bonds, prior to their respective maturity dates, at the option of the City, on any date on or after June 1, 20__, at a redemption price equal to the principal amount of the Series 2017-C Subordinate Bonds (Taxable) to be redeemed plus accrued interest thereon to the date of redemption, without premium.

Make-Whole Optional Redemption of Series 2017-C Subordinate Bonds (Taxable).

The Series 2017-C Subordinate Bonds (Taxable) shall be subject to redemption either in whole or in part, at the option of the City, at any time, at a redemption price equal to the greater of (i) 100% of the principal amount thereof or (ii) the Discounted Value thereof, plus in either case, accrued interest thereon to the date of redemption. The Series 2017-C Subordinate Bonds (Taxable) may be redeemed in any order of maturity and in any principal amount within a maturity as selected by the City in its sole discretion. All calculations and determinations referred to under this caption "Optional Redemption," except as provided in the preceding sentence, are expected (but not required) to be made by a financial advisor or other agent selected by the City for such purposes (the "Calculation Agent").

"Discounted Value" means, with respect to each outstanding maturity of the Series 2017-C Subordinate Bonds (Taxable) to be redeemed, the sum as determined by the City or the

Calculation Agent of the amounts obtained by discounting all remaining scheduled payments of principal and interest (exclusive of interest accrued to the date of redemption) on such maturity from their respective scheduled payment dates to the applicable redemption date, at a yield (computed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months) equal to the applicable Discount Yield.

“Discount Yield” means, with respect to each maturity of the Series 2017-C Subordinate Bonds (Taxable) to be redeemed on a particular date, the Blended Treasury Yield determined by the City or the Calculation Agent with respect to the Series 2017-C Subordinate Bonds (Taxable) and maturity to be redeemed, plus ___ basis points. The Discount Yield will be calculated assuming semi-annual compounding based upon a 360-day year consisting of twelve 30-day months.

“Blended Treasury Yield” means, with respect to the Series 2017-C Subordinate Bonds (Taxable) of a particular maturity, the yield computed by the City or the Calculation Agent as the linear interpolation of two Market Treasury Yields such that the theoretical maturity that corresponds to the interpolated Market Treasury Yield equals the date that corresponds to the remaining average life of the Series 2017-C Subordinate Bonds (Taxable) maturity to be redeemed from the redemption date. The first Market Treasury Yield shall be based on an actively traded U.S. Treasury security or U.S. Treasury index whose maturity is closest to but no later than the date corresponding to the remaining average life of the Series 2017-C Subordinate Bonds (Taxable) and maturity to be redeemed; the second Market Treasury Yield shall be based on an actively traded U.S. Treasury security or U.S. Treasury index whose maturity is closest to but no earlier than the date corresponding to the remaining average life of the Series 2017-C Subordinate Bonds (Taxable) maturity to be redeemed.

“Market Treasury Yield” means that yield, as determined by the City or the Calculation Agent, assuming semi-annual compounding based upon a 360-day year consisting of twelve 30-day months, which is equal to:

(i) the yield for the applicable maturity of an actively traded U.S. Treasury security, reported, as of 11:00 a.m., New York City time, on the Valuation Date on the display designated as “Page PX1” of the Bloomberg Financial Markets Services Screen (or, if not available, any other nationally recognized trading screen reporting on-line intraday trading in U.S. Treasury securities); or

(ii) if the yield described in (i) above is not reported as of such time or the yield reported as of such time is not ascertainable, the most recent yield data for the applicable U.S. Treasury maturity index from the federal Reserve Statistical Release H.15 Daily Update (or any comparable or successor publication) reported, as of 11:00 a.m., New York City time, on the Valuation Date; or

(iii) if the yields described in (i) and (ii) above are not reported as of such time or the yields reported as of such time are not ascertainable, the yield for the applicable maturity of any actively traded U.S. Treasury security shall be based upon the average of yield quotations for such security (after excluding the highest and lowest quotations) as of 3:30 p.m., New York City time, on the Valuation Date received from no less than five primary dealers in U.S. Government

securities selected by the City. "Valuation Date" means no less than the third Business Day nor more than the twentieth Business Day preceding the redemption date.

Each yield quotation for each actively traded U.S. Treasury security required in (i) and (iii) above shall be determined using the average of the bid and ask prices for that security.

Mandatory Sinking Fund Redemption. The Series 2017-A Subordinate Bonds are subject to mandatory sinking fund redemption prior to maturity, commencing on June 1, 20__, and on each June 1 thereafter, at a redemption price equal to the principal being redeemed, without premium, from mandatory sinking account payments which have been deposited in the debt service fund created for the Series 2017-A Subordinate Bonds, in the principal amounts set forth below (subject to adjustment in the event of an optional redemption of the Series 2017-A Subordinate Bonds, as provided in the Twenty-First Supplemental Resolution):

| Series 2017-A Subordinate Term Bonds Maturing June 1, 20__ | |
|---|-------------------------|
| Redemption Date | Principal Amount |
| (June 1) | |

(maturity)

The Series 2017-B Subordinate Bonds maturing on June 1, 20__ are subject to mandatory sinking fund redemption prior to maturity, commencing on June 1, 20__, and on each June 1 thereafter, at a redemption price equal to the principal being redeemed, without premium, from mandatory sinking account payments which have been deposited in the debt service fund created for the Series 2017-B Subordinate Bonds, in the principal amounts set forth below (subject to adjustment in the event of an optional redemption of the Series 2017-B Subordinate Bonds, as provided in the Twenty-First Supplemental Resolution):

| Series 2017-B Subordinate Term Bonds Maturing June 1, 20__ | |
|---|-------------------------|
| Redemption Date | Principal Amount |
| (June 1) | |

(maturity)

The Series 2017-C Subordinate Bonds (Taxable) maturing on June 1, 20__ are subject to mandatory sinking fund redemption prior to maturity, commencing on June 1, 20__, and on each June 1 thereafter, at a redemption price equal to the principal being redeemed, without premium, from mandatory sinking account payments which have been deposited in the debt service fund

created for the Series 2017-C Subordinate Bonds (Taxable), in the principal amounts set forth below (subject to adjustment in the event of an optional redemption of the Series 2017-C Subordinate Bonds (Taxable), as provided in the Twenty-First Supplemental Resolution):

| Series 2017-C Subordinate Bonds (Taxable) Maturing June 1, 20__ | |
|--|-------------------------|
| Redemption Date | Principal Amount |
| (June 1) | |

(maturity)

The Series 2017-C Subordinate Bonds (Taxable) maturing on June 1, 20__ are subject to mandatory sinking fund redemption prior to maturity, commencing on June 1, 20__, and on each June 1 thereafter, at a redemption price equal to the principal being redeemed, without premium, from mandatory sinking account payments which have been deposited in the debt service fund created for the Series 2017-C Subordinate Bonds (Taxable), in the principal amounts set forth below (subject to adjustment in the event of an optional redemption of the Series 2017-C Subordinate Bonds (Taxable), as provided in the Twenty-First Supplemental Resolution):

| Series 2017-C Subordinate Bonds (Taxable) Maturing June 1, 20__ | |
|--|-------------------------|
| Redemption Date | Principal Amount |
| (June 1) | |

(maturity)

The Series 2017-C Subordinate Bonds (Taxable) maturing on June 1, 20__ are subject to mandatory sinking fund redemption prior to maturity, commencing on June 1, 20__, and on each June 1 thereafter, at a redemption price equal to the principal being redeemed, without premium, from mandatory sinking account payments which have been deposited in the debt service fund created for the Series 2017-C Subordinate Bonds (Taxable), in the principal amounts set forth below (subject to adjustment in the event of an optional redemption of the Series 2017-C Subordinate Bonds (Taxable), as provided in the Twenty-First Supplemental Resolution):

| Series 2017-C Subordinate Bonds (Taxable) Maturing June 1, 20__ | |
|--|-------------------------|
| Redemption Date | Principal Amount |
| (June 1) | |

(maturity)

Selection of Series 2017 Subordinate Bonds for Redemption. The Series 2017 Subordinate 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. In the event of an optional redemption of less than the full amount of a maturity of the Series 2017 Subordinate Bonds, such Series 2017 Subordinate Bonds shall be redeemed by lot within any one maturity in a manner the City shall deem appropriate, except that the Series 2017-C Subordinate Bonds (Taxable) shall be redeemed pro rata among all such Series 2017 Subordinate Bonds.

Application of Series 2017- Subordinate Bond Proceeds

The net proceeds of the Series 2017- Subordinate Bonds payable by the Underwriters in the amount of \$_____ (which is comprised of the par amount of the Series 2017- Subordinate Bonds in the amount of \$_____, plus an original issue premium of \$_____, less the Underwriters' discount of \$_____, less a good faith deposit of \$_____), together with \$_____ on deposit under the Wastewater System Revenue Bonds Debt Service Reserve Fund, [\$_____ on deposit in the Wastewater System Revenue Bonds Debt Service Fund, Refunding Series 2009-A and \$_____ on deposit in the Wastewater System Subordinate Revenue Bonds Debt Service Fund, Series 2010-A] and \$_____ good faith deposit held by U.S. Bank National Association, shall be transferred and deposited as follows:

(a) the sum of \$_____ shall be transferred to U.S. Bank National Association, as escrow agent (the "Escrow Agent") for the City's _____, a portion of which is to be refunded on an advance basis (collectively, the "Refunded Bonds"), to defease the Refunded Bonds and to pay their respective redemption prices upon their redemption pursuant to the terms of the Escrow Agreement, dated as of April 1, 2017 (the "Escrow Agreement"), between the City and the Escrow Agent;

(b) the amount of such proceeds designated to finance improvements to the System shall be deposited in the 2017 Construction Fund; and

(c) the sum of \$_____ shall be transferred to the Escrow Agent to pay the Costs of Issuance associated with the Series 2017 Subordinate Bonds pursuant to the terms of the Escrow Agreement.

I hereby certify that the provisions of this Attachment 1 are consistent with the Twenty-First Supplemental Resolution and form a part thereof.

Dated: [Closing Date]

CITY ADMINISTRATIVE OFFICER

By: _____
Assistant City Administrative Officer

**EXHIBIT A –
Escrow Agreement**

ESCROW AGREEMENT

between the

CITY OF LOS ANGELES

and

U.S. BANK NATIONAL ASSOCIATION,
as Escrow Agent

Dated as of April 1, 2017

Relating to the

Wastewater System Revenue Bonds, Refunding Series 2009-A
Wastewater System Subordinate Revenue Bonds, Series 2010-A

ESCROW AGREEMENT

This ESCROW AGREEMENT, dated as of April 1, 2017 (this "Escrow Agreement"), is entered into by and between the CITY OF LOS ANGELES (the "City"), a municipal corporation and a charter city of the State of California (the "State"), and U.S. BANK NATIONAL ASSOCIATION, its successors and assigns, as escrow agent (the "Escrow Agent"), with reference to the following facts:

WITNESSETH:

WHEREAS, pursuant to the Wastewater System Revenue Bonds General Resolution adopted by the City Council on November 10, 1987, as amended and supplemented from time to time (the "General Resolution"), and the Twenty-Fourth Supplemental Resolution supplementing the General Resolution adopted by the City Council on March 6, 2009 (the "Twenty-Fourth Supplemental Resolution"), the City issued its Wastewater System Revenue Bonds, Refunding Series 2009-A (the "Series 2009-A Bonds") in the original aggregate principal amount of \$454,785,000; and

WHEREAS, pursuant to 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 (the "Subordinate General Resolution"), and the Twelfth Supplemental Resolution supplementing the Subordinate General Resolution adopted by the City Council on October 1, 2010 (the "Subordinate Twelfth Supplemental Resolution"), the City issued its Wastewater System Subordinate Revenue Bonds, Series 2010-A (the "Subordinate Series 2010-A Bonds") in the original aggregate principal amount of \$199,790,000; and

WHEREAS, the Series 2009-A Bonds are currently outstanding in the aggregate principal amount of \$ _____; and

WHEREAS, the Subordinate Series 2010-A Bonds are currently outstanding in the aggregate principal amount of \$ _____; and

WHEREAS, the City has determined that it is beneficial to the City and its ratepayers to (i) advance refund the outstanding Series 2009-A Bonds as set forth on Schedule A hereto (the "Series 2009-A Refunded Bonds") and (ii) advance refund the outstanding Subordinate Series 2010-A Bonds as set forth on Schedule A hereto (the "Subordinate Series 2010-A Refunded Bonds" and, collectively with the Series 2009-A Refunded Bonds, the "Refunded Bonds"); and

WHEREAS, the General Resolution provides that the "Bonds," as defined in the General Resolution, and issued thereunder, shall, prior to the maturity thereof, be deemed to have been paid when (a) 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 (as defined in the General Resolution), 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, and (b) all necessary and proper fees, compensation and expenses of any Registrar and

any Paying Agent pertaining to the Bonds with respect to which such deposit is made shall have been paid or provision made for the payment thereof; and

WHEREAS, the General Resolution provides that notwithstanding the foregoing described provision, no deposit under clause (a)(ii) as described in the immediately preceding paragraph shall be deemed a payment of any such Bonds unless the City has given notice or has agreed to give notice in accordance with the General Resolution, as soon as practicable, to the Owners of the Bonds with respect to which such deposit has been made that such deposit has been made and in such notice has included or will include the maturity or redemption date upon which moneys are to be available for the payment of the principal of and the applicable redemption premium, if any, on such Bonds and the City has given or has agreed to give proper and timely notice of the redemption of those Bonds which are to be redeemed in advance of their maturity; and

WHEREAS, the Subordinate General Resolution provides that the “Subordinate Bonds,” as defined in the Subordinate General Resolution, and issued thereunder, shall be deemed to have been paid when (a) 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 (as defined in the Subordinate General Resolution), 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, and (b) all necessary and proper fees, compensation and expenses of any Registrar and any Paying Agent pertaining to the Subordinate Bonds with respect to which such deposit is made shall have been paid or provision made for the payment thereof; and

WHEREAS, the Subordinate General Resolution provides that notwithstanding the foregoing described provision, no deposit under clause (a)(ii) as described in the immediately preceding paragraph shall be deemed a payment of any such Subordinate Bonds unless the City has given notice or has agreed to give notice by mail, as soon as practicable, to the Owners of the Subordinate Bonds with respect to which such deposit has been made that such deposit has been made and in such notice has included or will include the maturity or redemption date upon which moneys are to be available for the payment of the principal of and the applicable redemption premium, if any, on such Subordinate Bonds and the City has given or has agreed to give proper and timely notice of the redemption of those Subordinate Bonds which are to be redeemed in advance of their maturity; and

WHEREAS, pursuant to the General Resolution and the Subordinate General Resolution, the City Treasurer has been appointed the Paying Agent for the Refunded Bonds (together with any successor Paying Agent for the Refunded Bonds appointed pursuant to the General Resolution or the Subordinate General Resolution, as applicable, the “Paying Agent”); and

WHEREAS, the City has issued its Wastewater System Subordinate Revenue Bonds, Refunding Series 2017-B and its Wastewater System Subordinate Revenue Bonds, Refunding Series 2017-C (Taxable) (the “Series 2017 Refunding Bonds”) for the purpose, among other purposes, of refunding the Refunded Bonds; and

WHEREAS, the Subordinate Series 2017 Refunding Bonds are being issued under the terms of the Subordinate General Resolution and a Twenty-First Supplemental Resolution, adopted by the City Council on April 7, 2017 (the “Subordinate Twenty-First Supplemental Resolution”); and

WHEREAS, the City has determined that the Series 2009-A Refunded Bonds shall be redeemed on June 1, 2019 and that the Subordinate Series 2010-A Refunded Bonds shall be redeemed on June 1, 2020 (each, the applicable “Redemption Date” with respect to the related series of Refunded Bonds); and

WHEREAS, the Escrow Agent shall take any and all action necessary to transfer amounts provided hereunder to the Paying Agent to pay or redeem the Refunded Bonds, in accordance with the provisions of this Escrow Agreement.

NOW THEREFORE, in consideration of the foregoing and of the mutual covenants and agreements hereinafter set forth, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

Section 1. Receipt of Documents and Confirmation of Book-Entry Status of the Refunded Bonds. The Escrow Agent hereby acknowledges the receipt of a copy of the verification report prepared by [Causey Demgen & Moore P.C.], independent certified public accountants, in connection with calculations of the sufficiency of the funds and Government Obligations to be used to pay when due the interest on and the principal or redemption price of the respective series of the Refunded Bonds. The City hereby confirms that all of the Refunded Bonds are in “book-entry” form, and are registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York (“DTC”), which acts as the securities depository for the Refunded Bonds. So long as the Refunded Bonds are in such book-entry form, the Escrow Agent shall give all notices pursuant to this Escrow Agreement to Cede & Co. as the registered owner of the Refunded Bonds and DTC as the securities depository therefor. The Escrow Agent shall make all payments required hereunder to the Paying Agent.

Section 2. Payment of Bonds; Notice to Owners. The Escrow Agent is hereby appointed to serve as escrow agent and to make the payments required pursuant to this Escrow Agreement as directed by the City. The City shall make available to the Escrow Agent such information with respect to the Paying Agent as needed by the Escrow Agent for purposes of making payments hereunder.

(a) The Escrow Agent shall pay from amounts held under this Escrow Agreement all interest as it becomes due on the Refunded Bonds on or prior to the applicable maturity date thereof or Redemption Date therefor as set forth on Schedule A.

(b) The Series 2009-A Refunded Bonds shall be redeemed on the applicable Redemption Date for such Series 2009-A Refunded Bonds at the redemption price of 100% of the principal amount thereof without premium as set forth on Schedule A.

(c) The Subordinate Series 2010-A Refunded Bonds shall be redeemed on the applicable Redemption Date for such Subordinate Series 2010-A Refunded Bonds at the

redemption price of 100% of the principal amount thereof without premium as set forth on Schedule A.

(d) The City hereby agrees, as soon as practicable, to give notice under Article VIII of the General Resolution that a deposit has been made hereunder to provide for the payment of the Series 2009-A Refunded Bonds, and under Article VIII of the Subordinate General Resolution that a deposit has been made hereunder to provide for the payment of the Subordinate Series 2010-A Refunded Bonds and agrees to give proper and timely notice of the redemption of the Series 2009-A Refunded Bonds in accordance with Section 4.03 of the General Resolution and of the Subordinate Series 2010-A Refunded Bonds in accordance with Section 4.03 of the Subordinate General Resolution, and in accordance with the applicable Supplemental Resolutions relating to such Refunded Bonds. To implement such agreement, the City hereby irrevocably directs the Escrow Agent to give the following notices and the Escrow Agent agrees that it will:

(i) mail by first-class United States mail, postage prepaid, to all owners of the Series 2009-A Refunded Bonds, a notice of the defeasance of the Series 2009-A Refunded Bonds in substantially the form of Attachment 1-1 to this Escrow Agreement on [April 27, 2017], as soon as practicable after the receipt of the Series 2017 Refunding Bond proceeds as described in Section 3 hereof;

(ii) mail by first-class United States mail, postage prepaid, to all owners of the Subordinate Series 2010-A Refunded Bonds, a notice of the defeasance of the Subordinate Series 2010-A Refunded Bonds in substantially the form of Attachment 2-1 to this Escrow Agreement on [April 27, 2017], as soon as practicable after the receipt of the Series 2017 Refunding Bond proceeds as described in Section 3 hereof;

(iii) mail by first-class United States mail, postage prepaid, to all owners of the Series 2009-A Refunded Bonds, a notice of redemption of the Series 2009-A Refunded Bonds in substantially the form of Attachment 1-2 to this Escrow Agreement at least 30 days and not more than 60 days before June 1, 2019; and

(iv) mail by first-class United States mail, postage prepaid, to all owners of the Subordinate Series 2010-A Refunded Bonds, a notice of redemption of the Subordinate Series 2010-A Refunded Bonds in substantially the form of Attachment 2-2 to this Escrow Agreement at least 30 days and not more than 60 days before June 1, 2020.

Section 3. Establishment of Escrow Account and Costs of Issuance Account; Disposition of Initial Deposits.

(a) There is hereby created and established with the Escrow Agent a special, irrevocable escrow to be designated "Los Angeles Wastewater System Escrow Account, Series 2017 Refunding" (the "Escrow Account") to be held, in escrow, by the Escrow Agent separate and apart from any other funds of the Escrow Agent and the City, if any, held by the Escrow Agent. Such portion of the Escrow Account as shall be necessary to provide for the payment of the principal or redemption price of and interest on the Series 2009-A Refunded Bonds and the Subordinate Series 2010-A Refunded Bonds in accordance with Section 2 hereof, shall be

allocated to the payment of such respective series of the Refunded Bonds and shall be deemed to constitute a subaccount therefor.

(b) On the date of issuance of the Series 2017 Refunding Bonds, a portion of the proceeds of the Series 2017 Refunding Bonds in the amount of \$_____ shall be deposited into the Escrow Account together with (i) the amount released from the Debt Service Reserve Fund created under the General Resolution related to the Series 2009-A Refunded Bonds of \$_____ received by the Escrow Agent on or before the date hereof, (ii) the amount released from the Debt Service Funds related to the Refunded Bonds of \$_____ received by the Escrow Agent on or before the date hereof, and (iii) the amount of the Series 2017 Refunding Bonds Good Faith Deposit of \$_____ previously received by the Escrow Agent of \$_____. The amount deposited in the Escrow Account by the Escrow Agent shall be applied and allocated to provide for the payment of the principal or redemption price of and interest on the respective series of the Refunded Bonds as set forth on Schedule B hereto.

(c) The Escrow Agent is hereby directed to use \$_____ of the amounts deposited to the Escrow Account to purchase on the date of issuance of the Series 2017 Refunding Bonds the securities listed on Schedule C. All amounts in the Escrow Account not so applied (\$_____) shall be held by the Escrow Agent uninvested in cash. The securities listed on Schedule C hereto shall constitute the "Initial Government Obligations" to be held by the Escrow Agent hereunder.

(d) The Escrow Agent shall use the maturing principal of the Initial Government Obligations, together with the interest to be paid thereon, any securities substituted therefor in accordance with Section 12 hereof and any cash existing in the Escrow Account, to pay to the Paying Agent the interest on, and the principal or redemption price of, the Refunded Bonds as provided in Section 2 hereof.

(e) The Escrow Agent is hereby directed to establish an account designated as the "Los Angeles Wastewater System Costs of Issuance Account, Series 2017" (the "Costs of Issuance Account"). On the date of issuance of the Series 2017 Bonds, the Escrow Agent shall deposit the sum of \$_____ received from the underwriters of the Series 2017 Bonds in the Escrow Account and hold and administer such amount in accordance with the provisions of this Subsection 3(e) to pay Costs of Issuance (as defined in the Subordinate Twenty-First Supplemental Resolution) related to the Series 2017 Bonds. The Escrow Agent shall invest amounts in the Costs of Issuance Account upon the written direction of the City. The Escrow Agent shall disburse moneys in the Costs of Issuance Account only upon a requisition, substantially in the form set forth in Attachment 4 hereto, signed by an Authorized City Representative, setting forth the amounts to be disbursed for payment or reimbursement of Costs of Issuance and the name of the person or persons to whom such amounts are due, stating that the amounts to be disbursed are for Costs of Issuance properly chargeable to the Costs of Issuance Account and that such amounts have not been the subject of previous requisition. Upon the earlier of (A) December 31, 2017, with respect to moneys for Costs of Issuance in the Costs of Issuance Account, or (B) the filing with the Escrow Agent of a certificate stating that all of the Costs of Issuance have been paid, as applicable, the Escrow Agent shall withdraw and transfer to the City for deposit in the Debt Service Fund or Funds established by the City for the payment of

the Series 2017 Bonds, all remaining moneys in the Costs of Issuance Account, and shall close the Costs of Issuance Account.

(f) The City acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the City the right to receive brokerage confirmations of security transactions as they occur, the City specifically waives receipt of such confirmations to the extent permitted by law. The Escrow Agent will furnish the City cash transaction statements on a quarterly basis which shall include detail for all investment transactions made by the Escrow Agent hereunder.

The taxable moneys held therein will be used to defease and redeem the outstanding prior bond(s) allocable to the prior advance refunding.

Section 4. Irrevocable Deposit. The escrow created hereby shall be irrevocable, and all moneys, the Initial Government Obligations and any securities substituted therefor in accordance with the terms of this Escrow Agreement held in the Escrow Account and any reinvestment of amounts held hereunder shall be subject to the irrevocable escrow created by this Escrow Agreement until paid out, used and applied in accordance with this Escrow Agreement.

The deposits made pursuant to Section 3(b) hereof shall constitute an irrevocable deposit and pledge for the benefit of the holders of the Refunded Bonds, and the moneys and Initial Government Obligations and any securities substituted therefor in accordance with the terms of this Escrow Agreement, together with any interest paid thereon and any reinvestment thereof, shall be held in escrow, and shall be applied solely by the Escrow Agent in accordance with the provisions of this Escrow Agreement. Neither the Initial Government Obligations, securities substituted therefor, any reinvestment thereof, nor moneys deposited with the Escrow Agent under this Escrow Agreement nor principal or interest payments on any such securities shall, except as provided in Sections 3 and 12 hereof, be withdrawn or used for any purpose other than, and shall be held in escrow for, the payment of the interest on and principal or redemption price of the Refunded Bonds.

Section 5. Receipt of Funds. The Escrow Agent hereby acknowledges receipt of the moneys described in Section 3(b) hereof, and acknowledges that with such moneys it has purchased and received the securities listed on Schedule C hereto. Except as specifically provided in Sections 3 and 12 of this Escrow Agreement, the Escrow Agent shall have no power or duty to invest or reinvest any moneys held hereunder or to make substitutions for the Initial Government Obligations or to sell, transfer or otherwise dispose of the Initial Government Obligations except to collect the principal and interest thereon.

Section 6. Late Presentment of Bonds. If any Refunded Bonds shall not be presented for payment on the applicable maturity date or Redemption Date therefor, as soon as is practicable after such date on direction of the City, it shall be the duty of the Escrow Agent to transfer such moneys or securities held by the Escrow Agent for payment of such Refunded Bonds under this Escrow Agreement to the City or as is otherwise directed by the City in writing. The City shall then hold said moneys in trust for the respective holders of such Refunded Bonds as described below.

Prior to such transfer to the City (or as is otherwise directed by the City), such moneys or securities shall at all times be held by the Escrow Agent, in escrow, sufficient for the purpose of paying when due the interest on and the principal or redemption price of the Refunded Bonds. All moneys or securities required by the provisions hereof to be set aside or held in escrow for the payment of the Refunded Bonds shall be applied to and used solely for the payment of the Refunded Bonds with respect to which such moneys and securities have been so set aside in escrow. Upon such transfer to the City, any moneys and securities shall be released from escrow and paid to the City and the City shall deposit such amounts into the SCM Fund, and thereafter the holders of such Refunded Bonds shall look only to the SCM Fund for payment and the City shall be obligated to make such payment, but only to the extent of the original amounts due on such Refunded Bonds on the original applicable maturity date or Redemption Date therefor and without any interest thereon on or after the stated applicable maturity date or Redemption Date and the City shall be obligated to make payment only from Revenues.

Section 7. Destruction of Paid Bonds. All Refunded Bonds cancelled on account of payment shall be destroyed in accordance with the General Resolution or the Subordinate General Resolution, as applicable.

Section 8. Waiver of Rights. The City hereby irrevocably waives any right it may have to redeem any of the Series 2009-A Refunded Bonds or Subordinate Series 2010-A Refunded Bonds prior to their applicable Redemption Date.

Section 9. Escrow Agent Fees; Indemnification. For acting under this Escrow Agreement, the Escrow Agent shall be entitled to payment by the City of, and the City shall pay to the Escrow Agent, fees for its services and reimbursement of advances, counsel fees and other expenses reasonably and necessarily made or incurred by the Escrow Agent in connection with its services under this Escrow Agreement; however, such amounts shall never be payable from or become a lien upon the Escrow Account, which account shall be held solely for the purpose set forth in Section 3 of this Escrow Agreement. To the extent permitted by law, the City agrees to indemnify and hold the Escrow Agent harmless from and against all claims, suits and actions brought against it, or to which it is made a party, and from all costs, expenses (including reasonable attorneys' fees), losses and damages suffered by it as a result thereof including the costs and expenses of defending against any such claims, suits or actions, where and to the extent such claim, suit or action arises out of the acceptance or performance by the Escrow Agent of its duties under this Escrow Agreement, including the enforcement by the Escrow Agent of any remedies provided hereunder. Such indemnification shall not extend to claims, suits and actions brought against the Escrow Agent which result in a judgment being entered, settlement being reached or other disposition made based upon the Escrow Agent's negligence or willful misconduct. The indemnification provided for in this Escrow Agreement shall never be payable from or become a lien upon the Escrow Account, which account shall be held solely for the purpose set forth in Section 3 of this Escrow Agreement. This right of indemnification shall survive the termination of this Escrow Agreement. The Escrow Agent shall assert no lien whatsoever on the Escrow Account, or moneys on deposit in the Escrow Account, for the payment of fees and expenses for services rendered by Escrow Agent under this Escrow Agreement or otherwise.

Section 10. Escrow Agent Privileges; Immunities; Successors.

(a) The Escrow Agent shall not be liable for any loss resulting from any investment made pursuant to this Escrow Agreement in compliance with the provisions hereof.

(b) The Escrow Agent shall not be liable for the accuracy of the calculations as to the sufficiency of any moneys in the Escrow Account to pay the interest on and the principal or redemption price of the Refunded Bonds. So long as the Escrow Agent applies the funds held in the Escrow Account as provided herein and complies fully with the terms of this Escrow Agreement, the Escrow Agent shall not be liable for any deficiencies in the amounts necessary to make such payments caused by such calculations.

(c) In the event of the Escrow Agent's failure to account for any of the Escrow Account or moneys received by it, said Escrow Account or moneys shall, nevertheless, be and remain in escrow for the holders of the Refunded Bonds or portions thereof, as herein provided.

(d) The Escrow Agent undertakes to perform only such duties as are expressly and specifically set forth in this Escrow Agreement and no implied duties or obligations shall be read into this Escrow Agreement against the Escrow Agent.

(e) The Escrow Agent may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed herein, and shall be protected and indemnified, in acting, or refraining from acting, upon any written notice, instruction, request, certificate, document, report or opinion furnished to the Escrow Agent and reasonably believed by the Escrow Agent to have been signed or presented by the proper party, and it need not investigate any fact or matter stated in such notice, instruction, request, certificate, document, report or opinion.

(f) The Escrow Agent shall not have any liability hereunder except to the extent of its own negligence or willful misconduct. In no event shall the Escrow Agent, be liable for any special, indirect or consequential damages, even if parties know of the possibility of such damages. The Escrow Agent shall have no duty or responsibility under this Escrow Agreement in the case of any default in the performance of covenants or agreements contained in the General Resolution or the Subordinate General Resolution, or in the case of the receipt of any written demand with respect to such default. The Escrow Agent is not required to resolve conflicting demands to money or property in its possession under this Escrow Agreement.

(g) The Escrow Agent may consult with counsel of its own choice (which may be counsel to the City) and the opinion of such counsel shall be full and complete authorization to take or suffer in good faith any action in accordance with such opinion of counsel.

(h) The Escrow Agent shall not be responsible for any of the recitals or representations contained herein, in the General Resolution, the Subordinate General Resolution, the Subordinate Twenty-First Supplemental Resolution or in the Series 2017 Refunding Bonds.

(i) The Escrow Agent shall not be liable for any action or omission of the City under the Escrow Agreement, the General Resolution, the Subordinate General Resolution, the Subordinate Twenty-First Supplemental Resolution or otherwise.

(j) Whenever in the administration of the provisions of the Escrow Agreement, the Escrow Agent shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of negligence or willful misconduct on the part of the Escrow Agent, be deemed to be conclusively proved and established by a certificate of the City (signed by any City representative authorized pursuant to the Twenty-Eighth Supplemental Resolution and the Subordinate Twenty-First Supplemental Resolution pursuant to which the Series 2017 Refunding Bonds are issued), and such Certificate of the City shall, in the absence of negligence or willful misconduct on the part of the Escrow Agent, be full warrant to the Escrow Agent for any action taken or suffered by it under the provisions of this Escrow Agreement upon the faith thereof.

(k) The Escrow Agent may at any time resign by giving written notice to the City of such resignation prior to the proposed resignation date, whereupon the City shall promptly use its best efforts to appoint a successor escrow agent by the resignation date. Resignation of the Escrow Agent will be effective only upon the appointment, acceptance and qualification of a successor escrow agent. If the City does not appoint a successor escrow agent within 60 days after notice of resignation by the Escrow Agent, the resigning escrow agent may petition any court of competent jurisdiction for the appointment of a successor escrow agent at the expense of the City, which court may thereupon, after such notice, if any, as it may deem proper and prescribe and as may be required by law, appoint a successor escrow agent. After receiving a notice of resignation of an escrow agent, the City may appoint a temporary escrow agent to replace the resigning escrow agent until the City appoints a successor escrow agent. Any such temporary escrow agent so appointed by the City shall immediately and without further act be superseded by the successor escrow agent so appointed.

If a successor escrow agent is appointed, all agreements and obligations described herein with respect to the Escrow Agent, as the escrow agent, shall apply to such successor escrow agent. Every successor escrow agent appointed hereunder shall execute, acknowledge and deliver to its predecessor and the City an instrument in writing accepting such appointment hereunder and thereupon such successor escrow agent, without any further act, deed or conveyance, shall become fully vested with all the rights, immunities, powers, duties and obligations of its predecessor, but such predecessor shall, nevertheless, on the written request of such successor escrow agent or the City, execute and deliver an instrument transferring to such successor escrow agent all the estates, properties, rights, powers of such predecessor hereunder, and every predecessor escrow agent shall deliver all investments and moneys held by it to its successor. Should any transfer, assignment or instrument in writing from the City be required by any successor escrow agent for more fully and certainly vesting in such successor escrow agent the estates, rights, powers and duties hereby vested or intended to be vested in the predecessor escrow agent, any such transfer, assignment and instruments in writing shall, on request, be executed, acknowledged and delivered by the City.

Any corporation or association into which the Escrow Agent, or any successor to it and the escrow created by this Escrow Agreement, may be merged or converted or with which it or any successor to it may be consolidated (or any corporation or association resulting from any merger, conversion, consolidation or tax-free reorganization to which the Escrow Agent or any other bank then serving as escrow agent, or any successor to it, shall be a party), shall be the

successor escrow agent under this Escrow Agreement, shall hold the Escrow Account in accordance with the terms hereof and shall be vested with all of the powers, rights, obligations, duties, immunities and privileges hereunder as was its predecessor without the execution or filing of any paper or any other act on the part of the parties hereto, anything herein to the contrary notwithstanding.

(l) The Escrow Agent will provide the City with annual statements of the Escrow Account maintained hereunder.

Section 11. Termination. This Escrow Agreement shall terminate on the later of (i) when the Refunded Bonds have been fully paid and discharged in accordance with the provisions hereof and of the General Resolution and the Subordinate General Resolution, as applicable, and (ii) when the Escrow Agent closes the Escrow Account and the Costs of Issuance Account pursuant to Section 3(e) hereof. Any moneys or securities held in the Escrow Account at termination and not required for the payment of the interest on and principal or redemption price of any of the Refunded Bonds shall, after payments of any outstanding fees or expenses of the Escrow Agent, be paid or transferred to the City.

Section 12. Investment of Funds in the Escrow Account.

(a) Except as otherwise provided in Section 3(c), Section 3(e) and Section 4 hereof, amounts held in the Escrow Account under this Escrow Agreement may be invested only in non-callable and non-prepayable (i) direct obligations of, (or obligations the principal of and interest on which are unconditionally guaranteed by) the United States and (ii) securities or receipts evidencing ownership interests in obligations or specified portions (such as principal or interest) of obligations described in (i). Those obligations described in the preceding sentence are herein referred to as "Government Obligations" (as such term is defined in the General Resolution and Subordinate General Resolution).

(b) At the written direction of the City, the Escrow Agent shall redeem, transfer or exchange the Initial Government Obligations or any Government Obligations which are then held as an investment of the Escrow Account and reinvest the proceeds thereof, together with the other moneys held in the Escrow Account in Government Obligations, and may release to the City the excess amount then resulting in the Escrow Account, provided that the City delivers to the Escrow Agent the following:

(i) an opinion of an independent certified public accountant to the effect that, after such reinvestment the principal amount of Government Obligations, together with the interest thereon and other available moneys held in the Escrow Account, will be sufficient without reinvestment to pay interest on the Refunded Bonds and to pay or redeem the Refunded Bonds as provided in Sections 2 and 3 hereof; and

(ii) an unqualified opinion of nationally recognized municipal bond counsel to the effect that (a) such investment will not cause either the Refunded Bonds, other bonds issued under the General Resolution or the Subordinate General Resolution, or the Series 2017-B Refunding Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Internal Revenue Code of 1986 (the "Code"), and the regulations thereunder in effect

on the date of such investment, or otherwise cause the interest on any of such bonds to be included in the gross income of the recipients thereof for federal income tax purposes, and (b) such reinvestment complies with the Constitution and laws of the State of California and with all relevant documents relating to the issuance of the Refunded Bonds.

(c) If, at any time, the Initial Government Obligations (as defined in Subsection 3(c) hereof) or other Government Obligations then held as an investment of the Escrow Account mature or payments are made thereon to the Escrow Agent or the Escrow Agent otherwise holds or receives cash in advance of the time same cash is needed to make payment on the Refunded Bonds, such amounts shall be held uninvested unless the Escrow Agent has received written instructions from the City directing the investment of such amounts and all of the following requirements have been met:

(i) such moneys shall be invested only in Government Obligations which mature not later than the date on which the funds invested therein will be needed to make payments on the Refunded Bonds;

(ii) such moneys shall be invested only in Government Obligations which mature in an amount, together with interest thereon, not less than the full amount paid by Escrow Agent to acquire such investments;

(iii) prior to any such reinvestment, the Escrow Agent shall receive from the City or the City's financial advisor a certificate to the effect that the investments to be acquired by the Escrow Agent meet the requirements of Subsections 12(c)(i) and 12(c)(ii) above; and

(iv) if the yield on such reinvestment is greater than 0.00% or the reinvestment is being made pursuant to an agreement providing for the purchase of Government Obligations at a future time or times, then prior to any such reinvestment, the City shall deliver to the Escrow Agent an unqualified opinion of nationally recognized municipal bond counsel to the effect that (i) such reinvestment will not cause either the Refunded Bonds, other bonds issued under the General Resolution or the Subordinate General Resolution or the Series 2017 Refunding Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code, and the regulations thereunder in effect on the date of such investment, or otherwise cause the interest on any of such bonds to be included in the gross income of the recipients thereof for federal income tax purposes; provided that, if such investment is made pursuant to the terms of an agreement between the Escrow Agent and a supplier of securities which agreement is entered into by the Escrow Agent at the written direction of the City and provides for investments to be provided at a future time or times, then the requirement set forth in this Subsection 12(c)(iv) shall be met if the opinion described herein is provided prior to the time the agreement is entered into and relates to all investments made in accordance with the terms of such agreement.

(d) In addition to the requirements and restrictions set forth above in Subsection 12(c), if the Refunded Bonds then carry a rating assigned by Moody's Investors Service ("Moody's") and/or Standard & Poor's Ratings Service ("Standard & Poor's") and/or Fitch

Ratings, Inc. (“Fitch”) on the basis of the security provided by the Escrow Account, then the City shall not direct the Escrow Agent to enter into an agreement providing for the purchase of securities at a future time or times as an investment of the Escrow Account unless prior to the time the Escrow Agent enters into such agreement, the City has been notified by the rating agency or agencies then maintaining such rating or ratings that entering into the agreement will not cause the rating or ratings then assigned to the Refunded Bonds to be reduced or withdrawn.

Section 13. Tax Covenant of the City. The City covenants that it will not take or omit to take any action, which action or omission to act would cause the Refunded Bonds, any other bonds issued under the General Resolution or the Subordinate General Resolution or the Series 2017-B Refunding Bonds to be arbitrage bonds within the meaning of Section 148 of the Code, and the regulations thereunder, or take or omit to take any action which would cause the interest on any such bonds to be included in the gross income of the recipients thereof for federal income tax purposes.

Section 14. Compensation Acknowledgement. The Escrow Agent hereby acknowledges that under the terms of this agreement with the City, all fees that are or will become due to the Escrow Agent for services performed under this Escrow Agreement have been provided for and that provision has been made to the satisfaction of the Escrow Agent between the City and the Escrow Agent for all necessary and proper compensation and expenses of Escrow Agent with respect to such Refunded Bonds within the meaning of Article VIII of the General Resolution and Article VIII of the Subordinate General Resolution, as applicable, so long as the Refunded Bonds remain in book-entry only form. Amounts to be paid to the Escrow Agent for compensation and expenses of the Escrow Agent shall never be payable from or become a lien upon the Escrow Account, which account shall be held solely for the purpose set forth in Section 3 of this Escrow Agreement.

Section 15. Incorporation of Definitions in the General Resolution and Subordinate General Resolution. Capitalized terms used herein and not otherwise defined shall have the meanings given to them in the General Resolution or the Subordinate General Resolution, as applicable.

Section 16. Amendments or Supplements. This Escrow Agreement is made for the benefit of the City and the owners of the Refunded Bonds and it shall not be repealed, revoked, altered or amended without the written consent of all such owners, the Escrow Agent and the City; provided, however, that the City and the Escrow Agent may, without the consent of, or notice to, such owners, amend this Escrow Agreement or enter into such agreements supplemental to this Escrow Agreement as shall not adversely affect the rights of such owners and as shall not be inconsistent with the terms and provisions of this Escrow Agreement or the General Resolution; provided, that each of the following shall be a condition to the execution and delivery of any such amendment or supplement (1) if Moody’s, Standard & Poor’s or Fitch is then maintaining a rating on Refunded Bonds on the basis of the security provided by the Escrow Account, then such rating agency must have received a copy of such amendment or supplement and have notified the City that such amendment or supplement will not cause the rating then being maintained to be reduced or withdrawn and (2) there shall be delivered to the City an opinion of nationally recognized municipal bond counsel to the effect that such amendment or supplement (a) will not cause either the Refunded Bonds, other bonds issued under the General

Resolution or the Subordinate General Resolution or the Series 2017 Refunding Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code and the regulations thereunder in effect on the date of such amendment or supplement or otherwise cause the interest on any such bonds to be included in the gross income of the recipients thereof for federal income tax purposes and (b) complies with the terms of this Escrow Agreement.

Section 17. Severability. If any one or more of the covenants or agreements to be performed by any of the parties to this Escrow Agreement shall be determined by a court of competent jurisdiction to be unenforceable, such covenant or agreement shall be deemed and construed to be severable from the remaining covenants and agreements contained herein and shall in no way affect the validity of the remaining provisions of this Escrow Agreement. If any provisions of this Escrow Agreement shall be deemed by a court of competent jurisdiction to be unenforceable, the City shall promptly notify Standard & Poor’s at One Market Street, Steuart Tower, 15th Floor, San Francisco, California 94105, Fitch Ratings at 111 Congress Avenue, Suite 2010, Austin, Texas 78701, and any other rating agency at the time maintaining a rating on the Refunded Bonds.

Section 18. Governing Law; Counterparts. This Escrow Agreement shall be governed by and construed in accordance with the laws of the State of California. This Escrow Agreement may be executed in counterparts, each of which shall be deemed an original and all of which, taken together, shall be deemed to be one and the same document.

[Remainder of Page Intentionally Left Blank.]

IN WITNESS WHEREOF, the parties have each caused this Escrow Agreement to be executed by their duly authorized representatives as of the date first written above.

CITY OF LOS ANGELES

By: _____
Assistant City Administrative Officer

Attest:

HOLLY WOLCOTT, City Clerk

By: _____
Deputy City Clerk

Approved as to form:

MICHAEL N. FEUER, City Attorney

By: _____
Assistant/Deputy City Attorney

U.S. BANK NATIONAL ASSOCIATION,
as Escrow Agent

By: _____
Authorized Officer

SCHEDULE A
DESCRIPTION OF THE REFUNDED BONDS,
REDEMPTION DATES AND REDEMPTION PRICES AND
ESCROW REQUIREMENTS

Description of the Series 2009-A Refunded Bonds

| <u>Maturity Date</u> | <u>Principal Amount Outstanding</u> | <u>Interest Rate</u> | <u>CUSIP</u> | <u>Principal Amount to be Refunded</u> | <u>Redemption Date</u> | <u>Redemption Price</u> |
|-----------------------------|-------------------------------------|----------------------|--------------|--|------------------------|-------------------------|
| June 1, 2021 | \$ | 5.250% | | \$ | June 1, 2019 | 100% |
| June 1, 2023 | | 4.500 | | | June 1, 2019 | 100 |
| June 1, 2023 | | 4.750 | | | June 1, 2019 | 100 |
| June 1, 2023 | | 5.250 | | | June 1, 2019 | 100 |
| June 1, 2024 | | 5.250 | | | June 1, 2019 | 100 |
| June 1, 2024 | | 5.750 | | | June 1, 2019 | 100 |
| June 1, 2025 | | 5.250 | | | June 1, 2019 | 100 |
| June 1, 2025 | | 5.750 | | | June 1, 2019 | 100 |
| June 1, 2026 | | 5.000 | | | June 1, 2019 | 100 |
| June 1, 2026 | | 5.750 | | | June 1, 2019 | 100 |
| June 1, 2027 | | 5.250 | | | June 1, 2019 | 100 |
| June 1, 2027 | | 5.750 | | | June 1, 2019 | 100 |
| June 1, 2028 | | 5.375 | | | June 1, 2019 | 100 |
| June 1, 2028 | | 5.750 | | | June 1, 2019 | 100 |
| June 1, 2029 | | 5.375 | | | June 1, 2019 | 100 |
| June 1, 2034 ⁽¹⁾ | | 5.750 | | | June 1, 2019 | 100 |

⁽¹⁾ Term Bond maturing on June 1, 2034.

