NEW ISSUE-FULL BOOK-ENTRY ONLY **Ratings: See "RATINGS" herein**

In the opinion of the Law Offices of Marilyn L. Garcia, Special Counsel, and Kutak Rock LLP, Special Tax Counsel (collectively, "Counsel"), under existing laws, regulations, rulings and court decisions, and assuming the accuracy of certain representations and continuing compliance with certain covenants, the portion of the Basic Lease Payments due under the Lease Agreements (all as defined herein) designated as and comprising interest received by the applicable Owner is excludable from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. In addition, in the opinion of Counsel, the portion of the Basic Lease Payments designated as ana comprising interest and received by the Owners is exempt from current State of California personal income taxes. Counsel express no opinion regarding other tax consequences relating to the ownership or disposition of the Certificates or the accrual or receipt of the portion of the Basic Lease Payments designated as and comprising interest and received by the Owners. For a more complete description, see "TAX MATTERS" herein.

CERTIFICATES OF PARTICIPATION

Evidencing the Proportionate Interest of the Owners Thereof in Basic Lease Payments to be Made by the

CITY OF LOS ANGELES

Pursuant to Two Separate Lease Agreements with the

MUNICIPAL IMPROVEMENT CORPORATION OF LOS ANGELES

$64,170,000
CERTIFICATES OF PARTICIPATION
(Equipment Acquisition Program AX)

$16,875,000
ADDITIONAL CERTIFICATES
OF PARTICIPATION
(Real Property Improvements
Program AR), Series 2004

Dated: Date of Delivery **Due: As shown on the inside cover**

This cover page contains certain information for quick reference only. It is not intended to be a summary of all factors relating to an investment in the Certificates (defined herein). Investors should review the entire Official Statement before making any investment decision. Capitalized terms used but not defined herein are defined in APPENDIX C hereto. Each series of Certificates will be executed and delivered in book-entry form only in the form of one certificate for the aggregate principal amount represented by Certificates of a series maturing in each year and, when executed and delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (hereinafter, "DTC"). See APPENDIX F- "BOOK-ENTRY-ONLY SYSTEM" hereto.

The $64,170,000 aggregate principal amount of Certificates of Participation (Equipment Acquisition Program AX) (the "Program AX Certificates") are being executed and delivered to finance the acquisition of certain equipment (the "Program AX Equipment") to be owned by the City of Los Angeles (the "City") as more particularly described in this Official Statement, fund a reserve fund, fund a capitalized interest account and pay certain costs of issuance related to the Program AX Certificates. In order to finance the Program AX Equipment, the Municipal Improvement Corporation of Los Angeles (the "Corporation") will lease the Program AX Equipment to the City pursuant to a lease agreement (the "Program AX Lease Agreement") dated as of April 1, 2004, by and between the Corporation, as lessor, and the City, as lessee, in consideration for the City's making annual Basic Lease Payments to the Corporation and certain Additional Payments (collectively, the "Program AX Lease Payments") pursuant to the Program AX Lease Agreement.

The $16,875,000 aggregate principal amount of Additional Certificates of Participation (Real Property Improvements Program AR), Series 2004 (the "Additional AR Certificates") are being executed and delivered to finance improvements to certain real property owned by the City (the "Program AR Projects"), deposit funds related to the Additional AR Certificates in the reserve fund for the Program AR Certificates (defined below), and pay certain costs of issuance related to the Additional AR Certificates. Pursuant to a Site Lease dated as of April 1, 2002, as amended by a First Amendment to Site Lease dated as of April 1, 2004, both by between the City and the Corporation, the City will lease certain real property to the Corporation (the "AR Real Property"), and the Corporation will sublease the AR Real Property to the City pursuant to a Lease Agreement dated as of April 1, 2002, by and between the City and the Corporation as amended by a First Amendment to Lease Agreement dated as of April 1, 2004 (as so amended, the "Program AR Lease Agreement" and, together with the Program AX Lease Agreement, the "Lease Agreements") in consideration for the City's making annual New Basic Lease Payments and certain Additional Payments to the Corporation (collectively, the "Program AR Lease Payments"). The Additional AR Certificates evidence ownership interests in the New Basic Lease Payments on a parity with the ownership interests evidenced by the Certificates of Participation (Equipment and Real Property Acquisition Program AR) dated April 2, 2002, and currently outstanding in the aggregate principal amount of $59,230,000 (collectively with the Additional AR Certificates, the "Program AR Certificates").

Payment of principal of and interest on the Program AX Certificates when due will be insured by a financial guaranty insurance policy issued by MBIA Insurance Corporation ("MBIA") simultaneously with the execution and delivery of the Program AX Certificates.

MBIA

Payment of the principal of and interest on the Additional AR Certificates when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation ("Ambac") simultaneously with the delivery of the AR Additional Certificates.

Ambac

Interest with respect to each series of the Certificates is payable on April 1 and October 1 of each year, commencing October 1, 2004. The Program AX Certificates are not subject to optional redemption prior to maturity. The Additional Program AR Certificates are subject to optional redemption prior to maturity. See "THE CERTIFICATES-Redemption" herein.

Each series of the Certificates is payable by the Corporation solely from the Basic Lease Payments or New Basic Lease Payments, as applicable, made by the City under the applicable Lease Agreement and from certain limited funds held by the applicable Trustee under a related Trust Agreement (the "Trust Agreement"), by and among the City, the Corporation and the applicable Trustee. The City has covenanted under each Lease Agreement to make all Lease Payments provided for therein, to take such action as may be necessary to include the Lease Payments in its annual budgets and to make the necessary annual appropriations therefor. The City's obligations to make the Lease Payments is subject to abatement. See "SECURITY AND SOURCES OF PAYMENTS FOR THE CERTIFICATES-Abatement of Lease Payments" herein.

THE OBLIGATIONS OF THE CITY TO BUDGET FOR AND THE OBLIGATIONS TO MAKE LEASE PAYMENTS UNDER THE LEASE AGREEMENTS 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 CERTIFICATES NOR THE OBLIGATIONS OF THE CITY TO MAKE LEASE PAYMENTS UNDER THE LEASE AGREEMENTS CONSTITUTE DEBTS OF THE CITY OR ANY OTHER ENTITY OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE CITY. THE CORPORATION HAS NO TAXING POWER.

THE CERTIFICATES WERE SOLD BY COMPETITIVE SALE ON APRIL 20, 2004, AT A TRUE INTEREST COST OF 3.061245% (PROGRAM AX CERTIFICATES) AND 4.369148% (ADDITIONAL AR CERTIFICATES).

The Certificates are offered when, as and if delivered and received by the successful bidder, subject to the legal opinions of The Law Offices of Marilyn L. Garcia, Los Angeles, California, Special Counsel, and the tax opinion of Kutak Rock LLP, Pasadena, California, Special Tax Counsel. Certain legal matters will be passed upon for the City by The Law Offices of Marilyn L. Garcia, Disclosure Counsel. Certain legal matters will be passed upon for the City and the Corporation by Rockard J. Delgadillo, City Attorney. It is anticipated that the Certificates will be available for delivery to DTC in book-entry form on or about April 29, 2004.

Dated: April 20, 2004

MATURITY SCHEDULE
Program AX Certificates
Base CUSIP Number: 544358 †

Maturity (April 1)	Principal Amount	Interest Rate	Yield	CUSIP Number	Maturity (April 1)	Principal Amount	Interest Rate	Yield	CUSIP Number
2005	$3,910,000	2.00%	1.193%	J62	2010	$9,560,000	5.25%	3.080%	K37
2006	7,755,000	5.50	1.750	J70	2011	5,000,000	5.25	3.370	K45
2007	8,180,000	5.50	2.100	J88	2012	4,470,000	5.25	3.600	K52
2008	8,630,000	5.50	2.480	J96	2013	4,135,000	5.00	3.710	K60
2009	9,100,000	5.00	2.760	K29	2014	3,430,000	4.50	3.890	K78

MATURITY SCHEDULE
Additional AR Certificates
Base CUSIP Number: 544358 †

Maturity (April 1)	Principal Amount	Interest Rate	Yield	CUSIP Number	Maturity (April 1)	Principal Amount	Interest Rate	Yield	CUSIP Number
2005	$655,000	2.000%	1.20%	K86	2015	$820,000	4.000%	4.10%	M27
2006	620,000	2.250	1.75	K94	2016	850,000	4.125	4.20	M35
2007	630,000	2.500	2.05	L28	2017	885,000	4.250	4.30	M43
2008	650,000	3.000	2.40	L36	2018	925,000	4.375	4.40	M50
2009	665,000	3.000	2.75	L44	2019	965,000	4.400	4.50	M68
2010	685,000	3.100	3.10	L51	2020	1,010,000	4.500	4.60	M76
2011	710,000	3.375	3.40	L69	2021	1,055,000	4.625	4.70	M84
2012	735,000	3.625	3.65	L77	2022	1,100,000	4.750	4.80	M92
2013	760,000	3.750	3.80	L85	2023	1,155,000	4.750	4.85	N26
2014	790,000	4.000	4.00	L93	2024	1,210,000	4.750	4.90	N34

CITY OF LOS ANGELES, CALIFORNIA

Mayor

James K. Hahn

City Council

Ed P. Reyes (District 1)
Wendy Greuel (District 2)
Dennis P. Zine (District 3)
Tom LaBonge (District 4)
Jack Weiss (District 5)
Tony Cardenas (District 6)
Alex Padilla (District 7)
Bernard C. Parks (District 8)
Jan Perry (District 9)
Martin Ludlow (District 10)
Cindy Miscikowski (District 11)
Greig Smith (District 12)
Eric Garcetti (District 13)
Antonio Villaraigosa (District 14)
Janice Hahn (District 15)

City Officials

Rockard J. Delgadillo, City Attorney
Laura N. Chick, City Controller
William T Fujioka, City Administrative Officer
Joya C. De Foor, City Treasurer
J. Michael Carey, City Clerk

City Agency Issuer

Office of the City Administrative Officer

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

Special Counsel
The Law Offices of Marilyn L. Garcia
Los Angeles, California

Disclosure Counsel
The Law Offices of Marilyn L. Garcia
Los Angeles, California

Special Tax Counsel
Kutak Rock LLP
Pasadena, California

Financial Advisor
Municipal Capital Management, Inc.
Westlake Village, California

Program AX Trustee
U.S. Bank National Association
Los Angeles, California

Program AR Trustee
Wells Fargo Bank, National Association
Los Angeles, California

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

This Official Statement is not to be construed as a contract with the purchasers of the Certificates. 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 representations of fact.

The information set forth herein has been obtained from sources which are believed to be reliable. The information in APPENDIX F – "BOOK-ENTRY-ONLY SYSTEM" has been furnished by The Depository Trust Company, the information under the heading "BOND INSURANCE FOR THE PROGRAM AX CERTIFICATES" and in APPENDIX G- "SPECIMEN MUNICIPAL BOND INSURANCE POLICY" has been furnished by MBIA, and the information under the heading "BOND INSURANCE FOR THE ADDITIONAL AR CERTIFICATES" and in APPENDIX H – "SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY FOR THE ADDITIONAL AR CERTIFICATES" has been furnished by Ambac. The information and expressions of opinion are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Corporation or the City since the date hereof. This Official Statement is submitted with respect to the sale of the Certificates 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.

In connection with this offering, the Underwriter may over-allot or effect transactions which stabilize or maintain the market price of the Certificates at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

The Certificates have not been registered under the Securities Act of 1933, as amended, in reliance upon the exemption contained in Section 3(a)(2) of the Act. The Certificates have not been registered or qualified under the securities laws of any state.

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APPENDIX G: SPECIMEN MUNICIPAL BOND INSURANCE POLICY FOR THE PROGRAM AX CERTIFICATES
APPENDIX H: SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY FOR THE ADDITIONAL AR CERTIFICATES

CITY OF LOS ANGELES

FOUNDED 1781

OFFICIAL STATEMENT

Evidencing the Proportionate Interests of the Owners Thereof in
Certain Basic Lease Payments to be Made by the
CITY OF LOS ANGELES
Pursuant to Two Separate Lease Agreements each with the
MUNICIPAL IMPROVEMENT CORPORATION
OF LOS ANGELES

$64,170,000
CERTIFICATES OF PARTICIPATION
(Equipment Acquisition Program AX)

$16,875,000
ADDITIONAL CERTIFICATES
OF PARTICIPATION
(Real Property Improvements
Program AR), Series 2004

INTRODUCTION

This introduction is not intended to be a complete statement of the terms and provisions of these Certificates and is qualified by the more detailed information contained elsewhere in this Official Statement.

This Official Statement, which includes the cover page and appendices hereto (the "Official Statement"), is provided for the purpose of setting forth information concerning the sale, execution and delivery of the $64,170,000 aggregate principal amount of Certificates of Participation (Equipment Acquisition Program AX) (the "Program AX Certificates"), and the $16,875,000 aggregate principal amount of Additional Certificates of Participation (Real Property Improvements Program AR), Series 2004 (the "Additional AR Certificates" and collectively with the Program AX Certificates, the "Certificates"). Capitalized terms not otherwise defined herein will have the meanings given to them in the applicable Lease Agreement (defined below).

Program AX Certificates

The Program AX Certificates evidence the undivided and proportionate interests of the Owners thereof in certain Basic Lease Payments to be made by the City of Los Angeles, California (the "City") for the use of certain equipment (the "Program AX Equipment") pursuant to a Lease Agreement (the "Program AX Lease Agreement") dated as of April 1, 2004, by and between the City, as lessee, and the Municipal Improvement Corporation of Los Angeles (the "Corporation"), as lessor. The Program AX Certificates are being executed and delivered pursuant to a Trust Agreement (the "AX Trust Agreement") dated as of April 1, 2004, by and among the City, the Corporation and U.S. Bank National Association, as trustee (the "Program AX Trustee"). Pursuant to the AX Trust Agreement, the Corporation will assign to the Program AX Trustee, for the benefit of the Owners of the Program AX Certificates, substantially all of its rights under the Program AX Lease Agreement, including its right to receive and collect the Basic Lease Payments from the City under the Program AX Lease Agreement, its right to receive insurance or condemnation proceeds due the Corporation under the Program AX Lease Agreement, and such rights as may be necessary for the Program AX Trustee to enforce payment of the Basic Lease Payments thereunder. The Corporation will lease the Program AX Equipment to the City pursuant to the Program AX Lease Agreement, in consideration for the City's making annual Basic Lease Payments and certain Additional Payments to the Corporation. The Basic Lease Payments and Additional Payments under the Program AX Lease Agreement shall be referred to herein collectively as the "Program AX Lease Payments." The proceeds of the Program AX Certificates will be used primarily to acquire the Program AX Equipment. See "THE PROGRAM AX EQUIPMENT" herein.

Additional AR Certificates

The Additional AR Certificates evidence the undivided and proportionate interests of the Owners thereof, on a parity with the Owners of $59,230,000 aggregate outstanding principal amount of Certificates of Participation (Real Property Program AR) dated April 2, 2002 (the "AR Certificates") in certain New Basic Lease Payments (hereinafter, the "Basic Lease Payments") to be made by the City for the use and possession of certain real property (the "AR Real Property") pursuant to a Lease Agreement dated as of April 1, 2002 (the "Original AR Lease"), by and between the Corporation, as lessor, and the City, as lessee, as amended by a First Amendment to Lease Agreement dated as of April 1, 2004, by and between the City, as lessee, and the Corporation, as lessor (together, the "Program AR Lease Agreement"). The Additional AR Certificates are being executed and delivered pursuant to a Trust Agreement dated as of April 1, 2002, by and among the City, the Corporation and Wells Fargo Bank, National Association, as trustee (the "Program AR Trustee"), as supplemented by a First Supplemental Trust Agreement dated as of April 1, 2004 (the "First AR Supplement"), by and among the City, the Corporation and the Program AR Trustee (together, the "AR Trust Agreement"). Pursuant to the First AR Supplement, the Corporation has assigned to the Program AR Trustee, for the benefit of the Owners of the AR Certificates and the Additional AR Certificates (collectively, the "Program AR Certificates"), substantially all of its rights under the Program AR Lease Agreement, including its rights to receive and collect the Basic Lease Payments from the City under the Program AR Lease Agreement, its rights to receive insurance or condemnation proceeds due the Corporation under the Program AR Lease Agreement, and such rights as may be necessary for the Trustee to enforce payment of the Basic Lease Payments. The proceeds of the Additional AR Certificates will be used primarily to improve a portion of the AR Real Property and certain other real property owned or used by the City (the "AR Projects"). See "THE AR REAL PROPERTY AND PROJECTS" herein.

All Certificates

The City is required to pay to the Program AX Trustee and the Program AR Trustee (collectively, the "Trustees"), as assignees of the Corporation, specified separate Basic Lease Payments in amounts designed to be sufficient in both time and amount to pay, when due, the principal and interest components of the Program AX Certificates and the Program AR Certificates, respectively, and is also required to pay the Additional Payments under each Lease Agreement for the use and possession of the Program AX Equipment and the AR Real Property (collectively, the "Properties" and each, a "Property"), respectively (see "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES" herein). Under each Lease Agreement, the City covenants to take such action as may be necessary to include all applicable Lease Payments thereunder in its annual budgets and make the necessary annual appropriations therefor. Each Lease Agreement provides that such covenants of the City are deemed by the City to be and shall be construed to be ministerial duties imposed by law.

Capitalized terms used but not defined herein are defined in APPENDIX C hereto. See also "RISK FACTORS" herein for certain factors that may affect the payment of and security for the Certificates. See APPENDIX C- "CERTAIN DEFINITIONS AND SUMMARY OF THE FINANCING DOCUMENTS-THE PROGRAM AX LEASE AGREEMENT" and "-THE AR PROGRAM LEASE AGREEMENT" hereto for further information regarding the City's obligations under the Lease Agreements.

Certain demographic, financial and other information with respect to or affecting the City is contained in APPENDIX A- "CITY OF LOS ANGELES" hereto.

THE CERTIFICATES

General Terms

The Certificates will all 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 Certificates will all be delivered in registered form, without coupons, initially registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York

("DTC"). See APPENDIX F- "BOOK-ENTRY ONLY SYSTEM" hereto. Interest with respect to the Program AX Certificates will be payable semiannually on April 1 and October 1 of each year, commencing October 1, 2004, and interest with respect to the Additional AR Certificates will be payable semiannually on April 1 and October 1 of each year, commencing October 1, 2004 (each, a "Certificate Interest Payment Date") at the rates set forth on the inside cover page hereof and will mature on the dates in each of the designated years in the principal amounts set forth on the inside cover page hereof. So long as DTC, or its nominee, Cede & Co., is the registered owner of the Certificates, all payments on the Certificates and any notice with respect to any Certificate will be sent directly to DTC, and disbursement of such payments and delivery of such notices to the Beneficial Owners of the Certificates will be the responsibility of the DTC Participants as more fully described herein.

Interest with respect to each Certificate shall be payable from the Certificate Interest Payment Date next preceding the date of execution thereof, unless: (i) it is executed as of a Certificate Interest Payment Date in which event interest with respect thereto shall be payable from such Certificate Interest Payment Date; or (ii) it is executed after a Record Date and before the following Certificate Interest Payment Date, in which event interest with respect thereto shall be payable from such Interest Payment Date; or (iii) it is executed on or before the first Regular Record Date, in which event interest with respect thereto shall be payable from the date of delivery; provided, however, that if, as of the date of any Certificate, interest is in default with respect to any Outstanding Certificates, interest with respect to such Certificate shall be payable from the Certificate Interest Payment Date to which interest has last been paid or made available for payment with respect to such Outstanding Certificates.

The interest represented by the Certificates is payable by check mailed on each Interest Payment Date to the Owners at their addresses as listed in the Certificate Register of the respective Trustee at the close of business on the 15th day of the month preceding such Certificate Interest Payment Date (a "Record Date"), except that such interest will be paid by wire upon the written request of an Owner of not less than $1,000,000 in aggregate principal amount of Certificates, which request must be filed at least seven business days prior to the Record Date. Principal with respect to the Certificates is payable upon maturity or redemption of the Certificates upon surrender thereof at the principal corporate trust offices of the Program AX Trustee or the Program AR Trustee, as applicable.

Redemption Provisions

Optional Redemption

Program AX Certificates. The Program AX Certificates are not subject to optional redemption prior to maturity.

Additional AR Certificates. The Additional AR Certificates maturing on or before April 1, 2014 are not subject to optional redemption prior to maturity. The Additional AR Certificates maturing on or after April 1, 2015 are subject to optional redemption in whole or in part at any time from prepayments of the Basic Lease Payments made at the option of the City pursuant to the Program AR Lease Agreement on April 1, 2014, or on any date thereafter, at the redemption price equal to the principal amount of the Additional AR Certificates to be redeemed plus accrued interest to the date fixed for redemption.

Extraordinary Mandatory Redemption

The Certificates are subject to extraordinary mandatory redemption on any date in whole or in part, from Net Proceeds of insurance or condemnation with respect to the applicable Property, which Net Proceeds are deposited in the Lease Payment Fund under the applicable Trust Agreement and credited towards the prepayment of the Basic Lease Payments under the applicable Lease Agreement and from certain other moneys deposited with the applicable Trustee pursuant to the applicable Lease Agreement as a result of loss or destruction or the taking of all or a portion of the applicable Property, at a redemption price equal to the principal amount thereof, without a premium, together with accrued interest to the date fixed for redemption.

Notice and Effect of Redemption

Notice of redemption will be mailed no less than 30 or more than 60 days prior to the redemption date to (i) DTC or (ii) if the book-entry only system is discontinued, to the respective Owners of Certificates designated for redemption at their respective addresses appearing on the Registration Books. Neither failure to receive such notice nor any defect in the notice so mailed nor any failure on the part of DTC, the DTC Participants, or the Indirect Participants or failure on the part of the nominee of the Owners to notify the Beneficial Owners shall affect the sufficiency of the proceedings for redemption of such Certificates or the cessation of interest on the redemption date.

Selection of Certificates for Redemption

The City shall select Certificates for redemption, from the Outstanding Certificates of each Series not previously called for redemption, such that the scheduled payments of principal represented by the Certificates in each rental period corresponds to the scheduled payments of the principal components of the Basic Lease Payments pursuant to the applicable provisions of the applicable Lease Agreement. If less than all of the Outstanding Certificates within a maturity are to be redeemed, the applicable Trustee shall select Certificates for redemption within a maturity by lot or in such other manner as the City shall direct.

ESTIMATED SOURCES AND USES OF FUNDS

The sources of funds to be received from the sale of the Certificates and the uses of funds will be in the amounts shown below.

Sources of Funds	Program AX Certificates	Additional AR Certificates
Principal Amount of Certificates	$64,170,000.00	$16,875,000.00
Plus Original Issue Premium (Less Discount)	6,027,907.35	(59,319.85)
Total Sources	$70,197,907.35	$16,815,680.15
Uses of Funds		
Deposit to Acquisition Fund[(1)]	$60,542,030.92	$15,222,437.14
Deposit to Reserve Fund	6,417,000.00	1,268,978.76
Capitalized Interest Account[(2)]	2,984,182.60	—
Costs of Issuance[(3)]	196,299.13	225,970.50
Underwriter's Discount	58,394.70	98,293.75
Total Uses	$70,197,907.35	$16,815,680.15

(1) Initial deposit to the Acquisition Fund for the Program AX Certificates or the 2004 Acquisition Fund for the Additional AR Certificates, which, together with interest earnings thereon, is expected to provide total acquisition funds of $60,780,000.00 for the Program AX Certificates, and $15,250,000 for the Additional AR Certificates, respectively.

(2) Interest is capitalized three months beyond the expected acquisition dates of each component of the Program AX Equipment.

(3) To be deposited in a Costs of Issuance Account within the Trustee Acquisition Fund under the AX Trust Agreement, and the 2004 Costs of Issuance Account within the 2004 Trustee Acquisition Fund under AR Trust Agreement, and each to be held by the applicable Trustee. Includes trustee, legal, financial advisory, rating agencies' fees, title insurance, the bond insurance premium for the Additional AR Certificates paid on behalf of the City directly to Ambac and other costs of executing and delivering the Certificates.

DEBT SERVICE SCHEDULES

Program AX Lease Agreement. The Program AX Lease Agreement requires the City to make Basic Lease Payments on each March 15 and September 15 as rental for the use and possession of the Program AX Equipment leased under the Program AX Lease Agreement during the Term of the Program AX Lease Agreement. The AX Trust Agreement requires that Basic Lease Payments be deposited in the Lease Payment Fund maintained by the Program AX Trustee. Pursuant to such AX Trust Agreement, on April 1 and October 1 of each year, the Program AX Trustee will apply such amounts in the Lease Payment Fund as are necessary to make principal and interest payments with respect to the Program AX Certificates as such Program AX Certificates become due and payable. The following table sets forth the scheduled principal and interest payments with respect to the Program AX Certificates.

