NEW ISSUE — FULL BOOK-ENTRY-ONLY

Insured Bonds Ratings: Fitch: AAA
Moody's: Aaa
S&P: AAA
Uninsured Series 2007-A Bonds Ratings: Fitch: AA-
Moody's: A2
S&P: AA-
See "RATINGS" herein.

In the opinion of Bond Counsel, under existing law and assuming compliance with the tax covenants described herein, and the accuracy of certain representations and certifications made by the Corporation and the City described herein, interest on the Series 2007-A Bonds and the Series 2007-B1 Bonds is excluded from gross income for Federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Bond Counsel is also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the Series 2007-A Bonds and the Series 2007-B1 Bonds is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations. Bond Counsel is further of the opinion that interest on all of the Bonds is exempt from California personal income taxes. See "TAX MATTERS REGARDING SERIES 2007-A BONDS AND SERIES 2007-B1 BONDS" and "TAX MATTERS REGARDING SERIES 2007-B2 BONDS" herein regarding certain other tax considerations.

MUNICIPAL IMPROVEMENT CORPORATION OF LOS ANGELES

$106,900,000	$169,050,000	$52,085,000
LEASE REVENUE BONDS	LEASE REVENUE BONDS	LEASE REVENUE BONDS
SERIES 2007-A	SERIES 2007-B1	SERIES 2007-B2
(CAPITAL EQUIPMENT)	(FIGUEROA PLAZA)	(TAXABLE)
		(FIGUEROA PLAZA)

Dated: Date of Delivery **Due: August 1, as shown on the inside cover**

The Bonds (each a "Series" of Bonds and referred to individually herein as the "Series 2007-A Bonds," the "Series 2007-B1 Bonds" and the "Series 2007-B2 Bonds" and collectively as the "Bonds," and the Series 2007-B1 Bonds and the Series 2007-B2 Bonds being referred to collectively as the "Series 2007-B Bonds") will be issued pursuant to the Indenture dated as of August 1, 2007 (the "Indenture"), by and among the Municipal Improvement Corporation of Los Angeles (the "Corporation"), the City of Los Angeles, California (the "City"), and U.S. Bank National Association, Los Angeles, California, as trustee (the "Trustee"). The Bonds are being issued: (i) with respect to the Series 2007-A Bonds, to refinance, through the redemption of outstanding commercial paper notes of the Corporation, costs associated with the acquisition of certain capital equipment used by the City; (ii) with respect to the Series 2007-B Bonds, to finance the costs of acquisition of an office building complex and parking structure ("Figueroa Plaza") occupied by certain City departments and other tenants; (iii) with respect to the Series 2007-B Bonds, to reimburse the City for certain internal borrowings relating to the acquisition of Figueroa Plaza; (iv) to purchase a Debt Service Reserve Fund Policy, as further described below, for each Series of the Bonds in a maximum amount not less than the amount of the Reserve Requirement for said Series of Bonds; and (v) to pay costs of issuance of the Bonds.

The Bonds are being issued as fully registered bonds, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"), and will be available to ultimate purchasers in the denomination of $5,000 or any integral multiple thereof, under the book-entry system maintained by DTC. Ultimate purchasers of Bonds will not receive physical certificates representing their interest in the Bonds. Interest on the Bonds will be payable on February 1 and August 1 of each year, commencing February 1, 2008. The Trustee will make payments of the principal of, premium, if any, and interest on the Bonds directly to DTC, or its nominee, Cede & Co., so long as DTC or Cede & Co. is the registered owner of the Bonds. Disbursement of such payments to the Beneficial Owners of the Bonds is the responsibility of DTC's Participants and Indirect Participants, as more fully described herein. See APPENDIX E — "DTC AND THE BOOK-ENTRY ONLY SYSTEM."

The Bonds of each Series are payable from the Revenues (as defined in the Indenture) pledged to such Series under the Indenture. Such Revenues primarily consist of Basic Lease Payments to be made by the City to the Corporation under the Lease Agreement (hereinafter described and defined) securing such Series. The Bonds of each Series are also payable from certain funds and accounts held under the Indenture and pledged to said Series of Bonds as described further herein, and insurance or condemnation awards, if any, arising under the respective Lease Agreement. Pursuant to the Lease Agreements, the City will lease certain property therein described (the "Property") from the Corporation. The City is required under the Lease Agreements to make payments in each fiscal year in consideration for the use and possession of the Property described in said Lease Agreement from any source of available funds in an amount sufficient to pay the annual principal and interest due on the Bonds of such Series secured by the respective Lease Agreement, subject under certain circumstances to abatement, as described herein. The Series 2007-A Bonds are secured solely by, and payable solely from, the Basic Lease Payments to be made by the City under the Equipment Lease Agreement, as hereinafter defined and described, and the funds and accounts pledged to said Series of Bonds under the Indenture. The Series 2007-B Bonds are secured solely by, and payable solely from, the Basic Lease Payments to be made by the City under the Facility Lease Agreement, as hereinafter defined and described, and the funds and accounts pledged to said Series of Bonds under the Indenture. **Lease Payments made under a Lease Agreement relating to a particular Series of Bonds shall not be applied as Revenues to pay principal and interest on any other Series of Bonds.** See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" and "RISK FACTORS" herein.

The Bonds are subject to optional, extraordinary mandatory and mandatory sinking fund redemption as more fully set forth herein. See "THE BONDS – Redemption Provisions" herein.

This cover contains certain information for general reference only. It is not a summary of this issue. Investors are strongly advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision, including "RISK FACTORS" herein.

Concurrently with the issuance of the Bonds, Financial Guaranty Insurance Company, doing business in California as FGIC Insurance Company ("FGIC" or the "Bond Insurer") will issue a separate Municipal Bond New Issue Insurance Policy for the Insured Series 2007-A Bonds (which are comprised of all of the Series 2007-A Bonds except for the Series 2007-A Bonds maturing in the years 2008 and 2009, as shown on the inside front cover, which are not insured) and for the Series 2007-B Bonds (each, a "Bond Insurance Policy" and collectively, the "Bond Insurance Policies"). The Insured Series 2007-A Bonds and the Series 2007-B Bonds to be insured by FGIC, which are comprised of all of the Series 2007-B1 Bonds and the Series 2007-B2 Bonds, are referred to collectively herein as the "Insured Bonds." Each Bond Insurance Policy unconditionally guarantees the payment of the principal of and interest on the Insured Bonds of the respective Series which has become due for payment, but shall be unpaid by reason of nonpayment. Additionally, concurrently with the issuance of the Bonds, FGIC will issue a separate Debt Service Reserve Fund Policy relating to the Series 2007-A Bonds and the Series 2007-B Bonds, which unconditionally guarantees the payment of that portion of the principal of and interest on each Series of the Bonds which have become due for payment, but shall be unpaid by reason of nonpayment. See "THE BOND INSURER, THE BOND INSURANCE POLICIES AND THE DEBT SERVICE RESERVE FUND POLICIES" herein.

FGIC

THE BONDS OF EACH SERIES ARE A LIMITED LIABILITY OF THE CORPORATION SECURED SOLELY BY THE BASIC LEASE PAYMENTS OF THE CITY PAYABLE UNDER THE LEASE AGREEMENT SECURING SAID SERIES OF BONDS. THE BONDS ARE NOT A DEBT OF THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS, AND NONE OF SAID CITY, STATE OR ANY OF ITS POLITICAL SUBDIVISIONS IS LIABLE THEREFOR. THE PRINCIPAL OF AND INTEREST ON THE BONDS OF EACH SERIES ARE PAYABLE SOLELY FROM THE BASIC LEASE PAYMENTS OF THE CITY (AS DEFINED HEREIN) PAYABLE UNDER THE LEASE AGREEMENT SECURING SAID SERIES OF BONDS AND OTHER FUNDS RELATING TO SAID SERIES OF BONDS AS SET FORTH IN THE INDENTURE. THE BONDS DO NOT CONSTITUTE INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION WITH RESPECT TO THE CITY OR ANY OTHER POLITICAL SUBDIVISION OR GOVERNMENTAL ENTITY.

The Bonds are offered for sale to the original purchaser subject to the final approving legal opinion of Nixon Peabody LLP, Los Angeles, California, Bond Counsel. Certain legal matters will be passed upon for the City by The Law Offices of Elizabeth C. Green, Los Angeles, California, Disclosure Counsel. Certain additional legal matters will be passed upon for the City and the Corporation by Rockard J. Delgadillo, City Attorney. Certain legal matters will be passed on for the Underwriters by Orrick, Herrington & Sutcliffe LLP, as counsel for the Underwriters. Gardner, Underwood & Bacon LLC, Los Angeles, California, and Montague DeRose and Associates, LLC, Westlake Village, California, are serving as Co-Financial Advisors to the City. It is anticipated that the Bonds will be available for delivery to DTC in book-entry form on or about August 8, 2007.

DE LA ROSA & CO.
INVESTMENT BANKERS
Senior Manager: Series 2007-A Bonds
Co-Senior Manager: Series 2007-B Bonds

Citi
Senior Manager: Series 2007-B Bonds
Co-Senior Manager: Series 2007-A Bonds

Morgan Stanley & Co. Incorporated
Co- Manager: Series 2007-A and Series 2007-B Bonds

Loop Capital Markets, LLC
Co- Manager: Series 2007-A and Series 2007-B Bonds

Dated: July 26, 2007

MATURITY SCHEDULE

MUNICIPAL IMPROVEMENT CORPORATION OF LOS ANGELES

$106,900,000
LEASE REVENUE BONDS, SERIES 2007-A
(CAPITAL EQUIPMENT)

$169,050,000
LEASE REVENUE BONDS
SERIES 2007-B1
(FIGUEROA PLAZA)

$52,085,000
LEASE REVENUE BONDS
SERIES 2007-B2 (TAXABLE)
(FIGUEROA PLAZA)

$106,900,000
LEASE REVENUE BONDS
SERIES 2007-A (CAPITAL EQUIPMENT)
(Base CUSIP Number: 544587)†

Year (August 1)	Principal Amount	Interest Rate	Price††	Yield††	CUSIP†
2008*	$3,925,000	5.000%	101.307%	3.630%	NL8
2008*	9,400,000	4.250%	100.591%	3.630%	ND6
2009*	6,600,000	5.000%	102.498%	3.680%	NM6
2009*	7,345,000	4.250%	101.078%	3.680%	NE4
2010	12,510,000	3.625%	99.845%	3.680%	NF1
2010	2,025,000	4.250%	101.594%	3.680%	NN4
2011	8,045,000	5.000%	104.619%	3.740%	NP9
2011	7,110,000	4.250%	101.869%	3.740%	NG9
2012	6,950,000	5.000%	105.351%	3.810%	NQ7
2012	8,920,000	4.250%	101.978%	3.810%	NH7
2013	12,335,000	5.000%	105.871%	3.890%	NR5
2013	4,300,000	4.250%	101.903%	3.890%	NJ3
2014	7,700,000	5.000%	106.413%	3.940%	NS3
2014	9,735,000	4.250%	101.875%	3.940%	NK0

$169,050,000
LEASE REVENUE BONDS
SERIES 2007-B1 (FIGUEROA PLAZA)
(Base CUSIP Number: 544587)†

Year (August 1)	Principal Amount	Interest Rate	Price††	Yield††	CUSIP†
2020	$5,000,000	5.000%	103.876%**	4.350%	MF2
2021	6,325,000	5.000%	103.693%**	4.380%	MG0
2022	6,650,000	5.000%	103.510%**	4.410%	MH8
2023	6,990,000	5.000%	103.328%**	4.440%	MJ4
2024	7,350,000	5.000%	103.207%**	4.460%	MK1
2025	7,725,000	5.000%	103.086%**	4.480%	ML9
2026	8,125,000	5.000%	102.965%**	4.500%	MM7
2027	8,540,000	5.000%	102.845%**	4.520%	MN5
2028	8,980,000	5.000%	102.724%**	4.540%	MP0

$40,545,000 4.750% Term Bonds due August 1, 2032: Price†† 98.988% Yield†† 4.820% CUSIP†: 544587 MQ8

$62,820,000 4.750% Term Bonds due August 1, 2037: Price†† 98.427% Yield†† 4.850% CUSIP†: 544587 MR6

$52,085,000
LEASE REVENUE BONDS
SERIES 2007-B2 (TAXABLE) (FIGUEROA PLAZA)
(Base CUSIP Number: 544587)†

Year (August 1)	Principal Amount	Interest Rate	Price	CUSIP†
2008	$3,115,000	5.080%	100%	MS4
2009	3,270,000	5.170%	100%	MT2
2010	3,445,000	5.200%	100%	MU9
2011	3,630,000	5.340%	100%	MV7
2012	3,830,000	5.420%	100%	MW5
2013	4,050,000	5.510%	100%	MX3
2014	4,280,000	5.600%	100%	MY1
2015	4,525,000	5.640%	100%	MZ8
2016	4,790,000	5.680%	100%	NA2
2017	5,070,000	5.710%	100%	NB0

$12,080,000 5.810% Term Bonds due August 1, 2020: Price†† 100% CUSIP†: 544587 NC8

† *Copyright 2007, American Bankers Association. CUSIP numbers herein are provided by Standard & Poor's CUSIP Service Bureau, a Division of The McGraw-Hill Companies, Inc., and are set forth herein for the convenience of reference only. None of the City, Bond Counsel, Disclosure Counsel, the Underwriters or the Financial Advisors assume any responsibility for the accuracy of such numbers.*

†† *Reoffering prices and yields were supplied by the respective Underwriters.*

* *Series 2007-A Bonds maturing in 2008 and 2009 are not insured by the Bond Insurance Policy but are covered by the Debt Service Reserve Fund Policy to be issued by FGIC relating to the Series 2007-A Bonds.*

***Priced to the first call date, August 1, 2014.*

CITY OF LOS ANGELES

Mayor

Antonio R. Villaraigosa

City Council

Richard Alarcón
Tony Cardenas
Eric Garcetti
Wendy Greuel
Janice Hahn
José Huizar
Tom LaBonge
Bernard C. Parks
Jan Perry
Ed P. Reyes
Bill Rosendahl
Greig Smith
Jack Weiss
Herb J. Wesson, Jr.
Dennis P. Zine

OFFICIALS OF THE CITY OF LOS ANGELES

Rockard J. Delgadillo, *City Attorney*
Laura N. Chick, *City Controller*
Karen L. Sisson, *City Administrative Officer*
Frank T. Martinez, *City Clerk*
Joya C. De Foor, *City Treasurer*

City Agency Issuer
Office of the City Administrative Officer
Debt Management Group

MUNICIPAL IMPROVEMENT CORPORATION OF LOS ANGELES

Board of Directors
Maurice Weiner, *President*
Lilly Y. Lee, *Vice President*
Faye Washington, *Secretary*
Anton Calleia, *Treasurer*
H. F. Boeckmann, II

PROFESSIONAL SERVICES

Bond Counsel

Nixon Peabody LLP
Los Angeles, California

Disclosure Counsel

The Law Offices of Elizabeth C. Green
Los Angeles, California

Co-Financial Advisors

Gardner, Underwood & Bacon LLC
Los Angeles, California

Montague DeRose and Associates LLC
Westlake Village, California

Trustee & Paying Agent

U.S. Bank National Association
Los Angeles, California

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 representation 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 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 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 herein has been obtained from the City and other sources which are believed 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 a 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 in the section of this Official Statement captioned "THE BOND INSURER, THE BOND INSURANCE POLICIES AND THE DEBT SERVICE RESERVE FUND POLICIES," in Appendix F — "SPECIMEN MUNICIPAL BOND NEW ISSUE INSURANCE POLICY" and in Appendix G — "SPECIMEN DEBT SERVICE RESERVE FUND POLICY" attached hereto has been furnished by FGIC and no representation has been made by the City, MICLA or the Underwriters as to the accuracy or completeness of such information. The information in Appendix E — "DTC AND THE BOOK-ENTRY-ONLY SYSTEM" attached hereto has been furnished by The Depository Trust Company and no representation has been made by the City or the Underwriters as to the accuracy or completeness of such information. The information and expressions of opinions herein are subject to change without notice and neither 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 thereof. This Official Statement is submitted with respect to the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the City. All summaries of the documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions.

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" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Although such expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. The City is not obligated to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS 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 BONDS TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE FRONT COVER HEREOF, AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

A wide variety of other information, including financial information, concerning the City, is available from publications and websites of the City of Los Angeles, the County of Los Angeles and others. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded. No such information is a part of or incorporated into this Official Statement, except as expressly noted.

OTHER THAN WITH RESPECT TO INFORMATION CONCERNING FGIC (THE "BOND INSURER") CONTAINED UNDER THE CAPTION "THE BOND INSURER, THE BOND INSURANCE POLICIES AND THE DEBT SERVICE RESERVE FUND POLICIES" HEREIN AND THE SPECIMENS OF THE MUNICIPAL BOND INSURANCE POLICIES AND THE DEBT SERVICE RESERVE FUND POLICIES SET FORTH IN APPENDICES F AND G HEREIN, NONE OF THE INFORMATION IN THIS OFFICIAL STATEMENT HAS BEEN SUPPLIED OR VERIFIED BY THE BOND INSURER, AND THE BOND INSURER MAKES NO REPRESENTATION OR WARRANTY AS TO THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION OR THE VALIDITY OF THE BONDS.

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MUNICIPAL IMPROVEMENT CORPORATION OF LOS ANGELES

$106,900,000 LEASE REVENUE BONDS, SERIES 2007-A
(CAPITAL EQUIPMENT)

$169,050,000 LEASE REVENUE BONDS
SERIES 2007-B1 (FIGUEROA PLAZA)
and
$52,085,000 LEASE REVENUE BONDS
SERIES 2007-B2 (TAXABLE) (FIGUEROA PLAZA)

INTRODUCTION

This introduction is not intended to be a complete statement of the terms and provisions of the Bonds and is qualified by the more detailed information contained elsewhere in this Official Statement. This Official Statement, which includes the cover page, inside cover page, and appendices hereto (the "Official Statement"), is provided for the purpose of setting forth information concerning the sale by the Municipal Improvement Corporation of Los Angeles (the "Corporation" or "MICLA") of its $106,900,000 Lease Revenue Bonds, Series 2007-A (Capital Equipment), its $169,050,000 Lease Revenue Bonds, Series 2007-B1 (Figueroa Plaza) and its $52,085,000 Lease Revenue Bonds, Series 2007-B2 (Taxable) (Figueroa Plaza) (collectively, the "Bonds"). The Bonds are sometimes referred to herein individually as the "Series 2007-A Bonds," the "Series 2007-B1 Bonds" and the "Series 2007-B2 Bonds." The Series 2007-B1 Bonds and the Series 2007-B2 Bonds are collectively referred to herein as the "Series 2007-B Bonds." The Series 2007-A Bonds and the Series 2007-B Bonds are sometimes referred to individually as a "Series" of Bonds. Capitalized terms not otherwise defined herein have the meanings given in the Indenture and the Lease Agreements (hereinafter defined) or in APPENDIX C – "CERTAIN DEFINITIONS AND SUMMARY OF THE FINANCING DOCUMENTS" hereto.

Authority; Purpose for Issuance

The Bonds are authorized under the Articles of Incorporation of the Corporation and the laws of the State of California. The Bonds are being issued pursuant to an Indenture dated as of August 1, 2007 (the "Indenture"), by and among the Corporation, the City of Los Angeles, California (the "City") and U.S. Bank National Association, as trustee (the "Trustee").

The Bonds are being issued: (i) in the case of the Series 2007-A Bonds, to refinance, through the redemption of outstanding commercial paper notes of the Corporation, costs associated with the acquisition of certain capital equipment used by the City; (ii) in the case of the Series 2007-B Bonds, to finance costs associated with the acquisition of an office building complex and parking structure ("Figueroa Plaza") occupied by certain City departments and other tenants; (iii) in the case of the Series 2007-B Bonds, to reimburse the City for certain internal borrowings related to the acquisition of Figueroa Plaza; (iv) to purchase a Debt Service Reserve Fund Policy for each Series of the Bonds to be issued by Financial Guaranty Insurance Company, doing business in California as FGIC Insurance Company ("FGIC" or the "Bond Insurer") in a maximum amount not less than the amount of the Reserve Requirement for said Series of the Bonds; and (v) to pay costs of issuance of the Bonds.

Proceeds from the sale of the Series 2007-B1 Bonds will be used to finance the acquisition of the portion of Figueroa Plaza occupied by certain City departments and other governmental tenants. Proceeds from the sale of the Series 2007-B2 Bonds will be used to finance the acquisition of the portion of Figueroa Plaza occupied by non-governmental entities. Interest on the Series 2007-B1 Bonds is excluded from gross income of the Bondholders for federal income tax purposes under existing statutes and court decisions, as and to the extent further described herein. See "TAX MATTERS REGARDING SERIES 2007-A BONDS AND SERIES 2007-B1 BONDS" herein. Interest on the Series 2007-B2 Bonds is not excluded from gross income of the Bondholders for federal income tax purposes, as and to the extent further described herein. See "TAX MATTERS REGARDING SERIES 2007-B2 BONDS" herein.

The Lease Payments and the Bonds

The City will lease from the Corporation certain municipal capital equipment owned by the Corporation (the "Capital Equipment") pursuant to the Equipment Lease Agreement dated as of August 1, 2007, between the City and the Corporation (the "Equipment Lease Agreement"). The City will lease the Figueroa Plaza land, buildings and improvements ("Figueroa Plaza" and the "Figueroa Plaza Property") to the Corporation pursuant to the Site Lease dated as of August 1, 2007, between the City and the Corporation (the "Site Lease") and the Corporation will sublease to the City the Figueroa Plaza land, buildings and improvements pursuant to the Facility Lease Agreement dated as of August 1, 2007, between the City and the Corporation (the "Facility Lease Agreement"). The Facility Lease Agreement and the Equipment Lease Agreement are herein referred to collectively as the "Lease Agreements." The Capital Equipment which will be leased to the City pursuant to the Equipment Lease Agreement and Figueroa Plaza, which will be leased pursuant to the Facility Lease Agreement, are herein referred to collectively as the "Property" and each is severally referred to herein as a "Property Component."

Under the Lease Agreements, in addition to the Basic Lease Payments the City has agreed to pay Additional Payments consisting of: (i) all taxes, fees or assessments levied upon the Property or upon any interest therein of the Corporation or the Trustee; (ii) insurance premiums, if any, on insurance required under the Lease Agreement; (iii) all fees and expenses of the Trustee, and expenses of the City required to comply with the Lease Agreement and the Indenture; (iv) any other fee, cost or expense incurred by the Corporation in connection with the execution, performance or enforcement of the Lease Agreements or the Indenture, including any amounts necessary to indemnify and defend the Corporation; and (v) any amounts required to be paid to the United States government pursuant to Section 148 of the Internal Revenue Code; the Basic Lease Payments and Additional Lease Payments, collectively, constitute the "Lease Payments."

The Bonds will be secured solely by a pledge of Revenues (as defined in the Indenture) and certain other moneys held in any fund, account or subaccount held under the Indenture (other than the Rebate Fund). The Revenues consist of (i) in the case of the Series 2007-A Bonds, the Basic Lease Payments made pursuant to the Equipment Lease Agreement, (ii) in the case of the Series 2007-B Bonds, the Basic Lease Payments made pursuant to the Facility Lease Agreement, and (iii) interest or profits from the investment of money in any fund, account or subaccount held under the Indenture relating to said Series of the Bonds (other than the Rebate Fund). The Basic Lease Payments are defined in the Equipment Lease Agreement and the Facility Lease Agreement as the rental payments, and any prepayment thereof, required to be made by the City under the respective Lease Agreement on any date. The Basic Lease Payments will be transferred to the Trustee in an amount sufficient to pay the principal and interest on the Bonds of the Series secured thereby on each Interest Payment Date and Redemption Date. **The Basic Lease Payments payable under a Lease Agreement relating to a particular Series of Bonds shall not be applied to pay principal and interest on any other Series of Bonds.** Under the Lease Agreements, the City covenants to take such action as may be necessary to include all Lease Payments payable under the Equipment Lease Agreement and the Facility Lease Agreement in its annual budgets and make the necessary annual appropriations therefor. The Lease Agreements provide that such covenants of the City are deemed by the City to be and shall be construed to be ministerial duties imposed by law.

Interest on the Series 2007-A Bonds and the Series 2007-B1 Bonds is excluded from gross income for federal income tax purposes under existing statutes and court decisions, as further described herein. See "TAX MATTERS REGARDING THE SERIES 2007-A BONDS AND THE SERIES 2007-B1 BONDS" herein. Interest on the Series 2007-B2 Bonds is subject to federal income taxation, as further described herein. See "TAX MATTERS REGARDING THE SERIES 2007-B2 BONDS" herein.

Further Information in This Official Statement

Brief descriptions of the Bonds, the Indenture, the Lease Agreements, the Site Lease and other documents and information are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. The descriptions herein of the Bonds, the Indenture, the Lease Agreements, the Site Lease and other documents are qualified in their entirety by reference to the forms thereof. For definitions of certain capitalized terms used herein and not otherwise defined, and a description of certain terms relating to the Bonds, see APPENDIX C – "CERTAIN DEFINITIONS AND SUMMARY OF THE FINANCING DOCUMENTS" herein. See APPENDIX C – "CERTAIN DEFINITIONS AND SUMMARY OF THE FINANCING DOCUMENTS – THE EQUIPMENT LEASE AGREEMENT" AND "– THE FACILITY LEASE AGREEMENT" herein for further information regarding the City's obligations under the Lease Agreements. See "RISK FACTORS" herein for certain factors that may affect the payment of and security for the Bonds.

Concurrently with the issuance of the Bonds, FGIC will issue a separate Municipal Bond New Issue Insurance Policy (each, a "Bond Insurance Policy" and collectively, the "Bond Insurance Policies') for the Insured Series 2007-A Bonds (which are comprised of all of the Series 2007-A Bonds except for the Series 2007-A Bonds maturing in the years 2008 and 2009, which are not insured) and the Series 2007-B Bonds. The Insured Series 2007-A Bonds and the Series 2007-B Bonds to be insured by FGIC (which are comprised of all of the Series 2007-B1 Bonds and the Series 2007-B2 Bonds) are referred to collectively herein as the "Insured Bonds." Additionally, FGIC will issue a separate Debt Service Reserve Fund Policy relating to the Series 2007-A Bonds (including the uninsured maturities of the Series 2007-A Bonds) and the Series 2007-B Bonds (each, a "Debt Service Reserve Fund Policy" and collectively, the "Debt Service Reserve Fund Policies"). See "THE BOND INSURER, THE BOND INSURANCE POLICIES AND THE DEBT SERVICE RESERVE FUND POLICIES" herein for further information regarding the Bond Insurer, the Bond Insurance Policies and the Debt Service Reserve Fund Policies. Specimens of the Bond Insurance Policies and the Debt Service Reserve Fund Policies are set forth in Appendix F — "SPECIMEN MUNICIPAL BOND NEW ISSUE INSURANCE POLICY" and in Appendix G — "SPECIMEN DEBT SERVICE RESERVE FUND POLICY."

Certain demographic, financial and other information with respect to or affecting the City is contained in APPENDIX A – "CITY OF LOS ANGELES INFORMATION STATEMENT" and APPENDIX B – "EXCERPTS FROM THE CITY'S COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2006 AND INDEPENDENT AUDITOR'S REPORT" herein.

THE BONDS

General Terms

The Bonds will be dated the date of delivery and will bear interest at the rates per annum and mature in the amounts and on the dates shown on the inside cover page of this Official Statement. The Bonds will be delivered in registered form, without coupons, initially registered in the name of Cede & Co., as registered owner and nominee of DTC. See APPENDIX E – "DTC AND THE BOOK-ENTRY ONLY SYSTEM" hereto. Interest on the Bonds will be payable semiannually on February 1 and August 1 of each year, commencing February 1, 2008 (each, an "Interest Payment Date"). So long as DTC, or its nominee, Cede & Co., is the registered owner of the Bonds, all payments on the Bonds and any notice with respect to any Bond will be sent directly to DTC, and disbursement of such payments and delivery of such notices to the Beneficial Owners will be the responsibility of the DTC Participants as more fully described herein.

Payment of interest on the Bonds due on or before the maturity or prior redemption thereof shall be made to the person in whose name such Bonds are registered, as of the Record Date preceding the applicable Interest Payment Date, on the registration books kept by the Trustee pursuant to the Indenture, such interest to be paid by check mailed by first class mail on such Interest Payment Date to such Owner at such address as it appears on such books as of the Record Date; provided, however, that upon the written request of an Owner of $1,000,000 or more in aggregate principal amount of the Bonds received by the Trustee prior to the applicable Record Date, interest shall be paid by wire transfer in immediately available funds. Any such written request shall remain in effect until rescinded in writing by the Owner.

Principal of the Bonds is payable upon maturity or redemption of the Bonds upon surrender thereof at the principal corporate trust offices of the Trustee in St. Paul, Minnesota.

Redemption Provisions—Series 2007-A Bonds

Optional Redemption. The Series 2007-A Bonds are not subject to optional redemption prior to their respective stated maturity dates.

Redemption Provisions—Series 2007-B Bonds

Optional Redemption. The Series 2007-B1 Bonds maturing on or before August 1, 2014 are not subject to optional redemption prior to their stated maturity dates. The Series 2007-B1 Bonds maturing on or after August 1, 2015 are subject to optional redemption prior to their stated maturity dates, on or after August 1, 2014, at the option of the Corporation, in whole or in part, on any date, at the principal amount of the Series 2007-B1 Bonds called for redemption, plus accrued interest to the redemption date, without premium.

The Series 2007-B2 Bonds are subject to optional redemption prior to their stated maturity dates, at the option of the Corporation, in whole or in part on any date, at a redemption price equal to the greater of:

(1) 100 percent of the principal amount of the Series 2007-B2 Bonds to be redeemed; and

(2) the sum of the present values of the remaining scheduled payments of principal and interest on the Series 2007-B2 Bonds to be redeemed (exclusive of interest accrued to the date fixed for redemption) discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 12.5 basis points; plus in each case, accrued and unpaid interest on the Series 2007-B2 Bonds being redeemed to the date fixed for redemption.

For the purpose of determining the Treasury Rate, the following definitions will apply:

"Treasury Rate" means, with respect to any redemption date for a particular Series 2007-B2 Bond, the rate per annum, expressed as a percentage of the principal amount, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.

"Comparable Treasury Issue" means, with respect to any redemption date for a particular Series 2007-B2 Bond, the United States Treasury security or securities selected by the Designated Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the applicable Series 2007-B2 Bonds to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the Series 2007-B2 Bonds to be redeemed.

"Comparable Treasury Price" means, with respect to any redemption date for a particular Series 2007-B2 Bond, (1) if the Designated Investment Banker receives at least four Reference Treasury Dealer Quotations, the average of such quotations for such redemption date, after excluding the highest and lowest Reference Treasury Deal Quotations, or (2) if the Designated Investment Banker obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

"Designated Investment Banker" means one of the Reference Treasury Dealers appointed by the Corporation.

"Reference Treasury Dealer" means Citigroup Global Markets Inc. and its respective successors and three other firms, specified by the Corporation from time to time, that are primary U.S. Government securities dealers in the City of New York (each a "Primary Treasury Dealer"); provided, however, that if any of them ceases to be a Primary Treasury Dealer, the Corporation shall substitute another Primary Treasury Dealer.

"Reference Treasury Deal Quotations" means, with respect to each Reference Treasury Dealer and any redemption date for a particular Series 2007-B2 Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the third business day preceding such redemption date.

Mandatory Redemption. The Series 2007-B1 Bonds maturing on August 1, 2032 are subject to mandatory redemption prior to their stated maturity, in part by lot, from sinking account payments deposited in the Series 2007-B1 Bonds Sinking Account, on each August 1 commencing August 1, 2029 at the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium, according to the following schedule:

Year (August 1)	Principal Amount
2029	$ 9,425,000
2030	9,885,000
2031	10,365,000
2032*	10,870,000

* Maturity

The Series 2007-B1 Bonds maturing on August 1, 2037 are subject to mandatory redemption prior to their stated maturity, in part by lot, from sinking account payments deposited in the Series 2007-B1 Bonds Sinking Account, on each August 1 commencing August 1, 2033 at the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium, according to the following schedule:

Year (August 1)	Principal Amount
2033	$11,400,000
2034	11,955,000
2035	12,535,000
2036	13,145,000
2037*	13,785,000

* Maturity

The Series 2007-B2 Bonds maturing on August 1, 2020 are subject to mandatory redemption prior to their stated maturity, in part on a pro rata basis, from sinking account payments deposited in the Series 2007-B2 Bonds Sinking Account, on each August 1 commencing August 1, 2018 at the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium, according to the following schedule:

Year (August 1)	Principal Amount
2018	$5,370,000
2019	5,695,000
2020	1,015,000

* Maturity

Redemption Provisions Applicable to All Series of Bonds

Extraordinary Mandatory Redemption. The Bonds are subject to redemption prior to their respective maturity dates, in Authorized Denominations, upon notice as hereinafter provided, on any date, as a whole or in part, from Net Proceeds of any policy of insurance, title insurance or condemnation award received by the Trustee arising from the damage, destruction, taking or other loss of or to the Equipment or the Property leased under a Lease Agreement, in accordance with the provisions of the Indenture and the respective Lease Agreement relating thereto, at the principal amount thereof together with accrued interest to the date of redemption, without premium. If less than all Outstanding Bonds of the Series secured by such Lease Agreement are to be redeemed at any time, the Trustee shall use the net insurance proceeds or condemnation awards attributable to the portion of the Capital Equipment or Figueroa Plaza destroyed, damaged, stolen or taken, to redeem Bonds of the Series secured by such Lease Agreement, by lot among all maturities of Bonds of such Series, as directed in writing by the City. Subject to the foregoing, if less than all Outstanding Bonds of such Series maturing by their terms on any one date are to be so redeemed at any one time, Bonds of such series and maturity date to be redeemed shall be selected in any manner that the Trustee deems appropriate. The redemption date shall be a date, selected by the City on behalf of the Corporation, no later than 75 days after receipt of the Written Request of the City delivered to the Trustee pursuant to the Indenture.

Notice of Redemption. Notice of redemption shall be mailed by the Trustee, not less than 30 nor more than 60 days prior to the redemption date to: (i) the respective Bondholders designated for redemption at their addresses appearing on the registration books of the Trustee by first class mail; (ii) the Securities Depositories (if any); and (iii) the Information Services. Notice of redemption to the Securities Depositories and the Information Services shall be given by registered mail or by overnight delivery. Failure by the Trustee to give notice to any one or more of the Information Services or Securities Depositories, or the insufficiency of any such notice, shall not affect the sufficiency of the proceedings for redemption. Failure by the Trustee to mail or otherwise provide notice of redemption to any one or more of the respective Owners of any Bonds designated for redemption shall not affect the sufficiency of the proceedings for redemption with respect to the Owners to whom such notice was mailed. The notice of redemption for any optional redemption pursuant to the Indenture shall contain a statement to the effect that redemption of the Bonds is conditioned upon the receipt by the Trustee of amounts equal to the redemption price of the Bonds to be redeemed on or before the redemption date, and such optional redemption shall be so conditioned.

DTC and the Book-Entry Only System

The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the Bonds. The Bonds will be registered in the name of Cede & Co. (DTC's partnership nominee), and will be available to ultimate purchasers in the denomination of $5,000 or any integral multiple thereof, under the book-entry system maintained by DTC. Ultimate purchasers of Bonds will not receive physical certificates representing their interest in the Bonds. So long as the Bonds are registered in the name of Cede & Co., as nominee of DTC, references herein to the Bondholders shall mean Cede & Co., and shall not mean the ultimate purchasers of the Bonds. Payments of the principal of, premium, if any, and interest on the Bonds will be made directly to DTC, or its nominee, Cede & Co., by the Trustee, so long as DTC or Cede & Co. is the registered owner of the Bonds. Disbursements of such payments to DTC's Participants are the responsibility of DTC and disbursements of such payments to the Beneficial Owners are the responsibility of DTC's Participants and Indirect Participants. See APPENDIX E – "DTC AND THE BOOK-ENTRY ONLY SYSTEM."

ESTIMATED SOURCES AND USES OF FUNDS

The sources of funds to be received from the sale of the Bonds and the proposed uses of the Bond proceeds are estimated to be in the amounts shown below.

Sources of Funds	**Series 2007-A**	**Series 2007-B1**	**Series 2007-B2**
Principal Amount of Bonds	$106,900,000.00	$169,050,000.00	$52,085,000.00
Plus Net Reoffering Premium	2,898,954.50	697,542.90	-
Total Sources	**$109,798,954.50**	**$169,747,542.90**	**$52,085,000.00**
Uses of Funds			
Commercial Paper Issuing and Paying Agent (1)	$109,000,000.00	-	-
Figueroa Plaza Acquisition Escrow	-	$148,410,000.00	$45,590,000.00
City Reimbursement for Internal Borrowing (2)	-	19,125,000.00	5,875,000.00
Costs of Issuance (3)	501,830.59	1,775,475.40	480,727.50
Underwriters' Discount	297,123.91	437,067.50	139,272.50
Total Uses	**$109,798,954.50**	**$169,747,542.90**	**$52,085,000.00**

(1) To be used to retire, at maturity, principal and interest on the MICLA Commercial Paper Program Notes (the "Notes), which were issued to pay costs of acquisition of the Capital Equipment (approximately $109,000,000).

(2) Reimbursement to City for internal borrowings related to Figueroa Plaza acquisition.

(3) Includes fees for trustee, legal counsel, financial advisors, real estate consultant, rating agencies, insurance relating to the Property, the premiums for the Bond Insurance Policies and the Debt Service Reserve Fund Policies and other costs associated with the issuance of the Bonds.

DEBT SERVICE SCHEDULES

Each of the Lease Agreements requires the City to make the Basic Lease Payments on each January 15 and July 15, commencing January 15, 2008 (each a "Lease Payment Date"), as rental for the use and possession of the therein-described Property during the Term of the respective Lease Agreement. The Indenture requires that the Basic Lease Payments received under the Equipment Lease Agreement and the Facility Lease Agreement be deposited in the Series 2007-A Bond Fund and the Series 2007-B Bond Fund, respectively, maintained by the Trustee. Pursuant to the Indenture, on February 1 and August 1 of each year, the Trustee will apply such amounts in the Series 2007-A Bond Fund and the Series 2007-B Bond Fund as are necessary to make principal and interest payments on the respective Series of Bonds as the Bonds of such Series become due and payable. The table on the following page sets forth the scheduled principal and interest payments on the Bonds, which correspond to the Basic Lease Payments to be paid in each period by the City under the Lease Agreements. **The Series 2007-A Bonds and the Series 2007-B Bonds will be separately secured by the Basic Lease Payments to be made under the Equipment Lease Agreement and the Facility Lease Agreement, respectively, and Basic Lease Payments payable under a Lease Agreement relating to a particular Series of Bonds shall not be applied to pay principal and interest on any other Series of Bonds.**

If the City defaults on its covenants in the Equipment Lease Agreement or the Facility Lease Agreement, including the covenant to include all Lease Payments payable thereunder in the annual budgets, the Trustee may exercise any remedies available pursuant to law or the respective Lease Agreement, including re-letting the Property leased thereunder and/or terminating the respective Lease Agreement; provided that the Lease Payments cannot be accelerated. There are no cross-default provisions in the Lease Agreements and a default under one Lease Agreement will not, by its mere occurrence, trigger a default under the other Lease Agreement. See "RISK FACTORS – Limitations on Default Remedies" herein. THE OBLIGATIONS TO BUDGET FOR AND THE OBLIGATIONS TO MAKE THE BASIC LEASE PAYMENTS UNDER THE LEASE AGREEMENTS DO NOT CONSTITUTE A DEBT OF THE CITY, OR ANY OTHER ENTITY, NOR DO SUCH OBLIGATIONS CONSTITUTE OBLIGATIONS FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE, OR HAS LEVIED OR PLEDGED, ANY FORM OF TAXATION.

DEBT SERVICE SCHEDULE-SERIES 2007-A BONDS

Date	Principal	Interest	Total Series Debt Service
02/01/2008	-	$2,309,898.40	$2,309,898.40
08/01/2008	$13,325,000.00	2,403,362.50	15,728,362.50
02/01/2009	-	2,105,487.50	2,105,487.50
08/01/2009	13,945,000.00	2,105,487.50	16,050,487.50
02/01/2010	-	1,784,406.25	1,784,406.25
08/01/2010	14,535,000.00	1,784,406.25	16,319,406.25
02/01/2011	-	1,514,631.25	1,514,631.25
08/01/2011	15,155,000.00	1,514,631.25	16,669,631.25
02/01/2012	-	1,162,418.75	1,162,418.75
08/01/2012	15,870,000.00	1,162,418.75	17,032,418.75
02/01/2013	-	799,118.75	799,118.75
08/01/2013	16,635,000.00	799,118.75	17,434,118.75
02/01/2014	-	399,368.75	399,368.75
08/01/2014	17,435,000.00	399,368.75	17,834,368.75
TOTAL	$106,900,000.000	$20,244,123.40	$127,144,123.40

DEBT SERVICE SCHEDULE-SERIES 2007-B BONDS

Date	Series 2007 B1 Principal	Series 2007 B-1 Interest	Total Series 2007-B1 Debt Service	Series 2007-B2 Principal	Series 2007-B2 Interest	Total Series 2007-B2 Debt Service	Total Series 2007-B Debt Service
02/01/2008		$3,937,714.27	$3,937,714.27		$1,388,484.06	$1,388,484.06	$5,326,198.33
08/01/2008		4,097,043.75	4,097,043.75	$3,115,000.00	1,444,665.50	4,559,665.50	8,656,709.25
02/01/2009		4,097,043.75	4,097,043.75		1,365,544.50	1,365,544.50	5,462,588.25
08/01/2009		4,097,043.75	4,097,043.75	3,270,000.00	1,365,544.50	4,635,544.50	8,732,588.25
02/01/2010		4,097,043.75	4,097,043.75		1,281,015.00	1,281,015.00	5,378,058.75
08/01/2010		4,097,043.75	4,097,043.75	3,445,000.00	1,281,015.00	4,726,015.00	8,823,058.75
02/01/2011		4,097,043.75	4,097,043.75		1,191,445.00	1,191,445.00	5,288,488.75
08/01/2011		4,097,043.75	4,097,043.75	3,630,000.00	1,191,445.00	4,821,445.00	8,918,488.75
02/01/2012		4,097,043.75	4,097,043.75		1,094,524.00	1,094,524.00	5,191,567.75
08/01/2012		4,097,043.75	4,097,043.75	3,830,000.00	1,094,524.00	4,924,524.00	9,021,567.75
02/01/2013		4,097,043.75	4,097,043.75		990,731.00	990,731.00	5,087,774.75
08/01/2013		4,097,043.75	4,097,043.75	4,050,000.00	990,731.00	5,040,731.00	9,137,774.75
02/01/2014		4,097,043.75	4,097,043.75		879,153.50	879,153.50	4,976,197.25
08/01/2014		4,097,043.75	4,097,043.75	4,280,000.00	879,153.50	5,159,153.50	9,256,197.25
02/01/2015		4,097,043.75	4,097,043.75		759,313.50	759,313.50	4,856,357.25
08/01/2015		4,097,043.75	4,097,043.75	4,525,000.00	759,313.50	5,284,313.50	9,381,357.25
02/01/2016		4,097,043.75	4,097,043.75		631,708.50	631,708.50	4,728,752.25
08/01/2016		4,097,043.75	4,097,043.75	4,790,000.00	631,708.50	5,421,708.50	9,518,752.25
02/01/2017		4,097,043.75	4,097,043.75		495,672.50	495,672.50	4,592,716.25
08/01/2017		4,097,043.75	4,097,043.75	5,070,000.00	495,672.50	5,565,672.50	9,662,716.25
02/01/2018		4,097,043.75	4,097,043.75		350,924.00	350,924.00	4,447,967.75
08/01/2018		4,097,043.75	4,097,043.75	5,370,000.00	350,924.00	5,720,924.00	9,817,967.75
02/01/2019		4,097,043.75	4,097,043.75		194,925.50	194,925.50	4,291,969.25
08/01/2019		4,097,043.75	4,097,043.75	5,695,000.00	194,925.50	5,889,925.50	9,986,969.25
02/01/2020		4,097,043.75	4,097,043.75		29,485.75	29,485.75	4,126,529.50
08/01/2020	$5,000,000.00	4,097,043.75	9,097,043.75	1,015,000.00	29,485.75	1,044,485.75	10,141,529.50
02/01/2021		3,972,043.75	3,972,043.75				3,972,043.75
08/01/2021	6,325,000.00	3,972,043.75	10,297,043.75				10,297,043.75
02/01/2022		3,813,918.75	3,813,918.75				3,813,918.75
08/01/2022	6,650,000.00	3,813,918.75	10,463,918.75				10,463,918.75
02/01/2023		3,647,668.75	3,647,668.75				3,647,668.75
08/01/2023	6,990,000.00	3,647,668.75	10,637,668.75				10,637,668.75
02/01/2024		3,472,918.75	3,472,918.75				3,472,918.75
08/01/2024	7,350,000.00	3,472,918.75	10,822,918.75				10,822,918.75
02/01/2025		3,289,168.75	3,289,168.75				3,289,168.75
08/01/2025	7,725,000.00	3,289,168.75	11,014,168.75				11,014,168.75
02/01/2026		3,096,043.75	3,096,043.75				3,096,043.75
08/01/2026	8,125,000.00	3,096,043.75	11,221,043.75				11,221,043.75
02/01/2027		2,892,918.75	2,892,918.75				2,892,918.75
08/01/2027	8,540,000.00	2,892,918.75	11,432,918.75				11,432,918.75
02/01/2028		2,679,418.75	2,679,418.75				2,679,418.75
08/01/2028	8,980,000.00	2,679,418.75	11,659,418.75				11,659,418.75
02/01/2029		2,454,918.75	2,454,918.75				2,454,918.75
08/01/2029	9,425,000.00	2,454,918.75	11,879,918.75				11,879,918.75
02/01/2030		2,231,075.00	2,231,075.00				2,231,075.00
08/01/2030	9,885,000.00	2,231,075.00	12,116,075.00				12,116,075.00
02/01/2031		1,996,306.25	1,996,306.25				1,996,306.25
08/01/2031	10,365,000.00	1,996,306.25	12,361,306.25				12,361,306.25
02/01/2032		1,750,137.50	1,750,137.50				1,750,137.50
08/01/2032	10,870,000.00	1,750,137.50	12,620,137.50				12,620,137.50
02/01/2033		1,491,975.00	1,491,975.00				1,491,975.00
08/01/2033	11,400,000.00	1,491,975.00	12,891,975.00				12,891,975.00
02/01/2034		1,221,225.00	1,221,225.00				1,221,225.00
08/01/2034	11,955,000.00	1,221,225.00	13,176,225.00				13,176,225.00
02/01/2035		937,293.75	937,293.75				937,293.75
08/01/2035	12,535,000.00	937,293.75	13,472,293.75				13,472,293.75
02/01/2036		639,587.50	639,587.50				639,587.50
08/01/2036	13,145,000.00	639,587.50	13,784,587.50				13,784,587.50
02/01/2037		327,393.75	327,393.75				327,393.75
08/01/2037	13,785,000.00	327,393.75	14,112,393.75				14,112,393.75
TOTAL	$169,050,000.00	$186,191,833.02	$355,241,833.02	$52,085,000.00	$21,362,035.06	$73,447,035.06	$428,688,868.08

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

General

The Bonds will be secured solely by a pledge of Revenues (as defined in the Indenture) and such other moneys, funds and accounts pledged to the payment of said Series of Bonds under the Indenture (other than the Rebate Fund). The Revenues consist of (i) in the case of the Series 2007-A Bonds, the Basic Lease Payments (defined as the rental payments required to be made by the City on any date pursuant to the Equipment Lease Agreement, including any prepayment thereof) made pursuant to the Equipment Lease Agreement, (ii) in the case of the Series 2007-B Bonds, the Basic Lease Payments (defined as the rental payments required to be made by the City on any date pursuant to the Facility Lease Agreement, including any prepayment thereof) made pursuant to the Facility Lease Agreement, and (iii) interest or profits from the investment of money in any fund, account or subaccount relating to said Series of the Bonds held under the Indenture (other than the Rebate Fund). The Basic Lease Payments will be paid by the City to the Trustee in an amount sufficient to pay the principal and interest on the Bonds of the Series secured thereby on each Interest Payment Date and Redemption Date. **The Series 2007-A Bonds and the Series 2007-B Bonds will be separately secured by the Basic Lease Payments to be made under the Equipment Lease Agreement and the Facility Lease Agreement, respectively, and Basic Lease Payments payable under the Equipment Lease Agreement and the Facility Lease Agreement shall only be applied as Revenues to pay principal and interest on the Bonds of the Series secured thereby.**

On or before each Lease Payment Date (on January 15 and July 15) during the Term of each Lease Agreement, the City is required to pay to the Trustee the Basic Lease Payments due on such date from the City's General Fund, or from other legally available sources. The Trustee, as assignee of the Corporation, will receive the Basic Lease Payments for the benefit of the Bondholders and credit such Basic Lease Payments to the respective Bond Fund established pursuant to the Indenture for the Series 2007-A Bonds and the Series 2007-B Bonds. The Trustee will apply the Revenues held in the respective Bond Fund on each Interest Payment Date to pay principal and interest due on such date on the respective Series of Bonds.

Lease Payments

The City has covenanted in each Lease Agreement to take such action as may be necessary to include the Lease Payments payable by the City thereunder in its annual budgets and to make the necessary annual appropriations for all such Lease Payments. Each Lease Agreement also provides that, in so providing for the payment of Lease Payments in its annual budgets, the City may take into account moneys on deposit in the various funds and accounts under the Indenture, which moneys are properly available to make Lease Payments. Each Lease Agreement provides that such covenants on the part of the City are deemed to be and shall be construed to be ministerial duties imposed by law, and it shall be the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in such Lease Agreement. For a discussion of the financial and budgetary information on the City's General Fund, see APPENDIX A – "CITY OF LOS ANGELES INFORMATION STATEMENT" herein.

Under each Lease Agreement, in addition to the Basic Lease Payments payable thereunder, the City has agreed to pay Additional Payments consisting of: (i) all taxes, fees or assessments levied upon the Property or upon any interest therein of the Corporation or the Trustee; (ii) insurance premiums, if any, on insurance required under the respective Lease Agreement; (iii) all fees and expenses of the Trustee, and expenses of the City required to comply with the respective Lease Agreement and the Indenture; (iv) any other fee, cost or expense incurred by the Corporation in connection with the execution, performance or enforcement of the respective Lease Agreement or the Indenture, including any amounts necessary to indemnify and defend the Corporation; and (v) any amounts required to be paid to the United States government pursuant to Section 148 of the Internal Revenue Code. The Basic Lease Payments and Additional Lease Payments, collectively, constitute the "Lease Payments."

Under each Lease Agreement, the Lease Payments for the Property for each Rental Period shall constitute the total rental for such Property for such Rental Period, and shall be paid by the City in each Rental Period for and in consideration of the right of the use of, and the continued quiet use and enjoyment of, the Property during such Rental Period. The City and Corporation have determined that the total of all Lease Payments for the Property is not greater than the total fair rental value of the Property and the total of all Lease Payments for each Property Component does not exceed the total fair rental value of such Property Component. Further, the City and Corporation have determined that the Lease Payments for the Property for each Rental Period do not exceed the fair rental value of the Property for such Rental Period and the Lease Payments for each Property Component for each Rental Period do not exceed the fair rental value of such Property Component for such Rental Period. In making such determinations, consideration has been given to the costs of acquisition and financing of the Property, the appraised or market value of the Property, the cost of modifications made or to be made to the Property, other obligations of the parties under the respective Lease Agreement, the uses and purposes which may be served by the Property and the benefits therefrom which will accrue to the City and the general public.

Abatement of Lease Payments

During any period in which damage to or destruction of all or a portion of a Property Component or other event, results in substantial interference with the use and possession or occupancy of such Property Component or any portion thereof, all or a portion of the Lease Payments due under the respective Lease Agreement will be abated such that the remaining Lease Payments due under such Lease Agreement represent fair rental for the use of the portion of the Property Component not affected. In the event of any such interruption of use and possession, the Lease Agreement shall continue in full force and effect and the Lease Payments shall not be subject to abatement to the extent that the proceeds of rental interruption insurance or amounts in the Reserve Account or otherwise in the Bond Fund are available to pay Lease Payments which would otherwise be abated. The City has covenanted in the Lease Agreements to maintain insurance against certain risks, which the City provides in some cases through self-insurance. Net Proceeds of such insurance or self-insurance may be applied to redeem the related Series of Bonds in the event of loss of use of the Property. See "THE BONDS—Redemption Provisions Applicable to All Series of the Bonds" herein and APPENDIX C – "CERTAIN DEFINITIONS AND SUMMARY OF THE FINANCING DOCUMENTS" and the provisions described under the captions "THE EQUIPMENT LEASE AGREEMENT — Damage, Destruction and Use of Net Proceeds," and the subcaptions "— Prepayment of Lease Payments" and "— Damage, Destruction and Use of Net Proceeds — Abatement" thereunder and under the captions "THE FACILITY LEASE AGREEMENT — Damage, Destruction and Eminent Domain; Use of Net Proceeds" and the subcaptions "—Prepayment of Lease Payments" and "— Abatement" thereunder.

Reserve Accounts

The Indenture establishes separate Reserve Accounts for the Series 2007-A Bonds and the Series 2007-B Bonds (the "Series 2007-A Reserve Account and the "Series 2007-B Reserve Account," respectively, and each such account, a "Reserve Account") that will be held by the Trustee pursuant to the Indenture and funded with a Reserve Account Credit Facility in an amount equal to, with respect to each Series of the Bonds, the least of: (i) 10% of the initial principal amount of said Series of the Bonds; or (ii) Maximum Annual Debt Service for said Series of the Bonds for the current or any future Fiscal Year; or (iii) 125% of average Annual Debt Service for said Series of the Bonds (such amount being the "Reserve Requirement" for said Series of the Bonds). For purposes of determining if the amount on deposit in a Reserve Account equals the Reserve Requirement, any Reserve Account Credit Facility for said Series of the Bonds shall be deemed to be a deposit in the face amount or stated amount of such Reserve Account Credit Facility, less any unreimbursed drawings or other amounts not reinstated under such Credit Facility.

All money in the Series 2007-A Reserve Account and the Series 2007-B Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of replenishing the Interest Account or the Principal Account within the Bond Fund relating to the respective Series of the Bonds, in the event of any deficiency at any time in any of such respective accounts, or for the purposes of paying the interest, principal or redemption premiums, if any, with respect to the Bonds of a Series secured thereby in the event that no other money of the Corporation is lawfully available therefor, or for the retirement of all the Bonds of said Series then Outstanding, so long as the Corporation is not in default under the Indenture.

On the date of issuance of the Bonds, the Reserve Requirement for the Series 2007-A Reserve Account is $10,979,895.45. The Series 2007-A Reserve Account will be funded by the Debt Service Reserve Fund Policy to be issued by FGIC concurrently with the issuance of the Bonds in the maximum amount of $10,979,895.45. On the date of issuance of the Bonds, the Reserve Requirement for the Series 2007-B Reserve Account is $14,439,787.50. The Series 2007-B Reserve Account will be funded by the Debt Service Reserve Fund Policy to be issued by FGIC concurrently with the issuance of the Bonds in the maximum amount of $14,439,787.50. See "THE BOND INSURER, THE BOND INSURANCE POLICIES AND THE DEBT SERVICE RESERVE FUND POLICIES" herein.

On or before August 1 of each year, beginning on August 1, 2008, the Trustee will set aside from the Bond Fund and deposit in the Reserve Account for each Series of the Bonds that amount of money which shall be required to maintain said Reserve Account in the full amount of the Reserve Requirement or such larger amount as shall be required to be maintained in said Reserve Account by any Supplemental Indenture. No deposit need be made in a Reserve Account so long as there shall be on deposit therein a sum equal to the Reserve Requirement for said Series of the Bonds.

All interest income received by the Trustee on investment of moneys in a Reserve Account shall be transferred first to the Rebate Fund to the extent required by the Indenture; provided, however, that such interest income shall be retained in the Reserve Account for such Series of Bonds to the extent that amounts therein have been transferred to make up a deficiency in the Interest Account or the Principal Account; and thereafter to the Interest Account for such Series of Bonds.

Additional Bonds

The Indenture provides that the Corporation and the City may, at any time, determine to issue and deliver Additional Bonds, without the consent of the Owners of any Bonds, payable from the Revenues pledged to a Series of Bonds as provided therein and secured by a pledge of the Revenues as provided therein equal to the pledge securing the Outstanding Bonds of such Series theretofore issued pursuant to the Indenture, but only subject to certain terms and conditions set forth in the Indenture and which are made conditions precedent to the issuance of any such Additional Bonds. See APPENDIX C – "CERTAIN DEFINITIONS AND SUMMARY OF THE FINANCING DOCUMENTS – THE INDENTURE – Issuance of Additional Bonds" herein. See also "RISK FACTORS – No Limitation on Incurring Additional Obligations" herein.

Repair and Maintenance; Taxes and Assessments; Insurance; Modification of the Property

During the respective Term of each Lease Agreement, all improvement, modification, repair and maintenance of the Property shall be the responsibility of the City. The City shall, at its own expense, during the Term of each Lease Agreement maintain the Property, or cause the same to be maintained, in good order, condition and repair and shall replace any portion of the Property which is lost, stolen or destroyed; provided that the City shall not be required to repair or replace any such portion of the Property pursuant to the Lease Agreement if there shall be applied to the prepayment of Basic Lease Payments thereunder insurance proceeds or other legally available funds sufficient to prepay (i) all of the Bonds Outstanding of such Series or (ii) any portion thereof relating to the Property or such portion thereof such that the Basic Lease Payments allocable to the remaining portion of the Property will be sufficient to pay the principal payable on the Bonds Outstanding of such Series after such prepayment. The Lease Agreements require that the City provide or cause to be provided all security service, custodial service, janitorial service and other services necessary for the proper upkeep and maintenance of the Property. The Lease Agreements require that the City provide or cause to be provided all mechanical service and other services necessary for the proper upkeep and maintenance of the Equipment.

The City shall keep the Property free and clear of all liens, charges and encumbrances, subject only to Permitted Encumbrances. The City shall also pay or cause to be paid all taxes and assessments of any type or nature, if any, charged to the Corporation or the City affecting the Property or the respective interests therein; provided, however, that subject to the provisions of the respective Lease Agreement, the City may, at its expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom.

Fire, Collision and Extended Coverage Insurance

The Facility Lease Agreement, which provides for the lease by the City of Figueroa Plaza, requires the City to procure and maintain, or cause to be procured and maintained, throughout the Term of such Lease Agreement, insurance against loss or damage to any structures or equipment constituting any part of the Figueroa Plaza Property leased thereby by fire and lightning, with extended coverage and vandalism and malicious mischief insurance. The extended coverage insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. Such insurance does not cover loss or damage from acts of terrorism, earthquake or flood. Such insurance shall be in an amount equal to the lesser of the Outstanding principal amount of the Series 2007-B Bonds and 100% of the replacement cost of Figueroa Plaza (including all improvements thereon) (it being understood and agreed that in the event of the loss of a portion of Figueroa Plaza and the redemption of Series 2007-B Bonds from the Net Proceeds of such insurance, that the remaining Figueroa Plaza land and improvements will have a fair rental value equal to or exceeding the remaining Lease Payments). The City will self-insure against loss or damage to any structures or equipment constituting any part of the Figueroa Plaza Property resulting from this category of loss or damage.

The Facility Lease Agreement provides that, in the event of any uninsured loss to the Figueroa Plaza Property resulting from earthquake, (a) the City shall apply for and use its best efforts to obtain financial assistance from the United States of America to be used for the repair, reconstruction or replacement of such property, and (b) the City shall repair or replace the property or defease the outstanding Bonds of the applicable Series from moneys, if any, legally available therefor.

The Equipment Lease Agreement requires that the City procure and maintain, or cause to be procured and maintained, commencing upon its possession of the Equipment pursuant to the Equipment Lease Agreement, and thereafter throughout the Term of this Equipment Lease Agreement, insurance against loss or damage to any part the Equipment by collision, fire, loss and theft, with extended coverage and vandalism and malicious mischief insurance. The extended coverage insurance shall, as nearly as practicable, cover loss or damage by such hazards as are normally covered by such insurance. The insurance shall be in an amount equal to the lesser of the Outstanding principal amount of the Series 2007-A Bonds and 100% of the replacement cost of the Equipment (including all modifications thereon) (it being understood and agreed that in the event of the loss of such Equipment and the redemption of Series 2007-A Bonds from the Net Proceeds of such insurance, that the remaining Equipment will have a fair rental value equal to or exceeding the remaining Lease Payments).

The Lease Agreements provide that such insurance may be subject to deductible clauses not to exceed $100,000 for any one loss. The Lease Agreements permit such insurance to be satisfied by a combination of commercial insurance, risk pooling under a joint powers authority or similar statutory provision, self-funded loss reserves and, to the extent permitted by law, risk retention programs, all in such proportions as are deemed appropriate by professional risk management personnel or independent consultants.

The City covenants that it will use such budgeted funds and the proceeds of any purchased insurance to accomplish one of the following purposes in the event of the loss or destruction of or unrepaired damage to any portion of the Property which would otherwise result in abatement of all or a portion of the Basic Lease Payments payable under the respective Lease Agreement:

(1) to acquire, construct or repair diligently (at the City's cost) replacement property having a useful life not less than the remaining Lease Term of the Property so lost, destroyed or damaged to be and become subject to the Lease Agreement at a cost such that the total fair market rental value of the property leased pursuant to the Lease Agreement (including such replacement property) is not less than the then fair market rental value of the Property originally scheduled to be leased thereunder;

(2) to deposit with the Trustee, as assignee of the Corporation, in a special account to be held in trust by the Trustee, an amount (not less than $50,000) sufficient, under the Lease Agreement, to purchase the portion of the Property so destroyed or irreparably damaged, and to instruct the Trustee at the time of said deposit that said amount is to be used as a special fund for prepayment of Basic Lease Payments pertaining to the Property destroyed or irreparably damaged; or

(3) to apply such funds as provided in the Lease Agreement and the Indenture to redeem Bonds of the applicable Series so that the Basic Lease Payments to be made on the remaining Property under the respective Lease Agreement will be sufficient to pay principal of and interest on the Bonds of the applicable Series that remain Outstanding.

See "RISK FACTORS—Insurance Risk" herein for further information regarding the manner in which the City maintains its insurance coverages, including (in some cases) self-insurance, and certain limitations and risks related to losses which could affect the Property.

Rental Interruption Insurance

Each Lease Agreement requires that the City procure and maintain, throughout the Term of the Lease Agreement, rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of any part of the Property for a period of 24 months during the Term of the Lease Agreement as a result of any of the hazards covered in the insurance required by the provisions of the Lease Agreement relating to fire and extended coverage insurance, in an amount to insure against loss of substantial use and possession of the Property. The provider of such insurance shall be rated at least "A" by A.M. Best & Company. Any amounts received under such policy shall be credited towards the Lease Payments in the order in which such Lease Payments come due and payable. Rental interruption or use and occupancy insurance cannot be provided by self-insurance.

Title Insurance

The Facility Lease Agreement provides that the City shall obtain, at its own expense, on or before commencement of the Term of the Facility Lease Agreement, a CLTA title insurance policy in the amount equal to the aggregate principal amount of the Series 2007-B Bonds or the appraised value of the Figueroa Plaza Property leased therein, whichever is greater, insuring the Corporation's leasehold estate in such leased Property, subject only to Permitted Encumbrances. All Net Proceeds, if any, received under the policy shall be deposited with the Trustee and shall be credited towards the prepayment of the remaining Lease Payments as further provided in the Facility Lease Agreement.

Maintenance of Insurance Coverages

Each Lease Agreement provides that each policy of insurance required thereby shall name the Trustee as a loss payee and its interests may appear in each respective policy of insurance and shall provide that all proceeds thereunder be payable to the Trustee. The City shall pay or cause to be paid when due the premiums for all insurance policies required by the respective Lease Agreement, and shall promptly furnish or cause to be furnished to the Trustee on or before September 1 annually a certificate of a City Representative stating that such payments have been made and that the insurance policies required by the respective Lease Agreement are in force and effect. For further discussion of these matters, see APPENDIX C – "CERTAIN DEFINITIONS AND SUMMARY OF THE FINANCING DOCUMENTS – THE EQUIPMENT LEASE AGREEMENT – Maintenance; Taxes; Insurance; and Other Matters" and "– THE FACILITY LEASE AGREEMENT – Maintenance; Taxes; Insurance; and Other Matters" herein.

Substitution of Property

Pursuant to the Equipment Lease Agreement, the City shall, at any time, have the right to substitute for all or a portion of the Capital Equipment other property of comparable value, and of a comparable essential nature to the City, and having a remaining useful life not less than the useful life of the portion of Capital Equipment substituted for, by providing the Trustee, the Bond Insurer and the Rating Agencies with a written certificate describing both the new Capital Equipment and the Capital Equipment for which it is to be substituted, and stating that such portion of Capital Equipment is of comparable value and has a useful life not less than the useful life of the Capital Equipment described in the Equipment Lease Agreement for which it is being substituted and a financing statement and an executed amendment to the Equipment Lease Agreement for the new Capital Equipment.

The City must obtain prior to any such substitution of the Capital Equipment described in the Equipment Lease Agreement the written consent of the Bond Insurer (which consent shall not be unreasonably withheld) and confirmation from the Rating Agencies that such substitution shall not result in a downgrading or suspension of the ratings on the Bonds. All costs and expenses incurred in connection with such substitution including without limitation the cost of acquiring such Capital Equipment, shall be borne by the City. In the event of such substitution, the Capital Equipment substituted for the original Capital Equipment shall become fully subject to the terms of the Equipment Lease Agreement. Notwithstanding any substitution of Capital Equipment pursuant to the Equipment Lease Agreement, there shall be no reduction in the Basic Lease Payments due from the City thereunder and there shall be no reduction in the aggregate fair rental value of the Capital Equipment as a result of such substitution.

Pursuant to the Site Lease and the Facility Lease Agreement, which provides for the lease of the Figueroa Plaza Property to the City, the City shall, at any time, have the right to substitute for all or a portion of the Property leased thereunder other property of comparable value, and of a comparable essential nature to the City, and having a remaining useful life not less than the useful life of the portion of Property substituted for, by providing the Trustee, the Bond Insurer and the Rating Agencies with a written certificate describing both the new Property and the Property for which it is to be substituted, and stating that such portion of Property is of comparable value and has a useful life not less than the useful life of the Property described in the Facility Lease Agreement for which it is being substituted, an executed amendment to the Site Lease and the Facility Lease Agreement and an executed and acknowledged memorandum of lease for the new Property.

The City must obtain prior to any such substitution of the Property described in the Facility Lease Agreement the written consent of the Bond Insurer (which consent shall not be unreasonably withheld) and confirmation from the Rating Agencies that such substitution shall not result in a downgrading or suspension of the ratings on the Series 2007-B Bonds. All costs and expenses incurred in connection with such substitution of Property under the Facility Lease Agreement including without limitation the cost of acquiring such Property, shall be borne by the City. In the event of such substitution, the Property substituted for the original Property shall become fully subject to the terms of the Facility Lease Agreement, and the City shall obtain, in the case of new real property to be substituted for the Property, a policy of CLTA title insurance insuring the City's leasehold estate in the new real property so that the combined policies of CLTA title insurance on all of the leasehold estate(s) in the Property subject to the Facility Lease Agreement will be not less than the aggregate principal amount of Outstanding Bonds. Notwithstanding any substitution of Property pursuant to the Facility Lease Agreement, there shall be no reduction in the Basic Lease Payments due from the City thereunder and there shall be no reduction in the aggregate fair rental value of the Property as a result of such substitution.

THE PROPERTY COMPONENTS

The City will lease the Capital Equipment and Figueroa Plaza, which comprise the Property Components, from the Corporation pursuant to the Lease Agreements.

Capital Equipment

The Capital Equipment to be leased by the City from the Corporation pursuant to the Equipment Lease Agreement is comprised of police station and fire station equipment, communications equipment, police and fire department vehicles (exclusive of police patrol vehicles), aircraft, other municipal service vehicles, recreational, landscaping and park fixtures and equipment, and other miscellaneous municipal equipment. The Corporation acquired the Capital Equipment with the proceeds of sale of MICLA Commercial Paper Notes. Accordingly, proceeds of sale of the Series 2007-A Bonds in the approximate amount of $109 million will be used to redeem principal of the Notes and pay interest thereon, at maturity.

Figueroa Plaza

The City will lease Figueroa Plaza from the Corporation pursuant to the Facility Lease Agreement. Figueroa Plaza is an office building complex comprised of two adjacent 16-story buildings located at 201 N. Figueroa Street (the "201 Tower") and 221 N. Figueroa Street (the "221 Tower") in the Civic Center area of downtown Los Angeles, California. Each of the buildings has approximately 306,000 square feet. The 201 Tower was constructed in 1986. The 221 Tower was constructed in 1991. The complex contains a four-level parking garage with 1,249 parking spaces located under the two towers and connecting plaza. At the time of their construction, the buildings were determined by the City Department of Building and Safety to be in compliance with all relevant seismic code requirements.

The City is currently the largest tenant of Figueroa Plaza, occupying approximately 320,000 square feet of office space utilized by several City Departments. The City anticipates leasing an additional 10,000 square feet of office space in the next six months, at which time the City will occupy approximately 54% of the total 612,000 square feet of space in the two towers. At that time, Figueroa Plaza will be utilized by the following City Departments: the "One-Stop" Construction Services Center, including the Department of Building and Safety, the Bureau of Engineering, the Fire Department, City Planning Department, Office of the City Clerk and Office of Finance, which provides building and construction permit-related services to property developers and builders; the Cultural Affairs Department; Department of Animal Services; the Financial Management Services of the City Controller's Office; and other City offices. The next largest tenants of Figueroa Plaza are a 195-attorney law firm and the County of Los Angeles, occupying 142,000 and 87,000 square feet, respectively.

The City's lease with the current owner of Figueroa Plaza granted the City a first right of refusal in the event the building owner decided to sell the property. On March 28, 2007, the owner informed the City of its intention to sell the property for $219 million. The City Council took action to require that an analysis of the offer be undertaken and, in connection therewith, obtained an appraisal and review appraisal of the Figueroa Plaza site and improvements. The appraisal and review appraisal concluded, based upon the assumptions and conditions expressed therein, that the market value of the Figueroa Plaza site and improvements as of April 30, 2007 was $214 million. Upon review and analysis, the City Council determined that the City should acquire the property based upon the right of first refusal.

The City has utilized internal borrowings to pay an initial deposit to acquire the Figueroa Plaza site and improvements, in the amount of $25 million. Accordingly, proceeds of sale of the Series 2007-B Bonds in the approximate amount of $25 million will be used to reimburse the City for such borrowings. An additional approximately $194 million from proceeds of sale of the Series 2007-B Bonds will be used for the remaining portion of the acquisition costs of Figueroa Plaza at closing, scheduled to occur concurrently with the issuance of the Bonds.

Property Generally

For additional information regarding insurance on the Property, maintenance, replacement and substitution of Property and similar matters, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" herein and APPENDIX C – "CERTAIN DEFINITIONS AND SUMMARY OF THE FINANCING DOCUMENTS – THE EQUIPMENT LEASE AGREEMENT – Maintenance; Taxes; Insurance; and Other Matters" and "– THE FACILITY LEASE AGREEMENT – Maintenance; Taxes; Insurance; and Other Matters" herein.

THE BOND INSURER, THE BOND INSURANCE POLICIES AND THE DEBT SERVICE RESERVE FUND POLICIES

The Bond Insurer, Financial Guaranty Insurance Company, doing business in California as FGIC Insurance Company ("Financial Guaranty" or "FGIC") has supplied the following information for inclusion in this Official Statement. No representation is made by the City, the Corporation or the Underwriters as to the accuracy or completeness of this information.

Payments Under the FGIC Bond Insurance Policies

Concurrently with the issuance of the Bonds, Financial Guaranty will issue a separate Municipal Bond New Issue Insurance Policy for the Insured Series 2007-A Bonds and the Series 2007-B Bonds (each policy being referred to herein as the "Bond Insurance Policy" and collectively, the "Bond Insurance Policies"). Each Bond Insurance Policy unconditionally guarantees the payment of that portion of the principal or accreted value (if applicable) of and interest on the respective Series of Insured Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the City as the obligor of the Basic Lease Payments relating to the respective Series of the Insured Bonds. Financial Guaranty will make such payments to U.S. Bank Trust National Association, or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal, accreted value or interest (as applicable) is due or on the business day next following the day on which Financial Guaranty shall have received notice (in accordance with the terms of each Bond Insurance Policy) from an owner of Insured Bonds or the trustee or paying agent (if any) of the nonpayment of such amount by the City. The Fiscal Agent will disburse such amount due on any Insured Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal, accreted value or interest (as applicable) due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal, accreted value or interest (as applicable) shall be vested in Financial Guaranty. The term "nonpayment" in respect of an Insured Bond includes any payment of principal, accreted value or interest (as applicable) made to an owner of an Insured Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

Once issued, each Bond Insurance Policy is non-cancellable by Financial Guaranty. Each Bond Insurance Policy covers failure to pay principal (or accreted value, if applicable) of the Insured Bonds on their stated maturity dates and their mandatory sinking fund redemption dates, and not on any other date on which the Insured Bonds may have been otherwise called for redemption, accelerated or advanced in maturity. Each Bond Insurance Policy also covers the failure to pay interest on the stated date for its payment. In the event that payment of the Insured Bonds is accelerated, Financial Guaranty will only be obligated to pay principal (or accreted value, if applicable) and interest in the originally scheduled amounts on the originally scheduled payment dates. Upon such payment, Financial Guaranty will become the owner of the Insured Bond, appurtenant coupon or right to payment of principal or interest on such Insured Bond and will be fully subrogated to all of the Insured Bondholder's rights thereunder.

The Bond Insurance Policies do not insure any risk other than Nonpayment by the City, as defined in each Bond Insurance Policy. Specifically, the Bond Insurance Policies do not cover: (i) payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity; (ii) payment of any redemption, prepayment or acceleration premium; or

(iii) nonpayment of principal (or accreted value, if applicable) or interest caused by the insolvency or negligence or any other act or omission of the trustee or paying agent, if any.

As a condition of its commitment to insure Bonds, Financial Guaranty may be granted certain rights under the Bond documentation. The specific rights, if any, granted to Financial Guaranty in connection with its insurance of the Insured Bonds may be set forth in the description of the principal legal documents appearing elsewhere in this Official Statement, and reference should be made thereto.

The Bond Insurance Policies are not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

The Bond Insurance Policies are not covered by the California Insurance Guaranty Association (California Insurance Code, Article 14.2).

The FGIC Debt Service Reserve Fund Policies

Concurrently with the issuance of the Bonds, Financial Guaranty will issue a separate Municipal Bond Debt Service Reserve Fund Policy for each of the Series 2007-A Bonds (including the Series 2007-A Bonds which are not insured by the Bond Insurance Policy relating to the Insured Series 2007-A Bonds) and the Series 2007-B Bonds, each such policy being referred to as the "Debt Service Reserve Fund Policy" and collectively, the "Debt Service Reserve Fund Policies." Each Debt Service Reserve Fund Policy unconditionally guarantees the payment of that portion of the principal or accreted value (if applicable) of and interest on the respective Series of Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the City as obligor of the Basic Lease Payments relating to the respective Series of the Bonds, provided that the aggregate amount paid under each Debt Service Reserve Fund Policy for the respective Series of Bonds may not exceed the maximum amount set forth in the Debt Service Reserve Fund Policy relating thereto, $10,979,895.45 for the Series 2007-A Bonds and $14,439,787.50 for the Series 2007-B Bonds. Financial Guaranty will make such payments to the paying agent (the "Paying Agent") for the Bonds on the later of the date on which such principal or accreted value (if applicable) and interest is due or on the business day next following the day on which Financial Guaranty shall have received telephonic or telegraphic notice subsequently confirmed in writing or written notice by registered or certified mail from the Paying Agent of the nonpayment of such amount by the City. The term "nonpayment" in respect of a Bond includes any payment of principal, accreted value or interest (as applicable) made to an owner of a Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final nonappealable order of a court having competent jurisdiction.

Each Debt Service Reserve Fund Policy is non-cancellable and the premium will be fully paid at the time of delivery of the Bonds. Each Debt Service Reserve Fund Policy covers failure to pay principal or accreted value (if applicable) of the Bonds on their respective stated maturity dates, or dates on which the same shall have been called for mandatory sinking fund redemption, and not on any other date on which the Bonds may have been accelerated, and covers the failure to pay an installment of interest on the stated date for its payment. Each Debt Service Reserve Fund Policy shall terminate on the earlier of the scheduled final maturity date of the respective Series of Bonds outstanding as of the issuance date of each Debt Service Reserve Fund Policy or the date on which no Bonds are outstanding under the authorizing document.

Generally, in connection with its issuance of a Debt Service Reserve Fund Policy, Financial Guaranty requires, among other things, (i) that, so long as it has not failed to comply with its payment obligations under each Debt Service Reserve Fund Policy, it be granted the power to exercise any remedies available at law or under the authorizing document other than (A) acceleration of the Bonds or (B) remedies which would adversely affect holders in the event that the City fails to reimburse Financial Guaranty for any draws on a Debt Service Reserve Fund Policy; and (ii) that any amendment or supplement to or other modification of the principal legal documents be subject to Financial Guaranty's consent. The specific rights, if any, granted to Financial Guaranty in connection with its issuance of each Debt Service Reserve Fund Policy may be set forth in the description of the principal legal documents appearing elsewhere in this Official Statement. Reference should be made as well to such description for a discussion of the circumstances, if any, under which the City as the obligor of the Basic Lease Payments relating to the respective Series of Bonds is required to provide additional or substitute credit enhancement, and related matters.

The Debt Service Reserve Fund Policies are not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

The Debt Service Reserve Fund Policies are not covered by the California Insurance Guaranty Association (California Insurance Code, Article 14.2).

Financial Guaranty Insurance Company

Financial Guaranty is a New York stock insurance corporation that writes financial guaranty insurance in respect of public finance and structured finance obligations and other financial obligations, including credit default swaps. Financial Guaranty is licensed to engage in the financial guaranty insurance business in all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the U.S. Virgin Islands and the United Kingdom.

Financial Guaranty is a direct, wholly owned subsidiary of FGIC Corporation, a Delaware corporation. At March 31, 2007, the principal owners of FGIC Corporation and the approximate percentage of its outstanding common stock owned by each were as follows: The PMI Group, Inc. – 42%; affiliates of the Blackstone Group L.P. – 23%; and affiliates of the Cypress Group L.L.C. – 23%. Neither FGIC Corporation nor any of its stockholders or affiliates is obligated to pay any debts of Financial Guaranty or any claims under any insurance policy, including the Bond Insurance Policies or the Debt Service Reserve Fund Policies, issued by Financial Guaranty.

Financial Guaranty is subject to the insurance laws and regulations of the State of New York, where Financial Guaranty is domiciled, including New York's comprehensive financial guaranty insurance law. That law, among other things, limits the business of each financial guaranty insurer to financial guaranty insurance (and related lines); requires that each financial guaranty insurer maintain a minimum surplus to policyholders; establishes limits on the aggregate net amount of exposure that may be retained in respect of a particular issuer or revenue source (known as single risk limits) and on the aggregate net amount of exposure that may be retained in respect of particular types of risk as compared to the policyholders' surplus (known as aggregate risk limits); and establishes contingency, loss and unearned premium reserve requirements. In addition, Financial Guaranty is also subject to the applicable insurance laws and regulations of all other jurisdictions in which it is licensed to transact insurance business. The insurance laws and regulations, as well as the level of supervisory authority that may be exercised by the various insurance regulators, vary by jurisdiction.

At March 31, 2007, Financial Guaranty had net admitted assets of approximately $3.947 billion, total liabilities of approximately $2.828 billion, and total capital and policyholders' surplus of approximately $1.119 billion, determined in accordance with statutory accounting practices ("SAP") prescribed or permitted by insurance regulatory authorities.

The unaudited financial statements as of March 31, 2007, and the audited consolidated financial statements of Financial Guaranty and subsidiaries, on the basis of U.S. generally accepted accounting principles ("GAAP"), as of December 31, 2006 and December 31, 2005, which have been filed with the Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs"), are hereby included by specific reference in this Official Statement. Any statement contained herein under the heading "THE BOND INSURER, THE BOND INSURANCE POLICIES AND THE DEBT SERVICE RESERVE FUND POLICIES" or in any documents included by specific reference herein, shall be modified or superseded to the extent required by any statement in any document subsequently filed by Financial Guaranty with such NRMSIRs, and shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement. All financial statements of Financial Guaranty (if any) included in documents filed by Financial Guaranty with the NRMSIRs subsequent to the date of this Official Statement and prior to the termination of the offering of the Bonds shall be deemed to be included by specific reference into this Official Statement and to be a part hereof from the respective dates of filing of such documents.

The New York State Insurance Department recognizes only SAP for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the New York Insurance Law, and for determining whether its financial condition warrants the payment of a dividend to its stockholders. Although Financial Guaranty prepares both GAAP and SAP financial statements, no consideration is given by the New York State Insurance Department to financial statements prepared in accordance with GAAP in making such determinations. A discussion of the principal differences between SAP and GAAP is contained in the notes to Financial Guaranty's audited SAP financial statements.

Copies of Financial Guaranty's most recently published GAAP and SAP financial statements are available upon request to: Financial Guaranty Insurance Company, 125 Park Avenue, New York, NY 10017, Attention: Corporate Communications Department. Financial Guaranty's telephone number is (212) 312-3000.

Financial Guaranty's Credit Ratings

The financial strength of Financial Guaranty is rated "AAA" by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc., "Aaa" by Moody's Investors Service, and "AAA" by Fitch Ratings. Each rating of Financial Guaranty should be evaluated independently. The ratings reflect the respective ratings agencies' current assessments of the insurance financial strength of Financial Guaranty. Any further explanation of any rating may be obtained only from the applicable rating agency. These ratings are not recommendations to buy, sell or hold the Insured Bonds, and are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Insured Bonds. Financial Guaranty does not guarantee the market price or investment value of the Insured Bonds nor does it guarantee that the ratings on the Insured Bonds will not be revised or withdrawn.

Neither Financial Guaranty nor any of its affiliates accepts any responsibility for the accuracy or completeness of the Official Statement or any information or disclosure that is provided to potential purchasers of the Bonds, or omitted from such disclosure, other than with respect to the accuracy of information with respect to Financial Guaranty, the Bond Insurance Policies or the Debt Service Reserve Fund Policies under the heading "THE BOND INSURER, THE BOND INSURANCE POLICIES AND THE DEBT SERVICE RESERVE FUND POLICIES." In addition, Financial Guaranty makes no representation regarding the Bonds or the advisability of investing in the Bonds.

THE CITY

The City was incorporated in 1781. The original Charter of the City was adopted in 1850, and most recently amended in 1999, with an effective date of July 1, 2000. The governing body of the City consists of a Mayor and City Council, comprised of fifteen members. The City is the second most populous city in the United States with a 2007 population of 4 million persons. See APPENDIX A – "CITY OF LOS ANGELES INFORMATION STATEMENT" hereto.

THE CORPORATION

The Municipal Improvement Corporation of Los Angeles is a nonprofit public benefit corporation duly organized and existing under the laws of the State of California (Title 1, Division 2, Part 2 of the California Corporations Code), for the purpose of providing financial assistance to the City by acquiring, constructing, improving, and developing certain equipment and real property together with appurtenances and appurtenant work for the use, benefit and enjoyment of the public. The Corporation was formed at the request of the City in 1984. The directors of the Corporation receive no compensation and serve at the consent of the Council of the

City. The City will indemnify the directors of the Corporation for any liabilities occurring in connection with the performance of their duties.

RISK FACTORS

The following factors, along with all other information in this Official Statement, should be considered by potential investors in evaluating the risks inherent in the purchase of the Bonds.

Limited Obligations of the City

The City has covenanted in the Lease Agreements to take such actions as may be necessary to include the Basic Lease Payments in its annual budgets and to make the necessary annual appropriations therefor. THE OBLIGATIONS OF THE CITY TO BUDGET FOR AND THE OBLIGATIONS TO MAKE LEASE PAYMENTS DO NOT CONSTITUTE OBLIGATIONS OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE, OR HAS LEVIED OR PLEDGED, ANY FORM OF TAXATION. NEITHER THE BONDS NOR THE OBLIGATIONS OF THE CITY TO MAKE LEASE PAYMENTS UNDER THE LEASE AGREEMENTS CONSTITUTE A DEBT OF THE CITY OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE CITY. THE CORPORATION HAS NO TAXING POWER.

Abatement

In the event of the loss of, damage to or destruction or condemnation of any of the Property which causes the City not to have the use and possession of all or a substantial part of such Property, the City's obligation to make the Basic Lease Payments due under the related Lease Agreement will be abated and, notwithstanding: (i) the provisions of the Lease Agreements specifying the extent of such abatement; (ii) the City's covenants to maintain certain rental interruption insurance and to insure against certain other risk of loss; and (iii) the funding of the Reserve Accounts for each Series of the Bonds, the resulting Basic Lease Payments (and such other funds) may not be sufficient to pay all of the remaining principal and interest due with respect to the Bonds. See APPENDIX C – "CERTAIN DEFINITIONS AND SUMMARY OF THE FINANCING DOCUMENTS – THE EQUIPMENT LEASE AGREEMENT – Damage, Destruction and Use of Proceeds – Abatement" and "– THE FACILITY LEASE AGREEMENT – Damage, Destruction and Eminent Domain, Use of Proceeds – Abatement" herein.

No Limitation on Incurring Additional Obligations

Neither the Lease Agreements nor the Indenture contains any legal limitations on the ability of the City to enter into other obligations that may constitute additional charges against its General Fund revenues. To the extent that the City incurs additional obligations, the funds available to make Basic Lease Payments may be decreased. The City is currently liable on other obligations payable from General Fund revenues and is currently contemplating entering into other such obligations. See APPENDIX A – "CITY OF LOS ANGELES INFORMATION STATEMENT – BONDED AND OTHER INDEBTEDNESS."

Earthquake and Seismic Conditions

A number of known and uncharted geologic 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. Seismic activity could damage taxable property in the City causing a reduction in taxable values, and therefore tax revenues available to the General Fund to make Lease Payments. Seismic activity may also affect the use and occupancy of the Property. The City generally does not maintain earthquake insurance coverage against loss or damage to City property due to earthquakes. Instead, the City relies on its general reserves as well as the expectation that some disaster relief funds, which could be minimal amounts in comparison to the losses, will be available from the Federal Emergency Management Agency ("FEMA") to address any resulting damage from seismic activity. 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 assurance that sufficient City reserves or FEMA assistance would be available in the event of a natural disaster for the repair or replacement of any Property Component. The Lease Agreements do not require the City to maintain insurance coverage insuring against loss or damage due to earthquakes and the City does not intend to purchase such insurance coverage during the Term of the Lease Agreements. See APPENDIX A – "CITY OF LOS ANGELES INFORMATION STATEMENT – Seismic Considerations."

Constitutional and Statutory Limitations on Increase of Revenues

Article XIII A (Limitation on Ad Valorem Tax), Article XIII B (Government Spending Limitation), Article XIII C (Voter Approval for Local Tax Levies) and Article XIII D (Assessment and Property Related Fee Reform) of the Constitution of the State of California were each adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time, other initiative measures may be adopted, which may affect the City's revenues and its ability to expend said revenues. The above-mentioned measures and any future measures could restrict the City's ability to raise additional funds for its General Fund. See APPENDIX A – "CITY OF LOS ANGELES INFORMATION STATEMENT – LIMITATIONS ON TAXES AND APPROPRIATIONS."

Limitations on Default Remedies

In the event of non-payment by the City of the Lease Payments, or other default by the City under the Lease Agreements, the enforcement of any remedies provided in the Indenture and in the Lease Agreements by or on behalf of Bondholders could prove both expensive and time consuming. Although the Indenture and the Lease Agreements provide that if there is a default by the City under a Lease Agreement the Trustee may terminate the Lease Agreement and re-let the Property, such Property may not be easily re-leased. Furthermore, due to the essential nature of the governmental function of the Property Components, it is not certain whether a court would permit the exercise of the remedies of repossession and reletting with respect to any or all of the Property. The Trustee may exercise any and all remedies available pursuant to law or the Lease Agreements, but there shall be no right under any circumstances to accelerate the Lease Payments not then in default to be immediately due and payable. In addition, under the United States Bankruptcy Code, a bankruptcy case may be filed by the Corporation or by the City. In general, the filing of any such bankruptcy petition operates as a stay against enforcement of the terms of the agreements to which the bankrupt entity is a party, and in the bankruptcy process, executory contracts such as the Indenture or the Lease Agreements may be subject to the assumption or rejection by the bankrupt party. In the event of any such rejection, the non-rejecting party or its assigns may become an unsecured claimant of the rejecting party. The various legal opinions to be delivered concurrently with the Bonds (including Bond Counsel's approving opinion) will be qualified as to the enforceability of the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by general principles of equity applied in the exercise of judicial discretion.

Insurance Risk

The City directly assumes virtually all insurable risks without procuring commercial insurance policies. The City administers, adjusts, settles, defends and pays claims from budgeted resources. It is self-insured for workers' compensation as permitted under State law. Funds are budgeted annually to provide for claims and other liabilities based both on the City's historical record of payments and an evaluation of known or anticipated claims. See APPENDIX A – "CITY OF LOS ANGELES INFORMATION STATEMENT – Risk Retention Program" and APPENDIX C – "CERTAIN DEFINITIONS AND SUMMARY OF THE FINANCING DOCUMENTS – THE EQUIPMENT LEASE AGREEMENT – Maintenance; Taxes; Insurance and Other Matters" and "– THE FACILITY LEASE AGREEMENT – Maintenance; Taxes; Insurance and Other Matters." The Lease Agreements permit the City to insure by a combination of commercial insurance, risk pooling under a joint powers authority or similar statutory provision, self-funded loss reserves and risk retention programs in such proportions as are deemed appropriate and actuarially sound by professional risk management personnel or independent consultants. The Lease Agreements require that the City maintain insurance against loss or damage to any equipment and structures constituting any part of the Property by collision, fire and lightning, with extended coverage and vandalism and malicious mischief insurance. Such insurance does not cover acts of terrorism or certain other casualties. Rental or business interruption insurance shall be maintained commencing upon possession of the Property by the City; however, some rental or business interruption insurance policies may require that the insured, such as the City, elect to rebuild a damaged property in order for such rental interruption insurance to be payable under the policy. See APPENDIX C – "CERTAIN DEFINITIONS AND SUMMARY OF THE FINANCING DOCUMENTS – THE EQUIPMENT LEASE AGREEMENT – Maintenance; Taxes; Insurance and Other Matters" and "– THE FACILITY LEASE AGREEMENT – Maintenance; Taxes; Insurance and Other Matters" herein. The Property could be damaged or destroyed due to earthquake or other casualty for which the Property is uninsured. Therefore, the Lease Agreements do not require that the City either insure against or self-insure against every potential risk of loss and there is a risk that damage or destruction of the Property could occur for which no insurance or City funds will be available. Under these circumstances an abatement of Basic Lease Payments could occur and could continue indefinitely. There can be no assurance that the insurance providers will pay claims under the respective policies promptly or at all, should a claim be made by the City in connection with loss or damage to a Property under such policies. It is possible that an insurance provider will refuse to pay a claim, especially if it is substantial, and force the City to sue to collect on or settle the insurance claim. Further, there can be no assurances that amounts received as proceeds from insurance will be sufficient to redeem the Bonds or to pay principal of and interest on the Bonds as and when due.

The City believes that the insurance arrangements provided in the Lease Agreements will be adequate to reasonably protect the City from the various liabilities that arise from use of the Property and to provide for the payment of Basic Lease Payments in the event that the City loses beneficial use of the Property due to risks for which fire and extended coverage insurance has been obtained. However, no assurance can be given that such insurance arrangements will cover all events causing damage or will be adequate to cover the payment of Basic Lease Payments in all circumstances.

Environmental Concerns

Owners or operators of real property may be required by law to remedy conditions of a property relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response Compensation and Liability Act of 1980 or the "Superfund Act" is the most widely applicable of these laws, but California laws with regard to hazardous substances are also stringent. Under many of these laws, the owner or operator is obligated to remedy a hazardous substance condition on the property whether or not the owner or operator created the hazardous substance condition. The City knows of no existing hazardous substances which require remedial action on or near the Property. However, it is possible that such substances do currently or potentially exist and the City is currently unaware of such condition.

Utility Users' Taxes

The City's imposition and collection of the telephone users' tax, which is a source of revenue to the General Fund, are the subject of several ongoing legal challenges and a significant portion of such tax revenue may be at risk. In addition, the City could be exposed to the risk of having to make refunds of telephone users' tax for a limited number of years of prior collections. The City's telephone users' tax revenue for Fiscal Year 2007-08 is projected to be $270 million or about 6 percent of the General Fund revenue. See APPENDIX A – "CITY OF LOS ANGELES INFORMATION STATEMENT – MAJOR GENERAL FUND REVENUE SOURCES—Utility Users' Tax," herein.

CONTINUING DISCLOSURE

Pursuant to the Indenture and a Continuing Disclosure Certificate for the Bonds, the City has covenanted for the benefit of Bond Owners to provide certain financial information and operating data relating to the City by not later than June 30th of each year, commencing on June 30, 2008, for the prior fiscal year, in the form of an annual report (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if deemed by the City to be material. The Annual Report will be filed by the City with each Nationally Recognized Municipal Securities Information Repository and the State Repository, if any. The notices of material events will be filed by the City with the Municipal Securities Rulemaking Board and the State Repository, if any. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized in APPENDIX H – "FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriters in complying with S.E.C. Rule 15c2-12(b) (5).

TAX MATTERS REGARDING SERIES 2007-A BONDS AND SERIES 2007-B1 BONDS

Introduction

Interest on the Series 2007-A Bonds and the Series 2007-B1 Bonds is intended to be exempt from Federal income taxes to the extent described herein. Interest on the Series 2007-B2 Bonds, however, is not exempt from Federal income taxes. Approximately 24% of the rentable office space in Figueroa Plaza is leased to nongovernmental private entities. The acquisition by the City of such privately used space cannot be financed on a Federally tax exempt basis. The proceeds of the sale of the Series 2007-B2 Bonds will be used to finance the portion of the acquisition costs of Figueroa Plaza proportional to the private use portion of the property. Interest earned on the Series 2007-B2 Bonds will thus be subject to Federal income taxation. See "TAX MATTERS REGARDING SERIES 2007-B2 BONDS" herein.

Federal Income Taxes

The Internal Revenue Code of 1986, as amended (the "Code"), imposes certain requirements that must be met subsequent to the issuance and delivery of the Series 2007-A and Series 2007-B1 Bonds for interest thereon to be and remain excluded from gross income for Federal income tax purposes. Noncompliance with such requirements could cause the interest on the Series 2007-A and Series 2007-B1 Bonds to be included in gross income for Federal income tax purposes retroactive to the date of issue of such Bonds.

Pursuant to the Indenture and the Tax and Nonarbitrage Certificate to be executed by the Corporation and the City on the date of issuance of the Series 2007-A and Series 2007-B1 Bonds (the "Tax Certificate"), the Corporation and the City have covenanted to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest on the Series 2007-A and Series 2007-B1 Bonds from gross income for Federal income tax purposes pursuant to Section 103 of the Code. In addition, the Corporation and the City have made certain additional covenants, representations and certifications in the Indenture and the Tax Certificate. Bond Counsel will not independently verify compliance with such covenants or the accuracy of those representations and certifications.

In the opinion of Bond Counsel, under existing law and assuming compliance with the aforementioned covenants, and the accuracy of certain representations and certifications made by the Corporation and the City as described above, interest on the Series 2007-A and Series 2007-B1 Bonds is excluded from gross income for Federal income tax purposes under Section 103 of the Code. Bond Counsel is also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations.

Interest on the Series 2007-A and Series 2007-B1 Bonds is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations.

State Taxes

Bond Counsel is of the opinion that interest on the Bonds (including the Series 2007-B2 Bonds) is exempt from California personal income taxes. Bond Counsel expresses no opinion as to other California tax consequences arising with respect to the Bonds or as to the taxability of the Bonds or the income therefrom under the laws of any state other than California.

Original Issue Discount

Bond Counsel is further of the opinion that the difference between the principal amount of the Series 2007-A and Series 2007-B1 Bonds that are issued with original issue discount, if any (collectively, the "Discount Bonds") and the initial offering price to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of such Discount Bonds of the same maturity was sold constitutes original issue discount which is excluded from gross income for Federal income tax purposes to the same extent as interest on the Series 2007-A and Series 2007-B1 Bonds. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each Discount Bond and the basis of each Discount Bond acquired at such initial offering price by an initial purchaser thereof will be increased by the amount of such accrued original issue discount. The accrual of original issue discount may be taken into account as an increase in the amount of tax exempt income for purposes of determining various other tax consequences of owning Discount Bonds, even though there will not be a corresponding cash payment. Owners of Discount Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning or disposing of such Discount Bonds.

Original Issue Premium

The Series 2007-A and Series 2007-B1 Bonds that are issued with original issue premium, if any (collectively, the "Premium Bonds") are being offered at prices in excess of their principal amounts. An initial purchaser with an initial adjusted basis in a Premium Bond in excess of its principal amount will have amortizable bond premium which is not deductible from gross income for Federal income tax purposes. The amount of amortizable bond premium for a taxable year is determined actuarially on a constant interest rate basis over the term of each Premium Bond based on the purchaser's yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, over the period to the call date, based on the purchaser's yield to the call date and giving effect to any call premium). For purposes of determining gain or loss on the sale or other disposition of a Premium Bond, an initial purchaser who acquires such obligation with an amortizable bond premium is required to decrease such purchaser's adjusted basis in such Premium Bond annually by the amount of amortizable bond premium for the taxable year. The amortization of bond premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining various other tax consequences of owning such Series 2007-A and Series 2007-B1 Bonds. Owners of Premium Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning or disposing of such Premium Bonds.

Ancillary Tax Matters

Ownership of the Series 2007-A and Series 2007-B1 Bonds may result in other Federal tax consequences to certain taxpayers, including, without limitation, certain S corporations, foreign corporations with branches in the United States, property and casualty insurance companies, individuals receiving Social Security or Railroad Retirement benefits, individuals seeking to claim the earned income credit, and taxpayers (including banks, thrift institutions and other financial institutions) who may be deemed to have incurred or continued indebtedness to purchase or to carry the Series 2007-A and Series 2007-B1 Bonds. Commencing with interest paid in 2006, interest paid on tax-exempt obligations such as the Series 2007-A and Series 2007-B1 Bonds is subject to information reporting to the Internal Revenue Service (the "IRS") in a manner similar to interest paid on taxable obligations. In addition, interest on the Series 2007-A and Series 2007-B1 Bonds may be subject to backup withholding if such interest is paid to a registered owner that (a) fails to provide certain identifying information (such as the registered owner's taxpayer identification number) in the manner required by the IRS, or (b) has been identified by the IRS as being subject to backup withholding.

Bond Counsel is not rendering any opinion as to any Federal tax matters concerning the Series 2007-A Bonds and Series 2007-B1 Bonds other than those described under the caption "TAX MATTERS REGARDING SERIES 2007-A BONDS AND SERIES 2007-B1 BONDS". Prospective investors, particularly those who may be subject to special rules described above, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Series 2007-A and Series 2007-B1 Bonds, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

Changes in Law and Post Issuance Events

Legislative or administrative actions and court decisions, at either the federal or state level, could have an adverse impact on the potential benefits of the exclusion from gross income of the interest on the Bonds for Federal or state income tax purposes, and thus on the value or marketability of the Bonds. This could result from changes to Federal or state income tax rates, changes in the structure of Federal or state income taxes (including replacement with another type of tax), repeal of the exclusion of the interest on the Bonds from gross income for Federal or state income tax purposes, or otherwise. It is not possible to predict whether any legislative or administrative actions or court decisions having an adverse impact on the Federal or state income tax treatment of holders of the Bonds may occur. Prospective purchasers of the Bonds should consult their own tax advisers regarding such matters.

On May 21, 2007, the U.S. Supreme Court agreed to hear Davis v. Kentucky Dep't Of Revenue of The Finance and Admin. Cabinet, 197 S.W.3d 557 (2006), a case that has questioned the permissibility under the U.S. Constitution of the Commonwealth of Kentucky providing for a state income tax exemption for interest on obligations issued by Kentucky or its subdivisions while taxing interest on obligations of other states or their subdivisions. The laws of California currently result in such differing treatment, by exempting interest on obligations of California and its subdivisions and instrumentalities while taxing the interest on obligations issued by other states and their subdivisions or instrumentalities.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance and delivery of the Series 2007-A Bonds and Series 2007-B1 Bonds may affect the tax status of interest on the Series 2007-A Bonds or Series 2007-B1 Bonds. Bond Counsel expresses no opinion as to any Federal, state or local tax law consequences with respect to the Series 2007-A Bonds or Series 2007-B1 Bonds, or the interest thereon, if any action is taken with respect to the Series 2007-A Bonds or Series 2007-B1 Bonds or the proceeds thereof upon the advice or approval of other counsel.

TAX MATTERS REGARDING SERIES 2007-B2 BONDS

Federally Taxable Offered Bonds

The following is a summary of certain anticipated United States federal income tax consequences of the purchase, ownership and disposition of the Series 2007-B2 Bonds. The summary is based upon the provisions of the Code, the regulations promulgated thereunder and the judicial and administrative rulings and decisions now in effect, all of which are subject to change. The summary generally addresses Series 2007-B2 Bonds held as capital assets and does not purport to address all aspects of federal income taxation that may affect particular investors in light of their individual circumstances or certain types of investors subject to special treatment under the federal income tax laws, including but not limited to financial institutions, insurance companies, dealers in securities or currencies, persons holding such Bonds as a hedge against currency risks or as a position in a "straddle" for tax purposes, or persons whose functional currency is not the United States dollar. Potential purchasers of the Series 2007-B2 Bonds should consult their own tax advisors in determining the federal, state or local tax consequences to them of the purchase, holding and disposition of the Series 2007-B2 Bonds.

The advice set forth in this section was not intended or written by Bond Counsel to be used and cannot be used by an owner of the Series 2007-B2 Bonds for the purpose of avoiding penalties that may be imposed on the owner of the Series 2007-B2 Bonds. The advice set forth herein is written to support the promotion or marketing of the Series 2007-B2 Bonds. Each owner of the Series 2007-B2 Bonds should seek advice based on its particular circumstances from an independent tax advisor.

Generally

In the opinion of Bond Counsel, interest on the Series 2007-B2 Bonds is not excluded from gross income for federal income tax purposes and so will be fully subject to federal income taxation. Purchasers other than those who purchase Series 2007-B2 Bonds in the initial offering at their principal amounts will be subject to federal income tax accounting rules affecting the timing and/or characterization of payments received with respect to such bonds. In general, interest paid on the Series 2007-B2 Bonds and recovery of accrued original issue and market discount, if any, will be treated as ordinary income to a bondholder and, after adjustment for the foregoing, principal payments will be treated as a return of capital.

Original Issue Discount

The following summary is a general discussion of certain federal income tax consequences of the purchase, ownership and disposition of Series 2007-B2 Bonds issued with original issue discount ("Discount Series 2007-B2 Bonds"). A Series 2007-B2 Bond will be treated as having been issued at an original issue discount if the excess of its "stated redemption price at maturity" (defined below) over its issue price (defined as the initial offering price to the public at which a substantial amount of the Series 2007-B2 Bonds of the same maturity have first been sold to the public, excluding bond houses and brokers) equals or exceeds one quarter of one percent of such Series 2007-B2 Bond's stated redemption price at maturity multiplied by the number of complete years to its maturity.

A Series 2007-B2 Bond's "stated redemption price at maturity" is the total of all payments provided by the Series 2007-B2 Bond that are not payments of "qualified stated interest." Generally, the term "qualified stated interest" includes 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.

In general, the amount of original issue discount includible in income by the initial holder of a Discount Series 2007-B2 Bond is the sum of the "daily portions" of original issue discount with respect to such Series 2007-B2 Bond for each day during the taxable year in which such holder held such Series 2007-B2 Bond. The daily portion of original issue discount on any Discount Series 2007-B2 Bond is determined by allocating to each day in any "accrual period" a ratable portion of the original issue discount allocable to that accrual period.

An accrual period may be of any length, and may vary in length over the term of a Series 2007-B2 Bond, provided that each accrual period is not longer than one year and each scheduled payment of principal or interest occurs at the end of an accrual period. The amount of original issue discount allocable to each accrual period is equal to the difference between (i) the product of the Series 2007-B2 Bond's adjusted issue price at the beginning of such accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and appropriately adjusted to take into account the length of the particular accrual period) and (ii) the amount of any qualified stated interest payments allocable to such accrual period. The "adjusted issue price" of a Discount Series 2007-B2 Bond at the beginning of any accrual period is the sum of the issue price of the Discount Series 2007-B2 Bond plus the amount of original issue discount allocable to all prior accrual periods minus the amount of any prior payments on the Series 2007-B2 Bond that were not qualified stated interest payments. Under these rules, holders will have to include in income increasingly greater amounts of original issue discount in successive accrual periods.

Holders utilizing the accrual method of accounting may generally, upon election, include all interest (including stated interest, acquisition discount, original issue discount, de minimis original issue discount, market discount, de minimis market discount, and unstated interest, as adjusted by any amortizable bond premium or acquisition premium) on the Series 2007-B2 Bond by using the constant yield method applicable to original issue discount, subject to certain limitations and exceptions.

Market Discount

Any owner who purchases a Series 2007-B2 Bond at a price which includes market discount in excess of a prescribed de minimis amount (i.e., at a purchase price that is less than its adjusted issue price in the hands of an original owner) will be required to recharacterize all or a portion of the gain as ordinary income upon receipt of each scheduled or unscheduled principal payment or upon other disposition. In particular, such owner will generally be required either (a) to allocate each such principal payment to accrued market discount not previously included in income and to recognize ordinary income to that extent and to treat any gain upon sale or other disposition of such a Series 2007-B2 Bond as ordinary income to the extent of any remaining accrued market discount (under this caption) or (b) to elect to include such market discount in income currently as it accrues on all market discount instruments acquired by such owner on or after the first day of the taxable year to which such election applies.

The Code authorizes the Treasury Department to issue regulations providing for the method for accruing market discount on debt instruments the principal of which is payable in more than one installment. Until such time as regulations are issued by the Treasury Department, certain rules described in the legislative history of the Tax Reform Act of 1986 will apply. Under those rules, market discount will be included in income either (a) on a constant interest basis or (b) in proportion to the accrual of stated interest.