Escrow Requirements for the Series 2009-A Refunded Bonds

| <u>Date</u> | <u>Interest</u> | <u>Called Principal</u> | <u>Call Premium</u> | <u>Total Requirements</u> |
|------------------|-----------------|-------------------------|---------------------|---------------------------|
| June 1, 2017 | \$ | | | |
| December 1, 2017 | | | | |
| June 1, 2018 | | | | |
| December 1, 2018 | | | | |
| June 1, 2019 | | | | |

Description of the Subordinate Series 2010-A Refunded Bonds

| <u>Maturity Date</u> | <u>Principal Amount Outstanding</u> | <u>Interest Rate</u> | <u>CUSIP</u> | <u>Principal Amount to be Refunded</u> | <u>Redemption Date</u> | <u>Redemption Price</u> |
|----------------------|-------------------------------------|----------------------|--------------|--|------------------------|-------------------------|
| June 1, 2023 | \$ | 5.000% | | \$ | June 1, 2020 | 100% |
| June 1, 2024 | | 5.000 | | | June 1, 2020 | 100 |
| June 1, 2025 | | 5.000 | | | June 1, 2020 | 100 |

Escrow Requirements for the Subordinate Series 2010-A Refunded Bonds

| <u>Date</u> | <u>Interest</u> | <u>Called Principal</u> | <u>Call Premium</u> | <u>Total Requirements</u> |
|------------------|-----------------|-------------------------|---------------------|---------------------------|
| June 1, 2017 | \$ | | | \$ |
| December 1, 2017 | | | | |
| June 1, 2018 | | | | |
| December 1, 2018 | | | | |
| June 1, 2019 | | | | |
| December 1, 2019 | | | | |
| June 1, 2020 | | | | |

SCHEDULE B

**ALLOCATION OF ESCROW ACCOUNT DEPOSIT
TO PAYMENT OF REFUNDED BONDS**

| <u>Refunded Bonds</u> | <u>Amount of Total Deposit Allocated to Payment Thereof</u> |
|---|---|
| Series 2009-A Refunded Bonds | \$ |
| Subordinate Series 2010-A Refunded Bonds | |
| Total | \$ |

SCHEDULE C
INITIAL GOVERNMENT OBLIGATIONS
Escrow Account Securities

58415475.8

ATTACHMENT 1-1

NOTICE OF DEFEASANCE

CITY OF LOS ANGELES
WASTEWATER SYSTEM REVENUE BONDS,
REFUNDING SERIES 2009-A

The City of Los Angeles, California (the “City”) hereby gives notice to the owners of the City’s outstanding Wastewater System Revenue Bonds, Refunding Series 2009-A (the “Series 2009-A Bonds”) that:

(1) On April 27, 2017 there was deposited with U.S. Bank National Association, as escrow agent, cash and non-callable Government Obligations paying interest and principal in an amount which shall be sufficient, together with the amounts held as cash, to pay (a) interest on such portion of the outstanding Series 2009-A Bonds as more fully identified in the table below (such portion, the “Series 2009-A Refunded Bonds”) as the same shall become due on and prior to June 1, 2019, the date of redemption of such Series 2009-A Refunded Bonds, and (b) the redemption price (*i.e.*, 100% of the principal amount) of the \$_____ aggregate principal amount of the Series 2009-A Refunded Bonds to be redeemed on such date:

**Series 2009-A Refunded Bonds
(Redemption Date: June 1, 2019)**

| Maturity Date (June 1) | Principal Amount Outstanding | Interest Rate | Original CUSIP Number | Principal Amount to be Redeemed | CUSIP Number Refunded Bonds | Unrefunded Balance | CUSIP Number Unrefunded Balance |
|------------------------|------------------------------|---------------|-----------------------|---------------------------------|-----------------------------|--------------------|---------------------------------|
| 2021 | | 5.25% | 53945CEY2 | | | | |
| 2023 | | 4.50 | 53945CES5 | | | | |
| 2023 | | 4.75 | 53945CEZ9 | | | | |
| 2023 | | 5.25 | 53945CFA3 | | | | |
| 2024 | | 5.25 | 53945CET3 | | | | |
| 2024 | | 5.75 | 53945CFB1 | | | | |
| 2025 | | 5.25 | 53945CEU0 | | | | |
| 2025 | | 5.75 | 53945CFC9 | | | | |
| 2026 | | 5.00 | 53945CEV8 | | | | |
| 2026 | | 5.75 | 53945CFD7 | | | | |
| 2027 | | 5.25 | 53945CFE5 | | | | |
| 2027 | | 5.75 | 53945CFE2 | | | | |
| 2028 | | 5.375 | 53945CEW6 | | | | |
| 2028 | | 5.75 | 53945CFG0 | | | | |
| 2029 | | 5.375 | 53945CFH8 | | | | |
| 2034 ⁽¹⁾ | | 5.75 | 53945CEX4 | | | | |

⁽¹⁾ Term bond maturing on June 1, 2034.

All Series 2009-A Bonds bearing the CUSIP numbers listed above **MUST BE SUBMITTED AT THIS TIME**, and Series 2009-A Bonds in the same principal amount, rate and maturity with the new CUSIP number will be returned. The Original CUSIP numbers will no longer be valid CUSIP numbers and will not be recognized by the Paying Agent. Please submit the Series 2009-A Bonds identified above in one of the following manners:

BY MAIL OR BY HAND
U.S. Bank National Association
Global Corporate Trust Services
111 Fillmore Ave E
St. Paul, MN 55107

Phone: (800) 934-6802 (Bondholder Customer Service)

(2) As a result of such deposit, the Series 2009-A Refunded Bonds are deemed to be no longer Outstanding under the terms of the General Resolution pursuant to which such Series 2009-A Refunded Bonds were issued.

(3) Interest will be paid on June 1 and December 1 of each year to June 1, 2019 (or if any such day is not a Business Day then on the next Business Day), from the Government Obligations purchased with the deposited funds, the earnings thereon and the cash held under the escrow agreement.

(4) All of the Series 2009-A Refunded Bonds will be redeemed on June 1, 2019 (or if such day is not a Business Day then on the next Business Day) at a redemption price of 100% of the principal amount thereof.

Capitalized terms used herein not otherwise defined shall have the meaning given such terms in the Wastewater System Revenue Bonds General Resolution, adopted by the Council of the City on November 10, 1987, as amended and supplemented (the "General Resolution") pursuant to which the Series 2009-A Bonds were issued.

CITY OF LOS ANGELES

Notice given by mailing this 27th day of April, 2017.

ATTACHMENT 1-2

NOTICE OF REDEMPTION

CITY OF LOS ANGELES WASTEWATER SYSTEM REVENUE BONDS, REFUNDING SERIES 2009-A

The City of Los Angeles hereby gives notice to the owners of the City's outstanding Wastewater System Revenue Bonds, Refunding Series 2009-A that a portion of such bonds in the aggregate principal amount of \$ _____ will be redeemed on June 1, 2019.

The following information is hereby provided with respect to such redemption:

- (1) The redemption price shall be 100% of the principal amount of the bonds redeemed.
- (2) To receive payment of the redemption price, bonds described above must be presented to --

By Mail or by Hand: U.S. Bank National Association, as Paying Agent, c/o U.S. Bank Global Corporate Trust Services, 111 Fillmore Ave. E, St. Paul, MN 55107;

and the redemption price will be paid at such location. Upon receipt, if any, of such bonds the Escrow Agent will forward the bonds to the City for cancellation.

- (3) The CUSIP numbers of the bonds to be redeemed are:

| <u>Maturity (June 1)</u> | <u>Principal Amount</u> | <u>Interest Rate</u> | <u>Prerefunded CUSIP No.*</u> |
|------------------------------|-----------------------------|--------------------------|-----------------------------------|
| 2021 | \$ | 5.250% | |
| 2023 | | 4.500 | |
| 2023 | | 4.750 | |
| 2023 | | 5.250 | |
| 2024 | | 5.250 | |
| 2024 | | 5.750 | |
| 2025 | | 5.250 | |
| 2025 | | 5.750 | |
| 2026 | | 5.000 | |
| 2026 | | 5.750 | |
| 2027 | | 5.250 | |
| 2027 | | 5.750 | |
| 2028 | | 5.375 | |
| 2028 | | 5.750 | |
| 2029 | | 5.375 | |
| 2034 ⁽¹⁾ | | 5.750 | |

⁽¹⁾ Term bond maturing on June 1, 2034.

- (4) On June 1, 2019, the bonds described above will cease to bear interest.

IMPORTANT NOTICE

Federal law requires the Paying Agent to withhold taxes at the applicable rate from the payment if an IRS Form W-9 or applicable IRS Form W-8 is not provided. Please visit www.irs.gov for additional information on the tax forms and instructions.

* The undersigned shall not be held responsible for the selection or use of the CUSIP numbers in this Notice of Redemption, nor is any representation made as to its correctness. It is included solely for the convenience of the Holders.

CITY OF LOS ANGELES

Notice given by mailing this ____ day of _____, 2019.

cc: Paying Agent

ATTACHMENT 2-1

NOTICE OF DEFEASANCE

**CITY OF LOS ANGELES
WASTEWATER SYSTEM SUBORDINATE REVENUE BONDS,
SERIES 2010-A**

The City of Los Angeles, California (the "City") hereby gives notice to the owners of the City's outstanding Wastewater System Subordinate Revenue Bonds, Series 2010-A (the "Subordinate Series 2010-A Bonds") that:

(1) On April 27, 2017 there was deposited with U.S. Bank National Association, as escrow agent, cash and noncallable Government Obligations paying interest and principal in an amount which shall be sufficient, together with the amounts held as cash, to pay (a) interest on such portion of the outstanding Subordinate Series 2010-A Bonds as more fully identified in the table below (such portion, the "Subordinate Series 2010-A Refunded Bonds") as the same shall become due on and prior to June 1, 2020, the date of redemption of such Subordinate Series 2010-A Refunded Bonds, and (b) the redemption price (*i.e.*, 100% of the principal amount) of the \$ _____ aggregate principal amount of the Subordinate Series 2010-A Refunded Bonds to be redeemed on such date:

**Subordinate Series 2010-A Refunded Bonds
(Redemption Date: June 1, 2020)**

| <u>Maturity Date (June 1)</u> | <u>Principal Amount Outstanding</u> | <u>Interest Rate</u> | <u>Original CUSIP Number</u> | <u>Principal Amount to be Redeemed</u> | <u>CUSIP Number Refunded Bonds</u> | <u>Unrefunded Balance</u> | <u>CUSIP Number Unrefunded Balance</u> |
|-------------------------------|-------------------------------------|----------------------|------------------------------|--|------------------------------------|---------------------------|--|
| 2023 | | 5.00% | 53945CFM7 | | | | |
| 2024 | | 5.00 | 53945CFN5 | | | | |
| 2025 | | 5.00 | 53945CFP0 | | | | |

All Subordinate Series 2010-A Bonds bearing the CUSIP numbers listed above **MUST BE SUBMITTED AT THIS TIME**, and Subordinate Series 2010-A Bonds in the same principal amount, rate and maturity with the new CUSIP number will be returned. The Original CUSIP numbers will no longer be valid CUSIP numbers and will not be recognized by the Paying Agent. Please submit the Subordinate Series 2010-A Bonds identified above in one of the following manners:

BY MAIL OR BY HAND
U.S. Bank National Association
Global Corporate Trust Services
111 Fillmore Ave E
St. Paul, MN 55107

Phone: (800) 934-6802 (Bondholder Customer Service)

(2) As a result of such deposit, the Subordinate Series 2010-A Refunded Bonds are deemed to be no longer Outstanding under the terms of the Subordinate General Resolution pursuant to which such Subordinate Series 2010-A Refunded Bonds were issued.

(3) Interest will be paid on June 1 and December 1 of each year to June 1, 2020 (or if any such day is not a Business Day then on the next Business Day), from the Government Obligations purchased with the deposited funds, the earnings thereon and the cash held under the escrow agreement.

(4) All of the Subordinate Series 2010-A Refunded Bonds will be redeemed on June 1, 2020 (or if such day is not a Business Day then on the next Business Day) at a redemption price of 100% of the principal amount thereof.

Capitalized terms used herein not otherwise defined shall have the meaning given such terms in the Wastewater System Subordinate Revenue Bonds General Resolution, adopted by the Council of the City on March 26, 1991, as amended and supplemented (the "Subordinate General Resolution") pursuant to which the Subordinate Series 2010-A Bonds were issued.

CITY OF LOS ANGELES

Notice given by mailing this ___ day of April, 2017.

ATTACHMENT 2-2

NOTICE OF REDEMPTION

**CITY OF LOS ANGELES
WASTEWATER SYSTEM SUBORDINATE REVENUE BONDS,
SERIES 2010-A**

The City of Los Angeles hereby gives notice to the owners of the City's outstanding Wastewater System Subordinate Revenue Bonds, Series 2010-A that a portion of such bonds will be redeemed on June 1, 2020.

The following information is hereby provided with respect to such redemption:

- (1) The redemption price shall be 100% of the principal amount of the bonds redeemed.
- (2) To receive payment of the redemption price, bonds described above must be presented to --

By Mail or by Hand: U.S. Bank National Association, as Paying Agent, c/o U.S. Bank Global Corporate Trust Services, 111 Fillmore Ave. E, St. Paul, MN 55107;

and the redemption price will be paid at such location. Upon receipt, if any, of such bonds the Escrow Agent will forward the bonds to the City for cancellation.

- (3) The CUSIP numbers of the bonds to be redeemed are:

| <u>Maturity (June 1)</u> | <u>Principal Amount</u> | <u>Interest Rate</u> | <u>Prerefunded CUSIP No.*</u> |
|------------------------------|-----------------------------|--------------------------|-----------------------------------|
| 2023 | \$ | | |
| 2024 | | | |
| 2025 | | | |

- (4) On June 1, 2020, the bonds described above will cease to bear interest.

IMPORTANT NOTICE

Federal law requires the Paying Agent to withhold taxes at the applicable rate from the payment if an IRS Form W-9 or applicable IRS Form W-8 is not provided. Please visit www.irs.gov for additional information on the tax forms and instructions.

* The undersigned shall not be held responsible for the selection or use of the CUSIP numbers in this Notice of Redemption, nor is any representation made as to its correctness. It is included solely for the convenience of the Holders.

CITY OF LOS ANGELES

Notice given by mailing this ____ day of _____, 2020.

cc: Paying Agent

58415475.8

ATTACHMENT 3

[FORM OF WRITTEN REQUISITION]

Wastewater No. _____

City of Los Angeles
Wastewater System Subordinate
Revenue Bonds,
Series 2017 (Green Bonds)

REQUISITION FOR COSTS OF ISSUANCE -
Account No. _____

The undersigned Authorized City Representative hereby states and certifies that:

(i) U.S. Bank National Association, as escrow agent (“Escrow Agent”) under that certain Escrow Agreement, dated as of April 1, 2017 (the “Escrow Agreement”), by and between the City of Los Angeles (the “City”) and the Escrow Agent, is hereby requested to pay the payees from the Costs of Issuance Account established under the Escrow Agreement or to the City for payment by the City to the person, firm or corporation designated below as “Payee” the sum set forth opposite such designation, in payment or reimbursement of a portion of the Costs of Issuance, for the purposes listed below:

| <u>Payee</u> | <u>Purpose/Contract</u> | <u>Amount</u> |
|--------------|-------------------------|---------------|
|--------------|-------------------------|---------------|

(ii) the amounts to be disbursed hereunder constitute a Cost of Issuance and such amounts are required to be disbursed pursuant to a contract entered into therefor by or on behalf of the City, or were necessarily and reasonably incurred and that said amounts are not being paid in advance of the time, if any, fixed for payment;

(iii) no amounts as set forth in this Requisition will be included in any other Requisition;

(iv) the amounts remaining in the Costs of Issuance Account will, after payment of the amounts set forth above, be sufficient to pay all remaining Costs of Issuance as currently estimated; and

(v) the total amount to be paid under this requisition is \$ _____ and such amount shall be paid to the payees indicated in paragraph (i) above.

CITY OF LOS ANGELES

By: _____
Authorized City Representative

Date: _____, 20__

EXHIBIT B –
Bond Purchase Agreement

\$ _____
CITY OF LOS ANGELES
Wastewater System Subordinate
Revenue Bonds, Series 2017-A
(Green Bonds)

\$ _____
CITY OF LOS ANGELES
Wastewater System Subordinate
Revenue Bonds, Refunding Series
2017-B
(Green Bonds)

\$ _____^{*}
CITY OF LOS ANGELES
Wastewater System Subordinate Revenue Bonds,
Refunding Series 2017-C (Taxable)
(Green Bonds)

CONTRACT OF PURCHASE

April __, 2017

City of Los Angeles
Office of the City Administrative Officer
200 North Main Street
Room 1500, City Hall East
Los Angeles, California 90012

Ladies and Gentlemen:

The undersigned on behalf of itself and as representative of the underwriters named on the signature page hereto (hereinafter called the "Underwriters") offers to enter into the following agreement with the City of Los Angeles (the "City"), which, upon acceptance of this offer by the City, will be binding upon the City and the Underwriters. This offer is made subject to the written acceptance hereof by the City on or before 11:59 p.m., Los Angeles Time, on the date hereof and, if not so accepted, will be subject to withdrawal by the Underwriters upon written or oral notice given to the City at any time prior to the acceptance hereof by the City.

1. Purchase and Sale.

(a) Upon the terms and conditions and upon the basis of the representations and agreements set forth herein, the Underwriters, jointly and severally, hereby agree to purchase, and the City hereby agrees to sell all (but not less than all) of \$_____ City of Los Angeles Wastewater System Subordinate Revenue Bonds, Series 2017-A (Green Bonds) (the "Series 2017-A Subordinate Bonds"), the \$_____ City of Los Angeles Wastewater System Subordinate Revenue Bonds, Refunding Series 2017-B (the "Series 2017-B Subordinate Bonds" and, together with the Series 2017-A Subordinate Bonds, the "Series 2017AB Subordinate Bonds") and the \$_____ City of Los Angeles Wastewater System Subordinate Revenue Bonds, Refunding Series 2017-C (Taxable) (the "Series 2017-C (Taxable) Subordinate Bonds" and, together with the Series 2017AB Subordinate Bonds, the "Series 2017 Bonds").

The Series 2017 Bonds shall be dated the date of delivery thereof and shall be payable in the years and the amounts, and bear interest at the rates, set forth in Schedule I hereto, such interest being payable on June 1 and December 1 of each year, commencing December 1, 2017.

The purchase price for the Series 2017 Bonds shall be \$_____, which is equal to the aggregate principal amount of the Series 2017 Bonds, plus original issue premium of \$_____, less the Underwriters' discount of \$_____.

The Series 2017 Bonds shall be subject to redemption prior to their stated maturities, as set forth in Schedule I hereto.

(b) Prior to the execution of this Contract of Purchase, the Underwriters have delivered the amount of \$_____ (the "Security Deposit") in the form of a wire transfer to U.S. Bank National Association, as escrow agent (the "Custodian"), who will hold such funds for the account of the City pursuant to a Custody Agreement between the City and the Custodian, as a security deposit for the performance by the Underwriters of their obligation to accept and pay for the Series 2017 Bonds at the Closing as provided in Section 8 herein. Upon the acceptance of this offer by the City, the Security Deposit and the proceeds thereof may be invested by the Custodian as directed by the City with the consent of the Underwriters, such consent not to be unreasonably withheld. The Security Deposit shall be applied against the purchase price payable by the Underwriters at Closing. If the City fails to deliver the Series 2017 Bonds at the Closing, or if the City shall be unable to satisfy the conditions to the obligations of the Underwriters contained herein (unless waived by the Underwriters), or if the obligations of the Underwriters shall be terminated for any reason permitted by this Contract of Purchase, then the original amount of the Security Deposit (\$_____) shall be immediately returned by the Custodian to the Underwriters. If the Underwriters fail (other than for a reason permitted hereunder) to accept and pay for the Series 2017 Bonds upon tender thereof by the City at the Closing as herein provided, the Security Deposit (including any interest earning thereon) shall be retained by the Custodian for the account of the City as and for full liquidated damages for such failure on the part of the Underwriters and such retention by the Custodian for the account of the City shall constitute a full release and discharge of all claims and rights by the City against the Underwriters arising out of the transactions contemplated hereby. The parties hereto expressly agree and acknowledge that the City's actual damages in the event of a failure by the Underwriters (other than for a reason permitted hereunder) to accept and pay for the Series 2017 Bonds upon tender thereof by the City at the Closing would be extremely difficult or impracticable to ascertain and that the amount of the Security Deposit represents the parties' reasonable estimate of such damages. In any and all actions brought to enforce the Underwriters' obligations under this Contract of Purchase, it shall be conclusively presumed that the above-described liquidated damages shall be the sole remedy of the City.

(c) The City has delivered or caused to be delivered to the Underwriters the City's preliminary official statement dated April __, 2017 relating to the Series 2017 Bonds (said preliminary official statement, together with the cover page and any and all appendices thereto, being herein referred to as the "Preliminary Official Statement"). The City confirms that the Preliminary Official Statement was "deemed final" as of the date thereof, for purposes of Securities and Exchange Commission Rule 15c2-12, as amended ("Rule 15c2-12"), except for certain information permitted to be omitted by said Rule. The Series 2017 Bonds are being offered pursuant to the City's final official statement relating to the Series 2017 Bonds, dated May __, 2017 (said final official statement, together with the cover page and any and all appendices thereto and including any amendments or supplements thereto prior to the Closing (as defined herein), being herein referred to as the "Official Statement"). The Official Statement shall be in substantially the same form as the Preliminary Official Statement and, other than information previously permitted to have been omitted by Rule 15c2-12, the City shall only make such other additions, deletions and revisions in the Official Statement which are approved by the Representative. Capitalized terms used herein which are not otherwise defined herein shall have the respective meanings given such terms in the Official Statement.

(d) The City acknowledges and agrees that (i) the primary role of the Underwriters, as underwriters, is to purchase the Series 2017 Bonds, for re-sale to investors pursuant to this Contract of Purchase in an arm's-length commercial transaction between the City and the Underwriters and the Underwriters have financial and other interests that differ from those of the City, (ii) in connection therewith and with the discussions, undertakings and procedures leading up to the consummation of such transaction, the Underwriters are and have been acting solely as principals and are not acting as the agent, financial advisor, municipal advisor or fiduciary of the City, (iii) the Underwriters have not assumed an advisory or fiduciary responsibility in favor of the City with respect to the offering contemplated hereby or the discussions, undertakings and procedures leading thereto (irrespective of whether the Underwriters have provided other services or are currently providing other services to the City on other matters) and the Underwriters have no obligation to the City with respect to the offering contemplated hereby except the obligations expressly set forth in this Contract of Purchase and (iv) the City has consulted its own legal, financial and other advisors to the extent it has deemed appropriate.

2. The Series 2017 Bonds. The Series 2017 Bonds are being issued by the City of Los Angeles (the "City") pursuant to the Charter of the City of Los Angeles (the "City Charter"), Article 6.7 of Chapter 1 of Division 11 of the Administrative Code of the City (the "Procedural Ordinance"), and, with respect to the Series 2017-B Subordinate Bonds and the Series 2017-C (Taxable) Subordinate Bonds, Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 (Section 53570 et seq. and Section 53580 et seq., respectively) of the California Government Code (as amended, the "Refunding Law"). The Series 2017 Bonds are also issued pursuant to the Wastewater System Subordinate Revenue Bonds General Resolution, adopted by the Council of the City (the "City Council") on March 26, 1991, as amended and supplemented (the "Subordinate General Resolution"), including as amended and supplemented by the Twenty-First Supplemental Resolution, adopted by the City Council on April __, 2017 (the "Twenty-First Supplemental Resolution").

The proceeds of the Series 2017-A Subordinate Bonds will be used to (i) finance the construction and improvement of the System and (ii) pay certain costs of issuing the Series 2017-A Subordinate Bonds. The proceeds of the Series 2017-B Subordinate Bonds will be used to (i) advance refund certain of the City's Wastewater System Revenue Bonds, Refunding Series 2009-A (the "Series 2009-A Senior Lien Bonds") and certain of the City's Wastewater System Subordinate Revenue Bonds, Refunding Series 2010-A (the "Series 2010-A Subordinate Bonds") and (ii) pay certain costs of issuing the Series 2017-B Subordinate Bonds. The proceeds of the Series 2017-C (Taxable) Subordinate Bonds will be used to (i) advance refund certain of the Series 2009-A Senior Lien Bonds [and advance refund certain of the City's Series 2010-A Subordinate Bonds] and (ii) pay certain costs of issuing the Series 2017-C (Taxable) Subordinate Bonds. The Series 2009-A Senior Bonds [and the Series 2010-A Subordinate Bonds] to be refunded are referred to herein as the "Refunded Bonds."

3. Authority. The Underwriters represent and warrant to the City that they are authorized to take any action under this Contract of Purchase required to be taken by them, that Morgan Stanley & Co. LLC (the "Representative") is authorized to execute this Contract or Purchase on behalf of the Underwriters, and that this Contract of Purchase is a binding contract of the Underwriters enforceable in accordance with its terms.

4. Offering. It shall be a condition to the City's obligations to execute and deliver the Series 2017 Bonds to the Underwriters and to the Underwriters' obligations to purchase, to accept delivery of and to pay for the Series 2017 Bonds that the entire \$ _____ aggregate principal amount of the Series 2017 Bonds shall be so executed and delivered by the City and purchased, accepted and paid for by the Underwriters at the Closing. The Underwriters agree to make a public

offering of all of the Series 2017 Bonds at not in excess of the initial public offering prices or less than the yields set forth on the inside cover page of the Official Statement and on Schedule I hereto.

5. Official Statement, Delivery of Other Documents. The City shall deliver to the Underwriters, within seven business days of the date hereof and in any event, at least three business days prior to the Closing, the Official Statement, in such quantity as the Underwriters may reasonably request in order for the Underwriters to comply with the rules of the Municipal Securities Rulemaking Board (“MSRB”) and subsection (b)(4) of Rule 15c2-12. The City shall deliver to the Underwriters an electronic copy of the Official Statement in a form that permits the Underwriters to satisfy their obligations under the rules and regulations of the MSRB and the U.S. Securities and Exchange Commission. In order to assist the Underwriters in complying with Rule 15c2-12, the City will undertake, pursuant to the Continuing Disclosure Certificate, dated as of the date of Closing (the “Continuing Disclosure Certificate”), to provide annual financial information and notices of the occurrence of specified events. A description of the Continuing Disclosure Certificate is set forth in, and a form of such undertaking is attached as an appendix to, the Preliminary Official Statement and the Official Statement.

6. Use of Documents.

(a) The City authorizes the use by the Underwriters of the Subordinate General Resolution, the Official Statement (including any supplements or amendments thereto and including in electronic format), and the information therein contained, in connection with the public offering and sale of the Series 2017 Bonds. The City also confirms its consent to the use by the Underwriters, prior to the date hereof, of the Preliminary Official Statement (including in electronic format) in connection with the public offering of the Series 2017 Bonds.

(b) As soon as practicable following receipt thereof, the Representative shall deliver the Official Statement, and any supplement or amendment thereto, to the Municipal Securities Rulemaking Board (the “MSRB”).

7. Representations and Agreements of the City. The City hereby represents and warrants as of the date hereof and agrees as follows:

(a) The City is a charter city and municipal corporation duly organized and validly existing under the laws of the State of California.

(b) The City has the full legal right, power and authority to (i) adopt the Twenty-First Supplemental Resolution and enter into the Continuing Disclosure Certificate, the Escrow Agreement relating to the Refunded Bonds between the City and U.S. Bank National Association as Escrow Agent (the “Escrow Agreement”), this Contract of Purchase and any other documents executed by the City in connection with the Series 2017 Bonds (the “City Documents”); (ii) to sell, issue and deliver the Series 2017 Bonds to the Underwriters as provided herein and (iii) to carry out and consummate the transactions on its part contemplated by the City Documents and the Subordinate General Resolution.

(c) An ordinance of the City (the “Ordinance”) relating to the Series 2017 Bonds was duly adopted by the City Council at a meeting which was held on April __, 2017 pursuant to the terms of the Charter and all other applicable law and with all required notice and at which a quorum was present at the time of adoption of such Ordinance, and such Ordinance will be published prior to Closing and will become effective upon publication.

(d) By all necessary official action, the City has duly adopted, authorized and approved (i) the City Documents, (ii) the Preliminary Official Statement and the Official Statement; (iii) the execution and delivery of, and the performance by the City of its obligations to provide the information described in, the Continuing Disclosure Certificate and its obligations contained in this Contract of Purchase; (iv) the execution of all certificates and other instruments necessary to effectuate the issuance and delivery of the Series 2017 Bonds, and (v) the performance by the City of the obligations on its part contained in the City Documents and the Subordinate General Resolution and the consummation by it of all other transactions contemplated by the City Documents in connection with the issuance of the Series 2017 Bonds. In connection with the issuance of the Series 2017 Bonds, the City has complied in all material respects, (i) with the laws of the State of California and of the United States and (ii) with its obligations on its part contained in the Subordinate General Resolution, the Continuing Disclosure Certificate and this Contract of Purchase.

(e) The Series 2017 Bonds, the Subordinate General Resolution and the Continuing Disclosure Certificate conform in all material respects to the descriptions thereof contained in the Official Statement.

(f) At or prior to the Closing, the Twenty-First Supplemental Resolution shall have been duly adopted by the City Council and this Contract of Purchase, the Series 2017 Bonds and the Continuing Disclosure Certificate shall have been duly executed by the City and the Subordinate General Resolution, this Contract of Purchase, the Series 2017 Bonds and the Continuing Disclosure Certificate shall be legal, valid and binding obligations of the City, enforceable in accordance with their respective terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights generally and subject, as to enforceability, to the general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law), to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against municipal corporations in the State of California.

(g) Between the date of this Contract of Purchase and the date of the Closing, except as contemplated by the Official Statement, the City will not, with respect to the System (as defined in the Official Statement), incur any material liabilities, direct or contingent other than in the ordinary course of business of the System, and, except as contemplated by the Official Statement, there shall not have been any material adverse change in the finances or operations of the System other than changes in the ordinary course of business.

(h) The City is not, in any material respect, in breach of or default under any applicable existing constitutional provision, law or administrative regulation of the State of California or the United States binding on the City or any existing applicable judgment or court decree binding on the City or any existing loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the City is a party which would materially adversely affect the ability of the City to pay the principal and interest on the Series 2017 Bonds, and no event has occurred and is continuing which, with the passage of time or the giving of notice or both, would constitute such an event of default which would have such effect under any such instrument; and the adoption of the Twenty-First Supplemental Resolution and the execution and delivery of this Contract of Purchase and the Continuing Disclosure Certificate and the performance by the City of its obligations under the Subordinate General Resolution, this Contract of Purchase and the Continuing Disclosure Certificate will not, in any material respect, conflict with or constitute a breach of or default under any existing constitutional provision, law or administrative regulation of the State of California or the United States binding on the City or any existing applicable judgment or court decree binding on the City, or any existing loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the City is a party, which conflict, breach or default would materially adversely affect the

ability of the City to pay the principal and interest on the Series 2017 Bonds. The City has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that it is a bond issuer whose arbitrage certifications may not be relied on.

(i) Except as disclosed in the Official Statement, there is no action, suit or proceeding, at law or in equity, before or by any court, pending against the City (service of process against the City having been made) or, to the knowledge of the officer of the City executing this Contract of Purchase, overtly threatened in writing (i) in any way questioning the existence of the City or the titles of the Authorized City Representatives (as defined in the Twenty-First Supplemental Resolution) to their respective offices; (ii) seeking to prohibit, restrain or enjoin the adoption of the Twenty-First Supplemental Resolution, the issuance or delivery of the Series 2017 Bonds, or application of the proceeds of sale of the Series 2017 Bonds, or in any way contesting the validity of the Subordinate General Resolution, the Ordinance, the Series 2017 Bonds, the Continuing Disclosure Certificate or this Contract of Purchase, or the tax-exempt status of interest due with respect to the Series 2017 Bonds or any authority for the execution and delivery of the Series 2017 Bonds, or the execution and delivery by the City of the Continuing Disclosure Certificate or this Contract of Purchase; or (iii) contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto or asserting that the Preliminary Official Statement or the Official Statement contained any untrue statement of a material fact or omitted to state any material fact necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading.

(j) Except as disclosed in the Official Statement, there is no action, suit or proceeding, at law or in equity, before or by any court, pending against the City (service of process against the City having been made) or, to the knowledge of the officer of the City executing this Contract of Purchase), overtly threatened in writing, which would result in any material adverse change to the financial condition of the System, the SCM Fund, the Debt Service Fund and the Reserve Fund.

(k) The City will furnish such information, execute such instruments and take such other action not inconsistent with law in cooperation with the Underwriters as necessary (i) to qualify the Series 2017 Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriters may designate and (ii) to determine the eligibility of the Series 2017 Bonds for investment under the laws of such states and other jurisdictions, and will use its commercially reasonable efforts to continue such qualifications in effect so long as required for the distribution of the Series 2017 Bonds; provided, however, that the City shall not be required to execute a general or special consent to service of process or qualify to do business in connection with any such qualification or determination in any jurisdiction.

(l) All approvals, consents and orders of any California or United States governmental authority having jurisdiction of the matter which are required for the due authorization of, which would constitute a condition precedent to, or the absence of which would materially adversely affect the due performance by the City of its obligations in connection with, the execution, sale and delivery of the Series 2017 Bonds under this Contract of Purchase have been obtained, except for such approvals, consents and orders as may be required under the Blue Sky or securities laws of any state in connection with the offering and sale of the Series 2017 Bonds; and, except as disclosed in the Official Statement, all approvals, consents and orders of any California or United States governmental authority having jurisdiction of the matter which are required for the due authorization of, which would constitute a condition precedent to, or the absence of which would materially adversely affect the due performance by the City of its obligations under, the City Documents have been obtained.

(m) The Preliminary Official Statement (other than the information contained in the Preliminary Official Statement with respect to The Depository Trust Company (“DTC”) or the book-entry system) did not, on the date thereof, and through the period up to the execution of this Contract of Purchase, contain any untrue statement of a material fact or omit to state a material fact (other than information permitted to be omitted pursuant to Rule 15c2-12) necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

(n) At the time of the City’s acceptance hereof and up to and including the time of Closing, the Official Statement does not and will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading, except that no representation is made with respect to the information in the Official Statement relating to DTC and the book-entry system.

(o) If the Official Statement is supplemented or amended pursuant to subparagraph (p) of this paragraph 7, the City agrees that, at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such paragraph) at all times during the period from the date of this Contract of Purchase to and including the date which is 25 days after the end of the underwriting period (as determined in accordance with Section 17 hereof), the Official Statement, as so supplemented or amended, will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading, except that the City shall have no responsibility with respect to the information in the Official Statement relating to DTC and the book-entry system.

(p) If between the date of this Contract of Purchase and that date which is 25 days after the end of the underwriting period (as determined in accordance with Section 17 hereof) any event shall occur or be discovered that would cause the Official Statement, as then supplemented or amended, to contain any untrue statement of a material fact or to omit to state a material fact necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading, the City shall notify the Underwriters of any such event of which it has knowledge and, if in the reasonable opinion of the Underwriters such event requires the preparation and publication of a supplement or amendment to the Official Statement, the City shall prepare and furnish to the Underwriters (i) a reasonable number of copies of a supplement or amendment to the Official Statement in form and substance reasonably acceptable to the Underwriters and (ii) if such notification shall be subsequent to the Closing, such legal opinions, certificates, instruments and other documents as the Representative may reasonably deem necessary to evidence the truth and accuracy of such supplement or amendment to the Official Statement.

(q) The City will refrain from taking any action, or permitting any action to be taken, with regard to which the City may exercise control, that results in the loss of the tax-exempt status of the interest on the Series 2017AB Subordinate Bonds.

(r) Any certificate signed by any officer of the City and delivered to the Underwriters pursuant to the City Documents or any document contemplated thereby shall be deemed a representation and warranty by the City to the Underwriters as to the statements made therein.

(s) The City is not in payment default and at no time in the past ten years has been in payment default with respect to any SCM Fund obligations incurred by it of a character similar to the Series 2017 Bonds.

(t) The financial statements of, and other financial information regarding the City in the Official Statement fairly present the financial position and results of operations with respect to the System as of the dates and for the periods therein set forth. The financial statements with respect to the System have been prepared in accordance with generally accepted accounting principles consistently applied, except as noted in the Official Statement. Except as disclosed in the Official Statement, there has not been any materially adverse change in the financial condition of the System or in its operations since June 30, 2016 and there has been no occurrence, circumstance or combination thereof which is reasonably expected to result in any such materially adverse change.

(a) During the last five years, the City has not failed to materially comply with any previous undertakings relating to continuing disclosure of information pursuant to Rule 15c2-12, except as noted in the Preliminary Official Statement and the Official Statement.

8. Closing. At 8:00 a.m., Los Angeles time, on April __, 2017, or at such other time or on such later date as shall have been mutually agreed upon by the City and the Representative, the City shall deliver to DTC in New York, New York, on behalf of the Underwriters, the Series 2017 Bonds, in definitive form duly executed by the City, and the Underwriters shall accept such delivery to DTC and shall pay the purchase price of the Series 2017 Bonds as set forth in Paragraph 1(a) hereof, less the Security Deposit, by delivering federal or other immediately available funds in the amount of \$_____ to the City. The City shall deliver to the Underwriters the other documents hereinafter mentioned at the offices of Hawkins Delafield & Wood LLP in Los Angeles, California or such other place as shall have been mutually agreed upon by the City and the Representative. Such payment and delivery is herein called the "Closing." The Series 2017 Bonds shall be prepared in fully registered form without coupons, in authorized denominations shall bear CUSIP numbers and shall be registered in the name of "Cede & Co.," as nominee of DTC; there shall be one (1) bond for each maturity of the Series 2017 Bonds (and, if Series 2017 Bonds of the same maturity bear interest at different rates, for each Series 2017 Bond of such maturity bearing interest at a different rate) and the Series 2017 Bonds shall be made available for inspection by the Underwriters at least one business day prior to the Closing.

9. Closing Conditions. The Underwriters have entered into this Contract of Purchase in reliance upon the representations of the City contained herein and the performance by the City of its respective obligations hereunder both as of the date hereof and as of the date of Closing. The Underwriters' obligations under this Contract of Purchase shall be conditioned upon the performance by the City of its obligations to be performed hereunder and under the other documents and instruments delivered in connection with the execution and delivery of the Series 2017 Bonds and shall also be subject to the following further conditions:

(a) The representations of the City contained herein shall be true, complete and correct in all material respects on the date hereof and true, complete and correct in all material respects on the date of the Closing.

(b) At the time of the Closing (i) the City Documents shall be in full force and effect in accordance with their terms and shall not have been amended, modified or supplemented and the Official Statement shall not have been supplemented or amended, except in each case as may have been agreed to by the Representative, and (ii) the City shall perform or have performed its obligations under the City Documents which are required to be performed at or prior to the Closing.

(c) At or prior to the Closing, the Underwriters shall receive the following documents:

(1) The Official Statement and each supplement or amendment, if any, thereto, executed on behalf of the City by an Authorized City Representative;

(2) Certified copies of the Subordinate General Resolution, the Twenty-First Supplemental Resolution, and the Ordinance and an executed copy of the Continuing Disclosure Certificate and a tax certificate, in form and substance reasonably satisfactory to Bond Counsel and the City, executed on behalf of the City by an Authorized City Representative;

(3) The opinion of Hawkins Delafield & Wood LLP, Bond Counsel, dated the date of the Closing, in substantially the form attached to the Official Statement as Appendix F, together with a letter, dated the date of the Closing, from such Bond Counsel addressed to the Underwriters stating that the Underwriters may rely on such opinion as though it was addressed to them;

(4) The opinion of Hawkins Delafield & Wood LLP, Bond Counsel, dated the date of the Closing and addressed to the Underwriters, in substantially the form set forth in Exhibit A hereto;

(5) The opinion of Hawkins Delafield & Wood LLP, Bond Counsel, dated the date of the Closing and addressed to the City, the Escrow Agent and the Underwriters, to the effect that the Refunded Bonds have been defeased in accordance with the Subordinate General Resolution;

(6) An opinion of the City Attorney, dated the date of the Closing and addressed to the Underwriters, in substantially the form set forth in Exhibit C hereto;

(7) The opinion of counsel to the Escrow Agent, dated the Closing Date and addressed to the City and the Underwriters, to the effect that (i) the Escrow Agent has duly authorized, executed and delivered the Escrow Agreement; and (ii) the Escrow Agreement constitutes a legally valid and binding obligation of the Escrow Agent, enforceable against the Escrow Agent in accordance with its terms, except that the enforceability thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other laws in effect from time to time affecting the rights of creditors generally and except to the extent that the enforceability thereof may be limited by the application of general principles of equity;

(8) A certificate of an Authorized City Representative, dated the date of Closing, to the effect that each of the representations set forth in Paragraph 7 of this Contract of Purchase is true, accurate and complete in all material respects as of the Closing and each of the agreements of the City, as set forth in this Contract of Purchase to be complied with at or prior to the Closing, has been complied with in all material respects;

(9) Evidence reasonably satisfactory to the Underwriters that, as of the date of Closing, the rating on the Series 2017 Bonds are “___” by Standard & Poor’s Rating Services, “___” by Fitch Ratings and “___” by Kroll Bond Rating Agency;

(10) The opinion of Norton Rose Fulbright US LLP, Disclosure Counsel, dated the date of Closing in substantially the form attached hereto as Exhibit B addressed to the City and accompanied by a reliance letter from Disclosure Counsel to the effect that such opinion may be relied upon by the Underwriters to the same effect as if such opinion were addressed to them;

(11) The opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Underwriters’ Counsel, dated the date of Closing and addressed to the Underwriters, in form and substance satisfactory to the Underwriters;

(12) A report of _____ stating that the firm has verified the mathematical accuracy of certain computations relating to the defeasance of the Refunded Bonds;

(13) Two transcripts of all proceedings of the City relating to the transactions contemplated hereunder; and

(14) Such additional legal opinions, certificates, instruments and other documents as the Underwriters, Disclosure or Bond Counsel may reasonably deem necessary to evidence the due execution and delivery of the Series 2017 Bonds, the truth and accuracy as of the time of the Closing of the City's representations contained in paragraph 7 hereof and performance in all material respects by the City at or prior to the time of the Closing of all agreements then to be performed and all conditions then to be satisfied by the City pursuant to the City Documents.

The opinions and certificates and other material referred to above shall be in form and substance reasonably satisfactory to the Representative.

10. Termination. The Representative shall have the right to terminate the Underwriters' obligations under this Contract of Purchase to purchase, to accept delivery of and to pay for the Series 2017 Bonds by notifying the City of the Underwriters' election to do so if, after the execution hereof and prior to the Closing:

(a) the marketability of the Series 2017 Bonds or the market price thereof, in the reasonable opinion of the Representative (after consultation with the City), has been materially adversely affected by (i) an amendment to the Constitution of the United States, (ii) any legislation (A) enacted by the United States or the State of California, (B) recommended to the Congress or, except as disclosed in the Official Statement, otherwise endorsed for passage, by press release, other form of notice or otherwise, by the President of the United States, the Treasury Department of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, or (C) presented as an option for consideration by either such Committee, by the staff of such Committee or by the staff of the Joint Committee on Taxation of the United States Congress, or favorably reported for passage to either House of the Congress by any Committee of such House or by a Conference Committee of both Houses to which such legislation has been referred for consideration, or (iii) any decision of any court of the United States or by any ruling or regulation (final, temporary or proposed) on behalf of the Treasury City of the United States, the Internal Revenue Service or any other authority of the United States or any comparable legislative, judicial or administrative development affecting the federal or state tax status of the City, its property or income, or the federal or state income tax treatment of interest on its obligations, including the Series 2017 Bonds;

(b) there shall have occurred the outbreak or escalation of hostilities involving the United States or a national or international calamity or crisis, or the declaration by the United States of a national emergency or war, which in the reasonable judgment of the Representative (after consultation with the City) have had a materially adverse effect on the marketability of the Series 2017 Bonds or the market price thereof;

(c) there shall have occurred the declaration of a general banking moratorium by any authority of the United States, the State of New York or the State of California or a major financial crisis or material disruption in commercial banking or securities settlement or clearance services shall have occurred which, in the reasonable opinion of the Representative (after consultation with the

City), materially adversely affects the marketability of the Series 2017 Bonds or the market price thereof;

(d) there shall have been any downgrading, suspension or withdrawal, or any official statement as to a possible downgrading, suspension or withdrawal of any underlying rating on bonds secured by the Revenues by any rating service which has rated the Series 2017 Bonds;

(e) a general suspension of trading shall have occurred, minimum or maximum prices for trading shall have been fixed and be in force or maximum ranges or prices for securities shall have been required and be in force on the New York Stock Exchange or other national stock exchange whether by virtue of a determination by that Exchange or by order of the Securities and Exchange Commission or any other governmental authority having jurisdiction;

(f) an event described in subparagraph (p) of paragraph 7 shall have occurred or be discovered which in the reasonable opinion of the Representative (after consultation with the City) requires the preparation and publication of a supplement or amendment to the Official Statement;

(g) a tentative decision with respect to legislation shall be favorably reported by a committee of the House of Representatives or the Senate of the Congress of the United States or legislation shall be introduced, by amendment or otherwise, in, or be enacted by, the House of Representatives or the Senate, or a decision by a court of the United States, or action (including a stop order) shall be taken or a regulation shall be issued by the Securities and Exchange Commission or other governmental agency having jurisdiction of the subject, the effect of which, in the opinion of the Representative, could be that either (i) the Series 2017 Bonds are not, or may not be, exempt from the registration, qualification or other similar requirements of the Securities Act of 1933, as amended (the "Securities Act"), or (ii) the Subordinate General Resolution is not, or may not be, exempt from the registration, qualification or other requirements of the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act"); or

(h) the New York Stock Exchange or other national securities exchange, or any governmental authority, shall have imposed additional material restrictions not in force as of the date hereof upon trading in securities generally or shall have imposed, as to any bonds or similar obligations, any material, restrictions not now in force, or increase materially those now in force, with respect to the extension of credit by, or the charge to the net capital requirements of, the Underwriters.

11. Expenses.

(a) The City shall pay any expenses incident to the performance of the City's obligations hereunder, including but not limited to the following: (i) the cost of the preparation, printing and delivery of the Series 2017 Bonds; (ii) the fees for bond ratings; (iii) the cost of printing and distribution of the Preliminary Official Statement and the Official Statement; (iv) the fees and disbursements of Bond Counsel; (v) the fees and disbursements of Disclosure Counsel; (vi) the fees and disbursements of any other engineers, accountants, attorneys, verification agent and other experts or consultants or advisors retained by the City; (vii) the expenses to qualify the Series 2017 Bonds for sale under any Blue Sky Laws; and (viii) any other costs and disbursements incurred by the City in connection with the transaction. The City shall reimburse the Underwriters for expenses (included in the expense component of the Underwriters' spread) incurred on behalf of the City's employees which are incidental to implementing this Purchase Contract, including, but not limited to, meals, transportation and lodging of those employees.

(b) The Underwriters shall pay their own expenses including but not limited to the fees and disbursements of any attorneys retained by the Underwriters. The Underwriters are required to pay fees to the California Debt and Investment Advisory Commission in connection with the sale of the 2017 Series Bonds. Notwithstanding that such fees are solely the legal obligation of the Underwriters, the City agrees to reimburse the Underwriters for such fees through inclusion in the underwriters' discount.

12. Notices. Any notice or other communication to be given to the City under this Contract of Purchase (other than the acceptance hereof as specified in the first paragraph hereof) may be given by giving the same in writing to the City of Los Angeles, Office of the City Administrative Officer, 200 North Main Street, Room 1500, City Hall East, Los Angeles, California 90012, Attention: Debt Management Group; and any notice or other communication to be given to the Underwriters under this Contract of Purchase may be given by delivering the same in writing to Esther Berg at Morgan Stanley & Co. LLC, 555 California Street, 21st Floor, San Francisco, CA 94104.

13. Governing Law; Venue. This Agreement was made and entered into in the City and shall be governed by, interpreted and enforced in accordance with the laws of the State of California and the City, including any applicable statute of limitation, without regard to conflict of law principles. All litigation arising out of, or relating to this Agreement, shall be brought in a State or Federal court in the County of Los Angeles in the State of California. The parties irrevocably agree to submit to the exclusive jurisdiction of such courts in the State of California and waive any defense of forum non conveniens.

14. Parties in Interest. This Contract of Purchase when executed by the City shall constitute the entire agreement between the City and the Underwriters and is made solely for the benefit of the City and the Underwriters (including the successors or permitted assigns of any of the Underwriters but does not include any purchasers of the Series 2017 Bonds from the Underwriters). No other person shall acquire or have any right hereunder or by virtue hereof. All of the representations (as of the date such representations were made) of the City contained in this Contract of Purchase shall remain operative and in full force and effect regardless of any investigation made by or on behalf of any of the Underwriters. This Contract of Purchase may not be assigned by any party without the written consent of the other party.

15. Effective Date. This Contract of Purchase shall be effective upon the execution hereof by the Representative, on behalf of the Underwriters, and the City.

16. Headings. The headings of the paragraphs of this Contract of Purchase are inserted for convenience only and shall not be deemed to be a part hereof.