Payment Date	Principal Component	Interest Component	Total Principal and Interest	Total FY Debt Service
10/1/2004		$1,369,878.89	$1,369,878.89	
4/1/2005	$3,910,000	1,622,225.00	5,532,225.00	$6,902,103.89
10/1/2005		1,583,125.00	1,583,125.00	
4/1/2006	7,755,000	1,583,125.00	9,338,125.00	10,921,250.00
10/1/2006		1,369,862.50	1,369,862.50	
4/1/2007	8,180,000	1,369,862.50	9,549,862.50	10,919,725.00
10/1/2007		1,144,912.50	1,144,912.50	
4/1/2008	8,630,000	1,144,912.50	9,774,912.50	10,919,825.00
10/1/2008		907,587.50	907,587.50	
4/1/2009	9,100,000	907,587.50	10,007,587.50	10,915,175.00
10/1/2009		680,087.50	680,087.50	
4/1/2010	9,560,000	680,087.50	10,240,087.50	10,920,175.00
10/1/2010		429,137.50	429,137.50	
4/1/2011	5,000,000	429,137.50	5,429,137.50	5,858,275.00
10/1/2011		297,887.50	297,887.50	
4/1/2012	4,470,000	297,887.50	4,767,887.50	5,065,775.00
10/1/2012		180,550.00	180,550.00	
4/1/2013	4,135,000	180,550.00	4,315,550.00	4,496,100.00
10/1/2013		77,175.00	77,175.00	
4/1/2014	3,430,000	77,175.00	3,507,175.00	3,584,350.00
TOTAL	$64,170,000	$16,332,753.89	$80,502,753.89	$80,502,753.89

AR Lease Agreement. The Program AR Lease Agreement requires the City to make Basic Lease Payments on each March 15 and September 15 as rental for the use and occupancy of the AR Real Property during the Term of the Program AR Lease Agreement. The AR Trust Agreement requires that Basic Lease Payments be deposited in the Lease Payment Fund maintained by the Program AR Trustee. Pursuant to the AR Trust Agreement, on April 1 and October 1 of each year, the Program AR Trustee will apply such amounts in the Lease Payment Fund as are necessary to make principal and interest payments with respect to the Program AR Certificates as such Program AR Certificates become due and payable. The table set forth on the following page sets forth the scheduled principal and interest payments with respect to the Additional AR Certificates and the AR Certificates.

Payment Dates	Principal Component	Interest Component	Existing AR Certificates	Total Principal and Interest	Total FY Debt Service
10/1/2004		$279,268.86	$1,436,152.50	$1,715,421.36	
4/1/2005	$655,000	330,713.13	2,951,152.50	3,936,865.63	$5,652,286.99
10/1/2005		324,163.13	1,405,852.50	1,730,015.63	
4/1/2006	620,000	324,163.13	2,980,852.50	3,925,015.63	5,655,031.26
10/1/2006		317,188.13	1,374,352.50	1,691,540.63	
4/1/2007	630,000	317,188.13	3,014,352.50	3,961,540.63	5,653,081.26
10/1/2007		309,313.13	1,341,552.50	1,650,865.63	
4/1/2008	650,000	309,313.13	3,046,552.50	4,005,865.63	5,656,731.26
10/1/2008		299,563.13	1,307,452.50	1,607,015.63	
4/1/2009	665,000	299,563.13	3,082,452.50	4,047,015.63	5,654,031.26
10/1/2009		289,588.13	1,271,952.50	1,561,540.63	
4/1/2010	685,000	289,588.13	3,116,952.50	4,091,540.63	5,653,081.26
10/1/2010		278,970.63	1,235,052.50	1,514,023.13	
4/1/2011	710,000	278,970.63	3,155,052.50	4,144,023.13	5,658,046.26
10/1/2011		266,989.38	1,191,852.50	1,458,841.88	
4/1/2012	735,000	266,989.38	3,196,852.50	4,198,841.88	5,657,683.76
10/1/2012		253,667.50	1,146,740.00	1,400,407.50	
4/1/2013	760,000	253,667.50	3,241,740.00	4,255,407.50	5,655,815.00
10/1/2013		239,417.50	1,094,365.00	1,333,782.50	
4/1/2014	790,000	239,417.50	3,294,365.00	4,323,782.50	5,657,565.00
10/1/2014		223,617.50	1,039,365.00	1,262,982.50	
4/1/2015	820,000	223,617.50	3,349,365.00	4,392,982.50	5,655,965.00
10/1/2015		207,217.50	981,615.00	1,188,832.50	
4/1/2016	850,000	207,217.50	3,406,615.00	4,463,832.50	5,652,665.00
10/1/2016		189,686.25	920,990.00	1,110,676.25	
4/1/2017	885,000	189,686.25	3,465,990.00	4,540,676.25	5,651,352.50
10/1/2017		170,880.00	857,365.00	1,028,245.00	
4/1/2018	925,000	170,880.00	3,532,365.00	4,628,245.00	5,656,490.00
10/1/2018		150,645.63	790,490.00	941,135.63	
4/1/2019	965,000	150,645.63	3,595,490.00	4,711,135.63	5,652,271.26
10/1/2019		129,415.63	720,365.00	849,780.63	
4/1/2020	1,010,000	129,415.63	3,670,365.00	4,809,780.63	5,659,561.26
10/1/2020		106,690.63	646,615.00	753,305.63	
4/1/2021	1,055,000	106,690.63	3,741,615.00	4,903,305.63	5,656,611.26
10/1/2021		82,293.75	569,240.00	651,533.75	
4/1/2022	1,100,000	82,293.75	3,819,240.00	5,001,533.75	5,653,067.50
10/1/2022		56,168.75	487,990.00	544,158.75	
4/1/2023	1,155,000	56,168.75	3,897,990.00	5,109,158.75	5,653,317.50
10/1/2023		28,737.50	402,740.00	431,477.50	
4/1/2024	1,210,000	28,737.50	3,987,740.00	5,226,477.50	5,657,955.00
10/1/2024			309,530.00	309,530.00	
04/01/25			4,079,530.00	4,079,530.00	4,389,060.00
10/1/2025			211,510.00	211,510.00	
4/1/2026			4,176,510.00	4,176,510.00	4,388,020.00
10/1/2026			108,420.00	108,420.00	
4/1/2027			4,278,420.00	4,278,420.00	4,386,840.00
TOTAL	$16,875,000	$8,458,409.59	$100,933,120.00	$126,266,529.59	$126,266,529.59

If the City defaults on its covenants in the respective Lease Agreements, including the covenant to include all Lease Payments in the applicable annual budgets, the applicable Trustee may exercise any remedies available pursuant to law or the respective Lease Agreement, including re-letting the applicable Properties and/or terminating the applicable Lease Agreement. See "RISK FACTORS-Limitations on Default Remedies" herein.

THE OBLIGATIONS TO BUDGET FOR AND THE OBLIGATIONS TO MAKE THE SEPARATE 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.

SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES

All Certificates

Each series of Certificates is payable solely from the separate Basic Lease Payments made by the City under the applicable Lease Agreement and from certain limited funds held by the applicable Trustee under the respective Trust Agreement. The Program AX Trustee and the Program AR Trustee, as assignees of the Corporation, will receive the applicable Basic Lease Payments for the benefit of the Owners of the applicable Certificates. On or before March 15 and September 15 of each year during the Term of the Program AX Lease Agreement, and March 15 and September 15 during the Term of the Program AR Lease Agreement, the City must pay to the respective Trustee the applicable Basic Lease Payments for such Lease Agreement due on such date from the City's General Fund or from other legally available sources (to the extent required under each Lease Agreement) which are designed to be sufficient in both time and amount to pay when due the principal and interest payments evidenced and represented by the respective Certificates.

Covenant to Budget

The City has covenanted in each Lease Agreement to take such action as may be necessary to include the Lease Payments 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 applicable Trust Agreement 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 the Lease Agreements. For a discussion of the financial and budgetary information on the City's General Fund, see APPENDIX A- "CITY OF LOS ANGELES" hereto.

Additional Payments

Under each Lease Agreement, the City has agreed to pay Additional Payments consisting of (i) all taxes, fees or assessments levied upon the applicable Property or upon any interest therein of the Corporation or the Trustee, (ii) insurance premiums, if any, on insurance required under the Lease Agreement, and (iii) all fees and expenses of the applicable Trustee, and expenses of the City required to comply with the applicable Lease Agreement and Trust Agreement. Additional Payments also include (i) any other fees, costs, or expenses incurred by the Corporation in connection with the execution, performance or enforcement of the applicable Lease Agreement or Trust Agreement, including any amounts necessary to indemnify and defend the Corporation, and (ii) any amounts required to be paid to the U.S. Government pursuant to Section 148 of the Internal Revenue Code.

Abatement of Lease Payments

During any period in which damage to or destruction of all or a portion of the Program AX Equipment or the AR Real Property (each generally referred to herein as the "Property"), or other event, results in substantial interference with the use and possession or occupancy of such Property or any portion thereof, all or a portion of the Basic Lease Payments due under the applicable Lease Agreement may be abated such that the remaining Lease Payments due under the applicable Lease Agreement represent fair rental for the use of the Program AX Equipment or the AR Real Property not affected. In the event of any such interruption of use and possession, the applicable Lease Agreement shall continue in full force and effect and the applicable Lease Payments shall not be subject to abatement to the extent that the proceeds of rental interruption insurance or amounts in the Reserve Fund or Lease Payment Fund applicable Lease Agreement are available to pay applicable Lease Payments which would otherwise be abated. (See APPENDIX C- "CERTAIN DEFINITIONS AND SUMMARY OF THE FINANCING DOCUMENTS-THE PROGRAM AX LEASE AGREEMENT-Abatement" and "-THE PROGRAM AR LEASE AGREEMENT-THE ORIGINAL LEASE AGREEMENT-Abatement" hereto.) The City and the Corporation have agreed and determined that the Lease Payments under the applicable Lease Agreement to be paid by the City for the use and possession or occupancy of the Program AX Equipment or the AR Real Property, as applicable, consisting of the Basic Lease Payments and the Additional Payments thereunder, do not exceed the fair rental value of the Program AX Equipment or the AR Real Property, as applicable.

Reserve Funds

Each Trust Agreement establishes a Reserve Fund that will be held by the applicable Trustee pursuant to the applicable Trust Agreement and funded from proceeds of the Program AX Certificates or the Program AR Certificates, as applicable, in an amount equal to the least of (i) the aggregate Basic Lease Payments thereunder and required to be paid in any future Rental Period calculated for the Rental Period in which such aggregate Basic Lease Payments under the applicable Lease Agreement are the greatest and taking into account the effect of any scheduled prepayments on the amount of such future Basic Lease Payments, (ii) ten (10) percent of the proceeds of the Certificates, or (iii) 125% of the average aggregate Basic Lease Payments under the applicable Lease Agreement required to be paid in each future Rental Period, taking into account the effect of any scheduled prepayments in the amount of future Basic Lease Payments. Such moneys will be held in trust as a reserve for the payment, when due, of all Basic Lease Payments to be paid pursuant to the applicable Lease Agreement and of all payments with respect to the Program AX Certificates or Program AR Certificates, as applicable.

With respect to the Program AX Certificates, semiannually on or prior to each March 15 and September 15, beginning September 15, 2004, the Program AX Trustee shall semiannually transfer any moneys in the Reserve Fund under the AX Trust Agreement in excess of the Reserve Requirement to the Lease Payment Fund under the AX Trust Agreement to be credited to the Basic Lease Payments next coming due and payable.

With respect to the Program AR Certificates, semiannually on or prior to each September 15 and March 15, beginning September 15, 2002 (pursuant to the Original AR Lease), the Program AR Trustee shall transfer any moneys in the Reserve Fund for the Program AR Certificates in excess of the Reserve Requirement to the Lease Payment Fund to be credited to the Basic Lease Payments next becoming due and payable.

The City is not obligated under either Lease Agreement to restore the Reserve Requirement for the applicable Certificates in the event of investment losses on Permitted Investments held therein or in the event of a draw on such Reserve Fund as a result of abatement.

At the option of the Corporation, as directed by the City, a Credit Facility in the amount of all or a portion of the Reserve Requirement for the Program AR Certificates or the Program AR Certificates may be substituted for the moneys and Permitted Investments held by the Trustee in the applicable Reserve Fund. Such Credit Facility shall be issued by a bank, other financial institution or insurance company, and such bank, financial institution or insurance company shall be rated at least equivalent to the ratings on the applicable Certificates by the Rating Agencies. See APPENDIX C- "CERTAIN DEFINITIONS AND SUMMARY OF FINANCING DOCUMENTS-THE AX TRUST AGREEMENT-Reserve Fund" and- "THE AR TRUST AGREEMENT-THE ORIGINAL TRUST AGREEMENT-Reserve Fund" hereto.

Additional Certificates

Each Trust Agreement provides that the Corporation and the City may, at any time, determine to execute and deliver Additional Certificates representing additional Basic Lease Payments without the consent of the Owners of any Certificates, subject to certain terms and conditions set out in the respective Trust Agreement. See APPENDIX C- "CERTAIN DEFINITIONS AND SUMMARY OF THE FINANCING DOCUMENTS-THE AR TRUST AGREEMENT-Additional Certificates" and- "THE AR TRUST AGREEMENT-THE ORIGINAL TRUST AGREEMENT-Additional Certificates" and "-THE FIRST SUPPLEMENTAL TRUST AGREEMENT- Amendment to Trust Agreement" hereto.

Repair and Maintenance; Insurance; Modification of the Properties

Each Lease Agreement requires the City to maintain the Property leased under such Lease Agreement at its sole cost and expense. Each Lease Agreement permits the City to make any improvements, or to make any addition or modification to the Property leased under such Lease Agreement, provided that after any such work is completed such property will have a fair rental value which is approximately equal to or greater than the fair rental value of such Property prior to such work.

Public Liability Insurance

Each Lease Agreement requires the City to maintain or cause to be maintained, throughout the term of the each Lease Agreement, a program of general liability insurance protecting the Corporation, the City and their respective officers, directors, agents, assigns and employees. Such insurance policies shall provide for indemnification of said parties against loss or liability for damages for bodily and personal injury, death or property damage occasioned by operation of the Property or improvements thereon leased under the applicable Lease Agreement. Each Lease Agreement requires that such insurance shall provide minimum liability limits of $3,000,000 combined single limit, per occurrence, subject to a deductible clause not to exceed $1,000,000.

Each Lease Agreement permits 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 risk retention programs in such proportions as are deemed appropriate and actuarially sound by the City's professional risk management personnel or independent consultants.

Fire and Extended Coverage Insurance

Each Lease Agreement requires the City to procure and maintain, or cause to be procured and maintained, throughout the Term of such Lease, insurance against loss or damage to any structures or equipment constituting any part of the applicable Property by fire and lightning, with extended coverage and vandalism and malicious mischief insurance, said 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.

Each Lease Agreement also requires the City to maintain earthquake insurance on the applicable Property, but only if such insurance is required by a Rating Agency rating the applicable Certificates as a condition precedent to obtaining or maintaining an investment grade rating on such Program AX Certificates and such insurance is available on the open market from reputable insurance companies and, at a reasonable price. The determination as to whether earthquake insurance is available on the applicable Property, on the open market from reputable insurance companies at a reasonable price shall be made annually by a professional risk manager or insurance consultant. If acceptable to the applicable Rating Agency, the City may provide satisfactory self insurance or a favorably completed Natural Hazards Survey for Earthquake Risks (or similar survey) for the applicable Property in lieu of commercial earthquake insurance.

Each Lease Agreement provides that such insurance may be subject to deductible clauses of not to exceed (i) $100,000 for any one loss, except that earthquake insurance may be subject to a deductible clause of not to exceed ten percent (10%) of said replacement cost of the insured Property for any one loss. Each Lease Agreement permits 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 under each Lease Agreement that if one or more of the components of the Property leased under such Lease Agreement 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 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 under such Lease Agreement.

Each Lease Agreement provides that if commercially available, the City shall procure and maintain, commencing upon the City's possession of the applicable Property and throughout the Term of the applicable Lease Agreement, rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of any structures constituting any part of the applicable Property in an amount at least equal to the largest remaining amount of applicable Basic Lease Payments payable in any Rental Period for such structures, and to insure against loss of substantial use and possession of the applicable Property. In lieu of obtaining such commercial rental interruption or use and occupancy insurance, the City may fund a rental interruption reserve account in an amount at lease equal to the largest amount of Basic Lease Payments payable in any remaining Rental Period.

For further discussion of these matters, see APPENDIX C- "CERTAIN DEFINITIONS AND SUMMARY OF THE FINANCING DOCUMENTS-THE PROGRAM AX LEASE AGREEMENT-Maintenance; Taxes; Insurance and Other Matters" and "-THE PROGRAM AR LEASE AGREEMENT-THE ORIGINAL LEASE AGREEMENT-Maintenance; Taxes; Insurance and Other Matters."

BOND INSURANCE FOR THE PROGRAM AX CERTIFICATES

The MBIA Insurance Corporation Insurance Policy

The following information has been furnished by for use in this Official Statement. Reference is made to APPENDIX G for a specimen of MBIA's policy.

MBIA's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the City to the Program AX Trustee or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Program AX Certificates as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by MBIA's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Program AX Certificates pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

MBIA's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Program AX Certificates. MBIA's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of

Program AX Certificates upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's policy also does not insure against nonpayment of principal of or interest on the Program AX Certificates resulting from the insolvency, negligence or any other act or omission of the Program AX Trustee or any other paying agent for the Program AX Certificates.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Program AX Trustee or any owner of a Program AX Certificates the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Program AX Certificates or presentment of such other proof of ownership of the Program AX Certificates, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Program AX Certificates as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Program AX Certificates in any legal proceeding related to payment of insured amounts on the Program AX Certificates, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Program AX Trustee payment of the insured amounts due on such Program AX Certificates, less any amount held by the Program AX Trustee for the payment of such insured amounts and legally available therefor.

MBIA

MBIA Insurance Corporation ("MBIA") is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by MBIA, changes in control and transactions among affiliates. Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the policy and MBIA set forth under the heading "BOND INSURANCE FO THE PROGRAM AX CERTIFICATES". Additionally, MBIA makes no representation regarding the Program AX Certificates or the advisability of investing in the Program AX Certificates.

MBIA Information

The following document filed by the Company with the Securities and Exchange Commission (the "SEC") is incorporated herein by reference:

(1) The Company's Annual Report on Form 10-K for the year ended December 31, 2003.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the Program AX Certificates offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2003, and (2) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2003, June 30, 2003 and September 30, 2003) are available (i) over the Internet at the SEC's web site at http://www.sec.gov; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at http://www.mbia.com; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2002, MBIA had admitted assets of $9.2 billion (audited), total liabilities of $6.0 billion (audited), and total capital and surplus of $3.2 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of December 31, 2003 MBIA had admitted assets of $9.9 billion (unaudited), total liabilities of $6.2 billion (unaudited), and total capital and surplus of $3.7 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Financial Strength Ratings of MBIA

Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Program AX Certificates, and such ratings may be 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 Program AX Certificates. MBIA does not guaranty the market price of the Program AX Certificates nor does it guaranty that the ratings on the Program AX Certificates will not be revised or withdrawn.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

BOND INSURANCE FOR THE ADDITIONAL AR CERTIFICATES

Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the Additional AR Certificates effective as of the date of execution and delivery of the Additional AR Certificates. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Additional AR Certificates which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the

Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Program AR Trustee. The insurance will extend for the term of the Additional AR Certificates and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Additional AR Certificates become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Additional AR Certificates, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Additional AR Certificates on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Additional AR Certificates, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Program AR Trustee has notice that any payment of principal of or interest on an Additional AR Certificate which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does **not** cover:

1. 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.

2. payment of any redemption, prepayment or acceleration premium.

3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee , Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of Additional AR Certificates to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Additional AR Certificates to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Additional AR Certificates, appurtenant coupon, if any, or right to payment of principal or interest on such Additional AR Certificates and will be fully subrogated to the surrendering Holder's rights to payment.

In the event that Ambac Assurance were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Ambac Assurance Corporation

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately **$7,278,000,000** (audited) and statutory capital of approximately **$4,490,000,000** (audited) as of **December 31, 2003.** Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard

& Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an Additional AR Certificates by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such Additional AR Certificate and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the Additional AR Certificates.

No representation is made by Ambac Assurance regarding the federal income tax treatment of payments that are made by Ambac Assurance under the terms of the Policy due to nonappropriation of funds by the City.

Ambac Assurance makes no representation regarding the Additional AR Certificates or the advisability of investing in the Additional AR Certificates and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "BOND INSURANCE FOR THE ADDITIONAL AR CERTIFICATES."

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company . These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

(i) The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and filed on March 15, 2004; and

(ii) The Company's Current Report on Form 8-K dated April 21, 2004 and filed on April 22, 2004.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in **"Available Information".**

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 Certificates.

Limited Obligations of the City

The City has covenanted in each Lease Agreement 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 DOES 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 CERTIFICATES 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 Equipment or the AR Real Property (collectively. the "Properties") under one of the Lease Agreements which causes the City not to have the use and possession of all or a substantial use of such Property, the City's obligation to make the Basic Lease Payments due under such Lease Agreement may be abated and, notwithstanding (i) the provisions of such Lease Agreement and corresponding Trust Agreement specifying the extent of such abatement, (ii) the City's covenant to maintain certain rental interruption insurance and (iii) the funding of the applicable Reserve Fund, 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 corresponding Certificates.

No Limitation on Incurring Additional Obligations

Neither the Lease Agreements nor the Trust Agreements contain 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 revenues and is currently contemplating entering into other such obligations. See APPENDIX A- "CITY OF LOS ANGELES-BONDED AND OTHER INDEBTEDNESS" hereto.

Limitations on Expenditures

The limitations on expenditures imposed by Article XIII B of the Constitution of the State of California may also affect the City's ability to make Basic Lease Payments should the City's expenditures reach such limits. If the City reaches this ceiling, the City would continue to be obligated to meet existing obligations, including making payment of the Basic Lease Payments but would only be allowed to incur new obligations to a more limited extent so that all of its obligations would fall within the Article XIII B ceiling. Moreover, Article XIII B ultimately allows for voter approval to adjust such expenditures limits, although any such voter-approved change would be of limited duration (maximum of four years). See APPENDIX A- "CITY OF LOS ANGELES-LIMITATIONS ON TAXES AND APPROPRIATIONS-Article XIII B of the California Constitution-Gann Limit" hereto.

Proposition 218

On November 5, 1996, California voters approved an initiative ("Proposition 218") that adds Articles XIIIC and XIIID to the California Constitution to require voter approval of all local taxes, assessments, fees and charges imposed by cities and other local governments, including charter cities such as the City. Such voter approval requirements would apply to all general and special taxes, assessments, and property-related fees and charges that were newly-created or increased after January 1, 1995. In addition, Proposition 218 permits any taxes, assessments, and property-related fees and charges to be reduced or eliminated through the initiative process. Proposition 218 contains many provisions, some of which may be subject to legal challenge. Proposition 218 could restrict the City's ability to raise additional funds for its General Fund from which Lease Payments will be made. See APPENDIX A- "CITY OF LOS ANGELES-LIMITATIONS ON TAXES AND APPROPRIATIONS - Articles XIIIC and XIIID of California Constitution - Proposition 218" for a general description of Proposition 218 and how it would apply to the City.

Limitations on Default Remedies

The enforcement of any remedies provided in each Lease Agreement and Trust Agreement could prove both expensive and time consuming. Although each Lease Agreement and Trust Agreement provide that, if there is a default by the City under the Lease Agreement, the applicable Trustee may terminate the applicable Lease Agreement and re-let the applicable Properties, such Property may not be easily re-leased. Furthermore, due to the essential nature of the governmental function of the Properties, it is not certain whether a court would permit the exercise of the remedies of repossession and re-letting with respect to any or all of such Properties. The individual Trustees 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 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 individual Lease Agreements or the Trust 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 Certificates (including Special 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

The City has agreed to procure and maintain certain insurance policies. General liability 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 risk retention programs. The City must maintain insurance against loss or damage to any equipment and structures constituting any part of the Properties by fire and lightning, with extended coverage and vandalism and malicious mischief insurance, to the extent set forth in the Lease Agreements, Such insurance does not cover acts of terrorism. Rental or business interruption insurance must be maintained in certain circumstances; 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 PROGRAM AX LEASE AGREEMENT-Maintenance; Taxes; Insurance and Other Matters" and "-THE PROGRAM AR LEASE AGREEMENT-THE ORIGINAL LEASE AGREEMENT-Maintenance; Taxes; Insurance and Other Matters" hereto.

The City anticipates that these insurance arrangements will be adequate to protect the City from the various liabilities that arise from use of the Properties and to provide for the payment of Basic Rental Payments in the event that the City loses beneficial use of the Properties. 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.

THE PROGRAM AX EQUIPMENT

The City plans to use a portion of the proceeds of the Program AX Certificates deposited in the Acquisition Fund under the AX Trust Agreement to purchase the following Program AX Equipment. However, the City may use such funds to purchase equipment other than some or all of the equipment shown below, so long as the estimated useful life of the alternate equipment purchased is the same as the original proposed equipment that is not purchased.

Item	**Estimated Cost**
General Services	
Fleet Replacement	$30,000,000
GSD Unterruptible Power Supply System	1,600,000
Sub Total	**$31,600,000**
Fire Department	
Fire Equipment and Vehicle Replacement	$19,000,000
Police	
Vehicle Replacement	$9,200,000
Zoo	
Automated Ticketing System	$980,000
TOTAL PROGRAM AX EQUIPMENT FINANCING NEEDS	**$60,780,000**

THE AR REAL PROPERTY AND PROJECTS

The AR Real Property

The AR Real Property consists of the following components of real property.

City Hall East. The first component of the AR Real Property is a portion of the block bordered by Temple, Los Angeles, First and Main Streets in downtown Los Angeles, on which 200 North Main Street, commonly known as "City Hall East," is located. City Hall East is an 18-story office building in which various departments of the City, including the main offices of the City Attorney and the City Administrative Officer, are located. City Hall East was constructed in 1974. The current value of City Hall East is $70 million, based on a Class "C" Estimate appraisal, using the income analysis and comparable value approaches, prepared by City staff in September, 2003.