An owner of a Series 2007-B2 Bond who acquires such Bond at a market discount also may be required to defer, until the maturity date of such Series 2007-B2 Bonds or the earlier disposition in a taxable transaction, the deduction of a portion of the amount of interest that the owner paid or accrued during the taxable year on indebtedness incurred or maintained to purchase or carry a Series 2007-B2 Bond in excess of the aggregate amount of interest (including original issue discount) includable in such owner's gross income for the taxable year with respect to such Series 2007-B2 Bond. The amount of such net interest expense deferred in a taxable year may not exceed the amount of market discount accrued on the Series 2007-B2 Bond for the days during the taxable year on which the owner held the Series 2007-B2 Bond and, in general, would be deductible when such market discount is includable in income. The amount of any remaining deferred deduction is to be taken into account in the taxable year in which the Series 2007-B2 Bond matures or is disposed of in a taxable transaction. In the case of a disposition in which gain or loss is not recognized in whole or in part, any remaining deferred deduction will be allowed to the extent gain is recognized on the disposition. This deferral rule does not apply if the bondowner elects to include such market discount in income currently as described above.

Bond Premium

A purchaser of a Series 2007-B2 Bond who purchases such Series 2007-B2 Bond at a cost greater than its then principal amount (or, in the case of a Series 2007-B2 Bond issued with original issue premium, at a price in excess of its adjusted issue price) will have amortizable bond premium. If the holder elects to amortize the premium under Section 171 of the Code (which election will apply to all bonds held by the holder on the first day of the taxable year to which the election applies, and to all bonds thereafter acquired by the holder), such a purchaser must amortize the premium using constant yield principles based on the purchaser's yield to maturity. Amortizable bond premium is generally treated as an offset to interest income, and a reduction in basis is required for amortizable bond premium that is applied to reduce interest payments. Different rules apply to Discount Tax Exempt Offered Bonds that are acquired with "acquisition premium"(that is, at a price generally in excess of the Bond's adjusted issue price). Purchasers of any Series 2007-B2 Bonds who acquire such Bonds at a premium (or with acquisition premium) should consult with their own tax advisors with respect to the determination and treatment of such premium for federal income tax purposes and with respect to state and local tax consequences of owning such Series 2007-B2 Bonds.

Sale or Redemption of Series 2007-B2 Bonds

A bondowner's tax basis for a Series 2007-B2 Bond is the price such owner pays for the Series 2007-B2 Bond plus the amount of any original issue discount and market discount previously included in income, reduced on account of any payments received (other than "qualified periodic interest" payments) and any amortized bond premium. Gain or loss recognized on a sale, exchange or redemption of a Series 2007-B2 Bond, measured by the difference between the amount realized and the Series 2007-B2 Bond basis as so adjusted, will generally give rise to capital gain or loss if the Series 2007-B2 Bond is held as a capital asset (except as discussed above under "Market Discount").

Backup Withholding

A bondowner may, under certain circumstances, be subject to "backup withholding" (currently the rate of this withholding tax is 30% (although the rate is scheduled to be reduced over the next few year) with respect to interest or original issue discount on the Series 2007-B2 Bonds. This withholding generally applies if the owner of a Series 2007-B2 Bond (a) fails to furnish the Trustee or other payor with its taxpayer identification number; (b) furnishes the Trustee or other payor an incorrect taxpayer identification number; (c) fails to report properly interest, dividends or other "reportable payments" as defined in the Code; or (d) under certain circumstances, fails to provide the Trustee or other payor with a certified statement, signed under penalty of perjury, that the taxpayer identification number provided is its correct number and that the holder is not subject to backup withholding. Backup withholding will not apply, however, with respect to certain payments made to bondowners, including payments to certain exempt recipients (such as certain exempt organizations) and to certain Nonresidents (as defined below). Owners of the Series 2007-B2 Bonds should consult their tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining the exemption.

The amount of "reportable payments" for each calendar year and the amount of tax withheld, if any, with respect to payments on the Series 2007-B2 Bonds will be reported to the bondowners and to the Internal Revenue Service.

Nonresident Bondowners

Under the Code, interest and original issue discount income with respect to Series 2007-B2 Bonds held by nonresident alien individuals, foreign corporations or other non-United States persons ("Nonresidents") generally will not be subject to the United States withholding tax (or backup withholding) if the Authority (or other person who would otherwise be required to withhold tax from such payments) is provided with an appropriate statement that the beneficial owner of the Series 2007-B2 Bond is a Nonresident. Notwithstanding the foregoing, if any such payments are effectively connected with a United States trade or business conducted by a Nonresident bondowner, they will be subject to regular United States income tax, but will ordinarily be exempt from United States withholding tax.

ERISA

The Employees Retirement Income Security Act of 1974, as amended ("ERISA"), and the Code generally prohibit certain transactions between a qualified employee benefit plan under ERISA or tax-qualified retirement plans and individual retirement accounts under the Code (collectively, the "Plans") and persons who, with respect to a Plan, are fiduciaries or other "parties in interest" within the meaning of ERISA or "disqualified persons" within the meaning of the Code. All fiduciaries of Plans, in consultation with their advisors, should carefully consider the impact of ERISA and the Code on an investment in any Series 2007-B2 Bonds.

State Taxes

Bond Counsel is also of the opinion that interest on the Series 2007-B2 Bonds is exempt from personal income taxes of the State of California.

On May 21, 2007, the U.S. Supreme Court agreed to hear Davis v. Kentucky Dep't Of Revenue of The Finance and Admin. Cabinet, 197 S.W.3d 557 (2006), a case that has questioned the permissibility under the U.S. Constitution of the Commonwealth of Kentucky providing for a state income tax exemption for interest on obligations issued by Kentucky or its subdivisions while taxing interest on obligations of other states or their subdivisions. The laws of California currently result in such differing treatment, by exempting interest on obligations of California and its subdivisions and instrumentalities while taxing the interest on obligations issued by other states and their subdivisions or instrumentalities.

In all events, all investors should consult their own tax advisors in determining the federal, state, local and other tax consequences to them of the purchase, ownership and disposition of the Series 2007-B2 Bonds.

CERTAIN LEGAL MATTERS

Bond Counsel will render an opinion with respect to the validity of the Lease Agreements and the Indenture, the execution and delivery of the Bonds, the exclusion from gross income for federal income tax purposes of interest on the Series 2007-A Bonds and the Series 2007-B1 Bonds, and the exemption of interest on all of the Bonds from present State of California personal income taxes, which opinion will be substantially in the form appearing in APPENDIX D to this Official Statement. Copies of such approving opinion will be available at the time of delivery of the Bonds. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Bond Counsel will receive compensation contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed on for the City and the Corporation by The Law Offices of Elizabeth C. Green, Disclosure Counsel, and by Rockard J. Delgadillo, City Attorney. Disclosure Counsel will receive compensation contingent upon the sale and delivery of the Bonds.

LITIGATION

There is no controversy of any nature now pending against the City or the Corporation or, to the knowledge of their respective officers, threatened, seeking to restrain or enjoin the issuance, sale, execution or delivery of the Bonds or in any way contesting or affecting the validity of the Bonds or any proceedings of the City or the Corporation 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 Bonds or the use of the Bond proceeds.

There are no pending lawsuits which in the opinion of the City Attorney challenge the validity of the Bonds, the corporate existence of the City or the Corporation, or the title of the officers thereof to their respective offices. See APPENDIX A – "CITY OF LOS ANGELES INFORMATION STATEMENT" herein.

Included 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 which involve in excess of $4,000,000 liability each.

RATINGS

Fitch Ratings ("Fitch"), Moody's Investors Service, Inc. ("Moody's"), and Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, Inc. ("Standard & Poor's"), are expected to assign the ratings of "AAA," "Aaa", and "AAA," respectively, to the Insured Bonds, with the understanding that FGIC will deliver its Bond Insurance Policies for the Insured Bonds at the time of execution and delivery of the Bonds. Fitch and Standard & Poor's have assigned underlying ratings of "AA-" to the Bonds. Moody's has assigned underlying ratings of "A2" to the Series 2007-A Bonds and "A1" to the Series 2007-B Bonds. The Series 2007-A Bonds maturing in 2008 and 2009, which are not insured, have the underlying ratings of "AA-" by Fitch and Standard & Poor's and "A2" by Moody's.

Such ratings reflect only the views of such organizations and an explanation of the significance of such ratings may be obtained from the respective agencies at the following addresses: Fitch Ratings, One State Street Plaza, New York, New York 10004, Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007 and Standard & Poor's Ratings Services, 55 Water Street, New York, New York 10041. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agency circumstances so warrant. Any such downward revisions or withdrawals of such ratings may have an adverse effect on the market price of the Bonds.

AVAILABILITY OF DOCUMENTS

Copies of the Official Statement, Lease Agreements, the Site Lease, the Indenture and the Continuing Disclosure Certificate will be available, upon written request, from the Office of the City Administrative Officer, Debt Management Group, 200 North Main Street, City Hall East, Room 1500, Los Angeles, California 90012, Telephone: (213) 473-7528.

FINANCIAL STATEMENTS

Excerpts from the City's Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2006 (including the Independent Auditor's Report regarding the Financial Statement(s)), included in APPENDIX B hereto have been audited by Simpson & Simpson, independent auditors. Financial statements for the City's Departments of Airports, Harbor, and Water and Power, Fire, and Police Pension System, and Los Angeles City Employees' Retirement System were audited by other auditors. See "INDEPENDENT AUDITOR'S REPORT" in APPENDIX B hereto. Neither Simpson & Simpson, nor any other auditor was requested to consent to the inclusion of its report in APPENDIX B and Simpson & Simpson has not undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by Simpson & Simpson or any other auditor with respect to any event subsequent to the date of its report.

UNDERWRITING

Pursuant to the terms and conditions of the Bond Purchase Agreement for the Series 2007-A Bonds (the "Series 2007-A Bond Purchase Agreement") among the City, the Corporation and E. J. De La Rosa & Co., Inc., as representative of the Underwriters named therein (the "Series 2007-A Bonds Underwriters"), the Series 2007-A Bonds Underwriters have agreed to purchase the Series 2007-A Bonds from the City and the Corporation at an aggregate purchase price of $109,501,830.59 (consisting of the par amount of the Series 2007-A Bonds of $106,900,000.00 plus net original issue premium of $2,898,954.50, and less underwriters' discount of $297,123.91).

Pursuant to the terms and conditions of the Bond Purchase Agreement for the Series 2007-B Bonds (the "Series 2007-B Bond Purchase Agreement") among the City, the Corporation and Citigroup Global Markets Inc., as representative of the Underwriters named therein (the "Series 2007-B Bonds Underwriters"), the Series 2007-B Bonds Underwriters have agreed: (a) to purchase the Series 2007-B1 Bonds from the City and the Corporation at an aggregate purchase price of $169,310,475.40 (consisting of the par amount of $169,050,000.00, plus net original issue premium of $697,542.90 and less underwriters' discount of $437,067.50); and (b) to purchase the Series 2007-B2 Bonds from the City and the Corporation at an aggregate purchase price of $51,945,727.50 (consisting of the par amount of $52,085,000.00, less underwriters' discount of $139,272.50).

The Series 2007-A Bonds Underwriters and the Series 2007-B Bonds Underwriters are collectively referred to herein as the "Underwriters" and the Series 2007-A Bond Purchase Agreement and the Series 2007-B Bond Purchase Agreement are collectively referred to herein as the "Bond Purchase Agreements."

Each Bond Purchase Agreement provides, among other things, that the obligations of the Underwriters are subject to certain terms, conditions and precedents, and that the Underwriters will be obligated to purchase all of the Bonds offered under each Bond Purchase Agreement, if any of the Bonds offered thereunder are purchased.

The Underwriters reserve the right to join with dealers and other underwriters in offering the Bonds to the public. The Underwriters may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) at prices lower than the public offering prices, and such dealers may reallow any such discounts on sales to other dealers. After the initial public offering, the public offering prices of the Bonds may be changed from time to time by the Underwriters.

FINANCIAL ADVISORS

Gardner Underwood & Bacon LLC, Los Angeles, California and Montague DeRose and Associates, LLC, Westlake Village, California have acted as Financial Advisors to the City in conjunction with the execution and delivery of the Bonds. The Financial Advisors have assisted the City in preparation of this Official Statement and in other matters related to the planning, structuring, execution and delivery of the Bonds. The Financial Advisors will receive compensation contingent upon the sale and delivery of the Bonds.

The Financial Advisors have not audited, authenticated or otherwise independently verified the information set forth in the Official Statement, or any other information related to the City with respect to the accuracy or completeness of disclosure of such information. Because of this limited participation, the Financial Advisors make no guaranty, warranty or other representation respecting the accuracy or completeness of the Official Statement or any other matter related to the Official Statement.

MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the City and the Corporation and the purchasers or Owners of any of the Bonds.

The execution and delivery of this Official Statement has been duly authorized by the City.

CITY OF LOS ANGELES

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

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APPENDIX A

CITY OF LOS ANGELES
INFORMATION STATEMENT

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INTRODUCTION

The City of Los Angeles, California (the "City") is the second most populous city in the United States with an estimated 2007 population of 4.02 million persons. Los Angeles is the principal city of a metropolitan region stretching from the City of Ventura to the north, the City of San Clemente to the south, and the City of San Bernardino to the east.

Founded in 1781, Los Angeles was for its first century a provincial outpost under a 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, unlike San Diego's, 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. The City's population climbed to 50,000 persons in 1890, and then swelled to 1.5 million persons by 1940. 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. 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. Services, wholesale and retail trade, manufacturing, government, financial service industries, tourism, transportation, utilities and construction all contribute significantly to local employment. The City's 470 square miles contain 11.5% of the area and 38.9% of the population of the County of Los Angeles (the "County"). The County is a top-ranked county in manufacturing in the nation, of such diverse items as aircraft, aircraft equipment, aluminum, dental equipment, games and toys, gas transmission and distribution equipment, guided missiles, space vehicles and propulsion units, and women's apparel. Fueled by trade with the Pacific Rim countries, the Ports of Los Angeles and Long Beach combined rank first in the nation in volume of cargo shipped and received. As home to the film, television and recording industries, as well as important cultural facilities, the City serves as a principal global cultural center.

ECONOMIC AND DEMOGRAPHIC INFORMATION

The economic and demographic information provided below has been collected from sources which the City deems to be reliable. Because it is difficult to obtain timely regional economic and demographic information, the City's economic condition may not be fully apparent in all of the publicly available regional economic statistics provided herein.

Population

Table 1 summarizes City, County, and State of California (the "State") population estimated at January 1 of each year.

Table 1
CITY, COUNTY AND STATE POPULATION STATISTICS

	City of Los Angeles	Annual Growth Rate[1]	County of Los Angeles	Annual Growth Rate[1]	State of California	Annual Growth Rate[1]
1980	2,968,579		7,477,421		23,782,000	
1985	3,216,900	1.67%	8,121,000	1.72%	26,113,000	1.96%
1990	3,485,557	1.67%	8,863,052	1.83%	29,758,213	2.79%
1995	3,547,700	0.36%	9,103,900	0.54%	31,617,000	1.25%
2000	3,694,820	0.83%	9,519,330	0.91%	33,984,980	1.50%
2005	3,934,714	1.30%	10,166,417	1.36%	36,728,196	1.61%
2006	3,980,422	1.23%	10,257,994	1.22%	37,195,240	1.80%
2007	4,018,080	1.20%	10,331,939	1.14%	37,662,518	1.43%

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

Source: U. S. Census for 1980, 1990 and 2000; other figures are California Department of Finance estimates as of January 1 of each year.

Industry and Employment

The average number of employed and unemployed residents of the City and the County, together with the average annual unemployment rate of the City, County, State and United States, is summarized in Table 2. Historically, the City's unemployment rate has been higher than both the County's and the State's rate.

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

Civilian Labor Force[1]	2001	2002	2003	2004	2005	2006
City of Los Angeles						
Employed	1,737,400	1,722,900	1,719,400	1,730,400	1,769,000	1,785,300
Unemployed	119,100	142,900	147,000	137,300	113,300	103,100
Total	1,856,500	1,865,800	1,886,400	1,867,700	1,882,300	1,888,400
County of Los Angeles						
Employed	4,483,000	4,447,100	4,400,800	4,477,900	4,581,100	4,631,600
Unemployed	269,900	323,100	332,700	311,100	256,200	229,000
Total	4,752,900	4,770,200	4,773,500	4,789,000	4,837,300	4,860,600
Unemployment Rates						
City	6.4%	7.7%	7.9%	7.4%	6.0%	5.5%
County	5.7%	6.8%	7.0%	6.5%	5.3%	4.7%
State	5.4%	6.7%	6.8%	6.2%	5.4%	5.3%
United States	4.7%	5.8%	6.0%	5.5%	5.1%	4.6%

(1) March 2006 Benchmark; not seasonally adjusted. The "benchmark" is the annual revision process in which monthly labor force and payroll employment data, which are based on estimates, are updated based on detailed tax records. Benchmark data is typically released in March for the prior calendar year.

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

Table 3 summarizes the California Employment Development Department's estimated average annual employment for the County, which includes full-time and part-time workers who receive wages, salaries, commissions, tips, payment in kind, or piece rates. (Separate figures for the City are not maintained.) Percentages indicate the percentage of the total employment for each type of employment for the given year. For purposes of comparison, employment for the State is also summarized.

The trade, transportation and utilities sector was the largest employment sector in the County in 2006, employing 19.9% of the wage and salary workers in the County. Professional and Business Services, at 14.5%, is the second highest employment sector in the County, followed by government, which employs 14.4% of the wage and salary workers in the County.

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

	County				State of California	
	1990	% of Total	2006(2)	% of Total	April 2007(2)	% of Total
Agricultural	13,700	0.3%	7,600	0.2%	353,500	2.3%
Natural Resources and Mining	8,200	0.2	4,000	0.1	24,600	0.2
Construction	145,100	3.5	156,700	3.8	924,800	5.9
Manufacturing	811,600	19.6	462,300	11.3	1,495,000	9.6
Trade, Transportation & Utilities	794,700	19.2	814,100	19.9	2,872,000	18.4
Information	186,200	4.5	209,700	5.1	469,800	3.0
Financial Activities	280,300	6.8	248,000	6.0	941,400	6.0
Professional and Business Services	541,900	13.1	594,700	14.5	2,262,000	14.5
Educational and Health Services	384,700	9.3	481,300	11.7	1,664,600	10.7
Leisure and Hospitality	306,600	7.4	387,500	9.5	1,549,500	9.9
Other Services	136,700	3.3	145,700	3.6	514,700	3.3
Government	539,800	13.0	588,600	14.4	2,522,100	16.2
Total	4,149,500	100.0%	4,100,200	100.0%	15,594,000	100.0%

(1) Since 2000, the California Economic Development Department has converted employer records from the Standard Industrial Classification (SIC) coding system to the North American Industry Classification System (NAICS). Items may not add to totals due to rounding.
(2) March 2006 Benchmark. The "benchmark" is the annual revision process in which monthly labor force and payroll employment data, which are based on estimates, are updated based on detailed tax records. Benchmark data are typically released in March for the prior calendar year.

Source: California Employment Development Department, Labor Market Information Division.

Major Employers

The top 25 major non-governmental employers in the County are listed in Table 4; these represent approximately 6% of the labor force. In addition, government employment represents approximately 14% of the labor force (see Table 3 – Estimated Industry Employment and Labor Force).

Table 4
LOS ANGELES COUNTY
MAJOR NON-GOVERNMENTAL EMPLOYERS

Employer	Product/Service	Employees
Kaiser Permanente	Non-profit health care plan	32,180
Northrop Grumman Corp.	Defense contractor	21,000
Boeing Co.	Integrated aerospace and defense systems	15,825
Kroger Co.	Grocery retailer	14,000
University of Southern California	Private university	12,379
Bank of America Corp.	Banking and financial services	12,200
Vons	Grocery retailer	12,116
Target Corp.	Retailer	12,066
AT&T Inc.	Telecommunications, data, IP based communications services; DSL Internet, local and long distance voice, directory publishing	9,500
Cedars-Sinai Health System	Medical center	8,817
Wells Fargo	Banking and financial services	8,458
California Institute of Technology	Private university	8,453
Amgen Inc.	Biotechnology	8,000
FedEx Corp.	Delivery services	7,976
Albertsons Southern California Region	Food and drug retailer	7,431
ABM Industries Inc.	Facility services, janitorial, parking, security, engineering, and lighting	7,221
Providence Health System	Acute medical, surgical, transition care	7,058
Edison International	Electric utility	6,768
Catholic Healthcare West	Hospitals	6,338
UPS	Package delivery	6,295
Washington Mutual Inc.	Banking and financial services	6,000
Long Beach Memorial Medical Center	Regional hospital	5,262
Sempra Energy	Energy services	4,151
Adventist Health	Hospitals	4,029
Children's Hospital Los Angeles	Hospital	3,814

Source: Los Angeles Business Journal, "The Lists 2007"; from the August 21, 2006 issue.

Effective Buying Income

"Effective Buying Income" ("EBI"), also referred to as "disposable" or "after tax" income, consists of money income less personal tax and certain non-tax payments. Money income includes: wages and salaries; retirement income (including Social Security income); public assistance, unemployment compensation, and disability income; and certain other income (e.g., rental and royalty income), dividends and interest, child support and alimony, and other periodic income. In computing EBI, personal taxes (federal, state and local), and personal contributions to social insurance (Social Security and federal retirement payroll deductions) are deducted from this total. Certain receipts are not included as money income, such as non-cash public assistance; bank withdrawals and loans; and various lump-sum receipts.

Table 5 summarizes historical median household EBI, for the City, County, State and United States as annually reported by Sales and Marketing Management Magazine through 2005. Sales and Marketing Management Magazine has announced that they are no longer publishing this data.

Table 5
CITY, COUNTY, STATE AND U.S.
MEDIAN HOUSEHOLD EFFECTIVE BUYING INCOME

Survey Year	City of Los Angeles	County of Los Angeles	State of California	United States
2001	$37,321	$41,628	$44,464	$39,129
2002	36,548	40,789	43,532	38,365
2003	33,398	37,983	42,484	38,035
2004	33,541	38,311	42,924	38,201
2005	34,480	39,414	43,915	39,324

Source: Sales and Marketing Management Magazine "Survey of Buying Power" for each respective year.

Retail Sales

As the largest city in the County, the City accounted for $37.5 billion (or 28.6%) of the total $130.7 billion in County taxable sales for 2005. Table 6 sets forth a history of taxable sales for the City for the last five calendar years for which there is data.

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

	2001	2002	2003	2004	2005
Apparel stores	$ 1,237,498	$ 1,333,967	$ 1,451,760	$ 1,574,342	$ 1,707,160
General merchandise stores	3,121,521	3,173,481	3,351,395	3,525,399	3,720,692
Food stores	1,562,989	1,574,751	1,590,925	1,580,936	1,682,668
Eating and drinking establishments	3,832,553	4,050,080	4,267,618	4,579,413	4,943,745
Home furnishings and appliances	1,114,428	1,166,157	1,221,327	1,268,561	1,301,546
Building materials and farm implements	1,747,025	1,868,657	1,971,383	2,339,085	2,436,987
Auto dealers and auto supplies	3,506,186	3,759,209	4,057,625	4,034,474	4,187,135
Service stations	2,563,082	2,422,631	2,789,646	3,351,708	3,872,089
Other retail stores	4,324,943	4,368,574	4,543,304	4,759,013	4,860,849
Retail stores total	23,010,225	23,717,507	25,244,983	27,012,931	28,712,871
All other outlets	8,631,925	8,127,353	8,193,532	8,412,414	8,781,680
TOTAL ALL OUTLETS	$31,642,150	$31,844,860	$33,438,515	$35,425,345	$37,494,551

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

Construction Activity

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

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

	2002	2003	2004	2005	2006
Valuation[1]					
Residential[2]	$ 969	$1,027	$1,816	$1,789	$2,435
Miscellaneous[3]	86	103	38	71	79
Total Valuation	$1,055	$1,130	$1,854	$1,860	$2,514
Number of Units:					
Single family[4]	1,358	1,394	1,779	2,099	2,419
Multi-family[5]	5,355	4,538	9,658	7,673	11,752
Subtotal Residential	6,713	5,932	11,437	9,772	14,171
Miscellaneous[6]	1,604	1,488	675	1,433	1,201
Total Units	8,317	7,420	12,112	11,205	15,372

(1) In millions of dollars. "Valuation" represents the total valuation of all construction work for which the building permit is issued.
(2) Valuation permits issued for Single-Family Dwellings, Duplexes, Apartment Buildings, Hotel/Motels, Artist-in-Residence, and Condominiums.
(3) Valuation of permits issued for "Addition Creating New Units - Residential" and "Alterations Creating New Units - Residential"
(4) Number of dwelling units permitted for Single-Family Dwellings and Duplexes.
(5) Number of dwelling units permitted for new Apartment Buildings, Hotel/Motels, Artist-in-Residences, and Condominiums.
(6) Number of dwelling units added includes "Addition Creating New Units - Residential" and "Alterations Creating New Units - Residential."

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

Commercial Real Estate Markets in Los Angeles

Table 8 shows vacancy rates for non-residential space in downtown Los Angeles and the remainder of the Los Angeles Metropolitan Area.

Table 8
LOS ANGELES METROPOLITAN AREA
NON-RESIDENTIAL VACANCY RATES[(1)]

	Downtown			Suburban			Total		
Quarter	2005	2006	2007	2005	2006	2007	2005	2006	2007
First	15.5%	14.6%	13.9%	12.4%	10.3%	8.3%	12.9%	11.0%	9.1%
Second	15.5	13.7	n/a	11.3	10.4	n/a	12.0	10.9	n/a
Third	14.3	13.6	n/a	11.1	9.7	n/a	11.6	10.3	n/a
Fourth	15.0	14.3	n/a	11.0	9.0	n/a	11.0	9.8	n/a
Average	15.0%	14.1%	13.9%	11.5%	9.85%	8.3%	12.0%	10.5%	9.1%

(1) The downtown index covers office buildings in the central core. The corresponding suburban area includes the remainder of the metropolitan area, excluding the central core.

Source: RAND California.

Education

The Los Angeles Unified School District ("LAUSD") administers public instruction for grades K-12, adult, and occupational schools in the City and all or significant portions of a number of smaller neighboring cities and unincorporated territory. The LAUSD, which encompasses approximately 704 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.

Table 9 provides a summary of the Enrollment and Average Daily Attendance ("ADA") of kindergarten through 12th grade ("K-12") students for the LAUSD.

Table 9
LOS ANGELES UNIFIED SCHOOL DISTRICT
TOTAL ANNUAL AVERAGE DAILY ATTENDANCE

Fiscal Year Ending June 30	Average Daily Attendance[(1)]
2003	766,137
2004	758,605
2005	746,605
2006	722,564
2007[(2)]	697,285

(1) Includes students in Adult Education Program and District Charter Schools.
(2) Estimated.

Source: Los Angeles Unified School District Comprehensive Annual Financial Report for Fiscal Years 2002-03 through 2005-06. Fiscal Year 2006-07 is from the Final Budget for 2006-07.

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

Seismic Considerations

Like most regions in the State, the City is subject to unpredictable and significant seismic activity. A number of known faults run through the City, and the City lies near the San Andreas Fault, which is the boundary between the Pacific and North American tectonic plates. The complex Los Angeles fault system interacts with the alluvial soils and other geologic conditions in the hills and basins. This interaction appears to pose a potential seismic threat for every part of the City, regardless of the underlying geologic and soils conditions. In addition, there are likely to be unmapped faults throughout the City. The most recent major earthquake, the Northridge earthquake in 1994, occurred along a previously unmapped blind thrust fault. Although the Northridge earthquake was listed by seismologists as a moderate earthquake, it was the most costly seismic event in the United States since the 1906 San Francisco earthquake, resulting in the loss of 72 lives and damage to approximately 93,000 buildings.

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 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 reserves or FEMA assistance would be available in the event of a natural disaster. See **"FINANCIAL OPERATIONS — Reserve Fund and Financial Management Policies," "—Budgetary Reserves"** and **"—Risk Retention Program"** herein.

MUNICIPAL GOVERNMENT

Under the State Constitution, charter cities are generally independent of the State Legislature in matters relating to municipal affairs, and in their ability to raise revenues. Charter cities are subject to State Constitutional restrictions; see **"LIMITATIONS ON TAXES AND APPROPRIATIONS"** herein. The City is a charter city originally incorporated in 1850. The most recent charter was adopted in 1999, effective July 1, 2000.

The City is governed by the Mayor and the Council (the "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. 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. Antonio Villaraigosa was elected Mayor on May 17, 2005 and took office on July 1, 2005.

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, Laura N. Chick, took office July 1, 2001. She was elected to a second term commencing July 1, 2005 in the 2005 nominating election. The City Attorney is attorney and legal advisor to the Council and all officers, boards, and departments of the City, and prosecutes misdemeanors. The current City Attorney, Rockard J. Delgadillo, took office on July 1, 2001. He was elected to a second term commencing July 1, 2005 in the 2005 Nominating Election.

The City Administrative Officer is the chief fiscal advisor to the Mayor and Council and reports directly to both. Karen L. Sisson has served as the City Administrative Officer since December 2006. 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 current Treasurer is Joya C. De Foor, who has served in that capacity since January 2001. The Office of Finance is responsible for revenue collection within the City. The current Director of the Office of Finance is Antoinette Christovale, who has served in that capacity since August 2000. All three of these officials are appointed by the Mayor and confirmed by the Council.

The City has 41 departments, bureaus, commissions and offices for which operating funds are annually budgeted by the Council. In addition, five departments (the Department of Water and Power ("DWP"), Harbor, Airports, the City Employees' Retirement System Department and the Fire and Police Pension System Department), the Community Redevelopment Agency of the City and the Housing Authority of the City are under the control of boards appointed by the Mayor and confirmed by the Council.

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

The City obtains water and electricity from the Los Angeles Department of Water and Power ("DWP"), the largest municipally-owned utility in the nation.

BUDGET AND REVENUES

Budgetary Process

The City's fiscal year extends from July 1 through June 30. Under the City Charter, the Mayor is required each year to submit to the Council a Proposed Budget by April 20. The Proposed Budget is based on the Mayor's budget priorities, and includes estimates of receipts from the City's various revenue sources.

The Mayor's Proposed Budget is reviewed by the Council's Budget and Finance Committee, which reports its recommendations to the full Council. The Council is required by law to adopt the Mayor's Proposed Budget, as modified by the Council, by June 1. The Mayor has five working days after adoption to approve or veto any items modified by the Council. The Council then has five working days to override by a two-thirds vote any items vetoed by the Mayor. The final Adopted Budget is subject to revision throughout the fiscal year to reflect any changes in revenue and expenditure projections.

State of California Budget

A number of the City's revenues are collected and subvened by the State (such as sales tax and motor-vehicle license fees) or allocated in accordance with State law (most importantly, property taxes). Therefore, State budget decisions can have a material impact on City finances.

The State's fiscal year begins on July 1 and ends on June 30. The State Constitution requires the Governor to submit a budget for each fiscal year to the Legislature by the preceding January 10 (the "Governor's Budget"). The Constitution requires the Legislature to pass a budget bill by June 15 (although the Legislature has missed this deadline over the past several years including the current year). Because more than half of the State's general fund income is derived generally from the April 15 personal income tax, the Governor submits a "May Revised Budget" by May 14. The Legislature typically waits for the May Revised Budget before making final budget decisions. Once the budget bill has been approved by a two-thirds vote of each house of the Legislature, it is sent to the Governor for signature.

On May 14, 2007 the Governor released the "May Revision" to his Proposed 2007-08 State Budget. Neither the original proposed budget nor the May revisions, contained recommendations that would have a significant impact on the financial operations of the City. The Legislative Analyst's Office (LAO) projects that based on its own projections of revenues and expenditures, the State would face operating shortfalls in the range of $5 billion in 2008-09.

It cannot be predicted what actions will be taken in the future by the State Legislature and the Governor to respond to specific provisions of the Proposed Budget, to deal with changing State revenues and expenditures, or the effect of national and state economic conditions on future State budgets.

Additional information concerning the State's Budget and financial condition may be found on the website of the State of California Department of Finance at http://www.dof.ca.gov, and of the State's LAO at http://www.lao.ca.gov; information on these websites is not incorporated as part of this Official Statement.

City's 2007-08 Adopted Budget

The City's 2007-08 Adopted Budget is $6.82 billion, comprised of approximately $3.64 billion for departmental expenditures and $3.18 billion for non-departmental expenditures. Total receipts were budgeted at $6.82 billion, comprised of approximately $4.44 billion in General Fund receipts and $2.38 billion in special receipts and available balances. The Adopted Budget projected a beginning Reserve Fund balance of $283.68 million on July 1, 2007. After the $85.84 million transfer to the budget and reappropriations, the beginning Reserve Fund was budgeted at $201.84 million, which represents approximately 4.55% of budgeted General Fund receipts. Among the major actions approved in the Adopted Budget was an acceleration of the increase in the City's solid waste resources collection fee, from its originally scheduled date of July 1, 2008 to September 1, 2007 with another slated fee increase on July 1, 2009. This fee reduces the General Fund's subsidy of solid waste collection and disposal. In addition the Adopted Budget does not include Water Revenue Transfer to the City's general fund. See **"MAJOR GENERAL FUND REVENUE SOURCES — Water and Power Transfers to the General Fund,"** below.

Table 10 presents the Adopted Budget for Fiscal Year 2007-08 and the prior fiscal year. This budget includes the General Fund and most special revenue funds, but excludes those operations not directly under the direct control of the Council (i.e., Airports, Harbor, DWP, and City Employees' Retirement System and Pensions departments).

Table 10
CITY OF LOS ANGELES ADOPTED BUDGETS
(ALL BUDGETED FUND TYPES)

	Adopted 2006-07	Adopted 2007-08
Revenues		
Taxes [1]	$3,271,235,841	$3,436,692,145
Licenses, Permits, Fees and Fines[2]	725,115,101	823,091,976
Special Assessments[3]	77,039,268	77,222,700
Charges For Services and Operations[4]	872,381,812	1,004,244,181
Intergovernmental[5]	304,919,360	285,057,005
Interest	44,060,000	49,990,000
Transportation Funds[6]	286,059,966	268,114,198
Other General Fund[7]	261,531,000	119,128,987
Other Special Fund	360,336,520	413,508,835
Subtotal Revenues	6,202,678,868	6,477,050,027
Available Balances	470,535,639	340,632,770
Total Receipts[8]	$6,673,214,507	$6,817,682,797
Appropriations		
Community Safety	$2,691,114,121	$2,827,143,481
Home and Community Environment	1,767,049,351	1,785,146,827
Transportation	905,945,711	791,546,037
Cultural, Educational and Recreational Services	427,253,585	417,732,412
Human Resources, Economic Assistance and Development	152,602,475	145,288,119
General Administration and Support	729,249,264	850,825,921
Total Appropriations[8]	$6,673,214,507	$6,817,682,797

(1) Property tax includes all categories of the City allocation of one percent property tax collections such as secured, unsecured, state replacement, redemptions and penalties, supplemental receipts and other adjustments and is net of refunds and county charges. Also included are property taxes remitted to the City as replacement revenue for both vehicle license fees and sales and use taxes.
(2) Revenue sources include State Vehicle License Fees, Municipal Court Fines, and Franchise Income.
(3) Revenue sources include Street Lighting Maintenance Assessment Fund and Stormwater Pollution Abatement Fund.
(4) Major revenue sources include Sewer Construction and Maintenance Fund, Convention Center Revenue Fund, Special Parking Revenue Fund, and Zoo Enterprise Fund and refuse collection fee revenues.
(5) Major revenue sources include Community Development Block Grant, grant receipts, Local Public Safety Fund, and Workforce Investment Act. Also includes proprietary department transfers.
(6) Revenue sources include Special Gas Tax Street Improvement Fund, Proposition A Local Transit Improvement Fund, and Proposition C Anti-Gridlock Transit Improvement Fund.
(7) Includes transfers from the Reserve Fund.
(8) Total may not add due to rounding.

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

Interim Financial Status

During the fiscal year, the City monitors its revenues, expenditures and reserve estimates, and will make budgetary adjustments throughout the year as deemed necessary. As instructed by the Mayor and Council, the City Administrative Officer issues interim financial status reports. Additional information concerning the City's financial condition may be found on the website of the City Administrative Officer at http://www.lacity.org/cao/fin_rpts/; such information is not incorporated as part of this Official Statement. The CAO has not issued an interim financial status report since adoption of the 2007-08 Budget.

Budget Forecast

As part of its budget planning, the City Administrative Officer ("CAO") prepares a five-year budget forecast, based on the existing budget and known major future obligatory expenditures and projections of other revenues and expenditures, to identify future budget challenges, including whether a budget gap is likely to occur. This planning tool helps the City identify potential budgetary pressures, and allows for earlier implementation of budget adjustments, either through the annual budget process or through interim action. The forecast is updated in connection with the City's periodic interim financial status reports. The most recent update of this forecast suggests that, at current trends, the City would experience some level of operating deficit in each of the forecasted fiscal years. It is important to note that the forecast is constantly changing, and does not include all potential revenue and charges. Even though budget deficits are currently projected, these budgets will be balanced through some combination of revenue increases, expenditure reductions, and transfers from reserves as required by the City's Charter.

The following represents the City's most recent planning forecast as of June 18, 2007.

Table 11
FIVE-YEAR GENERAL FUND BUDGET FORECAST ($MM)
(As of June 18, 2007)

	Adopted Budget 2007-08	2008-09	2009-10	2010-11	2011-12
Estimated General Fund Revenue					
General Fund Base [1]	$4,107.4	$4,351.9	$4,495.4	$4,691.9	$4,900.3
Revenue Growth[2]					
Property Related Taxes	63.2	93.9	98.8	104.6	111.0
Sales and Business Taxes	66.7	30.0	41.0	43.0	45.0
Utility Users' Tax	13.8	12.6	12.8	13.0	13.3
License, Permits and Fees	63.9	3.2	17.8	18.3	18.9
Other Fees, Taxes and Transfers	6.9	33.8	26.1	29.4	30.9
One-Time Revenues	30.0	(30.0)	--	--	--
Transfer from Reserve Fund[3]	85.8	--	--	--	--
Total Revenue	**4,437.7**	**4,495.4**	**4,691.9**	**4,900.2**	**5,119.3**
Total Revenue Increase %	2.3%	1.3%	4.4%	4.4%	4.5%
Total Revenue Increase $	99.0	57.7	196.5	208.3	219.1
Estimated General Fund Expenditures					
General Fund Base [4]	$4,338.7	$4,437.7	$4,681.2	$4,853.7	$5,071.9
Obligatory Incremental Changes to Base[5]					
Employee Compensation Adjustments[6]	75.4	126.1	87.1	89.4	91.7
Fire and Police Pensions[7]	48.0	6.1	1.0	12.6	4.3
City Employees' Retirement System[7]	(4.1)	5.9	(9.5)	3.4	5.9
Workers' Compensation Benefits[8]	9.7	10.2	11.0	11.9	12.8
Health and Dental Benefits[9]	44.6	40.1	43.7	45.1	45.8
Debt Service[10]	(4.1)	(12.0)	5.6	(7.1)	(1.4)
Expense CPI Increases [11]	--	6.2	6.3	6.4	6.5
Delete One-Time Costs[12]	(84.0)	--	--	--	--
Unappropriated Balance[13]	69.3	--	--	--	--
New Facilities[14]	29.4	3.3	6.3	6.5	5.6
City Elections[15]	(14.5)	14.5	(14.5)	15.0	(15.0)
Police 1,000 Officers Hiring Plan [16a]	11.0	46.5	51.4	38.5	29.8
VLF Police Hires [16b]	--	28.5	--	--	--
Solid Waste Resource Fee Offset[17]	(77.7)	(31.5)	(11.6)	(3.4)	--
Alternative Refuse Disposal Initiatives[18]	5.4	(0.4)	(4.3)	(0.1)	--
CIEP[19]	13.4	--	--	--	--
Net-Other Additions and Deletions	(22.8)	--	--	--	--
Subtotal Expenditures	4,437.7	4,681.2	4,853.7	5,071.9	5,257.9
Expenditures Growth %	2.3%	5.5%	3.7%	4.5%	3.7%
Expenditures Growth $	99.0	243.5	172.5	218.2	186.1
Surplus (Deficits)	**$ --**	**$(173.3)**	**$(149.3)**	**$(159.2)**	**$(126.1)**
Transfer from Reserve Fund[3]	$ --	$ 120.4	$ 120.4	$ 120.4	$ 120.4
Potential One-Time Expenditures					
New Facilities[14]		33.9	1.5	2.0	1.4
CIEP[19]		46.8	48.5	50.7	52.6
Public Safety Radio Interoperability [20]	--	18.6	18.6	18.6	--
Subtotal Other Potential Expenditures	--	99.3	68.6	71.3	54.0
Net One-time	$ --	$21.1	$51.8	$49.1	$66.4
Surplus (Deficits) with One-time	**$ --**	**$ (152.2)**	**$ (97.5)**	**$ (110.1)**	**$ (59.7)**

Table 11
FIVE-YEAR GENERAL FUND BUDGET FORECAST ($MM)
(As of June 18, 2007)

ASSUMPTIONS:

Revenue:

(1) General Fund (GF) Base: The General Fund revenue growth is separated from the revenue base. This base excludes the Reserve Fund transfer to the budget.

(2) Revenue Growth: Overall revenue is assumed to grow slightly above three to four percent over the next few years. No adjustment is made for challenges facing collection of utility users' taxes on telephone. See **"MAJOR GENERAL FUND REVENUE SOURCES — Utility Users' Tax"** and **"LITIGATION"** herein.

(3) Potential Carryover: The 2007-08 adopted budget includes a transfer from the Reserve Fund based on its estimated June 30, 2007 year-end balance, after emergency and contingency reserves are set-aside. Future estimates from 2008-09 and beyond are based on the 12-year (Fiscal Year 1995 to 2006) historical average of unallocated revenue and reversions.

Estimated General Fund Expenditures:

(4) Estimated Expenditure General Fund Base: Using the 2006-07 General Fund budget as the baseline year, the General Fund base is the "Total Obligatory and Potential Expenditures" carried over to the following fiscal year.

(5) The 2007-08 incremental changes reflect proposed funding added to the 2006-07 General Fund budget. The 5-year forecast expenditures included for subsequent years are limited to those obligatory and major expenses known at this time and are subject to change.

(6) Employee Compensation Adjustments: This includes cost of living adjustment (COLA), change in number of working days, salary step and turnover effect, and full funding for partially financed positions. Civilian labor contracts expire on 6/30/07 and include a final COLA of 2.25% on 1/1/2007. Sworn labor contracts expire on 6/30/2009 and include the remaining COLA's of 3.5% on 7/1/2007 and 3.75% on 7/1/2008. The 2007-08 adopted budget also provides approximately $23.5 million for civilian employees contract negotiations in the Unappropriated Balance (UB). The forecast assumes a 3% salary growth each year for both civilian and sworn employees beyond the current labor contracts.

(7) Fire and Police Pensions (Pensions) and City Employees' Retirement System (LACERS): The Pensions and LACERS contribution are estimated based on information from the Departments' actuaries and include COLA assumptions. The estimates are mostly driven by changes in assumptions and investment returns. See **"FINANCIAL OPERATIONS — Other Post-Employment Benefits"** herein.

(8) Workers' Compensation Benefits (WC): The 2007-08 proposed WC budget increases nearly 8% over 2006-07. The same percentage is applied through 2011-12.

(9) Health and Dental Benefits: Mercer Consulting provides the civilian plan forecast. Projected civilian employee FLEX benefits reflect medical subsidy increases of 9.68% for 2008; 9.19% for 2009; 8.71% for 2010; 8.23% for 2011; and 7.74% for 2012; as well as 1% annual increase for enrollment. Police and Fire health medical subsidy rates are historically higher and assumed to be 2% more than the civilian rates due to the type of coverage and lower deductible health plans. Police enrollment projects are consistent with the hiring plan. Fire enrollment is projected to rise 2% per annum.

(10) Debt Service: The debt service amounts include Capital Finance and Judgement Obligation Bond budgets. The 2007-08 budget includes the Public Works Building debt service. The new Police headquarters facilities debt service starts in 2009-10. See **"BONDED AND OTHER INDEBTEDNESS — Proposed Additional Financings,"** herein.

(11) Expense CPI Increases: The CPI increases in 2008-09 and beyond are 2% per year.

(12) Delete One-Time Costs: None are deleted in 2008-09 to provide a placeholder for equipment, appropriation to special funds, and other one-time expenses incurred annually.

(13) Unappropriated Balance (UB): The 2007-08 UB total is $87.1 million, including $23.5 million for EAA COLAs and $17.8 million for new facilities. To provide a clearer picture of total funding for new facilities, the $17.8 million is added to the "New Facilities" total (note 14). The UB is not eliminated to provide a placeholder for various ongoing and/or contingency requirements in the following years.

(14) New Facilities: Funding projects are based on preliminary departmental estimates for ongoing staffing and expenses that have not been prioritized. The amounts shown in the Potential One-Time Expenditures section represent one-time costs. Some equipment may be eligible for debt financing but this has not been determined at this time.

(15) Elections: Citywide elections occur bi-annually.

(16) (a) The Police Hiring Plan is to recruit 1,000 net new officers during 2005-06 to 2009-10, with recruitment to cover attrition in 2010-11. Costs include salaries and expense. The 2007-08 funding of $11.8 million is primarily paid for by the General Fund ($9M), supplemented by Vehicle License Fee Gap loan Financing Proceeds Fund (VLF) ($0.3M), and the Efficiency Projects and Police Hiring Fund ($2.5M). The full year cost of the officers hired in 2006-07 is $6.7 million and reflected in Employee Compensation Adjustments.
(b) By the end of 2007-08, the VLF will be depleted but costs continue to be incurred. General Fund monies will be needed to provide backfill funding for those hired in prior years.

(17) Solid Waste Resources Fee Offset: A monthly increase of $7 was included for 2006-07 to a total of $18. The 2007-08 adopted budget includes an increase of $4, from $18 to $22, effective July 1, 2007, and another increase of $4, from $22 to $26, effective September 1, 2007. The adopted plan is to increase the monthly fee per household to $28 in 2009-10.

(18) Public Safety Systems Project: EOC/Fire Dispatch/Police Department Operations Center systems-related costs that cannot be bond-financed. A project consultant reports that the total investment in information, communications, and dispatch systems for the facility would be approximately $63 million. This includes the upgrade of all fire stations' voice and data transmission systems that must be in place before an anticipated 2010 building occupancy by the Fire Department, as well as annual recurring lease of T-1 lines. A total estimated $50 million that may be eligible for MICLA financing are excluded from the forecast.

(19) Capital Improvement Expenditure Program (CIEP): The 2007-08 adopted budget includes $13.4 million for various capital projects. This is $30.9 million below the City's financial policy of budgeting 1% of the General Fund for capital improvement projects. For future years, the CIEP amounts detailed in the Potential One-Time Expenditures section assume compliance with the 1% policy.

Potential One-Time Expenditures:

(20) Public Safety Radio Interoperability: As part of a County-wide interoperability project, the City would need to replace Police, Fire, General Services Security, and potentially other departments' handheld radios. The move toward interoperability is recommended as the City's

Table 11
FIVE-YEAR GENERAL FUND BUDGET FORECAST ($MM)
(As of June 18, 2007)

radios' lifecycle are coming to an end. Estimated cost for the City's share of the entire project is about $250 million, of an estimated $600 million total. The City will pursue various grant opportunities such as UASI, SHSGP, COPS, State bonds, and possibly MICLA financing subject to eligibility requirements to provide part of the funding.

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

MAJOR GENERAL FUND REVENUE SOURCES

Following is a discussion of the City's principal General Fund revenue sources. See **"LIMITATIONS ON TAXES AND APPROPRIATIONS"** herein.

On March 2, 2004, California voters approved Proposition 57, a bond act authorizing the issuance of up to $15 billion of Economic Recovery Bonds ("ERBs"), to fund the accumulated State budget deficit. In May and June 2004, the State issued $10,896,080,000 of such bonds. These bonds are secured by a pledge of revenues from an increase in the State's share of the sales and use tax of one-quarter cent beginning July 1, 2004. The share of the tax going to local governments was reduced by the same amount and, in exchange, local governments now receive an increased share of the local property tax (and K-12 school districts and community colleges receive a reduced share) until the ERBs are repaid. Although the final maturity of the ERBs is in 2023, it is expected that they will be repaid by the State substantially in advance of that date, currently estimated to be by 2010. All education agency property tax reductions are offset by increased state aid. This shift in revenues between the State and local governments is known as the "Triple Flip."

Property Tax

Property taxes represent 31.5% of General Fund revenues in the 2007-08 Adopted Budget. Under Article XIII A of the State Constitution (enacted in 1978 through the passage of Proposition 13) and its implementing legislation, ad valorem taxes on real property (other than taxes relating to certain voter-approved indebtedness) are limited to one percent of the "full cash value." Full cash value is generally defined as the valuation of real property as shown on the 1975-76 tax bill, or thereafter, as the appraised value of property when purchased or newly constructed after the 1975 assessment period. Real property valuation may be increased to reflect inflation, not to exceed two percent per year. (See **"LIMITATIONS ON TAXES AND APPROPRIATIONS"** herein.)

The assessed valuation of property is established by the County Assessor, and reported at 100% of the full cash value as of each January 1, except for public utility property, which is assessed by the State Board of Equalization. Beginning in 1983, State law provided for the establishment of a "supplemental roll"; real property is reassessed at market value on the date property changes ownership or upon completion of new construction (known as the "floating lien date"). A supplemental tax is collected for the remainder of the tax year.

The County collects the ad valorem taxes. Taxes arising from the 1 percent levy are apportioned among local taxing agencies on the basis of a formula established by State law. Under this formula, the City receives a base year allocation plus an allocation on the basis of growth in assessed value (consisting of new construction, change of ownership and inflation). Taxes relating to voter-approved indebtedness are allocated to the relevant taxing agency. Beginning in Fiscal Year 1990-91 (with the adoption of new State legislation), the County deducts the pro-rata cost of collecting property taxes from the City's allocation.

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

The California Community Redevelopment Law authorizes redevelopment agencies to receive the allocation of tax revenues resulting from increases in assessed valuations of properties within designated project areas. In effect, the other local taxing authorities realize tax revenues from such properties only on the base year valuations, which are frozen at the time a redevelopment project area is created. The tax revenues which result from increases in assessed valuations flow to the redevelopment areas. The City has created redevelopment project areas pursuant to California law. Generally, funds must be spent within the redevelopment areas in which the tax increment revenues were generated, and may only be spent on projects that qualify under California redevelopment law.

All taxable real and personal property is classified as either "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" contains real property (land and improvements), certain taxable personal property (such as business equipment on business-owned property), and possessory interests (a leasehold on otherwise exempt government property). The "unsecured roll" contains taxable property that is not secured by the underlying real property, the majority of which is business equipment on leased or rented premises, and other taxable personal property such as boats and aircraft, as well as delinquent possessory interests. The balance of personal property has been exempted by State law from property taxes. For recent years, approximately 94% of the City's assessed valuation represents property contained on the secured roll.

Property taxes on the secured roll are due in two installments: on November 1 and February 1 of the fiscal year. If unpaid, such taxes become delinquent after December 10 and April 10, respectively, and a 10% penalty is added to delinquent taxes. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty of 1.5% per month to the time of redemption. If taxes are unpaid for a period of five years or more, title to the property passes to the State and is subject to sale by the County Tax Collector.

California counties can elect to implement the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (commonly referred to as the "Teeter Plan"), as provided for in Section 4701 et seq. of the State Revenue and Taxation Code. Under the Teeter Plan, each participating local agency levying secured property taxes receives from its county the amount of uncollected taxes credited to its fund, in the same manner as if the amount credited had been collected. In return, the county receives and retains delinquent payments, penalties and interest as collected that would have been due the local agency. Los Angeles County does not participate in the Teeter Plan, and the City's property tax revenues reflect both delinquencies and the receipt of interest and penalties payments.

Property taxes on the unsecured roll are due as of March 1 and become delinquent on August 31. A 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue on November 1. The taxing authority has four ways of collecting delinquent unsecured personal property taxes: (1) civil action against the taxpayer; (2) filing a certificate in the Office of the County Clerk specifying certain facts to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for recordation in the County Recorder's Office, to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the delinquent taxpayer.

Recent assessed valuations, property tax levies, and collections within the City appear in Table 12.

Table 12
ASSESSED VALUATION, TAX LEVY AND COLLECTION
(in thousands)

Fiscal Year	Gross Assessed Valuations[1]	Net Assessed Valuations[2]	Total Levy[3]	Current Collections[4]	Collection Rate[5]	Other Collections[6]	Net Property Tax Revenues[7]
2002-03	$258,385,268	$244,252,348	$624,634	$611,744	97.9%	$51,696	$663,440
2003-04	277,855,570	263,378,270	673,416	660,531	98.1%	57,270	717,801
2004-05	299,579,649	284,269,704	730,495	709,492	97.1%	68,465	777,957
2005-06	327,893,445	312,494,275	784,864	768,367	97.9%	55,571	823,938[8]
2006-07	364,404,000	346,830,607	862,416	835,406[9]	96.9%[9]	115,790[9]	951,196[9]
2007-08[9]	397,193,000	378,782,000	952,600	919,220	96.5%	66,066	985,286[9]

(1) Represents Gross Total Locally Assessed Valuations per County Assessor.
(2) Valuation for purposes of assessing property taxes consists of Gross Assessed Valuations, less exemptions for churches, schools, and homeowners.
(3) Secured and unsecured basic 1% property tax levy reported by the County Auditor-Controller. Excludes tax override for debt service.
(4) Total current year receipts for secured and unsecured property taxes received by the County.
(5) Current collections divided by total levy.
(6) Includes redemptions, supplemental taxes (property taxes levied after the lien date due to reassessment upon change of ownership), reimbursement of homeowners' exemption by the State, and other adjustments by the County, less County charges and refunds to taxpayers. Reasons for the year-to-year variation include significant annual fluctuations in current year receipts for prior year taxes, penalties, supplemental tax payments, and refunds; restoration of the City Community Redevelopment Agency ("CRA") increment; and County property-tax-year-related accounting adjustments.
(7) Total property tax received from the County during the fiscal year. Excludes property tax receipts in lieu of Sales Tax and Vehicle License Fees and partially offsetting ERAF adjustments as a result of the "Triple Flip," discussed below.
(8) $44 million that normally would have been received in June 2006, were received in July due to a late remittance from the County.
(9) Adopted Budget.

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

The State Budget has resulted in various reallocations of property tax revenues, including the "Triple Flip" of property tax and sales tax, the "backfill" of vehicle license fee revenues with an increased allocation of property taxes, and the temporary transfers of property taxes to the Education Revenue Augmentation Fund (ERAF).

The 2007-08 Adopted Budget includes $1.397 billion in property tax revenues, composed of $985.3 million as the City's share of the 1% property tax levy, $116.3 million in sales tax replacement and $295.7 million in vehicle license fee replacement.

In preparing its budget, the City forecasts property taxes based on each of the specific categories of receipts (secured and unsecured, current and delinquent receipts and State replacement funds). Current receipts are based on the County Assessor's estimate of growth in assessed valuation, adjusted for estimates in growth for redevelopment project areas. The estimate of current secured levy receipts is discounted by 3% for delinquencies. Estimates of other property tax receipts are primarily based on historical collections. There can be no assurance that historical trends will continue.

A list of the 20 largest taxpayers, based on secured assessed valuations within the City for Fiscal Year 2006-07, appears in Table 13.

Table 13
TWENTY LARGEST TAXPAYERS
LARGEST 2006-07 LOCAL SECURED TAXPAYERS

Property Owner[1]	Primary Land Use	2006-07 Secured Assessed Valuation	Percent of Secured Total[2]
Douglas Emmett LLC	Office Building	$1,857,347,141	0.56%
Arden Realty LP	Office Building	1,037,689,290	0.31
Anheuser Busch Inc.	Industrial	815,680,156	0.24
Maguire Partners 355 S. Grand LLC	Office Building	544,749,668	0.16
One Hundred Towers LLC	Office Building	543,860,949	0.16
Duesenberg Investment Company	Office Building	450,986,733	0.14
Donald Sterling	Apartments	291,932,262	0.12
Casden Park La Brea LLC	Apartments	381,729,612	0.11
BRE Properties Inc.	Apartments	380,788,143	0.11
Paramount Pictures Corp.	Movie Studio	372,061,693	0.11
Rreef America REIT II Corp.	Office Building	357,000,000	0.11
Twenty Century Fox Film Corp.	Movie Studio	343,965,462	0.10
1999 Stars LLC	Office Building	328,421,915	0.10
Century City Mall LLC	Regional Mall	325,890,378	0.10
AP Properties Ltd.	Office Building	307,751,196	0.09
Library Square Associates LLC	Office Building	294,949,089	0.09
Prime Park La Brea Holdings LP	Apartments	286,250,000	0.09
Sunstone Century Star LLC	Hotel	283,250,000	0.08
2121 Avenue of the Stars LLC	Office Building	276,500,000	0.08
Maguire Properties 555 W. Fifth LLC	Office Building	270,785,099	0.08
		$9,851,982,330	2.95%

(1) Excludes taxpayers with values derived from mineral rights and/or possessory interests.
(2) Based on 2006-07 total secured assessed valuation of $333,517,082,107, as calculated by California Municipal Statistics, Inc.

Source: California Municipal Statistics, Inc.

Utility Users' Taxes

Utility users' taxes represent 14.1% of General Fund revenues in the 2007-08 Proposed Budget. The City imposes taxes on users of natural gas, electricity and telephone services within the City's limits. The tax is 10% of utility charges, with the exception that the rate for electricity for commercial users is 12.5%. The utility users' tax was established in 1967; the current tax rates have been in effect since July 1983.

An exemption from the utility users' tax is available to senior citizens over the age of 62 and to disabled individuals, provided that the combined adjusted gross income of all household members is below $23,800. As provided by the State Constitution, insurance companies are exempt from the tax. In addition, county, state, federal and foreign governments within the City are not subject to this tax, as the City has no authority to impose a tax on these entities. Exemptions account for approximately 10% of the total tax base.

Utility tax receipts can be volatile, as they reflect not only power, gas and telephone rates, but also business activities and changing technologies. Both electricity and natural gas sales are sensitive to weather (warm winters and cool summers reduce demand).

The largest component of the City's current utility users' tax revenues is the tax on telephone use, which is projected to be slightly higher than revenues from the tax on electricity use. The City's telephone users' tax revenue for Fiscal Year 2007-08 is projected to be $270 million or about 6 percent of the General Fund revenue. Changing technologies in the telephone marketplace, such as the shift to wireless telephone and Voice-over-Internet services, and various legal challenges and administrative actions have created uncertainties to this portion of the utility users' tax.

Certain actions at the federal level may have a negative impact on the City's collection of taxes on telephone use. On May 25, 2006, the U.S. Treasury Department, in response to a series of appellate court losses, announced that it is conceding a series of legal disputes over the federal excise tax ("FET") on long-distance telephone service. These appellate court decisions held that a telephonic communication for which there is a toll charge that varies with elapsed transmission time and not distance (time-only service) is not taxable as toll telephone service as defined in the FET. As a result, amounts paid for time-only service, which is the most common billing method today, were found not to be subject to the tax. The Internal Revenue Service, pursuant to IRS Notice 2006-50, has ceased collecting the FET on long distance service, and has begun issuing refunds of the FET on long-distance service charges in the past three years.

The City's tax ordinance, like those of many other local telephone user taxes, referenced the FET's exemptions. The City's ordinance stated that the telephone users tax "shall not be imposed upon any person for using telephone communications services or teletypewriter exchange services, to the extent that the amounts paid for such services are exempt from or not subject to the tax imposed under Sec. 4251 of Title 26 of the United States Code (the FET), as such Section existed on November 1, 1967." City Ordinance No. 178219 approved by the Mayor on January 10, 2007, clarifies that the City will continue to carry out its long-standing practice of applying its telephone users' tax in a manner consistent with the IRS' interpretation of the FET that was in effect prior to the issuance of Revenue Notice 2006-50.

The City has received one request for the cessation of the collection of the telephone users' tax on long-distance service where the charge varies only by time and on charges for services where long-distance and local services are bundled. This request was filed on behalf of a single resident of the City, and "all similarly situated taxpayers in the City of Los Angeles," and also seeks a one- or two-year refund. The request was treated as an administrative claim and denied. This purported class-action lawsuit is in the early stages of litigation.

In addition, another lawsuit challenging the telephone users' tax was brought against the City by a provider of prepaid telephone cards. In this lawsuit, three of the four claims asserted against the City, including the claim for refund of taxes previously paid, were dismissed by the court, but the claim for a determination of rights and responsibilities under the telephone users' tax was allowed to proceed and is in the early stages of litigation.

In addition, a portion of the City's telephone users' tax – that on wireless telephone service – has been challenged under a Superior Court action entitled *AT&T Wireless et al. v. City of Los Angeles*. Specifically, the case challenged the City's request – as a result of other changes in federal law – that, effective March 2003, all wireless carriers collect the utility users' tax on the calling portion of wireless telephone bills, as long as the billing address was within the City, regardless of whether the carriers had previously collected the tax on that portion of the bill. The suit alleges that the City's actions represented a change in the taxing methodology for wireless phone calls, representing a tax increase that required voter approval under Proposition 218. The judge in this Superior Court case issued a writ of mandate and judgment requiring the City to withdraw its request as to two cellular service providers and revert to prior collection practices as to those carriers. The City appealed and the appellate court affirmed the trial court decision. However, the Court's opinion indicates that the tax does still apply to calls that originate or terminate within the City (and where the billing address is within the City). The portion of the utility users' tax that is derived from wireless telephone service is estimated to be $162 million (of the $270 million total telephone tax revenues) in the Fiscal Year 2007-08.

For a number of reasons, the City is unable to establish a reliable estimate of the potential revenue loss resulting from final resolution of the AT&T Wireless case and current and pending changes in federal excise tax practices. However, the City believes that, in the event of adverse rulings, a significant portion of the $270 million telephone users' tax may be at risk. In addition, the City could be exposed to the risk of having to make refunds for a portion of prior collections.

Table 14 shows the actual or estimated receipts from the Utility Users' Tax:

Table 14
UTILITY USERS' TAX RECEIPTS[1]
(in millions)

	2003-04	2004-05	2005-06	2006-07 Estimated	2007-08 Adopted Budget
Electric Users' Tax	$237.863	$238.231	$235,708	$252,000	$267,400
Gas Users' Tax	73.209	84.418	98,558	82,500	90,000
Telephone Users' Tax	265.179	267.210	270,681	269,748	269,825
	$576.251	$589.858	$604,947	$604,248	$627,225

[1] Cash basis.

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

Sales Tax

Sales taxes represent 7.9% of General Fund revenues in the 2007-08 Adopted Budget. Sales and use taxes are collected on the total retail price of tangible personal property sold, unless specifically exempted. Included in the county-wide tax rate of 8.25% is a sales tax collected by the State on behalf of cities (or, for unincorporated areas, on behalf of counties). Allocation of this local component (often referred to as the "Bradley-Burns Sales Tax") is on the basis of "situs," or the point of sale. Additional sales taxes can be collected based on local voter approval. Included in the 8.25% county-wide rate is a sales tax collected for the Los Angeles County Metropolitan Transportation Authority for transportation purposes. A portion of those taxes is remitted to the City for deposit in two special revenue funds.

Effective July 1, 2004, the traditional Bradley-Burns Sales Tax was modified by a State budgetary change known as the Triple Flip. The Triple Flip puts in place a complex revenue swap to "secure the State's deficit bonds" approved by the electorate in March 2004 to balance the State budget. The Triple Flip trades 0.25% of the 1% city share of the Bradley-Burns Sales Tax for an equal share of property taxes from the countywide Education Revenue Augmentation Fund (ERAF). See **"—State of California Budget"** herein.

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

Table 15
LOS ANGELES CITY
SALES TAX COMPONENTS

State Rate		
General Fund Portion	5.25%	This rate was temporarily lowered to 4.75% in calendar year 2001, but returned to 5% on January 1, 2002. It was increased to 5.25% on July 1, 2004 when the State exchanged local sales taxes for property taxes.
Local Revenue Fund	0.50%	To support health program costs.
Local Public Safety	0.50%	For the Local Public Safety Fund, approved by the State voters in 1993 to support local criminal justice activities. The City receives a small share of this, about $30 million.
Total State Rate	**6.25%**	
Uniform Local Tax Rate		This rate is levied by all counties, of which 0.25% is for county transportation funding. The remaining portion is allocated to point of sale jurisdiction.
County Transportation	0.25%	The County allocates a small portion of this to the City.
Local Point of Sale	0.75%	This is the City sales tax. The City's share was reduced from 1.00% by the Triple Flip starting July 2004.
Total Uniform Local Rate	**1.00%**	
Optional Local Rates		State law permits optional voter approval of local tax rates. These rates are levied in 0.25% and 0.5% increments.
Proposition A	0.50%	Voter approved measures to improve public transit and reduce traffic congestion.
Proposition C	0.50%	Voter approved measures to improve public transit and reduce traffic congestion.
Total Optional Local Rate	**1.00%**	
Total Sales Tax Rate in Los Angeles County	**8.25%**	The total ranges within the State from 7.25% to the maximum allowable rate of 8.75%

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

Table 16 shows the actual or estimated General Fund receipts from the Sales Tax:

Table 16
GENERAL FUND SALES TAX RECEIPTS
(in thousands)

Fiscal Year	Receipts[(1)]
2003-04	$377,890
2004-05	316,561[(2)]
2005-06	323,555[(2)]
2006-07 (Estimated)	334,044[(2)]
2007-08 (Adopted Budget)	348,905[(2)]

(1) Cash basis.
(2) Includes reduction from "Triple Flip."

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

Business Tax

Business taxes represent 10.8% of General Fund revenues in the Fiscal Year 2007-08 Adopted Budget. The business tax is imposed on persons engaged in a business within the City.

The tax rate formula, which is established by ordinance, varies based upon the type of business. Beginning in Fiscal Year 2005-06, a number of tax reform measures have been and will continue to be implemented. These reforms included exemptions for small businesses, changes in the taxing methodology for entertainment production companies, and the establishment of tax rate reductions that will be triggered by growth in revenue. The estimated rate decrease calculated for Fiscal Year 2007-08 is 4%. The Adopted Budget projects that any losses from tax reform will be offset by revenues associated with growth in economic activity and increased enforcement.

Table 17 shows the actual or estimated receipts from the business tax:

Table 17
BUSINESS TAX RECEIPTS
(in thousands)

Fiscal Year	Receipts[(1)]
2003-04	$373,248
2004-05	396,794
2005-06	434,529
2006-07 (Estimated)	459,191
2007-08 (Adopted Budget)	477,590

(1) Cash basis.

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

State Motor Vehicle License Fee

A vehicle license fee ("VLF") is imposed annually by the State in lieu of local property taxes, and represents a fee on the ownership of a registered vehicle in California. Automobiles, motorcycles, pick-up trucks, commercial trucks and trailers, rental cars and taxicabs are all subject to the VLF. A portion of this fee is subvened to cities and counties.

Beginning in 1999, the State began to reduce the fee from its historic level of 2% of the market value of motor vehicles. State law provided that the State "backfill" (and thus make local governments whole) the difference between the lower VLF rate and the 2% rate, unless the State had "insufficient moneys" with which to make such payments. As part of the State's Fiscal Year 2004-05 Budget, the VLF rate was permanently reduced to 0.65%, with the lost revenue replaced by an incremental allocation of property tax. Vehicle License Fees now represent only 0.5% of General Fund revenue.

Table 18 shows the actual or estimated receipts from State Motor Vehicle License Fees:

Table 18
STATE MOTOR VEHICLE LICENSE FEE RECEIPTS
(in thousands)

Fiscal Year	Receipts[(1)]
2003-04	$174,215[(2)]
2004-05	42,296[(3)]
2005-06	23,676[(3)]
2006-07 (Estimated)	28,100
2007-08 (Adopted Budget)	26,000

(1) Cash basis.
(2) Reflects loss from suspension of State backfill.
(3) Reflects revenue reductions from reduced VLF rates, which are replaced by an increased allocation of property taxes.

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

Licenses, Permits, Fees and Fines

This category of revenues includes reimbursements to the General Fund from various special and enterprise funds of the City, and charges for special services performed by City departments. Reimbursements include the costs of police, fire and other City services to the Airports and Harbor Departments, and staff costs for the sewer construction and maintenance program. These revenues also include charges imposed as regulatory measures by City departments, and fees charged for paramedic ambulance services.

Table 19 shows the actual or estimated receipts from licenses, permits, fees and fines:

Table 19
LICENSES, PERMITS, FEES AND FINES
(in thousands)

	2003-04[(1)]	2004-05[(1)]	2005-06[(1)]	2006-07 (Estimated)[(1)]	2007-08 (Adopted Budget)[(1)]
Ambulance Fees	$ 49,907	$ 49,587	$ 49,587	$ 55,000	$ 57,000
Services to Sewer Program	38,718	49,087	58,217	57,881	70,322
Services to Dept. of Airports	52,930	54,662	62,540	76,000	82,808
Services to Harbor Dept.	19,130	20,506	20,031	29,014	29,622
MTA Reimbursement	4,603	0	0	0	0
Miscellaneous Reimbursements From					
Other Special Funds and Other Agencies	105,822	103,230	133,105	189,067	213,380
Building and Safety Fees[(2)]	80,701	95,510	2,252	2,262	2,905
Other Departmental Receipts	110,788	124,016	151,499	164,916	159,214
Total General Fund	$462,600	$495,598	$477,231	$574,140	$615,251
Building and Safety Building Permit Enterprise Fund[(3)]	$0	$0	$132,466	$92,880	$89,566

(1) Cash basis.
(2) Building Permit revenue formerly credited in this account now being credited to an enterprise fund starting in Fiscal Year 2005-06.
(3) Revenues to new enterprise fund, minus reimbursements of General Fund costs.

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

Documentary Transfer Tax

The documentary transfer tax is imposed on each recorded document in which real property is sold. The City's tax rate is 0.45% of the value of real property. This tax is in addition to the 0.11% tax ($1.10 per $1,000) levied by the County. This tax is tied to real estate market activity and is more volatile than other City revenues. The 2007-08 Adopted Budget assumes a slowdown in the real estate market and a 15% decline in City revenue from the current year. Table 20 presents actual, projected and budgeted receipts from this revenue source.

Table 20
DOCUMENTARY TRANSFER TAX
(in thousands)

Fiscal Year	Receipts[(1)]	Budget	Variance
2003-04	$159,244	$127,000	$32,244
2004-05	191,106	138,100	53,006
2005-06	217,320	156,000	61,147
2006-07 (Estimated)	185,000	192,500	(7,500)
2007-08 (Adopted Budget)	N/A	157,014	N/A

(1) Cash basis.

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

Parking Fines

The City receives revenues from parking fines; the schedule of fines is established by the Council. For budgeting purposes, parking ticket revenue forecasts are based on the number of parking enforcement officers employed by the City's Department of Transportation, and estimates of average revenues per ticket based on historical trends, collection rates and average worker productivity.

Table 21 shows the actual or estimated receipts from all parking fines:

Table 21
PARKING FINES
(in thousands)

Fiscal Year	Receipts[(1)]
2003-04	$107,312[(2)]
2004-05	110,071
2005-06	113,060[(3)]
2006-07 (Estimated)	122,448
2007-08 (Adopted Budget)	126,000

(1) Cash basis.
(2) Decrease attributable to unusually large bail refunds.
(3) Starting in Fiscal Year 2005-06, the budget category formerly known as "Municipal Court Fines" was re-classified as "Parking Fines". Non-parking-related court fines are now included in Licenses, Permits, Fees and Fines.

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

Water and Power Transfers to General Fund

The largest revenue source in this category is the annual transfer to the General Fund from the Power Revenue Fund of the DWP. Historically, this transfer has equaled approximately 5% of the total operating revenue of the Power Revenue Fund in the preceding Fiscal Year. This transfer was increased to 7% beginning in Fiscal Year 2002-03 pursuant to Charter Section 344, which provides that, with the consent of the Board of Water and Power Commissioners, the Council may direct by ordinance the transfer of surplus revenue to the General Fund. The 2007-08 power transfer will continue at 7% of 2006-07 power revenue. The transfer is restricted by the Charter and the DWP's revenue bond covenants, which specify that a transfer may not be greater than the previous fiscal year's net income, nor may it result in a reduction of the power system's surplus to less than 33-1/3% of system's total outstanding debt. Transfers are made periodically following Council's adoption of the ordinance. In 2003-04 and 2004-05, additional supplemental transfers were also approved.

State of California ex rel Barakat Consulting,Inc., et al. v. Los Angeles Department of Water and Power is a state court action in which governmental plaintiffs allege that DWP overcharged the public agencies for electricity. The trial court's tentative ruling awarded $223 million in damages and restitution to the plaintiffs. In this decision, the Court preliminarily found that DWP improperly charged specified governmental customers for "capital facilities fees" from July 1997 to October 2006. DWP's current billing practices are not in issue in light of a new State statute effective January 1, 2007. The trial court also found that DWP's annual transfer to the City is improperly treated by DWP as a cost component and is a prohibited tax. However, in past cases the transfer has been upheld. The City's 2007-08 budget projects a $185 million transfer to the City. DWP intends to contest the tentative decision.

Table 22 shows the actual or estimated transfers from the Power Revenue Fund:

Table 22
TRANSFERS FROM POWER REVENUE FUND
(in thousands)

Fiscal Year	Receipts(1)
2003-04	$179,214(2)
2004-05	220,167(3)
2005-06	157,894
2006-07 (Estimated)	174,747
2007-08 (Adopted Budget)	184,600

(1) Cash basis.
(2) Includes supplemental transfer of $29 million in 2003-04. These supplemental transfers were deposited in the City's Reserve Fund.
(3) A supplemental transfer of $60 million was made directly to the General Fund in 2004-05.

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

A smaller annual transfer was made from DWP's Water Revenue Fund. Such transfers from water revenues were eliminated by recent court decisions involving the application of Proposition 218. As explained below in further detail (see **"LIMITATIONS ON TAXES AND APPROPRIATIONS, Articles XIII C and XIII D of California Constitution – Proposition 218"** herein), a recent State Supreme Court decision (*Bighorn-Desert View Water Agency v. Verjil*) found that metered charges for consumption of water by a public agency fell within the "property-related" fees subject to Proposition 218. The City discontinued this transfer in Fiscal Year 2006-07, but has filed a validation action in the Los Angeles Superior Court to determine whether the annual Water Revenue Transfer to the City complies with all applicable provisions of law. The Department of Water and Power intends to make future Water Revenue Transfers to the City if there is a final favorable judicial ruling by the appellate court.

LIMITATIONS ON TAXES AND APPROPRIATIONS

Article XIII A of the California Constitution - Proposition 13

Article XIII A of the California Constitution limits the amount of ad valorem taxes on real property to one percent of "full cash value" as determined by the County Assessor, except that additional ad valorem taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978 and on bonded indebtedness for the acquisition or improvement of real property that has been approved on or after July 1, 1978 by two-thirds of the voters on such indebtedness. See **"MAJOR GENERAL FUND REVENUE SOURCES —Property Tax,"** herein.

Article XIII A defines "full cash value" to mean the County assessor's valuation of real property as shown on the 1975-76 tax bill under full cash value or, thereafter, the appraised value of real property when purchased, newly constructed or when a change in ownership has occurred after the 1975 assessment period. The full cash value may be adjusted annually to reflect inflation at a rate, as shown by the consumer price index, not to exceed two percent per year, or may be reduced. Article XIII A also permits the reduction of the "full cash value" base in the event of declining property values caused by damage, destruction or other factors.

On June 18, 1992, the United States Supreme Court upheld the constitutionality of certain challenged provisions of Article XIII A in connection with its review of the *Nordlinger v. Hahn* case.

Article XIII B of the California Constitution - Gann Limit

On November 6, 1979, California voters approved Proposition 4, the so-called Gann Initiative, which added Article XIII B to the California Constitution. In June 1990, Article XIII B was amended by the voters through their approval of Proposition 111. Article XIII B of the California Constitution limits the annual appropriations of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted annually for changes in the cost of living, population and services rendered by the governmental entity. The "base year" for establishing such appropriation limit used to be the 1978-79 fiscal year, but is now the 1986-87 fiscal year as a result of Proposition 111.

Appropriations subject to Article XIII B include generally any authorization to expend during the fiscal year the "proceeds of taxes" levied by the State or other entity of local government, exclusive of certain State subventions, refunds of taxes, benefit payments from retirement, unemployment insurance and disability insurance funds. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to any entity of government from: (1) regulatory licenses, user charges and user fees to the extent such proceeds exceed the cost of providing the service or regulation; (2) the investment of tax revenues; and (3) certain State subventions received by local governments. Article XIII B includes a requirement that if any entity's revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two fiscal years.

Appropriations subject to limitation pursuant to Article XIII B do not include debt service on indebtedness approved according to law by a vote of the electors or appropriations required to comply with mandates of courts or the federal government or certain capital expenditures.

Article XIII B permits any government entity to change the appropriations limit by vote of the electorate in conformity with statutory and Constitutional voting requirements, but any such voter-approved change may only be effective for a maximum of four years.

Table 23 is a comparison of the City's appropriations limit and appropriations subject to limitation.

Table 23
APPROPRIATIONS LIMITS AND APPROPRIATIONS SUBJECT TO LIMITATIONS

Fiscal Year	City Appropriations Limit	Appropriations Subject to Limitations	Amount Appropriations Are Under Limit
2003-04	$3,430,108,495	$2,496,962,184	$ 933,146,311
2004-05	3,587,207,464	2,683,430,589	903,776,875
2005-06	3,820,375,949	2,787,085,473	1,033,290,476
2006-07	3,989,932,486	3,054,031,206	935,901,280
2007-08	4,207,533,748	3,208,266,123	999,267,625

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

Articles XIII C and XIII D of California Constitution - Proposition 218

On November 5, 1996, the voters of the State approved Proposition 218, known as the "Right to Vote on Taxes Act." Proposition 218 added Articles XIII C and XIII D to the California Constitution, which contain a number of provisions affecting the ability of the City to levy and collect both existing and future taxes, assessments, fees and charges.

Article XIII C requires that all new local taxes or increases in existing local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the City require a majority vote and taxes for specific purposes, even if deposited in the City's General Fund, require a two-thirds vote. The voter-approval requirements of Proposition 218 reduce the flexibility of the Council to raise revenues for the General Fund, and no assurance can be given that the City will be able to impose, extend or increase such taxes in the future to meet any increased expenditure requirements.

Article XIII D contains provisions relating to how local agencies may levy and maintain "assessments" for municipal services and programs. "Assessment" is defined to mean any levy or charge upon real property for a special benefit conferred upon the real property. Article XIII D also contains several provisions affecting "property-related fees" and "charges," defined for purposes of Article XIII D to mean "any levy other than an ad valorem tax, a special tax, or an assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service." All new and existing property-related fees and charges must conform to requirements prohibiting, among other things, fees and charges which (i) generate revenues exceeding the funds required to provide the property-related service, (ii) are used for any purpose other than those for which the fees and charges are imposed, (iii) are for a service not actually used by, or immediately available to, the owner of the property in question, or (iv) are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. Further, before any property-related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. The City must then hold a hearing upon the proposed imposition or increase, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the City may not impose or increase the fee or charge. Fees for electrical and gas service are explicitly exempted from the definition of "property-related" under Article XIII D. Property-related fees or charges for services other than sewer, water and refuse collection services may not be imposed or increased without majority approval by the property owners subject to the fee or charge or, at the option of the local agency, two-thirds voter approval by the electorate residing in the affected area.

In addition to the provisions described above, Proposition 218 removes many of the limitations on the initiative power in matters of reducing or repealing any local tax, assessment, fee or charge. No assurance can be given that the voters of the City will not, in the future, approve an initiative or initiatives which reduce or repeal local taxes, assessments, fees or charges currently comprising a substantial part of the City's General Fund.

Proposition 218 continues to be interpreted by California Courts. The recent State Supreme Court decision concerning the *Bighorn-Desert View Water Agency* case found that metered charges for consumption of water by a public agency fell within the "property-related" fees subject to Proposition 218. Fees for sewer and refuse collection could also be found to be within the definition of property-related fees, and therefore rate increases would be subject to notice, hearing and majority protest, but not prior voter approval, and rates and charges could be reduced by referendum. If such charges are property-related charges, rate increases would be subject to notice, hearing and majority protest, but not prior voter approval, and rates and charges could be reduced by referendum. Similarly, a recent decision by the Second District Court of Appeal, *AB Cellular LA, LLC v. City of Los Angeles,* further clarified what constitutes a tax increase requiring voter approval under Proposition 218.

Proposition 1A

Proposition 1A, proposed by the Legislature in connection with the 2004-05 Budget Act and approved by the voters in November 2004, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the Legislature. Proposition 1A provides, however, that beginning in fiscal year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, the shift is approved by two-thirds of both houses and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition

1A also provides that if the State reduces the VLF rate currently in effect, 0.65% of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A required the State, since July 1, 2005, to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates.

Proposition 1A may result in more stable City revenues depending on future actions by the State. However, Proposition 1A could also result in decreased resources being available for State programs. This reduction, in turn, could affect actions taken by the State to resolve budget difficulties. Such actions could include increasing State taxes, decreasing spending on other State programs or other action, some of which could be adverse to the City.

Future Initiatives

Article XIII A, Article XIII B, Article XIII C and Article XIII D were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time, other initiative measures could be adopted, which may place further limitations on the ability of the State, the City or local districts to increase revenues or to increase appropriations which may affect the City's revenues or its ability to expend its revenues.

FINANCIAL OPERATIONS

Financial Statements

Tables 24 and 25 summarize financial information for the General Fund contained in the City's audited Basic Financial Statements prepared in accordance with generally accepted accounting principles ("GAAP") for the periods indicated.

Fiscal Year 2001-02 represented the first period for which the City presented its financial statements under the new reporting model required by the Governmental Accounting Standards Board ("GASB") Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as amended by GASB Statement No. 37.

The following tables summarize the General Fund condition as reported in the City's audited financial statements over the last five years.

Table 24
BALANCE SHEETS FOR THE GENERAL FUND
As of June 30, 2002 through 2006
(in thousands)

	2001-02	2002-03	2003-04	2004-05	2005-06
Assets					
Cash and Pooled Investments	$ 706,616	$ 801,219	$776,978	$1,112,939	$1,053,736
Taxes Receivable	232,032	242,284	253,548	225,457	262,464
Accounts Receivable	103,209	144,277	150,764	159,265	159,605
Special Assessments Receivable	7,817	8,821	7,319	5,312	4,439
Investment Income Receivable	12,650	9,855	12,172	10,248	12,021
Intergovernmental Receivable	75,971	65,169	23,311	17,023	15,626
Due from Other Funds	63,399	51,954	87,582	27,972	28,901
Inventories	24,791	30,345	16,615	16,321	16,985
Advances to Other Funds	10,807	10,450	19,795	27,344	24,464
Total Assets	1,237,292	1,364,374	1,348,084	1,601,881	1,578,241
Liabilities and Fund Equity					
Liabilities:					
Accounts, Contracts and Retainage Payable	48,663	44,964	39,551	50,794	62,934
Obligations Under Securities Lending Transactions	157,457	191,409	196,720	267,152	237,471
Accrued Wages and Overtime Payable	88,282	97,423	124,079	131,294	150,041
Accrued Compensated Absences Payable	3,060	1,550	2,100	2,096	1,505
Estimated Claims and Judgments Payable	27,386	19,224	14,495	13,090	13,688
Intergovernmental Payable	137	86	81	56	87
Due to Other Funds	32,980	17,796	24,739	20,746	19,452
Deposits and Advances	7,370	4,366	240,854	214,101	217,998
Deferred Revenue and Other Credits	209,810	243,800	3,724	20,426	19,952
Advances from Other Funds	57,093	51,998	59,780	60,099	56,159
Other Liabilities	7,664	9,887	12,356	12,436	13,564
Total Liabilities	638,902	682,503	718,479	792,290	792,851
Fund Balance:					
Reserved for Encumbrances	122,132	105,309	110,727	119,019	124,878
Reserved for Assets Not Available for Appropriation	35,598	40,795	36,410	43,665	41,449
Reserved for Special Purposes	28,451	25,941	16,283	68,001	47,860
Designated for Special Purposes	71,100	71,000	71,000	88,942	118,468
Unreserved and Undesignated	340,209	438,826	395,185	489,964	452,735
Total Fund Balances	597,390	681,871	629,605	809,591	785,390
Total Liabilities and Fund Equity	$1,237,292	$1,364,374	$1,348,084	$1,601,881	$1,578,241

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

Table 25
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE GENERAL FUND
For the Fiscal Years Ended June 30, 2002 through 2006
(in thousands)

	2001-02	2002-03	2003-04	2004-05	2005-06
Revenues:					
Property Taxes	$ 632,329	$ 666,977	$ 724,930	$1,041,143	$1,168,082
Sales Taxes	346,302	367,112	381,090	303,954	329,169
Utility Users' Taxes	478,343	521,148	572,018	578,542	606,617
Business Taxes	358,865	356,937	372,376	396,316	436,621
Other Taxes	284,989	311,004	382,615	415,852	476,529
Licenses and Permits	36,939	38,345	37,014	44,283	21,529
Intergovernmental	233,592	225,968	183,933	100,078	39,601
Charges for Services	345,451	360,372	363,138	400,044	324,689
Services to Enterprise Funds	190,024	206,412	230,712	227,314	229,695
Fines	95,794	116,115	106,240	120,297	117,103
Special Assessments	2,095	1,397	3,509	2,625	2,765
Investment Earnings	39,913	49,424	1,101	29,198	21,809
Other	28,520	33,664	28,593	29,761	35,077
Total Revenues	3,073,156	3,254,875	3,387,269	3,689,407	3,809,286
Expenditures:					
Current:					
General Government	659,912	931,710	948,037	976,635	1,063,766
Protection of Persons and Property	1,590,922	1,556,554	1,701,989	1,766,795	1,854,701
Public Works	175,582	170,546	177,208	163,582	190,745
Health and Sanitation	211,780	186,286	213,846	219,228	219,447
Transportation	102,162	103,113	111,919	114,167	115,820
Cultural and Recreational Services	32,358	30,502	38,290	44,298	66,632
Community Development	28,381	26,488	32,980	36,347	39,333
Capital Outlay	34,679	22,013	26,261	24,264	35,116
Debt Service: Cost of Issuance	173	223	196	226	197
Total Expenditures	2,835,949	3,027,435	3,250,726	3,345,542	3,585,757
Excess (Deficiency) of Revenues Over Expenditures	237,207	227,440	136,543	343,865	223,529
Other Financing Sources (Uses)					
Operating Transfers In	226,832	227,227	221,793	245,704	206,897
Operating Transfer Out	(402,853)	(375,740)	(396,872)	(409,289)	(455,291)
Total Other Financing Sources (Uses)	(176,021)	(148,513)	(175,079)	(163,585)	(248,394)
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	61,186	78,927	(38,536)	180,280	(24,865)
Fund Balances, July 1, Restated[(1)]	534,958	597,390	681,871	629,605	809,591
(Decrease) Increase in Reserve for Inventories	1,246	5,554	(13,730)	(294)	664
Fund Balances, June 30	$597,390	$681,871	$629,605	$809,591	$785,390

(1) Prior period adjustments occurred in 2001 and 2002 to reflect a $97 million retroactive adjustment for the implementation of GASB . Interpretation No. 6, which reduced the accruals for compensated absences, claims and judgments.

Source: City of Los Angeles, Comprehensive Annual.

Reserve Fund and Financial Management Policies

The Reserve Fund was created by the City Charter and contains those actual General Fund cash receipts that are not otherwise appropriated to the City's Adopted Budget. The City expects that funds will be transferred from the Reserve Fund as part of the Adopted Budget or throughout the fiscal year for appropriation, or may be transferred as a loan to other funds to maintain those funds on a parity with their obligations. All unencumbered cash amounts in the General Fund revert to the Reserve Fund at the end of the fiscal year; some of those funds will be reappropriated at the beginning of the following fiscal year (primarily for General Fund capital projects).

In April 2005, the City adopted new comprehensive Financial Policies for the City of Los Angeles, which consolidated, revised and expanded various pre-existing policies. These included a revised Reserve Fund policy that requires the City to maintain a budget-basis Reserve Fund increasing each year until the goal of 5% of General Fund revenues is reached. The Reserve Fund is comprised of two accounts - a Contingency Reserve Account and an Emergency Reserve Account. The Emergency Reserve Account, representing 2% of General Fund revenues (amended to 2.75% by Council for 2007-08), may not be utilized for funding unless the Mayor and Council find that there is an "urgent economic necessity" and determine that no other viable sources of funds are available. The Reserve Fund is reported as part of the General Fund in the City's Financial Statements, with the amount of the Emergency Reserve designated for special purposes as part of the City's GAAP-based fund balance. The Contingency Reserve Account is available to address unexpected expenditures relating to existing programs or revenue shortfalls upon authorization by the Mayor and City Council. The City's Reserve Fund policy addresses budget-based reserves, and does not set specific goals for GAAP-based year-end fund balances.

The beginning cash balance for the 2007-08 Reserve Fund is budgeted at $283.7 million or 6.4% of budgeted General Fund revenue. After an $84.8 million transfer to the budget and other technical adjustments, the July 1 balance will be $201.8 million or 4.55% of the budgeted General Fund revenue. Of this amount, $122.0 million was allocated to the Emergency Reserve Account and $79.8 million to the Contingency Reserve Account.

The new Financial Policies include several significant fiscal policies. One of these policies requires that one-time revenues only be used for one-time expenditures. A second requires that any new programs, unbudgeted expenditures, or new positions must identify a revenue source at the time of their approval. The Financial Policies also call for the City to annually budget 1% of General Fund revenue to fund capital or infrastructure improvements. For the Fiscal Year 2007-08 Adopted Budget, the City allocated $13.4 million for capital improvements, $30.9 million lower than the 1% requirement of $44.3 million. These Financial Policies are available on the City's website, http://www.lacity.org/cao/Debt_Mgmt/index.htm, are subject to change and are not incorporated as part of this Official Statement.

Budgetary Reserves

In addition to the Reserve Fund established under the City's Charter, the City maintains several other budgetary reserves within the General Fund, which are summarized in Table 26 and further described below.

Table 26
BUDGETED RESERVES
(in millions)

Budget for Fiscal Year Ending June 30	Actual Reserve Fund[1]	Budgeted Unappropriated Balance[1]	Reserve for Economic Uncertainties[2]	Reserve for Extraordinary Liability Claims[3]	Total Budgeted Reserves	Budgeted Reserves as a % of Total General Fund Budgeted Revenues[4]
2003-04	$ 83.9	$86.6	$12.3	$28.9	$211.7	6.1%
2004-05	153.4	23.7	14.2	16.8	208.1	4.3
2005-06	156.5	45.9	11.5	0.7	214.6	4.5
2006-07	179.1	46.6	NA	0.0	225.7	5.2
2007-08	201.8	93.2	NA	0.0	295.0	6.6

(1) Represents July 1 actual balances after transfer to the budget.
(2) Funds received following budget adoption that were set aside in the Reserve for Economic Uncertainties account of the Unappropriated Balance.
(3) Allocated for Rampart Division litigation. See **"LITIGATION"** herein. These funds are "reserved for special purposes" in General Fund balance in the City's GAAP-based financial statements. This reserve has been closed due to the substantial settlement of the litigation.
(4) Includes Operating Transfers In.

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

The City annually allocates funds to the Unappropriated Balance to be available for appropriations later in the fiscal year to fund specified new programs and to meet contingencies as they may arise. A preliminary allocation of these funds is included in the City's budget. The 2007-08 allocation of $93.2 million includes $29.6 million for implementation for costs associated with the memorandum of understanding for the Engineers and Architects bargaining union, $16 million for new police facilities, $4 million for increased cost of petroleum products, and $3.5 million for outside legal counsel expenses.

GAAP-Based Fund Balance

Table 27 presents the City's year-end unreserved fund balance, as reported in the City's annual Basic Financial Statements, which are prepared in accordance with GAAP. Designations of the General Fund balance are made on a budgetary basis, and represent the amount allocated to the Emergency Reserve Account in the Reserve Fund as well as certain advances and technical adjustments.

Table 27
ANALYSIS OF UNRESERVED GENERAL FUND BALANCES
GAAP BASIS
(in millions)

	Unreserved General Fund Balance				
Fiscal Year	Designated[(1)(2)]	Undesignated[(1)]	Total	General Fund Revenues[(3)]	Unreserved Fund Balance as Percent of Revenues
2001-02	$71.0	$340.2	$411.2	$3,300.0	12.5%
2002-03	71.0	438.8	509.8	3,482.1	14.6
2003-04	71.0	395.2	466.2	3,609.1	12.9
2004-05	88.9	490.0	578.9	3,935.1	14.5
2005-06[(4)]	118.5	452.7	571.2	4,016.2	14.2

(1) Includes the City's contingency and emergency reserves in accordance with the City's Reserve Fund Policy.
(2) Includes the amount allocated to the Emergency Reserve Account in the Reserve Fund as well as certain advances and technical adjustments.
(3) Includes Operating Transfers In.
(4) Unaudited

Source: City of Los Angeles Comprehensive Annual Financial Reports.

Risk Retention Program

Because of its size and its financial capacity, the City has long followed the practice of directly assuming virtually all insurable risks without procuring commercial insurance policies. The extent and variety of City exposure is such that the cost of the premiums would outweigh 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.

Funds are budgeted annually to provide for claims and other liabilities based both on the City's historical record of payments and an evaluation of known or anticipated claims.

The City's claims payment experience is listed in Table 28.

Table 28
LIABILITY CLAIMS PAID [1]
(in millions)

Fiscal Year	Budget	Claims Paid
2003-04	50.0	46.2
2004-05	45.4	29.8
2005-06	41.0	36.4
2006-07 (Estimate)	42.0	37.1
2007-08 (Adopted Budget)	35.0	NA

(1) Does not include Workers' Compensation claims paid by the City; see Table 29.

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

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 benefit its employees. The Fund is administered by the Personnel Department. Since 2001-02, all civilian health, dental, union supplemental benefit and life insurance subsidies have been consolidated into the "Civilian Flex Program" line item. Total benefits expenditures are shown in Table 29.

Table 29
HUMAN RESOURCES BENEFITS[1]

	2003-04	2004-05	2005-06	2006-07 (Estimated)	2007-08 (Adopted Budget)
Workers' Compensation/Rehabilitation	$142,082,118	$120,556,904	$120,629,988	$126,400,000	$127,302,000
Civilian FLEX Program	137,436,974	149,422,770	16,367,441	183,257,000	205,719,000
Supplemental Civilian Union Benefits	3,620,010	4,528,089	4,203,236	4,700,000	4,700,000
Police Health and Welfare Program	64,474,583	69,986,402	77,418,141	81,819,000	93,673,000
Fire Health and Welfare Program	25,864,154	28,356,303	31,201,391	34,105,000	34,419,000
Unemployment Insurance	3,883,900	2,932,019	3,229,909	3,070,000	3,500,000
Employee Assistance Program	1,188,510	1,138,011	971,678	1,209,000	1,084,000
Total	$378,550,249	$376,920,499	$401,328,753	$434,560,000	$470,397,000

(1) Cash basis.

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

Labor Relations

The City adopted an employee relations ordinance under the provisions of the Meyers-Milias-Brown Act. The City Administrative Officer represents the Mayor and Council in negotiations with bargaining units. She gets direction from the Executive Employee Relations Committee, consisting of the Mayor, the President of the Council, the President Pro-Tempore of the Council and the chairpersons of the Council's Budget and Finance and Personnel Committees. Formal memoranda of understanding are executed between the City and the bargaining units incorporating the negotiated wages, hours and working conditions. Typically, cost of living increases follow a pattern set by the larger bargaining units. The term of the various memoranda of understanding are staggered so that sworn and civilian bargaining units are on different bargaining cycles. Approximately 45,556 City employees are associated with some 54 employee units represented by 25 unions and employee associations; the other 1,246 employees are not represented.

The following summarizes the membership and status of the largest unions and employee associations. If an agreement expires without a replacement, the terms of the expired agreement remain operative.

Table 30
STATUS OF LABOR CONTRACTS
LARGEST EMPLOYEE ORGANIZATIONS[1]

Organization	Approximate Number of Full-Time Employees Represented	Number of Bargaining Units	Status of Memorandum of Understanding	Cost of Living Adjustment
Los Angeles Police Protective League	9,376	1	Three-year contracts through June 30, 2009.	3.0% on 7/1/2006 3.5% on 7/1/2007 3.75% on 7/1/2008
United Firefighters of Los Angeles City, Local 112, AFL-CIO	3,575	1	Three-year contracts through June 30, 2009.	3.0% on 7/1/2006 3.5% on 7/1/2007 3.75% on 7/1/2008
Los Angeles City Employees Union, Local 347, SEIU, AFL-CIO	9,029	6	Three-year contracts through June 30, 2007.	N/A
Engineers and Architects Association	7,234	7	Contracts through June 30, 2010 .	3.0% on 7/1/2007 3.0% on 7/1/2008 3.0% on 7/1/2009
American Federation of State, County, and Municipal Employees, AFL-CIO	5,904	7	Three-year contracts through June 30, 2007.	N/A

(1) Excludes DWP.

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

Table 31 shows total authorized City staffing for all departments except the City's three proprietary departments: Airports, Harbor, and DWP. The Police Department represents the single largest department in terms of authorized positions.

Table 31
AUTHORIZED CITY STAFFING[(1)]

	2003-04	2004-05	2005-06	2006-07	2007-08
Police	13,807	13,805	13,832	13,994	14,245
All Others	22,167	21,827	22,324	22,740	22,903
Total	35,974	35,632	36,156	36,734	37,148

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

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

Retirement and Pension Systems

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

Both LACERS and FPPP (collectively the "Pensions Systems") provide retirement, disability, death benefits, post-employment healthcare and annual cost-of-living adjustments to plan members and beneficiaries. As required by the City Charter, the actuarial valuations for both Pension Systems are prepared on an annual basis and the applicable actuary recommends contribution rates for the fiscal year beginning after the completion of that actuarial valuation. When approved by the respective boards of administration of the Pension Systems, these become the City's legally required contribution rates for such years.

The valuation determines the amount needed to fund the normal retirement costs accrued for current employment and to amortize any unfunded accrued actuarial liability ("UAAL"). The valuation for each plan is an estimate based on relevant economic and demographic assumptions. This process ensures the contributions necessary to sufficiently fund, as of the date of calculation, the accrued costs attributable to currently active, vested terminated and retired employees and their beneficiaries. Examples of the actuarial assumptions that are used in this process are the assumed rate of earnings on the assets of the plan into the future, the assumed future pay increases for current employees, 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 amount paid out by a plan will be more or less than the amounts contemplated based on the assumptions. The contribution rate in the next year's valuation is adjusted to take into account actual performance. In addition, each plan performs an experience study every three years and further adjusts its assumptions accordingly.

When measuring assets for determining the UAAL, many pension plans, including the Pension Systems, "smooth" market value gains and losses to reduce volatility. With respect to either of the Pension Systems, if in the period for which an actuarial valuation is prepared the actual investment return on that Pension Systems' assets is lower or higher than the actuarial assumed rate of return then, under current practices, 20% of the shortfall or excess is recognized in that actuarial valuation and each of the next four valuations, resulting in the smoothing or spreading of that shortfall or excess over a five-year period. The impact of this results in "smoothed" assets which are lower or higher than the market value of assets depending upon whether the remaining amount to be smoothed is either a net gain or a net loss.

Actual investment returns for the past five fiscal years for both of the Pension Systems are shown in Table 32.

Table 32
LOS ANGELES PENSION SYSTEMS
HISTORICAL INVESTMENT RETURNS

	2001-02	2002-03	2003-04	2004-05	2005-06
LACERS	(5.25)%	3.61%	18.84%	9.71%	12.34%
FPPP	(7.97)%	5.47%	16.92%	9.83%	12.40%

Source: City of Los Angeles, LACERS and FPPS actuarial valuations.

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, 2006, LACERS had 28,839 active members, 14,570 retired members and beneficiaries, and vested terminated members of 2,903. LACERS is funded pursuant to the Projected Unit Credit Cost Method. Among the actuarial assumptions currently used in valuing the plan are an investment rate of return of 8%, and that this same rate is used to discount future values. Actuarial losses are funded and actuarial gains credited over fixed 15 year periods. Any liability or surplus due to benefit or assumption changes is funded or credited over 30 years. The Board adopted a policy of re-amortizing the system's liabilities over 30 years beginning July 1, 2005.

Table 33 shows the present value of retirement 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. The actuarial value of assets is the market value of assets with actuarial gains and losses smoothed over five years. As of June 30, 2006, the market value of assets exceeded the actuarial value by $599 million.

Table 33
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS FOR RETIREMENT BENEFITS
(Dollars in Thousands)[1]

Actuarial Valuation As of June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded Or (Overfunded) AAL[3]	Funded Ratio[3]	Covered Payroll[4]	Underfunded or (Overfunded) AAL as a Percentage Of Covered Payroll[5]
2002[6]	$7,060,188	$7,252,118	$ 191,930	97.4%	$1,334,335	14.4%
2003[6]	6,999,647	7,659,846	660,199	91.4	1,405,058	47.0
2004[6]	7,042,108	8,533,864	1,491,756	82.5	1,575,285	94.7
2005[6]	7,193,142	9,321,525	2,128,383	77.2	1,589,306	133.9
2006[6]	7,674,999	9,870,662	2,195,663	77.8	1,733,340	126.7

(1) Table includes funding for retirement benefits only. Other Post-Employment Benefits (OPEB) not included.
(2) Commonly referred to as UAAL. Actuarial Accrued Liability minus Actuarial Value of Assets. 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) Drop in funded ratio is primarily attributable to investment losses and changes in actuarial assumption and not increased benefits.

Source: The City of Los Angeles City Employees' Retirement System Actuarial Valuation as of June 30, 2006.

Table 34 summarizes the City's payments to LACERS over the past five years. This table includes costs for retirement, other post employment benefits, and other miscellaneous benefits.

Table 34
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
SOURCES AND USES OF CONTRIBUTIONS
(Dollars in Thousands)[1]

	2002-03	2003-04	2004-05	2005-06	2006-07
Sources of Contributions					
General Fund	$69,243	$104,639	$183,786	$260,554	$342,993
Special Funds	9,568	16,443	27,996	43,706	50,317
Total	$78,811	$121,082	$211,782	$304,260	$393,310
Percent of payroll	5.9%	8.3%	14.3%	19.0%	23.9%
Uses of Contributions					
Current Service Liability (Normal cost)	$141,643	$177,180	$161,077	$162,526	$220,242
UAAL/(Surplus)	(63,430)	(56,627)	50,244	141,332	172,506
Adjustments[2]	598	529	461	402	562
Total	$78,811	$121,082	$211,782	$304,260	$393,310

(1) Includes funding for other post-employment benefits.
(2) Includes the excess benefit plan, the family death benefit plan, and the limited term plan fund.

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

Table 35 below projects the City's contributions to LACERS for the next five fiscal years based on information provided by the system's current actuary. These contributions include the projected cost of other post employment benefits.

Table 35
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
ADOPTED AND PROJECTED CONTRIBUTIONS[1]
(Dollars in Thousands)

	(Adopted) 2007-08	2008-09	2009-10	2010-11	2011-12
LACERS					
General Fund	$338,914	$344,822	$335,345	$338,741	$344,616
Special Funds	58,541	58,801	56,534	55,173	54,239
Total	$397,455	$403,623	$391,879	$393,914	$$398,855
Incremental Change	$4,145	$6,168	($11,744)	$2,035	$4,941

(1) Projections based on the following assumptions: investments earn a return of 8% for each future year; prior investment gains as of 6/30/2006 that are scheduled to be recognized using the Board's 5 year asset smoothing method; and the "contribution losses" due to the one year time lag for implementing the new rates.

Source: City of Los Angeles, Office of the City Administrative Officer as of June 1, 2007.

The City of Los Angeles Fire and Police Pension Plan, established in 1923 under the Charter, represents contributory plans covering uniformed fire and police personnel. Five tiers of benefits are provided, depending on the date of the member's hiring. As of June 30, 2006, the FPPP had 12,903 active members, 11,815 retired members and beneficiaries, and 59 vested former members. The FPPP is funded pursuant to the Entry Age Normal Funding Method.

Among the actuarial assumptions used in valuing the plan are an investment rate of return of 8.0% -- lowered for the June 30, 2006 valuation from the prior assumption of 8.5%, which is the same rate used to discount future values. The inflation rate assumption was also lowered, from 5.0% to 3.75%. For Tiers 1 and 2, any UAAL is amortized over a fixed term ending on July 1, 2037. For Tiers 3, 4 and 5, actuarial losses are funded and actuarial gains are credited over a fixed 15-year term; any liability changes due to benefit or assumption changes are funded over 30 years.

The FPPP also administers a Deferred Retirement Option Program ("DROP"), which became effective May 2002. DROP is a voluntary program whereby a member with a minimum of 25 years of service may file for a service pension but continue to work and earn salary and benefits as an active member. The monthly service pension benefit is deposited into a DROP account that earns a 5% per annum return, payable upon exiting the DROP program. Participation in the DROP program is limited to a maximum of five years. It began as a five-year program designed to be cost-neutral, with provisions for review and adjustment of the design to retain its cost neutrality. A study of the program concluded than no adjustment was required. In addition, a five-year extension of the DROP program for rank and file police officers and firefighters has been approved. The extended program also includes provision for review and adjustment of the program design to retain cost neutrality.

Table 36 shows the present value of retirement benefits, the actuarial value of assets available for retirement benefits, and two indicators of funding progress for FPPP, the funded ratio and the ratio of UAAL to annual payroll. Investment gains and losses are recognized on an actuarial basis over a five-year period. As of June 30, 2006, the market value of assets exceeded the actuarial value by $767 million.

Table 36
LOS ANGELES FIRE AND POLICE PENSION PLAN
SCHEDULE OF FUNDING PROGRESS FOR RETIREMENT BENEFITS
(Dollars in Thousands) (1)

Actuarial Valuation As of June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded Or (Overfunded) AAL(2)	Funded Ratio(5)	Covered Payroll(4)	Underfunded or (Overfunded) AAL as a Percentage Of Covered Payroll(5)
2002(6)	$11,491,922	$10,606,825	$(885,097)	108.3%	$ 946,037	(93.6)%
2003(6)	11,690,750	11,203,558	(487,192)	104.3	970,727	(50.2)
2004(6)	11,735,696	11,389,981	(345,715)	103.0	1,001,004	(34.5)
2005(6)	11,634,114	12,357,524	723,411	94.1	1,037,445	69.7
2006(6)	12,121,403	12,811,834	689,981	94.6	1,092,815	63.1%

(1) Table includes funding for retirement benefits only. Does not include DROP program. Other Post-Employment Benefits (OPEB) not included.
(2) Commonly referred to as UAAL. Actuarial Accrued Liability minus Actuarial Value of Assets. Positive numbers represent an actuarial surplus.
(3) Actuarial value of assets divided by actuarial accrued liability.
(4) Annual payroll against which UAAL amortized.
(5) UAAL divided by covered payroll
(6) Drop in funded ratio is primarily attributable to investment losses and changes in actuarial assumptions and not increased benefits.

Source: The Fire and Police Pension System Actuarial Valuation as of June 30, 2006.