17. End of Underwriting Period. The term "end of the underwriting period" referred to in paragraphs 7(o) and (p) of this Contract of Purchase shall mean the later of such time as (i) the City delivers the Series 2017 Bonds to the Underwriters or (ii) the Underwriters do not retain an unsold balance of the Series 2017 Bonds for sale to the public. Unless the Underwriters gives notice to the contrary, the end of the underwriting period shall be deemed to be the date of the Closing. Any notice delivered pursuant to this paragraph 17 shall be delivered in writing to the City at or prior to the date of the Closing, and shall specify a date, other than the date of the Closing (or such other date specified by notice delivered pursuant to this paragraph 17), to be deemed the end of the underwriting period.

18. Representation by Counsel. Each party hereto represents and acknowledges that it has been represented by competent counsel in connection with the negotiation and execution of this Agreement, and has been fully advised by said counsel with respect to its rights and obligations hereunder.

19. Representations, Warranties and Agreements to Survive Delivery. The representations, warranties, indemnities, agreements and other statements of the City and the Underwriters or their officers or partners set forth in, or made pursuant to, this Contract of Purchase will remain operative and in full force and effect regardless of any investigation made by or on behalf of the City or the underwriters or any controlling person and will survive delivery of and payment for the Series 2017 Bonds.

20. Counterparts. This Contract of Purchase may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

[Signatures appear on next page.]

Very truly yours,

MORGAN STANLEY & CO. LLC
SIEBERT CISNEROS SHANK & CO., LLC
ACADEMY SECURITIES, INC.
FIDELITY CAPITAL MARKETS

By: _____
Morgan Stanley & Co. LLC,
as representative of the Underwriters

Agreed and Accepted:

This ___ day of April, 2017

CITY OF LOS ANGELES

By: _____
Name: Ben Ceja
Title: Assistant City Administrative Officer

APPROVED AS TO FORM

This _____ day of April, 2017

MICHAEL N. FEUER
City Attorney

By: _____
Deputy City Attorney

SCHEDULE I

Maturity Schedule

\$ _____
City of Los Angeles Wastewater System Subordinate Revenue Bonds, Series 2017-A
(Green Bonds)

| <u>Year</u> <u>(June 1)</u> | <u>Principal</u> <u>Amount</u> | <u>Interest</u> <u>Rate</u> | <u>Yield</u> | <u>Price</u> |
|--------------------------------|-----------------------------------|--------------------------------|--------------|--------------|
|--------------------------------|-----------------------------------|--------------------------------|--------------|--------------|

\$ _____ % Term Bonds due June 1, 20__ Yield: _____ % Price _____

\$ _____
City of Los Angeles Wastewater System Subordinate Revenue Bonds, Refunding Series 2017-B
(Green Bonds)

| <u>Year</u> <u>(June 1)</u> | <u>Principal</u> <u>Amount</u> | <u>Interest</u> <u>Rate</u> | <u>Yield</u> | <u>Price</u> |
|--------------------------------|-----------------------------------|--------------------------------|--------------|--------------|
|--------------------------------|-----------------------------------|--------------------------------|--------------|--------------|

\$ _____ % Term Bonds due June 1, 20__ Yield: _____ % Price _____

\$ _____
City of Los Angeles Wastewater System Subordinate Revenue Bonds,
Refunding Series 2017-C (Taxable)
(Green Bonds)

| <u>Year</u> <u>(June 1)</u> | <u>Principal</u> <u>Amount</u> | <u>Interest</u> <u>Rate</u> | <u>Yield</u> | <u>Price</u> |
|--------------------------------|-----------------------------------|--------------------------------|--------------|--------------|
|--------------------------------|-----------------------------------|--------------------------------|--------------|--------------|

\$ _____ % Term Bonds due June 1, 20__ Yield: _____ % Price _____

Redemption Provisions

Redemption of the Series 2017 Bonds

Optional Redemption. The Series 2017-A Subordinate Bonds maturing before June 1, 20__ are not subject to redemption before their stated maturities. The Series 2017-A Subordinate Bonds maturing on and after June 1, 20__ are subject to redemption, as a whole or in part as designated by the City, or, absent such designation, *pro rata* among maturities and by lot within any one maturity if less than all of the Series 2017-A 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, 20__, at a redemption price equal

to the principal amount of the Series 2017-A Subordinate Bonds to be redeemed plus accrued interest thereon to the date of redemption, without premium.

The Series 2017-B Subordinate Bonds maturing before June 1, 20__ are not subject to redemption before their stated maturities. The Series 2017-B Subordinate Bonds maturing on and after June 1, 20__ are subject to redemption, as a whole or in part as designated by the City, or, absent such designation, *pro rata* among maturities and by lot within any one maturity if less than all of the Series 2017-B 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, 20__, at a redemption price equal to the principal amount of the Series 2017-B Subordinate Bonds to be redeemed plus accrued interest thereon to the date of redemption, without premium.

The Series 2017-C Subordinate Bonds (Taxable) maturing on and after June 1, 20__ are subject to redemption, as a whole or in part as designated by the City, or, absent such designation, *pro rata* among maturities and by lot within any one maturity if less than all of the Series 2017-C Subordinate Bonds (Taxable) of such maturity are to be redeemed, except that in the event of an optional redemption of less than the full amount of the Series 2017-C Subordinate Bonds maturing on June 1, 20__, such Series 2017 Subordinate Bonds shall be redeemed *pro rata* among all such Series 2017 Subordinate Bonds, prior to their respective maturity dates, at the option of the City, on any date on or after June 1, 20__, at a redemption price equal to the principal amount of the Series 2017-C Subordinate Bonds (Taxable) to be redeemed plus accrued interest thereon to the date of redemption, without premium.

Make-Whole Optional Redemption of Series 2017-C Subordinate Bonds (Taxable). The Series 2017-C Subordinate Bonds (Taxable) shall be subject to redemption either in whole or in part, at the option of the City, at any time, at a redemption price equal to the greater of (i) 100% of the principal amount thereof or (ii) the Discounted Value thereof, plus in either case, accrued interest thereon to the date of redemption. The Series 2017-C Subordinate Bonds (Taxable) may be redeemed in any order of maturity and in any principal amount within a maturity as selected by the City in its sole discretion. All calculations and determinations referred to under this caption "Optional Redemption," except as provided in the preceding sentence, are expected (but not required) to be made by a financial advisor or other agent selected by the City for such purposes (the "Calculation Agent").

"Discounted Value" means, with respect to each outstanding maturity of the Series 2017-C Subordinate Bonds (Taxable) to be redeemed, the sum as determined by the City or the Calculation Agent of the amounts obtained by discounting all remaining scheduled payments of principal and interest (exclusive of interest accrued to the date of redemption) on such maturity from their respective scheduled payment dates to the applicable redemption date, at a yield (computed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months) equal to the applicable Discount Yield.

"Discount Yield" means, with respect to each maturity of the Series 2017-C Subordinate Bonds (Taxable) to be redeemed on a particular date, the Blended Treasury Yield determined by the City or the Calculation Agent with respect to the Series 2017-C Subordinate Bonds (Taxable) and maturity to be redeemed, plus __ basis points. The Discount Yield will be calculated assuming semi-annual compounding based upon a 360-day year consisting of twelve 30-day months.

"Blended Treasury Yield" means, with respect to the Series 2017-C Subordinate Bonds (Taxable) of a particular maturity, the yield computed by the City or the Calculation Agent as the linear interpolation of two Market Treasury Yields such that the theoretical maturity that corresponds to the interpolated Market Treasury Yield equals the date that corresponds to the remaining average life of the Series 2017-C Subordinate Bonds (Taxable) maturity to be redeemed from the redemption date. The first Market Treasury Yield shall be based on an actively traded U.S. Treasury security or U.S. Treasury index whose maturity is closest to but no later than the date corresponding to the remaining average life of the

Series 2017-C Subordinate Bonds (Taxable) and maturity to be redeemed; the second Market Treasury Yield shall be based on an actively traded U.S. Treasury security or U.S. Treasury index whose maturity is closest to but no earlier than the date corresponding to the remaining average life of the Series 2017-C Subordinate Bonds (Taxable) maturity to be redeemed.

“Market Treasury Yield” means that yield, as determined by the City or the Calculation Agent, assuming semi-annual compounding based upon a 360-day year consisting of twelve 30-day months, which is equal to:

(i) the yield for the applicable maturity of an actively traded U.S. Treasury security, reported, as of 11:00 a.m., New York City time, on the Valuation Date on the display designated as “Page PXI” of the Bloomberg Financial Markets Services Screen (or, if not available, any other nationally recognized trading screen reporting on-line intraday trading in U.S. Treasury securities); or

(ii) if the yield described in (i) above is not reported as of such time or the yield reported as of such time is not ascertainable, the most recent yield data for the applicable U.S. Treasury maturity index from the federal Reserve Statistical Release H.15 Daily Update (or any comparable or successor publication) reported, as of 11:00 a.m., New York City time, on the Valuation Date; or

(iii) if the yields described in (i) and (ii) above are not reported as of such time or the yields reported as of such time are not ascertainable, the yield for the applicable maturity of any actively traded U.S. Treasury security shall be based upon the average of yield quotations for such security (after excluding the highest and lowest quotations) as of 3:30 p.m., New York City time, on the Valuation Date received from no less than five primary dealers in U.S. Government securities selected by the City.

“Valuation Date” means no less than the third Business Day nor more than the twentieth Business Day preceding the redemption date.

Each yield quotation for each actively traded U.S. Treasury security required in (i) and (iii) above shall be determined using the average of the bid and ask prices for that security.

Mandatory Sinking Fund Redemption. The Series 2017-A Subordinate Bonds maturing on June 1, 20__ are subject to mandatory sinking fund redemption prior to maturity, commencing on June 1, 20__, and on each June 1 thereafter, at a redemption price equal to the principal being redeemed, without premium, from mandatory sinking account payments which have been deposited in the debt service fund created for the Series 2017-A Subordinate Bonds, in the principal amounts set forth below (subject to adjustment in the event of an optional redemption of the Series 2017-A Subordinate Bonds, as provided in the Twenty-First Supplemental Resolution):

| Series 2017-A Subordinate Term Bonds Maturing June 1, 20__ | |
|---|-------------------------|
| Redemption Date | Principal Amount |
| (June 1) | |

(maturity)

The Series 2017-B Subordinate Bonds maturing on June 1, 20__ are subject to mandatory sinking fund redemption prior to maturity, commencing on June 1, 20__, and on each June 1 thereafter, at a redemption price equal to the principal being redeemed, without premium, from mandatory sinking

account payments which have been deposited in the debt service fund created for the Series 2017-B Subordinate Bonds, in the principal amounts set forth below (subject to adjustment in the event of an optional redemption of the Series 2017-B Subordinate Bonds, as provided in the Twenty-First Supplemental Resolution):

Series 2017-B Subordinate Term Bonds Maturing June 1, 20__

| Redemption Date (June 1) | Principal Amount |
|-------------------------------------|-------------------------|
|-------------------------------------|-------------------------|

(maturity)

The Series 2017-C Subordinate Bonds (Taxable) maturing on June 1, 20__ are subject to mandatory sinking fund redemption prior to maturity, commencing on June 1, 20__, and on each June 1 thereafter, at a redemption price equal to the principal being redeemed, without premium, from mandatory sinking account payments which have been deposited in the debt service fund created for the Series 2017-C Subordinate Bonds (Taxable), in the principal amounts set forth below (subject to adjustment in the event of an optional redemption of the Series 2017-C Subordinate Bonds (Taxable), as provided in the Twenty-First Supplemental Resolution):

Series 2017-C Subordinate Term Bonds (Taxable) Maturing June 1, 20__

| Redemption Date (June 1) | Principal Amount |
|-------------------------------------|-------------------------|
|-------------------------------------|-------------------------|

(maturity)

The Series 2017-C Subordinate Bonds (Taxable) maturing on June 1, 20__ are subject to mandatory sinking fund redemption prior to maturity, commencing on June 1, 20__, and on each June 1 thereafter, at a redemption price equal to the principal being redeemed, without premium, from mandatory sinking account payments which have been deposited in the debt service fund created for the Series 2017-C Subordinate Bonds (Taxable), in the principal amounts set forth below (subject to adjustment in the event of an optional redemption of the Series 2017-C Subordinate Bonds (Taxable), as provided in the Twenty-First Supplemental Resolution):

Series 2017-C Subordinate Term Bonds (Taxable) Maturing June 1, 20__

| Redemption Date (June 1) | Principal Amount |
|-------------------------------------|-------------------------|
|-------------------------------------|-------------------------|

(maturity)

EXHIBIT A

FORM OF SUPPLEMENTAL OPINION

[Closing Date]

Morgan Stanley & Co. LLC
Siebert Cisneros Shank & Co., LLC
Academy Securities, Inc.
Fidelity Capital Markets

Ladies and Gentlemen:

We have acted as bond counsel to the City of Los Angeles, California (the “City”) in connection with the issuance of its \$_____ City of Los Angeles Wastewater System Subordinate Revenue Bonds, Series 2017-A (Green Bonds) (the “Series 2017-A Subordinate Bonds”), the \$_____ City of Los Angeles Wastewater System Subordinate Revenue Bonds, Refunding Series 2017-B (the “Series 2017-B Subordinate Bonds” and, together with the Series 2017-A Subordinate Bonds, the “Series 2017AB Subordinate Bonds”) and the \$_____ City of Los Angeles Wastewater System Subordinate Revenue Bonds, Refunding Series 2017-C (Taxable) (the “Series 2017-C (Taxable) Subordinate Bonds” and, together with the Series 2017AB Subordinate Bonds, the “Series 2017 Bonds”). The Series 2017 Bonds are being issued by the City of Los Angeles (the “City”) pursuant to the Charter of the City of Los Angeles (the “City Charter”), Article 6.7 of Chapter 1 of Division 11 of the Administrative Code of the City (the “Procedural Ordinance”), and, with respect to the Series 2017-B Subordinate Bonds and the Series 2017-C (Taxable) Subordinate Bonds, Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 (Section 53570 et seq. and Section 53580 et seq., respectively) of the California Government Code (as amended, the “Refunding Law”). The Series 2017 Bonds are also issued pursuant to the Wastewater System Subordinate Revenue Bonds General Resolution, adopted by the Council of the City (the “City Council”) on March 26, 1991, as amended and supplemented (the “Subordinate General Resolution”), including as amended and supplemented by the Twenty-First Supplemental Resolution, adopted by the City Council on April __, 2017.

The Series 2017 Bonds are being sold by the City on the date hereof pursuant to that Contract of Purchase, dated April __, 2017, by and between the City and Morgan Stanley & Co. LLC, as representative of itself and Siebert Cisneros Shank & Co., LLC, Academy Securities, Inc. and Fidelity Capital Markets (collectively, the “Underwriters”).

All capitalized terms used herein and not otherwise defined shall have the respective meanings ascribed to such terms in the Contract of Purchase, or if not defined therein, in the Official Statement, dated April __, 2017, relating to the Series 2017 Bonds (the “Official Statement”).

In our capacity as bond counsel, we have relied upon such certifications and opinions of or information provided by City representatives, without any independent investigation of such matters. In addition, we have examined originals or copies, certified or otherwise identified to our satisfaction, of such other documents, legal opinions, instruments and records, and have made such investigation of law, as we have considered necessary or appropriate for the purpose of this opinion, and 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, (a) certificates, letters (including opinion letters), and oral and written statements and representations of public officials, officers and other representatives of the City, counsel for the City, and others, and (b) the representations and warranties in the Contract of Purchase.

In delivering this letter, we are not expressing any view on the validity or accuracy of documents, certificates or opinions we have examined.

Based on the foregoing and such other information and documents as we have considered necessary in order to render this opinion, it is our opinion that:

1. The Series 2017 Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Subordinate General Resolution and the Subordinate General Resolution are exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended.

2. The Contract of Purchase has been duly executed and delivered by the City and (assuming due authorization, execution and delivery by and validity against the other parties thereto) is a valid and binding agreement of the City, enforceable against the City in accordance with its terms. We call attention to the fact that the rights and obligations under the Contract of Purchase and the enforceability thereof are subject to and may be limited by bankruptcy, insolvency, reorganization, arrangement, moratorium and other similar laws affecting creditors' rights, to the application of equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law), by the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against cities in the State of California; provided, however, that no opinion is expressed with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver (including, without limitation, waiver of jury trial or consent to trial without a jury) provisions contained therein.

3. The statements contained in the Official Statement under the captions "DESCRIPTION OF THE SERIES 2017 BONDS," "REDEMPTION OF THE SERIES 2017 BONDS," "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS" and "TAX MATTERS" and in Appendices B, C and F, insofar as such statements expressly summarize certain provisions of the Series 2017 Bonds, the Subordinate General Resolution and our opinion concerning certain tax matters relating to the Series 2017 Bonds, present a fair summary of such provisions, and we express no view on any other reports, financial or statistical data, financial statements or forecasts in the Official Statement or any information concerning The Depository Trust Company or the book-entry system.

Except as provided in paragraph 3 above, we are not passing upon and are not assuming any responsibility for the accuracy, completeness or fairness of any of the statements contained in the Official Statement, and we express no opinion with respect thereto.

This letter is issued as of the date hereof, and we assume no obligation to update or supplement this letter to reflect any facts or circumstances that may hereafter come to our attention with respect to the statements expressed above, including any changes in applicable law that may hereafter occur.

The opinions expressed and the statements made herein are expressed and made as of the time of closing of the sale of the Series 2017 Bonds to the Underwriters on the date hereof. 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 such time. 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. Our engagement with respect to this matter has terminated as of the date hereof.

We have this day delivered to the City our final approving legal opinions with respect to the Series 2017 Bonds. You are authorized to rely on such opinions as if the same were addressed to you.

We are furnishing you this letter at the request of the City and solely for the information of, and assistance to, you in conducting and documenting your investigation of the affairs of the City in connection with the offering of the Series 2017 Bonds and it is not to be used, circulated, quoted or otherwise referred to for any other purpose, including but not limited to the purchase or sale of the Series 2017 Bonds, nor is it to be referred to in whole or in part in the Official Statement or any other document, except that it may be included in, and reference may be made to it in any list of, the closing documents pertaining to the delivery of the Series 2017 Bonds. The provision of this opinion to you shall not create any attorney-client relationship between our firm and you. This opinion may not be relied upon by any other person, firm, corporation or other entity without our prior written consent.

Very truly yours,

EXHIBIT B

FORM OF OPINION OF DISCLOSURE COUNSEL

[NORTON TO PROVIDE FORM]

[Closing Date]

Morgan Stanley & Co. LLC
Siebert Cisneros Shank & Co., LLC
Academy Securities, Inc.
Fidelity Capital Markets

\$ _____
CITY OF LOS ANGELES
Wastewater System Subordinate
Revenue Bonds, Series 2017-A
(Green Bonds)

\$ _____
CITY OF LOS ANGELES
Wastewater System Subordinate Revenue
Bonds, Refunding Series 2017-B
(Green Bonds)

\$ _____*
CITY OF LOS ANGELES
Wastewater System Subordinate Revenue Bonds,
Refunding Series 2017-C (Taxable)
(Green Bonds)

Ladies and Gentlemen:

We have acted as disclosure counsel on behalf of the City of Los Angeles, California (the “City”) in connection with the sale of the \$ _____ City of Los Angeles Wastewater System Subordinate Revenue Bonds, Series 2017-A (Green Bonds) (the “Series 2017-A Subordinate Bonds”), the \$ _____ City of Los Angeles Wastewater System Subordinate Revenue Bonds, Refunding Series 2017-B (the “Series 2017-B Subordinate Bonds” and, together with the Series 2017-A Subordinate Bonds, the “Series 2017AB Subordinate Bonds”) and the \$ _____ City of Los Angeles Wastewater System Subordinate Revenue Bonds, Refunding Series 2017-C (Taxable) (the “Series 2017-C (Taxable) Subordinate Bonds” and, together with the Series 2017AB Subordinate Bonds, the “Series 2017 Bonds”).

The Series 2017 Bonds are being issued by the City of Los Angeles (the “City”) pursuant to the Charter of the City of Los Angeles (the “City Charter”), Article 6.7 of Chapter 1 of Division 11 of the Administrative Code of the City (the “Procedural Ordinance”), and, with respect to the Series 2017-B Subordinate Bonds and the Series 2017-C (Taxable) Subordinate Bonds, Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 (Section 53570 et seq. and Section 53580 et seq., respectively) of the California Government Code (as amended, the “Refunding Law”). The Series 2017 Bonds are also issued pursuant to the Wastewater System Subordinate Revenue Bonds General Resolution, adopted by the Council of the City (the “City Council”) on March 26, 1991, as amended and supplemented (the “Subordinate General Resolution”), including as amended and supplemented by the Twenty-First Supplemental Resolution, adopted by the City Council on April __, 2017. The terms and provisions of the Series 2017 Bonds are contained in the Subordinate General Resolution, and are further described in the Official Statement relating to the 2017 Bonds, dated May __, 2017

(the "Official Statement"). Capitalized terms used herein and not otherwise defined shall have the respective meanings set forth in the Official Statement.

In our capacity as Disclosure Counsel to the City, we have examined, among other things, the Official Statement, and originals, or copies certified or otherwise identified to our satisfaction as being true copies of the originals, of such records of the City and others and such other documents, letters, certificates, instruments, records and opinions, as we have considered necessary or appropriate for the basis of our opinion, including the opinions of the Office of the City Attorney for the City, the Subordinate General Resolution, the final approving opinion of Hawkins Delafield & Wood LLP regarding the validity of the 2017 Bonds and certain other matters, such opinion dated the date hereof and in substantially the form attached to the Official Statement as Appendix F. In addition, we have examined and relied on originals or copies, certified or otherwise identified to our satisfaction, of such other documents, instruments or corporate records, 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, letters, opinions and certificates which we have examined are genuine, that all documents submitted to us are authentic and were duly and properly approved and executed by the parties thereto and that all representations made in the documents that we have reviewed are true and accurate. In giving the limited assurances hereinafter expressed, we are not expressing any opinion or view on, but have ourselves assumed and relied upon, the validity, accuracy and sufficiency of the records, documents, certificates and opinions (originals or copies, certified or otherwise identified to our satisfaction) executed and delivered in connection with the issuance of the 2017 Bonds. Without limiting the foregoing statement, we have relied, without independently opining upon the legal conclusions expressed and without independently verifying the factual matters represented, on the legal opinions that we have reviewed.

We have also participated in conferences with, among others, representatives, employees and agents of the City, including representatives of the Office of the City Administrative Officer, the Office of the City Attorney, the Department of Public Works, the Office of the City Controller and the Office of Finance/Treasurer, the Financial Advisors, the Underwriters, Bond Counsel, Underwriters' Counsel and others, during which conferences various legal and factual matters relating to the 2017 Bonds and the contents of the Official Statement were discussed.

Although in our capacity as Disclosure Counsel we have assisted in the preparation of the final Official Statement, the final Official Statement is the City's document and as such the City is responsible for its content. The statements made and the information contained in the Official Statement were reviewed for their accuracy, completeness, and materiality by representatives of the City. The purpose of our engagement was not to independently establish, confirm, or verify the factual matters set forth in the Official Statement and we have not done so. Moreover, many of the determinations required to be made in the preparation of the Official Statement involve wholly or partially matters of a non-legal character. We do not, therefore, take any responsibility for the factual matters set forth in the Official Statement and we undertake herein only to express certain limited negative assurances regarding the same.

In separately requesting and accepting this letter, you recognize and acknowledge that: (i) the scope of those activities performed by us were inherently limited and do not encompass all activities that you as the City may be responsible to undertake in preparing the Official Statement; (ii) those activities performed by us relied substantially on representations, warranties, certifications and opinions made by representatives of the City and others, and are otherwise subject to the matters set

forth in this letter; and (iii) while such statements of negative assurance are customarily given to underwriters of municipal bonds to assist them in discharging their responsibilities under the federal securities laws, the responsibilities of the City under those laws may differ from those of underwriters in material respects, and this letter may not serve the same purpose or provide the same utility to you as the City as it would to the underwriters.

Also, this letter does not address (i) the CUSIP numbers, (ii) any financial statements contained in the Official Statement, (iii) any financial, demographic, statistical or economic data, estimates, projections, numbers, assumptions, charts, graphs, tables, or expressions of opinion contained in the Official Statement, and (iv) information relating to The Depository Trust Company and its book-entry system contained in the Official Statement and in Appendix G - "Book-Entry Only System."

Based upon such participation, and information disclosed to us in the course of our representation of the City as Disclosure Counsel, considered in light of our understanding of the applicable law and the experience we have gained through our practice of law, and subject to all of the foregoing in this letter including the qualifications respecting the scope and nature of our engagement, we advise you, as a matter of fact but not opinion, that, during the course of our engagement as Disclosure Counsel with respect to the Official Statement, no facts came to the attention of the attorneys of our firm rendering legal services in connection with this matter that caused them to believe that the Official Statement, as of the date of the Official Statement or as of the date of delivery of the 2017 Bonds, contained or contains any untrue statement of a material fact or omitted or omits to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

This letter is issued as of the date hereof, and we assume no obligation to update, revise or supplement this letter to reflect any action hereafter taken or not taken, or any facts or circumstances that may hereafter come to our attention, or for any other reason.

We are not expressing any opinion with respect to the authorization, execution, issuance or validity of the 2017 Bonds, or the exclusion from gross income for federal income tax purposes of interest on the 2017 Bonds.

This letter is furnished by us solely for your benefit and may not be relied upon by any other person or entity, except as may be expressly authorized by us in writing. This letter is not to be used, circulated, quoted or otherwise referred to in connection with the offering of the 2017 Bonds, except that reference may be made in any list of closing documents pertaining to the issuance of the 2017 Bonds.

Very truly yours,

EXHIBIT C

**FORM OF OPINION OF
THE CITY ATTORNEY OF THE CITY OF LOS ANGELES**

[Closing Date]

City of Los Angeles
Los Angeles, California

Underwriters:

Morgan Stanley & Co. LLC
Siebert Cisneros Shank & Co., LLC
Academy Securities, Inc.
Fidelity Capital Markets

Ladies and Gentlemen:

This office has acted as counsel to the City of Los Angeles (the "City") and this opinion is being delivered in connection with the issuance by the City of \$_____ City of Los Angeles Wastewater System Subordinate Revenue Bonds, Series 2017-A (Green Bonds) (the "Series 2017-A Subordinate Bonds"), the \$_____ City of Los Angeles Wastewater System Subordinate Revenue Bonds, Refunding Series 2017-B (the "Series 2017-B Subordinate Bonds" and, together with the Series 2017-A Subordinate Bonds, the "Series 2017AB Subordinate Bonds") and the \$_____ City of Los Angeles Wastewater System Subordinate Revenue Bonds, Refunding Series 2017-C (Taxable) (the "Series 2017-C (Taxable) Subordinate Bonds" and, together with the Series 2017AB Subordinate Bonds, the "Series 2017 Bonds"), and the sale of the Series 2017 Bonds to the Underwriters thereof.

The Series 2017 Bonds are being issued by the City pursuant to the Charter of the City of Los Angeles (the "City Charter"), Article 6.7 of Chapter 1 of Division 11 of the Administrative Code of the City (the "Procedural Ordinance"), and, with respect to the Series 2017-B Subordinate Bonds and the Series 2017-C (Taxable) Subordinate Bonds, Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 (Section 53570 *et seq.* and Section 53580 *et seq.*, respectively) of the California Government Code (as amended, the "Refunding Law"). The Series 2017 Bonds are also issued pursuant to the Wastewater System Subordinate Revenue Bonds General Resolution, adopted by the Council of the City (the "City Council") on March 26, 1991, as amended and supplemented (the "Subordinate General Resolution"), including as amended and supplemented by the Twenty-First Supplemental Resolution, adopted by the City Council on April __, 2017 (the "Twenty-First Subordinate Supplemental Resolution"). Capitalized terms not otherwise defined herein shall have the respective meanings ascribed thereto in the Subordinate General Resolution or, if not defined in the Subordinate General Resolution, in the Contract of Purchase (as defined below).

We have examined certified copies of proceedings for the issuance of the Series 2017 Bonds, including (i) the Charter, (ii) the Subordinate General Resolution, (iii) Ordinance No. _____ passed by the City Council on April __, 2017 (the "Ordinance"), (iv) the Contract of Purchase, dated April __, 2017 (the "Contract of Purchase"), by and among the City and Morgan Stanley & Co. LLC, on behalf of itself and as representative of the underwriters named therein (the "Underwriters") relating to the Series 2017 Bonds, (v) the Continuing Disclosure Certificate, dated April __, 2017

(the “Continuing Disclosure Certificate”), executed by the City and (vi) such other records, documents, certificates, opinions and other matters as are in our judgment relevant, necessary or appropriate to enable us to render the opinions expressed herein. As to relevant factual matters, we have relied upon without undertaking to verify independently, among other things, the City’s factual representations contained in the records, documents, instruments, certificates and other matters described above and the Official Statement. Collectively, the Contract of Purchase and the Continuing Disclosure Certificate are referred to herein as the “City Documents.”

We have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity with originals of all documents submitted to us as copies. To the extent the City’s obligations depend on the enforceability of the City Documents against the other parties thereto, we have assumed that the City Documents are enforceable against such other parties.

From such examination, on the basis of our reliance upon the assumptions in this letter and our consideration of those questions of law we considered relevant, and subject to the limitations and qualifications in this letter, as of the date hereof, we are of the opinion that:

1. The City is a duly organized charter city and municipal corporation of the State of California duly organized and existing under the Constitution of the State of California and the Charter.

2. The Twenty-First Subordinate Supplemental Resolution and the Ordinance were each duly adopted by the City Council at a meeting which was duly called and held pursuant to law and with all required notice, and at which a quorum was present at the time of their adoption. The Twenty-First Subordinate Supplemental Resolution and the Ordinance have not been modified, amended or rescinded and are in full force and effect on and as of the date hereof.

3. The Subordinate General Resolution is a valid and binding obligation of the City enforceable against the City in accordance with its terms, except to the extent that the enforceability thereof may be limited by, and subject to, bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws of general applicability relating to or affecting creditors’ rights, the general principles of equity, regardless of whether such enforceability is considered in equity or at law, the exercise of judicial discretion in appropriate cases, and the limitations on legal remedies against municipal corporations in the State of California.

4. The issuance of the Series 2017 Bonds has been duly authorized and all legal conditions precedent to the delivery of the Series 2017 Bonds have been fulfilled.

5. The City has duly authorized, executed and delivered the City Documents, and assuming due authorization, execution and delivery by the other parties thereto, the City Documents constitute the legal, valid and binding obligations of the City enforceable against the City in accordance with their respective terms, except to the extent that enforceability thereof may be limited by, and subject to, bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws of general applicability relating to or affecting creditors’ rights, the general principles of equity, regardless of whether such enforceability is considered in equity or at law, the exercise of judicial discretion in appropriate cases, and the limitations on legal remedies against municipal corporations in the State of California.

6. The City has duly approved and executed the Official Statement, and the City has duly authorized the delivery and distribution of the Official Statement by the Underwriters in connection with the public offering of the Series 2017 Bonds (provided that we express no opinion as to any action required under state or federal securities or Blue Sky laws in connection with the purchase or distribution of the Series 2017 Bonds by the Underwriters).

7. The adoption by the City of the Twenty-First Subordinate Supplemental Resolution and the Ordinance, and the execution and delivery by the City of the City Documents, do not, in any material respect: conflict with or constitute a breach of or default under any California constitutional provision, law, administrative regulation, judgment or court decree that we have, in the exercise of customary professional diligence, recognized as applicable to the City and the transactions contemplated by the City Documents, or, to our knowledge, any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the City is a party and related to the System, and with respect to which such conflict, breach or default would materially adversely affect the ability of the City to pay the principal and interest on the Series 2017 Bonds. If any such loan agreement, indenture, bond, note, resolution, agreement or other instrument is governed by the laws of a jurisdiction other than California, we have assumed that such loan agreement, indenture, bond, note, resolution, agreement or other instrument is governed by the laws of the State of California. We express no opinion as to the effect of the City's performance of its obligations under the City Documents on the City's compliance with financial covenants in such other loan agreements, indentures, bonds, notes, resolutions, agreements or other instruments.

8. To the best of our knowledge after due inquiry, and except as otherwise set forth in the Official Statement, there is no action, suit or proceeding, at law or in equity, before or by any court, pending (with service of process having been given to the City) or threatened, wherein an unfavorable decision, ruling or finding would: (a) in any way adversely affect the corporate existence of the City or the titles of the Authorized City Representatives (as defined in the Twenty-First Subordinate Supplemental Resolution) to their respective City offices, (b) seek to restrain or enjoin the issuance or delivery of any of the Series 2017 Bonds, (c) in any way contest the validity of the Series 2017 Bonds, the Subordinate General Resolution, the Ordinance or any of the City Documents, (d) contest the power of the City to issue the Series 2017 Bonds, (e) have a material adverse effect on the City's ability to make payment on the Series 2017 Bonds from the Revenues, or (f) contest or assert that the "LITIGATION" section in the Official Statement contained any untrue statement of a material fact or omitted to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, severability or waiver provisions contained in the Subordinate General Resolution or the City Documents. Furthermore, the imposition of fees and charges by the City relating to the System may be subject to the provisions of Articles XIIC and XIID of the Constitution of the State of California.

We express no opinion as to any provision requiring written amendments or waivers insofar as it suggests that oral or other modifications, amendments or waivers could not be effectively agreed upon by the parties or that the doctrine of promissory estoppel might not apply.

A court may refuse to enforce a provision of the Subordinate General Resolution or the City Documents if it deems that such provision is in violation of public policy. No opinion is being rendered as to the availability of any particular remedy.

The law covered by the opinions expressed herein is limited to the present law of the State of California. We express no opinion as to the laws of any other jurisdiction.

This letter is given in an official capacity only and not personally, and no personal liability shall derive therefrom. The opinions expressed are matters of professional judgment and are not a guarantee of result. The opinions are expressly limited to the matters set forth above, and we render no opinion, whether by implication or otherwise, as to any other matters.

This letter is for the sole benefit of the addressees hereof in connection with the issuance of the Series 2017 Bonds, and is not to be used, circulated, quoted or otherwise referred to for any other purpose; provided, however, that it may be included in the transcript of record of proceedings relating to the Series 2017 Bonds. No other person may rely on this letter without our prior written consent. The provision of this letter to addressees hereof shall not create any attorney-client relationship between us and such addressees (other than the City). The opinions set forth herein may be affected by actions taken or not taken by the City or other parties, or by events, facts or circumstances occurring after the date hereof. This letter speaks only as of the date hereof and we do not undertake, and expressly disclaim, any obligation to amend or supplement this letter or the opinions set forth herein as events, facts or circumstances come to our attention, or changes in law occur, after the date hereof which could affect such opinions. .

Respectfully submitted,

MICHAEL N. FEUER
City Attorney

By: _____
[NAME]
[TITLE]

**Exhibit C –
Preliminary Official Statement**

PRELIMINARY OFFICIAL STATEMENT DATED APRIL __, 2017

[DAC Logo]

NEW ISSUES – BOOK-ENTRY ONLY SYSTEM

RATINGS:

Fitch: “ ”
S&P: “ ”
Kroll: “ ”

See “Ratings” herein.

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the City, under existing statutes and court decisions and assuming continuing compliance with certain tax certifications described herein, (i) interest on the Series 2017AB Subordinate Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (ii) interest on the Series 2017AB Subordinate Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In the opinion of Bond Counsel to the City, interest on the Series 2017-C Subordinate Bonds (Taxable) is included in gross income for Federal income tax purposes pursuant to the Code. In addition, in the opinion of Bond Counsel, under existing statutes, interest on the Series 2017AB Subordinate Bonds is exempt from State of California personal income. See “Tax Matters – Series 2017AB Subordinate Bonds” and “Tax Matters – Series 2017-C Subordinate Bonds (Taxable)” herein.



\$ _____
CITY OF LOS ANGELES
Wastewater System Subordinate
Revenue Bonds, Series 2017-A
(Green Bonds)

\$ _____
CITY OF LOS ANGELES
Wastewater System Subordinate Revenue
Bonds, Refunding Series 2017-B
(Green Bonds)

\$ _____
CITY OF LOS ANGELES
Wastewater System Subordinate Revenue Bonds,
Refunding Series 2017-C (Taxable)
(Green Bonds)

Dated: Date of Delivery

Due: June 1, as shown on the inside cover

The \$ _____ City of Los Angeles Wastewater System Subordinate Revenue Bonds, Series 2017-A (Green Bonds) (the “Series 2017-A Subordinate Bonds”), the \$ _____ City of Los Angeles Wastewater System Subordinate Revenue Bonds, Refunding Series 2017-B (Green Bonds) (the “Series 2017-B Subordinate Bonds” and, together with the Series 2017-A Subordinate Bonds, the “Series 2017AB Subordinate Bonds”) and the \$ _____ City of Los Angeles Wastewater System Subordinate Revenue Bonds, Refunding Series 2017-C (Taxable) (Green Bonds) (the “Series 2017-C Subordinate Bonds (Taxable)” and, together with the Series 2017AB Subordinate Bonds, the “Series 2017 Bonds”) are being issued by the City of Los Angeles (the “City”) pursuant to the Charter of the City of Los Angeles (the “City Charter”), Article 6.7 of Chapter 1 of Division 11 of the Administrative Code of the City (the “Procedural Ordinance”), and, with respect to the Series 2017-B Subordinate Bonds and the Series 2017-C Subordinate Bonds (Taxable), Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 (Section 53570 *et seq.* and Section 53580 *et seq.*, respectively) of the California Government Code (as amended, the “Refunding Law”). The Series 2017 Bonds are also issued pursuant to the Wastewater System Subordinate Revenue Bonds General Resolution, adopted by the Council of the City (the “City Council”) on March 26, 1991, as amended and supplemented (the “Subordinate General Resolution”), including as amended and supplemented by the Twenty-First Supplemental Resolution, adopted by the City Council on April __, 2017.

The proceeds of the Series 2017-A Subordinate Bonds will be used to (i) finance the construction and improvement of the System and (ii) pay certain costs of issuing the Series 2017-A Subordinate Bonds. The proceeds of the Series 2017-B Subordinate Bonds will be used to (i) advance refund certain of the City’s Wastewater System Revenue Bonds, Refunding Series 2009-A (the “Series 2009-A Senior Lien Bonds”) and certain of the City’s Wastewater System Subordinate Revenue Bonds, Refunding Series 2010-A (the “Series 2010-A Subordinate Bonds” and, together with the Series 2009-A Senior Lien Bonds, the “Refunded Bonds”) and (ii) pay certain costs of issuing the Series 2017-B Subordinate Bonds. The proceeds of the Series 2017-C Subordinate Bonds (Taxable) will be used to (i) advance refund certain of the Refunded Bonds and (ii) pay certain costs of issuing the Series 2017-C Subordinate Bonds (Taxable). See “Plan of Finance” herein.

The pledge, assignment and lien on the Revenues (herein defined) granted pursuant to the General Resolution (herein defined) to secure the 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 2017 Bonds and other Subordinate Bonds issued and to be issued pursuant to the Subordinate General Resolution.

The Series 2017 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 2017 Subordinate Debt Service Fund created pursuant to the Subordinate General Resolution. The City is not obligated to make payments from any other source. The Series 2017 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 2017 Bonds.

Interest on the Series 2017 Bonds will be payable on June 1 and December 1, commencing on December 1, 2017. The Series 2017 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 2017 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 2017 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 2017 Bonds, payments of the principal of, redemption premium, if any, and interest on the Series 2017 Bonds will be made as described in APPENDIX G – “Book-Entry Only System” attached hereto.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. Under no circumstance shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

* Preliminary, subject to change.

The Series 2017 Bonds are subject to redemption prior to maturity, as described herein. See “Redemption of the Series 2017 Bonds” herein.

This cover page contains information for general reference only. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

The Series 2017 Bonds are offered when, as and if issued, subject to the approval of legality by Hawkins Delafield & Wood LLP, Los Angeles, California, Bond Counsel to the City. Certain legal matters will be passed upon for the City by Norton Rose Fulbright US LLP, Los Angeles, California, Disclosure Counsel, and by Michael N. Feuer, City Attorney, and for the Underwriters by their counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation, Sacramento, California. It is anticipated that the Series 2017 Bonds will be available for delivery to DTC in New York, New York on or about May __, 2017.

**Morgan Stanley
Academy Securities**

**Siebert Cisneros Shank & Co., L.L.C.
Fidelity Capital Markets**

Dated: April __, 2017

MATURITY SCHEDULES*

\$ _____
**City of Los Angeles Wastewater System Subordinate Revenue Bonds, Series 2017-A
 (Green Bonds)**

| <u>Year (June 1)</u> | <u>Principal Amount</u> | <u>Interest Rate</u> | <u>Yield</u> | <u>CUSIP^c (Base:)</u> | <u>Year (June 1)</u> | <u>Principal Amount</u> | <u>Interest Rate</u> | <u>Yield</u> | <u>CUSIP^c (Base:)</u> |
|--------------------------|-----------------------------|--------------------------|--------------|--------------------------------------|--------------------------|-----------------------------|--------------------------|--------------|--------------------------------------|
|--------------------------|-----------------------------|--------------------------|--------------|--------------------------------------|--------------------------|-----------------------------|--------------------------|--------------|--------------------------------------|

\$ _____ % Term Bonds due June 1, 20__ Yield: _____% CUSIP^c No. _____

\$ _____
**City of Los Angeles Wastewater System Subordinate Revenue Bonds, Refunding Series 2017-B
 (Green Bonds)**

| <u>Year (June 1)</u> | <u>Principal Amount</u> | <u>Interest Rate</u> | <u>Yield</u> | <u>CUSIP^c (Base:)</u> | <u>Year (June 1)</u> | <u>Principal Amount</u> | <u>Interest Rate</u> | <u>Yield</u> | <u>CUSIP^c (Base:)</u> |
|--------------------------|-----------------------------|--------------------------|--------------|--------------------------------------|--------------------------|-----------------------------|--------------------------|--------------|--------------------------------------|
|--------------------------|-----------------------------|--------------------------|--------------|--------------------------------------|--------------------------|-----------------------------|--------------------------|--------------|--------------------------------------|

\$ _____ % Term Bonds due June 1, 20__ Yield: _____% CUSIP^c No. _____

\$ _____
**City of Los Angeles Wastewater System Subordinate Revenue Bonds,
 Refunding Series 2017-C (Taxable)
 (Green Bonds)**

| <u>Year (June 1)</u> | <u>Principal Amount</u> | <u>Interest Rate</u> | <u>Yield</u> | <u>CUSIP^c (Base:)</u> | <u>Year (June 1)</u> | <u>Principal Amount</u> | <u>Interest Rate</u> | <u>Yield</u> | <u>CUSIP^c (Base:)</u> |
|--------------------------|-----------------------------|--------------------------|--------------|--------------------------------------|--------------------------|-----------------------------|--------------------------|--------------|--------------------------------------|
|--------------------------|-----------------------------|--------------------------|--------------|--------------------------------------|--------------------------|-----------------------------|--------------------------|--------------|--------------------------------------|

[\$ _____ % Term Bonds due June 1, 20__ Yield: _____% CUSIP^c No. _____]

^c CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. CUSIP numbers have been assigned by an independent company not affiliated with the City and are included solely for the convenience of investors. None of the City, the Underwriters, or the Municipal Advisor, are responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Series 2017 Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2017 Bonds as a result of various subsequent actions including, but not limited to, refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2017 Bonds.

* Preliminary, subject to change.

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 2017 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 2017 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 2017 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 2017 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 2017 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 2017 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 2017 Bonds.

CITY OF LOS ANGELES

Mayor

Eric Garcetti

City Council

Gilbert Cedillo (District 1)
Paul Krekorian (District 2)
Bob Blumenfield (District 3)
David E. Ryu (District 4)
Paul Koretz (District 5)

Nury Martinez (District 6)
Vacant (District 7)
Marqueece Harris-Dawson (District 8)
Curren D. Price, Jr. (District 9)
Herb J. Wesson, Jr. (District 10)

Mike Bonin (District 11)
Mitchell Englander (District 12)
Mitch O'Farrell (District 13)
José Huizar (District 14)
Joe Buscaino (District 15)

City Officials

Michael N. Feuer, *City Attorney*
Ron Galperin, *City Controller*
Richard H. Llewellyn, Jr., *Interim City Administrative Officer*
Claire Bartels, *City Treasurer*
Holly L. Wolcott, *City Clerk*

Board of Public Works

Kevin James, President
Heather Marie Repenning, Vice President
Joel F. Jacinto, Commissioner
Michael R. Davis, President Pro Tempore
Luz M. Rivas, 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
Hawkins Delafield & Wood LLP
Los Angeles, California

DISCLOSURE COUNSEL
Norton Rose Fulbright US LLP
Los Angeles, California

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

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

ESCROW AGENT
U.S. Bank National Association

VERIFICATION AGENT
Grant Thornton LLP

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OFFICIAL STATEMENT

\$ _____*
CITY OF LOS ANGELES
Wastewater System Subordinate Revenue
Bonds, Series 2017-A
(Green Bonds)

\$ _____*
CITY OF LOS ANGELES
Wastewater System Subordinate Revenue
Bonds, Refunding Series 2017-B
(Green Bonds)

\$ _____*
CITY OF LOS ANGELES
Wastewater System Subordinate Revenue Bonds,
Refunding Series 2017-C (Taxable)
(Green Bonds)

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 (defined herein).

General

The \$ _____* City of Los Angeles Wastewater System Subordinate Revenue Bonds, Series 2017-A (Green Bonds) (the “Series 2017-A Subordinate Bonds”), the \$ _____* City of Los Angeles Wastewater System Subordinate Revenue Bonds, Refunding Series 2017-B (Green Bonds) (the “Series 2017-B Subordinate Bonds” and, together with the Series 2017-A Subordinate Bonds, the “Series 2017AB Subordinate Bonds”) and the \$ _____* City of Los Angeles Wastewater System Subordinate Revenue Bonds, Refunding Series 2017-C (Taxable) (Green Bonds) (the “Series 2017-C Subordinate Bonds (Taxable)” and, together with the Series 2017AB Subordinate Bonds, the “Series 2017 Bonds”) are being issued by the City of Los Angeles (the “City”) pursuant to the Charter of the City of Los Angeles (the “City Charter”), Article 6.7 of Chapter 1 of Division 11 of the Administrative Code of the City (the “Procedural Ordinance”), and, with respect to the Series 2017-B Subordinate Bonds and the Series 2017-C Subordinate Bonds (Taxable), Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 (Section 53570 et seq. and Section 53580 et seq., respectively) of the California Government Code (as amended, the “Refunding Law”). The Series 2017 Bonds are also issued pursuant to the Wastewater System Subordinate Revenue Bonds General Resolution, adopted by the Council of the City (the “City Council”) on March 26, 1991, as amended and supplemented (the “Subordinate General Resolution”), including as amended and supplemented by the Twenty-First Supplemental Resolution, adopted by the City Council on April __, 2017 (the “Twenty-First Supplemental Resolution”).

* Preliminary, subject to change.

The proceeds of the Series 2017-A Subordinate Bonds will be used to (i) finance the construction and improvement of the System and (ii) pay certain costs of issuing the Series 2017-A Subordinate Bonds. The proceeds of the Series 2017-B Subordinate Bonds will be used to (i) advance refund certain of the City's Wastewater System Revenue Bonds, Refunding Series 2009-A (the "Series 2009-A Senior Lien Bonds") and certain of the City's Wastewater System Subordinate Revenue Bonds, Refunding Series 2010-A (the "Series 2010-A Subordinate Bonds" and, together with the Series 2009-A Senior Lien Bonds, the "Refunded Bonds") and (ii) pay certain costs of issuing the Series 2017-B Subordinate Bonds. The proceeds of the Series 2017-C Subordinate Bonds (Taxable) will be used to (i) advance refund certain of the Refunded Bonds and (ii) pay certain costs of issuing the Series 2017-C Subordinate Bonds (Taxable). See "Plan of Finance" herein.