Central Receiving Hospital. The second component of the AR Real Property is the City's Central Receiving Hospital located at 1401 West Sixth Street in the City. The property consists of approximately 4.23 acres of land on which a hospital building containing approximately 52,531 square feet is located. The hospital building was constructed in 1957. The current value of the property is $9 million, based on a Class "C" Estimate appraisal, using the income analysis and comparable value approaches, prepared by City staff September, 2003.

The AR Projects

The major portion of the proceeds of the Additional AR Certificates will be deposited in the Series 2004 Acquisition Account of the Acquisition Fund under the AR Trust Agreement. The City plans to apply the funds held in the Series 2004 Acquisition Account to undertake the following AR Projects located on real property owned or lease by the City, which property and improvements include but are not limited to one component of the AR Real Property. However, the City may use such funds to undertake other comparable real property projects in the City should one or more of the projects listed below not proceed as now planned.

Retrofit of City Hall. The City will use a portion of the proceeds of the Additional AR Certificates in the amount of $5 million for the third phase of construction to retrofit certain floors of City Hall East (located at 200 North Main Street in the civic center area of the City) with fire and seismic safety improvements. The City's Bureau of Engineering will have authorization for the expenditure of $2.06 million of these funds. The fourth and final phase of construction will be funded from the proceeds of a future General Fund financing. A portion of the proceeds of the AR Certificates and a portion of the proceeds of the City's Additional Certificates of Participation (Real Property Improvement Program T), Series 2002 that were executed and delivered on October 31, 2002, were used for the first two phases of such retrofitting work.

Tenant Improvements for CALTRANs Building. The City will use a portion of the proceeds of the Additional AR Certificates in the approximate amount of $7.05 million for tenant improvements for the administrative offices of the City's Department of Transportation to be located in the new downtown building that was jointly developed by the State of California Department of Transportation and the City. The City's portion of the building's development costs were financed with a portion of the proceeds of the AR Certificates.

Zoo Improvements. The City will use a portion of the proceeds of the Additional AR Certificates in the approximate amount of $2.2 million to construct an exhibit area at the Los Angeles Zoo.

Constituent Service Center. The City will use a portion of the proceeds of the Additional AR Certificates in the approximate amount of $1 million for a portion of the design costs of a constituent service center for Council District 7 that will be located on land owned by the City, at 13510 - 13526 Van Nuys Boulevard, and 10518½ - 10526 Oneida Avenue. The City's Bureau of Engineering will have authorization for the expenditure of these funds. Construction costs for the constituent service center will derive from City cash or a future City financing.

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 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. The directors of the Corporation receive no compensation and serve at the consent of the Council of the City. The City has agreed to indemnify the directors for any liabilities occurring in connection with this financing.

CONTINUING DISCLOSURE

Pursuant to each Trust Agreement and a Continuing Disclosure Certificate for each Series of the Certificates, the City has covenanted for the benefit of Certificate 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, 2005, 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 C- "CERTAIN DEFINITIONS AND SUMMARY OF THE FINANCING DOCUMENTS-CONTINUING DISCLOSURE CERTIFICATE FOR EACH SERIES OF THE CERTIFICATES." These covenants have been made in order to assist the Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

Except as described in this paragraph, the City has not failed to comply with any prior such undertaking under Rule 15c2-12. In connection with the issuance of the Mello-Roos Community Facilities District No. 3 (Cascade Business Park and Golf Course) Special Tax Bonds, the City executed and delivered a Continuing Disclosure Certificate, dated October 2, 1997 (the "Cascade Disclosure

Certificate"). In one instance, the City did not file as required in the Cascades Disclosure Certificate with each nationally Recognized Municipal Securities Information Repository by June 30, 2000, the date specified therein the annual report described therein. Such annual report was subsequently filed. Also, in connection with the issuance of the 1911 Improvement Act Assessment Bonds (Westwood Village Streetscape Phase I-A' 13-E6000280), the City executed and delivered a Continuing Disclosure Certificate, dated November 5, 1996 (the "Westwood Disclosure Certificate"). The City did not file as required in the Westwood Disclosure Certificate with each Nationally Recognized Municipal Securities Information Repository the annual report for each of the fiscal years 1997 through 2001. The annual report required by the Westwood Disclosure Certificate for fiscal year 2002 was filed on January 30, 2003.

In order to provide certain continuing disclosure with respect to the Certificates in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time ("Rule 15c2-12"), the City has entered into a Disclosure Dissemination Agent Agreement ("Disclosure Dissemination Agreement") for the benefit of the Owners of the Certificates with Digital Assurance Certification, L.L.C. ("DAC"), under which the City has designated DAC as Disclosure Dissemination Agent.

The Disclosure Dissemination Agent has only the duties specifically set forth in the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described in the Disclosure Dissemination Agreement is limited to the extent the City has provided such information to the Disclosure Dissemination Agent as required by this Disclosure Dissemination Agreement. The Disclosure Dissemination Agent has no duty with respect to the content of any disclosures or notice made pursuant to the terms of the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent has no duty or obligation to review or verify any information in the Annual Report, Audited Financial Statements, notice of Notice Event or Voluntary Report, or any other information, disclosures or notices provided to it by the Issuer and shall not be deemed to be acting in any fiduciary capacity for the City, the Owners of the Certificates or any other party. The Disclosure Dissemination Agent has no responsibility for the City's failure to report to the Disclosure Dissemination Agent a Notice Event or a duty to determine the materiality thereof. The Disclosure Dissemination Agent shall have no duty to determine or liability for failing to determine whether the Issuer has complied with the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent may conclusively rely upon certifications of the City at all times.

TAX MATTERS

In the opinion of Special Counsel and Special Tax Counsel (collectively, "Counsel"), under existing laws, regulations, rulings and judicial decisions, and assuming compliance with certain covenants, interest with respect to the Certificates is excluded from gross income for federal income tax purposes and is exempt from present State of California personal income taxes. Counsel is further of the opinion that interest with respect to the Certificates is not a specific preference item for purposes of the federal alternative minimum tax.

The Internal Revenue Code of 1986 (the "Code") imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Certificates. The City and the Corporation have covenanted to comply with certain restrictions designed to assure that the interest with respect to the Certificates will not be included in gross income for federal income tax purposes. Failure to comply with these covenants may result in interest with respect to the Certificates being included in gross income for federal income tax purposes, possibly from the date of execution and delivery of the Certificates. The opinion of Counsel assumes compliance with these covenants. Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of execution and delivery of the Certificates may adversely affect the tax status of the interest with respect to the Certificates.

Certain agreements, requirements, and procedures contained or referred to in the Lease Agreements, the Trust Agreements and other relevant documents may be changed, and certain actions (including, without limitation, the defeasance of the Lease Agreements) may be taken, under the circumstances and subject to the terms and conditions set forth in such documents. Counsel expresses no opinion as to any Certificate or the interest with respect thereto if any such change occurs or action is taken upon the advice or approval of counsel other than Counsel.

Notwithstanding Counsel's opinion that interest with respect to the Certificates is not a specific preference item for purposes of the alternative minimum tax provisions contained in the Code, however, the amount representing interest with respect to the Certificates will be included in the adjusted current earnings of certain corporations, and such corporations are required to include in the calculation of alternative minimum taxable income 75% of the excess of each such corporation's adjusted current earnings over its alternative minimum taxable income (determined without regard to this adjustment and prior to reduction for certain net operating losses).

Although Counsel will render opinions that the amount representing interest with respect to the Certificates is excludable from gross income for federal income tax purposes, the accrual or receipt of the amount representing interest with respect to the Certificates may otherwise affect the federal income tax liability of the Owners of the Certificates. The extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. Counsel expresses no opinion regarding any such consequences. Purchasers of Certificates, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions or certain recipients of social security or railroad retirement benefits, taxpayers otherwise entitled to claim the earned income credit or taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, are advised to consult their tax advisors as to the tax consequences of purchasing or holding the Certificates.

From time to time, there are legislative proposals in Congress and/or regulatory proposals by the Treasury Department or the Internal Revenue Service that, if enacted or adopted, could alter or amend the federal tax matters referred to above or adversely affect the market value of the Certificates. Counsel cannot predict whether or in what form any such proposal might be enacted or adopted or whether, if enacted or adopted, such proposal would apply to obligations issued prior to enactment or adoption. Each purchaser of the Certificates should consult his or her own tax advisor regarding any pending or proposed federal tax legislation or regulatory action. The opinions expressed by Counsel are based upon existing legislation and regulations as of the date of execution and delivery of the Certificates. Counsel do not express any opinion regarding any pending or proposed federal tax legislation or regulation.

Original Issue Premium

The Program AX Certificates and the Additional AR Certificates maturing on April 1, 2005 through April 1, 2009 (collectively, the "Premium Certificates") are being sold at a premium. An amount equal to the excess of the issue price of a Premium Certificate over its stated redemption price at maturity constitutes premium on such Premium Certificate. An initial purchaser of a Premium Certificate must amortize any premium over such Premium Certificate's term using constant yield principles, based on the purchaser's yield to maturity (or, in the case of Premium Certificates callable prior to their maturity, by amortizing the premium to the call date, based on the purchaser's yield to the call date and giving effect to the call premium). As premium is amortized, the amount of the amortization offsets a corresponding amount of interest for the period and the purchaser's basis in such Premium Certificate is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Certificate prior to its maturity. Even though the purchaser's basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Premium Certificates should consult with their tax advisors with respect to the determination and treatment of amortizable premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Premium Certificate.

Original Issue Discount

The Additional AR Certificates maturing on April 1, 2011 through April 1, 2013 and on April 1, 2015 through April 1, 2024 (collectively, the "Discount Certificates") are being sold at an original issue discount. The difference between the initial public offering prices, as set forth on the cover page, of such Discount Certificates and their stated amounts to be paid at maturity, constitutes original issue discount treated as interest which is excluded from gross income for federal income tax purposes, as described above.

The amount of original issue discount which is treated as having accrued with respect to such Discount Certificate is added to the cost basis of the owner in determining, for federal income tax purposes, gain or loss upon disposition of such Discount Certificate (including its sale, redemption or payment at maturity). Amounts received upon disposition of such Discount Certificate which are attributable to accrued original issue discount will be treated as tax exempt interest, rather than as taxable gain, for federal income tax purposes.

Original issue discount is treated as compounding semiannually, at a rate determined by reference to the yield to maturity of each individual Discount Certificate on days which are determined by reference to the maturity date of such Discount Certificate. The amount treated as original issue discount on such Discount Certificate for a particular semiannual accrual period is equal to the product of (i) the yield to maturity for such Discount Certificate (determined by compounding at the close of each accrual period) and (ii) the amount which would have been the tax basis of such Discount Certificate at the beginning of the particular accrual period if held by the original purchaser, less the amount of any interest payable for such Discount Certificate during the accrual period. The tax basis is determined by adding to the initial public offering price on such Discount Certificate the sum of the amounts which have been treated as original issue discount for such purposes during all prior periods. If such Discount Certificate is sold between semiannual compounding dates, original issue discount which would have been accrued for that semiannual compounding period for federal income tax purposes is to be apportioned in equal amounts among the days in such compounding period.

Owners of Discount Certificates should consult their tax advisors with respect to the determination and treatment of original issue discount accrued as of any date and with respect to the state and local tax consequences of owning a Discount Certificate.

CERTAIN LEGAL MATTERS

Special Counsel will render opinions with respect to the validity of the Lease Agreements and the Trust Agreements and as to the execution and delivery of the Certificates, which opinions will be in substantially the forms appearing as APPENDIX D to this Official Statement. Special Counsel and Special Tax Counsel will render opinions with respect to the exclusion from gross income for federal income tax purposes of interest with respect to the Certificates and the exemption of such interest from present State of California personal income taxes, which opinions will be substantially in the forms appearing as APPENDIX D and APPENDIX E to this Official Statement. Copies of such approving opinions will be available at the time of delivery of the Certificates. Special Counsel and Special Tax Counsel undertake no responsibility for the accuracy, completeness or fairness of this Official Statement. Special Counsel and Special Tax Counsel will receive compensation contingent upon the sale and delivery of the Certificates. Certain legal matters will be passed on for the City and the Corporation by Rockard J. Delgadillo, City Attorney.

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

There are no pending lawsuits which in the opinion of the City Attorney challenge the validity of the Certificates, the corporate existence of the City or the Corporation, or the title of the officers thereof to their respective offices.

Attached hereto as part of APPENDIX A is a list prepared by the Office of the City Attorney of pending matters or cases relating to the City which involve in excess of $8,000,000 liability each. This information is presented for general information purposes only.

RATINGS

Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services, a division of the McGraw Hill Companies, Inc. ("Standard & Poor's") have assigned the ratings of Aaa and AAA, respectively, to the Program AX Certificates, with the understanding that MBIA will deliver its Municipal Bond Insurance Policy for the Program AX Certificates at the time of execution and delivery of the Program AX Certificates. Moody's and Standard & Poor's have assigned underlying ratings of A2(con) and AA-p, respectively, to the Program AX Certificates. Moody's and Standard & Poor's have assigned the ratings of the Aaa and AAA, respectively, to the Additional AR Certificates, with the understanding that Ambac will deliver its Financial Guaranty Insurance Policy for the Additional AR Certificates at the time of execution and delivery of the Additional AR Certificates. Moody's and Standard & Poor's have assigned underlying ratings of A1 and AA-, respectively, to the Additional AR Certificates. 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: 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 Program AX Certificates or the Additional AR Certificates.

AVAILABILITY OF DOCUMENTS

Copies of the Official Statement, and the Lease Agreement, the Trust Agreement and the Agency Agreement for the AX Certificates, and the Lease Agreement, First Amendment to Lease Agreement, the Trust Agreement, and the First Supplemental Trust Agreement for the Program AR Certificates, and the Continuing Disclosure Certificates will be available, upon written request, from the Office of the City Administrative Officer, City Hall East, 200 North Main Street, Room 1500, Los Angeles, California 90012, (213) 847-1596.

EXCERPTS FROM THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

Excerpts from the City's Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2003, and the Independent Auditor's Report regarding the financial statements, are included as APPENDIX B to this Official Statement. The financial statements for the Fiscal Year ended June 30, 2003 have been audited by Simpson & Simpson, independent certified public accountants, as stated in their report. 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 with respect to any event subsequent to the Independent Auditor's Report.

UNDERWRITING

Pursuant to the terms of the public bid dated April 20, 2004, J.P. Morgan Securities, Inc., as Underwriter, has contracted to purchase the Program AX Certificates at the purchase price of $70,139,512.65 and to reoffer the Program AX Certificates pursuant to the terms and conditions set forth on the cover page of this Official Statement. The Underwriter will be obligated to take and pay for all of the Program AX Certificates if any Program AX Certificate is purchased.

Pursuant to the terms of the public bid dated April 20, 2004, Fidelity Capital Markets, as Underwriter, has contracted to purchase the Additional AR Certificates, at the purchase price of $16,717,386.40 and to reoffer the Additional AR Certificates, pursuant to the terms and conditions set forth on the cover page of this Official Statement. The Underwriter will be obligated to take and pay for all of the Additional AR Certificates, if any Additional AR Certificate is purchased.

FINANCIAL ADVISOR

Municipal Capital Management, Inc., Westlake Village, California, and Mill Valley, California, has acted as Financial Advisor to the City in conjunction with the execution and delivery of the Certificates. The Financial Advisor has assisted the City in preparation of this Official Statement and in other matters related to the planning, structuring, execution and delivery of the Certificates. The Financial Advisor will receive compensation contingent upon the sale and delivery of the Certificates.

The Financial Advisor has 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 Advisor makes 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

This Official Statement contains brief descriptions of, among other things, the Certificates, the Financing Documents, the City, the Corporation, and the Properties. Such descriptions do not purport to be comprehensive or definitive. All references made herein to documents are qualified in their entirety by references to such documents and references to the Certificates are qualified in their entirety by reference to the form of Certificates included in the Trust Agreements.

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 Certificates.

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

CITY OF LOS ANGELES

By: //s// Ellen F. Sandt
Assistant City Administrative Officer

CITY OF LOS ANGELES

FOUNDED 1781

APPENDIX A

CITY OF LOS ANGELES

CITY OF LOS ANGELES

FOUNDED 1781

APPENDIX A
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INTRODUCTION

The City of Los Angeles (the "City"), California is the second most populous city in the United States with an estimated 2002 population of approximately 3.8 million. Los Angeles is the principal city of a metropolitan region stretching 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. It 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 unspoiled 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 in 1890, and then swelled to 1.5 million 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 Los Angeles developed as the first major city of the automotive age. Following World War II, Los Angeles became the focus of a new wave of migration, with its population reaching 2.4 million by 1960.

Both 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, transportation, utilities and construction contribute significantly to local employment. The City's 470 square miles contain 11.5% of the area and 38.8% of the population of the County of Los Angeles (the "County"). The County is the top ranked county in manufacturing in the United States, producing more than 10% of the nation's production of such diverse items as aircraft, aircraft equipment, aluminum, dental equipment, games and toys, gas transmissions 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. As home to the film, television and recording industries, as well as important cultural facilities, Los Angeles serves as a principal global cultural center. With Los Angeles International Airport serving as the new "Ellis Island" for foreign immigration to this country, the metropolitan region has achieved a new ethnic and cultural diversity.

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

The City's population expanded by 4.8% during the 1970s, by more than 17.4% during the 1990s, and by 6% from 1990 to 2000. This latter expansion compares to a 7.4% growth rate for the County and a 13.8% growth rate for the State of California (the "State") during the same period. Table 1 summarizes City, County, and State population estimated at January 1 of each year.

Table 1
CITY, COUNTY AND STATE POPULATION STATISTICS

	City of Los Angeles	County of Los Angeles	State of California
1980	2,968,579	7,477,421	23,782,000
1985	3,216,900	8,121,000	26,113,000
1990	3,485,557	8,863,052	29,758,213
1995	3,547,700	9,103,900	31,617,000
2000	3,694,820	9,519,338	33,871,648
2001	3,746,300	9,653,900	34,385,000
2002	3,805,400	9,817,400	35,000,000
2003	3,864,400	9,979,600	35,591,000

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

Table 2 summarizes the income distribution of the City, County and State population estimated at January 1, 2003.

Table 2
CITY, COUNTY, AND STATE POPULATION
BY INCOME GROUP
Estimated January 1, 2003

	% OF POPULATION BY INCOME GROUP		
	$20,000-$34,999	$35,000-$49,999	$50,000 and Over
City of Los Angeles	24.1%	17.1%	30.5%
County of Los Angeles	22.8	18.4	35.2
State of California	21.1	18.9	40.5

Source: Sales and Marketing Management Magazine "2003 Survey of Buying Power."

Industry and Employment

Table 3 summarizes the State Employment Department Development's estimated average annual employment of nonagricultural wage and salary workers in the County between 2000 and 2002. (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 major employment sector in the County in 2002, employing 19.5% of the nonagricultural wage and salary workers in the County. Government, at 15.0%, is the second highest employment sector in the County, followed by professional and business services, which employs 14.3% of the nonagricultural wage and salary workers in the County.

Table 3
LOS ANGELES COUNTY
ESTIMATED AVERAGE ANNUAL EMPLOYMENT
NONAGRICULTURAL WAGE AND SALARY WORKERS[1]

	County						State of California	
	2001	% of Total	2002	% of Total	2003[2]	% of Total	2003[2]	% of Total
Agricultural	8,400	0.2	7,800	0.2	7,900	0.2	375,000	2.5
Natural Resources and Mining	3,800	0.1	3,700	0.1	3,800	0.1	22,000	0.1
Construction	136,800	3.4	134,500	3.3	133,500	3.3	788,800	5.3
Manufacturing	577,900	14.2	534,800	13.3	500,000	12.5	1,544,900	10.4
Trade, Transportation & Utilities	789,800	19.3	782,700	19.4	777,200	19.4	2,722,000	18.4
Information	226,300	5.5	207,300	5.1	198,800	5.0	471,400	3.2
Financial Activities	228,900	5.6	232,600	5.8	239,800	6.0	886,800	6.0
Professional and Business Services	588,000	14.4	575,000	14.3	568,400	14.2	2,108,100	14.3
Educational and Health Services	432,200	10.6	450,400	11.2	460,300	11.5	1,536,300	10.4
Leisure and Hospitality	348,500	8.5	354,200	8.8	363,500	9.1	1,397,600	9.5
Other Services	143,200	3.5	145,600	3.6	145,800	3.6	505,800	3.4
Government	598,300	14.7	606,100	15.0	599,200	15.0	2,426,500	16.4
Total	4,082,000		4,034,600		3,998,100		14,785,200	

(1) Since 2000, the EDD 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 independent rounding.
(2) March 2003 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.

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

The average number of employed and unemployed residents of the County, together with the average annual unemployment rate, is summarized in Table 4.

Table 4
ESTIMATED AVERAGE ANNUAL EMPLOYMENT AND UNEMPLOYMENT OF RESIDENT LABOR FORCE

	1999	2000	2001	2002	2003
County of Los Angeles[1]					
Civilian Labor Force					
Employed	4,291,400	4,421,900	4,506,900	4,465,600	4,451,700
Unemployed	267,000	249,900	270,100	324,200	337,100
Total	4,558,400	4,671,800	4,777,000	4,789,800	4,788,800
Unemployment Rates					
County	5.9%	5.3%	5.7%	6.8%	7.0%
State	5.2	4.9	5.4	6.7	6.7
United States[3]	4.2	4.0	4.8	5.8	5.6

(1) March 2003 Benchmark; not seasonally adjusted.
(2) United States data not strictly comparable with data for prior years.
(3) Beginning in January 1999, data for United States are not strictly comparable with data for 1998 and earlier years because of revisions in population counts used in household surveys.

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.

Major Employers

The economic base of Los Angeles is diverse, with no one sector being dominant. Some of the leading activities include government (including education), business/professional management services (including engineering), health services (including training and research), tourism, distribution, and entertainment. The major employers in Los Angeles County are listed in Table 5.

Table 5
LOS ANGELES COUNTY
Major Employers

Employer	Product/Service	Employees
Los Angeles Unified School District	Public school district	65,231
Northrop Grumman	Space research & analysis; manufactures space systems & electronic subsystems	24,425
Kaiser Foundation Hospital	Medical & surgical hospital; laboratory; HMO service provider	21,618
Boeing Co.	Research & development laboratory; manufactures & refurbishes space shuttles	17,404
Walt Disney Co.	Motion pictures; theme parks; video cassettes; entertainment; cable TV; sports & television series	12,300
City of Los Angeles DWP	Supplies water & electrical power	10,000
MTA Red Line	Public bus & rail transportation services	10,000
Toyota Motor Sales USA Inc.	Manufactures distributes & sells automobiles & other motor vehicles	9,000
Home Depot Inc.	Retail home improvement store	7,508
Long Beach Unified School District	Public school district	7,200
Universal Studios Inc.	Operates Universal Studios amusement park	7,000
Department of Children/Family	Provides children & family services	6,800
Hunan Commercial Bank	National commercial bank	6,000
Cedars-Sinai Medical Center	Medical center	5,790
Von's	Retail grocery store	5,430
MMC Inc.	Staff leasing; professional employer organization	5,000
Bradford Building Services	Provides contract commercial janitorial, window washing, carpet cleaning & floor maintenance	5,000
Los Angeles Times Valley	Newspaper publishing	5,000
Medtronic Minimed Inc.	Research, develops & manufactures infusion pumps for controlled dispensing of insulin & continuous glucose monitoring systems	5,000
Culver Studios	Services allied to motion picture production	5,000

Source: 2003 Harris InfoSource, January 2004.

Effective Buying Income

"Effective Buying Income" ("EBI"), also referred to as "disposable" or "after tax" income, consists of personal income less personal tax and certain non-tax payments. Personal income includes wages and salaries, other labor-related income (such as employer contributions to private pension funds), and certain other income (e.g., proprietor's income; rental income; dividends and interest; pensions; and welfare assistance). Deducted from this total are personal taxes (federal, state and local), certain non-tax payments (e.g., fines, fees and penalties), and personal contributions to a retirement program.

Table 6 summarizes historical median household EBI, for the City, County, State and United States of America.

Table 6
CITY, COUNTY, STATE AND U.S.
MEDIAN HOUSEHOLD EFFECTIVE BUYING INCOME

Year[1]	City of Los Angeles	County of Los Angeles	State of California	United States of America
1999	$31,098	$34,554	$37,091	$35,377
2000	32,737	36,730	39,492	37,233
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

[1] As of January 1.

Source: Sales and Marketing Management Magazine "Survey of Buying Power."

Retail Sales

As the largest city in the County, the City accounted for $31,844,860,000 (or 29.28%) of the total $108,753,064,000 in County taxable sales for 2002. Table 7 sets forth a history of taxable sales for the City.

Table 7
TAXABLE SALES
CITY OF LOS ANGELES
(in thousands)

	1998	1999	2000	2001	2002
Apparel stores	$ 1,391,090	$ 1,151,319	$ 1,213,763	$ 1,237,498	$ 1,333,967
General merchandise stores	2,566,803	2,904,725	3,068,289	3,121,521	3,173,481
Food stores	1,408,767	1,480,721	1,566,768	1,562,989	1,574,751
Eating and drinking establishments	3,174,278	3,415,261	3,691,864	3,832,553	4,050,080
Home furnishings and appliances	970,030	1,086,801	1,156,586	1,114,428	1,166,157
Building materials and farm implements	1,256,954	1,404,596	1,584,737	1,747,025	1,868,657
Auto dealers and auto supplies	2,481,523	2,883,414	3,275,664	3,506,186	3,759,209
Service stations	1,694,695	2,092,152	2,676,542	2,563,082	2,422,631
Other retail stores	3,706,948	4,043,963	4,408,228	4,324,943	4,368,574
Retail stores total	18,651,088	20,462,952	22,642,441	23,010,225	23,717,507
All other outlets	7,992,748	8,198,482	8,649,196	8,631,925	8,127,353
TOTAL ALL OUTLETS	$26,643,836	$28,661,434	$31,291,637	$31,642,150	$31,844,860

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

Construction Activity

Table 8 provides a summary of building permit valuations and number of new dwelling units in the City.