Table 37 summarizes the City's payments to FPPP over the past five fiscal years.

Table 37
LOS ANGELES FIRE AND POLICE PENSION PLAN
SOURCES AND USES OF CONTRIBUTIONS
(Dollars in Thousands)

	2002-03	2003-04	2004-05	2005-06	2006-07
General Fund	$86,975	$128,489	$159,556	$167,001	$279,721
Tier 5 (1% pick up)[1]	8,500	7,900	8,200	9,000	0
Total	$95,475	$136,389	$167,756	176,001	$279,721
Percent of payroll	9.6%	13.3%	15.9%	15.1%	24.8%
Current Service Liability	$165,695	$168,385	$183,071	180,018	$211,402
UAAL/(Surplus)	(79,220)	(40,396)	(24,183)	(13,561)	67,707
Adjustments[2]	500	500	668	544	612
Tier 5 Current Service Liability[1]	8,500	7,900	8,200	9,000	0
Total	$ 95,475	$136,389	$167,756	$176,001	$279,721

[1] Pursuant to the Charter, the City pays 1% of the required employee contribution whenever the retirement benefits are at least 100% funded.
[2] Includes the settlement with the United Firefighters of Los Angeles City (UFLAC) and the excess benefit plan.

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

Table 38 below projects the City's contributions to FPPP, including the projected cost of other post employment benefits, for the next five fiscal years, based on information provided by the system's actuary.

Table 38
LOS ANGELES FIRE AND POLICE PENSION PLAN
PROJECTED CONTRIBUTIONS
(Dollars in Thousands)

	Adopted 2007-08	2008-09	2009-10	2010-11	2011-12
General Fund	$327,740	$333,882	$334,862	$347,493	$351,793
Incremental Change	$ 48,019	$ 6,142	$ (980)	$ 12,632	$ 4,299

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

Investors are cautioned that, in considering information on the Pension Systems, including the amount of the UAAL, the funded ratio, the calculations of normal cost, and the resulting amounts of required contributions by the City, this is "forward looking" information. Such "forward looking" information reflects the judgment of the boards of the respective Pension Systems and their respective actuaries as to the amount of assets which the Pension Systems will be required to accumulate to fund future benefits over the lives of the currently active employees, vested terminated employees and existing retired employees and beneficiaries.

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

For additional information, see Note 5 in the "Notes to the City's Basic Financial Statements Fiscal Year Ended June 30, 2006." Various reports for LACERS and FPPP are posted from time to time on the City's website, at http://www.lacers.org/AboutLACERS/_FormsPublications/Reports/index.htm and http://www.lafpp.com/LAFPP/index.html, respectively. Such reports are not incorporated as part of this Official Statement.

Other Post-Employment Benefits

Retired members and surviving spouses and domestic partners of LACERS and FPPP members are eligible for certain subsidies toward their costs of medical and dental insurance. Both of the Pension Systems have been advance funding retiree health insurance benefits for current retirees and active eligible members for many years, funding the annual contribution recommended by its actuaries. There are no member contributions for health subsidy benefits; all such costs are funded out of the employer's contribution and investment returns thereon.

As of June 30, 2006, the unfunded healthcare benefits liabilities of LACERS and the FPPP, based on the actuarial cost method and assumptions used for the related pension plans, are as follows:

Table 39
OTHER POST-EMPLOYMENT BENEFITS
LOS ANGELES CITY EMPLOYEES RETIREMENT SYSTEM [(1)]
(Dollars in thousands)

As of June 30	2002	2003	2004	2005	2006
Valuation Assets	$853,916	$ 848,983	$ 858,997	$ 893,378	$ 990,270
Actuarial Accrued Liability	931,964	1,205,811	1,419,813	1,718,899	1,730,799
Unfunded (Overfunded) Actuarial Accrued Liability	78,048	356,828	560,816	825,521	740,529
Funded Ratio	91.6%	70.4%	60.5%	52.0%	57.2%

(1) Only the results for 2005 and 2006 reflect the application of GASB 43.

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

Table 40
OTHER POST-EMPLOYMENT BENEFITS
FIRE AND POLICE PENSION PLAN (1)
(Dollars in thousands)

As of June 30	2002	2003	2004	2005	2006
Valuation Assets	$586,954	$592,539	$ 605,999	$ 597,199	$ 613,782
Actuarial Accrued Liability	884,371	926,761	1,009,062	1,257,505	1,631,187
Unfunded Actuarial Accrued Liability	297,417	334,222	403,064	660,306	1,017,405
Funded Ratio	66.4%	63.9%	60.1%	47.5%	37.6%

(1) Does not reflect the application of GASB 43.

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

The information in Table 39 through 2004 and in Table 40 through 2005 does not purport to reflect the application of GASB 43 and 45, which will require that LACERS, FPPP, and the City account for and report the annual cost and the outstanding obligations and commitments related to health insurance subsidies and other post-employment benefits in essentially the same manner as they currently do for pensions. LACERS and FPPP are required to comply with GASB 43 beginning in Fiscal Year 2006-07, with the City complying with GASB 45 the following year. The 2006 results for both systems already reflect the application of the new GASB standards.

City Treasury Investment Practices and Policies

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

The City's General Pool is further divided into a core pool and a reserve pool. The core or liquidity portion is targeted at the City's net liquidity requirements for six months. All investments in the core section of the portfolio have maturities of one year or less. The balance of the General Pool not required for the City's six-month liquidity requirement is invested in the reserve portfolio. This portfolio holds investments ranging from one day to five years.

Table 41
POOLED INVESTMENT FUND
GENERAL POOL
Investments as of March 31, 2007

	Short-Term Core Portfolio	Long-Term Reserve Portfolio	Consolidated
Average Weighted Maturity (Days)	13.0 days	2.5 years	2.1 years
Effective Yield	5.34%	4.35%	4.50%

Description	Par Value	Market Value	Percent of Total Funds	Average Days
Bank Deposits[1]	$ 30,104,777	$ 30,104,777	0.54%	1.0
Money Market Funds	0	0	0.00	0.0
LAIF (State of California)	2,630,055	2,630,055	0.05	1.0
Subtotal Cash and Overnight Investments	$ 32,734,833	$ 32,734,833	0.59%	1.0
BNY Sweep Account	$ 13,047	$ 13,047	0.00%	0.0
Bankers Acceptances	0	0	0.00	0.0
Commercial Paper	868,925,000	867,153,402	15.57	23.0
Negotiable Certificates of Deposit	0	0	0.00	0.0
Corporate Notes	0	0	0.00	0.0
U.S. Federal Agencies	0	0	0.00	0.0
U.S. Treasuries	0	0	0.00	0.0
Subtotal: Pooled Investments	$ 868,938,047	$ 867,166,450	15.57%	6.0
Total Short Term Core Portfolio	$ 901,672,880	$ 899,901,282	16.16%	13.0
BNY Sweep Account	$ 0	$ 0	0.00%	0.0
Bankers Acceptances	0	0	0.00	0.0
Commercial Paper	150,000,000	0	0.00	0.0
Negotiable Certificates of Deposit	0	0	0.00	0.0
Corporate Notes	1,140,736,000	1,131,290,672	20.31	622.0
U.S. Federal Agencies	2,630,075,000	2,627,446,039	47.17	1066.0
U.S. Treasuries	765,000,000	761,211,188	13.67	941.0
Total Long-Term Reserve Portfolio	$4,685,811,000	$4,669,835,239	83.84%	899.0
Total Cash and Pooled Investments	$5,587,483,880	$5,569,736,521	100.00%	761.0

[1]Collected balance for Bank of America Active Account.

Source: City of Los Angeles, Office of the Treasurer.

The City's treasury operations are managed in compliance with the California Government Code and according to the City's statement of investment policy, which sets forth permitted investment vehicles, liquidity parameters and maximum maturity of investments. The investment policy is reviewed and approved by the Council on an annual basis. The Association of Public Treasurers of the United States and Canada (formerly the Municipal Treasurers Association of the United States & Canada) has certified the City's Investment Policy.

The City's General Investment Pool has maintained a AAAf/S1 rating from Standard & Poor's Corporation since May 2002, and received a Aaa/MR1 rating from Moody's Investors Service in June 2006.

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

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

Capital Program

The City annually budgets capital improvements in a number of special purpose funds, as well as the General Fund. Table 42 represents the expenditures toward capital improvements by revenue type. This table excludes the expenditure of proceeds of general obligation bonds or revenue bonds paid out of the City's Special Parking Revenue Fund.

Table 42
CAPITAL IMPROVEMENT EXPENDITURE PROGRAM
(Dollars in thousands)

	2003-04[1]	2004-05[1]	2005-06	2006-07 (Estimated)	2007-08 (Adopted Budget)
General Fund	$ 16,926	$ 10,770	$ 14,456	$ 18,500	$ 1,065
Special Gas Tax Street Improvement Fund	3,186	3,817	3,831	34,618	6,028
Stormwater Pollution Abatement Fund	2,539	2,744	6,388	3,400	445
Special Parking Revenue Fund	5,584	14,543	2,720	4,727	21,080
Sewer Construction and Maintenance Fund	205,939	153,385	154,247	273,800	230,000
Park and Recreational Sites and Facilities Fund	--	--	448	3,920	2,400
Convention Center Revenue Fund	--	--	--	--	7,000
Street Lighting Maintenance Assessment Fund	5,398	8,138	10,769	11,200	4,405
Proposition C Anti-Gridlock Transit Improvement Fund	--	--	2,386	8,072	1,514
Local Sales Tax Transit Improvement Funds	1,364	--	--	--	--
Allocation from Other Government Agencies	4,044	916	--	--	--
Local Transportation Fund[2]	431	1,164	--	--	--
Other	2,146	--	2,820	4,000	4,670
Total	$247,557	$195,477	$198,063	$362,237	$278,606

(1) Cash basis.
(2) Funded by portion of State sales tax dedicated towards this purpose.

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

BONDED AND OTHER INDEBTEDNESS

Introduction

The City has issued or caused the issuance of a variety of bonded and other debt obligations as provided for under the State Constitution, judicial interpretation of the State Constitution, State statutes, and its own Charter powers. The following summarizes that indebtedness. The City has never failed to pay principal of or interest on any debt or lease obligation when due.

The City Administrative Officer serves as the City's debt manager. Staff of the Office of the City Administrative Officer structures debt issuances and oversees the ongoing management of all General Fund and certain special fund debt programs. These include general obligation bonds, lease obligations, tax and revenue anticipation notes, wastewater system, solid waste resources fee (formerly sanitation equipment charge) and parking system revenue obligations, judgment obligation bonds, special tax obligations, Mello-Roos bonds and certain special assessment obligations.

General Obligation Bonds

The City may issue general obligation bonds for the acquisition and improvement of real property, subject to two-thirds voter authorization of the bond proposition. A tax on all taxable real property to pay principal and interest on general obligation bonds is levied by the City and collected by the County on the secured and unsecured property tax bills within the City. (See **"MAJOR GENERAL FUND REVENUE SOURCES — Property Taxes,"** herein). The following summarizes the various voter authorizations for general obligation bonds. As of June 1, 2007, $1,411,898,000 in general obligation bonds were outstanding.

Table 43
GENERAL OBLIGATION BONDS
As of June 1, 2007

Date of Election	Projects	Amount Authorized	Amount Issued	Amount Authorized but Unissued
4/11/89	Branch Library Facilities (Proposition 1)	$ 53,400,000	$ 53,400,000	$ 0
4/11/89	Police Facilities (Proposition 2)	176,000,000	176,000,000	0
4/11/89	Fire Safety Facilities (Proposition 4)	60,000,000	60,000,000	0
6/5/90	Seismic Safety Projects (Proposition G)	376,000,000	376,000,000	0
11/3/98	Zoo Facilities (Proposition CC)	47,600,000	47,600,000	0
11/3/98	Library Facilities (Proposition DD)	178,300,000	178,300,000	0
11/7/00	Fire, Paramedic, Helicopter and Animal Shelter Projects (Proposition F)	532,648,000	532,648,000	0
3/5/02	Emergency Operations, Fire, Dispatch and Police Facilities (Proposition Q)	600,000,000	600,000,000	0
11/2/04	Storm Water Projects (Proposition O)	500,000,000	45,000,000	455,000,000
Total		$2,523,948,000	$2,068,948,000	$455,000,000

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

Citywide Limited Obligation Bonds

The City has received two-thirds voter authorization to levy special taxes on real property based on the size of improvements (rather than assessed valuation) to secure $235,000,000 in bonds for a Police Emergency Communications System (911). The last series of these bonds was issued February 14, 2002. As of June 1, 2007, $125,625,000 of these bonds remain outstanding.

In addition, the City received majority voter approval to create a Citywide Landscaping and Lighting Assessment District to finance various park and recreational improvements throughout the City (Proposition K, creating the City of Los Angeles Landscaping and Lighting District No. 1). While most of these projects are being funded on a pay-as-you-go basis, the City has issued $44,290,000 of bonds secured by these assessments, of which $31,025,000 were outstanding as of June 1, 2007.

Lease Obligations

The City may enter into long-term lease obligations without first obtaining voter approval, so long as these agreements meet certain requirements of State law. The City has entered into various lease arrangements under which the City must make annual payments to occupy public buildings or use equipment necessary for City operations. These lease agreements have been with a nonprofit corporation established by the City for this purpose, the Municipal Improvement Corporation of Los Angeles (MICLA), or with a joint powers authority, the Los Angeles Convention and Exhibition Center Authority. Securities have been issued, either in the form of lease revenue bonds or certificates of participation, the debt service on which is paid from these annual lease payments.

Table 44 summarizes the bonded and certificated lease obligations payable from the City's General Fund as of June 1, 2007, as well as lease revenue bonds payable from the Police Emergency Communications System special tax described above.

Table 44
BONDED AND CERTIFICATED LEASE OBLIGATIONS
As of June 1, 2007

Series	Project	Amount Issued	Amount Outstanding	Final Maturity
Los Angeles Convention and Exhibition Center Authority, Lease Revenue Bonds 1993	Refunding of Convention Center Certificates	$503,870,000	$ 51,180,000	8/15/11
MICLA Certificates of Participation, Program T (dated August 1, 1994)	Refunding of Piper Technical Center Bonds	45,340,000	5,005,000	8/1/07
MICLA Certificates of Participation, Program AC (dated October 1, 1997)	Equipment and Real Property	83,240,000	16,345,000	10/1/14
Los Angeles Convention and Exhibition Center Authority Taxable Lease Revenue Bonds, 1998 Series A (dated April 1, 1998)	Staples Arena	45,580,000	39,150,000	8/15/24
MICLA Certificates of Participation, Program AE (dated December 1, 1998)	Equipment and Real Property	74,555,000	16,320,000	12/1/14
MICLA Taxable Certificates of Participation, Program AK (dated April 1, 1999)	Real Property	43,210,000	39,265,000	4/1/29
MICLA Special Tax Lease Revenue Bonds, Series 1999 D (dated April 1, 1999)(1)	Police Emergency Command Control Communications Systems	70,285,000	36,020,000	9/1/11
MICLA Special Tax Lease Revenue Bonds, Refunding Series 1999-E (dated April 1, 1999)(1)	Police Emergency Command Control Communications Systems	65,040,000	34,805,000	9/1/13
MICLA Certificates of Participation, Program AL (dated November 1, 1999)	Equipment and Capital Improvements	72,600,000	21,875,000	11/1/15
MICLA Certificates of Participation, Program AM (dated October 1, 2000)	Equipment	56,085,000	19,185,000	8/1/10
MICLA Special Tax Lease Revenue Bonds, Series 2002-F (dated February 14, 2002)(1)	Police Emergency Command Control Communications Systems	52,325,000	38,480,000	9/1/13
MICLA Certificates of Participation, Program AN (dated February 20, 2002)	Equipment	53,880,000	20,190,000	2/1/12
MICLA Special Tax Lease Revenue Bonds, Refunding Series 2002-G (dated February 14, 2002)(1)	Police Emergency Command Control Communications Systems	16,320,000	16,320,000	9/1/13
MICLA Refunding Certificates of Participation, Program AT (dated April 1, 2002)	Refunding of Central Library Bonds	30,305,000	29,740,000	6/1/20
MICLA Certificates of Participation, Program AQ (dated April 2, 2002)	Real Property	28,130,000	26,510,000	4/1/32
MICLA Certificates of Participation, Program AR (dated April 2, 2002)	Real Property	62,105,000	54,500,000	4/1/27
MICLA Refunding Certificates of Participation, Program AS (dated April 2, 2002)(2)	Real Property, Pershing Square	7,655,000	6,385,000	10/1/22
MICLA Certificates of Participation, Program AU (dated October 31, 2002)	Equipment and Real Property Acquisition	70,700,000	41,530,000	10/1/27
MICLA Additional Certificates of Participation, Program T (dated October 31, 2002)	Real Property Improvement	42,410,000	38,155,000	2/1/27
MICLA Leasehold Refunding Revenue Bonds, Program AV (dated April 2, 2003)	Central Library Project	43,330,000	31,180,000	6/1/15

Table 44
BONDED AND CERTIFICATED LEASE OBLIGATIONS
As of June 1, 2007

Series	Project	Amount Issued	Amount Outstanding	Final Maturity
Los Angeles Convention and Exhibition Center Authority, Lease Revenue Bonds 2003A	Refunding of Convention Center Bonds	226,045,000	208,145,000	8/15/15
Los Angeles Convention and Exhibition Center Authority, Lease Revenue Bonds 2003B-F (Variable Rate)	Refunding of Convention Center Bonds	235,520,000	235,520,000	8/15/21
MICLA Certificates of Participation, Program AW (dated June 17, 2003)	Real Property	36,220,000	33,300,000	6/1/33
MICLA Certificates of Participation, Program AX (dated April 29, 2004)	Equipment Acquisition	64,170,000	44,325,000	4/1/14
MICLA Certificates of Participation, Program AR (dated April 29, 2004)	Real Property Improvement	16,875,000	14,970,000	4/1/24
MICLA Certificates of Participation, Refunding Program AY (dated May 17, 2005)	Refunding (Real Property)	46,395,000	31,535,000	12/1/14
MICLA Lease Revenue Bonds, Series 2006-A (dated Dec 14, 2006)	Police HQ Facility, Public Works Bldg.	$448,595,000	$448,595,000	1/1/37
		$2,540,785,000	$1,598,530,000	

(1) Bonds payable from voter authorized parcel tax with no contingent liability of the City's General Fund.
(2) Primary source of repayment is an assessment of properties in the vicinity of Pershing Square through the establishment of a Mello-Roos district, but the City remains contingently liable for making up any deficiency from its General Fund.

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

Commercial Paper Program

In June 2004 the City and MICLA established a commercial paper program under which MICLA is authorized to issue up to $200,000,000 in Lease Revenue Commercial Paper Notes (the "Commercial Paper Notes"). The commercial paper program is used to finance equipment and real property. The City expects to issue lease revenue bonds through MICLA from time to time to refund the Commercial Paper Notes. Principal of and interest on the Commercial Paper Notes are payable from the proceeds of Commercial Paper Notes issued to pay such principal and interest and are also payable from lease payments to be made by the City. The payment of principal of and interest on the Commercial Paper Notes is further supported by a direct pay letter of credit, currently scheduled to expire June 1, 2009. As of June 1, 2007, approximately $171 million in Commercial Paper Notes was outstanding.

Judgment Obligation Bonds

State law provides for the issuance of bonds to finance an obligation imposed by law. Pursuant to a procedural ordinance, the City has issued several obligations to finance judgment obligations. The Judgment Obligation Bonds are secured by the General Fund of the City. Table 45 summarizes the City's Judgment Obligation Bond issuance.

Table 45
JUDGMENT OBLIGATION BONDS
As of July 1, 2006

Dated Date	Amount Issued	Amount Outstanding	Final Maturity	Judgment Financed with Proceeds
6/1/98	$25,000,000	$2,245,000	4/1/08	Refund to certain taxpayers of business license taxes which the court in *General Motors v. City of Los Angeles* held to be discriminatory against interstate and intercity commerce because out-of-City manufacturers wholesaling in the City had to pay a business tax that in-City manufacturers wholesaling in the City did not.
4/01/00	25,000,000	7,500,000	4/1/10	To repay judgments related to police officers making claims under the Fair Labor Standards Act.
8/1/00	13,995,000	5,595,000	8/1/10	To repay judgments related to police officers making claims under the Fair Labor Standards Act.
Total	$63,995,000	$15,340,000		

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

Revenue Bonds

The City Charter and State law provide for the issuance of revenue bonds, and the execution of installment purchase contracts that support revenue certificates of participation, which are secured by and payable from the revenues generated by various enterprise and special fund operations. These revenue bonds do not represent obligations of the General Fund of the City, nor are they secured by taxes. Revenue bonds and certificates of participation have been issued that are secured by wastewater, refuse collection and parking revenues. In addition, three departments that are under the control of Boards appointed by the Mayor and confirmed by the Council, namely the Departments of Water and Power, Harbor and Airports, have also issued revenue bonds.

Conduit Debt Obligations

The City has issued bonds or entered into installment purchase contracts secured by and payable from loans and installment sale contracts, to provide conduit financing for single and multi-family housing, industrial development and 501(c)(3) nonprofit corporations. These bonds and certificates of participation are not secured by any other City General Fund or revenues.

Cash-flow Borrowings

The City annually issues tax and revenue anticipation notes ("TRANs") to alleviate short-term cash flow needs that occur early in the fiscal year when taxes and revenues have not yet been received. The following table summarizes the City's TRANs issuance over the past five years.

Table 46
TAX AND REVENUE ANTICIPATION NOTES

Fiscal Year Ending	Principal Amount
2003-04	$443,600,000
2004-05	650,500,000
2005-06	618,900,000
2006-07	767,500,000
2007-08	909,725,000

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

Summary of Long-Term Borrowings

Table 47 presents a pro-forma statement of net direct debt of the City outstanding as of June 1, 2007, unless otherwise noted. Tables 48 and 49 summarize the debt service to maturity of certain of these obligations.

Table 47
NET DIRECT DEBT
As of June 1, 2007[(1)]

	Outstanding at 06/01/07
General Obligation Bonds	$ 1,411,898,000
City-Wide Special Tax and Assessment Bonds	
Police Emergency Command Control Communications System	125,625,000
Landscaping and Lighting District 96-1	31,025,000
Subtotal	156,650,000
Lease Obligations [(2)(3)]	
Equipment	190,700,000
Real Property	1,282,205,000
Subtotal	1,472,905,000
Judgment Obligation Bonds	15,340,000
Revenue Bonds	
Department of Water and Power—Water[(3)]	1,879,718,335
Department of Water and Power—Power[(3)]	4,341,110,522
Department of Airports[(3)]	303,675,000
Harbor Department [(4)]	770,720,000
Wastewater System[(3)]	2,249,175,000
Solid Waste Resources Fee (formerly Sanitation Equipment Charge)	281,780,000
Parking System	104,515,000
Subtotal	9,930,693,857
GROSS DIRECT DEBT	12,987,486,857
Less:	
Revenue Bonds	(9,930,693,857)
DIRECT NET DEBT	3,056,793,000
Plus:	
Tax Allocation Debt [(5)]	607,055,000
Other Overlapping Debt[(6)]	7,981,410,264
OVERALL NET DEBT	$11,645,258,264

(1) As adjusted by notes (2) through (6) below.
(2) Includes only bonded and certificated lease obligations. Excludes lease revenue bonds included under Parcel Tax Bonds.
(3) Does not include Commercial Paper
(4) Does not include California Boating and Waterways Notes outstanding
(5) Tax Allocation Bonds of the Community Redevelopment Agency of the City of Los Angeles as of June 30, 2006.
(6) Overlapping debt information from California Municipal Statistics, Inc. as of June 1, 2007.

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

Table 48
DEBT SERVICE TO MATURITY ON DEBT PAYABLE FROM TAXES
As of June 1, 2007(1)

	General Obligation Bonds			City-Wide Special Tax and Assessment Bonds			
Fiscal Year	Principal	Interest	Total	Principal	Interest	Total	Grand Total
2008	$ 108,863,000	$ 62,761,630	$ 171,624,630	$ 17,550,000	$ 6,563,664	$ 24,113,664	$ 195,738,294
2009	105,950,000	58,329,910	164,279,910	18,275,000	5,822,486	24,097,486	188,377,396
2010	100,085,000	53,907,456	153,992,456	18,995,000	5,057,474	24,052,474	178,044,930
2011	99,745,000	49,659,555	149,404,555	19,725,000	4,245,518	23,970,518	173,375,073
2012	97,510,000	45,374,887	142,884,887	20,555,000	3,385,536	23,940,536	166,825,423
2013	95,185,000	41,029,695	136,214,695	21,220,000	2,462,019	23,682,019	159,896,714
2014	93,225,000	36,741,720	129,966,720	22,150,000	1,466,094	23,616,094	153,582,814
2015	86,220,000	32,518,029	118,738,029	2,155,000	902,045	3,057,045	121,795,074
2016	80,970,000	28,572,538	109,542,538	2,255,000	801,689	3,056,689	112,599,226
2017	70,240,000	25,072,475	95,312,475	2,360,000	694,524	3,054,524	98,366,999
2018	70,225,000	21,708,513	91,933,513	2,480,000	579,979	3,059,979	94,993,491
2019	70,205,000	18,296,263	88,501,263	2,605,000	453,849	3,058,849	91,560,111
2020	70,175,000	14,851,369	85,026,369	2,740,000	320,833	3,060,833	88,087,201
2021	67,130,000	11,447,263	78,577,263	2,140,000	179,250	2,319,250	80,896,513
2022	62,720,000	8,227,338	70,947,338	1,445,000	72,250	1,517,250	72,464,588
2023	52,660,000	5,356,000	58,016,000	0	0	0	58,016,000
2024	39,550,000	3,050,750	42,600,750	0	0	0	42,600,750
2025	27,880,000	1,365,000	29,245,000	0	0	0	29,245,000
2026	9,850,000	421,750	10,271,750	0	0	0	10,271,750
2027	3,510,000	87,750	3,597,750	0	0	0	3,597,750
Total	$1,411,898,000	$518,779,888	$1,930,677,888	$156,650,000	$33,007,208	$189,657,208	$2,120,335,096

(1) Totals may not add due to rounding.

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

Table 49
DEBT SERVICE TO MATURITY ON BONDED AND CERTIFICATED LEASE OBLIGATIONS AND JUDGMENT OBLIGATION BONDS
As of June 1, 2007[(1)]

Fiscal Year	Equipment			Real Property			Judgment Obligation Bonds			Grand Total
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	
2008	51,805,000	$ 8,126,048	$ 59,931,048	$ 38,620,000	$ 72,622,894	$ 111,242,894	$ 6,145,000	$ 676,699	$ 6,821,699	$ 177,995,640
2009	43,220,000	5,844,062	49,064,062	37,070,000	54,707,497	91,777,497	3,900,000	399,080	4,299,080	145,140,639
2010	44,470,000	3,828,348	48,298,348	41,165,000	53,073,279	94,238,279	3,900,000	216,480	4,116,480	146,653,107
2011	21,735,000	2,158,401	23,893,401	51,195,000	51,135,337	102,330,337	1,395,000	30,690	1,425,690	127,649,428
2012	11,935,000	1,303,518	13,238,518	53,830,000	48,400,796	102,230,796	0	0	0	115,469,314
2013	8,030,000	774,103	8,804,103	55,795,000	45,940,860	101,735,860	0	0	0	110,539,963
2014	5,735,000	413,796	6,148,796	57,875,000	43,716,246	101,591,246	0	0	0	107,740,043
2015	2,380,000	139,303	2,519,303	59,230,000	41,346,531	100,576,531	0	0	0	103,095,833
2016	1,390,000	38,920	1,428,920	61,620,000	38,840,118	100,460,118	0	0	0	101,889,038
2017	0	0	0	64,225,000	36,262,763	100,487,763	0	0	0	100,487,763
2018	0	0	0	66,715,000	33,653,817	100,368,817	0	0	0	100,368,817
2019	0	0	0	69,380,000	30,849,515	100,229,515	0	0	0	100,229,515
2020	0	0	0	72,255,000	27,919,221	100,174,221	0	0	0	100,174,221
2021	0	0	0	68,535,000	24,857,339	93,392,339	0	0	0	93,392,339
2022	0	0	0	71,300,000	22,016,167	93,316,167	0	0	0	93,316,167
2023	0	0	0	30,565,000	19,761,306	50,326,306	0	0	0	50,326,306
2024	0	0	0	31,620,000	18,130,374	49,750,374	0	0	0	49,750,374
2025	0	0	0	32,065,000	16,406,686	48,471,686	0	0	0	48,471,686
2026	0	0	0	29,910,000	14,786,470	44,696,470	0	0	0	44,696,470
2027	0	0	0	31,480,000	13,216,860	44,696,860	0	0	0	44,696,860
2028	0	0	0	25,685,000	11,566,418	37,251,418	0	0	0	37,251,418
2029	0	0	0	26,355,000	10,230,528	36,585,528	0	0	0	36,585,528
2030	0	0	0	24,070,000	8,905,023	32,975,023	0	0	0	32,975,023
2031	0	0	0	25,235,000	7,748,075	32,983,075	0	0	0	32,983,075
2032	0	0	0	26,440,000	6,535,085	32,975,085	0	0	0	32,975,085
2033	0	0	0	25,655,000	5,401,500	31,056,500	0	0	0	31,056,500
2034	0	0	0	24,515,000	4,319,638	28,834,638	0	0	0	28,834,638
2035	0	0	0	25,530,000	3,303,750	28,833,750	0	0	0	28,833,750
2036	0	0	0	26,585,000	2,246,350	28,831,350	0	0	0	28,831,350
2037	0	0	0	27,685,000	1,145,738	28,830,738	0	0	0	28,830,738
Total	$190,700,000	$22,626,498	$213,326,498	$1,282,205,000	$769,046,178	$2,051,251,178	$15,340,000	$1,322,949	$16,662,949	$2,281,240,625

(1) Totals may not add due to rounding.

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

Debt Management Policies

The City adopted a formal debt policy in August 1998, and has also adopted policies for Mello-Roos financing, variable rate debt and swaps. The formal debt policy and the variable rate debt and swap policies were consolidated into the City's Financial Policies in April, 2005 (see "**FINANCIAL OPERATIONS — Reserve Fund and Financial Management Policies**," herein). The City's Debt Management Policy establishes guidelines for the structure and management of the City's debt obligations. These guidelines include target and ceiling levels for certain debt ratios to be used for planning purposes. The two most significant ratios are shown below:

Table 50
DEBT MANAGEMENT POLICY RATIOS

Ratio	Ceiling	As of July 1, 2006
Total Direct Debt Service as Percent of General Fund Revenues	15.0%	9.59%
Non-Voted Direct Debt Service as Percent of General Fund Revenues	6.0% (1)	3.92%

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

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

Table 51 provides a comparison of City debt ratios for its net direct debt outstanding as of June 30 for the past five fiscal years.

Table 51
FINANCIAL RATIOS

Fiscal Year	Direct Net Debt	Net Debt Per Capita	Net Debt as Percent Of Assessed Valuation
2001-02	$2,279,430,000	$599	0.98%
2002-03	2,524,542,012	654	0.98
2003-04	2,626,040,942	671	0.93
2004-05	2,966,692,539	750	1.04
2005-06	2,756,510,000	693	0.84

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

Table 52 shows debt service paid out of the General Fund as a percent of General Fund revenues.

Table 52
GENERAL FUND DEBT SERVICE AS A PERCENTAGE OF GENERAL FUND[(1)]

Fiscal Year	Debt Service Payment[(2)] ($000)	General Fund Revenues ($000)	Debt Service as Percentage of General Fund Revenues
2001-02	$176,755	$3,208,719	5.51%
2002-03	178,311	3,209,024	5.56
2003-04	138,956	3,348,092	4.15
2004-05	175,187	3,548,235	4.94
2005-06	161,116	3,864,425	4.17

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

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

Table 53 provides a schedule of debt retirement for direct net debt.

Table 53
RETIREMENT OF DIRECT NET DEBT
As of June 1, 2007[1]

	General Obligation Bonds		Special Tax Bonds		Equipment Leases		Real Property Leases		Judgment Obligation Bonds		Total	
Maturing Within	Maturing Principal	Cumulative % of Debt Retired	Maturing Principal	Cumulative % of Debt Retired	Maturing Principal	Cumulative % of Debt Retired	Maturing Principal	Cumulative % of Debt Retired	Maturing Principal	Cumulative % of Debt Retired	Maturing Principal	Cumulative % of Debt Retired
>0 to 5 years	$512,153,000	36.3%	$95,100,000	60.7%	$173,165,000	90.8%	$221,880,000	17.3%	$15,340,000	100.0%	$1,017,638,000	33.3%
>5 to 10 years	425,840,000	66.4%	50,140,000	92.7%	17,535,000	100.0%	298,745,000	40.6%	0	100.0%	792,260,000	59.2%
>10 to 15 years	340,455,000	90.5%	11,410,000	100.0%	0	100.0%	348,185,000	67.8%	0	100.0%	700,050,000	82.1%
>15 to 20 years	133,450,000	100.0%	0	100.0%	0	100.0%	155,640,000	79.9%	0	100.0%	289,090,000	91.6%
>20 to 25 years	0	100.0%	0	100.0%	0	100.0%	127,785,000	89.9%	0	100.0%	127,785,000	95.7%
>25 to 30 years	0	100.0%	0	100.0%	0	100.0%	129,970,000	100.0%	0	100.0%	129,970,000	100.0%
>30 to 35 years	0	100.0%	0	100.0%	0	100.0%	0	100.0%	0	100.0%	0	100.0%
Total	$1,411,898,000		$156,650,000		$190,700,000		$1,282,205,000		$15,340,000		$3,056,793,000	

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

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

Variable Rate Obligations and Swap Agreements

The City issued approximately $235.5 million in variable rate obligations in connection with the refunding of certain lease obligations relating to the Los Angeles Convention Center. The City entered into swap agreements for a notional amount equal to all of these variable rate lease revenue bonds. Such agreements were intended to mitigate the City's variable interest rate risk. The swap agreements provide that the respective swap counterparty is obligated to pay the City a variable interest rate equal to a variable index identified in the swap agreements and the City is obligated to pay to the respective swap counterparty a fixed interest rate. In certain circumstances, the City could be required to make an unanticipated termination payment and such termination payment could be substantial.

On April 6, 2006, the City issued $316,785,000 of Wastewater System Subordinate Revenue Bonds to accomplish a variable rate refunding. As part of this transaction, the City entered into swap agreements for a notional amount equal to the principal amount of 2006A-D variable rate revenue bonds. Swap payments and any termination in payments would be made from the City's wastewater enterprise fund.

The City has a formal swap policy approved by the Mayor and Council in April, 2003. These policies were consolidated into the City's Financial Policies in April, 2005 (see "**FINANCIAL OPERATIONS — Reserve Fund and Financial Management Policies**," herein). In conformance with this policy, the City reports quarterly on its swap position to the Mayor and Council.

Operating and Other Financing Leases

In addition to lease payments budgeted in connection with lease revenue bonds and certificates of participation, the City has entered into other lease arrangements for office equipment and other minor acquisitions.

Proposed Additional Financings

The City currently anticipates the completion of some or all of the long-term financings summarized in Table 54 secured in whole or in part by the City's General Fund or other revenues and taxes. Refundings, certificates of participation or lease revenue bonds in addition to those listed below may be approved to finance real and personal property acquisitions and improvements. The City may seek further general obligation bond voter authorization.

Table 54
POTENTIAL ADDITIONAL FINANCINGS
DEBT CALENDAR

Anticipated Sale Date[1]	Project	Type of Obligation	Estimated Financing Amount
Q3 2007	Refunding MICLA Commercial Paper (Equipment)	Lease Revenue	$ 108 million
Q3 2007	Acquisition of office building currently substantially leased by City	Lease Revenue	$238.5 million
Q4 2007	Solid Waste System	Enterprise Revenue	$ 80 million
Q1 2008	Storm Water Improvements	General Obligation	$100 million
Q2 2008	Refund MICLA Commercial Paper	Lease Revenue	$100 million
Q4 2008	Little Tokyo Public Parking	Parking Revenue	$ 10 million
Q4 2008	Police Department Transportation Division	Lease Revenue	$ 70 million

(1) Anticipated quarter of calendar year.

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

Overlapping Bonded Debt

Contained within the City are numerous overlapping local agencies providing public services. These local agencies have outstanding bonds issued in the form of general obligation, lease revenue, and special assessment bonds. A statement of the overlapping debt of the City, dated June 1, 2007, prepared by California Municipal Statistics Inc., is shown in Table 55. The City makes no representations as to its completeness or accuracy. Self-supporting revenue bonds, tax allocation bonds, and non-bonded capital lease obligations are excluded from the debt statement. The City anticipates issuing additional bonded debt. (See **"BONDED AND OTHER INDEBTEDNESS — Introduction"** and **"Proposed Additional Financings"** herein). The City also anticipates that new special assessment and special tax districts may be created within the City, and that debt supported by these special assessments and special taxes may be issued.

Table 55
STATEMENT OF OVERLAPPING DEBT
As of June 1, 2007

2006-07 Assessed Valuation:	$349,620,575,879
Redevelopment Incremental Valuation:	24,863,997,265
Adjusted Assessed Valuation:	$324,756,578,614

OVERLAPPING DEBT REPAID WITH PROPERTY TAXES	Debt Outstanding 6/1/2007	Estimated Percent Applicable[(1)]	Estimated Shares Of Overlapping Debt 6/1/2007
Los Angeles County Flood Control District	$ 113,560,000	40.853%	$ 43,392,667
Metropolitan Water District of Southern California	359,115,000	20.020	71,830,182
Los Angeles Community College District	1,005,200,000	71.648	720,205,696
Beverly Hills Unified School District	138,394,198	0.194	258,485
Inglewood Unified School District	123,490,000	1.329	1,642,511
Las Virgenes Unified School District	123,246,479	1.064	1,311,343
Los Angeles Unified School District	6,504,880,000	87.528	5,693,591,366
Los Angeles Unified School District State School Loan Repayable	880,298	87.528	770,507
Other School Districts	328,868,675	Various	234,403
City of Los Angeles Community Facilities District Nos. 3 and 4	143,445,000	100	143,445,000
Mountains Recreation and Conservation Authority Assessment Districts	25,745,000	99.976-100	25,741,731
Los Angeles County Metropolitan Transit District Benefit Assessment Districts	63,640,000	100	63,640,000
Los Angeles County Regional Park and Open Space Assessment District	304,235,000	40.034	121,797,440
OTHER OVERLAPPING DEBT:			
Los Angeles County General Fund Obligations	$1,084,851,959	40.034%	$ 434,309,633
Los Angeles County Pension Obligations	737,082,395	40.034	295,083,566
Los Angeles County Superintendent of Schools Certificates of Participation	19,817,270	40.034	7,933,646
Los Angeles County Sanitation District Nos. 1, 3, 4, 5, 8 & 16 Authorities	165,740,661	0.002-14.040	9,604,080
Pasadena Area Community College District Certificates of Participation	3,915,000	0.001	39
Inglewood Unified School District Certificates of Participation	1,890,000	1.333	25,194
Las Virgenes Unified School District Certificates of Participation	19,290,000	1.064	205,246
Los Angeles Unified School District Certificates of Participation	395,744,823	87.528	346,387,529
TOTAL OVERLAPPING DEBT			$7,981,410,264

(1) Percentage of overlapping agency's assessed valuation located within boundaries of the City.

Source: California Municipal Statistics, Inc.

LITIGATION

The following is a list prepared by the Office of the City Attorney of completed, pending or threatened litigation involving the City, excluding personal injury cases and single plaintiff cases, in which the City has a financial exposure of $5 million or more which, either individually or in the aggregate, could materially affect the City's General Fund financial position.

With regard to the other pending litigation, it is the opinion of the City Attorney that the final determination of such litigation, either individually or in the aggregate, would not materially affect the City's General Fund financial position.

1. *Air Transport Association v. City of Los Angeles* and *Aircraft Owners and Pilots Assn. v. City of Los Angeles* are administrative proceedings before the U.S. Secretary of Transportation challenging the legality of the transfer of approximately $58 million from the Airport Revenue Fund to the General Fund. The challenged transfer represents condemnation proceeds received for certain City owned property taken by the State of California for use in the construction of the Century Freeway.
2. *Rampart Division Litigation:* Investigations have been made regarding alleged illegal activities of some police officers in the Los Angeles Police Department's Rampart Division. All but 1 of the 214 lawsuits served on the City have been resolved and approximately $75 million has been paid. It is not anticipated that other lawsuits will arise from the investigations. Any future Rampart litigation payments will be funded from appropriations from the City's Liability Claims fund as necessary.
3. *Fair Labor Standards Act Litigation:* The City has been sued over the alleged failure by the City to pay its firefighters-paramedics overtime compensation under the FLSA. Among the cases are *Achan v. City of Los Angeles*, which involves 247 firefighters and *Haro v. City of Los Angeles*, which involves 87 firefighters. Similar cases concerning police officers have been filed. An unfavorable ultimate result in the cases could give rise to a liability of as much as $36 million, which would be paid from the General Fund.
4. *Gousse v. City of Los Angeles* seeks damages for physical injuries allegedly sustained from police officers arresting the plaintiff for driving a stolen car; a car rental company had given the plaintiff a car with stolen license plates. The jury verdict awarded the plaintiff, a surgeon, a judgment of $34.3 million of which Budget Rent-A-Car is to pay $18.8 million and the City to pay the other $15.5 million. The trial judge rejected the jury's damages award as disproportionate to the injury and ordered a new trial on damages. The Court of Appeal affirmed and returned the case to the trial court for a new trial on damages.
5. *Estate of Wallace v. City of Los Angeles* is a wrongful death lawsuit in U.S. District Court which alleges that a former police officer conspired to kill rap star Biggie Smalls and that the City is responsible for the police officer's actions. The trial ended when the judge declared a mistrial. No date for a new trial has been set. Recently the plaintiffs filed a similar action in state court. An unfavorable ultimate result could give rise to a liability of substantially less than the $100,000,000 demanded in the lawsuit.
6. *Telephone Tax Litigation: AT&T Wireless et al. v. City of Los Angeles* is an action in Los Angeles Superior Court for declaratory relief alleging that there has been a change in the

taxing methodology for wireless phone calls resulting in a tax increase, which should have been subject to prior voter approval under Proposition 218. The Court of Appeal affirmed the trial court's ruling against the City. *Ardon v. City of Los Angeles* is a class action challenging the validity of the City's Telephone Users Tax, due to the federal government's interpretation of the federal excise tax. Unlike the AT&T Wireless case, which involves only wireless calls, this case challenges almost the entire tax. *TracFone Wireless v. City of Los Angeles* is an individual refund case, but raises the same issues as in the *Ardon* case. An unfavorable ultimate result in these cases would restrict the City's ability to collect its Telephone Users Tax. The precise amount of revenue at risk is unknown at this time, but could be significant. See **"MAJOR GENERAL FUND REVENUE SOURCES — Utility Users' Tax,"** herein.

APPENDIX B

EXCERPTS FROM THE CITY'S COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2006 AND INDEPENDENT AUDITOR'S REPORT

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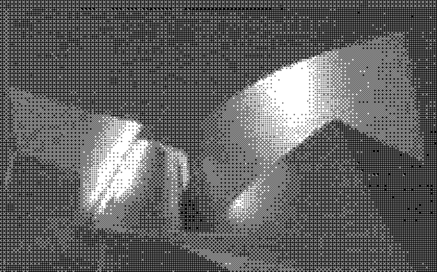
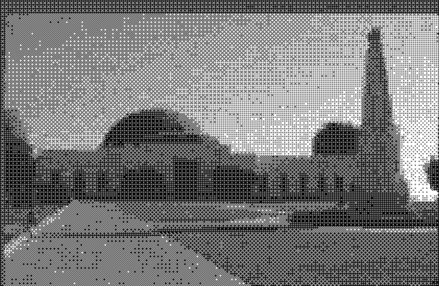
CITY OF LOS ANGELES

CALIFORNIA





COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

OFFICE OF THE CONTROLLER
Laura N. Chick, City Controller

City of Los Angeles
California

Comprehensive
Annual Financial Report

For the Fiscal Year Ended June 30, 2006

Prepared by the Office of the Controller
Laura N. Chick, City Controller

City of Los Angeles
California

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended June 30, 2006

Prepared by the City of Los Angeles Controller's Office

William Lamb	-	Director of Financial Reporting
Lyndon O. Salvador	-	Financial Management Specialist V

GAAP Compliance Section

Anita S. Gregorio	-	Financial Management Specialist I
Helen P. Lee	-	Fiscal Systems Specialist I
Julieta A. Barba	-	Principal Accountant I
Ursula T. Villanueva	-	Principal Accountant I
Marie A. De Los Reyes	-	Senior Accountant II
Louella O. Ubaldo	-	Senior Accountant II

Assistance Provided by General Accounting and
Special Projects Sections

CITY OF LOS ANGELES
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2006

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Continued...

TABLE OF CONTENTS (Continued)

INTRODUCTORY

Section

OFFICE OF
CONTROLLER

LAURA N. CHICK
CONTROLLER

200 N. MAIN STREET, RM 300
LOS ANGELES 90012
(213) 978-7200
www.lacity.org/ctr

December 20, 2006

The Honorable Mayor and Members of the
Council of the City of Los Angeles
Los Angeles, California

In accordance with Section 216 of the Charter, I submit the Comprehensive Annual Financial Report (CAFR) of the City of Los Angeles (the City) for the fiscal year ended June 30, 2006. This report is prepared in conformity with generally accepted accounting principles (GAAP) for governmental units and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants.

The CAFR is presented in three sections:

- The Introductory Section includes this Letter of Transmittal from the City Controller, the City's Organizational Chart, a Directory of City Officials and of the City Controller's Office, and a reproduction of the City's Certificate of Achievement for Excellence in Financial Reporting for the fiscal year ended June 30, 2005 from the Government Finance Officers Association of the United States and Canada (GFOA);

- The Financial Section includes the independent auditor's report on the basic financial statements, management's discussion and analysis (MD&A), basic financial statements, and combining and individual fund statements and schedules for the City's nonmajor and fiduciary funds and component units; and

- The Statistical Section includes selected financial and demographic data depicting the City's historical trends and other significant information.

The financial reporting format focuses on the City as a whole and on major individual funds of the governmental and business-type activities. Each presentation provides valuable information about the City's operation. Also, there are two General Fund perspectives included in the report: the non-GAAP budgetary basis General Fund and the GAAP basis General Fund that includes transactions of the Reserve Fund and other accounts that have General Fund type activity.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a MD&A. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditor.

INTERNAL CONTROL

Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. The management of the City is responsible for establishing and maintaining an internal control structure. These controls are designed to provide reasonable assurance that the assets of the City are protected from loss, theft or misuse and to ensure that adequate financial information is compiled to allow for the preparation of reliable financial statements in accordance with generally accepted accounting principles. Because the concept of reasonable assurance recognizes that the cost of the control should not exceed the benefits likely to be derived, the comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatements. I believe that the data presented is complete and reliable in all material respects.

BUDGETARY CONTROL

The annual budget serves as the foundation for the City's financial planning and control. The City maintains budgetary controls to ensure that legal provisions embodied in the budget are complied with and that expenditures do not exceed appropriated amounts. Expenditures and appropriations are controlled at the line item level within each object by department, consistent with the level set forth in the resolution adopting the annual operating budget. The City also maintains an encumbrance accounting system that controls spending based on the expenditure budget, appropriations, allotments, or a combination of them.

Annual appropriations unused and unencumbered lapse at year-end, except for non-capital related continuing appropriations for certain Special Revenue and Capital Projects Funds, which are carried forward to the next budget year. Capital related appropriations that are unused and unencumbered at year-end are reappropriated during the subsequent budget year. Additional information about the City's budget process can be found in Note 3A in the Notes to the Basic Financial Statements.

Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund, Proposition A Local Transit Assistance Fund, Proposition C Anti-Gridlock Transit Improvement Fund, Special Gas Tax Street Improvement Fund, and Community Development Fund, the comparison is presented as part of the basic financial statements. For the other budgeted nonmajor funds, the comparison and other supplemental budget-to-actual schedules are presented in the combining and individual fund financial statements and schedules.

INDEPENDENT AUDIT RESULTS

Simpson & Simpson, a firm of independent certified public accountants, has audited the City's basic financial statements. The goal of the independent audit was to provide reasonable assurance that the basic financial statements of the City of Los Angeles for the fiscal year ended June 30, 2006, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Los Angeles' basic financial statements as of and for the fiscal year ended June 30, 2006 are fairly presented in conformity with GAAP. The independent auditor's report is presented on pages 1 and 2.

The City is required to undergo an annual single audit as provided by the Single Audit Act of 1984 and the Single Audit Act Amendments of 1996, and the U.S. Office of Management and Budget Circular A-133, *"Audits of States, Local Governments, and Non-Profit Organizations."* Information related to this single audit, including the Schedule of Expenditures of Federal Awards (SEFA), findings and recommendations and the independent auditor's reports on the SEFA, and compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133, are issued in a separate report.

PROFILE OF THE GOVERNMENT

The City of Los Angeles (City) is the second most populous city in the nation with a 2006 population of 3,976,071. With an area of 470 square miles, Los Angeles is located in the southern part of the State of California and is the principal city of a metropolitan region that stretches from the City of San Buenaventura to the north, the City of San Clemente to the south, and the City of San Bernardino to the east. Founded in 1781, Los Angeles was for its first century a provincial outpost under a succession of Spanish, Mexican, and American rule. The City was incorporated in 1850 under the provisions of a City Charter. The current Charter was approved by the electorate on June 8, 1999 and became operative on July 1, 2000.

The City operates under a Mayor-Council form of government. As Executive Officer, the Mayor supervises the administrative process of the City and works with the Council in matters relating to legislation, budget and finance. As governing body of the City, the 15-member full-time Council enacts ordinances, levies taxes, authorizes contracts and public improvements, adopts zoning and other land use contracts, and provides necessary resources for the budgetary departments and offices of the City. Council action is subject to the approval or veto of the Mayor, and Council may override a Mayoral veto by a two-thirds vote. The Charter provides for an independently elected City Attorney and independently elected City Controller.

As discussed in Note 1B of the Notes to the Basic Financial Statements, the City's reporting entity consists of 45 departments, bureaus, commissions and offices, and three pension systems governed by the City Charter. Also included in the City's reporting entity as blended component units are: the Los Angeles Convention and Exhibition Center Authority, the Los Angeles Harbor Improvement Corporation, and the Municipal Improvement Corporation of the City of Los Angeles (MICLA). The Community Redevelopment Agency of the City of Los Angeles (CRA) is also part of the reporting entity, but is presented discretely as a component unit.

Public services provided by the City include police; fire and paramedics; residential refuse collection and disposal, wastewater collection and treatment, street maintenance 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; planning; airports; harbor; power and water services; and convention center.

LOCAL ECONOMY

The Los Angeles metropolitan area continues to grow, but on a more modest pace than the robust economic activity during the last five years driven by the buoyant real estate market. The City's population, as well as the surrounding metropolitan region's, continued to grow. Energized by trade with the Pacific Rim countries, television and recording industries, as well as significant cultural facilities, Los Angeles has emerged as a prominent international cultural hub.

The City's economy continued to be one of the most diverse in the nation and is the driving force for Los Angeles County (the County). The City's largest employers are in the services, wholesale and retail trade, manufacturing, government, financial services, transportation, utilities, and construction industries. The County continued to be a top ranked county in the manufacturing sector of the United States. A variety of items are manufactured in the County, such as, aircraft, aircraft equipment, aluminum, dental equipment, games and toys, gas transmission and distribution equipment, munitions, space vehicles and propulsion units, and women's apparel. The real estate sector, a boon to the local economy for the past five years, is showing signs of decline. After months of falling sales, some believe real estate sales activity could decline further. However, economists believe that the diversity of the local economy may mitigate the effects of a real estate market downturn.

LONG-TERM FINANCIAL PLANNING

The State actions to balance its budget have significantly altered the City's revenue mix. Because of the sales tax and vehicle license fee replacement, property tax has increased from about 20% to 30% of total General Fund revenues. A severe decline in the real estate market will have a major impact on the City's documentary transfer tax revenues and a lesser effect on property tax revenues which are somewhat stabilized by the provisions of Proposition 13.

The City also faces issues that could threaten other revenue sources. A recent ruling by the State Supreme Court could impact Water Revenue transfers to City's General Fund. Also, proposed Federal legislation to regulate the telecommunications industry, if adopted, could adversely impact the City's control of telecommunications franchise issues, and revenue related to the industry. Further, the federal excise tax that applied to long distance services was discontinued and the City's Telephone User's Tax on long distance services is linked to that tax.

In addition, there is a risk to a portion of the telephone users' tax that the City collects from wireless telephone service. A court case challenged the City's utility users' tax derived from the calling portion of wireless telephone bills. Please see page 143 for additional information. Because of the court case and current and pending changes in federal excise tax practices, a significant portion of the telephone users' tax may be at risk. For fiscal year 2006-07, the City budgeted telephone users' tax at $270 million. The City could also be exposed to the risk of having to make refunds for a limited number of years of prior collections.

Reduction in City revenues could have a negative consequence to the delivery of constituents' services. To safeguard against cutbacks of much needed public services, the City will continue to monitor its fiscal condition, and take timely corrective actions to maintain sufficient cash reserves to cover possible revenue shortfalls.

MAJOR INITIATIVES

The City's fiscal year 2006-07 Budget includes a number of strategic new investments, two of which are discussed below.

The City is working to transform the public school system into a high-performing system. To do that, the City is focusing on improving conditions necessary for learning and addressing the social conditions contributing to youth participation in gangs and criminal activity. Investments include adding funding to expand year-round youth employment through the Learn & Earn program, continuing support for the LA's BEST and LA Bridges programs, and dedicating funds for gang reduction programs.

To improve public safety, the budget includes a strategic plan to recruit, hire and train 650 more police officers in FY 2006-07, adding to the 720 new police officers included in last year's budget. Also new positions will be added to Police, Fire and Emergency Preparedness Departments to enhance counter-terrorism information sharing, protect critical assets, prepare communities for a terrorist attack or natural disaster, and save lives by bolstering emergency planning efforts.

These initiatives are aligned with the City's vision of making Los Angeles the safest big city in the United States.

CASH AND INVESTMENT MANAGEMENT

In October 2001, the City Council and Mayor adopted a revised Statement of Investment Policy for the City's pooled investments. The revisions were based on standards recommended by several professional organizations and permit the implementation of current industry best practices. The new policy is consistent with the provisions of the California Government Code, Section 53600, et. seq., as well as the specific provisions pertaining to the Government Code's "prudent investors" criterion.

Some of the specific changes in the new policy include the establishment of a defined cash flow horizon, portfolio segmentation into Core (to cover liquidity) and Reserve (for longer term growth) portfolios, and the establishment of target portfolio durations for both Core and Reserve portfolios. Under the policy, the Treasurer will also establish more specific internal controls, processes for periodic reviews, and Investment Guidelines to implement specific provisions of the City's revised Investment Policy.

Under this new Investment Policy, Standard & Poor's (S&P) rated the City's portfolio as "AAAf/S1." The "AAA" rating reflects the strong protection provided against losses in the investment pool as a result of credit defaults. This rating is also indicative of the high quality of the individual investments held in the general pool. S&P also evaluated the volatility of the pool and assigned a rating of "S1" (low sensitivity). S&P specifically noted that the pool has a low market risk profile and is based on "conservative investment policies." It is important to note that Los Angeles is the second city-managed pool to receive the highest safety ratings from S&P.

Subject to the limitations under California Government Code Section 53601, the Treasurer may also enter into Repurchase Agreements and Reverse Repurchase Agreements. The maximum maturity of a reverse repurchase agreement shall be 92 days, the proceeds of which may not be invested beyond the expiration of the agreement. The reverse repurchase agreement must also be "matched to maturity" and meet all other requirements delineated in the State Code. The City's Administrative Code Division 20, Chapter 5, Article 2, Section 20.90 further requires prior City Council approval for reverse repurchase agreements. This section was further revised by City Council to exempt the General Pool's Securities Lending Program from these provisions.

The City's General Pool investment portfolio is as follows (dollar amounts in thousands):

Portfolio Segmentation	Benchmark	Year Ended June 30, 2006 Market Value	Year Ended June 30, 2006 Rate of Return	Year Ended June 30, 2005 Market Value	Year Ended June 30, 2005 Rate of Return
Core		$ 992,367	4.31%	$ 881,684	2.23%
	91-day Treasury Bill		3.98%		2.15%
Reserve		4,396,932	1.08%	4,285,400	3.86%
	Merill Lynch 1-5 Year Government/Corporate		1.11%		3.66%
Total		$ 5,389,299		$ 5,167,084	

Special Pool investments, cash collateral received on loaned securities, and guaranteed investment contract totaled $2,182 million and $1,460.7 million at June 30, 2006 and 2005, respectively. These amounts are not included in the total portfolio shown above.

RESERVE FUND POLICY

In August 1998, the Mayor and Council adopted a policy that established a targeted Reserve Fund balance of 2% of General Fund revenues and set aside a portion of the Reserve Fund for use in emergency situations. The 2% figure would be reevaluated annually during budget preparation to determine whether it is adequate. As a result of this policy, two accounts were established within the Reserve Fund:

- Emergency Reserve Account - In order to remove funds from the Emergency Reserve Account, a finding by the Mayor, with the confirmation by the Council, of "urgent economic necessity" must be made, as well as a determination that no other viable sources of funds are available. A finding of urgent economic necessity would be based on a significant economic downturn after the budget is completed, or an earthquake or other natural disaster.

- Contingency Reserve Account - to be used for unanticipated expenditures or revenue shortfalls impacting programs already approved in conjunction with the current year budget. It is not to be used to fund new programs or positions added outside of the current year budget.

During the fiscal year 2006-07 budget preparation, the Mayor and Council increased the Emergency Reserve from 2% to 2.5% of General Fund revenues. The $108.5 million designated amount for Emergency Reserve is 2.5% of the General Fund's budgeted receipts of $4.3 billion. At June 30, 2006, the Reserve Fund's cash balance, before its allocated portion of securities lending collateral, was $432.4 million.

For purposes of the budget, the Reserve Fund is separate and distinct from the General Fund; while for financial reporting purposes, the General Fund includes the Reserve Fund and other accounts/funds that have a general fund type activity.

RISK MANAGEMENT

The City is self-administered and self-funded for workers' compensation, most property damage and the majority of tort liability exposures. Commercial insurance is used where it is legally required, contractually required or judged to be the most cost-effective way to finance risk. Indemnity and insurance protection is also required from all City contractors, vendors and lessees, and permit holders. Claims and judgments are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. The recorded estimated liability for claims and judgments includes a provision for Incurred But Not Reported (IBNR) liabilities for workers' compensation and tort cases including allocated expenses. Further discussion of the City's estimated claims and judgments payable is presented in Note 4P of the Notes to the Basic Financial Statements.

PENSION AND OTHER POSTEMPLOYMENT BENEFITS

All full-time employees of the City are covered by one of three defined benefit pension plans (the Plans) namely: City Employees' Retirement System (LACERS); Fire and Police Pension System (Pensions); and Water and Power Employees' Retirement, Disability and Death Benefit Insurance Plan (DWP Retirement). Each year, independent actuaries engaged by the Plans calculate the amount of annual contribution that the City must make to the Plans to ensure that the Plans will be able to meet its obligations to plan members and beneficiaries.

The following table shows each plan's actuarial value of pension benefit plan net assets, actuarial accrued liability (AAL), overfunded/(underfunded) AAL and funded ratios at June 30, 2006 (dollar amounts in millions):

Plans	Actuarial Value of Assets	Actuarial Accrued Liability	Underfunded AAL	Funded Ratio
LACERS	$ 7,675	$ 9,871	$ 2,196	78%
Pensions	12,121	12,811	690	95%
DWP Retirement	6,448	7,047	599	91%

Members of LACERS and Pensions are entitled to postemployment health subsidy benefits. LACERS and Pensions are actuarially funding the health insurance benefits and there are no member contributions. The Department of Water and Power (DWP) also provides healthcare benefits to active and retired employees and their dependents and recognizes the cost of postretirement benefits as expense over employees' service periods.

The following table shows postemployment healthcare benefits net assets, actuarial accrued liability (AAL), underfunded AAL and funded ratios at June 30, 2006 (dollar amounts in millions):

Plans	Actuarial Value of Assets	Actuarial Accrued Liability	Underfunded AAL	Funded Ratio
LACERS	$ 990	$ 1,731	$ 741	57%
Pensions	614	1,631	1,017	38%
DWP Plan	--	1,696	1,696	0%

While certain assets that will fund liabilities of the DWP postemployment healthcare benefits plan have been placed into an irrevocable trust, current postemployment healthcare benefits are not made from the trust, and as such, under accounting standards, they are not considered contributions of the plan. Therefore the assets placed into the trust remain restricted assets of DWP. As of June 30, 2006, DWP's restricted investments for postemployment healthcare benefits amounted to $504 million.

Additional information on the City's pension and other postemployment benefits can be found in Note 5A of the Notes to the Basic Financial Statements and in the Required Supplementary Information Section.

AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2005. This was the eleventh consecutive year that the City has received this award. The Certificate of Achievement is a prestigious national award-recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. I believe our current report continues to conform to the Certificate of Achievement program requirements, and I am submitting it to GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Financial Reporting Division of the Controller's Office. I would like to express my appreciation to all members of the Office who assisted and contributed to the preparation of this report. Credit also must be given to other professional contributors Citywide.

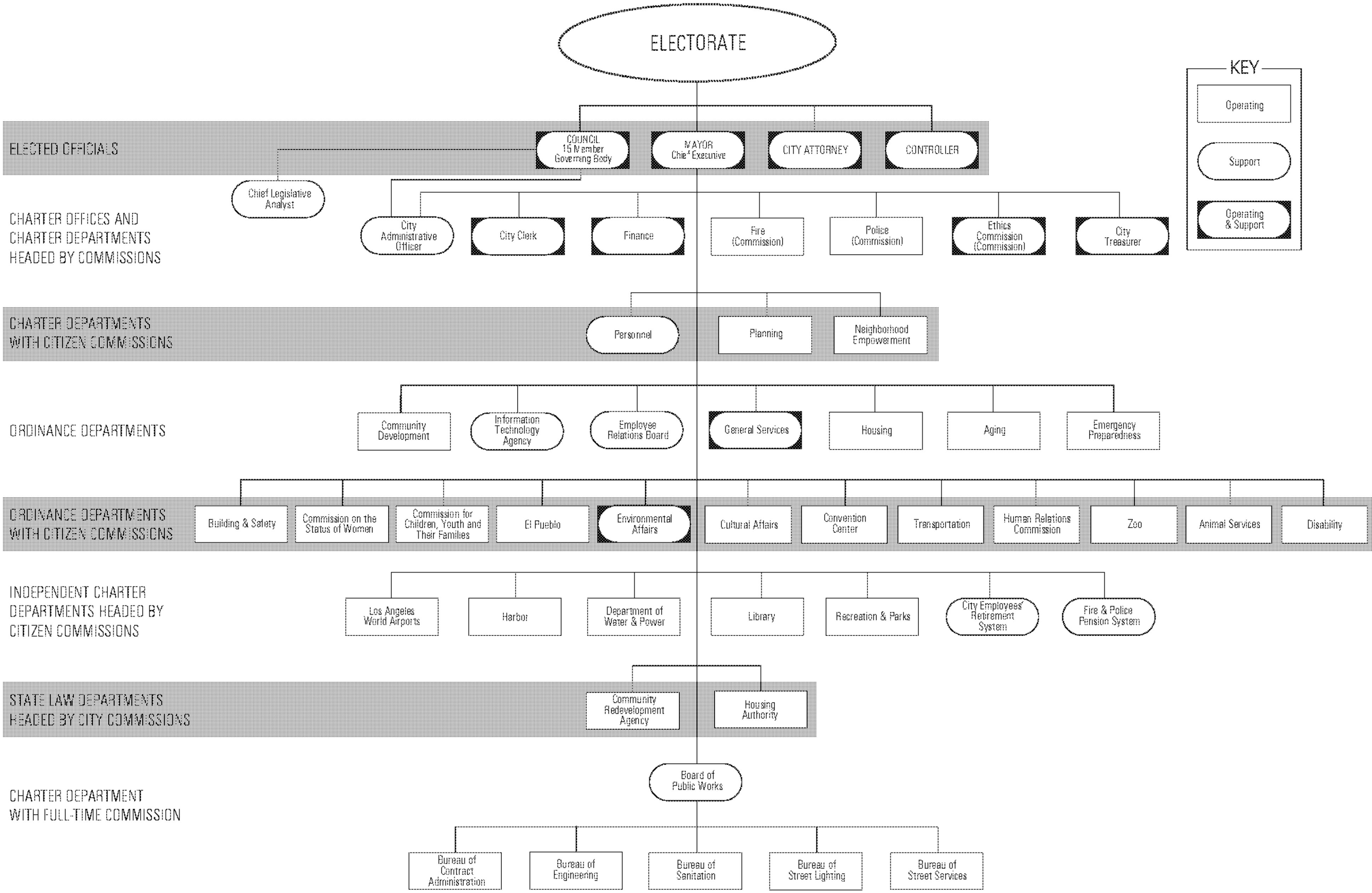
Respectfully submitted,

Laura N. Chick

LAURA N. CHICK
CITY CONTROLLER

ORGANIZATION OF THE CITY OF LOS ANGELES

FY 2005-06



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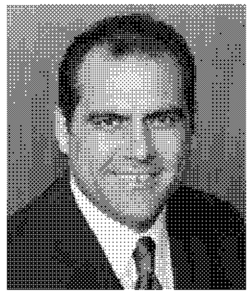
CITY OFFICIALS
City of Los Angeles, California

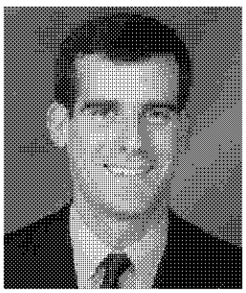
Antonio Villaraigosa
Mayor



Rockard J. Delgadillo
City Attorney

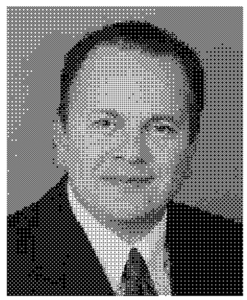
Laura Chick
City Controller

CITY COUNCIL

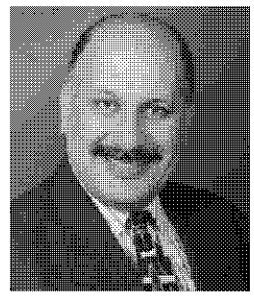


Eric Garcetti
13th District
Council President

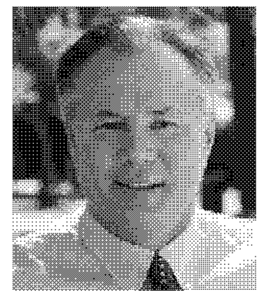
Wendy Greuel
2nd District
President Pro-Tempore



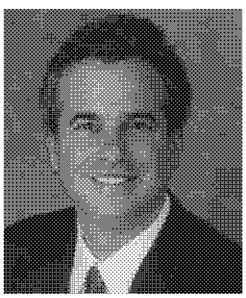
Ed P. Reyes
1st District



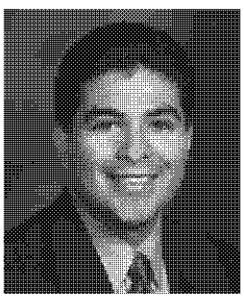
Dennis P. Zine
3rd District



Tom LaBonge
4th District



Jack Weiss
5th District

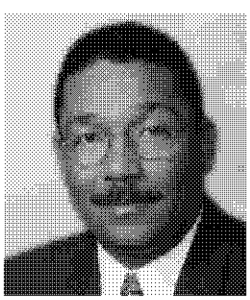


Tony Cárdenas
6th District

Alex Padilla
7th District

Bernard Parks
8th District

Jan Perry
9th District



Herb J. Wesson, Jr.
10th District

Bill Rosendahl
11th District

Greig Smith
12th District

José Huizar
14th District

Janice Hahn
15th District

NON-ELECTED FISCAL OFFICERS

Director of
Finance
Antoinette D. Christovale

City Treasurer
Joya C. De Foor

City Administrative
Officer
William T Fujioka

City Purchasing Agent & General Mgr.
Department of General Services
Alvin Y. Blain

LAURA CHICK
CITY CONTROLLER

The City Charter establishes the Controller as an elected official and gives the Controller the responsibility for serving as the auditor and chief accounting officer of the City. The Charter guarantees the independence of the Office, and provides for better accountability to the public and a more direct form of public control over the fiscal affairs of the City, in keeping with the established principle of checks and balances exercised for both the executive and legislative branches of municipal government. The Controller is required to exercise general supervision over the accounts of all offices and departments of the City, including the independent departments of Airports, Water and Power, and Harbor (Port of Los Angeles).

Laura Chick was elected City Controller on April 10, 2001, for a four year term beginning July 1, 2001. She is the first woman elected to citywide office in the history of Los Angeles. She was re-elected on March 8, 2005 for another four-year term beginning July 1, 2005.

The City Controller is also the Controller for the following governmental agencies:

- Community Redevelopment Agency of the City of Los Angeles
- Los Angeles Coliseum and Sports Arena
- Los Angeles Convention and Exhibition Center Authority
- Municipal Improvement Corporation of Los Angeles (MICLA)
- Parking Authority of the City of Los Angeles (Los Angeles Mall)
- El Pueblo de Los Angeles State Historical Park (Plaza)
- South Central Los Angeles Multiservice and Child Development Center

EXECUTIVE STAFF

RUSHMORE D. CERVANTES	RAYNA GABIN	ROB WILCOX	MIRIAM JAFFE	SHIRLEY TAN	FARID SAFFAR	WILLIAM LAMB
Chief Deputy Controller	Administrative Deputy Controller	Deputy Controller Communications	Deputy Controller Community Affairs	Principal Deputy Controller	Director of Auditing	Director of Financial Analysis and Reporting

EMY ARCENO	Payroll
MIN CHEN	Financial Operations
EDA DUBLIN	Paymaster
NAM HUYNH	Director of Systems
LYNDON SALVADOR	Financial Analysis and Reporting
JOVONNE LAVENDER	Management Services

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for the Fiscal Year Ended
June 30, 2005

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President

Executive Director

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FINANCIAL Section

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CERTIFIED PUBLIC ACCOUNTANTS

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Honorable Members of the
City Council
City of Los Angeles, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Los Angeles, California (City), as of and for the fiscal year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following City departments, which are reported as enterprise and pension trust funds: Departments of Airports, Harbor, Water and Power, Los Angeles City Employees' Retirement System, and Water and Power Employees' Retirement, Disability and Death Benefit Insurance Plan, which represent the following percentages of assets and revenues/additions as of and for the fiscal year ended June 30, 2006:

Opinion Unit	Assets	Revenues/Additions
Business-type Activities	82%	89%
Each Major Enterprise Fund – Airports, Harbor, Power, and Water	100%	100%
Aggregate Remaining Fund Information	49%	9%

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the City funds described above, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General Fund, Proposition A Local Transit Assistance Fund, Proposition C Anti-Gridlock Transit Improvement Fund, Special Gas Tax Street Improvement Fund, and Community Development Fund, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2006, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (MD&A) and Required Supplementary Information (Other Than MD&A) on pages 3 through 30 and 169 through 170, respectively, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries to management regarding the methods of measurement and presentation of the required supplementary information. However, we and the other auditors did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements and schedules listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of the other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections listed in the accompanying table of contents have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Simpson & Simpson

Los Angeles, California
December 20, 2006

Management's Discussion and Analysis

Management's Discussion and Analysis

This section of the Comprehensive Annual Financial Report of the City of Los Angeles (the City) presents a narrative overview and discussion of the City's financial activities for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have presented in the letter of transmittal of this report. We hope that the information and the discussions will provide readers with a clear picture of the City's overall financial condition.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded liabilities at the close of the 2005-06 fiscal year by $16.7 billion. The *net assets* of $16.7 billion consisted of: $11.7 billion investment in capital assets, net of related debt; $3.9 billion *(restricted net assets)* represents resources that are subject to certain restrictions on how they may be used; $2.1 billion *(unrestricted net assets)* may be used to meet the City's obligations for its business-type activities; and $1 billion deficit of governmental activities.

- The City's financial activities during the fiscal year resulted in a net change in total net assets of $980.3 million. Governmental activities posted an increase of $582.2 million while the business-type activities increased by $398.1 million.

- As of June 30, 2006, the aggregate ending fund balance of the City's governmental funds was $3.7 billion, an increase of $42.9 million from June 30, 2005. Of the combined fund balances of $3.7 billion, 52.4% or $1.9 billion is available to meet the City's current and future needs *(unreserved fund balances)*.

- At the end of the fiscal year, the unreserved fund balance of the General Fund (which includes the Reserve Fund and other accounts that have General Fund type activity) was $571.2 million, or 15.9% of total expenditures.

- The City's bonded debt and long-term notes payable at June 30, 2006 totaled $13.5 billion, a net increase of $1.2 billion from the prior year's balance of $12.3 billion.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of management's discussion and analysis (MD&A), basic financial statements, including the accompanying notes to the basic financial statements, required supplementary information, and combining statements and schedules for the nonmajor governmental and the fiduciary funds. The basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements.

Government-wide Financial Statements are designed to provide readers with a broad overview of the City's finances and are made up of the following two statements: the Statement of Net Assets and the Statement of Activities. Both of these statements were prepared using accounting methods similar to those used by private-sector businesses, which is the economic resources measurement focus and the accrual basis of accounting.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes and expenses pertaining to earned but unused compensated absences, and incurred but unpaid workers' compensation claims.

Both of these government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues *(governmental activities)* from other functions that are intended to recover all or in part a portion of their costs through user fees and charges *(business-type activities)*. The governmental activities of the City include general government, protection of persons and property, public works, health and sanitation (other than sewer services), transportation, cultural and recreational services, and community development. The business-type activities of the City include airports, harbor, power, water, sewer and convention center services.

The government-wide financial statements reflect not only the activities of the City itself (known as the primary government), but also those of the legally separate Community Redevelopment Agency (CRA) presented discretely. The Los Angeles Convention and Exhibition Center Authority, the Los Angeles Harbor Improvement Corporation, and the Municipal Improvement Corporation of Los Angeles, although legally separate, have been included as an integral part of the primary government because their sole purpose is to provide services entirely to or exclusively for the City, or the City Council is their governing body.

Fund Financial Statements are designed to report information about groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on *near-term inflows* and *outflows of spendable resources,* as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in determining what financial resources are available in the near future to finance the City's programs.

The governmental funds financial statements are made up of the following: the balance sheet and the statement of revenues, expenditures and changes in fund balances. Both of these statements were prepared using the current financial resources measurement focus and the modified accrual basis of accounting.

The budgetary basis statement of revenues, expenditures and changes in fund balances is prepared on a modified cash basis of accounting that is different from generally accepted accounting principles. (Please see Note 3B of the Notes to the Basic Financial Statements beginning on page 76 for additional information on the basis difference.)

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities.*

The City maintains several individual governmental funds organized according to their type (general, special revenue, debt service, and capital projects funds). Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Proposition A Local Transit Assistance Fund, Proposition C Anti-Gridlock Transit Improvement Fund, Recreation and Parks Fund, Special Gas Tax Street Improvement Fund, Community Development Fund, and the Municipal Improvement Corporation Special Revenue and Debt Service Funds, which are considered to be major funds. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements and schedules* elsewhere in this report.

Non-GAAP budgetary basis statements of revenues, expenditures and changes in fund balances have been provided for the General Fund and four other budgeted major funds to demonstrate compliance with the annually appropriated budget. The other budgeted major funds are: Proposition A Local Transit Assistance, Proposition C Anti-Gridlock Transit Improvement, Special Gas Tax Street Improvement, and Community Development.

Proprietary funds are generally used to account for services for which the City charges customers – either outside customers, or other departments/funds of the City. The proprietary funds financial statements provide the same type of information as shown in the government-wide financial statements, only in more detail. The City maintains the following type of proprietary funds:

- *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for the airports, harbor, power, water, sewer, and convention center operations. All of the City's enterprise funds, except the convention center, are considered major funds.

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. The City's pension trust and agency funds are reported under the fiduciary funds. Since the resources of these funds are not available to support the City's own programs, they are not reflected in the government-wide financial statements. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information, other than MD&A, is presented concerning the City's progress in funding its obligation to provide pension benefits to City employees and other postemployment benefits of DWP employees. Also included in this section is the condition assessment for City bridges.

The **combining and individual fund statements and schedules** referred to earlier provide information for nonmajor governmental funds and fiduciary funds and are presented immediately following the required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Analysis of Net Assets: As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by $16.7 billion at the close of fiscal year 2005-06.

The following table is a condensed summary of the City's government-wide net assets:

CITY OF LOS ANGELES
Condensed Statement of Net Assets
(amounts expressed in thousands)

	Governmental Activities		Business-type Activities		Total	
	FY 2006	FY 2005	FY 2006	FY 2005	FY 2006	FY 2005
Current and other assets	$ 5,135,635	$ 5,007,326	$ 7,191,941	$ 6,407,952	$ 12,327,576	$ 11,415,278
Capital assets	5,275,304	3,744,509	18,052,244	17,207,120	23,327,548	20,951,629
Total assets	10,410,939	8,751,835	25,244,185	23,615,072	35,655,124	32,366,907
Current and other liabilities	1,215,725	1,160,347	1,870,904	1,922,289	3,086,629	3,082,636
Long-term liabilities	5,511,687	5,661,355	10,350,229	9,067,800	15,861,916	14,729,155
Total liabilities	6,727,412	6,821,702	12,221,133	10,990,089	18,948,545	17,811,791
Net assets:						
Invested in capital assets,						
net of related debt	2,946,666	1,562,198	8,777,029	8,405,535	11,723,695	9,967,733
Restricted	1,755,890	1,560,154	2,142,661	2,283,409	3,898,551	3,843,563
Unrestricted	(1,019,029)	(1,192,219)	2,103,362	1,936,039	1,084,333	743,820
Total net assets	$ 3,683,527	$ 1,930,133	$ 13,023,052	$ 12,624,983	$ 16,706,579	$ 14,555,116

Note: Rounding off difference may occur in the discussion.

By far, the largest portion of the City's net assets ($11.7 billion or 70.2%) reflects its investment in capital assets (e.g., land, infrastructure, buildings, facilities and equipment) less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate the debt.

An additional portion of the City's net assets ($3.9 billion or 23.3%) represents resources that are subject to various restrictions on how they may be used. The remaining balance of $1.1 billion (6.5%) is the net amount of the governmental activities deficit of $1 billion and $2.1 billion unrestricted net assets that may be used to meet the City's obligations for its business-type activities.

At the end of fiscal year 2005-06, the City reported positive balances in all three categories of net assets for the City as a whole. While the business-type activities reported a positive balance of $2.1 billion in unrestricted net assets, the governmental activities reported a deficit of $1 billion. The deficit balance shown for the governmental activities unrestricted net assets reflected a decrease of $173.2 million (14.5%) from the prior year's deficit balance. The improvement in the deficit balance was a consequence of the favorable result of operations for the fiscal year.

The deficit should not be considered, of itself, evidence of economic or financial difficulties. The deficit reflects the extent to which the City has deferred to future periods the financing of certain liabilities (i.e. claims and judgments, workers' compensation, compensated absences). While accounting is primarily concerned with when a liability is incurred, financing focuses on when a liability will be paid. The City, like many other governments, raises and budgets resources needed to liquidate a liability during the year in which the liability is to be liquidated rather than during the year in which the liability is incurred.

Key changes in the statement of net assets are as follows:

Capital assets increased by $2.4 billion or 11.3%. The net increase for governmental activities was $1.5 billion while for the business-type activities the net increase was $845.1 million. Construction work in progress at the airports and harbor as well as ongoing improvements to sewer facilities and power and water utility plants caused the increase for business-type activities. During the year, the City fully implemented the retroactive provision of GASB Statement No. 34 for infrastructure assets. The recognition of the $1.2 billion net historical costs of these assets was the primary reason for the increase in the governmental activities' capital assets.

Current and other assets had a net increase of $912.3 million or 8%. Governmental activities increased by $128.3 million, while business-type activities increased by $784 million. The increase for governmental activities was mainly due to revenues provided by growth in tax revenues, transfers from business-type activities, and cash collateral from securities lent. For business type activities the increases in restricted assets of $644.1 million and receivables of $155.5 million were offset by a net decrease of $15.6 million in other current assets. The restrictions are for debt reduction, nuclear decommissioning, natural gas trust, postretirement healthcare, passenger facility charges and investments with SCPPA, a California joint powers agency. The increase in receivables resulted from the overall growth in the business-type activities operating revenues.

Long-term liabilities for bonded debts and notes payable increased to $13.5 billion from $12.3 billion in the prior year. The total issuances for the year were $350.3 million for governmental activities and $2.4 billion for business-type activities, while principal retirements totaled $314 million for governmental activities and $1.1 billion for business-type activities. The City's other long-term liabilities decreased by $139.3 million, while current and other liabilities increased by $4 million. The decrease in other long-term liabilities of $139.3 million was due mainly to the decline in tort and non-tort cases for the governmental activities. The City's tort liabilities are actuarially estimated using a 5% discount rate.

The increase of $55 million in restricted net assets was composed of $195.7 million increase for governmental activities and $140.7 million decrease for business type activities. Of the $195.7 million increase for governmental activities, $172.3 million or 88% accounts for public safety, transportation, and culture and recreation programs. For the business-type activities, key changes were on restrictions for capital projects (decrease of $286 million due to additions and improvements to utility assets) and passenger facility charges (increase of $101.1 million for current and future airports related projects). As explained in more detail in the subsequent pages, the City's unrestricted net assets were up $340.5 million ($173.2 million for governmental activities, and $167.3 million for business-type activities).

Analysis of Activities: The following table presents condensed information showing how the City's net assets changed during the most recent fiscal year. As previously stated, all changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

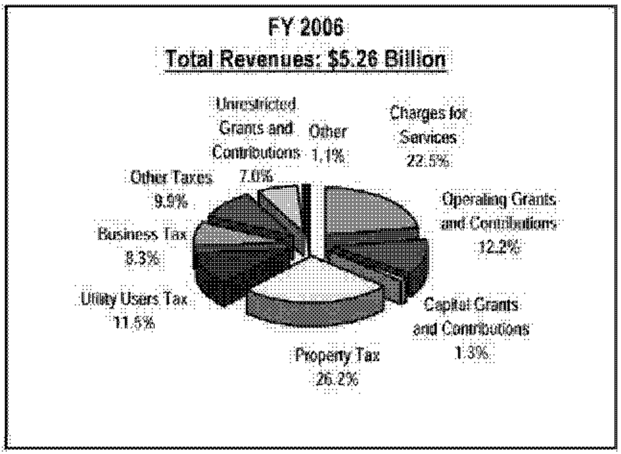
CITY OF LOS ANGELES
Condensed Statement of Activities
(amounts expressed in thousands)

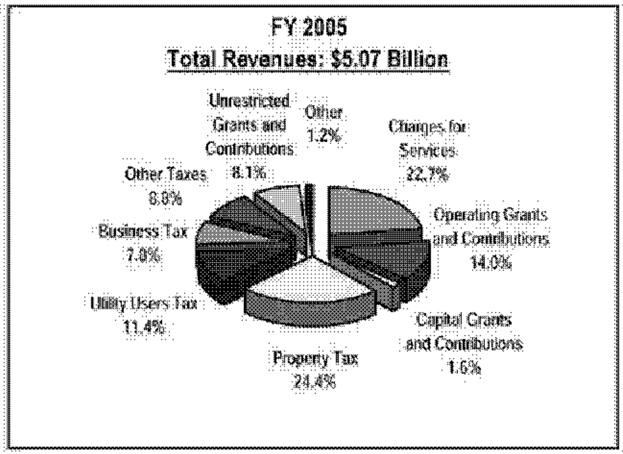
	Governmental Activities		Business-type Activities		Total	
	FY 2006	FY 2005	FY 2006	FY 2005	FY 2006	FY 2005
Revenues						
Program Revenues						
Charges for Services	$ 1,181,182	$ 1,151,242	$ 4,968,684	$ 4,531,819	$ 6,149,866	$ 5,683,061
Operating Grants and Contributions	644,539	710,146	17,281	11,971	661,820	722,117
Capital Grants and Contributions	65,850	81,402	130,885	53,276	196,735	134,678
General Revenues						
Property Taxes	1,377,063	1,236,559	--	--	1,377,063	1,236,559
Utility Users Taxes	606,617	578,542	--	--	606,617	578,542
Business Taxes	436,621	396,316	--	--	436,621	396,316
Other Taxes	521,451	447,397	--	--	521,451	447,397
Unrestricted Grants and Contributions	367,586	410,957	--	--	367,586	410,957
Unrestricted Investment Earnings	21,555	29,828	--	--	21,555	29,828
Other Revenues	38,795	30,687	--	--	38,795	30,687
Total Revenues	5,261,259	5,073,076	5,116,850	4,597,066	10,378,109	9,670,142
Expenses						
General Government	921,672	1,220,826	--	--	921,672	1,220,826
Protection of Persons and Property	2,117,147	2,156,914	--	--	2,117,147	2,156,914
Public Works	374,293	337,627	--	--	374,293	337,627
Health and Sanitation	357,574	298,777	--	--	357,574	298,777
Transportation	286,741	202,952	--	--	286,741	202,952
Cultural and Recreational Services	336,264	413,344	--	--	336,264	413,344
Community Development	297,308	318,119	--	--	297,308	318,119
Interest on Long-term Debt	173,930	181,113	--	--	173,930	181,113
Airports	--	--	657,358	599,483	657,358	599,483
Harbor	--	--	340,656	284,567	340,656	284,567
Power	--	--	2,458,667	2,233,084	2,458,667	2,233,084
Water	--	--	543,574	525,152	543,574	525,152
Sewer	--	--	497,699	480,392	497,699	480,392
Convention Center	--	--	34,939	34,371	34,939	34,371
Total Expenses	4,864,929	5,129,672	4,532,893	4,157,049	9,397,822	9,286,721
Increase (Decrease) in Net Assets Before Transfers and Other Items	396,330	(56,596)	583,957	440,017	980,287	383,421
Transfers	185,888	190,198	(185,888)	(190,198)	--	--
Increase in Net Assets	582,218	133,602	398,069	249,819	980,287	383,421
Net Assets Beginning of Year	1,930,133	1,608,632	12,624,983	12,375,164	14,555,116	13,983,796
Historical Cost of Infrastructure Assets	1,171,176	187,899	--	--	1,171,176	187,899
Net Assets End of Year	$ 3,683,527	$ 1,930,133	$ 13,023,052	$ 12,624,983	$ 16,706,579	$ 14,555,116

Governmental Activities

For the year ended June 30, 2006, the total expenses for governmental activities of $4.9 billion were $264.7 million (5.2%) less than the prior year. Total revenues of $5.3 billion grew by $188.2 million or 3.7% from $5.1 billion in fiscal year 2005. Program revenues funded 38.9% of the total expenses of $4.9 billion; taxes, other general revenues, and transfers from business-type activities financed the balance of 61.1%. Program revenues are resources obtained from parties outside of the City. They include: (a) amounts received from those who purchase, use or directly benefit from a program; (b) grants and contributions that are restricted to specific programs; and (c) investment earnings that are legally restricted for a specific program.

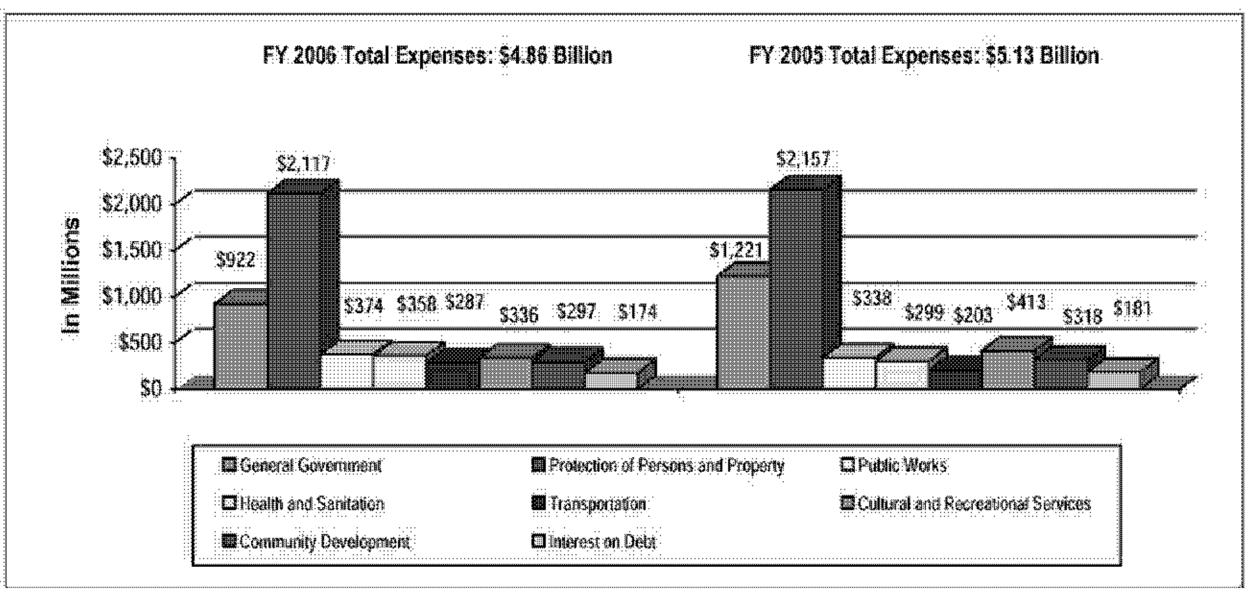
The following charts show a graphical comparison of governmental revenues by source.





Revenues from property tax, charges for services, and operating grants and contributions are the three largest revenue sources for governmental activities for both fiscal years 2006 and 2005. Together they posted a net increase of $104.8 million. All tax revenue categories posted growth from the prior fiscal year. The property tax revenue increase of $140.5 million reflected the growth in assessed valuations of real estate properties as well as the effect of actions taken by the State to resolve its budget problems. Such State actions also affected the governmental activities unrestricted grants and contributions for sales tax and motor vehicle in-lieu tax revenues. Other tax revenue categories that posted notable increases were utility users, business, documentary transfer, and transient occupancy. These economy-sensitive revenue categories benefited from the overall active local economy. Unrestricted investment earnings, shown in the above charts as a component of Other, decreased by $8.3 million. The downturn in the financial market towards the end of the second quarter of calendar year 2006 has impacted the market value of the City pool's investment instruments. At June 30, 2006, the total unrealized market value decline of the investment pool before allocations to participating funds was $130.9 million.

The following chart shows a graphical comparison of the City's governmental expenses by function.



The overall expenses for governmental activities decreased by 5.2% or $264.7 million. The decrease in the provision for long-term claims and judgments was the primary factor for the decrease in expenses for general government of $299.2 million. The other governmental functions posted the net offsetting increase of $34.5 million.

Business-type Activities

The City has six business-type activities: airports, harbor, power, water, sewer and convention center services. The combined operating revenues from their customers and ratepayers of $4.6 billion were 13.7% ($558.6 million) more than the $4.1 billion combined operating costs.

Since the proprietary funds provide the same type of information found in the government-wide statements, a more detailed discussion of the activities of the City's business-type activities is found in the financial analysis of the City's funds.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of resources that are available for spending. Such information is useful in assessing the City's financial requirements. In particular, the unreserved fund balance may serve as a useful measure for the City's net resources available for spending at the end of the fiscal year.

At June 30, 2006, the City's governmental funds reported combined fund balances of $3.7 billion. Of the $3.7 billion, the amount available for spending at the City's discretion (unreserved fund balance) totaled $1.9 billion. The remaining fund balances are reserved to indicate that they are not available for new spending because they have been committed: (1) to pay debt service - $361.2 million; (2) to reflect loans, inventories, and the amount due from other funds that are long-term in nature and thus do not represent available spendable resources - $448.5; (3) to liquidate contractual commitments of the period - $886.5 million; and (4) for a variety of other restricted purposes - $63.8 million.

Overall, revenues for governmental functions totaled $5.4 billion, while expenditures totaled $5.8 billion. Although total revenues were $422.7 million less than total expenditures, other financing sources bridged the gap. Other financing sources include proceeds from issuance of debt and transfers from enterprise funds.

The **General Fund** is the general operating fund of the City and it includes transactions of the Reserve Fund and other accounts that have General Fund type activity for GAAP reporting purposes. At June 30, 2006, the unreserved fund balance of the General Fund was $571.2 million while total fund balance was $785.4 million. The unreserved fund balance includes $108.5 million designated for emergencies and $10 million for capital improvements and other budget adjustments. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 15.9% of the total General Fund expenditures of $3.6 billion, while total fund balance represents 21.9% of that same amount.

Management's Discussion and Analysis (Continued)

The following table presents the summary of revenues and expenditures of the General Fund:

City of Los Angeles
Summary of Revenues, Expenditures and Other Financing Sources and Uses- General Fund
(amounts expressed in thousands)

Revenues and Other Financing Sources	FY 06	FY 05	% Change
Revenues			
Property Taxes	$ 1,168,082	$1,041,143	12.19%
Sales Taxes	329,169	303,954	8.30%
Utility Users Taxes	606,617	578,542	4.85%
Business Taxes	436,621	396,316	10.17%
Other Taxes	476,529	415,852	14.59%
Licenses and Permits	21,529	44,283	-51.38%
Intergovernmental	39,601	100,078	-60.43%
Charges for Services	324,689	400,044	-18.84%
Services to Enterprise Funds	229,695	227,314	1.05%
Fines	117,103	120,297	-2.66%
Special Assessments	2,765	2,625	5.33%
Investment Earnings	21,809	29,198	-25.31%
Other	35,077	29,761	17.86%
Total Revenues	3,809,286	3,689,407	3.25%
Other Financing Sources			
Transfers In	206,897	245,704	-15.79%
Total Revenues and Other Financing Sources	$4,016,183	$3,935,111	2.06%
Excess of Revenues Over Expenditures	$ 223,529	$ 343,865	-35.00%
Net Change in Fund Balance	$ (24,865)	$ 180,280	-113.79%

Expenditures and Other Financing Uses	FY 06	FY 05	% Change
Expenditures			
General Government	$ 1,063,766	$ 976,635	8.92%
Protection of Persons and Property	1,854,701	1,766,795	4.98%
Public Works	190,745	163,582	16.61%
Health and Sanitation	219,447	219,228	0.10%
Transportation	115,820	114,167	1.45%
Cultural and Recreational Services	66,632	44,298	50.42%
Community Development	39,333	36,347	8.22%
Capital Outlay	35,116	24,264	44.72%
Debt Service- Cost of Issuance	197	226	-12.83%
Total Expenditures	3,585,757	3,345,542	7.18%
Other Financing Uses			
Transfers Out	455,291	409,289	11.24%
Total Expenditures and Other Financing Uses	$ 4,041,048	$ 3,754,831	7.62%

As stated earlier, certain actions by the State affected the City's General Fund revenues from property taxes, sales taxes, and intergovernmental (for motor vehicle license fees). In March 2004, California voters approved the State's Economic Recovery Bond (ERB) measure. Repayment of the bonds is from increasing the State's share of the sales tax by 0.25% and reducing local government's share by the same rate. The sales tax reduction is offset by increased local property tax revenue. The increase in property tax allocation comes from education's share of property tax back-filled by the State's Education Revenue Augmentation Fund (ERAF). For the City, the result of this arrangement, familiarly known as "triple flip," for the fiscal year ended June 30, 2006, was $88.9 million property tax replacement for the sales tax shift. In addition, the City contributed $48.4 million of property tax to the State general fund.

Management's Discussion and Analysis (Continued)

Vehicle license fees (VLF) are traditional local revenue, and in the past, were collected as unsecured property tax. In the 1930s, the State began collecting the VLF and distributing receipts to local governments in lieu of property taxes. The total amount distributed to local governments consists of VLF paid by the public (about 35% of total) and the amount paid by State general fund (about 65% of total) through an offset. The State effected changes in the VLF distribution to local governments such that the State general fund component (or the offset) of the VLF is shifted to the State and is replaced by equivalent property tax. During fiscal year 2006, the General Fund recorded $257.4 million property tax replacement for the VLF offset.

For the fiscal year ended June 30, 2006, property tax revenues increased by $126.9 million to $1.17 billion from $1.04 billion in the prior year. Of the $126.9 million increase, $46.7 million is attributed to the State actions discussed above ($297.9 million in FY 2006 against $251.2 million in FY 2005). The remaining $80.2 million was due to growth in assessed valuation spurred by the relatively strong real estate market. The increases in the other tax revenue categories were the result of an overall vibrant economy.

Beginning fiscal year 2005-06, the City's revenue from fees paid for plan check, permitting, and inspection of new constructions are accounted for in the new Building and Safety Permit Special Revenue Fund. Before the creation of this fund, such revenues were recorded in the General Fund. The decreases in the General Fund's revenues from licenses and permits, and charges for services were principally due to this change.

The General Fund accounts for the plurality of participating funds in the City's general investment pool. As such, the unrealized market decline of the investment pool instruments at June 30, 2006 was the principal reason for the decrease of $7.4 million in investment earnings.

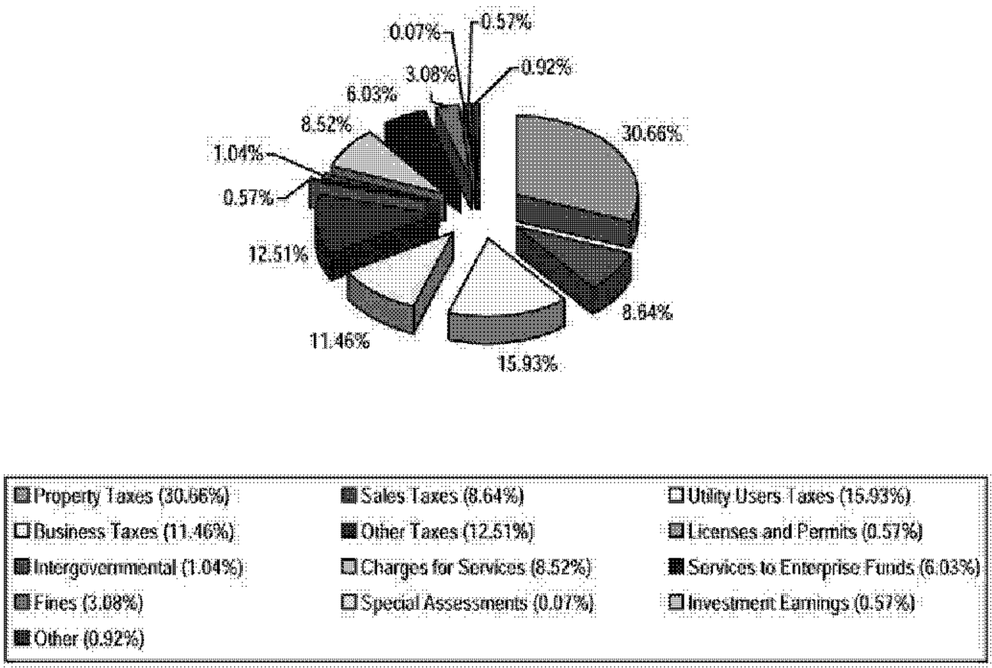
Total General Fund expenditures for fiscal year 2006 were $3.6 billion, an increase of $240.2 million, or 7.2%, from $3.3 billion in fiscal year 2005. Expenditures for general government, and protection of persons and property accounted for most of the increase due mainly to increased pension contributions.

Overall, General Fund revenues exceeded expenditures by $223.5 million, down $120.4 million from $343.9 million in fiscal year 2005. Transfers in from other funds amounted to $206.9 million, while transfers out amounted to $455.3 million. The Power and Water Enterprise Funds transfers accounted for majority (89.8%) of the total transfers in, which were $47.2 million less than the prior year's transfers. The reduction was due to supplemental transfers in fiscal year 2005. Debt service and lease payments to the City's financing authority accounted for 24.5% of the total transfers out while the General Fund's support for the operations of City libraries, zoo, parks and recreational facilities accounted for 43%.

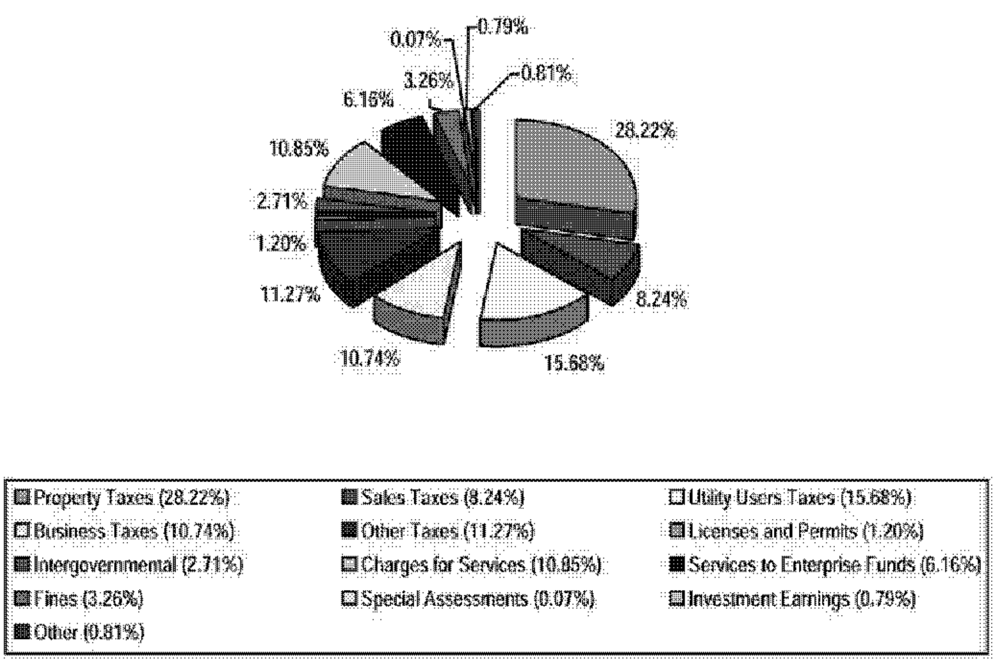
The above factors, including a $0.7 million increase in reserve for inventory, resulted in a year-end fund balance of $785.4 million, a decrease of $24.2 million from the prior year's fund balance of $809.6 million.

The following charts show graphical comparison of General Fund revenues by source and expenditures by function.

General Fund Revenues by Source: $3.81 Billion
Fiscal Year Ended June 30, 2006

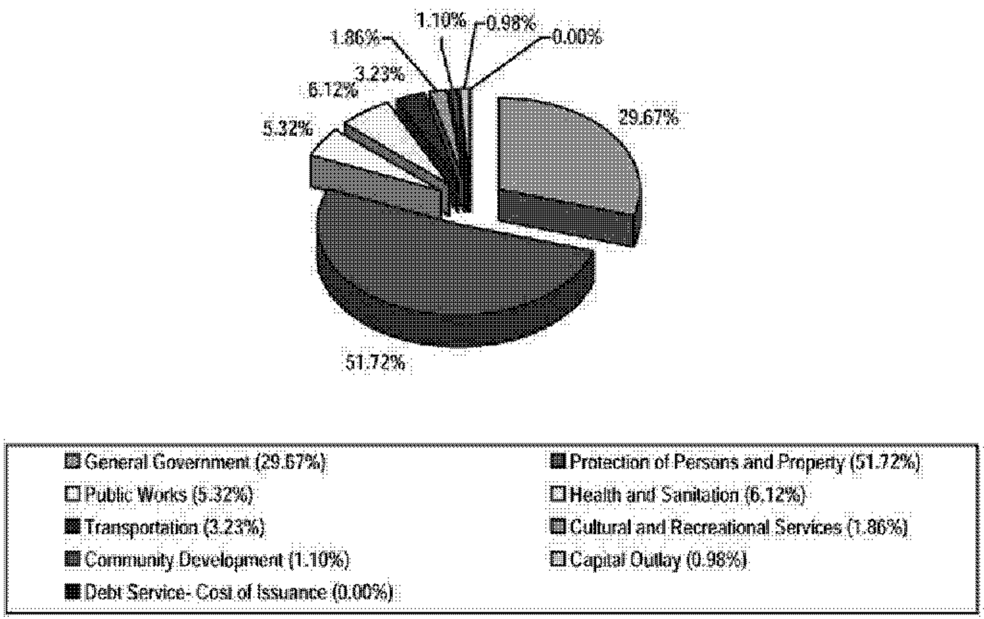


General Fund Revenues by Source: $3.69 Billion
Fiscal Year Ended June 30, 2005

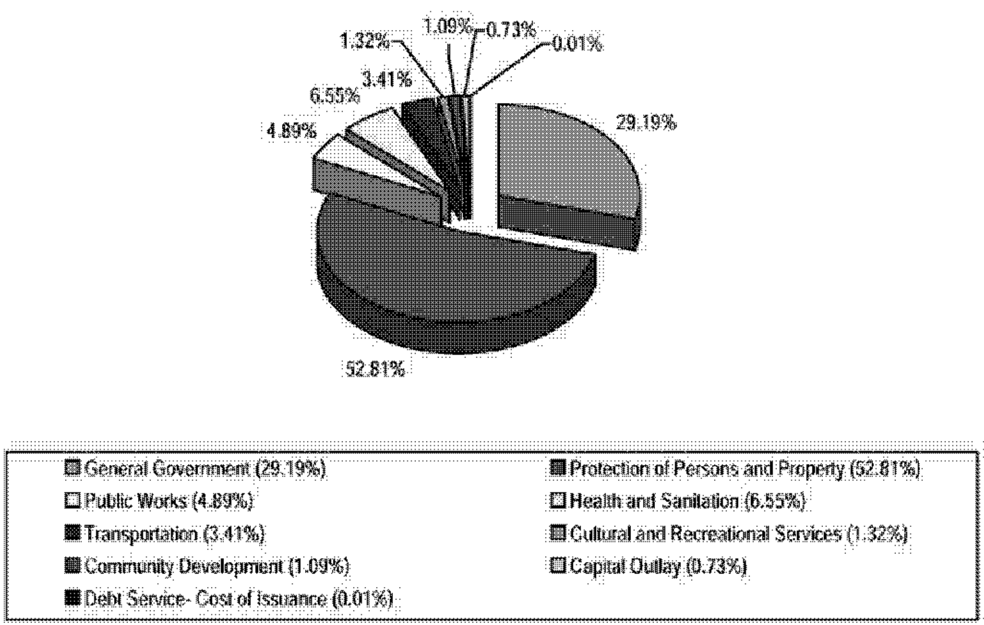


Management's Discussion and Analysis (Continued)

General Fund Expenditures by Function: $3.59 Billion
Fiscal Year Ended June 30, 2006



General Fund Expenditures by Function: $3.35 Billion
Fiscal Year Ended June 30, 2005



Management's Discussion and Analysis (Continued)

The **Proposition A Local Transit Assistance Fund** accounts for the City's 25% share of the additional one-half cent sales tax within the County of Los Angeles for public transit programs. At June 30, 2006, the Fund's unreserved fund balance was $97.9 million, while the total fund balance was $112 million, which reflected an increase of $16.5 million from the previous fiscal year. The increase was primarily due to the increase in reimbursements related to metro rail projects.