Under the Wastewater System Revenue Bonds General Resolution, adopted by the City Council on November 10, 1987, as amended and supplemented (the "General Resolution" and, together with the Subordinate General Resolution, the "Resolutions"), the City has previously issued multiple series of Senior Lien Bonds (the "Existing Senior Lien Bonds"). The City has \$1,273,330,000 aggregate principal amount of Existing Senior Lien Bonds Outstanding. Under the Subordinate General Resolution, the City has previously issued multiple series of Subordinate Bonds (the "Existing Subordinate Bonds") that have a lien on Revenues (herein defined) subordinate to that of the Existing Senior Lien Bonds. The City has \$1,286,775,000 aggregate principal amount of Existing Subordinate Bonds Outstanding.

Under the Subordinate General Resolution, the City has also authorized a maximum of \$400,000,000 aggregate principal amount of Subordinate Bonds in the form of commercial paper notes (the "CP Notes"). The maximum amount of CP Notes that may be Outstanding at any particular time under the existing Letters of Credit (the "Letters of Credit") for the CP Notes is \$200,000,000. There are currently no CP Notes 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 "Plan of Finance" and "Security and Sources of Payment for the Series 2017 Bonds – Additional Senior Lien Bonds" and "– Additional Subordinate Bonds" herein.

The System

The City owns and operates the System, which serves an approximately 600 square mile area with a population in excess of four million or approximately half of the population of Los Angeles County. The System has two distinct service areas: the Hyperion System and Terminal Island System (each as described herein). Total average daily flow during Fiscal Year 2016 was 329 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.

The SCM Fund; Senior Lien Bonds

The Existing Senior Lien Bonds, and any other bonds issued in the future under the General Resolution (collectively, the "Senior Lien Bonds") are secured by a pledge of and first lien on (i) Revenues (defined below); and (ii) all moneys and securities held in the Reserve Fund, the Debt Service Fund (except for amounts segregated for the payment of specific Senior Lien Bonds that have become due and payable or that have been called for redemption, which amounts are held in trust for such specific Senior Lien Bonds only), and the Construction Funds. "Revenues" consist of all revenues of the City's Sewer Construction and Maintenance Fund (the "SCM Fund") and revenues otherwise attributable to the System, including earnings received from investments in the SCM Fund, the Debt Service Fund, the

Reserve Fund and the Emergency Fund, provided that Revenues shall not include any amount received from the levy or collection of taxes, amounts designated for capital costs received under contracts with contracting agencies, moneys received as grants, earnings on the Construction Funds or the proceeds of borrowings or insurance.

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.

Security and Sources of Payment for the Series 2017 Bonds

The Series 2017 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 2017 Bonds are also secured by a pledge and lien on the 2017 Subordinate Debt Service Fund created pursuant to the Twenty-First Supplemental Resolution. See “Security and Sources of Payment for the Series 2017 Bonds” herein.

Limited Obligations

The Series 2017 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 2017 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 2017 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 2017 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, do not occur, or change.

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, 2017 for the report for Fiscal Year 2016-17, or if the Fiscal Year-end changes from June 30, not later than 365 days after the end of the City’s Fiscal Year, to the Electronic Municipal Market Access (“EMMA”) database maintained by the Municipal Securities Rulemaking Board (the “MSRB”), and to provide notices to the MSRB through EMMA of the occurrence of certain enumerated events, as required by the Rule. See “Continuing Disclosure” herein and Appendix H – “Form of Continuing Disclosure Certificate” attached hereto.

Miscellaneous

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

PLAN OF FINANCE

Series 2017-A Subordinate Bonds. The proceeds of the Series 2017-A Subordinate Bonds will be used to (i) finance the construction and improvement of the System and (ii) pay certain costs of issuing the Series 2017-A Subordinate Bonds.

Series 2017-B Subordinate Bonds. The proceeds of the Series 2017-B Subordinate Bonds will be used to (i) advance refund certain of the Refunded Bonds and (ii) pay certain costs of issuing the Series 2017-B Subordinate Bonds.

Series 2017-C Subordinate Bonds (Taxable). The proceeds of the Series 2017-C Subordinate Bonds (Taxable) will be used to (i) advance refund certain of the Refunded Bonds and (ii) pay certain costs of issuing the Series 2017-C Subordinate Bonds (Taxable).

The following table sets forth the Refunded Bonds to be refunded with a portion of the proceeds of the Series 2017 Bonds.

| <u>Series</u> | <u>Maturity (June 1)</u> | <u>Outstanding Principal Amount</u> | <u>Principal to be Refunded</u> | <u>Redemption Date</u> | <u>Redemption Price⁽¹⁾</u> | <u>CUSIP⁽²⁾ (Base No. 544652)</u> |
|------------------------------------|------------------------------|---|-------------------------------------|----------------------------|---|--|
| Series 2009-A Senior Lien Bonds | | | | June 1, 2019 | 100% | |
| | | | | June 1, 2019 | 100 | |
| | | | | June 1, 2019 | 100 | |
| | | | | June 1, 2019 | 100 | |
| | | | | June 1, 2019 | 100 | |
| | | | | June 1, 2019 | 100 | |
| | | | | June 1, 2019 | 100 | |
| | | | | June 1, 2019 | 100 | |
| | | | | June 1, 2019 | 100 | |
| | | | | June 1, 2019 | 100 | |
| | | | | June 1, 2019 | 100 | |
| | | | | June 1, 2019 | 100 | |
| | | | | June 1, 2019 | 100 | |
| | | | | June 1, 2019 | 100 | |
| Series 2010-A Subordinate Bonds | | | | June 1, 2020 | 100 | |
| | | | | June 1, 2020 | 100 | |
| | | | | June 1, 2020 | 100 | |

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

⁽²⁾ Neither the City nor the Underwriters are responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the applicable bonds or as included herein.

To effect the refunding of the Refunded Bonds, the City intends to deposit into separate escrow subaccounts (each an “Escrow Account”) within the escrow fund to be held by U.S. Bank National Association (the “Escrow Agent”) proceeds of the Series 2017-B Subordinate Bonds, proceeds of the Series 2017-C Subordinate Bonds (Taxable) and available monies on deposit under the Resolutions relating to the Refunded Bonds. Amounts on deposit in the applicable Escrow Account, when invested in the Defeasance Securities, will be sufficient to pay interest on the Refunded Bonds coming due to their date of redemption and to redeem the Refunded Bonds on their date of redemption at a redemption price equal to the principal amount of the Refunded Bonds to be redeemed plus accrued interest thereon to the date of redemption, without premium. In connection with the redemption of the Refunded Bonds, the City intends to purchase or direct the Escrow Agent to purchase Government Obligations, which are defined in the General Resolution and the Subordinate General Resolution to be (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 specific portions (such as principal or interest) of obligations described in (i). Such obligations (the “Defeasance Securities”) will be held by the Escrow Agent. The escrow fund and accounts will be established under an escrow agreement (the “Escrow Agreement”) between the City and the Escrow Agent. The Defeasance Securities will be available only for the payment of the Refunded Bonds, as applicable. After the deposit of the monies and Defeasance Securities into the applicable Escrow Account as described above, the Refunded Bonds will no longer be secured by or entitled to the benefits of the General Resolution or the Subordinate General Resolution, as applicable, except for the purposes of payment of such Refunded Bonds from the moneys and Defeasance Securities held in the Escrow Account therefor.

“Green Bond” Designation. The City has defined the capital improvements to be financed with the proceeds of the Series 2017-A Subordinate Bonds and to be refinanced with the proceeds of the Series 2017-B Subordinate Bonds and Series 2017-C Subordinate Bonds (Taxable) as “Green Projects” based on the environmental benefits of these capital facilities. Accordingly, the City is designating the Series 2017 Bonds as “Green Bonds.” The terms “Green Project” and “Green Bonds” are neither defined in nor related to provisions in the General Resolution or the Subordinate General Resolution. Owners of the

Series 2017 Bonds do not have any security other than as provided in the Subordinate General Resolution nor do such owners of the Green Bonds assume any specific project risk related to any of the projects funded thereby. The City assumes no obligation to ensure that those projects it has defined as Green Projects comply with any legal or other standards or principles that relate to Green Projects.

The particular capital improvements that the City has defined as “Green Projects” include wastewater system facilities which support the overall treatment objective of meeting the discharge standards in the NPDES (as herein defined) permits, wastewater collection and pumping facilities which reduce sewage spills, water recycling projects and air quality projects that support the construction and operation of the City’s wastewater system facilities.

The proceeds of the Refunded Bonds to be refunded with the proceeds of the Series 2017-B Subordinate Bonds and the Series 2017-C Subordinate Bonds (Taxable) have all been expended on “Green Projects,” as defined by the City. The proceeds of the Series 2017-A Subordinate Bonds will be deposited into a segregated account. The City will file annual updates regarding the use of the proceeds of the Series 2017-A Subordinate Bonds on the EMMA website at <http://www.emma.msrb.org> by December 31 after the end of each Fiscal Year until all of the proceeds of the Series 2017-A Subordinate Bonds are expended, at which time no further updates will be provided. The information on this website is not incorporated herein by this reference.

ESTIMATED SOURCES AND USES OF FUNDS

The Series 2017 Bond proceeds, together with certain other amounts, are expected to be applied as set forth below:

| | Series 2017-A Subordinate Bonds | Series 2017-B Subordinate Bonds | Series 2017-C Subordinate Bonds (Taxable) | Total |
|---|------------------------------------|------------------------------------|---|-----------|
| Estimated Sources of Funds | | | | |
| Principal Amount | \$ | \$ | \$ | \$ |
| Premium/Discount | | | | |
| Release from the Debt Service Reserve Fund and Debt Service Funds | | | | |
| Total | <u>\$</u> | <u>\$</u> | <u>\$</u> | <u>\$</u> |
| Estimated Uses of Funds | | | | |
| Deposit into Construction Fund | \$ | \$ | \$ | \$ |
| Deposit to Escrow Fund | | | | |
| Costs of Issuance ⁽¹⁾ | | | | |
| Total | <u>\$</u> | <u>\$</u> | <u>\$</u> | <u>\$</u> |

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

DESCRIPTION OF THE SERIES 2017 BONDS

The Series 2017 Bonds will be dated and will bear interest from their date of delivery. Interest on the Series 2017 Bonds will be payable semi-annually on June 1 and December 1, commencing on December 1, 2017. Interest will be calculated on the basis of a year of 360 days and twelve 30-day months. The Series 2017 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 2017 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 2017 Bonds. Ownership interests in the Series 2017 Bonds may be purchased in book-entry form only. So long as DTC or its nominee is the Owner of the Series 2017 Bonds, payments of the principal of, redemption premium, if any, and interest on the Series 2017 Bonds will be made as described in Appendix G – “Book-Entry Only System” attached hereto.

REDEMPTION OF THE SERIES 2017 BONDS*

Redemption of the Series 2017 Bonds

Optional Redemption. The Series 2017-A Subordinate Bonds maturing before June 1, 20__ are not subject to redemption before their stated maturities. The Series 2017-A Subordinate Bonds maturing on and after June 1, 20__ are subject to redemption, as a whole or in part as designated by the City, or, absent such designation, *pro rata* among maturities and by lot within any one maturity if less than all of the Series 2017-A 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, 20__, at a redemption price equal to the principal amount of the Series 2017-A Subordinate Bonds to be redeemed plus accrued interest thereon to the date of redemption, without premium.

The Series 2017-B Subordinate Bonds maturing before June 1, 20__ are not subject to redemption before their stated maturities. The Series 2017-B Subordinate Bonds maturing on and after June 1, 20__ are subject to redemption, as a whole or in part as designated by the City, or, absent such designation, *pro rata* among maturities and by lot within any one maturity if less than all of the Series 2017-B 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, 20__, at a redemption price equal to the principal amount of the Series 2017-B Subordinate Bonds to be redeemed plus accrued interest thereon to the date of redemption, without premium.

The Series 2017-C Subordinate Bonds (Taxable) maturing on and after June 1, 20__ are subject to redemption, as a whole or in part as designated by the City, or, absent such designation, *pro rata* among maturities and by lot within any one maturity if less than all of the Series 2017-C Subordinate Bonds (Taxable) of such maturity are to be redeemed, except that in the event of an optional redemption of less than the full amount of the Series 2017-C Subordinate Bonds maturing on June 1, 20__ and June 1, 20__, such Series 2017 Subordinate Bonds shall be redeemed *pro rata* among all such Series 2017 Subordinate Bonds, prior to their respective maturity dates, at the option of the City, on any date on or after June 1, 20__, at a redemption price equal to the principal amount of the Series 2017-C Subordinate Bonds (Taxable) to be redeemed plus accrued interest thereon to the date of redemption, without premium.

* Preliminary, subject to change.

Make-Whole Optional Redemption of Series 2017-C Subordinate Bonds (Taxable). The Series 2017-C Subordinate Bonds (Taxable) shall be subject to redemption either in whole or in part, at the option of the City, at any time, at a redemption price equal to the greater of (i) 100% of the principal amount thereof or (ii) the Discounted Value thereof, plus in either case, accrued interest thereon to the date of redemption. The Series 2017-C Subordinate Bonds (Taxable) may be redeemed in any order of maturity and in any principal amount within a maturity as selected by the City in its sole discretion. All calculations and determinations referred to under this caption “Optional Redemption,” except as provided in the preceding sentence, are expected (but not required) to be made by a financial advisor or other agent selected by the City for such purposes (the “Calculation Agent”).

“Discounted Value” means, with respect to each outstanding maturity of the Series 2017-C Subordinate Bonds (Taxable) to be redeemed, the sum as determined by the City or the Calculation Agent of the amounts obtained by discounting all remaining scheduled payments of principal and interest (exclusive of interest accrued to the date of redemption) on such maturity from their respective scheduled payment dates to the applicable redemption date, at a yield (computed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months) equal to the applicable Discount Yield.

“Discount Yield” means, with respect to each maturity of the Series 2017-C Subordinate Bonds (Taxable) to be redeemed on a particular date, the Blended Treasury Yield determined by the City or the Calculation Agent with respect to the Series 2017-C Subordinate Bonds (Taxable) maturity to be redeemed, plus ___ basis points. The Discount Yield will be calculated assuming semi-annual compounding based upon a 360-day year consisting of twelve 30-day months.

“Blended Treasury Yield” means, with respect to the Series 2017-C Subordinate Bonds (Taxable) of a particular maturity, the yield computed by the City or the Calculation Agent as the linear interpolation of two Market Treasury Yields such that the theoretical maturity that corresponds to the interpolated Market Treasury Yield equals the date that corresponds to the remaining average life of the Series 2017-C Subordinate Bonds (Taxable) maturity to be redeemed from the redemption date. The first Market Treasury Yield shall be based on an actively traded U.S. Treasury security or U.S. Treasury index whose maturity is closest to but no later than the date corresponding to the remaining average life of the Series 2017-C Subordinate Bonds (Taxable) maturity to be redeemed; the second Market Treasury Yield shall be based on an actively traded U.S. Treasury security or U.S. Treasury index whose maturity is closest to but no earlier than the date corresponding to the remaining average life of the Series 2017-C Subordinate Bonds (Taxable) maturity to be redeemed.

“Market Treasury Yield” means that yield, as determined by the City or the Calculation Agent, assuming semi-annual compounding based upon a 360-day year consisting of twelve 30-day months, which is equal to:

(i) the yield for the applicable maturity of an actively traded U.S. Treasury security, reported, as of 11:00 a.m., New York City time, on the Valuation Date on the display designated as “Page PXI” of the Bloomberg Financial Markets Services Screen (or, if not available, any other nationally recognized trading screen reporting on-line intraday trading in U.S. Treasury securities); or

(ii) if the yield described in (i) above is not reported as of such time or the yield reported as of such time is not ascertainable, the most recent yield data for the applicable U.S. Treasury maturity index from the federal Reserve Statistical Release H.15 Daily Update (or any comparable or successor publication) reported, as of 11:00 a.m., New York City time, on the Valuation Date; or

(iii) if the yields described in (i) and (ii) above are not reported as of such time or the yields reported as of such time are not ascertainable, the yield for the applicable maturity of any actively traded

U.S. Treasury security shall be based upon the average of yield quotations for such security (after excluding the highest and lowest quotations) as of 3:30 p.m., New York City time, on the Valuation Date received from no less than five primary dealers in U.S. Government securities selected by the City.

“Valuation Date” means no less than the third Business Day nor more than the twentieth Business Day preceding the redemption date.

Each yield quotation for each actively traded U.S. Treasury security required in (i) and (iii) above shall be determined using the average of the bid and ask prices for that security.

Mandatory Sinking Fund Redemption. The Series 2017-A Subordinate Bonds maturing on June 1, 20__ are subject to mandatory sinking fund redemption prior to maturity, commencing on June 1, 20__, and on each June 1 thereafter, at a redemption price equal to the principal being redeemed, without premium, from mandatory sinking account payments which have been deposited in the debt service fund created for the Series 2017-A Subordinate Bonds, in the principal amounts set forth below (subject to adjustment in the event of an optional redemption of the Series 2017-A Subordinate Bonds, as provided in the Twenty-First Supplemental Resolution):

| Series 2017-A Subordinate Term Bonds Maturing June 1, 20__ | |
|---|-------------------------|
| Redemption Date (June 1) | Principal Amount |

(maturity)

The Series 2017-B Subordinate Bonds maturing on June 1, 20__ are subject to mandatory sinking fund redemption prior to maturity, commencing on June 1, 20__, and on each June 1 thereafter, at a redemption price equal to the principal being redeemed, without premium, from mandatory sinking account payments which have been deposited in the debt service fund created for the Series 2017-B Subordinate Bonds, in the principal amounts set forth below (subject to adjustment in the event of an optional redemption of the Series 2017-B Subordinate Bonds, as provided in the Twenty-First Supplemental Resolution):

| Series 2017-B Subordinate Term Bonds Maturing June 1, 20__ | |
|---|-------------------------|
| Redemption Date (June 1) | Principal Amount |

(maturity)

The Series 2017-C Subordinate Bonds (Taxable) maturing on June 1, 20__ are subject to mandatory sinking fund redemption prior to maturity, commencing on June 1, 20__, and on each June 1 thereafter, at a redemption price equal to the principal being redeemed, without premium, from mandatory sinking account payments which have been deposited in the debt service fund created for the Series 2017-C Subordinate Bonds (Taxable), in the principal amounts set forth below (subject to adjustment in the

event of an optional redemption of the Series 2017-C Subordinate Bonds (Taxable), as provided in the Twenty-First Supplemental Resolution):

| Series 2017-C Subordinate Term Bonds (Taxable) Maturing June 1, 20__ | |
|---|-------------------------|
| Redemption Date (June 1) | Principal Amount |

(maturity)

The Series 2017-C Subordinate Bonds (Taxable) maturing on June 1, 20__ are subject to mandatory sinking fund redemption prior to maturity, commencing on June 1, 20__, and on each June 1 thereafter, at a redemption price equal to the principal being redeemed, without premium, from mandatory sinking account payments which have been deposited in the debt service fund created for the Series 2017-C Subordinate Bonds (Taxable), in the principal amounts set forth below (subject to adjustment in the event of an optional redemption of the Series 2017-C Subordinate Bonds (Taxable), as provided in the Twenty-First Supplemental Resolution):

| Series 2017-C Subordinate Term Bonds (Taxable) Maturing June 1, 20__ | |
|---|-------------------------|
| Redemption Date (June 1) | Principal Amount |

(maturity)

Selection of Series 2017 Bonds for Redemption. The Series 2017 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. In the event of an optional redemption of less than the full amount of a maturity of the Series 2017 Bonds, such Series 2017 Bonds shall be redeemed by lot within any one maturity in a manner the City shall deem appropriate, except that the Series 2017-C Subordinate Bonds (Taxable) that are term bonds shall be redeemed *pro rata* among all such Series 2017 Bonds.

If the Series 2017-C Subordinate Bonds (Taxable) are not registered in book-entry only form, any redemption of less than all of a maturity of the Series 2017-C Subordinate Bonds (Taxable) shall be effected by the City or the Paying Agent among owners on a pro-rata basis in the principal amount of \$5,000 or any integral multiple thereof. The particular Series 2017-C Subordinate Bonds (Taxable) to be redeemed shall be determined by the City or the Paying Agent, using such method as the City or the Paying Agent shall deem fair and appropriate.

If the Series 2017-C Subordinate Bonds (Taxable) are registered in book-entry only form and so long as DTC or a successor securities depository is the sole registered owner of the Series 2017-C Subordinate Bonds (Taxable), if less than all of the Series 2017-C Subordinate Bonds (Taxable) of a maturity are called for prior redemption, the particular Series 2017-C Subordinate Bonds (Taxable) or portions thereof to be redeemed shall be selected on a "Pro Rata Pass-Through Distribution of Principal"

basis in accordance with DTC procedures, provided that, so long as the Series 2017-C Subordinate Bonds (Taxable) are held in book-entry form, the selection for redemption of such Series 2017-C Subordinate Bonds (Taxable) shall be made in accordance with the operational arrangements of DTC then in effect that currently provide for adjustment of the principal by a factor provided by the City or the Paying Agent pursuant to DTC operational arrangements. If the City or the Paying Agent do not provide the necessary information and identify the redemption as on a Pro Rata Pass-Through Distribution of Principal basis, the Series 2017-C Subordinate Bonds (Taxable) will be selected for redemption in accordance with DTC procedures by lot.

It is the City's intent with respect to the Series 2017-C Subordinate Bonds (Taxable) that redemption allocations made by DTC, the DTC Participants or such other intermediaries that may exist between the City and the Beneficial Owners be made on a "Pro Rata Pass-Through Distribution of Principal" basis as described above. However, the City can provide no assurance that DTC, the DTC Participants or any other intermediaries will allocate redemptions among Beneficial Owners on such basis. If the DTC operational arrangements do not allow for the redemption of the Series 2017-C Subordinate Bonds (Taxable) on a Pro Rata Pass-Through Distribution of Principal basis as discussed above, then the Series 2017-C Subordinate Bonds (Taxable) will be selected for redemption in accordance with DTC procedures by lot.

Notice of Redemption of Series 2017 Bonds

At least 20 days and no more than 60 days before each date of redemption, the City will give notice by mail or telecopy or other electronic means of communication to each registered to each owner of a Series 2017 Bond to be redeemed at the owner's registered address. So long as DTC is the registered owner of Series 2017 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 2015 Senior Lien Bond in respect of which no failure occurs.

The notice of redemption shall (i) specify the Series 2017 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 2017 Bonds of a Series are to be redeemed, the numbers of the Series 2017 Bonds, and the portions of Series 2017 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; and (iii) state that on the redemption date, and upon the satisfaction of any such condition, the Series 2017 Bonds to be redeemed shall cease to bear interest and, if at any time the Series 2017 Bonds to be redeemed are no longer book-entry bonds, such notice of redemption shall further contain the following information: (i) the CUSIP numbers of all Series 2017 Bonds or portions thereof being redeemed; (ii) the date of original issuance of the Series 2017 Bonds; (iii) the rate of interest borne by the Series 2017 Bonds being redeemed; (iv) the maturity date of the Series 2017 Bonds being redeemed; and (v) any other descriptive information to identify accurately the Series 2017 Bonds or portions thereof being redeemed.

Any notice of redemption may be conditional, other than notice of redemption from mandatory sinking fund payments, and may be rescinded by written notice given by the City. Upon such rescission, the City shall give notice of such rescission in the same manner (*i.e.*, by Mail or by telecopy or other electronic means of communication), and to the same persons, as notice of such redemption was given. Any optional redemption of the Series 2017 Bonds and notice thereof shall be rescinded and cancelled if for any reason on the date fixed for redemption moneys are not available and held in trust for such purpose in an amount sufficient to pay in full on such date the principal of, interest, and any premium due on such Series 2017 Bonds called for redemption.

Effect of Redemption of Series 2017 Bonds

On the date designated for redemption, notice having been given in the manner and under the conditions provided in the Subordinate General Resolution and moneys for payment of the redemption price being held in trust to pay the redemption price, the Series 2017 Bonds called for redemption shall become due and payable, interest on such Series 2017 Bonds shall cease to accrue, such Series 2017 Bonds shall cease to be entitled to any lien, benefit or security under the Subordinate General Resolution, as applicable, and the owners of such Series 2017 Bonds shall have no rights in respect thereof except to receive payment of the redemption price.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS

Sources of Payment

All Revenues received by the City from the ownership and operation of the System (less billing and 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, 2016 and 2015 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.

Subordinate Pledge of Revenues

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 2017 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.

No Reserve for Subordinate Bonds

No reserve is established for the Subordinate Bonds, including the Series 2017 Bonds. Under the terms of the General Resolution, a 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. Moneys held in the Reserve Fund may not be used to pay the principal of, premium, if any, and interest on the Series 2017 Bonds.

No Pledge of Refundable Credits

The City previously issued \$177,420,000 aggregate principal amount of the Series 2010-A Senior Lien Bonds and designated such bonds as "Build America Bonds" under the provisions of the American Recovery and Reinvestment Act of 2009. The City previously issued \$89,600,000 aggregate principal amount of Wastewater System Revenue Bonds Series 2010-B (the "Series 2010-B Senior Lien Bonds") and designated such bonds as "Recovery Zone Economic Development Bonds" under the provisions of

the American Recovery and Reinvestment Act of 2009. Prior to March 1, 2013, the City received periodic payments (“Refundable Credits”) from the United States Treasury equal to 35% of the interest payable on the Series 2010-A Senior Lien Bonds and periodic Refundable Credits from the United States Treasury equal to 45% of the interest payable on the Series 2010-B Senior Lien Bonds. As a result of the Sequester (herein defined) described under “Risk Factors – Effect of Federal Sequestration on Refundable Credits,” the City expects to receive an estimated \$406,507 reduction in Refundable Credits in connection with the Series 2010-A Senior Lien Bonds and the Series 2010-B Senior Lien Bonds for the current federal fiscal year ending September 30, 2017. Until further action is taken by the United States Congress, Sequestration will continue and there could be additional reductions for future years.

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 2017 Bonds. The Refundable Credits are included in the calculation of Revenues under the General Resolution. See “– Amendment to the Resolutions Relating to the Refundable Credits” and “Risk Factors – Effect of Federal Sequestration on Refundable Credits” herein.

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 percent 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.

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 percent 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, or if Subordinate Bonds proposed to be issued would constitute Variable Rate Indebtedness for purposes of the Subordinate General Resolution only (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.

Additional Senior Lien Bonds

In addition to the Existing 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. See Appendix C – “Summary of Certain Provisions of the Resolutions” attached hereto.

Flow of Funds Under the General Resolution and the Subordinate General 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 General 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 General Resolution, that the various funds described in the General Resolution and the Subordinate General 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 Financial Statements and Required Supplementary Information for the Fiscal Years ended June 30, 2016 and 2015 (With Independent Auditor's Report Thereon) and Debt Service Compliance Report for the Fiscal Year ended June 30, 2016 (With Independent Auditor's Report Thereon)” attached hereto. The City will make the financial statements available for examination by any Bondholder or any Beneficial Owner and will furnish a copy of the financial statements to any Bondholder or any Beneficial Owner upon request. The City may charge a fee to cover the cost of copying.

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

Operation and Maintenance of the System

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

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 2017 Bonds – Flow of Funds Under the General Resolution and 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 caused by earthquake and flood. The deductible for this policy is \$1 million which is covered by the SCM Fund. The City carries property terrorism coverage with limits of \$200 million for certified acts of terrorism. The deductible for this policy is \$1 million 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

On or about April 19, 2017, the City anticipates amending each of the Resolutions to provide for an offset to Revenues in the amount of the Refundable Credits (the amendments being referenced herein as the "Refundable Credits Amendments"). The Resolutions, as amended, will provide that (i) for the purpose of calculating Maximum Annual Debt Service, in determining the amount of interest coming due during any twelve-month period ending June 30 on any Series of Subordinate Bonds or Senior Lien Bonds, as applicable, that were issued as Build America Bonds or Recovery Zone Economic Development Bonds (collectively, "Direct Subsidy Bonds"), such amount shall be reduced by an amount equal to the Refundable Credits the City is scheduled to receive with respect to such Subordinate Bonds issued as Direct Subsidy Bonds or Senior Lien Bonds issued as Direct Subsidy Bonds, as applicable, during each such twelve-month period ending June 30 (and to avoid double counting, an equivalent amount shall be deducted from Revenues for the purpose of such calculation); and (ii) with respect to the Rate Covenant, for the purpose of calculating actual debt service becoming due on Outstanding Senior Lien Bonds (in the case of the amendment to the General Resolution), or Outstanding Senior Lien Bonds and Subordinate Bonds (in the case of the amendment to the Subordinate General Resolution), in determining the amount of interest coming due during any twelve-month period ending June 30 on any Series of Subordinate Bonds or Senior Lien Bonds, as applicable, that were issued as Direct Subsidy Bonds, such amount shall be reduced by an amount equal to the Refundable Credits the City is scheduled to receive with respect to Subordinate Bonds or Senior Lien Bonds, as applicable, during each such twelve-month period ending June 30 (and to avoid double counting, an equivalent amount shall be deducted from Revenues for the purpose of such calculation).

THE WASTEWATER SYSTEM

Service Area

The System provides wastewater collection, treatment and disposal services for an area of approximately 600 square miles that includes most of the City. The wastewater service area within the Los Angeles Basin is determined by natural drainage patterns and does not generally conform to political boundaries. Because of the economics associated with gravity flow, parts of the City are served by other agencies and the System provides wastewater service for communities outside the boundaries of the incorporated City. Areas within the City limits that are not served by the City are served by the Los Angeles County Sanitation Districts. See page 25 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 Water Reclamation Plant ("HWRP"), and to two inland plants along the Los Angeles River, the Donald

C. Tillman Water Reclamation Plant (“DCTWRP”) and the Los Angeles-Glendale Water Reclamation Plant (“LAGWRP”). The southern harbor area of the City is tributary to the Terminal Island Water Reclamation Plant (“TIWRP”). For ease of reference, the two service areas are referred to herein as the Hyperion System and the Terminal Island System.

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

**TABLE 1
EXISTING WASTEWATER TREATMENT FACILITIES**

| Treatment Facility | Approximate First Year of Operation | Current Design Capacity (mgd) ⁽¹⁾ | Average Flow (mgd) ⁽²⁾ |
|-------------------------------------|--|---|--|
| HYPERION SYSTEM | | | |
| Hyperion ⁽³⁾ | 1923 | 450 | 252 |
| Los Angeles-Glendale ⁽⁴⁾ | 1976 | 20 | 17 |
| Tillman ⁽⁴⁾ | 1984 | <u>80</u> | <u>46</u> |
| Total Hyperion System | | <u>550</u> | <u>315</u> |
| TERMINAL ISLAND SYSTEM | | | |
| Terminal Island ⁽⁵⁾ | 1935 | <u>30</u> | <u>14</u> |
| TOTAL BOTH SYSTEMS | | <u>580</u> | <u>329</u> |

Source: Bureau of Sanitation.

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

(2) These numbers are average flows for Fiscal Year 2016.

(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 and filtration.

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 130 years ago. See “Wastewater System Capital Improvement Program – Current Major Projects of the Wastewater Capital Improvement Program – Projects under Construction – Secondary Sewer Renewal Program” herein for a description of the City’s program for replacing portions of the Collection System, including renewals of secondary sewers.

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

The City’s stormwater collection and conveyance system is separate from the wastewater collection and conveyance system. Stormwater is discharged into the Santa Monica Bay and Los Angeles Harbor through a series of storm drains and channels. Some dry weather urban runoff is diverted to the wastewater collection system for treatment at the HWRP.

Recent Collection System Failures. On July 18, 2016, the North Outfall Sewer (“NOS”), with a 66 inch diameter, experienced a catastrophic failure near the intersection of 6th Street and Mission Road, following the discovery of two sinkholes. The failure resulted in a discharge of approximately 2.6 million gallons of wastewater. Stabilizing the situation cost approximately \$4.8 million and replacing 250 linear feet of pipe cost approximately \$10.2 million. A further replacement and realignment of 530 linear feet of pipe is expected to cost \$13.2 million. The wastewater spill is expected to result in regulatory fines.

On February 17, 2017, during heavy rain, a sinkhole developed in the Studio City neighborhood of the City. Two passenger vehicles fell into the enlarging sinkhole. One driver required rescue after falling into the sinkhole with a vehicle. The vehicles were removed the next day and, as of March 9, 2017, the damaged sewer pipe was being repaired. Extensive repair work was expected due to the large size of the sinkhole, its closeness to large utilities, and the large flow bypass system needed during the repair work. The cost for the repair had not yet been estimated.

The Bureau of Sanitation plans to complete a closed circuit television inspection of the NOS by the Fall of 2017 and will reprioritize its NOS rehabilitation projects based on the results of the inspection. Although the CIP includes projects to rehabilitate major conveyance sewers, no assurance can be given that future sewer failures will not occur. See “Wastewater System Capital Improvement Program – Current Major Projects of the Wastewater Capital Improvement Program – Projects under Construction – Secondary Sewer Renewal Program” herein for a description of the City’s program for replacing portions of the Collection System, including renewals of secondary sewers.

Hyperion Service Area. The Hyperion service area consists of a series of local, collector and interceptor sewers terminating at the HWRP. 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 NOS, and the North Outfall Replacement Sewer (“NORS”).

Hyperion Water Reclamation Plant. The existing HWRP, designed for an average flow of 450 mgd, currently treats an average flow of approximately 252 mgd. The HWRP has a total wet weather flow capacity of 850 mgd. The HWRP provides secondary treatment utilizing the pure oxygen activated sludge process. In February 2014, the City selected a contractor to construct a project to beneficially reuse the digester gas generated at HWRP to produce sufficient steam and electricity to operate HWRP. This project has been completed and is currently undergoing performance testing. See “Wastewater System Capital Improvement Program – Current Major Projects of the Wastewater Capital Improvement Program – Projects Under Construction” herein.

[INSERT MAP]

CITY OF
LOS ANGELES, CALIFORNIA
WASTEWATER SYSTEM

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 HWRP. In Fiscal Year 2016, the DCTWRP and the LAGWRP returned a total of 8.3 mgd of sludge to the HWRP for treatment.

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

System Wastewater Flow

The following table sets forth the System wastewater flows for Fiscal Years 2007 through 2016 for each treatment plant. The decrease in wastewater flow over the last decade is attributable to water conservation efforts. The System’s projected operating results set forth in Table 22 include the existing reduction in wastewater flow but include no additional reductions in wastewater contributed by the System customers in Fiscal Year 2017 and for the remainder of the projection period. See “Financial Operations of the Wastewater System – Number of Customers and Billable Wastewater Volume” herein for a description of the effects of the City’s conservation efforts.

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

| Fiscal Year Ended June 30 | HWRP | LAGWRP | DCTWRP | TIWRP | TOTAL |
|--------------------------------------|-------------|---------------|---------------|--------------|--------------|
| 2007 | 341 | 17 | 54 | 16 | 428 |
| 2008 | 322 | 17 | 48 | 16 | 403 |
| 2009 | 314 | 19 | 48 | 16 | 397 |
| 2010 | 300 | 20 | 48 | 16 | 384 |
| 2011 | 300 | 20 | 47 | 16 | 383 |
| 2012 | 288 | 20 | 46 | 14 | 368 |
| 2013 | 291 | 19 | 47 | 14 | 371 |
| 2014 | 279 | 19 | 50 | 15 | 363 |
| 2015 | 265 | 18 | 43 | 16 | 342 |
| 2016 | 252 | 17 | 46 | 14 | 329 |

Source: 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, and the community of Marina Del Rey and Universal City. Service charges to the Agencies are based on the costs of the City’s amalgamated wastewater facilities, including the costs of the four water reclamation plants, the costs of sewers with diameters of 36 inches or larger and of pumping stations and appurtenances connected to those sewers, and half the costs of sewers with diameters that are 30 to 36 inches and of the pump stations and appurtenances connected to those sewers.

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

Sewage Disposal Contracts. The City also serves nine other agencies (each, an “SDC Entity” and together with the Agencies, the “Entities”) on a wholesale basis pursuant to the older Sewage Disposal Contracts (“SDCs” and, together with the Universal Terms Contracts, the “Wastewater Service Contracts”). The nine SDC Entities operating under the older SDCs account for 0.4 mgd, which is 0.08% of the 29 Entities’ total average flow in Fiscal Year 2016. These customers include the Veteran’s Administration and several small SDC Entities. Although each SDC varies somewhat as to its terms and conditions, in general each SDC requires payment of operation and maintenance expenses and capital costs attributable to those components of the sewer system used by the SDC Entity. See “Financial Operations of the Wastewater System – Sewer Rates and Revenues – Wastewater Service Contracts” herein for a description of Revenues relating thereto.

Flow Contributed by the Entities. The Entities contributed approximately 14 percent of the System flow in Fiscal Year 2016. The five largest Entities (Beverly Hills, Culver City, Glendale, Los Angeles County Sanitation District Number 4, and Santa Monica) accounted for approximately 79 percent of the 29 Entities' total flow. The next five largest Entities accounted for approximately 15 percent of the Entities' total flow. The following table sets forth the largest Entities and the flow contributed by each.

TABLE 3
MAJOR SUBSCRIBING ENTITIES AND FLOW CONTRIBUTED
Fiscal Year 2016

| <u>Entities</u> | <u>Actual Flow (mgd)⁽¹⁾</u> |
|--|--|
| Glendale | 12.75 |
| Santa Monica | 11.06 |
| Beverly Hills | 4.79 |
| Los Angeles County Sanitation District #4 | 3.88 |
| Culver City | 3.41 |
| San Fernando | 2.04 |
| El Segundo | 1.57 |
| Crescenta Valley Water District | 1.33 |
| Marina Del Rey | 1.26 |
| Universal City | 0.77 |
| Los Angeles County Sanitation District #5 | 0.66 |
| Burbank ⁽²⁾ | 0.47 |
| Los Angeles County Sanitation District #16 | 0.43 |
| Las Virgenes Municipal Water District | 0.34 |
| Veterans Administration | 0.27 |
| Los Angeles County Sanitation District #9 | 0.24 |
| All Others | <u>0.41</u> |
| Total | <u>45.68</u> |

Source: Bureau of Sanitation.

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

⁽²⁾ Reflects the flow that was used in billing Burbank for its wastewater service. However, this amount may be revised due to flow monitoring issues that are still being resolved. An independent consultant is currently assisting the City and Burbank in determining the actual flow.

Other Treatment Facilities. Burbank independently owns and operates a wastewater treatment facility capable of treating up to nine mgd of 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 2012 through 2016. These amounts constituted approximately 7% of total System revenues in Fiscal Year 2016. The City and the City of Burbank have agreed to appoint an independent consultant to assist in determining the actual flow.

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>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> |
| Operation and Maintenance | \$ 15,848 | \$ 16,540 | \$ 19,291 | \$ 18,459 | \$ 18,822 |
| Capital ⁽¹⁾ | <u>8,946</u> | <u>8,196</u> | <u>12,153</u> | <u>17,703</u> | <u>24,174</u> |
| Total ⁽²⁾ | <u>\$ 24,794</u> | <u>\$ 24,736</u> | <u>\$ 31,444</u> | <u>\$ 36,162</u> | <u>\$ 42,996</u> |

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

⁽¹⁾ Beginning in 2014, the Entities' shares of the System's capital costs have increased as the total capital costs of the System have increased. In addition, the proportion of capital costs that were billable to the Entities (*i.e.*, the costs associated with treatment and larger conveyance projects) have increased as the City has focused its resources on treatment projects that are billable to the Entities rather than the previous emphasis on replacing smaller sewers to meet its CSSA (herein defined) goals.

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

ORGANIZATION AND MANAGEMENT OF THE SYSTEM

General

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

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

The Board of Public Works advertises and invites proposals for bids, awards contracts for the construction of public facilities, and coordinates the issuance of certain activity permits for use of City-owned property.

Office of Accounting

The Office of Accounting of the Board of Public Works (the "Office of Accounting") provides accounting and financial services to the Department of Public Works for all of 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 NOS, 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, Chief Operating Officer, Chief Financial Officer, and four Assistant Directors, who together constitute Bureau of Sanitation's Executive Office, head Bureau of Sanitation. The Chief Operating Officer is in charge of the HWRP, DCTWRP, LAGWRP and TIWRP; the Chief Financial Officer is in charge of administration and finance; and there are Assistant Directors in charge of the Collection System, engineering services and watershed management; Technical Services; Solid Resources Operations; and Solid Resources Program Development. The Chief Operating Officer and the Chief Financial Officer report directly to the Director.

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

Technical Services includes five divisions with wastewater functions. The Regulatory Affairs Division monitors legislation, renews and updates permits, and serves as liaison with the various regulatory agencies on matters affecting the Bureau of Sanitation's operations and facilities. The Environmental Monitoring Division is responsible for treatment plant performance monitoring, water quality monitoring, and reporting functions. The Industrial Waste Management Division conducts industrial waste discharge ordinance compliance monitoring and enforcement. The Information/Control

Systems Division produces and maintains the data processing and information control systems. The Industrial Safety and Compliance Division develops and implements training and safety programs.

The Financial Management Division handles financial matters including the development and implementation of policies and procedures.

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 2017 Capital Program includes approximately 83 separate projects, which require the procurement of many contractors. Construction contracts are awarded by competitive bid and require satisfactory bonds. All firms doing business with the City must show proof of insurance in amounts as determined by the City Risk Manager. Required insurance includes but is not limited to general liability, automobile liability and worker's compensation. Additionally, a waiver of subrogation is generally required. Any firm doing business with or in the City must comply with the City business tax statutes.

WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM

General

The Wastewater System Capital Improvement Program (the "CIP") is an ongoing, ten-year, capital expenditure program. The general objectives of the CIP are to meet federal and State requirements and City policy regarding water pollution control, to provide satisfactory levels of service to users of the System, and to maintain the integrity of the System. The CIP currently includes such improvements to the System as the installation of major interceptor sewers, the renovation or replacement of other major sewers and pumping stations, and the modernization and upgrading of wastewater treatment or reclamation facilities. The City estimates that the total non-labor cost for these projects will be approximately \$1.56 billion during the five-year period from Fiscal Year 2017 through Fiscal Year 2021.

Prior Year Expenditures

The following table sets forth the unaudited capital expenditures made by the City for the CIP from Fiscal Years 1987 through 2016.

TABLE 5
WASTEWATER CAPITAL IMPROVEMENT PROGRAM EXPENDITURES
Fiscal Years 1987 through 2016⁽¹⁾ (Unaudited)
(in Thousands)

| Fiscal Year Ended June 30 | System-Wide Collection and Pumping | Wastewater Treatment | | | Major Capital Improvement ⁽⁴⁾ | Capital Labor ⁽⁵⁾ | Total ⁽⁶⁾ |
|---------------------------------|--|----------------------|----------------------|--------------------|---|---------------------------------|----------------------|
| | | Hyperion | Other ⁽³⁾ | Total | | | |
| Prior Years ⁽²⁾ | \$1,878,151 | \$1,899,554 | \$353,771 | \$2,253,325 | \$4,131,476 | \$1,375,270 | \$5,506,746 |
| 2008 | \$ 112,540 | \$ 8,460 | \$ 31,630 | \$ 40,090 | \$ 152,630 | \$ 73,954 | \$ 226,584 |
| 2009 | 188,601 | 31,424 | 14,560 | 45,984 | 234,585 | 83,724 | 318,309 |
| 2010 | 104,190 | 27,188 | 21,489 | 48,677 | 152,867 | 75,538 | 228,405 |
| 2011 ⁽⁷⁾ | 89,859 | 72,023 | 23,618 | 95,641 | 185,500 | 67,769 | 253,269 |
| 2012 ⁽⁷⁾ | 57,569 | 30,398 | 10,699 | 41,097 | 98,666 | 60,402 | 159,068 |
| 2013 | 71,938 | 32,266 | 6,480 | 38,746 | 110,684 | 77,519 | 188,203 |
| 2014 | 72,059 | 23,751 | 20,520 | 44,271 | 116,330 | 74,290 | 190,620 |
| 2015 | 67,512 | 58,671 | 12,458 | 71,129 | 138,641 | 75,547 | 214,188 |
| 2016 | <u>126,622</u> | <u>71,180</u> | <u>50,236</u> | <u>121,416</u> | <u>248,038</u> | <u>99,262</u> | <u>347,300</u> |
| Total | <u>\$2,769,041</u> | <u>\$2,254,915</u> | <u>\$545,461</u> | <u>\$2,800,376</u> | <u>\$5,569,417</u> | <u>\$2,063,275</u> | <u>\$7,632,692</u> |

Source: 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 2006.

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

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

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

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

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

Current Major Projects of the Wastewater Capital Improvement Program

Current Projects. The following projects are currently included in the CIP and are expected to be funded in whole or in part from proceeds of the Series 2017-A Subordinate Bonds. The cost estimates for these projects that are set forth below may increase and the expected dates of completion for these projects may be delayed due to unexpected events, circumstances or conditions. The schedule of rate increases that have been approved and the SCM Fund's bonding capacity are sufficient to fund these projects. See "– Financing Plans for the Wastewater Capital Improvement Program" herein. Portions of the projects described below consist of Green Projects to be financed with proceeds of the Series 2017-A Subordinate Bonds. See "Plan of Finance – Series 2017-A Subordinate Bonds" herein.

Wastewater Control System Replacement Projects. The City has five projects to replace and upgrade the existing distributed control system and supervisory control and data acquisition system at an estimated cost of \$76 million, of which \$46 million remains to be spent. Construction of the projects began in January 2012, with completion scheduled by 2019.

Venice Pumping Plant Dual Force Main. The City is planning the construction of a dual force main to handle the peak wet weather flow at the pumping plant. The estimated cost for the construction phase of this project is \$89 million. The construction phase of the project is scheduled to begin in Fiscal Year 2017, with completion scheduled in Fiscal Year 2020.

Secondary Sewer Renewal Program. In addition to the specific projects described above, the City’s Secondary Sewer Renewal Program (“SSRP”) will continue to be a large portion of the CIP. The City plans to continue the program for the foreseeable future, following the completion of the projects included in the Collection System Settlement Agreement (“CSSA”) on June 30, 2014. The majority of these projects will be renewals of secondary sewers. The SSRP includes 34 projects to be funded in Fiscal Years 2017 through 2021, which projects are projected to cost \$117 million.

Clean Water Campus. The City is planning the construction of a “Clean Water Campus” to provide office space and parking for Bureau of Sanitation staff currently working in a leased facility. The estimated cost for the construction phase of this project is \$49 million. The construction phase of the project is scheduled to begin in Fiscal Year 2018, with completion scheduled in Fiscal Year 2020.

Additional Projects. In addition to the above, the City plans to spend \$1,258 million through Fiscal Year 2021 to fund over 240 additional projects. These projects include sewer rehabilitations, new sewers and rehabilitations and process enhancements at the four treatment plants.

Proposed CIP Expenditures. 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 2017 through 2021. See “Financial Operations of the Wastewater System – Water Usage – General” herein. The City continually monitors its revenues and billable wastewater volume and adjusts the capital program accordingly.

TABLE 6
SUMMARY OF CAPITAL IMPROVEMENT PROGRAM
Fiscal Years 2017 through 2021
(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 | | | |
| 2017 | \$ 79,000 | \$156,800 | \$ 8,700 | \$ 244,500 | \$ 79,600 | \$ 324,100 |
| 2018 | 161,900 | 130,300 | 30,900 | 323,100 | 86,000 | 409,100 |
| 2019 | 179,300 | 146,500 | 4,700 | 330,500 | 85,800 | 416,300 |
| 2020 | 164,300 | 160,300 | 5,900 | 330,500 | 89,400 | 419,900 |
| 2021 | <u>92,500</u> | <u>207,200</u> | <u>30,700</u> | <u>330,400</u> | <u>91,400</u> | <u>421,800</u> |
| Total | <u>\$677,000</u> | <u>\$801,100</u> | <u>\$80,900</u> | <u>\$1,559,000</u> | <u>\$432,200</u> | <u>\$1,991,200</u> |

Source: Bureau of Sanitation.