Table 8
BUILDING PERMIT VALUATIONS AND NEW DWELLING UNITS
CITY OF LOS ANGELES

	1998	1999	2000	2001	2002
Valuation[1]:					
Residential	$ 832.4	$ 1,004.5	$ 1,337.1	$ 1,448.1	$1,520.9
Non-residential	935.8	1,311.5	1,300.9	1,229.8	941.2
Total Valuation:	$1,768.2	$2,316.0	$2,638.0	$2,677.9	$2,462.1
Number of New Dwelling Units:					
Single family	1,334	1,384	1,679	1,723	1,433
Multi-family	1,474	3,067	4,950	5,528	7,170
Total Number of New Dwelling Units:	2,808	4,451	6,629	7,251	8,603

(1) millions of dollars

Source: RAND California.

Commercial Real Estate Markets in Los Angeles

Table 9 shows vacancy rates for non-residential space in the Central Business District and the remainder of the Los Angeles Metropolitan Area.

Table 9
NON-RESIDENTIAL VACANCY RATES[1]
LOS ANGELES METROPOLITAN AREA

	Downtown			Suburban			Total Metropolitan		
	2001	2002	2003	2001	2002	2003	2001	2002	2003
Q1	15	15.4	18.8	10.9	12.7	13.4	11.6	13.1	14.3
Q2	14.6	15.4	19.1	11.2	12.6	14	11.8	13.1	14.8
Q3	14.9	16.2	18.7	10.9	13.2	14.3	11.6	13.7	15
Q4	13.7	16.7	N/A	11.8	11.5	N/A	12.1	12.4	N/A
Average	14.6	15.9	18.9	11.2	12.5	13.9	11.8	13.1	14.7

(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 708 square miles, was formed in 1854 as the Common Schools for the City of Los Angeles, and became a unified school district in 1960.

As of December 2002, the LAUSD operated 959 schools and centers, including 429 elementary schools, 76 middle/junior high schools, 52 high schools, 13 multi-level schools, 155 magnet schools and centers, 45 continuation senior high schools, 18 special education schools, 9 opportunity schools, 105 children's and infant centers, 44 adult program facilities, 12 primary school centers and one newcomers center. The LAUSD is governed by a seven-member Board of Education, elected by district to serve alternating four-year terms. As of November 2002, the LAUSD employed 45,462 certificated employees and 34,348 classified employees. The LAUSD also employs part-time and temporary employees.

Table 10 provides a summary of the Enrollment and Average Daily Attendance ("ADA") of K-12 students for the LAUSD for the fiscal years 1997-98 through 2002-03.

Table 10
LOS ANGELES UNIFIED SCHOOL DISTRICT
TOTAL AVERAGE DAILY ATTENDANCE

Fiscal Year	Average Daily Attendance
1997-98	743,598
1998-99	730,933[1]
1999-00	749,736[2]
2000-01	760,271
2001-02	768,313
2002-03	779,763[3]

[1] Includes the equivalent ADA of summer school hours of attendance (ADA = Hours of Attendance, divided by 175, divided by 4).
[2] A change in ADA/revenue calculations occurred pursuant to Senate Bill 727 in Fiscal Year 1998/99. Excused absences thereafter are omitted from ADA, but the dollar impact of this omission is offset with like-dollar increases to the revenue limit.
[3] Estimated.

Source: Los Angeles Unified School District, Controller.

There are many public and private colleges and universities located in the City. Major 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 seismic activity. A number of known faults run through the City, and the City lies near the San Andreas fault. 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 does not maintain insurance for earthquake risks, relying on its general reserves and the availability of assistance from the Federal Emergency Management Agency.

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. The City is a charter city originally incorporated in 1850. On June 8, 1999, an election was held and a new charter was approved. The new charter became operative on July 1, 2000. The new charter made the following significant changes, among others: increased authority of the Mayor, particularly over the administration of City departments; decreased authority of the Council, particularly over decisions by boards and commissions; increased authority for the Controller, including conducting performance audits of departments; changed rules regarding control and settlement of litigation; established an advisory redistricting commission, a system of self-selected advisory neighborhood councils and a Department of Neighborhood Empowerment; established a new Office of Finance; and enlarged the city planning commission and area planning commissions.

Los Angeles is governed by the Mayor and the Council. The Mayor is elected at large for a 4-year term. As executive officer of the City, the Mayor has the overall responsibility of 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 the 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. James K. Hahn was elected Mayor on June 5, 2001 and took office on July 1, 2001.

The Council, the legislative body of the City, is a full time council and enacts ordinances subject to the approval or veto of the Mayor. The Council may override the veto of the Mayor by a two-thirds vote. It 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 4-year terms.

The other two elective offices of the City are the Controller and the City Attorney, both elected for 4-year terms. The Controller is the chief accounting officer for the City. The current Controller, Laura N. Chick, was elected to her first term at the April 2001 election and took office July 1, 2001. 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, was elected on June 5, 2001 and took office on July 1, 2001.

The City Administrative Officer, appointed by the Mayor and confirmed by the Council, is the chief financial advisor to the Mayor and Council and reports directly to both. William T Fujioka is currently the City Administrative Officer.

The Treasurer, appointed by the Mayor and confirmed by the Council, receives, invests and is the custodian of the majority of the City's funds and those of affiliated entities. The Treasurer also serves as the

City's central bank. The current Treasurer is Joya C. DeFoor. The Office of Finance is responsible for revenue collection within the City. The current Director of the Office of Finance is Antoinette Christovale.

The City has 40 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, and two pension systems), the Community Redevelopment Agency of the City of Los Angeles and the Housing Authority of the City of Los Angeles are under the control of Boards appointed by the Mayor and confirmed by the Council.

Public services that are 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; and planning.

The City obtains electricity from the Los Angeles Department of Water and Power, one of the largest publicly-owned electric utilities 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 projections and to make necessary adjustments to appropriations.

Fiscal 2001-02 Financial Results

The Fiscal Year 2001-02 Comprehensive Financial Report represents the first period for which the City has presented its financial statements under the new reporting model required by the Governmental Accounting Standards Board (GASB) Statement No. 34. Because this reporting model changes significantly both the recording and presentation of financial data, the City has not restated prior fiscal years for the purposes of providing comparative information. Under this new reporting model, expenses for governmental activities totaled $4.7 billion.

During this fiscal year, General Fund revenues exceeded expenditures (including net transfers) by $61 million. A summary of these financial results, and the results for prior fiscal years, appears in Table 24 below.

Fiscal 2002-03 Financial Results

During this fiscal year, General Fund revenues exceeded expenditures (including net transfers) by $79 million. A summary of these financial results, and the results for prior fiscal years, appears below in Table 24.

Fiscal 2003-04 Adopted Budget

The Adopted Budget is $5.163 billion, comprised of approximately $2.932 billion for departmental expenditures and $2.231 billion for non-departmental expenditures. Total receipts are budgeted at $5.163 billion, made up of approximately $3.498 billion in general receipts (which includes $150 million transferred from the general Reserve Fund) and $1.666 billion in special receipts and available balances. The Adopted Budget includes a Reserve Fund of $96.6 million, which represents approximately 2.8% of General Fund Revenues. Due to concern with the potential impact of the State's budget on City receipts, approximately $69 million in potential appropriations were transferred to the Unappropriated Balance; these appropriations are earmarked principally for the Police Department budget, in the event that revenues meet budget targets (see **"State of California Budget"** and **"Unappropriated Balance,"** below).

During 2003-04, the City will monitor its revenue, expenditure and reserve estimates, and will make budgetary adjustments throughout the year as deemed necessary. See **"Subsequent Budget Actions,"** below.

Table 11
2002-03 and 2003-04 Fiscal Year Budget
(All Budgeted Fund Types)

Summary of Revenues, Transfers and Taxes	Adopted 2002-03	Adopted 2003-04
Taxes[1]	$2,160,352,590	$2,403,245,716
Licenses and Permits and Fines[2]	787,785,061	827,240,369
Special Assessments[3]	77,381,998	76,332,881
Charges for Services [4]	763,482,429	724,408,200
Intergovernmental[5]	318,048,091	299,461,879
Interest	29,179,000	20,500,000
Transportation Funds[6]	208,661,688	211,202,662
Other General Fund[7]	63,354,628	168,582,501
Other Special Funds	239,456,830	134,834,609
Subtotal Revenues	4,647,702,315	4,865,808,817
Available Balances	179,391,940	297,561,562
Total Revenues, Transfers and Available Balances	$4,827,094,255	$5,163,370,379
Summary of Appropriations	2002-03	2003-04
Community Safety	$1,088,430,547	$1,150,386,112
Home and Community Environment	787,018,719	751,048,311
Transportation	476,919,126	455,652,826
Cultural, Education and Recreational Services	187,338,904	208,980,316
Economic Development	118,082,802	73,865,950
Pensions and Retirement	219,475,639	308,549,446
Capital Outlay	359,239,009	455,429,227
General Government	1,590,589,509	1,759,458,191
Total Appropriations	$4,827,094,255	$5,163,370,379

(1) Major tax revenue sources include Property Tax, Utility Users' Tax, Sales Tax, Business Tax, Transient Occupancy Tax, Documentary Transfer Tax, Parking Users' Tax, Residential Development Tax, and Special Police Communications/911 System Tax.
(2) Revenue sources include Licenses, Permits, and Fees, State Vehicle License Fee, 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, Sanitation Equipment Charge Revenue Fund, Convention Center Revenue Fund, Special Parking Revenue Fund, and Zoo Enterprise Fund.
(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 Reserve Fund.

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

Subsequent Budget Actions

The City periodically reviews its financial status and adjusts its budget as appropriate. 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/financial reports.htm, which is not incorporated as part of this official statement. As of the most recent Financial Status Report, dated February 26, 2004, the City anticipates that its year-end Reserve Fund balance, as of June 30, 2004, would be $165,913,814 (reduced to $105,913,814 if the Motor Vehicle License Fee ("VLF") backfill is not funded by the State; see **"State of California Budget"** and **"State Motor Vehicle License Fee,"** herein).

State of California Budget

At a special election held on October 7, 2003, Governor Gray Davis was recalled, to be replaced as Governor by Arnold Schwarzenegger, whose inauguration occurred November 17, 2003. Governor Schwarzenegger immediately issued an Executive Order rescinding the recent increase in the State's motor vehicle license fee, and reinstating the General Fund backfill to local government "as soon as administratively feasible." On December 17, 2003, the Governor issued an executive order appropriating $2.625 billion to provide backfill funding for City and County VLF funding. (See **"State Motor Vehicle License Fee,"** herein).

The Governor's Budget for fiscal year 2004-05 (the Governor's Budget) was released on January 9, 2004. The Governor's Budget proposes to address the State's budget problems through a four-part recovery plan: (1) up to $15 billion in bonds to finance the negative General Fund reserve balance and other General Fund obligations to be incurred prior to June 30, 2004, which were approved by voters at the March 2, 2004 election; (2) additional spending reductions for the 2003-04 fiscal year of approximately $300 million and new spending reductions of approximately $12 billion for the 2004-05 fiscal year; (3) a constitutional amendment to require balanced budgets with reserves in the future, which was also approved March 2, 2004; and (4) various initiatives to improve the business and jobs climate in the State and improve revenue growth over time. Additional information concerning the Governor's Budget and the State's financial condition may be found on the website of the State of California Department of Finance at http://www.dof.ca.gov, which is not incorporated as part of this official statement.

The Governor's Budget does propose an increase in the shift of local property taxes from the City to the Education Revenue Augmentation Fund ("ERAF") to reduce the State's cost of local education financing. The net effect of this shift would be to reduce the City's receipt from property taxes by approximately $39 million.

On January 13, 2004, the Legislative Analyst released her report concerning the Governor's Budget (the LAO Report). The LAO Report states that the Governor's Budget has several positive attributes and provides a solid starting point for budget deliberations. It also notes that, even with the reductions in the Governor's Budget, the State could experience an approximately $6 billion structural deficit in the 2005-06 fiscal year. The LAO Report states that it will be necessary for the Legislature to look beyond the Governor's Budget proposal and consider other options, including additional savings proposals and revenue increases, if the Legislature wishes to fully resolve the State's chronic budget crisis. Additional information concerning the LAO Report may be found on the website of the State of California Legislative Analyst's Office at http://www.lao.ca.gov, which is not incorporated as part of this official statement.

Because of the current condition of the State finances, no assurance can be given as to what impact the 2004-05 Governor's Budget and the State's financial condition might have on the financial condition of the City.

MAJOR GENERAL FUND REVENUE SOURCES

Following is a discussion of the City's principal General Fund revenue sources.

Property Taxes

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 one 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 owned by 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. Approximately 92.4% 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. In addition, property on the secured roll on which taxes are delinquent has a delinquency certificate recorded after June 30 of the fiscal year. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty of 1½%

per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is deeded to the State and is subject to sale by the County Tax Collector.

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 ½% per month begins to accrue on November 1. The taxing authority has four ways of collecting delinquent unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the Office of the County Clerk specifying certain facts in order 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, in order 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 appear in Table 12.

Table 12
ASSESSED VALUATION
CITY OF LOS ANGELES
(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]
1998-99	$199,784,716	$187,680,081	$490,166	$474,121	96.7%	$27,171	$501,292
1999-00	212,938,670	200,721,331	520,703	504,061	96.8%	23,750	527,811
2000-01	227,500,174	214,689,900	554,824	538,921	97.1%	49,386	588,307
2001-02	243,267,919	229,978,775	591,029	575,067	97.3%	47,326	622,393
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	N/A	N/A	N/A	701,550

(1) Represents Gross Total Locally Assessed Valuations per County Assessor.
(2) Valuations on which revenue is collected by the County; consists of Gross Total Locally 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, supplementals, and refunds; restoration of Community Redevelopment Agency ("CRA") increment; and County property-tax-year-related accounting adjustments. For example, most of the increase in 2000-01 was due to the return to the City roll of the CRA tax increment for the Central Business District.
(7) Total property tax received from the County during the fiscal year, FY 2003-04 is estimate contained in Adopted Budget.

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

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; current unsecured levy receipts are discounted by 1%. Estimates of other property tax receipts are primarily based on historical collections.

A list of the 20 largest taxpayers, based on secured assessed valuations within the City for the 2002-03 fiscal year, appears in Table 13. The total secured assessed valuation of these taxpayers represents approximately 3.8% of the total City secured assessed valuation for fiscal year 2002-03.

Table 13
TWENTY LARGEST TAXPAYERS
CITY OF LOS ANGELES
2002-03 SECURED ASSESSED VALUATION

Property Owner	Primary Land Use	2002/03 Assessed Valuation	Percent of Total(1)
Douglas Emmett Realty Funds	Office Building	$ 942,782,411	0.41%
Ultramar Inc.	Oil and Gas Production	785,599,254	0.34
Tosco Corp.	Oil and Gas Production	781,298,761	0.34
Equilon Enterprises LLC	Oil and Gas Production	761,236,730	0.33
Anheuser Busch Inc.	Industrial	710,251,800	0.31
Arden Realty LP	Office Building	653,193,624	0.28
Entertainment Center LLC	Office Building	536,607,706	0.23
2121 Avenue of the Stars LLC	Office Building	362,059,200	0.16
Paramount Pictures Corp.	Motion Picture/Television Studio	357,737,934	0.16
1999 Stars LLC	Office Building	309,873,705	0.13
BP 10880 Wilshire LLC	Office Building	298,347,567	0.13
Century City Mall LLC	Shopping Center/Mall	282,988,800	0.12
Maguire Partners Crocker Properties Phase 1	Office Building	280,000,000	0.12
Prime Park La Brea Holdings LP	Office Building	270,092,176	0.12
Maguire Partners 555 West Fifth LLC	Office Building	258,000,000	0.11
Library Square Associates LLC	Office Building	249,593,758	0.11
Duesenberg Investment Company	Office Building	237,040,318	0.10
Twentieth Century Fox Film Corp.	Motion Picture/Television Studio	227,999,878	0.10
Metropolitan Life Insurance Co.	Office Building	219,140,000	0.10
Pivotal Century Plaza Hotel LLC	Hotel	218,835,305	0.10
		$8,742,678,927	3.80%

(1) 2002-03 Total Local Secured Assessed Valuation: $230,070,319,143

Source: California Municipal Statistics, Inc.

Recent Litigation Involving Assessment Practices

Properties which have been subject to downward valuation by county assessors as a result of natural disasters, economic downturns or other factors, have often had that value restored by the assessors (up to the pre-decline value of the property) at rates higher than 2% per annum depending on the success of repairs following a disaster or the speed of a recovery from an economic downturn. (See **"Article XIII A of the California Constitution – Proposition 13,"** herein.) All 58 county assessors have followed this procedure which was codified in Section 51 of the Revenue and Taxation Code of the State in 1979. On December 27, 2001, an Orange County Superior Court ruled in County of Orange v. Orange County Assessment Appeals Board No. 3 (the "Orange County Case") that such decreases create a new "base year value" for purposes of Proposition 13 and that subsequent increases in the assessed value of a homeowner's property by more than 2% in a single year violated Article XIII A of the California Constitution.

On December 12, 2002, the Orange County Superior Court certified the lawsuit as a class action. On March 26, 2004, the Court of Appeal reversed the trial court decision and held that the inflation factor is calculated against the original purchase price and not on a prior year's reassessed value. Were the case to be appealed to the California Supreme Court and were plaintiffs to ultimately prevail and the decision made applicable to other similarly situated property owners, property tax revenues to the City would decrease. The City cannot predict the amount of any such decreases.

Utility Users' Tax

The Utility Users' Tax is imposed on all users of natural gas, electricity and telephone services within the City's limits. The tax rate is established by the City Council. The tax is a percentage of utility charges based on the following rates: residential - 10% of utility bill for users of electricity, gas, and telephone services and commercial - 10% of utility bill for users of gas and telephone services and 12½% of utility bill for users of electricity. These tax rates have been in effect since July 1983. Effective October 1, 1987, the telephone users tax was expanded to include interstate and international long distance calls. Prior to that date, the tax included local and intra-state calls only. In connection with the 1993-94 Budget, the Council extended the telephone users tax to cellular phone usage.

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 $15,300. 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 taxes are forecast based on analysis of each of the three taxed commodities. Electricity tax revenues are derived from the Department of Water and Power's long-term power sales forecast, modified by an analysis of recent trends and a forecast of business activities. Natural gas sales are based on Southern California Gas Company historical trends, modified by approved and anticipated rate increases. Both electricity and natural gas sales are sensitive to weather (warm winters and cool summers reduce demand); forecasts are based on average weather. Telephone services forecasts are based on historical trends of major telephone companies, adjusted by growth in volume and major pending rate adjustments.

Utility companies, with the exception of the Department of Water and Power, collect and transmit the tax monthly to the City Clerk who deposits the revenue into the General Fund. Tax revenue collected by the Department of Water and Power is transferred directly to the General Fund on a monthly basis.

Table 14 shows the actual or estimated receipts from the Utility Users' Tax since fiscal year 1998-99:

Table 14
UTILITY USERS' TAX RECEIPTS
CITY OF LOS ANGELES
(in thousands)

Fiscal Year	Receipts[1]
1998-99	$493,531
1999-00	487,439
2000-01	557,401
2001-02	488,778
2002-03	510,339
2003-04 (Adopted Budget)	520,126

[1] Cash basis

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

Sales Tax

Sales and use taxes are collected on the total retail price of tangible personal property sold, unless specifically exempted. Included in the statewide tax rate of 8.25% is a 1% of the 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. An additional 1% sales tax is collected in Los Angeles County for the Los Angeles Metropolitan Transportation Authority for transportation purposes. A portion of those funds is remitted to the City for deposit in two special revenue funds.

Effective July 1, 2004, the traditional Bradley-Burns 1% city sales tax will be modified by a state budgetary change known as the "triple flip." The "triple flip" put in place a complex revenue swap to fund the state's deficit bonds approved by the electorate in March 2004 to balance the state budget. The "triple flip" will trade .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).

The components of the sales tax collected in the City are as follows:

Table 15
SALES TAX COMPONENTS
LOS ANGELES COUNTY

State Rate		
General Fund Portion	5.00%	This rate was temporarily lowered to 4.75% in calendar year 2001, but returned to 5% on January 1, 2002.
Local Public Safety	0.50	Approved by the voters in 1993 to support local criminal justice activities. The City gets a small share of this, almost $30 million, which are deposited to the Local Public Safety Special Revenue Fund.
Local Revenue Fund	0.50	To support health program costs.
Total State Rate	6.00%	
Uniform Local Tax Rate		This rate is leveled Statewide.
County Transportation	0.25%	The county allocates a small portion of this to the City.
Local Point of Sale	1.00	This represents the City sales tax, and is deposited to the General Fund.
Total Uniform Local Rate	1.25%	
Optional Local Rates		
Proposition A	0.50%	Voter approved measures to improve public transit and reduce traffic congestion.
Proposition C	0.50	
Total Optional Local Rate	1.00%	
Total Sales Tax Rate in Los Angeles County	8.25%	

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

The City's budgeting forecast of Sales Tax receipts is based on State officials' estimates and the forecast of local economists.

Table 16 shows the actual or estimated General Fund receipts from the Sales Tax since fiscal year 1998-99:

Table 16
GENERAL FUND SALES TAX RECEIPTS
CITY OF LOS ANGELES
(in thousands)

Fiscal Year	Receipts[1]
1998-99	$306,360
1999-00	331,710
2000-01	357,222
2001-02	351,062
2002-03	363,787
2003-04 (Adopted Budget)	376,752

[1] Cash basis

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

Business Tax

The Business Tax is imposed on persons engaged in a business in the City. The tax rate formula, which is established by the City Council, varies based upon the type of business. Most businesses are taxed on gross receipts at rates varying from $1.18 per $1,000 of gross receipts for wholesalers to $5.91 per $1,000 of gross receipts for selected businesses and occupations.

The City's budgeting forecast of Business Tax receipts is based on State officials' estimates and the forecast of local economists. The City's estimate is adjusted for anticipated rate adjustments and major refunds and temporary tax amnesties.

Table 17 shows the actual or estimated receipts from the Business Tax since fiscal year 1998-99:

Table 17
BUSINESS TAX RECEIPTS
CITY OF LOS ANGELES
(in thousands)

Fiscal Year	Receipts[1]
1998-99	$308,013
1999-00	317,340
2000-01	344,605
2001-02 [2]	360,336
2002-03	356,041
2003-04 (Adopted Budget)	370,114

[1] Cash basis
[2] Included $ 7 million in receipts from one-time amnesty program.

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

State Motor Vehicle License Fee

A vehicle license fee ("VLF") equivalent to 2% of the market value of motor vehicles has been imposed annually by the State in lieu of local property taxes since 1948. The VLF is an annual 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. The State allocates proceeds to the Department of Motor Vehicles and the California Highway Patrol to cover operating expenses, and to the State General Fund for administrative expenses. The remaining revenues are apportioned equally between counties and cities on the basis of relative population within the State.

The budget forecast for these revenues is derived from a forecast of statewide license receipts, which are prorated according to the ratio of the City's population to the State's population. The statewide receipts forecast is based on historical data, State officials' estimates and the forecast of local economists.

Table 18 shows the actual or estimated receipts from State Motor Vehicle License Fees since fiscal year 1998-99:

Table 18
STATE MOTOR VEHICLE LICENSE FEE RECEIPTS
CITY OF LOS ANGELES
(in thousands)

Fiscal Year	Receipts[1]
1998-99	$163,859
1999-00	184,807
2000-01	201,094
2001-02	209,683
2002-03	223,641
2003-04 (Adopted Budget)	231,920

[1] Cash basis

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

In August 1998, the State adopted legislation that, beginning January 1, 1999, reduced the VLF by 25%. The fee reduction was increased to 35% in 2000, and to 67.5% beginning July 1, 2001. This law provided that the state "backfill" (and thus make local governments whole) the difference between the lower VLF rate and the 2 percent rate, unless the Sate has "insufficient moneys" with which to make such payments. In June 2003, the Department of Finance made a determination that the State had insufficient moneys to provide any backfill to local government, and as a result of this determination, the backfill ended and the VLF recently returned to the 2 percent level. During the roughly 90-day period between when the General Fund backfill ended and the VLF rate increased, local governments only received revenues based on the reduced VLF rate (with no State backfill). The loss in local government revenue due to the lag time between the elimination of the backfill and the increase in the VLF was originally projected to result in lost revenue of approximately $45 million to the City. However, it appears that the City may lose up to $58 million in revenue due to several factors such as reduced car sales in fall 2003 and State action regarding allocation of VLF revenue.

Newly-elected Governor Arnold Schwarzenegger has rescinded the increase in the VLF, and taken action to restore the backfill. See **"BUDGET AND REVENUES — State of California Budget."**

Licenses, Permits and Fees

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 Airport and Harbor Departments, staff costs for the sewer construction and maintenance program, and costs financed by the Los Angeles Metropolitan Transportation Authority. These revenues also include charges imposed as regulatory measures by City departments, the largest of which are building permits from the Department of Building and Safety, and fees charged for paramedic ambulance services.