The **Proposition C Anti-Gridlock Transit Improvement Fund** accounts for the City's 20% share of the additional one-half cent sales tax within the County of Los Angeles to improve transit service and operations. At June 30, 2006, the Fund's unreserved fund balance was $58.3 million, while the total fund balance was $135.2 million, which reflected an increase of $33.6 million from the previous fiscal year. The increase was substantially due to reimbursements for the cost of monies used to front-fund certain transportation projects.

The **Recreation and Parks Fund** accounts for the City's recreation programs and park services. At June 30, 2006, the Fund's unreserved fund balance was $145.6 million, while the total fund balance was $163.3 million. The Fund's total expenditures exceeded its revenues by $69.5 million. As discussed earlier, transfers from the General Fund and available fund balance financed the deficiency of revenues.

The **Special Gas Tax Street Improvement Fund** accounts for gasoline tax and grant revenues to be used for the City's local streets and road system. At June 30, 2006, the Fund's unreserved fund balance was $13.4 million, while the total fund balance was $26.2 million, which reflected a decrease of $1 million from the previous fiscal year. The increase in expenditures for street improvement were funded by traffic congestion and resurfacing grants from the State.

The **Community Development Fund** accounts for federal grant funds for community and economic development within the City. At June 30, 2006, the Fund's unreserved fund balance reflected a deficit of $24 million, while the total fund balance was $154 million, which reflected a decrease of $6.2 million. Federal block grant revenues were down $20.3 million that resulted to decrease in grants and subsidies to program recipients and subrecipients.

The **Municipal Improvement Corporation Funds** account for the activities of the City's public financing entity, Municipal Improvement Corporation of Los Angeles (MICLA). Acquisition of certain properties and equipment, and construction of buildings and other improvements are financed through the issuance of MICLA certificates of participation and revenue bonds. The Debt Service Fund's aggregate principal and interest requirements for the year were $156.5 million, while lease payments from the General Fund and certain Special Revenue Funds were $139.6 million. Investment earnings and available fund balance of the MICLA Debt Service Fund, and transfers of available funds from the MICLA Special Revenue Fund funded the difference of $16.9 million.

Proprietary Funds

The City's proprietary funds provide the same type of information in the business-type activities column of the government-wide financial statements. More detailed information is presented in the following pages.

The following table summarizes the operating results of the City's six enterprise funds:

Business-type Activities
Change in Net Assets
For the Fiscal Year Ended June 30, 2006
(amounts expressed in thousands)

	Airports	Harbor	Power	Water	Sewer	Other-Convention Center	Total
Operating Revenues	$ 620,699	$ 412,117	$ 2,496,389	$ 598,625	$ 474,380	$ 24,245	$ 4,626,455
Operating Expenses	(631,474)	(267,782)	(2,286,921)	(465,197)	(381,526)	(34,918)	(4,067,818)
Operating Income (Loss)	(10,775)	144,335	209,468	133,428	92,854	(10,673)	558,637
Net Nonoperating Revenues (Expenses)	121,077	(51,768)	(31,618)	(62,382)	(80,869)	(5)	(105,565)
Capital Contributions	62,590	2,044	29,925	13,898	22,428	--	130,885
Transfers In	--	--	--	--	--	216	216
Transfers Out	--	--	(157,894)	(27,914)	--	(296)	(186,104)
Change in Net Assets	$ 172,892	$ 94,611	$ 49,881	$ 57,030	$ 34,413	$ (10,758)	$ 398,069

Business-type Activities
Change in Net Assets
For the Fiscal Year Ended June 30, 2005
(amounts expressed in thousands)

	Airports	Harbor	Power	Water	Sewer	Other-Convention Center	Total
Operating Revenues	$ 574,233	$ 368,828	$ 2,255,633	$ 558,285	$ 427,687	$ 20,320	$ 4,204,986
Operating Expenses	(575,246)	(223,808)	(2,082,191)	(461,333)	(362,402)	(34,341)	(3,739,321)
Operating Income (Loss)	(1,013)	145,020	173,442	96,952	65,285	(14,021)	465,665
Net Nonoperating Revenues (Expenses)	138,065	(49,950)	(28,418)	(42,970)	(95,710)	59	(78,924)
Capital Contributions	1,798	--	25,896	14,192	11,390	--	53,276
Transfers In	--	--	--	--	--	12	12
Transfers Out	--	--	(160,167)	(29,815)	--	(228)	(190,210)
Change in Net Assets	$ 138,850	$ 95,070	$ 10,753	$ 38,359	$ (19,035)	$ (14,178)	$ 249,819

Airports

Airports Enterprise Fund accounts for the operation, maintenance and development of City airports namely: Los Angeles International Airport, Ontario International Airport, Van Nuys Airport, and Palmdale Regional Airport.

For the fiscal year ended June 30, 2006, the Airports operating revenues grew $46.5 million or 8.1%, due primarily to increased activity in two categories of aviation revenues- building rentals and landing fees. Building rental rates and landing rates increased during the year. The increased landing rates resulted from increased airfield maintenance and operating costs.

Operating and administrative expenses before depreciation increased $48.5 million or 9.7%. Of the $48.5 million, $37.4 million was for increased salaries and benefits due to increase in staff hiring, annual salary increases, retroactive pay for certain employee groups, and increased retirement contributions. Contractual services expense increased $15.9 million mainly due to increased costs associated with post-September 11th security measures. Other operating expenses posted a net decrease of $4.8 million, while depreciation charges increased by $7.8 million due to additional assets being placed in service.

Net nonoperating revenues posted a $17 million decrease or 12.3%. Major nonoperating activities of the Airports Enterprise Fund are passenger facility charges, interest income and interest expenses. Passenger facility charges increased slightly by $1.9 million, which resulted from a modest increase in passenger traffic. Interest income decreased by $8.4 million mostly due to unrealized fair market value decline in investments. Interest expenses decreased by $5 million due to scheduled payments of revenue bonds and commercial paper notes.

As a result of the above financial changes, including capital grants of $62.6 million, the Airports Enterprise Fund's change in net assets for fiscal year 2006 amounted to $172.9 million, up $34 million from fiscal year 2005.

Harbor

The Harbor Enterprise Fund accounts for the operations of the Port of Los Angeles, including operations of a pilotage service, lease of land and facilities, and production of oil in the Harbor District.

For the fiscal year ended June 30, 2006, operating revenues of the Port of Los Angeles (the Port) rose to $412.1 million, reflecting an 11.7% increase from prior year revenues of $368.8 million. This increase is principally attributed to container volume growth and a 5% tariff increase effective July 1, 2005. A total of 7.8 million twenty-foot equivalent units (TEUs) in container volume moved through the Port facilities during fiscal year 2006, a 7.3% increase from the prior year. Revenue tons billed grew to 181.6 million or 12% increase from the prior year.

Operating expenses before depreciation rose $15.2 million to $169 million, a 9.9% increase from the prior fiscal year. Salaries and benefits expense increased by $7.5 million due to higher costs associated with health, dental and retirement costs. Outside services had net decrease of $6 million due to the decrease in security-related expenses offset by increased environmental assessment and maintenance dredging costs. Other operating expenses (which include provisions for bad debts and workers compensation, and subsidy for air quality program), increased by $15.2 million. Depreciation charges increased by $28.7 million due to additional assets placed in service.

Significant fluctuations in the net nonoperating items were as follows: $4.3 million increase in income from joint venture investment, $35.1 million increase in provision for litigation, claims and settlements; and $7.9 million reduction in grant receipts.

As of June 30, 2006, the change in net assets for the Harbor Enterprise Fund decreased slightly by $0.5 million to $94.6 million from $95.1 million in fiscal year 2005.

Power and Water

The Power and Water Enterprise Funds account for the operations of the Department of Water and Power in supplying the City and its inhabitants with water and electric power by constructing, operating, and maintaining facilities located throughout the City and in Inyo and Mono counties.

Power

During fiscal year 2006, operating revenues increased by $240.8 million (10.7%) from fiscal year 2005. The increase is mostly due to discontinuing the deferral of revenue collected for out-of-market sales of purchased power costs and beginning to recognize prior deferred amounts. In addition, wholesale activities for both the forward and real-time energy and capacity markets also increased.

Fiscal year 2006 operating expenses were $204.7 million higher as compared to fiscal year 2005. Fuel for generation expense increased by $63.5 million due to higher cost of natural gas, while purchased power costs increased by $106.8 million. Purchased power costs increased due to economic purchases being made. Economic purchases are purchases of energy on the open market where DWP has determined that the cost of acquiring the energy is less expensive than using available generation resources to meet customer demand.

Maintenance and depreciation increased by $22.7 million and $24.2 million, respectively. The increase in maintenance was due to additional work being performed on transmission assets. The increase in depreciation was due to additional assets being placed in service. These increases were offset by a decrease of $12.5 million in other operating costs related to distribution assets.

The major nonoperating activities of the Power Fund for fiscal year 2006 included the transfer of $157.9 million to the City's General Fund; interest income earned on investments of $122.7 million; and $167.5 million in debt expenses. The transfer to the General Fund is based on 7% of the previous year's operating revenues. Investment income increased $10 million due to interest rates trending higher in fiscal year 2006 compared to 2005. The increase in debt expense of $20.8 million is due to the issuance of $932 million revenue bonds and higher interest rates on variable rate debt. The variable rate bonds' daily and weekly rate range increased from 2.22% to 2.27% as of June 30, 2005 to 3.94% to 3.95% as of June 30, 2006.

As a result of the above financial changes, including capital contributions of $29.9 million, the Power Enterprise Fund's increase in net assets for fiscal year 2006 amounted to $49.9 million, up $39.1 million from fiscal year 2005.

Water

During fiscal year 2006, operating revenues increased by $40.3 million (7.2%) from fiscal year 2005. The increase was due to a 2% increase in consumption and a $8 million increase in sale of water for hydro generation purposes.

The operating expenses for fiscal year 2006 were $3.9 million higher compared to the prior year. This was mostly due to an increase in operating costs of $6.9 million offset by a $3.4 million decrease in depreciation expense. The increase in operating costs was related to increase in security costs, maintenance costs and other operating costs. Purchased water costs have decreased $1.5 million due to increased snow pack in the Sierra Nevada Mountains resulting in a decreased demand for purchased water.

The major nonoperating activities of the Water Fund for fiscal year 2006 include the transfer of $27.9 million to the City's General Fund, $74.1 million in debt expenses, and capital contributions of $13.9 million. The transfer to the General Fund is based on 5% of the previous year's operating revenues. The increase in debt expense of $14.7 million is due to the sale of revenue bonds in February 2006 and higher interest rates on variable rate debt. Capital contributions remained relatively unchanged.

As a result of the above financial changes, the Water Enterprise Fund's increase in net assets for fiscal year 2006 amounted to $57 million, up $18.7 million from fiscal year 2005.

Sewer

The Sewer Enterprise Fund accounts for the construction, operations and maintenance of the City's wastewater collection and treatment system.

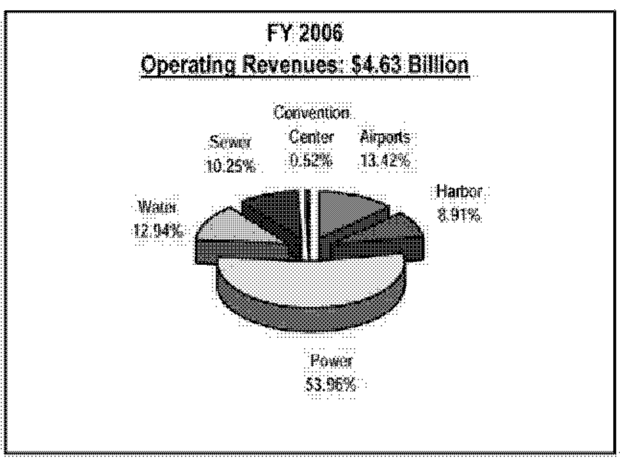
The total operating revenues of the Sewer Fund for fiscal year 2006 amounted to $474.4 million, a 10.9% or $46.7 million increase from the prior year. This was due to increase in sewer service charges of $47.5 million offset by a net decrease of $0.8 million in other operating revenues. The increase in sewer charges was the result of a 7% rate increase effective March 2005 and another 7% rate increase in July 2005.

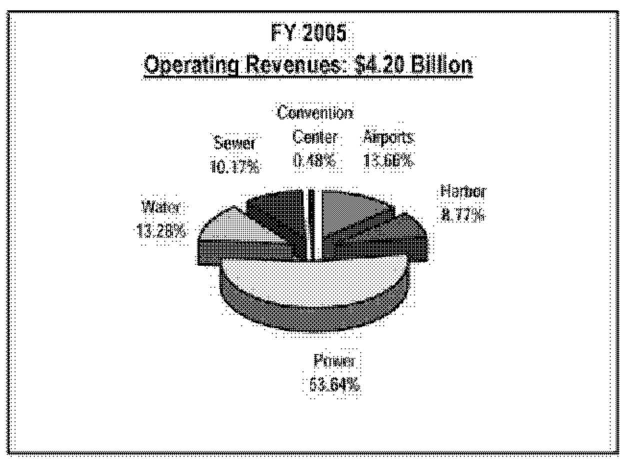
Total operating expenses amounted to $381.5 million, a 5.3% or $19.1 million increase from the prior year's $362.4 million. Expenses for operations and maintenance increased by $20.9 million while depreciation charges decreased by $1.8 million. The increase in operation and maintenance expenses was mainly due to increased General Fund costs reimbursements.

Nonoperating revenues increased by $12.5 million due primarily to increases in investment income and disaster assistance grants revenue. Investment income posted an increase of $6.8 million due to interest rates trending higher in 2006. Nonoperating expenses decreased by $2.4 million due principally to reduced litigation settlement accruals.

As a result of the above financial changes, including capital contributions of $22.4 million, the Sewer Enterprise Fund's net assets for fiscal year 2006 increased by $34.4 million compared to a decrease of $19 million in fiscal year 2005.

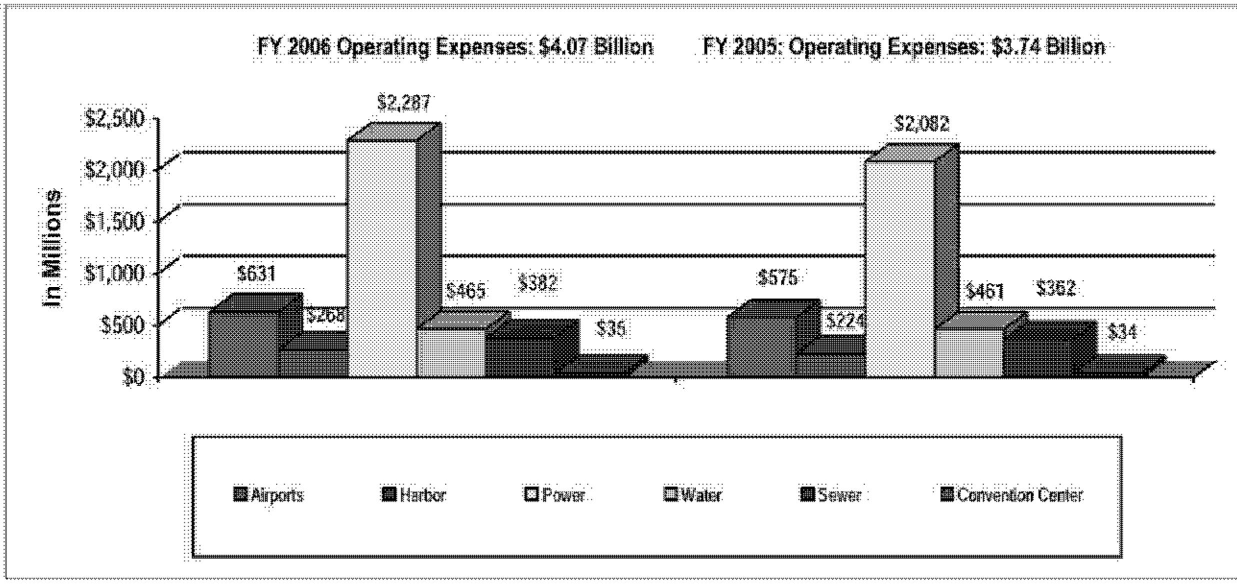
The following charts show graphical comparison of the enterprise funds/business-type activities operating revenues.





Management's Discussion and Analysis (Continued)

The following chart shows graphical comparison of the enterprise funds/business-type activities operating expenses.



GENERAL FUND BUDGETARY HIGHLIGHTS

For fiscal year 2005-06, the City budgeted for two General Fund accounts- the General Fund Operating Account and the Vehicle License Fee Gap Loan Financing Proceeds Account. Transactions between these two accounts (e.g. transfers in and out) were eliminated in the consolidated financial data. For purposes of the budget, General Fund Operating Account and the Vehicle License Fee Gap Loan Financing Proceeds Account are legal entities that are separate and distinct from the non-budgeted Reserve Fund and other accounts that are classified by the City as having General Fund type activity for GAAP reporting purposes. At fiscal year end, the unreserved and undesignated fund balance of the General Fund Operating Account is transferred to the Reserve Fund and reported as *"Reversion to Reserve Fund."*

The General Fund ended the year spending less than budgeted while actual revenues ended higher than anticipated. The following table summarizes the operating results on a budgetary basis of the City's General Fund consolidated accounts as described above:

City of Los Angeles
Budgetary Operating Results- General Fund
Fiscal Year Ended June 30, 2006
(amounts expressed in thousands)

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final	Amounts	Positive (Negative)
Revenues and Other Financing Sources				
Taxes	$ 2,814,994	$ 2,814,994	$ 2,961,381	$ 146,387
Licenses, Permits, Fees and Fines	551,925	552,793	592,455	39,662
Intergovernmental	37,000	37,000	99,703	62,703
interest	31,110	31,110	38,064	6,954
Other	10,280	10,280	9,334	(946)
Total Revenues	3,445,309	3,446,177	3,700,937	254,760
Power and Water Transfers	189,800	189,800	185,808	(3,992)
Reserve Fund Transfers	295,265	295,265	295,265	--
Transfers from Other Funds	649,291	858,171	744,698	(113,473)
Loans from Other Funds	--	761	16,399	15,638
Total Revenues and Other Financing Sources	4,579,665	4,790,174	4,943,107	152,933
Expenditures and Other Financing Uses				
General Government	1,346,969	1,375,708	1,285,519	90,189
Protection of Persons and Property	1,718,630	1,772,948	1,712,792	60,156
Public Works	289,048	346,175	321,134	25,041
Health and Sanitation	231,330	228,785	219,847	8,938
Transportation	128,490	140,836	132,103	8,733
Cultural and Recreational Services	67,033	71,181	69,031	2,150
Community Development	94,247	113,512	98,840	14,672
Pension and Retirement Contributions	27,037	25,206	25,205	1
Capital Outlay	10,659	40,504	14,415	26,089
Total Expenditures	3,913,443	4,114,855	3,878,886	235,969
Transfers to Other Funds	725,860	748,739	744,614	4,125
Payment of Loans to Other Funds	--	--	17,252	(17,252)
Total Expenditures and Other Financing Uses	4,639,303	4,863,594	4,640,752	222,842
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(59,638)	(73,420)	302,355	375,775
Fund Balance, July 1	59,638	59,638	--	(59,638)
Carryforward and Fund Balance Appropriations	--	13,782	--	(13,782)
Encumbrances lapsed	--	--	18,309	18,309
Reversion to Reserve Fund	--	--	(274,044)	(274,044)
Fund Balance, June 30	$ --	$ --	$ 46,620	$ 46,620

Receipts for fiscal year 2005-06 were $4.9 billion, a favorable variance of $152.9 million above the final budget estimate. Tax revenues accounted for most of this variance. Tax revenue categories that performed 10% or higher than final projections were: documentary transfer tax (39.2% or $61.1 million), gas users' tax (17.3% or $14.6 million), franchise income (15.1% or $7.1 million), business tax (12.8% or $49.4 million), and transient occupancy tax (10.9% or $12.5 million). Property tax revenue receipts were 1.6% ($17.9 million) below estimate due to approximately $40 million May 2006 collections that the County remitted in the subsequent fiscal year. These figures were indicative of how well the local economy performed during the fiscal year.

Vehicle License Fees (VLF) were the largest single positive factor in non-tax revenues for the fiscal year. To make up for three months of VLF backfill payments that the State did not allocate to local governments in 2003-04, a law was passed requiring the State to pay the VLF backfill "gap" funds by August 16, 2006. The City's receivable was approximately $65.5 million. The City participated in the State's VLF Gap Loan Financing Program where California Statewide Communities Development Authority (a joint powers authority) sold bonds to purchase the VLF receivables of participating cities and counties. The City received its share of $63.9 million of the bond proceeds in fiscal year 2006.

Total expenditures were less than the budgeted amounts due to budget reduction measures exercised by the Mayor, City Council and departments. Overall, close fiscal monitoring and revenue growth ended fiscal year 2005-06 with a $274 million reversion to the Reserve Fund.

LONG-TERM DEBT

At June 30, 2006 the City's bonded indebtedness and long-term notes payable totaled $13.5 billion as follows:

City of Los Angeles
Summary of Bonded Debts and Long-Term Notes Payable
(amounts expressed in thousands)

	Governmental Activities		Business-type Activities		Total	
	FY 2006	FY 2005	FY 2006	FY 2005	FY 2006	FY 2005
Debt backed by the City						
General Obligation Bonds	$ 1,480,010	$ 1,451,359	$ --	$ --	$ 1,480,010	$ 1,451,359
Judgment Obligation Bonds	21,485	28,140	--	--	21,485	28,140
Special Assessment Debt	32,595	34,160	--	--	32,595	34,160
Debt Secured by Specified Revenue Sources						
Certificates of Participation and Lease Revenue Bonds	1,290,056	1,410,496	--	--	1,290,056	1,410,496
Revenue Bonds and Notes Payable	562,998	426,712	10,019,409	8,780,701	10,582,407	9,207,413
Loans Payable to U.S. Department of Housing and Urban Development	132,953	135,903	--	--	132,953	135,903
Total	$ 3,520,097	$ 3,486,770	$ 10,019,409	$ 8,780,701	$ 13,539,506	$ 12,267,471

Significant new issuances during the year are the following:

- $126.8 million general obligation bonds for 9-1-1 police/fire safety equipment and facilities, and stormwater program.
- $96.2 million MICLA commercial paper notes for the acquisition of certain equipment, construction and improvements to certain City facilities.
- $308.6 million Harbor Enterprise Fund revenue bonds to refund certain outstanding bonds.
- $932.1 million Power Enterprise Fund revenue bonds to be used for power system capital improvements.
- $482.2 million Water Enterprise Fund revenue bonds to be used for water system capital improvements.

- $617.4 million Sewer Enterprise Fund revenue bonds to refund outstanding commercial paper notes and revenue bonds.

More detailed information on the City's bonds and other long-term debt can be found in Note 4I of the Notes to the Basic Financial Statements beginning on page 108.

As of June 30, 2006, there were no changes in the ratings of the outstanding bonds and the City is in compliance with its bond covenants.

In August 1998, the City adopted a formal Debt Management Policy that established guidelines for the structure and management of the City's governmental activities debt obligations. These guidelines include target and ceiling levels for certain debt ratios to be used for financial planning purposes. The policy places certain restrictions on the types of items that can be financed, limiting financing only to those items with a useful life of six years or more. In accordance with this policy, the ratio of annual debt payments cannot exceed 15% of General Fund revenues for voter-approved and non-voter approved debt overall, and cannot exceed 6% of General Fund revenues for non-voter approved debt alone. The 6% ceiling for non-voter approved debt may be exceeded, only if there is a guaranteed new revenue stream for the debt payments and the additional debt will not cause the ratio to exceed 7.5%, or there is no guaranteed revenue stream but the 6% ceiling shall not be exceeded for more than one year.

In addition, the policy specifies that the City's debt shall not exceed certain other ratios as defined by Moody's Investors Service, which are listed in the City Debt Policy Statement section of the City Budget.

In April 2003, the City adopted a Variable Rate Debt Policy and Interest Rate Risk Mitigation Policy. The Variable Rate Debt sets forth the purposes and the criteria for using variable rate debt, and the factors to be considered in determining the appropriate amount of the variable rate debt. It also requires diversification of remarketing agents and counterparties. Budgeting, monitoring and reporting requirements are also included in the policy.

The Interest Rate Risk Mitigation Policy was developed to provide guidelines for the use of interest rate mitigation products such as swaps, caps, floors, collars and options in connection with the incurrence of debt. While the use of these financing products can reduce the City's exposures to risks inherent to certain types of debts, careful monitoring is required to preserve the City's credit strength and budget flexibility.

As of June 30, 2006, the City is in compliance with the aforementioned policies.

In order to protect against potential rising of interest rates, the City entered into pay-fixed, receive-variable interest rate swap agreements on the $235.5 million Convention Center variable rate lease revenue refunding bonds and on the $316.8 million Sewer Enterprise Fund Subordinate Variable Revenue Bonds. The swap agreements were effective June 1, 2004 and April 6, 2006, respectively. The costs associated with the swaps are less than what the City would have paid to issue fixed rate debt. Terms, fair values, and credit risks associated with the swap agreements are discussed in Note 4K of the Notes to the Basic Financial Statements beginning on page 120.

Information related to the City's legal debt margin is found on page 310. Pledged revenue bond coverage for the City's enterprise funds is found on pages 312 and 313.

CAPITAL ASSETS

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2006 amounted to $23.3 billion (net of accumulated depreciation). This investment in capital assets, which accounts for 65.4% of the City's total assets, includes land, buildings, facilities, equipment, infrastructure, and construction in progress. The following table presents the City's capital assets (in thousands):

City of Los Angeles
Summary of Capital Assets Used in Operations
(amounts expressed in thousands)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Not Depreciated						
Land	$ 575,942	$ 560,437	$ 2,123,410	$ 2,119,692	$ 2,699,352	$ 2,680,129
Infrastructure	163,240	161,380	--	--	163,240	161,380
Construction in Progress	970,876	784,936	2,087,552	2,020,109	3,058,428	2,805,045
	1,710,058	1,506,753	4,210,962	4,139,801	5,921,020	5,646,554
Depreciated, Net						
Buildings, Facilities and Equipment	1,960,627	1,834,057	13,589,301	13,053,847	15,549,928	14,887,904
Infrastructure	1,604,619	403,699	--	--	1,604,619	403,699
	3,565,246	2,237,756	13,589,301	13,053,847	17,154,547	15,291,603
Natural Gas Field, Net	--	--	237,403	--	237,403	--
Nuclear Fuel at Amortized Cost	--	--	14,578	13,472	14,578	13,472
Total	$ 5,275,304	$ 3,744,509	$ 18,052,244	$ 17,207,120	$ 23,327,548	$ 20,951,629

The City changed its reporting method from the modified approach to the depreciation method for the following infrastructure systems: stormwater (other than sewer), streets, and traffic signals. The change was effective for fiscal year 2005-06. With this change, the City has fully implemented the retroactive provisions of GASB Statement No. 34 on infrastructure assets.

As of June 30, 2006, the condition of City bridges is compliant with the City's policy. Seventy three percent of all City bridges are rated B or better and no bridge is rated less than D. The delay in appropriating funds contributed to the delay in awarding construction contracts for bridges. Because of this delay, $16.4 million was spent out of the $30 million planned for preservation and maintenance projects. The required supplementary information for bridges is presented on page 170.

Major capital assets activities during the year are as follows:

Governmental Activities

- Completed building construction and various improvements amounted to $182.4 million that included $8.7 million acquisition, construction and improvement costs for various fire stations and other municipal facilities; and $173.7 million for library, recreation and parks, and zoo facilities.

- Charges for various projects under construction totaled $368.3 million. These projects are for police, library, recreational, zoo, stormwater, streets, traffic and various other City facilities and infrastructure projects.

- Capitalized expenses for infrastructure assets totaled $63.6 million. To comply with GASB Statement No. 34, the historical cost of certain infrastructure assets constructed through fiscal year 2002 of $1,774.1 million was recorded during the year.

- Acquisition for machinery and equipment that were capitalized totaled $114.3 million, while those retired, salvaged, deleted or sold amounted to $42.6 million.

Business-type Activities

- The Airports Enterprise Fund capitalized $208.2 million in fiscal year 2006 that included $4.9 million for land acquisition, $139.9 million for buildings, facilities and improvements and construction in progress of $63.4 million. Significant capital expenditures were made for noise mitigation projects, the new Southside airfield at LAX, interior improvements at the Tom Bradley International Terminal, and in-line baggage screening systems.

- The Harbor Enterprise Fund capitalized $109.4 million in fiscal year 2006. The majority of the capitalized expenses were for commercial development. Other significant capital outlays were related to terminal development, dredging projects and environmental enhancements. Although capital assets posted an increase over the prior year, capital spending fell short of original plans due to projects that have been put on hold pending completion of additional environmental impact assessments.

- The Power Enterprise Fund put into service $331.3 million of additions, including transfers from construction in progress, to utility plant in service. Of the $331.3 million, $185.9 million or 56.1% related to distribution assets. Furthermore, the Fund had capital improvements to its generation and transmission utility plant assets to maintain and support normal load growth. The increase in construction work in progress is mostly attributable to the Pinetree Wind Project and other generation improvements. In July 2005, DWP and other members of the Southern California Public Power Authority completed the acquisition of natural gas reserves and other real property located in Pinedale, Wyoming. The Fund contributed approximately $230 million in the transaction.

- The Water Enterprise Fund put into service $160.5 million of additions to utility plant in service. Of the $160.5 million, $106.2 million or 66.2% related to distribution utility plant assets, and $41.1 million was added to source of supply assets. Additions to distribution utility plant assets comprised the completion of various major reservoir and trunk line projects. Additions to source of water supply assets include structures and improvements to the aqueduct system. The remaining $13.2 million of additions were incurred for normal capital activities to maintain and support general plant, pumping and purification systems.

- The Sewer Enterprise Fund put into service $362.6 million of additions, including transfers from construction in progress, to utility plant in service. Of the $362.6 million, $290.4 million or 80% related to collection system and $65.6 million or 18% related to treatment plants and equipment. Charges to construction in progress totaled $178.6 million. These projects are driven by regulatory requirements.

Significant commitments that include construction contracts are discussed in Note 5B of the Notes to the Basic Financial Statements on page 149.

The City's policy affecting capital assets can be found in Note1E of the Notes to the Basic Financial Statements on pages 64-66. Additional information can be found in Note 4F on pages 102-104.

ECONOMIC FACTORS AFFECTING NEXT YEAR'S BUDGET

The City's 2006-07 adopted budget is $6.7 billion. Of this amount, $3.6 billion, or 53.6%, is appropriated for departmental expenditures. The remainder of $3.1 billion is appropriated for non-departmental expenditures. Estimated general receipts of $4.3 billion and special receipts of $1.9 billion and available balances of $0.5 billion fund the budget.

The budgeted General Fund receipts of $4.3 billion project a net increase of $206 million or 5% increase from fiscal year 2005-06 actual receipts as follows:

	FY 2006-07 Budget	FY 2005-06 Receipts	Increase (Decrease) Amount	Increase (Decrease) %
Taxes	$ 3,135.3	$ 2,961.4	$ 173.9	5.9%
Licenses, permits, fees and fines	649.2	592.5 [a]	56.7	9.6%
Intergovernmental	42.1	35.8	6.3	17.6%
Interest	44.0	38.1	5.9	15.5%
Other	10.5	9.3	1.2	12.9%
Transfers from other funds [b]	457.6	497.8	(40.2)	-8.1%
	$ 4,338.7	$ 4,134.9	$ 203.8	4.9%

[a] Excludes VLF Gap Loan Financing proceeds of $63.9 million.

[b] Other funds include Reserve, Tax Reform, Power, Water and Telecommunications Liquidated Damages Funds.

Receipts from property, transient occupancy, parking users, utility users and sales taxes are expected to perform better than the prior year's receipts, while decreases are projected for receipts from documentary transfer, and franchise taxes.

Property tax is still the City's largest General Fund revenue source. The amount of property tax received is determined by complex Proposition 13 related factors including inflation, the real estate market, new construction activity, assessment appeals and restorations to the tax rolls. For fiscal year 2006-07, property tax receipts are expected to post $176.5 million more than the prior year's receipts. Of this amount, $93.3 million is attributed to growth in assessed valuations expected to exceed 10% in fiscal year 2006-07. The balance of $83.2 million is the result of the State's action redirecting property taxes to local governments in lieu of sales taxes and vehicle license fees. While assessed valuations have grown in recent years, there are indications of a declining volume of real estate sales. Because of this, coupled with the stabilizing home prices, the City anticipates that its revenue from documentary transfer taxes will be $24.6 million or 11.4% less than the fiscal year 2005-06 receipts.

Increased collections from parking fines and reimbursements from enterprise funds for general fund services that includes fire and police protection are the primary reasons for the 10% projected increase in revenues from licenses, permits, fees and fines.

Budgeted transfers from Power and Water Revenue Funds totaled $206.6 million while transfers from the Reserve Fund were budgeted at $231.3 million. Because of the anticipated growth in taxes and other revenue categories, the Reserve Fund transfers are $64 million less than the prior fiscal year.

A review of recent economic performance and forecasts by leading economists provides important insight into the region's economic outlook and of the City's revenue base.

Management's Discussion and Analysis (Continued)

- Employment in Los Angeles County has fluctuated over the last nine years, growing by 1.8% annually between 1997 and 2000, and then falling by 1.1% in 2002 and 2003. This fall was followed by minimal growth of less than 1% in 2004 and 2005. For 2006 and 2007, the Los Angeles County Economic Development Corporation (LAEDC) projects average employment expansion in Los Angeles County by 1%. The UCLA Andersen (UCLA) forecasts statewide non-farm employment growth of 1.5% in 2006 and 1% in 2007. Growth in statewide employment typically exceeds Los Angeles area employment growth.

- Another good indicator of the local economy is the change in personal income. Personal income in the Los Angeles County area has grown steadily, moving up to 6% both in 2004 and 2005. LAEDC anticipates growth of about 6% in 2006 and 2007, and UCLA projects expansion of the state's personal income by 5% in 2006 and 4.7% in 2007.

- LAEDC anticipates that inflation, as measured by the consumer price index, will be 4.3% in 2006 and 3.5% in 2007. UCLA forecasts 3% in 2006 and 2.1% in 2007.

- Employment is the primary determining factor of income and income determines the ability of consumers to make purchases. City taxable sales between fiscal years 1999-00 and 2000-01 grew by an average of 8% each year but declined by 2% in 2001-02. In fiscal years 2002-03 and 2004-05, taxable sales expanded by an average of 4% each year and about 7.8% in 2005-06. A 5% growth is anticipated in 2006-07, a consensus shared by LAEDC and UCLA.

Other matters that are affecting and will affect the City's current and future operations are as follows:

- Contract negotiations with unions representing City civilian employees will occur in the next fiscal year. If salary increases are granted, each 1% is worth approximately $12 million.

- The City's General Fund contributions to the civilian retirement, and fire and police pension systems continue to increase. It increased by approximately $102 million in 2005-06 and will increase by $200 million in 2006-07. At June 30, 2006, the unfunded actuarial accrued liabilities of the two systems for pension benefits were $2.2 billion and $690 million, respectively. The respective funded ratios were 78% and 95%. In addition, the unfunded postemployment healthcare benefits liabilities were $740.5 million and $1 billion, respectively. The respective funded ratios were 57% and 38%.

- The Reserve Fund transferred $295.3 million as a funding source to the General Fund in fiscal year 2005-06 and will transfer $231.3 million in fiscal year 2006-07. Reserve Fund budgetary transfers are made possible by intensive monitoring of department expenditures by the Mayor and the Council coupled with revenue growth. Problems in the national, State, or local economy may weaken future revenues, making Reserve Fund transfers difficult without significantly reducing City service levels.

- A substantial portion of the City's telephone users tax is may be at risk. Changes in Federal law as well as a Proposition 218 court action are seriously challenging the utility users tax derived from wireless telephone service which is estimated at $163 million in the fiscal year 2006-07 budget. An unfavorable result would restrict the City's ability to collect taxes on certain wireless telephone calls. Please see page 143 for additional discussion.

- The City Administrative Officer prepares a five-year budget forecast that is submitted to the Mayor and City Council in various reports during the year. The forecast is subject to change as revenue and expenditure data are updated throughout the year. The most recent report projects deficits of $261.2 million, $241.4 million and $65.1 million for fiscal years 2007-08, 2008-09 and 2009-10, respectively and a surplus of $78.1 million in 2010-11.

COMMUNITY REDEVELOPMENT AGENCY OF THE CITY OF LOS ANGELES

The Community Redevelopment Agency is a component unit that is legally separate from the City. It is discretely presented because its governing board is not substantially the same as the City's governing body and it provides services directly to the citizenry rather than to the City government.

The following schedule provides condensed data from the CRA's statement of net assets:

Community Redevelopment Agency
Condensed Statement of Net Assets
(amounts expressed in thousands)

	FY 2006	FY 2005
Current and other assets	$ 564,521	$ 451,351
Capital assets	99,680	101,868
Total assets	664,201	553,219
Current and other liabilities	53,778	54,301
Long-term liabilities	745,035	649,033
Total liabilities	798,813	703,334
Net assets:		
Invested in capital assets,		
net of related debt	54,340	55,881
Restricted	408,469	287,544
Unrestricted	(597,421)	(493,540)
Total net assets	$ (134,612)	$ (150,115)

At June 30, 2006, the CRA's total liabilities exceeded its total assets by $134.6 million or a decrease of $15.5 million from the previous year's deficit of $150.1 million. The deficit is primarily due to the issuance of debt, secured and to be paid for by future incremental property taxes. Debt proceeds are used to finance redevelopment activities that benefit the community and increase the project areas' taxable base. The redevelopment activities do not necessarily result in CRA assets; if they do, such assets are carried in the CRA's books at substantially below cost. The CRA also provides gap financing on certain redevelopment activities and any equity assumed in these projects is significantly less than the financing provided.

For the fiscal year ended June 30, 2006, the CRA incurred additional bonded debt and notes payable totaling $124.4 million, while retirements and defeasances totaled $32.5 million. Proceeds of the debt issuances increased cash and investment, a component of current and other assets.

Management's Discussion and Analysis (Continued)

At June 30, 2006, the CRA's long-term debt amounted to $745 million. Of this amount, 81.5% or $607.1 million are tax allocation bonds. The CRA issues tax allocation bonds to finance certain redevelopment programs. Receipts from incremental property taxes are used to pay debt service on the tax allocation bonds. Incremental property taxes are collected from the excess of property taxes levied and collected each year on a redevelopment project over the amount that is levied and collected on the base year property tax assessment.

The following table presents the operating results of the CRA:

Community Redevelopment Agency
Condensed Statement Activities
(amounts expressed in thousands)

	FY 2006	FY 2005
Program Revenues		
Charges for Services	$ 9,332	$ 8,708
Capital Grants and Contributions	26,707	23,016
General Revenues		
Incremental Property Taxes	127,216	103,231
Interest Income	16,568	11,090
Other	1,126	938
Total Revenues	180,949	146,983
Program Expenses		
Housing	31,496	25,200
Community and Economic Development	32,310	17,088
Public Improvement	7,361	7,851
Project General	50,236	34,654
Parking facilities	5,055	5,029
Interest on Long-term Debt	29,833	30,333
Total Program Expenses	156,291	120,155
Increase (Decrease) in Net Loan Valuation	(9,155)	29,113
Change in Net Assets	$ 15,503	$ 55,941

For the year ended June 30, 2006, the CRA's change in net assets of $15.5 million was down $40.4 million from the prior year.

For the fiscal year ended June 30, 2006, the CRA's revenues totaled $180.9 million, a $34 million (23.1%) improvement from the prior fiscal year. Incremental property taxes contributed $24 million to the overall revenue growth. The CRA benefited from the relatively strong real estate market that spurred the growth in assessed valuation. Program expenses increased by $36.1 million due to increased staffing and consulting services for on-going redevelopment projects. The restructuring of several loans resulted to the $9.2 million decrease in valuation of the CRA's loans receivable portfolio.

Among the measures that the State of California has adopted to alleviate its budget deficit is to require redevelopment agencies to shift tax increment revenues to the State Educational Revenue Augmentation Fund. The CRA's share was $8.9 million for fiscal year 2006.

Management's Discussion and Analysis (Continued)

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, creditors, and other users with a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the City Controller, 200 North Main Street, City Hall East Room 300, Los Angeles, CA 90012.

Basic
Financial Statements

CITY OF LOS ANGELES

Statement of Net Assets (Deficit)
June 30, 2006
(amounts expressed in thousands)

	Primary Government			Component Unit- Community Redevelopment Agency
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and Pooled Investments	$ 4,089,583	$ 1,432,832	$ 5,522,415	$ 185,501
Other Investments	60,892	--	60,892	162,704
Receivables, Net	857,514	2,048,950	2,906,464	82,935
Loans Receivable from Component Unit	73,905	--	73,905	--
Inventories	16,985	146,088	163,073	35,879
Prepaid Items and Other Assets	20,813	92,425	113,238	27,675
Restricted Assets	15,943	3,315,942	3,331,885	69,827
Investment in Joint Ventures	--	7,140	7,140	--
Net Pension Assets	--	148,564	148,564	--
Capital Assets				
Not Depreciated	1,710,058	4,210,962	5,921,020	68,206
Depreciated, Net	3,565,246	13,589,301	17,154,547	31,474
Natural Gas Field, Net	--	237,403	237,403	--
Nuclear Fuel, at Amortized Cost	--	14,578	14,578	--
TOTAL ASSETS	10,410,939	25,244,185	35,655,124	664,201
LIABILITIES				
Accounts Payable and Accrued Expenses	345,959	589,085	935,044	11,575
Obligations Under Securities Lending Transactions	629,135	321,027	950,162	--
Matured Bonds and Interest Payable	588	--	588	--
Accrued Interest Payable	46,813	135,495	182,308	18,223
Internal Balances	49,589	(49,589)	--	--
Deposits and Advances	33,891	67,945	101,836	21,121
Other Liabilities	15,813	626,252	642,065	2,859
Net Pension Liability	71,064	11,985	83,049	--
Other Postemployment Benefits Liability	--	168,704	168,704	--
Advances from Fiduciary Funds	22,873	--	22,873	--
Non-current Liabilities				
Due Within One Year	455,335	565,917	1,021,252	19,036
Due In More Than One Year	5,056,352	9,784,312	14,840,664	652,094
Loans Payable to Primary Government (all due in more than one year)	--	--	--	73,905
TOTAL LIABILITIES	6,727,412	12,221,133	18,948,545	798,813
NET ASSETS				
Invested In Capital Assets, Net of Related Debt	2,946,666	8,777,029	11,723,695	54,340
Restricted for:				
Capital Projects	104,715	163,951	268,666	217,039
Debt Service	231,421	875,761	1,107,182	67,004
Public Safety	224,313	--	224,313	--
Public Works and Sanitation	200,024	--	200,024	--
Transportation Programs	474,360	--	474,360	--
Culture and Recreation Activities	194,432	--	194,432	--
Community Development and Housing	299,140	--	299,140	124,426
Passenger Facility Charges	--	362,634	362,634	--
Pension and Other Postemployment Benefits	--	483,872	483,872	--
Other Purposes	27,485	256,443	283,928	--
Unrestricted (Deficit)	(1,019,029)	2,103,362	1,084,333	(597,421)
TOTAL NET ASSETS (DEFICIT)	$ 3,683,527	$ 13,023,052	$ 16,706,579	$ (134,612)

The notes to the financial statements are an integral part of this statement.

CITY OF LOS ANGELES

Statement of Activities
For the Fiscal Year Ended June 30, 2006
(amounts expressed in thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
					Primary Government			Component Unit - Community Redevelopment Agency
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business- type Activities**	**Total**	
Primary Government								
Governmental Activities:								
General Government	$ 921,672	$ 250,111	$ 12,484	$ --	$ (659,077)	$ --	$ (659,077)	$ --
Protection of Persons and Property	2,117,147	260,457	95,623	18,573	(1,742,494)	--	(1,742,494)	--
Public Works	374,293	138,345	133,985	277	(101,686)	--	(101,686)	--
Health and Sanitation	357,574	250,527	18,709	431	(87,907)	--	(87,907)	--
Transportation	286,741	76,785	176,203	2,157	(31,596)	--	(31,596)	--
Cultural and Recreational Services	336,264	133,073	17,220	44,412	(141,559)	--	(141,559)	--
Community Development	297,308	71,884	190,315	--	(35,109)	--	(35,109)	--
Interest on Long-Term Debt	173,930	--	--	--	(173,930)	--	(173,930)	--
Total Governmental Activities	4,864,929	1,181,182	644,539	65,850	(2,973,358)	--	(2,973,358)	--
Business-type Activities:								
Airports	657,358	767,660	--	62,590	--	172,892	172,892	--
Harbor	340,656	433,223	--	2,044	--	94,611	94,611	--
Power	2,458,667	2,636,517	--	29,925	--	207,775	207,775	--
Water	543,574	614,620	--	13,898	--	84,944	84,944	--
Sewer	497,699	492,403	17,281	22,428	--	34,413	34,413	--
Other- Convention Center	34,939	24,261	--	--	--	(10,678)	(10,678)	--
Total Business-type Activities	4,532,893	4,968,684	17,281	130,885	--	583,957	583,957	--
Total Primary Government	$ 9,397,822	$ 6,149,866	$ 661,820	$ 196,735	(2,973,358)	583,957	(2,389,401)	--
Component Unit- Community Redevelopment Agency	$ 165,446	$ 9,332	$ --	$ 26,707	--	--	--	(129,407)
General Revenues:								
Property Taxes					1,377,063	--	1,377,063	127,216
Utility Users Taxes					606,617	--	606,617	--
Business Taxes					436,621	--	436,621	--
Other Taxes								
Documentary Transfer Tax					213,966	--	213,966	--
Transient Occupancy Tax					138,741	--	138,741	--
Parking Occupancy Tax					75,472	--	75,472	--
Franchise Income					67,817	--	67,817	--
Miscellaneous					25,455	--	25,455	--
Grants and Contributions Not Restricted to Specific Programs								
Sales Taxes					329,169	--	329,169	--
Motor Vehicle In-Lieu Taxes					24,120	--	24,120	--
Other					14,297	--	14,297	--
Unrestricted Investment Earnings					21,555	--	21,555	16,568
Other					38,795	--	38,795	1,126
Transfers					185,888	(185,888)	--	--
Total General Revenues and Other Items					3,555,576	(185,888)	3,369,688	144,910
Change In Net Assets					582,218	398,069	980,287	15,503
Net Assets (Deficit) - July 1					1,930,133	12,624,983	14,555,116	(150,115)
Net Historical Cost of Infrastructure Assets					1,171,176	--	1,171,176	--
Net Assets (Deficit) - June 30					$ 3,683,527	$ 13,023,052	$ 16,706,579	$ (134,612)

The notes to the financial statements are an integral part of this statement.

CITY OF LOS ANGELES

Balance Sheet
Governmental Funds
June 30, 2006
(amounts expressed in thousands)

	General	Proposition A Local Transit Assistance	Proposition C Anti-Gridlock Transit Improvement	Recreation and Parks	Special Gas Tax Street Improvement
ASSETS					
Cash and Pooled Investments	$ 1,053,736	$ 126,811	$ 58,936	$ 211,165	$ 15,864
Other Investments	--	--	--	--	--
Taxes Receivable					
(Net of Allowance for Uncollectibles of $34,029)	262,464	--	--	--	--
Accounts Receivable					
(Net of Allowance for Uncollectibles of $502,322)	159,605	8	--	1	--
Special Assessments Receivable					
(Net of Allowance for Uncollectibles of $1,646)	4,439	--	--	--	--
Investment Income Receivable	12,021	1,190	530	1,765	237
Intergovernmental Receivable					
(Net of Allowance for Uncollectibles of $49,859)	15,626	13,028	7,881	--	6,910
Loans Receivable					
(Net of Allowance for Uncollectibles of $623,809)	--	--	--	--	--
Due from Other Funds	28,901	308	73	1,144	1,017
Loans Receivable from Component Unit					
(Net of Allowance for Uncollectibles of $500)	--	--	--	--	--
Inventories	16,985	--	--	--	--
Prepaid Items and Other Assets	--	--	--	--	--
Advances to Other Funds	24,464	--	76,320	3,114	--
Restricted Assets	--	--	--	--	6,309
TOTAL ASSETS	$ 1,578,241	$ 141,345	$ 143,740	$ 217,189	$ 30,337
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts, Contracts and Retainage Payable	$ 62,934	$ 8,388	$ 50	$ 4,685	$ 760
Obligations Under Securities					
Lending Transactions	237,471	18,757	7,983	31,210	3,279
Accrued Salaries and Overtime Payable	150,041	--	--	10,108	--
Accrued Compensated Absences Payable	1,505	--	--	92	--
Estimated Claims and Judgments Payable	13,688	--	--	--	--
Intergovernmental Payable	87	--	--	13	--
Due to Other Funds	19,452	94	138	405	--
Deferred Revenue and Other Credits	217,998	2,119	414	785	94
Deposits and Advances	19,952	19	--	593	--
Matured Bonds and Interest Payable	--	--	--	--	--
Advances from Other Funds	56,159	--	--	5,955	--
Other Liabilities	13,564	--	--	--	--
TOTAL LIABILITIES	792,851	29,377	8,585	53,846	4,133
FUND BALANCES					
Reserved for:					
Encumbrances	124,878	14,038	521	14,646	6,464
Assets Not Available for Appropriation	41,449	--	76,320	3,114	--
Debt Service	--	--	--	--	--
Special Purposes	47,860	--	--	--	6,309
Unreserved:					
Designated for Special Purposes	118,468	--	--	--	--
Undesignated:					
General Fund	452,735	--	--	--	--
Special Revenue Funds	--	97,930	58,314	145,583	13,431
Capital Projects Funds	--	--	--	--	--
TOTAL FUND BALANCES	785,390	111,968	135,155	163,343	26,204
TOTAL LIABILITIES AND FUND BALANCES	$ 1,578,241	$ 141,345	$ 143,740	$ 217,189	$ 30,337

Continued...

CITY OF LOS ANGELES

Balance Sheet - (Continued)
Governmental Funds
June 30, 2006
(amounts expressed in thousands)

	Community Development	Municipal Improvement Corporation Special Revenue	Municipal Improvement Corporation Debt Service	Other Governmental Funds	Total
ASSETS					
Cash and Pooled Investments	$ 4,339	$ 75,968	$ 67,933	$ 2,474,831	$ 4,089,583
Other Investments	--	--	47,887	13,005	60,892
Taxes Receivable					
(Net of Allowance for Uncollectibles of $34,029)	--	--	--	32,753	295,217
Accounts Receivable					
(Net of Allowance for Uncollectibles of $502,322)	--	--	--	10,299	169,913
Special Assessments Receivable					
(Net of Allowance for Uncollectibles of $1,646)	41	--	--	16,016	20,496
Investment Income Receivable	23	123	78	21,523	37,490
Intergovernmental Receivable					
(Net of Allowance for Uncollectibles of $49,859)	--	--	--	51,646	95,091
Loans Receivable					
(Net of Allowance for Uncollectibles of $623,809)	80,463	--	--	158,844	239,307
Due from Other Funds	2,610	--	--	14,582	48,635
Loans Receivable from Component Unit					
(Net of Allowance for Uncollectibles of $500)	72,945	--	--	960	73,905
Inventories	--	--	--	--	16,985
Prepaid Items and Other Assets	193	--	538	373	1,104
Advances to Other Funds	--	--	--	13,857	117,755
Restricted Assets	--	--	--	9,634	15,943
TOTAL ASSETS	$ 160,614	$ 76,091	$ 116,436	$ 2,818,323	$ 5,282,316
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts, Contracts and Retainage Payable	$ 4,569	$ 8,136	$ --	$ 90,072	$ 179,594
Obligations Under Securities					
Lending Transactions	642	1,146	--	328,647	629,135
Accrued Salaries and Overtime Payable	--	--	--	3,166	163,315
Accrued Compensated Absences Payable	--	--	--	63	1,660
Estimated Claims and Judgments Payable	--	--	--	--	13,688
Intergovernmental Payable	--	421	--	2,529	3,050
Due to Other Funds	1,274	3,030	--	26,977	51,370
Deferred Revenue and Other Credits	8	--	--	86,692	308,110
Deposits and Advances	82	--	--	13,245	33,891
Matured Bonds and Interest Payable	--	--	--	588	588
Advances from Other Funds	--	--	--	125,370	187,484
Other Liabilities	9	--	--	276	13,849
TOTAL LIABILITIES	6,584	12,733	--	677,625	1,585,734
FUND BALANCES					
Reserved for:					
Encumbrances	24,456	112,162	--	589,346	886,511
Assets Not Available for Appropriation	153,601	--	--	174,034	448,518
Debt Service	--	--	116,436	244,715	361,151
Special Purposes	--	--	--	9,634	63,803
Unreserved:					
Designated for Special Purposes	--	--	--	--	118,468
Undesignated:					
General Fund	--	--	--	--	452,735
Special Revenue Funds	(24,027)	(48,804)	--	625,561	867,988
Capital Projects Funds	--	--	--	497,408	497,408
TOTAL FUND BALANCES	154,030	63,358	116,436	2,140,698	3,696,582
TOTAL LIABILITIES AND FUND BALANCES	$ 160,614	$ 76,091	$ 116,436	$ 2,818,323	$ 5,282,316

The notes to the financial statements are an integral part of this statement.

CITY OF LOS ANGELES

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets June 30, 2006 (amounts expressed in thousands)

Total Fund Balances - Governmental Funds	$ 3,696,582
Amounts reported for Governmental Activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	5,275,304
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	306,148
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(5,594,507)
Net Assets of Governmental Activities	$ 3,683,527

The notes to the financial statements are an integral part of this statement.

CITY OF LOS ANGELES

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Fiscal Year Ended June 30, 2006 (amounts expressed in thousands)

	General	Proposition A Local Transit Assistance	Proposition C Anti-Gridlock Transit Improvement	Recreation and Parks	Special Gas Tax Street Improvement
REVENUES					
Property Taxes	$ 1,168,082	$ --	$ --	$ --	$ --
Sales Taxes	329,169	--	--	--	--
Utility Users Taxes	606,617	--	--	--	--
Business Taxes	436,621	--	--	--	--
Other Taxes	476,529	--	--	--	--
Licenses and Permits	21,529	--	--	987	--
Intergovernmental	39,601	84,715	53,425	7,536	98,571
Charges for Services	324,689	10,866	1,323	99,717	88
Services to Enterprise Funds	229,695	--	--	--	--
Fines	117,103	--	--	--	--
Special Assessments	2,765	--	--	--	--
Investment Earnings (Losses)	21,809	1,399	361	1,114	302
Program Income	--	--	--	--	--
Other	35,077	1,225	18	666	32
TOTAL REVENUES	3,809,286	98,205	55,127	110,020	98,993
EXPENDITURES					
Current:					
General Government	1,063,766	--	--	--	--
Protection of Persons and Property	1,854,701	--	--	--	--
Public Works	190,745	--	--	--	96,129
Health and Sanitation	219,447	--	--	--	--
Transportation	115,820	74,698	25,464	--	--
Cultural and Recreational Services	66,632	--	--	172,036	--
Community Development	39,333	--	--	--	--
Capital Outlay	35,116	3,800	2,696	7,472	3,905
Debt Service:					
Principal	--	--	--	--	--
Interest	--	--	--	--	--
Cost of Issuance	197	--	--	--	--
Advance Refunding Escrow	--	--	--	--	--
TOTAL EXPENDITURES	3,585,757	78,498	28,160	179,508	100,034
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	223,529	19,707	26,967	(69,488)	(1,041)
OTHER FINANCING SOURCES (USES)					
Transfers In	206,897	27	16,400	124,164	--
Transfers Out	(455,291)	(3,186)	(9,814)	--	--
Issuance of Long-term Debt	--	--	--	--	--
Premium on Issuance of Long-term Debt	--	--	--	--	--
Issuance of Refunding Bonds	--	--	--	--	--
Premium on Issuance of Refunding Bonds	--	--	--	--	--
Payment to Refunded Bond Escrow Agent	--	--	--	--	--
Loans from HUD	--	--	--	--	--
TOTAL OTHER FINANCING SOURCES (USES)	(248,394)	(3,159)	6,586	124,164	--
NET CHANGE IN FUND BALANCES	(24,865)	16,548	33,553	54,676	(1,041)
FUND BALANCES, JULY 1	809,591	95,420	101,602	108,667	27,245
INCREASE IN RESERVE FOR INVENTORIES	664	--	--	--	--
FUND BALANCES, JUNE 30	$ 785,390	$ 111,968	$ 135,155	$ 163,343	$ 26,204

Continued...

CITY OF LOS ANGELES

Statement of Revenues, Expenditures and Changes in Fund Balances - (Continued) Governmental Funds For the Fiscal Year Ended June 30, 2006 (amounts expressed in thousands)

	Community Development	Municipal Improvement Corporation Special Revenue	Municipal Improvement Corporation Debt Service	Other Governmental Funds	Total
REVENUES					
Property Taxes	$ --	$ --	$ --	$ 197,778	$ 1,365,860
Sales Taxes	--	--	--	--	329,169
Utility Users Taxes	--	--	--	--	606,617
Business Taxes	--	--	--	--	436,621
Other Taxes	--	--	--	44,922	521,451
Licenses and Permits	--	--	--	32,744	55,260
Intergovernmental	59,618	--	--	306,503	649,969
Charges for Services	1	--	--	363,538	800,222
Services to Enterprise Funds	--	--	--	1,978	231,673
Fines	--	--	--	15,471	132,574
Special Assessments	--	--	--	94,428	97,193
Investment Earnings (Losses)	(44)	3,351	4,747	38,675	71,714
Program Income	2,410	--	--	6,400	8,810
Other	333	--	--	35,066	72,417
TOTAL REVENUES	62,318	3,351	4,747	1,137,503	5,379,550
EXPENDITURES					
Current:					
General Government	--	--	670	37,834	1,102,270
Protection of Persons and Property	--	--	--	234,750	2,089,451
Public Works	--	--	--	70,821	357,695
Health and Sanitation	--	--	--	128,811	348,258
Transportation	--	--	--	60,634	276,616
Cultural and Recreational Services	--	--	--	96,003	334,671
Community Development	81,230	--	--	202,120	322,683
Capital Outlay	--	129,756	--	365,042	547,787
Debt Service:					
Principal	--	--	115,198	125,944	241,142
Interest	--	--	41,281	136,475	177,756
Cost of Issuance	--	--	--	1,856	2,053
Advance Refunding Escrow	--	--	--	1,878	1,878
TOTAL EXPENDITURES	81,230	129,756	157,149	1,462,168	5,802,260
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(18,912)	(126,405)	(152,402)	(324,665)	(422,710)
OTHER FINANCING SOURCES (USES)					
Transfers In	14,944	1,460	139,775	324,937	828,604
Transfers Out	(2,247)	(179)	(101)	(171,898)	(642,716)
Issuance of Long-term Debt	--	96,200	--	172,550	268,750
Premium on Issuance of Long-term Debt	--	--	--	9,740	9,740
Issuance of Refunding Bonds	--	--	--	73,080	73,080
Premium on Issuance of Refunding Bonds	--	--	--	4,786	4,786
Payment to Refunded Bond Escrow Agent	--	--	--	(77,257)	(77,257)
Loans from HUD	--	--	--	1	1
TOTAL OTHER FINANCING SOURCES (USES)	12,697	97,481	139,674	335,939	464,988
NET CHANGE IN FUND BALANCES	(6,215)	(28,924)	(12,728)	11,274	42,278
FUND BALANCES, JULY 1	160,245	92,282	129,164	2,129,424	3,653,640
INCREASE IN RESERVE FOR INVENTORIES	--	--	--	--	664
FUND BALANCES, JUNE 30	$ 154,030	$ 63,358	$ 116,436	$ 2,140,698	$ 3,696,582

The notes to the financial statements are an integral part of this statement.

CITY OF LOS ANGELES

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2006
(amounts expressed in thousands)

Net Change in Fund Balances- Total Governmental Funds	$	42,278
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		359,621
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues and other financing sources in the funds.		24,517
The issuance of long-term debt (e.g. bonds) provides current financial resources to the governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas, these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		(34,077)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		189,215
Decrease in reserve for inventory		664
Change in Net Assets of Governmental Activities	$	582,218

The notes to the financial statements are an integral part of this statement.

CITY OF LOS ANGELES

Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Fiscal Year Ended June 30, 2006
(amounts expressed in thousands)

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	$ 2,814,994	$ 2,814,994	$ 2,961,381	$ 146,387
Licenses, Permits, Fees and Fines	551,925	552,793	592,455	39,662
Intergovernmental	37,000	37,000	99,703	62,703
Interest	31,110	31,110	38,064	6,954
Other	10,280	10,280	9,334	(946)
TOTAL REVENUES	3,445,309	3,446,177	3,700,937	254,760
EXPENDITURES				
Current:				
General Government	1,346,969	1,375,708	1,285,519	90,189
Protection of Persons and Property	1,718,630	1,772,948	1,712,792	60,156
Public Works	289,048	346,175	321,134	25,041
Health and Sanitation	231,330	228,785	219,847	8,938
Transportation	128,490	140,836	132,103	8,733
Cultural and Recreational Services	67,033	71,181	69,031	2,150
Community Development	94,247	113,512	98,840	14,672
Pension and Retirement Contributions	27,037	25,206	25,205	1
Capital Outlay	10,659	40,504	14,415	26,089
TOTAL EXPENDITURES	3,913,443	4,114,855	3,878,886	235,969
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(468,134)	(668,678)	(177,949)	490,729
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	1,134,356	1,343,236	1,225,771	(117,465)
Loans from Other Funds	--	761	16,399	15,638
Transfers to Other Funds	(725,860)	(748,739)	(744,614)	4,125
Payment of Loans to Other Funds	--	--	(17,252)	(17,252)
TOTAL OTHER FINANCING SOURCES (USES)	408,496	595,258	480,304	(114,954)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(59,638)	(73,420)	302,355	375,775
FUND BALANCE, JULY 1	59,638	59,638	--	(59,638)
Appropriation of Fund Balance and Carryforward Appropriations	--	13,782	--	(13,782)
Encumbrances Lapsed	--	--	18,309	18,309
Reversion to Reserve Fund	--	--	(274,044)	(274,044)
FUND BALANCE, JUNE 30	$ --	$ --	$ 46,620	$ 46,620

The notes to the financial statements are an integral part of this statement.

CITY OF LOS ANGELES

Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Non-GAAP Budgetary Basis)
Proposition A Local Transit Assistance Fund
For the Fiscal Year Ended June 30, 2006
(amounts expressed in thousands)

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	$ 89,272	$ 89,272	$ 83,042	$ (6,230)
Charges for Services	8,245	13,317	10,738	(2,579)
Interest	2,376	2,376	3,149	773
Other	--	--	1,238	1,238
TOTAL REVENUES	99,893	104,965	98,167	(6,798)
EXPENDITURES				
Current				
Transportation	149,036	254,974	77,222	177,752
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(49,143)	(150,009)	20,945	170,954
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	--	27	27	--
Transfers to Other Funds	(19,398)	(27,311)	(11,551)	15,760
TOTAL OTHER FINANCING SOURCES (USES)	(19,398)	(27,284)	(11,524)	15,760
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(68,541)	(177,293)	9,421	186,714
FUND BALANCES, JULY 1	68,541	68,541	66,887	(1,654)
Appropriation of Fund Balance and Carryforward Appropriations	--	108,752	--	(108,752)
Encumbrances Lapsed	--	--	13,253	13,253
FUND BALANCES, JUNE 30	$ --	$ --	$ 89,561	$ 89,561

The notes to the financial statements are an integral part of this statement.

CITY OF LOS ANGELES

Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Non-GAAP Budgetary Basis)
Proposition C Anti-Gridlock Transit Improvement
For the Fiscal Year Ended June 30, 2006
(amounts expressed in thousands)

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	$ 60,366	$ 60,454	$ 50,589	$ (9,865)
Charges for Services	1,100	1,506	1,392	(114)
Interest	1,200	1,200	1,178	(22)
Other	200	200	18	(182)
TOTAL REVENUES	62,866	63,360	53,177	(10,183)
EXPENDITURES				
Current				
Transportation	55,285	58,442	7,116	51,326
Capital Outlay	2,760	7,028	--	7,028
TOTAL EXPENDITURES	58,045	65,470	7,116	58,354
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	4,821	(2,110)	46,061	48,171
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	--	--	16,400	16,400
Transfers to Other Funds	(18,631)	(51,741)	(27,544)	24,197
TOTAL OTHER FINANCING SOURCES (USES)	(18,631)	(51,741)	(11,144)	40,597
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(13,810)	(53,851)	34,917	88,768
FUND BALANCES, JULY 1	13,810	13,810	87,153	73,343
Appropriation of Fund Balance and Carryforward Appropriations	--	40,041	--	(40,041)
Encumbrances Lapsed	--	--	630	630
FUND BALANCES , JUNE 30	$ --	$ --	$ 122,700	$ 122,700

The notes to the financial statements are an integral part of this statement.

CITY OF LOS ANGELES

Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Non-GAAP Budgetary Basis)
Special Gas Tax Street Improvement Fund
For the Fiscal Year Ended June 30, 2006
(amounts expressed in thousands)

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	$ 87,853	$ 104,353	$ 97,906	$ (6,447)
Charges for Services	--	26	88	62
Interest	500	500	566	66
Other	--	--	33	33
TOTAL REVENUES	88,353	104,879	98,593	(6,286)
EXPENDITURES				
Current				
Public Works	1,956	11,259	462	10,797
Capital Outlay	10,987	20,621	6,534	14,087
TOTAL EXPENDITURES	12,943	31,880	6,996	24,884
EXCESS OF REVENUES OVER EXPENDITURES	75,410	72,999	91,597	18,598
OTHER FINANCING USES				
Transfers to Other Funds	(84,948)	(100,479)	(94,167)	6,312
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	(9,538)	(27,480)	(2,570)	24,910
FUND BALANCES, JULY 1	9,538	9,538	12,637	3,099
Appropriation of Fund Balance and Carryforward Appropriations	--	17,942	--	(17,942)
Encumbrances Lapsed	--	--	83	83
FUND BALANCES, JUNE 30	$ --	$ --	$ 10,150	$ 10,150

The notes to the financial statements are an integral part of this statement.

CITY OF LOS ANGELES

Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)
Budget and Actual (Non-GAAP Budgetary Basis)
Community Development Fund
For the Fiscal Year Ended June 30, 2006
(amounts expressed in thousands)

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
REVENUES				
Intergovernmental	$ 31,303	$ 111,105	$ 59,618	$ (51,487)
Charges for Services	--	--	1	1
Interest	--	--	5	5
Program Income	--	1,800	26,403	24,603
Other	--	--	333	333
TOTAL REVENUES	31,303	112,905	86,360	(26,545)
EXPENDITURES				
Current				
Community Development	8,287	177,073	46,917	130,156
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	23,016	(64,168)	39,443	103,611
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	--	--	5,373	5,373
Transfers to Other Funds	(23,016)	(45,485)	(31,493)	13,992
TOTAL OTHER FINANCING SOURCES (USES)	(23,016)	(45,485)	(26,120)	19,365
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	--	(109,653)	13,323	122,976
FUND BALANCES (DEFICIT), JULY 1	--	--	(41,271)	(41,271)
Appropriation of Fund Balance and Carryforward Appropriations	--	109,653	--	(109,653)
Encumbrances Lapsed	--	--	1,905	1,905
FUND BALANCES (DEFICIT), JUNE 30	$ --	$ --	$ (26,043)	$ (26,043)

The notes to the financial statements are an integral part of this statement.

CITY OF LOS ANGELES

Statement of Fund Net Assets
Proprietary Funds
June 30, 2006
(amounts expressed in thousands)

	Business-type Activities - Enterprise Funds			
	Airports	Harbor	Power	Water
ASSETS				
CURRENT ASSETS				
Cash, Pooled and Other Investments				
Unrestricted	$ 566,107	$ 256,258	$ 388,807	$ 124,986
Restricted	--	191,578	731,205	344,385
Notes Receivable				
(Net of Allowance for Uncollectibles of $2,000)	--	20	32,887	--
Accounts Receivable				
Accounts Receivable				
(Net of Allowance for Uncollectibles of $114,592)	25,131	38,566	214,106	42,988
Accrued Unbilled Revenue	27,228	--	140,386	46,847
Investment Income Receivable	7,330	4,033	15,940	5,646
Intergovernmental Receivable	--	1,446	50,677	4,059
Due from Other Funds	--	3,846	--	13,407
Inventories	2,037	1,762	112,107	18,942
Prepaid Items and Other Assets	1,219	3,825	33,948	18,613
TOTAL CURRENT ASSETS	629,052	501,334	1,720,063	619,873
NONCURRENT ASSETS				
Restricted Assets				
Pooled and Other Investments	642,826	6,006	--	--
Investments Held by Escrow and Fiscal Agents	37,190	5,001	955,340	161,693
Investment Income Receivable	4,602	1,129	--	--
Passenger Facility Charge Receivable	20,966	--	--	--
Total Restricted Assets	705,584	12,136	955,340	161,693
Long-term Investment				
Investment in Joint Ventures				
(Net of Allowance for Losses of $19,000)	--	7,140	--	--
Capital Assets				
Land	732,643	955,824	144,621	106,906
Buildings, Facilities and Equipment	1,896,023	2,379,972	9,443,337	4,310,956
Leased Property and Improvements	184,423	--	--	--
Accumulated Depreciation	(1,065,538)	(931,313)	(4,701,006)	(1,580,292)
Construction in Progress	286,985	328,221	570,418	611,323
Natural Gas Field, Net	--	--	237,403	--
Nuclear Fuel, at Amortized Cost	--	--	14,578	--
Total Capital Assets	2,034,536	2,732,704	5,709,351	3,448,893
Other Noncurrent Assets				
Loans Receivable - Notes	--	1,327	1,144,941	--
Advances to Other Funds	--	40,310	--	--
Net Pension Assets	--	--	99,793	48,771
Other Assets	3,947	9,359	116,367	--
Total Other Noncurrent Assets	3,947	50,996	1,361,101	48,771
TOTAL NONCURRENT ASSETS	2,744,067	2,802,976	8,025,792	3,659,357
TOTAL ASSETS	$ 3,373,119	$ 3,304,310	$ 9,745,855	$ 4,279,230

Continued...

CITY OF LOS ANGELES

Statement of Fund Net Assets - (Continued)
Proprietary Funds
June 30, 2006
(amounts expressed in thousands)

	Business-type Activities - Enterprise Funds		
	Sewer	Other-Convention Center	Total
ASSETS			
CURRENT ASSETS			
Cash, Pooled and Other Investments			
Unrestricted	$ 91,116	$ 5,558	$ 1,432,832
Restricted	106,250	--	1,373,418
Notes Receivable			
(Net of Allowance for Uncollectibles of $2,000)	--	--	32,907
Accounts Receivable			
Accounts Receivable			
(Net of Allowance for Uncollectibles of $114,592)	47,284	1,890	369,965
Accrued Unbilled Revenue	32,088	--	246,549
Investment Income Receivable	1,912	6	34,867
Intergovernmental Receivable	45,845	--	102,027
Due from Other Funds	--	--	17,253
Inventories	11,240	--	146,088
Prepaid Items and Other Assets	--	2,021	59,626
TOTAL CURRENT ASSETS	335,735	9,475	3,815,532
NONCURRENT ASSETS			
Restricted Assets			
Pooled and Other Investments	88,440	--	737,272
Investments Held by Escrow and Fiscal Agents	19,331	--	1,178,555
Investment Income Receivable	--	--	5,731
Passenger Facility Charge Receivable	--	--	20,966
Total Restricted Assets	107,771	--	1,942,524
Long-term Investment			
Investment in Joint Ventures			
(Net of Allowance for Losses of $19,000)	--	--	7,140
Capital Assets			
Land	43,824	139,592	2,123,410
Buildings, Facilities and Equipment	5,377,379	594,373	24,002,040
Leased Property and Improvements	--	9,601	194,024
Accumulated Depreciation	(2,154,748)	(173,866)	(10,606,763)
Construction in Progress	290,605	--	2,087,552
Natural Gas Field, Net	--	--	237,403
Nuclear Fuel, at Amortized Cost	--	--	14,578
Total Capital Assets	3,557,060	569,700	18,052,244
Other Noncurrent Assets			
Loans Receivable - Notes	--	--	1,146,268
Advances to Other Funds	6,552	--	46,862
Net Pension Assets	--	--	148,564
Other Assets	19,493	--	149,166
Total Other Noncurrent Assets	26,045	--	1,490,860
TOTAL NONCURRENT ASSETS	3,690,876	569,700	21,492,768
TOTAL ASSETS	$ 4,026,611	$ 579,175	$ 25,308,300

Continued...

CITY OF LOS ANGELES

Statement of Fund Net Assets - (Continued)
Proprietary Funds
June 30, 2006
(amounts expressed in thousands)

	Business-type Activities - Enterprise Funds			
	Airports	Harbor	Power	Water
LIABILITIES				
CURRENT LIABILITIES				
Accounts, Contracts and Retainage Payable	$ 90,837	$ 32,697	$ 223,434	$ 64,933
Obligations Under Securities Lending Transactions	179,986	44,014	73,509	23,518
Accrued Salaries and Overtime Payable	4,495	--	39,051	17,877
Accrued Compensated Absences Payable	2,619	6,186	43,524	21,724
Due to Other Funds	--	--	13,407	--
Deferred Revenue and Other Credits	50	358	--	36,487
Deposits and Advances	--	--	--	67,945
Capital Lease Obligations - Current Portion	1,026	--	--	--
Interest Payable	1,846	9,525	80,249	33,108
Bonds and Notes Payable - Current Portion	14,615	90,503	188,821	78,063
Advances from Other Funds	--	--	--	--
Other Current Liabilities	11,745	89,738	--	--
TOTAL CURRENT LIABILITIES	307,219	273,021	661,995	343,655
LONG-TERM LIABILITIES				
Capital Lease Obligations - Noncurrent Portion	51,855	--	--	--
Bonds and Notes Payable - Noncurrent Portion (Net of Unamortized Debt Related Costs of $49,678)	329,893	797,262	4,261,748	1,868,494
Net Pension Obligation	9,776	2,209	--	--
Other Postemployment Benefits Liability	--	--	110,823	57,881
Other Long-term Liabilities	40,474	30,511	599,722	17,074
TOTAL LONG-TERM LIABILITIES	431,998	829,982	4,972,293	1,943,449
TOTAL LIABILITIES	739,217	1,103,003	5,634,288	2,287,104
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	1,637,147	1,844,939	1,774,252	1,764,265
Restricted for:				
Capital Projects	16,040	--	97,017	--
Debt Service	35,472	63,917	600,750	68,471
Passenger Facility Charges	362,634	--	--	--
Pension and Other Postemployment Benefits	--	--	331,289	152,583
Other Purposes	77,329	--	129,304	13,165
Unrestricted	505,280	292,451	1,178,955	(6,358)
TOTAL NET ASSETS	$ 2,633,902	$ 2,201,307	$ 4,111,567	$ 1,992,126

Continued...

CITY OF LOS ANGELES

Statement of Fund Net Assets - (Continued)
Proprietary Funds
June 30, 2006
(amounts expressed in thousands)

	Business-type Activities - Enterprise Funds		
	Sewer	Other-Convention Center	Total
LIABILITIES			
CURRENT LIABILITIES			
Accounts, Contracts and Retainage Payable	$ 46,454	$ 1,805	$ 460,160
Obligations Under Securities Lending Transactions	--	--	321,027
Accrued Salaries and Overtime Payable	--	129	61,552
Accrued Compensated Absences Payable	--	1,944	75,997
Due to Other Funds	--	1,111	14,518
Deferred Revenue and Other Credits	--	3,599	40,494
Deposits and Advances	--	--	67,945
Capital Lease Obligations - Current Portion	--	--	1,026
Interest Payable	10,767	--	135,495
Bonds and Notes Payable - Current Portion	54,434	--	426,436
Advances from Other Funds	--	7	7
Other Current Liabilities	27,825	524	129,832
TOTAL CURRENT LIABILITIES	139,480	9,119	1,734,489
LONG-TERM LIABILITIES			
Capital Lease Obligations - Noncurrent Portion	--	--	51,855
Bonds and Notes Payable - Noncurrent Portion (Net of Unamortized Debt Related Costs of $49,678)	2,335,576	--	9,592,973
Net Pension Obligation	--	--	11,985
Other Postemployment Benefits Liability	--	--	168,704
Other Long-term Liabilities	37,461	--	725,242
TOTAL LONG-TERM LIABILITIES	2,373,037	--	10,550,759
TOTAL LIABILITIES	2,512,517	9,119	12,285,248
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	1,186,726	569,700	8,777,029
Restricted for:			
Capital Projects	50,894	--	163,951
Debt Service	107,151	--	875,761
Passenger Facility Charges	--	--	362,634
Pension and Other Postemployment Benefits	--	--	483,872
Special Purposes	36,645	--	256,443
Unrestricted	132,678	356	2,103,362
TOTAL NET ASSETS	$ 1,514,094	$ 570,056	$ 13,023,052

The notes to the financial statements are an integral part of this statement.

CITY OF LOS ANGELES

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2006
(amounts expressed in thousands)

	Business-type Activities - Enterprise Funds			
	Airports	Harbor	Power	Water
OPERATING REVENUES				
Charges for Services	$ 172,199	$ 373,348	$ 2,496,389	$ 598,625
Rent, Concessions and Royalties	446,581	37,653	--	--
Other Operating Revenues	1,919	1,116	--	--
TOTAL OPERATING REVENUES	620,699	412,117	2,496,389	598,625
OPERATING EXPENSES				
Fuel for Generation	--	--	541,659	--
Purchased Power/Water	--	--	741,810	95,041
Maintenance and Repairs	--	--	260,217	94,079
Operating and Administrative	547,529	169,001	472,394	205,423
Depreciation and Amortization	83,945	98,781	270,841	70,654
TOTAL OPERATING EXPENSES	631,474	267,782	2,286,921	465,197
OPERATING INCOME (LOSS)	(10,775)	144,335	209,468	133,428
NONOPERATING REVENUES (EXPENSES)				
Investment Income	39,150	18,535	141,729	14,993
Decrease in Fair Value of Investments	(17,847)	(4,651)	(18,995)	(5,703)
Interest Expense	(18,861)	(37,787)	(167,500)	(74,081)
Other Income (Expenses), Net	118,635	(27,865)	13,148	2,409
TOTAL NONOPERATING REVENUES (EXPENSES)	121,077	(51,768)	(31,618)	(62,382)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	110,302	92,567	177,850	71,046
Capital Contributions	62,590	2,044	29,925	13,898
Transfers In	--	--	--	--
Transfers Out	--	--	(157,894)	(27,914)
CHANGE IN NET ASSETS	172,892	94,611	49,881	57,030
NET ASSETS, JULY 1	2,461,010	2,106,696	4,061,686	1,935,096
NET ASSETS, JUNE 30	$ 2,633,902	$ 2,201,307	$ 4,111,567	$ 1,992,126

Continued...

CITY OF LOS ANGELES

Statement of Revenues, Expenses, and Changes in Fund Net Assets (Continued)
Proprietary Funds
For the Fiscal Year Ended June 30, 2006
(amounts expressed in thousands)

	Business-type Activities - Enterprise Funds		
	Sewer	Other-Convention Center	Total
OPERATING REVENUES			
Charges for Services	$ 469,533	$ 8,520	$ 4,118,614
Rent, Concessions and Royalties	--	8,421	492,655
Other Operating Revenues	4,847	7,304	15,186
TOTAL OPERATING REVENUES	474,380	24,245	4,626,455
OPERATING EXPENSES			
Fuel for Generation	--	--	541,659
Purchased Power/Water	--	--	836,851
Maintenance and Repairs	--	647	354,943
Operating and Administrative	232,971	22,259	1,649,577
Depreciation and Amortization	148,555	12,012	684,788
TOTAL OPERATING EXPENSES	381,526	34,918	4,067,818
OPERATING INCOME (LOSS)	92,854	(10,673)	558,637
NONOPERATING REVENUES (EXPENSES)			
Investment Income	14,409	16	228,832
Decrease in Fair Value of Investments	--	--	(47,196)
Interest Expense	(99,537)	--	(397,766)
Other Income (Expenses), Net	4,259	(21)	110,565
TOTAL NONOPERATING REVENUES (EXPENSES)	(80,869)	(5)	(105,565)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	11,985	(10,678)	453,072
Capital Contributions	22,428	--	130,885
Transfers In	--	216	216
Transfers Out	--	(296)	(186,104)
CHANGE IN NET ASSETS	34,413	(10,758)	398,069
NET ASSETS, JULY 1	1,479,681	580,814	12,624,983
NET ASSETS, JUNE 30	$ 1,514,094	$ 570,056	$ 13,023,052

The notes to the financial statements are an integral part of this statement.

CITY OF LOS ANGELES

Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2006
(amounts expressed in thousands)

	Business-type Activities - Enterprise Funds			
	Airports	Harbor	Power	Water
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers and Users	$ 614,411	$ 427,576	$ 2,490,167	$ 634,158
Receipts for Interfund Services	--	--	286,947	273,445
Payments to Suppliers	(273,811)	(125,728)	(1,462,463)	(200,006)
Payments to Employees	(218,114)	(71,798)	(431,114)	(203,752)
Payments for Interfund Services	(50,955)	(26,449)	(342,519)	(252,647)
NET CASH PROVIDED BY OPERATING ACTIVITIES	71,531	203,601	541,018	251,198
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers In	--	--	--	--
Transfers Out	--	--	(157,894)	(27,914)
Amounts Received on Advances to Other Funds	--	3,732	--	--
Noncapital Grants Received	--	--	--	--
Interest Paid on Noncapital Revenue Bonds	--	--	(17,060)	--
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	--	3,732	(174,954)	(27,914)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and Construction of Capital Assets	(205,973)	(105,058)	(677,882)	(318,940)
Receipts from Passenger Facility Charges	118,973	--	--	--
Proceeds from Escrow Investment Maturities	758	--	--	--
Proceeds from Sale of Bonds and Notes	--	308,570	956,171	501,930
Payments on Capital Leases - Interest	(1,802)	--	--	--
Payments on Capital Leases - Principal	(912)	--	--	--
Payments on Bonds and Notes - Interest	(17,913)	(44,535)	(133,831)	(65,621)
Payments on Bonds and Notes - Principal	(38,918)	(264,110)	(172,600)	(23,448)
Deposits to Refunded Debt Escrow Account	--	--	--	--
Capital Contributions/Grants Received	62,590	2,042	12,186	12,927
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(83,197)	(103,091)	(15,956)	106,848
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment Income Received	37,493	13,348	120,625	9,019
Decrease in Fair Value of Investments	(17,503)	(3,825)	(18,995)	(5,703)
Cash Collateral Received (Paid) Under Securities Lending Transactions	12,033	10,520	(119,290)	(15,847)
Distribution from Joint Ventures	--	--	--	--
Purchase of Investment Securities	--	(1,292)	(2,122,855)	(96,204)
Proceeds from Maturities of Investment Securities	--	--	2,214,078	62,980
Purchase of Long Term Notes Receivable	--	--	(92,385)	--
Proceeds from Notes Receivable	--	98	44,999	--
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	32,023	18,849	26,177	(45,755)

Continued...

CITY OF LOS ANGELES

Statement of Cash Flows - (Continued)
Proprietary Funds
For the Fiscal Year Ended June 30, 2006
(amounts expressed in thousands)

	Business-type Activities - Enterprise Funds		
	Sewer	Other-Convention Center	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers and Users	$ 452,112	$ 24,529	$ 4,642,953
Receipts for Interfund Services	2,960	--	563,352
Payments to Suppliers	(98,554)	(3,456)	(2,164,018)
Payments to Employees	--	(15,583)	(940,361)
Payments for Interfund Services	(150,138)	(3,040)	(825,748)
NET CASH PROVIDED BY OPERATING ACTIVITIES	206,380	2,450	1,276,178
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers In	--	216	216
Transfers Out	--	(296)	(186,104)
Amounts Received on Advances to Other Funds	4,875	--	8,607
Noncapital Grants Received	568	--	568
Interest Paid on Noncapital Revenue Bonds	--	--	(17,060)
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	5,443	(80)	(193,773)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and Construction of Capital Assets	(197,134)	(702)	(1,505,689)
Receipts from Passenger Facility Charges	--	--	118,973
Proceeds from Escrow Investment Maturities	--	--	758
Proceeds from Sale of Bonds and Notes	12,347	--	1,779,018
Payments on Capital Leases - Interest	--	--	(1,802)
Payments on Capital Leases - Principal	--	--	(912)
Payments on Bonds and Notes - Interest	(98,783)	--	(360,683)
Payments on Bonds and Notes - Principal	(45,191)	--	(544,267)
Deposits to Refunded Debt Escrow Account	(23,479)	--	(23,479)
Capital Contributions/Grants Received	17,203	--	106,948
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(335,037)	(702)	(431,135)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment Income Received	13,297	56	193,838
Decrease in Fair Value of Investments	--	--	(46,026)
Cash Collateral Received (Paid) Under Securities Lending Transactions	--	--	(112,584)
Distribution from Joint Ventures	--	--	--
Purchase of Investment Securities	--	--	(2,220,351)
Proceeds from Maturities of Investment Securities	--	--	2,277,058
Purchase of Long Term Notes Receivable	--	--	(92,385)
Proceeds from Notes Receivable	--	--	45,097
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	13,297	56	44,647

Continued...

CITY OF LOS ANGELES

Statement of Cash Flows - (Continued)
Proprietary Funds
For the Fiscal Year Ended June 30, 2006
(amounts expressed in thousands)

	Business-type Activities - Enterprise Funds			
	Airports	Harbor	Power	Water
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ 20,357	$ 123,091	$ 376,285	$ 284,377
CASH AND CASH EQUIVALENTS, JULY 1	1,188,576	324,745	743,727	184,994
CASH AND CASH EQUIVALENTS, JUNE 30	$ 1,208,933	$ 447,836	$ 1,120,012	$ 469,371
CASH AND CASH EQUIVALENTS COMPONENTS:				
Unrestricted Cash, Pooled and Other Investments	$ 566,107	$ 256,258	$ 388,807	$ 124,986
Restricted Cash, Pooled and Other Investments	642,826	191,578	731,205	344,385
TOTAL CASH AND CASH EQUIVALENTS, JUNE 30	$ 1,208,933	$ 447,836	$ 1,120,012	$ 469,371
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating Income (Loss)	$ (10,775)	$ 144,335	$ 209,468	$ 133,428
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:				
Depreciation and Amortization	83,945	98,781	270,841	70,654
Bad Debts Provision (Recovery)	(173)	19,569	11,457	1,984
Provision for Obsolete Inventory	--	--	11,500	--
Cash Provided By Other Nonoperating Income	--	334	18,198	6,705
Cash Used in Other Nonoperating Expenses	(5,725)	--	(5,050)	(4,296)
Decrease (Increase) in Assets:				
Accounts Receivable				
Accounts Receivable	389	(24,950)	(25,843)	905
Accrued Unbilled Revenue	(2,779)	--	(15,108)	3,366
Due from Other Funds	--	--	--	4,001
Inventories	--	(140)	(6,405)	(1,595)
Prepaid Items and Other Current Assets	(626)	(7,478)	8,697	5,931
Other Assets	--	--	14,728	4,536
Increase (Decrease) in Liabilities:				
Accounts, Contracts and Retainage Payable	4,295	(14,551)	63,427	(4,551)
Accrued Salaries and Overtime Payable	1,519	--	8,130	1,592
Accrued Compensated Absences Payable	4,443	1,392	2,715	(52)
Due to Other Funds	--	--	(4,001)	--
Deferred Revenue and Other Credits	(50)	(3,939)	(61,391)	--
Deposits and Advances	--	--	--	8,681
Other Liabilities	(2,932)	(9,752)	39,655	19,909
TOTAL ADJUSTMENTS	82,306	59,266	331,550	117,770
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 71,531	$ 203,601	$ 541,018	$ 251,198

Continued...

CITY OF LOS ANGELES

Statement of Cash Flows - (Continued)
Proprietary Funds
For the Fiscal Year Ended June 30, 2006
(amounts expressed in thousands)

	Business-type Activities - Enterprise Funds		
	Sewer	Other-Convention Center	Total
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ (109,917)	$ 1,724	$ 695,917
CASH AND CASH EQUIVALENTS, JULY 1	395,723	3,834	2,841,599
CASH AND CASH EQUIVALENTS, JUNE 30	$ 285,806	$ 5,558	$ 3,537,516
CASH AND CASH EQUIVALENTS COMPONENTS:			
Unrestricted Cash, Pooled and Other Investments	$ 91,116	$ 5,558	$ 1,432,832
Restricted Cash and Other Investments	194,690	--	2,104,684
TOTAL CASH AND CASH EQUIVALENTS, JUNE 30	$ 285,806	$ 5,558	$ 3,537,516
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income (Loss)	$ 92,854	$ (10,673)	$ 558,637
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:			
Depreciation and Amortization	148,555	12,012	684,788
Bad Debts Provision (Recovery)	18	--	32,855
Provision for Obsolete Inventory	--	--	11,500
Cash Provided By Other Nonoperating Income	--	--	25,237
Cash Used in Other Nonoperating Expenses	(15,576)	(21)	(30,668)
Decrease (Increase) in Assets:			
Accounts Receivable			
Accounts Receivable	(13,727)	(501)	(63,727)
Accrued Unbilled Revenue	4,523	--	(9,998)
Due from Other Funds	--	--	4,001
Inventories	(306)	--	(8,446)
Prepaid Items	--	(262)	6,262
Other Assets	(1,289)	--	17,975
Increase (Decrease) in Liabilities:			
Accounts, Contracts and Retainage Payable	(1,046)	7	47,581
Accrued Salaries and Overtime Payable	--	(852)	10,389
Accrued Compensated Absences Payable	--	1,435	9,933
Due to Other Funds	--	362	(3,639)
Deferred Revenue and Other Credits	--	785	(64,595)
Deposits and Advances	--	--	8,681
Other Liabilities	(7,626)	158	39,412
TOTAL ADJUSTMENTS	113,526	13,123	717,541
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 206,380	$ 2,450	$ 1,276,178

The notes to the financial statements are an integral part of this statement.

CITY OF LOS ANGELES

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006
(amounts expressed in thousands)

	Pension Trust Funds	Agency Funds
ASSETS		
Cash and Pooled Investments	$ 2,402	$ 190,399
Investments:		
Temporary	1,470,544	601
U.S. Government Agencies Securities	2,538,848	--
Domestic Corporate Bonds	3,317,133	--
International Bonds	174,278	--
Domestic Stocks	12,507,374	218
International Stocks	5,864,923	10
Mortgage-backed Securities	2,035,446	--
Real Estate	1,440,072	--
Venture Capital and Alternative Investments	1,005,777	--
Security Lending Collateral	4,692,233	--
Other	--	--
Accounts Receivable	296,108	--
Special Assessments Receivable	--	1,360
Investment Income Receivable	104,946	254
Intergovernmental Receivable	--	2,060
Due from Brokers	379,974	--
Advances to Other Funds	--	22,874
Capital Assets (Net of Accumulated Depreciation of $135)	283	--
TOTAL ASSETS	35,830,341	$ 217,776
LIABILITIES		
Accounts, Contracts and Retainage Payable	651,136	$ --
Fiduciary Liabilities	--	112,942
Obligations Under Securities Lending Transactions	4,692,233	1,774
Deposits and Advances	--	103,060
Loans Payable- Current Portion	2,413	--
Loans Payable- Noncurrent Portion	307,246	--
Due to Brokers	812,158	--
TOTAL LIABILITIES	6,465,186	$ 217,776
NET ASSETS		
Net Assets Held in Trust for Pension, Postemployment Healthcare and Other Benefits, July 1		
Benefit Pension Plans	27,592,481	
Postemployment Healthcare Plans	1,709,397	
Disability Plan	37,018	
Death Benefit Plan	26,259	
TOTAL NET ASSETS	$ 29,365,155	

The notes to the financial statements are an integral part of this statement.

CITY OF LOS ANGELES

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2006
(amounts expressed in thousands)

	Pension Trust Funds
ADDITIONS	
Contributions	
Employer	$ 609,526
Plan Member	219,678
Other	1,425
Total Contributions	830,629
Investment Income	
Net Appreciation in Fair Value of Investments	2,368,246
Interest Income	466,953
Dividend Income	274,780
Other Investment Income	19,347
Real Estate Operating Income, Net	73,776
Investment Income	3,203,102
Investment Expense	(99,675)
Net Investment Income	3,103,427
TOTAL ADDITIONS	3,934,056
DEDUCTIONS	
Benefit Payments	1,488,260
Refunds of Member Contributions	20,558
Administrative Expenses	25,123
TOTAL DEDUCTIONS	1,533,941
CHANGE IN NET ASSETS	
Benefit Pension Plans	2,223,769
Postemployment Healthcare Plans	186,779
Disability Plan	(6,017)
Death Benefit Plan	(4,416)
TOTAL CHANGE IN NET ASSETS	2,400,115
Net Assets Held in Trust for Pension, Postemployment Healthcare and Other Benefits, July 1	
Benefit Pension Plans	25,368,712
Postemployment Healthcare Plans	1,522,618
Disability Plan	43,035
Death Benefit Plan	30,675
NET ASSETS HELD IN TRUST FOR PENSION, POSTEMPLOYMENT HEALTHCARE AND OTHER BENEFITS, JUNE 30	$ 29,365,155

The notes to the financial statements are an integral part of this statement.

Notes to the Basic Financial Statements

The Notes to the Basic Financial Statements include disclosures considered necessary for a better understanding of the accompanying financial statements. An index to the Notes follows:

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General

The City of Los Angeles (City) was incorporated in 1850 under the provisions of a City Charter. The current Charter was approved by the electorate on June 8, 1999 and became operative on July 1, 2000. Under the current Charter, the authority of the Mayor over the administration of City departments was increased, while the authority of the Council particularly over decisions by boards and commissions was decreased. The Controller was given more responsibilities including conducting performance audits of departments. The new Charter also required the creation of a system of self-selected advisory neighborhood councils and a Department of Neighborhood Empowerment, and a new Office of Finance. The new Charter modified a Mayor-Council form of City government and continued to provide for an independently elected City Attorney and independently elected Controller.

As Executive Officer, the Mayor supervises the administrative process of the City and works with the Council in matters relating to legislation, budget, and finance. As governing body of the City, the 15-member full-time Council enacts ordinances, levies taxes, approves utility rates, authorizes contracts and public improvements, adopts zoning and other land use controls, and provides the necessary resources for the budgetary departments and offices of the City. Council action is subject to the approval or veto of the Mayor and Council may override a Mayoral veto by a two-thirds vote.

Public services provided by the City include: police; fire and paramedics; residential refuse collection and disposal, wastewater collection and treatment, street maintenance, 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; planning; airports; harbor; power and water services; and convention center.

B. Reporting Entity

For financial reporting purposes, the City (the primary government) consists of the funds, departments, agencies, boards, and commissions for which the City is financially accountable.

Criteria indicating financial accountability include, but are not limited to, the following:

- Appointment by the City of a majority of voting members of the governing body of an organization, and ability of the City to impose its will on the daily operations of an organization, such as power to remove appointed members at will; to modify or approve budgets, rates or fees; or to make other substantive decisions; or provision by the organization of specific financial benefits to the City; or imposition by an organization of specific financial burdens on the City, such as assumption of deficits or provision of support, or

- Fiscal dependency by the organization on the City such as lack of authority to determine a budget, approve rates or issue its own bonded debt without City approval.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Blended Component Units

Although the following are legally separate from the City, they are reported as if they are part of the City because their sole purpose is to provide services entirely to or exclusively for the City or the City Council is the governing body.

Los Angeles Convention and Exhibition Center Authority

The Authority was formed under a joint powers agreement between the City and the County of Los Angeles for the purpose of constructing and operating a convention and exhibition hall and related facilities within the City's boundary. The Authority is composed of 15 members, 10 are appointed by the City Mayor and 5 are appointed by the County Board of Supervisors. Certificates of participation debt was issued by the Authority in 1990 to provide funding for the expansion of the existing Los Angeles Convention Center which is owned and operated by the City. The expansion activities are included in the Other Governmental Funds. Completed capital assets have been contributed to the Convention Center Enterprise Fund. In April 1998, the Authority issued taxable lease revenue bonds to partially finance the City's share of acquiring certain real property adjacent to the Convention Center, by the Community Redevelopment Agency of the City of Los Angeles, for the development of the Staples Center. These financing activities are also included in the Other Governmental Funds.

Los Angeles Harbor Improvement Corporation

The Corporation is a nonprofit, public benefit corporation organized for the sole purpose of assisting the City, acting through the Board of Harbor Commissioners, in providing financing for the acquisition, construction, replacement, or expansion of improvements to the facilities within the area controlled by the Port of Los Angeles (Port). The Corporation is a component unit of the Port and is included in the Harbor Enterprise Fund.

Municipal Improvement Corporation of Los Angeles

The Municipal Improvement Corporation of Los Angeles (the MICLA) was formed for the purpose of rendering assistance to the City for financing the acquisition of properties and equipment, and the construction of buildings and other improvements, for the benefit of City residents, through the issuance of certificates of participation and revenue bonds. The MICLA is reported as a major special revenue and debt service fund.

Parking Authority of the City of Los Angeles

The Authority is a public agency created by a resolution of the City Council in September 1968, under the provisions of the Parking Law of 1949. Its purpose is to provide parking facilities for the City. The City Council is the governing board of the Authority. In May 1996, the City Council approved the dissolution of the Authority and the transfer of all of its properties to the City. The dissolution of the Authority and the transfer of its remaining assets to the City will be completed after all obligations of the Authority to its bondholders are paid. The Authority is included in the Other Governmental Funds.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Discretely Presented Component Unit

The Community Redevelopment Agency of the City of Los Angeles (the CRA) is a governmental entity that is legally separate from the City. It was created by the City to remove blight in accordance with Section 33000 of the California Health and Safety Code that authorized municipal agencies to form redevelopment areas and agencies. Under the Code, the local legislative body is required to approve the annual budgets and their amendments of such redevelopment agencies, when the local legislative body is not the governing body of the redevelopment agency. The Council as the governing body of the City reviews certain actions of the CRA that have significant policy or fiscal effect on the Agency, other City departments, policies, programs, or the public. A Board consisting of seven members appointed by the Mayor and confirmed by a majority vote of the City Council governs the CRA. Either the Mayor or the City Council, as joint appointing officers, may remove members pursuant to Section 33115 of the California Health and Safety Code. The CRA is discretely presented because its governing body is not substantially the same as the City's governing body and it does not provide services entirely or exclusively to the City government.

The Community Redevelopment Financing Authority of the City of Los Angeles (CRFA) is included as a blended component unit in the CRA financial statements. The financial statements of the CRA reflect the aggregated amounts of financial data for the CRA governmental and business-type activities, presented discretely on the statement of net assets and statement of activities.

Separate audited financial statements may be obtained through the Office of the City Controller, 200 North Main Street, Room 300, Los Angeles, California 90012, for the following City departments and component units:

- Department of Airports
- Department of Harbor
- Department of Water and Power (DWP)
- Sewer Construction and Maintenance Fund
- Los Angeles City Employees' Retirement System
- Fire and Police Pension System
- Water and Power Employees' Retirement, Disability and Death Benefit Insurance Plan
- Municipal Improvement Corporation of Los Angeles
- Community Redevelopment Agency of the City of Los Angeles

Investment in Joint Ventures

The following entities are joint ventures of the Department of Harbor:

- Intermodal Container Transfer Facility Joint Powers Authority (ICTF)
- Alameda Corridor Transportation Authority (ACTA)
- Los Angeles Export Terminal, Inc. (LAXT)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Excluded Organizations

Joint Venture

The Los Angeles Memorial Coliseum Commission (Commission) was created by a joint powers agreement between the City, Los Angeles County, and the California Museum of Science and Industry, an institution of the State of California. Its purpose is to provide for the operation and maintenance of the Coliseum and Sports Arena. The Commission is not a City function and operates independent of City oversight and financial accountability. The City appointees comprise 33% of the Commission.

Related Organization

The Housing Authority of the City of Los Angeles is an organization for which the City has appointed the voting majority of the members of the governing body but for which the City is not financially accountable.

The City retains and exercises its authority over the entity only as provided by the municipal code and Federal laws. The entity is fiscally independent from the City. The City is unable to impose its will on the daily operations of the entity. The City's accountability to this entity is limited to removal of a commissioner by the Mayor or the entire board by the City Council for cause and under due process.

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from its legally separate component unit, which is presented discretely.

The statement of activities demonstrates the degree to which the direct expenses of a given function or program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or program. Included in the direct expenses are indirect costs, such as fringe benefits, administrative overhead, and liability claims, which were automatically allocated to the specific function or program. Charges for workers' compensation, information technology services, telephone, postage, and fleet services are not allocated and are included as part of the general government functional activity. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported instead as general revenues.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and individual enterprise funds are reported as separate columns in the fund financial statements.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and pension trust fund financial statements. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due, while expenditures related to compensated absences, claims and judgments, and landfill closure and postclosure care costs are recognized to the extent that they are normally expected to be liquidated with expendable available resources and are due and payable at year-end.

Revenues susceptible to accrual are property taxes, business taxes, sales taxes, utility users taxes, transient occupancy tax, charges for services, special assessments, franchise income, licenses and permits, and interest income. In applying the susceptible to accrual concept to Federal and State grants and subventions, revenues are recognized when applicable eligibility requirements, including time requirements, are met and the resources are available.

The City reports the following major governmental funds:

The *General Fund* is the primary operating fund of the City. It is used to account for all financial resources of the general government, except those required to be accounted for in other funds.

The *Proposition A Local Transit Assistance Fund* accounts for the City's 25% share of the additional one-half cent sales tax within the County of Los Angeles to (a) improve and expand existing public transit Countywide, including reduction of transit fares, (b) construct and operate a rail rapid transit system, and (c) more effectively use State and Federal funds, benefit assessments, and fares.

The *Proposition C Anti-Gridlock Transit Improvement Fund* accounts for the City's 20% share of the additional one-half cent sales tax within the County of Los Angeles to improve transit service and operations, reduce traffic congestion, improve air quality and the condition of streets and freeways utilized by public transit, and reduce foreign fuel dependence.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The *Recreation and Parks Fund* accounts for the revenues and expenditures of the Department of Recreation and Parks in operating and maintaining parks, playgrounds, swimming pools, public golf courses, recreation centers, recreation camps and educational facilities, and structures of historical significance.

The *Special Gas Tax Street Improvement Fund* accounts for the revenues received from the State for the City's share of the gasoline tax and Traffic Congestion Relief Fund to be used for preservation, maintenance, and rehabilitation of local street and road system. The fund also accounts for federal grants from the Surface Transportation Program to finance the upgrade of the most heavily traveled highways.

The *Community Development Fund* accounts for the Block Grant funds allocated by the United States Department of Housing and Urban Development (HUD) for the development of viable urban communities, including: decent housing and suitable living environment; expanding economic opportunities, principally for persons of low and moderate income; and physical improvements to communities accompanied by supportive social services.

The *Municipal Improvement Corporation Funds* account for the activity of the City's public financing entity component unit which finances the acquisition of properties and equipment, the construction of buildings, and other improvements for the benefit of City residents. The assets acquired or constructed by the Corporation are leased to the City under long-term capital lease agreements and become property of the City at the termination of the lease. The effects of the capital lease arrangements have been eliminated from the basic financial statements.

The City reports the following major proprietary funds:

The *Airports Fund* accounts for the operation, maintenance and development of City airports, namely: Los Angeles International Airport, Ontario International Airport, Van Nuys Airport and Palmdale Regional Airport.

The *Harbor Fund* accounts for the operations of the Port of Los Angeles, including operations of a pilotage service, lease of land and facilities and production of oil in the Harbor District.

The *Power and Water Funds* account for the operations of the Department of Water and Power in supplying the City and its inhabitants with water and electric power by constructing, operating, and maintaining facilities located throughout the City and Inyo and Mono Counties.

The *Sewer Fund* accounts for the construction, operations and maintenance of the City's wastewater collection and treatment system.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Additionally, the City reports the following fund types:

> The *Pension Trust Funds* account for the activities of the City's three contributory defined benefit pension plans namely: Los Angeles City Employees' Retirement System (LACERS); Fire and Police Pension System (Pensions); and Water and Power Employees' Retirement, Disability and Death Benefit Insurance Plan (DWP Retirement Plan).
>
> The *Agency Funds* account for assets held by the City as an agent for others, for example: Federal and State income taxes withheld from employees; and assessments for payments of certain conduit debt.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's business-type activities and certain other governmental functions. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Revenues that do not meet the criteria to be reported as program revenues are reported as general revenues. All taxes, even those levied for specific purpose, are reported as general revenues.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing concern operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services while operating expenses include cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources, as they are needed.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities and Net Assets or Equity

Cash and Cash Equivalents

For purposes of the statement of cash flows, all Proprietary Fund cash and pooled investments with the City Treasurer, cash deposits and other short-term investments that are both readily convertible to known amounts of cash and have maturities of three months or less at the time of purchase, are considered to be cash and cash equivalents. At June 30, 2006, the Proprietary Funds' investments held by escrow and fiscal agents of $1,178.6 million and other investments of $6 million have maturities beyond three months and therefore are not considered cash and cash equivalents.

Inventories

Inventories for materials and supplies, valued at average cost for the governmental activities and governmental funds, consist of expendable supplies held for consumption and are recorded as expenditures when purchased in the fund financial statements, but are recorded as expenses when consumed in the governmental activities statement of activities.

For the business-type activities and proprietary funds, inventories for materials and supplies are stated at average cost. Fuel is recorded at lower of cost or market on average cost basis.

The CRA land inventory, which is reported at cost, is acquired for eventual disposition for housing and commercial redevelopment projects.

Restricted Assets

The restricted assets for governmental activities and governmental funds are related to the State mandated deposit with a trustee bank to finance solid waste landfill closure and postclosure care costs, donated resources for the renovation of the Griffith Observatory, and allocations from the State's Traffic Congestion and Relief Fund for street or road maintenance or reconstruction. For the business-type activities and proprietary funds, amounts are reserved for accumulated resources for debt service payments, nuclear decommissioning trust funds, postretirement healthcare benefits trust fund, collected but unexpended passenger facility charges and accrued interest thereon, a self-insurance reserve, deposits from service users, and retention guarantees from contractors.

For the CRA, included in this account are investments maintained with fiscal agents for payment of principal and interest on tax allocation bonds, and securities pledged as collateral on loans for which it is directly or contingently liable.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. streets and bridges) are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. Generally, assets with an individual cost of at least $5,000 and an estimated useful life of more than one year are capitalized. Purchased or constructed capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Assets acquired by donation are recorded at estimated fair value on the date received.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

The business-type activities and proprietary funds capitalize interest costs, or in the case of the Power and Water Enterprise Funds, provide an "allowance for funds used during construction (AFUDC)." Interest and AFUDC capitalized during the year ended June 30, 2006 were $4.8 million and $5.1 million, respectively.