(Footnotes on next page.)

⁽¹⁾ Estimated.

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

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

Integrated Resources Plan. In 2006, the City completed an Integrated Resources Plan (“IRP”) for the period through Fiscal Year 2020 that evaluated the needs of the System in conjunction with water reclamation, groundwater recharge, and stormwater management. Some of the projects set forth in the IRP are also projects to be completed pursuant to the City’s CIP. The timing and cost of specific projects depends on actual and projected wastewater flow and other factors affecting operation and maintenance. Additional projects may be required pursuant to the IRP depending on system flow, regulatory requirements and other factors. The IRP proposes capital improvements in the last three years of the plan (2018 through 2020) that are currently estimated to cost \$150 million. As described above, the CIP includes a total of \$1.56 billion of capital projects through Fiscal Year 2021. The City completed a five-year review of the IRP in June, 2012. The review resulted in the delay of certain projects and a reduction of capital expenditures due to the decline in wastewater flows. For a discussion of the projected funding sources for capital projects pursuant to the IRP, see “– Financing Plans for the Wastewater Capital Improvement Program” below.

Building on the IRP, the City is now developing the One Water LA 2040 Plan (the “One Water Plan”), which provides for a sustainable approach to collectively manage drinking water, stormwater, groundwater, recycled water and wastewater throughout the City through 2040. There are two phases to the One Water Plan, with Phase 1 consisting of the development of initial planning baselines and the establishment of guiding principles and Phase 2 consisting of development of projects and policies for coordinated water management and facilities planning citywide, updated facilities plans for stormwater and wastewater, and guidance for updates of other future master plans citywide. Phase 1 was completed in 2015 and Phase 2 is scheduled to be completed in mid-2017. Projects and policies developed as part of the One Water Plan may result in the deferral or elimination of projects set forth in the IRP.

Program Review

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 Chief Financial Officer 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. One 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.

A 2016 Controller’s audit evaluated the Bureau of Sanitation’s recycled water program. The audit recommended partnering with DWP in expanding relationships with nearby water districts, pursuing more capital funding from the State, increasing the capture of stormwater and upgrading treatment infrastructure.

Financing Plans for the Wastewater Capital Improvement Program

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

System Revenues derived from user fees will continue to finance a portion of capital improvements. Wastewater service contract capital payments made under agreements or contracts with 29 regional entities include reimbursement for certain capital improvements and related engineering and

contract administration costs. Debt financing (primarily revenue bonds and commercial paper) will provide supplemental funds required by the CIP. The City estimates that a total of approximately \$1.5 billion of the CIP expenditures from Fiscal Years 2017 through 2021 will be financed through the issuance of bonds, notes or other forms of indebtedness.

The Outstanding Senior Lien Bonds and Subordinate Bonds were issued pursuant to the Charter of the City and the Revenue Bond Law of 1941. Pursuant thereto, the voters of the City authorized the issuance of wastewater system revenue bonds and notes in an aggregate principal amount of \$3.5 billion. The voters of the City subsequently approved a new Charter which became effective July 1, 2000. Under the new Charter, revenue bonds and notes of the City may be issued in accordance with the Procedural Ordinance and without any further authorization by the voters of the City. The Series 2017-A Subordinate Bonds will be issued pursuant to the Charter of the City and the Procedural Ordinance.

The City had \$109 million aggregate principal amount of outstanding loans from the Clean Water State Revolving Fund (the "SRF") as of April 2017. The City's existing SRF Clean Water loans will be paid through Fiscal Year 2025. 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 8, 2017, the SCM Fund had received a total of \$166.5 million in FEMA and State disaster reimbursements related to earthquake repairs for the System. All earthquake repair projects have been completed. The financial projections set forth in this Official Statement include the receipt of \$33.7 million reimbursement in Fiscal 2017. This is the amount that the CAO has estimated will be distributed to the SCM Fund from \$15,316,441 received by the City on June 24, 2016, \$13,136,256 received on August 16, 2016, and \$13,051,290 expected to be received by the end of Fiscal Year 2017. However, the actual amount distributed to the SCM Fund will be determined in a final reconciliation of the Bureau of Sanitation's claim after the final payment is received. The City continually evaluates opportunities for federal and grant funds, but is not currently constructing any large projects that are expected to be funded by federal or State grants.

The following table sets forth the projected major funding sources for the CIP for Fiscal Years 2017 through 2021.

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

| Description | Fiscal Year Ending June 30 | | | | | Total |
|-------------------------------------|-----------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|---------------------------|
| | 2017 | 2018 | 2019 | 2020 | 2021 | |
| Net Debt Financing ⁽²⁾ | \$262,000 | \$149,970 | \$318,970 | \$308,970 | \$273,970 | \$1,313,880 |
| Grants / FEMA ⁽³⁾ | 33,700 | - | - | - | - | 33,700 |
| WSC ⁽⁴⁾ Capital Payments | 17,058 | 30,986 | 18,922 | 24,812 | 25,600 | 117,378 |
| System Revenues | 83,582 | 98,000 | 99,000 | 106,000 | 136,000 | 522,582 |
| Interest Income | 2,963 | 2,271 | 1,748 | 1,594 | 1,402 | 9,978 |
| Use of available fund balances | <u>(75,202)</u> | <u>127,873</u> | <u>(22,340)</u> | <u>(21,476)</u> | <u>(15,172)</u> | <u>(6,317)</u> |
| Total⁽⁵⁾ | <u>\$324,100</u> | <u>\$409,100</u> | <u>\$416,300</u> | <u>\$419,900</u> | <u>\$421,800</u> | <u>\$1,991,200</u> |

Source: Bureau of Sanitation.

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

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

(3) Bureau of Sanitation aggressively pursues grant opportunities, however, to be conservative; those grants are not reflected until they have been secured.

(4) Wastewater Service Contracts.

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

FINANCIAL OPERATIONS OF THE WASTEWATER SYSTEM

Sewer Rates and Revenues

General. The City's user fee system consists of a sewer service charge, industrial wastewater surcharge and fees, a sewerage facilities charge, wastewater service contracts and miscellaneous fees, as summarized below. The City has approved rates which will increase through Fiscal Year 2021. These rates and charges were predicated on assumptions of expected volume of wastewater operations. In addition to the foregoing fees and charges, the City recovers the cost of System operations and maintenance (including replacement) and a portion of major capital expenditures through federal Clean Water and FEMA Grants, interest earnings and miscellaneous revenues.

- **Sewer Service Charge:** This charge is based on metered water usage and includes reduced rates for low income households and a compensating surcharge for non-low income households and commercial customers. Revenues from the sewer service charge constitute the largest component of the System's total operating receipts, having comprised over 86.0% of total operating receipts of the System annually from Fiscal Year 2012 through Fiscal Year 2016. Revenues from the sewer service charge are anticipated to be approximately 80% of Revenues for Fiscal Year 2017.

- *Wastewater Service Contracts:* The wastewater service contracts with the Entities provide for cost reimbursement of capital and operation and maintenance expenses. Revenues from WSC operation and maintenance payments are anticipated to be 3.5 percent of Revenues for Fiscal Year 2017.
- *Industrial Wastewater Surcharge and Fees:* The Quality Surcharge Fee is designed to recover the costs related to suspended solids (“SS”) and biochemical oxygen demand (“BOD”) strengths above normal or domestic strength values as well as costs for administering and maintaining the surcharge program. Industrial Wastewater Permit Application Fees are designed to recover the cost required to process permit applications for applicable users. Inspection and Control Fees are designed to recover the costs of necessary inspections of permitted users. Significant Industrial User fees recover a portion of additional costs incurred in the monitoring and inspection of certain industrial users subject to EPA categorical pretreatment requirements. Revenues from industrial wastewater surcharge and fees are anticipated to be approximately 3.2 percent of estimated Revenues for Fiscal Year 2017.
- *Sewerage Facilities Charge:* The Sewerage Facilities Charge (“SFC”) is designed to recover the cost of the System capacity required by new sewer connections and increases in capacity required by current System users. Revenues from SFC are anticipated to be approximately 2.4 percent of Revenues for Fiscal Year 2017.
- *Miscellaneous Fees:* These fees include bonded sewer fees, septage fees, sewer tap fees, and other miscellaneous revenue sources.

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

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

Sewer Service Charge. The City currently imposes a Sewer Service Charge (“SSC”) based on a rate of \$4.51 per 100 cubic feet of wastewater discharged into the System. As described below, the City has adopted a series of annual SSC rate increases effective from April 2012 through Fiscal Year 2021. The adopted SSC rate increases are expected to provide approximately \$1.7 billion in additional revenues over the next ten years to fund additional capital projects and debt financing relating thereto, taking into account the most recent projections of billable wastewater volume. The City previously projected \$1.7 billion in additional revenues to fund \$2.3 billion in additional capital projects and debt financing for the

ten-year period from 2013 to 2023. The decrease in projected revenues and the reduction in capital projects reflect reductions in wastewater flow through Fiscal Year 2017 and corresponding adjustments to the CIP. It is assumed that there will be no further decrease in wastewater volume due to water conservation beginning in Fiscal Year 2017. See “– Water Usage – General” herein. The SSC is expected to provide approximately \$527 million in revenue for Fiscal Year 2017. 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 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 | \$4.51 | 6.5% |
| July 1, 2017 | 4.80 | 6.5 |
| July 1, 2018 | 5.11 | 6.5 |
| July 1, 2019 | 5.44 | 6.5 |
| July 1, 2020 | 5.80 | 6.5 |

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

The winter water use method does not apply to commercial customers, including multiple family dwellings of five or more units, industrial, governmental and other non-residential users, who are billed at the rate of \$4.51 per 100 cubic feet of 93 percent of total metered water usage effective July 1, 2016. The default percentage discharge may be adjusted within a range of 90 to 94 percent based on DWP updates to its water conservation policies, which currently includes a mandatory water conservation ordinance that imposes increased rates on water usage above certain specified levels. Prior to April 6, 2012, the default percentage discharge was 90 percent. The default percentage discharge was subsequently increased to 93 percent to reflect the use of less irrigation water, which resulted in a higher percentage of the metered water used entering the sewer. Users whose water does not enter the sewer system are not billed for that water usage.

The ten largest customers of the System for Fiscal Year 2016 provided approximately six percent of the SSC revenue in that year. The following table sets forth the SSC for each of the ten largest customers:

**TABLE 9
SEWER SERVICE CHARGE BILLED TO
TEN LARGEST CUSTOMERS
Fiscal Year 2016**

| <u>User</u> | <u>Customer Type</u> | <u>SSC Billed</u> |
|--|-----------------------------------|---------------------|
| City of Los Angeles | Government | \$ 7,009,223 |
| Los Angeles Unified School District | School district | 5,753,583 |
| County of Los Angeles | Government | 4,791,997 |
| University of California – Los Angeles | Education | 3,998,070 |
| Phillips 66 Company | Petroleum product refiner | 3,308,896 |
| Anheuser-Busch, LLC | Brewing company | 2,471,669 |
| University of Southern California | Education | 1,794,374 |
| Baxalta U.S. Inc. | Biopharmaceutical Company | 1,376,176 |
| Douglas Emmette and Co. | Property maintenance; real estate | 1,227,608 |
| Weiss Investment properties, LP | Property maintenance; real estate | 1,194,290 |
| Total | | <u>\$32,925,886</u> |

Source: Bureau of Sanitation.

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, 2016, the QSF rates have been \$0.470/lb for BOD and \$0.472/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 \$97 million in additional revenues over the next ten years. The QSF is expected to provide approximately \$8.3 million in revenue for Fiscal Year 2017. 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 are set forth in the following table.

**TABLE 10
QUALITY SURCHARGE FEES RATE INCREASES**

| Effective Date | BOD Rate (\$/pounds of BOD) | Percentage Increase from Prior Year | SS Rate (\$/pounds of SS) | Percentage Increase from Prior Year |
|-----------------------|--|--|--------------------------------------|--|
| Current Rate | \$0.470 | 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, LLC, with a total surcharge of \$1,770,169, accounted for approximately 19 percent of the QSF revenue in Fiscal Year 2016. Baxalta U.S. is the second largest QSF revenue contributor with a total surcharge of \$929,805. Juanita Foods, Darling International Inc., and Phillips 66 Company followed with total surcharges of \$592,442, \$394,195 and \$314,251 in Fiscal Year 2016, 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 | \$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 \$328 to \$3941 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 2016, 16,840 local IUs were permitted to discharge to the System. Permit Application Fees are currently \$479. 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 210 SIUs currently regulated by the City. Existing SIU fees range from \$2,987 to \$5,641, 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 3.0 percent of estimated Revenues for Fiscal Year 2017.

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, 2016, approximately 9,862 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 \$479 and pay an annual Inspection and Control Fee of \$328.

As of June 2016, the City also permits and regulates approximately 1,608 dental offices in the City to control the potential discharge of certain heavy metals into the sewer system. These offices must obtain an Industrial Wastewater Permit and follow best management practices (“BMPs”) for capture of certain elements. Dental offices meeting the BMPs are inspected every five years and businesses not complying with the BMPs are inspected every year and are subject to higher fees.

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

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

Pursuant to the Municipal Code of the City, the Board of Public Works is authorized to issue refund credits to qualifying SIUs for unused capacity if: (1) the SFC payment was made and the current occupant of the property for which the SFC payment was made is an SIU, (2) the SIU is also an owner of the property for which the payment was made, (3) the flow from the property is less than the amount for which SFC payment was made, (4) the SIU can demonstrate that the reduced amount of flow was caused by the use of water conservation practices, pretreatment of discharge, or use of environmentally responsible practices and (5) the SIU, at the time of submission of the written claim, is not delinquent in payment of any monies owed with respect to sewer, water course and drains charges, including SSCs. The City issued \$61,400 in refund credits for Fiscal Year 2016 and has authorized no credits beginning in Fiscal Year 2017. However, future credits are possible if additional SIUs are granted refund credits.

Wastewater Service Contracts. The City provides wastewater conveyance, treatment, and disposal services to 29 local Entities pursuant to Sewage Disposal Contracts and Universal Terms Contracts executed and in force with each Entity. The capital charge component of Wastewater Service Contracts payments is not treated as Revenue to the SCM Fund and is not available to pay debt service on the Senior Lien Bonds or the Subordinate Bonds, including the Series 2017 Bonds. These contracts generally extend through the useful life of the facilities which transport or treat the respective Entity’s wastewater. However, all Sewage Disposal Contracts are subject to renegotiation as described below. See “The Wastewater Service Area and Facilities – Subscribing Agencies” herein.

Historical Sewer Rates and Charges

The following table sets forth the City’s SSC, QSF and SFC from Fiscal Years 2013 through 2017.

**TABLE 12
SEWER CONSTRUCTION AND MAINTENANCE FUND RATES AND CHARGES
Fiscal Year 2013 through 2017**

| Fiscal Year Ended June 30 | Sewer Service Charge⁽¹⁾ | Quality Surcharge Fees⁽²⁾ | | Sewerage Facilities Charge (per 100 gal. avg. flow)⁽³⁾ | Typical Monthly Single Family Residential SSC⁽⁴⁾ |
|--------------------------------------|---|---|-----------|--|--|
| | | BOD | SS | | |
| 2013 ⁽⁵⁾ | \$3.57 | \$0.377 | \$0.380 | \$413.00 | \$32.31 |
| 2014 | 3.73 | 0.393 | 0.395 | 413.00 | 27.53 |
| 2015 | 3.97 | 0.416 | 0.419 | 413.00 | 29.40 |
| 2016 | 4.23 | 0.441 | 0.444 | 413.00 | 30.28 |
| 2017 | 4.51 | 0.470 | 0.472 | 413.00 | 32.40 |

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 93% of total metered water usage. See “Financial Operations of the Wastewater System – Sewer Rates and Revenues” herein for a description of adjustments to the default percentage discharge for commercial customers through Fiscal Year 2021.
- (2) The surcharge is based on a rate per pound of BOD or SS in excess of domestic strength wastewater 265 mg/L BOD and 275 mg/L SS.
- (3) Sewerage Facilities Charge includes strength charges.
- (4) These figures do not reflect effects of low-income assistance program. Amounts based on average billable wastewater volumes of approximately 9.0 hcf per month for 2013, 7.7 hcf per month for 2014 and 2015, and 7.5 hcf per month for 2016 and 2017. The reduction in billable volume, as well as the reduction of the typical monthly SSC, in 2014 is due in large measure to the temporary suspension of bills following the 2013 implementation of DWP’s new billing system. The reduction in the years following 2013 is also due to water conservation by the wastewater customers. See “Financial Operations of the Wastewater System – Number of Customers and Billable Wastewater Volume” and “– Billing and Collection” herein.
- (5) Rates and charges effective as of July 1, 2012. The rates and charges, except for the SFC, will increase each year thereafter until after July 1, 2020. See “Financial Operations of the Wastewater System – Sewer Rates and Revenues” herein.

Rate Setting Process

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

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

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

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

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

The City has begun studies of potential future rate increases for the SSC and QSF beginning in Fiscal Year 2022.

Proposition 218

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

Section 1 of Article XIIC requires majority voter approval for the imposition, extension or increase of general taxes and Section 2 thereof requires two thirds voter approval for the imposition, extension or increase of special taxes. Section 3 of Article XIIC expressly extends the initiative power to give voters the power to reduce or repeal local taxes, assessments, fees and charges, regardless of the date such taxes, assessments, fees or charges were imposed. Section 3 expands the initiative power to include reducing or repealing assessments, fees and charges, which had previously been considered administrative rather than legislative matters and therefore beyond the initiative power. This extension of the initiative power is not limited by the terms of Article XIIC to fees imposed after November 6, 1996, the effective date of Proposition 218, and absent other legal authority could result in the reduction in any existing taxes, assessments or fees and charges imposed prior to November 6, 1996.

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

In the *Bighorn Decision*, the California Supreme Court did state that nothing in Section 3 of Article XIIC authorizes initiative measures that impose voter-approval requirements for future increases in fees or charges for water delivery. The California Supreme Court stated that water providers may determine rates and charges upon proper action of the governing body and that the governing body may increase a charge which was not affected by a prior initiative or impose an entirely new charge. The Supreme Court further stated in the *Bighorn Decision* that it was not holding that the initiative power is free of all limitations and was not determining whether the initiative power is subject to the statutory provision requiring that water service charges be set at a level that will pay debt service on bonded debt and operating expenses. Such initiative power could be subject to the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution. Additionally, SB 919 provides that the initiative power provided for in Proposition 218 “shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after [the effective date of Proposition 218] assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights” protected by the United States Constitution. No assurance can be given that the voters of the City will not, in the future, approve initiatives which repeal, reduce or prohibit the future imposition or increase of assessments, fees or charges, including the City’s SSC, which are a significant source of Revenues pledged to the payment of debt service on Series 2017 Bonds.

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

Article XIID defines a “fee” or “charge” as any levy other than an *ad valorem* tax, special tax, or assessment imposed upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property-related service. A “property-related service” is defined as “a public service having a direct relationship to a property ownership.” In the *Bighorn Decision*, the California Supreme Court held that a public water agency’s charges for ongoing water delivery are fees and charges within the meaning of Article XIID. Article XIID requires that any agency imposing or increasing any property-related fee or charge must provide written notice thereof to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing with respect

thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it. As a result, the local government's ability to increase such fee or charge may be limited by a majority protest.

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

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

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

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

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

Water Usage

General. The ability of the System to operate effectively is affected by the water supply for the City. DWP's Los Angeles Aqueduct supply deliveries have, over the years, been reduced to fulfill environmental restoration commitments in the Mono Basin and Owens Valley. As a result, DWP has increased its purchase of water from The Metropolitan Water District of Southern California ("MWD"), a wholesale water supplier for the Southern California region. DWP is working with MWD to develop supply reliability for the City and all of MWD's service area. 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 ("DWR") and various projects relating to water conservation, recycled water, conjunctive use, water transfers and exchanges, groundwater recovery and seawater desalination. See also "-- Number of Customers and Wastewater Usage" below.

The adequacy of DWP's water supply is affected by many factors, including but not limited to annual snowpack and rainfall, population growth, water use, groundwater basin quality and recharge trends, federal and State environmental rules and regulations, environmental restoration commitments, water quality, climate change, and area of origin issues. Sustained drought conditions or 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 – Potential Impact of Drought and Other Risks Relating to the Water Supply" herein.

[In recent years the State has experienced serious drought conditions. On January 17, 2014, the Governor Edmund G. Brown, Jr. declared a drought state of emergency, asked residents to reduce their water consumption by twenty percent and directed State agencies to take certain actions to ameliorate the shortage of water. The State has since reduced some of the conservation measures adopted following the Governor's declaration. On October 14, 2014, Los Angeles Mayor Eric Garcetti issued Executive Directive Number Five setting a goal of reducing per-capita water use by twenty percent in the City, directing City departments to take certain actions to meet the goal, and asking City residents to take certain voluntary actions.

The City previously projected \$1.7 billion in additional revenues to fund \$2.3 billion in additional capital projects and debt financing for the ten-year period from 2013 to 2023. The decrease in projected revenues and the reduction in capital projects reflect reductions in wastewater flow through Fiscal Year 2017 and corresponding adjustments to the CIP. It is assumed that there will be no further decrease in wastewater volume due to water conservation beginning in Fiscal Year 2017. Recent rain and snowfall in the State have somewhat relieved drought conditions, however, no assurance can be provided that the extreme drought conditions experienced in recent years will not return. See "Risk Factors – Potential Impact of Drought and Other Risks Relating to the Water Supply" herein.]

Recent Events at Oroville Dam. Oroville Dam, the earthfill embankment dam on the Feather River which impounds Lake Oroville, is operated by DWR as a facility of the State Water Project. On February 7, 2017, the main flood control spillway at Oroville Dam, a gated and concrete lined facility, experienced significant damage as DWR increased releases to 55,000 cfs to manage higher inflows driven by continued precipitation in the Feather River basin. Subsequently, DWR halted releases at the main spillway to inspect the damage and conduct flow tests. After testing, the main spillway was returned to

service on February 8 at a reduced flow rate to offset inflows into Lake Oroville. On February 11, the water elevation in Lake Oroville reached 901 feet, leading to flow over the emergency spillway structure, an ungated, 1,730 foot long concrete weir located adjacent to and north of the main flood control spillway structure. Releases from the emergency spillway flow uncontrolled down an earthen hillside to the Feather River. On February 12, erosion began to progress up the right side of the emergency spillway. Concerns about the erosion at the emergency spillway prompted DWR to increase releases through the damaged main spillway and led the Butte County Sheriff to evacuate downstream communities for two days to ensure the safety of the residents. As of February 14, water levels in Lake Oroville were 13 feet below the crest of the emergency spillway and the mandatory evacuation order was lifted. DWR has begun repairs to the erosion areas below the emergency spillway. The State has requested federal emergency funding to help offset costs related to the response efforts. The Federal Emergency Management Agency has approved the State's request for federal assistance. See "Risk Factors – Potential Impact of Drought and Other Risks Relating to the Water Supply" herein. **[update before posting]**

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> | Number of Customers Fiscal Year Ended June 30 | | | | |
|-----------------------|--|--------------|---------------------------|---------------------------|---------------------------|
| | 2012 | 2013 | 2014⁽¹⁾ | 2015⁽¹⁾ | 2016⁽¹⁾ |
| Single Family | 478,925 | 481,591 | 493,824 | 508,753 | 511,887 |
| Small Multifamily | 71,871 | 72,134 | 73,241 | 74,861 | 74,372 |
| Large Multifamily | 44,092 | 44,268 | 41,535 | 41,316 | 41,778 |
| Commercial/Industrial | 56,806 | 56,976 | 55,534 | 57,060 | 56,902 |
| All Others | <u>5,126</u> | <u>5,195</u> | <u>453</u> | <u>442</u> | <u>429</u> |
| Total Customers | 656,820 | 660,164 | 664,587 | 682,432 | 685,368 |

| <u>Customer Class</u> | Billable Wastewater Volume⁽²⁾ Fiscal Year Ended June 30 | | | | |
|---|---|--------------|--------------|--------------|--------------|
| | 2012 | 2013 | 2014 | 2015 | 2016 |
| Single Family ⁽³⁾ | 50,693 | 51,457 | 45,520 | 45,921 | 44,934 |
| Small Multifamily ⁽³⁾ | 13,711 | 12,961 | 11,776 | 11,867 | 12,108 |
| Large Multifamily ⁽⁴⁾ | 46,071 | 47,710 | 45,027 | 41,391 | 38,944 |
| Commercial/Industrial ⁽⁴⁾ | 31,584 | 32,747 | 32,448 | 33,161 | 32,140 |
| All Others ^(4,5) | <u>4,663</u> | <u>5,750</u> | <u>6,899</u> | <u>6,684</u> | <u>5,661</u> |
| Total Billable Wastewater Volume ⁽⁶⁾ | 146,722 | 150,625 | 141,670 | 139,024 | 133,787 |

Source: Bureau of Sanitation.

- (1) The numbers of customers in some classes have been changed in DWP's new billing system because of changes in the way customer accounts have been counted. See "– Billing and Collection – Sewer Service Charge" herein.
- (2) In thousands of hcf (hundred cubic feet).
- (3) 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.
- (4) Prior to April 6, 2012, billable wastewater volume was generally equal to 90 percent of total annual water sales volume. All customers who could demonstrate that their billable wastewater volume was less than 72 percent of annual water sales were billed at the lower estimate. See "Financial Operations of the Wastewater System – Sewer Rates and Revenues" for a description of adjustments to the default percentage discharge for commercial customers that became effective on April 6, 2012.
- (5) Prior to April 6, 2012, certain public agencies only paid the O&M portion of the SSC. This was reflected on their bills as an adjustment to the volume, rather than the rate. The Fiscal Year 2013 Billable Wastewater Volumes reflect the full volume, for which the agencies now pay both the O&M and capital share of the SSC.
- (6) Totals may not equal sum of components due to individual rounding.

The changes in billable wastewater volume from Fiscal Years 2013 through 2016 were caused in large part by the success of water conservation measures, which were mandatory beginning June 1, 2009. The number of system customers decreased in Fiscal Year 2014 because the new billing system implemented by DWP in September 2013 allowed certain multiple accounts to be counted as single accounts. 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 2017 through 2021.

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

| Customer Class | Number of Customers Fiscal Year Ended June 30 | | | | |
|-----------------------|--|---------|---------|---------|---------|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Single Family | 511,938 | 511,989 | 512,041 | 512,092 | 512,143 |
| Small Multifamily | 74,379 | 74,387 | 74,394 | 74,402 | 74,409 |
| Large Multifamily | 41,782 | 41,786 | 41,791 | 41,795 | 41,799 |
| Commercial/Industrial | 56,908 | 56,913 | 56,919 | 56,925 | 56,930 |
| All Others | 429 | 429 | 429 | 429 | 429 |
| Total Customers | 685,437 | 685,505 | 685,574 | 685,642 | 685,711 |

| Customer Class ⁽¹⁾ | Billable Wastewater Volume ⁽²⁾ Fiscal Year Ended June 30 | | | | |
|---|--|---------|---------|---------|---------|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Single Family ⁽³⁾ | 44,938 | 44,943 | 44,947 | 44,952 | 44,956 |
| Small Multifamily ⁽³⁾ | 12,109 | 12,111 | 12,112 | 12,113 | 12,114 |
| Large Multifamily ⁽⁴⁾ | 38,948 | 38,952 | 38,956 | 38,960 | 38,964 |
| Commercial/Industrial ⁽⁴⁾ | 32,144 | 32,147 | 32,150 | 32,153 | 32,157 |
| All Others ⁽⁴⁾ | 5,661 | 5,662 | 5,662 | 5,663 | 5,664 |
| Total Billable Wastewater Volume ⁽⁵⁾ | 133,801 | 133,814 | 133,828 | 133,841 | 133,854 |

Source: Bureau of Sanitation.

⁽¹⁾ Assumes no further decline in wastewater volume due to water conservation after three years of declines ending in Fiscal Year 2016. Growth in billable wastewater volume is assumed for Fiscal Year 2017 through 2021 because of the continued growth in the number of customers.

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

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

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

⁽⁵⁾ Totals may not equal sum of components due to individual rounding.

Billing and Collection

Sewer Service Charge. Billing and collection services for the SSC are provided by DWP. With some limited exceptions, DWP currently bills residential customers on a bimonthly basis and commercial and industrial customers on a monthly basis. DWP prepares bills covering water and electric charges and non-DWP charges (such as sewer services, solid resources fee and State and local taxes). Payments are posted in the following order: overdue receivables, customer deposits, water charges, electric charges, State and local taxes, sewer service charges, solid resources fees and bulky item fees. DWP transfers projected SSC revenue to the SCM Fund on a weekly basis based on expected revenues. The last payment

of the month is adjusted for the actual revenues received for the month. A monthly billing and collection fee of \$248,400 is also subtracted from one of the weekly payments.

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

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

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

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

Customer accounts where the water and/or electrical service are disconnected due to non-payment are monitored by DWP collections personnel. Unless a customer vacates the service location, DWP collections personnel will continue to regard the customer's account as an active account and attempt collection of the delinquent amount. Should the customer vacate the service location, a closing bill is generated which initiates further collection efforts. An outside collection agency may be used on accounts with \$10.00 to \$4,999.99 outstanding as soon as 45 days after the closing bill is issued. Accounts with \$5,000.00 or more outstanding are referred to the City Attorney for legal action. If the delinquent amount remains outstanding approximately three months after the closing bill has been issued, the amount owed is transferred into "write off", where collection efforts will be maintained for up to four years from the closing bill issue date. The four year period may be extended by up to one year under certain circumstances.]

In September 2013, DWP launched a new customer information and billing system, designed and implemented by Pricewaterhouse Coopers LLP. Immediately following the launch of the new billing system, DWP experienced numerous billing issues in connection with the new system, including, but not limited to, (a) the inability to issue bills to customers, (b) the inability to issue accurate bills to customers,

(c) an increase in estimated bills that were sent to customers where metering information was not available, and (d) the inability to generate multiple business reports, including financial reports reflecting DWP's accounts receivable.

As a result of the numerous billing issues, in November 2013, DWP temporarily adjusted its collection practices for past due balances until the problems with the new billing system could be resolved. Delayed billing and reduced collection efforts resulted in customer payments below anticipated levels. Commercial collections for past due amounts were recommenced in February 2014 and residential collections for past due amounts were recommenced in June 2014, with both efforts focused on collecting the higher balances of past due amounts. In an effort to reduce the past due balances, DWP offered a late payment penalty waiver to residential customers if such customers' balances were paid off by the end of June 2014.

Additionally, as a result of the problems with the new customer information and billing system, several class action lawsuits, [that have now been settled] were instituted against DWP by ratepayers claiming damages due to certain of the billing issues. While the settled lawsuits [were] pending, DWP is waiving the 18 percent late payment charge on utility accounts for delinquent customers, provided those customers are part of one or more of the class action lawsuits.

The new customer information and billing system is currently being used by DWP. DWP continues to work with certain outside consultants to improve the functionality of the system to meet DWP's original expectations for the new system.

[discussion of settled lawsuits to come if financial impact to the Wastewater System] DWP is carrying uncollectable SSC receivables arising from the transition to the new billing system, but is waiting to write-off such receivables until resolution of two pending class action lawsuits: (a) *Morski v. City of Los Angeles*, Case No. BC 568722 (the "Morski Action") and (b) *Macias, et al. v. City of Los Angeles*, Case No. BC 594049 (the "Macias Action"). The Morski Action generally alleges that DWP's practice of tiered billing violates applicable City ordinances insofar as DWP bases such tiered billing on anything other than regular actual monthly meter reads ("Non-Monthly Tiered Billing"). The Macias Action includes such Non-Monthly Tiered Billing claims, and also alleges that DWP violated California's Bane Act by threatening customers with termination of their utility services. Finally, the Macias Action broadly alleges claims that overlap with those being settled by DWP in several other class actions. Both cases are in their early stages, and it is therefore difficult to estimate the potential financial exposure to DWP. The total SSC accounts receivable were \$127,517,000 as of June 30, 2015 and \$125,386,000 as of June 30, 2016.

[The annual rate adjustment effective July 1, 2015 was mostly offset by a 3.8 percent reduction in the billable sewage volume for Fiscal Year 2016. This resulted in a 2.0 percent increase in the billed SSC revenue. The Fiscal Year 2016 revenue remitted by DWP to the System was 7.0 percent higher than the Fiscal Year 2015 revenue. The five percent difference between the increased billed and remitted revenues can therefore be largely attributed to the recovery of accounts receivable from years prior to Fiscal Year 2016. The accounts receivable had increased due to changes in collection practices associated with implementation of DWP's new billing system. The estimated Fiscal Year 2017 revenue is \$527 million, a 0.3 percent reduction from the actual Fiscal Year 2016 revenue. This estimate and the \$561 million revenue in the proposed budget for Fiscal Year 2018 assume no further sewage volume reduction from Fiscal Year 2016 levels, which is consistent with volume data from the beginning of 2016 to the present. These revenue amounts also conservatively assume no further recovery of past-year accounts receivable. The Bureau of Sanitation and DWP continue to work together to refine projections of the impact of water conservation on the SSC revenues.]

The following table sets forth the SSC budgeted, billed, and collected amounts for Fiscal Years 2013 through 2016:

TABLE 15
SSC REVENUE
BUDGET, BILLINGS, AND REMITTANCE
Fiscal Year Ending June 30
(in Thousands)

| Fiscal Year | Budgeted | Billed | Remitted | Billed as a Percent of Budget | Remitted as a Percent of Billed ⁽¹⁾ |
|---------------------|-----------|-----------|-----------|-------------------------------------|--|
| 2013 | \$516,191 | \$527,099 | \$518,937 | 102.1 | 98.5 |
| 2014 ⁽²⁾ | 542,000 | 506,884 | 491,135 | 93.5 | 96.9 |
| 2015 ⁽³⁾ | 577,000 | 530,147 | 513,931 | 91.9 | 96.9 |
| 2016 ⁽⁴⁾ | 541,000 | 540,717 | 549,943 | 99.9 | 101.7 |

Source: Bureau of Sanitation.

⁽¹⁾ DWP's remittance rate of SSC revenue varies from year to year and may exceed 100% because of differences in average time taken by customers to pay their bills and differences in the estimation used to calculate expected revenue versus actual revenue. The remittance rate in Fiscal Year 2016 reflects collection of accounts receivable in prior years.

⁽²⁾ Billings were below budgeted due to the success of water conservation measures and issues from DWP's new billing system.

⁽³⁾ Budgeted revenues in Fiscal Year 2015 included an assumption of recovery of \$25 million from uncollected Fiscal Year 2014 billings. Billed and remitted revenue increased by 4.6 percent from the previous year, reflecting a 1.9 percent reduction in the billable wastewater volume partially offsetting the effect of the annual rate adjustment effective July 1, 2014.

⁽⁴⁾ DWP previously halted their collection process once it was determined that there were significant programming issues in their new billing system. Remittances in Fiscal Year 2016 reflect collection of prior years' accounts receivable due to resumption of DWP's collections measures consistent with their stated collections policies.

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

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

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

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

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

Labor and Employment

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

**TABLE 16
BUREAU OF SANITATION AUTHORIZED POSITIONS**

| Fiscal Year Ending June 30 | Authorized Number of Positions |
|---------------------------------------|---|
| 2013 | 1,249 |
| 2014 | 1,250 |
| 2015 | 1,242 |
| 2016 | 1,254 |
| 2017 | 1,282 |

Bureau of Sanitation’s workforce is 99% unionized under a number of separate labor organizations that collectively refer to themselves as the Coalition of Los Angeles City Unions as well as the non-coalition Engineers and Architects Association. The City has memoranda of understanding that are effective through either Fiscal Year 2018 or 2019 with all unions that are part of Bureau of Sanitation. The System has not experienced any work stoppage over the past five years and does not currently anticipate any work stoppage. See Appendix A “Certain Information Regarding the City of Los Angeles – Certain Financial Operations – Labor Relations” attached hereto.

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

As of June 30, 2016, the System’s percentage share of the City’s pension and OPEB costs was 7.44 percent. The System’s percentage share of such costs may increase or decrease from year to year depending on, among other things, the number of covered employees attributable to the SCM Fund, the overall number of City employees and the retirement benefits accruing to the respective employees. The following table sets forth retirement and OPEB contributions from the SCM Fund for Fiscal Years 2012 through 2016.

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

| Fiscal Year | Total City Contribution⁽¹⁾ | Wastewater System Contribution⁽²⁾ | Wastewater System Percentage |
|--------------------|--|---|-------------------------------------|
| 2012 | \$351,735,000 | \$28,896,535 | 8.22% |
| 2013 | 342,188,000 | 27,402,873 | 8.01 |
| 2014 | 367,772,000 | 28,780,215 | 7.83 |
| 2015 | 411,509,000 | 31,937,635 | 7.76 |
| 2016 | 434,639,000 | 32,349,557 | 7.44 |

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

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

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

The System’s contribution to the City’s pension and OPEB costs for Fiscal Year 2017 is expected to be \$34,065,441, which is approximately 7.42% of the City’s pension cost and 3.69% 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 – “Certain Information Regarding the City of Los Angeles – Certain 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. The System’s projected share of the City’s projected contributions to LACERS are included in the pro forma statement of financial operations included herein. See “– Projected Operation and Maintenance Expenses” herein.

The City’s current retirement contribution projections, as set forth in Appendix A, are based on, among other things, information provided by LACERS’ actuary and LACERS’ current actuarial assumptions, which are based on the results of LACERS’ most recent triennial experience study. Actual retirement and OPEB costs attributable to the SCM Fund may be more or less than and may vary materially from the amounts included in the projections for the System. The System has experienced similar fluctuations in expenditures in the past and will make adjustments to revenues and expenditures as necessary to address any such changes in expenditures. There can be no assurance that the retirement and OPEB costs attributable to the SCM Fund will not materially increase.

Cash Receipts and Disbursements

The following table sets forth unaudited cash receipts and disbursements of the SCM Fund for Fiscal Years 2012 through 2016.

**TABLE 18
SEWER CONSTRUCTION AND MAINTENANCE FUND
SUMMARY OF OPERATIONS AND DEBT SERVICE COVERAGE**

CASH BASIS (UNAUDITED) (in Thousands)
Fiscal Year Ended June 30

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|--|------------------|------------------|------------------|------------------|------------------|
| OPERATING RECEIPTS | | | | | |
| Sewer Service Charge | \$456,308 | \$518,937 | \$491,135 | \$513,931 | \$549,943 |
| Sewerage Facilities Charge | 4,606 | 9,328 | 12,061 | 17,194 | 14,503 |
| Industrial Waste Fees ⁽¹⁾ | 15,399 | 14,735 | 16,222 | 18,294 | 18,174 |
| Wastewater Service Contracts ⁽²⁾ | 15,221 | 16,540 | 19,290 | 18,459 | 18,822 |
| Interest Income ⁽³⁾ | 3,845 | 4,324 | 2,448 | 1,803 | 2,901 |
| Other | 1,739 | 3,172 | 2,592 | 2,960 | 3,043 |
| Total Operating Receipts | 497,118 | 567,036 | 543,748 | 572,641 | 607,386 |
| Non-Operating Revenues ⁽⁴⁾ | 14,163 | 12,548 | 8,789 | 14,373 | 8,764 |
| TOTAL REVENUES | 511,281 | 579,584 | 552,537 | 587,014 | 616,150 |
| Less Operating Expenses ⁽⁵⁾ | 267,850 | 264,137 | 286,581 | 283,317 | 270,233 |
| NET REVENUES | \$243,431 | \$315,447 | \$265,956 | \$303,697 | \$345,917 |
| DEBT | | | | | |
| Senior Debt Service | \$112,551 | \$118,023 | \$97,924 | \$101,423 | \$106,353 |
| Subordinate Debt | | | | | |
| Commercial Paper Notes | 0 | 105 | 0 | 93 | 17 |
| Variable and Fixed Rate Subordinate Bonds | 70,664 | 76,754 | 79,074 | 87,033 | 93,170 |
| State Revolving Fund Loan | 13,605 | 13,605 | 13,605 | 13,605 | 13,605 |
| TOTAL DEBT | \$196,820 | \$208,487 | \$190,603 | \$202,154 | \$213,145 |
| NET REVENUES AFTER DEBT SERVICE | \$46,611 | \$106,960 | \$75,353 | \$101,543 | \$132,772 |
| Debt Service ⁽⁶⁾ | \$183,215 | \$194,882 | \$176,998 | \$188,549 | \$199,540 |
| Senior Debt Service Coverage | 2.16 | 2.67 | 2.72 | 2.99 | 3.25 |
| Debt Service Coverage ⁽⁶⁾ | 1.33 | 1.62 | 1.50 | 1.61 | 1.73 |
| NON-OPERATING REVENUES | | | | | |
| Grant Reimbursement | \$1,340 | \$2,231 | \$8,383 | \$2,467 | \$10,949 |
| State Grants - Others | 0 | 0 | 0 | 1 | 194 |
| Wastewater Service Contracts ⁽⁷⁾ | 9,541 | 8,196 | 12,153 | 17,703 | 24,174 |
| <i>(Table continued on next page.)</i> | | | | | |
| <i>(Table continued from prior page.)</i> | | | | | |
| FEMA Reimbursement | 0 | 27 | 1,224 | 80 | 0 |
| Total Non-operating Revenues | \$10,881 | \$10,454 | \$21,760 | \$20,251 | \$35,317 |
| NON-OPERATING EXPENSES | | | | | |
| Deposits to Escrow Accounts ⁽⁸⁾ | \$0 | \$1,524 | \$0 | 0 | 0 |
| BALANCE AVAILABLE^{(9), (10), (11)} | \$57,492 | \$115,890 | \$97,113 | \$121,794 | \$168,089 |

Source: City of Los Angeles, Office of Accounting. Amounts above were prepared on a cash basis and differ from amounts in the Debt Service Compliance Report for the Fiscal Year ended June 30, 2016 (With Independent Auditor's Report Thereon) attached as Appendix E hereto, which were prepared on an accrual basis..

- (1) Includes Quality Surcharge Fees, Permit Application Fees, Inspection and Control Fees, and SIU Fees.
- (2) Operations and maintenance portion of Wastewater Service Contract payments (excluding capital charge component, which is not treated as Revenues).
- (3) Interest on all SCM funds except construction funds. Amounts in the SCM Fund are invested separately from amounts from the City's General Fund.
- (4) Includes non-operating revenues considered in the debt service coverage calculation as defined in the Wastewater General Resolution.
- (5) Operating expenses for Fiscal Years 2012, 2013, 2014, 2015 and 2016 include SSC refunds of approximately \$476,000, \$388,000, \$435,000, \$217,000 and \$168,000, respectively. Operating expenses increased between Fiscal Year 2013 to 2014 due to the payment of certain litigation settlement amounts.
- (6) Excludes SRF loan, which is subordinate to the Senior Lien Bonds, the Subordinate Bonds and the CP Notes.
- (7) This category includes only the capital portion of Wastewater Service Contract payments. Beginning in 2014, the Entities' shares of the System's capital costs have increased as the total capital costs of the System have increased. In addition, the proportion of capital costs that were billable to the Entities (i.e., the costs associated with treatment and larger conveyance projects) have increased as the City has focused its resources on treatment projects that are billable to the Entities rather than the previous emphasis on replacing smaller sewers to meet its CSSA (herein defined) goals.
- (8) Release of money in the Debt Service Fund and Reserve Fund in connection with the refunding of certain prior bonds.
- (9) Amount represents surplus Revenues equal to the balance of operating and non-operating revenues available for capital costs or other purposes. This category does not include prior Fiscal Year's ending fund balance or interest on all construction funds.
- (10) Balance of operating and non-operating revenues available for capital costs or other purposes. This category does not include prior fiscal year's ending fund balance or interest on all construction funds.
- (11) Decrease in available balance in Fiscal Year 2014 is a result of decrease in SSC revenues due to DWP's transition to a new billing system and the effect of water conservation.

Sewer Construction and Maintenance Fund Cash Balances

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

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

| | As of June 30 | | | | |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 2012 | 2013 | 2014 | 2015 | 2016 |
| UNRESTRICTED FUNDS | | | | | |
| Sewer Construction and Maintenance ⁽¹⁾ | \$ 64,564 | \$102,856 | \$ 75,651 | \$ 56,950 | \$ 66,217 |
| Sewer Operation and Maintenance ⁽²⁾ | 11,169 | 14,400 | 24,333 | 41,535 | 45,359 |
| Sewer Capital ⁽³⁾ | 14,948 | 8,840 | 18,424 | 31,512 | 28,414 |
| Total Unrestricted Funds | <u>\$90,681</u> | <u>\$126,096</u> | <u>\$118,408</u> | <u>\$129,997</u> | <u>\$139,990</u> |
| RESTRICTED FUNDS | | | | | |
| Construction Funds ⁽⁴⁾ | \$ 36,820 | \$118,130 | \$151,903 | \$252,054 | \$110,364 |
| Reserve Funds ⁽⁵⁾ | 100,687 | 98,085 | 101,944 | 108,407 | 108,356 |
| Debt Service Funds | 18,854 | 17,441 | 20,510 | 16,598 | 19,746 |
| Operation and Maintenance Reserve | 30,276 | 36,553 | 37,027 | 36,981 | 37,099 |
| Insurance and Liability Claims Funds ⁽⁶⁾ | 3,000 | 3,000 | 3,000 | 3,000 | 3,000 |
| Emergency Fund | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 |
| Rebate Funds | 400 | 431 | 366 | 366 | 366 |
| Total Restricted Funds | <u>\$195,037</u> | <u>\$278,640</u> | <u>\$319,750</u> | <u>\$422,406</u> | <u>\$283,931</u> |
| TOTAL FUNDS | <u>\$285,718</u> | <u>\$404,736</u> | <u>\$438,158</u> | <u>\$552,403</u> | <u>\$423,921</u> |

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

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

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

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

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

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

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

Property, Plant and Equipment

The City has consistently invested in its property, plant and equipment. Expenditures for property, plant and equipment of the System (at cost) was \$7.7 billion in Fiscal Year 2016, representing an approximate 30 percent increase in investment in the last ten Fiscal Years. Net debt represented approximately 65 percent of net plant as of June 30, 2016, which is down from a high of approximately 71 percent as of June 30, 1992 and up from the percentages over most of the last ten years. The following table sets forth the City's expenditures on property, plant and equipment and the balances in the total debt attributable thereto for the last ten Fiscal Years.

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

| Fiscal Year Ended June 30 | Property, Plant and Equipment (at cost) | Net Property, Plant and Equipment (depreciated) | Total Debt | Net Debt⁽¹⁾ | Net Debt as Percent of Net Plant |
|--------------------------------------|--|--|-----------------------|-----------------------------------|---|
| 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 | 63.62 |
| 2012 | 6,804,411 | 3,833,969 | 2,507,195 | 2,404,503 | 62.72 |
| 2013 | 7,000,335 | 3,863,746 | 2,582,893 | 2,484,657 | 64.31 |
| 2014 | 7,176,030 | 3,895,191 | 2,611,225 | 2,509,142 | 64.42 |
| 2015 | 7,415,073 | 3,990,863 | 2,852,209 | 2,744,506 | 68.77 |
| 2016 | 7,656,000 | 4,082,456 | 2,750,730 | 2,641,228 | 64.70 |

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 2017 through 2021.