Table 19 shows the actual or estimated receipts from licenses, permits and fees since fiscal year 2000-01.

Table 19
LICENSES, PERMITS AND FEES
CITY OF LOS ANGELES

	2000-01[1]	2001-02[1]	2002-03[1]	2003-04 Adopted Budget
Ambulance Fees	$32,718,404	$40,910,532	$44,317,733	$46,500,000
Services to Sewer Program	36,894,023	41,156,752	42,066,172	38,489,938
Services to Dept. of Airports	33,556,372	37,631,498	48,413,727	47,450,738
Services to Harbor Dept.	22,492,844	20,198,386	17,616,707	20,552,400
LA Metro. Trans. Auth. Reimbursement	24,648,425	27,376,456	26,464,235	0
Miscellaneous Reimbursements From Other Special Funds and Other Agencies	118,783,124	137,697,682	107,740,609	125,809,374
Building and Safety Fees	71,752,396	67,572,424	73,781,549	70,660,500
Other Departmental Receipts	90,778,187	100,618,177	107,301,845	99,381,419
Total	$431,623,775	$473,161,907	$467,702,577	$448,844,369

[1] Cash basis.

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

Municipal Court Fines

Approximately 96% of these receipts are parking fines. The schedule of fines is established by the City Council. Other receipts include fees charged for laboratory work in connection with sobriety tests conducted by the Los Angeles Police Department, and fines paid for citations issued for violations of the Los Angeles Municipal Code (e.g., lease law violations).

For budgeting purposes, parking ticket revenue forecasts are based on the number of parking enforcement officers employed by the City's Department of Transportation, an estimate of average revenues per ticket based on historical trends and an estimate of average worker productivity.

Table 20 shows the actual or estimated receipts from all municipal court fines since fiscal year 1998-99:

Table 20
MUNICIPAL COURT FINES
CITY OF LOS ANGELES
(in thousands)

Fiscal Year	Receipts[1]
1998-99	$ 90,286
1999-00	92,804
2000-01	96,681
2001-02	94,352
2002-03	112,448
2003-04 (Adopted Budget)	111,000

[1] Cash basis.

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

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 Department of Water and Power. Historically, this transfer has equaled approximately five percent of the total operating revenue of the Power Revenue Fund in the preceding fiscal year. This transfer was increased to seven percent beginning in 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 transfer is restricted by the City Charter and the Department of Water and Power'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 surplus to less than 33-1/3% of the Department Water and Power's total outstanding debt. Transfers are made periodically following Council's adoption of the ordinance. Budget estimates for the succeeding year are based on actual revenues for the first three quarters and estimated revenues for the final quarter of the current fiscal year. In 2002-03, the General Fund received a non-recurring supplemental transfer from the Power System, which was deposited in 2003-04.

Table 21 shows the actual or estimated transfers from the Power Revenue Fund since fiscal year 1998-99:

Table 21
TRANSFERS FROM POWER REVENUE FUND
CITY OF LOS ANGELES
(in thousands)

Fiscal Year	Receipts[1]
1998-99	$108,146
1999-00	112,000
2000-01	119,800
2001-02	154,153
2002-03	156,358
2003-04 (Adopted Budget)[2]	181,500

[1] Cash basis
[2] Includes non-recurring supplemental transfer scheduled in 2002-03.

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

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.

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 can only be effective for a maximum of four years.

Table 22 is a comparison of the City's appropriations limit and appropriations subject to limitation since fiscal 1998-99.

Table 22
APPROPRIATIONS LIMITS AND APPROPRIATIONS SUBJECT TO LIMITATIONS
CITY OF LOS ANGELES

Fiscal Year	City Appropriations Limit	Appropriations Subject to Limitations	Amount Appropriations are Under the Limit
1998-99	$2,774,065,184	$1,991,635,193	$782,429,991
1999-00	2,931,013,793	2,077,179,962	853,950,831
2000-01	3,114,912,694	2,194,569,003	920,343,691
2001-02	3,340,743,864	2,450,909,110	889,834,754
2002-03	3,301,991,235	2,398,075,507	903,915,728

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 XIIIC and XIIID 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 XIIIC requires that all new 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 City 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 XIIID contains new 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 XIIID also contains several new provisions affecting "property-related fees" and "charges," defined for purposes of Article XIIID 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. Moreover, except for fees or charges for sewer, water and refuse collection services, or fees for electrical and gas service, which are not treated as "property-related" for purposes of Article XIIID, no property-related fee or charge may 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.

Future Initiatives

Article XIIIA, Article XIIIB, Article XIIIC and Article XIIID 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 23 and 24 summarize financial information for the General Fund contained in the City's audited General Purpose 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 has 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.

Table 23
COMBINED BALANCE SHEET FOR THE GENERAL FUND
June 30, 1999 through 2003
(in thousands)

	1999	2000	2001	2002	2003
ASSETS:					
Cash and Pooled Investments	$358,882	$448,475	$ 629,937	$ 706,616	$ 801,219
Taxes Receivable	126,101	135,168	264,262	232,032	242,284
Accounts Receivable	27,978	53,419	76,892	103,209	144,277
Special Assessments Receivable	4,290	6,328	7,282	7,817	8,821
Investment Income Receivable	10,439	10,606	12,650	12,650	9,855
Intergovernmental Receivable	21,748	23,390	26,467	75,971	65,169
Due from Other Funds	59,943	48,681	44,820	63,399	51,954
Inventories	23,915	19,974	24,075	24,791	30,345
Prepaid Items and Other Assets	130	0	0	0	0
Advances to Other Funds	14,029	15,318	11,424	10,807	10,450
Restricted Assets	7,127	5,832	15	0	0
TOTAL ASSETS	654,582	767,191	1,097,824	1,237,292	1,364,374
LIABILITIES AND FUND EQUITY					
LIABILITIES:					
Accounts, Contracts and Retainage Payable	51,565	63,691	76,853	48,663	44,964
Obligations Under Securities Lending Transactions	85,647	68,683	99,809	157,457	191,409
Accrued Wages and Overtime Payable	60,332	89,292	90,405	88,282	97,423
Accrued Compensated Absences Payable	15,390	14,446	13,752	3,060	1,550
Estimated Claims and Judgments Payable	60,219	127,583	113,649	27,386	19,224
Intergovernmental Payable	45	46	54	137	86
Due to Other Funds	49,938	41,487	39,235	32,980	17,796
Deposits and Advances	21,029	34,201	5,201	7,37[illegible]	4,366
Deferred Revenue and Other Credits	91,153	93,907	151,054	209,81[illegible]	243,800
Advances from Other Funds	6,871	7,487	62,118	57,093	51,998
Other Liabilities	5,914	7,082	7,748	7,664	9,887
TOTAL LIABILITIES	448,103	547,905	659,878	638,902	682,503
FUND BALANCE					
Reserved for Encumbrances	100,756	93,339	126,970	122,132	105,309
Reserved for Assets Not Available for Appropriation	38,067	35,292	35,499	35,598	40,795
Reserved for Debt Service	0	0	1,057	0	0
Reserved for Special Purposes	0	0	0	28,451	25,941
Designated for Special Purposes[1]	75,271	75,663	115,802	71,100	71,000
Unreserved and Undesignated	(7,615)	14,992	158,618	340,209	438,826
TOTAL FUND BALANCES	206,479	219,286	437,946	597,390	681,871
TOTAL LIABILITIES AND FUND EQUITY	$654,582	$ 767,191	$1,097,824	$1,237,292	$1,364,374

[1]Budgetary-based designations; in 1999, designations exceeded total unreserved balance

Source: City of Los Angeles, General Purpose Financial Statements.

Table 24
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE FOR THE GENERAL FUND
For the Years Ended June 30, 1999 through 2003
(in thousands)

	1999	2000	2001	2002	2003
REVENUES:					
Property Taxes	$ 503,406	$ 537,114	$ 589,628	$ 632,329	$ 666,977
Sales Taxes	307,304	330,950	362,735	346,302	367,112
Utility Users' Taxes	487,138	491,881	556,425	478,343	521,148
Business Taxes	300,774	319,231	344,170	358,865	356,937
Other Taxes	271,706	290,887	307,631	284,989	311,004
Licenses and Permits	30,379	36,706	35,074	36,939	38,345
Intergovernmental	173,152	198,727	211,747	233,592	225,968
Charges for Services	309,315	324,795	312,794	345,451	360,372
Services to Enterprise Funds	169,425	171,616	177,914	190,024	206,412
Fines	90,950	95,394	98,737	95,794	116,115
Special Assessments	1,365	2,068	1,507	2,095	1,397
Investment Earnings	28,457	27,841	48,988	39,913	49,424
Other	11,391	38,215	40,897	28,520	33,664
TOTAL REVENUES	2,684,762	2,865,425	3,088,247	3,073,156	3,254,875
EXPENDITURES:					
Current:					
General Government	550,902	586,936	713,165	659,912	931,700
Protection of Persons and Property	1,496,292	1,543,552	1,528,077	1,590,922	1,556,554
Public Works	148,568	158,646	154,926	175,582	170,546
Health and Sanitation	198,889	202,515	197,408	211,780	186,286
Transportation	75,294	84,027	89,983	102,162	103,113
Cultural and Recreational Services	34,316	33,501	29,284	32,358	30,502
Community Development	28,081	32,197	28,558	28,381	26,488
Capital Outlay	16,329	32,224	29,315	34,679	22,013
Debt Service: Cost of Issuance	131	0	0	173	223
TOTAL EXPENDITURES	2,548,802	2,673,598	2,770,716	2,835,949	3,027,435
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	135,960	191,827	317,531	237,207	227,440
OTHER FINANCING SOURCES (USES)					
Certificate of Participation Proceeds	0	25,002	0	0	0
Operating Transfers In	128,615	136,054	151,393	226,832	227,227
Operating Transfers Out	(314,858)	(333,835)	(366,938)	(402,853)	(375,740)
TOTAL OTHER FINANCING SOURCES (USES)	(186,243)	(172,779)	(215,545)	(176,021)	(148,513)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(50,283)	19,048	101,986	61,186	79,927
FUND BALANCES, JULY 1, RESTATED (1)	259,117	200,604	330,346	534,958	597,390
(DECREASE) INCREASE IN RESERVE FOR INVENTORIES	(3,074)	(3,941)	4,782	1,246	5,554
RESIDUAL EQUITY TRANSFERS IN	719	3,575	832	0	0
RESIDUAL EQUITY TRANSFERS OUT	0	0	0	0	0
FUND BALANCE GENERAL FUND, JUNE 30	$206,479	$219,286	$437,946	$597,390	$681,871

(1) Prior period adjustments occurred in 1999, 2000, 2001, and 2002. Accordingly, prior year ending fund balance does not equal beginning fund balance for that year. The adjustment to beginning fund balance in 2001 reflects $111.0 million from the implementation of GASB Statement Nos. 33 and 36, affecting the timing of recognition of certain sales tax and utility users' tax receivables. The adjustment to beginning fund balance in 2002 reflects $97 million resulting from the implementation of GASB Interpretation No. 6, which reduced the accruals for compensated absences, claims and judgments.

Source: City of Los Angeles, General Purpose Financial Statements.

Budgeted Reserve Fund Policy

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).

The Reserve Fund is reported as part of the General Fund in the City's Financial Statements. The City's policy addresses budget-based reserves, and does not set specific goals for GAAP-based year-end fund balances.

In August 1998, the City adopted a Reserve Fund policy, which requires the City to maintain a budget-basis Reserve Fund equivalent to 2% of General Fund revenues. The Reserve Fund is now comprised of two accounts - a Contingency Reserve Account and an Emergency Reserve Account. The Contingency Reserve Account is available for unexpected expenditures and/or revenue shortfalls upon authorization by the City Council. The Emergency Reserve Account may not be utilized for funding unless the Mayor and City Council find that there is an "urgent economic necessity," and determine that no other viable sources of funds are available.

The 2003-04 Reserve Fund for the Adopted Budget is $96.6 million or 2.8% of General Fund revenue. Of this amount, $61 million was allocated to the Emergency Reserve Account and $35.6 million to the Contingency Reserve Account. This maintains the City's Reserve Fund goal of 2% or more of General Fund revenue.

Budgetary Reserves

In addition to the Reserve Fund, the City maintains several budgetary reserves within the General Fund, which are summarized in Table 25.

Table 25
BUDGETED RESERVES
CITY OF LOS ANGELES
(in millions)

Budget for Fiscal Year Ending June 30	Budgeted Reserve Fund	Budgeted Unappropriated Balance	Reserve for Economic Uncertainties[2]	Reserve for Extraordinary Liability Claims	Total Budgeted Reserves	% of Total General Fund Budgeted Revenues[3]
1998-99	$ 44.0	$27.7	-	-	$ 71.7	$2.18
1999-00	58.2	22.8	$22.3	-	103.3	2.96
2000-01	59.8	73.2(1)	25.8	$30.0	111.8	4.58
2001-02	105.1	65.8	54.7	40.0	265.6	8.25
2002-03	101.9	31.8	46.5	35.0	215.2	6.59
2003-04(Adopted Budget)	96.6	86.6	0	28.9	212.1	6.06

(1) Increase in the Unappropriated Balance is mainly due to $35 million set aside for salary increases for police and fire.
(2) Funds received following budget adoption that have been set aside in the Reserve for Economic Uncertainties account of the Unappropriated Balance.
(3) 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 meet contingencies as they may arise. A preliminary allocation of these funds is included in the City's budget. Table 26 summarizes such allocations during the past five years.

Table 26
BUDGETED UNAPPROPRIATED BALANCE
CITY OF LOS ANGELES
(in millions)

	1999-00	2000-01	2001-02	2002-03	2003-04
General	$ 1.0	$ 1.0	$ 0.5	$ 0.5	$ 0.0
Civilian Compensation Adjustments	2.0	0.0	37.2	0.0	0.0
Extraordinary Liability Claims	0.0	0.0	0.0	13.0	0.0
Recreation and Parks	0.0	0.0	5.0	7.5	0.0
Street Resurfacing	0.0	2.7	0.0	0.0	11.0
Police and Fire Sworn Employee Contract Negotiations	0.0	35.0	0.0	0.0	0.0
Other - Police	1.0	10.2	10.7	0.0	36.1
Reserve for New Programs	0.0	0.0	0.0	0.0	25.3
Other	18.8	24.3	12.4	10.8	14.2
Total	$22.8	$73.2	$65.8	$31.8	$86.6

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

The City maintains two other reserves as part of its budget. Beginning in 1999-2000, the City began to transfer unbudgeted revenues to a Reserve for Economic Uncertainties. Beginning in 2000-01, the City began funding a Reserve for Extraordinary Liabilities Claim to prepare for financial exposure from police-related litigation. (See **"LITIGATION,"** herein.)

Table 27 presents the City's year-end unreserved fund balance, as reported in the City's annual General Purpose Financial Statements, which are prepared in accordance with Generally Accepted Accounting Principles (GAAP). Designations of the General Fund balance are made on a budgetary basis; in some years this amount exceeded the unreserved fund balance available on a GAAP basis, which resulted in the reporting of a negative unreserved undesignated fund balance.

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

	Unreserved General Fund Balance				
Fiscal Year	Designated[1]	Undesignated[1]	Total	Revenues[2]	Unreserved Fund Balance as Percent of Revenues
1997-98	$ 17.6	$ 99.0	$116.6	$2,691.4	4.3%
1998-99	75.3	(7.6)[3]	67.7	2,757.2	2.4
1999-00	75.7	15.0	90.7	2,941.0	3 0
2000-01	115.8	158.6	274.4	3,088.2	8.5
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

(1) Beginning in FY 1998-99, includes the City's contingency and emergency reserves in accordance with the City's Reserve Fund Policy, which was adopted in November 1998. These funds were formerly accounted for in the Undesignated Fund Balance. FY2001-02 emergency reserve was $61 million.
(2) Includes Operating Transfers In.
(3) Budgetary-based designations exceeded total unreserved balance.

Source: City of Los Angeles Comprehensive Annual Financial Report.

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. Additionally, 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 claim payment experience since fiscal year 1998-99 is listed in Table 28.

Table 28
LIABILITY CLAIMS PAID
CITY OF LOS ANGELES[1]
(in millions)

Fiscal Year	Claims Paid
1998-99	$52.8
1999-00	82.6
2000-01	79.5
2001-02	48.0
2002-03	47.1
2003-04 (Adopted Budget)	50.0

[1] Does not include Workers' Compensation claims paid by the City.

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

The City's Workers' Compensation program is comprised of three components: Hospital and Doctor Bills (payments for all related medical care); Awards (temporary and permanent disability payments); and Rehabilitation (vocational training costs and monetary allowances to employees during vocational rehabilitation). Funding for this program is included in the Human Resources Benefits budget, which also includes funding for employee benefits and unemployment issuance. Total Workers' Compensation Expenditures since fiscal year 1998-99 are shown in Table 29.

Table 29
WORKERS' COMPENSATION EXPENDITURES
CITY OF LOS ANGELES
(in millions)

Fiscal Year	Total Expenditures
1998-99	$ 75.5
1999-00	84.0
2000-01	98.0
2001-02	115.3
2002-03	129.1
2003-04 (Adopted Budget)	142.0

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

Labor Relations

As of October 2003, there were approximately 45,986 current full-time City employees; 34,296 in Council-controlled departments and 11,690 in the departments having control of their own funds (Airports, Harbor and Water and Power).

The City adopted an employee relations ordinance under the provisions of the Meyers-Milias-Brown Act of California. Formal memoranda of understanding are executed between the City and the bargaining units incorporating the negotiated wages, hours and working conditions. Approximately 44,427 City employees are associated with some 50 employee units represented by 23 unions and employee associations; the other 1,559 employees are not represented.

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

Table 30
STATUS OF LABOR CONTRACTS
LARGEST EMPLOYEE ORGANIZATIONS FOR COUNCIL-CONTROLLED DEPARTMENTS
CITY OF LOS ANGELES
(As of October 2003)

Organization	Approximate Number of Full-Time Employees Represented	Number of Bargaining Units	Status of Current Memorandum of Understanding
Los Angeles Police Protective League	9,194	1	Three-year contract through June 30, 2006.
Los Angeles City Employees Union, Local 347, SEIU, AFL-CIO	7,585	6	Three-year contracts through June 30, 2004.
Engineers and Architects Association	6,650	7	Three-year contracts through June 30, 2004.
American Federation of State, County, and Municipal Employees, AFL-CIO	5,511	6	Three-year contracts through June 30, 2004.
United Firefighters of Los Angeles City, Local 112, AFL-CIO	3,380	1	Three-year contract through June 30, 2003. New contracts are under negotiation.

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

Table 31 shows total authorized City staffing from fiscal year 1999-00 to fiscal year 2003-04.

Table 31
AUTHORIZED CITY STAFFING
COUNCIL CONTROLLED DEPARTMENTS
CITY OF LOS ANGELES

	1999-00	2000-01	2001-02	2002-03	2003-04
Police	13,650	13,650	13,753	13,788	13,892
All Others	20,413	20,749	21,715	22,042	22,092
Total	34,063	34,399	35,468	35,830	35,984

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

Retirement and Pension Systems

The City of Los Angeles contributes to three single-employer defined benefit pension plans: the Los Angeles City Employees' Retirement System (LACERS), the Fire and Police Pension System (Pensions), and the Water and Power Employees' Retirement, Disability and Death Benefit Insurance Plan (DWP Retirement Plan). Each plan provides retirement, disability, death benefits, post-employment healthcare and annual cost-of-living adjustments to plan members and beneficiaries. For additional information, see Note 5A. in the "Notes to the City's Basic Financial Statements Fiscal Year Ended June 30, 2003", which appears as an Appendix to this Official Statement.

The City Employees' Retirement System of the City ("LACERS"), established July 1, 1937, in the City Charter, is a contributory plan covering most City employees except uniformed fire and police personnel and employees of the Department of Water and Power. LACERS is funded pursuant to the Projected Unit Credit Cost Method. On June 30, 2003, LACERS had 26,358 active members and 13,805 retired members.

Table 32 shows the present value of retirement benefits, the actuarial value of assets available for retirement benefits, and the funded ratio for retirement benefits for LACERS for the past five years. Due to asset losses in Fiscal Years 2000-01 and 2001-02, and the recognition of gains and losses on an actuarial basis over a five-year period, the funding ratio is likely to decline and City employer contributions increase. As of June 30, 2003, LACERS' actuarial valuation of assets still reflected the deferral of $1.16 billion in losses due to smoothing of short-term market performance. Increased funding for general city employee pension contributions is included in the City's 2003-04 Budget.

Table 32
CITY EMPLOYEES' RETIREMENT SYSTEM
FUNDED STATUS OF RETIREMENT BENEFITS (1)
CITY OF LOS ANGELES

	1999	2000	2001	2002	2003
Actuarial Value of Assets(2)	$5,910.9	$6,561.4	$6,988.8	$7,060.2	$6,999.6
Actuarial Accrued Liability (AAL)(2)	5,684.6	6,012.9	6,468.1	7,252.1	7,659.9
Unfunded (Overfunded) AAL(2)	(226.4)	(548.4)	(520.7)	191.9	660.2
Funding Ratio	104.0%	109.1%	108.1%	97.4%	91.4%

(1) As of Fiscal Year End, June 30.
(2) In thousands.

Source: The City of Los Angeles City Employees' Retirement System Annual Report.

The current Fire and Police Pension Systems of the City of Los Angeles (the "Pension Systems"), established January 29, 1923, in the City Charter, are contributory plans covering uniformed fire and police personnel. Five tiers of benefits are provided, depending on the date of the member's hiring. The Pension Systems are funded pursuant to the Entry Age Normal Funding Method. As of June 30, 2003, the Pension Systems had 12,658 active members and 11,814 retired members.

Table 33 shows the present value of retirement benefits, the actuarial value of assets available for retirement benefits, and the funded ratio for retirement benefits for the Pension Systems. Due to investment losses in fiscal years 2000-01 and 2001-02, and the recognition of gains and losses on an actuarial basis over a five-year period, the funding ratio is expected to continue to decline and City employer contributions increase. The Pension Systems Actuarial Valuation dated June 30, 2003 indicates that while the funding Ratio was 104.3% based on the actuarial valuation of assets, that ratio would fall to 87.4% based on a market valuation of assets. Increased funding for fire and police pension contributions is included in the City's 2003-04 Budget.

Table 33
FIRE AND POLICE PENSION SYSTEMS
FUNDED STATUS OF RETIREMENT BENEFITS[1]
CITY OF LOS ANGELES

	1999	2000	2001	2002	2003
Actuarial Value of Assets[2]	$9,637.3	$10,985.9	$11,835.5	$11,491.9	$11,690.8
Actuarial Accrued Liability (AAL)[2]	9,203.6	9,604.2	9,954.0	10,606.8	11,203.5
Unfunded (Overfunded) AAL[2]	(433.7)	(1,381.7)	(1,881.5)	(885.1)	(487.2)
Funding Ratio	104.7%	114.4%	118.9%	108.3%	104.3%

[1] As of Fiscal Year End, June 30.
[2] In thousands

Source: The City of Los Angeles Fire and Police Systems Annual Report and Annual Actuarial Valuation.

LACERS and the Pension Systems 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 post-employment health subsidy benefits for members of both LACERS and Pensions. There are no member contributions for health subsidy benefits; all such costs are funded out of the employer's contribution.

As of June 30, 2003, the unfunded healthcare benefits liability of LACERS and the Pension Systems, based on the actuarial cost method and assumptions used for the related pension plans, are as follows:

Table 34
POST-EMPLOYMENT HEALTHCARE BENEFITS
LACERS AND THE PENSION SYSTEMS
CITY OF LOS ANGELES
(in thousands)

	LACERS	Pension Systems
Healthcare Benefits Liability		
Retired Members	$ 660,138	$ 677,061
Active Members	545,673	249,700
Total Healthcare Benefits Liability	1,205,811	926,761
Less - Reserve for Healthcare Benefits at Actuarial Value (Market Value of $723,900 and $442,987, respectively)	(848,983)	(592,539)
Unfunded Healthcare Benefits Liability	$ 356,828	$ 334,222

Source: City of Los Angeles, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2003.

The Department of Water and Power, an enterprise department of the City whose Board of Commissioners has control of its own funds, maintains a funded contributory retirement, disability and death benefit insurance plan covering substantially all of its employees. No general funds of the City are allocated to this plan.

Investment Practices

The City 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.

As of June 30, 2003, the book value of the General Pool was $3.532 billion, with a market value (including accrued interest) of $3.697 billion. The book value of the special pools totaled $513 million.

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 12 months. All investments in this section of the portfolio have maturities of one year or less. The balance of the General Pool not required for the City's 12-month liquidity requirement is invested in the reserve portfolio. This portfolio holds investments from one to five years.

Table 35
POOLED INVESTMENT FUND
GENERAL POOL
CITY OF LOS ANGELES
Investments as of June 30, 2003

	Core Portfolio		Reserve Portfolio		Consolidated	
Average Duration (Years)	0.04		2.29		1.70	
Average Market Yield to Maturity	1.22%		1.75%		1.70%	
	Market Value	Percent of Total	Market Value	Percent of Total	Market Value	Percent of Total
US Treasury	$ 0	0.0%	$ 200,170,464	6.0%	$ 200,170,464	5.4%
Federal Agency Securities	0	0.0%	2,484,055,124	74.7%	2,484,055,124	67.2%
Commercial Paper	258,635,120	70.0%	0	0.0%	258,635,120	7.0%
Negotiable CD	71,226,816	19.3%	0	0.0%	71,226,816	1.9%
US Corporate	0	0.0%	643,085,268	19.3%	643,085,268	17.4%
State of California Local Agency Investment Fund	39,861,062	10.8%	0	0.0%	39,891,062	1.1%
Total	$369,722,998		$3,327,310,855		$3,697,033,853	

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 a 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 City Council on an annual basis. The Investment Advisory Committee, comprised of the City Treasurer, the City Controller, the Chief Legislative Analyst, the City Administrative Officer, the Director of the Office of Finance and a contracted investment advisor, has oversight responsibility to ensure conformity with the investment policy and Government Code. The City's General Investment Pool has a AAAf/S1 rating from Standard and Poor's. The Municipal Treasurers Association of the United States and Canada has certified the City's Investment Policy.