Depreciation, which includes amortization of assets under capital leases, is computed using the straight-line method over the estimated useful or service lives of the related assets, except as noted below.

Depreciation for the Power Enterprise Fund facilities completed prior to July 1, 1973 is computed by the 5% sinking fund method based on estimated service lives. Decommissioning of a nuclear power plant, in which the City has an ownership interest, is expected to commence subsequent to the year 2024. The total cost to decommission the City's interest in the nuclear plant is estimated to be $130 million in 2004 dollars. During fiscal year 2000, DWP suspended contributing additional amounts to the trust funds, as management believes that contribution to date combined with reinvested earnings, will be sufficient to fully fund DWP's share of decommissioning costs. As of June 30, 2006, Power Enterprise Fund has recorded $116.6 million to accumulated depreciation to provide for the decommissioning liability.

The Power Enterprise Fund's nuclear fuel is amortized and charged to operating expenses- fuel for generation on the basis of actual thermal energy produced relative to total thermal energy expected to be produced over the life of the fuel.

In July 2005, the Power Enterprise Fund acquired approximately a 74.5% ownership interest in gas properties located in Pinedale, Wyoming. The Fund uses the successful efforts method of accounting for its investment in gas producing properties. Costs to acquire the mineral interest in gas properties, to drill and equip exploratory wells that find proven reserves, and to drill and equip development wells are capitalized. Costs to drill exploratory wells that do not find proven reserves are expensed. Capitalized costs of producing gas properties are depleted by the unit-of-production method based on the estimated future production of the proved developed producing wells. Depletion expense related to the gas field is recorded as a component of operating expenses- fuel for generation. During fiscal year 2006, the Fund recorded $12.9 million of depletion expense.

The estimated useful lives of the primary government's capital assets are as follows:

	Useful Life	
Category	Governmental Activities	Business-type Activities
Infrastructure	20 - 138 years	--
Buildings and facilities	40 - 50 years	10 -75 years
Equipment and vehicles	3 - 30 years	3 - 20 years
Wastewater collection system	--	80 years
Landplane ports	--	10 - 35 years
Treatment and pumping plants	--	5 - 50 years
Wharves and sheds	--	10 - 15 years

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City's collection of artwork, certain scientific equipment, and zoo animals are not capitalized or depreciated. These capital assets are maintained for public exhibition, education or research and are being preserved for future generations. The proceeds from sales of any pieces of the collection are used to purchase other items for collection.

The City's infrastructure assets and the reporting methods the City has elected are as follows:

Infrastructure	Reporting Method
Bridges	Modified
Stormwater system	Depreciation
Streets	Depreciation
Traffic signals	Depreciation
Automated traffic signal and control	Depreciation
Bikepaths	Depreciation
Fiber optic telecommunication system	Depreciation
Street lighting system	Depreciation
Street pavement markings	Depreciation
Traffic signs	Depreciation

Beginning fiscal year 2006, the City changed its reporting method from the modified to the depreciation approach for the following infrastructure assets: stormwater system, streets and traffic signals.

The Pension Trust Funds capital assets consist primarily of office furniture and equipment of the City Employees' Retirement System. Capital assets acquisitions of at least $5,000 are capitalized and depreciated over five years.

The CRA capital assets are stated at cost. Capital assets acquisitions of at least $100 are capitalized. Additions and improvements that extend the useful lives of capital assets are capitalized. Depreciation is provided over the estimated useful lives ranging from 3 to 40 years using the straight-line method.

Compensated Absences

Vacation Pay

Eligible employees accumulate annual vacation leave up to a maximum of 50 days depending on the length of service. Sworn employees of the Police and Fire Departments accumulate from 28 to 42 days. All employees are paid the accumulated leave upon termination or retirement.

All vacation pay is accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. For the Governmental Funds, earned vacation is recorded as expenditures to the extent that they are normally expected to be liquidated with expendable available resources and are due and payable at year-end. Also, for governmental activities, earned vacation is generally liquidated by the General Fund.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Sick Pay

Beginning January 1, 1998, all City employees (except those of the DWP) are entitled to 12 days of sick leave at full pay and 5 days at 75% of full pay for each calendar year of employment. Employees may accumulate sick leave up to 100 days at full pay and 100 days at 75% of full pay. The City pays 50% of the excess over the maximum accumulated 100 days at full pay in the subsequent calendar year. Upon retirement, the City pays 50% of the accumulated sick time at full pay. There is no provision for the payment of the accumulated sick time at 75% of full pay. Firefighters under Memorandums of Understanding (MOU) 22 and 23 may accumulate 896 hours at full pay.

Starting January 1, 1998, accrued and accumulated sick leave at 50% of full pay was frozen for any credits or withdrawals. However, the City will pay 25% of the balance upon retirement.

DWP employees accumulate 40 hours of sick leave per year to a maximum of 80 hours. Any excess over the maximum is paid to the employee at 100% of their current salary rate. The employee goes on disability after taking 2 consecutive days of sick leave.

Governmental activities accrue the estimated value of sick leave (vested and probable of being vested), which may be used in subsequent years, or paid upon retirement up to a set maximum accumulated balance. The Proprietary and Pension Trust Funds accrue sick leave in the fiscal year earned. For the Governmental Funds, earned sick leave is recorded as expenditures to the extent that they are normally expected to be liquidated with expendable available resources and are due and payable at year-end. Also, for governmental activities, accrued sick leave is generally liquidated by the General Fund.

Employees of the CRA accumulate 96 hours per fiscal year to a maximum of 800 hours. The CRA pays 50% of the accumulated sick leave hours to any employee who retires or has a balance in excess of 800 hours.

Accumulated Compensated Time-Off

The MOU with the union representing police officers at the rank of Lieutenant and below provides that officers will accrue compensated time-off for accumulated overtime to certain limits. Whenever an employee resigns, retires or is discharged from the Police Department, the employee shall be paid in cash for all compensated time-off due. In case of death, payment will be made to the estate.

Accrued compensated time-off is reported in the government-wide financial statements. For the Governmental Funds, expenditures are recognized to the extent that they are normally expected to be liquidated with expendable available resources and are due and payable at year-end. Also, for governmental activities, accrued compensated time-off is generally liquidated by the General Fund.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Risk Management

The City is self-administered and self-funded for workers' compensation, most property damage and the majority of tort liability exposures. Commercial insurance is used where it is legally required, contractually required or judged to be the most effective way to finance risk. Indemnity and insurance protection is also required from all City contractors, vendors, lessees and permit holders. Claims and judgments are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. The recorded estimated liability for claims and judgments includes a provision for Incurred But Not Reported (IBNR) liabilities for workers' compensation, tort cases and liabilities for allocated expenses. For the Governmental Funds, only the portion of the liability is recognized to the extent that they are normally expected to be liquidated with expendable available resources and are due and payable at year-end. Also, for governmental activities, liability for claims and judgments is generally liquidated by the General Fund.

Deferred Revenue

Deferred revenue in the governmental funds arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition. Deferred revenue also arises when the City receives resources before it has a legal claim to them. In subsequent periods, when both the revenue criteria are met, or when the City has a legal claim to the resources, the deferred revenue is removed from the balance sheet/statement of net assets and revenue is recognized.

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums, discounts and deferred losses on refundings as well as issuance costs are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount and deferred losses on refundings. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes

Secured property taxes are levied on or before the first business day of September of each year. They become a lien on real property on January 1 preceding the fiscal year for which taxes are levied. These tax payments can be made in two equal installments; the first is due November 1 and delinquent with penalties after December 10; the second is due February 1 and delinquent with penalties after April 10. Secured property taxes that are delinquent and unpaid as of June 30 are declared to be tax defaulted and are subject to redemption penalties, costs, and interest when paid. If the delinquent taxes are not paid at the end of five (5) years, the property can be sold at public auction. The proceeds are used to pay the delinquent amounts due, and any excess is remitted, if claimed, to the taxpayer.

Additional tax liens are created when there is a change in ownership of property or upon completion of new construction. Tax bills for these new tax liens are issued throughout the fiscal year and contain various payments and delinquent dates but are generally due within one year. Unsecured personal property taxes are not a lien against real property. These taxes are due on January 1 and become delinquent, if unpaid, on August 31.

The County of Los Angeles assesses, bills and collects property taxes for all jurisdictions within its borders and remits the applicable portion less an administrative fee to the City throughout the year. Payments are normally remitted on the 20th day of the month.

Interfund Transactions

Interfund transactions are reflected as loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Net Assets

The government-wide financial statements utilize net assets presentation. Net assets are categorized as follows:

- Invested in capital assets, net of related debt - This category groups all capital assets into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Restricted net assets – This category consists of net assets with constraints placed on their use, either externally or internally. Constraints include those imposed by creditors (such as through bond covenants), grants or laws and regulations of other governments, or by law through constitutional provisions or enabling legislation.

- Unrestricted net assets – This category represents net assets of the City that are not restricted for any project or other purposes.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts in the financial statements and accompanying notes. Actual results could differ from the estimates.

Reclassifications

Certain reclassifications have been made to amounts reported in the separately audited financial statements of certain Enterprise Funds, Pension Trust Funds and other component units to conform to the City reporting entity's report format and to account for transactions between the City's reporting entity and such entities in accordance with GAAP.

Adoption of New GASB Pronouncements

The City adopted the following:

GASB Statement No. 44, *"Economic Condition Reporting: The Statistical Section, an amendment of NCGA Statement 1."* Issued in May 2004, this statement amends portions of NCGA Statement 1, *"Governmental Accounting and Financial Reporting Principles,"* to improve the understandability and usefulness of the information that state and local governments present as supplementary information in the statistical section.

GASB Statement No. 46, *"Net Assets Restricted by Enabling Legislation, an amendment of GASB Statement No. 34."* Issued in December 2004, the purpose of this statement is to help governments determine when net assets have been restricted to a particular use by the passage of enabling legislation and to specify how those net assets be reported in the financial statements when there are changes in the circumstances surrounding such legislation.

Recent GASB Pronouncements

GASB Statement No. 43, *"Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans."* Issued in April 2004, this statement establishes uniform financial reporting standards for other postemployment benefits and supersedes the interim guidance included in Statement No. 26, *"Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans."* GASB 43 will be effective for the City beginning fiscal year 2007.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement No. 45, *"Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions."* Issued in June 2004, this statement addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits, collectively referred to as other postemployment benefits (OPEB). The statement generally requires that state and local governmental employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. This statement will be effective for the City beginning fiscal year 2008 except for the Power and Water Enterprise Funds that opted for an early implementation as discussed below.

In fiscal year 2003, the Power and Water Enterprise Funds changed their election under the guidance of GASB Statement No. 20, *"Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting,"* and no longer apply Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989.

The Power and Water Enterprise Funds' plan for postemployment benefits other than pensions (healthcare benefits) is not administered as a trust or equivalent arrangement. The Funds have not established the plan as a separate legal entity or documented the plan's objectives and parameters, the duties and responsibilities of the plan's governing body or the plan retirees' and beneficiaries' rights that would require a legal separation of employer and plan assets and liabilities. While certain assets that will fund liabilities of the plan have been placed into an irrevocable trust and can only be used to pay for plan liabilities in behalf of the Funds, current postretirement benefit payments are not made from the trust, and as such, under the requirements of GASB 45, they are not considered contributions of the plan. Therefore, the assets placed into the trust remain restricted assets of the Funds and are reported as such in the accompanying statement of net assets as of June 30, 2006. Currently, retiree premium payments are made from the Funds' operations. Further, separate financial statements of the plan are not prepared.

GASB Statement No. 47, *"Accounting for Termination Benefits."* Issued in June 2005, this statement provides accounting guidance for state and local governments that offer benefits such as early retirement incentives or severance to employees that are involuntarily terminated. GASB 47 is effective for the City beginning fiscal year 2006, however for termination benefits that affect OPEB, the City will implement GASB 47 simultaneously with GASB 45.

GASB Statement No. 48, *"Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues."* Issued in September 2006, this statement provides criteria that governments will use to ascertain whether the proceeds from the exchange of interest in expected cash flows, from collecting specific receivables or specific future revenues for immediate cash payments, should be regarded as a sale or as a collateralized borrowing resulting in a liability. This statement also provides additional guidance for transfers of capital assets, financial assets, and future revenues within the same financial reporting entity. GASB 48 will be effective for the City beginning fiscal year 2008.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement No. 49, *"Accounting and Financial Reporting for Pollution Remediation Obligations."* Issued on December 1, 2006, this statement requires governments to estimate their expected outlays for pollution remediation if they know a site is polluted and any of the recognition triggers set by the standard occur. Liabilities would be estimated using an "expected cash flows" measurement technique, which is used by environmental professionals but will be employed for the first time by governments. Governments are required to disclose information about their pollution obligations associated with clean up efforts in the notes to the financial statements. GASB 49 will be effective for the City beginning fiscal year 2009.

GASB Technical Bulletin No. 2006-1, *"Accounting and Financial Reporting by Employers and OPEB Plans for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D."* Issued in June 2006, this technical bulletin clarifies the application of existing standards of accounting and financial reporting to payments that an employer or a defined benefit OPEB plan receives from the federal government pursuant to the retiree drug subsidy provisions of Medicare Part D, as established in the Medicare Prescription Drug, Improvement, and Modernization Act of 2003. This technical bulletin is effective immediately, except for portions pertaining specifically for measurement, recognition, or required supplementary information requirements of GASB 43 or GASB 45. Those provisions should be applied simultaneously with the implementation of GASB 43 and GASB 45.

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain difference between the governmental funds balance sheet and the government-wide statement of net assets

The governmental funds balance sheet includes reconciliation between *total fund balances-governmental funds* and *net assets of governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of this $5,594,507 difference are as follows (in thousands):

Bonds, Certificates of Participation, and Notes	$ 3,335,945
Add: Issuance Premium (to be amortized as interest income)	85,510
Less: Deferred Charge on Refunding (to be amortized as interest expense)	(34,311)
Less: Deferred Charge for Issuance Costs (to be amortized over the life of the debt)	(19,709)
HUD Loans	132,953
Accrued Interest Payable	46,813
Net Pension Liability	71,064
Accrued Landfill Liability	48,493
Accrued Compensated Absences	476,842
Estimated Claims and Judgments Payable	1,450,907
Net adjustments to reduce governmental fund balance to arrive at governmental activities net assets	$ 5,594,507

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

B. Explanation of certain differences between the governmental funds statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental funds statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net change in fund balances-total governmental funds* and *change in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of this $359,621 difference are as follows (in thousands):

Total additions	$ 2,340,979
Less: Historical cost of infrastructure assets recorded during the year	(1,774,106)
Less: Sale of land	(5,048)
Capital outlay	561,825
Less: Depreciation expense	(202,204)
Net adjustments to increase net change in fund balances of governmental funds to arrive at change in net assets of governmental activities	$ 359,621

Another element of that reconciliation states that some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. The details of this $189,215 difference are as follows (in thousands):

Increase in Accrued Landfill Liability	$ 1,017
Decrease in Accrued Interest	(7,699)
Increase in Net Pension Liability	(3,829)
Increase in Accrued Compensated Absences	32,348
Decrease in Estimated Claims and Judgments	(216,463)
Amortization of Deferred Charge on Refunding	3,872
Amortization of Deferred Charge for Cost of Issuance	1,539
Net adjustments to decrease net change in fund balances of governmental funds to arrive at change in net assets of governmental activities	$ (189,215)

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

Another element of that reconciliation states that the issuance of long-term debt provides current financial resources to the governmental funds while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas, these amounts are deferred and amortized in the statement of activities. The details of this $34,077 difference are as follows (in thousands):

Debt issued or incurred:	
General Obligation Bonds	$ 199,880
Add: Issuance Premium	10,001
Less: Deferred Charge on Refunding	(6,060)
Less: Deferred Charge for Issuance Costs	(1,420)
Certificates of Participation, Revenue Bonds, and Notes	141,950
Add: Issuance Premium	4,524
Less: Deferred Charge for Issuance Costs	(437)
HUD Loans	1
Principal repayments and bond refunding:	
General and Judgment Obligation Bonds	(180,265)
Certificates of Participation and Revenue Bonds	(131,146)
HUD Loans	(2,951)
Net adjustments to decrease net change in fund balances of governmental funds to arrive at change in net assets of governmental activities	$ 34,077

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgets and Budgetary Basis of Accounting

Under the City Charter, the Mayor is required each year to submit to the Council a Proposed Budget by April 20 for the forthcoming fiscal year commencing July 1. The Proposed Budget is based on the Mayor's budget priorities, the responses of the City Administrative Officer and City Departments to the Mayor's budget policy letter, which is distributed early in the fiscal year, and estimates of receipts from the City's various revenue sources. The Council's Budget and Finance Committee reviews the Mayor's Proposed Budget and reports its recommendations to the full Council. The Council must legally adopt the Mayor's Proposed Budget, as modified by the Council, by June 1. The Mayor has five working days after adoption to approve or veto any items modified by the Council. The Council then has five working days to override by a two-thirds vote any items changed by the Mayor.

The City Council adopts an annual operating budget for 39 City departments, bureaus, commissions and offices. The annual budget is essentially prepared on a departmental basis, with budgeted receipts and appropriations provided for the General Fund and certain Special Revenue, Debt Service, and Capital Projects Funds. Budgets are generally limited to funds, which in addition to the General Fund finance the operations of the City departments.

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

Furthermore, the budgeted receipts and appropriations for the *Allocations from Other Governmental Agencies Special Revenue Fund* (which includes Bicycle License, Bus Bench Advertising, Business Improvement, Community Based Services Program AB2800, City Planning Systems Development, Curbside Recycling Trust, Environmental Affairs Trust, Fire Hydrant Installation and Main Replacement, First and Broadway Childcare, Integrated Solid Waste Management, Pershing Square Project, Street Banners, Targeted-Destination Ambulance Services, Used Oil Collection, and Warner Center Transportation Improvement Special Revenue Funds) is not all-inclusive because the budget provides for only the portion of fund receipts that are expended to finance City department operations.

The City does not budget for the financial activities of all its Governmental Funds. The following Major Governmental Funds are not included in the City's legally adopted annual operating budget and therefore are not included in the budget to actual comparisons:

General Fund
Reserve and certain other accounts component

Special Revenue
Recreation and Parks
Municipal Improvement Corporation

Debt Service
Municipal Improvement Corporation

The City's original adopted budget is subject to revision to reflect the changes in revenue projections and to make necessary adjustments to appropriations. Transfers of appropriations are approved by the Mayor subject to the following limitations and conditions. Funds appropriated in the general City budget or thereafter by the Council may be transferred to the Reserve Fund or Unappropriated Balance of the General Fund, or appropriated for the same or other purposes amending the budget and other spending authority, upon approval of the Mayor provided the amounts do not exceed $50,000 and required notices are made by the City Clerk to the President of the Council, Controller and City Administrative Officer. Intra-Department transfers from one appropriated item to another may be approved by the Mayor provided the amount does not exceed the greater of $35,000 or 1% of the budget for the account receiving the transfer but not exceeding $100,000. The $35,000 limit is subject to adjustment based on the consumer price index. For fiscal year ended June 30, 2006, the adjusted amount was $41,222. Transfers that exceed the amount limits require the approval of the City Council.

During the fiscal year, additional appropriations of $350.4 million and capital related appropriations of $77.4 million that were reappropriated from prior budget years were included in the current annual operating budget. Transfers from the Reserve Fund (a nonbudgeted General Fund component), unanticipated receipts, and available fund balances that carried forward from the prior budget year financed these additional appropriations. In addition, non-capital related appropriations of $896.4 million were automatically carried forward from the prior budget year.

Unused and unencumbered appropriations lapse at year-end except for non-capital related continuing appropriations for certain Special Revenue and Capital Projects Funds that are carried forward to the next budget year. Capital related appropriations that are unused and unencumbered at year-end are re-appropriated in the subsequent budget year.

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is as follows: The General Fund is by line item within each object by department, except for capital improvement program expenditures which are controlled by projects. Object levels of expenditures are salaries, expenses, equipment, special, capital outlay, and transfers.

For the Special Revenue Funds, Debt Service Funds and Capital Projects Funds, the line items consist of departments, projects, debt service, equipment and programs. Because of the large volume of detail, the budget and actual schedules on a budgetary basis have been aggregated by fund, function and object level. A separate budget and actual report by line item has been prepared. The budgetary documents are available to the general public in the Office of the City Controller.

The City's annual budget is prepared on a modified cash basis of accounting, which is different from GAAP. Revenues are recognized when cash is received, and expenditures include both cash disbursements and current year encumbered appropriations that had not been paid at the end of the budget year. Where no appropriation is adopted, payments of interfund borrowings (or payment of loans to other funds) though recorded as a component of other financing uses, are not treated as budgetary transactions and are excluded in the separate budget and actual report.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is used in the Governmental Funds, except for certain Special Revenue and Capital Projects Funds whose assets are managed by a third party trustee. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities. These commitments will be honored in subsequent year carryforward appropriations.

B. Reconciliation of Operations on Budgetary Basis to the GAAP Basis

The actual results of operations on a budgetary basis compared to the appropriations adopted by the City Council for budgeted major governmental funds are included in the fund financial statements. The comparisons of actual results with the budget for non-major funds are presented as supplemental information in the combining schedules.

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

Because accounting principles applied for purposes of developing data on a budgetary basis differ from those used to present financial information in accordance with GAAP, a reconciliation of the resultant basis and perspective differences on operations for the year ended June 30, 2006 is presented in the following pages for the City's budgeted major funds. The dollar amounts are expressed in thousands.

	General Fund	Proposition A Local Transit Assistance Fund
Excess of Revenues and Other Sources Over Expenditures and Other Uses - Budgetary Basis	$ 302,355	$ 9,421
Basis Differences		
Adjustments for net changes to accrued assets and liabilities. The GAAP basis operating statement recognizes revenues as soon as they are both measurable and available, and expenditures generally are recorded when liability is incurred and is due and payable; whereas, the budgetary basis operating statement reflects revenues when received and expenditures when paid.	(67,620)	(1,140)
Interfund borrowings are recorded in the debtor fund as an other financing source "Loans from Other Funds" and in the creditor fund as an other financing use "Loans to Other Funds" (budgetary) as opposed to "Due to Other Funds" in the debtor fund and "Due from Other Funds" in the creditor fund (GAAP).	852	--
Encumbrances, which represent commitments to acquire goods and services, are recorded as the equivalent of expenditures in the budget year incurred (budgetary), as opposed to a reservation of fund balance (GAAP).		
Encumbrances reported as budgetary expenditures	303,606	16,633
Prior year encumbrances expended in current year	(243,981)	(8,366)
Perspective Difference		
For purposes of the budget, the General fund is a legal entity that is separate and distinct from the Reserve Fund and other accounts that are classified to have General fund activity for GAAP purposes.	(320,077)	--
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses/Net Change in Fund Balance - GAAP Basis	$ (24,865)	$ 16,548

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

	Proposition C Anti-Gridlock Transit Improvement Fund	Special Gas Tax Street Improvement Fund	Community Development Fund
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses - Budgetary Basis	$ 34,917	$ (2,570)	$ 13,323
Basis Differences			
Adjustments for net changes to accrued assets and liabilities. The GAAP basis operating statement recognizes revenues as soon as they are both measurable and available, and expenditures generally are recorded when liability is incurred and is due and payable; whereas, the budgetary basis operating statement reflects revenues when received and expenditures when paid.	(1,339)	(1,174)	(834)
Encumbrances, which represent commitments to acquire goods and services, are recorded as the equivalent of expenditures in the budget year incurred (budgetary), as opposed to a reservation of fund balance (GAAP).			
Encumbrances reported as budgetary expenditures	416	5,449	17,899
Prior year encumbrances expended in current year	(441)	(2,746)	(32,473)
Grant funded loans are recorded as expenditures when disbursed and as program income when repaid (budgetary), as opposed to adjustments to the Loans Receivable account balance (GAAP).	--	--	(4,130)
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses/Net Change in Fund Balance - GAAP Basis	$ 33,553	$ (1,041)	$ (6,215)

C. Fund Balances- Reserves, Designations and Deficit

Reserves of fund balances represent those amounts which are not available for appropriation in future periods or which are legally segregated for specific future uses.

Fund designations indicate tentative plans for future utilization of financial resources. The City's designated fund balance in the General Fund of $118.5 million consists of advances and technical adjustments totaling $10 million, and an emergency reserve of $108.5 million.

The Workforce Investment Act Special Revenue Fund has a deficit fund balance of $5.1 million because eligible government expenditures were incurred with amounts recorded as deferred revenue that will be recognized as future revenues when available.

NOTE 4 – DETAILED NOTES ON ALL FUNDS

A. Cash, Deposits and Investments

Summary of Cash and Investments

At June 30, 2006, the summary of cash, pooled and other investments for governmental and business-type activities, and fiduciary funds is as follows (in thousands):

	All City Funds			
	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Cash and Pooled Investments	$ 4,089,583	$ 1,432,832	$ 192,801	$ 5,715,216
Other Investments	60,892	--	35,047,457	35,108,349
Restricted Assets (Note 4D page 99)	15,943	3,289,245	--	3,305,188
Total	$ 4,166,418	$ 4,722,077	$ 35,240,258	$ 44,128,753

	Cash and Investments With City Treasurer	Other Cash and Investments		
		Pension Trust	Other	Total
Cash and Pooled Investments	$ 5,557,166	$ --	$ 158,050	$ 5,715,216
Other Investments	--	35,046,628	61,721	35,108,349
Restricted Assets	2,055,537	--	1,249,651	3,305,188
Total	$ 7,612,703	$ 35,046,628	$ 1,469,422	$ 44,128,753

Summary of Deposits and Investments

The carrying amount of cash on hand, deposits and investments at June 30, 2006, is as follows (in thousands):

Cash on Hand	$ 976
Deposits	69,981
Investments	
Pooled	7,571,334
Other	36,486,462
Total	$ 44,128,753

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

Deposits

At June 30, 2006, the book balance of the City's deposits was approximately $70 million and the balance per various financial institutions was approximately $58 million. The difference of $12 million represents primarily deposits in transit and other reconciling items. Of the bank balance, $1.3 million was covered by Federal depository insurance and $56.7 million was uninsured. The uninsured deposits of $56.7 million are held by financial institutions that are legally required by the California Government Code to collateralize the City's deposits by pledging government securities or first trust deed mortgage notes. The market value of the pledged government securities and first trust deed mortgage notes must be at least 110% and 150% of the City's deposits, respectively. The collateral is held by the pledging financial institution's trust department and is considered held in the City's name.

Pooled Investments

The cash balances of substantially all funds on deposit in the City Treasury are pooled and invested by the City Treasurer for the purpose of maximizing interest earnings through pooled investment activities but safety and liquidity still take precedence over return. Interest earned on pooled investments is allocated to the participating funds based on each fund's average daily deposit balance during the allocation period with all remaining interest allocated to the General Fund. Investments in the City Treasury are stated at fair value based on quoted market prices except for money market investments that have remaining maturities of one year or less at time of purchase, which are reported at amortized cost.

Pursuant to California Government Code Section 53607 and the Los Angeles City Council File No. 94-2160, the City Treasury provides an Annual Statement of Investment Policy (the Policy) to the City Council. The Policy governs the City's pooled investment practices. The Policy addresses soundness of financial institutions in which the Treasurer will deposit funds, and types of investment instruments permitted by California Government Code Sections 53600-53635 and 16429.1. Examples of investments permitted by the City's pooled investment policy are obligations of the U.S. Treasury and government agencies, commercial paper notes, negotiable certificates of deposit, guaranteed investment contracts, bankers' acceptances, medium term corporate notes, money market accounts, and the State of California Local Agency Investment Fund.

The Investment Advisory Committee (IAC) reviews investment performance and strategy. The IAC is composed of the City Treasurer as chairperson, the Office of the Mayor, City Controller, Chief Legislative Analyst, City Administrative Officer, Director of Office of Finance, and an external investment advisor.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

At June 30, 2006, the investments held in the City Treasury's General and Special Investment Pool Programs and their maturities are as follows (in thousands):

		Investment Maturities			
Type of Investments	Amount	1 to 30 Days	31 to 60 Days	61 to 365 Days	366 Days To 5 Years
U.S. Treasury Notes	$ 750,633	$ --	$ --	$ --	$ 750,633
U.S. Treasury Bills	7,193	7,193	--	--	--
U.S. Government Agencies	3,483,994	229,854	259,964	519,398	2,474,778
Medium Term Notes	1,077,004	--	--	125,689	951,315
Commercial Paper	1,298,356	1,173,459	52,464	72,433	--
State of California LAIF	2,204	2,204	--	--	--
Short Term Investment Funds	13	13	--	--	--
Securities Lending Cash Collateral					
U.S. Treasury Notes	607,597	--	--	--	607,597
U.S. Agencies	344,340	--	--	--	344,340
Total General and Special Pools	$ 7,571,334	$ 1,412,723	$ 312,428	$ 717,520	$ 5,128,663

Interest Rate Risk. The City's pooled investment policy limits the maturity of its investments to a maximum of five years for U.S. Treasury and Federal agency securities, medium term corporate notes, and bonds issued by local agencies; 270 days for commercial paper; and 32 days for repurchase agreements.

Credit Risk. The City's pooled investment policy requires that for all classes of investments, except linked banking program certificates of deposits, the issuers must have minimum short/long term credit ratings as follows: Standard and Poor's Corporation (S&P) A-1/A; Moody's Investor Services (Moody's) P-1/A2; Fitch Ratings (Fitch), if available, F1/A. The City's investments in medium term notes were rated A+ or better by S&P and A1 or better by Moody's, while investments in commercial paper were rated A-1+/A-1 by S&P, and P-1 by Moody's. As further required by the City's investment policy, the issuers of medium term notes are corporations that have total assets in excess of $500 million and are operating within the United States. In addition, the issuers of commercial paper notes are corporations organized in the United States as special purpose corporations, trust or limited liability companies having program-wide credit enhancements. The State of California Local Agency Investment Fund is not rated.

Concentration of Credit Risk. The City's investment policy does not allow more than 10% of its investment portfolio, except U.S. Treasury and Federal agencies, to be invested in securities of a single issuer including its related entities. The City's investment policy further provides for a maximum concentration limit of 30% on any individual federal agency or government-sponsored entity. The City's pooled investments comply with these requirements. GAAP requires disclosure of certain investments in any one issuer that represent 5% or more of total investments, the City does not have such investment.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

General Investment Pool Securities Lending Program. Securities lending is permitted and limited under provisions of California Government Code Section 53601. The City Council approved the Securities Lending Program (the SLP) on October 22, 1991 under Council File No. 91-1860, which complies with the California Government Code. The objectives of the SLP in priority order are: safety of loaned securities; and prudent investment of cash collateral to enhance revenue from the investment program. The SLP is governed by a separate policy and guidelines, with oversight responsibility of the Investment Advisory Committee.

The City's custodial bank acts as the securities lending agent. In the event a counterparty defaults by reason of an act of insolvency, the bank shall take all actions which it deems necessary or appropriate to liquidate permitted investment and collateral in connection with such transaction and shall make a reasonable effort for two business days (Replacement Period) to apply the proceeds thereof to the purchase of securities identical to the loaned securities not returned. If during the Replacement Period the collateral liquidation proceeds are insufficient to replace any of the loaned securities not returned, the bank shall, subject to payment by the City of the amount of any losses on any permitted investments, pay such additional amounts as necessary to make such replacement.

Under the provisions of the SLP, and in accordance with the California Government Code, no more than 20% of the market value of the General Investment Pool (the Pool) shall be available for lending. The City receives cash as collateral on loaned securities, which is reinvested in securities permitted under the Policy. In accordance with the California Government Code, the securities lending agent marks to market the value of both the collateral and the reinvestments daily. Except for open loans where either party can terminate a lending contract on demand, term loans shall have a maximum life of 90 days. Earnings from securities lending shall accrue to the Pool and shall be allocated on a pro-rata basis to all Pool participants.

At June 30, 2006, the assets and liabilities arising from the reinvested cash collateral were recognized in the respective participants' financial statements. During the fiscal year, collateralizations on all loaned securities were within the required 102% of market value. The City can sell collateral securities only in the event of borrower default. The lending agent provides indemnification for borrower default. There were no violations of legal or contractual provisions and no borrower or lending agent default losses during the year. There was no credit risk exposure to the City because the amounts owed to the borrowers exceeded the amounts borrowed. Loaned securities are held by the City's agents in the City's name and are not subject to custodial credit risk.

Other Investments

Other deposits and investments maintained outside the City Treasury are invested pursuant to policies adopted by the boards of commissioners of the City's pension systems, and Water and Power, governing bond covenants or California Government Code provisions. Investments made under these provisions are reported as follows. Investments are stated at fair value, and pension investments are reported in accordance with GASB Statement No. 25. Real estate investments are recorded in the financial statements under the equity method, and are carried at lower of cost or market value. Investments denominated in foreign currencies are translated to the U.S. dollar at the rate of exchange in effect at the statement of net assets date, with resulting gains and losses recorded in the statement of changes in fiduciary net assets.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

The stated fair value of securities investments are generally based on published market prices or quotations from major investment dealers. Real estate values are taken from recent appraisals, purchase prices and reports of investment advisors. The fair values of venture capital and alternative investments are estimated based on audited financial statements provided by the individual fund managers.

The City's other investments as of June 30, 2006 are as follows (in thousands):

Department of Water and Power	$ 1,117,033
Water and Power Employees' Retirement, Disability and Death Benefit Insurance Plan	7,427,249
Los Angeles City Employees' Retirement System	11,180,381
Fire and Police Pension System	16,438,998
Others	322,801
Total	$ 36,486,462

Department of Water and Power

The City Charter grants the Board of Water and Power Commissioners control over the investments of all financial assets of the Department of Water and Power (DWP). The $1.1 billion investments not included in the City's investment pool program are as follows (in thousands):

	Power	Water	Total
Debt reduction trust funds	$ 450,561	$ --	$ 450,561
Postretirement healthcare benefit trust	342,319	161,693	504,012
Nuclear decommissioning trust fund	97,017	--	97,017
Natural gas trust fund	25,043	--	25,043
SCPPA Palo Verde investment	40,400	--	40,400
Total	$ 955,340	$ 161,693	$ 1,117,033

At June 30, 2006, the investments of the Power and Water Enterprise Funds outside of the City's investment pool programs and their maturities are as follows (in thousands):

		Investment Maturities				
Type of Investments	Amount	1 to 30 Days	31 to 60 Days	61 to 365 Days	366 Days To 5 Years	Over 5 Years
U.S. Agencies	$ 559,530	$ 4,149	$ 24,032	$ 155,640	$ 285,243	$ 90,466
Medium Term Notes	214,558	14,705	21,013	120,168	58,672	--
Commercial Paper	183,453	141,416	32,144	9,893	--	--
Negotiable Certificates of Deposit	109,889	--	77,688	32,201	--	--
Money Market Funds	9,203	9,203	--	--	--	--
SCPPA Palo Verde Investment	40,400	40,400	--	--	--	
Total	$ 1,117,033	$ 209,873	$ 154,877	$ 317,902	$ 343,915	$ 90,466

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

Interest Rate Risk. DWP's investment policy limits the maturity of its investments to a maximum of 30 years for U.S. Government Agency securities; 5 years for medium-term corporate notes; 270 days for commercial paper; and 397 days for negotiable certificates of deposits.

Credit Risk. Under its investment policy and the State of California Government Code, DWP is subject to prudent investor standard of care in managing all aspects of its portfolios. The prudent investor standard requires that DWP "… shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency."

DWP's investment policy specifies that money market funds may be purchased as allowed under the State of California Government Code ("Code"), which requires that the fund must have either 1) attained the highest ranking or highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations ("NRSRO"), or 2) retained an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years experience managing money market mutual funds with assets under management in excess of $500 million. As of June 30, 2006, the money market funds in the portfolios have attained the highest possible ratings by three NRSROs specifically AAAm by S&P, Aaa by Moody's, and AAA by Fitch.

The U.S. government agency securities in the portfolio consist of securities issued by government-sponsored enterprises, which are not explicitly guaranteed by the U.S. government. As of June 30, 2006, the U.S. government agency securities in the portfolio carried the highest possible short-term ratings of the NRSROs that rated them.

DWP's investment policy specifies that commercial paper must be of the highest ranking or of the highest letter and number rating as provided by at least two NRSROs. As of June 30, 2006, the DWP's investments in commercial paper were rated with the highest letter and number rating as provided by at least two NRSROs.

DWP's investment policy specifies that negotiable certificates of deposit must be of the highest ranking or letter rating as provided for by at least two NRSROs. As of June 30, 2006, the DWP's investments in negotiable certificates of deposits were of the highest ranking by three NRSROs.

DWP's investment policy specifies that corporate notes must be rated in a rating category of "A" or its equivalent or better by a NRSRO. At June 30, 2006, DWP's investments in corporate notes of $214.5 million were rated by at least one NRSRO as follows: $7.7 million was rated AAA, $142.6 million was rated AA, and $64.2 million was rated A.

Concentration of Credit Risk. DWP's investment policy specifies that there is no percentage limitation on the amount that can be invested in U.S. government agency securities, except that a maximum of 30 percent of the cost value of the portfolio may be invested in the securities of any single U.S. government agency issuer. Of DWP's total investments as of June 30, 2006, $180.4 million (16%) was invested in securities issued by the Federal Home Loan Bank; $155.2 million (14%) was invested in securities issued by the Federal National Mortgage Association; $169.3 million (15%) was invested in securities issued by the Federal Home Loan Mortgage Corporation; and $14 million (1%) was invested in securities issued by the Farm Credit Bank.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

Water and Power Employees' Retirement, Disability and Death Benefit Insurance Plan

At June 30, 2006, the Water and Power Employees' Retirement, Disability and Death Benefit Insurance Plan's ("the Plan") investments are as follows (in thousands):

Domestic Stocks	$ 3,045,994
International Stocks	1,171,104
Mortgage and Asset-backed Securities	1,335,593
Domestic Corporate Debts	622,604
International Corporate Debts	15,727
Municipal Bonds	9,704
Medium Term Notes	49,077
U.S. Agencies and Other General Obligations	156,237
U.S. Treasuries	244,379
Money Market Mutual Funds	224,003
Securities Lending Short-term Collateral Investment Pool	552,827
Total	$ 7,427,249

Interest Rate Risk. As of June 30, 2006, the Plan's exposure to interest rate risk for its fixed income securities is as follows (amounts in thousands):

Investment Type	Amount	Weighted Average Maturity (Years)
Mortgage and Asset-backed Securities	$ 986,781	24.64
Domestic Corporate Debts	622,604	14.53
International Corporate Debts	15,727	5.54
Money Market Mututal Funds	224,003	0.09
Municipal Bonds	9,704	23.52
Medium Term Notes	49,077	8.43
U.S. Agency Notes	505,048	16.72
U.S. Treasuries	214,980	12.86
U.S. Treasury STRIPS	4,738	9.88
U.S. Treasury TIPS	24,662	6.65
Total	$ 2,657,324	

Since the Plan has a long-term investment horizon and utilizes an asset allocation, which encompasses a long-run perspective of capital markets, the Plan maintains the interest rate risk consistent with its long-term investment horizon.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

Credit Risk. The Plan's investment policy has been designed to produce the most favorable long-term total portfolio return consistent with reasonable levels of risks. Prudent risk-taking is warranted within the context of overall portfolio diversification. The Plan's investment policy allows investment grade fixed income securities with credit ratings of Baa3 or better by Moody's or BBB- or better by S&P. As of June 30, 2006, the S&P's credit ratings on the Plan's investments are BB or better for mortgage and asset-backed securities; C or higher for domestic and international corporate debts; B or better for medium term notes; BBB or higher for municipal bonds and AAA for U.S. Government securities. Investments in corporate debts of $86 million; $224 million in money market mutual funds and $15 million in mortgage-backed securities were not rated.

Foreign Currency Risk. The Plan's investment policy allows a maximum of 15% of its total investments in foreign currency-denominated securities. As of June 30, 2006, the Plan has 9.69% or $666 million investments in foreign-currency denominated stocks and corporate debts as follows (in thousands):

Foreign Currency	Amount
Argentina Peso	$ 1,144
Australian Dollar	15,318
Brazil Real	1,445
British Pound Sterling	152,614
Canadian Dollar	19,074
Danish Krone	6,021
Euro Currency Unit	207,940
Hong Kong Dollar	11,340
Indonesian Rupiah	1,745
Japanese Yen	166,324
Mexico New Peso	3,271
New Zealand Dollar	567
Norwegian Krone	2,868
Singapore Dollar	8,038
Swedish Krona	6,665
Swiss Franc	61,828
Total	$ 666,202

Securities Lending Transactions. The Plan's custodial bank manages its securities lending. The Plan or the borrowers can terminate the contract with advance notice. The lending arrangements are collateralized by cash and marketable securities (guaranteed by the full faith and credit of the U.S. Government) at (i) 102% with respect to U.S. securities; (ii) 105% with respect to foreign securities; or (iii) a percentage mutually agreed of the underlying securities' market value.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

These arrangements provide for the return of the investments and a share of the interest earned on the collateral. The securities on loan to brokers remain the property of the Plan and continue to be included in their respective accounts on the statement of plan assets. At year-end, the Plan had no credit risk exposure to borrowers because the amounts the Plan owed the borrowers exceeded the amounts the borrowers owed the Plan. During the year, the Plan did not incur losses due to borrowers' default.

The Plan's custodian is the authorized agent to handle the Plan's securities lending activity. The custodian may invest the cash collateral received in connection with loaned securities in investments permitted by the Plan. The Plan bears sole risk of all losses of the invested collateral, including losses incurred in the event of liquidation of the permitted investments. The custodial bank is responsible for the return of loaned securities from the borrowers. The Plan does not have the ability to pledge or sell collateral assets unless the borrower is in default of its obligation.

Los Angeles City Employees' Retirement System

At June 30, 2006, the Los Angeles City Employees' Retirement System's (LACERS) investments are as follows (in thousands):

Investment Type	Amount
Short-term Investments	$ 189,812
Commercial Paper	244,156
Futures Initial Margin	25,739
U.S. Government Securities	644,071
Municipal Bonds	4,554
Domestic Corprate Bonds	738,308
International Bonds	152,726
Domestic Stocks	3,899,606
International Stocks	2,008,855
Mortgages	699,853
Real Estate	405,681
Venture Capital	520,273
Security Lending Collateral	1,646,747
Total	$ 11,180,381

Interest Rate Risk. LACERS manages its exposure to interest rate risk by requiring the fixed income investment managers to maintain their portfolio effective duration within a specified range of the Lehman U.S. Universal Bond Index, the Lehman Intermediate Government Credit Index, or the Lehman Aggregate Bond Index, depending on the LACERS Board's mandate. The effective duration is a measure, in years, of interest rate sensitivity in debt investments. Information about the sensitivity of the fair values of LACERS' investments to market interest rate fluctuations is provided by the following table that shows the weighted average effective duration of fixed income investments (in thousands):

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

Investment Type	Amount	Weighted Average Effective Duration (In Years)
Asset-backed Securities	$ 63,367	15.73
Commercial Mortgages	88,298	15.57
Corporate Bonds	685,540	7.21
Government Agencies	233,665	2.68
Government Bonds	464,466	7.43
Government Mortgage-backed Securities	611,030	13.51
Government-Issued Commercial Mortgage-backed Securities	525	9.35
Municipal Bonds	6,100	5.40
Nongovernment-backed Collateralized Mortgage Obligations	86,521	16.27
Total	$ 2,239,512	

Credit Risk. LACERS seeks to maintain a diversified portfolio of fixed income securities in order to obtain the highest total return for the fund at an acceptable level of risk within this asset class. The credit quality ratings in fixed income securities by a nationally recognized statistical rating organization as of June 30, 2006 are as follows (in thousands):

Credit Rating	Amount	Percentage
AAA	$ 1,021,605	56.92%
AA	42,233	2.35%
A	194,962	10.86%
BBB	267,536	14.90%
BB	71,033	3.96%
B	88,152	4.91%
CCC	7,721	0.43%
Not Rated	101,728	5.67%
Subtotal	1,794,970	100.00%
U.S. Government Guaranteed Securities	444,542	
Total Fixed Income Investments	$ 2,239,512	

Concentration of Credit Risk. LACERS' investment portfolio as of June 30, 2006 has no concentration of investments of 5% or more of the total investment portfolio in any one entity except those issued or guaranteed by the U.S. Government.

Custodial Credit Risk. Custodial credit risk for deposits is the risk that, in the event of a financial failure of depository financial institution, LACERS would not be able to recover its deposits or would not be able to recover collateral securities that are in the possession of an outside party.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

Deposits are exposed to custodial credit risk if they are not insured or are not collateralized. As of June 30, 2006, LACERS has exposure to such risk in the amount of $18.7 million or 0.95% of the fair value of total international investments. The amount represents uninvested cash denominated in foreign currencies, managed by 13 investment managers, and held outside of LACERS' custodial bank. It is LACERS' policy to require the international investment managers to hold no more than 10% of their portfolios in the form of cash.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, Lacers would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are not insures, or are not registered in LACERS' name, and held by the counterparty. LACERS' investments are not exposed to custodial credit risk if they are insured or registered in LACERS' name. LACERS' investments are not exposed to custodial credit risk since all securities are held by LACERS' custodial bank in LACERS' name.

Foreign Currency Risk. The Asset Allocation policy of LACERS sets a target of 21% of the total portfolio for foreign investments in equities. In addition, fixed income, real estate and alternative investment managers may hold foreign investments depending on their individual mandates. Foreign investments as of June 30, 2006, which represents 18.3% of fair value of total investments, are as follows (in thousands):

Foreign Currency	Amount
Argentine Peso	$ 3,652
Australian Dollar	81,685
Brazil Real	10,076
British Pound Sterling	342,022
Canadian Dollar	1,380
Chilean Peso	1,934
Czeck Koruna	1,695
Danish Krone	5,264
Euro Currency Unit	578,227
Hong Kong Dollar	68,331
Hungarian Forint	1,410
Indian Rupee	10,406
Indonesian Rupiah	3,900
Japanese Yen	437,394
Malaysian Ringgit	12,598
Mexico New Peso	6,603
New Israeli Shekel	1,258
New Taiwan Dollar	53,483
New Zealand Dollar	1,165
Norwegian Krone	28,001
Philippine Peso	14,603
Polish Zloty	2,210
Singapore Dollar	33,022
South African Rand	13,271
Subtotal Forwarded	$ 1,713,590

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

Foreign Currency	Amount
Subtotal Forwarded	$ 1,713,590
South Korean Won	62,787
Swedish Krona	43,622
Swiss Franc	124,299
Thai Baht	12,245
Turkish Lira	2,170
Total	$ 1,958,713

Highly Sensitive Investments. Highly sensitive investments are certain debt investments whose terms may cause their fair value to be highly sensitive to market interest rate changes. Terms include such information as embedded options, coupon multipliers, benchmark indexes, and reset dates. The asset-backed investments of LACERS have embedded prepayment options that will typically cause prepayments by the obligees of the underlying investments when interest rates fall. Prepayments eliminate the stream of future interest payments and, therefore, diminish the fair value of the asset-backed investment. As of June 30, 2006, the fair value of LACERS asset-backed investments by investment type are as follows (in thousands):

Type of Investment	Amount
Asset-backed Securities	$ 63,367
Commercial Mortgages	88,298
Government Agencies	233,665
Government Mortgage-backed Securities	611,030
Government Issued Commercial Mortgage-backed Securities	525
Non-government Backed Collateralized Mortgage Obligations	86,521
Total	$ 1,083,406

Securities Lending Transactions. The LACERS has entered into various short-term arrangements with its custodian whereby securities are loaned to various brokers. The custodian determines which lenders' accounts to lend securities from, by using an impartial sequential system that matches loan requests with various lenders' accounts. All lenders are deemed to have relatively equal opportunity to profit from the lending of securities. Therefore, should a collateral deficiency occur beyond the custodian's responsibilities, the deficiency is allocated pro rata among all lenders.

Minimum required collateralization is 102% of fair value of the borrowed U.S. securities and 105% for international securities. Collateral consists of cash, government securities and irrevocable bank letters of credit. The cash collateral may be invested separately or pooled in a separate fund for investing in money market or cash equivalent investments. LACERS cannot pledge or sell non-cash collateral unless the borrower defaults. The cash collateral values of securities on loan to brokers are shown at fair value in the statement of fiduciary net assets. During the fiscal year, LACERS had no losses due to borrower default. There was no credit risk exposure at year-end because the amounts owed the borrowers exceeded the amounts the borrowers owed LACERS.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

Fire and Police Pension System

At June 30, 2006, the Fire and Police Pension System's (Pensions) investments are as follows (in thousands):

Investment Type	Amount
Short-term Investments	$ 767,315
U.S. Government Obligations	1,479,902
Domestic Corporate Bonds	1,927,855
International Bonds	5,825
Domestic Stocks	5,561,774
International Stocks	2,684,964
Real Estate	1,034,391
Alternative Investments	484,313
Securities Lending Collateral	2,492,659
Total	$ 16,438,998

Interest Rate Risk. Pensions manages its exposure to interest rate risk by requiring fixed income managers to maintain the effective duration of their portfolio within a specified range of the Lehman Brothers Aggregate Index for core fixed income investments, the Lehman Brothers Long Term Government/Corporate Index for long duration investments, and the First Boston High Yield Index for high yield investments. The longer the duration, the greater the sensitivity to interest rate changes. Information about the sensitivity of Pensions' investments to interest rate fluctuations is provided in the following table that shows the weighted average effective duration of Pensions' fixed income investments by investment type (in thousands):

Investment Type	Amount	Weighted Average Effective Duration (In Years)
Asset-backed Securities	$ 52,920	6.65
Commercial Mortgages	59,412	33.23
Corporate Bonds	1,156,147	11.86
Government Agencies	73,956	2.17
Government Bonds	453,843	21.83
Government Mortgage-backed Securities	468,400	21.17
Government Issued Commercial Mortgage-backed	1,208	2.91
Index Linked Government Bonds	481,067	10.91
Nongovernment-backed Collateralized Mortgage Obligations	18,027	24.16
Municipal Bonds	1,428	2.93
Bond Index Fund	647,174	18.35
Total	$ 3,413,582	

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

Investments that are highly sensitive to interest rate risk at June 30, 2006 are as follows (in thousands):

Investment Type	Amount
Asset Backed Securities	$ 52,921
Commercial Mortgages	59,412
Government Agencies	73,956
Government Mortgage Backed Securities	468,400
Government Issued Commercial Mortgage Backed	1,208
Index Linked Government Bonds	481,067
Non-Government Backed Collateralized Mortgage Obligations	18,027
Total	$ 1,154,991

Credit Risk. Pensions seeks to maintain a diversified portfolio of fixed income securities in order to obtain the highest total return at an acceptable level of risk within this asset class. As of June 30, 2006, the quality ratings of Pensions' fixed income investments are as follows (dollars in thousands):

Quality Rating	Amount	Percentage
AAA	$ 156,263	8.09%
AA	40,853	2.11%
A	156,768	8.11%
BBB	239,408	12.38%
BB	265,370	13.72%
B	318,339	16.46%
CCC	56,686	2.93%
CC	918	0.05%
C	5,339	0.28%
D	4,496	0.23%
Not Rated	689,240	35.64%
Subtotal	1,933,680	100.00%
U.S. Government Issued or Guaranteed Securities	1,479,902	
Total Fixed Income Investments	$ 3,413,582	

Concentration of Credit Risk. As of June 30, 2006, Pensions' investment portfolio has no concentration of investments of 5% or more of the total investment portfolio in any one entity except those issued or guaranteed by the U.S. Government.

Custodial Credit Risk. Custodial credit risk for deposits is the risk that, in the event of a financial failure of a depository financial institution, Pensions' deposits and collateral securities in the possession of an outside party would not be recoverable. Deposits are exposed if they are not insured or are not collateralized. As of June 30, 2006, Pensions' exposure to such risk was $19.4 million comprised of foreign currencies held outside the custodial bank. For investment securities, custodial risk is the risk that, in the event of the failure of the counterparty, Pensions will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial risk if they are not insured, or not registered in Pensions' name, and held by the counterparty. Pensions' investments are not exposed to custodial risk since they are held by the custodial and registered in the Pensions' name.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

Foreign Currency Risk. The Pensions' asset allocation policy sets a target of 18% of the total portfolio for non-U.S. equity investments. The majority of Pensions' currency exposure comes from its holdings of foreign stocks. Pensions' foreign investment holdings, including foreign currencies and temporary investments at June 30, 2006 are as follows (in thousands):

Foreign Currency	Amount
Australian Dollar	$ 62,018
Brazilian Real	49,082
British Pound Sterling	375,567
Canadian Dollar	44,288
Czeck Koruna	10,262
Danish Krone	7,647
Egyptian Pound	2,683
Euro Currency Unit	988,910
Hong Kong Dollar	70,864
Hungarian Forint	6,288
Indian Rupee	227
Indonesian Rupiah	3,658
Israeli Shekel	1,678
Japanese Yen	543,263
Korean Won	82,266
Lithuanian Litas	74
Malaysian Ringgit	5,067
Mexican Peso	13,980
Moroccan Dirham	567
New Zealand Dollar	8,581
Norwegian Krone	55,833
Philippine Peso	1,853
Polish Zloty	21,242
Singapore Dollar	28,968
South African Rand	32,277
Swedish Krona	39,113
Swiss Franc	157,947
Taiwan New Dollar	65,821
Thai Baht	3,453
Turkish New Lira	7,311
Total	$ 2,690,788

Securities Lending Transactions. Pensions has entered into various short-term arrangements with its custodian, whereby investments are loaned to various brokers, as selected by the custodian. The lending arrangements are collateralized by cash, letters of credit and marketable securities, held on Pensions' behalf by the custodian. These agreements provide for the return of the investments and for a payment of a fee when the collateral is marketable securities or letters of credit, or interest earned when the collateral is cash on deposit.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

Upon direction of the Pensions' Board, the custodian may loan securities to brokers or dealers or other borrowers upon such terms and conditions, as it deems advisable. The minimum required collateralization is 102% of market value plus any accrued interest of the borrowed U.S. securities and 105% of market value plus any accrued interest for non-U.S. securities. At year-end, Pensions had no credit risk exposure to borrowers because the amounts Pensions owes the borrowers exceed the amounts the borrowers owe Pensions.

Borrowers of Pensions securities have all incidents of ownership with respect to borrowed securities and collateral including the right to vote and transfer or loan borrowed securities to others. Pensions is entitled to receive all distributions, which are made by the issuer of the borrowed securities, directly from the borrower. Under the lending agreements, the custodian will indemnify Pensions as a result of the custodian's failure to: (1) make a reasonable determination of the creditworthiness of a potential borrower before lending and, during the term of the loan or loans, the borrower files a petition for bankruptcy or similar action, (2) demand adequate collateral, or (3) otherwise maintain the securities lending program in compliance with the Federal Financial Institutions Examinations Council Supervisory Policy on Securities Lending.

Others

Other investments are generally those required to be deposited in accounts established under various bond indentures and will be held, invested and reinvested by the trustees/fiscal agents in permitted investments as defined in the indentures. Investment maturities are scheduled to coincide with bond retirement and interest payments. At June 30, 2006, other investments are as follows (in thousands):

		Investment Maturities			
Type of Investments	Amount	1 to 30 Days	31 to 60 Days	61 to 365 Days	366 Days To 5 Years
U.S. Treasury Notes	$ 17,378	$ --	$ 66	$ 66	$ 17,246
U.S. Government Agencies	36,981	20,315	386	5,774	10,506
Mutual Funds	210,350	201,496	8,854	--	--
Money Market Funds	21,389	21,389	--	--	--
Short-term Investment Funds	830	602	--	--	228
Guaranteed Investment Contracts	35,873	--	--	5,233	30,640
Total	$ 322,801	$ 243,802	$ 9,306	$ 11,073	$ 58,620

Credit Risk. At June 30, 2006, the investments in mutual and money market funds have attained the highest possible ratings as follows: AAAm by S&P and Aaa by Moody's. The short-term investment funds and guaranteed investment contracts were not rated.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

Community Redevelopment Agency

At June 30, 2006, cash and investments of the CRA are as follows (in thousands):

Deposits		$ 9,173
Investments		
Cash equivalents	$ 176,328	
Unrestricted	162,704	
Restricted	69,827	408,859
Total		$ 418,032

The CRA's deposits are maintained with various banks within redevelopment project areas. At June 30, 2006, the book balance of the deposits was approximately $9.2 million while the bank balances totaled $16.3 million. The difference of $7.1 million represents primarily outstanding checks and other reconciling items. Of the bank balance, $1 million was covered by Federal depository insurance and $15.3 million was uninsured. The uninsured deposits of $15.3 million are held by the banks that are legally required by the California Government Code to collateralize the CRA's deposits by pledging government securities or first trust deed mortgage notes. The market value of the pledged government securities and first trust deed mortgage notes must be at least 110% and 150% of the deposits, respectively. The collateral is held by the pledging financial institution's trust department and is considered held in the CRA's name.

The CRA's investments at June 30, 2006 consist of the following investment types (in thousands):

Investment Type	Amount	Weighted Average Maturity (Years)
Investments Held by the CRA		
Treasury Securities	$ 8,415	1.17
Federal Securities	232,175	0.46
Commercial Paper	41,618	0.09
Local Agency Investment Fund	66,730	0.00
Certificates of Deposits	110	N/A
Subtotal	349,048	
Investments Held by Fiscal Agent or Trustee		
Treasury Securities	53,406	0.01
Federal Securities	1,810	0.01
Repurchase Agreement	4,595	0.08
Subtotal	59,811	
Total	$ 408,859	
Portfolio weighted average maturity for investments held by the CRA		0.35

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

The CRA's general investment policy is to apply the prudent-person rule. Investments are made as a prudent person would exercise in the management of his own affairs, not for speculation, but for investment considering the general economic conditions and the anticipated needs of the agency. The objective is to minimize the interest rate risk and credit risk of each investment. In addition, in order to minimize the total volatility of the portfolio, the CRA shall maintain a diversified portfolio of investments.

Interest Rate Risk. The CRA manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to not more than two years, excluding those investments held by trustees, fiscal agents or escrow banks in connection with a CRA bond, note or certificate of participation issue.

Credit Risk. Under the California Government code, investments in commercial paper are limited to ratings of "A-1" or higher by NRSROs. At June 30, 2006, the CRA's investments in commercial paper are rated A-1 or better.

Local Agency Investment Fund

As of June 30, 2006, the City and the CRA's investments in the State of California Local Agency Investment Fund (LAIF) are $2.2 million and $66.7 million, respectively. The total amount invested by all public agencies in LAIF at that date is $16.4 billion. The LAIF is part of the State's Pooled Money Investment Account (PMIA). As of June 30, 2006, the investments in the PMIA totaled $63.3 billion, of which 97.4% is invested in non-derivative financial products and 2.6% in structured notes and asset-backed securities. The Local Investment Advisory Board (the Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State statute. The Pooled Money Investment Board whose members are the State Treasurer, Director of Finance, and State Controller, has oversight responsibility for PMIA. The value of the pool shares in LAIF, which may be withdrawn at any time, is determined on a historical cost basis, which is different than the fair value of the City's and CRA's position in the pool.

Futures and Forward Contracts

LACERS uses derivative financial instruments primarily to manage portfolio risk. Futures contracts are used to provide equity exposure for uninvested cash, and forward contracts are used to hedge against fluctuation in foreign currency denominated assets primarily in trade settlements. Futures and forward contracts are marked to market and are recorded in the statement of plan net assets at fair value. Futures contracts have little credit risk, as organized exchanges are the guarantors. Forward agreements are subject to the creditworthiness of the counterparties, which are principally large financial institutions.

At June 30, 2006, LACERS had outstanding futures contracts for foreign currencies and the Standard and Poor's 500 Index with an aggregate notional amount of $5.7 million. In addition, at June 30, 2006, LACERS had outstanding forward purchase commitments with a notional amount of $28 million and offsetting forward sales commitments with notional amounts of $28 million that expire through September 2006. LACERS maintains margin collateral on the positions with brokers, consisting of cash and U.S. Treasury Bills. The total collateral margin was $25.7 million as of June 30, 2006. The realized gain on foreign currency translation was $8.8 million for the year ended June 30, 2006.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

Overdraft Limit

The City has $100 million "Authorized Overdraft Limit" with a bank that maintains the City's operating account. At its sole discretion, the bank may allow an overdraft to occur in the City's account. Such overdraft, including any charges, must be repaid immediately without demand, except when the City and the bank agree otherwise or when the bank advises otherwise in writing.

B. Receivables

Primary Government

The primary government's net receivables at June 30, 2006 are as follows (in thousands):

	Governmental Activities	Business-type Activities
Gross Receivables		
Taxes	$ 329,246	$ --
Accounts	672,235	847,473
Special Assessments	22,142	--
Investment Income	37,490	34,867
Intergovernmental	144,950	102,027
Loans and Notes	863,116	1,181,175
Total	2,069,179	2,165,542
Allowance for Uncollectibles		
Taxes	(34,029)	--
Accounts	(502,322)	(114,592)
Special Assessments	(1,646)	--
Intergovernmental	(49,859)	--
Loans and Notes	(623,809)	(2,000)
Total	(1,211,665)	(116,592)
Net Receivables	$ 857,514	$ 2,048,950
Net Receivables not scheduled for collection during the subsequent year:		
Accounts	$ --	$ 116,367
Loans and Notes	194,049	1,146,268

The majority of the governmental activities loans consist of grant funded loans provided as follows: a) to property owners for the upgrading and rehabilitation of residential or rental properties to eliminate the spread of slums and blight and repair earthquake damage; b) to businesses to carry out economic development projects; and c) to community based organizations to acquire, construct or improve existing public facilities. Interest rates ranged from 3% to 10% for interest bearing loans. The principal and interest are paid either monthly, quarterly, annually (amortizing loans), or when residual receipts are generated in accordance with the loan agreements (residual receipts loans), or deferred until maturity, transfer of title or sale of property occurs (deferred loans).

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

The governmental activities loans include a $14 million HUD Section 108 loan provided to the CRA in fiscal year 2004. The CRA used the loan proceeds to partially fund the acquisition and relocation costs of a redevelopment project. The loan agreement allows CRA to assign the loan to the project developer. In September 2005, the assignment was effected. Although the loan was assigned to the developer, the CRA will maintain its pledge to the City of area-wide tax increment as security of the loan. However, the area-wide tax increment pledge is subordinate to existing and future lien bonds of the project area. The loan is further secured by an unconditional guaranty of payment not to exceed $12.3 million. A company that is a party related to the project developer issued the guaranty.

Also included in the loans is a $45 million receivable from the Los Angeles Community Development Bank. Please see Note 5D on page 157 for additional information.

The business-type activities loans include the Power Enterprise Fund's long-term notes of $1.17 billion from Intermountain Power Agency (see Note 5B on page 150), and $3.3 million long-term Harbor notes receivable.

Component Unit

The $82.9 million net receivables of the CRA at June 30, 2006 consisted of $13.7 million property taxes, $4.9 million intergovernmental, $2.5 million investment income, $59.4 million loans, and $2.4 million other.

The CRA net loans receivable of $59.4 million reflected an allowance for market value write-down and uncollectibles of $475.3 million. To enhance the redevelopment process, the CRA grants "below-market" interest rate loans primarily for the rehabilitation and development of low and moderate-income housing and the development of commercial properties. Since these loans are generated to assist various redevelopment areas, repayment terms are structured to meet requirements established by the CRA and the specific project areas.

Deferred Receivables

Governmental funds report deferred revenue in connection with receivables for revenues and other financing sources that are not considered to be available to liquidate liabilities of the current period. At June 30, 2006, the various components of deferred revenue reported in the governmental funds were as follows (in thousands):

Taxes	$ 88,016
Accounts	144,887
Intergovernmental	56,482
Special Assessments	1,871
Investment Income	14,892
Total Deferred Revenue for Governmental Funds	$ 306,148

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

C. Loans Receivable from Component Unit

The City has recorded non-interest bearing, no-fixed term loans of $50.7 million, and 20-year loans totaling $17.2 million. These loans are to be repaid by the CRA from certain sources such as tax increment revenues of the respective redevelopment projects as defined in the contracts, and applicable program income. The $17.2 million loans bear 5% interest with final maturity date of June 2021.

Additionally, the City has recorded loans of $0.8 million with a 3% interest rate and $4.3 million with a 5.5% interest rate that will mature in March 2012 and December 2022, respectively. The $0.8 million loan is secured by site-specific tax increments that are subordinate to project area's bond and tax increment commitments. The $4.3 million promissory note will be repaid by making City approved block grant qualifying expenditures in the redevelopment project.

The City's Special Parking Revenue Fund extended a loan of $1 million to the CRA for the design and construction of public parking spaces in the Beacon Street Redevelopment Project area. The loan matures in July 2015. Repayment of the loan will come from surplus profits as described in the development agreement or from tax increment revenues from the project area. If surplus profits are insufficient to repay the loan, the balance will be amortized over a ten-year period at the City's "pooled fund" interest rate.

D. Restricted Assets

The primary government's restricted assets are composed of the following at June 30, 2006 (in thousands):

	Governmental Activities	Business-type Activities	Total
Cash and Investments			
Cash and Pooled Investments With City Treasurer	$ 7,471	$ 2,048,065	$ 2,055,536
Other Investments	8,472	1,241,180	1,249,652
Subtotal	15,943	3,289,245	3,305,188
Other Restricted Assets			
Investment Income Receivable	--	5,731	5,731
Passenger Facility Charge Receivable	--	20,966	20,966
Total	$ 15,943	$ 3,315,942	$ 3,331,885

The restricted assets for governmental activities are related to the State mandated deposit with a trustee bank to finance solid waste landfill closure and postclosure care costs, donated resources for the renovation of the Griffith Observatory, and allocations from the State's Traffic Congestion and Relief Fund for street or road maintenance or reconstruction. For the business-type activities, the restricted amounts are for accumulated resources for debt service payments, nuclear decommissioning trust funds, collected but unexpended passenger facility charges and accrued interest thereon, a self-insurance reserve, deposits from service users, and retention guarantees from contractors. The restricted cash and investments are included in the discussion in Note 4A.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

The CRA's restricted assets totaling $69.8 million consist primarily of investments maintained with fiscal agents that are pledged as collateral for the payment of principal and interest on tax allocation and parking revenue bonds.

E. Joint Ventures

Intermodal Container Transfer Facility Joint Powers Authority (ICTF) and Alameda Corridor Transportation Authority (ACTA)

The harbor departments of the City of Los Angeles (the Harbor) and the City of Long Beach, California (Port of Long Beach) entered into two separate joint exercise of powers agreements that formed the authorities.

The ICTF was formed for the purpose of financing and constructing a facility to transfer cargo containers between truck and railroad cars. The Harbor contributed $2.5 million to the ICTF as part of the agreement. The facility, which began operations in December 1986, was developed by Southern Pacific Transportation Company (SPTC, subsequently wholly owned subsidiary of Union Pacific Corporation) that operates the facility under a long-term lease agreement. The Harbor appoints two members of the ICTF's five-member governing board and accounts for its investment using the equity method. Both the Harbor and the Port of Long Beach share income and equity distributions equally.

Pursuant to an indenture of trust dated November 1, 1984, the ICTF issued $53.9 million bonds (1984 Bonds) on behalf of the SPTC to construct the facility. In 1989, the ICTF issued $52.3 million refunding bonds (1989 Bonds) on behalf of SPTC to advance refund all of the 1984 Bonds. In 1999, the ICTF, on behalf of the SPTC, again issued $42.9 million refunding bonds (1999 Bonds) to advance refund all of the 1989 Bonds. The 1999 Bonds are payable solely from payments by the SPTC under the lease agreement for use of the facility. The nature of the bonds is such that the indebtedness is that of the SPTC and not of the ICTF, the Harbor or the Port of Long Beach.

The ICTF's operations are financed by lease revenues. The ICTF is empowered to perform those acts necessary for the development of its facilities and related facilities, including acquiring, constructing, leasing, and selling any of its property. The Harbor's share of the ICTF's operations and assets, liabilities, and equity at June 30, 2006 is $7.1 million. Separate financial statements for the ICTF may be obtained from the Executive Director, Port of Long Beach, 925 Harbor Plaza, Long Beach, California 90802.

The ACTA was formed for the purpose of establishing a comprehensive transportation corridor and related facilities consisting of street and railroad rights-of-way, and an improved highway and railroad network along Alameda Street between the Santa Monica Freeway and the Ports of Los Angeles and Long Beach in San Pedro Bay linking the two ports to the central Los Angeles area. The Harbor and the Port of Long Beach share income and equity distributions equally. During fiscal year 1995, the Harbor and the Port of Long Beach purchased railroad rights-of-way and other assets totaling approximately $370 million along the proposed corridor route.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

At June 30, 1998, the Harbor had advanced a total of $13.3 million to the ACTA to fund its share of planning and other costs incurred to date. During fiscal year 1999, the ACTA reimbursed the Harbor for all amounts advanced plus approximately $3.2 million of interest on the advances out of debt or grant financing proceeds. In addition, the ACTA reimbursed the Harbor for approximately $81.7 million of capital assets directly related to the ACTA's mission, which the Harbor had previously included in construction in progress. Of the capital assets transferred, approximately $22.2 million had been funded by capital grants, which the Harbor had previously included in contributions/land valuation equity. The Harbor's share of the ACTA's operations and assets, liabilities and equity at June 30, 2006, is immaterial to the accompanying financial statements. Separate financial statements for ACTA may be obtained from the Controller, Alameda Corridor Transportation Authority, One Civic Plaza Drive, Suite 650, Carson, California 90745.

Los Angeles Export Terminal, Inc. (LAXT)

In April 1993, the Harbor entered into a shareholders' agreement which formed the LAXT for the purpose of financing, constructing and managing a dry bulk handling facility for the export of coal, petroleum coke and related products on land leased by permit from the Harbor. It contributed $19 million to the LAXT as part of the agreement. Such contribution represents a 13.2% share of the total committed capital of $143.2 million. This capital was raised from the shareholders through the purchase of stock in LAXT. The Harbor has the right to nominate two directors to a 19-member board of directors. In fiscal year 1998, the terminal began operating under a long-term lease agreement with a terminal manager/operator.

In June 2003, LAXT loaded the last coal vessel, thereby ceasing the coal operations at the facility. Due to these circumstances, the Harbor has set aside $19 million as 100% investment loss reserve for its share of equity participation in the LAXT. The Harbor has also fully reserved outstanding notes receivable of $2 million and outstanding trade receivables of $60.5 million due from LAXT as of June 30, 2006. Separate financial statements for LAXT may be obtained from the General Manager of LAXT, P.O. Box 1769, San Pedro, California 90733.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

F. Capital Assets

Governmental Activities

Capital asset activity for Governmental Activities for the year ended June 30, 2006 is as follows (in thousands):

Governmental Activities	Balance June 30, 2005	Additions/ Transfers	Deductions/ Transfers	Balance June 30, 2006
Capital Assets Not Depreciated				
Land	$ 560,437	$ 20,553	$ (5,048)	$ 575,942
Infrastructure	161,380	1,860	--	163,240
Construction in Progress	784,936	368,274	(182,334)	970,876
Total Capital Assets Not Depreciated	1,506,753	390,687	(187,382)	1,710,058
Capital Assets Depreciated				
Buildings and Improvements	2,059,874	182,425	(2,242)	2,240,057
Machinery, Furniture and Equipment	994,342	114,307	(42,641)	1,066,008
Infrastructure	581,096	1,835,894	--	2,416,990
Total Capital Assets Depreciated	3,635,312	2,132,626	(44,883)	5,723,055
Less: Accumulated Depreciation				
Buildings and Improvements	(604,866)	(72,416)	2,242	(675,040)
Machinery, Furniture and Equipment	(615,293)	(97,746)	42,641	(670,398)
Infrastructure	(177,397)	(634,974)	--	(812,371)
Total Accumulated Depreciation	(1,397,556)	(805,136)	44,883	(2,157,809)
Total Capital Assets Depreciated, Net	2,237,756	1,327,490	--	3,565,246
Governmental Activities Capital Assets, Net	$ 3,744,509	$ 1,718,177	$ (187,382)	$ 5,275,304

The additions during the year included historical cost of $1,774.1 million and corresponding accumulated depreciation of $602.9 million for certain infrastructure assets that were constructed through fiscal year 2002. This change required a corresponding net adjustment of $1,171.2 million to the governmental activities beginning net assets in the government-wide financial statements. Beginning fiscal year 2002, the City has implemented the prospective provisions of GASB 34 on infrastructure assets and as information became available, the retroactive provisions were implemented. Full implementation was completed at June 30, 2006.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

Depreciation expense was charged to functions/programs of the governmental activities as follows (in thousands):

Function/Program	Amount
General Government	$ 22,935
Protection of Persons and Property	49,405
Public Works	40,473
Health and Sanitation	16,132
Transportation	19,477
Cultural and Recreational Services	52,060
Community Development	1,722
Total Depreciation Expense - Governmental Activities	$ 202,204

Business-type Activities

Capital asset activity for Business-type Activities for the year ended June 30, 2006 is as follows (in thousands):

Business-type Activities	Balance June 30, 2005	Additions/ Transfers	Deductions/ Transfers	Balance June 30, 2006
Capital Assets Not Depreciated				
Land	$ 2,119,692	$ 17,070	$ (13,352)	$ 2,123,410
Construction in Progress	2,020,109	1,021,637	(954,194)	2,087,552
Total Capital Assets Not Depreciated	4,139,801	1,038,707	(967,546)	4,210,962
Capital Assets Depreciated				
Buildings, Facilities and Equipment	22,895,213	1,258,365	(151,538)	24,002,040
Leased Property and Improvements	194,024	--	--	194,024
Total Capital Assets Depreciated	23,089,237	1,258,365	(151,538)	24,196,064
Less: Accumulated Depreciation				
Buildings, Facilities and Equipment	(9,949,609)	(701,078)	134,738	(10,515,949)
Leased Property and Improvements	(85,781)	(5,033)	--	(90,814)
Total Accumulated Depreciation	(10,035,390)	(706,111)	134,738	(10,606,763)
Capital Assets Depreciated, Net	13,053,847	552,254	(16,800)	13,589,301
Natural Gas Field, Net	--	250,342	(12,939)	237,403
Nuclear Fuel at Amortized Cost	13,472	6,306	(5,200)	14,578
Business-type Activities Capital Assets, Net	$ 17,207,120	$ 1,847,609	$ (1,002,485)	$ 18,052,244

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

Additions to accumulated depreciation are accounted for as follows (in thousands):

Depreciation expense charged to functions of business-type activities:	
Airports	$ 83,945
Harbor	98,781
Power	270,841
Water	70,654
Sewer	148,555
Other Enterprise Fund	12,012
Capitalized depreciation expense:	
Power	13,708
Water	7,615
Total	$ 706,111

The Power Enterprise Fund has direct interests in several electrical generating stations and transmission systems that are jointly owned with other utilities. The Fund will incur certain minimum operating costs related to the jointly owned facilities, regardless of the amount or its ability to take delivery of its share of energy generated. The Fund's proportionate share of the operating costs of the joint plants is included as part of operating expenses. The following schedule shows the ownership interest in each jointly owned utility plant as included in capital assets in the statement of net assets at June 30, 2006 (dollar amounts in thousands):

	Ownership Interest	Share of Capacity (megawatts)	Plant in Service Cost	Plant in Service Accumulated Depreciation
Palo Verde Nuclear Generating Station	5.7%	217	$ 546,915	$ 284,929
Navajo Generating Station	21.2%	477	318,440	243,618
Mohave Generating Station	10.0%	158	70,136	68,619
Pacific Intertie DC Transmission Line	40.0%	1,240	211,709	66,690
Other Transmission Systems	various	various	77,598	39,897
			$ 1,224,798	$ 703,753

Component Unit

Capital assets activity for the CRA for the year ended June 30, 2006 is as follows (in thousands):

	Balance June 30, 2005	Additions/ Transfers	Deductions/ Transfers	Balance June 30, 2006
Capital Assets Not Depreciated				
Land	$ 69,561	$ --	$ (1,355)	$ 68,206
Capital Assets Depreciated				
Buildings and Improvements	41,360	--	--	41,360
Equipment	12,179	844	(529)	12,494
Total Capital Assets Depreciated	53,539	844	(529)	53,854
Less - Accumulated Depreciation	(21,232)	(1,677)	529	(22,380)
Capital Assets Depreciated, Net	32,307	(833)	--	31,474
Total Capital Assets, Net	$ 101,868	$ (833)	$ (1,355)	$ 99,680

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

The CRA allocated the depreciation expense of $1.7 million to its various projects.

G. Interfund Receivables, Payables, and Transfers

The following tables are summaries of the City's interfund balances at June 30, 2006 (in thousands):

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Proposition A Local Transit Assistance	$ 94
	Proposition C Anti-Gridlock Transit Improvement	138
	Recreation and Parks	387
	Community Development	1,269
	MICLA Special Revenue	3,030
	Other Governmental Funds	22,872
	Other Enterprise Fund	1,111
		28,901
Proposition A Local Transit Assistance	General	308
Proposition C Anti-Gridlock Transit Improvement	General	73
Recreation and Parks	Other Governmental Funds	1,144
Special Gas Tax Street Improvement	General	1,017
Community Development	Other Governmental Funds	2,610
Other Governmental Funds	General	14,208
	Recreation and Parks	18
	Community Development	5
	Other Governmental Funds	351
		14,582
Harbor	General	3,846
Water	Power	13,407
Total		$ 65,888

The receivable balance of the General Fund from the various governmental funds resulted from transfers from the Reserve Account as short-term loan to cover tardy receipts of revenues, while the payable balance is composed primarily of encumbered and unexpended budgetary transfers for certain costs allocated to the various funds. The Water Enterprise Fund's receivable from the Power Enterprise Fund is related to outstanding costs of certain administrative functions shared by the funds.

The payable balance of the General Fund to the Harbor Enterprise Fund is related to the current portion of a litigation settlement.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

Advances To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Recreation and Parks	$ 3,230
	Other Governmental Funds	21,227
	Other Enterprise Fund	7
		24,464
Proposition C Anti-Gridlock Transit Improvement	Other Governmental Funds	76,320
Recreation and Parks	Other Governmental Funds	3,114
Other Governmental Funds	General	10,580
	Recreation and Parks	2,725
	Other Governmental Funds	552
		13,857
Harbor	General	40,310
Sewer	General	3,662
	Other Governmental Funds	2,890
		6,552
Agency Funds	General	1,607
	Other Governmental Funds	21,267
		22,874
Total		$ 187,491

The above balances represent interfund borrowings payable beyond one year. The payable balance of the General Fund to the Harbor Enterprise Fund is related to the noncurrent portion of a litigation settlement.

Interfund Transfers

Transfers in	Transfers Out	Amount
General	MICLA Debt Service	$ 18
	Other Governmental Funds	20,775
	Power	157,894
	Water	27,914
	Other Enterprise Fund	296
		206,897
Proposition A Local Transit Assistance	Other Governmental Funds	27
Proposition C Anti-Gridlock Transit Improvement	Other Governmental Funds	16,400
Recreation and Parks	General	124,101
	Other Governmental Funds	63
		124,164

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

Transfers in	Transfers Out	Amount
Community Development	Other Governmental Funds	$ 14,944
MICLA Special Revenue	General	1,460
MICLA Debt Service	General	111,549
	MICLA Special Revenue	130
	Other Governmental Funds	28,096
		139,775
Other Governmental Funds	General	217,965
	Proposition A Local Transit Assistance	3,186
	Proposition C Anti-Gridlock Transit Improvement	9,814
	Community Development	2,247
	MICLA Special Revenue	49
	MICLA Debt Service	83
	Other Governmental Funds	91,593
		324,937
Other Enterprise Fund	General	216
Total		$ 828,820

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (b) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, (c) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and (d) move unrestricted revenues collected in certain enterprise funds to partially finance various programs in the General Fund in accordance with budgetary authorizations.

H. Accounts Payable and Accrued Expenses

The primary government's accounts payable and accrued expenses at June 30, 2006 are broken down as follows (in thousands):

	Governmental Activities	Business-type Activities
Accounts, Contracts and Retainage Payable	$ 179,594	$ 460,160
Accrued Salaries and Overtime Payable	163,315	61,552
Intergovernmental Payable	3,050	--
Other Current Liabilities	--	67,373
Total	$ 345,959	$ 589,085

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

I. Long-term Liabilities

Governmental Activities

Changes in Long-term Liabilities

The changes in the governmental activities long-term liabilities for the year ended June 30, 2006 are as follows (in thousands):

	Balance June 30, 2005	Additions	Deductions		Balance June 30, 2006	Due Within One Year
General Obligation Bonds	$ 1,418,980	$ 199,880	$ (173,610)		$ 1,445,250	$ 104,375
Judgment Obligation Bonds	28,140	--	(6,655)		21,485	6,145
Certificates of Participation						
and Lease Revenue Bonds	1,409,358	--	(120,468)		1,288,890	113,005
Commercial Paper Notes	52,973	96,200	(1,173)		148,000	--
Special Assessment and						
Revenue Bonds	396,075	45,750	(9,505)		432,320	23,770
Subtotal Bonds and Notes	3,305,526	341,830	(311,411)		3,335,945	247,295
Add: Unamortized Net Premium						
and Deferred Charges	45,341	8,465	(2,607)		51,199	--
Total Bonds and Notes	3,350,867	350,295	(314,018)		3,387,144	247,295
Loans Payable to HUD	135,903	1	(2,951)		132,953	3,296
Compensated Absences	446,649	34,158	(2,305)		478,502	32,241
Claims and Judgments	1,680,460	--	(215,865)	*	1,464,595	172,214
Landfill Liability	47,476	1,017	--		48,493	289
Governmental Activities						
Long-term Liabilities	$ 5,661,355	$ 385,471	$ (535,139)		$ 5,511,687	$ 455,335

* Deductions for claims and judgments include actual payments of $158,017 and change in provision of $57,848.

General Obligation Bonds (GO Bonds)

The voter authorizations for general obligation bonds are summarized as follows (in thousands):

Election Date	Project	Amount Authorized	Amount Issued as of June 30, 2006	Amount Authorized But Unissued
April 1989	Branch Library Facilities	$ 53,400	$ 53,400	$ --
April 1989	Police Facilities	176,000	176,000	--
April 1989	Fire Safety Facilities	60,000	60,000	--
June 1990	Seismic Safety Projects	376,000	376,000	--
November 1998	Library Facilities	178,300	178,300	--
November 1998	Zoo Facilities	47,600	47,600	--
November 2000	Fire, Paramedic, Helicopter and Animal Shelter Projects	532,648	485,920	46,728
March 2002	Emergency Operations, Fire, Dispatch and Police Facilities	600,000	583,705	16,295
November 2004	Stormwater Projects	500,000	37,000	463,000
Total		$ 2,523,948	$ 1,997,925	$ 526,023

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

The GO bonds outstanding as of June 30, 2006 and the original amounts issued are as follows (in thousands):

	Final Maturity	Interest Rates	Original Amount	Outstanding Balance
Series 1998-A, Refunding	9/01/15	4.00% - 5.25%	$ 119,990	$ 99,065
Series 1999-A, Refunding	9/01/14	3.00% - 4.70%	97,320	90,120
Series 1999-B	9/01/19	4.75% - 6.00%	60,000	12,000
Series 2000-A	9/01/20	4.125% - 5.50%	88,330	23,250
Series 2000-B, Refunding	9/01/06	4.00% - 5.00%	49,440	12,615
Series 2001-A	9/01/21	4.00% - 5.00%	201,290	110,705
Series 2002-A	9/01/22	2.50% - 5.25%	262,200	222,870
Series 2002-B, Refunding	9/01/14	2.00% - 5.00%	79,055	70,310
Series 2003-A	9/01/23	3.00% - 6.00%	233,365	210,035
Series 2003-B, Refunding	9/01/13	3.625% - 6.00%	77,345	51,885
Series 2004-A	9/01/24	3.00% - 5.00%	360,540	342,515
Series 2005-A	9/01/25	3.00% - 5.00%	126,800	126,800
Series 2005-B, Refunding	9/01/20	3.00% - 5.00%	73,080	73,080
Total			$ 1,828,755	$ 1,445,250

Judgment Obligation Bonds (JOBs)

In June 1998, the City issued JOBs to refund taxes that were previously collected but were adjudicated as discriminatory against interstate and intercity commerce. The City issued two more JOBs in April 2000 and August 2000 to pay judgments related to claims under the Fair Labor Standards Act.

The judgment obligation bonds outstanding at June 30, 2006, and the original amounts issued are as follows (in thousands):

	Final Maturity	Interest Rates	Original Amount	Outstanding Balance
Series 1998-A	4/01/08	4.25% - 4.75%	$ 25,000	$ 4,490
Series 2000-A	4/01/10	4.25% - 5.25%	25,000	10,000
Series 2000-B	8/01/10	4.00% - 5.00%	13,995	6,995
Total			$ 63,995	$ 21,485

Certificates of Participation and Lease Revenue Bonds

In 1984, the Mayor and the City Council directed that a lease-purchase program for equipment be established. This program was subsequently expanded to include real property projects. A nonprofit corporation, the Municipal Improvement Corporation of Los Angeles (MICLA) was created to serve as the lessor. The City and MICLA have entered into a number of lease-purchase programs funded through the sale of certificates of participation and lease revenue bonds. The City also entered into a lease-purchase agreement with the Los Angeles Convention and Exhibition Center Authority, a joint powers authority between the City and the County, for the construction and expansion of the Los Angeles Convention Center.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

The aggregate outstanding balance at June 30, 2006 and the aggregate original amount issued for MICLA's certificates of participation and lease revenue bonds are as follows (in thousands):

	Final Maturity	Interest Rates	Original Amount	Outstanding Balance
MICLA Various Projects	Various dates through 2033	2.00% - 7.25%	$ 1,119,015	$ 736,705

The Convention Center lease revenue bonds outstanding at June 30, 2006, and the original amounts issued are as follows (in thousands):

	Final Maturity	Interest Rates	Original Amount	Outstanding Balance
1993 Series A, Refunding	8/15/21	4.600% - 6.125%	$ 503,870	$ 51,180
1998 Series A	8/15/24	6.500% - 7.125%	45,580	40,250
2003 Series A, Refunding	8/15/15	2.000% - 5.000%	226,045	225,235
2003 Series B through F, Refunding	8/15/21	variable	235,520	235,520
Total			$ 1,011,015	$ 552,185

The initial interest rate on the variable rate refunding bonds of $235.5 million was 0.97%. There was no optional right to tender the bonds during the initial interest rate period. The bonds were presented on June 16, 2004 for mandatory tender and started to accrue interest based on the Weekly Rate Mode (3.8965% weighted average rate for period beginning July 3, 2006). Under the indenture agreement, the bonds may be converted to a Daily Rate Mode, a Weekly Rate Mode, an Auction Rate Mode, a Commercial Paper Mode, a Term Rate, or a Fixed Rate Mode. The remarketing agent determines the applicable interest rates. Bonds in the Daily Rate Mode or the Weekly Rate Mode will be subject to optional tender for purchase. The bonds are also subject to mandatory tender for purchase upon the occurrence of certain events.

The purchase price of tendered bonds are payable from the proceeds of remarketing the bonds. To the extent that the remarketing proceeds are insufficient or not available therefore to pay the tendered bonds, payment shall be drawn from a liquidity facility provided under a Standby Bond Purchase Agreement entered into by the City, the Tender Agent and certain financial institutions on June 4, 2003. The extended liquidity facility agreement expires on June 4, 2011.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

Commercial Paper Notes

In April 2004, the Mayor and City Council approved a $200 million MICLA Commercial Paper Lease Financing Program. This program supplements the MICLA equipment and real property lease program, and allows MICLA to access financial markets quickly; to obtain flexible, short-term maturities; to borrow only those amounts needed as invoices are received; and to borrow at more favorable rates. The notes issued mature at a specific time between one and 270 days of issuance. Upon maturity, they are either re-sold in the open market or refinanced with longer-term bonds. As a security to the notes, the City and MICLA entered into an asset-transfer lease agreement on certain capital assets with a carrying net book value as of June 30, 2006 of $124.8 million and estimated fair value of $211.5 million. The payment of principal and interest on the notes is further supported by an irrevocable direct letter of credit issued by a commercial bank pursuant to the terms of a reimbursement agreement among MICLA, the City, and the commercial bank. At June 30, 2006, outstanding commercial paper notes amounted to $148 million with interest rates ranging from 2.35% to 5%.

Special Assessment and Revenue Bonds

The special assessment and revenue bonds outstanding at June 30, 2006, and the original amounts issued are as follows (in thousands):

	Final Maturity	Interest Rates	Original Amount	Outstanding Balance
Special Assessment Bonds				
2000 Series	3/01/20	4.700% - 5.650%	$ 14,355	$ 7,235
2001 Series	3/01/21	4.000% - 7.000%	10,305	8,525
2002 Series	3/01/22	3.750% - 5.000%	19,630	16,835
Subtotal			44,290	32,595
Parking System Revenue Bonds				
1999-A Series	5/01/29	4.000% - 5.250%	80,975	72,980
2003-A Series	5/01/22	2.000% - 5.250%	39,630	34,980
Subtotal			120,605	107,960
Sanitation Equipment Charge Revenue Bonds				
2001-A Series	2/01/20	3.625% - 5.250%	86,640	84,840
2003-A Series	2/01/16	4.500% - 5.000%	47,825	47,825
2003-B Series	2/01/18	4.000% - 5.000%	61,120	61,120
2004-A Series	2/01/29	5.000%	56,230	52,230
2005-A Series	2/01/19	5.000%	45,750	45,750
Subtotal			297,565	291,765
Total			$ 462,460	$ 432,320

The special assessment bonds were issued to finance the acquisition and construction of, and improvements to certain park, recreation and community facilities owned by the City. The City levies annual assessments on the parcels located within the City in an amount sufficient to provide for the debt service of the bonds. The assessments, which constitute fixed liens on the parcels, are pledged to the payment of the bonds. The City has covenanted to take all steps necessary to assure the timely collection of the assessments, including without limitation, the enforcement of delinquent assessments.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

The parking revenue bonds were issued to finance the acquisition and construction of, and improvements to certain City parking facilities. The bonds are payable from and secured by a pledge of the parking revenues generated from parking facilities owned by the City.

The sanitation equipment charge revenue bonds were issued to finance the acquisition of certain equipment and construction of certain facilities for the refuse collection and disposal system of the City. The bonds are payable from and secured by a pledge of revenues received by the Sanitation Equipment Charge Fund.

Debt Service Requirement

The debt service requirement to maturity for the governmental activities general and judgment obligation bonds, certificates of participation and revenue bonds are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2007	$ 247,295	$ 142,061	$ 389,356
2008	246,090	131,972	378,062
2009	228,215	121,438	349,653
2010	229,370	111,502	340,872
2011	204,320	101,634	305,954
2012 - 2016	919,750	375,032	1,294,782
2017 - 2021	730,460	186,335	916,795
2022 - 2026	323,390	48,890	372,280
2027 - 2031	53,095	7,965	61,060
2032 - 2034	5,960	409	6,369
Subtotal	3,187,945	1,227,238	4,415,183
Net Unamortized Premium/(Discount) and Deferred Charges	51,199	--	51,199
Total	$ 3,239,144	$ 1,227,238	$ 4,466,382

The above schedule includes interest requirements for the $235.5 million Convention Center variable rate refunding bonds using the 3.9% actual weighted average rate for the fiscal year ended June 30, 2006. The above schedule does not include debt service requirements for the $148 million commercial paper notes since the City intends to refinance the notes on a long-term basis by issuing certificates of participation and/or revenue bonds.

Loans Payable to HUD

The Loans Payable to HUD will be repaid from program income generated by HOME and Community Development Block Grant entitlements and the Section 108 Loan Program Funds. The debt service requirements to maturity are as follows (in thousands):

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

Fiscal Year	Principal	Interest	Total
2007	$ 3,296	$ 7,184	$ 10,480
2008	11,750	6,628	18,378
2009	12,689	5,903	18,592
2010	12,020	5,213	17,233
2011	11,257	4,545	15,802
2012 - 2016	46,070	13,878	59,948
2017 - 2021	24,431	2,934	27,365
2022 - 2025	11,440	710	12,150
Total	$ 132,953	$ 46,995	$ 179,948

The interest rates on the fixed-rate loans of $104 million range from 2.92% to 7.21% and have maturity dates through 2025.

The interim financing loans of $29 million bear interest payable quarterly at 20 basis points above the applicable London Interbank Offered Rate (LIBOR). The loans mature on various dates through 2025. The interest rate in effect (LIBOR + 0.2%) as of June 30, 2006 of 5.54% was used in the debt service requirement schedule.

Business-type Activities

Changes in Long-term Liabilities

The changes in the business-type activities long-term liabilities for the year ended June 30, 2006 are as follows (in thousands):

	Balance June 30, 2005	Additions	Deductions	Balance June 30, 2006	Due Within One Year
Airports Revenue Bonds and Notes	$ 376,555	$ --	$ (39,385)	$ 337,170	$ 14,615
Harbor Revenue Bonds and Notes	843,926	308,570	(264,110)	888,386	90,503
Power Services Revenue Bonds and Notes	3,681,386	940,708	(172,600)	4,449,494	188,821
Water Services Revenue Bonds and Notes	1,494,417	482,164	(23,448)	1,953,133	78,063
Wastewater System Revenue Bonds and Notes	2,483,514	617,440	(660,050)	2,440,904	54,434
Subtotal Revenue Bonds and Notes	8,879,798	2,348,882	(1,159,593)	10,069,087	426,436
Less: Unamortized Net Discount and Deferred Charges	(99,097)	38,943	10,476	(49,678)	--
Net Revenue Bonds and Notes	8,780,701	2,387,825	(1,149,117)	10,019,409	426,436
Capital Lease Obligations	53,793	--	(912)	52,881	1,026
Compensated Absences	99,802	88,167	(85,478)	102,491	96,687
Claims and Judgments	133,504	68,570	(26,626)	175,448	41,768
Business-type Activities Long-term Liabilities	$ 9,067,800	$ 2,544,562	$ (1,262,133)	$ 10,350,229	$ 565,917

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

<u>New Issuances</u>

The Harbor Enterprise Fund bond issues for fiscal year 2006 totaling $308.6 million were as follows: $60.1 million to advance refund on a crossover basis outstanding bonds with a par value of $62.6 million with call dates/cross over dates of August 1, 2006 and November 1, 2006; $200.7 million to current refund on a forward delivery basis outstanding bonds with a par value of $202.7 million with call date of August 1, 2006; $43.7 million to reimburse certain financial institutions for funds advanced by them and to pay for fees associated with the purchase of $15.5 million bonds tendered by the holders in response to a voluntary open market purchase solicitation; and $4.1 million to pay for certain bond issuance costs.

In December 2005, the Power Enterprise Fund issued $932.1 million of revenue bonds. Also, in March 2006, the Fund issued $8.9 million of mini-bonds. The net proceeds from both transactions were deposited into the construction fund to be used for capital improvements.

In February 2006, the Water Enterprise Fund issued $482.2 million fixed rate bonds. The net proceeds were deposited into the construction fund to be used for water system capital improvements.

In December 2005, the Sewer Enterprise Fund issued $300.6 million revenue bonds to refund outstanding bonds with a par value of $54.6 million and commercial paper notes of $237.5 million. In addition, the Fund issued $316.8 million variable rate bonds in April 2006 to refund outstanding bonds with a par value of $322.7 million. The City entered into swap agreements with a counterparty on the April 2006 issue. The aggregate notional amount of the swap agreements is equal to the variable rate bonds.

NOTE 4 -- DETAILED NOTES ON ALL FUNDS (Continued)

Outstanding Balances

The business-type activities outstanding revenue bonds and notes at June 30, 2006, and the original amounts issued are as follows (in thousands):

	Final Maturity	Interest Rates	Original Amount	Outstanding Balance
Airports				
Fixed rate revenue bonds	2026	4.000% - 8.380%	$ 625,005	$ 256,070
Variable rate revenue bonds- 2002 Series C	2020	variable	57,400	57,400
Variable rate revenue bonds- 2003 Series A	2016	variable	23,700	23,700
Subtotal			706,105	337,170
Harbor				
Fixed rate revenue bonds	2027	3.000% - 6.250%	1,093,195	770,720
Commercial paper notes	--	variable	113,561	113,561
Notes payable	2015	4.500% - 5.500%	9,715	4,105
Subtotal			1,216,471	888,386
Power				
Fixed rate revenue bonds	2041	3.409% - 5.109%	3,373,786	3,240,394
Variable rate revenue bonds	2036	variable	1,009,100	1,009,100
Revenue certificates	--	variable	200,000	200,000
Subtotal			4,582,886	4,449,494
Water				
Fixed rate revenue bonds	2044	2.498% - 5.245%	1,553,070	1,497,759
Variable rate revenue bonds	2036	variable	439,420	439,420
Loans payable	2024	2.320%	17,049	15,954
Subtotal			2,009,539	1,953,133
Sewer				
Fixed rate revenue bonds	2035	1.250% - 6.000%	2,030,465	1,684,715
Variable rate revenue bonds	2031	variable	625,385	612,485
State loans	2025	1.80%	149,999	143,704
Subtotal			2,805,849	2,440,904
Total			$ 11,320,850	10,069,087
Less: Unamortized deferred charges and discounts/ premiums				(49,678)
Net Revenue Bonds and Notes				$ 10,019,409

During the year, the actual average interest rates for the Airports variable rate revenue bonds 2002 Series C and 2003 Series A were 2.93% and 2.92%, respectively.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

In November 2001, the Harbor obtained a credit agreement to provide liquidity support for the issuance of commercial paper notes not to exceed $375 million as a means of interim financing primarily for the construction, maintenance, and replacement of the Harbor's structures, facilities and equipment. Interest rates on the Notes varied from 2.38% to 3.45 % during the fiscal year ended June 30, 2006. Due dates also vary but within the limit of 270 days from the issue date. In fiscal year 2006, the Notes were remarketed for principal only. The outstanding balance for the Notes at June 30, 2006 remained unchanged from fiscal year 2005 at $113.6 million. On August 31, 2006, the outstanding Commercial Paper was refunded by fixed rate revenue bonds.

The Power and Water Enterprise Funds' variable rate bonds currently bear interest at daily and weekly rates ranging from 3.95% to 5.31%, and 3.91% to 5.36%, respectively, as of June 30, 2006. DWP can elect to change the interest rate period of the bonds, with certain limitations. The bondholders have the right to tender the bonds to the tender agent on any business day with seven days prior notice. The Power's revenue certificates bear interest at an average rate of 3.49%. DWP has entered into Standby and Line of Credit Agreements with a syndicate of commercial banks in an initial amount of $620.6 million, $388.5 million and $200 million for Power; and $325 million and $114.4 million for Water to provide liquidity for the variable rate bonds and revenue certificates. The initial and extended Standby Agreements expire in February 2007 (for the $620.6 million) and July 2008 (for the $388.5 million) for Power, and in March 2007, November 2007 and April 2007 for Water. The $200 million Line of Credit Agreement for the revenue certificates expires in September 2007.

Bonds purchased under the agreements will bear interest that is payable quarterly at the greater of the Federal Funds Rate plus 0.50% or the bank's announced base rate, as defined. The unpaid principal of bonds purchased is payable in ten equal semi-annual installments, commencing after the termination of the agreements. At its discretion, DWP has the ability to convert the outstanding bonds to fixed rate obligations, which cannot be tendered by the bondholders. These bonds have been classified as long-term in the financial statements as the liquidity facilities give DWP the ability to refinance on a long term basis and DWP intends to either renew the facility or exercise its right to tender the debt as long term financing. That portion which would be due in the next fiscal year in the event that the outstanding variable rate bonds and revenue certificates were tendered and purchased by the commercial banks under the Standby and Line of Credit Agreements has been included in the current portion of long-term debt and was $120.9 million for Power and $43.9 million for Water as of June 30, 2006.

The Sewer variable rate revenue bonds currently bear interest on a weekly mode. The weighted average variable rate for the bonds at June 30, 2006 ranges from 3.91% to 3.95%. The variable rate Refunding Series 2001 Revenue Bonds with outstanding balance of $295.7 million are subject to mandatory tender at the expiration of each mode adjusted at intervals as determined by the applicable remarketing agent. The variable rate Refunding Series 2006 Revenue Bonds with outstanding balance of $316.8 million may accrue interest at the daily rate, weekly rate, bond interest term rate, long rate or fixed interest rate. Rate conversion is determined by the City in accordance with the provisions of the Paying Agent Agreement.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

The Sewer loans from the State Water Resources Control Board mature in 2025 and annual repayments commence in August 2005 based on a standard fully amortized loan calculation at an effective interest rate of 1.8%. The loans, which will be paid from Sewer revenues, are subordinate to the Sewer's revenue bonds and commercial paper notes. Prior to the receipt of the proceeds of the loans, the Sewer used available unrestricted funds and billed contract agencies for their proportionate share of project costs. The agreement with the contract agencies for the conveyance, treatment and disposal of wastewater indicates that certain revenue credits shall be included in determining the capital contribution component of the wastewater conveyance and treatment charge. Such revenue credits include loans from the Federal and State governments. For fiscal year 2006, the revenue credits applied to the contract agencies totaled $2 million.

The debt service requirements to maturity for the business-type activities revenue bonds and notes to be paid from operating revenues of the respective Enterprise Funds are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2007	$ 261,584	$ 432,148	$ 693,732
2008	166,928	427,030	593,958
2009	172,741	419,488	592,229
2010	217,626	410,186	627,812
2011	242,986	398,995	641,981
2012 - 2016	1,441,475	1,805,477	3,246,952
2017 - 2021	1,349,064	1,498,036	2,847,100
2022 - 2026	1,680,062	1,116,379	2,796,441
2027 - 2031	1,638,066	714,991	2,353,057
2032 - 2036	1,579,525	338,452	1,917,977
2037 - 2041	553,170	112,994	666,164
2042 - 2046	223,339	11,567	234,906
Total debt service requirements	9,526,566	$ 7,685,743	$ 17,212,309
Debt to be defeased in August 2006	228,960		
Commercial paper notes	113,561		
Revenue certificates	200,000		
Net unamortized premiums/(discounts) and deferred charges	(49,678)		
Net revenue bonds and notes	$ 10,019,409		

The Harbor and Power intend to either renew their respective commercial paper notes and revenue certificates or refinance them on a long-term basis.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

The schedule is presented assuming that the tender options on the Power and Water variable rate bonds, as discussed on the previous page, will not be exercised and that the full amount of the Power revenue certificates will be renewed. Should the bondholders exercise the tender options and DWP convert all of the revenue certificates under the line of credit, DWP could be required to redeem the $1,209.1 million Power variable rate bonds and revenue certificates outstanding, and the $439.4 million Water variable rate bonds outstanding over the next six fiscal years, as follows (in thousands):

Fiscal Year	Power	Water	Total
2007	$ 120,910	$ 43,942	$ 164,852
2008	241,820	87,884	329,704
2009	241,820	87,884	329,704
2010	241,820	87,884	329,704
2011	241,820	87,884	329,704
2012	120,910	43,942	164,852
Total	$ 1,209,100	$ 439,420	$ 1,648,520

Accordingly, the statement of net assets recognizes the possibility of the exercise of the tender options and reflects the $120.9 million and $43.9 million that could be due in fiscal year 2007 as a current portion of long-term debt payable.

Interest requirements include those of the variable rate debt using the average variable debt interest rate in effect as of June 30, 2006 as follows: Airports Variable Rate Bonds- 3.94%, 3.92% and 4.02%, Power Services Variable Rate Bonds- 3.95% and 5.31%, Water Services Variable Rate Bonds- 3.91% and 5.36%, and Wastewater System Variable Rate Refunding Bonds- 3.91% and 3.95%.

Fiduciary Funds

The notes payable of the Fire and Police Pension System are secured by real estate. Interest rates range from 4.35% to 7.5%. The debt service payments to maturity for these notes are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2007	$ 2,413	$ 18,336	$ 20,749
2008	16,856	17,840	34,696
2009	60,639	14,816	75,455
2010	22,084	13,034	35,118
2011	26,105	10,194	36,299
2012 - 2016	125,539	37,715	163,254
2017 - 2021	14,243	16,747	30,990
2022 - 2026	19,833	11,154	30,987
2027 - 2031	19,983	28,241	48,224
2032 - 2035	1,964	74	2,038
Total	$ 309,659	$ 168,151	$ 477,810

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

Component Unit

At June 30, 2006 balances and the original amounts of the CRA's long-term liabilities are as follows (in thousands):

	Final Maturity	Interest Rates	Original Amount	Outstanding Balance
Tax Allocation Bonds				
Fixed Rate	2036	1.49% - 9.75%	$ 670,681	$ 607,055
Project Notes				
Fixed Rate	2013	6.814% - 8.75%	12,094	10,653
No fixed term	--	0.00% - 6.00%	9,161	9,093
Parking System Revenue Bonds and Notes	2032	4.60% - 10.00%	48,599	46,604
Total			$ 740,535	673,405
Unamortized Discount				(2,275)
Amount due within one year				(19,036)
Amount due in more than one year				$ 652,094
Loans Payable to Primary Government				
Community Development Block Grant Loans	--	--	$ 50,671	$ 50,671
CDBG 20-year and Float Loans	2021	3.00% - 5.00%	19,395	18,024
UDAG Loan	2022	5.50%	4,250	4,250
DOT Loan	2015	variable	960	960
Total			$ 75,276	$ 73,905

The debt service requirements to maturity for the CRA's long-term liabilities to be paid from incremental property taxes and certain special revenues are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2007	$ 19,036	$ 36,672	$ 55,708
2008	20,732	37,838	58,570
2009	22,158	36,847	59,005
2010	23,016	35,742	58,758
2011	33,520	34,423	67,943
2012 - 2016	132,897	150,047	282,944
2017 - 2021	145,702	111,488	257,190
2022 - 2026	142,589	69,626	212,215
2027 - 2031	112,240	29,481	141,721
2032 - 2036	40,829	6,925	47,754
2037	54,591	138	54,729
Total	747,310	549,227	1,296,537
Unamortized Discount	(2,275)	--	(2,275)
Net	$ 745,035	$ 549,227	$ 1,294,262

Interest requirements include those of the variable rate DOT Loan using interest rate in effect as of June 30, 2006 of 4.28%.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

J. Tax and Revenue Anticipation Notes

At the beginning of the fiscal year, the City issued tax and revenue anticipation notes in advance of property tax and other revenue collections, depositing the proceeds in a General Fund account. The notes are issued to pay the City's annual contributions to the Fire and Police Pension System and the Los Angeles City Employees' Retirement System at the beginning of the fiscal year and to provide effective cash flow management of the General Fund. The additional interest earned by the pension funds from these early payments is used to discount the required City contribution without reducing the pension funds' annual receipts.

Short–term debt activity for the fiscal year ended June 30, 2006 was as follows (in thousands):

	Beginning Balance	Issued	Redeemed	Ending Balance
Tax and Revenue Anticipation Notes	$ --	$ 618,900	$ (618,900)	$ --

K. Interest Rate Swaps

Convention Center Variable Rate Lease Revenue Refunding Bonds

Objective of the swaps. In May 2003, in order to protect against the potential rising of interest rates, the City entered into two separate pay-fixed, receive-variable interest rate swap agreements on the $235.5 million Convention Center variable-rate lease revenue refunding bonds. The costs associated with the swaps are less than what the City would have paid to issue fixed-rate debt.