TABLE 21
PROJECTED OPERATION AND MAINTENANCE EXPENSES
(in Thousands)

| | As of June 30 | | | | |
|--------------------------------------|------------------|------------------|------------------|------------------|------------------|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Conveyance System | \$ 33,733 | \$ 36,937 | \$ 38,415 | \$ 39,682 | \$ 40,555 |
| Wastewater Treatment: | | | | | |
| Hyperion System | 115,157 | 126,097 | 131,140 | 135,468 | 138,448 |
| Terminal Island System | <u>14,165</u> | <u>15,510</u> | <u>16,131</u> | <u>16,663</u> | <u>17,029</u> |
| Total Treatment | \$129,322 | \$141,607 | \$147,271 | \$152,131 | \$155,477 |
| Departmental Support ⁽¹⁾ | \$ 70,354 | \$77,037 | \$80,119 | \$82,763 | \$84,583 |
| City Support Services ⁽²⁾ | <u>74,830</u> | <u>81,848</u> | <u>85,098</u> | <u>87,772</u> | <u>89,672</u> |
| Total O&M Expenses ⁽³⁾ | <u>\$308,239</u> | <u>\$337,429</u> | <u>\$350,903</u> | <u>\$362,348</u> | <u>\$370,287</u> |

Source: Bureau of Sanitation.

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

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

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

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

Projected Statement of Revenues and Expenditures

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

TABLE 22
PRO FORMA STATEMENT OF FINANCIAL OPERATIONS
UNDER INDICATED REVENUE LEVELS
(in Thousands)
Fiscal Year Ending June 30

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|--|-----------|-----------|-----------|-----------|-----------|
| REVENUES | | | | | |
| Rates As of July 1, 2016 | \$535,832 | \$538,183 | \$537,964 | \$538,833 | \$538,562 |
| Increased Rates | 0 | 32,107 | 69,148 | 108,785 | 150,805 |
| Total User Charges Revenue ⁽¹⁾ | 535,832 | 570,290 | 607,112 | 647,618 | 689,367 |
| BABs and RZEDB Subsidies ⁽²⁾ | 2,736 | 0 | 0 | 0 | 0 |
| Other Revenue ⁽³⁾ | 88,543 | 85,519 | 77,912 | 72,460 | 83,752 |
| Total | 91,279 | 85,519 | 77,912 | 72,460 | 83,752 |
| Total Revenue | \$627,111 | \$655,809 | \$685,024 | \$720,078 | \$773,119 |
| EXPENDITURES | | | | | |
| Operation & Maintenance Expense ⁽⁴⁾ | \$308,237 | \$337,429 | \$350,903 | \$362,348 | \$370,289 |
| Debt Service | | | | | |
| Senior Lien Bonds | | | | | |
| Existing Senior Lien Bonds ⁽⁵⁾ | 89,108 | 85,938 | 63,867 | 75,522 | 89,687 |
| Additional Senior Lien Bonds ⁽⁶⁾ | 0 | 0 | 7,675 | 22,750 | 38,960 |
| Subordinate Bonds | | | | | |
| Existing Subordinate Bonds ⁽⁷⁾ | 109,330 | 109,624 | 129,584 | 121,112 | 103,339 |
| Series 2017A Subordinate Bonds ⁽⁸⁾ | 0 | 12,467 | 11,597 | 11,597 | 11,597 |
| Additional Subordinate Bonds | 0 | 0 | 0 | 0 | 0 |
| Accruals for Subsequent Years ⁽⁹⁾ | 0 | (248) | 1,547 | 2,217 | 3,094 |
| Commercial Paper Notes ⁽¹⁰⁾ | 0 | 1,750 | 3,000 | 3,000 | 3,000 |
| SRF Clean Water Loans | 13,605 | 13,605 | 13,605 | 13,605 | 13,605 |
| Operating Reserve ⁽¹¹⁾ | 2,609 | (989) | 1,661 | 1,411 | 979 |
| Cash Financing of Construction | 86,318 | 98,000 | 99,000 | 106,000 | 136,000 |
| Additions to Minimum Operating Balance | 17,904 | (1,767) | 2,585 | 516 | 2,569 |
| Total Expenditures ⁽¹²⁾ | \$627,111 | \$655,809 | \$685,024 | \$720,077 | \$773,119 |

Source: Bureau of Sanitation.

⁽¹⁾ Includes increases effective on each of July 1 from 2017 through 2021. Assumes continuation of the sewage volume for Fiscal Year 2016, which reflected water conservation. See "Financial Operations of the Water System - Water Usage" and "Risk Factors - Potential Impact of Drought and Other Risks Relating to the Water Supply" herein.

⁽²⁾ The effect of Sequestration on Fiscal Years 2018 through 2021 is currently unknown. The City expects to receive the full Refundable Credits in connection with the Series 2010-A Senior Lien Bonds and the Series 2010-B Senior Lien Bonds for the current federal fiscal year ending September 30, 2017. For the remainder of the Fiscal Year ending on June 30, 2017, principal of and interest on the Series 2017 Bonds will be offset by the Refundable Credits pursuant to a resolution scheduled to be adopted by City Council on or about April 19, 2017. See "Security and Sources of Payment for the Series 2017 Bonds - Amendment to the Resolutions Relating to the Refundable Credits" herein.

⁽³⁾ Includes revenue from the O&M portion of wastewater service contract payments, the SFC, industrial wastewater fees, interest income on all funds except Construction Funds, bonded sewer fees, and miscellaneous revenue. For Fiscal Years ending June 30, 2019 and 2020, amounts are less than for the previous years and for the subsequent year because (i) the 2017 "other revenue" includes catch-up recovery from the General Fund of SSC reductions due to the low-income subsidy and (ii) 2018 "other revenue" includes an expected large payment from the City of Burbank in settlement of the ongoing dispute over the amount of the its wastewater discharge to the City's wastewater system. The 2021 "other revenue" category includes increased revenue from DWP for the sale of water from TIWRP. A large industrial customer is expected to begin using recycled water at the beginning of that year.

(Footnotes continued on next page.)

(Footnotes continued from previous page.)

- (4) See Table 21 (Projected Operation and Maintenance Expenses) herein for the components of the O&M expense. Includes the System's projected share of the City's projected contributions to LACERS, based on projected contributions as of [June 1, 2014]. See "Financial Operations of the Wastewater System – Retirement and Other Postemployment Benefits Contributions" herein.
- (5) Represents principal and interest becoming due and payable on all Senior Lien Bonds issued and Outstanding in each Fiscal Year, as offset by the Refundable Credits pursuant to a resolution scheduled to be adopted by City Council on or about April 19, 2017. See "Security and Sources of Payment for the Series 2017 Bonds - Amendment to the Resolutions Relating to the Refundable Credits" herein.
- (6) Assumes an interest rate of 5.00 percent for additional Senior Lien Bond issuances and 30-year amortization structured against existing debt service. Assumes bond issuances funding net construction proceeds of \$262 million, \$0 million, \$319 million, \$309 million, and \$274 million in Fiscal Years 2017 through 2022, respectively.
- (7) Represents principal and interest becoming due and payable on all Existing Subordinate Bonds issued and Outstanding in each Fiscal Year. Assumes an all-in interest cost of 3.79 percent for the \$151,085,000 portion of the Series 2012-D Subordinate Bonds associated with the Swap Agreements, and an all-in interest cost of 2.0 percent on the remaining \$129,775,000 portion of the Series 2012-D Subordinate Bonds.
- (8) Reflects estimated debt service on the Series 2017A Subordinate Bonds, structured as 30-year bonds with a modified wrap structure against existing aggregate debt service. See "Plan of Finance."
- (9) Additional deposits in the Debt Service Fund; amounts are in excess of required monthly principal and interest deposits.
- (10) Interest at an assumed annual interest rate of 2.0 percent on projected CP Notes.
- (11) Reflects excess amounts available for deposit into the Operating Reserve.
- (12) Total may not equal sum of components due to individual rounding.

Outstanding Indebtedness

Senior Lien Bonds and Subordinate Bonds heretofore issued were issued pursuant to the City Charter and the Authorizations. Pursuant to the amended and restated charter approved by the voters of the City, additional revenue bonds and notes of the City in excess of the aggregate principal amount approved pursuant to the Authorizations may be issued upon adoption of a procedural ordinance and without any further authorization by the voters of the City. The Series 2017 Bonds are being issued pursuant to the City Charter and the Procedural Ordinance. Subsequent to the issuance of the Series 2017 Bonds, the City will have \$1,273,330,000 Senior Lien Bonds Outstanding and \$_____ Subordinate Bonds Outstanding. In addition, the City has also authorized a maximum of \$400,000,000 aggregate principal amount of Subordinate Bonds in the form of CP Notes. The maximum amount of CP Notes that may be Outstanding at any particular time under the Letters of Credit for the CP Notes is \$200,000,000. No CP Notes are currently Outstanding.

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

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TABLE 23
CITY OF LOS ANGELES OUTSTANDING WASTEWATER SYSTEM
REVENUE BONDS AND COMMERCIAL PAPER REVENUE NOTES
(in Thousands) (as of April 1, 2017)⁽¹⁾

| <u>Issue</u> | <u>Amount Issued</u> | <u>Amount Outstanding</u> | <u>Final Maturity</u> |
|--|----------------------|---------------------------|-----------------------|
| Series 2009-A (Refunding) | \$ 454,785 | \$ 232,295 | 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 | 149,820 | 6/1/2032 |
| Series 2012-A (Subordinate Refunding) | 157,055 | 146,395 | 6/1/2024 |
| Series 2012-B (Subordinate Refunding) | 253,880 | 249,605 | 6/1/2032 |
| Series 2012-A (Refunding) | 49,650 | 49,650 | 6/1/2024 |
| Series 2012-C (Subordinate Refunding) | 133,715 | 127,975 | 6/1/2027 |
| Series 2012-D (Subordinate Refunding) ⁽²⁾ | 280,860 | 280,860 | 6/1/2032 |
| Series 2013-A (Subordinate Refunding) | 349,505 | 310,470 | 6/1/2035 |
| Series 2013-A | 149,980 | 149,980 | 6/1/2043 |
| Series 2013-B (Refunding) | 143,880 | 113,110 | 6/1/2035 |
| Series 2015-A | 188,755 | 188,755 | 6/1/2045 |
| Series 2015-B (Refunding) | 41,175 | 41,175 | 6/1/2035 |
| Series 2015-C | 100,835 | 100,835 | 6/1/2045 |
| Series 2015-D (Refunding) | 108,860 | 108,860 | 6/1/2034 |
| Series 2015-A (Subordinate Refunding) | 21,650 | 21,650 | 6/1/2024 |
| CP Notes ⁽³⁾ | 200,000 | 0 | |
| | <u>\$3,504,900</u> | <u>\$2,538,455</u> | |

(Footnotes on next page.)

⁽¹⁾ Does not include the issuance of the Series 2017AB Subordinate Bonds and the Series 2017-C Subordinate Bonds (Taxable) and the completion of the refundings relating thereto described under "Plan of Finance" herein.

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

⁽³⁾ The City has authorized a maximum of \$400,000,000 aggregate principal amount of Subordinate Bonds in the form of CP Notes. However, the maximum amount of CP Notes that may be Outstanding at any particular time under the existing Letters of Credit for the CP Notes is \$200,000,000. No CP Notes are currently 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 24
CITY OF LOS ANGELES
WASTEWATER SYSTEM REVENUE BONDS
DEBT SERVICE ON ALL SENIOR LIEN BONDS AND SUBORDINATE BONDS

| Fiscal Year Ending June 30 | <u>Series 2017A Subordinate Bonds</u> | | <u>Series 2017B Subordinate Bonds</u> | | <u>Series 2017C Subordinate Bonds</u> | | Debt Service on Other Subordinate Bonds ⁽¹⁾⁽²⁾ | Debt Service on all Subordinate Bonds | Debt Service on all Senior Lien Bonds ⁽³⁾ | Total Debt Service on All Bonds ⁽²⁾ |
|----------------------------|---------------------------------------|-----------------|---------------------------------------|--|---------------------------------------|--|---|---------------------------------------|--|--|
| | <u>Principal</u> | <u>Interest</u> | <u>Total Principal and Interest</u> | | <u>Total Principal and Interest</u> | | | | | |
| 2017 | | | | | | | \$ 109,329,815 | | \$ 91,844,096 | |
| 2018 | | | | | | | 109,623,565 | | 91,829,296 | |
| 2019 | | | | | | | 129,583,915 | | 69,757,734 | |
| 2020 | | | | | | | 121,111,865 | | 81,412,871 | |
| 2021 | | | | | | | 103,339,265 | | 95,578,109 | |
| 2022 | | | | | | | 102,670,947 | | 100,881,171 | |
| 2023 | | | | | | | 128,308,247 | | 70,692,671 | |
| 2024 | | | | | | | 86,902,997 | | 109,574,584 | |
| 2025 | | | | | | | 125,274,497 | | 73,746,884 | |
| 2026 | | | | | | | 138,983,310 | | 62,177,709 | |
| 2027 | | | | | | | 128,225,894 | | 74,057,221 | |
| 2028 | | | | | | | 89,544,171 | | 84,024,609 | |
| 2029 | | | | | | | 79,511,075 | | 84,017,759 | |
| 2030 | | | | | | | 79,738,850 | | 84,020,396 | |
| 2031 | | | | | | | 80,020,100 | | 84,020,046 | |
| 2032 | | | | | | | 80,263,650 | | 84,017,546 | |
| 2033 | | | | | | | 45,662,500 | | 84,023,034 | |
| 2034 | | | | | | | 45,660,250 | | 84,020,821 | |
| 2035 | | | | | | | 45,664,500 | | 84,585,759 | |
| 2036 | | | | | | | - | | 101,056,046 | |
| 2037 | | | | | | | - | | 100,060,429 | |
| 2038 | | | | | | | - | | 99,032,699 | |
| 2039 | | | | | | | - | | 97,971,300 | |
| 2040 | | | | | | | - | | 103,806,971 | |
| 2041 | | | | | | | - | | 63,260,150 | |
| 2042 | | | | | | | - | | 63,263,400 | |
| 2043 | | | | | | | - | | 63,261,650 | |
| 2044 | | | | | | | - | | 63,228,900 | |
| 2045 | | | | | | | - | | 63,230,150 | |
| 2046 | | | | | | | - | | - | |
| 2047 | | | | | | | - | | - | |
| Total | | | | | | | \$1,829,419,412 | | \$2,412,454,012 | |

⁽¹⁾ Preliminary, subject to change. Includes debt service on the Refunded Bonds. See "Plan of Finance" herein.

⁽²⁾ Assumes an all-in interest cost of 3.79 percent on the \$151,085,000 portion of the Series 2012-D Subordinate Bonds associated with the Swap Agreements, and an all-in interest cost of .[2.0] percent on the remaining \$129,775,000 portion of the Series 2012-D Subordinate Bonds. Total may not equal sum of components due to individual rounding.

⁽³⁾ Does not reflect any offset for the Refundable Credits.

Variable Rate Bonds

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

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

Swap Agreements

The City has entered into a Swap Agreement with The Bank of New York Mellon (the “Bank of New York Mellon”) and a Swap Agreement with Dexia Crédit Local, New York Branch (“Dexia”) (collectively, the “Swap Agreements”). Each Swap Agreement has an outstanding notional amount of \$75,542,500, for a total of \$151,085,000, and a termination date of June 1, 2028. In each swap agreement, the City pays a fixed rate of 3.34%, and the swap counterparty pays 64.1% of 1-month USD-LIBOR, adjusted weekly. As of April 1, 2017, the remaining portion of each Swap Agreement had a market value of approximately \$(_____), for a combined total market value of \$(_____), with negative amounts indicating a City liability in the event of a termination requiring a termination payment. The City may terminate the swap agreement with Dexia in the event that any two of Moody’s, S&P or Fitch assign ratings to Dexia’s senior, unsecured, unenhanced debt that is below Baa1, BBB+ or BBB+, respectively. Payments received by the City under the Swap Agreements constitute Revenues of the System, but are not a source of credit or security for the Series 2017 Bonds. See “Risk Factors – Swap Agreements” herein. In August 2014, the City Council approved a proposal to review the Swap Agreements. In March 2015, Councilmember Paul Koretz participated in a phone conversation with members of the Fix LA Coalition, the Service Employees International Union and the chief of staff of one of the commissioners of the Security and Exchange Commission (the “SEC”) during which the Fix LA Coalition asked that the SEC investigate the practice of the banks involved in the Swap transactions. The City has not been contacted by the SEC and is not aware of any existing investigation of the City’s Swap Agreements.

Anticipated Financings

The City also anticipates issuing additional Senior Lien Bonds and Subordinate Bonds (including CP Notes) from time to time to finance capital improvement projects. See “Plan of Finance” and

“Wastewater System Capital Improvement Program – Financing Plans for the Wastewater Capital Improvement Program” herein.

Cash Basis Debt Service Coverage

The following table sets forth the projected cash basis debt service coverage for Fiscal Years 2017 through 2021. 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)

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|--|------------------|------------------|------------------|------------------|------------------|
| Net Revenues – Current Rates ⁽¹⁾ | \$316,138 | \$292,252 | \$270,821 | \$254,382 | \$257,253 |
| Additional Revenue from Future Rate Increases ⁽²⁾ | 0 | 32,107 | 69,148 | 108,785 | 150,805 |
| Additional Interest Income ⁽³⁾ | 0 | (88) | 43 | 454 | 663 |
| BABs and RZEDB Subsidies ⁽⁴⁾ | 2,736 | 0 | 0 | 0 | 0 |
| Projected Net Revenue | <u>\$318,874</u> | <u>\$324,271</u> | <u>\$340,012</u> | <u>\$363,621</u> | <u>\$408,721</u> |
| Debt Service | | | | | |
| Existing Senior Lien Bonds ⁽⁵⁾ | \$ 89,108 | \$ 85,938 | \$ 63,867 | \$ 75,522 | \$ 89,687 |
| Additional Senior Lien Bonds ⁽⁶⁾ | - | - | 7,675 | 22,750 | 38,960 |
| Total Senior Lien Bonds Debt Service | <u>\$ 89,108</u> | <u>\$ 85,938</u> | <u>\$ 71,542</u> | <u>\$98,272</u> | <u>\$128,647</u> |
| Existing Subordinate Bonds ⁽⁷⁾ | \$109,330 | \$109,624 | \$129,584 | \$121,112 | \$103,339 |
| Series 2017A Subordinate Bonds ⁽⁸⁾ | 0 | 12,467 | 11,597 | 11,597 | 11,597 |
| Additional Subordinate Bonds | 0 | 0 | 0 | 0 | 0 |
| CP Notes ⁽⁹⁾ | 0 | 1,750 | 3,000 | 3,000 | 3,000 |
| Total Debt Service on All Bonds and CP Notes | <u>\$198,438</u> | <u>\$209,779</u> | <u>\$215,723</u> | <u>\$233,981</u> | <u>\$246,583</u> |
| Projected Debt Service Coverage | | | | | |
| Total Senior Debt | 358% | 377% | 475% | 370% | 318% |
| Total Senior and Subordinate Debt | 161% | 155% | 158% | 155% | 166% |

Source: Bureau of Sanitation.

⁽¹⁾ Net Revenues, as defined by the General Resolution based on rates and charges currently in effect. The net revenues are calculated assuming that SSC shortfalls resulting from implementation of LADWP’s new billing system will not be recovered in Fiscal Years 2017 through 2021.

(Footnotes continued on next page.)

(Footnotes continued from prior page.)

- ⁽²⁾ Includes projected increases effective on each of July 1 from 2017 through 2021. There is no assurance that debt service coverage for Fiscal Years 2017 through 2021, inclusive, will be at the levels currently projected.
- ⁽³⁾ Includes assumed annual interest earnings of 0.88 percent on increased reserve funds resulting from proposed additional Bond sales.
- ⁽⁴⁾ Reflects the scheduled adoption by City Council on or about April 19, 2017 of a resolution relating to the Refundable Credits and the subsequent offset to Senior Lien Bond debt service. See "Security and Sources of Payment for the Series 2017 Bonds - Amendment to the Resolutions Relating to the Refundable Credits" herein.
- ⁽⁵⁾ Reflects principal and interest becoming due and payable on all Senior Lien Bonds issued and outstanding in each Fiscal Year, as offset by the Refundable Credits pursuant to a resolution scheduled to be adopted by City Council on or about April 19, 2017. See "Security and Sources of Payment for the Series 2017 Bonds - Amendment to the Resolutions Relating to the Refundable Credits" herein.
- ⁽⁶⁾ Principal and interest becoming due and payable on projected additional revenue bonds in each Fiscal Year. Assumes an interest rate of 5.00 percent for additional Senior Lien Bond issuances and 30-year principal amortization structures. See Table 22 for additional information on projected debt issuance.
- ⁽⁷⁾ Represents principal and interest becoming due and payable on all Subordinate Bonds issued and Outstanding in each Fiscal Year. Assumes an all-in interest cost of 3.79 percent on the \$151,085,000 portion of the Series 2012-D Subordinate Bonds associated with the Swap Agreements, and an all-in interest cost of 2.0 percent on the remaining \$129,775,000 portion of the Series 2012-D Subordinate Bonds. See "Plan of Finance."
- ⁽⁸⁾ See "Plan of Finance."
- ⁽⁹⁾ Interest at an assumed annual interest rate of 2.0 percent for Fiscal Year 2017.

REGULATORY REQUIREMENTS AFFECTING OPERATION OF THE SYSTEM

General

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

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

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

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

Another grant-related regulatory requirement is that the City has an approved user charge system. Such user charge regulations require the City to recover annual operation, maintenance, and replacement costs from users of the system in a proportionate manner according to the customer's level of use. Such

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

In addition to federal requirements, the City must comply with State requirements which are generally more stringent. The primary State law concerned with the control of water quality is the Porter-Cologne Water Quality Control Act of 1969, as amended (the "Porter-Cologne Act"). The basic tenor of that act was set by the policy that the waters of the State must be protected for use and enjoyment by the people of the State. The Porter-Cologne Act directly addresses the issue of water reclamation and reuse. A declared policy of the law is that the people of the State have a primary interest in the development of facilities to reclaim wastewater to supplement existing surface and underground water supplies in order to meet their water requirements. The legislative intent was to undertake all possible development of water reclamation facilities to make reclaimed water available for use. The law requires the State Department of Health Services to establish statewide reclamation criteria for each type of use where such use involves public health.

Biosolids Management

The City currently reuses biosolids, a byproduct and residual of wastewater treatment, as a soil amendment at the City-owned Green Acres Farm in Kern County. However, a Kern County voter-approved initiative (Measure E) was passed in July 2006 that prohibited biosolids land application in the unincorporated areas of the Kern County, essentially eliminating the future use of the City's farm for biosolids management. 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. Following trial in Tulare County Superior Court, the court decided that Measure E is invalid and void because it exceeds Kern County's police power authority and is preempted by state law. See "LITIGATION" herein. Once the court enters a final judgment on this matter, the City cannot provide any guarantees that Kern County will not appeal the court's ruling in this matter or that such an appeal would not be successful.

The City is investigating and evaluating new beneficial use options, including the Terminal Island Renewable Energy ("TIRE") demonstration project, and composting operations at contract sites in the LA area. The TIRE project is currently injecting about 200 tons of bio-slurry material per day. Project goals are to increase injection of the bio-slurry material to 400 tons per day and to start two-well injection in early 2017. The demonstration permit will expire on December 2018.

The City also composts a portion of its biosolids at its Griffith Park compost facility. Composting is the process by which organic materials such as biosolids are decomposed into a nutrient-rich soil conditioner.

Air Quality

South Coast Air Quality Management District. The air quality issues relating to treatment plants have been the subject of increased federal, State and local regulation. The US EPA has delegated most enforcement responsibilities of the federal Clean Air Act, as amended ("CAA") to the South Coast Air

Quality Management District (“SCAQMD”). The Bureau of Engineering obtains SCAQMD permits to construct many System capital improvement projects. The Bureau of Sanitation tracks federal and State air quality legislation and proposed federal, State and regional regulations, prepares responses to issues that may impact System operations and future development and coordinates SCAQMD permits to construct larger System projects such as the DGUP at HWRP.

Pollutant and Air Toxics Emissions. All of the City’s treatment plants monitor and report on pollutant emissions and certain air toxics pursuant to SCAQMD requirements, which are based on requirements of AB 2588 (1987) as amended. SCAQMD requires Annual Emissions Reports (“AERs”) of air contaminants and has designated HTP and TIWRP as high priority emitters and requires a health risk assessment (“HRA”) from each facility every four years, or as requested by SCAQMD. An HRA is a comprehensive analysis of the dispersion of hazardous substances into the environment, the potential for human exposure, and a quantitative assessment of both individual and population-wide health risks associated with those levels of exposure. Future HRA analyses will be based on the recently revised Exposure Assessment by the California Office of Environmental Health Hazard Assessment (“OEHHA”). Due to 2016 revised Exposure Assessment Guidelines of the OEHHA, SCAQMD is has amended Rules 1401, 1401.1, 1402, and 212, and has revised its Risk Assessment Procedures. It is expected that this may result in more public notices for future construction or operations at HTP and potentially TIWRP. No issues are expected to arise from AERS, Hot Spots reports, or HRAs.

SCAQMD Air Quality Management Plan and National Ambient Air Quality Standards. Every three (3) years, SCAQMD is required to review its Air Quality Management Plan (“AQMP”). The South Coast Air Basin is in extreme non-attainment for ozone, a federal criteria pollutant in accordance with the National Ambient Air Quality Standards (“NAAQSs”) of the CAA. To meet requirements of the CAA, the 2017 proposed AQMP is focused on reducing NOx and volatile organic compounds (“VOCs”), which are precursors to ozone. Because emissions from stationary sources, SCAQMD’s primary area of jurisdiction, have been significantly reduced during the past few decades, further reduction of ozone from stationary sources should not impinge significantly on the City, as SCAQMD is working with US EPA and CARB to reduced ozone from mobile sources sufficiently to meet attainment.

CARB. In December 2007, CARB adopted Mandatory Reporting Requirements (“MRRs”) requiring reporting of GHG emissions from the largest sources, including refineries, general stationary combustion facilities, and hydrogen plants that emit at least 25,000 metric tons of CO2 equivalents (“MTCO2e”) per year. On December 16, 2011, CARB reduced the reporting threshold to 10,000 MTCO2e per year and removed cogeneration as a category subject to MRRs. If DGUP emissions cause HTP to exceed 10,000 MTCO2e per year, HTP will report this to CARB in accordance with the MRRs.

The Cap and Trade program began on January 1, 2012, with enforceable limits on January 1, 2013. This CARB program requires a declining cap for stationary source combustion of fossil fuels above 25,000 MTCO2e per year. HTP with DGUP is expected to emit only a fraction of this amount.

US EPA. On September 22, 2009, the US EPA finalized a rule for GHG MRRs, one in a series of regulatory changes, leaving no impact on Publicly Owned Treatment Works (“POTWs”). Through this series of changes, the regulation clarified that most POTW, including HTP, are not impacted by the federal MRR, which require reporting only for stationary source combustion emissions of fossil fuels with emissions above 25,000 MTCO2e per year.

Southern California Alliance of Publicly Owned Treatment Works (“SCAP”) and California Association of Sanitation Agencies (“CASA”). The City is a member of SCAP, which assists POTWs in addressing US EPA, CARB, and SCAQMD regulations affecting POTWs and addresses the climate

change and GHG issues of POTWs. The City is also a member of CASA, which provides advocacy for POTWs in a broad spectrum of issues, including those pertaining to air quality and climate change.

No assurance can be given that the cost of compliance with future laws, regulations and orders relating to climate change, greenhouse gases and/or renewable energy would not adversely affect the ability of the System to generate Revenues sufficient to pay debt service on the Series 2017 Bonds.

Water Quality

Total Maximum Daily Loads. The Los Angeles Regional Water Quality Control Board (“LARWQCB”) is required to develop TMDLs for impaired waterbodies. Section 303(d) of the Clean Water Act requires every state to compile a list of waterbodies that are impaired with respect to water quality. Various watersheds in the Los Angeles area have water body segments that are listed as impaired due to a variety of pollutants. Although some TMDLs have already been released, additional TMDLs will be under development and compliance with both existing and new TMDLs will continue into the next decade.

At this time, it is difficult to predict the full impact of TMDLs on the National Pollutant Discharge Elimination System (“NPDES”) effluent limits at the City’s four water reclamation plants. In addition, the Greater Los Angeles County Municipal Separate Storm Sewer System (“MS4”) permit, adopted by the LARWQCB in November 2012, contains provisions that require compliance with all the adopted TMDLs. TMDLs have resulted in two discharge limits included in the City’s NPDES permits (polychlorinated biphenyls and DDT). However, the plant discharges are in compliance with the limits and they are not expected to result in additional costs at the plants. It is expected that significant capital improvements funded by the System may be required to comply with the MS4 requirements and TMDLs and their resulting impact on the City’s future NPDES permits.

NPDES Permits

The City’s four treatment plants are required to obtain five-year NPDES permits that are issued by the LARWQCB. The process of renewing a permit begins when the City files a Report of Waste Discharge (“ROWD”) with the LARWQCB no later than 180 days prior to the permit expiration date. Once an ROWD is complete, about two months before the expiration date, the LARWQCB issues a Tentative Order for review by the City and public. If any changes are made following the review, a Revised Tentative Order is issued. The LARWQCB may consider issues and concerns that are raised or adopt the Revised Tentative Order. About a month after adoption, the LARWQCB will issue the new order containing the new permit. The status of the permits as of February 8, 2017 is summarized in the table below:

| WATER RECLAMATION PLANT (“WRP”) | NPDES # | PREVIOUS NPDES PERMIT | | PENDING / CURRENT NPDES PERMIT | | Expected Expiration |
|---------------------------------|-----------|-----------------------|-------------------|--------------------------------|--|---------------------|
| | | Order # | Expired | Order # | Adopted by LARWQCB | |
| Donald C. Tillman (“DCTWRP”) | CA0056227 | R4-2011-0196 | November 10, 2016 | R4-2017-0062 | March 2, 2017 | April 30, 2022 |
| Los Angeles–Glendale (“LAGWRP”) | CA0053953 | R4-2011-0197 | November 10, 2016 | R4-2017 - 0063 | March 2, 2017 | April 30, 2022 |
| Hyperion (“HWRP”) | CA0109991 | R4-2010-0200 | December 23, 2015 | R4-2017 - 0045 | February 2, 2017 | March 31, 2022 |
| Terminal Island (“TIWRP”) | CA0053856 | R4-2010-0071 | April 10, 2015 | R4-2015-0119-A01 | June 11, 2015 Amended December 1, 2015 | July 31, 2020 |

DCTWRP and LAGWRP. DCTWRP and LAGWRP’s NPDES permits were recently renewed

and adopted by the LARWQCB. The new permits contain revised effluent limits for ammonia and copper consistent with the Los Angeles River TMDL and reflective of the performance of the treatment plant. DCTWRP and LAGWRP are expected to meet the new limits and there will be no potential financial impact to the City.

The SWRCB has initiated a process to develop a nutrient policy for inland surface waters in California in 2014. The proposed policy will establish methods to develop numeric or narrative water quality objectives for nutrients. Currently, the nutrient policy development is still on-going. Potential impacts of the policy on DCTWRP and LAGWRP may include the need for significant upgrades to the facilities and increased energy demand. Potential cost impacts are unknown at this time.

HWRP. HWRP's NPDES permit was recently renewed and adopted by the LARWQCB on February 2, 2017. The permit has imposed a new ammonia limit for the effluent. HWRP currently meets this effluent limit, but could have difficulty meeting the limit in the future. The potential impact would be to provide sidestream treatment to reduce ammonia in the effluent at an estimated capital cost of \$40 million to \$50 million.

On September 15, 2015, HWRP discharged 30 million gallons of secondary effluent through its One Mile Outfall, which is permitted for use during an emergency or when the Five Mile Outfall is not in service or cannot convey all of the plant's secondary effluent. The first significant use of the One Mile Outfall in nine years resulted in the flushing out of debris from a January 2005 raw sewage spill of 160,000 gallons that lay dormant in the plant storm drain system tributary to the One Mile Outfall. The debris that was flushed out of the One Mile Outfall into Santa Monica Bay washed ashore and resulted in the closure of Dockweiler and El Segundo Beaches for four days in September of 2015. This event is expected to result in regulatory fines that the City currently estimates could range from approximately \$2 million to \$3 million, which are expected to be imposed on the City by the end of Fiscal Year 2018.

TIWRP. On June 11, 2015, the LARWQCB adopted TIWRP's NPDES Permit. The final permit was subsequently amended and became effective on December 1, 2015. The permit enforces the LARWQCB's Resolution No. 94-009 (adopted October 31, 1994) approving the City's proposal to ultimately phase out the discharge of tertiary-treated wastewater effluent from TIWRP into Los Angeles Harbor at the earliest practicable date, to implement a Water Recycling Program with the goal of doubling water reuse at TIWRP within six years after the startup of the initial reclamation phase, and to achieve total reuse by 2020.

TIWRP/AWPF. To implement the LARWQCB's Resolution 94-009, the City has been constructing the Harbor Water Recycling Project in phases (Phase I is operational). The recycling project currently treats up to 6 mgd of TIWRP's tertiary-treated effluent by microfiltration and reverse osmosis (MF/RO) at the Advanced Water Purification Facility ("AWPF") for reuse at the Dominguez Gap Seawater Intrusion Barrier Project, and for other various uses in the Los Angeles Harbor area. Phase II of the AWPF project has recently been completed and will increase production of advanced purified recycled water to 12 mgd. The LARWQCB amended and adopted the Waste Discharge Requirements and Water Recycling Requirements for the Harbor Water Recycling Project-Dominguez Gap Barrier Project (Order No. R4-2016-0334) on October 13, 2016.

General. 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.

RISK FACTORS

The ability of the City to pay principal of and interest on the Series 2017 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 2017 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 2017 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 2017 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 2017 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 2017 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 2017 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 2017 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 2017 Bonds. See “Financial Operations of the Wastewater System – Proposition 218” herein.

Proposition 218, as incorporated in the California Constitution under Article XIII C, also provides that the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments,

fees and charges shall be applicable to all local governments. See “Financial Operations of the Wastewater System – Proposition 218” herein. Notwithstanding the fact that the SSC may be subject to reduction or repeal by voter initiative undertaken pursuant to Section 3 of Article XIII C, the City has covenanted to establish, fix, prescribe and collect rates, fees and charges in connection with the use of the System which meet the requirements of the Resolutions and in accordance with applicable law. No assurance can be given that the voters of the City will not, in the future, approve initiatives which seek to repeal, reduce or prohibit the future imposition or increase of assessments, fees or charges, including the City’s SSC, which are a significant source of Revenues pledged to the payment of debt service on Series 2017 Bonds.

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

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

Lake Oroville on California’s Feather River is the main reservoir of the California Water Project, which provides water delivered by DWP to its customers. In February 2017, following heavy winter rainfall in the drainage basin tributary to Oroville Dam, DWR released water over the controlled main spillway. This caused erosion of the spillway structure, so DWR ceased using the main spillway. As the reservoir filled, water spilled over the uncontrolled emergency spillway, causing erosion in the slope below the concrete sill of the spillway. DWR resumed reduced releases over the main spillway to provide reservoir capacity for runoff from future rainfall. These spillways are located to the side of the dam, so erosion of the spillways does not threaten the dam structure. However, any future spillway failure could result in uncontrolled water releases causing downstream flooding and limiting the water available for users of the California Water Project, including the City. This could result in mandatory water use restrictions, reduced sewage volume and reduced SSC revenues to the extent that water restrictions reduce indoor water usage.

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 Subordinate Bonds, including the Series 2017 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.

Unexpected Sewer Failure

The System is subjected to potential failures of its collection and conveyance sewers that can result in unexpected repair costs and regulatory fines. See, for example, “The Wastewater System – Existing Facilities – *Recent Collection System Failures*” herein. Although the CIP includes projects to rehabilitate major conveyance sewers, no assurance can be given that future sewer failures will not occur.

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, 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. 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 also “Security and Sources of Payment for the Series 2017 Bonds – Insurance and Condemnation” herein for a description of insurance for the System.

Utility Costs

No assurance can be given that any future significant reduction or loss of power would not materially adversely affect the operations of the System. The volume of wastewater conveyed and treated in the System on a daily basis requires a significant amount of electrical and thermal power. Electricity is needed to run pumps, lights, computers, mechanical valves and other machinery. Thermal energy, usually generated by electrical power or by burning natural gas, provides heat and cooling necessary for both

buildings and the wastewater treatment process. Prices for electricity or gas may increase, which could adversely affect the System's financial condition.

Impact of Economic Conditions on System Revenues

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

Acceleration; Limitations on Remedies

The General Resolution and the Subordinate General Resolution provide that, upon and during the continuance of an Event of Default, the principal of and interest accrued on all Senior Bonds and Subordinate Bonds, respectively, subject to certain conditions, may be declared to be due and payable immediately. The foregoing notwithstanding, the remedy of acceleration is subject to the limitations on legal remedies against public entities in the State, including a limitation on enforcement obligations against funds needed to serve the public welfare and interest. Also, any remedies available to the Owners of the Series 2017 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 2017 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 2017 Bonds are in many respects dependent upon judicial action which is often subject to discretion and delay and could prove both expensive and time consuming to obtain.

Swap Agreements

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

Risks Related to Variable Rate Bonds

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

Effect of Federal Sequestration on Refundable Credits

The Refundable Credits payable by the Federal government in connection with the Series 2010-A Senior Lien Bonds and Series 2010-B Senior Lien Bonds are subject to reduction pursuant to existing federal law, which requires that the federal budget authority for all accounts in the domestic mandatory spending category, including payments to issuers of direct-pay bonds such as the City, be reduced beginning federal fiscal year 2013 (the "Sequestration"). Prior to March 1, 2013, the City received periodic payments ("Refundable Credits") from the United States Treasury equal to 35% of the interest payable on the Series 2010-A Senior Lien Bonds and periodic Refundable Credits from the United States Treasury equal to 45% of the interest payable on the Series 2010-B Senior Lien Bonds. As a result of the Sequester (herein defined) described under "Risk Factors – Effect of Federal Sequestration on Refundable Credits," the City expects to receive an estimated \$406,507 reduction in Refundable Credits in connection with the Series 2010-A Senior Lien Bonds and the Series 2010-B Senior Lien Bonds for the current federal fiscal year ending September 30, 2017. The Refundable Credits are pledged only to the payment of the Series 2010-A Senior Lien Bonds and Series 2010-B Senior Lien Bonds, and are included in the calculation of Revenues under the General Resolution. However, the City has paid and will continue to pay debt service on its Bonds without accounting for the Refundable Credits expected to be received from the Federal government. The reduction in the amount of Refundable Credits from the Federal government will reduce the amount of Revenues received by the City and, in turn, the amount of Revenues available to pay debt service on Senior Lien Bonds and Subordinate Bonds. However, such reduction is not expected to materially adversely impact the City's ability to pay debt service on the Series 2017 Bonds.

TAX MATTERS –SERIES 2017AB SUBORDINATE BONDS

Opinion of Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the City, under existing statutes and court decisions and assuming continuing compliance with certain tax certifications described herein, (i) interest on the Series 2017AB Subordinate Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (ii) interest on the Series 2017AB Subordinate Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. The Tax Certificate of the City (the “Tax Certificate”), which will be delivered concurrently with the delivery of the Series 2017AB Subordinate Bonds, will contain provisions and procedures relating to compliance with applicable requirements of the Code. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the City in connection with the Series 2017AB Subordinate Bonds, and Bond Counsel has assumed compliance by the City with certain provisions and procedures set forth in the Tax Certificate relating to compliance with applicable requirements of the Code to assure the exclusion of interest on the Series 2017AB Subordinate Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel to the City, under existing statutes, interest on the Series 2017AB Subordinate Bonds is exempt from State of California personal income.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the Series 2017AB Subordinate Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion after the issue date to reflect any action hereafter taken or not taken, or any facts or circumstances that may hereafter come to its attention, or changes in law or in interpretations thereof that may hereafter occur, or for any other reason. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Series 2017AB Subordinate Bonds, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Certifications

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Series 2017AB Subordinate Bonds in order that interest on the Series 2017AB Subordinate Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Series 2017AB Subordinate Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Series 2017AB Subordinate Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The City, in executing the Tax Certificate, will certify to the effect that the City will comply with the provisions and procedures set forth therein and that it will do and perform all acts and things necessary or desirable to assure the exclusion of interest on the Series 2017AB Subordinate Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Series 2017AB Subordinate Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Series 2017AB Subordinate Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Series 2017AB Subordinate Bonds. Prospective owners of the Series 2017AB Subordinate Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the Series 2017AB Subordinate Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount

“Original issue discount” (“OID”) is the excess of the sum of all amounts payable at the stated maturity of a Bond (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the “issue price” of a maturity means the first price at which a substantial amount of the Series 2017AB Subordinate Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of Series 2017AB Subordinate Bonds is expected to be the initial public offering price set forth in this Official Statement. Bond Counsel further is of the opinion that, for any Series 2017AB Subordinate Bonds having OID (a “Tax-Exempt Discount Bond”), OID that has accrued and is properly allocable to the owners of the Tax-Exempt Discount Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Series 2017AB Subordinate Bonds. In general, under Section 1288 of the Code, OID on a Tax-Exempt Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Tax-Exempt Discount Bond. An owner’s adjusted basis in a Tax-Exempt Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Tax-Exempt Discount Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Tax-Exempt Discount Bond even though there will not be a corresponding cash payment.

Owners of Tax-Exempt Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Tax-Exempt Discount Bonds.

Bond Premium

In general, if an owner acquires a Series 2017AB Subordinate Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Series 2017AB Subordinate Bond after the acquisition date (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates), that premium constitutes “bond premium” on that Series 2017AB Subordinate Bond (a “Tax-Exempt

Premium Bond”). In general, under Section 171 of the Code, an owner of a Tax-Exempt Premium Bond must amortize the bond premium over the remaining term of the Tax-Exempt Premium Bond, based on the owner’s yield over the remaining term of the Tax-Exempt Premium Bond, determined based on constant yield principles (in certain cases involving a Tax-Exempt Premium Bond callable prior to its stated maturity date, 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).

An owner of a Tax-Exempt Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner’s regular method of accounting against the bond premium allocable to that period. In the case of a Tax-Exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Tax-Exempt Premium Bond may realize a taxable gain upon disposition of the Tax-Exempt Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner’s original acquisition cost. Owners of any Tax-Exempt Premium Bond should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Tax-Exempt Premium Bonds.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest on tax-exempt obligations, including the Series 2017AB Subordinate Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, “Request for Taxpayer Identification Number and Certification,” or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to “backup withholding,” which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a “payor” generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient. If an owner purchasing a Series 2017AB Subordinate Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Series 2017AB Subordinate Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner’s Federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Series 2017AB Subordinate Bonds under Federal or state law or otherwise prevent beneficial owners of the Series 2017AB Subordinate Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Series 2017AB Subordinate Bonds.

Prospective purchasers of the Series 2017AB Subordinate Bonds should consult their own tax advisors regarding the foregoing matters.

TAX MATTERS – SERIES 2017-C (TAXABLE) SUBORDINATE BONDS

In the opinion of Bond Counsel to the City, interest on the Series 2017-C Subordinate Bonds (Taxable) (i) is included in gross income for Federal income tax purposes pursuant to the Code and (ii) is exempt from State of California personal income.

The following discussion is a brief summary of the principal United States Federal income tax consequences of the acquisition, ownership and disposition of Series 2017-C Subordinate Bonds (Taxable) by original purchasers of the Series 2017-C Subordinate Bonds (Taxable) who are “U.S. Holders,” as defined herein. This summary (i) is based on the Code, Treasury Regulations, revenue rulings and court decisions, all as currently in effect and all subject to change at any time, possibly with retroactive effect; (ii) assumes that the Series 2017-C Subordinate Bonds (Taxable) will be held as “capital assets”; and (iii) does not discuss all of the United States Federal income tax consequences that may be relevant to a holder in light of its particular circumstances or to holders subject to special rules, such as insurance companies, financial institutions, tax-exempt organizations, dealers in securities or foreign currencies, persons holding the Series 2017-C Subordinate Bonds (Taxable) as a position in a “hedge” or “straddle,” holders whose functional currency (as defined in Section 985 of the Code) is not the United States dollar, holders who acquire Series 2017-C Subordinate Bonds (Taxable) in the secondary market, or individuals, estates and trusts subject to the tax on unearned income imposed by Section 1411 of the Code.

Holders of Series 2017-C Subordinate Bonds (Taxable) should consult with their own tax advisors concerning the United States Federal income tax and other consequences with respect to the acquisition, ownership and disposition of the Series 2017-C Subordinate Bonds (Taxable) as well as any tax consequences that may arise under the laws of any state, local or foreign tax jurisdiction.

Original Issue Discount

In general, if Original Issue Discount (“OID”) on a Series 2017-C Subordinate Bond (Taxable) is greater than a statutorily defined de minimis amount, a holder of a Series 2017-C Subordinate Bond (Taxable) must include in Federal gross income (for each day of the taxable year, or portion of the taxable year, in which such holder holds such Series 2017-C Subordinate Bond (Taxable)) the daily portion of OID, as it accrues (generally on a constant yield method) and regardless of the holder’s method of accounting. “OID” is the excess of (i) the “stated redemption price at maturity” over (ii) the “issue price.” For purposes of the foregoing: “issue price” means the first price at which a substantial amount of the Series 2017-C Subordinate Bond (Taxable) is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers); “stated redemption price at maturity” means the sum of all payments, other than “qualified stated interest,” provided by such Series 2017-C Subordinate Bond (Taxable); “qualified stated interest” is stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate; and “de minimis amount” is an amount equal to 0.25 percent of the Series 2017-C Subordinate Bond (Taxable)’s stated redemption price at maturity multiplied by the number of complete years to its maturity. A holder may irrevocably elect to include in gross income all interest that accrues on a Series 2017-C Subordinate Bond (Taxable) using the constant-yield method, subject to certain modifications.

Bond Premium

In general, if a Series 2017-C Subordinate Bond (Taxable) is originally issued for an issue price (excluding accrued interest) that reflects a premium over the sum of all amounts payable on the Series 2017-C Subordinate Bond (Taxable) other than “qualified stated interest” (a “Taxable Premium Bond”),

that Taxable Premium Bond will be subject to Section 171 of the Code, relating to bond premium. In general, if the holder of a Taxable Premium Bond elects to amortize the premium as “amortizable bond premium” over the remaining term of the Taxable Premium Bond, determined based on constant yield principles (in certain cases involving a Taxable Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the highest yield on such bond), the amortizable premium is treated as an offset to interest income; the holder will make a corresponding adjustment to the holder’s basis in the Taxable Premium Bond. Any such election is generally irrevocable and applies to all debt instruments of the holder (other than tax-exempt bonds) held at the beginning of the first taxable year to which the election applies and to all such debt instruments thereafter acquired. Under certain circumstances, the holder of a Taxable Premium Bond may realize a taxable gain upon disposition of the Taxable Premium Bond even though it is sold or redeemed for an amount less than or equal to the holder's original acquisition cost.

Disposition and Defeasance

Generally, upon the sale, exchange, redemption, or other disposition (which would include a legal defeasance) of a Series 2017-C Subordinate Bond (Taxable), a holder generally will recognize taxable gain or loss in an amount equal to the difference between the amount realized (other than amounts attributable to accrued interest not previously includable in income) and such holder’s adjusted tax basis in the Series 2017-C Subordinate Bond (Taxable).

The City may cause the deposit of moneys or securities in escrow in such amount and manner as to cause the Series 2017-C Subordinate Bonds (Taxable) to be deemed to be no longer outstanding (a “defeasance”). For Federal income tax purposes, such defeasance could result in a deemed exchange under Section 1001 of the Code and a recognition by such owner of taxable income or loss, without any corresponding receipt of moneys. In addition, the character and timing of receipt of payments on the Series 2017-C Subordinate Bonds (Taxable) subsequent to any such defeasance could also be affected.