The City Treasurer does not invest in securities that include, but are not limited to, 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 City Treasurer to engage custodial banks to enter into short-term arrangements to loan securities to various brokers. Cash and/or securities (U.S. Treasuries and Agencies only) collateralize these lending arrangements, the total value of which is at least 102% of the market value of securities loaned out. As of June 30, 2003, the market value of securities on loan was $688 million or 18.6% of the General Pool's market value.

Capital Program

The City annually budgets capital improvements in a number of special purpose funds, as well as the General Fund. Table 36 represents the revenues appropriated toward capital expenditure by fund type.

Table 36
CAPITAL IMPROVEMENT EXPENDITURE PROGRAM
CITY OF LOS ANGELES
(in thousands)

	1999-00	2000-01	2001-02	2002-03	Adopted Budget 2003-04
General Fund	$ 7,638	$ 6,951	$ 10,673	$ 8,900	$ 19,400
Special Gas Tax Street Improvement Fund	8,498	4,454	3,205	12,745	12,327
Stormwater Pollution Abatement Fund	3,015	--	2,005	6,000	5,969
Mobile Source Air Pollution Reduction Trust Fund[1]	--	4,836	1,475	-	-
Special Parking Revenue Fund	1,621	2,191	--	3,892	535
Sewer Construction and Maintenance Fund	146,564	192,824	211,017	230,004	268,200
Street Lighting Maintenance Assessment Fund	3,258	4,780	3,629	5,000	6,500
Local Sales Tax Transit Improvement Funds	4,947	4,154	7,096	4,374	3,881
Allocation from Other Government Agencies	5,416	3,806	3,530	--	3,000
Local Transportation Fund[2]	3,401	763	2,796	1,992	1,991
Other	954	1,117	-	1,395	900
Total	$185,312	$225,876	$245,426	$274,302	$322,703

[1] Funded by local supplemental vehicle fee.
[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 obligation 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, wastewater system, 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). As of July 1, 2003, the City had $978,120,000 in general obligation bonds outstanding. The following summarizes the various voter authorizations for general obligation bonds.

Table 37
GENERAL OBLIGATION BONDS
CITY OF LOS ANGELES

Date of Election	Projects	Amount Authorized	Amount Issued[1]	Amount Authorized but Unissued
4/11/89	Branch Library Facilities	$ 53,400,000	$ 53,400,000	0
4/11/89	Police Facilities	176,000,000	176,000,000	0
4/11/89	Fire Safety Facilities	60,000,000	60,000,000	0
6/5/90	Seismic Safety Projects	376,000,000	376,000,000	0
11/3/98	Library Facilities	178,300,000	178,300,000	0
11/3/98	Zoo Facilities	47,600,000	47,600,000	0
11/7/00	Fire, Paramedic, Helicopter and Animal Shelter Projects	532,648,000	230, 45,000	$ 302,503,000
3/5/02	Emergency Operations, Fire, Dispatch and Police Facilities	600,000,000	155,775,000	444,225,000
	Total	$2,023,948,000	$1,277,220,000	$746,728,000

[1] As of July 1, 2003. Not all issued bonds remain outstanding.

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 $235million in bonds for a Police Emergency Communications System (911). The last series of these bonds was issued February 14, 2002. As of July 1, 2003, $181,320,000 of these bonds remained 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). The City has issued $44,290,000 of bonds secured by these assessments, of which $38,380,000 were outstanding as of July 1, 2003.

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 Center Authority. Securities have been issued, either in the form of lease revenue bonds or certificates of participation, the debt service on which is made for these annual lease payments.

Table 38 summarizes the bonded and certificated lease obligations payable out of the general funds of the City as of January 1, 2004, as well as lease revenue bonds payable out of the Police Emergency Communications System special tax described above.

Table 38
BONDED AND CERTIFICATED LEASE OBLIGATIONS
CITY OF LOS ANGELES
As of January 1, 2004

Series	Project	Amount Issued	Amount Outstanding	Final Maturity
Los Angeles Convention and Exhibition Center Authority Certificates of Participation, 1990 Series (dated August 1, 1990)	Convention Center Expansion	$ 202,030,000	$ 11,155,942	8/15/05
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 S (dated June 1, 1994)	Equipment and Real Property	57,260,000	7,250,000	6/1/11
MICLA Certificates of Participation, Program T (dated August 1, 1994)	Refunding of Piper Technical Center Bonds	45,340,000	18,115,000	8/1/07
MICLA Certificates of Participation, Program U (dated October 1, 1994)	Equipment	41,595,000	5,120,000	9/1/10
MICLA Lease Revenue Bonds, Program X (dated December 1, 1995)	Equipment and Real Property	24,625,000	8,590,000	1/1/06
MICLA Certificates of Participation, Program W (dated February 1, 1996)	Equipment	65,470,000	11,460,000	2/1/12
MICLA Add'l Certificates of Participation, Program H (dated February 1, 1996)	Real Property	3,755,000	2,555,000	11/1/12
MICLA Add'l Certificates of Participation, Program T (dated February 1, 1996)	Real Property	5,990,000	660,000	2/1/06
MICLA Certificates of Participation, Program AA Series AA (dated December 1, 1996)	Equipment and Real Property	88,770,000	32,410,000	12/1/11
MICLA Certificates of Participation, Program AC (dated October 1, 1997)	Equipment and Real Property	83,240,000	30,480,000	10/01/14
MICLA Certificates of Participation, Program H (dated October 1, 1997)	Real Property	2,420,000	1,840,000	11/1/14
Los Angeles Convention and Exhibition Center Authority Taxable Lease Revenue Bonds, 1998 Series A (dated April 1, 1998)(1)	Staples Arena	45,580,000	42,255,000	8/15/2024
MICLA Special Tax Lease Revenue Bonds, Refunding Series 1998-C (dated October 1, 1998) (2)	Police Emergency Command Control Communications Systems	26,895,000	6,360,000	9/1/05
MICLA Refunding Certificates of Participation, Program H (dated November 1, 1998)	Real Property	8,060,000	810,000	11/1/04
MICLA Refunding Certificates of Participation, Program K (dated November 1, 1998)	Real Property	14,005,000	5,340,000	2/1/06
MICLA Refunding Certificates of Participation, Program Q (dated November 1, 1998)	General Services Radio Communications System	18,535,000	2,805,000	2/1/05
	Table 38 Continued			
MICLA Certificates of Participation, Program AE (dated December 1, 1998)	Equipment and Real Property	74,555,000	36,010,000	12/1/14
MICLA Taxable Certificates of Participation, Program AK (dated April 1, 1999)	Real Property	43,210,000	42,045,000	4/1/29
MICLA Special Tax Lease Revenue Bonds, Series 1999 D (dated April 1, 1999)(2)	Police Emergency Command Control Communications Systems	70,285,000	50,100,000	9/1/13
MICLA Special Tax Lease Revenue Bonds, Refunding Series 1999-E (dated April 1, 1999)(2)	Police Emergency Command Control Communications Systems	65,040,000	50,905,000	9/1/03
MICLA Certificates of Participation, Program AL (dated November 1, 1999)	Equipment and Capital Improvements	72,600,000	48,805,000	11/1/15
MICLA Certificates of Participation, Program AM (dated October 1. 2000)	Equipment and Capital Improvements	56,085,000	42,050,000	8/1/10
MICLA Special Tax Lease Revenue Bonds, Series 2002-F (dated February 14, 2002)(2)	Police Emergency Command Control Communications Systems	52,325,000	52,325,000	9/1/13

Table 38
BONDED AND CERTIFICATED LEASE OBLIGATIONS
CITY OF LOS ANGELES
As of January 1, 2004

MICLA Certificates of Participation, Program AN (dated February 20, 2002)	Equipment and Capital Improvements	53,880,000	53,360,000	2/1/12
MICLA Special Tax Lease Revenue Bonds, Refunding Series 2002-G (dated February 14, 2002)	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	30,305,000	6/1/20
MICLA Certificates of Participation, Program AQ (dated April 2, 2002)	Real Property	28,130,000	28,130,000	4/1/32
MICLA Certificates of Participation, Program AR (dated April 2, 2002)	Real Property	62,105,000	60,690,000	4/1/27
MICLA Refunding Certificates of Participation, Program AS (dated April 2, 2002)[3]	Real Property, Pershing Square	7,655,000	7,175,000	10/1/22
MICLA Certificates of Participation, Program AU (dated October 31, 2002)	Equipment and Real Property Acquisition	70,700,000	70,490,000	10/1/27
MICLA Additional Certificates of Participation, Program T (dated October 31, 2002)	Real Property Improvement	42,410,000	42,410,000	2/1/27
MICLA Leasehold Refunding Revenue Bonds, Program AV (dated April 2, 2003)	Central Library Project	43,330,000	43,280,000	6/1/15
Los Angeles Convention and Exhibition Center Authority, Lease Revenue Refunding Bonds, Series 2003A (dated as of June 3)	Refunding of Convention Center 1993 Refunding Bonds	226,045,000	226,045,000	8/15/15
Los Angeles Convention and Exhibition Center Authority, Lease Revenue Refunding Bonds, Series 2003B-F (dated as of June 3)	Refunding of Convention Center 1993 Refunding Bonds	235,520,000	235,520,000	8/15/21
MICLA Certificates of Participation, Program AW (dated June 17, 2003)	Acquisition of Braude San Fernando Valley Constituent Service Center	36,220,000	36,220,000	6/1/33
		$2,524,160,000	$1,410,570,942	

(1) Primary source of repayment are receipts from the Staples Arena developer, but the City remains contingently liable for making up any deficiency from its General Fund.
(2) Bonds payable from voter authorized parcel tax with no contingent liability from City's General Fund.
(3) Primary source of repayment is a special tax levied in the vicinity of Pershing Square, but the City remains contingently liable for any deficiency from its General Fund.

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

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 As of July 1, 2003, Judgment Obligation Bonds outstanding totaled $41,450,000. Table 39 summarizes the City's Judgment Obligation bond issuance as follows:

Table 39
JUDGMENT OBLIGATION BONDS
CITY OF LOS ANGELES
As of July 1, 2003

Dated Date	Amount Issued	Amount Outstanding	Final Maturity	Judgment Financed with Proceeds
6/1/98	$25,000,000	$12,755,000	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.
4/14/00	$25,000,000	$17,500,000	4/1/10	To repay judgments related to police officers making claims under the Fair Labor Standards Act
8/1/00	$13,995,000	$11,195,000	8/1/10	To repay judgments related to police officers making claims under the Fair Labor Standards Act
Total	$63,995,000	$41,450,000		

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 fund, which are under the control of the City Council. 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, in order 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 funds or revenues.

Short-Term Borrowings

The City issued $443.6 million in Tax and Revenue Anticipation Notes on July 10, 2003. These Notes will mature on June 30, 2004.

Summary of Long-Term Borrowings

Table 40 presents a pro-forma statement of net debt of the City outstanding as of January 1, 2004, unless otherwise noted. Tables 41 and 42 summarize the debt service to maturity of certain of these obligations.

Table 40
NET DEBT
CITY OF LOS ANGELES
As of January 1, 2004[1]

	Outstanding at 1/1/04[1]
General Obligation Bonds	$ 1,140,850,000
Special Tax Bonds	
Police Emergency Command Control Communications System	172,200,000
Landscaping and Lighting District 96-1	38,380,000
Subtotal	210,580,000
Lease Obligations [2]	
Equipment	348,830,000
Real Property	885,730,942
Subtotal	1,234,560,942
Judgment Obligation Bonds	40,050,000
Revenue Bonds	
Department of Water and Power[3]	4,878,786,782
Department of Airports	411,465,000
Harbor Department	742,730,000
Wastewater System	2,147,705,000
Sanitation Equipment Charge	264,850,000
Parking System	117,620,000
Subtotal	8,563,156,782
GROSS DIRECT DEBT	11,189,197,724
Less:	
Revenue Bonds	(8,563,156,782)
DIRECT NET DEBT	2,626,040,942
Plus:	
Tax Allocation Debt [4]	494,300,000
Other Overlapping Debt[5]	3,593,179,221
OVERALL NET DEBT	$ 6,713,520,163

[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. Also excludes current issue.
[3] Also includes Certificates of Participation. Does not include the State SRF Loan of $17,400,195.
[4] Debt of the Community Redevelopment Agency of the City of Los Angeles.
[5] Overlapping debt information from California Municipal Statistics, Inc. as of July 1, 2003.

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

Table 41
DEBT SERVICE TO MATURITY ON DEBT PAYABLE FROM TAXES
CITY OF LOS ANGELES
As of January 1, 2004(1)

	General Obligation Bonds			Special Tax Bonds			
Fiscal Year	Principal	Interest	Total	Principal	Interest	Total	Grand Total
2004	$ -	$27,316,087	$27,316,087	$2,730,000	$4,478,381	$7,208,381	$34,524,469
2005	82,410,000	50,387,149	132,797,149	15,415,000	8,574,644	23,989,644	156,786,793
2006	82,510,000	46,931,325	129,441,325	18,645,000	7,935,948	26,580,948	156,022,273
2007	79,920,000	43,649,876	123,569,876	17,140,000	7,259,571	24,399,571	147,969,448
2008	80,075,000	40,401,695	120,476,695	17,550,000	6,563,664	24,113,664	144,590,359
2009	77,980,000	37,072,629	115,052,629	18,275,000	5,822,486	24,097,486	139,150,115
2010	72,110,000	33,736,769	105,846,769	18,995,000	5,057,474	24,052,474	129,899,243
2011	71,770,000	30,575,918	102,345,918	19,725,000	4,245,518	23,970,518	126,316,435
2012	69,530,000	27,394,499	96,924,499	20,555,000	3,385,536	23,940,536	120,865,036
2013	67,200,000	24,200,308	91,400,308	21,220,000	2,462,019	23,682,019	115,082,326
2014	65,235,000	21,095,233	86,330,233	22,150,000	1,466,094	23,616,094	109,946,326
2015	58,250,000	18,087,641	76,337,641	2,155,000	902,045	3,057,045	79,394,686
2016	53,120,000	15,319,675	68,439,675	2,255,000	801,689	3,056,689	71,496,364
2017	42,495,000	13,011,288	55,506,288	2,360,000	694,524	3,054,524	58,560,811
2018	42,490,000	10,924,575	53,414,575	2,480,000	579,979	3,059,979	56,474,554
2019	42,490,000	8,788,825	51,278,825	2,605,000	453,849	3,058,849	54,337,674
2020	42,490,000	6,641,463	49,131,463	2,740,000	320,833	3,060,833	52,192,295
2021	39,485,000	4,563,238	44,048,238	2,140,000	179,250	2,319,250	46,367,488
2022	34,840,000	2,693,500	37,533,500	1,445,000	72,250	1,517,250	39,050,750
2023	24,780,000	1,203,000	25,983,000	0	0	0	25,983,000
2024	11,670,000	291,750	11,961,750	0	0	0	11,961,750
Total	$1,140,850,000	$464,286,441	$1,605,136,441	$210,580,000	$61,255,752	$271,835,752	$1,876,972,192

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

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

Table 42
DEBT SERVICE TO MATURITY ON BONDED AND CERTIFICATED LEASE OBLIGATIONS AND JUDGMENT OBLIGATION BONDS
CITY OF LOS ANGELES
As of January 1, 2004[1]

	Equipment			Real Property[2]			Judgment Obligation Bonds			
Fiscal Year	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Grand Total
2004	$15,680,000	$15,782,318	$31,462,318	$9,315,000	$41,342,737	$50,657,737	$5,255,000	$897,298	$6,152,298	$88,272,353
2005	60,260,000	14,208,540	74,468,540	23,223,404	45,269,444	68,492,848	6,655,000	1,526,984	8,181,984	151,143,372
2006	55,495,000	11,739,821	67,234,821	20,207,539	46,461,663	66,669,202	6,655,000	1,230,121	7,885,121	141,789,144
2007	50,895,000	9,320,439	60,215,439	31,700,000	35,668,549	67,368,549	6,145,000	943,834	7,088,834	134,672,823
2008	44,835,000	7,157,525	51,992,525	34,765,000	34,430,529	69,195,529	6,145,000	676,699	6,821,699	128,009,753
2009	35,540,000	5,198,039	40,738,039	32,940,000	32,927,663	65,867,663	3,900,000	399,080	4,299,080	110,904,781
2010	35,650,000	3,492,028	39,142,028	36,725,000	31,461,004	68,186,004	3,900,000	216,480	4,116,480	111,444,512
2011	18,910,000	2,148,870	21,058,870	40,375,000	29,691,197	70,066,197	1,395,000	30,690	1,425,690	92,550,757
2012	12,240,000	1,316,476	13,556,476	43,015,000	27,418,378	70,433,378	0	0	0	83,989,853
2013	5,105,000	839,930	5,944,930	44,945,000	25,426,956	70,371,956	0	0	0	76,316,886
2014	3,540,000	627,809	4,167,809	46,240,000	23,722,911	69,962,911	0	0	0	74,130,720
2015	2,825,000	467,765	3,292,765	48,000,000	21,877,146	69,877,146	0	0	0	73,169,911
2016	1,860,000	346,215	2,206,215	49,720,000	19,868,488	69,588,488	0	0	0	71,794,703
2017	375,000	287,858	662,858	51,925,000	17,805,333	69,730,333	0	0	0	70,393,191
2018	395,000	270,335	665,335	53,880,000	15,725,422	69,605,422	0	0	0	70,270,757
2019	415,000	250,875	665,875	55,910,000	13,556,798	69,466,798	0	0	0	70,132,673
2020	435,000	229,625	664,625	58,110,000	11,294,715	69,404,715	0	0	0	70,069,340
2021	455,000	207,375	662,375	53,695,000	8,935,533	62,630,533	0	0	0	63,292,908
2022	480,000	184,000	664,000	55,725,000	6,833,029	62,558,029	0	0	0	63,222,029
2023	505,000	159,375	664,375	14,205,000	5,354,793	19,559,793	0	0	0	20,224,168
2024	530,000	133,500	663,500	14,445,000	4,539,599	18,984,599	0	0	0	19,648,099
2025	555,000	106,375	661,375	15,310,000	3,672,261	18,982,261	0	0	0	19,643,636
2026	585,000	77,875	662,875	12,315,000	2,890,545	15,205,545	0	0	0	15,868,420
2027	615,000	47,875	662,875	13,000,000	2,201,435	15,201,435	0	0	0	15,864,310
2028	650,000	16,250	666,250	6,280,000	1,473,068	7,753,068	0	0	0	8,419,318
2029	0	0	0	6,670,000	1,083,978	7,753,978	0	0	0	7,753,978
2030	0	0	0	3,475,000	670,085	4,145,085	0	0	0	4,145,085
2031	0	0	0	3,655,000	491,400	4,146,400	0	0	0	4,146,400
2032	0	0	0	3,840,000	303,460	4,143,460	0	0	0	4,143,460
2033	0	0	0	2,120,000	106,000	2,226,000	0	0	0	2,226,000
2034	0	0	0	0	0	0	0	0	0	0
	$348,830,000	$74,617,091	$423,447,091	$885,730,942	$512,504,120	$1,398,235,062	$40,050,000	$5,921,186	$45,971,186	$1,867,653,339

(1) Totals may not add due to independent rounding.
(2) Interest on Series 2003B-F Convention Center Variable Rate Bonds calculated at 0.97% interest rate through 6/15/2004 and 2.90525% thereafter. Also includes 0.20% annual liquidity support, $10,000 annual liquidity fee and 0.05% annual remarketing agent fee.

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

Debt Management Policy

The City adopted a formal debt policy in August 1998. The debt 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 43
DEBT MANAGEMENT POLICY RATIOS
CITY OF LOS ANGELES

Ratio	Ceiling
Total Direct Debt Service as Percent of General Fund Revenues	15.0%
Non-Voted Direct Debt Service as Percent of General Fund Revenues	6.0% [(1)]

[(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 44 provides a comparison of City debt ratios for its net direct debt outstanding for the past five fiscal years.

Table 44
FINANCIAL RATIOS
CITY OF LOS ANGELES

Fiscal Year	Direct Net Debt	Net Debt Per Capita	Net Debt as Percent of Assessed Valuation
1998-99	1,978,955,000	546	1.038
1999-00	1,998,237,449	541	0.982
2000-01	2,018,175,000	539	0.928
2001-02	2,279,430,000	599	0.979
2002-03	2,524,542,012	653	0.977

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

Table 45 shows direct debt service as a percent of adjusted General Fund revenues.

Table 45
DEBT SERVICE AS A PERCENTAGE OF ADJUSTED GENERAL FUND RECEIPTS
CITY OF LOS ANGELES

Fiscal Year	Debt Service Payment[1] ($000)	General Fund Receipts [2] ($000)	Debt Service as Percentage of General Fund Receipts
2001-02	$263,782	$3,292,352	8.01%
2002-03	268,682	3,599,080	7.47

[1] Includes debt service payments on lease obligations, judgment obligation, general obligation bonds, and 911 Special Tax bonds.
[2] Includes supplemental taxes collected for general obligation and 911 special tax bond debt service, and payments received from the Staples Center.

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

Table 46 provides a schedule of debt retirement for direct net debt.

Table 46
RETIREMENT OF DIRECT NET DEBT
CITY OF LOS ANGELES
As of January 1, 2004[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	$402,895,000	35.3%	$ 88,050,000	41.8%	$253,790,000	73.3%	$ 143,305,942	16.2%	$32,255,000	80.5%	$920,295,942	35.1%
>5 to 10 years	345,845,000	65.6	102,290,000	90.4	81,625,000	96.9	208,960,000	39.8	7,795.000	100.0	746,515,000	63.5
>10 to 15 years	238,845,000	86.6	11,310,000	95.8	5,870,000	98.6	256,160,000	68.7	0	100.0	512,185,000	83.1
>15 to 20 years	153,265,000	100.0	8,930,000	100.0	2,405,000	99.3	199,595,000	91.2	0	100.0	364,195,000	96.9
>20 to 25 years	0	100.0	0	100.0	2,405,000	100.0	57,950,000	97.8	0	100.0	60,355,000	99.2
>25 to 30 years	0	100.0	0	100.0	0	100.0	19,760,000	100.0	0	100.0	19,760,000	100.0
>30 to 35 years	0	100.0	0	100.0	0	100.0	0	100.0	0	100.0	0	100.0
	$1,140,850,000		$210,580,000		$346,095,000		$885,730,942		$40,050,000		$2,623,305,942	

[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

In connection with the refunding of certain lease obligations relating to the Los Angeles Convention Center, the City issued approximately $235.5 million in variable rate obligations. The City entered into swap agreements for a notional amount equal to all of these variable rate lease revenue bonds. Such agreements are intended to mitigate the City's variable interest rate risk. The swap agreements will 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.

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.

Proposed Additional Financings

The City currently anticipates the completion of some or all of the long-term financings summarized in Table 47 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 47
POTENTIAL ADDITIONAL FINANCINGS
DEBT CALENDAR
CITY OF LOS ANGELES

Anticipated Sale Date	Project	Type of Obligation	Estimated Financing Amount
2nd Quarter 2004	Equipment and Real Property Improvements	Lease Revenue Obligations (commercial paper)	$32 million
2nd Quarter 2004	Administrative Office Consolidation	Lease Revenue Obligations (commercial paper)	$40 million
3rd Quarter 2004	Various Public Safety Projects	General Obligation Bonds	TBD

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 July 1, 2003, prepared by California Municipal Statistics Inc., is shown in Table 48. 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 48
STATEMENT OF OVERLAPPING DEBT
CITY OF LOS ANGELES

OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 07/01/2003
Los Angeles County	39.728%	$ 12,007,788
Los Angeles County Flood Control District	40.303	61,885,257
Metropolitan Water District	20.662	91,800,233
Los Angeles Community College District	70.509	357,501,783
Beverly Hills Unified School District	0.187	212,356
Inglewood Unified School District	1.161	430,034
Las Virgenes Joint Unified School District	1.343	1,163,288
Los Angeles Unified School District	86.618	3,749,008,938
Other School Districts	Various	68,058
City of Los Angeles Community Facilities District Nos. 3 and 4	100	145,975,000
City of Los Angeles Assessment District No. 1	100	44,220,426
Los Angeles County Regional Park and Open Space Assessment District	39.728	156,820,321
Los Angeles County Metropolitan Transit District Benefit Assessment Districts	100	126,465,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$4,747,558,482[(1)]
OVERLAPPING GENERAL FUND OBLIGATION DEBT:		
Los Angeles County General Fund Obligations	39.728%	$ 619,988,253
Los Angeles County Pension Obligations	39.728	616,956,927
Los Angeles County Superintendent of Schools Certificates of Participation	39.728	11,026,236
Los Angeles County Sanitation District Nos. 1, 3, 4, 5, 8 & 16 Authorities	0.001-11.745	7,534,826
Los Angeles Community College District Certificates of Participation	70.509	60,835,165
Inglewood Unified School District Certificates of Participation	1.161	42,493
Los Angeles Unified School District Certificates of Participation	86.618	696,911,104
Other School Districts Certificates of Participation	Various	59
TOTAL GROSS OVERLAPPING GENERAL FUND OBLIGATION DEBT		$2,013,295,063
Less: Los Angeles County COPs (100% self-supporting from leasehold revenues on properties in Marina del Rey)		(27,676,511)
TOTAL NET OVERLAPPING GENERAL FUND OBLIGATION DEBT		$1,985,618,552
NET COMBINED TOTAL OVERLAPPING DEBT		$6,733,177,034[(2)]

(1) Excludes City of Los Angeles Landscaping and Lighting Benefit Assessment District accounted for as direct debt on Table 40.
(2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc.