Terms, fair values, and credit risks. The terms, including the fair values and credit ratings of the outstanding swaps as of June 30, 2006 are as follows (dollar amounts in thousands):

Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Value	Swap Termination Date	Counterparty Credit Rating (1)
$ 117,760	June 1, 2004	2.9030%	65% of LIBOR (2)	$ 8,127	August 2021	Aaa/AAA/AAA
117,760	June 1, 2004	2.9075%	65% of LIBOR (2)	8,083	August 2021	Aa2/AA-/AA
$ 235,520				$ 16,210		

(1) Moody's Investors Service, Standard & Poor's, and Fitch Ratings, respectively.
(2) One-month LIBOR reset monthly. One-month LIBOR as of July 3, 2006 is 5.3338%.

The notional amounts of the swaps match the principal amount of the associated debt. The swap agreements contain scheduled reductions to outstanding notional amounts that follow scheduled reductions in the associated debt.

Fair Values. Because interest rates were higher on June 30, 2006 than the date the swaps were entered into, the swaps have a positive fair value as of June 30, 2006. The fair values were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap agreements, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

Credit risk. The fair values of the swaps represented the City's credit exposure to the swap counterparties as of June 30, 2006. If the counterparties to these transactions failed to perform according to the terms of the swap contracts, and the City chose to terminate the swap, the City would be owed a termination payment by the counterparty. If the swaps had a negative fair value at the time the counterparty failed to perform, the City would be required to make payment to the counterparty. To mitigate credit risk, a counterparty must fully collateralize the fair value of the swap with U.S. government securities if two of its credit ratings fall below Moody's Investors Service Aa3, or AA- of Standard & Poor's or Fitch Ratings. Collateral would be posted with a third-party custodian.

Basis risk. The City is exposed to basis risk on the swaps when the relationship between 65% of LIBOR and the actual rates on the associated variable rate bonds diverge. In this situation the expected savings may not be realized. As of July 3, 2006, the weighted average rate on the variable bonds was 3.8965% while 65% of the LIBOR was 3.4669%.

Termination risk. The City or the counterparties may terminate the swap if the other party fails to perform under the terms of the contract. If at the time of the termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to that value.

Swap payments and associated debt. Using rates as of July 3, 2006, net swap payments and debt service requirements of the associated variable-rate debt are as follows (in thousands):

	Variable-Rate Bonds		Interest Rate	
Fiscal Year	Principal	Interest	Swaps, Net	Total
2007	$ --	$ 9,177	$ (1,323)	$ 7,854
2008	--	9,177	(1,323)	7,854
2009	--	9,177	(1,323)	7,854
2010	--	9,177	(1,323)	7,854
2011	--	9,177	(1,323)	7,854
2012-2016	--	45,885	(6,614)	39,271
2017-2021	193,220	27,513	(4,509)	216,224
2022	42,300	824	(238)	42,886
Total	$ 235,520	$ 120,107	$ (17,976)	$ 337,651

As rates vary, variable-rate bond interest payments and net swap payments will vary.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

Wastewater System Subordinate Variable Rate Revenue Refunding Bonds

Objective of the swaps. In April 2006, in order to protect against the potential rising of interest rates, the City entered into two separate pay-fixed, receive-variable interest rate swap agreements on the $316.8 million Wastewater System Subordinate Variable Rate Revenue Refunding Bonds. The costs associated with the swaps are less than what the City would have paid to issue fixed-rate debt.

Terms, fair values, and credit risks. The terms, including the fair values and credit ratings of the outstanding swaps as of June 30, 2006 are as follows (dollar amounts in thousands):

Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Value	Swap Termination Date	Counterparty Credit Rating (1)
$ 158,393	April 6, 2006	3.34%	64.1% of LIBOR (2)	$ 2,631	June 2028	Aa2/AA-/AA-
158,393	April 6, 2006	3.34%	64.1% of LIBOR (2)	2,631	June 2028	Aa2/AA/AA+
$ 316,786				$ 5,262		

(1) Moody's Investors Service, Standard & Poor's, and Fitch Ratings, respectively.
(2) One-month LIBOR reset monthly. One-month LIBOR as of July 3, 2006 is 5.3338%.

The notional amounts of the swaps match the principal amount of the associated debt. The swap agreements contain scheduled reductions to outstanding notional amounts that follow scheduled reductions in the associated debt.

Fair Values. Because interest rates were higher on June 30, 2006 than the date the swaps were entered into, the swaps have a positive fair value as of June 30, 2006. The fair values were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap agreements, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Credit risk. The fair values of the swaps represented the City's credit exposure to the swap counterparties as of June 30, 2006. If the counterparties to these transactions failed to perform according to the terms of the swap contracts, and the City chose to terminate the swap, the City would be owed a termination payment by the counterparty. If the swaps had a negative fair value at the time the counterparty failed to perform, the City would be required to make payment to the counterparty. To mitigate credit risk, a counterparty must fully collateralize the fair value of the swap with U.S. government securities if two of its credit ratings fall below Moody's Investors Service Aa3, or AA- of Standard & Poor's or Fitch Ratings. Collateral would be posted with a third-party custodian.

Basis risk. The City is exposed to basis risk on the swaps when the relationship between 64.1% of LIBOR and the actual rates on the associated variable rate bonds diverge. In this situation the expected savings may not be realized. As of July 3, 2006, the weighted average rate on the variable bonds was 3.95031% while 64.1% of the LIBOR was 3.4189%.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

Termination risk. The City or the counterparties may terminate the swap if the other party fails to perform under the terms of the contract. If at the time of the termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to that value.

Swap payments and associated debt. Using rates as of July 3, 2006, net swap payments and debt service requirements of the associated variable-rate debt are as follows (in thousands):

	Variable-Rate Bonds		Interest Rate	
Fiscal Year	Principal	Interest	Swaps, Net	Total
2007	$ 965	$ 12,514	$ (250)	$ 13,229
2008	995	12,476	(249)	13,222
2009	1,025	12,436	(248)	13,213
2010	1,065	12,396	(248)	13,213
2011	1,095	12,354	(247)	13,202
2012-2016	11,910	61,091	(1,221)	71,780
2017-2021	130,070	48,159	(962)	177,267
2022-2026	91,645	29,876	(597)	120,924
2027-2028	78,015	4,648	(93)	82,570
Total	$ 316,785	$ 205,950	$ (4,115)	$ 518,620

As rates vary, variable-rate bond interest payments and net swap payments will vary.

L. Power Enterprise Fund Derivative Instruments

The Power Enterprise Fund has three main types of derivative instruments as of June 30, 2006: electricity swaps, financial natural gas hedges, and gas forward contracts. As of June 30, 2006, the fair values of these outstanding derivative instruments were $85.9 million.

Objective of electricity swaps and options. In order to obtain the highest market value on energy that is sold into the wholesale market, DWP monitors the sales price of energy which varies based on which hub the energy is to be delivered. There are three primary hubs within DWP's transmission region: Palo Verde, California-Oregon Border and Mead. DWP enters into various locational swap transactions with other electric utilities in order to effectively utilize its transmission capacity and to achieve the most economical exchange of energy purchased and sold.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

A call option is the right, but not the obligation, to buy energy at a fixed price on or before a specific date. Because the DWP has excess electric generation available at certain times during the year, it sells call options for a premium to other utilities. If the buyer calls the option, DWP is obligated to sell the energy for a specified dollar amount and deliver it to a specific delivery point. If the buyer does not call the option, DWP has no obligation to deliver energy, but does retain the premium paid. Premiums received are deferred and amortized to income over the period the option is outstanding and are recorded as part of sales for resale revenue. As of June 30, 2006, the Power Enterprise Fund had no deferred option revenue relating to options entered into prior to the fiscal year end.

DWP does not enter into gas and option agreements for trading purposes. DWP is exposed to risk of nonperformance if the counterparties default or if the swap agreements are terminated.

Objective of financial natural gas hedges. DWP enters into natural gas hedging contracts in order to stabilize the cost of gas needed to produce electricity to serve its customers.

Objective of gas forward contracts. DWP enters into gas forward contracts in order to supply its gas requirements to produce electricity to serve its customers.

Terms, fair value, and credit risks. As of June 30, 2006, the Power Enterprise Fund had the following derivatives which were not recorded at fair value in the statement of net assets:

Description	Total Contract Quantities	Contract Price Range $ Per Unit	First Effective Date	Last Termination Date	Fair Value (in thousands)	Cash Received at Derivative Inception (in thousands)
Electricity Swaps						
Purchases	121,600 MW	$ 63.00	10/1/06	12/31/06	$ (52,507)	$ --
Sales	121,600 MW	66.50	10/1/06	12/31/06	478,107	--
Electricity options	30,800 MW	75.50	7/1/06	9/30/06	(54,993)	345,884
Financial Natural Gas Hedges*	91,336,000 MMBtu	4.30 - 7.49	10/1/05	6/1/10	85,521	--

*Financial hedges were variable to fixed rate swaps that serve to lock in a fixed cost of natural gas.

Fair value. All fair values were estimated using forward market prices available from broker quotes.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

Credit Risk. The Power Enterprise Fund is exposed to credit risk related to nonperformance by its wholesale counterparties under the terms of these contractual agreements. In order to limit the risk of counterparty default, DWP has implemented a Wholesale Marketing Counterparty Evaluation Policy (the Policy). The Policy includes provisions to limit risk including: the assignment of internal credit ratings to all DWP counterparties based on counterparty and/or debt ratings; the requirement for credit enhancements (including irrevocable letters of credit, escrow trust accounts, and parent company guarantees) for counterparties that do not meet an acceptable level of risk; and the use of standardized agreements which allow for the netting of positive and negative exposures associated with a single counterparty. As of June 30, 2006, the eight financial natural gas hedge counterparties were rated by Moody's as follows: three at Aa1, two at Aa2, and three at Aa3. The counterparties were rated by S&P as follows: two at AA+, one at AA, two at AA-, and three at A+.

As discussed in Note 5D on page 159, during fiscal year 2001, the Power Enterprise Fund experienced nonperformance and material counterparty default with the California Independent System Operator (CAISO) and the California Power Exchange (CPX). The Power Enterprise Fund does not anticipate nonperformance by any other of its counterparties and has no reserves related to nonperformance at June 30, 2006. Apart from, the events discussed in Note 5D, the Power Enterprise Fund did not experience any material counterparty default during fiscal year 2006.

Termination Risk. The Power Enterprise Fund or its counterparties may terminate the contractual agreements if the other party fails to perform under the terms of the contract.

M. Current and Advance Refunding of Debt

The following debt advance refunding activities occurred during the fiscal year that resulted in the defeasance of certain outstanding obligations. The proceeds from the refunding issues and amounts available from the debt service funds of the refunded bonds were deposited into irrevocable trusts with escrow agents. (Dollar amounts in thousands.)

Governmental Activities

Refunding Debt	Refunded Debt	Cash Flow Savings	Economic Gain
General Obligation Bonds Refunding Series 2005-B $73,080 3% - 5%	General Obligation Bonds Series 1999-B $15,000 5.375%	$ 2,832	$ 2,825
	General Obligation Bonds Series 2000-A $27,880 5% - 5.5%		
	General Obligation Bonds Series 2001-A $30,195 5%		

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

The above debt refunding resulted in a net loss for accounting purposes of $6.1 million, which is deferred and amortized through 2014. The refunding also represents in-substance defeasance such that the refunded debts were removed from the accompanying financial statements.

Business-type Activities

Refunding Debt	Refunded Debt	Cash Flow Savings	Economic Gain
Wastewater System Revenue Bonds Refunding Series 2005-A $300,655 4% - 5%	Wastewater System Revenue Bonds Series 1996-A $27,480 4.75% - 5% Wastewater System Revennue Bonds Series 1998-A $27,140 5% Wastewater Commercial Paper Notes $237,500 Variable Rate	$ 2,735	$ 2,761
Wastewater System Subordinate Revenue Bonds Refunding Series 2006-A through D $316,785 Variable Rate	Wastewater System Revenue Bonds Series 1993-D $106,375 4.7% Wastewater System Revenue Bonds Series 1998-A $216,365 5%	$ 87,672 (Note: The above cash flow savings and economic gain were computed based on an assumed rate of 3.5% through the June 2028 maturity date of the refunding debt.)	$ 43,728

The above debt refunding transactions resulted in a total net loss for accounting purposes of $17 million, which is deferred and amortized through 2028. The refunding also represents in-substance defeasance such that the refunded debts were removed from the accompanying financial statements.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

In July 2005, the Power Enterprise Fund restructured the escrow for certain defeased bonds. The restructuring involved selling the prior securities held in escrow for $114.3 million and purchasing replacement securities at a cost of $106.7 million. The transaction produced a cash benefit of approximately $7.5 million. The cash benefit along with $110.7 million of cash from debt reduction trust fund was then deployed to defease outstanding revenue bonds with a par value of $116.3 million by placing cash in irrevocable trusts to provide for all future debt service payments on the defeased bonds. The transaction resulted in a realized gain of $4.6 million.

Component Unit

The CRA refunded certain of its outstanding tax allocation bonds with par value of $6.1 million utilizing a portion of an $11.3 million new issue. The current refunding resulted in a cash flow savings of $0.374 million and an economic gain of $0.357 million.

N. Prior Years Defeasance of Debt

In prior years, the City and CRA defeased certain bonds and loans by placing the proceeds of the new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds and loans. Accordingly, the trust account assets and the liability for the defeased bonds and loans are not included in the City's financial statements.

At June 30, 2006, the following bonds and certificates of participation are considered defeased (in thousands):

	Outstanding Balance June 30, 2006
Governmental Activities	
General Obligation Bonds	$ 126,805
Public Facilities Corporation Leasehold Mortgage Bonds	9,340
Total	$ 136,145
Business-type Activities	
Harbor Revenue Bonds	$ 296,750
Power Revenue Bonds	178,990
Water Revenue Bonds	354,660
Sewer Revenue Bonds	243,505
Total	$ 1,073,905
Component Unit	
Community Redevelopment Agency	$ 59,775

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

O. Leases

Governmental Activities

The City leases a significant amount of property and equipment under operating leases. Total rental expenditures, incurred primarily in the General Fund, on the operating leases for the fiscal year ended June 30, 2006 were approximately $35.1 million. The future lease payments under noncancelable operating lease agreements are as follows (in thousands):

Fiscal Year Ending June 30	
2007	$ 22,088
2008	19,354
2009	16,173
2010	15,593
2011	8,406
2012 - 2016	24,048
2017 - 2021	19,504
2022 - 2026	22,419
2027	1,563
Total	$ 149,148

The City also leases certain property and equipment under capital leases with the following component units/funds.

Municipal Improvement Corporation

The MICLA was formed to finance certain capital improvement projects of the City and enter into long-term capital lease agreements with the City. Under the lease agreements, title transfers to the City at the end of the lease term. If the City defaults under the Lease and Trust Agreements, the Trustee may terminate the lease and re-let the properties. Since MICLA is included in the City's reporting entity, the lease payments by the City are accounted for in the fund financial statements as transfers from the General Fund and certain Special Revenue Funds to the MICLA Debt Service Fund. The leases have been eliminated in the government-wide financial statements.

Los Angeles Convention and Exhibition Center Authority

Pursuant to a Facility Lease between the City and the Los Angeles Convention and Exhibition Center Authority (Authority), the Authority issued certificates of participation to provide financing for the acquisition and construction of certain improvements for the Los Angeles Convention Center, and taxable lease revenue bonds to finance the City's share of the development of the Staples Center. Under the lease, the City is obligated to make rental payments sufficient to pay the debt service requirements on the certificates and bonds. The City's General Fund made rental payments during fiscal year ended June 30, 2006. Since the Authority is included within the City's reporting entity, the lease payments by the City are accounted for in the fund financial statements as transfers from the General Fund to the Convention Center Debt Service Fund. The leases were eliminated in the government-wide financial statements.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

Business-type Activities

Airports

Airports has entered into various lease agreements with certain airlines. These agreements are classified as capital leases and are for certain public areas at the Los Angeles International Airport. The agreements generally provide for the payment of amounts over various terms between 27 and 35 years, with interest at the rate incurred by the lessor on their related borrowings, which include improvement bonds. The property capitalized under these lease agreements at June 30, 2006, was $184.4 million. Accumulated depreciation with respect to such property at June 30, 2006, was $90.8 million.

Estimated future minimum lease payments under these agreements are as follows (in thousands):

Fiscal Year Ending June 30	
2007	$ 2,985
2008	3,061
2009	3,076
2010	3,146
2011	3,268
2012 - 2016	17,694
2017 - 2021	21,112
2022 - 2026	24,175
Total mimimum lease payments	78,517
Less - Portion representing interest	(25,636)
Present value of minimum lease payments	$ 52,881

The Airports currently uses rental credits to finance its obligations on capital leases with certain airlines. These rental credits are applied as an offset of amounts owed to the Airports by such airlines for terminal leases and landing fees.

Harbor

A substantial portion of the Harbor Department's land and facilities is leased to others. The majority of these leases provide for cancellation on a 30-day notice by either party and for retention of ownership by the Harbor or restoration of the property at the expiration of the agreement. Accordingly, no leases are considered capital leases for purposes of financial reporting.

These lease agreements are intended to be long-term in nature (up to 30 years) and to provide the Harbor with a firm tenant commitment for a minimum fixed income stream. Many agreements also provide for additional payment beyond the fixed portion based upon tenant usage, revenues or volume. These agreements are also generally subject to periodic inflationary escalation of base amounts due to the Harbor. For the year ended June 30, 2006, revenues from such agreements aggregated approximately $250.3 million.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

The property on lease at June 30, 2006 consists of the following (in thousands):

Wharves and sheds	$ 656,696
Cranes/bulk facilities	65,631
Municipal warehouses	10,448
Port pilot facilities and equipment	5,485
Buildings and other facilities	772,849
Cabrillo Marina	35,500
Total	1,546,609
Less - Accumulated depreciation	(619,110)
Net	$ 927,499

Assuming that current agreements are carried to contractual termination, minimum tenant commitments due to the Harbor over the next five years are as follows (in thousands):

Fiscal Year Ending June 30:	
2007	$ 239,893
2008	239,464
2009	240,169
2010	240,887
2011	241,621
Total	$ 1,202,034

Water

The Water Enterprise Fund leases an advanced wastewater treatment facility operated by a separate City department. The use of this facility is accounted for as an operating lease. Estimated expenditures for fiscal year 2007 are approximately $7.5 million to operate and maintain this asset. There are no minimum rental payments that the Water Enterprise Fund has to make. However, the Water Enterprise Fund is obligated to reimburse the other City department for that department's operating and maintenance costs to operate the facility, estimated to be about $2 million per year, for a term of 25 years. The Water Enterprise Fund will also pay additional monies to the other City department, if revenues generated by the Water Enterprise Fund exceed the costs of operation and maintenance as defined by the agreement. The Water Enterprise Fund does not expect to pay such additional amounts as it does not expect that a net operating profit will be achieved based on current demand of recycled water.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

Pension Trust Fund

The Fire and Police Pension System leases an office space under an operating lease agreement that expires on December 31, 2011. Lease payments for the fiscal year ended June 30, 2006 were $1 million. Future minimum lease payments under the agreement are as follows (in thousands):

Fiscal Year Ending June 30:	
2007	$ 862
2008	991
2009	1,021
2010	1,057
2011	1,101
2012	578
Total	$ 5,610

Community Redevelopment Agency

The CRA leases office spaces under operating lease agreements that expire through 2021. Lease payments for the fiscal year ended June 30, 2006 were $1.9 million. Future minimum lease payments under the agreements are as follows (in thousands):

Fiscal Year Ending June 30:	
2007	$ 1,912
2008	1,646
2009	1,613
2010	326
2011	190
2012 - 2016	353
2017 - 2021	212
Total	$ 6,252

P. Risk Management - Estimated Claims and Judgments Payable

Governmental Activities

As discussed in the summary of significant accounting policies (Note 1E), the City recognizes a liability for claims and judgments when it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. Included in the account are amounts for tort liability and workers' compensation, which include Incurred But Not Reported (IBNR) liabilities, and provision for allocated expenses.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

As of June 30, 2006, a number of lawsuits and claims were pending against the City that arose in the normal course of the City's general governmental operations. The City estimates the amount of tort and non-tort liabilities to be probable of occurring as of June 30, 2006 at approximately $329.4 million. Of this amount, approximately $63.8 million is estimated to be payable in the next fiscal year. The City Attorney also estimates that certain pending lawsuits and claims have a reasonable possibility of resulting in additional General Fund liability totaling $218.5 million of which $58 million would be payable to other City Funds. However, no amount has been accrued in the accompanying financial statements because it is not probable that a loss has been incurred as of June 30, 2006.

The City's liability for tort cases was actuarially estimated. The total of the present value of the estimated outstanding losses and loss adjustment expenses was used to record the City's liability for tort cases. The present value of the estimated outstanding losses and loss adjustment expenses was calculated based on a 5% yield on investments.

The liability for workers' compensation was recorded using the present value of the actuarially estimated outstanding losses, which were based on an analysis of the City's historical loss and allocated loss adjustment expenses (ALAE) development for all fiscal years since July 1, 1984. The present value of the estimated outstanding losses was calculated based on a 5% yield on investments. At June 30, 2006, the City estimates its workers' compensation liability at $1,135.2 million. Of this amount, $108.4 million is estimated to be payable in the next fiscal year.

The City has never purchased excess insurance over specific retention and therefore is responsible for the full amount of every claim. The City does not anticipate purchasing excess insurance for the 2006-07 fiscal accident year. During the last three fiscal years insurance claims have not exceeded commercial insurance coverages.

Business-type Activities

The Enterprise Funds estimated claims and judgments payable of $175.4 million consists of $79.3 million long-term litigation-type claims and $96.1 million workers' compensation liability. The amount estimated to be payable in the next fiscal year is approximately $41.8 million.

Claim Changes

The changes in the City's total estimated claims and judgments liability are as follows (in thousands):

	2006	2005
Unpaid Claims, July 1	$ 1,813,964	$ 1,673,225
Provisions for current year's events and changes in provision for prior years' events	10,722	363,550
Claims payments	(184,643)	(222,811)
Unpaid Claims, June 30	$ 1,640,043	$ 1,813,964

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

Q. Accrued Landfill Liability

Until July 1996, the City operated the Lopez Canyon Sanitary Landfill under a Conditional Use Permit (CUP), which expired on July 1, 1996. State and Federal laws required the City to close the landfill upon expiration of the CUP, and to monitor and maintain the site for thirty years after closure. The City recognized a portion of the estimated closure and postclosure care costs in each fiscal year based on landfill capacity used. As of June 30, 2006, the City's liability of $48.5 million represents 100% of the estimated closure and postclosure care costs of the landfill. The estimated costs of closure and postclosure care are subject to changes due to inflation, changes in laws and regulations, or changes in technology.

As required by the California Integrated Waste Management Board (CIWMB), the City makes annual contributions to a trust fund to finance closure construction. The City is in compliance with the State requirements, and, at June 30, 2006, investments of $8.5 million are held for these purposes and are reported as Restricted Assets. The City is not currently required to advance fund postclosure care costs.

The City owns or operated other landfills that were already closed before the State and Federal requirements became enforceable. Therefore, no liability was included in the financial statements for these landfills (Toyon Canyon, Gaffey, Branford, Bishops Canyon and Sheldon-Arleta).

The Landfill Closure and Post-closure Maintenance Special Revenue Fund was set up to defray the closure and postclosure maintenance costs of City landfills.

NOTE 5 – OTHER INFORMATION

A. Pension and Postemployment Healthcare Plans

Plan Description

The City of Los Angeles contributes to three single-employer defined benefit pension plans: Los Angeles City Employees' Retirement System (LACERS), Fire and Police Pension System (Pensions), and Water and Power Employees' Retirement, Disability and Death Benefit Insurance Plan (DWP Retirement Plan). LACERS and Pensions provide retirement and postemployment healthcare benefits to civilian (other than DWP) and sworn employees, respectively. The DWP Retirement Plan provides retirement, disability and death benefits to DWP employees. Postemployment healthcare benefits of DWP employees are accounted for in the Power and Water Enterprise Funds as discussed in the following pages. The City Charter assigns the administration of the plans to the Board of Administration/Commissioners of each plan. Subject to Council and Mayor approvals, the Boards implement amended benefit provisions. Each plan issues a publicly available financial report that includes financial statements and required supplementary information for that plan.

NOTE 5 – OTHER INFORMATION (Continued)

Those reports may be obtained by writing or calling the plans.

Los Angeles City Employees' Retirement System
360 E. Second Street
Los Angeles, CA 90012
(213) 473-7200

Fire and Police Pension System
360 E. Second Street
Los Angeles, CA 90012
(213) 978-4545

Water and Power Employees' Retirement, Disability
and Death Benefit Insurance Plan
111 N. Hope Street
Los Angeles, CA 90012
(213) 367-1689

NOTE 5 – OTHER INFORMATION (Continued)

Benefit Pension Plans

Funding Policy and Annual Pension Cost

The Board of Administration/Commissioners of each plan establishes and may amend the contribution requirements of plan members and the City. The City's annual pension cost for the current year and related information for each plan is as follows (dollar amounts in thousands):

	LACERS	Pensions	DWP Retirement Plan
Contribution rates:			
City	14.21% of covered payroll	13.1% of covered payroll	19.20% of covered payroll
Plan members	8.22% to 13.33 % of salaries at entry age with subsidy from the City for members prior to February 1983, 6% for entry date after January 1983	6% - Tier 1 7% - Tier 2 8% - Tiers 3, 4, & 5	6% of salaries upon becoming a member on or after June 1, 1984; prior to June 1, 1984 amount is based on entry age percentage rate
Annual pension cost	$227,006	$143,946	$124,724
Contributions made	$244,283 (including City subsidy of $16,328 and death insurance cost of $214)	$143,946	$101,630
Actuarial valuation date	June 30, 2004	June 30, 2004	July 1, 2005
Actuarial cost method	Projected unit credit	Entry age normal	Entry age normal
Amortization method	Level percent of payroll	Level dollar - Tiers 1 & 2 Level percent of payroll - Tiers 3, 4, & 5	Level dollar
Remaining amortization period	Varies 15 - 30 years, closed	32 years, closed	Varies 15 years, closed
Asset valuation method	5-year market related	5-year market related	5-year market related
Actuarial assumptions:			
Investment rate of return	8%	8.5%	8%
Projected salary increases	5% - 8%	5.5% - 10%	5.5%
Inflation rate	4%	5%	4%
Cost-of-living adjustments	3%	5% - Tiers 1 & 2 3% - Tiers 3, 4, & 5	3%

NOTE 5 – OTHER INFORMATION (Continued)

Three -Year Trend Information (dollar amounts in thousands)

	Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Assets (Obligation)
LACERS	6/30/04	$ 159,084	63%	$ (58,674)
	6/30/05	183,242	86%	(83,784)
	6/30/06	227,006	100%	(83,049)
Pensions	6/30/04	97,466	100%	--
	6/30/05	135,854	100%	--
	6/30/06	143,946	100%	--
DWP Retirement Plan	6/30/04	51,259	109%	182,184
	6/30/05	86,027	86%	171,658
	6/30/06	124,724	82%	148,564

The changes in LACERS' net pension obligation for the year are as follows (in thousands):

Annual required contribution	$ 227,741
Interest on net pension obligation	4,694
Adjustment to annual required contribution	(5,429)
Annual pension cost	227,006
Employer contributions	227,741
Change in net pension obligation	735
Net pension obligation - beginning of year	(83,784)
Net pension obligation - end of year	$ (83,049)

The changes in DWP Retirement Plan's net pension asset are as follows (in thousands):

Annual required contribution	$ 118,342
Interest on net pension asset	(13,023)
Adjustment to annual required contribution	19,405
Annual pension cost (including $36.2 million capitalized in fiscal year 2006)	124,724
DWP contributions	101,630
Change in net pension asset	(23,094)
Net pension asset - beginning of year	171,658
Net pension asset - end of year	$ 148,564

NOTE 5 – OTHER INFORMATION (Continued)

Postemployment Healthcare Benefits

LACERS and Pensions

The LACERS and Pensions are currently actuarially funding retiree health insurance benefits for current retirees and active eligible members for retired health insurance benefits. The City Charter, the Administrative Code and related ordinance define the postemployment health subsidy benefits for members of both the LACERS and Pensions. There are no member contributions for health subsidy benefits.

Retired members of the LACERS are paid monthly medical and dental insurance subsidies that are applied to the cost of the City health insurance plan they selected. In general, members are eligible for subsidy at retirement after age 55 with 10 years of service. The medical benefits are available to an eligible spouse or domestic partner after the death of the eligible member. The maximum medical subsidy is adopted by the LACERS Board annually in accordance with the City Administrative Code Section 4.1103.1. For retired members under age 65, or 65 and over with only Medicare Part B coverage, the subsidy is 4% (of the maximum subsidy or the actual premium paid to a City approved health carrier, if less) for each year of service up to a maximum of 100% after 25 years. As of June 30, 2006, the maximum monthly healthcare subsidy is $928. For retired members age 65 and over with Medicare Parts A and B coverage, the subsidy is a percentage of the premium paid to a City approved health carrier based on years of service: 75% for 10 -14 years; 90% for 15 -19 years; and 100% for 20 years or more. Medicare Part B premiums are also paid. For eligible surviving spouse or domestic partners, the subsidy is the same as the subsidy provided to the member, except that this benefit is limited to the Kaiser single party premium for members without Medicare Parts A and B. Surviving spouses do not receive subsidy for Medicare Part B premiums or for dental. Dental subsidy is 4% per year of service to certain maximum amounts paid to City approved dental carriers. As of June 30, 2006, the maximum monthly dental subsidy is $34.84. The City's actuarially required and actual contribution for medical and dental subsidies for fiscal year ended June 30, 2006 was $76.1 million (4.4% of covered payroll).

Members of Pensions who retire with ten years of service are eligible for health subsidy benefits. Regular benefits begin at age fifty-five for retirement effective dates after June 30, 1998 and at age sixty for retirement effective dates prior to June 30, 1998. Temporary subsidies are available to certain groups at earlier stages. The benefit paid is a percentage of a maximum subsidy for healthcare based on the lesser of the amount used by the LACERS and active Safety Members. Effective July 1, 2005, the maximum monthly subsidy is $735.38. The City also pays Medicare Part B premiums for any pensioner receiving a subsidy and Medicare Parts A and B coverage. Health benefits are available to members and their spouses/domestic partners on disability and service retirement. Effective January 1, 2000, surviving spouses/domestic partners are eligible for health subsidy benefits but not for dental subsidy. Dental subsidy is based on the lesser of the amount used by the LACERS and active Safety Members. In determining the dental subsidy, members receive 4% for each year of service, up to 100% of the subsidy. Effective January 1, 2005, the maximum monthly dental subsidy is $34.84. The City's actuarially required and actual contribution for medical and dental subsidies for fiscal year ended June 30, 2006 was $31.4 million (2.9% of covered payroll).

NOTE 5 – OTHER INFORMATION (Continued)

At June 30, 2006 the total plan participants were 28,839 for LACERS and 24,718 for Pensions. As of June 30, 2006, the unfunded healthcare benefits liability of LACERS and Pensions based on the actuarial cost method and assumptions used for the related pension plans are as follows (in thousands):

	LACERS	Pensions
Healthcare benefits liability		
Retired members	$ 808,647	$ 973,705
Active members	922,152	657,482
Total healthcare benefits liability	1,730,799	1,631,187
Less - Reserve for healthcare benefits at actuarial value (market value of $1,058,602 and $613,782, respectively)	(990,270)	(613,782)
Unfunded healthcare benefits liability	$ 740,529	$ 1,017,405

Department of Water and Power

DWP provides certain healthcare benefits to active and retired employees and their dependents. The health plan is administered by DWP. The Retirement Board and the Board of Water and Power Commissioners have the authority to approve provisions and obligations. Eligibility for benefits is dependent on a combination of age and service of the participants pursuant to a predetermined formula. The Boards must approve any changes to these provisions. The total number of active and retired participants entitled to receive benefits was approximately 16,750 at June 30, 2006.

DWP's postemployment health benefit plan is a single employee plan that is not administered as a trust or equivalent arrangement and therefore, does not have separate financial statements.

DWP pays a monthly maximum subsidy of $2,429 for medical and dental premiums depending on the employee's work location and benefits earned. Participants choosing plans with a cost in excess of the subsidy they are entitled to are required to pay the difference. No funding policy has been established for the future benefits to be provided under this plan. However, in fiscal year 2006, DWP increased the postretirement trust assets by $100 million in addition to the $53 million it paid for current retiree premiums. These trust assets are irrevocably committed to funding participant benefits.

NOTE 5 – OTHER INFORMATION (Continued)

The other postemployment benefit (OPEB) cost and related information for the DWP health plan are as follows (dollar amounts in thousands):

DWP contribution rate	18.1% of covered payroll
Annual OPEB cost	$112,554
Contributions made (47% of annual OPEB cost)	$52,990
Actuarial valuation date	July 1, 2005
Actuarial cost method	Entry age normal
Amortization method	Level percent of payroll
Remaining amortization period	30 years, open
Asset valuation method	Market value of assets
Actuarial assumptions:	
Investment rate of return	6.5%
Inflation rate	4.0%
Projected salary increases	4.0%
Health care cost trend rates:	
Medical	11% in 2006, decreasing by 1% for each year for five years until it reaches an ultimate rate of 5%
Dental	7% in 2006, 6% in 2007 and 5% thereafter

Trend information of the DWP's OPEB is as follows (in thousands):

Year Ended	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
6/30/04	$ 107,435	46%	$ 58,480
6/30/05	103,204	51%	109,140
6/30/06	112,554	47%	168,704

The changes in DWP's OPEB obligation for the year are as follows (in thousands):

Annual required contribution	$ 110,813
Interest on Net OPEB Obligation	7,094
Adjustment to annual required contribution	(5,353)
Annual OPEB cost	112,554
Contributions made	(52,990)
Increase in net OPEB obligation	59,564
Net OPEB obligation - beginning of year as restated	109,140
Net OPEB obligation - end of year	$ 168,704

NOTE 5 – OTHER INFORMATION (Continued)

The reconciliation of the postemployment healthcare trust assets, representing the set aside of assets, in an irrevocable employer trust is as follows (in thousands):

	Power	Water	Total
Postemployment healthcare trust assets - beginning of year	$ 271,082	$ 125,279	$ 396,361
Contributions to trust	71,237	36,413	107,650
Postemployment healthcare trust assets - end of year	$ 342,319	$ 161,692	$ 504,011

Prior to DWP's adoption of GASB 45, it followed the provisions of FAS 106 in accounting for its OPEB liability. In that regard, DWP established an irrevocable trust for funding its OPEB liability that permitted DWP to report payments made to the trust as contributions to the plan. Accordingly, payments made to the trust in excess of cumulative annual costs met FAS 106's definition of "plan assets."

Although GASB 45's characteristics of a qualifying trust or equivalent arrangement (i.e., a trust comprised of irrevocably-transferred assets that are dedicated to providing benefits to retirees and their beneficiaries and are legally protected from creditors of the employer) are characteristics of DWP's OPEB trust established under FAS 106, the Basis for Conclusions section of GASB 45 and other interpretive guidance indicates that the trust must also be established as a "legally separate plan" (similar to a pension plan) in order for payments made to it to be reported as contributions to the plan and as plan assets. In addition, the current postretirement payments are not made from the trust. In DWP's OPEB trust, the assets are irrevocably set aside for liquidation of DWP's OPEB liability (similar to a self insurance trust), rather than being irrevocably set aside to make payments to specific individuals in accordance with the terms of the plan. GASB 45 is silent with respect to irrevocable trust arrangements that are similar to self insurance trusts for payments of an employer's liability. However, GASB 45 specifies that qualifying trusts are legally separate plans of a fiduciary nature (i.e., where benefits "vest" in a manner similar to pension plans). Because DWP's funding vehicle is not legally separate plan of a fiduciary nature, the trust assets are regarded as restricted assets.

Medicare Part D

In December 2003, the President signed into law the *"Medicare Prescription Drug, Improvement and Modernization Act of 2003"* effective in 2006. Two important aspects of the law may affect employers' financial statements before 2006. First, the opportunity for retirees to obtain prescription drug benefits under Medicare Part D will tend to shift benefits and related costs out of employers plans. Second, employers that provide prescription drug benefits that are at least as valuable as (actuarially equivalent) those under Medicare Part D will be entitled to annual subsidy from Medicare equal to 28% of prescription drug costs between $250 and $5,000 for each Medicare-eligible retiree who does not join Medicare Part D.

NOTE 5 – OTHER INFORMATION (Continued)

Deferred Retirement Option Plan

Effective May 1, 2002 and through April 30, 2007, members of the Pensions have the option to enroll in a Deferred Retirement Option Plan (DROP). Members of Tiers 2 and 4 who have at least 25 years of service, and members of Tiers 3 and 5 who have at least 25 years of service and who are at least 50 years old are eligible for the DROP. Members who enroll continue to work and receive their active salary for a period of time not to exceed five years. Enrolled members continue to make contributions to the Pensions until they have completed the number of years required for their specific tiers but cease to earn retirement service and pay credits.

Monthly pension benefits that would have been paid to enrolled members are credited to their DROP accounts which will earn 5% annual interest. Once the DROP participation period ends, enrolled members must terminate active employment. They then receive a monthly benefit based on their service and salary at the beginning date of the DROP, as well as proceeds from their DROP account.

Letters of Agreement have been signed to extend the DROP for a five-year period, until April 20, 2102. An actuary will evaluate the DROP at the end of the first five-year period (April 30, 2007). If the actuary determines that the DROP is not cost neutral, the City and the unions will negotiate adjustments to the program. These adjustments would be effective no later than May 1, 2008. If the City and the unions cannot agree on necessary plan adjustments by March 1, 2008, the City will suspend new entrants into the DROP until an agreement is reached.

At June 30, 2006, there were 1,215 pensioners enrolled in the program and the total estimated value of the DROP accounts at that date was $255 million.

Community Redevelopment Agency Employees Retirement System

The CRA participates in the California Public Employees Retirement System (CalPERS), an agent multiple-employer defined benefit retirement system. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The CalPERS serves as the CRA's investment and administrative agent with respect to the pension plan. A separate report for the CRA Plan within the CalPERS is not available; however, copies of CalPERS' annual financial report may be obtained from its Executive Office at 400 P Street, Sacramento, California 95814.

The pension plan covers all full-time employees of the CRA. Under the provisions of CalPERS, pension benefits fully vest after five years of service. An employee may retire at age 50 and receive annual pension benefits equal to a predetermined percentage of the employee's salary earned during the highest 12 consecutive months of employment multiplied by the number of service years. Effective July 1, 1997, the CRA amended its contract with CalPERS changing retirement formulation from 2% at age 60 to 2% at age 55 in order to provide a retirement incentive to the employees. As a result of this amendment, the service requirement benefits now vary from 1.426% at age 50 to 2.418% at age 63 and over multiplied by the number of years of service.

Participants are required to contribute 7% of their annual covered salary. As a benefit to the employee, the CRA pays the employee contribution to the plan. The CRA is required to contribute at an actuarially determined rate. The contribution requirements of plan members and the CRA are established and may be amended by CalPERS.

NOTE 5 – OTHER INFORMATION (Continued)

For fiscal year 2006, the CRA's annual pension costs and required contribution is 16.8% of covered payroll. The required contribution was determined as part of the June 30, 2003 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return, net of administrative expenses, (b) projected annual salary increases that vary from 3.25% to 14.45% depending on age, service and type of employment, (c) 3% inflation, (d) 3.25% payroll growth, and (e) individual salary growth based on a merit scale varying by duration of employment, annual inflation growth of 3%, and annual production growth of 0.25%. The actuarial value of CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value). CalPERS unfunded actuarial liability/(surplus) is being amortized as a level percentage of projected payroll over a closed 20-year period.

The annual pension cost for the current year and related information for the CRA PERS are as follows (dollar amount in thousands):

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/04	$ --	--	$ --
6/30/05	1,472	100%	--
6/30/06	2,831	100%	--

In addition to the pension benefits, the CRA provides postemployment healthcare benefits to all employees who retired on or after January 1, 1993 with at least 10 years of service prior to retirement. The CRA subsidizes healthcare benefits starting at 40% of the maximum current subsidy to its employees for the first 10 years of service and the rate increases at 4% for each additional year of service. At 25 years of service and at least 50 years of age, a retiree is entitled to receive 100% health care subsidy. Expenditures for postemployment healthcare benefits are recognized on a “pay as you go basis.” During the fiscal year, the CRA recognized $0.5 million postemployment healthcare costs for 93 eligible retirees.

B. Commitments and Contingencies

Pending Lawsuits and Claims

As mentioned in Note 4P on page 131, certain pending lawsuits and claims have a reasonable possibility of resulting in additional General Fund liability totaling approximately $218.5 million. However, no amount has been accrued in the accompanying financial statements because it is not probable that a loss has been incurred as of June 30, 2006.

Rampart Division Litigation

Investigations were conducted on the alleged illegal activities of some police officers at the Los Angeles Police Department’s Rampart Division. As of December 20, 2006, all but one case have been resolved for approximately $75 million. It is not anticipated that other lawsuits will arise from the investigations.

NOTE 5 – OTHER INFORMATION (Continued)

Federal Consent Decree

The City has entered into a consent decree with the Federal government. It is a five-year agreement, which the court extended by three years to June 2009, that the City is required to implement in order to avoid litigation with the Federal government. Under the agreement, the City is required to build a database to track officer performance as well as undertake additional risk management and integrity assurance measures. Expenses associated with implementing the agreement include the design and implementation of the officer tracking system, staff to implement and audit reforms, and an independent monitor to oversee implementation of the provisions of the agreement. The City expects to absorb the costs of implementing the agreement through the regular budget process.

Telephone Users' Tax

In May 2006, the U.S. Treasury Department announced it is conceding a series of legal disputes regarding the federal excise tax (FET) on long-distance telephone service. The Internal Revenue Service has ceased collecting the FET on long distance service, and will issue refunds of the FET on long-distance service for the past three years. In addition to ending the litigation, the Secretary of the Treasury announced that he will call on Congress to terminate the remainder of the FET altogether by repealing the excise tax on local service as well.

The City's tax ordinance, like those of many other local telephone user taxes, references the FET's exemptions. The City is reviewing the above Federal actions to determine the effect of these changes on the application of the City's telephone users' tax ordinance, if any.

In addition, a portion of the City's telephone users' tax, that on wireless telephone service, has been challenged under a Superior Court action entitled *"AT&T Wireless et al v. City of Los Angeles."* Specifically, the case challenged the City's request – as a result of other changes in federal law – that, effective March 2003, all wireless carriers collect utility users' tax on the calling portion of wireless telephone bills regardless of whether they had previously collected the tax on that portion of the bill. The suit alleges that the City's actions represented a change in the taxing methodology for wireless phone calls, representing a tax increase that required voter approval under Proposition 218 (see related Proposition 218 discussion on page 165). The judge in this Superior Court case issued a writ of mandate and judgment requiring the City to withdraw its request to two cellular service providers and revert to prior collection practices as to those carriers. The City has appealed, and the writ of mandate has been stayed pending the appeal. Also pending the appeal, the City continues to collect these taxes as it has since 2003. The portion of the utility users' tax that is derived from wireless telephone service is estimated to be $163 million (of the $270 million total telephone users' tax revenue) in the fiscal year 2006-07 budget.

For a number of reasons, the City is unable to establish a reliable estimate of the potential revenue loss resulting from an adverse final judgment in the AT&T Wireless case and current and pending changes in federal excise tax practices. However, the City believes that a significant portion of the $270 million telephone users' tax may be at risk. In addition, the City could be exposed to the risk of having to make refunds for a limited number of years of prior collections.

NOTE 5 – OTHER INFORMATION (Continued)

Water Enterprise Fund Transfers to the General Fund

The Howard Jarvis Taxpayers Association (HJTA) brought an action against the City alleging that the City overcharges water rates and that the overcharges violated Proposition 218. The overcharges exceeded the cost required to provide water service and resulted in surplus each year that the Water Enterprise Fund transferred to the General Fund. In 2000, the Court of Appeal ruled in favor of the City holding that metered watered rates were not subject to Proposition 218. HJTA petitioned the State Supreme Court, but the Supreme Court denied review.

In a July 2006 ruling on an essentially similar case, the State Supreme Court held that the lower court had erred in holding that metered water rates are not subject to Proposition 218. In a footnote, the Supreme Court ruled, *"Howard Jarvis Taxpayers Association v. City of Los Angeles... is disapproved insofar as it is inconsistent with this conclusion."*

The State Supreme Court decision may affect the Water Enterprise Fund transfers to the General Fund. However, the City believes that Proposition 218 requirements were met when voters approved the revised City Charter in 1999. The City expects to seek some form of judicial validation that these transfers can continue. For the fiscal year ending June 30, 2007, the budgeted transfer to the General Fund is $31.6 million.

Airports Enterprise Fund

Environmental Issues

Through the normal course of operations, Airports and its facilities are subject to potential problems with environmental contamination and other environmental concerns. Accordingly, Airports has established a comprehensive hazardous materials management plan for all its facilities under its control. This plan calls for the evaluation of all property utilized by Airports and the environmental cleanup at any sites found to be contaminated. This evaluation has not been completed to date.

Airports bears the responsibility for the cleanup of environmental contamination on property it owns. However, Airports believes that if the contamination originated based on contractual arrangements, the primary responsibility for any such cleanup would be borne by the tenants, even if they declare bankruptcy. Airports, as property owner, however, assumes the ultimate responsibility for cleanup of such contamination in the event that the tenant is unable to make restitution. As a result of the hazardous materials management plan noted above, Airports has already begun cleanup of several sites, is in the process of implementing additional safeguards to prevent additional hazardous substance contamination and is completing the environmental evaluation of Airports facilities. However, the extent of the cleanup and/or the ability of the original tenants to reimburse Airports for such cleanup cannot be determined at the present time. Therefore, under the circumstances, it is reasonably possible that losses could be incurred; however, until such matters are resolved, the range of loss, if any, cannot be reasonably estimated.

Power and Water Enterprise Funds

The State and a number of local government agencies that are electric customers of DWP claim that DWP has violated the State's False Claim Act by charging such governmental customers the standard rates applicable to both public and private customers in their respective customer rate categories.

NOTE 5 – OTHER INFORMATION (Continued)

The plaintiffs allege that such rates include a capital facilities charge in violation of the State's statute. The plaintiffs are seeking unspecified amounts for treble damages, civil penalties, and injunctive relief. DWP intends to vigorously defend the claim.

A number of claims and suits are also pending against DWP for alleged damages to persons and property and for other alleged liabilities arising out of DWP's operations. In the opinion of DWP management, any ultimate liability, which may arise from these actions, are not expected to materially impact the Power and Water Enterprise Funds' financial statements.

Harbor Enterprise Fund

Alameda Corridor Transportation Authority Agreement

In August 1989, the Harbor and the Port of Long Beach (the Ports) entered into a joint exercise of powers agreement and formed Alameda Corridor Transportation Authority (ACTA) for the purpose of establishing a comprehensive transportation corridor and related facilities consisting of street and railroad rights-of-way and an improved highway and railroad network along Alameda Street between the Santa Monica Freeway and the Ports in San Pedro Bay, linking the two ports to the central Los Angeles area. The Alameda Corridor began operating in April 2002. ACTA is governed by a seven-member board which is comprised of two members from each Port, one each from the Cities of Los Angeles and Long Beach and one from the Metropolitan Transportation Authority. In 2003, ACTA agreed to an expanded mission to develop and support projects that more effectively move cargo to points around Southern California, ease truck congestion, improve air quality, and make roads safer. If in the future ACTA becomes entitled to distribute income or make equity distributions, the Ports shall share any such income or equity distributions equally.

In October 1998, the Ports, ACTA and the railroads which operate on the corridor entered into a Corridor Use and Operating Agreement (Corridor Agreement). The Corridor Agreement obligates the railroads to pay certain use fees and container charges (Use Fees) which ACTA will assess for the privilege of using the corridor to transport cargo into and out of the Ports. ACTA is currently negotiating with the railroads regarding certain types of cargo movements (transload movements) for which the railroads are not paying Use Fees. ACTA asserts that Use Fees are due from these cargo movements. No assurances can be given that these negotiations will conclude in a manner favorable to ACTA. These Use Fees are used to pay for: (a) the debt service which ACTA incurs on approximately $1.2 billion of bonds which ACTA issued in early 1999 and approximately $686 million of bonds issued in 2004, and (b) for the cost of funding required reserves and costs associated with the financing, including credit enhancement and rebate requirements, if any (collectively, ACTA Obligations). Use Fees end after 35 years or sooner if the ACTA Obligations are paid off earlier.

If ACTA revenues are insufficient to pay ACTA Obligations, the Corridor Agreement obligates each Port to pay up to 20% of the shortfall (Shortfall) on an annual basis. If this contingency occurs, the Ports' payments to ACTA are intended to provide cash for debt service payments and to assure that the Alameda Corridor is available to maintain continued cargo movements through the Ports. The Ports are required to include expected Shortfall payments in their budgets, but Shortfall payments are subordinate to other obligations of the Harbor, and neither of the Ports is required to take Shortfall payments into account when determining whether it may incur additional indebtedness or when calculating compliance with rate covenants under their respective bond indentures and resolutions.

NOTE 5 – OTHER INFORMATION (Continued)

In April 2004, it was estimated by ACTA that the Ports would be required to make Shortfall payments totaling approximately $20.5 million (each port being liable for their one-half share of $10.25 million) through 2027. Pursuant to the ACTA Operating Agreement, Harbor is obligated to include any forecasted Shortfall payments in its budget each fiscal year. No shortfall payments were payable by Harbor in fiscal year 2004-05. Based upon the April 2004 estimate for fiscal year 2005-06, ACTA has projected a Shortfall of $4.8 million, however, the Ports are not required to fund this Shortfall because sufficient funds are available to ACTA from other sources. ACTA notified the two ports in March 2006 that no shortfall was required for the fiscal year ending June 30, 2006 due to transfers from other available sources.

Estimates of Shortfalls are prepared by ACTA and such Shortfalls could vary materially from the estimates. It is not possible to predict whether, when or how much the Harbor will be liable for Shortfall payments.

Natural Resources Defense Council Settlement Judgment

In March 2003, the Harbor settled a lawsuit entitled *"Natural Resources Defense Council, Inc. vs. City of Los Angeles,"* regarding the environmental review of a project. The settlement calls for a total of $50 million mitigation measures to be undertaken by the Harbor. The $50 million settlement liability was charged as an expense of the Harbor Enterprise Fund in fiscal year 2003.

The terms of the settlement require that the Harbor fund various mitigation activities in the amount of $10 million each year over a five-year term ending fiscal year 2007. As of June 30, 2006, $40 million has been placed in the mitigation funds.

Pursuant to the settlement, the Harbor is also obligated to expend up to $5 million to retrofit customer vessels to receive shore-side power as an alternative to using on-board diesel fueled generators. Through the end of fiscal year 2006, the Harbor has spent $5 million for this program.

In June 2004, the Harbor agreed to amend the original settlement agreement to include an additional $3.5 million for the creation of parks and open space in San Pedro.

As of June 30, 2006, the Harbor has disbursed a total of $18.7 million as provided in accordance with the provisions of the settlement.

China Shipping Settlement Agreement

In June 2005, the Harbor settled a claim filed by China Shipping Holding Company, Ltd. China Shipping, a current tenant, claimed damages and costs resulting from the delays in timely delivery of the premises at Berths 100-102, and environmental mitigation costs. The settlement provided for an immediate payment of $10 million to China Shipping and amended their operating permit to provide various credits in the form of reduction of minimum annual guarantee and container charges of $12.2 million to be applied in fiscal year 2005-06. The amendment also provides for additional credits amounting up to $7.1 million, if certain acreage or wharf improvements are not delivered within 24 – 48 months following approval of the environmental impact report for the project. Harbor management believes no conditions currently exist that will impact timely delivery of the facilities. Accordingly, a liability of $22.2 million has been recorded as of June 30, 2005 and payment of $10 million was made and credits of $12.2 million were issued in fiscal year 2006.

NOTE 5 – OTHER INFORMATION (Continued)

Settlement of Dispute on Nexus Study

In January 2001, the City, Harbor, and the State Lands Commission, entered into a settlement and mutual release agreement to amicably resolve their disputes concerning the General Fund's entitlement to historic and future reimbursements for costs incurred and would incur in providing services to the Harbor. Such entitlement resulted from a series of studies, collectively referred to as the Nexus Study, conducted under the auspices of the City Attorney. The settlement agreement provides that the City's General Fund, as reimbursement for payments made by the Harbor to the City General Fund for retroactive billings for City General Fund services during the period July 1, 1977 through June 30, 1994, inclusive, pay the Harbor $53.4 million in principal plus 3% simple interest over 15 years. The settlement agreement also provides that the City General Fund reimburse Harbor for the payment differential, that amount representing the difference between the actual payments and the amount to which the City General Fund would have been entitled to reimbursement during fiscal year 1994-95 and fiscal year 2002-03, inclusive, had the reimbursement been computed during those fiscal years using the settlement formula. This amount is estimated at $8.4 million. Payment for this period is to be reimbursed to the Harbor over 15 years including 3% simple interest. The agreement also provides that at any time after five years from January 19, 2001, the City, the Harbor and State Lands Commission may negotiate to amend their agreement to account for new or changed circumstances. The three parties have agreed to mutually release and discharge the other from any and all claims, demands, obligations and causes of action, of whatever nature pertaining in any way to the use, payment, transfer or expenditure for any of the services or facilities identified in the Nexus Study or the 1997 MOU and provided for during the period July 1, 1977 through June 30, 2002. Accordingly, the Harbor had recorded the amount due from the City General Fund as Advances From Other Funds of $40.3 million and the current portion as Due From Other Funds of $3.8 million as of June 30, 2006.

Alleged Misuse of Federal Funds

An individual has brought a lawsuit under the Federal Civil False Claims Act against the Harbor, the City, and the Harbor's Executive Director, challenging the use by the Harbor of certain Federal funds obtained via the United States Army Corps of Engineers and State funds for the construction of Pier 400 at the port. The plaintiff alleges that the federal contribution amount to the construction of Pier 400 was $108 million and the State contribution was approximately $1 billion. The case was under seal from 2002 to 2005 while the Federal government determined whether to join as a plaintiff. In 2005, the Federal government decided not to join as a plaintiff. An amended complaint was served on the Harbor in August 2005 requesting treble damages. The Harbor believes that any claims alleging misuse of federal funds and State funds are without merit. The defendants, including the City and the Harbor, filed motions to have the court dismiss the complaint or grant judgment in their favor. On August 11, 2006, the Court granted the City's and the Harbor's Motion to Disqualify the plaintiff, on the grounds that the plaintiff is not an attorney and therefore cannot represent the interests of the United States or the State in the action, and dismissed the lawsuit. Subsequently, the plaintiff brought motions to vacate the dismissal and to allow the substitution of an attorney. The trial court denied both of these motions. On October 13, 2006, the plaintiff *in pro per* filed a notice of appeal seeking review of the three court orders.

NOTE 5 – OTHER INFORMATION (Continued)

Los Angeles Export Terminal Claim

On June 10, 2004, Los Angeles Export Terminal (LAXT), Oxbow Carbon & Minerals, Inc., and Oxbow Terminals LLC (collectively, the "Claimants") filed a claim against the City for damages in excess of $400 million (the LAXT Claim). The claimants assert, among other things, that the City breached fiduciary duties to LAXT and interfered with LAXT's efforts to raise additional revenues. The City rejected the LAXT Claim on June 23, 2004. The claimants subsequently filed a court action in which they claimed damages in excess of $600 million. The Harbor filed an answer and cross-claim to the court action. The parties are currently negotiating a settlement, however, there can be no assurance that an agreement will be reached. While the impact, if any, on the financial condition of the City and of the Harbor cannot be predicted with certainty, the Harbor believes that there is little likelihood the Claimants will recover damages to the extent demanded in the LAXT Claim.

Sewer Enterprise Fund

Claims and lawsuits related to several construction projects seek compensation and/or payment of damages stemming from allegations of defective construction specifications, delayed early completion, concealed conditions, issues of interpretation of contract language, and other doctrines of construction and contract law which are asserted to support a claim for monies above the contract price. Additionally, claims of certain employees involving personnel matters are in litigation. The City Attorney estimates $30.7 million liability to be probable of occurring, of which $29.7 million is payable in the long-term.

Community Redevelopment Agency

Central Business District (CBD) Redevelopment Project

The Project was amended in May 2002 and detached certain Project areas. Some of the detached areas were incorporated in the City Center Redevelopment Project (adopted in May 2002) and in the Central Industrial Redevelopment Project (adopted in November 2002). The adoption of the two new projects was intended to allow the CRA to continue funding and working in vital areas of downtown Los Angeles that remain blighted and still require intervention. The Superior Court ruled in favor of the County of Los Angeles and another party on their separate lawsuits challenging the amendment of the CBD Project and the adoption of the two new projects. The CRA appealed the Superior Court ruling and on April 19, 2005, the Court of Appeal ruled that the amendment of the CBD Project was valid but the adoption of the two new projects was invalid to the extent that it allows for receipt of tax increment from properties detached from the CBD Project. The lawsuit is back in the Superior Court to resolve issues regarding blight and project feasibility. The trial regarding the adoption of the City Center Plan was held on October 18, 2006 and there is no decision to date. The Superior Court ruled in favor of the CRA on the adoption of the Central Industrial Plan on March 17, 2006. The County appealed the ruling.

NOTE 5 – OTHER INFORMATION (Continued)

Hollywood Redevelopment Project

Several property owners filed a lawsuit against the CRA with respect to the amendment of the Hollywood Redevelopment Plan. The amendment restored the CRA's power of eminent domain and eliminated the deadline for incurring new debt. The lawsuit alleges that the CRA failed to form a project area committee and that various findings made by the City Council were not supported by substantial evidence. The Superior Court ruled in favor of the CRA. The Court of Appeal denied the plaintiffs' appeal and the California Supreme Court decided not to review the lower court's decision.

Commitments

As of June 30, 2006, the following Enterprise Funds have commitments for construction contracts and open purchase orders in the following amounts (in thousands):

Airports	$ 50,900
Harbor	214,888
Sewer	168,700

Other Enterprise Fund Commitments

Power Enterprise Fund

Energy Entitlement

DWP has a contract through 2017 with the U.S. Department of Energy (DOE) for the purchase of available energy generated at the Hoover Power Plant. Its share of capacity at Hoover is approximately 500 megawatts. The cost of power purchased under this contract was $13 million in fiscal year 2006.

Purchase Power Commitments

The DWP entered into a number of energy and transmission service contracts that involve substantial commitments as follows (dollars in thousands):

			DWP's Interest in Agency Share		
	Agency	Agency Share	Interest	Capacity (Megawatts)	Outstanding Principal
Intermountain Power Project	IPA	100.0%	63.9%	1,121	$ 1,451,044
Palo Verde Nuclear Generating Station	SCPPA	5.9%	67.0%	151	83,924
Mead-Adelanto Project	SCPPA	67.9%	35.7%	291	81,826
Mead-Phoenix Project	SCPPA	17.8% - 22.4%	24.8%	148	17,881
Southern Transmission System	SCPPA	100.0%	59.5%	1,142	540,777

IPA: The Intermountain Power Agency is an agency of the State of Utah established to own, acquire, construct, operate, maintain, and repair the Intermountain Power Project (IPP). DWP Power System serves as the Project Manager and Operating Agent of IPP.

SCPPA: The Southern California Public Power Authority, a California joint powers agency.

Note: SCPPA's interest in the Mead-Phoenix Project includes three components.

NOTE 5 – OTHER INFORMATION (Continued)

The above agreements require the Power Enterprise Fund to make certain minimum payments that are based mainly upon debt service requirements. In addition to average annual fixed charges of approximately $301 million during each of the next five years, the Power Enterprise Fund is required to pay for operating and maintenance costs related to actual deliveries of energy under these agreements (averaging approximately $316 million annually during each of the next five years). Total payments under these contracts were approximately $433 million in fiscal year 2006. These agreements are scheduled to expire from 2027 to 2030.

The Power Enterprise Fund earned fees under the IPP Project Manager and Operating agreements totaling $16.9 million in fiscal year 2006.

Long-term Notes Receivable

Under the terms of its purchase power agreement with IPA, DWP is charged for its output entitlements based on its share of IPA's costs, including debt service. During fiscal year 2000, DWP restructured a portion of this obligation by transferring $1.11 billion to IPA in exchange for long-term notes receivable. The funds transferred were obtained from the debt reduction trust funds and through the issuance of new variable rate debentures. IPA used the proceeds from these transactions to defease and to tender for bonds with par values of approximately $618 million and $611 million, respectively.

On September 7, 2000, DWP paid $187 million to IPA in exchange for additional long-term notes receivable. IPA used the proceeds to defease bonds with a face value of $198 million.

On July 20, 2005, DWP paid $97 million to IPA in exchange for additional long-term notes receivable. IPA used the proceeds to defease bonds with a face value of $92 million.

The IPA notes are subordinate to all of IPA's publicly held debt obligation. DWP's future payments to IPA will be partially offset by interest payments and principal maturities from the subordinated notes receivable. The net IPA notes receivable balance totaled $1.17 billion as of June 30, 2006.

Palo Verde Nuclear Generating Station (PVNGS)

As a joint project participant in Palo Verde Nuclear Generating Station, DWP has certain commitments with respect to nuclear spent fuel and waste disposal. Under the Nuclear Policy Act, the Department of Energy (DOE) was to develop the facilities necessary for the storage and disposal of spent fuel and to have the first such facility in operation by 1998; however, the DOE has announced that such a repository cannot be completed before 2010. There is ongoing litigation with respect to the DOE's ability to accept spent nuclear fuel; however, no permanent resolution has been reached.

Capacity in existing fuel storage pools at PVNGS were exhausted in 2003. A Dry Cask Storage Facility (also called the Independent Spent Fuel Storage Facility) was built and completed in 2003 at a total cost of $33.9 million (about $3.3 million for Power Enterprise Fund). The facility has the capacity to store all the spent fuel generated by the plant until the end of its life in 2026. The Power Enterprise Fund accrues for current nuclear fuel storage costs as a component of fuel expense as the fuel is burned. DWP's share of spent nuclear fuel costs related to its indirect interest in PVNGS is included in the Power Enterprise Fund's purchased power expense.

NOTE 5 – OTHER INFORMATION (Continued)

The Price-Anderson Act (the Act) requires that all utilities with nuclear generating facilities share in the payment of claims resulting from a nuclear incident. Participants in the PVNGS currently insure potential claims and liability through commercial insurance with a $300 million limit; the remainder of the potential liability is covered by industry-wide retrospective assessment program provided under the Act. This program limits assessments to a maximum of $100.6 million for each licensee for each nuclear incident occurring at any nuclear reactor in the United States; payments under the program are limited to $10 million per incident, per year. Based on DWP's 5.7% direct interest and its 3.95% indirect investment interest through SCPPA, DWP would be responsible for a maximum assessment of $9 million per incident, limited to payments of $1 million per incident annually.

Environmental Matters

Numerous environmental laws and regulations affect the Power System's facilities and operations. DWP monitors its compliance with laws and regulations, and reviews its remediation obligations on an ongoing basis. The following topics highlight some of the major environmental compliance issues affecting the Power System.

Air Quality – Nitrogen Oxide Emissions. DWP's generating station facilities are subject to the Regional Clean Air Incentives Market (RECLAIM) nitrogen oxide (NOx) emission reduction program adopted by the South Coast Air Quality Management District (SCAQMD). In accordance with this program, SCAQMD established annual NOx allocations for NOx RECLAIM facilities based on historical emissions and type of emissions sources operated. These allocations are in the form of RECLAIM trading emission credits (RTCs). Facilities that exceed their allocations may buy RTCs from other companies that have emissions below their allocations. DWP has a program of installing emission controls and purchasing RTCs, as necessary, to meet its emission requirements.

In May 2001, SCAQMD adopted amendments to RECLAIM with the intent of lowering and stabilizing RTC prices. One key element of the amendments is that existing power plants were bifurcated from the rest of the RECLAIM market and were required to install Best Available Retrofit Control Technology (BARCT). As required under SCAQMD rules, DWP met the BARCT compliance date of January 1, 2003. On January 1, 2007, power producers could reenter the RECLAIM market. As a result of the installation of NOx control equipment and the repowering of existing units, DWP has sufficient RTCs to meet its native load requirements for normal operations until 2010.

Air Quality – Greenhouse Gas Emissions. In September 2006, Governor Schwarzenegger signed the California Global Warming Solutions Act of 2006 (AB32). The bill requires the California Air Resources Board to develop regulations and market mechanisms that will ultimately reduce California's greenhouse gas emissions by 25 percent by 2020. Mandatory caps will begin in 2012 for significant sources and be gradually reduced to meet the 2020 goals. As specified in the bill, all emissions from electricity that is consumed in the State, whether it is generated in California or in other states, will be subject to the cap. As a result, the Power system's share of emissions from Intermountain Power Plant and other facilities outside California will be subject to this program.

NOTE 5 – OTHER INFORMATION (Continued)

It is uncertain at this time what impact this statute will have on the Power system's operations. If a cap and trade program is established, the primary issue will be how allowances will be allocated to DWP and other power producers. The target date of the Air Resources Board to adopt regulations is January 1, 2011. The goal of the regulations would be to "achieve the maximum technologically feasible and cost-effective reductions in greenhouse gas, including provisions for using market mechanisms and alternative compliance mechanisms." DWP will be actively participating in the rulemaking process.

Power Plant Once-Through Cooling Water Systems. Once-through cooling is the process where water is drawn from a source, pumped through equipment to provide cooling, and then discharged. Some type of cooling process is necessary for nearly every type of traditional electrical generating station, and the once-through cooling process is utilized by many electrical generating stations located next to large bodies of water. Typically, the water used for cooling is not chemically changed in the process although its temperature is increased.

Regulatory agencies have made several changes recently that could significantly impact operations at the Haynes, Scattergood, and Harbor Generating Stations. The EPA has adopted new regulations that would affect the water drawn into these plants for cooling purposes, and for the Haynes and Harbor stations, the Regional Water Quality Control Board reclassified the body of water that once-through cooling water is discharged to. For Haynes, this reclassification includes requirements that cannot currently be met with existing cooling configuration. DWP is in the process of reviewing the regulations and conducting studies. Once the studies are reviewed, DWP will determine an appropriate course of action.

Water Enterprise Fund

Surface Water Treatment Rule

The State of California Surface Water Treatment Rule (SWTR) imposes increased filtration requirements at open distribution reservoirs exposed to surface water runoff. The Water System has four major reservoirs that are subject to SWTR: Upper and Lower Hollywood, Lower Stone Canyon and Encino. To comply with SWTR, DWP has designed projects to remove these reservoirs from regular service through construction of larger pipelines and storage facilities.

The Hollywood Water Quality Improvement Project was completed in July 2002. Upper and Lower Hollywood Reservoirs were removed from service and functionally replaced by two 30 million gallon tanks and additional pipelines. Construction of the Encino project is estimated to be completed by early 2007. Construction of the Stone Canyon Water Quality Improvement Project began in December 2003 and it is expected to be completed by late 2007. As of June 30, 2006, the cost of the SWTR compliance related to engineering studies and construction activities at the four reservoirs and for the additional key pipelines in the San Fernando Valley totaled $691 million and are expected to reach $892 million at completion in 2015.

NOTE 5 – OTHER INFORMATION (Continued)

Stage 2 Disinfectants and Disinfection Byproduct Rule

In January 2006, the Environmental Protection Agency (EPA) published Stage 2 Disinfectants and Disinfection Byproduct Rule (Stage 2 DBP Rule) in the Federal Register. The Stage 2 DBP rule strengthens public health protection for customers by tightening compliance monitoring requirements for two groups of disinfection byproducts, trihalomethanes (TTHM) and haloacetic acids (HAA5). DBPs form when naturally occurring materials in water (e.g. decomposing plant material) combine with chemicals added to disinfect the water. DBPs are associated with cancer, particularly bladder cancer.

In order to comply with the requirements of the Stage 2 DBP Rule, DWP must change its primary disinfectant from chlorine to chloramines, a less reactive disinfectant, by April 2012. In order to covert to chloramines, DWP is proposing the construction of several chloramination stations, ammoniation stations, and inlet/outlet modifications to tank reservoirs. As of June 30, 2006, the cost of the Stage 2 DBP compliance related engineering studies and construction activities totaled $19 million and are expected to reach $66 million at completion in 2015.

Long Term 2 Enhanced Surface Water Treatment Rule

In January 2006, the EPA published the Long Term 2 Enhanced Surface Water Treatment Rule (LT2) in the Federal Register. The LT2 builds upon the Safe Drinking Water Act and other earlier water quality rules to strengthen protection against microbial contaminants, especially Cryptosporidium. Cryptosporidium is a significant concern in drinking water because it contaminates most watershed used for the collection of drinking water and can cause gastrointestinal illness. DWP has six reservoirs in its system subject to LT2: Ivanhoe, Silver Lake, Elysian, Upper Stone Canyon, Santa Ynez, and Los Angeles. In order to comply with the requirements of LT2, DWP is proposing to either, cover bypass, or build alternate covered storage for the aforementioned reservoirs and to install additional pipelines and related facilities. All these projects are in different stages of planning, design and construction. As of June 30, 2006, the cost of the LT2 compliance related engineering studies and construction activities totaled $31 million and are expected to reach $1.3 billion at completion in 2018.

Owens Lake

During 1997, the Great Basin Unified Air Pollution Control District (the District) adopted an initial State Implementation Plan (SIP), as amended, and an implementing order requiring DWP to initiate pollution control measures to control particulate matters emitting from the Owens Dry Lake bed. DWP disputed the remediation measures imposed by the original order; however, in July 1998, the City and the District entered in a historic Memorandum of Agreement (MOA) to mitigate the dust problem. The MOA delineated the dust producing areas on the lakebed that needed to be controlled, specified what measures must be used to control the dust, and specified a timetable for implementation of the control measures. The MOA called for phased implementation to permit the effectiveness of the control measures to be evaluated and modifications to be made as the control measures were being installed.

NOTE 5 – OTHER INFORMATION (Continued)

The MOA was incorporated into a formal air quality State Implementation Plan (SIP) by the District. This SIP was approved by the United States Environmental Protection Agency on October 4, 1999. The District revised and adopted the SIP in November 2003. The revised SIP defines the additional boundaries and areas required to be controlled on the lakebed. DWP was allowed to examine the District's methodology to determine the additional areas to be controlled. As a result of those efforts, the District ordered in the revised SIP 29.8 square miles that will be required to be controlled. That amount includes the areas the City agreed to and completed. The revised SIP demonstrates that upon completion of the City's work, emissions from Owens Lake bed will have been reduced so that the Owens Valley Planning Area will attain and maintain the Federal Clean Air Act (Act) ambient air quality standards for particulate matter. The Act requires that Owens Lake meet ambient air quality standards by the end of 2006.

The MOA specified that the City must choose from among three control measures the District has certified as Best Available Control Measures for Owens Lake. The three measures are Shallow Flooding, Managed Vegetation, and Gravel. To date, the City has completed construction on and is operating approximately 23.1 square miles of dust control measures. Therefore, the City is 75% complete with its obligation. The first phase of dust control implementation, completed in December 2001, consists of 13.5 square miles of Shallow Flooding. Shallow Flooding involves flooding the area to be controlled until it is either inundated with few inches of water or the soil becomes thoroughly saturated to the surface with water. The second phase of dust control implementation, completed in July 2002, consists of about four square miles of Managed Vegetation. Managed Vegetation involves growing native vegetative cover that will hold the shifting and emissive lakebed in place, locking up the dust. The third and fourth phases of dust control implementation, completed in March 2003 and September 2005, respectively, consist of a total of 5.6 square miles of additional Shallow Flooding. Construction is scheduled to be complete for phase five, the additional areas specified in the District's revised SIP, by December 31, 2006.

As of June 30, 2006, DWP has incurred capital costs of approximately $360 million associated with the Owens Lake Dust Mitigation Program. Based on the 2003 SIP, DWP management estimates that the total capital related costs of implementing the 29.8 square miles of dust control measures through 2007 will be approximately $415 million.

Fire and Police Pension System

The Pensions has commitments to contribute capital for real estate and alternative investments in the aggregate amount of approximately $678.3 million at June 30, 2006.

All members of the Pensions, except Tier 4 members, who were active on or after July 1, 1982 have vested rights to their past contributions and accrued interest in the event of termination prior to retirement. At June 30, 2006, the total amount is $1,168 million.

NOTE 5 – OTHER INFORMATION (Continued)

Los Angeles City Employees Retirement System

At June 30, 2006, the LACERS was committed to future purchases of real estate and alternative investments at an aggregate cost of approximately $659.3 million.

Community Redevelopment Agency

Hollywood, Highland and Marketplace Projects

The CRA helped to facilitate public improvement financing for the Hollywood and Highland commercial development by the TrizecHahn Corporation (the Developer). Public financing consisted of taxable certificates of participation issued by MICLA for the live broadcast theater and tax-exempt parking revenues bonds issued by the City for a subterranean parking structure.

The debt service requirements for the theater certificates of participation are paid from the annual lease rental payments from the City's General Fund. To the extent that the transient occupancy tax generated by the hotel project at the site is less than the annual debt service requirement, the Developer (or its successor) has guaranteed up to 74% of the shortfall. Under certain conditions, the Developer may be released from the guarantee after the eleventh year (year 2010). In a cooperation agreement executed in February 2004, the CRA has agreed to guarantee the remaining 26%, net of certain exclusions, payable from tax increment revenues or other legally available funds from the Hollywood Redevelopment Project Area (Project Area). The CRA will be released from this guaranty when the developer is released from its guaranty as described above. Unless subordination is approved by the City Council, the pledge of tax increment is senior to all future pledges of tax increment from the Project Area.

The parking revenue bonds are payable from and secured by a pledge of the parking revenues deposited into the City's Special Parking Revenue Fund. The February 2004 cooperation agreement does not require the CRA to provide a back-up reimbursement mechanism should parking revenues be insufficient to pay for the debt service on the parking bonds.

The obligation to pay Hollywood Project tax increment revenues to the City, under certain conditions, is subject to prior and senior obligations to pay tax allocation bond debt service, housing set-asides as required by State law, and pass-through payments arising from agreements with the County of Los Angeles, the Los Angeles Unified School District, and the Los Angeles Community College District.

Others

At June 30, 2006, the CRA had approximately $155.1 million in outstanding commitments under various agreements, including construction, public improvements, housing loans, professional services and other costs related to redevelopment plans.

NOTE 5 – OTHER INFORMATION (Continued)

C. Third-Party Obligations

The City participated in the issuance of the following indebtedness to provide financing to private-sector entities for the acquisition, construction and improvements of housing, commercial, educational, medical and other facilities deemed to be in the public interest (in thousands):

Issue	Outstanding June 30, 2006
Multifamily Housing Bonds - 89 Issues	$ 636,079
Home Mortgage Revenue Bonds - 9 Issues	30,463
Bond proceeds were used to provide mortgage loans for the construction and financing of multifamily rental and single-family residences in the City. The indebtedness is secured solely by the property financed by the respective bond issues and by credit guarantees by reinvestment-grade financial institutions.	
Industrial Development Bonds - 16 Issues	225,734
The proceeds were used to provide manufacturers low cost financing to expand industrial capacity and stimulate job creation in the City. The City has no financial obligation as each bond is secured through a letter of credit.	
Limited Obligation Medium-Term Improvement Notes - 1 Issue	7,552
The proceeds were used to provide financing for fire safety improvements in privately owned buildings in the City. The notes are supported solely through annual assessments on the properties and the value of the underlying properties themselves.	
Community Facilities District No. 3 Special Tax Bonds	10,040
The proceeds were used to fund acquisition and construction of certain public improvements for the Cascade Business Park and Golf Course. The City's obligation is limited to collecting the special taxes annually levied and collected from the District for the debt service payments.	
Community Facilities District No. 4 Special Tax Bonds	135,000
The proceeds were used to fund acquisition and construction of certain public improvements for the Playa Vista Development Project. The City's obligation is limited to collecting the special taxes annually levied and collected from the District for the debt service payments.	
Street Improvement 1911/1913 Act Bonds	1,830
The proceeds were used to finance certain public improvements for the Westwood Village Streetscape Assessment District. The City's obligation is limited to collecting the assessments annually levied for debt service payments.	
Total	$ 1,046,698

The City is not obligated in any manner for repayment of the indebtedness. Accordingly, the liabilities are not reported in the accompanying financial statements.

NOTE 5 – OTHER INFORMATION (Continued)

Community Redevelopment Agency

In order to encourage redevelopment activities by the private sector, the CRA has authorized the issuance of tax-exempt revenue bonds and certificates of participation. The private sector assets and revenues generated by the respective projects are the collateral for the indebtedness. As of June 30, 2006, the outstanding balance of such issues was $597.7 million. The CRA is not obligated for the repayment of such debt; therefore, the liabilities are not included in the accompanying financial statements.

D. Other Matters

Business Tax Reform

In November 2004, the Mayor and City Council adopted a package of changes to the City's business tax system that became effective in January 2005. One of the changes is the gradual reduction of the business tax rates. When business tax revenue receipts exceed the budgeted amount, the business tax rates applied on gross receipts can incur a reduction of up to 4% per year. Over time, the ordinance allows for a maximum of 15% reduction. On January 1, 2006, the first tax rate reduction of 3.1% was applied. An additional 4% tax rate reduction will be effective January 1, 2007.

Loans Receivable from Los Angeles Community Development Bank

The City's loans receivable includes $45 million from the Los Angeles Community Development Bank (LACDB), a nonprofit corporation and not a commercial bank. This amount represents the outstanding portion of the City's participation in the U.S. Department of Housing and Urban Development Section 108 Government Guaranteed Participation Certificates, Series HUD 1999-A (Section 108 Certificates). The Section 108 Certificates represent a fractional undivided interest in a portion of a trust sponsored by the Secretary of HUD and administered by a trustee.

The City recognizes a long-term debt equivalent to its participation in the Section 108 Certificates. As required by law to assure the repayment of the certificates, the City's participation is secured by a pledge of Community Development Block Grants that the City may become eligible to receive.

The independent auditor's report on the LACDB's financial statements for the year ended December 31, 2002 identified circumstances that raise substantial doubt about LACDB's ability to continue as a going concern. On March 2005, the Board of Directors approved a resolution authorizing management to seek the appointment of a receiver to administer the orderly dissolution of LACDB. This action constitutes an event of default under the comprehensive agreement between the City and LACDB. An event of default allows the City to accelerate collection of all debt owed by LACDB and exercise certain additional remedies. The City notified LACDB of this default on March 31, 2005. In April 2005, the court appointed Receiver of LACDB filed for a Chapter 11 Bankruptcy petition. Consequently, the City Council adopted a motion, concurred in by the Mayor, authorizing the City Attorney to take all necessary steps including the filing of appropriate legal action to protect the City's interests. LACDB's Chapter 11 bankruptcy petition was granted by the court in September 2006. Because of the aforementioned uncertainties, the City has fully reserved for its outstanding loans due from LACDB.

NOTE 5 – OTHER INFORMATION (Continued)

Airports Enterprise Fund

High-Security Environment

The Airports, like the rest of North American air transportation system, has been adversely affected by the terrorist attacks that occurred in the United States on September 11, 2001 (the September 11 Events). Since the September 11 Events, due in part to the September 11 Events and in part to the slowdown in the national economy, significant declines have been experienced in aviation activity and enplaned passenger traffic, as well as in activity-based revenues consisting primarily of landing fees, passenger facility charges, concession revenues and parking revenue. During fiscal year 2006, Airports' passenger volume was 3.2% or 2.2 million below its pre-September 11 Events level.

As part of its program of proactively addressing heightened security concerns and requirements, Airports has engaged in a review of its rates and charges, and has implemented revenue enhancements and expenditure controls that affect a variety of operating expenses. The Airports' capital improvement program was also reevaluated and several planned expenditures were suspended, except where the affected projects were near completion or essential from a security or safety standpoint.

Reductions in operating levels at the Airports from those that existed prior to the September 11 Events may continue for a period of time and to a degree that is uncertain. The future level of aviation activity and enplaned passenger traffic at the Airports will depend upon several factors directly and indirectly related to the September 11 Events, including, among others, the financial condition of individual airlines and the viability of continued services. A number of airlines are recovering from the economic difficulties they experienced immediately following the September 11 Events.

Airports is unable to predict (i) the duration of current reduced air traffic volume, (ii) the long-term impact of the above-mentioned events on costs and revenues of Airports, (iii) the future financial condition of the airlines using Airports facilities, or (iv) the likelihood of future incidents of terrorism or other air transport disruptions.

Passenger Facility Charges

The Aviation Safety and Capacity Expansion Act authorized domestic airports to impose a passenger facility charge (PFC) on enplaning passengers. The Federal Aviation Authority (FAA) issued the regulations for the use of PFC's for airport projects that must meet at least one of the following criteria: (a) preserve or enhance safety, security or capacity of the national air transportation system; (b) reduce noise or mitigate noise impacts resulting from an airport; or (c) furnish opportunities for enhanced competition between or among carriers.

The FAA has approved the Airports' applications to impose $3 per passenger PFC's at the Los Angeles International (LAX) and Ontario International Airports to fund certain approved projects. Through June 30, 2006, the cumulative PFC collections and the related interest earned as reported to the FAA were $964.4 million and $108.3 million, respectively. The increased rate of $4.50 effective August 1, 2003 at LAX was approved by the FAA.

NOTE 5 – OTHER INFORMATION (Continued)

Power Enterprise Fund

Regulatory Matters Affecting the Power System

Effective April 1, 1998, customers of California's investor-owned utilities (IOU) became eligible for direct access. The introduction of direct access resulted in significant structural changes to the electric power industry, including plant divestitures and management of IOU transmission assets through the California Independent System Operator (CAISO). In 2001, legislation was enacted to suspend direct access to retail customers in California. No definitive plan for allowing direct access to customers in the DWP service area has been adopted; however, if DWP implements direct access in the future, it is likely that its generation business will no longer qualify for accounting under SFAS No. 71, which requires that the effects of the rate making process be recorded in the financial statements.

As a government-owned utility, DWP was not compelled to participate in direct access or divest its generation assets. Management continues to evaluate DWP's alternatives in response to deregulation, the introduction of direct access and participation in the CAISO. In addition, management has implemented debt and cost reduction programs and restructured certain purchase power commitments in response to the changes in the electric utility market. Furthermore, in August 2000, the City Council approved a $1.7 billion, ten-year plan to upgrade DWP's local power plants and to implement a program that includes demand side management, alternative energy sources and distributed generation. The plan was redrafted in 2006 to incorporate the Power System's goal of increasing its portion of renewable energy sales to 20% by 2010. This plan has been amended to allow for a total budget of $2 billion, and as of June 30, 2006 DWP has incurred $1.3 billion related to such upgrades.

Federal Energy Regulatory Commission Price Mitigation Plan

In June 2001, the Federal Energy Regulatory Commission (FERC) issued a price mitigation plan on spot market electricity sales in the Western Electric Coordinating Council (WECC). The plan imposes price limits on the sale of electricity in WECC based on a calculation that estimates the cost of production of the least efficient gas-fired generation plant in California and a fixed factor to account for other variable costs. The Power Enterprise Fund's purchases and sales of electricity occur entirely within the WECC and as such are subject to these measures. These measures have, in part, contributed to stabilizing the market and resulted in overall lower wholesale prices.

California Receivables and FERC Refund Hearings

During fiscal year 2001, Power Enterprise Fund made sales to two California agencies that were formed by Assembly Bill 1890 to facilitate the purchase and sale of energy and ancillary services in the State of California. Through June 30, 2006, these agencies, the CAISO and the California Power Exchange (CPX), have made minimal payments since April 2001 on amounts outstanding to counterparties, including the Power Enterprise Fund, for certain energy purchases in fiscal years 2000 and 2001. The CPX filed for protection under Chapter 11 of the Federal Bankruptcy Statute in January 2001. Two utility companies with significant amounts due to these agencies, the Southern California Edison Company and the Pacific Gas & Electric, have previously stated in public disclosure documents that they may not be able to pay for all the power they consumed in 2001. Subsequently, Pacific Gas & Electric and Southern California Edison Company have paid all amounts due to the CPX; however, the amounts remain in escrow account pending the resolution of disbursement of the funds.

NOTE 5 – OTHER INFORMATION (Continued)

As of June 30, 2006, a total of $166.5 million was due to the Power Enterprise Fund from the CAISO and the CPX. The FERC has questioned whether amounts charged for energy sold to the CAISO and the CPX during 2000 and 2001 represent "unlawful profits" that should be subject to refund. The FERC has considered various options for determination of a refund amount but has not issued definitive guidance on what represents unlawful profits for sales during the period. The Courts have opined that FERC has no jurisdiction over DWP; however, the Courts have stated that the California parties seeking the refund may have a cause of action. As such, the litigation in this area is continuing.

The Power Enterprise Fund has recorded a $50 million liability against the $166.5 million receivable, for potential refunds pertaining to its wholesale sales during 2000 and 2001. DWP management believes that this is the most probable amount that will be refunded by the Power Enterprise Fund and is based on the most recent formula disclosed by FERC. While DWP management has recorded its estimate of the most probable amounts that will be refunded, DWP management does believe that it is entitled to all amounts due from sales to counterparties in California, including those mentioned above. Furthermore, DWP management believes that interest may be due to it on those amounts but any potential receivable is not estimable at this time. In addition, DWP management does not believe that the Power System's exposure to additional losses with respect to these receivable balances is currently estimable. If final settlement of these receivables results in an amount less than the recorded balance, net of the $50 million liability recorded, DWP will be required to record a loss in the Power Enterprise Fund in future periods.

Public Benefits

In accordance with State Assembly Bill 1890, as amended by Assembly Bill 995, and pursuant to direction from the Board, a percentage of the Power Enterprise Fund's retail revenue is designated for use for qualifying public benefits programs. Qualifying programs include cost-effective demand side management services to promote energy efficiency and energy conservation, new investment in renewable energy resources and technologies, development and demonstration programs to advance science and technology, and services provided for low-income customers. In accordance with current legislation and the DWP's plans, the program is currently expected to cease on January 1, 2012.

DWP defers public benefits revenue from customers in excess of costs incurred under qualifying programs and defers qualifying expenses in excess of collection pursuant to approval received from the Board. During fiscal year 2006, DWP spent $50.6 million on public benefits programs. These programs include investments in electric buses and vehicles, photovoltaics, or solar power and other alternative energy sources, and support for low-income and life support customers. As of June 30, 2006, the Power Enterprise Fund recorded deferred credit in the amount of $25.3 million due to public benefit expenses below revenues. Regulatory liabilities are reduced when adequate public benefit expenses are incurred, and regulatory assets are recovered when the corresponding revenue is earned.

NOTE 5 – OTHER INFORMATION (Continued)

State Legislation

On September 12, 2002, SB 1078 was enacted, which requires, among other things, the IOUs to generate 20% of their electricity from renewable energy sources such as wind, solar, biomass, and geothermal energy by no later than 2017. Publicly owned utilities, such as the DWP, are exempt from the provisions of this California law and may establish their own renewable portfolio standard. The impact of SB 1078 on the market for renewable energy sources cannot be predicted at this time.

Federal Regulation of Transmission Access

The Energy Policy Act of 1992 (the Energy Policy Act) made fundamental changes in the federal regulation of the electric utility industry, particularly in the area of transmission. As amended by the Energy Policy Act, Sections 211, 212 and 213 of the Federal Power Act provide FERC authority, upon application by any electric utility, federal power marketing agency or other person or entity generating electric energy for sale or resale, to require a transmitting utility to provide transmission services (including any enlargement of transmission capacity necessary to provide such services) to the applicant at rates, charges, terms and conditions set by FERC based on standards and provisions in the Federal Power Act. Under the Energy Policy Act, electric utilities owned by municipalities and other public agencies which own or operate electric power transmission facilities which are used for the sale of electric energy at wholesale are “transmitting utilities” subject to the requirements of Sections 211, 212 and 213.

FERC is encouraging the voluntary formation of regional transmission organizations (RTOs) independent from owners of generation and other market participants that will provide transmission access on a nondiscriminatory basis to buyers and sellers of power. IOUs and publicly owned utilities are being encouraged to participate in the formation and operation of RTOs, but are not, at this time, being ordered by FERC to participate. FERC has adopted a “go slow” approach to the issue of RTO formation in the western United States; it is contemporaneously engaged in a wholesale overhaul of the California market design, referred to initially as the “MDO2 proceeding” and more recently as the “MRTU proceeding.” These FERC proceedings will have potential impacts on every electric utility doing business in California. It is not certain at this time what impact, if any, FERC’s final decision on “MDO2” or “MRTU” will have on the Power System or when FERC will issue a final order. In addition, the California ISO has announced its intention to implement further market changes over the next five years.

Federal Energy Legislation

On August 8, 2005, the Energy Policy Act of 2005 (the Act) was enacted, the first comprehensive energy legislation in over a decade. One of the most significant provisions of the Act repeals the Public Utility Holding Company Act of 1935 (PUHCA) six months after the effective date of the Act, on February 8, 2006. PUHCA prevented investment in the public utility sector by entities such as financial institutions and industrial companies and was a barrier to consolidation within the industry through its requirement that merged companies operate within a single region.

NOTE 5 – OTHER INFORMATION (Continued)

Another significant provision of the Act empowers FERC to certify an Electric Reliability Organization (ERO) to improve the reliability of the "bulk-power system" through mandatory and enforceable electric reliability standards (in contrast to the current voluntary system). The definition of "bulk-power system" does not include facilities used in the local distribution of electric energy. The ERO will file any proposed reliability standard or modification with FERC. A "reliability standard" is a requirement that provides for reliable operation of the bulk-power system. Such a standard includes requirements for the operation of existing transmission facilities or the design of planned additions or modifications to the extent necessary to provide for reliable operation. It does not include, and the ERO may not impose, any requirement to enlarge existing facilities or to construct new transmission or generation. All users, owners, and operators of the bulk-power system are required to comply with the electric reliability standards. The ERO may impose a penalty on a user, owner, or operator for violating a reliability standard, and FERC may order compliance with such a standard and impose a penalty if it finds that a user, owner, or operator is about to engage in an act that would violate a reliability standard.

The Act authorizes FERC to require nondiscriminatory access to transmission facilities owned by municipal, cooperative, and other transmission companies not currently regulated by FERC, unless exercising this authority would violate a private activity bond rule for purposes of Section 141 of the Internal Revenue Code of 1986. FERC is prohibited from requiring any such entities to join regional transmission organizations (RTOs). The Act also allows FERC to issue permits for the construction of new transmission facilities when states have been unable or unwilling to act and allows load-serving entities to use the firm transmission rights, or equivalent tradable or financial transmission rights, in order to deliver output or purchased energy to the extent required to meet its service obligations. The Act does not relieve a load-serving entity from any obligation under state or local law to build transmission or distribution facilities adequate to meet its service obligations, or to abrogate preexisting firm transmission service contracts.

The Act directs FERC to establish, by rule, incentive-based rates for transmission no later than August 2006 and requires FERC to establish market transparency rules for the electric wholesale market (entities that have a "de minimis market presence" are exempt from the rules). The Act instructs that the market transparency rules must provide for the timely dissemination of information about the availability and prices of wholesale electric energy and transmission service to FERC, state commission, buyers and sellers of wholesale electric energy, users of transmission services, and the public. Within 180 days of the Act's enactment, FERC and the Commodity Futures Trading Commission are required to enter into a memorandum of understanding regarding information sharing pursuant to these rules.

In addition, the Act prohibits any person from willfully and knowingly reporting false information to any federal agency on the price of wholesale electricity or availability of transmission capacity, or using (directly or indirectly) any manipulative device in contravention of any FERC rule. The Act increases civil and criminal penalties, modifies the procedures for review of FERC orders under the Federal Power Act (FPA), and changes the refund date under the FPA to be effective as of the date an applicable complaint is filed. The Act also establishes an entity's right to a refund if (a) it makes a short-term sale of electric energy through an organized market in which the rates for the sale are set by a FERC-approved tariff (not by a contract); and (b) the sale violates the terms of the tariff or applicable FERC rule in effect at the time of the sale.

NOTE 5 – OTHER INFORMATION (Continued)

The Act contains provisions for $800 million in tax-credit bonds (which pay no interest but instead provide tax credits) to be issued in 2006 and 2007 to finance renewable energy projects for non-profit utilities. No more than $500 million of these bonds, however, may be issued for projects for governmental entities.

The overall impact of the Act on the Department cannot be predicted at this time.

Sewer Enterprise Fund

Land Application of Biosolids

A number of counties and other jurisdictions currently ban or are considering banning the bulk land application of biosolids. The City reuses biosolids, a by-product or residual of wastewater treatment, as soil amendment at a City-owned farm in Kern County. The Hyperion and Terminal Island Treatment Plants are producing Exceptional Quality biosolids that will permit the continued land application. In November 2006, a federal judge issued an opinion that allows the City and other Southern California agencies, businesses and farmers to continue land application of biosolids on farmland in Kern County. The court issued a preliminary injunction that stops Kern County from enforcing its voter-approved initiative which would have halted all land application of biosolids beginning early 2007.

National Pollutant Discharge Elimination System Permits

In October 1998, the City filed an appeal of its National Pollutant Discharge Elimination System (NPDES) permits for the DC Tillman Water Reclamation Plant (DCTWRP) and the Los Angeles-Glendale Water Reclamation Plant (LAGWRP) to the State Water Resources Control Board. The permits set stringent effluent limits for a variety of constituents. Since then, the case has been heard by the Superior and Appellate Courts and the California Supreme Court agreed to review the Appellate Court decision. In April 2005, the State Supreme Court issued an opinion that affirmed the judgment of the Court of Appeal reinstating the permits to the extent that the specified numeric limitations on chemical pollutants are necessary to satisfy the Federal Clean Water Act requirements for treated wastewater. The State Supreme Court also remanded the matter to the trial court to decide whether any numeric limitations, as described in the permits, are more stringent than required under federal law and thus should have been subject to economic considerations by the California Regional Water Quality Control Board- Los Angeles Region (RWQCB) before inclusion in the permits. On June 28, 2006, a judge of the Superior Court issued a final opinion of the remand issue. The judge stated that the State set numeric limits that exceeded federal standards for eleven constituents. For these constituents, the State needed to do an economic analysis. The judge also directed the State to file new permits with the Court within 90 days demonstrating compliance with all of the previous decisions. The State Attorney General's Office received an extension to the deadline for filing new permits for LAGWRP and DCTWRP to December 28, 2006. New NPDES permits were adopted by the RWQCB on December 14, 2006. At this time, it is difficult to predict the potential annual financial impact to the City.

NOTE 5 – OTHER INFORMATION (Continued)

The City is presently conducting scientific studies to ensure compliance with future limits based on the California Toxics Rule, Metals Total Maximum Daily Load (TMDL), and other requirements. The City is also looking at its monitoring methodologies, laboratory techniques, and possible source control to comply with potential new requirements. If these strategies are not successful, it is possible that the City may be required to install new treatment processes at a substantial cost.

The RWQCB adopted the Terminal Island Treatment Plant (TITP) NPDES Permit on April 7, 2005 that became effective on May 27, 2005. TITP's permit included more stringent discharge limitations. As a result, plant modifications or new process operations may be necessary. A five-year compliance schedule was provided to allow time for compliance with new limits and to provide additional data for application of dilution credit. The City is also considering undertaking several scientific studies to achieve compliance with new permit limits. Until the final data is provided, the cost of compliance cannot be determined.

Water Reclamation Requirements

The RWQCB released the tentative Water Reclamation Requirements for LAGWRP and DCTWRP on July 29, 2005. The tentative permits, as proposed, could adversely impact the City's use of recycled water for irrigation and could require additional treatment facilities at both plants at a cost that cannot be estimated at this time. The City has been negotiating with RWQCB since the release of the tentative master permit. The City has requested and the RWQCB has agreed to rewrite the master permit as separate water recycling requirements and waste discharge requirements. New tentative permits will be released for comment in early 2007. The new permits may still contain more stringent requirements than the existing permits, which could negatively impact the use of LAGWRP's and DCTWRP's recycled water for irrigation.

Total Maximum Daily Loads for Impaired Waterbodies

The RWCQB is required to develop Total Maximum Daily Loads (TMDLs) for impaired Waterbodies. Various watersheds in the Los Angeles area have waterbody segments that are listed as impaired due to variety of pollutants. Although TMDLs have already been released, additional TMDLs will be under development and compliance with both existing and new TMDLs will continue into next decade. The City's Bureau of Sanitation is participating in the stakeholder lead process for TMDL development. At this time, it is difficult to predict the full impact of TMDLs on the NPDES effluent limits at the City's four treatment plants. However, it is expected that significant capital improvements may be required to comply with the TMDLs.

Challenge to Final Environmental Impact Report

On December 7, 2006, the City was served with a Notice of Commencement of Action arising under the California Environmental Quality Act by the City of Burbank. The City of Burbank is challenging the validity of the City's certification of the final Environmental Impact Report (EIR) associated with the Integrated Resources Plan, including routing proposal for the Glendale-Burbank Interceptor Sewer. At this time, it cannot be determined if this will have material impact to the City. The initial impact will only include the cost of litigation, with potential future costs including the cost of further EIR study and changes in construction costs of future projects.

NOTE 5 – OTHER INFORMATION (Continued)

The Impact of the Right to Vote on Taxes Act- Proposition 218

On November 5, 1996, California voters approved Proposition 218 (the Proposition) that adds Articles XIIIC and XIIID to the California Constitution. The Proposition requires majority voter approval before the imposition, extension or increase of general taxes, and 2/3-voter approval before imposition, extension or increase of special taxes by a local government, which is defined in the Proposition to include charter cities such as the City. Such voter requirements would apply to all general and special taxes that were newly created or increased after January 1, 1995.

The Proposition also extends the initiative power to reducing or repealing local taxes, assessments, and property related fees and charges, regardless of the date such taxes, assessments, fees and charges were imposed. In addition, the Proposition limits the application of assessments, fees and charges and requires them to be submitted to property owners for approval or rejection, after notice and public hearing.

The Proposition will restrict the City's ability to impose or increase certain taxes and assessments, and land-based user fees and charges. It would subject existing sources of City revenue to reduction or repeal. Existing taxes at existing levels such as Utility Users Tax, Documentary Transfer Tax, Parking User Tax, Sales Tax, Vehicle License Fees, Municipal Court Fines, Transient Occupancy Tax, and Licenses, Permits, Fees and Fines would not be affected by the Proposition. Fees and charges of the Power System and its transfers to the General Fund are exempted from Proposition 218. The City's Sanitation Equipment Charge is subject to the Proposition, however, fee increases for refuse collection services are exempted from the voter approval requirement in the Proposition.

The Proposition will require a vote of the electorate to either increase an existing tax or levy any new tax. The impact on future revenues will depend on the willingness of the electorate to support new taxes and cannot be determined at this time.

In Bighorn-Desert View Water Agency v. Beringson (Bighorn), the California Supreme Court held that fees and charges for ongoing water service through existing connection were property related fees and charges imposed on a person as an incident of property ownership for purposes of Article XIIID of Proposition 218, whether the fees and charges are calculated based on consumption or are imposed as a fixed monthly fee. The City believes that the Bighorn decision, which applied to water fees and charges, would apply equally to sewer service charges. As a result, if the sewer service charges are a "fee" or "charge" under Article XIIID, any increase would require a public hearing, preceded by mailed notices, and would be subject to a majority written protest. The City currently provides written notices to all property owners and rate-payers receiving service in connection with proposed increase in sewer service charges and holds public hearing with respect to such increases.

Article XIIIC of Proposition 218 provides that the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments. Article XIIIC does not define the terms "local tax," "assessment," "fee" or "charge."

NOTE 5 – OTHER INFORMATION (Continued)

No assurance can be given that the voters of the City will not, in the future, approve an initiative, which reduces or repeals local taxes, assessments, fees or charges, including a reduction of all or any portion of the sewer service charge. The use of the initiative power is arguably limited in the case of levies directly pledged to bonded indebtedness, such as sewer service charge. However, there can be no assurance that the voters of the City will not approve an initiative that attempts to reduce the sewer charge.

California Assembly Bill 1381

Signed into law on September 18, 2006, California Assembly Bill 1381 (AB 1381) reforms the governance structure of the Los Angeles Unified School District (LAUSD). These reforms seek to successfully improve student achievement, raise the graduation rate and close achievement gaps.

AB 1381 shifts the management of the day-to-day operations of the LAUSD from the seven-member Board of Education (Board) to the Superintendent. The Board sets broad policy for the school district, appoints the Inspector General, selects the Superintendent who will be accountable for progress, and adopts the budget. The Board may select the core curriculum and instructional materials for all schools, such materials must be selected from those approved by the State Board of Education.

AB 1381 creates the Council of Mayors (COM) that consists of mayors, or their designees, of each city within the LAUSD, and each member of the Los Angeles County Board of Supervisors. The COM ratifies the selection or removal of the Superintendent, the vote is weighted by the residential population within the LAUSD of each member's city or district.

The Mayor of the City of Los Angeles will lead a partnership of parents, educators and community leaders and run three-clusters of the lowest performing high schools, and the middle and elementary schools that feed into them, located in the City of Los Angeles. This also includes adult continuation and early childhood education centers. The Mayor will present an implementation plan for the three clusters and the County Superintendent of Education will authorize the implementation.

The California State Legislative Analyst (CLA) will evaluate and issue a progress report on the reforms implemented by AB 1381 by January 1, 2008 and a final report on January 1, 2011. Based on the CLA's reports, the State Legislature and Governor will decide whether to continue the reforms implemented by AB 1381 or allow the LAUSD to revert back to the pre-AB 1381 governance structure.

A lawsuit was filed on October 10, 2006 by a coalition of LAUSD parents, students, administrators, the League of Women Voters and the Board. The lawsuit, which seeks to overturn AB 1381, alleges that AB 1381 is unconstitutional and infringes on the rights of voters.

The City and LAUSD continue to be fiscally independent of each other. AB 1381 did not change the City's reporting entity definition.

NOTE 5 – OTHER INFORMATION (Continued)

Fire and Police Pension System Donations

The Pensions has been a recipient of donations in the form of non-voting common stocks of certain non-public corporations (donors). Under the terms of the agreements, the Pensions acknowledged that: (a) the non-voting common stocks have not been registered under the Federal Securities Act of 1933 or qualified under the California Corporate Securities Law of 1968, (b) no public market exists for the non-voting common stocks, and (c) the non-voting common stock are subject to a right of first refusal prohibiting Pensions from selling or otherwise disposing of the stocks without first offering to sell them to the donors. Pensions record the donated stocks at zero cost and zero market value. Donated income is recorded when cash dividends and sales proceeds are received. Through June 30, 2006, the Pensions has recorded $27.8 million of such donated income, all of which were received during the previous four fiscal years.

The Internal Revenue Service is investigating the tax treatment claimed by the donors. There has been no allegation of inappropriate activity by the Pensions.

Community Redevelopment Agency

Cinerama Dome Public Parking

The parking revenue generated by the facility is the primary source for debt service payments of the $44.2 million Parking System Revenue Bonds. Under circumstances where net revenues are insufficient to service the debt, the shortfall will be covered by a $9.3 million letter of credit provided by the developer and the CRA's pledge of the project area's incremental tax revenues of up to $1 million annually. However, the pledge of incremental tax revenues is subordinate to the project area's tax allocation bonds, project notes, and pass-through payments. Such pledge will be released when net revenues during two consecutive twelve-month periods equal 1.35 times the maximum annual debt service on the bonds.

The drawdowns that totaled $4.4 million as of June 30, 2006 are due in July 2032. The CRA is obligated to reimburse the developer for the drawings at 10% interest from available cash from the parking garage operations and/or any property tax increment generated by the project.

NOTE 5 – OTHER INFORMATION (Continued)

E. Subsequent Events

Indebtedness

Subsequent to June 30, 2006, the City issued the following indebtedness (in millions):

Issue Date	Bond Description	Amount	Interest Rate
July 12, 2006	2006 Tax and Revenue Anticipation Notes	$ 767.5	4.50%
August 3, 2006	Harbor Refunding Revenue Bonds 2006 Series B	209.8	5.00%
August 3, 2006	Harbor Refunding Revenue Bonds 2006 Series C	16.5	5.00%
August 9, 2006	General Obligation Bonds Series 2006-A	71.0	4.00% - 5.00%
August 31, 2006	Harbor Refunding Revenue Bonds 2006 Series D	111.3	4.72%
September 21, 2006	Solid Waste Resources Revenue Bonds Series 2006-A	58.4	3.75% - 5.00%
November 30, 2006	MICLA Lease Revenue Bonds Series 2006-A	448.6	3.00% - 5.00%

Power and Water Enterprise Funds

On August 16, 2006, the City Council approved the unfreezing of the energy cost adjustment factor. This change took effect October 1, 2006.

On September 19, 2006, the Board of Water and Power Commissioners approved the creation of a Retiree Health Benefits Fund. During fiscal year 2007, the restricted assets recorded in the Power and Water Enterprise Funds will be transferred to the newly created fund. This transfer will reduce the Funds' restricted investments and restricted fund net assets.

On October 11, 2006, the City Council approved an amendment to the water rates. The new rates will go into effect in November 2006.

On November 15, 2006, DWP and the Great Basin Unified Air Pollution Control District agreed to a sixth phase on Owens Lake to complete an additional 12.7 square miles of dust control. DWP management estimates that the additional 12.7 square miles will cost $105 million and is expected to be completed in April 2010.

Required Supplementary Information

REQUIRED SUPPLEMENTARY INFORMATION
Fiscal Year Ended June 30, 2006

Benefit Pension Plans
Schedule of Funding Progress
(amounts expressed in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Overfunded (Underfunded) AAL	Funded Ratio	Covered Payroll	Overfunded (Underfunded) AAL as a Percentage of Covered Payroll
Los Angeles City Employees' Retirement System						
6/30/04	$ 7,042,108	$ 8,533,864	$ (1,491,756)	82.5%	$ 1,575,285	-94.7%
6/30/05	7,193,142	9,321,525	(2,128,383)	77.2%	1,589,306	-133.9%
6/30/06	7,674,999	9,870,662	(2,195,663)	77.8%	1,733,340	-126.7%
Fire and Police Pension System						
6/30/04	$ 11,735,696	$ 11,389,981	$ 345,715	103.0%	$ 1,001,004	34.5%
6/30/05	11,634,114	12,357,525	(723,411)	94.1%	1,037,445	-69.7%
6/30/06	12,121,403	12,811,384	(689,981)	94.6%	1,092,815	-63.1%
Water and Power Employees' Retirement and Death Benefit Insurance Plan						
6/30/04	$ 6,251,421	$ 6,421,814	$ (170,393)	97.3%	$ 581,039	-29.3%
6/30/05	6,331,048	6,763,080	(432,032)	93.6%	616,270	-70.1%
6/30/06	6,447,763	7,046,571	(598,808)	91.5%	635,728	-94.2%

Other Postemployment Benefits
Power and Water Enterprise Funds
Schedule of Funding Progress
(amounts expressed in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Overfunded (Underfunded) AAL	Funded Ratio	Covered Payroll	Underfunded AAL as a Percentage of Covered Payroll
7/01/03	$ --	$ 1,729,706	$ (1,729,706)	0.0%	$ 571,726	-302.5%
7/01/04	--	1,597,835	(1,597,835)	0.0%	628,898	-254.1%
7/01/05	--	1,695,666	(1,695,666)	0.0%	612,270	-276.9%

Note: Please see related information on pages 139 and 140.