Backup Withholding and Information Reporting

In general, information reporting requirements will apply to non-corporate holders of the Series 2017-C Subordinate Bonds (Taxable) with respect to payments of principal, payments of interest, and the accrual of OID on a Series 2017-C Subordinate Bond (Taxable) and the proceeds of the sale of a Series 2017-C Subordinate Bond (Taxable) before maturity within the United States. Backup withholding may apply to holders of Series 2017-C Subordinate Bonds (Taxable) under Section 3406 of the Code. Any amounts withheld under the backup withholding rules from a payment to a beneficial owner, and which constitutes over-withholding, would be allowed as a refund or a credit against such beneficial owner’s United States Federal income tax provided the required information is furnished to the Internal Revenue Service.

U.S. Holders

The term “U.S. Holder” means a beneficial owner of a Series 2017-C Subordinate Bond (Taxable) that is: (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or of any political subdivision thereof, (iii) an estate the income of which is subject to United States Federal income taxation regardless of its source or (iv) a trust whose administration is subject to the primary jurisdiction of a United States court and which has one or more United States fiduciaries who have the authority to control all substantial decisions of the trust.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Series 2017-C Subordinate Bonds (Taxable) under state law and could affect the market price or marketability of the Series 2017-C Subordinate Bonds (Taxable).

Prospective purchasers of the Series 2017-C Subordinate Bonds (Taxable) should consult their own tax advisors regarding the foregoing matters.

CONTINUING DISCLOSURE

In order to provide certain continuing disclosure with respect to the Series 2017 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 2017 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 2017 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, 2017 for the report for the 2015-16 Fiscal Year, or if the fiscal year-end changes from June 30, not later than 365 days after the end of the City’s Fiscal Year (the “Annual Reports”), and to provide notices of the occurrence of certain enumerated events (the “Listed Events”). The Annual Reports and notices of Listed Events will be filed with the Electronic Municipal Market Access (“EMMA”) database maintained by the Securities and Exchange Commission, pursuant to the Rule. These covenants will be made in order to assist the Underwriters of the Series 2017 Bonds in complying with the Rule.

The City and its related entities issue a variety of bonds, notes and obligations (“Obligations”), including Obligations issued through its proprietary enterprise programs and for its housing program and other conduit borrowers, as well as Obligations secured by special taxes and special assessments. The representations made by the City in this section regarding its previous continuing disclosure undertakings relate only to those Obligations which are managed by the City Administrative Officer and its staff, including Obligations secured by the City’s general fund (including the City’s Judgment Obligation Bonds and the Bonds and notes issued through the Municipal Improvement Corporation of Los Angeles), General Obligation Bonds, Wastewater System Revenue Bonds, Tax and Revenue Anticipation Notes, and Solid Waste Revenue Bonds. The City’s Department of Airports, Department of Water and Power and Harbor Department (each of which is governed by a Board of Commissioners that is separate from the City Council) enter into continuing disclosure undertakings in connection with the bonds and notes that are secured and payable from their respective enterprise revenues.

The City did not file timely notices of rating changes on several issues of certain of the Obligations based on changes in the ratings of bond insurers, including Ambac Assurance Corp., Assured Guaranty Municipal Corp., Financial Guaranty Insurance Company, MBIA Inc., and ACA Financial Guaranty Corporation within the last five years. Notices of all of these rating changes have been filed on the EMMA website.

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 2017 Bonds or in any way contesting or affecting the validity of the Series 2017 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 2017 Bonds or the use of the proceeds of the Series 2017 Bonds. There are no pending lawsuits that in the opinion of the City Attorney challenge the validity of the Series 2017 Bonds, the corporate existence of the City, or the title of the executive officers to their respective offices.

Certain Claims Against the SCM Fund

The City is routinely a party to a variety of pending and threatened lawsuits and administrative proceedings, including those that may affect the SCM Fund of the City. The Office of the City Attorney has prepared the following summary, as of March 20, 2017, of certain claims and lawsuits (with a potential loss exceeding \$1,000,000) pending against the SCM Fund for construction claims and certain other alleged liabilities arising during the ordinary course of operations of the System.

- *City of Los Angeles et al. v. County of Kern et al.* This is an action stemming from a 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 Green Acres Farm. In January 2011, the City filed a state claim challenging Measure E and Kern County's ban on the land application of biosolids. The court granted a preliminary injunction in July 2011 allowing the City to maintain biosolids operations at Green Acres while the litigation is pending. A trial was held in April and May of 2016 in the Tulare County Superior Court. The court rendered a tentative decision on November 28, 2016, that Measure E is invalid and void because it exceeds Kern County's police power authority and is preempted by state law. Such tentative decision became final on March 15, 2017, but judgment has not yet been entered so the time limit from which to file an appeal has not yet begun. This decision allows the City to continue applying biosolids at the City-owned Green Acres Farm in Kern County. The City cannot provide any guarantees that Kern County will not appeal the court's ruling in this matter or that such an appeal would not be successful.
- *Maxim Tselevich, et al. v. City of Los Angeles.* This is a lawsuit alleging that a City sewer system malfunction caused damage to plaintiff's residence and at-home business venture for manufacturing specialty furniture. The City's motion for summary judgment was partially granted and the claims by one of the plaintiffs for health related and business opportunity damages were dismissed. The only remaining claim is for inverse condemnation. The trial is currently scheduled for April 27, 2017. If plaintiff prevails on the remaining claim, possible City liability could be approximately \$4 million.
- *Miles, et al. v. City of Los Angeles.* This is a lawsuit where three plaintiffs allege that since June 2011, a putative class they seek to represent of Wastewater Collection Workers and Maintenance Laborers have not been relieved of all duty during their meal and rest breaks such that they are owed statutory penalties for these missed breaks pursuant to a number of Labor Code provisions (Labor Code section 226.7, 512, 558, and 2699) and Industrial Wage Order No. 9 applicable to the transportation industry. The City denies liability that either the Labor Code provisions or the Wage Order applies to the putative class, or that they have not been afforded off-duty meal or rest breaks. The case

is in the pleading stage and discovery is underway. The plaintiffs have not yet moved for class certification. No specific amount of damages has yet been claimed. A status conference has been scheduled for October 11, 2017. If the plaintiffs prevail, the City preliminarily estimates that its exposure could range from \$5 million to \$10 million.

- *Christopher Ekstein, et al. v. City of Los Angeles*. This is a lawsuit alleging property damages as a result of two sewer backup flooding incidents in 2013. A March 6, 2017 trial date was recently vacated and a new trial date has not yet been assigned. A mandatory settlement conference is currently scheduled for May 16, 2017. Based on current facts and circumstances, the City's liability could be approximately \$1.5 million.
- *P.P. Ocean, LLC v. City of Los Angeles*. In this case, the plaintiff alleges he was unable to sell his property because his property was allegedly damaged and made unstable due to water or sewage intrusion. Based on current facts and circumstances, the City is unable to provide a reasonable estimate of potential liability at this time.

In the view of the City, these claims and lawsuits should not result in judgments or settlements which, in the aggregate, would have a material adverse effect on the City's ability to pay debt service on the Series 2017 Bonds.

In addition to the above, the SCM Fund may be impacted as a result of several class action lawsuits that were filed as a result of numerous DWP billing issues, see "Financial Operations of the Wastewater System – Billing and Collection" herein, as well as potential liabilities and/or regulatory fines as a result of certain System failures, see "The Wastewater System – Existing Facilities – *Recent Collection System Failures*" herein and "Regulatory Requirements Affecting Operation of the System – NPDES Permits – *HWRP*" herein.

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 2017 Bonds or have been underwriters of the City's Senior Lien Bonds and Subordinate Bonds in the past. The complaint alleged that the defendants manipulated the derivative market by various means which decreased the returns the City earned on guaranteed investment contracts and municipal derivative instruments. The City has settled with certain of the investment banking firms and has agreed to settlements with the remaining defendants with formal dismissals pending.

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 – "Certain Information Regarding the City of Los Angeles – Employment Litigation" attached hereto.]

LEGAL OPINION

The validity of the Series 2017 Bonds and certain other matters are subject to the approval of legality by Hawkins Delafield & Wood LLP, Los Angeles, California, Bond Counsel to the City. A complete copy of the proposed form of opinions 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 Norton Rose Fulbright US LLP, Los Angeles, California, Disclosure Counsel, and by Michael N. Feuer, City Attorney, and for the Underwriters by their counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation, Sacramento, California.

RATINGS

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), Fitch Ratings ("Fitch") and Kroll Bond Rating Agency have assigned the Series 2017 Bonds their ratings of "___," "___" and "___," 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: S&P Global Ratings, 55 Water Street, New York, New York 10041; Fitch Ratings, One State Street Plaza, New York, New York 10004; and Kroll Bond Rating Agency, 845 Third Avenue, Fourth Floor, New York, New York 10022. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own.

There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2017 Bonds.

UNDERWRITING

The Series 2017 Bonds are being purchased by Morgan Stanley & Co. LLC, as representative of itself, Siebert Cisneros Shank & Co., L.L.C., Academy Securities Inc. and Fidelity Capital Markets (collectively, the "Underwriters") at a price of \$_____ (which amount represents the principal amount of the Series 2017 Bonds of \$_____, plus/minus a [net] original issue premium/discount of \$_____, and less an underwriters' discount of \$_____). The Underwriters may offer and sell the Series 2017 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.

Morgan Stanley & Co. LLC, an Underwriter of the Series 2017 Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series 2017 Bonds.

Academy Securities, Inc., an Underwriter of the Series 2017 Bonds, has entered into Distribution Agreements with The Vanguard Group, UBS Financial Services Inc., William Blair & Company, LLC, Wedbush Securities Inc., Higgins Capital Management Inc., TD Ameritrade Inc., Stoeber, Glass & Company Inc., BNY Mellon Capital Markets LLC, R. Seelaus & Co., World First Financial Services, Inc., Commonwealth Financial Network, Winslow Evans and Crocker Inc., Securevest Financial Group, Moors & Cabot, Inc., Crews and Associates, Inc., Douglas & Co. Municipals, Inc., Ross, Sinclair & Associates, Inc., SWBC Investment Services LLC, W.H. Mell Associates, Inc., Intercoastal Capital Markets, Inc., UnionBanc Investment Services LLC, Chapin Davis Inc., Janney Montgomery Scott LLC, NBC Securities, Inc., CFG Capital Markets LLC, Herbert J. Sims & Co., Inc., WFG Investments, Inc., Gates Capital Corporation, FMS Bonds, Inc., Aegis Capital Corp., MCAP, LLC, Maxim Group LLC, Shearson Financial Services, LLC, Newbridge Securities Corp., and ISC Group, Inc. for the retail distribution of certain municipal securities at the original issue prices. Pursuant to these Distribution

Agreements (if applicable to this transaction), Academy Securities may share a portion of its underwriting compensation with these firms.

[add any other distribution arrangements]

The following four paragraphs have been provided by the Underwriters:

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

The City intends to use a portion of the proceeds from the Series 2017-B Subordinate Bonds and the Series 2017-C Subordinate Bonds (Taxable) to redeem the Refunded Bonds. To the extent an Underwriter or an affiliate thereof is an owner of Refunded Bonds, such Underwriter or its affiliate, as applicable, would receive a portion of the proceeds from the issuance of the Series 2017 Bonds contemplated herein in connection with such Refunded Bonds being redeemed by the City.

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

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

MUNICIPAL ADVISORS

Public Resources Advisory Group, and Frasca & Associates, L.L.C. have served as Municipal Advisors to the City in connection with the issuance of the Series 2017 Bonds. The Municipal Advisors have assisted the City in matters relating to the planning, structuring, issuance of the Series 2017 Bonds. The Municipal 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 Municipal Advisors make no guaranty, warranty or other representation respecting accuracy and completeness of the Official Statement.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

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

FINANCIAL STATEMENTS AND DEBT SERVICE COMPLIANCE REPORTS

The SCM Fund Financial Statements and Required Supplementary Information for the Fiscal Years ended June 30, 2016 and 2015 (With Independent Auditor's Report Thereon) and the SCM Fund Debt Service Compliance Report for the Fiscal Year ended June 30, 2016 (With Independent Auditor's Report Thereon) are included as Appendix E. The financial statements of the SCM Fund for the Fiscal Year ended June 30, 2016 and the SCM Fund Debt Service Compliance Report for the Fiscal Year ended June 30, 2016 have been audited by Macias Gini & O'Connell LLP ("Macias"), independent certified public accountants, as stated in their report. Macias has not consented to the inclusion of its reports in Appendix E and Macias has not undertaken to update its reports or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by Macias with respect to any event subsequent to the date of its reports.

MISCELLANEOUS

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

There are appended to this Official Statement a summary of certain provisions of the Resolutions, a glossary of defined terms, a glossary of System terms, Audited Financial Statements of the SCM Fund, the proposed form of opinions 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 2017 Bonds. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as an opinion and not as representations of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof. All references to the City Charter and the Resolutions are brief outlines of certain provisions thereof. Such outlines do not purport to be complete and reference is made to such laws and such documents for a full and complete statement of such provisions.

CITY OF LOS ANGELES

By: _____
Assistant City Administrative Officer

APPENDIX A

CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES

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 2017 Bonds. The Series 2017 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 2017 Bonds” in the forepart of this Official Statement.

APPENDIX A – CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES

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

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HISTORIC, ECONOMIC AND DEMOGRAPHIC INFORMATION

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, California (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, environmental technology and aerospace. The County is a top-ranked county in manufacturing in the nation. Important components of local industry include apparel, computer and electronic components, transportation equipment, fabricated metal, and food. Fueled by trade with the Pacific Rim countries, the Ports of Los Angeles and Long Beach combined are the busiest container ports in the nation. As home to the film, television and recording industries, as well as important cultural facilities, the City serves as a principal global cultural center.

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

Population

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

Table 1
CITY, COUNTY AND STATE POPULATION STATISTICS

| | <u>City of Los Angeles</u> | <u>Annual Growth Rate⁽¹⁾</u> | <u>County of Los Angeles</u> | <u>Annual Growth Rate⁽¹⁾</u> | <u>State of California</u> | <u>Annual Growth Rate⁽¹⁾</u> |
|---------------------|--------------------------------|---|----------------------------------|---|--------------------------------|---|
| 2000 ⁽¹⁾ | 3,694,742 | - | 9,519,330 | - | 33,873,086 | - |
| 2005 ⁽¹⁾ | 3,769,131 | 0.40% | 9,816,153 | 0.62% | 35,869,173 | 1.18% |
| 2010 ⁽¹⁾ | 3,792,621 | 0.12 | 9,818,605 | 0.00 | 37,253,956 | 0.77 |
| 2015 ⁽¹⁾ | 3,980,423 | 0.99 | 10,155,069 | 0.69 | 38,907,642 | 0.89 |
| 2016 | 4,030,904 | 1.27 | 10,241,335 | 0.85 | 39,255,883 | 0.90 |

⁽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, E-4 Population Estimates for Cities, Counties and the State, 2001-2010, with 2000 and 2010 Census Counts, Sacramento, California, November 2012. State of California, Department of Finance, E-4 Population Estimates for Cities, Counties, and the State, 2011-2016, with 2010 Census Benchmark. Sacramento, California, May 2016.

Industry and Employment

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

The California Employment Development Department has reported preliminary unemployment figures for January 2017 of 5.5% statewide, 5.1% for the County, and 5.4% 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>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|
| City of Los Angeles | | | | | |
| Employed | 1,680,100 | 1,728,500 | 1,835,200 | 1,870,400 | 1,909,400 |
| Unemployed | <u>230,900</u> | <u>211,700</u> | <u>175,700</u> | <u>140,300</u> | <u>112,400</u> |
| Total | 1,911,000 | 1,940,200 | 2,010,900 | 2,010,700 | 2,021,800 |
| County of Los Angeles | | | | | |
| Employed | 4,378,800 | 4,495,700 | 4,610,800 | 4,674,800 | 4,778,800 |
| Unemployed | <u>535,800</u> | <u>486,600</u> | <u>415,100</u> | <u>336,900</u> | <u>264,500</u> |
| Total | 4,914,500 | 4,982,300 | 5,025,900 | 5,011,700 | 5,043,300 |
| <u>Unemployment Rates</u> | | | | | |
| City | 12.1% | 10.9% | 8.7% | 7.0% | 5.6% |
| County | 10.9 | 9.8 | 8.3 | 6.7 | 5.2 |
| State | 10.5 | 8.5 | 7.5 | 6.2 | 5.4 |
| United States | 8.1 | 7.4 | 6.2 | 5.3 | 4.9 |

⁽¹⁾ March 2016 Benchmark report as of March 3, 2017; not seasonally adjusted.

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

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

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

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

| | County | | | | State of California | |
|-------------------------------------|----------------|-------------|----------------|-------------|---------------------|-------------|
| | 2000 | % of Total | 2016 | % of Total | 2016 | % of Total |
| Agricultural | 7,700 | 0.2% | 5,300 | 0.1% | 426,700 | 2.5% |
| Mining and Logging | 3,400 | 0.1 | 3,600 | 0.1 | 24,500 | 0.1 |
| Construction | 131,500 | 3.2 | 133,100 | 3.0 | 774,100 | 4.6 |
| Manufacturing | 616,300 | 14.9 | 360,400 | 8.2 | 1,305,600 | 7.7 |
| Trade, Transportation and Utilities | 784,900 | 19.0 | 829,900 | 18.9 | 2,990,200 | 17.7 |
| Information | 244,300 | 5.9 | 230,900 | 5.3 | 523,100 | 3.1 |
| Financial Activities | 223,400 | 5.4 | 219,800 | 5.0 | 822,900 | 4.9 |
| Professional and Business Services | 589,700 | 14.3 | 605,200 | 13.8 | 2,530,800 | 15.0 |
| Educational and Health Services | 464,900 | 11.2 | 767,400 | 17.5 | 2,537,400 | 15.0 |
| Leisure and Hospitality | 345,000 | 8.3 | 510,500 | 11.6 | 1,897,300 | 11.2 |
| Other Services | 140,200 | 3.4 | 153,400 | 3.5 | 556,900 | 3.3 |
| Government | <u>581,400</u> | <u>14.1</u> | <u>576,300</u> | <u>13.1</u> | <u>2,514,600</u> | <u>14.9</u> |
| Total ⁽²⁾ | 4,132,500 | 100.0% | 4,395,700 | 100.0% | 16,904,100 | 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⁾ Totals 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 2016 Benchmark report released March 3, 2017.

Major Employers

The top 25 major non-governmental employers in the County are listed in the table below. The employees of these non-governmental employers represent approximately 6.6% of the labor force (based on total employment in 2015). In addition, government employment represents approximately 13.2% of the labor force (see Table 3 – Estimated Industry Employment and Labor Force).

Table 4
LOS ANGELES COUNTY
2016 MAJOR NON-GOVERNMENTAL EMPLOYERS

| <u>Employer</u> | <u>Product/Service</u> | <u>Employees</u> |
|--|--|-----------------------|
| Kaiser Permanente | Nonprofit health care plan | 36,987 |
| University of Southern California | Private university | 18,971 |
| Northrop Grumman Corp. | Defense contractor | 16,619 |
| Target Corp. | Retailer | 15,000 |
| Ralphs/Food 4 Less (Kroger Co. Division) | Grocery retailer | 13,500 |
| Bank of America Corp | Banking and financial services | 13,000 ⁽¹⁾ |
| Providence Health & Services Southern California | Health care | 13,000 |
| Walt Disney Co. | Entertainment | 12,500 |
| Albertsons/Vons/Pavilions | Grocery retailer | 12,400 ⁽¹⁾ |
| Cedars-Sinai Medical Center | Medical center | 11,625 |
| AT&T Inc. | Telecommunications, DirecTV | 11,500 ⁽¹⁾ |
| UPS | Logistics, transportation and freight | 10,800 |
| Home Depot | Home improvement specialty retailer | 10,600 ⁽¹⁾ |
| Boeing Co. | Aerospace and defense, commercial jetliners, space and security systems | 9,500 ⁽¹⁾ |
| Wells Fargo Bank, N.A. | Diversified financial services | 9,248 |
| ABM Industries Inc. | Facility services, energy solutions, commercial cleaning, maintenance and repair | 8,500 ⁽¹⁾ |
| California Institute of Technology | Private university, operator of Jet Propulsion Laboratory | 8,291 |
| FedEx Corp. | Shipping and logistics | 7,900 ⁽¹⁾ |
| Edison International | Electric utility | 7,600 ⁽¹⁾ |
| Allied Universal | Security professionals | 6,600 |
| Dignity Health | Health care | 6,100 |
| SoCalGas | Natural gas utility | 5,600 |
| Costco Wholesale | Membership chain of warehouse stores | 5,527 |
| Warner Bros. Entertainment Inc. | Entertainment | 5,400 ⁽²⁾ |
| Amgen Inc. | Biotechnology | 5,300 |

⁽¹⁾ Business Journal estimate.

⁽²⁾ Information provided by City of Burbank.

Source: Los Angeles Business Journal, Weekly Lists, originally published August 29, 2016.

Table 5
LOS ANGELES COUNTY
2016 LARGEST PUBLIC SECTOR EMPLOYERS

| <u>Employers</u> | <u>Employees</u> |
|--|------------------|
| Los Angeles County | 108,093 |
| Los Angeles Unified School District | 59,823 |
| US Government - Federal Executive Board ⁽¹⁾ | 47,200 |
| University of California, Los Angeles | 46,220 |
| City of Los Angeles ⁽²⁾ | 32,576 |
| State of California ⁽³⁾ | 28,900 |
| Los Angeles County Metropolitan Transportation Authority | 9,892 |
| Los Angeles Department of Water and Power (LADWP) | 9,335 |
| Los Angeles Community College District | 6,909 |
| Long Beach Unified School District | 6,515 |
| California State University, Northridge | 6,326 |
| City of Long Beach | 5,286 |
| California State University, Long Beach | 3,790 |
| Los Angeles World Airports (LAWA) | 3,439 |
| Pomona Unified School District | 2,926 |
| Montebello Unified School District | 2,579 |
| Cal Poly Pomona | 2,572 |
| California State University, Los Angeles | 2,422 |
| Compton Unified School District | 2,240 |
| City of Santa Monica | 2,203 |
| William S. Hart Union High School District | 2,192 |
| City of Pasadena | 2,106 |
| Glendale Unified School District | 2,018 |
| Santa Monica Community College District | 1,958 |
| Mt. San Antonio Community College District | 1,923 |

⁽¹⁾ Excludes law enforcement and judiciary employees.

⁽²⁾ Excludes proprietary departments (LADWP, LAWA, and Port of LA).

⁽³⁾ Excludes education employees.

Source: Los Angeles Business Journal, Weekly Lists, originally published August 29, 2016.

Personal Income

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

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

Table 6
COUNTY, STATE AND U.S.
PERSONAL INCOME

| Year and Area | Personal Income (thousands of dollars) | Per Capita Personal Income ⁽¹⁾ (dollars) |
|------------------------------|---|---|
| 2011 | | |
| County ⁽³⁾ | \$ 454,935,533 | \$ 45,969 |
| State ⁽²⁾ | 1,727,433,579 | 45,820 |
| United States ⁽²⁾ | 13,233,436,000 | 42,453 |
| 2012 | | |
| County ⁽³⁾ | \$ 486,733,508 | \$ 48,818 |
| State ⁽²⁾ | 1,838,567,162 | 48,312 |
| United States ⁽²⁾ | 13,904,485,000 | 44,267 |
| 2013 | | |
| County ⁽³⁾ | \$ 483,578,594 | \$ 48,140 |
| State ⁽²⁾ | 1,861,956,514 | 48,471 |
| United States ⁽²⁾ | 14,068,960,000 | 44,462 |
| 2014 | | |
| County ⁽³⁾ | \$ 512,846,779 | \$50,730 |
| State ⁽²⁾ | 1,977,923,740 | 50,988 |
| United States ⁽²⁾ | 14,801,624,000 | 46,414 |
| 2015 | | |
| County ⁽³⁾ | \$ 544,324,900 | \$53,521 |
| State ⁽²⁾ | 2,103,669,473 | \$53,741 |
| United States ⁽²⁾ | 15,463,981,000 | 48,112 |

⁽¹⁾ Per capita personal income was computed using Census Bureau midyear population estimates. Per capita personal income is total personal income divided by total midyear population. Estimates for 2011 to 2015 reflect Census Bureau midyear population estimates. Estimates for 2011 to 2015 reflect county population estimates as of March 2016.

⁽²⁾ Last updated: September 28, 2016—revised estimates for 2011- 2015.

⁽³⁾ Last updated: November 17, 2016 – new estimates for 2015; revised estimates for 2011 - 2015.

Source: U.S. Bureau of Economic Analysis, “Table SA1 Personal Income Summary”.

Retail Sales

As the largest city in the County, the City accounted for \$43.4 billion (or 29.4%) of the total \$147.4 billion in County taxable sales for 2014. The following table sets forth a history of taxable sales for the City for calendar years 2010 through 2014, 2014 being the last full year for which data is currently available.

The City experienced a 4.1% increase in sales tax receipts during Fiscal Year 2014-15, estimates 2.1% growth in Fiscal Year 2015-16 (excluding additional receipts from the restoration of the 1% local tax rate) and projected 3.0% growth in taxable sales for the Fiscal Year 2016-17 Adopted Budget.

Table 7
CITY OF LOS ANGELES
TAXABLE SALES
(in thousands)

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|--|--------------|--------------|--------------|--------------|--------------|
| Motor Vehicle and Parts Dealers | \$2,865,868 | \$3,224,150 | \$3,662,657 | \$3,983,625 | \$4,158,168 |
| Home Furnishings and Appliance Stores | 1,590,667 | 1,609,905 | 1,676,926 | 1,683,805 | 1,725,981 |
| Bldg. Materials and Garden Equip. and Supplie: | 1,711,735 | 1,834,117 | 1,942,915 | 2,086,608 | 2,179,954 |
| Food and Beverage Stores | 2,123,626 | 2,199,481 | 2,322,695 | 2,444,701 | 2,582,338 |
| Gasoline Stations | 4,114,016 | 4,952,984 | 5,090,496 | 4,954,380 | 4,822,894 |
| Clothing and Clothing Accessories Stores | 2,551,905 | 2,715,953 | 2,884,984 | 3,032,886 | 3,102,222 |
| General Merchandise Stores | 2,534,482 | 2,660,830 | 2,759,578 | 2,873,530 | 2,899,454 |
| Food Services and Drinking Places | 5,637,405 | 6,049,187 | 6,564,652 | 6,946,625 | 7,534,764 |
| Other Retail Group | 3,451,919 | 3,599,674 | 3,716,658 | 3,943,616 | 3,969,898 |
| Total Retail and Food Services | 26,581,623 | 28,846,283 | 30,621,561 | 31,949,776 | 32,975,674 |
| All Other Outlets | 8,233,833 | 9,011,361 | 9,502,364 | 9,806,938 | 10,480,659 |
| TOTAL ALL OUTLETS ⁽¹⁾ | \$34,815,457 | \$37,857,643 | \$40,123,926 | \$41,756,714 | \$43,456,334 |
| Year-over-year growth | 8.7% | 6.0% | 4.1% | 4.1% | 8.7% |

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

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

Increase in Local Minimum Wage

An Ordinance was adopted by the City Council on June 10, 2015, establishing a citywide minimum wage. The Ordinance requires employers with 26 or more employees to pay employees, (who are not otherwise exempt under law) working within the City a minimum wage of \$10.50 per hour starting on July 1, 2016 and increasing each year until July 1, 2020, when the minimum wage will be \$15.00. Employers with 25 or fewer employees have an additional year before each step increase takes effect (for example, a minimum wage of \$10.50 per hour would be required starting on July 1, 2017). Starting on July 1, 2022 and annually thereafter, the wage rate will be adjusted by the applicable Consumer Price Index to be effective the first of July of the applicable year. This Ordinance is expected to have minimal impact on City expenses.

On April 4, 2016, Governor Brown signed a bill that will make similar changes to the statewide minimum wage, which will increase from \$10 an hour to \$10.50 an hour on January 1, 2017, then up to \$11 an hour on January 1, 2018. From there it will increase by \$1 annually until reaching \$15 an hour on January 1, 2022. Employers in the City will remain on the accelerated schedule of the City's ordinance or whichever standard that is most beneficial to the employee.

On April 20, 2016, the Council approved amending the City's Minimum Wage Ordinance to require employers to provide sick time benefits of 48 hours per year to employees; whereas, the State law requires employers to provide sick time benefits of 24 hours per year. This sick time benefits policy became operative on July 1, 2016 for all employers.

Land Use

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

Table 8
CITY OF LOS ANGELES
ASSESSED VALUATION AND PARCELS BY LAND USE

| | 2016-17 <u>Assessed Valuation⁽¹⁾</u> | % of <u>Total</u> | No. of <u>Parcels</u> | % of <u>Total</u> |
|---------------------------------|--|----------------------|--------------------------|----------------------|
| Non-Residential | | | | |
| Commercial Office | \$ 75,542,910,433 | 14.73% | 135,812 | 4.58% |
| Vacant Commercial | 2,176,967,394 | 0.42 | 1,268 | 0.16 |
| Industrial | 37,514,403,008 | 7.31 | 20,087 | 2.57 |
| Vacant Industrial | 1,778,693,952 | 0.35 | 4,100 | 0.52 |
| Recreational | 1,871,041,690 | 0.36 | 791 | 0.10 |
| Government/Social/Institutional | 3,341,865,167 | 0.65 | 3,769 | 0.48 |
| Miscellaneous | <u>394,530,383</u> | <u>0.08</u> | <u>2,814</u> | <u>0.36</u> |
| Subtotal Non-Residential | \$122,620,412,027 | 23.91% | 68,641 | 8.78% |
| Residential | | | | |
| Single Family Residence | \$270,538,916,563 | 52.75% | 493,648 | 63.16% |
| Condominium/Townhouse | 34,573,833,215 | 6.74 | 86,333 | 11.05 |
| Mobile Homes and Lots | 111,167,270 | 0.02 | 3,312 | 0.42 |
| Mobile Home Park | 170,254,291 | 0.03 | 90 | 0.01 |
| 2-4 Residential Units | 27,188,373,624 | 5.30 | 74,205 | 9.49 |
| 5+ Residential Units/Apartments | 54,638,597,855 | 10.65 | 34,797 | 4.45 |
| Vacant Residential | <u>3,007,978,507</u> | <u>0.59</u> | <u>20,590</u> | <u>2.63</u> |
| Subtotal Residential | \$390,229,121,325 | 76.09% | 712,975 | 91.22% |
| Total | \$512,849,533,352 | 100.00% | 781,616 | 100.00% |

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

Source: California Municipal Statistics, Inc.

Residential Value and Construction Activity

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

Table 9
CITY OF LOS ANGELES
PER PARCEL 2016-17 ASSESSED VALUATION OF SINGLE FAMILY RESIDENTIAL PROPERTIES

| | <u>No. of Parcels</u> | <u>2016-17 Assessed Valuation</u> | <u>Average Assessed Valuation</u> | <u>Median Assessed Valuation</u> |
|--------------------------------------|-----------------------|-----------------------------------|-----------------------------------|----------------------------------|
| Single Family Residential Properties | 493,648 | \$270,538,916,563 | \$548,040 | \$349,525 |

| <u>2016-17 Assessed Valuation</u> | <u>No. of Residential Parcels ⁽¹⁾</u> | <u>% of Total</u> | <u>Cumulative % of Total</u> | <u>Total Valuation</u> | <u>% of Total</u> | <u>Cumulative % of Total</u> |
|-----------------------------------|--|-------------------|------------------------------|------------------------|-------------------|------------------------------|
| \$0 - \$49,999 | 9,215 | 1.867% | 1.867% | \$ 342,374,110 | 0.127% | 0.127% |
| \$50,000 - \$99,999 | 32,124 | 6.507 | 8.374 | 2,472,391,536 | 0.914 | 1.040 |
| \$100,000 - \$149,999 | 26,997 | 5.469 | 13.843 | 3,459,260,595 | 1.279 | 2.319 |
| \$150,000 - \$199,999 | 34,412 | 6.971 | 20.814 | 6,401,905,244 | 2.366 | 4.685 |
| \$200,000 - \$249,999 | 42,013 | 8.511 | 29.325 | 9,571,149,582 | 3.538 | 8.223 |
| \$250,000 - \$299,999 | 46,825 | 9.486 | 38.810 | 12,919,064,325 | 4.775 | 12.999 |
| \$300,000 - \$349,999 | 55,425 | 11.228 | 50.038 | 18,911,287,125 | 6.990 | 19.989 |
| \$350,000 - \$399,999 | 50,126 | 10.154 | 60.192 | 18,853,391,120 | 6.969 | 26.958 |
| \$400,000 - \$449,999 | 31,524 | 6.386 | 66.578 | 13,536,783,888 | 5.004 | 31.961 |
| \$450,000 - \$499,999 | 22,023 | 4.461 | 71.039 | 10,691,659,971 | 3.952 | 35.913 |
| \$500,000 - \$549,999 | 18,842 | 3.817 | 74.856 | 9,948,500,632 | 3.677 | 39.591 |
| \$550,000 - \$599,999 | 14,799 | 2/009 | 77.854 | 8,604,671,364 | 3.181 | 42.771 |
| \$600,000 - \$649,999 | 13,894 | 2.815 | 80.669 | 8,890,228,734 | 3.286 | 46.057 |
| \$650,000 - \$699,999 | 12,431 | 2.518 | 83.187 | 8,454,497,134 | 3.125 | 49.182 |
| \$700,000 - \$749,999 | 9,111 | 1.846 | 85.823 | 6,659,257,233 | 2.461 | 51.644 |
| \$750,000 - \$799,999 | 8,837 | 1.790 | 86.823 | 6,625,823,534 | 2.449 | 54.093 |
| \$800,000 - \$849,999 | 6,854 | 1.388 | 88.211 | 5,722,445,724 | 2.115 | 56.208 |
| \$850,000 - \$899,999 | 6,784 | 1.374 | 89.585 | 5,936,678,400 | 2.194 | 58.402 |
| \$900,000 - \$949,999 | 6,038 | 1.223 | 90.808 | 5,602,557,554 | 2.071 | 60.473 |
| \$950,000 - \$999,999 | 4,700 | 0.952 | 91.761 | 4,612,749,200 | 1.705 | 62.178 |
| \$1,000,000 and greater | <u>40,674</u> | <u>8.239</u> | 100.000 | <u>102,322,239,558</u> | <u>37.822</u> | 100.000 |
| Total | 493,648 | 100.000% | | \$270,538,916,563 | 100.000% | |

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

Source: California Municipal Statistics, Inc.

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

Table 10
CITY OF LOS ANGELES
RESIDENTIAL BUILDING PERMIT VALUATIONS AND NEW UNITS

| | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> |
|---|-------------|-------------|-------------|-------------|-------------|
| Valuation ⁽¹⁾ | \$3,386 | \$3,671 | \$4,246 | \$6,416 | \$6,808 |
| Residential ⁽²⁾ | 1,131 | 1,407 | 1,732 | 2,668 | 3,385 |
| Non-Residential ⁽³⁾ | 723 | 593 | 605 | 968 | 880 |
| Miscellaneous Residential ⁽⁴⁾ | 26 | 17 | 48 | 18 | 28 |
| Miscellaneous Non-Residential ⁽⁵⁾ | 25 | 29 | 31 | 18 | 40 |
| Number of Residential Units: | | | | | |
| Single family ⁽⁶⁾ | 726 | 1,059 | 1,254 | 1,852 | 2,246 |
| Multi-family ⁽⁷⁾ | 5,258 | 5,615 | 7,136 | 9,607 | 13,246 |
| Subtotal Residential Units | 5,984 | 6,674 | 8,390 | 11,459 | 15,492 |
| Number of Non-Residential Units ⁽⁸⁾ | 9 | 89 | 0 | 326 | 613 |
| Miscellaneous Residential Units ⁽⁹⁾ | 390 | 477 | 536 | 274 | 392 |
| Miscellaneous Non-Residential Units ⁽¹⁰⁾ | 286 | 405 | 323 | 267 | 736 |
| Total Units | 6,669 | 7,645 | 9,249 | 12,326 | 17,234 |

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

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

⁽³⁾ Valuation of permits issued for Special Permits, Airport Buildings, Amusement Buildings, Churches, Private Garages, Public Garages, Gasoline Service Stations, Hospitals, Manufacturing Buildings, Office Buildings, Public Administration Buildings, Public Utilities Buildings, Retail Stores, Restaurants, School Buildings, Signs, Private Swimming Pools, Theater Buildings, Warehouses, Miscellaneous Buildings/Structures, Prefabricated Houses, Solar Heaters, Temporary Structures, Artists-in-Residence, Foundation Only, Grade – Non-Hillside, Certificates of Occupancy – Use of Land, Grading – Hillside.

⁽⁴⁾ Valuation of permits issued for "Additions Creating New Units – Residential" and "Alterations Creating New Units – Residential."

⁽⁵⁾ Valuation of permits issued for "Additions Creating New Units – Commercial" and "Alterations Creating New Units – Commercial."

⁽⁶⁾ Number of dwelling units permitted for Single-Family Dwellings and Duplexes.

⁽⁷⁾ Number of dwelling units permitted for new Apartment Buildings, Hotel/Motels, and Condominiums.

⁽⁸⁾ Number of dwelling units permitted for Airport Buildings, Amusement Buildings, Churches, Private Garages, Public Garages, Gasoline Service Stations, Hospitals, Manufacturing Buildings, Office Buildings, Public Administration Buildings, Public Utilities Buildings, Retail Stores, Restaurants, School Buildings, Signs, Private Swimming Pools, Theater Buildings, Warehouses, Miscellaneous Buildings/Structures Prefabricated Houses, Solar Heaters, Temporary Structures, Artists-in-Residence.

⁽⁹⁾ Number of dwelling units added includes "Addition Creating New Units – Residential" and "Alterations Creating New Units - Residential."

⁽¹⁰⁾ Number of dwelling units added includes "Additions Creating New Units – Commercial" and "Alterations Creating New Units - Commercial."

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

Commercial Real Estate Markets in Los Angeles

The following table shows the most recent information available regarding vacancy rates for commercial property in the City and the County.

Table 11
CITY OF LOS ANGELES AND COUNTY OF LOS ANGELES
COMMERCIAL PROPERTY VACANCY RATES⁽¹⁾

| <u>Year and Area</u> | <u>Retail</u> | <u>Office</u> | <u>Warehouse</u> | <u>R&D</u> |
|----------------------|---------------|---------------|------------------|----------------|
| 2012 | | | | |
| City | 6.2% | 16.6% | 8.1% | 6.1% |
| County | 6.3 | 16.3 | 8.4 | 5.9 |
| 2013 | | | | |
| City | 5.5 | 16.5 | 7.0 | 4.9 |
| County | 6.1 | 16.4 | 7.5 | 5.1 |
| 2014 | | | | |
| City | 5.4 | 16.2 | 6.4 | 5.2 |
| County | 6.1 | 17.0 | 6.9 | 4.7 |
| 2015 | | | | |
| City | 4.9 | 15.4 | 5.8 | 4.4 |
| County | 6.2 | 15.5 | 6.2 | 3.8 |
| 2016 | | | | |
| City | 5.0 | 14.0 | 5.7 | 4.3 |
| County | 6.2 | 14.0 | 6.0 | 3.2 |

⁽¹⁾ Vacancy rates are annual averages.

Source: REIS, Beacon Economics.

Seismic Considerations

The City is subject to unpredictable and significant seismic activity. A number of known faults run through the City, and the City lies near the San Andreas Fault, which is the boundary between the Pacific and North American tectonic plates. The complex Los Angeles fault system interacts with the alluvial soils and other geologic conditions in the hills and basins of the area. This interaction 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. The City generally does not maintain earthquake insurance coverage. See “Risk Factors” in the forefront of this official statement.

Education

The Los Angeles Unified School District (“LAUSD”), one of the largest employers in the City, administers public instruction for kindergarten through 12th grade (“K-12”), adult, and occupational schools in the City and all or significant portions of a number of smaller neighboring cities and unincorporated areas. The LAUSD, which now encompasses approximately 710 square miles (making it significantly larger than the City at 470 square miles), was formed in 1854 as the Common Schools for the City of Los Angeles, and became a

unified school district in 1960. The LAUSD is governed by a seven-member Board of Education, elected by 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 operated by the Los Angeles Community College District.

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, became effective July 1, 2000, and has been amended a number of times by voter approval.

The City is governed by the Mayor and the Council. The Mayor is elected at-large for a four-year term. As executive officer of the City, the Mayor has the overall responsibility for administration of the City. The Mayor recommends and submits the annual budget to the Council and passes upon subsequent appropriations and transfers, approves or vetoes ordinances, and appoints certain City officials and commissioners. He supervises the administrative process of local government and works with the Council in matters relating to legislation, budget, and finance. As prescribed by the Charter and City ordinances, the Mayor operates an executive department, of which he is the ex-officio head. The current Mayor, Eric Garcetti, assumed office on July 1, 2013 and was elected to a second four-year term on March 7, 2017.

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

The other two elective offices of the City are the Controller and the City Attorney, both elected for four-year terms. The Controller is the chief accounting officer for the City. The current Controller, Ron Galperin, assumed office on July 1, 2013, and was elected to a second four-year term on March 7, 2017.

The City Attorney is attorney and legal advisor to the City and to all City boards, departments, officers, and entities, and prosecutes misdemeanors and violations of the Charter and City ordinances. The current City Attorney, Mike Feuer, assumed office on July 1, 2013, and was elected to a second four-year term on March 7, 2017.

All citywide elected officials of the City are subject to term limits of two four-year terms, while Council members are subject to terms limits of three four-year terms.

The City Administrative Officer (“CAO”) is the chief fiscal advisor to the Mayor and Council and reports directly to both. The CAO is appointed by the Mayor, subject to Council

confirmation. On March 1, 2017, the Mayor appointed Richard H. Llewellyn, Jr. as Interim City Administrative Officer with the departure of the former CAO, Miguel A. Santana, who had served as CAO since August 2009 and resigned effective January 16, 2017, pending a search for a permanent replacement. The new CAO will be appointed by the Mayor and confirmed by the Council.

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. Claire Bartels, the Director of Finance, also serves as the City Treasurer.

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

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

CERTAIN FINANCIAL OPERATIONS

Risk Retention Program

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

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

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

The City's recent claims payment experience for the Sewer Construction and Maintenance Fund is listed in the table below.

Table 12
SEWER CONSTRUCTION AND MAINTENANCE FUND
LIABILITY CLAIMS PAID ⁽¹⁾
(\$ in thousands)

| <u>Fiscal Year</u> | <u>Claims Paid</u> |
|---------------------|--------------------|
| 2012-13 | 1,004 |
| 2013-14 | 9,167 |
| 2014-15 | 2,377 |
| 2015-16 | 1,792 |
| 2016-17 (Estimated) | 3,500 |

⁽¹⁾ Cash basis.

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

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

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

Table 13
HUMAN RESOURCES BENEFITS⁽¹⁾
(\$ in thousands)

| | <u>2012-13</u> | <u>2013-14</u> | <u>2014-15</u> | <u>2015-16</u> | <u>Adopted 2016-17</u> |
|--------------------------------------|------------------|------------------|------------------|------------------|----------------------------|
| Workers' Compensation/Rehabilitation | \$156,033 | \$149,886 | \$161,500 | \$169,601 | \$159,000 |
| Contractual Services | 20,690 | 21,730 | 26,480 | 21,141 | 23,480 |
| Civilian FLEX Program ⁽²⁾ | 209,450 | 225,135 | 227,017 | 235,918 | 247,569 |
| Supplemental Civilian Union Benefits | 4,249 | 3,940 | 4,094 | 4,318 | 4,249 |
| Police Health and Welfare Program | 122,850 | 124,360 | 129,359 | 134,340 | 140,602 |
| Fire Health and Welfare Program | 43,900 | 45,180 | 46,437 | 47,037 | 49,798 |
| Unemployment Insurance | 4,040 | 4,678 | 5,000 | 2,989 | 3,400 |
| Employee Assistance Program | 1,386 | 1,193 | 1,250 | 1,463 | 1,388 |
| Total ⁽³⁾ | <u>\$562,598</u> | <u>\$576,102</u> | <u>\$601,137</u> | <u>\$616,807</u> | <u>\$629,485</u> |

⁽¹⁾ Cash basis.

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

⁽³⁾ Totals may not add due to rounding.

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

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

Table 14
REIMBURSEMENT OF GENERAL FUND COST
(\$ in thousands)

| <u>Fiscal Year</u> | <u>Expenditures⁽¹⁾</u> |
|--------------------------|-----------------------------------|
| 2011-12 | \$50,483 |
| 2012-13 | 53,773 |
| 2013-14 | 62,507 |
| 2014-15 | 60,699 |
| 2015-16 | 28,622 |
| 2016-17 (Adopted Budget) | 46,698 |

⁽¹⁾ Cash basis.

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

Labor Relations

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

There are 41 individual MOUs, affecting about 35,000 full-time City employees (these bargaining units include employees of the Airport and Harbor departments, but exclude DWP employees) that are represented by 22 labor unions/employee associations. The remaining approximately 800 employees are not represented. 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

Between Fiscal Years 2007-08 and 2014-15, the CAO, at the direction of the EERC, worked with labor unions to reduce the City’s labor expenses to address short-term financial concerns and to create a more sustainable, long-term workforce. The adopted staffing level for Fiscal Year 2016-17 is 33,105, 10.9% below its peak of 37,173 in Fiscal Year 2007-08. This represents an increase of 1.5% from Fiscal Year 2015-16.

Among the measures taken to control employee related costs were changing active civilian employee healthcare benefits. To offset the increasing costs associated with health insurance for active employees, several bargaining units have agreed to have their members pay a portion of their monthly health care premium. Effective January 2016, a total of 14 bargaining units began contributing 10% of their health care premium. These bargaining units represent about a quarter of the City's workforce.

In Fiscal Year 2014-15, multi-year agreements were reached with the Los Angeles Police Protective League and with the United Firefighters of Los Angeles City. The City also recently completed negotiations with the 19 bargaining units that comprise the "Coalition of LA City Unions" (which includes 17 full-time and two part-time bargaining units) and the four bargaining units represented by the Engineers and Architects Association. The agreements provide for salary increases as shown on the table below.

The following table summarizes the membership and status of the largest unions and employee associations. Most Wastewater System employees are members of the Service Employees International Union, which is represented by the Coalition of LA City Unions.

Table 15
STATUS OF LABOR CONTRACTS
LARGEST EMPLOYEE ORGANIZATIONS
(As of December 1, 2016)

| <u>Organization</u> | <u>Authorized Number of Full-Time Employees Represented⁽¹⁾</u> | <u>Number of Bargaining Units</u> | <u>Status of Memorandum of Understanding</u> | <u>Cost of Living Adjustment⁽²⁾</u> |
|---|---|-----------------------------------|--|---|
| Los Angeles Police Protective League | 9,726 | 1 | Contract expires 6/30/18 | 4% on 6/26/16 2% on 7/9/17 2% on 1/7/18 |
| United Firefighters of Los Angeles City | 3,147 | 1 | Contract expires 6/30/19 | 4% effective June 26, 2016 2% effective July 9, 2017; 2% effective January 7, 2018; 2% effective July 8, 2018. |
| Coalition of LA City Unions ⁽³⁾ | 14,980 | 17 | Contracts expire 6/30/18 | 2% on 7/9/17 2.75% step on 1/7/18 Salaries restructured |
| Engineers and Architects Association | 4,860 | 4 | Contracts expire 6/22/19 | 1.5% increase effective 12/13/15. 2.25% effective 6/26/16 2.25% effective 6/25/17 2.25% effective 6/24/18 |
| Municipal Construction Inspectors Association | 804 | 1 | Contract expires 6/22/19 | 3% effective 11/13/16 2% effective 6/25/17 1.5% effective 12/10/17 2% effective 6/10/18 2% effective 6/23/19 Salaries restructured |

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

⁽²⁾ Adjustments for the term covered by the specific MOU. Also includes certain "step increases" for variation in pay based on longevity.