LITIGATION

The following is a list prepared by the Office of the City Attorney as of March 9, 2004, 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 $4 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. *Aircraft Owners and Pilots Association v. City of Los Angeles* (USDOT Complaint No. 13-95-09) and *Air Transport Association v. City of Los Angeles* (USDOT Complaint No. 13-95-05) are administrative proceedings before the U.S. Secretary of Transportation challenging the legality of the transfer of approximately $58,000,000 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. *Tipton-Whitingham v. City of Los Angeles* is a multi-plaintiff action which seeks injunctive relief and damages in the United States District Court. The plaintiffs allege that there is discrimination against women in the Police Department. Although this case was initially filed as a class action, the class allegation was abandoned by plaintiffs. The plaintiffs have subsequently filed seven separate lawsuits; two of those cases have settled. An unfavorable ultimate result from these lawsuits could give rise to a liability of as much as $30,000,000, which would be paid from the General Fund.

3. Rampart Division Litigation: Investigations are continuing into alleged illegal activities of some police officers in the Los Angeles Police Department's Rampart Division. As of March 9, 2004, 224 lawsuits have been served on the City. One hundred seventy cases have been resolved for approximately $53,000,000, which includes the three cases described below. Other lawsuits are anticipated to arise from the continuing investigations. It is estimated that the total number of cases may range from 250 to 275 cases. Cases illustrating the issues involved are: (a) *Ovando v. City of Los Angeles, et al*, is an action seeking unspecified damages for an allegedly unjustified shooting that left the plaintiff paralyzed and caused plaintiff to serve two years of a 23-year prison sentence before his conviction was set aside, (b) *Hernandez v. City of Los Angeles, et al*, seeks unspecified damages for an allegedly unjustified conviction for possession of an illegal gun that caused him to serve 16 months in prison. He had a prior felony conviction for drug peddling and under his probation conditions was not supposed to possess a firearm, and (c) *Rojas v. City of Los Angeles, et al*, is a civil rights lawsuit filed by the plaintiff, who has served more than two years in prison for his 1997 possession of cocaine for sale conviction. In each of the above cases, the plaintiff alleges that he was framed by certain officers in the Rampart Division. The total liability for all Rampart Division cases may be as much as $125,000,000. The City has established a "Reserve for Extraordinary Liability Claims" to fund a portion of this liability. (See **"FINANCIAL OPERATIONS — Budgetary Reserves,"** herein).

4. *U. S. ex rel Giles v. City of Los Angeles* is a Federal court case over allegedly false claims filed by the City with FEMA for costs to clean up post-earthquake debris. It is alleged that the City knew that some contractors were submitting fraudulent invoices, and that therefore, some of the reimbursement claims the City filed with FEMA were false claims under the Federal False Claims Act. The City prevailed on its motion for summary judgment. Plaintiffs are appealing. An unfavorable ultimate result could give rise to a liability of as much as $10,000,000, which would be paid from the General Fund.

5. *Cleveland v. City of Los Angeles* is an action over the alleged failure by the City to pay its firefighters-paramedics overtime compensation under the Fair Labor Standards Act. The United States District Court ruled in favor of plaintiffs. The City is appealing the $5,100,000 judgment. An unfavorable ultimate result could give rise to a liability of as much as $5,100,000.

6. *Jones v. City of Los Angeles* is a proposed class action lawsuit in U. S. District Court on behalf of police officers who claim to have been discriminated against, harassed, retaliated against or transferred to different jobs for complaining about allegedly improper activities within the Police Department. The class allegation was abandoned by plaintiffs. Individual lawsuits have been filed involving approximately 78 plaintiffs in 71 cases. Sixty-seven cases have been resolved for approximately $7,400,000. An unfavorable ultimate result on the remaining cases could give rise to a liability of as much as $1,000,000.

7. *AB Cellular-LA, et al. v. City of Los Angeles* is an action for the refund of Utility Users Tax paid by the plaintiff. Plaintiff alleges that the customer information provided by the City used by the plaintiff for billing purposes and upon which the tax is based is faulty. The City prevailed on its demurrer motion, but on appeal the appellate court reversed. The case will proceed to trial. An unfavorable ultimate result could give rise to a liability of as much as $8,000,000.

8. *Gousse v. City of Los Angeles* seeks damages for physical injuries from police officers arresting the plaintiff for driving a stolen car; the car rental company had given him a car with stolen license plates. The jury awarded the plaintiff, a surgeon, a judgment of $33,000,000 of which Budget Rent-A-Car is to pay $18,800,000 and the City to pay the other $14,200,000. The trial judge rejected the jury's damages award as disproportionate to the injury and ordered a new trial on damages. Plaintiff must decide whether to appeal the rejection. An unfavorable ultimate result could give rise to a liability of as much as $14,200,000.

The following cases, which had been identified in previous official statements of the City, have been either completely resolved, either by settlement or judicial action, or the potential liability has been reduced below $4,000,000 each: *Grajeda v. County of Los Angeles; Bank of New York v. City of Los Angeles; and Brehm v. City of Los Angeles.*

APPENDIX B

GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003
AND INDEPENDENT AUDITOR'S REPORT

CITY OF LOS ANGELES

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CARL E. SIMPSON, CPA

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, 2003, 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, Fire and Police Pension System, and Los Angeles City Employees' Retirement System, which represent the following percentages of assets and revenues/additions as of and for the fiscal year ended June 30, 2003:

Opinion Unit	Assets	Revenues/Additions
Business-type Activities	80%	89%
Each Major Enterprise Fund – Airports, Harbor, Power, and Water	100%	100%
Aggregate Remaining Fund Information	69%	46%

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 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, 2003, 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, Special Gas Tax Street Improvement Fund, and Community Development Fund, for the fiscal year ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 1D and 4Q to the basic financial statements, effective July 1, 2002, the Power and Water Enterprise Funds changed their election under Governmental Accounting Standards Board 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 statements and interpretations issued after November 30, 1989.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2004, 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 and Schedule of Funding Progress – Benefit Pension Plans on pages 3 through 29 and 155, respectively, are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of 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 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
January 16, 2004

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, 2003. 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 2002-2003 fiscal year by $13.3 billion. The *net assets* of $13.3 billion consisted of: $8.7 billion investment in capital assets, net of related debt; $3.5 billion *(restricted net assets)* represents resources that are subject to certain restrictions on how they may be used; $1.8 billion *(unrestricted net assets)* may be used to meet the City's obligations for its business-type activities; and $0.7 billion deficit of governmental activities.

- The City's total net assets increased by $510.7 million during the fiscal year. Governmental activities posted an increase of $247.6 million while the business-type activities increased by $263.1 million,

- As of June 30, 2003, the aggregate ending fund balances of the City's governmental funds increased to $3.1 billion from $2.8 billion as of June 30, 2002. Of the combined fund balances of $3.1 billion, 56.8% or $1.8 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 $509.8 million, or 16.8% of total expenditures.

- The City's bonded debt and long-term notes payable at June 30, 2003 totaled $11.3 billion, a net increase of $959.6 million from the prior year's balance of $10.3 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 were 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 77 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, Recreation and Parks Fund, Special Gas Tax Street Improvement Fund, Community Development Fund, Seismic Bond Reimbursement 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 three other budgeted major funds to demonstrate compliance with the annually appropriated budget. The other budgeted major funds are: Proposition A Local Transit Assistance, 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.

Management's Discussion and Analysis (Continued)

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

<u>Analysis of Net Assets:</u> 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 $13.3 billion at the close of fiscal year 2002-03.

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 2003	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002
Current and other assets	$4,326,574	$3,903,508	$ 6,044,489	$ 5,868,108	$ 10,371,063	$ 9,771,616
Capital assets	2,749,600	2,437,248	16,149,984	15,289,621	18,899,584	17,726,869
Total assets	7,076,174	6,340,756	22,194,473	21,157,729	29,270,647	27,498,485
Current and other liabilities	880,217	772,215	1,897,454	1,662,177	2,777,671	2,434,392
Long-term liabilities	4,580,955	4,201,163	8,602,900	8,064,503	13,183,855	12,265,666
Total liabilities	5,461,172	4,973,378	10,500,354	9,726,680	15,961,526	14,700,058
Net assets:						
Invested in capital assets,						
net of related debt	730,518	622,648	7,996,013	7,655,053	8,726,531	8,277,701
Restricted	1,547,616	1,525,765	1,933,772	1,676,499	3,481,388	3,202,264
Unrestricted	(563,132)	(781,035)	1,764,334	2,099,497	1,101,202	1,318,462
Total net assets	$ 1,615,002	$1,367,378	$11,694,119	$ 11,431,049	$ 13,309,121	$ 12,798,427

By far, the largest portion of the City's net assets ($8.7 billion or 65.6%) 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 has reported only a small portion of its investment in governmental activities infrastructure assets, the majority of which relate to additions during the fiscal years 2003 and 2002. The City is currently gathering information on infrastructure assets acquired prior to fiscal year 2002 and will report them in the subsequent years financial statements but no later than June 30, 2006. 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.

Management's Discussion and Analysis (Continued)

An additional portion of the City's net assets ($3.5 billion or 26.1%) represents resources that are subject to various restrictions on how they may be used. The remaining balance of $1.1 billion (8.3%) is the net amount of the governmental activities deficit of $663.1 million and $1.8 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 2002-03, the City reported positive balances in all three categories of net assets for the City as a whole. The third category, *unrestricted net assets*, is the resultant amount after deducting the two other categories, *net assets invested in capital assets, net of related debt* and *restricted net assets*, from the total net assets. While the business-type activities reported a positive balance of $1.8 billion in unrestricted net assets, the governmental activities reported a deficit of $663.1 million. The deficit balance shown for the governmental activities unrestricted net assets reflected a decrease of $117.9 million (15.1%) from the prior year's deficit balance. 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 $1.2 billion or 6.6%. Business-type activities contributed the bulk of the increase that is $860.4 million, due mainly on construction work in progress for airports, harbor, and sewer facilities as well as power and water utility plants. The balance of $312.4 million from the governmental activities is also due to construction work in progress for bond funded projects for library, zoo, animal shelter and improvements to various City facilities.

Current and other assets increased by $599.4 million or 6.1%. For the governmental activities, the increase was $423.1 million (10.8%) mainly from cash provided from other financing sources mostly from bond issuances. The increase in the business-type activities was $176.3 million (3%) mainly from cash provided by operations offset by amounts used for capital and related financing activities.

Long-term liabilities for bonded debts and notes payable increased to $11.3 billion from $10.3 billion in the prior year. The total issuances for the year were $1.1 billion for governmental activities and $2.4 billion for business-type activities, while principal retirements totaled $0.8 billion for governmental activities and $1.8 billion for business-type activities. The City's current and other liabilities increased by $343.3 million.

Restricted net assets increased $279.1 million composed of $21.8 million for governmental activities and $257.3 million for business type activities. The increase in governmental activities restricted assets is substantially due to cash and investments set-aside for the increased debt issues and the debt proceeds for capital projects. For the business-type activities, the increase in restricted assets for capital projects is reflective of the continuing capital assets expansion and improvement. Restricted assets for debt service declined for the business type activities due in part to debt restructuring. Net assets restrictions for various special purposes posted an overall increase of $267 million. As explained in more detail in the subsequent pages, the City's unrestricted net assets were down $217.3 million. Governmental activities unrestricted net assets improved by $117.9 million, while business-type activities net assets were down $335.2 million.

Management's Discussion and Analysis (Continued)

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)

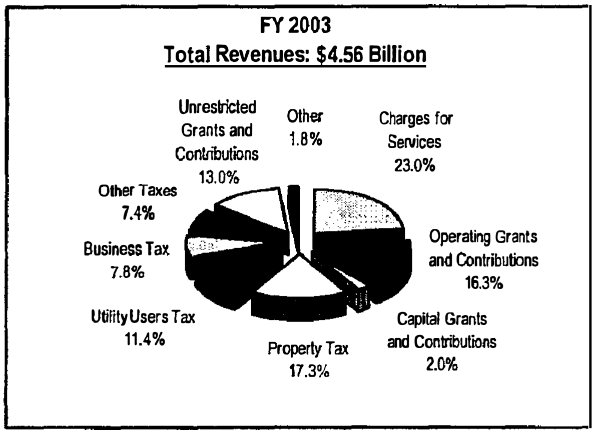
	Governmental Activities		Business-type Activities		Total	
	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002
Revenues						
Program Revenues						
Charges for Services	$ 1,050,535	$ 941,508	$ 4,295,135	$ 4,279,703	$ 5,345,670	$ 5,221,211
Operating Grants and Contributions	744,819	821,688	25,512	17,685	770,331	839,373
Capital Grants and Contributions	91,041	86,989	87,656	121,222	178,697	208,211
General Revenues						
Property Taxes	787,048	742,602	–	–	787,048	742,602
Utility Users Taxes	521,148	476,416	–	–	521,148	476,416
Business Taxes	356,937	338,865	–	–	356,937	338,865
Other Taxes	335,779	306,798	–	–	335,779	306,798
Unrestricted Grants and Contributions	590,655	621,905	–	–	590,655	621,905
Unrestricted Investment Earnings	49,173	40,396	–	–	49,173	40,396
Other Revenues	33,435	29,276	2,270	72,511	35,705	101,787
Total Revenues	4,560,570	4,406,443	4,410,573	4,491,121	8,971,143	8,897,564
Expenses						
General Government	1,055,535	895,429	–	–	1,055,535	895,429
Protection of Persons and Property	1,761,748	1,965,190	–	–	1,761,748	1,965,190
Public Works	320,230	314,299	–	–	320,230	314,299
Health and Sanitation	293,573	316,980	–	–	293,573	316,980
Transportation	294,116	237,882	–	–	294,116	237,882
Cultural and Recreational Services	320,123	339,181	–	–	320,123	339,181
Community Development	336,611	501,467	–	–	336,611	501,467
Interest on Long-term Debt	142,946	128,043	–	–	142,946	128,043
Airports	–	–	508,649	485,848	508,649	485,848
Harbor	–	–	227,704	208,811	227,704	208,811
Power	–	–	2,059,768	2,043,850	2,059,768	2,043,850
Water	–	–	550,514	487,406	550,514	487,406
Sewer	–	–	473,517	431,423	473,517	431,423
Convention Center	–	–	35,823	36,519	35,823	36,519
Total Expenses	4,524,882	4,698,471	3,855,975	3,693,857	8,380,857	8,392,328
Increase (Decrease) in Net Assets Before Transfers and Other Items	35,688	(292,028)	554,598	797,264	590,286	505,236
Transfers	211,936	213,152	(211,936)	(213,152)	–	–
Other Items	–	–	(79,592)	(16,250)	(79,592)	(16,250)
Increase (Decrease) in Net Assets	247,624	(78,876)	263,070	567,862	510,694	488,986
Net Assets Beginning of Year, Restated	1,367,378	1,446,254	11,431,049	10,863,187	12,798,427	12,309,441
Net Assets End of Year	$ 1,615,002	$ 1,367,378	$11,694,119	$11,431,049	$13,309,121	$12,798,427

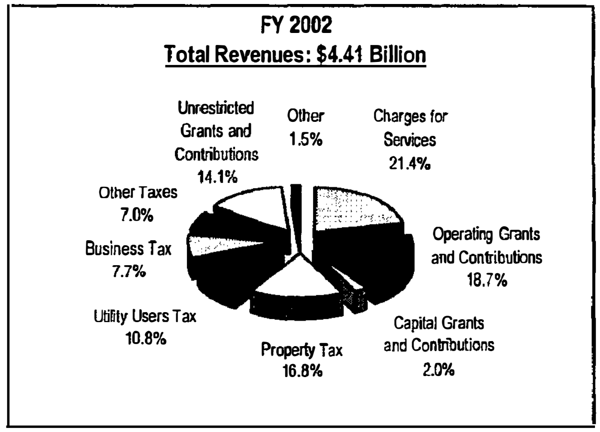
Management's Discussion and Analysis (Continued)

Governmental Activities

For the year ended June 30, 2003, the total expenses for governmental activities were $4.5 billion or $173.6 million (3.7%) less than the prior year. Total revenues grew by $154.1 million or 3.5% from $4.4 billion in fiscal year 2002. Program revenues funded 41.7% of the total expenses of $4.5 billion; taxes, other general revenues and transfers from business-type activities financed the balance of 58.3%. 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.

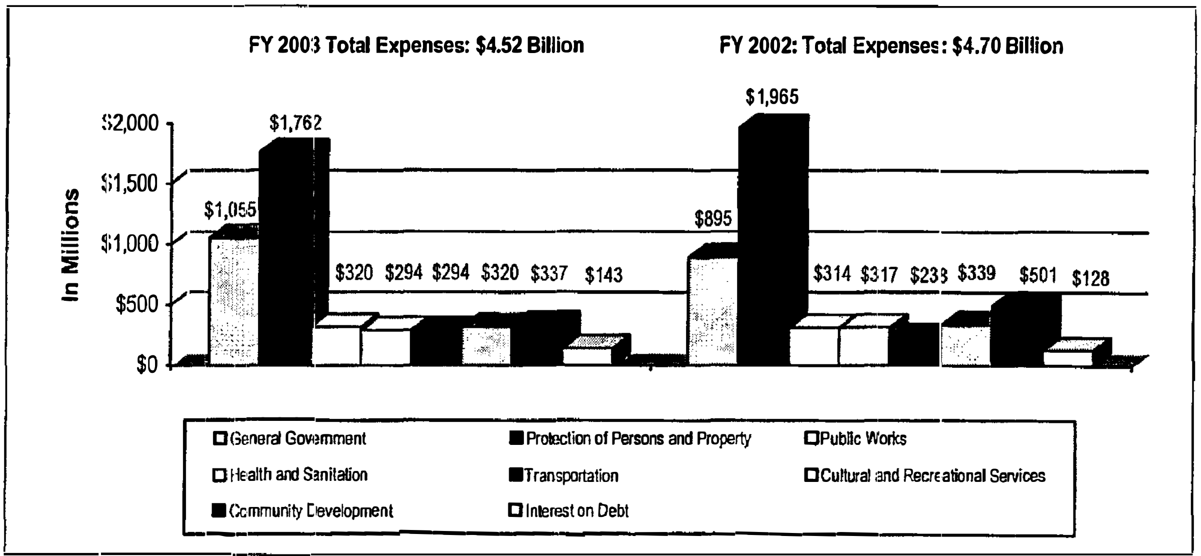




Revenues from charges for services, property tax and operating grants and contributions are the three largest revenue sources for governmental activities for both fiscal years 2003 and 2002. Together they posted a net increase of $76.6 million mainly from increased municipal court fines for traffic violations (charges for services) and a strong real estate market (property tax). Revenues from utility users and other taxes also reflected a notable increase due to the rising use of cellular phones and increase in revenues from documentary transfer taxes, which is also due to the robust real estate market. Unrestricted grants and contributions include allocated sales tax revenue and motor vehicle in-lieu taxes, which increased $23.2 million and $7.3 million, respectively. Other unrestricted grants caused the offsetting decrease of $61.7 million. Investment earnings and miscellaneous revenues, shown in the above charts as Other, accounted for an increase of $12.9 million due to the overall improving condition of the financial market.

Overall expenses for governmental activities decreased from $4.7 billion to $4.5 billion. This resulted from the fiscal prudence exercised by the Mayor, Council and Departments in anticipation of reduced revenues in the subsequent fiscal years.

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



The increase in expenses for general government of $160.1 million is due mainly to the discontinuation of the chargeback procedure of allocating certain central services costs from expenses for general government to the other governmental functions. In the past, City departments were charged for the costs of postage, telephone, fleet repair, material testing, workers' compensation, and information technology services. Also, the City's increased contribution to the civilian pension plan contributed to the increase in expenses for general government. A key factor in the decrease in expenses for protection of persons and property of $203.4 million was the discontinuation of the chargeback process as discussed earlier. The actuarial study for the City's self-insured workers' compensation program as of June 30, 2002 resulted in a significant increase in the City's liability for workers' compensation that year. Because of the chargeback process, the amount of the increase in estimated outstanding losses allocated for protection of persons and property in fiscal year 2002 was $229.8 million. Another reason for the decrease in expenses for protection of persons and property were the costs to maintain heightened security measures enacted as a result of the September 11th events. The start up costs to implement all of the new policies, procedures and programs to protect the City from terrorist activities occurred in the preceding fiscal year. These policies, procedures and programs were continued in fiscal year 2003. The provision for loans doubtful of collection was less in fiscal year 2003 compared to fiscal year 2002. This was the key factor in the decrease in expenses for community development of $164.9 million. The increase in interest expense for debt service of $14.9 million was the consequence of the City's increased long-term borrowings. Depreciation, which is allocated to the different governmental functions, also contributed $20.7 million to the overall increase in expenses.

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 were 14.2% ($493.2 million) more than the $3.5 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, 2003, the City's governmental funds reported a combined fund balances of $3.1 billion. Of the $3.1 billion, the amount available for spending at the City's discretion (unreserved fund balance) totaled $1.8 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 - $283.2 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 - $480.5 million; (3) to liquidate contractual commitments of the period - $542.3 million; and (4) for a variety of other restricted purposes - $38.3 million.

Revenues for governmental functions overall totaled $4.6 billion, while expenditures totaled $5.1 billion. Although total revenues were $493.8 million less than total expenditures, other financing sources bridged the gap. Other financing sources include proceeds from issuance of debt, loans from the U.S. Department of Housing and Urban Development, 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, 2003, the unreserved fund balance of the General Fund was $509.8 million while total fund balance was $681.9 million. The unreserved fund balance includes $61 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 16.8% of the total General Fund expenditures of $3 billion, while total fund balance represents 22.5% of that same amount.

The City's General Fund benefited from the strong real estate market that increased property tax revenues by $34.6 million (5.5%) and real property transfer taxes, a component of other taxes, by $20.2 million (19.7%). The increased revenues from sales, utility and other taxes were reflective of the strength of the local economy. The increase in utility tax revenue of $42.8 million (8.9%) is the result of the rising use of cellular phones and a sharp increase in the price of natural gas. The increase in revenues from services to enterprise funds was substantially due to the reimbursements from the Airports for security services. The municipal court fines were the major factor in the $20.3 million increase (21.2%) in revenues from fines. This was the result of increased traffic citations in fiscal year 2003. The growth in investment earnings was a reflection of the improving financial market.

Total General Fund expenditures for fiscal year 2003 increased $191.5 million or 6.8% from fiscal year 2002. Salary increases that resulted from contract negotiations, as well as increased costs for workers' compensation and the increase in the City's pension contributions were the major reasons for the overall increase in expenditures. As explained earlier, the discontinuation of the chargeback process was a key factor in the increase in general government expenditures.

Overall, General Fund revenues exceeded expenditures by $227.4 million, down $9.8 million (4.1%) from fiscal year 2002 figure. Transfers in from other funds amounted to $227.2 million, while transfers out amounted to $375.7 million. The Power and Water Enterprise Fund transfers accounted for majority of the total transfers in (93.7%). The bulk of the transfers out were for debt service and lease payments to the City's financing authority, and General Fund support for the operations of City libraries, zoo, parks and recreational facilities. The above factors, including a $5.6 million increase in reserve for inventory, increased the General Fund's fund balance by $84.5 million from the prior year's fund balance of $597.4 million.