Community Redevelopment Agency
Schedule of Funding Progress
Employee Retirement System
(amounts expressed in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Overfunded (Underfunded) AAL	Funded Ratio	Covered Payroll	Overfunded (Underfunded) AAL as a Percentage of Covered Payroll
6/30/02	$ 100,716	$ 99,757	$ 959	101.0%	$ 15,761	6.1%
6/30/03	102,996	115,774	(12,778)	89.0%	16,035	-79.7%
6/30/04	108,016	125,842	(17,826)	85.8%	15,244	-116.9%

REQUIRED SUPPLEMENTARY INFORMATION
Fiscal Year Ended June 30, 2006

Condition Rating for City Bridges

Bridge Type	No. of Bridges	Rating A = 90% - 100% (very good)	B = 80% - 89% (good to fair)	C = 70% - 79% (fair to poor)	D = 50% - 69% (very poor)	F = below 50% (failure)
Vehicular	424	217	69	115	23	--
Pedestrian	65	17	48	--	--	--
Railroad	19	12	--	6	1	--
Tunnel	18	9	7	2	--	--
Miscellaneous	7	4	2	1	--	--
Total	533	259	126	124	24	--
Percentage	100%	49%	24%	23%	4%	0%

Comparison of Needed-to-Actual Maintenance/Preservation Costs

(amounts expressed in thousands)

	Fiscal Year Ended June 30 2004	2005	2006
Needed	$ 12,505	$ 10,848	$ 30,006
Actual	10,602	8,274	16,352
Difference	1,903	2,574	13,654

The Computer File of Structures is a comprehensive bridge database system that enables the City to track the entire bridge inventory, inspection data, repair records, structural condition of various bridge elements, bridge sufficiency rating, cost data, traffic data, and geometric data. The Sufficiency Rating given each bridge is in accordance with national standards developed by the Federal Highway Administration. The Sufficiency Rating ranges from 0% to 100% and is composed of three elements: Structural Safety and Adequacy (55%), Serviceability and Functional Obsolescence (30%), and Essentiality for Public Use (15%). It is the City's policy that bridges shall be maintained so that at least 70% of the bridges are rated "B" or better, and no bridge shall be rated less than "D." Condition assessments are determined every three years.

APPENDIX C

CERTAIN DEFINITIONS AND SUMMARY OF THE FINANCING DOCUMENTS

The following is a brief summary of the provisions of the Indenture, the Equipment Lease Agreement, the Facility Lease Agreement, the Site Lease and the Assignment Agreement that are not summarized elsewhere in this Official Statement. This summary is not intended to be definitive, and Bondholders should refer to the documents for the complete text thereof. Copies of the documents summarized herein are available from the City.

DEFINITIONS

The following terms have the indicated definitions in the Official Statement, the Indenture and the Leases:

"Additional Bonds" means all lease revenue bonds or lease revenue refunding bonds of the Corporation authorized by and at any time Outstanding pursuant to the Indenture and executed, issued and delivered in accordance with Article III of the Indenture.

"Additional Payments" means the amounts payable by the City pursuant to Sections 3.7 of the Leases.

"Annual Debt Service" means, for any Bond Year with respect to any or all Series of Bonds, the sum of (1) the interest payable on all Outstanding Bonds of such Series in such Fiscal Year, assuming that all Outstanding Serial Bonds of such Series are retired as scheduled and that all Outstanding Term Bonds of such Series, if any, are redeemed or paid from the Sinking Account as scheduled (except to the extent that such interest is to be paid from the proceeds of the sale of any Bonds), (2) the principal amount of all Outstanding Serial Bonds of such Series, if any, maturing by their terms in such Bond Year, and (3) the principal amount of all Outstanding Term Bonds of such Series, if any, required to be redeemed or paid in such Fiscal Year (together with the redemption premiums, if any, thereon).

"Assignment Agreement" means the Assignment Agreement dated as of August 1, 2007, between the Corporation and the Trustee.

"Authorized Denominations" means $5,000 and any integral multiple thereof.

"Basic Lease Payments" means all amounts payable by the City as the Basic Lease Payments pursuant to Sections 3.4 of the Leases.

"Beneficial Owner" means any person who has the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Board Member" means any member of the Corporation's board of directors.

"Bond Fund" means collectively the Series 2007-A Bond Fund and the Series 2007-B Bond Fund established pursuant to Section 4.01 of the Indenture.

"Bond Insurance Policies" means the Series 2007-A Bond Insurance Policy and the Series 2007-B Bond Insurance Policy.

"Bond Insurer" means Financial Guaranty Insurance Company, a New York stock insurance company, or any successor thereto.

"Bond Year" means the period from August 1 tthrough the following July 31.

"Bond Yield" means the yield on the Bonds within the meaning of Section 148(a) of the Code.

"Bonds" means the Series 2007 Bonds and all additional Bonds.

"Business Day" means a day of the year which is not a Saturday or Sunday, or a day on which banking institutions located in California or Minnesota are required or authorized to remain closed, or on which the New York Stock Exchange is closed.

"Certificate of the City" means an instrument in writing signed by a City Representative.

"Certificate of the Corporation" means an instrument in writing signed by a Corporation Representative.

"City" means the City of Los Angeles, a charter city and municipal corporation duly organized and existing under the Constitution and laws of the State.

"City Representative" means the City Administrative Officer, any Assistant City Administrative Officer, the City Controller, the Chief Deputy City Controller, the City Treasurer, any Deputy City Treasurer, or such other employee of the City as the City Administrative Officer or the City Controller or the City Treasurer will designate in writing, acting on behalf of the City with respect to the Indenture and the Leases.

"Closing Date" means on or about August 8, 2007, the date on which the Series 2007 Bonds are initially issued.

"Code" means the Internal Revenue Code of 1986, as amended.

"Commercial Paper" means the Municipal Improvement Corporation of Los Angeles Lease Revenue Commercial Paper Notes issued to fund the acquisition of the Equipment.

"Commercial Paper Issuing and Paying Agent" means Wells Fargo Bank, National Association, as Issuing and Paying Agent under the Issuing and Paying Agent Agreement dated as of June 1, 2004 among Wells Fargo Bank, National Association, the Corporation and the City.

"Continuing Disclosure Certificate" means that certain Continuing Disclosure Certificate dated as of August 1, 2007, executed and delivered by the City in connection with the issuance of the Series 2007 Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"Corporate Trust Office of the Trustee" means the principal corporate trust office of the Trustee in Los Angeles, California or such other or additional offices as may be specified to the Corporation by the Trustee in writing, except that with respect to presentation of Bonds for payment or for registration of transfer and exchange such term will mean the office or agency of the Trustee in St. Paul, Minnesota, or such other address as may be specified in writing by the Trustee.

"Corporation" means the Municipal Improvement Corporation of Los Angeles, a nonprofit public benefit corporation duly organized and existing under the Nonprofit Public Benefit Corporation Law of the State or any successor entity.

"Corporation Representative" means the President, Vice President, Secretary, Treasurer or any Assistant Secretary or Assistant Treasurer of the Corporation, or any other person authorized by resolution of the Board of Directors of the Corporation to act on behalf of the Corporation under or with respect to the Lease or the Indenture.

"Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the City or the Corporation relating to the issuance, sale and delivery of the Bonds and the execution and delivery of the Indenture, the Equipment Lease, the Site Lease, the Facility Lease Agreement, and the Assignment Agreement, including but not limited to filing and recording costs, settlement costs, printing costs, reproduction and binding costs, initial fees and charges of the Trustee (including legal fees), financing discounts, legal fees and charges, bond insurance premiums, insurance fees and charges, Credit Facility fees and charges, financial and other professional consultant fees, costs of rating agencies for credit ratings, initial insurance premiums, fees related to the Depository

Trust Company, accounting fees, title insurance, fees for execution, transportation and safekeeping of the Bonds and any other charges and fees in connection or associated with the foregoing.

"Costs of Issuance Fund" means the fund by that name established pursuant to Section 4.01 of the Indenture.

"Credit Facility" means any line of credit, letter of credit, insurance policy, surety or other credit source deposited with the Trustee pursuant to Section 5.03(b)(3)(E) of the Indenture.

"Defeasance Securities" means (a) Federal Securities which are not callable for redemption prior to their maturity by any person other than the owner thereof and (b) other Permitted Investments (i) which either are not callable for redemption prior to their maturities by any person other than the owner thereof or for which an option to redeem prior to maturity has previously been irrevocably exercised (or an irrevocable covenant to exercise such option has previously been made by the person entitled to exercise such option) and the redemption date of such securities has thereby been irrevocably fixed prior to the use of any such securities as Defeasance Securities, and (ii) which at the time of their initial use as Defeasance Securities are rated in the highest generic rating category by S&P or Moody's.

"DTC" means The Depository Trust Company, New York, New York.

"Equipment" means that certain capital equipment listed on Exhibit A to the Equipment Lease, as such Exhibit A may be amended or supplemented from time to time in accordance with the terms of the Equipment Lease.

"Equipment Lease" or "Equipment Lease Agreement" means that certain Equipment Lease Agreement dated as of August 1, 2007 between the City and the Corporation under which the Corporation leases to the City the Equipment, as originally executed and as it may from time to time be amended or supplemented in accordance with the terms thereof.

"Event of Default" will have the meaning contained in Section 9.01 of the Indenture.

"Facility Lease" or "Facility Lease Agreement" means that certain Facility Lease Agreement, dated as of August 1, 2007, between the City and the Corporation under which the Corporation subleases Figueroa Plaza to the City, as originally executed and as it may from time to time be amended or supplemented in accordance with the terms of the Indenture.

"Federal Securities" means United States of America Treasury bills, notes, bonds or certificates of indebtedness, or obligations for which the full faith and credit of the United States of America are unconditionally pledged for the payment of interest and principal (including State and Local Government Securities (SLGS)), or securities evidencing direct ownership interests in such obligations or in specified portions of the interest on or principal of such obligations that are held by a custodian in safekeeping on behalf of the owners of such securities, as well as pre-refunded municipal bonds rated Aaa by Moody's and AAA by S&P.

"Figueroa Plaza" means the office building complex and parking structure occupied by certain City departments and other tenants, otherwise described in Exhibit A to the Site Lease and the Facility Lease.

"Financial Newspaper" means The Wall Street Journal or The Bond Buyer or any other newspaper or journal printed in the English language publishing financial news and selected by the City, whose decision will be final and conclusive.

"Fiscal Year" means each annual period of the Corporation which, as of the date of the Indenture, is the period from July 1 through the following June 30.

"Fitch" means Fitch Ratings, or any successor credit rating agency selected by the Corporation.

"Improvements" means that certain office building generally known as the Figueroa Towers and the related improvements, all located on the Land.

"Indenture" means the Indenture, dated as of August 1, 2007, among the Corporation, the City and the Trustee, as originally executed and as it may from time to time be amended or supplemented by all Supplemental Indentures executed pursuant to the provisions of the Indenture.

"Independent Counsel" means an attorney duly admitted to the practice of law before the highest court of the state in which such attorney maintains an office and who is not an employee of the Corporation, the Trustee or the City.

"Information Services" means Financial Information, Inc.'s "Daily Called Bond Service", 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; FIS/Mergent, Inc., 5250 77 Center Drive, Suite 150, Charlotte, North Carolina 28217, Attention: Call Notification; Standard & Poor's Securities Evaluation, Inc., 55 Water Street, 45th Floor, New York, New York 10041, Attention: Notification Department; Xcitek, 5 Hanover Square, New York, New York 10004; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to the redemption of bonds as the Corporation may designate in a Written Request of the Corporation filed with the Trustee.

"Insurance Proceeds and Condemnation Award Fund" means the fund by that name established and held by the Trustee pursuant to Section 6.08 of the Indenture.

"Interest Payment Date" means each February 1 and August 1 commencing February 1, 2008.

"Land" means that certain Land more particularly described in Exhibit "A" attached to the Facility Lease Agreement.

"Lease Payment Date" means the fifteenth (15th) day of January and July in each year during the Term of the Leases, commencing January 15, 2008, except that if the Corporate Trust Office of the Trustee is not open for business on any such date, then that Lease Payment Date will be the next day on which such office is open for business.

"Lease Payments" means the Basic Lease Payments and the Additional Payments payable by the City pursuant to the Lease Agreements.

"Leased Property" means the Equipment and the Property leased by the City from the Corporation under the Lease Agreements.

"Leases" or "Lease Agreements" means collectively the Equipment Lease and the Facility Lease Agreement.

"Maximum Annual Debt Service" means the largest Annual Debt Service during the period from the date of such determination through the final maturity date of any Outstanding Bonds or Series of Outstanding Bonds.

"Moody's" means Moody's Investors Service, Inc., or any successor credit rating agency selected by the Corporation.

"Net Proceeds" means, collectively, the net proceeds of any insurance or condemnation award resulting from any damage or destruction of any portion of the Leased Property payable in accordance with the Lease Agreement.

"Opinion of Counsel" means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the Corporation or the City.

"Outstanding," when used as of any particular time with reference to Bonds, means (subject to the provisions of Section 8.02 of the Indenture) all Bonds theretofore or thereupon executed by the Corporation and authenticated and delivered by the Trustee pursuant to the Indenture including, but not limited to, Series 2007 Bonds, except:

(i) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation;

(ii) Bonds paid or deemed to have been paid within the meaning of Section 10.01 of the Indenture; and

(iii) Bonds in lieu of or in substitution for which other Bonds will have been executed by the Corporation and authenticated and delivered pursuant to the Indenture.

"Owner" means the registered owner of any Outstanding Bond, as shown on the registration books required to be maintained by the Trustee pursuant to Section 2.08 of the Indenture.

"Participant" has the meaning contained in Section 2.12 of the Indenture.

"Permitted Encumbrances" means, with respect to the Equipment Lease, as of any particular time: (i) liens for taxes and assessments not then delinquent, (ii) the Equipment Lease Agreement, the Assignment Agreement and the Indenture and in each case any amendments thereto, (iii) the City's, the Corporation's and the Trustee's interest in the Equipment and (v) liens for unpaid taxes, so long as such liens are being contested in good faith by appropriate proceedings diligently conducted so long as such proceedings do not involve any material danger of the sale, forfeiture or loss of any of the Equipment. "Permitted Encumbrances" means, with respect to the Facility Lease Agreement, as of any particular time: (i) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the City may, pursuant to provisions of the Facility Lease, permit to remain unpaid; (ii) the Site Lease; (iii) this Lease Agreement (including any amendment thereto); (iv) the pledge under the Indenture; (v) any encumbrance, indebtedness and leases permitted under the Facility Lease; (vi) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law or any mechanics or other liens permitted under the Facility Lease (vii) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the Closing Date and which, by the execution and delivery of the Facility Lease, the City certifies will not materially impair the use of the Property; (viii) easements, rights of way and licenses granted to persons who develop or use the real property adjacent to the Property which, by the execution and delivery of the Facility Lease, the City certifies will not damage, reduce the fair market value of or materially impair the use of the Property; and (ix) the leases with tenants of the Property in existence as of the date hereof and as may come into existence in the future.

"Permitted Investments" means any of the following to the extent then permitted by law and Section 5.04 of the Indenture:

(i) Direct obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America ("U.S. Government Securities").

(ii) Direct obligations* of the following federal agencies which are fully guaranteed by the full faith and credit of the United States of America:

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* The following are explicitly excluded from the securities enumerated in 2 and 3:

(i) All derivative obligations, including without limitation inverse floaters, residuals, interest-only, principal-only and range notes;

(ii) Obligations that have a possibility of returning a zero or negative yield if held to maturity;

(iii) Obligations that do not have a fixed par value or those whose terms do not promise a fixed dollar amount at maturity or call date; and

(Footnote continued on next page)

(a) Export-Import Bank of the United States – Direct obligations and fully guaranteed certificates of beneficial interest

(b) Federal Housing Administration – debentures

(c) General Services Administration – participation certificates

(d) Government National Mortgage Association ("GNMAs") – guaranteed mortgage-backed securities and guaranteed participation certificates

(e) Small Business Administration – guaranteed participation certificates and guaranteed pool certificates

(f) U.S. Department of Housing & Urban Development – local authority bonds

(g) U.S. Maritime Administration – guaranteed Title XI financings

(h) Washington Metropolitan Area Transit Authority – guaranteed transit bonds

(iii) Direct obligations* of the following federal agencies which are not fully guaranteed by the faith and credit of the United States of America:

(a) Federal National Mortgage Association ("FNMAs") – senior debt obligations rated Aaa by Moody's Investors Service ("Moody's") and AAA by Standard & Poor's Ratings Services ("S&P")

(b) Federal Home Loan Mortgage Corporation ("FHLMCs") – participation certificates and senior debt obligations rated Aaa by Moody's and AAA by S&P

(c) Federal Home Loan Banks – consolidated debt obligations

(d) Student Loan Marketing Association – debt obligations

(e) Resolution Funding Corporation – debt obligations

(iv) Direct, general obligations of any state of the United States of America or any subdivision or agency thereof whose uninsured and unguaranteed general obligation debt is rated, at the time of purchase, A2 or better by Moody's and A or better by S&P, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose uninsured and unguaranteed general obligation debt is rated, at the time of purchase, A2 or better by Moody's and A or better by S&P.

(v) Commercial paper (having original maturities of not more than 270 days) rated, at the time of purchase, P-1 by Moody's and A-1 or better by S&P.

(vi) Certificates of deposit, savings accounts, deposit accounts or money market deposits in amounts that are continuously and fully insured by the Federal Deposit Insurance Corporation ("FDIC"), including the Bank Insurance Fund and the Savings Association Insurance Fund.

(vii) Certificates of deposit, deposit accounts, federal funds or bankers' acceptances (in each case having maturities of not more than 365 days following the date of purchase) of any domestic commercial bank or

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(Footnote continued from previous page)

(iv) Collateralized Mortgage-Backed Obligations ("CMOs").

United States branch office of a foreign bank, provided that such bank's short-term certificates of deposit are rated P-1 by Moody's and A-1 or better by S&P (not considering holding company ratings).

(viii) Investments in money-market funds rated AAAm or AAAm-G by S&P.

(ix) State-sponsored investment pools rated AA- or better by S&P.

(x) Repurchase agreements that meet the following criteria:

(a) A master repurchase agreement or specific written repurchase agreement, substantially similar in form and substance to the Public Securities Association or Bond Market Association master repurchase agreement, governs the transaction.

(b) Acceptable providers shall consist of (i) registered broker/dealers subject to Securities Investors' Protection Corporation ("SIPC") jurisdiction or commercial banks insured by the FDIC, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed rating of A3/P-1 or better by Moody's and A-/A-1 or better by S&P, or (ii) domestic structured investment companies approved by the Bond Insurer and rated Aaa by Moody's and AAA by S&P.

(c) The repurchase agreement shall require termination thereof if the counterparty's ratings are suspended, withdrawn or fall below A3 or P-1 from Moody's, or A- or A-1 from S&P. Within ten (10) days, the counterparty shall repay the principal amount plus any accrued and unpaid interest on the investments.

(d) The repurchase agreement shall limit acceptable securities to U.S. Government Securities and to the obligations of GNMA, FNMA or FHLMC described in 2(d), 3(a) and 3(b) above. The fair market value of the securities in relation to the amount of the repurchase obligation, including principal and accrued interest, is equal to a collateral level of at least 104% for U.S. Government Securities and 105% for GNMAs, FNMAs or FHLMCs. The repurchase agreement shall require (i) the Trustee or the Agent to value the collateral securities no less frequently than weekly, (ii) the delivery of additional securities if the fair market value of the securities is below the required level on any valuation date, and (iii) liquidation of the repurchase securities if any deficiency in the required percentage is not restored within two (2) business days of such valuation.

(e) The repurchase securities shall be delivered free and clear of any lien to the bond trustee (herein, the "Trustee") or to an independent third party acting solely as agent ("Agent") for the Trustee, and such Agent is (i) a Federal Reserve Bank, or (ii) a bank which is a member of the FDIC and which has combined capital, surplus and undivided profits or, if appropriate, a net worth, of not less than $50 million, and the Trustee shall have received written confirmation from such third party that such third party holds such securities, free and clear of any lien, as agent for the Trustee.

(f) A perfected first security interest in the repurchase securities shall be created for the benefit of the Trustee, and the issuer and the Trustee shall receive an opinion of counsel as to the perfection of the security interest in such repurchase securities and any proceeds thereof.

(g) The repurchase agreement shall have a term of one year or less, or shall be due on demand.

(h) The repurchase agreement shall establish the following as events of default, the occurrence of any of which shall require the immediate liquidation of the repurchase securities, unless the Bond Insurer directs otherwise:

(1) insolvency of the broker/dealer or commercial bank serving as the counterparty under the repurchase agreement;
(2) failure by the counterparty to remedy any deficiency in the required collateral level or to satisfy the margin maintenance call under item 10(d) above; or

(3) failure by the counterparty to repurchase the repurchase securities on the specified date for repurchase.

(xi) Investment agreements (also referred to as guaranteed investment contracts) that meet the following criteria:

(a) A master agreement or specific written investment agreement governs the transaction.

(b) Acceptable providers of uncollateralized investment agreements shall consist of (i) domestic FDIC-insured commercial banks, or U.S. branches of foreign banks, rated at least Aa2 by Moody's and AA by S&P; (ii) domestic insurance companies rated Aaa by Moody's and AAA by S&P; and (iii) domestic structured investment companies approved by the Bond Insurer and rated Aaa by Moody's and AAA by S&P.

(c) Acceptable providers of collateralized investment agreements shall consist of (i) registered broker/dealers subject to SIPC jurisdiction, if such broker/dealer has an uninsured, unsecured and unguaranteed rating of A1 or better by Moody's and A+ or better by S&P; (ii) domestic FDIC-insured commercial banks, or U.S. branches of foreign banks, rated at least A1 by Moody's and A+ by S&P; (iii) domestic insurance companies rated at least A1 by Moody's and A+ by S&P; and (iv) domestic structured investment companies approved by the Bond Insurer and rated Aaa by Moody's and AAA by S&P. Required collateral levels shall be as set forth in 11(f) below.

(d) The investment agreement shall provide that if the provider's ratings fall below Aa3 by Moody's or AA- by S&P, the provider shall within ten (10) days either (i) repay the principal amount plus any accrued and interest on the investment; or (ii) deliver Permitted Collateral as provided below.

(e) The investment agreement must provide for termination thereof if the provider's ratings are suspended, withdrawn or fall below A3 from Moody's or A- from S&P. Within ten (10) days, the provider shall repay the principal amount plus any accrued interest on the agreement, without penalty to the Corporation.

(f) The investment agreement shall provide for the delivery of collateral described in (i) or (ii) below ("Permitted Collateral") which shall be maintained at the following collateralization levels at each valuation date:

(1) U.S. Government Securities at 104% of principal plus accrued interest; or
(2) Obligations of GNMA, FNMA or FHLMC (described in 2(d), 3(a) and 3(b) above) at 105% of principal and accrued interest.

(g) The investment agreement shall require the Trustee or Agent to determine the market value of the Permitted Collateral not less than weekly and notify the investment agreement provider on the valuation day of any deficiency. Permitted Collateral may be released by the Trustee to the provider only to the extent that there are excess amounts over the required levels. Market value, with respect to collateral, may be determined by any of the following methods:

(1) the last quoted "bid" price as shown in Bloomberg, Interactive Data Systems, Inc., The Wall Street Journal or Reuters;
(2) valuation as performed by a nationally recognized pricing service, whereby the valuation method is based on a composite average of various bid prices; or
(3) the lower of two bid prices by nationally recognized dealers. Such dealers or their parent holding companies shall be rated investment grade and shall be market makers in the securities being valued.

(h) Securities held as Permitted Collateral shall be free and clear of all liens and claims of third parties, held in a separate custodial account and registered in the name of the Trustee or the Agent.

(i) The provider shall grant the Trustee or the Agent a perfected first security interest in any collateral delivered under an investment agreement. For investment agreements collateralized initially and in connection with the delivery of Permitted Collateral under 11(f) above, the Trustee and the Bond Insurer shall receive an opinion of counsel as to the perfection of the security interest in the collateral.

(j) The investment agreement shall provide that moneys invested under the agreement must be payable and putable at par, or on the basis of market value, to the Trustee without condition, breakage fee or other penalty, upon not more than two (2) business days' notice, or immediately on demand for any reason for which the funds invested may be withdrawn from the applicable fund or account established under the authorizing document, as well as the following:

(1) In the event of a deficiency in the debt service account;
(2) Upon acceleration after an event of default;
(3) Upon refunding of the bonds in whole or in part;
(4) Reduction of the debt service reserve requirement for the bonds; or
(5) If a determination is later made by a nationally recognized bond counsel that investments must be yield-restricted.

Notwithstanding the foregoing, the agreement may provide for a breakage fee or other penalty that is payable in arrears and not as a condition of a draw by the Trustee if the issuer's obligation to pay such fee or penalty is subordinate to its obligation to pay debt service on the bonds and to make deposits to the debt service reserve fund.

(k) The investment agreement shall establish the following as events of default, the occurrence of any of which shall require the immediate liquidation of the investment securities:

(1) Failure of the provider or the guarantor (if any) to make a payment when due or to deliver Permitted Collateral of the character, at the times or in the amounts described above;
(2) Insolvency of the provider or the guarantor (if any) under the investment agreement;
(3) Failure by the provider to remedy any deficiency with respect to required Permitted Collateral;
(4) Failure by the provider to make a payment or observe any covenant under the agreement;
(5) The guaranty (if any) is terminated, repudiated or challenged; or
(6) Any representation of warranty furnished to the Trustee or the issuer in connection with the agreement is false or misleading.

(l) The investment agreement must incorporate the following general criteria:

(1) "Cure periods" for payment default shall not exceed two (2) business days;
(2) The agreement shall provide that the provider shall, under certain circumstances, remain liable for any deficiency after application of the proceeds of the sale of any collateral, including costs and expenses incurred by the Trustee or the Bond Insurer;
(3) Neither the agreement or guaranty agreement, if applicable, may be assigned (except to a provider that would otherwise be acceptable under these guidelines) or amended without the prior consent of the Bond Insurer;
(4) If the investment agreement is for a debt service reserve fund, reinvestments of funds shall be required to bear interest at a rate at least equal to the original contract rate.
(5) The provider shall be required to immediately notify the Bond Insurer and the Trustee of any event of default or any suspension, withdrawal or downgrade of the provider's ratings;
(6) The agreement shall be unconditional and shall expressly disclaim any right of set-off or counterclaim;
(7) The agreement shall require the provider to submit information reasonably requested by the Bond Insurer, including balance invested with the provider, type and market value of collateral and other pertinent information.

(xii) Forward delivery agreements in which the securities delivered mature on or before each interest payment date (for debt service or debt service reserve funds) or draw down date (construction or acquisition funds) that meet the following criteria:

(a) A specific written investment agreement governs the transaction.

(b) Acceptable providers shall be limited to (i) any registered broker/dealer subject to the Securities Investors' Protection Corporation jurisdiction, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed obligation rated A3/P-1 or better by Moody's and A-/A-1 or better by S&P; (ii) any commercial bank insured by the FDIC, if such bank has an uninsured, unsecured and unguaranteed obligation rated A3/P-1 or better by Moody's and A-/A-1 or better by S&P; and (iii) domestic structured investment companies approved by the Bond Insurer and rated Aaa by Moody's and AAA by S&P.

(c) The forward delivery agreement shall provide for termination or assignment (to a qualified provider hereunder) of the agreement if the provider's ratings are suspended, withdrawn or fall below A3 or P-1 from Moody's or A- or A-1 from S&P. Within ten (10) days, the provider shall fulfill any obligations it may have with respect to shortfalls in market value. There shall be no breakage fee payable to the provider in such event.

(d) Permitted securities shall include the investments listed in 1, 2 and 3 above.

(e) The forward delivery agreement shall include the following provisions:

(1) The permitted securities must mature at least one (1) business day before a debt service payment date or scheduled draw. The maturity amount of the permitted securities must equal or exceed the amount required to be in the applicable fund on the applicable valuation date.

(2) The agreement shall include market standard termination provisions, including the right to terminate for the provider's failure to deliver qualifying securities or otherwise to perform under the agreement. There shall be no breakage fee or penalty payable to the provider in such event.

(3) Any breakage fees shall be payable only on debt service payment dates and shall be subordinated to the payment of debt service and debt service reserve fund replenishments.

(4) The provider must submit at closing a bankruptcy opinion to the effect that upon any bankruptcy, insolvency or receivership of the provider, the securities will not be considered to be a part of the provider's estate, and otherwise acceptable to the Bond Insurer.

(5) The agreement may not be assigned (except to a provider that would otherwise be acceptable under these guidelines) or amended without the prior written consent of the Bond Insurer.

(xiii) Forward delivery agreements in which the securities delivered mature after the funds may be required but provide for the right of the issuer or the Trustee to put the securities back to the provider under a put, guaranty or other hedging arrangement, only with the prior written consent of the Bond Insurer.

(xiv) Maturity of investments shall be governed by the following:

(a) Investments of monies (other than reserve funds) shall be in securities and obligations maturing not later than the dates on which such monies will be needed to make payments.

(b) Investments shall be considered as maturing on the first date on which they are redeemable without penalty at the option of the holder or the date on which the Trustee may require their repurchase pursuant to repurchase agreements.

(c) Investments of monies in reserve funds not payable upon demand shall be restricted to maturities of five years or less.

(xv) Any other investment approved in writing by the Bond Insurer.

"Project" means the refinancing of the Equipment and the acquisition of Figueroa Plaza.

"Property" means, with respect to the Site Lease and the Facility Lease Agreement, the land described in Exhibit A to the Site Lease and the Facility Lease, together with the improvements thereon, as such Exhibit A may be amended or supplemented from time to time in accordance with the terms of the Site Lease and Facility Lease. "Property" means, with respect to the front part of this Official Statement, the Equipment described in the Equipment Lease Agreement and the Property described in the Site Lease and Facility Lease.

"Property Component" means, with respect to the front part of this Official Statement, the Equipment or Figueroa Plaza.

"Rating Agencies" means Moody's, Inc., S&P or Fitch, or in the event that Moody's, or S&P, or Fitch no longer maintains a rating on the Bonds, any other nationally recognized bond rating agency then maintaining a rating on the Bonds, but, in each instance, only so long as Moody's, S&P or Fitch or other nationally recognized rating agency then maintains a rating on the Bonds.

"Rebate Fund" has the meaning contained in Section 6.04 of the Indenture.

"Rebate Requirement" with respect to a Series of Bonds has the meaning set forth in the applicable Tax Certificate.

"Record Date" means the 15th day of the month immediately preceding an Interest Payment Date, whether or not such day is a Business Day.

"Rental Period" means each twelve-month period during the Term of the Lease commencing on August 1 in any year and ending on July 31 in the next succeeding year; except that the first Rental Period during the term of the Lease commences on the Closing Date and end on July 31, 2008.

"Representation Letter" means the Blanket Letter of Representations delivered to DTC by the Corporation.

"Reserve Policies" means the Series 2007-A Reserve Policy and the Series 2007-B Reserve Policy.

"Revenues" means all Basic Lease Payments made pursuant to the Lease Agreements and interest or profits from the investment of money in any fund, account or subaccount (other than the Rebate Fund) pursuant to Section 5.04 of the Indenture.

"S&P" or "Standard & Poor's" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., or any successor credit rating agency selected by the Corporation.

"Securities Depositories" means: The Depository Trust Company, 55 Water Street, New York, New York 10041-0099; or to such other addresses and/or such other securities depositories as the Corporation may designate in writing to the Trustee.

"Serial Bonds" means Bonds for which no sinking fund payments are provided.

"Series" means a series of Bonds issued hereunder including, without limitation, the Series 2007-A Bonds, the Series 2007-B1 Bonds, the Series 2007-B2 Bonds and any series of Additional Bonds.

"Series 2007 Bonds" means collectively the Series 2007-A Bonds and the Series 2007-B Bonds at any time Outstanding pursuant hereto and issued, executed and delivered in accordance with Article II of the Indenture.

"Series 2007-A Bond Fund" means the fund of that name established pursuant to Section 4.01 of the Indenture.

"Series 2007-A Bonds" means the Municipal Improvement Corporation of Los Angeles Lease Revenue Bonds, Series 2007-A (Capital Equipment) authorized and at any time Outstanding pursuant hereto and issued, executed and delivered in accordance with Article II and payable from Basic Lease Payments made by the City pursuant to the Equipment Lease Agreement.

"Series 2007-A Bond Insurance Policy" means the municipal bond new issue insurance policy issued by the Bond Insurer that guarantees payment of scheduled principal and interest on the Series 2007-A Bonds.

"Series 2007-A Insurance Proceeds and Condemnation Awards Fund" means the fund of that name established pursuant to Section 6.08 of the Indenture.

"Series 2007-A Interest Account" means the account by that name established pursuant to Section 5.03 of the Indenture.

"Series 2007-A Principal Account" means the account by that name established pursuant to Section 5.03 of the Indenture.

"Series 2007-A Redemption Account" means the account by that name established pursuant to Section 5.03 of the Indenture.

"Series 2007-A Reserve Account" means the account by that name established pursuant to Section 5.03 of the Indenture.

"Series 2007-A Reserve Policy" means the municipal bond debt service reserve fund policy issued by the Bond Insurer and credited to the Series 2007-A Reserve Account to satisfy the Series 2007-A Reserve Requirement.

"Series 2007-A Reserve Requirement" means, as of any date of calculation, the least of (i) 10% of the initial stated principal amount of the Series 2007-A Bonds, (ii) Maximum Annual Debt Service on the Series 2007-A Bonds for the current or any future Fiscal Year, or (iii) 125% of average Annual Debt Service on the Series 2007-A Bonds. For purposes of determining if the amount on deposit in the Reserve Account equals the Reserve Requirement, any Credit Facility shall be deemed to be a deposit in the face amount or stated amount of such Credit Facility, less any unreimbursed drawings or other amounts not reinstated under such Credit Facility.

"Series 2007-A Revenues" means all Basic Lease Payments made pursuant to the Equipment Lease Agreement and interest or profits from the investment of money in any Series 2007-A designated fund, account or subaccount (other than the Rebate Fund) pursuant to Section 5.04 of the Indenture.

"Series 2007-B Bond Fund" means the fund of that name established pursuant to Section 4.01 of the Indenture.

"Series 2007-B Bond Insurance Policy" means the municipal bond new issue insurance policy issued by the Bond Insurer that guarantees payment of scheduled principal and interest on the Series 2007-B Bonds.

"Series 2007-B Bonds" means, collectively, the Series 2007-B1 Bonds and the Series 2007-B2 Bonds.

"Series 2007-B Insurance Proceeds and Condemnation Awards Fund" means the fund of that name established pursuant to Section 6.08 of the Indenture.

"Series 2007-B Interest Account" means the account by that name established pursuant to Section 5.03 of the Indenture.

"Series 2007-B Principal Account" means the account by that name established pursuant to Section 5.03 of the Indenture.

"Series 2007-B Redemption Account" means the account by that name established pursuant to Section 5.03 of the Indenture.

"Series 2007-B Reserve Account" means the account by that name established pursuant to Section 5.03 of the Indenture.

"Series 2007-B Reserve Requirement" means, as of any date of calculation, the least of (i) 10% of the initial stated principal amount of the Series 2007-B1 Bonds, (ii) Maximum Annual Debt Service on the Series 2007-B1 Bonds for the current or any future Fiscal Year, or (iii) 125% of average Annual Debt Service on the Series 2007-B1 Bonds. For purposes of determining if the amount on deposit in the Reserve Account equals the Reserve Requirement, any Credit Facility shall be deemed to be a deposit in the face amount or stated amount of such Credit Facility, less any unreimbursed drawings or other amounts not reinstated under such Credit Facility.

"Series 2007-B Revenues" means all Basic Lease Payments made pursuant to the Facility Lease Agreement and interest or profits from the investment of money in any Series 2007-B designated fund, account or subaccount (other than the Rebate Fund) pursuant to of the Indenture.

"Series 2007-B Sinking Account" means the account by that name established within the Series 2007-B Principal Account pursuant to Section 5.03(b)(2)(B) of the Indenture.

"Series 2007-B1 Bonds" means the Municipal Improvement Corporation of Los Angeles Lease Revenue Bonds, Series 2007-B1 (Figueroa Plaza) authorized and at any time Outstanding pursuant hereto and issued, executed and delivered in accordance with Article II and payable from Basic Lease Payments made by the City pursuant to the Facility Lease Agreement.

"Series 2007-B2 Bonds" means the Municipal Improvement Corporation of Los Angeles Lease Revenue Bonds, Series 2007-B2 (Taxable) (Figueroa Plaza) authorized and at any time Outstanding pursuant hereto and issued, executed and delivered in accordance with Article II and payable from Basic Lease Payments made by the City pursuant to the Facility Lease Agreement.

"Series 2007-B2 Reserve Account" means the account by that name established pursuant to Section 5.03 of the Indenture.

"Series 2007-B2 Reserve Requirement" means, as of any date of calculation, the least of (i) 10% of the initial stated principal amount of the Series 2007-B2 Bonds, (ii) Maximum Annual Debt Service on the Series 2007-B2 Bonds for the current or any future Fiscal Year, or (iii) 125% of average Annual Debt Service on the Series 2007-B2 Bonds. For purposes of determining if the amount on deposit in the Reserve Account equals the Reserve Requirement, any Credit Facility shall be deemed to be a deposit in the face amount or stated amount of such Credit Facility, less any unreimbursed drawings or other amounts not reinstated under such Credit Facility.

"Sinking Account" means the account by that name established within the Principal Account pursuant to Section 5.03(b)(2)(B) of the Indenture.

"Site Lease" means the Site Lease dated as of August 1, 2007 between the City and the Corporation under which the City leases the Property to the Corporation.

"Special Tax Counsel" means an attorney or firm of attorneys recognized as expert in the laws, rules and regulations pertaining to securities the interest on which is exempt from federal income taxation.

"State" means the State of California.

"Supplemental Indenture" means any indenture then in full force and effect which has been duly executed and delivered by the Corporation, the City and the Trustee amendatory thereof or supplemental thereto; but only if and to the extent that such Supplemental Indenture is specifically authorized thereunder.

"Tax Certificate" means the Tax and Nonarbitrage Certificate delivered by the Corporation at the time of the issuance and delivery of a Series of Bonds, as the same may be amended or supplemented in accordance with its terms.

"Term" means the time during which the Leases are in effect, as provided for in Sections 3.2 of the Leases.

"Term Bonds" means Bonds which are payable on or before their specified maturity dates from sinking fund payments established for that purpose and calculated to retire such Bonds on or before their specified maturity dates.

"Trustee" means U.S. Bank National Association, a national banking association existing under and by virtue of the laws of the United States of America, or any other association or corporation which may at any time be substituted in its place as provided in Section 7.02 of the Indenture.

"Written Request of the City" means a request in writing signed by a City Representative.

"Written Request of the Corporation" means a request in writing signed by a Corporation Representative.

THE INDENTURE

Issuance of Additional Bonds

Conditions for the Issuance of Additional Bonds. The Corporation may at any time issue Additional Bonds payable from the Revenues and secured by a pledge of the Revenues equal to the pledge securing the Outstanding Bonds theretofore issued under the Indenture, but only subject to the following specific conditions, which are made conditions precedent to the issuance of any such Additional Bonds and with the prior written consent of the Bond Insurer (which such consent shall not be unreasonably withheld). The Corporation will be, as evidenced by a Certificate of the Corporation, in compliance with all agreements and covenants contained in the Indenture and no Event of Default will have occurred and be continuing under either of the Lease Agreements.

(b) The issuance of such Additional Bonds will have been authorized by the Corporation and will have been provided for by a Supplemental Indenture which will specify the following:

(1) the purpose for which such Additional Bonds are to be issued; provided, however, that the proceeds of such Additional Bonds will be applied solely for the purpose of (i) financing, acquiring, constructing, maintaining, operating, improving and leasing any capital assets, including payment of all costs incidental to or connected with such financing (including interest during construction); (ii) increasing the Reserve Requirement; and/or (iii) refunding any Bonds then Outstanding, including payment of all costs incidental to or connected with such refunding;

(2) the authorized principal amount and designation of such Additional Bonds;

(3) the dated date and the maturity dates of, and the sinking fund payment dates, if any, for such Additional Bonds; provided, however, that (i) each maturity and sinking fund date will fall upon August 1; (ii) all such Additional Bonds of like maturity will be identical in all respects, except as to number and denomination; and (iii) serial maturities for Serial Bonds or sinking fund payments for Term Bonds, or any combination thereof, will be established to provide for the retirement of such Additional Bonds on or before their respective longest maturity dates;

(4) the interest payment dates for such Additional Bonds, which will be Interest Payment Dates;

(5) the redemption premiums, if any, and the redemption terms, if any, for such Additional Bonds;

(6) the amount, if any, to be deposited from the proceeds of sale of such Additional Bonds in the Interest Account;

(7) the amount, if any, to be deposited from the proceeds of sale of such Additional Bonds in an escrow fund or acquisition fund;

(8) the amount to be deposited from the proceeds of sale of such Additional Bonds in the applicable Reserve Account, which amount will be sufficient to cause the amount on deposit in the Reserve Account to equal the applicable Reserve Requirement upon the issuance of such Additional Bonds;

(9) the forms of such Additional Bonds; and

(10) such other provisions as are necessary or appropriate and not inconsistent herewith.

(c) The applicable Lease Agreement will have been further amended so as to increase the aggregate Basic Lease Payments payable by the City thereunder by an amount at least sufficient to pay the interest on and principal of such Additional Bonds as the same become due, subject to the limitation that the increase in Basic Lease Payments together with existing Basic Lease Payments will not in any year be in excess of the annual fair rental of the Leased Property included in such Lease Agreement determined as of the time the Additional Bonds are issued.

(d) The Corporation will have received confirmation in writing from the Rating Agencies (if any) that the issuance of such Additional Bonds will not, in and of itself, cause a downgrading or withdrawal of such rating. The Corporation will not seek such a confirmation in writing if the annual amount of interest and principal, including sinking fund payments, payable on the Additional Bonds, does not exceed the corresponding amount of such payments on the Outstanding Bonds being refunded, provided, however, that the term of the Additional Bonds does not exceed the term on the Outstanding Bonds being refunded.

Nothing contained in the Indenture limits the issuance of any lease revenue bonds of the Corporation payable from the Revenues and secured by a pledge of the Revenues if, after the issuance and delivery of such lease revenue bonds, none of the Bonds theretofore issued under the Indenture will be Outstanding.

Procedure for the Issuance of Additional Bonds. (a) The Corporation may, at any time, execute Additional Bonds for issuance and deliver them to the Trustee, and thereupon such Additional Bonds will be authenticated and delivered by the Trustee to the purchaser thereof upon the Written Request of the Corporation, but only upon receipt by the Trustee of the following documents or money or securities, all of such documents dated or certified, as the case may be, as of the date of delivery of such Additional Bonds by the Trustee (unless the Trustee will accept any of such documents bearing a prior date):an executed copy of the Supplemental Indenture authorizing the issuance of such Additional Bonds;

(b) a Written Request of the Corporation as to the delivery of such Additional Bonds;

(c) an Opinion of Counsel to the effect that (i) the Corporation has the right and power to execute and deliver the Supplemental Indenture and the Supplemental Indenture has been duly and lawfully executed and delivered by the Corporation, is in full force and effect and is valid and binding upon the Corporation and enforceable in accordance with its terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights and by equitable principles) and no other authorization for the execution and delivery thereof is required; (ii) the Supplemental Indenture creates the valid pledge of the Revenues which it purports to create as provided therein, subject to the application thereof to the purposes and on the conditions permitted by the Indenture; (iii) such Additional Bonds are valid and binding special obligations of the Corporation, enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights and by equitable principles) and the terms thereof and entitled to the benefits thereof, and such Additional Bonds have been duly and validly authorized, executed, issued and delivered in accordance herewith; (iv) the amendments to the respective Lease Agreement required by the Indenture have been duly authorized, executed and delivered and are valid and binding upon the Corporation and the City and enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights and by equitable principles); and (v) the issuance of such Additional Bonds will not adversely affect the exclusion from gross income for federal tax purposes of interest on the tax exempt Bonds then Outstanding;

(d) a Certificate of the Corporation certifying that the conditions for the issuance of such Additional Bonds contained in the Indenture have been complied with and satisfied; and

(e) such further documents, opinions, money or securities as are required by the provisions of the Supplemental Indenture providing for the issuance of such Additional Bonds.

Establishment of Certain Funds

There is established in trust the following special trust fund, which the Trustee will hold, maintain and keep separate and apart from all other funds and moneys held by the Trustee so long as the Bonds are Outstanding: the "Municipal Improvement Corporation of Los Angeles Lease Revenue Bonds, Series 2007-A (Capital Equipment) Bond Fund" (the "Series 2007-A Bond Fund"), the "Municipal Improvement Corporation of Los Angeles Lease Revenue Bonds, Series 2007-B1 and 2007-B2 (Figueroa Plaza) Bond Fund" (the "Series 2007-B Bond Fund") and the "Municipal Improvement Corporation of Los Angeles Lease Revenue Bonds, Series 2007-A, 2007-B1 and 2007-B2 (Capital Equipment and Figueroa Plaza) Costs of Issuance Fund" (the "Costs of Issuance Fund"). Incident to the issuance of Additional Bonds, the Supplemental Indenture may provide for the creation of additional special trust funds to be maintained by the Trustee.

So long as any of the Series 2007 Bonds, or any interest thereon, remain unpaid, the moneys in the foregoing funds will be used for no purpose other than those required or permitted by the Indenture.

Costs of Issuance Fund. (a) The City will hold the moneys in the Costs of Issuance Fund and will disburse such moneys from time to time to pay Costs of Issuance. The City will disburse moneys in the Costs of Issuance Fund from time to time upon receipt by the City of a Written Request of the City or Corporation, which may be sent to the City by facsimile, that:

(1) states with respect to each disbursement to be made:

(A) the requisition number;

(B) the name and address of the person, firm or corporation to whom payment is due;

(C) the amount to be disbursed; and

(D) that each obligation therein has been properly incurred, and is a proper charge against the Costs of Issuance Fund and has not been the basis of any previous disbursement;

(2) specifies in reasonable detail the nature of the obligation; and

(3) is accompanied by a bill or statement of account for each obligation.

(b) Upon the earlier of (i) the date one year after the Closing Date, and (ii) the date of receipt of a Certificate of the City stating that all Costs of Issuance have been paid, any amount then remaining in the Costs of Issuance Fund shall be deposited by the Trustee first into the Series 2007-A Reserve Account and the Series 2007-B Reserve Account, pro rata based on the aggregate principal amount of Series 2007 Bonds of each Series Outstanding, to the extent necessary to make the amount on deposit therein equal to the Series 2007-A Reserve Requirement and the Series 2007-B Reserve Requirement, respectively, and thereafter into the Series 2007-A Interest Account of the Series 2007-A Bond Fund and the Series 2007-B Interest Account of the Series 2007-B Bond Fund, pro rata based on the aggregate principal amount of Series 2007 Bonds of each Series Outstanding.

Revenues

Pledge of Revenues. (a) All Series 2007-A Revenues and amounts on deposit in the Series 2007-A funds, accounts and subaccounts established under the Indenture (other than amounts on deposit in the Rebate Fund created pursuant to the Indenture) are irrevocably pledged to the payment of the interest on and principal and redemption price, if any, of the Series 2007-A Bonds as provided in the Indenture, and the Series 2007-A Revenues will not be used for any other purpose while any of the Bonds remain Outstanding; provided, however, that out of the Series 2007-A Revenues there may be allocated such sums for such purposes as are expressly permitted by the Indenture described above under the caption "THE INDENTURE — Establishment of Certain Funds."

(b) All Series 2007-B Revenues and amounts on deposit in the Series 2007-B funds, accounts and subaccounts established under the Indenture (other than amounts on deposit in the Rebate Fund created pursuant to the Indenture) are irrevocably pledged to the payment of the interest on and principal and redemption price, if any, of the Series 2007-B Bonds as provided in the Indenture, and the Series 2007-B Revenues will not be used for any other purpose while any of the Bonds remain Outstanding; provided, however, that out of the Series 2007-B Revenues there may be allocated such sums for such purposes as are expressly permitted by the Indenture described above under the caption "THE INDENTURE — Establishment of Certain Funds."

(c) Pursuant to the Assignment Agreement, the Trustee is entitled to and will receive all of the Revenues, and any Revenues collected or received by the Corporation will be deemed to be held, and to have been collected or received, by the Corporation as agent of the Trustee and will forthwith be paid by the Corporation to the Trustee.Receipt and Deposit of Revenues in the Bond Fund. In order to carry out and effectuate the pledge contained in the Indenture, the Trustee agrees and covenants that all Series 2007-A Revenues and Series 2007-B Revenues when and as received will be received in trust thereunder for the benefit of the Owners and will be deposited when and as received in the Series 2007-A Bond Fund and the Series 2007-B Bond Fund, respectively. All Revenues will be accounted for through and held in trust in the Bond Fund, and the Corporation will have no beneficial right or interest in any of the Revenues except only as provided in the Indenture. All Revenues, whether received by the Corporation in trust or deposited with the Trustee as provided in the Indenture, will nevertheless be allocated, applied and disbursed solely to the purposes and uses set forth in the Indenture, and will be accounted for separately and apart from all other accounts, funds, money or other resources of the Corporation.

Establishment and Maintenance of Accounts for Use of Money in the Bond Funds. (a) Subject to the tax and rebate covenants of the Indenture, all money in the Series 2007-A Bond Fund will be set aside by the Trustee in the following respective special accounts within the Series 2007-A Bond Fund (each of which is created under the Indenture and each of which the Trustee covenants and agrees to maintain) in the following order of priority:

(1) Series 2007-A Interest Account;

(2) Series 2007-A Principal Account;

(3) Series 2007-A Reserve Account (See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Reserve Account" in the body of this Official Statement for a summary of the Reserve Account); and

(4) Series 2007-A Redemption Account; and

(a) Subject to the tax and rebate covenants of the Indenture, all money in the Series 2007-B Bond Fund will be set aside by the Trustee in the following respective special accounts within the Series 2007-B Bond

Fund (each of which is created under the Indenture and each of which the Trustee covenants and agrees to maintain) in the following order of priority:

(1) Series 2007-B Interest Account;

(2) Series 2007-B Principal Account;

(3) Series 2007-B Reserve Account (See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Reserve Account" in the body of this Official Statement for a summary of the Reserve Account);

(4) Series 2007-B Redemption Account.

All money in each of such accounts will be held in trust by the Trustee and will be applied, used and withdrawn only for the purposes authorized in the Indenture.

Interest Account. (A) On or before each Interest Payment Date, the Trustee will set aside from the Series 2007-A Bond Fund and the Series 2007-B Bond Fund and deposit in the Series 2007-A Interest Account and the Series 207-B Interest Account, respectively, that amount of money which, together with any money contained in the Series 2007-A Interest Account and the Series 2007-B Interest Account, is equal to the aggregate amount of interest becoming due and payable on all Outstanding Series 2007-A Bonds and all Outstanding Series 2007-B Bonds, respectively, on such Interest Payment Date.

(B) No deposit need be made in the Series 2007-A Interest Account or the Series 2007-B Interest Account if the amount contained in the Series 2007-A Interest Account or the Series 2007-B Interest Account, respectively, is at least equal to the aggregate amount of interest becoming due and payable on all Outstanding Series 2007-A Interest Account or all Outstanding Series 2007-B Interest Account Bonds on such interest payment date.

(C) All money in the Series 2007-A Interest Account and the Series 2007-B Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Series 2007-A Bonds and the Series 2007-B Bonds, respectively, as it will become due and payable (including accrued interest on any Series 2007-A Bonds or Series 2007-B Bonds purchased or redeemed prior to maturity).

Principal Accounts. (A) On or before August 1 of each year, beginning on August 1, 2008, the Trustee will set aside from the Series 2007-A Bond Fund and the Series 2007-B Bond Fund and deposit in the Series 2007-A Principal Account and the Series 2007-B Principal Account an amount of money equal to the aggregate principal amount of all Outstanding Series 2007-A Serial Bonds and Outstanding Series 2007-B Serial Bonds, respectively, maturing on such August 1, plus the aggregate amount of all sinking fund payments required to be made with respect to the Series 2007-A Term Bonds and the Series 2007-B Term Bonds on such August 1. No deposit need be made in the Series 2007-A Principal Account or the Series 2007-B Principal Account if the amount contained therein is at least equal to the aggregate amount of the principal of all Outstanding Series 2007-A Serial Bonds or all Outstanding Series 2007-B Serial Bonds maturing by their terms on such August 1, plus the aggregate amount of all sinking fund payments required to be made on such August 1, for all Outstanding Series 2007-A Term Bonds or all Outstanding Series 2007-B Term Bonds, respectively.

(B) The Trustee will establish and maintain within each Principal Account a separate subaccount for the Term Bonds of each Series and maturity, designated as the Sinking Account, inserting therein the Series and maturity and, for maturities with more than one interest rate, for each such interest rate (if more than one such subaccount is established for such Series) designation of such Bonds. With respect to each Sinking Account, on each mandatory sinking account payment date established for such Sinking Account, the Trustee will apply the mandatory sinking account payment required on that date to the redemption (or payment at maturity, as the case may be) of Term Bonds of the series and maturity for which such Sinking Account was established, upon the notice and in the manner provided in the Indenture or in the Supplemental Indenture pursuant to which such Series of Bonds were issued; provided that, at any time prior to giving such notice of such redemption, the Trustee may apply moneys in such Sinking Account at the written direction of the City to the purchase of Term Bonds of such series and maturity at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as will be determined by the City, except that the purchase price (excluding accrued interest) will not exceed the redemption price that would be payable for such Bonds upon redemption by application of such mandatory sinking account payment. All Bonds so purchased shall be cancelled by the Trustee. If, during the twelve-month period immediately preceding said mandatory sinking account payment date, the Trustee has purchased Term Bonds of such Series and maturity with moneys in such Sinking Account, such Bonds so purchased will be applied, to the extent of the full principal amount thereof, to reduce said mandatory sinking account payment.

(C) All money in each Principal Account will be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds as they will become due and payable, except that any money in any Sinking Account will be used and withdrawn by the Trustee only to purchase or to redeem or to pay Term Bonds for which such sinking account was created.

Redemption Accounts. In addition to the above accounts, the Trustee will establish and maintain within the Series 2007-A Bond Fund and the Series 2007-B Bond Fund, when required, a special account designated the "Series 2007-A Redemption Account" or the "Series 2007-B Redemption Account," as applicable. All money in a Redemption Account will be held in trust by the Trustee and will be applied, used and withdrawn only for the purposes authorized under this heading. Any Net Proceeds which, in accordance with a Written Request of the City or the Corporation delivered to the Trustee pursuant to the Indenture and all other amounts received by the Trustee in connection with the redemption of the Bonds pursuant to the Indenture (except for any amounts for sinking fund redemptions) are to be used to redeem Bonds will be deposited by the Trustee in the Redemption Account. The Trustee will, on the scheduled redemption date, withdraw from the respective Redemption Account and pay to the Owners entitled thereto an amount equal to the redemption price of the Series 2007-A Bonds or the Series 2007-B Bonds, as applicable, to be redeemed on such date.

Application of Series 2007-A Funds. Any delinquent Basic Lease Payments and any proceeds of rental interruption insurance with respect to the Equipment encumbered by the Equipment Lease Agreement will be applied first to the Series 2007-A Interest Account for the immediate payment of interest payments past due and then to the Series 2007-A Principal Account for immediate payment of principal payments past due according to the tenor of any Series 2007-A Bond, and then to the Series 2007-A Reserve Account to the extent necessary to make the amount on deposit therein equal to the Series 2007-A Reserve Requirement or to repay any draws upon a Credit Facility including the Reserve Policy. Any remaining money representing delinquent Basic Lease Payments and any proceeds of rental interruption insurance with respect to the Equipment encumbered by the Equipment Lease Agreement will be deposited in the Series 2007-A Bond Fund to be applied in the manner provided in the Indenture.

Application of Series 2007-B Funds. Any delinquent Basic Lease Payments and any proceeds of rental interruption insurance with respect to the Property encumbered by the Facility Lease Agreement will be applied first to the Series 2007-B Interest Account for the immediate payment of interest payments past due and then to the Series 2007-B Principal Account for immediate payment of principal payments past due according to the tenor of any Series 2007-B Bond, and then to the Series 2007-B Reserve Account to the extent necessary to make the amount on deposit therein equal to the Series 2007-B Reserve Requirement, respectively, or to repay any draws upon a Credit Facility including any Reserve Policy. Any remaining money representing delinquent Basic Lease Payments and any proceeds of rental interruption insurance with respect to the Property encumbered by the Facility Lease Agreement will be deposited in the Series 2007-B Bond Fund to be applied in the manner provided in the Indenture.

Investment of Moneys in Funds and Accounts. Moneys in any Bond Fund, the Costs of Issuance Fund and any accounts and subaccounts therein will, upon the Written Request of the City or the Corporation at least two Business Days before the investment, be invested by the Trustee in Permitted Investments. In the absence of a Written Request of the City or the Corporation, the Trustee may invest moneys in such funds and accounts in Permitted Investments described in subparagraph (viii) of the definition of Permitted Investments. The obligations in which moneys in the said funds, accounts and subaccounts are invested will mature on or prior to the date on which such moneys are estimated to be required to be paid out under the Indenture. The obligations in which moneys in the Reserve Account are so invested will be invested in obligations maturing no later than seven years in the case of the Outstanding Bonds and any Additional Bonds (unless a different maturity is specified in the related Supplemental Indenture) after the date of investment, except that obligations in the Reserve Account may mature at a date which is more than the specified maximum if the Corporation or the Corporation and the City will have entered into an agreement with a corporation, partnership or other business enterprise, having unsecured long-term credit ratings provided by the Rating Agencies, which at the time are "Aa" or higher as provided by Moody's, if then rating the Bonds, and "AA" as provided by S&P, if then rating the Bonds, under which the provider of the agreement will agree to purchase, at the amortized cost thereof to the Corporation, such obligations in the event that obligations in the Reserve Account must be sold to pay principal of or interest on Bonds including Bonds that are redeemed in accordance with the Indenture or in the case of Additional Bonds in accordance with any mandatory sinking fund redemption or redemption from Net Proceeds. Any interest, income or profits from the deposits or investments of all funds, accounts and subaccounts (except the Rebate Fund and the Reserve Account to the extent required to be maintained therein or transferred pursuant to the Indenture) will be deposited first to the Reserve Account to the extent required to maintain the Reserve Requirement or repay draws on a Credit Facility, including any Reserve Policy, and thereafter to the Interest Account. For purposes of determining the amount of deposit in any fund, account or subaccount held under the Indenture, all Permitted Investments credited to such fund or account will be valued, on or about August 1 during each year that Bonds are Outstanding, at the cost thereof (adjusting for any amortized premium or discount to maturity). Except as otherwise provided under this heading, Permitted Investments representing an investment of moneys attributable to any fund, account or subaccount and all investment profits or losses thereon will be deemed at all times to be a part of said fund, account or subaccount. The Trustee will maintain records with respect to each investment, including: (i) purchase date; (ii) purchase price; (iii) any accrued interest paid; (iv) face amount; (v) coupon rate; (vi) periodicity of interest payments; (vii) disposition price; (viii) any accrued interest received; and (ix) disposition date. The Trustee will furnish the Corporation and the City periodic cash transaction statements which include detail for all investment transactions made by the Trustee. The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee. The Trustee may act as principal or agent in the acquisition or disposition of investments, and to the extent permitted under the Tax Certificate may commingle the funds, accounts and subaccounts established under the Indenture for investment purposes. The Trustee will have no liability or responsibility for any loss resulting from any investment made in accordance with the provisions described under the caption "THE INDENTURE — Revenues" herein.

The Corporation and the City acknowledge that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Corporation and the City the right to receive brokerage confirmations of securities transactions as they occur, the Corporation and the City specifically waive receipt of such confirmations to the extent permitted by law. Securities and investment transactions made by the Trustee under the Indenture will be set forth in the cash transaction statements provided by the Trustee to the Corporation and the City.

Covenants of the Corporation, the City and the Trustee

Punctual Payment and Performance. The Corporation will punctually pay the interest on and the principal of and redemption premiums, if any, to become due on every Bond issued in strict conformity with the terms of the Indenture and of the Bonds, and will faithfully observe and perform all the agreements and covenants contained in the Indenture and in the Bonds.

Against Encumbrances. The Corporation will not make any pledge of or place any charge or lien upon the Revenues except as provided in the Indenture, and will not issue any bonds, notes or obligations payable from the Revenues or secured by a pledge of or charge or lien upon the Revenues except the Bonds.

Against Sale or Disposition of the Leased Property. Except as provided in the Lease Agreements, the Corporation will not sell or otherwise dispose of the Leased Property, enter into any agreement which impairs the use of the Leased Property or any part thereof necessary to secure adequate Revenues for the payment of the interest on and principal of and redemption premiums, if any, with respect to the Bonds, or which would otherwise impair the rights of the Owners with respect to the Revenues.

Tax Covenants; Rebate Fund. (a) In addition to the other funds and accounts created pursuant thereto, the Trustee will establish and maintain a fund separate from any other fund or account established and maintained designated the "Rebate Fund" (the "Rebate Fund"). Within the Rebate Fund, the Trustee will maintain such accounts or subaccounts as are specified in a Written Request of the City or the Corporation to the Trustee pursuant to the Tax Certificate. The Trustee will deposit moneys in the Rebate Fund pursuant to a Written Request of the City or the Corporation. Subject to the transfer provisions provided in paragraph (e) below, all money at any time deposited in the Rebate Fund will be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement, for payment to the federal government of the United States of America, and none of the City, the Corporation, the Trustee or the Owner of any Bond will have any right in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund will be governed under this heading and by the Tax Certificate. The Trustee is deemed conclusively to have complied with the provisions of the Indenture and the Tax Certificate if it follows the Written Request of the City or the Corporation, including supplying all necessary information in the manner provided in the Tax Certificate, and except as otherwise expressly provided in the Indenture, will not be required to take any actions under the Indenture in the absence of written directions by the City or the Corporation, and will have no liability or responsibility to enforce compliance by the City or the Corporation with the terms of the Tax Certificate or under this heading. The Trustee agrees to comply with all Written Requests of the City or the Corporation given pursuant to the Tax Certificate. (b) Upon a Written Request of the City or the Corporation, an amount will be deposited into the Rebate Fund by the Trustee from deposits by the City or the Corporation, if and to the extent required, so that the balance of the amount on deposit thereto will be equal to the Rebate Requirement. Computations of the Rebate Requirement will be furnished to the Trustee by or on behalf of the City and the Corporation in accordance with the Tax Certificate. The City will provide the Trustee with written evidence that the computation of the Rebate Requirement has been made.

(c) The Trustee has no obligation to rebate any amounts required to be rebated, other than from moneys held in the funds and accounts created under the Indenture or from other moneys provided to it by the City or the Corporation.

(d) The Trustee will invest all amounts held in the Rebate Fund in Permitted Investments as directed by a Written Request of the City or the Corporation. Money, including investment earnings, will not be transferred from the Rebate Fund except as provided in paragraph (e) below.

(e) Upon receipt of a Written Request of the City or the Corporation, the Trustee will remit part or all of the amounts in the Rebate Fund to the United States of America, as so directed. In addition, if the City or the Corporation so directs, the Trustee will deposit moneys into or transfer moneys out of the Rebate Fund from or into such accounts or fund as directed by the Written Request of the City or the Corporation. Any funds remaining in the Rebate Fund in excess of the Rebate Requirement as of the end of any Bond Year will be transferred pro rata based on the aggregate principal amount of Outstanding Bonds of a Series to the Interest Accounts of the Bond Funds.

(f) Notwithstanding any other provision of the Indenture, including, in particular, the provisions described under the caption "THE INDENTURE — Defeasance" herein, the obligation to remit the Rebate Requirement to the United States and to comply with all other requirements under this heading and the Tax Certificate will survive the defeasance or payment in full of the Bonds.

(g) The Corporation will not use or permit the use of any proceeds of the Bonds and any Additional Bonds or any funds of the Corporation, directly or indirectly, to acquire any securities or obligations, and will not take or permit to be taken any other action or actions, which would cause the Series 2007-A Bonds, the Series 2007 B-1 Bonds or any tax-exempt Additional Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code or obligations subject to federal income taxation because they are "federally guaranteed" within the meaning Section 103(h) of the Internal Revenue Code of 1954, as amended (the "1954 Code"), or Section 149(b) of the Code and any such applicable regulations promulgated from time to time thereunder. The Corporation will observe and not violate the requirements of Section 148 of the Code and any such applicable regulations. The Corporation will comply with all requirements of Sections 148 and 149(b) of the Code to the extent applicable to the Series 2007 Bonds.

(h) The Corporation specifically covenants to comply with the provisions and procedures of the Tax Certificate.

(i) The Corporation will not use or permit the use of any proceeds of the Bonds or any funds of the Corporation, directly or indirectly, in any manner, and will not take or omit to take any action that would cause any of the Bonds (other than the Series 2007-B2 Bonds) to be treated as an obligation not described in Section 103(a) of the Code.

(j) Notwithstanding any provisions under this heading, if the Corporation will provide to the Trustee an Opinion of Counsel to the effect that any specified action required under this heading is no longer required or that some further or different action is required to maintain the exclusion from gross income for federal income tax purposes of interest with respect to the Series 2007-A Bonds and the Series 2007-B1 Bonds, the Trustee, the Corporation and the City may conclusively rely on such opinion in complying with the requirements of this heading, and, notwithstanding the provisions described under the caption "THE INDENTURE — Amendments" herein, the covenants under the Indenture will be deemed to be modified to that extent.

Payment of Claims. The Corporation will pay and discharge or cause to be paid and discharged any and all lawful claims for labor, materials or supplies which, if unpaid, might become a legal charge or lien upon the Leased Property or the Revenues or any part thereof or upon any funds under the control of the Corporation or the Trustee superior to or on a parity with the charge and lien upon the Revenues securing the Bonds, or which might impair the security of the Bonds.

Payment of Taxes and Compliance with Governmental Regulations. The Corporation will pay and discharge or cause to be paid and discharged all applicable taxes, assessments and other governmental charges that may be levied, assessed or charged upon the Leased Property or any part thereof or upon the Revenues or any part thereof promptly as and when the same will become due and payable. The Corporation will duly observe and conform with all valid applicable regulations and requirements of any governmental authority relative to the use of the Leased Property or any part thereof, but the Corporation will not be required to comply with any such regulations or requirements so long as the application or the validity thereof will be contested in good faith.

Insurance. The Corporation will maintain or cause to be maintained insurance with respect to the Leased Property as required by the Lease Agreements.

Insurance Proceeds and Condemnation Awards; Title Insurance. (a) The Trustee will receive all moneys which may become due and payable under any insurance policies obtained pursuant to the Lease Agreements (other than workers' compensation insurance required under the Equipment Lease) and pursuant to any condemnation awards in a separate fund to be established and maintained by the Trustee and designated the "Series 2007-Insurance Proceeds and Condemnation Awards Fund," and will apply the proceeds of such insurance as provided in the Indenture. The Trustee will permit withdrawals of said proceeds from time to time upon receiving the Written Request of the City, stating that the City or the Corporation has expended moneys or incurred liabilities in an amount equal to the amount therein requested to be paid over to it for the purpose of repair, reconstruction or replacement, and specifying the items for which such moneys were expended, or such liabilities were incurred, in such reasonable detail as the Trustee may in its discretion require.

(b) The Trustee will not be responsible for the sufficiency of any insurance required by the Lease Agreements and will be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the City. Delivery to the Trustee of the schedule of insurance policies under the Lease Agreements will not confer responsibility upon the Trustee as to the sufficiency of coverage or amounts of such policies. The Trustee may request, in writing, that the City deliver to the Trustee certificates or duplicate originals or certified copies of each insurance policy described in the schedule required to be delivered by the City to the Trustee pursuant to the Lease Agreements.

(c) Proceeds of any policy of insurance, title insurance or condemnation award received by the Trustee in respect of the Leased Property will be applied and disbursed by the Trustee as follows:

(1) If the City determines that the loss, damage, title defect or taking giving rise to such proceeds has not materially affected the operation of the Leased Property and will not result in an abatement of Basic Lease Payments payable by the City under the respective Lease Agreement, such proceeds will at the election of the City as set forth in a Written Request of the City, be deposited in the (i) respective Redemption Account and such proceeds will be applied to cause the redemption of the Outstanding Bonds of the Series relating to the lost, damaged or title defective Leased Property in the manner provided in the Indenture; or (ii) respective Principal and Interest Accounts for application to the next two successive Basic Lease Payments of the Series relating to the lost, damaged or title defective Leased Property;

(2) If any portion of the Leased Property has been affected by such loss, damage, title defect or taking, and if the City determines that such loss, damage, title defect or taking will result in an abatement of Basic Lease Payments payable by the City under the respective Lease Agreement, and the City has not within 90 days of such damage, defect or taking notified the Trustee of its intent to repair or replace the lost, damaged, defective or taken Leased Property, then the Trustee will immediately, upon the written direction of the City, deposit such proceeds in the respective Redemption Account and such proceeds will be applied to cause the redemption of Outstanding Bonds of the Series relating to the lost, damaged or title defective Leased Property in the manner provided in the Indenture; or

(3) If the Trustee receives a Written Request of the City to the effect that the City within 90 days of such loss, damage, defect or taking desires to repair or replace the lost, damaged, defective or taken Leased Property, accompanied by a Certificate of the City to the effect that such repair or replacement will take less than 24 months and, upon completion, the Leased Property will have a fair rental value at least equal to the fair rental value of the Leased Property prior to the damage, defect or taking, the Trustee will disburse the proceeds pursuant to subparagraph (a) above.

Accounting Records and Reports. The Corporation will keep or cause to be kept proper books of record and accounts in which complete and correct entries will be made of all transactions relating to the receipts, disbursements, allocation and application of the Revenues, and such books will be available for inspection by the Trustee, at reasonable hours and under reasonable conditions. Not more than six months after the close of each Fiscal Year, the Corporation will furnish or cause to be furnished to the Trustee a complete financial statement covering receipts, disbursements, allocation and application of Revenues for such Fiscal Year, and including a profit and loss statement and balance sheet. The Corporation will also keep or cause to be kept such other information as is required under the Tax Certificate.

Lease Agreements and Other Documents. The Corporation will at all times maintain and vigorously enforce all of its rights under the Lease Agreements, and will promptly collect all rents and charges due for the use of the Leased Property as the same become due under the Lease Agreements, and will promptly and vigorously enforce its rights against any tenant or lessee who does not pay such rents or charges as they become due under the Lease Agreements. The Corporation will not do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission of or refraining from action, would or might be a ground for cancellation, abatement or termination of the Lease Agreements by the respective lessees thereunder.

Other Liens. The Corporation will keep the Leased Property free from judgments, liens (except those arising from the acquisition of the Leased Property and except Permitted Encumbrances) and free from all claims, demands and encumbrances of whatsoever prior nature or character to the end that the security for the Bonds provided in the Indenture will at all times be maintained and preserved free from any claim or liability which might hamper the Corporation in conducting its business or interfere with the City's use and occupancy of the Leased Property, and the Trustee at its option (after first giving the Corporation ten days' written notice to comply therewith and failure of the Corporation to so comply within such period) may defend against any and all actions or proceedings in which the validity of the Indenture is or might be questioned, or may pay or compromise any claim or demand asserted in any such action or proceeding; provided, however, that in defending such actions or proceedings or in paying or compromising such claims or demands the Trustee will not in any event be deemed to have waived or released the Corporation from liability for or on account of any of its agreements and covenants contained in the Indenture, or from its liability under to defend the validity of the Indenture and the pledge of the Revenues made in the Indenture and to perform such agreements and covenants.

Continuing Disclosure. Pursuant to the Lease Agreements, the City has undertaken all responsibility for compliance with continuing disclosure requirements, and the Corporation will have no liability to the Owners or any other person with respect to S.E.C. Rule 15c2-12. The Trustee covenants and agrees that it will comply with and carry out all of its obligations under the provisions of the Continuing Disclosure Certificate and the Lease Agreements. Notwithstanding any other provision of the Indenture, failure of the City or the Trustee to comply with the Continuing Disclosure Certificate will not be considered an Event of Default; however, the Trustee may (and, upon payment of its fees and expenses, including counsel fees, and receipt of indemnity satisfactory to it, at the request of any Participating Underwriters (as defined in the Continuing Disclosure Certificate) or the Owners of at least 25% aggregate principal amount of Outstanding Bonds, will) or any Owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under the Lease Agreements, or to cause the Trustee to comply with its obligations under this heading.

The Trustee

Duties, Immunities and Liabilities of Trustee. (a) The Trustee is required, prior to an Event of Default, and after the curing or waiver of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in the Indenture and no implied duties or obligations will be read into the Indenture against the Trustee. The Trustee is required, during the existence of any Event of Default (which has not been cured or waived), to exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in its exercise as a prudent person would exercise or use under the circumstances in the conduct of his own affairs.

(b) So long as no Event of Default has occurred and is continuing, the Corporation may remove the Trustee at any time and must remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee ceases to be eligible in accordance with subsection (e) below, or becomes incapable of acting, or commences a case under any bankruptcy, insolvency or similar law, or a receiver of the Trustee or of its property will be appointed, or any public officer will take control or charge of the Trustee or its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee and the Bond Insurer, and thereupon will appoint a successor Trustee by an instrument in writing.

(c) The Trustee may resign by giving written notice of such resignation to the Corporation, the City and the Bond Insurer and by giving notice of such resignation by mail, first class postage prepaid, to the Owners at the addresses listed in the bond register. Upon receiving such notice of resignation, the Corporation will promptly appoint a successor Trustee by an instrument in writing.

(d) Any removal or resignation of the Trustee and appointment of a successor Trustee will become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee has been appointed or has accepted appointment within 45 days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee, at the expense of the Corporation, or any Owner (on behalf of himself and all other Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture must signify its acceptance of such appointment by executing and delivering to the Corporation, the Bond Insurer and its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, will become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Indenture; but, nevertheless, at the written request of the Corporation or of the successor Trustee, such predecessor Trustee will execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and will pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions set forth in the Indenture. Upon request of the successor Trustee, the Corporation and the City will execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee, such successor Trustee will mail a notice of the succession of such Trustee to the trusts by first class mail, postage prepaid, to the Owners at their addresses listed in the bond register.

(e) Any Trustee appointed under the Indenture must be a trust company, corporation or bank having the powers of a trust company, having a corporate trust office in California, having a combined capital and surplus of at least one hundred million dollars ($100,000,000), and subject to supervision or examination by federal or state authority. If such bank corporation or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this subsection the combined capital and surplus of such bank corporation or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee will cease to be eligible in accordance with the provisions of this subsection (e), the Trustee will resign immediately in the manner and with the effect specified under this heading.

(f) For such time as the Bond Insurance Policy is in full force and effect and so long as the Bond Insurer is not in default under its Bond Insurance Policy (i) the Trustee may be removed at any time, at the request of the Bond Insurer, for any breach of the Trust set forth in the Indenture; (ii) the Bond Insurer will receive prior written notice of any Trustee resignation; (iii) every successor Trustee appointed under this heading will be a trust company or bank in good standing located in or incorporated under the laws of the State, duly authorized to exercise trust powers and subject to examination by federal or state authority, having a reported capital and surplus of not less than $100,000,000 and acceptable to the Bond Insurer; and (iv) no removal, resignation or termination of the Trustee will take effect until a successor, acceptable to the Bond Insurer, will be appointed.

(g) The Trustee is not required to risk or expend its own funds or otherwise incur any financial liability in the performance of any of its duties under the Indenture if it has reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not assured to it.

(h) The Trustee is not responsible for the sufficiency, timeliness or enforceability of the Revenues.

(i) The Trustee is not accountable for the use or application by the Corporation, the City or any other party of any funds which the Trustee has released under the Indenture.

(j) The Trustee may employ attorneys, agents or receivers in the performance of any of its duties under the Indenture and is not be answerable for the misconduct of any such attorney, agent or receiver selected by it with reasonable care.

Merger or Consolidation. Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it will be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business provided such company will be eligible under the Indenture to succeed to the rights and obligations of such Trustee without the execution or filing of any paper or any further act, anything in the Indenture to the contrary notwithstanding.

Liability and Right to Rely on Documents. The Trustee is not liable for any error of judgment made in good faith by a responsible officer, unless the Trustee was negligent in ascertaining the pertinent facts. The Trustee will be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may but need not be counsel of or to the Corporation or the City, with regard to legal questions, and the opinion of such counsel will be full and complete authorization and protection in respect of any action taken or suffered by it in good faith and in accordance therewith.

Amendments

The Indenture and the rights and obligations of the Corporation, the City and of the Owners may be amended at any time by a Supplemental Indenture which be binding when the written consents of the Bond Insurer (which shall not be unreasonably withheld) and the Owners of at least a majority in aggregate principal amount of the affected Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Indenture, are filed with the Trustee. No such amendment will (i) extend the maturity of or reduce the interest rate on or otherwise alter or impair the obligation of the Corporation to pay the interest on or principal of or redemption premium, if any, on any Bond at the time and place and at the rate and in the currency provided in the Indenture without the express written consent of the Owner of such Bond; (ii) permit the creation by the Corporation of any pledge of the Revenues as provided in the Indenture superior to or on a parity with the pledge created for the benefit of the Bonds; (iii) modify any rights or obligations of the Trustee without its prior written assent thereto; or (iv) modify any provision of the Indenture expressly recognizing or granting rights in or to the Bond Insurer in any manner which affects the rights of the Bond Insurer without its prior written assent thereto.

The Indenture and the rights and obligations of the Corporation, the City and the Owners may also be amended at any time by a Supplemental Indenture which will become binding upon adoption with the written consent of the Bond Insurer (which shall not be unreasonably withheld) but without the consent of any Owners, but only to the extent permitted by law and after receipt of an approving Opinion of Counsel and only for any one or more of the following purposes:

(1) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Indenture or in regard to questions arising thereunder which the Corporation may deem desirable or necessary and not inconsistent herewith and which will not materially adversely affect the interests of the Owners; or

(2) to make any other change or addition thereto which will not materially adversely affect the interests of the Owners or the Bond Insurer, or to surrender any right or power reserved in the Indenture to or conferred in the Indenture on the Corporation; or

(3) to provide for the issuance of any Additional Bonds and to provide the terms of such Additional Bonds, subject to the conditions and upon compliance with the procedure described under the caption "THE INDENTURE — Issuance of Additional Bonds" herein.

Events of Default and Remedies of Holders

Events of Default. Any one or more of the following events is an "Event of Default" with respect to a Series of Bonds under the Indenture:

(a) default is made in the due and punctual payment of the interest on any Bond of such Series when and as the same will become due and payable;

(b) default is made in the due and punctual payment of the principal of or redemption premium, if any, on any Bond of such Series when and as the same is due and payable, whether at maturity as therein expressed or by proceedings for redemption;

(c) default is made by the Corporation or the City in the performance of any of the other agreements or covenants required in the Indenture to be performed by the Corporation or the City, respectively, and such default will have continued for a period of 60 days after the Corporation and the City will have been given notice in writing of such default by the Trustee; or

(d) the Corporation or the City files a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction will approve a petition filed with or without the consent of the Corporation or the City seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction will assume custody or control of the Corporation or of the whole or any substantial part of its property.

Proceedings by Trustee. (a) Upon the happening and continuance of any Event of Default, the Trustee in its discretion may, and at the written request of the Owners of not less than 25% in aggregate principal amount of the defaulted Bonds Outstanding will, do the following:

(1) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Owners and require the Corporation to enforce all rights of the Owners of Bonds, including the right to require the Corporation to receive and collect Revenues and to enforce its rights under the Lease Agreements and to require the Corporation to carry out any other covenant or agreement with Owners of Bonds and to perform its duties;

(2) bring suit upon the Bonds;

(3) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Owners; and

(4) as a matter of right, have a receiver or receivers appointed for the Revenues and the issues, earnings, income, products and profits thereof, pending such proceedings, with such powers as the court making such appointment will confer.

(b) Notwithstanding the foregoing, neither the Indenture nor the Bonds provide for the remedy of acceleration of principal or interest due with respect to the Bonds prior to their stated due dates.

Effect of Discontinuance or Abandonment. In case any proceeding taken by the Trustee on account of any default will have been discontinued or abandoned for any reason, or will have been determined adversely to the Trustee, then and in every such case the Corporation, the City, the Trustee and the Owners will be restored to their former positions and rights under the Indenture, respectively, and all rights, remedies and powers of the Trustee will continue as though no such proceeding had been taken.

Rights of Owners. (a) Upon the happening and continuance of any Event of Default, the Owners of not less than 25% in aggregate principal amount of the defaulted Bonds then Outstanding will have the right upon providing the Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under the Indenture.

(b) The Trustee may refuse to follow any direction that conflicts with law or the Indenture or that the Trustee determines is prejudicial to rights of other Owners or would subject the Trustee to personal liability.

Restriction on Owners' Action. In addition to the other restrictions on the rights of Owners to request action upon the occurrence of an Event of Default and to enforce the remedies set forth in the Indenture, no Owner of any of the Bonds will have any right to institute any suit, action or proceeding in equity or at law for the enforcement of any trust under the Indenture, or any other remedy under the Indenture or on said Bonds, unless such Owner previously will have given to the Trustee written notice of an Event of Default as hereinabove provided and unless the Owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding will have made written request of the Trustee to institute any such suit, action, proceeding or other remedy, after the right to exercise such powers or rights of action, as the case may be, will have accrued, and will have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers in the Indenture granted, or to institute such action, suit or proceeding in its or their name; nor unless there also will have been offered to the Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee will not have complied with such request within a reasonable time; and such notification, request and offer of indemnity declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the trusts of the Indenture or for any other remedy under the Indenture; it being understood and intended that no one or more Owners of the Bonds secured by the Indenture will have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture, or to enforce any right under the Indenture or under the Bonds, except in the manner in the Indenture provided, and that all proceedings at law or in equity will be instituted, had and maintained in the manner in the Indenture provided, and for the equal benefit of all Owners of Outstanding Bonds; subject, however, to the provisions under this heading.

Power of Trustee to Enforce. All rights of action under the Indenture or under any of the Bonds secured by the Indenture which are enforceable by the Trustee may be enforced by it without the possession of any of the Bonds, or the production thereof at the trial or other proceedings relative thereto, and any such suit, action or proceedings instituted by the Trustee will be brought in its own name, as Trustee, for the equal and ratable benefit of the Owners of the Bonds subject to the provisions of the Indenture.

Remedies Not Exclusive. No remedy in the Indenture conferred upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy will be cumulative, and will be in addition to every other remedy given under the Indenture or now or hereafter existing at law or in equity or by statute.

Waiver of Events of Default; Effect of Waiver. (a) The Trustee must waive any Event of Default upon the written request of the Owners of at least a majority in aggregate principal amount of all Outstanding defaulted Bonds. If any Event of Default has been waived as provided in the Indenture, the Trustee must promptly give written notice of such waiver to the Corporation, the City and must give notice thereof by first class mail, postage prepaid to all Owners of Outstanding defaulted Bonds if such Owners had previously been given notices of such Event of Default; but no such waiver, rescission and annulment will extend to or affect any subsequent Event of Default, or impair any right or remedy consequent thereon.

(b) No delay or omission of the Trustee or of any Owner of the Bonds to exercise any right or power accruing upon any default or Event of Default will impair any such right or power or will be construed to be a waiver of any such default or Event of Default, or an acquiescence therein; and every power and remedy given to the Trustee under the Indenture and to the Owners of the Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient.

Application of Moneys. (a) Any moneys received by the Trustee together with any moneys which upon the occurrence of an Event of Default are held by the Trustee in any of the funds and accounts under the Indenture (other than the Rebate Fund and other than moneys held for Bonds not presented for payment) will, after payment of all fees and expenses of the Trustee, and the fees and expenses of its counsel, be applied as follows:

(1) unless the principal of all of the Outstanding defaulted Bonds is due and payable,

FIRST: to the payment of the persons entitled thereto of all installments of interest then due on the defaulted Bonds, in the order of the maturity of the installments of such interest and, if the amount available will not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or privilege;

SECOND: to the payment of the persons entitled thereto of the unpaid principal of and premium, if any, on any of the defaulted Bonds which will have become due (other than Bonds matured or called for redemption for the payment of which moneys are held pursuant to the provisions of the Indenture), in the order of their due dates and, if the amount available will not be sufficient to pay in full the principal of and premium, if any, on such defaulted Bonds due on any particular date, then to the payment ratably, according to the amount due on such date, to the persons entitled thereto without any discrimination or privilege; and

THIRD to be held for the payment to the persons entitled thereto as the same is due of the principal of, interest, and premium, if any, on the defaulted Bonds, which may thereafter become due either at maturity or upon call for redemption prior to maturity and, if the amount available will not be sufficient to pay in full such principal and premium, if any, due on any particular date, together with interest then due and owing thereon, payment will be made in accordance with the FIRST and SECOND paragraphs above.

(2) if the principal of all of the Outstanding defaulted Bonds is due and payable, to the payment of the principal, and premium, if any, and interest then due and unpaid upon the Outstanding defaulted Bonds without preference or priority of any of principal, premium or interest over the others or of any installment of interest, or of any Outstanding defaulted Bond over any other Outstanding defaulted Bond, ratably, according to the amounts due respectively for principal, premium, and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective amounts of interest specified in the Outstanding defaulted Bonds.

(b) Whenever moneys are to be applied pursuant to the provisions under this heading, such moneys will be applied at such times, and from time to time, as the Trustee will determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. The Trustee will give, by mailing by first class mail as it may deem appropriate, such notice of the deposit with it of any such moneys.

Consent of the Bond Insurer Upon Default. Anything in the Indenture to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default as defined in the Indenture and during such time as the Bond Insurance Policy is in full force and effect and so long as the Bond Insurer is not in default under the Bond Insurance Policy, the Bond Insurer is entitled to receive all notices, and control and direct the enforcement of all rights and remedies granted to the Owners or the Trustee for the benefit of the Owners under the Indenture.

Defeasance

Discharge of Bonds. (a) If the Corporation will pay or cause to be paid or there will otherwise be paid to the Owners of all Outstanding Bonds of a Series the interest thereon and the principal thereof and the redemption premiums, if any, then the Owners of such Bonds will cease to be entitled to the pledge of the Revenues as provided in the Indenture, and all agreements, covenants and other obligations of the Corporation to the Owners of such Bonds thereunder will thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee will execute and deliver to the Corporation all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee will pay over or deliver to the Corporation all money or securities held by it pursuant to the Indenture which are not required for the payment of the interest on and principal of and redemption premiums, if any, on such Bonds.

(b) When any of the Bonds have been paid and if, at the time of such payment, the Corporation has kept, performed and observed all the covenants and promises in such Bonds and in the Indenture required or contemplated to be kept, performed and observed by the Corporation or on its part on or prior to that time, then the Indenture will be considered to have been discharged in respect of such Bonds and such Bonds will cease to be entitled to the lien of the Indenture and such lien and all covenants, agreements and other obligations of the Corporation will cease, terminate, become void and be completely discharged as to such Bonds.

(c) Notwithstanding the satisfaction and discharge of the Indenture or the discharge of the Indenture in respect of any Bonds, those provisions of the Indenture relating to the maturity of the Bonds, interest payments and dates thereof, tender and exchange provisions, exchange and transfer of Bonds, replacement of mutilated, destroyed, lost or stolen Bonds, the safekeeping and cancellation of Bonds, nonpresentment of Bonds, and the duties of the Trustee in connection with all of the foregoing, remain in effect and will be binding upon the Trustee and the Owners of the Bonds and the Trustee will continue to be obligated to hold in trust any moneys or investments then held by the Trustee for the payment of the principal of, redemption premium, if any, and interest on the Bonds, to pay to the Owners of Bonds the funds so held by the Trustee as and when such payment becomes due. Notwithstanding the satisfaction and discharge of the Indenture or the discharge of the Indenture in respect of any Bonds, those provisions of the Indenture relating to the tax-exempt status of interest on the Bonds and the provisions of the Indenture relating to the compensation and indemnification of the Trustee will remain in effect and will be binding upon the Trustee and the Corporation.

(d) Any Outstanding Bonds will prior to the maturity date or redemption date thereof be deemed to have been paid within the meaning of and with the effect expressed in subsections (a), (b) and (c) above if (i) in case any of such Bonds are to be redeemed on any date prior to their maturity date, the Corporation will have given to the Trustee in form satisfactory to it irrevocable instructions to mail, on a date in accordance with the provisions of the Indenture, notice of redemption of such Bonds on said redemption date, said notice to be given in accordance with the Indenture; (ii) there is required to have been deposited with the Trustee either (A) money in an amount which will be sufficient or Defeasance Securities which are not subject to redemption prior to maturity except by the holder thereof (including any such Defeasance Securities issued or held in book-entry form on the books of the Department of the Treasury of the United States of America), the interest on and principal of which when paid will provide money which, together with the money, if any, deposited with the Trustee at the same time, will, as verified by an independent Certified Public Accountant, be sufficient to pay when due the interest to become due on such Bonds on and prior to the maturity date or redemption date thereof, as the case may be, and the principal of and redemption premiums, if any, with respect to such Bonds; and (3) in the event such Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Corporation will have given the Trustee in form satisfactory to it irrevocable instructions to mail as soon as practicable, a notice to the Owners of such Bonds that the deposit required by clause (ii) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with the provisions under this heading and stating the maturity date or redemption date upon which money is to be available for the payment of the principal of and redemption premiums, if any, on such Bonds. Defeasance Securities, deposited with the Trustee may be replaced with other Defeasance Securities, subject to verification of sufficiency by an independent Certified Public Accountant, and profits, gains, income and any other economic benefits arising from such substitution will inure to the benefit of, and be paid to, the City.

(e) Notwithstanding anything in the Indenture to the contrary, in the event that the principal and/or interest due on the Bonds is paid by Bond Insurer pursuant to the Bond Insurance Policy, the Bonds will remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Corporation, and the assignment and pledge of the trust estate and all covenants, agreements and other obligations of the Corporation to the registered owners will continue to exist and will run to the benefit of Bond Insurer, and the Bond Insurer will be subrogated to the rights of such registered owners.

Unclaimed Money. Anything contained in the Indenture to the contrary notwithstanding and subject to applicable law, any money held by the Trustee in trust for the payment and discharge of any of the Bonds which remains unclaimed for two years after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for redemption prior to maturity, if such money was held by the Trustee at such date, or for two years after the date of deposit of such money if deposited with the Trustee will be repaid by the Trustee to the Corporation as its absolute property free from trust, and the Trustee will thereupon be released and discharged with respect thereto and the Owners will look only to the Corporation for the payment of such Bonds; provided, however, that before being required to make any such payment to the Corporation, the Trustee will, upon the Written Request of the Corporation and at the expense of the Corporation, cause to be published once a week for two successive weeks in a Financial Newspaper, a notice that such money remains unclaimed and that, after a date named in such notice, which date will not be less than 30 days after the date of the first publication of each such notice, the balance of such money then unclaimed will be returned to the Corporation.

Provisions Relating to Bond Insurance Policy

Notwithstanding anything to the contrary set forth in the Indenture:

(a) The Bond Insurer is deemed to be the sole holder of the Bonds insured by it for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the Owners of the Bonds insured by the Bond Insurer are entitled to take pursuant to the Indenture (pertaining to defaults and remedies), and the Trustee will take no action on such matters except with the consent, or at the direction, of the Bond Insurer.

(b) The Bond Insurer is a third-party beneficiary to the Indenture.

(c) The rights of the Bond Insurer to direct or consent to actions by the City, the Trustee or the Owners of the Bonds under the Indenture, the Equipment Lease, the Site Lease or the Facility Lease will be suspended during any period in which the Bond Insurer is in default in its payment obligations under the Bond Insurance Policy (except to the extent of amounts previously paid by the Bond Insurer and due and owing to the Bond Insurer), and such rights shall be of no force or effect in the event the Bond Insurance Policy is no longer in effect or the Insurer asserts that the Bond Insurance Policy is not in effect or the Bond Insurer shall have provided written notice that it waives such rights.

(d) The rights granted to the Bond Insurer under the Indenture, the Equipment Lease, the Site Lease or the Facility Lease to request, consent to or direct any action are rights granted to the Bond Insurer in consideration of its issuance of the Bond Insurance Policy. Any exercise by the Bond Insurer of such rights is merely an exercise of the Bond Insurer's contractual rights and will not be construed or deemed to be taken for the benefit or on behalf of the Owners of the Bonds, nor does such action evidence any position of the Bond Insurer, positive or negative, as to whether the consent of the Owners of the Bonds is required in addition to consent of the Bond Insurer.

(e) Amounts paid by the Bond Insurer under the Bond Insurance Policy will not be deemed paid for purposes of the Indenture, and any Bonds paid pursuant to a draw under the Bond Insurance Policy will remain Outstanding and continue to be due and owing until paid in accordance with the Indenture.

(f) The Indenture will not be discharged unless all amounts due or to become due to the Bond Insurer have been paid in full or duly provided for.

(g) (A) If, on the third day prior to any Interest Payment Date for the Bonds ("Payment Date") there is not on deposit with the Trustee, after making all transfers and deposits required under the Indenture, sufficient monies available to pay all principal of and interest with respect to the Bonds due on such Payment Date, the Trustee must immediately give notice to the Bond Insurer and to the Trustee or its successor as the Bond Insurer's Fiscal Agent (the "Insurer's Fiscal Agent"), if any, of the amount of such deficiency. If, by said Payment Date, the City or the Corporation has not provided the amount of such deficiency, the Trustee will simultaneously make available to the Bond Insurer and the Insurer's Fiscal Agent the registration books for the Bonds maintained by the Trustee. In addition:

> (i) The Trustee will provide the Bond Insurer with a list of the Owners entitled to receive principal or interest payments from the Bond Insurer under the terms of the Bond Insurance Policy and will make arrangements for the Bond Insurer and the Insurer's Fiscal Agent (1) to mail checks or drafts to Owners entitled to receive full or partial interest payments from the Bond Insurer and (2) to pay principal of the Bonds surrendered to Insurer's Fiscal Agent by the Owners entitled to receive full or partial principal payments from the Bond Insurer; and
>
> (ii) The Trustee will, at the time it makes the registration books available to the Bond Insurer pursuant to (i) above, notify Owners entitled to receive the payment of principal of or interest with respect to the Bonds from the Bond Insurer (1) as to the fact of such entitlement, (2) that the Bond Insurer will remit to them all or part of the interest payments coming due subject to the terms of the Bond Insurance Policy, (3) that, except as provided in paragraph (B) below, in the event that any Bond Owner is entitled to receive full payment of principal from the Bond Insurer, such Bond Owner must tender his Bond with the instrument of transfer in the form provided on the Bond executed in the name of the Bond Insurer, and (4) that, except as provided in paragraph (B) below, in the event that such Owner is entitled to receive partial payment of principal from the Bond Insurer, such Bond Owner must tender his Bond for payment first to the Trustee, which will note on such Bond the portion of principal paid by the Trustee, and then, with an acceptable form of assignment executed in the name of the Bond Insurer, to Insurer's Fiscal Agent, which will then pay the unpaid portion of principal to the Bond Owner subject to the terms of the Bond Insurance Policy.

(B) In the event that the Trustee has notice that any payment of principal of or interest with respect to a Bond has been recovered from an Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee shall, at the time it provides notice to the Bond Insurer, notify all Owners that in the event that any Owner's payment is so recovered, such Owner will be entitled to payment from the Bond Insurer to the extent of such recovery, and the Trustee shall furnish to the Bond Insurer its records evidencing the payments of principal of and interest with respect to the Bonds which have been made by the Trustee and subsequently recovered from Owners, and the dates on which such payments were made.

(h) The Bond Insurer will, to the extent it makes any payment of principal of or interest with respect to the Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Bond Insurance Policy and, to evidence such subrogation, (i) in the case of subrogation as to claims for past due interest, the Trustee will note the Bond Insurer's rights as subrogee on the Bond Register upon receipt from the Bond Insurer of proof of the payment of interest to the Owners of such Bonds and (ii) in the case of subrogation as to claims for past due principal, the Trustee will note the Bond Insurer's rights as subrogee on the Bond Register upon receipt of proof of the payment of principal to the Owners of such Bonds. Notwithstanding anything in the Indenture or the Bonds to the contrary, the Trustee will make payment of such past due interest and past due principal directly to the Bond Insurer to the extent that the Bond Insurer is a subrogee with respect thereto.

(i) The City will pay or reimburse the Bond Insurer for any and all charges, fees, costs and expenses which the Bond Insurer may reasonably pay or incur in connection with (i) the administration, enforcement, defense or preservation of any rights or security in the Indenture, the Equipment Lease, the Site Lease or the Facility Lease; (ii) the pursuit of any remedies under the Indenture, the Equipment Lease, the Site Lease or the Facility Lease or the pursuit of such other remedy otherwise afforded by law or equity, (iii) any amendment, waiver or other action with respect to or related to the Indenture, the Equipment Lease, the Site Lease or the Facility Lease, (iv) the violation by the City of any law, rule or regulation, or any judgment, order or decree applicable to it, (v) any advances or payments made by the Bond Insurer to cure defaults of the City under the Indenture, the Equipment Lease, the Site Lease or the Facility Lease, or (vi) any litigation or other dispute in connection with the Indenture, the Equipment Lease, the Site Lease or the Facility Lease or the transactions contemplated thereby; provided, however, that the City will not pay or reimburse the Bond Insurer any amounts resulting from the failure of the Bond Insurer to honor its obligations under the Bond Insurance Policy. The Bond Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent. The obligations of the City to the Bond Insurer will survive discharge and termination of the Equipment Lease and the Facility Lease.

(j) Reserved.

(k) Any acceleration or annulment of payments due with respect to the Bonds will be subject to the prior written consent of the Bond Insurer (if it has honored its obligations under the Bond Insurance Policy).

(l) The Bond Insurer will be provided with the following information:

(i) Annual audited financial statements, together with a statement of the amount on deposit in the Reserve Fund as of the last valuation, within 365 days after the end of the City's fiscal year or within 30 days of such financial statements becoming available and the City's annual budget within 30 days after the approval thereof;

(ii) Notice of any draw upon or deficiency due to market fluctuation in the amount on deposit in the Reserve Fund within two Business Days after knowledge thereof other than (i) withdrawals of amounts in excess of the Reserve Requirement and (ii) withdrawals in connection with a refunding of Bonds;

(iii) Notice of any default known to the Trustee immediately after knowledge thereof;

(iv) Notice of the commencement of any proceeding by or against the City or the Corporation commenced under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law;

(v) Notice of the making of any claim in connection with any proceeding referred to in subsection (l)(iv) above seeking the avoidance as a preferential transfer of any payment of principal of, or interest on, the Bonds;

(vi) Notice of any material events pursuant to Rule 15c2-12 of the Securities Exchange Act of 1934;

(vii) Notice of the redemption, other than mandatory sinking fund redemption, of any Bonds, or of any advance refunding of the Bonds, including the principal amount, maturities and CUSIP numbers thereof;

(viii) The official statement or other disclosure document, if any, prepared in connection with the issuance of Additional Bonds, whether or not such Additional Bonds are on parity with the Bonds; and

(ix) Such additional information as the Bond Insurer may reasonably request from time to time.

THE EQUIPMENT LEASE AGREEMENT

Agreement to Lease; Term of Lease

Agreement. Pursuant to the Equipment Lease Agreement, the Corporation agrees to lease the Equipment to the City on the terms and conditions set forth in the Equipment Lease Agreement. The City also agrees and covenants during the Term of the Equipment Lease Agreement that, except as expressly provided in the Equipment Lease Agreement, it will use the Equipment solely for public and municipal purposes so as to afford the public the benefit contemplated by the Equipment Lease Agreement and so as to permit the Corporation to carry out its agreements and covenants contained in the Indenture and further agrees that it will not abandon the Equipment.

Term of Agreement. The Term of the Equipment Lease Agreement will commence on the Closing Date, and will end on August 1, 2014, unless such term is otherwise terminated or extended as hereinafter provided. If on August 1, 2014, the Bonds have not been discharged by their terms, or if the Lease Payments payable under the Equipment Lease Agreement will have been abated at any time and for any reason, then the Term of the Equipment Lease Agreement will be extended until the Indenture is discharged by its terms (but not later than August 1, 2017). If prior to August 1, 2037, the Bonds have been discharged by their terms, the Term of the Equipment Lease Agreement will thereupon end.

Possession. The City agrees to accept possession and use of the Equipment as the fee owner thereof on the Closing Date, and will pay the first Basic Lease Payment on January 15, 2008.

Lease Payments, Basic Lease Payments

Obligation to Pay. Subject to the provisions described under the captions "THE EQUIPMENT LEASE AGREEMENT — Damage, Destruction and Use of Net Proceeds" and "— Prepayment of Lease Payments" herein, the City agrees to pay to the Corporation, its successors and assigns, as rental for the use and occupancy of the Equipment during each Rental Period, the Basic Lease Payments for all of the Equipment in the respective amounts specified in Exhibit B, to be due and payable on the respective Lease Payment Dates specified in Exhibit B to the Equipment Lease Agreement, plus the Additional Payments required under the Equipment Lease Agreement. Any amount held in the Series 2007-A Interest Account or the Series 2007-A Principal Account of the Series 2007-A Bond Fund on any Lease Payment Date (other than amounts resulting from the prepayment of the Basic Lease Payments in part but not in whole pursuant to "— Prepayment of Lease Payments" herein and other amounts required for payment of past due principal of or interest on any Bonds not presented for payment or otherwise) will be credited towards the Basic Lease Payment next due and payable; and no Basic Lease Payment need be made on any Lease Payment Date if the amounts then held in the Series 2007-A Interest Account and Series 2007-A Principal Account of the Series 2007-A Bond Fund and available for such purpose are at least equal to the Basic Lease Payment then required to be paid. The Lease Payments for the Equipment payable in any Rental Period is for the use of such Equipment for such Rental Period. Notwithstanding any dispute between the Corporation and the City, the City will make all Basic Lease Payments when due and will not withhold any Basic Lease Payment pending final resolution of the dispute.

Effect of Prepayment. If the City prepays all remaining Lease Payments, the City's obligations under the Equipment Lease Agreement will cease and terminate, including but not limited to the City's obligation to pay Basic Lease Payments, subject however, to the provisions of the Equipment Lease Agreement in the case of prepayment by application of a security deposit. If the City purchases the Equipment pursuant to the Equipment Lease Agreement or prepays the Lease Payments in part but not in whole as a result of any insurance or condemnation award with respect to the Equipment such prepayment will be credited entirely towards the prepayment of the Lease Payments allocable to such Equipment as follows: (i) Additional Payments due or to become due pursuant to the Equipment Lease Agreement attributable to such purchased Equipment will be paid or provided for through the date of such deposit, (ii) the principal components of each remaining Basic Lease Payment will be reduced on a pro rata basis in integral multiples of $5,000; and (iii) the interest component of each remaining Basic Lease Payment attributable to such Equipment will be reduced by the aggregate corresponding amount of interest which would otherwise be payable with respect to the Bonds thereby redeemed pursuant to the Indenture.

Rate on Overdue Payments. If the City should fail to make any of the Basic Lease Payments, the payment in default will continue as an obligation of the City until the amount in default will have been fully paid. The City agrees to pay the same with interest thereon, to the extent permitted by law, from the date of default to the date of payment at the rate equal to the applicable Bond Yield.

Budget and Appropriation. The City covenants to take such action as may be necessary to include all Lease Payments due in its annual budgets and to make the necessary annual appropriations for all such Lease Payments. In so providing for the payment of Lease Payments in its annual budgets, the City may take into account moneys on deposit in the various Funds and accounts under the Indenture that are properly available to make Lease Payments. The covenants on the part of the City in the Equipment Lease Agreement are deemed to be and will be construed to be ministerial duties imposed by law and it is the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such official to enable the City to carry out and perform the covenants and agreements in the Equipment Lease Agreement agreed to be carried out and performed by the City. The obligations of the City to make Basic Lease Payments or Additional Payments do not constitute obligations for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. Neither the Bonds nor the obligation of the City to make Basic Lease Payments or Additional Payments constitutes an indebtedness of the City, the State or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

Assignment. The City understands and agrees that all Basic Lease Payments have been assigned by the Corporation to the Trustee in trust for the benefit of the Owners of the Bonds, and the City consents to such assignment. The Corporation has directed the City, and the City has agreed to pay to the Trustee at the Principal Corporate Trust Office of the Trustee, all payments payable by the City required as described under the caption "THE EQUIPMENT LEASE AGREEMENT — Lease Payments, Basic Lease Payments" and "—Prepayment of Lease Payments" herein and all amounts payable by the City as described under the caption "—Prepayment of Lease Payments" herein.

Quiet Enjoyment; Inspection. During the Term of the Equipment Lease Agreement, the Corporation will provide the City with enjoyment of the Equipment, and the City will during such Term peaceably and quietly have and hold and enjoy the Equipment, without suit, trouble or hindrance from the Corporation, except as expressly set forth in the Equipment Lease Agreement. The Corporation will, at the request of the City and at the City's cost, join in any legal action in which the City asserts its right to such possession and enjoyment to the extent the Corporation may lawfully do so. Notwithstanding the foregoing, the Corporation has the right to inspect the Equipment as provided in the Equipment Lease Agreement.

Corporation Interest. During the Term of the Equipment Lease Agreement, the Corporation will hold an ownership interest in the Equipment. If the City prepays the Lease Payments for all of the Equipment in full pursuant to the Equipment Lease Agreement or makes the advance deposit permitted by the Equipment Lease Agreement, or pays all Lease Payments for all of the Equipment during the Term of the Equipment Lease Agreement as the same become due and payable, all right, title and interest of the Corporation in the Equipment will be transferred to and vested in the City and the Equipment Lease Agreement will terminate with respect to such Equipment.

Additional Payments. In addition to the Basic Lease Payments, the City will pay as Additional Payments (i) all taxes, fees or assessments levied upon it with respect to ownership, leasing, subleasing, rental, sale, purchase, possession or use of the Equipment, (ii) insurance premiums, if any, on insurance required under the Equipment

Lease Agreement, (iii) all fees and expenses of the Trustee, and expenses of the City required to comply with the Equipment Lease Agreement and the Indenture, (iv) any other fee, costs, or expenses incurred by the Corporation in connection with the execution, performance or enforcement of the Equipment Lease Agreement or the Indenture, including any amounts necessary to indemnify and defend the Corporation, and (v) any amounts required to be paid to the United States government pursuant to Section 148 of the Internal Revenue Code. Additional Payments due under the Equipment Lease Agreement will be paid by the City directly to the person or persons to whom such amounts are payable. The City will pay all such amounts when due or within thirty (30) days after notice in writing from the Trustee to the City stating the amount of Additional Payments then due and payable and the purpose thereof.