⁽³⁾ Includes Service Employees International Union, Local 721, American Federation of State, County and Municipal Employees, Laborers' International Union of North America Local 777, Los Angeles/Orange County Building & Construction Trades Council, IUOE Local 501, and the Teamsters, Local 911, and two units representing part-time employees not included above.

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

The table below shows total authorized City staffing for all departments except the City’s three proprietary departments: Airports, Harbor, and DWP. The Los Angeles Police Department (“LAPD”) represents the single largest department in terms of authorized positions.

Table 16
AUTHORIZED CITY STAFFING⁽¹⁾

| | <u>2012-13</u> | <u>2013-14</u> | <u>2014-15</u> | <u>2015-16</u> | <u>2016-17</u> |
|-------------------|----------------|----------------|----------------|----------------|----------------|
| Sworn | | | | | |
| Police | 10,480 | 10,480 | 10,480 | 10,522 | 10,545 |
| Fire | <u>3,222</u> | <u>3,234</u> | <u>3,232</u> | <u>3,292</u> | <u>3,350</u> |
| Subtotal Sworn | 13,702 | 13,714 | 13,712 | 13,814 | 13,895 |
| Civilian | | | | | |
| Police | 3,167 | 3,226 | 3,227 | 3,313 | 3,330 |
| Fire | 315 | 310 | 342 | 342 | 379 |
| All Others | <u>14,633</u> | <u>14,643</u> | <u>14,594</u> | <u>15,107</u> | <u>15,501</u> |
| Subtotal Civilian | <u>18,115</u> | <u>18,179</u> | <u>18,163</u> | <u>18,762</u> | <u>19,210</u> |
| Total | 31,817 | 31,893 | 31,875 | 32,576 | 33,105 |

⁽¹⁾ As authorized in the Adopted Budget. Includes permanent (“regular”) positions and excludes temporary personnel (also referred to as “resolution authority positions”), which total 1,427 for Fiscal Year 2015-16. Also excludes personnel of the Departments of Airports, Harbor, and DWP.

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

Retirement and Pension Systems

General

The City contributes to three single-employer defined benefit pension plans created by the City Charter: the Los Angeles City Employees’ Retirement System (“LACERS”), the City of Los Angeles Fire and Police Pension Plan (“FPPP”) and, for employees of DWP, the Water and Power Employees’ Retirement, Disability and Death Benefit Insurance Plan (the “Water and Power Plan”). Employees of the City’s Wastewater system are members of LACERS.

Both LACERS provide retirement, disability, death benefits, post-employment healthcare and annual cost-of-living adjustments to plan members and beneficiaries. Both systems are funded primarily from the City’s General Fund. As required by the City Charter, the actuarial valuations for LACERS 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 LACERS Board of Administration, these become the City’s contribution rates for such years. The City generally has made its actuarially determined Annual Required Contribution (“ARC”), although phasing-in the cost of assumption changes has occasionally resulted in a small net pension obligation.

LACERS’ annual valuations determine the amount needed to fund the normal retirement costs accrued for current employment and to amortize any unfunded actuarial accrued liability (“UAAL”). The UAAL represents the difference between the present value of estimated future benefits accrued as of the valuation date and the actuarial value of assets currently available to pay these liabilities. The valuation for the plan is an estimate based on relevant economic and demographic assumptions, with the goal of determining the contributions necessary to sufficiently fund over time the accrued costs attributable to currently active, vested former

members and retired employees and their beneficiaries. In addition, various actuarial assumptions are used in the valuation process, including the assumed rate of earnings on the assets of the plan in the future, the assumed rates of general inflation, salary inflation, inflation in health care costs, assumed rates of disability, the assumed retirement ages of active employees, the assumed marital status at retirement, and the post-employment life expectancies of retirees and beneficiaries. As plan experience differs from adopted assumptions, the actual liabilities will be more or less than the liabilities calculated based on the assumptions. The contribution rates in the following 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.

The valuations incorporate a variety of actuarial methods, some of which are designed to reduce the volatility of contributions from year to year. When measuring the value of assets for determining the UAAL, many pension plans, including LACERS, "smooth" market value gains and losses over a period of years to reduce volatility. These smoothing methodologies result in an actuarial value of assets that are lower or higher than the market value of assets. As discussed below, LACERS 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 the Pension Systems are summarized further below. Market value investment returns for the past 10 fiscal years are shown in the table below. Any return below the actuarial assumed rate of return (currently 7.5% for LACERS) represents an actuarial investment loss, while any return above the assumed rate of return represents an actuarial investment gain.

| <u>Fiscal Year</u> | <u>LACERS</u> |
|--------------------|---------------|
| 2006-07 | 19.5% |
| 2007-08 | (5.7) |
| 2008-09 | (19.5) |
| 2009-10 | 12.9 |
| 2010-11 | 22.6 |
| 2011-12 | 1.1 |
| 2012-13 | 14.3 |
| 2013-14 | 18.4 |
| 2014-15 | 2.8 |
| 2015-16 | 0.5 |

The City has never issued pension obligation bonds to fund either of its Pension Systems. The City does pre-pay its annual contributions out of the proceeds of its annual issuance of tax and revenue anticipation notes.

This section, "**Retirement and Pension Systems,**" and the following section, "**Other Post-Employment Benefits,**" contain certain information relating to LACERS. The information contained in these sections is primarily derived from information produced by LACERS and its independent 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 www.lacers.org/aboutlacers/reports/index. Information set forth on this website is not incorporated by reference herein. For additional information regarding LACERS, see also

Note 5 in the “Notes to the City’s Basic Financial Statements” in the City’s Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2016.

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 value of future benefits over the lives of the currently active employees, vested terminated employees, and existing retired employees and beneficiaries. These judgments are based upon a variety of assumptions, one or more of which may prove to be inaccurate and/or be changed in the future.

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

LACERS, established in 1937 under the Charter, is a contributory plan covering most City employees except uniformed fire and police personnel and employees of the Department of Water and Power. As of June 30, 2016, the date of its most recent actuarial valuation, LACERS had 24,446 active members, 18,357 retired members and beneficiaries, and 6,895 inactive members. The number of retired members was significantly increased, and the number of active members significantly decreased, as a result of the City’s Early Retirement Incentive Program in Fiscal Year 2009-10. LACERS is funded pursuant to the Entry Age Cost Method, which is designed to produce stable employer contributions in amounts that increase at the same rate as the employer’s payroll (i.e., level percent of payroll).

A number of assumptions are made in calculating the actuarial valuation of retirement benefits. The following are some of the key assumptions used by LACERS’ actuary, The Segal Company, in preparing LACERS’ actuarial report as of June 30, 2015.

Table 17
LOS ANGELES CITY EMPLOYEES’ RETIREMENT SYSTEM
ACTUARIAL ASSUMPTIONS
As of June 30, 2015

| | |
|---|---|
| Investment rate of return | 7.50% |
| Inflation rate | 3.25% |
| Real across-the-board salary increase | 0.75% |
| Projected salary increases | Ranges from 4.4% to 10.5%, based on service |
| Cost of living adjustments for pensioners | 3.00% for Tier 1; 2.00% for Tier 2 |

Source: Los Angeles City Employees’ Retirement System Actuarial Valuation and Review of Retirement and Health Benefits as of June 30, 2016.

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

LACERS’ Board uses a market value corridor of 40%. A “corridor” is used in conjunction with asset smoothing, in order to keep the actuarial value of assets within a certain percentage of the market value of assets. For example, if a system has a 40% corridor, the

actuarial value of assets must be between 60% and 140% of the market value of assets. Market losses and gains are recognized under a seven-year asset smoothing period, where only 1/7 of annual market gains or losses are recognized in the actuarial value of assets each year. The remaining gains or losses are spread equally over the next six years.

As of June 30, 2016, there was a total unrecognized net loss of \$747 million. To limit future fluctuations in asset values due to large unrecognized gains reflecting several years of fairly large annual market gains and losses from a volatile market, the LACERS Board adopted a one-time adjustment, as of June 30, 2014, to its current asset smoothing policy by combining the unrecognized gains and losses of the prior years into one layer and spreading it evenly over six years. The following table shows the original market gains and losses, and the unrecognized gains and losses as of June 30, 2016.

Table 18
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
CALCULATION OF UNRECOGNIZED RETURN DUE TO ASSET SMOOTHING
As of June 30, 2016

| <u>Year Ended June 30</u> | <u>Original Market Gain (Loss)</u> | <u>Portion Not Recognized</u> | <u>Amount Not Recognized</u> |
|---|------------------------------------|-------------------------------|------------------------------|
| 2016 | \$ (1,065,023,569) | 6/7 | \$ (912,877,345) |
| 2015 | (707,760,540) | 5/7 | (505,543,243) |
| 2014 | 1,246,285,581 | 4/6 | 712,163,189 |
| 2013 | (81,571,421) | 3/6 | (40,785,711) ⁽¹⁾ |
| Total unrecognized return (loss) | | | \$ 747,043,110 |

⁽¹⁾ Valuation as of June 30, 2016 recognizes 3/6 of \$81,571,421 original market loss as of June 30, 2013, with the balance to be recognized over the next three years.

Source: Los Angeles City Employees' Retirement System Actuarial Valuation and Review of Retirement and Health Benefits as of June 30, 2016.

LACERS amortizes components that contribute to its UAAL over various periods of time, depending on how the unfunded liability arose, layering separate, fixed amortization periods. Under current funding policy, actuarial losses and gains are amortized over fixed 15-year periods. Liabilities or surpluses due to assumption changes are funded or credited over 15 and 20 years for retiree health care benefits and retirement benefits, respectively. Liabilities caused by future early retirement incentives will be funded over five years; other benefit changes will be amortized over 15 years.

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

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

| Actuarial Valuation As of June 30 | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded AAL ⁽²⁾ | Funded Ratio ⁽³⁾ | Covered Payroll ⁽⁴⁾ | Unfunded AAL as a Percentage Of Covered Payroll ⁽⁵⁾ |
|-----------------------------------|-----------------------------|-----------------------------------|-----------------------------|-----------------------------|--------------------------------|--|
| 2007 | \$ 8,599,700 ⁽⁶⁾ | \$ 10,526,874 | \$ 1,927,174 | 81.7% | \$ 1,896,609 | 101.6% |
| 2008 | 9,438,318 | 11,186,404 | 1,748,085 | 84.4 | 1,977,645 | 88.4 |
| 2009 | 9,577,747 | 12,041,984 | 2,464,237 | 79.5 | 1,816,171 | 135.7 |
| 2010 | 9,554,027 | 12,595,025 | 3,040,998 | 75.9 | 1,817,662 | 167.3 |
| 2011 | 9,691,011 | 13,391,704 | 3,700,693 | 72.4 | 1,833,392 | 201.9 |
| 2012 | 9,934,959 | 14,393,959 | 4,458,999 | 69.0 | 1,819,270 | 245.1 |
| 2013 | 10,223,961 | 14,881,663 | 4,657,702 | 68.7 | 1,846,970 | 252.2 |
| 2014 | 10,944,751 | 16,248,853 | 5,304,103 | 67.4 | 1,898,064 | 279.5 |
| 2015 | 11,727,161 | 16,909,996 | 5,182,835 | 69.4 | 1,907,665 | 271.7 |
| 2016 | 12,439,250 | 17,424,996 | 4,985,746 | 71.4 | 1,968,703 | 253.6 |

- ⁽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.
- ⁽⁶⁾ Valuation value of assets is after excluding \$5,269,481 of discounted Harbor Port Police assets transferred to FPPP in October 2007.

Source: Los Angeles City Employees' Retirement System Actuarial Valuation and Review of Retirement and Health Benefits as of June 30, 2016.

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

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

| Actuarial Valuation As of June 30 | Market Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded Liability ⁽²⁾ | Funded Ratio (Market Value) ⁽³⁾ | Covered Payroll ⁽⁴⁾ | Unfunded Liability as a Percentage Of Covered Payroll (Market Value) ⁽⁵⁾ |
|---|------------------------------|--|--------------------------------------|--|-----------------------------------|---|
| 2007 | \$ 9,708,718 | \$ 10,526,874 | \$ 818,156 | 92.2% | \$ 1,896,609 | 43.1% |
| 2008 | 9,059,551 | 11,186,404 | 2,126,853 | 81.0 | 1,977,645 | 107.5 |
| 2009 | 7,122,911 | 12,041,984 | 4,919,073 | 59.2 | 1,816,171 | 270.9 |
| 2010 | 7,804,223 | 12,595,025 | 4,790,802 | 62.0 | 1,817,662 | 263.6 |
| 2011 | 9,186,697 | 13,391,704 | 4,205,007 | 68.6 | 1,833,392 | 229.4 |
| 2012 | 9,058,839 | 14,393,959 | 5,335,120 | 62.9 | 1,819,270 | 293.3 |
| 2013 | 10,154,486 | 14,881,663 | 4,727,177 | 68.2 | 1,736,113 | 272.3 |
| 2014 | 11,791,079 | 16,248,853 | 4,457,774 | 72.6 | 1,802,931 | 247.3 |
| 2015 | 11,920,570 | 16,909,996 | 4,989,426 | 70.5 | 1,835,637 | 261.5 |
| 2016 | 11,809,329 | 17,424,996 | 5,615,667 | 67.8 | 1,968,703 | 285.2 |

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

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

The table below summarizes the City's payments to LACERS over the past five years, including the proposed payment for Fiscal Year 2016-17. This table includes costs for retirement, as well as for retiree health care and other miscellaneous benefits.

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

| Sources of Contributions | <u>2012-13</u> ⁽²⁾ | <u>2013-14</u> | <u>2014-15</u> | <u>2015-16</u> | Adopted Budget <u>2016-17</u> |
|--|-------------------------------|----------------|----------------|-----------------|----------------------------------|
| Contributions for Council-controlled Departments | \$342,188 | \$367,772 | \$411,509 | \$434,639 | \$459,400 |
| Airport, Harbor Departments, LACERS, LAFPP | <u>77,917</u> | <u>83,759</u> | <u>94,209</u> | <u>103,120</u> | <u>106,457</u> |
| Total | \$420,105 | \$451,531 | \$505,718 | \$537,759 | \$565,857 |
| Percent of payroll – Tier 1 | 24.14% | 25.33% | 26.56% | 28.75% | 28.16% |
| Percent of payroll – Tier 2 | | 18.32% | 19.63% | 22.62% | |
| Percent of payroll – Tier 3 | | | | | 24.96% |
| Uses of Contributions | | | | | |
| Current Service Liability (Normal cost) | \$184,202 | \$185,217 | \$193,769 | \$190,777 | \$206,870 |
| UAAL | 234,896 | 265,081 | 305,891 | 363,929 | 365,975 |
| Adjustments ⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾ | <u>1,007</u> | <u>1,233</u> | <u>6,058</u> | <u>(16,947)</u> | <u>(6,988)</u> |
| Total | \$420,105 | \$451,531 | \$505,718 | \$537,759 | \$565,857 |

⁽¹⁾ Includes funding for OPEB.

⁽²⁾ A \$3.7 million credit from 2011-12 was applied to 2012-13. The actual amount paid for Council-controlled departments, Airports, and Harbor to LACERS subsequent to this credit was \$416.4 million.

⁽³⁾ Includes the excess benefit plan, the family death benefit plan, and the limited term plan fund. Beginning with the 2014-15 payment, the true-up obligation for the prior year is also reflected in this line item.

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

⁽⁵⁾ Adjustments for 2015-16 include the 2014-15 true-up which consists of an \$18,052,498 credit (all agencies), which is partially offset by \$1,105,000 in excess benefit, family death and limited term plan costs.

⁽⁶⁾ Adjustments for 2016-17 include the 2015-16 true-up, which consists of a \$24,031,072 credit (all agencies) and which is partially offset by a \$15,854,076 one-time lump sum payment for the retroactive upgrade of past Tier 2 members to Tier 1, and \$1,189,000 in excess benefit, family death and limited term plan costs.

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

In 2012, the City Council adopted a new civilian retirement tier ("Tier 2"), which applied to all employees hired on or after July 1, 2013. On July 28, 2014, the City Employee Relations Board ruled that the City's unilateral action in creating the new civilian retirement tier did not meet the City's meet and confer obligations. The Board ordered that the City rescind the implementation of the new retirement tier, reinstate the status quo ante, and meet and confer in good faith with labor representatives from affected bargaining units. The City subsequently filed an appeal of the ruling in State court and entered into a mandatory settlement conference phase. As a part of the agreement with the Coalition of Los Angeles City Unions, both the City and the Coalition have agreed to dismiss with prejudice all legal actions. All members of Tier 2 were transferred into Tier 1 effective February 21, 2016. Any new employee hired into a position eligible for LACERS members on or after February 21, 2016 will, unless eligible for Tier 1 membership under specific exemptions, be enrolled in a new Tier 3.

Tier 3 benefits are as follows. Normal retirement age for unreduced benefits is either age 60 with 30 years of service with a 2% retirement factor, or age 60 with 10 years of service with a 1.5% retirement factor. Tier 3 also provides for an enhanced retirement age of 63 with 30 years of service with a 2.1% retirement factor, or age 63 with 10 years of service with a 2% retirement factor. Tier 3 also provides for early retirement prior to age 60 for employees with 30 years of service with a 2% retirement factor. Benefits are unreduced for early retirement between ages 55-59, while the reduction is 10.5% at age 54 and 3% for each year of retirement before age 54. All required years of service include 5 years of continuous service. Tier 3 final compensation is based on the employee's highest 36-month average compensation. Tier 3 benefits, including the enhanced retirement factor, are subject to a maximum of 80% of final compensation. Tier 3 members will vest retiree health benefits in exchange for a 4% salary contribution, which will be subject to future negotiations. Employees will also contribute 7% toward their pension benefits. In total, employees will contribute 11% of their salary for retirement benefits.

In light of the agreement with the Coalition, approximately 3,501 employees hired between July 1, 2013 and February 20, 2016, who were previously in Tier 2, were transferred to Tier 1 at the City's expense. The total cost to the City as determined by the LACERS actuary is \$15.85 million as of July 15, 2016. These costs have been settled as part of the 2016-17 payment to LACERS on July 15, 2016.

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

Table 22
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
ASSET CLASS MARKET VALUE AND ALLOCATION
(\$ in million)
As of December 31, 2016

| <u>Asset Class</u> | <u>Market Value</u> | <u>Market Value to Total Fund (%)</u> | <u>Target (%)</u> |
|-------------------------|---------------------|---------------------------------------|-------------------|
| U.S. Equity | \$ 3,917 | 26.4% | 24.0% |
| Non-U.S. Equity | 4,321 | 29.2 | 29.0 |
| Fixed Income Securities | 2,676 | 18.1 | 19.0 |
| Credit Opportunities | 723 | 4.9 | 5.0 |
| Real Assets | 1,529 | 10.3 | 10.0 |
| Private Equity | 1,515 | 10.2 | 12.0 |
| Cash | 134 | .9 | 1.0 |
| Total Portfolio | \$14,814 | 100.0% | 100.0% |

Source: LACERS Portfolio Performance Review for the Quarter Ending December 31, 2016.

Accounting and Financial Reporting Standards

In 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions ("GASB 68"), which applies to governmental entities such as the City, and Statement No. 67, Financial Reporting for Pension Plans ("GASB 67"), which applies to the financial reports of most pension plans such as LACERS and FPPP.

GASB 67 revised existing guidance for the financial reports of most pension plans, including LACERS and FPPP. GASB 67 generally expands the existing framework for financial reports of defined benefit pension plans, which includes a statement of "Fiduciary Net Position"

(the amount held in a trust for paying retirement benefits, generally the market value of assets) and a statement of changes in Fiduciary Net Position, and requires additional note disclosures and required supplementary information. LACERS and FPPP complied with the provisions of GASB 67 by its effective date (i.e., financial statements for Fiscal Year 2013-14). Most of the reporting requirements of GASB 68 related to the Net Pension Liability are included in the note disclosures and required supplementary information of the Pension Plans.

GASB 68 revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits, including the City. GASB 68, among other things, requires governments providing defined benefit pensions to recognize the difference between pension plans' Fiduciary Net Position and their long-term obligation for pension benefits as a liability ("Net Pension Liability"), and provides greater guidance on measuring such obligation, including specific guidelines on projecting benefit payments, use of discount rates and use of the "entry age" actuarial cost method. GASB 68 also addresses accountability and transparency through revised and new note disclosures and required supplementary information. The GASB 68 standards apply to financial reporting but not to the actuarial calculation of annual City employer pension contributions, which continue to be determined actuarially by each plan pursuant to their respective funding policies.

The City complied with the provisions of GASB 68 by its effective date (i.e., its financial statements for Fiscal Year 2014-15). In broad terms, the most significant change contained in GASB 68 is the requirement to report a Net Pension Liability on the employers' Government-Wide Statements of Net Assets when the fair value of pension assets falls short of actuarially calculated liabilities. See "NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Adoption of New GASB Pronouncements" in the City's CAFR for the Fiscal Year ending June 30, 2015. As a result of GASB 68, the Total Net Position of Governmental Activities fell from \$5,171,370,000 as of June 30, 2014 to a deficit of \$536,792,000 as of June 30, 2015. As GASB 68 moves pension reporting in the City's government-wide financial statements away from the phased or smoothed asset and liability figures that the City uses in determining its annual pension contribution, the City expects that these changes will increase year-to-year volatility in reported pension assets and liabilities.

GASB 67 and GASB 68 address the disclosure of pension liability only; they do not impose any funding requirements, and the City does not expect to alter the way the City funds these liabilities. The City expects to continue to fully fund the pension at the amount recommended by the Pension Systems and their actuaries to finance annual normal costs and to amortize its unfunded liabilities consistent with current practice.

Other Post-Employment Benefits

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

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

As of June 30, 2016, the unfunded healthcare benefits liabilities of LACERS are as follows:

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

| Actuarial Valuation As of June 30 | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded AAL ⁽¹⁾ | Funded Ratio ⁽²⁾ | Covered Payroll ⁽³⁾ | Unfunded AAL as a Percentage of Covered Payroll ⁽⁴⁾ |
|-----------------------------------|---------------------------|-----------------------------------|-----------------------------|-----------------------------|--------------------------------|--|
| 2008 | \$ 1,342,920 | \$ 1,928,043 | \$ 585,123 | 69.7% | \$ 1,977,645 | 29.6% |
| 2009 | 1,342,497 | 2,058,177 | 715,680 | 65.2 | 1,816,171 | 39.4 |
| 2010 | 1,425,726 | 2,233,874 | 808,148 | 63.8 | 1,817,662 | 44.5 |
| 2011 | 1,546,884 | 1,968,708 | 421,824 | 78.6 | 1,833,392 | 23.0 |
| 2012 | 1,642,374 | 2,292,400 | 650,027 | 71.6 | 1,819,270 | 35.7 |
| 2013 | 1,734,733 | 2,412,484 | 677,751 | 71.9 | 1,846,970 | 36.7 |
| 2014 | 1,941,225 | 2,662,853 | 721,628 | 72.9 | 1,898,064 | 38.0 |
| 2015 | 2,108,925 | 2,646,989 | 538,065 | 79.7 | 1,907,665 | 28.2 |
| 2016 | 2,248,753 | 2,793,689 | 544,935 | 80.4 | 1,968,703 | 27.7 |

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

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

Historically, plan members did not contribute towards healthcare subsidy benefits; all such costs were funded from the employer's contribution and investment returns thereon. The City negotiated bargaining agreements that will reduce the City's contributions for OPEB benefits, which include a 4% active employee contribution toward retiree healthcare for its entire civilian workforce.

Projected Retirement and Other Post-Employment Benefit Expenditures

The table below illustrates the City's projected contributions to LACERS for the next four fiscal years based on information from the City actuary. In general, the illustrations assume no change to the actuarial assumptions used by LACERS' actuary for the actuarial valuation as of June 30, 2015; however, the following assumes a 0% market return for Fiscal Year 2015-16, and uses the plan's regular assumed rate of return of 7.5% for subsequent years. These contributions illustrate the projected cost of both pension and OPEB under the existing assumptions.

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

| | Adopted Budget 2016-17 | Projection 2017-18 | Projection 2018-19 | Projection 2019-20 | Projection 2020-21 |
|--|---------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| LACERS | | | | | |
| Contributions for Council-controlled Departments ⁽¹⁾⁽²⁾ | \$459,400 | \$482,112 | \$507,205 | \$528,850 | \$539,830 |
| Percentage of payroll ⁽³⁾ | 28.13% | 28.14% | 28.64% | 29.08% | 29.23% |
| Incremental Change | \$24,761 | \$22,712 | \$25,093 | \$21,645 | \$10,980 |
| % Change | 6% | 5% | 5% | 4% | 2% |

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

⁽²⁾ Assumes 7.50% return on investment.

⁽³⁾ Reflects combined rates for all benefit tiers.

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

City Treasury Investment Practices and Policies

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

The City's General Pool is further divided into a core pool and a reserve pool. The core or liquidity portion is targeted at the City's net liquidity requirements for six months. All investments in the core section of the portfolio have maturities of one year or less. The balance of the General Pool not required for the City's six-month liquidity requirement is invested in the reserve portfolio. The reserve portfolio holds investments ranging from one to five years.

Table 25
POOLED INVESTMENT FUND.
GENERAL POOL
Investments as of December 31, 2016

| Description | Par Value | Market Value | Percent of Total Funds (Market Value) | Average Days |
|---|----------------------------------|------------------------------------|---|-----------------|
| Bank Deposits ⁽¹⁾ | \$ 90,739,104 | \$ 90,739,104 | 1.10% | 1 |
| BNYM Sweep Accounts | - | - | - | - |
| LAIF (State of California) | - | - | - | - |
| Subtotal Cash and Overnight Investments | \$ 90,739,104 | \$ 90,739,104 | 1.10% | 1 |
| CDARS ⁽²⁾ | \$ 0 | \$ 0 | 0.00% | 0 |
| Commercial Paper | 926,238,000 | 925,905,169 | 11.19 | 17 |
| Negotiable Certificates of Deposit | 25,000,000 | 25,001,250 | 0.30 | 5 |
| Corporate Notes | 140,000,000 | 140,115,600 | 1.69 | 155 |
| U.S. Federal Agencies | 352,286,000 | 352,119,597 | 4.25 | 37 |
| U.S. Treasuries | 48,000,000 | 47,981,560 | 1.58 | 32 |
| Subtotal: Pooled Investments | \$1,491,524,000 | \$1,491,123,176 | 18.02% | 35 |
| Total Short Term Core Portfolio | \$1,582,263,104 | \$1,581,862,280 | 19.11% | 33 |
| Money Market Funds | \$ - | \$ - | - | - |
| Commercial Paper | - | - | - | - |
| Negotiable Certificates of Deposit | - | - | - | - |
| Corporate Notes | 1,212,105,000 | 1,212,031,355 | 14.64% | 947 |
| U.S. Federal Agencies | 684,830,000 | 681,984,572 | 8.24 | 919 |
| U.S. Treasuries | 4,797,000,000 | 4,800,583,740 | 58.00 | 1,036 |
| Total Long-Term Reserve Portfolio | \$6,693,935,000 | \$6,694,599,667 | 80.89% | 1,008 |
| Total Cash and Pooled Investments | \$8,276,198,104 | \$8,276,461,947 | 100.00% | 822 |
| | <u>Short-Term Core Portfolio</u> | <u>Long-Term Reserve Portfolio</u> | <u>Consolidated</u> | |
| Average Weighted Maturity | 33 Days | 2.8 Years | 2.3 Years | |
| Effective Yield | 0.722% | 1.44% | 1.31% | |

⁽¹⁾ Collected balance for Wells Fargo Active Accounts.

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

Source: City of Los Angeles, City Treasurer.

The City's treasury operations are managed in compliance with the California Government Code and according to the City's Statement of Investment Policy (the "Investment Policy"), which sets forth liquidity parameters, maximum maturities and permitted investment vehicles, which include U.S. Treasuries, U.S. Government Agencies and corporate notes.

Additionally, daily investment activity is reviewed independently by an outside investment advisor to ensure that all security transactions are in accordance with all policies as delineated above.

The Treasurer does not invest in structured or range notes, securities that could result in zero interest accrual if held to maturity, variable rate, floating rate or inverse floating rate investments, or mortgage-derived interest or principal-only strips, among other instruments prohibited by State law and the City's Investment Policy.

The Investment Policy permits the Treasurer to engage custodial banks to enter into short-term arrangements to loan securities to various brokers. Cash and/or securities (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.

OTHER MATTERS

Stormwater Improvements

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

On November 8, 2012, the LARWQCB adopted the National Pollutant Discharge Elimination System Municipal Separate Storm Sewer System Permit ("MS4 permit") Order No. R4-2012-0175, which became effective on December 28, 2012. The MS4 permit establishes the TMDL of pollutants that can be discharged into water while still meeting water quality standards and objectives. The MS4 covers 84 of the 88 public agencies in the Los Angeles County area, including the City, the Los Angeles County Flood Control District and the County, that are responsible for compliance with the MS4 permit. The City is currently subject to 22 TMDLs, encompassing a total of 192 pollutants, in the Los Angeles River, Ballona Creek, the Santa Monica Bay shoreline, Dominguez Channel, Marina Del Rey, and several lakes within the City. The City is likely to receive more TMDLs in the coming years. The TMDL compliance deadlines spread out through 2037.

The MS4 permit allows for the option to work together to develop and implement Enhanced Watershed Management Programs ("EWMPs") to address permit and TMDL requirements. The MS4 permit has safe harbor provisions whereby, the City was deemed in compliance with the TMDLs during the development of the EWMPs, provided that all requirements and deadlines related to the EWMP development were met. As the EWMPs cross multiple local jurisdictions, the City collaborated with other participating agencies on the development of the EWMPs, and in June 2015 submitted them in accordance with the required schedule. The EWMPs were approved by the LARWQCB at different times from February 2 through April 26 of 2016.

Non-compliance with the MS4 permit and applicable TMDLs could result in enforcement action by the LARWQCB, civil penalties and fines, and potentially third-party lawsuits. For example, the LARWQCB may levy administrative fines of up to \$10,000 per pollutant per day of violation. In addition, the State can impose mandatory minimum penalties of \$3,000 per pollutant per day of violation and seek civil liabilities of up to \$25,000 per pollutant per day. Additionally, private citizens or EPA can pursue penalties if the LARWQCB does not enforce on

a violation. The City is responsible for its own fines, penalties and costs incurred as a result of non-compliance.

The City is currently in substantial compliance with the MS4 permit, but requires significant funding for capital, and operation and maintenance costs to implement the EWMPs to meet the TMDL compliance deadlines contained in the MS4 permit. The City has partially funded the monitoring and reporting programs required by the MS4 permit. The City's share of the costs of the projects required to meet the TMDLs in the next five years is estimated by the LARWQCB to be \$2.1 billion. The City's share of the costs of the approved EWMP projects required to meet the TMDLs over the next 25 years is estimated by the LARWQCB to be approximately \$7.4 billion. Estimating project costs over such a long time period is inherently difficult and no assurance can be provided by the City that LARWQCB's approved projections are accurate. City staff is developing a report to the Mayor and Council to address funding options, including other revenue sources outside of the General Fund, to begin the projects necessary to satisfy just the current TMDLs. Without these other revenue sources, these costs would be obligations of the City's General Fund and could have a material adverse impact on the General Fund.

APPENDIX B
GLOSSARY OF DEFINED TERMS

APPENDIX C
SUMMARY OF CERTAIN
PROVISIONS OF THE RESOLUTIONS

APPENDIX D
GLOSSARY OF SYSTEM TERMS

The following are definitions of certain terms used in the Official Statement with respect to the Wastewater System.

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

“Authorizations” means, collectively, the City Charter of the City of Los Angeles, and the authority of elections held in the City in 1987, 1988 and 1992, under which the voters of the City authorized the issuance of wastewater system revenue bonds and notes in an aggregate principal amount of \$3,500,000,000.

“AVORS” means Additional Valley Outfall Relief Sewer.

“BMPs” means best management practices.

“BOD” means biochemical oxygen demand whose strengths are measured as part of the QSF.

“CARB” means the California Air Resources Board.

“CEQA” means California Environmental Quality Act.

“CIP” means the Wastewater System Capital Improvement Program.

“CIS” means the Coastal Interceptor Sewer.

“Clean Water Act” means the Federal Water Pollution Control Act as amended.

“COS” means the Central Outfall Sewer.

“CSSA” means Collection System Settlement Agreement.

“DCTWRP” means the Donald C. Tillman Water Reclamation Plant.

“Entities” means, collectively, the 29 sanitation districts, cities, governmental entities and private businesses adjoining the City, which are provided wastewater conveyance, treatment and disposal services by the System.

“EPA” means the United States Environmental Protection Agency.

“EVIS” means the East Valley Interceptor Sewer.

“FEMA” means the Federal Emergency Management Agency.

“FOG Control Program” means the Fats, Oils and Grease Control Program, a commercial and industrial grease control ordinance implemented by the City.

“FSEs” means food service establishments.

“HTP” means the Hyperion Treatment Plant.

“IRP” means the City’s Integrated Resources Plan for the System.

“IU” means Industrial User.

“LAGWRP” means the Los Angeles – Glendale Water Reclamation Plant.

“LARWQCB” means the Los Angeles Regional Water Quality Control Board.

“mgd” means million gallons per day.

“NCOS” means the North Central Outfall Sewer.

“NDN” means Nitrification-Denitrification.

“NORS” means the North Outfall Replacement Sewer.

“NOS” means the North Outfall Sewer.

“NPDES” means the National Pollutant Discharge Elimination System.

“OM&R” means the operation and maintenance costs, including renewal and replacement, of the System.

“POTWs” means publicly owned treatment works.

“PRC” means Program Review Committee consisting of the Director, Assistant Directors, and Financial Manager of the Bureau of Sanitation, which annually evaluates the CIP and meets monthly to consider any changes affecting the scope, cost, schedule, and overall implementation of the program.

“QSF” means the Quality Surcharge Fee assessed on users of the wastewater system whose wastewater discharge strength, as measured by SS and BOD, is higher than 265 milligrams per liter of BOD and/or 275 milligrams per liter of SS (domestic strength).

“SCAP” means the Southern California Alliance of Publicly Owned Treatment Works, which consists of the Los Angeles and Orange County Sanitation Districts, the City, and many smaller cities and other jurisdictions, which meet periodically to coordinate efforts to develop a unified strategy and to address air quality issues related to POTWs.

“SCAQMD” means the South Coast Air Management District.

“SCM Fund” means the City’s Sewer Construction and Maintenance Fund.

“SDC” means Sewage Disposal Contracts.

“SFC” means the Sewerage Facilities Charge, which is designed to recover the cost of the System capacity required by new sewer connections and increases in capacity required by current System users.

“SIU” means Significant Industrial User.

“SRF” means the Clean Water State Revolving Fund.

“SS” means suspended solids whose strengths are measured as part of the QSF.

“SSC” means the Sewer Service Charge imposed by the City in connection with wastewater discharged into the System.

“SSRP” means the City’s Secondary Sewer Renewal Program.

“SWRCB” means the California State Water Resources Control Board.

“TIWRP” means the Terminal Island Treatment Plant.

“TMDLs” means total maximum daily loads, whose processes are developed by the LARWQCB and regulated by the Clean Water Act.

“WSC” means Wastewater Service Contracts.

APPENDIX E

**CITY OF LOS ANGELES SEWER CONSTRUCTION AND MAINTENANCE FUND
FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015 (WITH INDEPENDENT AUDITOR'S
REPORT THEREON) AND DEBT SERVICE COMPLIANCE REPORT FOR THE FISCAL YEAR ENDED
JUNE 30, 2016 (WITH INDEPENDENT AUDITOR'S REPORT THEREON)**

APPENDIX F
FORM OF OPINIONS OF BOND COUNSEL

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 2017 Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Series 2017 Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series 2017 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 2017 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 2017 Bonds. The Series 2017 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 each Series of the Series 2017 Bonds, each in the aggregate principal amount of such maturity of such issue, and will be deposited with DTC.

2. DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. Information on the website is not incorporated herein.

3. Purchases of Series 2017 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2017 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 2017 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 2017 Bonds, except in the event that use of the book-entry system for the Series 2017 Bonds is discontinued.

4. To facilitate subsequent transfers, all Series 2017 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 2017 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 2017 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2017 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 2017 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2017 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Series 2017 Bonds may wish to ascertain that the nominee holding the Series 2017 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 2017 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 2017 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 2017 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 2017 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 2017 Bonds purchased or tendered, through its Participant, to the City's designated agent, and shall effect delivery of such Series 2017 Bonds by causing the Direct Participant to transfer the Participant's interest in the Series 2017 Bonds, on DTC's records, to the City's designated agent. The requirement for physical delivery of Series 2017 Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Series 2017 Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Series 2017 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 2017 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 2017 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 2017 BONDS FOR REDEMPTION.

APPENDIX H

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the City of Los Angeles (the “City”) in connection with the issuance by the City of its \$_____ City of Los Angeles Wastewater System Subordinate Revenue Bonds, Series 2017-A (Green Bonds), its \$_____ City of Los Angeles Wastewater System Subordinate Revenue Bonds, Refunding Series 2017-B (Green Bonds), and its \$_____ City of Los Angeles Wastewater System Subordinate Revenue Bonds, Refunding Series 2017-C (Taxable) (Green Bonds) (collectively, the “Series 2017 Bonds”) pursuant to a 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 Twenty-First Supplemental Resolution, adopted by the City Council on _____, 2017.

The City covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City pursuant to Rule 15c2-12(b)(5) (the “Rule”) adopted by the Securities and Exchange Commission, for the benefit of the Bondowners and Beneficial Owners in order to assist the Participating Underwriters in complying with the Rule.

Section 2. Definitions. In addition to the definitions set forth in the General Subordinate General Resolution, which shall apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Beneficial Owner” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Series 2017 Bonds (including persons holding Series 2017 Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Series 2017 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, including any interim City Administrative Officer, or any other person authorized to act on the City Administrative Officer’s 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 _____, 2017, issued by the City in connection with the sale of the Series 2017 Bonds.

“Participating Underwriter” shall mean any of the original underwriters of the Series 2017 Bonds required to comply with the Rule in connection with offering of the Series 2017 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.

“Series 2017AB Subordinate Bonds” shall mean, collectively, the City of Los Angeles Wastewater System Subordinate Revenue Bonds, Series 2017-A (Green Bonds) and City of Los Angeles Wastewater System Subordinate Revenue Bonds, Refunding Series 2017-B (Green Bonds).

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, 2017 for the report for the 2015-16 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 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. 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” 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 2017 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 2017AB Subordinate Bonds, or other material events affecting the tax status of the Series 2017AB Subordinate Bonds;
- (vii) modifications to the rights of Owners of the Series 2017 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 2017 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 2017 Bonds. If such termination occurs prior to the final maturity of the Series 2017 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 2017 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 2017 Bonds in the same manner as provided in the General Resolution for amendments to the General Resolution with the consent of Bondowners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Bondowners or Beneficial Owners of the Series 2017 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 2017 Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the General Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Series 2017 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 2017 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: _____, 2017

CITY OF LOS ANGELES

By: _____
Assistant City Administrative Officer

ATTACHMENT B –

Twenty-Ninth Supplemental Senior Resolution (“Refundable Credits”)

THE COUNCIL OF THE CITY OF LOS ANGELES

TWENTY-NINTH SUPPLEMENTAL RESOLUTION

Adopted by the Council of the City

April 7, 2017

SUPPLEMENTING THE
WASTEWATER SYSTEM REVENUE BONDS GENERAL RESOLUTION

Which Was

Adopted by the Council of the City

November 10, 1987

TWENTY-NINTH SUPPLEMENTAL RESOLUTION

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(This table of contents is not part of the Twenty-Ninth Supplemental Resolution and has been added only for convenience of reference. The captions herein are of no legal effect and do not vary the meaning or legal effect of any part of this Twenty-Ninth Supplemental Resolution,)

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TWENTY-NINTH SUPPLEMENTAL RESOLUTION

Providing for

Amendments relating to Section 1.01 and Section 6.03 of the
Wastewater System Revenue Bonds General Resolution

WHEREAS, the Council (the "Council") of the City of Los Angeles (the "City"), by resolution adopted February 24, 1987, submitted to the qualified voters of the City the proposition of issuing bonds pursuant to the procedures set forth in the Revenue Bond Law of 1941, Section 54300 et seq. of the California Government Code for the purpose of financing a portion of a major wastewater system improvement program; and

WHEREAS, the Council on November 10, 1987 adopted a resolution designated as the "WASTEWATER SYSTEM REVENUE BONDS GENERAL RESOLUTION," (as amended and supplemented from time to time, the "General Resolution"), which sets forth the basic terms under which the City may issue wastewater system revenue bonds and which provides for a pledge of Revenues (as defined in the General Resolution) to secure all Bonds (as defined in the General Resolution and sometimes referred to herein as the "Senior Lien Bonds") issued thereunder; and

WHEREAS, the Council on March 26, 1991 adopted a resolution designated as the "WASTEWATER SYSTEM SUBORDINATE REVENUE BONDS GENERAL RESOLUTION" (as amended and supplemented from time to time, the "Subordinate General Resolution"), which sets forth the basic terms under which the City may issue wastewater system subordinate revenue bonds and which provides for a pledge of Revenues to secure all Subordinate Bonds (as defined in the Subordinate General Resolution) issued thereunder on a basis subordinate to the Senior Lien Bonds issued under the General Resolution; and

WHEREAS, Section 11.03 of the General Resolution permits the City by supplemental resolution to amend and supplement the General Resolution and any Supplemental Resolution thereto, provided that certain conditions set forth in Section 11.03 of the General Resolution have been satisfied, and the City has been advised by Bond Counsel that the proposed terms of this Twenty-Ninth Supplemental Resolution (this "Twenty-Ninth Supplemental Resolution") may adversely affect the interests of the Bondholders thus requiring the majority consent of the Bondholders of all Series, as well as the consent of any bond insurers; and

WHEREAS, this Twenty-Ninth Supplemental Resolution will become effective when all conditions of Article XI have been satisfied as evidenced by the delivery of the approving opinion of Bond Counsel pursuant to Section 11.03(d) of the General Resolution;

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

ARTICLE I

DEFINITIONS; INTERPRETATION

Section 1.01. Definitions.

(a) Unless otherwise specifically provided in this Section, capitalized terms used in this Twenty-Ninth Supplemental Resolution shall have the meanings ascribed to them in the General Resolution. The following definitions shall apply to terms used in this Twenty-Ninth Supplemental Resolution unless the context clearly requires otherwise and shall be hereby added to Section 1.01 of the General Resolution:

“Build America Bonds”

The term “Build America Bonds” means any bonds or other obligations issued as Build America Bonds under Section 54AA of the Code, or under any other provisions of the Code, that creates, in the determination of the City, a substantially similar direct-pay subsidy program that provides comparable security for the Owners of the Bonds.

“Direct Subsidy Bonds”

The term “Direct Subsidy Bonds” includes Build America Bonds and Recovery Zone Economic Development Bonds.

“Recovery Zone Economic Development Bonds”

The term “Recovery Zone Economic Development Bonds” means any bonds or other obligations issued as Recovery Zone Economic Development Bonds under Section 1400U-2 of the Code, or under any other provisions of the Code, that creates, in the determination of the City, a substantially similar direct-pay subsidy program that provides comparable security for the Owners of the Bonds.

“Refundable Credits”

The term “Refundable Credits” means (a) with respect to a Series of Bonds issued as Build America Bonds under Section 54AA of the Code or a Series of Bonds issued as Recovery Zone Economic Development Bonds under Section 1400U-2 of the Code, in either case the amounts which are payable by the Federal government under Section 6431 of the Code, and which, in the case of Build America Bonds, the City has elected to receive under Section 54AA(g)(1) of the Code, or (b) with respect to a Series of Bonds issued as Build America Bonds or as Recovery Zone Economic Development Bonds, as the case may be, under any other provisions of the Code, that creates, in the determination of the City, a substantially similar direct-pay subsidy program, the amounts of which are payable by the Federal government under applicable provisions of the Code, which, in the case of Build America Bonds, the City has elected to receive under applicable provisions of the Code.

(b) The definition of “Maximum Annual Debt Service” in Section 1.01 of the General Resolution is hereby amended as follows by adding the following paragraph (vii) to the end of the definition of such term:

(vii) 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 Bonds 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 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).

ARTICLE II

RATE COVENANT

Section 2.01. Amendment Relating to Section 6.03 of the General Resolution. The following sentence is hereby added to the end of Section 6.03 of the General Resolution:

For the purpose of calculating actual debt service coming due on Outstanding Bonds, in determining the amount of interest coming due during any twelve-month period ending June 30 on any Series of Bonds 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 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).

ARTICLE III

MISCELLANEOUS

Section 3.01. Incorporation of Definitions in the General Resolution. Except as otherwise provided in Section 1.01 hereof, all words, terms and phrases defined in the General Resolution shall have the same meanings in this Twenty-Ninth Supplemental Resolution as in the General Resolution. Except as otherwise provided in any Supplemental Resolution hereafter adopted, all terms which are defined in this Twenty-Ninth Supplemental Resolution, unless the context otherwise requires, shall have the same meanings in such Supplemental Resolution as in this Twenty-Ninth Supplemental Resolution.

Section 3.02. Article and Section References. Except as otherwise indicated, references to Articles and Sections are to Articles and Sections of this Twenty-Ninth Supplemental Resolution.

Section 3.03. Supplemental Resolution a Contract. This Twenty-Ninth Supplemental Resolution, together with the General Resolution, is adopted by the City for the benefit of the Bondholders and together they constitute a contract with the Bondholders.

Section 3.04. Severability. If any provision of this Twenty-Ninth Supplemental Resolution shall be determined to be unenforceable, that shall not affect any other provision of this Twenty-Ninth Supplemental Resolution. Nothing herein shall preclude one or more of the provisions of this Twenty-Ninth Supplemental Resolution, with the approval required by the General Resolution, from becoming effective prior to the effective date of any other provision, The City shall promptly inform the Paying Agent and Bondholders in the event that consent has been secured for one or more of the provisions of this Twenty-Ninth Supplemental Resolution.

Section 3.05. Governing Law. This Twenty-Ninth Supplemental Resolution shall be governed by and construed in accordance with the laws of the State.

Section 3.06. Captions. The captions in this Twenty-Ninth Supplemental Resolution are for convenience only and do not define or limit the scope or intent of any provisions or Sections of this Twenty-Ninth Supplemental Resolution.

Section 3.07. Conditions Precedent Satisfied; Effective Date. The City provided notice of the proposed adoption of this Twenty-Ninth Supplemental Resolution by Mail to all Bondholders of all Bonds Outstanding as of October 1, 2010 in accordance with Section 11.03(c) of the General Resolution. None of the Outstanding Bonds are insured. Purchasers of Bonds issued on and after October 21, 2010 are deemed to have granted their consent to and approved the proposed Twenty-Ninth Supplemental Resolution in accordance with the terms of the Supplemental Resolutions under which such Bonds were issued. Accordingly, the City has received consents and approvals from the holders of not less than 51% in aggregate principal amount of the Bonds Outstanding as of the date hereof. This Twenty-Ninth Supplemental Resolution shall take effect on the date on which the other requirements contained in Article XI of the General Resolution have been satisfied.

I hereby certify that the foregoing Twenty-Ninth Resolution was adopted by the Council of the City of Los Angeles at its meeting held on April 7, 2017.

HOLLY L. WOLCOTT, City Clerk

By _____
Deputy

Approved as to Form

MICHAEL N. FEUER,
City Attorney

By: _____
Assistant/Deputy City Attorney

C.F. No. _____