Maintenance; Taxes; Insurance and Other Matters

Maintenance; Taxes and Assessments. During the Term of the Equipment Lease Agreement, as part of the consideration for the rental of the Equipment, all modification, repair and maintenance of the Equipment is the responsibility of the City. In exchange for the Lease Payments, the Corporation agrees to lease the Equipment to the City. The City will, at its own expense, during the Term of the Equipment Lease Agreement maintain the Equipment, or cause the same to be maintained, in good order, condition and repair and will replace any Equipment or portion of the Equipment which is lost, stolen or destroyed; provided that the City will not be required to repair or replace any such portion of the Equipment pursuant to the Equipment Lease Agreement if there will be applied to the prepayment of Basic Lease Payments Net Proceeds or other legally available funds sufficient to prepay (i) all of the Series 2007-A Bonds Outstanding or (ii) any portion thereof relating to the Equipment or such portion thereof and the Basic Lease Payments allocable to the remaining portion of the Equipment will be sufficient to pay principal and interest on the Bonds Outstanding after such prepayment. The City will provide or cause to be provided all mechanical service and other services necessary for the proper upkeep and maintenance of the Equipment. It is understood and agreed that in consideration of the payment by the City of the rental, the City is entitled to possess and use the Equipment, and no other party will have any obligation to incur any expense of any kind or character in connection with the management, operation or maintenance of the Equipment during the Term of the Equipment Lease Agreement. The Corporation will not be required at any time to make any modifications, alterations, changes, additions, repairs or replacements of any nature whatsoever in or to the Equipment. The City expressly waives the right to make repairs or to perform maintenance of the Equipment at the expense of the Corporation. The City will keep the Equipment free and clear of all liens, charges and encumbrances, subject only to the provisions described under the caption "Liens" below.

The City will also pay or cause to be paid all taxes, charges, fees and assessments of any type or nature, if any, charged to the Corporation or the City affecting the Equipment or their respective interests therein; provided that with respect to any assessments, fees or other charges that may lawfully be paid in installments over a period of years, the City is obligated to pay only such installments as are required to be paid during the Term of the Equipment Lease Agreement as and when the same become due.

The City may, at the City's expense and in its name, in good faith contest any such taxes, assessments and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Corporation will notify the City that, in the opinion of Independent Counsel, by nonpayment of any such items, the interest of the Corporation in the Equipment or use of the Equipment will be materially endangered or the Equipment or any part thereof will be subject to loss or forfeiture, in which event the City will promptly pay such taxes, assessments or charges or provide the Corporation with full security against any loss which may result from nonpayment, in form satisfactory to the Corporation and the Trustee.

Public Liability and Equipment Damage Insurance. The City will maintain or cause to be maintained, commencing upon its possession of the Equipment pursuant to the Equipment Lease Agreement and thereafter throughout the Term of the Equipment Lease Agreement, a program of general liability insurance protecting the Corporation, the City, and their respective officers, directors, agents, assigns and employees. Such program will provide for indemnification of said parties against loss or liability for damages for bodily and personal injury, death or property damage occasioned by use of the Equipment. Such insurance will be satisfied by a risk retention program.

Rental Interruption Insurance. The City will procure and maintain, commencing upon its possession of the Equipment pursuant to the Equipment Lease Agreement, and throughout the Term of the Equipment Lease Agreement rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of any part of the Equipment for a period of 24 months during the Term of the Equipment Lease Agreement as a result of any of the hazards covered in the Equipment Lease Agreement, in an amount to insure against loss of substantial use and possession of the Equipment. Loss under this insurance will be adjusted with the City and will be paid to the City and to the Trustee as their interests may appear, and will be credited towards the Lease Payments in the order in which such Lease Payments come due and payable.

Collision and Extended Coverage Insurance. The City will procure and maintain, or cause to be procured and maintained, commencing upon its possession of the Equipment pursuant to the Equipment Lease Agreement (which will be immediate with respect to the Public Works Property Component and will occur with respect to the Police Headquarters Property Component when the City commences use and occupancy of the Police Headquarters Facility), and thereafter throughout the Term of the Equipment Lease Agreement, insurance against loss or damage to any structures or equipment constituting any part of the Equipment by collision, fire, loss and theft, with extended coverage and vandalism and malicious mischief insurance, which coverage may exclude earthquake insurance. Said extended coverage insurance will, as nearly as practicable, cover loss or damage by such other hazards as are normally covered by such insurance. Such insurance will be in an amount equal to 100% of the replacement cost of the Equipment (including all modifications thereon) (it being understood and agreed that in the event of the loss of such Equipment and the redemption of Series 2007-A Bonds from the Net Proceeds of such insurance, that the remaining Equipment will have a fair rental value equal to or exceeding the remaining Lease Payments). Such insurance may be subject to deductible clauses of not to exceed $100,000 for any one loss. Such insurance may be satisfied by a combination of commercial insurance, risk pooling under a joint powers authority or similar statutory provision, self-funded loss reserves and, to the extent permitted by law, risk retention programs all in such proportions as are deemed appropriate by professional risk management personnel or independent consultants. The City will include in its annual budget an item to provide funds for commercial insurance covering physical property damage to the Equipment.

Without limiting the specific purposes of the budgeted item mentioned above, the City covenants that it will use such budgeted funds and the proceeds of any purchased insurance to accomplish one of the following purposes in the event of the loss or destruction of or unrepaired damage to any portion of the Equipment which would otherwise result in abatement of all or a portion of the Basic Lease Payments:

(1) to acquire or repair diligently (at the City's cost) replacement Equipment having a useful life not less than the remaining Lease Term of the Equipment so lost, destroyed or damaged to be and become subject to the Equipment Lease Agreement at a cost such that the total fair market rental value of the Equipment leased pursuant to the Equipment Lease Agreement (including such replacement Equipment) is not less than the then fair market rental value of the Equipment originally scheduled to be leased thereunder;

(2) to deposit with the Trustee, as assignee of the Corporation, in a special account to be held in trust by the Trustee, an amount (not less than $50,000) sufficient, under the Equipment Lease Agreement, to purchase the portion of the Equipment so destroyed or irreparably damaged, and to instruct the Trustee at the time of said deposit that said amount is to be used as a special fund for prepayment of Basic Lease Payments pertaining to the Equipment destroyed or irreparably damaged; or

(3) to apply such funds as provided funds as provided under the caption "THE EQUIPMENT LEASE AGREEMENT —Damage, Destruction and Use of Net Proceeds — Application of Net Proceeds" herein and as provided in the Indenture to redeem Bonds so that the Basic Lease Payments to be made on the remaining Equipment will be sufficient to pay principal of and interest on the Bonds that remain Outstanding.

To the extent that an event of loss, destruction or unrepaired damage should result in an abatement of Basic Lease Payments pending the acquisition of a replacement Equipment pursuant to paragraph (1) above, the City may substitute replacement Equipment for the Equipment so lost, stolen, destroyed or damaged to be and become subject to the Equipment Lease Agreement, such replacement Equipment having a fair rental value such that the total fair rental value of the Equipment leased pursuant to the Equipment Lease Agreement (including such replacement Equipment) is not less than the then fair rental value of the Equipment originally leased thereunder. The City may also make such a substitution of Equipment as an alternative to taking the actions described in paragraphs (1) and (2) above.

Workers' Compensation Insurance. If required by State law, the City will carry workers' compensation insurance covering all employees on, in, near or about the Equipment and, upon request, shall furnish to the Corporation certificates evidencing such coverage throughout the Term of the Equipment Lease Agreement.

Insurance Net Proceeds; Form of Policies; Certificates of Effectiveness. The Equipment Lease Agreement requires that both the fire and extended coverage insurance and the rental interruption insurance (but not the workers' compensation insurance) name the Trustee as a loss payee as its interests may appear and will provide that all proceeds thereunder are payable to the Trustee and applied as provided under the caption "THE EQUIPMENT LEASE AGREEMENT— Damage, Destruction and Use of Net Proceeds — Application of Net Proceeds" herein. The City will pay or cause to be paid when due the premiums for all insurance policies required by the Equipment Lease Agreement, and will promptly furnish or cause to be furnished to the Trustee on or before September 1 annually a certificate of a City Representative stating that such payments have been made and that the insurance policies required by the Equipment Lease Agreement are in force and effect. In addition, the City will annually certify to the Bond Insurer that the insurance policies required by the Equipment Lease Agreement are in full force and effect and will provide the Bond Insurer with copies of such policies upon request. All such policies will provide that the Trustee will be given thirty (30) days' notice of each expiration, any intended cancellation thereof or any reduction of the coverage provided thereby. The Trustee is not responsible for the sufficiency of any insurance required by the Equipment Lease Agreement and will be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the Trustee.

Advances. If the City will fail to perform any of its obligations set forth under the caption "THE EQUIPMENT LEASE AGREEMENT— Damage, Destruction and Use of Net Proceeds" herein, the Corporation may, but is not be obligated to, take such action as may be necessary to cure such failure, including the advancement of money, and the City will be obligated to repay all such advances as soon as possible, with interest at the rate equal to the Bond Yield (or, if less, at the maximum rate permitted by law) from the date of the advance to the date of repayment.

Installation of the City's Equipment. The City may at any time and from time to time, in its sole discretion and at its own expense, install other items of equipment in or upon the Equipment. All such items so identified will remain the sole property of the City, in which neither the Corporation nor the Trustee will have any interest, and may be modified or removed by the City at any time, provided that the City shall repair and restore any and all damage to the Equipment resulting from the installation, modification or removal of any such items. Nothing in the Equipment Lease Agreement will prevent the City from purchasing items to be installed under this heading under a conditional sale or lease-purchase contract, or subject to a vendor's lien or security agreement, as security for the unpaid portion of the purchase price thereof, provided that no such lien or security interest will attach to any part of the Equipment.

Liens. During the Equipment Lease Term, the City will not, directly or indirectly, create, incur, assume or suffer to exist any pledge, lien, charge, encumbrance or claim on or with respect to the Equipment or on or with respect to the real property where the Equipment will be located, other than the respective rights of the Corporation and the City as provided in the Equipment Lease Agreement, and Permitted Encumbrances; provided however the City may create, incur, assume or suffer to exist (i) a leasehold interest in the property where the Equipment will be located, or (ii) a mortgage, deed of trust or similar lien on the property where the Equipment will be located if the City provides the Corporation with a mortgagee's waiver or similar waiver in form and substance acceptable to the Corporation. Except as expressly provided under the caption "THE EQUIPMENT LEASE AGREEMENT— Damage, Destruction and Use of Net Proceeds" herein, the City must promptly, at its own expense, take such action as may be necessary to duly discharge or remove any such pledge, lien, charge, encumbrance or claim, if the same will arise at any time. The City will reimburse the Corporation for any expense incurred by the Corporation in order to discharge or remove any such pledge, lien, charge, encumbrance or claim.

Substitution of Equipment. The City, with the prior written consent of the Bond Insurer (which such consent shall not be unreasonably withheld), may substitute for all, or a portion of the Equipment, other property of comparable value, and of a comparable essential nature to the City, and having a remaining useful life not less than the useful life of the portion of Equipment substituted for, but only by providing the Trustee and the Rating Agencies with a written certificate describing both the new Equipment and the Equipment for which it is to be substituted, and stating that such portion of Equipment is of comparable value and has a useful life not less than the useful life of the Equipment described in Exhibit A of the Equipment Lease Agreement for which it is being substituted, a financing statement for the new Equipment. All costs and expenses incurred in connection with such substitution including without limitation the cost of acquiring such Equipment will be borne by the City unless the Corporation elects to bear the cost of acquiring the replacement Equipment. In the event of such substitution, the Equipment substituted for the original Equipment will become fully subject to the terms of the Equipment Lease Agreement. Notwithstanding any substitution of Equipment under this heading, there will be no reduction in the Basic Lease Payments due from the City thereunder and there will be no reduction in the aggregate fair rental value of the Equipment as a result of such substitution.

Damage, Destruction and Use of Net Proceeds

Damage; Eminent Domain. The City covenants that if any item of Equipment is damaged in a manner which substantially interferes with its use, such Equipment will be promptly repaired or replaced at the City's expense, unless (a) such damage, together with other components of the Equipment lost, damaged or destroyed, would not result in the abatement of any portion of the Lease Payments because, for example, the fair rental value of the remaining useable Equipment is sufficient to support the Lease Payments unabated, or (b) the City elects to apply the Net Proceeds of insurance and any other legally available funds to the redemption of Bonds pursuant to the Indenture such that the Basic Lease Payments for the undamaged Equipment will be sufficient to pay principal of and interest on the Bonds that remain Outstanding. If all of the Equipment is taken permanently under the power of condemnation or eminent domain or sold to a government threatening to exercise the power of eminent domain, the Term of the Equipment Lease Agreement will cease as of the day possession is so taken. If less than all of the Equipment is taken permanently, or if all of the Equipment or any part thereof is taken temporarily, under the power of eminent domain, (i) the Equipment Lease Agreement will continue in force and effect and will not be terminated by virtue of such taking and the parties waive the benefit of any law to the contrary, and (ii) there is a partial abatement of Lease Payments as a result of the application of the Net Proceeds of any condemnation or eminent domain award to the prepayment of the Lease Payments thereunder, in an amount to be agreed upon by the City and the Corporation such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portion of the Equipment.

Application of Net Proceeds.

From Insurance Proceeds. The Net Proceeds of any insurance award resulting from any damage to or destruction of any of the Equipment by fire or other casualty is required to be deposited in the Insurance Proceeds and Condemnation Awards Fund by the Trustee promptly upon receipt thereof and applied as described under the caption "THE INDENTURE — Covenants of the Corporation, the City and the Trustee— Insurance Proceeds and Condemnation Awards; Title Insurance" herein.

From Eminent Domain Award. The Net Proceeds of any condemnation or eminent domain award is required to be deposited in the Insurance Proceeds and Condemnation Awards Fund and applied as described under the caption "THE INDENTURE — Covenants of the Corporation, the City and the Trustee — Insurance Proceeds and Condemnation Awards; Title Insurance" herein.

Abatement. Lease Payments will be abated during any period in which by reason of damage, destruction or otherwise (other than by condemnation or eminent domain which is provided for above) there is substantial interference with the use and possession or occupancy by the City of the Equipment, so that the remaining Lease Payments then due for use of the Equipment that was not affected are not greater than the fair rental for use of the unaffected Equipment. The City and the Corporation will calculate the rental abatement amount on an annual basis taking into account the entire twelve month period commencing August 1 within which the damage or destruction occurs. If at any time it is necessary to calculate rental abatement, for purposes of calculation for any twelve month period commencing August 1 and ending on the immediately following July 31, the total amount of Lease Payment payable within such twelve month period will be divided by 365 days (except for twelve-month periods including February 29, 2008, 2012 and 2016, in which case the divisor will be 366 days). The maximum amount of daily rental abatement for such twelve-month period will not exceed the result of such calculation. Such abatement will continue for the period commencing with such interruption of use and ending with the substantial completion of the work of repair or replacement. In the event of any such interruption of use, the Equipment Lease Agreement will continue in full force and effect and the Lease Payments will not be subject to abatement under this heading to the extent that the proceeds of rental interruption insurance or amounts in the Reserve Fund are available to pay Lease Payments which would otherwise be abated under this heading, it being declared that such proceeds and amounts constitute special funds for the payment of the Lease Payments.

Warranties; Access

Disclaimer of Warranties. The Equipment Lease Agreement provides that the Equipment is delivered as is and the Corporation does not make any warranty or representation, either express or implied, as to the value, design, condition, merchantability or fitness for any particular purpose or fitness for the use contemplated by the City of the Equipment, or any other representation or warranty with respect to the Equipment. In no event will the Corporation be liable for any actual, incidental, consequential or other damages or to any person in connection with or arising out of the Equipment Lease Agreement or the Equipment or the use of the Equipment.

Contractor's Warranties. Under the Equipment Lease Agreement, the Corporation assigns to the City for and during the Term of the Equipment Lease Agreement all of its interest in all Manufacturer's or Vendor's warranties and guarantees, express or implied, issued on or applicable to the Equipment, if any, and the Corporation authorizes the City to obtain the customary services furnished in connection with such warranties and guarantees at the City's expense. The City acknowledges that the Corporation does not make, and has not made, any representation or warranty whatsoever as to the existence or availability of such Contractor warranties or guarantees under the Equipment Lease Agreement.

Selection of Equipment. The Equipment has been selected by the City, and the Corporation has not had and will have no responsibility in connection with the selection of the Equipment or its suitability for the use intended by the City.

Installation and Maintenance of Equipment. The Corporation will have no obligation to install, erect, test, inspect, service or maintain the Equipment under any instances, but such actions will be the obligation of the City.

Access to the Equipment. The City agrees that the Corporation and any Corporation Representative, and the Corporation's successors or assigns, will have the right at all reasonable times to inspect the Equipment. The City further agrees that the Corporation, any Corporation Representative, and the Corporation's successors or assigns will have such rights of access to the Equipment as may be reasonably necessary to cause the proper maintenance of the Equipment in the event of failure by the City to perform its obligations hereunder; provided, however, that neither the Corporation nor the Corporation's assigns will have any obligation to cause such proper maintenance.

Release and Indemnification Covenants. Under the Equipment Lease Agreement, the City agrees to indemnify and save the Corporation and the Trustee, and their respective officers, agents, successors and assigns, harmless from and against all claims, losses and damages, including legal fees and expenses, arising out of (i) the use, maintenance, condition or management of, or from any work or thing done with the Equipment by the City including without limitation, as a result of the use, presence, storage, disposal or release of any hazardous waste by any item of Equipment, (ii) any breach or default on the part of the City in the performance of any of its obligations under the Equipment Lease Agreement, (iii) any act of negligence of the City or of any of its agents, contractors, servants, employees or licensees with respect to the Equipment, or (iv) any act or negligence of any sublessee of the City with respect to the Equipment. No indemnification is made in the Equipment Lease Agreement for willful misconduct, negligence, or breach of duty under the Equipment Lease Agreement by the Corporation, its officers, agents, employees, successors or assigns.

Assignment, Subleasing and Amendment

Assignment by the Corporation. The Corporation's rights under the Equipment Lease Agreement, including the right to receive and enforce payment of the Lease Payments to be made by the City under the Equipment Lease Agreement have been pledged and assigned to the Trustee to which pledge and assignment the City consents.

Assignment and Subleasing by the City. The Equipment Lease Agreement may not be assigned by the City. The City may sublease the Equipment or any portion thereof, subject to all of the following conditions:

(1) The Equipment Lease Agreement and the obligation of the City to make Lease Payments thereunder remain obligations of the City;

(2) The City will, within thirty (30) days after the delivery thereof, furnish or cause to be furnished to the Corporation and the Trustee a true and complete copy of such sublease;

(3) No such sublease by the City or any further sublease or use of such Equipment will cause any of the Equipment to be used for a purpose other than as may be authorized under the provisions of the Constitution, the laws of the State or the City Charter;

(4) The City will furnish the Corporation and the Trustee with a written opinion of Special Tax Counsel, stating that such sublease and any use related to such subleased does not cause the interest on the Bonds to be included in gross income for federal income tax purposes and that such sublease complies with the requirements described under this heading;

(5) Each sublease and all further subleases will be subject to termination upon default by the City thereunder and will not diminish the rights and remedies of the Trustee to the Equipment thereon in such event of a default;

(6) Each sublease and subsequent sublease will contain such provisions for the maintenance of insurance on any improvements constructed on the sublease Equipment and such provisions for the allocation of proceeds from such insurance and the allocation of proceeds from eminent domain or condemnation proceedings as is satisfactory in the opinion of Independent Counsel to maintain the rights of the Trustee to such proceeds;

(7) Each sublease and subsequent sublease will contain provisions securing the timely payment of all taxes, fees, charges and assessments arising from or related to on the subleased Equipment, and securing such Equipment from the establishment and maintenance of any mechanics or other liens for labor or materials furnished in connection with such improvements;

(8) Prior to any sublease becoming effective, the City will furnish the Trustee such opinions of counsel and certificates to evidence the satisfaction of the above conditions precedent to sublease.

Amendment of the Equipment Lease Agreement. Except as set forth below, the City will not alter, modify or cancel, or agree or consent to alter, modify or cancel the Equipment Lease Agreement excepting only such alteration or modification as may be permitted by the Indenture. The Equipment Lease Agreement may be amended without the consent of the Owners of the Bonds for any of the following purposes:

(1) to add to the agreements, conditions, covenants and terms contained in the Equipment Lease Agreement required to be observed or performed by the City or the Corporation, other agreements, conditions, covenants and terms hereafter to be observed or performed by the City or the Corporation, or to surrender any right reserved in the Equipment Lease Agreement to or conferred in the Equipment Lease Agreement on the City or the Corporation, and which in either case will not adversely affect the interests of the Owners;

(2) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Equipment Lease Agreement or in regard to questions arising under the Equipment Lease Agreement which the City or the Corporation may deem desirable or necessary and not inconsistent herewith, and which will not materially adversely affect the interests of the Owners;

(3) to modify, add or delete the description of Equipment, or to provide for substitution or addition of Equipment pursuant to the Equipment Lease Agreement;

(4) to make any modifications or changes to the Equipment Lease Agreement including any increase or decrease in Basic Lease Payments resulting therefrom in order to enable the execution and delivery of Additional Bonds on a parity with the Bonds (unless otherwise provided in any Supplemental Indenture) in accordance with the Indenture and to make any modifications or changes necessary or appropriate in connection with the execution and delivery of Additional Bonds;

(5) to reflect the substitution of the Equipment under the Equipment Lease Agreement; or

(6) to make any other modification or change to the provisions of the Equipment Lease Agreement which does not materially adversely affect the interests of the Owners of the Bonds.

Any provision of the Equipment Lease expressly recognizing or granting rights in or to the Bond Insurer may not be amended in any manner which affects the rights of the Bond Insurer thereunder without the prior written consent of the Bond Insurer which consent shall not be unreasonably withheld. The Bond Insurer reserves the right to charge the City a fee for any consent or amendment to the Equipment Lease while the Bond Insurance Policy is outstanding.

Events of Default and Remedies

Event of Default Defined. The following are "events of default" under the Equipment Lease Agreement:

(1) Failure by the City to pay any Basic Lease Payment or other payment required to be paid thereunder at the time specified in the Equipment Lease Agreement, and the continuation of such failure for a period of ten (10) days.

(2) Failure by the City to observe and perform any covenant, condition or agreement in the Equipment Lease Agreement or the Indenture on its part to be observed or performed, other than as referred to in clause (1) above, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied has been given to the City by the Corporation, the Trustee, or the Owners of not less than five percent (5%) in aggregate principal amount of Bonds then Outstanding; provided, however, if the failure stated in the notice can be corrected, but not within the applicable period, the Corporation, the Trustee and such Owners will not unreasonably withhold their consent to an extension of such time if the Trustee receives a certificate from a City Representative to the effect that corrective action is being instituted by the City within the applicable period and is being diligently pursued to correct the default.

(3) The filing by the City of a voluntary petition in bankruptcy, or failure by the City promptly to lift any execution, garnishment or attachment, or adjudication of the City as a bankrupt, or assignment by the City for the benefit of creditors, or the entry by the City into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the City in any proceedings instituted under the provisions of the Federal Bankruptcy Code, as amended, or under any similar acts which may hereafter be enacted.

Remedies on Default. Whenever any event of default under the Equipment Lease Agreement occurs and is continuing, the Corporation may exercise any and all remedies available pursuant to law or granted pursuant to the Equipment Lease Agreement; provided, however, that notwithstanding anything in the Equipment Lease Agreement or in the Indenture to the contrary, there is no right under any circumstances to accelerate the Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable. Each and every covenant under the Equipment Lease Agreement to be kept and performed by the City is expressly made a condition and upon the breach thereof the Corporation may exercise any and all rights of entry upon premises where the Equipment may be held and repossess such Equipment, and also, at its option, with or without such repossession, may terminate the Equipment Lease Agreement; provided that no acts of the parties may terminate the City's obligation to make the Lease Payments except only in the manner expressly provided in the Equipment Lease Agreement. In the event of such default and notwithstanding any re-entry by the Corporation or termination of the Equipment Lease Agreement, the City will, as expressly provided in the Equipment Lease Agreement, continue to remain liable for the payment of the Lease Payments and/or damages for breach of the Equipment Lease Agreement and the performance of all conditions contained in the Equipment Lease Agreement and, in the event such rent and/or damages is payable to the Corporation at the time and in the manner as provided in the Equipment Lease Agreement, to wit:

(a) If the Corporation does not elect to terminate the Equipment Lease Agreement in the manner hereinafter provided for in subparagraph (b) below, the City agrees to and will remain liable for the payment of all Lease Payments and the performance of all conditions contained in the Equipment Lease Agreement and will reimburse the Corporation for any deficiency arising out of the re-leasing of the Equipment or, in the event the Corporation is unable to re-lease the Equipment, then for the full amount of all Lease Payments to the end of the Term of the Equipment Lease Agreement, but said Lease Payments and/or deficiency is payable only at the same time and in the same manner as hereinabove provided for the payment of Lease Payments thereunder, notwithstanding any suit brought by the Corporation for the purpose of obtaining possession of the Equipment or exercise of any other remedy by the Corporation. The City irrevocably appoints the Corporation as the agent and attorney-in-fact of the City to obtain possession and re-lease the Equipment in the event of default by the City in the performance of any covenants contained in the Equipment Lease Agreement to be performed by the City, for the account of and at the expense of the City, and the City exempts and agrees to save harmless the Corporation from any costs, loss or damage whatsoever arising or occasioned by any such possession and re-leasing of the Equipment. The City waives any and all claims for damages caused or which may be caused by the Corporation in re-entering any premises where the Equipment may be held and taking possession of the Equipment as provided in the Equipment Lease Agreement and all claims for damages that may result from the destruction of or injury to the Equipment. The City agrees that the terms of the Equipment Lease Agreement constitute full and sufficient notice of the right of the Corporation to re-lease the Equipment in the event of such re-entry without effecting a surrender of the Equipment Lease Agreement, and further agrees that no acts of the Corporation in effecting such re-leasing will constitute a surrender or termination of the Equipment Lease Agreement irrespective of the term for which such re-leasing is made or the terms and conditions of such re-leasing, or otherwise, but that, on the contrary, in the event of such default by the City the right to terminate the Equipment Lease Agreement will vest in the Corporation to be effected in the sole and exclusive manner hereinafter provided for in subparagraph (b) below. The City further waives the right to any rental obtained by the Corporation in excess of the Lease Payments and conveys and releases such excess to the Corporation as compensation to the Corporation for its service in re-leasing the Equipment.

(b) In an event of default under the Equipment Lease Agreement, the Corporation at its option may terminate the Equipment Lease Agreement and re-lease all or any portion of the Equipment. In the event of the termination of the Equipment Lease Agreement by the Corporation at its option and in the manner hereinafter provided on account of default by the City (and notwithstanding the re-leasing of the Equipment), the City nevertheless agrees to pay to the Corporation all costs, loss or damages howsoever arising or occurring payable at the same time and in the same manner as is provided in the Equipment Lease Agreement in the case of payment of Lease Payments. Any surplus received by the Corporation from such re-leasing is the absolute property of the Corporation and the City will have no right thereto, nor will the City be entitled to apply any surplus as a credit in the event of a subsequent deficiency in the rentals received by the Corporation from the Equipment. Neither notice to pay rent or to deliver up possession of the Equipment given pursuant to law nor any proceeding taken by the Corporation will of itself operate to terminate the Equipment Lease Agreement, and will be or become effective by operation of law, or otherwise, unless and until the Corporation will have given written notice to the City of the election on the part of the Corporation to terminate the Equipment Lease Agreement. The City covenants and agrees that no surrender of the Equipment or of the remainder of the Term of the Equipment Lease Agreement or any termination of the Equipment Lease Agreement will be valid in any manner or for any purpose whatsoever unless stated or accepted by the Corporation by such written notice.

No Remedy Exclusive. No remedy conferred in the Equipment Lease Agreement upon or reserved to the Corporation is intended to be exclusive and every such remedy will be cumulative and will be in addition to every other remedy given under the Equipment Lease Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default will impair any such right or power or will be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Corporation to exercise any remedy reserved to it in the Equipment Lease Agreement, it is not be necessary to give any notice, other than such notice as may be required in the Equipment Lease Agreement or by law.

No Additional Waiver Implied by One Waiver. In the event any agreement contained in the Equipment Lease Agreement should be breached by either party and thereafter waived by the other party, such waiver will be limited to the particular breach so waived and will not be deemed to waive any other breach thereunder.

Application of Proceeds. All net proceeds received from the re-lease or other disposition of the Equipment under the caption "THE EQUIPMENT LEASE AGREEMENT — Events of Default and Remedies" herein, and all other amounts derived by the Corporation or the Trustee as a result of an event of default thereunder, will be transferred to the Trustee promptly upon receipt thereof and will be deposited with the Trustee to be applied in accordance with the Indenture.

Trustee and Bond Owners to Exercise Rights. The Corporation has assigned certain rights and remedies under the caption "THE EQUIPMENT LEASE AGREEMENT — Events of Default and Remedies" herein to the Trustee pursuant to the Indenture, to which assignment the City consents. Such rights and remedies will be exercised by the Trustee and the Owners of the Bonds as provided in the Indenture.

Payment of Bond Insurer's Costs. So long as the Bond Insurer is not in default under the Series 2007-A Bond Insurance Policy, the City shall pay or reimburse the Bond Insurer for any and all charges, fees, costs, and expenses that the Bond Insurer may reasonably pay or incur in connection with the following: (i) the administration, enforcement, defense, or preservation of any rights or security hereunder or under any other transaction document; (ii) the pursuit of any remedies hereunder, under any other transaction document, or otherwise afforded by law or equity, (iii) any amendment, waiver, or other action with respect to or related to the Equipment Lease Agreement or any other transaction document whether or not executed or completed; (iv) the violation by the City of any law, rule, or regulation or any judgment, order or decree applicable to it; (v) any advances or payments made by the Bond Insurer to cure defaults of the City under the transaction documents; or (vi) any litigation or other dispute in connection with the Equipment Lease Agreement, any other transaction document, or the transactions contemplated hereby or thereby, other than amounts resulting from the failure of the Bond Insurer to honor its payment obligations under the Series 2007-A Bond Insurance Policy. The Bond Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver, or consent proposed in respect of the Equipment Lease Agreement or any other transaction document. The obligations of the City to the Bond Insurer shall survive discharge and termination of the Equipment Lease Agreement.

Prepayment of Lease Payments

Security Deposit. Any prepayment of Basic Lease Payments will be accomplished by the City's securing the payment of Basic Lease Payments by a deposit with the Trustee of: (i) cash in an amount which, together with amounts on deposit in the Bond Fund (including in the Reserve Account) and the Insurance and Condemnation Fund, is sufficient to pay all unpaid Basic Lease Payments for all of the Equipment, in accordance with the Equipment Lease Payment Schedule set forth in Exhibit C of the Equipment Lease Agreement and any Additional Payments to become due pursuant to the Equipment Lease Agreement, or (ii) Federal Securities together with cash, if required, in such amount as will, in the opinion of an independent certified public accountant, together with interest to accrue thereon and, if required, all or a portion of moneys or Federal Securities then on deposit in the Bond Fund (including in the Reserve Account) and the Insurance and Condemnation Fund, be fully sufficient to pay all unpaid Basic Lease Payments for all of the Equipment (including any premium thereon) and any unpaid

Additional Payments pursuant to the Equipment Lease Agreement on their respective Lease Payment Dates or by prepayment thereof described under the caption "Purchase Option; Prepayment of Basic Lease Payments" below, as the City will instruct at the time of said deposit. In the event of a deposit under this heading, all obligations of the City for said Basic Lease Payments for all of the Equipment will cease and terminate, excepting only the obligation of the City to make, or cause to be made, Basic Lease Payments from the deposit made by the City under this heading and the obligation of the City to make any subsequent Additional Payments, and the Equipment Lease Agreement will terminate with respect to all of the Equipment on the date of said deposit automatically and without further action by the City or the Corporation; provided however that the City and the Corporation will execute and file such documents as may be reasonably necessary or desirable to confirm such termination. Said deposit will be deemed to be and will constitute a special fund for the payment of Basic Lease Payments in accordance with the provisions of the Equipment Lease Agreement. In the event said deposit will be insufficient to pay any Additional Payments which become due pursuant to the Equipment Lease Agreement, the City will, immediately upon notification, increase such deposit in an amount sufficient to cover the deficiency. The Trustee will not be liable for any insufficiency in such deposit.

Purchase Option; Prepayment of Basic Lease Payments. The City may exercise its option to prepay the Basic Lease Payments for all of the Equipment or any item of Equipment on any date by paying a prepayment price equal to (i) the aggregate principal amount of Series 2007-A Bonds Outstanding with respect to all of the Equipment or any item of Equipment, (ii) the interest on such Series 2007-A Bonds accrued to on such date, (iii) prepayment penalty equal to the applicable redemption premium (if any) payable on the Series 2007-A Bonds on such date pursuant to the optional redemption provisions of the Indenture and (iv) all Additional Payments to become due under the Equipment Lease Agreement. Such prepayment price will be deposited with the Trustee to be applied to the redemption of Series 2007-A Bonds pursuant to the optional redemption provisions of the Indenture. The City will give the Trustee notice of its intention to exercise its option not less than sixty (60) days in advance of the date of exercise.

The Equipment Lease Agreement provides that upon purchase of all of the Equipment, the Equipment Lease Agreement will terminate, and the City thereupon will become entitled to all of the Equipment as is, without warranties, express or implied, including warranties of merchantability or fitness for any particular purpose or fitness for the use contemplated by the city, except Equipment will not be subject to any lien or encumbrance created by or arising through the Corporation.

Mandatory Prepayment From Net Proceeds of Insurance or Eminent Domain Award. The City is obligated to prepay the Lease Payment allocable to any portion of the Equipment, in whole or in part, on any Lease Payment Date, from and to the extent of any Net Proceeds of an insurance award or a condemnation or eminent domain award with respect to such portion of the Equipment theretofore deposited with the Trustee for such purpose described under the captions "THE EQUIPMENT LEASE AGREEMENT — Damage, Destruction and Use of Net Proceeds" and "THE INDENTURE — Covenants of the Corporation, the City and the Trustee — Insurance Proceeds and Condemnation Awards; Title Insurance" herein. The City and the Corporation agree that such Net Proceeds, to the extent remaining after payment of any delinquent Lease Payments and not used to repair or replace the damaged or taken Equipment, will be credited towards the City's obligations under this heading.

Credit for Amounts on Deposit. In the event of prepayment of the principal components of the Lease Payments in full for all of the Equipment under the Equipment Lease Agreement, such that the Bonds will be discharged by their terms as a result of such prepayment, all monies then on deposit in the Bond Fund (including the Reserve Account) and the Insurance and Condemnation Fund will be credited towards the amounts then required to be so prepaid.

Net-Net-Net Lease

The Equipment Lease Agreement will be deemed and construed to be a "net-net-net" lease and the City agrees that the Lease Payments will be an absolute net return to the Corporation, free and clear of any expenses, charges or set-offs whatsoever. The City's obligation to make Lease Payments in the amount and on the terms and conditions specified in the Equipment Lease Agreement will be absolute and unconditional without any right of set-off or counterclaim.

THE FACILITY LEASE AGREEMENT

Agreement to Lease; Term of Lease

Agreement. Pursuant to the Facility Lease Agreement, the Corporation agrees to sublease the Property to the City, and the City agrees to sublease the Property from the Corporation, on the terms and conditions set forth in the Facility Lease Agreement. The City also agrees and covenants during the Term of the Facility Lease Agreement that, except as expressly provided in the Facility Lease Agreement, it will use the Property solely for public and municipal purposes so as to afford the public the benefit contemplated by the Facility Lease Agreement and so as to permit the Corporation to carry out its agreements and covenants contained in the Indenture and further agrees that it will not abandon the Property.

Term of Agreement. The Term of the Facility Lease Agreement will commence on the Closing Date, and will end on August 1, 2037, unless such term is otherwise terminated or extended as hereinafter provided. If on August 1, 2037, the Bonds have not been discharged by their terms, or if the Lease Payments payable under the Facility Lease Agreement will have been abated at any time and for any reason, then the Term of the Facility Lease Agreement will be extended until the Indenture is discharged by its terms (but not later than August 1, 2047). If prior to August 1, 2037, the Bonds have been discharged by their terms, the Term of the Facility Lease Agreement will thereupon end.

Possession. The City agrees to accept possession and use of the Property as the fee owner thereof on the Closing Date, and will pay the first Basic Lease Payment with respect to the Property on January 15, 2008.

Lease Payments, Basic Lease Payments

Obligation to Pay. Subject to the provisions described under the captions "THE FACILITY LEASE AGREEMENT — Damage, Destruction and Eminent Domain; Use of Net Proceeds and "—Prepayment of Lease Payments" herein, the City agrees to pay to the Corporation, its successors and assigns, as rental for the use and occupancy of the Property during each Rental Period, the Basic Lease Payments for all of the Property in the respective amounts specified in Exhibit B, to be due and payable on the respective Lease Payment Dates specified in Exhibit B to the Facility Lease Agreement, plus the Additional Payments required under the Facility Lease Agreement. Any amount held in the Interest Account or the Principal Account of the Bond Fund on any Lease Payment Date (other than amounts resulting from the prepayment of the Basic Lease Payments in part but not in whole pursuant to "— Prepayment of Lease Payments" herein and other amounts required for payment of past due principal of or interest on any Bonds not presented for payment or otherwise) will be credited towards the Basic Lease Payment next due and payable; and no Basic Lease Payment need be made on any Lease Payment Date if the amounts then held in the Interest Account and Principal Account of the Bond Fund and available for such purpose are at least equal to the Basic Lease Payment then required to be paid. The Lease Payments for the Property payable in any Rental Period is for the use of such Property for such Rental Period. Notwithstanding any dispute between the Corporation and the City, the City will make all Basic Lease Payments when due and will not withhold any Basic Lease Payment pending final resolution of the dispute.

Effect of Prepayment. If the City prepays all remaining Lease Payments, the City's obligations under the Facility Lease Agreement will cease and terminate, including but not limited to the City's obligation to pay Basic Lease Payments, subject however, to the provisions of the Facility Lease Agreement in the case of prepayment by application of a security deposit. If the City purchases the Property or any Property Component pursuant to the Facility Lease Agreement or prepays the Lease Payments in part but not in whole as a result of any insurance or condemnation award with respect to the Property or any Property Component, such prepayment will be credited entirely towards the prepayment of the Lease Payments allocable to such Property or Property Component as follows: (i) Additional Payments due or to become due pursuant to the Facility Lease Agreement attributable to such purchased Property or Property Component will be paid or provided for through the date of such deposit, (ii) the principal components of each remaining Basic Lease Payment will be reduced on a pro rata basis in integral multiples of $5,000; and (iii) the interest component of each remaining Basic Lease Payment attributable to such

Property or Property Component will be reduced by the aggregate corresponding amount of interest which would otherwise be payable with respect to the Bonds thereby redeemed pursuant to the Indenture.

Rate on Overdue Payments. If the City should fail to make any of the Basic Lease Payments, the payment in default will continue as an obligation of the City until the amount in default will have been fully paid. The City agrees to pay the same with interest thereon, to the extent permitted by law, from the date of default to the date of payment at the rate equal to the applicable Bond Yield.

Budget and Appropriation. The City covenants to take such action as may be necessary to include all Lease Payments due in its annual budgets and to make the necessary annual appropriations for all such Lease Payments. In so providing for the payment of Lease Payments in its annual budgets, the City may take into account moneys on deposit in the various Funds and accounts under the Indenture that are properly available to make Lease Payments. The covenants on the part of the City in the Facility Lease Agreement are deemed to be and will be construed to be ministerial duties imposed by law and it is the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such official to enable the City to carry out and perform the covenants and agreements in the Facility Lease Agreement agreed to be carried out and performed by the City. The obligations of the City to make Basic Lease Payments or Additional Payments do not constitute obligations for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. Neither the Bonds nor the obligation of the City to make Basic Lease Payments or Additional Payments constitutes an indebtedness of the City, the State or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

Assignment. The City understands and agrees that all Basic Lease Payments have been assigned by the Corporation to the Trustee in trust for the benefit of the Owners of the Bonds, and the City consents to such assignment. The Corporation has directed the City, and the City has agreed to pay to the Trustee at the Principal Corporate Trust Office of the Trustee, all payments payable by the City required as described under the caption "THE FACILITY LEASE AGREEMENT — Lease Payments, Basic Lease Payments" and "— Prepayment of Lease Payments" herein and all amounts payable by the City as described under the caption "—Prepayment of Lease Payments" herein.

Quiet Enjoyment. During the Term of the Facility Lease Agreement, the Corporation will provide the City with quiet use and enjoyment of the Property, and the City will during such Term peaceably and quietly have and hold and enjoy the Property, without suit, trouble or hindrance from the Corporation, except as expressly set forth in the Facility Lease Agreement. The Corporation will, at the request of the City and at the City's cost, join in any legal action in which the City asserts its right to such possession and enjoyment to the extent the Corporation may lawfully do so. Notwithstanding the foregoing, the Corporation has the right to inspect the Property as provided in the Facility Lease Agreement.

Leasehold Interest. During the Term of the Facility Lease Agreement, the Corporation will hold a leasehold interest in the Property. If the City prepays the Lease Payments for all of the Property or any Property Component in full pursuant to the Facility Lease Agreement or makes the advance deposit permitted by the Facility Lease Agreement, or pays all Lease Payments for all of the Property or any Property Component during the Term of the Facility Lease Agreement as the same become due and payable, all right, title and interest of the Corporation in the Property or Property Component, respectively, will be transferred to and vested in the City and the Site Lease and the Facility Lease Agreement will terminate with respect to such Property or Property Component.

Additional Payments. In addition to the Basic Lease Payments, the City will pay as Additional Payments (i) all taxes, fees or assessments levied upon the Property or upon any interest therein of the Corporation or the Trustee, (ii) insurance premiums, if any, on insurance required under the Facility Lease Agreement, (iii) all fees and expenses of the Trustee, and expenses of the City required to comply with the Facility Lease Agreement and the Indenture, (iv) any other fee, costs, or expenses incurred by the Corporation in connection with the execution, performance or enforcement of the Facility Lease Agreement or the Indenture, including any amounts necessary to indemnify and defend the Corporation, and (v) any amounts required to be paid to the United States government pursuant to Section 148 of the Internal Revenue Code. Additional Payments due under the Facility Lease Agreement will be paid by the City directly to the person or persons to whom such amounts are payable. The City will pay all such amounts when due or within thirty (30) days after notice in writing from the Trustee to the City stating the amount of Additional Payments then due and payable and the purpose thereof.

Maintenance; Taxes; Insurance and Other Matters

Maintenance; Utilities, Taxes and Assessments. During the Term of the Facility Lease Agreement, as part of the consideration for the rental of the Property, all improvement, repair and maintenance of the Property is the responsibility of the City. In exchange for the Lease Payments, the Corporation agrees to sublease the Property to the City. The City will, at its own expense, during the Term of the Facility Lease Agreement maintain the Property, or cause the same to be maintained, in good order, condition and repair and will replace any portion of the Property which is destroyed; provided that the City will not be required to repair or replace any such portion of the Property pursuant to the Facility Lease Agreement if there will be applied to the prepayment of Basic Lease Payments insurance proceeds or other legally available funds sufficient to prepay (i) all of the Bonds Outstanding or (ii) any portion thereof relating to the Property or such portion thereof and the Basic Lease Payments allocable to the remaining portion of the Property will be sufficient to pay principal of an interest on the Series 2007-B Bonds Outstanding after such prepayment. The City will provide or cause to be provided all security service, custodial service, janitorial service and other services necessary for the proper upkeep and maintenance of the Property. It is understood and agreed that in consideration of the payment by the City of the rental, the City is entitled to occupy and use the Property, and no other party will have any obligation to incur any expense of any kind or character in connection with the management, operation or maintenance of the Property during the Term of the Facility Lease Agreement. The Corporation will not be required at any time to make any improvements, alterations, changes, additions, repairs or replacements of any nature whatsoever in or to the Property. The City expressly waives the right to make repairs or to perform maintenance of the Property at the expense of the Corporation and (to the extent permitted by law) waives the benefit of Sections 1932, 1941 and 1942 of the Civil Code of the State relating thereto. The City will keep the Property free and clear of all liens, charges and encumbrances, subject only to the provisions described under the caption “Liens” below. The City will pay for the furnishing of all utilities which may be used in or upon the Property during the Term of the Facility Lease Agreement. Such payment will be made by the City directly to the respective utility companies furnishing such utility services or products, under such contract or contracts therefor as the City may make.

The City will also pay or cause to be paid all taxes, fees, charges and assessments of any type or nature, if any, charged to the Corporation or the City affecting the Property or their respective interests therein; provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the City is obligated to pay only such installments as are required to be paid during the Term of the Facility Lease Agreement as and when the same become due.

The City may, at the City’s expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Corporation will notify the City that, in the opinion of Independent Counsel, by nonpayment of any such items, the interest of the Corporation in the Property will be materially endangered or the Property or any part thereof will be subject to loss or forfeiture, in which event the City will promptly pay such taxes, assessments or charges or provide the Corporation with full security against any loss which may result from nonpayment, in form satisfactory to the Corporation and the Trustee.

Modification of Property. The City will, at its own expense, have the right to make additions, modifications and improvements to the Property. All such additions, modifications and improvements, including those which comprise fixtures, repairs, replacements, additions or modifications to the Property will thereafter comprise part of the Property and be subject to the provisions of the Facility Lease Agreement, except for (i) those fixtures, repairs, replacements or modifications which are added to the Property by the City at its own expense and which may be removed without damaging the Property, and (ii) any items added to the Property by the City pursuant to the provisions described under the caption “Liens” below. The City will have the right to conduct a survey of any parcel of land constituting a portion of the Property and to alter or change the boundaries of said parcel as a result of said survey so long as such change or alteration does not interfere with the improvements constructed on said parcel and so long as the remaining parcel together with the improvements thereon does not have a fair rental value less than the Basic Lease Payments attributable to said parcel and improvements. Additions, modifications and improvements will not cause the Property to be used for purposes other than those authorized under the provisions of State and federal law; and such Property, upon completion of any additions, modifications and improvements made thereto pursuant under this heading, will have a fair rental value which is approximately equal to or greater than the fair rental value of the Property immediately prior to the making of such additions, modifications and improvements. The City will not permit any mechanic's or other lien to be established or remain against the Property for labor or materials furnished in connection with any repair or replacements made by the City under this heading; provided that if any such lien is established and the City will first notify the Corporation (or cause the Corporation to be notified) of the City's intention to do so, the City may in good faith contest any lien filed or established against the Property, and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom and will provide the Corporation with full security against any loss or forfeiture which might arise from the nonpayment of any such item, in form satisfactory to the Corporation. The Corporation will cooperate fully in any such contest, upon the request and at the expense of the City.

Public Liability and Property Damage Insurance. The City will maintain or cause to be maintained, commencing upon its possession of the Property pursuant to the Facility Lease Agreement and thereafter throughout the Term of the Facility Lease Agreement, a program of general liability insurance protecting the Corporation, the City, and their respective officers, directors, agents, assigns and employees. Such program will provide for indemnification of said parties against loss or liability for damages for bodily and personal injury, death or property damage occasioned by use of the Property. Such insurance will be satisfied by a risk retention program.

Fire and Extended Coverage Insurance. The City will procure and maintain, or cause to be procured and maintained, commencing upon its possession of the Property pursuant to the Facility Lease Agreement, and thereafter throughout the Term of the Facility Lease Agreement, insurance against loss or damage to any structures or equipment constituting any part of the Property by fire and lightning, with extended coverage and vandalism and malicious mischief insurance, which coverage may exclude earthquake insurance. In the event of any uninsured loss to the Property resulting from earthquake, (a) the City will apply for and use its best efforts to obtain financial assistance from the United States of America to be used for the repair, reconstruction or replacement of such Property, and (b) the City will repair or replace the Property or defease the outstanding Bonds from moneys, if any, legally available therefor. Said extended coverage insurance will, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. Such insurance will be in an amount equal to 100% of the replacement cost of the Property (including all improvements thereon) (it being understood and agreed that in the event of the loss of such Property and the redemption of Bonds from the Net Proceeds of such insurance, that the remaining Property will have a fair rental value equal to or exceeding the remaining Lease Payments). Such insurance may be subject to deductible clauses of not to exceed $100,000 for any one loss. Such insurance may be satisfied by a combination of commercial insurance, risk pooling under a joint powers authority or similar statutory provision, self-funded loss reserves and, to the extent permitted by law, risk retention programs all in such proportions as are deemed appropriate by professional risk management personnel or independent consultants. The City will include in its annual budget an item to provide funds for commercial insurance covering physical property damage to the Property.

Without limiting the specific purposes of the budgeted item mentioned above, the City covenants that it will use such budgeted funds and the proceeds of any purchased insurance to accomplish one of the following purposes in the event of the loss or destruction of or unrepaired damage to any portion of the Property which would otherwise result in abatement of all or a portion of the Basic Lease Payments:

(1) to acquire, construct or repair diligently (at the City's cost) replacement Property having a useful life not less than the remaining Lease Term of the Property so lost, destroyed or damaged to be and become subject to the Facility Lease Agreement at a cost such that the total fair market rental value of the Property leased pursuant to the Facility Lease Agreement (including such replacement Property) is not less than the then fair market rental value of the Property originally scheduled to be leased thereunder;

(2) to deposit with the Trustee, as assignee of the Corporation, in a special account to be held in trust by the Trustee, an amount (not less than $50,000) sufficient, under the Facility Lease Agreement, to purchase the portion of the Property so destroyed or irreparably damaged, and to

instruct the Trustee at the time of said deposit that said amount is to be used as a special fund for prepayment of Basic Lease Payments pertaining to the Property destroyed or irreparably damaged; or

(3) to apply such funds as provided funds as provided under the caption "THE FACILITY LEASE AGREEMENT —Damage, Destruction and Eminent Domain; Use of Net Proceeds — Application of Net Proceeds" herein and as provided in the Indenture to redeem Bonds so that the Basic Lease Payments to be made on the remaining Property will be sufficient to pay principal of and interest on the Bonds that remain Outstanding.

To the extent that an event of loss, destruction or unrepaired damage should result in an abatement of Basic Lease Payments pending the acquisition of a replacement Property pursuant to paragraph (1) above, the City may substitute replacement Property for the Property so lost, destroyed or damaged to be and become subject to the Facility Lease Agreement, such replacement Property having a fair rental value such that the total fair rental value of the Property leased pursuant to the Facility Lease Agreement (including such replacement Property) is not less than the then fair rental value of the Property originally leased thereunder. The City may also make such a substitution of Property as an alternative to taking the actions described in paragraphs (1) and (2) above.

Rental Interruption Insurance. The City will procure and maintain, commencing upon its possession of the Property pursuant to the Facility Lease Agreement, and throughout the Term of the Facility Lease Agreement rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of any part of the Property for a period of 24 months during the Term of the Facility Lease Agreement as a result of any of the hazards covered in the Facility Lease Agreement, in an amount to insure against loss of substantial use and possession of the Property. Loss under this insurance will be adjusted with the City and will be paid to the City and to the Trustee as their interests may appear, and will be credited towards the Facility Lease Agreement in the order in which such Lease Payments come due and payable.

Title Insurance. The City will obtain, at its own expense, on or before commencement of the Term of the Facility Lease Agreement, a CLTA title insurance policy in the amount equal to the aggregate principal amount of the Series 2007-B Bonds or the appraised value of the Property, whichever is greater, insuring the Corporation's leasehold estate in the Property, subject only to Permitted Encumbrances. All Net Proceeds received under the policy will be deposited with the Trustee and will be credited towards the prepayment of the remaining Lease Payments pursuant to the Facility Lease Agreement.

Insurance Net Proceeds; Form of Policies; Certificates of Effectiveness. The Facility Lease Agreement requires that both the fire and extended coverage insurance and the rental interruption insurance name the Trustee as a loss payee as its interests may appear and will provide that all proceeds thereunder are payable to the Trustee and applied as provided under the caption "THE FACILITY LEASE AGREEMENT — Damage, Destruction and Eminent Domain; Use of Net Proceeds — Application of Net Proceeds" herein. The City will pay or cause to be paid when due the premiums for all insurance policies required by the Facility Lease Agreement, and will promptly furnish or cause to be furnished to the Trustee on or before September 1 annually a certificate of a City Representative stating that such payments have been made and that the insurance policies required by the Facility Lease Agreement are in force and effect. In addition, the City will annually certify to the Bond Insurer that the insurance policies required by the Facility Lease Agreement are in full force and effect and will provide the Bond Insurer with copies of such policies upon request. All such policies will provide that the Trustee will be given thirty (30) days' notice of each expiration, any intended cancellation thereof or reduction of the coverage provided thereby. The Trustee is not responsible for the sufficiency of any insurance required by the Facility Lease Agreement and will be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the Trustee.

Advances. If the City will fail to perform any of its obligations set forth under the caption "THE FACILITY LEASE AGREEMENT — Damage, Destruction and Eminent Domain; Use of Net Proceeds" herein, the Corporation may, but is not be obligated to, take such action as may be necessary to cure such failure, including the advancement of money, and the City will be obligated to repay all such advances as soon as possible, with interest at the rate equal to the Bond Yield (or, if less, at the maximum rate permitted by law) from the date of the advance to the date of repayment.

Installation of City's Personal Property. The City may at any time and from time to time, in its sole discretion and at its own expense, install or permit to be installed other items of equipment or other personal property in or upon the Property. All such items will remain the sole property of the City, in which neither the Corporation nor the Trustee will have any interest, and such items may be modified or removed by the City. Nothing in the Facility Lease Agreement will prevent the City from purchasing or leasing items to be installed under this heading under a lease or conditional sale agreement, or subject to a vendor's lien or security agreement, as security for the unpaid portion of the purchase price thereof, provided that no such lien or security interest will attach to any part of the Property.

Liens. The City will not, directly or indirectly, create, incur, assume or suffer to exist any mortgage, pledge, lien, charge, encumbrance or claim on or with respect to the Property, other than the respective rights of the Corporation and the City as provided in the Facility Lease Agreement, and Permitted Encumbrances. Except as expressly provided under the caption THE FACILITY LEASE AGREEMENT— Damage, Destruction and Eminent Domain; Use of Net Proceeds" herein, the City must promptly, at its own expense, take such action as may be necessary to duly discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim, for which it is responsible, if the same will arise at any time. The City will reimburse the Corporation for any expense incurred by it in order to discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim.

Substitution of Property. The City, with the prior written consent of the Bond Insurer (which such consent shall not be unreasonably withheld), may substitute for all, or a portion of the Property, other property of comparable value, and of a comparable essential nature to the City, and having a remaining useful life not less than the useful life of the portion of Property substituted for, but only by providing the Trustee and the Rating Agencies with a written certificate describing both the new Property and the Property for which it is to be substituted, and stating that such portion of Property is of comparable value and has a useful life not less than the useful life of the Property described in Exhibit A of the Facility Lease Agreement for which it is being substituted and a financing statement or an executed and acknowledged memorandum of lease for the new Property. All costs and expenses incurred in connection with such substitution including without limitation the cost of acquiring such Property will be borne by the City. In the event of such substitution, the Property substituted for the original Property will become fully subject to the terms of the Facility Lease Agreement, and the City will obtain, in the case of new real property to be substituted for the Property, a policy of CLTA title insurance insuring the City's leasehold estate in the new real property so that the combined policies of CLTA title insurance on all of the leasehold estate(s) in the Property subject to the Facility Lease Agreement will be not less than the aggregate principal amount of Outstanding Bonds. Notwithstanding any substitution of Property under this heading, there will be no reduction in the Basic Lease Payments due from the City thereunder and there will be no reduction in the aggregate fair rental value of the Property as a result of such substitution.

Hazardous Waste. The City shall not cause or permit the Property or any part thereof to be used to generate, manufacture, refine, transport, treat, store, handle, dispose, transfer, produce or process Hazardous Materials, except in compliance with all applicable Federal, state and local laws or regulations, nor shall the City cause or permit, as a result of any intentional or unintentional act or omission on the part of the City or any tenant or subtenant, a release of Hazardous Materials onto the Property. The City shall comply with and ensure compliance by all tenants and subtenants with all applicable Federal, state and local laws, ordinances, rules and regulations, whenever and by whomever triggered, and shall obtain and comply with, and ensure that all tenants and subtenants obtain and comply with, any and all approvals, registrations or permits required thereunder. The City shall (i) conduct and complete all investigations, studies, sampling and testing, and all remedial, removal, and other actions necessary to clean up and remove all Hazardous Materials, on, from, or affecting the Property (A) in accordance with all applicable Federal, state and local laws, ordinances, rules, regulations, and policies, (B) to the satisfaction of the Trustee for the Bonds, and (C) in accordance with the orders and directives of all Federal, state and local governmental authorities, and (ii) defend, indemnify, and hold harmless the Trustee and the Bond Insurer from and against any claims, demands, penalties, fines, liabilities, settlements, damages, costs, or expenses of whatever kind or nature, known or unknown, contingent or otherwise, arising out of, or in any way related to, (A) the presence, disposal, release, or threatened release of any Hazardous Materials which are on, from, or affecting the soil, water, vegetation, buildings, personal property, persons, animals, or otherwise; (B) any personal injury (including wrongful death) or property damage (real or personal) arising out of or related to such Hazardous Materials, and/or (C) any violation of laws, orders, regulations, requirements or demands of government authorities, or any policies or requirements of the mortgage trustee, which are based upon or in any way related to such Hazardous Materials including, without limitation, attorney and consultant fees, investigation and laboratory fees, court costs, and litigation expenses. In the event that the Trustee elects to control, operate, sell or otherwise claim property rights in the Property, the City shall deliver the Property free of any and all Hazardous Materials so that the conditions of the Property shall conform with all applicable Federal, state and local laws, ordinances, rules or regulations affecting the Property. Prior to any such delivery of the Property, the City shall pay the Trustee, from its own funds, any amounts then required to be paid under subsection (ii) above. For purposes of this paragraph, "Hazardous Materials" includes, without limit, any flammable explosives, radioactive materials, hazardous materials, hazardous wastes, hazardous or toxic substances, or related materials defined in the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended (42 U.S.C. §§ 9601 et seq.), the Hazardous Materials Transportation Act, as amended (49 U.S.C. §§ 1801 et seq.), the Resource Conservation and Recovery Act, as amended (42 U.S.C. §§ 9601 et seq.), and in the regulations adopted and publications promulgated pursuant thereto, or any other Federal, state or local environmental law, ordinance, rule, or regulation.

Damage, Destruction and Eminent Domain; Use of Net Proceeds

Damage; Eminent Domain. The City covenants that if the Property is damaged in a manner which substantially interferes with its use, such Property will be promptly repaired or replaced at the City's expense, unless (a) such damage, together with other components of the Property lost, damaged or destroyed, would not result in the abatement of any portion of the Lease Payments because, for example, the fair rental value of the remaining useable Property is sufficient to support the Lease Payments unabated, or (b) the City elects to apply the Net Proceeds of insurance and any other legally available funds to the redemption of Bonds pursuant to the Indenture such that the Basic Lease Payments for the undamaged Property will be sufficient to pay principal of and interest on the Bonds that remain Outstanding. If all of the Property is taken permanently under the power of condemnation or eminent domain or sold to a government threatening to exercise the power of eminent domain, the Term of the Facility Lease Agreement will cease as of the day possession is so taken. If less than all of the Property is taken permanently, or if all of the Property or any part thereof is taken temporarily, under the power of eminent domain, (i) the Facility Lease Agreement will continue in force and effect and will not be terminated by virtue of such taking and the parties waive the benefit of any law to the contrary, and (ii) there is a partial abatement of Lease Payments as a result of the application of the Net Proceeds of any condemnation or eminent domain award to the prepayment of the Lease Payments thereunder, in an amount to be agreed upon by the City and the Corporation such that the resulting Lease Payments do not exceed fair rental value for the use and occupancy of the remaining usable portion of the Property.

Application of Net Proceeds.

From Insurance Proceeds. The Net Proceeds of any insurance award resulting from any damage to or destruction of any of the Property by fire or other casualty is required to be deposited in the Insurance Proceeds and Condemnation Awards Fund by the Trustee promptly upon receipt thereof and applied as described under the caption "THE INDENTURE — Covenants of the Corporation, the City and the Trustee — Insurance Proceeds and Condemnation Awards; Title Insurance" herein.

From Eminent Domain Award. The Net Proceeds of any condemnation or eminent domain award is required to be deposited in the Insurance Proceeds and Condemnation Awards Fund and applied as described under the caption "THE INDENTURE — Covenants of the Corporation, the City and the Trustee— Insurance Proceeds and Condemnation Awards; Title Insurance" herein.

Abatement. Lease Payments will be abated during any period in which by reason of damage, destruction or otherwise (other than by condemnation or eminent domain which is provided for above) there is substantial interference with the use and possession or occupancy by the City of the Property, so that the remaining Lease Payments then due for use of the Property that was not affected are not greater than the fair rental value for use of the unaffected Property. The City and the Corporation will calculate the rental abatement amount on an annual basis taking into account the entire twelve month period commencing August 15 within which the damage or destruction occurs. If at any time it is necessary to calculate rental abatement, for purposes of calculation for any twelve month period commencing August 15 and ending on the immediately following July 31, the total amount of Lease Payment payable within such twelve month period will be divided by 365 days (except for twelve-month periods including February 29, 2008, 2012, 2016, 2020, 2024, 2028, 2032 and 2036, in which case the divisor will be 366 days). The maximum amount of daily rental abatement for such twelve-month period will not exceed the result of such calculation. Such abatement will continue for the period commencing with such interruption of use and ending with the substantial completion of the work of repair or reconstruction. In the event of any such interruption of use, the Facility Lease Agreement will continue in full force and effect and the Lease Payments will not be subject to abatement under this heading to the extent that the proceeds of rental interruption insurance or amounts in the Reserve Fund are available to pay Lease Payments which would otherwise be abated under this heading, it being declared that such proceeds and amounts constitute special funds for the payment of the Lease Payments.

Warranties; Access

Disclaimer of Warranties. Under the Facility Lease Agreement, the Corporation and its assigns make no warranty or representation, either express or implied, as to the value, design, condition, merchantability or fitness for any particular purpose or fitness for the use contemplated by the City of the Property, or any other representation or warranty with respect to the Property. In no event will the Corporation or its assigns be liable for incidental, indirect, special or consequential damages, in connection with existence, furnishing, functioning or the City's use of the Property.

Access to the Property. Under the Facility Lease Agreement, the City agrees that the Corporation and any Corporation Representative, and the Corporation's successors or assigns, will have the right at all reasonable times to inspect the Property. The City further agrees that the Corporation, any Corporation Representative, and the Corporation's successors or assigns will have such rights of access to the Property as may be reasonably necessary to cause the proper maintenance of the Property in the event of failure by the City to perform its obligations hereunder; provided, however, that neither the Corporation nor the Corporation's assigns will have any obligation to cause such proper maintenance.

Release and Indemnification Covenants. The City will and hereby agrees to indemnify and save the Corporation and the Trustee, and their respective officers, agents, successors and assigns, harmless from and against all claims, losses and damages, including legal fees and expenses, arising out of (i) the use, maintenance, condition or management of, or from any work or thing done on the Property by the City including without limitation, as a result of the use, presence, storage, disposal or release of any hazardous waste on or about the Property, (ii) any breach or default on the part of the City in the performance of any of its obligations under the Facility Lease Agreement, (iii) any act of negligence of the City or of any of its agents, contractors, servants, employees or licensees with respect to the Property, (iv) any act or negligence of any sublessee of the City with respect to the Property, or (v) the acquisition of the Property. No indemnification is made under this heading or elsewhere in the Facility Lease Agreement for willful misconduct, negligence, or breach of duty under the Facility Lease Agreement by the Corporation, its officers, agents, employees, successors or assigns.

Assignment, Subleasing and Amendment

Assignment by the Corporation. The Corporation's rights under the Facility Lease Agreement, including the right to receive and enforce payment of the Lease Payments to be made by the City under the Facility Lease Agreement have been pledged and assigned to the Trustee to which pledge and assignment the City consents.

Assignment and Subleasing by the City. The Facility Lease Agreement may not be assigned by the City. It is acknowledged that there are tenants in the Property under leases assumed by the City in connection with its acquisition of the Property. Such leases in effect on the Closing Date and any extension thereof shall not be subject to this section. The City may subsublease the Property or any portion thereof, subject to all of the following conditions:

(1) The Facility Lease and the obligation of the City to make Lease Payments thereunder will remain obligations of the City;

(2) The City will, within thirty (30) days after the delivery thereof, furnish or cause to be furnished to the Corporation and the Trustee a true and complete copy of such subsublease;

(3) No such subsublease by the City or any further subsublease or use of such Property will cause the Property to be used for any unlawful purpose;

(4) The City will furnish the Corporation and the Trustee with a written opinion of Special Tax Counsel, stating that such subsublease and any use related to such subsublease does not cause the interest on the Series 2007-B1 Bonds to be included in gross income for federal income tax purposes and that such subsublease complies with the requirements of the Facility Lease;

(5) Each subsublease and all further subleases of the portion of the Property occupied on the Closing Date by the City shall be subject to termination upon default by the City hereunder and will not diminish the rights and remedies of the Trustee to the Property thereon in such event of a default;

(6) Each subsublease and subsequent subsublease of the portion of the Property occupied on the Closing Date by the City shall contain such provisions for the maintenance of insurance on any improvements constructed on the subsubleased Property and such provisions for the allocation of proceeds from such insurance and the allocation of proceeds from eminent domain or condemnation proceedings as shall be satisfactory in the opinion of Independent Counsel to maintain the rights of the Trustee to such proceeds;

(7) Each subsublease and subsequent subsublease of the portion of the Property occupied on the Closing Date by the City will contain provisions securing the timely payment of all taxes, fees, charges and assessments arising from or related to the subsubleased Property, and securing such Property from the establishment and maintenance of any mechanics or other liens for labor or materials furnished in connection with such improvements;

(8) Improvements existing on the subsubleased Property at the time of the subsublease may be modified by a subsublessee only in accordance with the provisions described under the caption "THE FACILITY LEASE AGREEMENT — Maintenance; Taxes; Insurance and Other Matters — Modification of Property" herein; and; and

(9) Prior to any subsublease of the portion of the Property occupied on the Closing Date by the City becoming effective, the City will furnish the Trustee such opinions of counsel and certificates as the Trustee may reasonably require to evidence the satisfaction of the above conditions precedent to any subsublease.

Notwithstanding the above and as set forth in the Tax Certificate,, the City may sublease a certain amount of square feet of the Improvements, that are designated for retail use without complying with the requirements of subsections (2), (4) and (9) above, so long as the City complies with the requirements of the Tax Certificate.

Amendment of the Facility Lease Agreement. Except as set forth below, the City will not alter, modify or cancel, or agree or consent to alter, modify or cancel the Facility Lease Agreement excepting only such alteration or modification as may be permitted by the Indenture. The Facility Lease Agreement may be amended without the consent of the Owners of the Bonds for any of the following purposes:

(1) to add to the agreements, conditions, covenants and terms contained in the Facility Lease Agreement required to be observed or performed by the City or the Corporation, other agreements, conditions, covenants and terms hereafter to be observed or performed by the City or the Corporation, or to surrender any right reserved in the Facility Lease Agreement to or conferred in the Facility Lease Agreement on the City or the Corporation, and which in either case will not adversely affect the interests of the Owners;

(2) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Facility Lease Agreement or in regard to questions arising under the Facility Lease Agreement which the City or the Corporation may deem

desirable or necessary and not inconsistent herewith, and which will not materially adversely affect the interests of the Owners;

(3) to modify the legal description of the Property to add or delete the property description of Property, or to provide for substitution or addition of Property pursuant to the Facility Lease Agreement;

(4) to make any modifications or changes to the Facility Lease Agreement including any increase or decrease in Basic Lease Payments resulting therefrom in order to enable the execution and delivery of Additional Bonds on a parity with the Bonds (unless otherwise provided in any Supplemental Indenture) in accordance with the Indenture and to make any modifications or changes necessary or appropriate in connection with the execution and delivery of Additional Bonds;

(5) to reflect the substitution of the Property under the Facility Lease Agreement; or

(6) to make any other modification or change to the provisions of the Facility Lease Agreement which does not materially adversely affect the interests of the Owners of the Bonds.

Any provision of the Facility Lease expressly recognizing or granting rights in or to the Bond Insurer may not be amended in any manner which affects the rights of the Bond Insurer thereunder without the prior written consent of the Bond Insurer which consent shall not be unreasonably withheld. The Bond Insurer reserves the right to charge the City a fee for any consent or amendment to the Facility Lease while the Bond Insurance Policy is outstanding.

Events of Default and Remedies

Event of Default Defined. The following are "events of default" under the Facility Lease Agreement:

(1) Failure by the City to pay any Basic Lease Payment or other payment required to be paid thereunder at the time specified in the Facility Lease Agreement, and the continuation of such failure for a period of ten (10) days.

(2) Failure by the City to observe and perform any covenant, condition or agreement in the Facility Lease Agreement or the Indenture on its part to be observed or performed, other than as referred to in clause (1) above, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied has been given to the City by the Corporation, the Trustee, or the Owners of not less than five percent (5%) in aggregate principal amount of Bonds then Outstanding; provided, however, if the failure stated in the notice can be corrected, but not within the applicable period, the Corporation, the Trustee and such Owners will not unreasonably withhold their consent to an extension of such time if the Trustee receives a certificate from a City Representative to the effect that corrective action is being instituted by the City within the applicable period and is being diligently pursued to correct the default.

(3) The filing by the City of a voluntary petition in bankruptcy, or failure by the City promptly to lift any execution, garnishment or attachment, or adjudication of the City as a bankrupt, or assignment by the City for the benefit of creditors, or the entry by the City into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the City in any proceedings instituted under the provisions of the Federal Bankruptcy Code, as amended, or under any similar acts which may hereafter be enacted.

Remedies on Default. Whenever any event of default under the Facility Lease Agreement occurs and is continuing, the Corporation may exercise any and all remedies available pursuant to law or granted pursuant to the Facility Lease Agreement; provided, however, that notwithstanding anything in the Facility Lease Agreement or in the Indenture to the contrary, there is no right under any circumstances to accelerate the Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable. Each and every covenant under the Facility Lease Agreement to be kept and performed by the City is expressly made a condition and upon the breach thereof the Corporation may exercise any and all rights of entry and re-entry upon the Property and any improvements thereon, and also, at its option, with or without such entry, may terminate the Facility Lease Agreement; provided that no acts of the parties may terminate the City's obligation to make the Lease Payments except only in the manner expressly provided in the Facility Lease Agreement. In the event of such default and notwithstanding any re-entry by the Corporation or termination of the Facility Lease Agreement, the City will, as expressly provided in the Facility Lease Agreement, continue to remain liable for the payment of the Lease Payments and/or damages for breach of the Facility Lease Agreement and the performance of all conditions contained in the Facility Lease Agreement and, in the event such rent and/or damages is payable to the Corporation at the time and in the manner as provided in the Facility Lease Agreement, to wit:

(a) If the Corporation does not elect to terminate the Facility Lease Agreement in the manner hereinafter provided for in subparagraph (b) below, the City agrees to and will remain liable for the payment of all Lease Payments and the performance of all conditions contained in the Facility Lease Agreement and will reimburse the Corporation for any deficiency arising out of the re-leasing of the Property or, in the event the Corporation is unable to re-lease the Property, then for the full amount of all Lease Payments to the end of the Term of the Facility Lease Agreement, but said Lease Payments and/or deficiency is payable only at the same time and in the same manner as hereinabove provided for the payment of Lease Payments thereunder, notwithstanding such entry or re-entry by the Corporation or any suit in unlawful detainer, or otherwise, brought by the Corporation for the purpose of obtaining possession of the Property or exercise of any other remedy by the Corporation. The City irrevocably appoints the Corporation as the agent and attorney-in-fact of the City to obtain possession and re-lease the Property in the event of default by the City in the performance of any covenants contained in the Facility Lease Agreement to be performed by the City and to remove all personal property whatsoever situated upon the Property and to place such property in storage or other suitable place in the County of Los Angeles, for the account of and at the expense of the City, and the City exempts and agrees to save harmless the Corporation from any costs, loss or damage whatsoever arising or occasioned by any such possession and re-leasing of the Property and the removal and storage of such property by the Corporation or its duly authorized agents in accordance with the provisions contained in the Facility Lease Agreement. The City waives any and all claims for damages caused or which may be caused by the Corporation in re-entering and taking possession of the Property as provided in the Facility Lease Agreement and all claims for damages that may result from the destruction of or injury to the Property and all claims for damages to or loss of any property belonging to the City that may be in or upon the Property. The City agrees that the terms of the Facility Lease Agreement constitute full and sufficient notice of the right of the Corporation to re-lease the Property in the event of such re-entry without effecting a surrender of the Facility Lease Agreement, and further agrees that no acts of the Corporation in effecting such re-leasing will constitute a surrender or termination of the Facility Lease Agreement irrespective of the term for which such re-leasing is made or the terms and conditions of such re-leasing, or otherwise, but that, on the contrary, in the event of such default by the City the right to terminate the Facility Lease Agreement will vest in the Corporation to be effected in the sole and exclusive manner hereinafter provided for in subparagraph (b) below. The City further waives the right to any rental obtained by the Corporation in excess of the Lease Payments and conveys and releases such excess to the Corporation as compensation to the Corporation for its service in re-leasing the Property.

(b) In an event of default under the Facility Lease Agreement, the Corporation at its option may terminate the Facility Lease Agreement and re-lease all or any portion of the Property. In the event of the termination of the Facility Lease Agreement by the Corporation at its option and in the manner hereinafter provided on account of default by the City (and notwithstanding any re-entry upon the Property by the Corporation in any manner whatsoever or the re-leasing of the Property), the City nevertheless agrees to pay to the Corporation all costs, loss or damages howsoever arising or occurring payable at the same time and in the same manner as is provided in the Facility Lease Agreement in the case of payment of Lease Payments. Any surplus received by the Corporation from such re-leasing is the absolute property of the Corporation and the City will have no right thereto, nor will the City be entitled to apply any surplus as a credit in the event of a subsequent deficiency in the rentals received by the Corporation from the Property. Neither notice to pay rent or to deliver up possession of the Property given pursuant to law nor any proceeding taken by the Corporation will of itself operate to terminate the Facility Lease Agreement, and will be or become effective by operation of law, or otherwise, unless and until the Corporation will have given written notice to the City of the election on the part of the Corporation to terminate the Facility Lease Agreement. The City covenants and agrees that no surrender of the Property or of the remainder of the Term of the Facility

Lease Agreement or any termination of the Facility Lease Agreement will be valid in any manner or for any purpose whatsoever unless stated or accepted by the Corporation by such written notice.

No Remedy Exclusive. No remedy conferred in the Facility Lease Agreement upon or reserved to the Corporation is intended to be exclusive and every such remedy will be cumulative and will be in addition to every other remedy given under the Facility Lease Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default will impair any such right or power or will be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Corporation to exercise any remedy reserved to it in the Facility Lease Agreement, it is not be necessary to give any notice, other than such notice as may be required in the Facility Lease Agreement or by law.

No Additional Waiver Implied by One Waiver. In the event any agreement contained in the Facility Lease Agreement should be breached by either party and thereafter waived by the other party, such waiver will be limited to the particular breach so waived and will not be deemed to waive any other breach thereunder.

Application of Proceeds. All net proceeds received from the re-lease or other disposition of the Property under the caption "THE FACILITY LEASE AGREEMENT — Events of Default and Remedies" herein, and all other amounts derived by the Corporation or the Trustee as a result of an event of default thereunder, will be transferred to the Trustee promptly upon receipt thereof and will be deposited with the Trustee to be applied in accordance with the Indenture.

Trustee and Bond Owners to Exercise Rights. The Corporation has assigned certain rights and remedies under the caption "THE FACILITY LEASE AGREEMENT — Events of Default and Remedies" herein to the Trustee pursuant to the Indenture, to which assignment the City consents. Such rights and remedies will be exercised by the Trustee and the Owners of the Bonds as provided in the Indenture.

Payment of Bond Insurer's Costs. So long as the Bond Insurer is not in default under the Series 2007-B Bond Insurance Policy, the City shall pay or reimburse the Bond Insurer for any and all charges, fees, costs, and expenses that the Bond Insurer may reasonably pay or incur in connection with the following: (i) the administration, enforcement, defense, or preservation of any rights or security hereunder or under any other transaction document; (ii) the pursuit of any remedies hereunder, under any other transaction document, or otherwise afforded by law or equity, (iii) any amendment, waiver, or other action with respect to or related to the Facility Lease Agreement or any other transaction document whether or not executed or completed; (iv) the violation by the City of any law, rule, or regulation or any judgment, order or decree applicable to it; (v) any advances or payments made by the Bond Insurer to cure defaults of the City under the transaction documents; or (vi) any litigation or other dispute in connection with the Facility Lease Agreement, any other transaction document, or the transactions contemplated hereby or thereby, other than amounts resulting from the failure of the Bond Insurer to honor its payment obligations under the Series 2007-B Bond Insurance Policy. The Bond Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver, or consent proposed in respect of the Facility Lease Agreement or any other transaction document. The obligations of the City to the Bond Insurer shall survive discharge and termination of the Facility Lease Agreement.

Prepayment of Lease Payments

Security Deposit. Any prepayment of Basic Lease Payments will be accomplished by the City's securing the payment of Basic Lease Payments by a deposit with the Trustee of: (i) cash in an amount which, together with amounts on deposit in the Bond Fund (including in the Reserve Account) and the Insurance and Condemnation Fund, is sufficient to pay all unpaid Basic Lease Payments for all of the Property, in accordance with the Facility Lease Payment Schedule set forth in Exhibit C of the Facility Lease Agreement and any Additional Payments to become due pursuant to the Facility Lease Agreement, or (ii) Federal Securities together with cash, if required, in such amount as will, in the opinion of an independent certified public accountant, together with interest to accrue thereon and, if required, all or a portion of moneys or Federal Securities then on deposit in the Bond Fund (including in the Reserve Account) and the Insurance and Condemnation Fund, be fully sufficient to pay all unpaid Basic Lease Payments for all of the Property (including any premium thereon) and any unpaid Additional Payments pursuant to the Facility Lease Agreement on their respective Lease Payment Dates or by prepayment thereof described under the caption "Purchase Option; Prepayment of Basic Lease Payments" below, as the City will instruct at the time of said deposit. In the event of a deposit under this heading, all obligations of the City for said Basic Lease Payments for all of the Property, will cease and terminate, excepting only the obligation of the City to make, or cause to be made, Basic Lease Payments from the deposit made by the City under this heading and the obligation of the City to make any subsequent Additional Payments, and the Facility Lease Agreement will terminate with respect to all of the Property on the date of said deposit automatically and without further action by the City or the Corporation; provided however that the City and the Corporation will execute and file such documents as may be reasonably necessary or desirable to confirm such termination. Said deposit will be deemed to be and will constitute a special fund for the payment of Basic Lease Payments in accordance with the provisions of the Facility Lease Agreement. In the event said deposit will be insufficient to pay any Additional Payments which become due pursuant to the Facility Lease Agreement, the City will, immediately upon notification, increase such deposit in an amount sufficient to cover the deficiency. The Trustee will not be liable for any insufficiency in such deposit.

Purchase Option; Prepayment of Basic Lease Payments. The City may exercise its option to prepay the Basic Lease Payments for all of the Property on any date by paying a prepayment price equal to (i) the aggregate principal amount of Bonds Outstanding with respect to all of the Property, (ii) the interest on such Bonds accrued to such date, (iii) prepayment penalty equal to the applicable redemption premium (if any) payable on the Bonds on such date pursuant to the optional redemption provisions of the Indenture and (iv) all Additional Payments to become due under the Facility Lease Agreement. Such prepayment price will be deposited with the Trustee to be applied to the redemption of Bonds pursuant to the optional redemption provisions of the Indenture. The City will give the Trustee notice of its intention to exercise its option not less than sixty (60) days in advance of the date of exercise.

Mandatory Prepayment From Net Proceeds of Insurance or Eminent Domain Award. The City is obligated to prepay the Lease Payment allocable to any portion of the Property, in whole or in part, on any Lease Payment Date, from and to the extent of any Net Proceeds of an insurance award or a condemnation or eminent domain award with respect to such portion of the Property theretofore deposited with the Trustee for such purpose described under the captions "THE FACILITY LEASE AGREEMENT — Damage, Destruction and Eminent Domain; Use of Net Proceeds" and "THE INDENTURE — Covenants of the Corporation, the City and the Trustee — Insurance Proceeds and Condemnation Awards; Title Insurance" herein. The City and the Corporation agree that such Net Proceeds, to the extent remaining after payment of any delinquent Lease Payments and not used to repair or replace the damaged or taken Property, will be credited towards the City's obligations under this heading.

Credit for Amounts on Deposit. In the event of prepayment of the principal components of the Lease Payments in full for all of the Property under the Facility Lease Agreement, such that the Indenture will be discharged by its terms as a result of such prepayment, all monies then on deposit in the Bond Fund (including the Reserve Account) and the Insurance and Condemnation Fund will be credited towards the amounts then required to be so prepaid.

Net-Net-Net Lease

The Facility Lease Agreement will be deemed and construed to be a "net-net-net" lease and the City agrees that the Lease Payments will be an absolute net return to the Corporation, free and clear of any expenses, charges or set-offs whatsoever. The City's obligation to make Lease Payments in the amount and on the terms and conditions specified in the Facility Lease Agreement will be absolute and unconditional without any right of set-off or counterclaim.

THE SITE LEASE

Pursuant to the Site Lease, the City agrees to lease to the Corporation and the Corporation agrees to rent from the City all of the City's right, title and interest in the Property described in Exhibit A of the Site Lease subject to the terms and conditions set forth in the Site Lease and summarized below.

Term

The Term of the Site Lease commences on the Closing Date of the Bonds, and terminates on August 1, 2037, unless such term is otherwise terminated or extended as provided in the Site Lease. If on August 1, 2037, the Indenture has not be discharged by its terms, or if the Lease Payments payable under the Lease Agreement has been abated at any time and for any reason, then the Term of the Site Lease will be extended until the Indenture is discharged by its terms (but not later than August 1, 2047). If prior to August 1, 2037, the Indenture is discharged by its terms, the Term of the Site Lease will terminate.

Termination

Upon the termination or expiration of the Site Lease, the Corporation will quit and surrender the Property in the same good order and condition as the same was in at the time of commencement of the term thereunder, except for acts of God and reasonable wear and tear and any actions taken by the City that may affect the condition of the Property, and agrees that any permanent improvements and structures existing upon the Property at the time of such termination or expiration of the Site Lease will remain thereon and title thereto will vest in the City.

Ownership

The City represents and covenants that it is the sole owner of and holds fee title to the Property free and clear of any encumbrances other than Permitted Encumbrances, and has full power and authority to enter into the Site Lease and the Facility Lease Agreement.

Indemnity

The City agrees to indemnify the Corporation for and to hold the Corporation harmless against any and all claims, taxes, and any and all expenses (including reasonable attorney's fees), losses and liabilities paid, suffered or incurred as a result of such claims, made at any time by any person with regard to the Property on or prior to the date thereof or arising on or prior to the date thereof.

Assignment

The Corporation cannot assign, mortgage, hypothecate or otherwise encumber the Site Lease or any rights thereunder or the leasehold created thereby by trust agreement, indenture or deed of trust or otherwise or sublet the Property without the written consent of the City (unless a default or Event of Default under the Lease Agreement or the Indenture has occurred and is continuing, in which case the consent of the City is not required), except that the City expressly approves and consents to the Facility Lease Agreement and the Indenture, the pledge and assignment to the Trustee, and the granting to the Trustee of a security interest in and lien on, all its right, title and interest in and to the Pledged Property, including the Corporation's right to receive Basic Lease Payments, pursuant to the Indenture.

Eminent Domain

If the Property is taken under the power of eminent domain, the interest of the Corporation is recognized and is determined to be the aggregate amount of unpaid Basic Lease Payments and Additional Lease Payments with respect to the Property under the Facility Lease Agreement through the remainder of its term (excluding any contingent or potential liabilities), and such proceeds will be paid to the Trustee, as assignee of the interest of the Corporation thereunder, in accordance with the terms of the Facility Lease Agreement and the Indenture.

No Merger

The parties intend and agree that there will be no merger of interest in the Property on behalf of the City or the Corporation of the City's fee ownership of the Property with any interest of the City or the Corporation under the Site Lease or under the Facility Lease Agreement.

THE ASSIGNMENT AGREEMENT

Pursuant to the Assignment Agreement, the Corporation transfers in trust and assigns to the Trustee, for the benefit of the Owners from time to time of the Bonds, all of the Revenues and all of the right, title and interest of the Corporation in the Equipment Lease Agreement, the Facility Lease Agreement and the Site Lease (except for the Corporation's right to indemnification under the Equipment Lease Agreement, the Facility Lease Agreement and the Site Lease, which right shall not be assigned); and the Trustee by way of the Assignment Agreement accepts such assignment. The Trustee shall be entitled to and shall receive all of the Revenues, and any Revenues collected or received by the Corporation shall be deemed to be held, and to have been collected or received, by the Corporation as the agent of the Trustee and shall be paid by the Corporation to the Trustee.

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APPENDIX D

FORM OF BOND COUNSEL OPINION

August __, 2007

Municipal Improvement Corporation of Los Angeles
Los Angeles, California

City of Los Angeles
Los Angeles, California

RE: $106,900,000 Municipal Improvement Corporation of Los Angeles Lease Revenue Bonds, Series 2007-A (Capital Equipment), $169,050,000 Municipal Improvement Corporation of Los Angeles Lease Revenue Bonds, Series 2007-B1 (Figueroa Plaza) and $52,085,000 Municipal Improvement Corporation of Los Angeles Lease Revenue Bonds, Series 2007-B2 (Taxable) (Figueroa Plaza)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Municipal Improvement Corporation of Los Angeles (the "Corporation") of $106,900,000 aggregate principal amount of its Lease Revenue Bonds, Series 2007-A (Capital Equipment) (the "Series 2007-A Bonds"), $169,050,000 aggregate principal amount of its Lease Revenue Bonds, Series 2007-B1 (Figueroa Plaza) (the "Series 2007-B1 Bonds") and $52,085,000 aggregate principal amount of its Lease Revenue Bonds, Series 2007-B2 (Taxable) (Figueroa Plaza) (the "Series 2007-B2 Bonds" and, together with the Series 2007-A Bonds and the Series 2007-B1 Bonds, the "Bonds"). Interest earnings on the Series 2007-A Bonds and the Series 2007-B1 Bonds are intended to be exempt from Federal income taxation to the extent described herein. Interest earnings on the Series 2007-B2 Bonds are subject to Federal income taxation. The Bonds are authorized under the Articles of Incorporation of the Corporation and the laws of the State of California. The Bonds are being issued pursuant to an Indenture dated as of August 1, 2007, by and among the Corporation, the City of Los Angeles, California (the "City") and U.S. Bank National Association, as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

As bond counsel, we have examined the Indenture, the Equipment Lease Agreement dated as of August 1, 2007 between the Corporation and the City (the "Equipment Lease"), the Site Lease dated as of August 1, 2007 (the "Site Lease") between the City and the Corporation, the Facility Lease Agreement dated as of August 1, 2007 between the Corporation and the City (the "Facility Lease"), the Assignment Agreement dated as of August 1, 2007 (the "Assignment Agreement") between the Corporation and the Trustee, the Tax Certificate of the Corporation and the City dated the date hereof (the "Tax Certificate"), opinions of counsel to the Corporation, the City and the Trustee, certificates of the Corporation, the City, the Trustee and others, copies, certified to us as being true and complete, of the proceedings of the City and of the Corporation for the authorization and issuance of the Bonds, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein, although in doing so, we have not undertaken to verify independently the accuracy of the factual matters represented, warranted or certified therein, and we have assumed the genuineness of all signatures thereto. We express no opinion as to any provision in the Indenture, the Equipment Lease, the Site Lease, the Facility Lease or the Assignment Agreement with respect to the priority of any pledge or security interest, indemnification, or governing law. We advise you that we have not made or undertaken to make any investigation of the state of title to any of the real property or ownership of any personal property described in the Equipment Lease, the Facility Lease or the Site Lease, or of the accuracy or sufficiency of the description of such property contained therein, and we express no opinion with respect to such matters.

We have, with your approval, assumed that all items submitted to us as originals are authentic and that all items submitted as copies conform to the originals.

On the basis of such examination, our reliance upon the assumptions contained herein and our consideration of such questions of law as we considered relevant, and subject to the limitations and qualifications in this opinion, we are of the opinion that:

1. The Bonds constitute the valid and binding limited obligations of the Corporation;

2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Corporation and the City. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Revenues and any other amounts held by the Trustee in any fund or account established pursuant to the Indenture, other than amounts on deposit in the Rebate Fund, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture;

3. The Assignment Agreement has been duly authorized, executed and delivered by the Corporation and creates a valid assignment to the Trustee of certain rights of the Corporation in the Equipment Lease and the Facility Lease, including the right to receive the Basic Lease Payments from the City to the extent and as more particularly described therein;

4. The Equipment Lease, the Facility Lease and the Site Lease have been executed and delivered by, and constitute the valid and binding obligations of, the Corporation and the City. The obligations of the City to make the Basic Lease Payments during the terms of the Equipment Lease and the Facility Lease constitute valid and binding obligations of the City, payable from funds of the City lawfully available therefor; and

5. The Bonds are not a lien or charge upon the funds or property of the Corporation except to the extent of the aforementioned pledge. Neither the faith and credit nor the taxing powers of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds.

The opinions set forth in paragraphs 1, 2 and 3 above assume that the Trustee has duly authenticated the Bonds and that the Indenture and the Assignment Agreement are the legally valid, binding and enforceable agreements of the Trustee. In addition, the enforceability of the agreements, covenants and obligations described in paragraphs 1, 2, 3 and 4 above may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally (including, without limitation, fraudulent conveyance laws). In addition, the enforceability of such agreements, covenants and obligations is subject to the effect of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing, the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law, and the limitations on legal remedies against government entities in the State of California. We express no opinion regarding the availability of equitable remedies.

6. The Internal Revenue Code of 1986 (the "Code") sets forth certain requirements that must be met subsequent to the issuance and delivery of the Series 2007-A Bonds and the Series 2007-B1

Bonds for interest thereon to be and remain excluded from gross income for Federal income tax purposes. Noncompliance with such requirements could cause the interest on the Series 2007-A Bonds and the Series 2007-B1 Bonds to be included in gross income for Federal income tax purposes retroactive to the date of issue of the Series 2007-A Bonds and the Series 2007-B1 Bonds. Pursuant to the Indenture and the Tax Certificate, the City and the Corporation have covenanted to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest on the Series 2007-A Bonds and the Series 2007-B1 Bonds from gross income for Federal income tax purposes pursuant to Section 103 of the Code. In addition, the City and the Corporation have made certain additional covenants, representations and certifications in the Indenture and the Tax Certificate. We have not independently verified compliance with such covenants or the accuracy of those representations and certifications.

Under existing law, assuming compliance with the above-mentioned tax covenants and the accuracy of the above-mentioned representations and certifications, we are of the opinion that interest on the Series 2007-A Bonds and the Series 2007-B1 Bonds is excluded from gross income for Federal income tax purposes under Section 103 of the Code. We are also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the Series 2007-A Bonds and the Series 2007-B1 Bonds is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations.

7. We are further of the opinion that the difference between the principal amount of the Series 2007-A Bonds and the Series 2007-B1 Bonds that are issued with original issue discount, if any (collectively, the "Discount Bonds") and the initial offering price to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of such Discount Bonds of the same maturity was sold constitutes original issue discount which is excluded from gross income for Federal income tax purposes to the same extent as interest on the Series 2007-A Bonds and the Series 2007-B1 Bonds. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each Discount Bond and the basis of each Discount Bond acquired at such initial offering price by an initial purchaser thereof will be increased by the amount of such accrued original issue discount. The accrual of original issue discount may be taken into account as an increase in the amount of tax-exempt income for purposes of determining various other tax consequences of owning the Discount Bonds, even though there will not be a corresponding cash payment.

8. We are further of the opinion that the interest on the Bonds is exempt from personal income taxes of the State of California under present state law.

Except as stated in the preceding four paragraphs, we express no opinion as to any other Federal or state tax consequences of the ownership, receipt of interest on or disposition of the Bonds. Furthermore, we express no opinion as to any Federal, state or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof upon the advice or approval of other counsel.

No opinion is expressed herein on the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds. This opinion is expressly limited to the matters set forth above and we render no opinion, whether by implication or otherwise, as to any other matters. We assume no obligation to update or supplement this opinion to reflect any facts or circumstances which may hereafter come to our attention or any changes in laws which may hereafter occur.

We call attention to the fact that the opinions expressed herein and the exclusion of interest due on the Series 2007-A Bonds and the Series 2007-B1 Bonds from gross income for Federal income tax purposes may be affected by actions taken or omitted or events occurring or failing to occur after the date hereof. We have not undertaken to determine, or inform any person, whether any such actions are taken, omitted, occur or fail to occur.

Respectfully submitted,

APPENDIX E

DTC AND THE BOOK-ENTRY ONLY SYSTEM

None of the City, the Trustee or the Underwriters can or do give any assurances that DTC, the Participants or others will distribute payments of principal, interest or premium, if any, evidenced by the Bonds paid to DTC or its nominee as the registered owner, or will distribute any prepayment notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. None of the City, the Trustee or the Underwriters is responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the Bonds or an error or delay relating thereto.

The following information concerning The Depository Trust Company ("DTC") and DTC's book-entry system has been obtained from sources that the Corporation, the City and the Underwriters believe to be reliable, but neither the Corporation, the City or the Underwriters take responsibility for the accuracy thereof. Capitalized terms used herein and not otherwise defined herein shall have the meanings set forth in this Official Statement and in APPENDIX C – "CERTAIN DEFINITIONS AND SUMMARY OF THE FINANCING DOCUMENTS."

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

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 2.2 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, ("NSCC," "FICC," and "EMCC," also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. 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 Standard & Poor's highest rating: AAA. 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.

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

To facilitate subsequent transfers, all 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 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 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 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. 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. The Corporation and the Trustee will not have any responsibility or obligation to such DTC Participants or the persons for whom they act as nominees with respect to the Bonds.

Redemption notices shall be sent to DTC. If less than all of the 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.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's 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 the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 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 Corporation or the Trustee, on each payment 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 Trustee, the City or the Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC, is the responsibility of the Corporation or the Trustee, 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.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the City, Corporation or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bonds are required to be printed and delivered as described in the Indenture. The City and the Corporation may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered.

No Assurance Regarding DTC Practices

AS LONG AS CEDE & CO. OR ITS SUCCESSOR IS THE REGISTERED HOLDER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE REGISTERED HOLDERS OF THE BONDS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS. ANY FAILURE OF DTC TO ADVISE ANY PARTICIPANT, OR OF ANY PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTEXT OR EFFECT WILL NOT AFFECT THE VALIDITY OR SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE. Each person for whom a Participant acquires an interest in the Bonds, as nominee, may desire to make arrangements with such Participant to receive a credit balance in the records of such Participant, and may desire to make arrangements with such Participant to have all notices of redemption or other communications to DTC, which may affect such person, forwarded in writing by such Participant and to receive notification of all interest payments.

NONE OF THE CITY, THE CORPORATION, THE TRUSTEE OR THE UNDERWRITERS WILL HAVE ANY RESPONSIBILITY OR OBLIGATION WITH RESPECT TO THE PAYMENTS TO THE DIRECT PARTICIPANTS, ANY INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS, THE SELECTION OF THE BENEFICIAL INTERESTS IN THE BONDS TO BE REDEEMED IN THE EVENT OF REDEMPTION OF LESS THAN ALL BONDS OF A PARTICULAR MATURITY OR THE PROVISION OF NOTICE TO THE DIRECT PARTICIPANTS, ANY INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO THE BONDS. NO ASSURANCE CAN BE GIVEN BY THE CITY, THE CORPORATION, THE TRUSTEE OR THE UNDERWRITERS THAT DTC,

DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR OTHER NOMINEES OF THE BENEFICIAL OWNERS WILL MAKE PROMPT TRANSFER OF PAYMENTS TO THE BENEFICIAL OWNERS, THAT THEY WILL DISTRIBUTE NOTICES, INCLUDING REDEMPTION NOTICES (REFERRED TO ABOVE), RECEIVED AS THE REGISTERED OWNER OF THE BONDS TO THE BENEFICIAL OWNERS, THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC WILL ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.

In the event the City and the Corporation or the Trustee determines not to continue the book-entry system or DTC determines to discontinue its services with respect to the Bonds, and the Corporation does not select another qualified securities depository, the Corporation shall deliver one or more Bonds in such principal amount or amounts, in authorized denominations, and registered in whatever name or names, as DTC shall designate. In such event, transfer and exchanges of Bonds will be governed by the provisions of the Indenture.

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APPENDIX F

SPECIMEN MUNICIPAL BOND NEW ISSUE INSURANCE POLICY

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FGIC

Financial Guaranty Insurance Company
Doing business in California as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
T 212-312-3000
T 800-352-0001

Municipal Bond
New Issue Insurance Policy

Issuer:	**Policy Number:**
	Control Number: 0010001
Bonds:	**Premium:**

SPECIMEN

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to U.S. Bank Trust National Association or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all

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125 Park Avenue
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Municipal Bond
New Issue Insurance Policy

principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

SPECIMEN

President

Effective Date: **Authorized Representative**

U.S. Bank Trust National Association, acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer

FGIC

Financial Guaranty Insurance Company
Doing business in California as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Endorsement
To Financial Guaranty Insurance Company Insurance Policy

Policy Number: **Control Number:** 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

FGIC

Financial Guaranty Insurance Company
Doing business in California as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Mandatory California State Amendatory Endorsement

To Financial Guaranty Insurance Company Insurance Policy

Policy Number: **Control Number:** 0010001

SPECIMEN

The insurance provided by this Policy is not covered by the California Insurance Guaranty Association (California Insurance Code, Article 14.2).

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

FGIC

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New York, NY 10017
T 212-312-3000
T 800-352-0001

Mandatory California State Amendatory Endorsement

To Financial Guaranty Insurance Company Insurance Policy

Policy Number: **Control Number:** 0010001

SPECIMEN

Notwithstanding the terms and conditions in this Policy, it is further understood that there shall be no acceleration of payment due under such Policy unless such acceleration is at the sole option of Financial Guaranty.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

FGIC

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New York, NY 10017
T 212·312·3000
T 800·352·0001

Endorsement
To Financial Guaranty Insurance Company Insurance Policy

Policy Number:	**Control Number:** 0010001

Notwithstanding the terms and provisions contained in this Policy, it is further understood that the term "Bondholder" shall not include the ___________ [Conduit Obligor] (as such term is defined in the bond documentation).

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

APPENDIX G

SPECIMEN DEBT SERVICE RESERVE FUND POLICY

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Financial Guaranty Insurance Company
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125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Municipal Bond Debt Service Reserve Fund Policy

Issuer:	**Policy Number:**
	Control Number: 0010001
Bonds:	**Premium:**
	Maximum Amount:
Paying Agent:	

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay the paying agent named above or its successor, as paying agent for the Bonds (the "Paying Agent"), for the benefit of Bondholders, that portion (not to exceed the Maximum Amount set forth above) of the amount required to pay principal and interest (but not any prepayment premium) on the Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payment to the Paying Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. Upon such disbursement, Financial Guaranty shall become entitled to reimbursement therefor (together with interest thereon) all as provided in the Debt Service Reserve Fund Policy Agreement between the Issuer and Financial Guaranty dated as of the Effective Date of this Policy. The Maximum Amount shall be automatically reinstated when and to the extent that the Issuer repays amounts disbursed hereunder, but shall not be reinstated to the extent of amounts received by Financial Guaranty constituting interest on amounts disbursed to the Paying Agent pursuant to this Policy. Financial Guaranty shall provide Notice to the Paying Agent of any reinstatement of any portion of the Maximum Amount within one Business Day of such reinstatement.

This Policy is non-cancellable for any reason, including the failure of the Issuer to reimburse Financial Guaranty for any payment made hereunder.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the Paying Agent for payment in full of all

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125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Municipal Bond Debt Service Reserve Fund Policy

principal and interest Due for Payment on such Bond and includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from the Paying Agent for the Bonds to Financial Guaranty or from Financial Guaranty to the Paying Agent, as the case may be. "Business Day" means any day other than a Saturday, Sunday or a day on which the Paying Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

U.S. Bank Trust National Association acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer

FGIC

Financial Guaranty Insurance Company
Doing business in California as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Mandatory California State Amendatory Endorsement
To Financial Guaranty Insurance Company Insurance Policy

Policy Number:	**Control Number:** 0010001

The insurance provided by this Policy is not covered by the California Insurance Guaranty Association (California Insurance Code, Article 14.2).

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

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T 800·352·0001

Mandatory California State Amendatory Endorsement

To Financial Guaranty Insurance Company Insurance Policy

Policy Number:	**Control Number:** 0010001

Notwithstanding the terms and conditions in this Policy, it is further understood that there shall be no acceleration of payment due under such Policy unless such acceleration is at the sole option of Financial Guaranty.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

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Endorsement
To Financial Guaranty Insurance Company Insurance Policy

Policy Number: **Control Number:** 0010001

Notwithstanding the terms and provisions contained in this Policy, it is further understood that the term "Bondholder" shall not include the ____________ [Conduit Obligor] (as such term is defined in the bond documentation).

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

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APPENDIX H

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this "Disclosure Certificate") is executed and delivered by the City of Los Angeles (the "City") in connection with the issuance on behalf of the City of (i) $106,900,000 aggregate principal amount of Municipal Improvement Corporation of Los Angeles Lease Revenue Bonds, Series 2007-A (Capital Equipment) (the "Series 2007-A Bonds"); and (ii) $169,050,000 aggregate principal amount of Municipal Improvement Corporation of Los Angeles Lease Revenue Bonds, Series 2007-B1 (Figueroa Plaza) (the "Series 2007-B1 Bonds") and $52,085,000 aggregate principal amount of Municipal Improvement Corporation of Los Angeles Lease Revenue Bonds, Series 2007-B2 (Taxable)(Figueroa Plaza) (collectively with the Series 2007-A Bonds and the Series 2007-B1 Bonds, the "Bonds"), pursuant to that certain Indenture dated as of August 1, 2007 (the "Indenture"), by and between the City, the Municipal Improvement Corporation of Los Angeles ("the Corporation") and U. S. Bank National Association, as trustee (the "Trustee"). 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 in its capacity as an "obligated person" under Rule 15c2-12(b)(5) (the "Rule") adopted by the Securities and Exchange Commission, for the benefit of the Bondholders and Beneficial Owners and in order to assist the Participating Underwriters in complying with the Rule.

SECTION 2. Definitions. In addition to the definitions set forth above and in the Indenture, 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 Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Central Post Office" means the Internet-based filing system currently located at www.DisclosureUSA.org, or such other similar filing system approved by the Securities and Exchange Commission.

"Dissemination Agent" shall mean each of the City Administrative Officer of the City or any other person authorized to act on his or her 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.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository under the Rule. Information regarding the National Repositories as of a particular date is available on the Internet at www.sec.gov/info/municipal/nrmsir.htm.

"Official Statement" shall mean the Official Statement dated July 26, 2007, executed and delivered by the Corporation in connection with the sale of the Bonds.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and each State Repository.

"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.

"State" shall mean the State of California.

"State Repository" shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Certificate, there is no State Repository. Information regarding the State Repositories as of a particular date is available on the Internet at www.sec.gov/info/municipal/nrmsir.htm#state.

SECTION 3. Provision of Annual Reports.

(a) The City shall cause the Dissemination Agent to provide, not later than June 30 of each year, commencing June 30, 2008, to each Repository (or to the Central Post Office pursuant to (d) below) an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. If the Dissemination Agent is other than the City or the City Administrative Officer, not later than fifteen (15) days prior to said date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the City's audited financial statements 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. The City shall submit unaudited financial statements not later than the date required above for the filing of the Annual Report if the audited financial statements are not available by that date. If the City's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) If the City is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the City shall send a notice to each Repository in substantially the form attached hereto as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any; and

(ii) if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

(d) In lieu of filing the Annual Report with each Repository in accordance with the paragraph (a) of this Section 3, the Financing Authority or the Dissemination Agent may file such Annual Report solely with the Central Post Office.

SECTION 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 for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City's 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 Sections in Appendix A to the Official Statement: "BUDGET AND REVENUES, "FINANCIAL OPERATIONS," "BONDED AND OTHER INDEBTEDNESS" and "LITIGATION."

The City need not update any particular table or chart included in such Sections 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 each of the Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. 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 Bonds, if material:

1. principal and interest payment delinquencies.
2. non-payment related defaults.
3. modifications to rights of Bondholders.
4. optional, contingent or unscheduled calls.
5. defeasances.
6. rating changes.
7. adverse tax opinions or events affecting the tax-exempt status of the Bonds.
8. unscheduled draws on the debt service reserves reflecting financial difficulties.
9. any unscheduled draw on credit enhancements reflecting financial difficulties.
10. substitution of credit or liquidity providers, or their failure to perform.
11. release, substitution, or sale of property securing repayment of the Bonds.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible determine if such event would constitute material information under applicable securities laws.

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable securities laws, the City shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board, and the State Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to owners of affected Bonds pursuant to the Indenture.

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 Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c) 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 Certificate.

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 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 execution and delivery of the Bonds, 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 Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Bondholders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Bondholders or Beneficial Owners of the 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(c), 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 or 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 Bondholders or Beneficial Owners of 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 Indenture, 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 Bonds.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriters, Bondholders and Beneficial Owners from time of the Bonds, and shall create no rights in any other person or entity.

Date: August ___, 2007.

CITY OF LOS ANGELES

By_______________________________
Authorized Representative

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Municipal Improvement Corporation of Los Angeles

Name of Obligated Person: City of Los Angeles

Name of Issue:

$106,900,000 aggregate principal amount of Municipal Improvement Corporation of Los Angeles Lease Revenue Bonds, Series 2007-A (Capital Equipment) (the "Series 2007-A Bonds"); and

$169,050,000 aggregate principal amount of Municipal Improvement Corporation of Los Angeles Lease Revenue Bonds, Series 2007-B1 (Figueroa Plaza) (the "Series 2007-B1 Bonds"); and

$52,085,000 aggregate principal amount of Municipal Improvement Corporation of Los Angeles Lease Revenue Bonds, Series 2007-B2 (Taxable)(Figueroa Plaza) (collectively with the Series 2007-A Bonds and the Series 2007-B1 Bonds, the "Bonds")

Date of Execution and Delivery: August __, 2007.

NOTICE IS HEREBY GIVEN that the Obligated Person has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Certificate dated as of August ___, 2007, delivered by the Obligated Person in connection with the Bonds described above. The Obligated Person anticipates that the Annual Report will be filed by ________________.

Dated: _______________

CITY OF LOS ANGELES

By_____________________________
as Dissemination Agent