The following table and diagrams present 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)

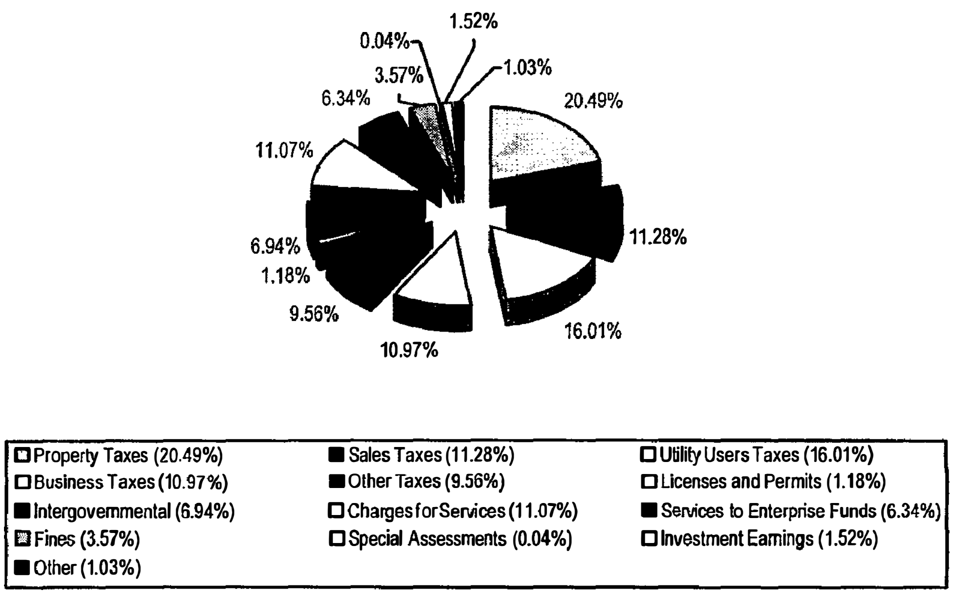
Revenues and Other Financing Sources	FY 03	FY 02	% Change
Revenues			
Property Taxes	$ 666,977	$ 632,329	5.48%
Sales Taxes	367,112	346,302	6.01%
Utility Users Taxes	521,148	478,343	8.95%
Business Taxes	356,937	358,865	-0.54%
Other Taxes	311,004	284,989	9.13%
Licenses and Permits	38,345	36,939	3.81%
Intergovernmental	225,968	233,592	-3.26%
Charges for Services	360,372	345,451	4.32%
Services to Enterprise Funds	206,412	190,024	8.62%
Fines	116,115	95,794	21.21%
Special Assessments	1,397	2,095	-33.32%
Investment Earnings	49,424	39,913	23.83%
Other	33,664	28,520	18.04%
Total Revenues	3,254,875	3,073,156	5.91%
Other Financing Sources			
Transers In	227,227	226,832	0.17%
Total Revenues and Other Financing Sources	$3,482,102	$3,299,988	5.52%

Expenditures and Other Financing Uses	FY 03	FY 02	% Change
Expenditures			
General Government	$ 931,710	$ 659,912	41.19%
Protection of Persons and Property	1,556,554	1,590,922	-2.16%
Public Works	170,546	175,582	-2.87%
Health and Sanitation	186,286	211,780	-12.04%
Transportation	103,113	102,162	0.93%
Cultural and Recreational Services	30,502	32,358	-5.74%
Community Development	26,488	28,381	-6.67%
Capital Outlay	22,013	34,679	-36.52%
Debt Service- Cost of Issuance	223	173	28.90%
Total Expenditures	3,027,435	2,835,949	6.75%
Other Financing Uses			
Transers Out	375,740	402,853	-6.73%
Total Expenditures and Other Financing Uses	$ 3,403,175	$3,238,802	5.08%

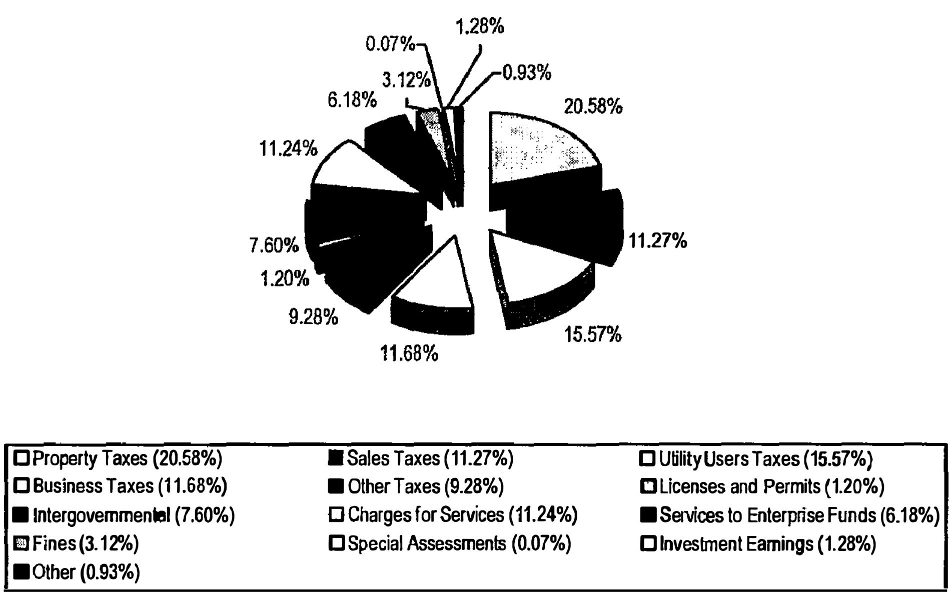
	FY 03	FY 02	% Change
Excess of Revenues Over Expenditures	$ 227,440	$ 237,207	-4.12%
Net Change in Fund Balance	$ 78,927	$ 61,186	29.00%

Management's Discussion and Analysis (Continued)

General Fund Revenues by Source: $3.25 Billion
Fiscal Year Ended June 30, 2003

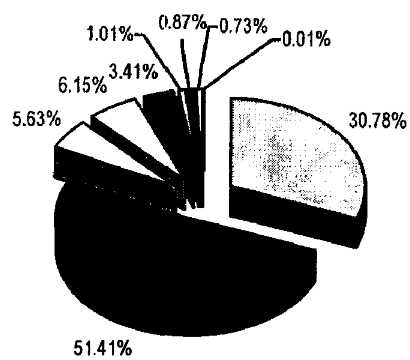


General Fund Revenues by Source: $3.07 Billion
Fiscal Year Ended June 30, 2002



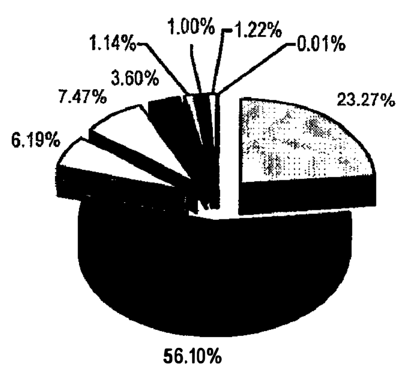
Management's Discussion and Analysis (Continued)

General Fund Expenditures by Function: $3.03 Billion
Fiscal Year Ended June 30, 2003



General Government (30.78%)	Protection of Persons and Property (51.41%)
Public Works (5.63%)	Health and Sanitation (6.15%)
Transportation (3.41%)	Cultural and Recreational Services (1.01%)
Community Development (0.87%)	Capital Outlay (0.73%)
Debt Service- Cost of Issuance (0.01%)	

General Fund Expenditures by Function: $2.84 Billion
Fiscal Year Ended June 30, 2002



General Government (23.27%)	Protection of Persons and Property (56.10%)
Public Works (6.19%)	Health and Sanitation (7.47%)
Transportation (3.60%)	Cultural and Recreational Services (1.14%)
Community Development (1.00%)	Capital Outlay (1.22%)
Debt Service- Cost of Issuance (0.01%)	

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, 2003, the Fund's unreserved fund balance was $62.1 million, while the total fund balance was $76 million, which reflected a decrease of $0.2 million from the previous fiscal year. The decrease was primary due to expenditures incurred in the refurbishment of commuter express buses.

The **Recreation and Parks Fund** accounts for the City's recreation programs and park services. At June 30, 2003, the Fund's unreserved fund balance was $67.8 million, while the total fund balance was $79.8 million. The Fund's total expenditures exceeded its revenues by $97.8 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, 2003, the Fund's unreserved fund balance was $23.1 million, while the total fund balance was $26.8 million. Revenues posted an increase of $5.8 million while expenditures decreased by $16.2 million. The decrease in expenditures was substantially due to the decrease in the amount allocated to the Bureau of Street Services for street repairs and maintenance.

The **Community Development Fund** accounts for federal grant funds for community and economic development within the City. At June 30, 2003, the Fund's unreserved fund balance reflected a deficit of $36.5 million, while the total fund balance was $175.1 million. Grant revenues were down $45.2 million (29.4%) and expenditures were down $94.7 million (46.4%). The decrease in expenditures was principally due to the decline in grant revenues. The decrease in sub-recipient's operating cash requirements also contributed to the decline in expenditures.

The **Seismic Bond Reimbursements Fund** accounts for federal grants for seismic upgrades and repairs of City facilities. At June 30, 2003, the Fund's unreserved fund balance was $39.8 million, while the total fund balance was $46.7 million, which reflected a decrease of $5.8 million. Claims for federal reimbursement grants are becoming less as more seismic projects are completed.

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 $132.8 million, while lease payments from the General Fund and certain Special Revenue Funds were $94.6 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 $38.2 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
For the Fiscal Year Ended June 30, 2003
(amounts expressed in thousands)

	Airports	Harbor	Power	Water	Sewer	Other-Convention Center	Total
Operating Revenues	$ 499,259	$ 343,654	$ 2,145,913	$ 552,977	$ 413,110	$ 22,042	$ 3,976,955
Operating Expenses	(480,317)	(183,411)	(1,915,522)	(502,419)	(366,225)	(35,823)	(3,483,717)
Operating Income (Loss)	18,942	160,243	230,391	50,558	46,885	(13,781)	493,238
Net Nonoperating Revenues (Expenses)	100,376	(92,591)	(3,132)	(32,581)	(78,142)	182	(105,888)
Capital Contributions	23,292	1,386	25,818	14,044	23,116	–	87,656
Transfers In	–	–	–	–	–	1,000	1,000
Transfers Out	–	–	(185,358)	(27,523)	–	(55)	(212,936)
Change in Net Assets	$ 142,610	$ 69,038	$ 67,719	$ 4,498	$ (8,141)	$ (12,654)	$ 263,070

Business-type Activities
For the Fiscal Year Ended June 30, 2002
(amounts expressed in thousands)

	Airports	Harbor	Power (restated)	Water	Sewer (restated)	Other-Convention Center	Total
Operating Revenues	$ 471,886	$ 289,853	$ 2,235,064	$ 550,469	$ 394,006	$ 22,735	$ 3,964,013
Operating Expenses	(457,974)	(157,749)	(1,870,919)	(445,883)	(317,604)	(36,519)	(3,286,648)
Operating Income (Loss)	13,912	132,104	364,145	104,586	76,402	(13,784)	677,365
Net Nonoperating Revenues (Expenses)	87,908	(32,969)	45,697	(37,184)	(81,122)	97	(17,573)
Capital Contributions	39,633	17,203	22,014	16,757	25,615	–	121,222
Transfers In	–	–	–	–	–	68	68
Transfers Out	–	–	(179,153)	(27,247)	(6,820)	–	(213,220)
Change in Net Assets	$ 141,453	$ 116,338	$ 252,703	$ 56,912	$ 14,075	$ (13,619)	$ 567,862

Note: For the Power Fund, the numbers were restated for the effect of the change in election under GASB Statement No. 20. For the Sewer Fund, the numbers were restated for the effect of the retroactive recalculation of wastewater billings. See Note 1D on page 63 and Note 4Q on page 124.

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, the Airports operating revenues grew $27.4 million or 5.8%. The most substantial component of the growth came from concession revenues that posted an increase of $12.7 million or 7%. Also, building rentals increased by $6.2 million (5.8%), and landing fees increased by $6.7 million (5.4%). Although there was an increase in landing fees, passenger volume during fiscal year 2003 showed a 1% decline to 55.3 million.

Operating and administrative expenses before depreciation increased $19.5 million or 4.9%. This was due primarily to increase in salaries and benefits of $23 million (14.3%). Contractual services expense increased $19.6 million (17.3%). Partially offsetting these increases were reductions in administrative expense of $5.1 million (69.1%), materials and supplies of $2 million (4.3%) and advertising and public relations of $1.3 million (19.3%). Included in the total operating expenses for fiscal year 2003 are costs associated with the post-September 11th security measures that amounted to $44.8 million.

Net nonoperating revenues accounted a $12.5 million increase or 14.2%. Key elements of this change include $1.8 million decrease in passenger facilities charges, $1.2 million increase in interest expense, and $14.6 million increase in investment income.

As a result of the above financial changes, including capital contributions of $23.3 million, the Airports Enterprise Fund's change in net assets for fiscal year 2003 amounted to $142.6 million, up $1.2 million (0.8%) from fiscal year 2002.

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, 2003, operating revenues of the Port of Los Angeles (the Port) rose to $343.7 million, reflecting a 18.6% increase from prior year revenues of $289.9 million principally attributable to cargo volume growth. A record 6.7 million twenty-foot equivalent units (TEUs) in container volume moved through the Port facilities during fiscal year 2003, a 19% increase from the 5.6 million TEUs recorded in fiscal year 2002. Revenue tons billed grew 16.9% over the comparative period to 147.5 million tons.

The increased cargo volumes were reflective of the market share gained from other U.S. West Coast ports as well as the continuing increase of imports from China. On-going development of improved intermodal facilities, the addition of Pier 400 container terminal and increasing strength of shipping alliances based in the Port all contributed to the growth in market share. Shipping lines also continued to place larger vessels in service.

Operating expenses before depreciation rose $26 million to $124 million, a 26.5% increase from the prior fiscal year. Salaries and benefits expense rose $3.7 million due to scheduled pay increases and expansion of the Port's workforce. Marketing and public relations expense rose $0.6 million reflecting the Port's focus on public outreach programs and continuing promotion of the Port to the shipping industry. The increase in other operating expenses of $21.7 million was substantially due to additional provisions to the bad debt reserves for the Los Angeles Export Terminal (LAXT), which ceased its coal operations in June 2003. Depreciation charges posted a decrease of $0.3 million.

The increase in net nonoperating expenses of $59.6 million was due to the $50 million litigation settlement related to a terminal project and the $19 million reserve for the Port's equity investment in LAXT. Other nonoperating items, which include investment income and interest expenses, totaled the offsetting $9.4 million.

As a result of the above financial changes, including capital contributions of $1.4 million, the Harbor Enterprise Fund's change in net assets for fiscal year 2003 amounted to $69 million, down $47.3 million (40.7%) from fiscal year 2002.

Management's Discussion and Analysis (Continued)

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

While retail revenues increased from fiscal year 2002, overall operating revenues decreased $89.2 million from fiscal year 2002 levels of $2,235.1 million due to a $127 million reduction in wholesale revenues. Wholesale prices declined from an average of $68 per megawatt hour (MWH) in fiscal year 2002 to an average of $44 per MWH in fiscal year 2003 for the Power Fund. The decline in market pricing resulted in a reduction of market opportunities for the Power System's excess power generation.

Fiscal year 2003 operating expenses were $44.6 million higher as compared to the prior year. Maintenance and other operating expenses had the largest increase of $76.8 million due to increased labor and employee benefit costs, in addition to continued increases in security costs. The largest increases incurred by the Power Fund were in distribution plant maintenance, production operating expense and customer accounting expenses. Depreciation expense decreased during fiscal year 2003 as compared to fiscal year 2002, mainly due to a change in estimate of service lives of certain utility plant assets and the cessation of depreciation of two major facilities as they reached the end of their useful lives for accounting purposes. This change in estimate resulted in a reduction to depreciation expenses by a total of $54 million. The decrease was offset by additional depreciation in the current year as a result of additions to utility plant.

The major nonoperating activities of the Power Fund for fiscal year 2003 included the transfer of $185.4 million to the City's General Fund; interest income earned on investments of $132.4 million; and $139.4 million in debt expenses. Furthermore, the Power Fund recognized an $8.3 million impairment charge during fiscal year 2003 relating to the sale of one of its administrative facilities. Interest on debt declined due to lower rates on variable rate debt and the effects of the debt restructuring program that lowered average interest rates on fixed rate debt.

As a result of the above financial changes, including capital contributions of $25.8 million, the Power Enterprise Fund's change in net assets for fiscal year 2003 amounted to $67.7 million, down $185 million (73.2%) from fiscal year 2002.

Water

During fiscal year 2003, operating revenues increased by $2.5 million (0.5%) from fiscal year 2002 levels due to an increase in pass-through recoverable costs. Due to additional qualifying pass-through recoverable costs, the average rate was higher in fiscal year 2003. The additional revenue from pass-through rates was partially offset by a minor decrease in water consumption due to cooler and wetter weather.

The increase in operating expenses of $56.5 million is broken down as follows: increase in purchased water costs - $6.3 million, increase in other operating and maintenance expenses - $46.2 million, and increase in depreciation and amortization expense - $4 million.

Management's Discussion and Analysis (Continued)

Other operating and maintenance expenses increased primarily as a result of continued increases in environmental costs associated with ongoing operations and maintenance of Owens Valley remediation, increased retirement, death and disability expenses and health care costs as a result of higher benefit and medical costs. Purchased water costs have increased $6.3 million over fiscal year 2002 because in 2002, the Water Fund received a revenue rebate credit from the Metropolitan Water District of approximately $6 million, no such rebate was received in fiscal year 2003. The increase in depreciation and amortization expense is associated with utility plant additions.

The major nonoperating activities of the Water Fund for fiscal year 2003 include the transfer of $27.5 million to the City's General Fund, interest income earned on investments of $11.5 million, $43.5 million in debt expenses, and capital contributions of $14 million. Furthermore, the Water Fund recognized a $3.4 million impairment charge during fiscal year 2003 relating to the sale of one of its administrative facilities. Interest on debt service increased by $6.7 million due to additional debt of $300 million issued in fiscal year 2003.

As a result of the above financial changes, the Water Enterprise Fund's change in net assets for fiscal year 2003 amounted to $4.5 million, down $52.4 million (92.1%) from fiscal year 2002.

<u>Sewer</u>

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 2003 amounted to $413.1 million, a 4.8% or $19.1 million increase from the prior year. The greater portion of the increase was due to increases in sewer service charges of $5.6 million and other operating revenues of $12.6 million. Reimbursements from other City funds primarily for the Harbor Sewer Crossings Project caused the increase in other operating revenues.

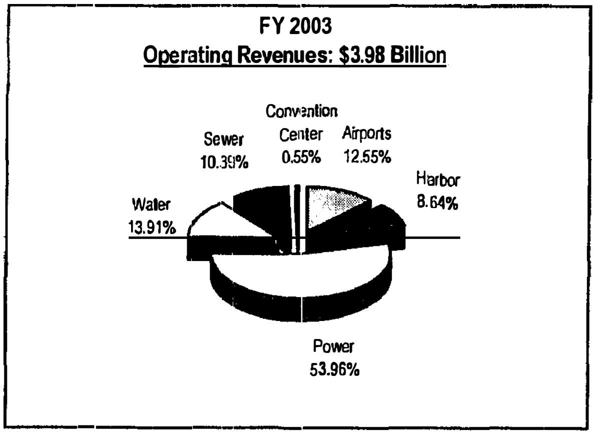
The increase in total operating expenses of $48.6 million or 15.3% was substantially due to the $24.6 million increase in expenses for operations and maintenance. The $24.6 million increase was due to increases in labor, non-labor and utility services provided by various City departments totaling $15.3 million, a $5.7 million charge to operations and maintenance capitalized in the prior year, and a $3.6 million in other operating expenses. The increase in depreciation expense of $24 million was due to additional capital assets completed and put into service.

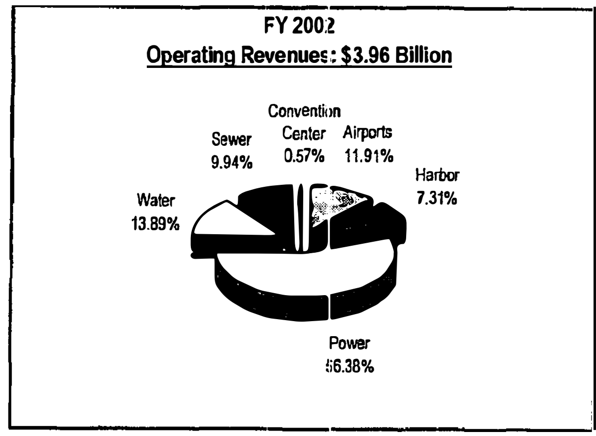
The major nonoperating activities of the Sewer Fund were investment income $11.6 million ($4.8 million decrease), non-capital disaster assistance grants of $20.4 million ($9.1 million increase), interest expense for debt service of $82.6 million ($16.3 million decrease), loss on abandonment of fixed assets of $4.1 million ($3.4 million increase) and earthquake related repair costs of $20.1 million ($8.9 million increase). The decrease in investment income was reflective of the general trend in interest rates while the decrease in interest expense for debt service was due to the effects of the refunding of significant portions of the Sewer Fund's revenue bonds and commercial paper notes. Transfers out to the City's General Fund for the franchise fee were phased out completely in fiscal year 2003.

As a result of the above financial changes, including capital contributions of $23.1 million, the Sewer Enterprise Fund's change in net assets for fiscal year 2003 amounted to a negative $8.1 million, compared to a positive $14.1 million in fiscal year 2002.

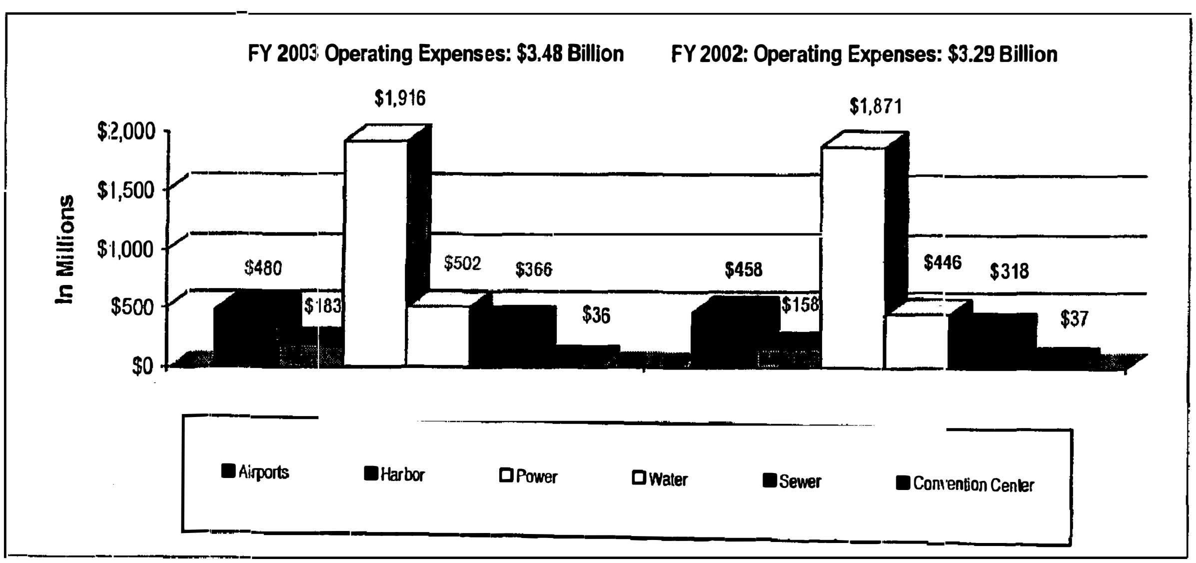
Management's Discussion and Analysis (Continued)

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





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



GENERAL FUND BUDGETARY HIGHLIGHTS

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 by the City as having General Fund type activity for GAAP reporting purposes. At fiscal year end, the unreserved and undesignated fund balance in the General Fund 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:

City of Los Angeles
Budgetary Operating Results- General Fund
Fiscal Year Ended June 30, 2003
(amounts expressed in thousands)

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final	Amounts	Positive (Negative)
Revenues and Other Financing Sources				
Taxes	$ 2,177,564	$ 2,177,564	$ 2,203,276	$ 25,712
Licenses, Permits, Fees and Fines	531,257	531,823	579,912	48,089
Intergovernmental	264,896	264,896	265,781	885
Charges for Services	3,600	3,600	2,725	(875)
Interest	29,179	29,179	24,471	(4,708)
Other	11,678	11,678	12,405	727
Total Revenues	3,018,174	3,018,740	3,088,570	69,830
Power and Water Transfers	189,600	189,600	183,881	(5,719)
Reserve Fund Transfers	57,963	57,963	63,717	5,754
Transfers from Other Funds	526,597	769,125	656,522	(112,603)
Loans from Other Funds	--	4,841	15,504	10,663
Total Revenues and Other Financing Sources	3,792,334	4,040,269	4,008,194	(32,075)
Expenditures and Other Financing Uses				
General Government	1,122,732	1,191,933	1,092,046	99,887
Protection of Persons and Property	1,408,498	1,467,424	1,463,049	4,375
Public Works	286,153	314,736	286,398	28,338
Health and Sanitation	201,881	206,897	200,309	6,588
Transportation	112,004	119,904	115,760	4,144
Cultural and Recreational Services	109,380	108,348	107,791	557
Community Development	76,937	99,929	91,882	8,047
Pension and Retirement Contributions	96,929	100,660	100,659	1
Capital Outlay	5,485	24,072	10,771	13,301
Total Expenditures	3,419,999	3,633,903	3,468,665	165,238
Transfers to Other Funds	372,335	406,998	401,485	5,513
Payment of Loans to Other Funds	--	--	10,256	(10,256)
Total Expenditures and Other Financing Uses	3,792,334	4,040,901	3,880,406	160,495
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	--	(632)	127,788	128,420
Carryforward and Fund Balance Appropriaitons	--	632	--	(632)
Encumbrances lapsed	--	--	26,063	26,063
Reversion to Reserve Fund	$ --	$ --	$ 153,851	$ 153,851

Management's Discussion and Analysis (Continued)

There were bright spots in the City's revenues such as the burgeoning real estate market, which fueled greater than expected property and documentary transfer taxes. Revenues from property taxes were $15.5 million (2.4%) above budget while documentary transfer taxes were $26.8 million (28.2%) above budget. These positive results were offset by a $16.6 million net unfavorable variance between the budgeted and actual amounts for the other tax revenue categories that include utility users, sales, business, transient occupancy and parking users taxes. Although the net actual receipts were $16.6 million short of the estimate, these other tax categories posted a net increase of $23.2 million over the prior year's actual receipts. The expected revenue growth in these other tax revenue sources was affected by ongoing national and international events, including the lingering effects of the recession, the aftermath of September 11th, and the war on terrorism. The increase in traffic citations, the reimbursements related to the Staples Center Arena project and reimbursements from the Airports for security services were the major reasons for the growth in revenues from licenses, permits, fees and fines. Interest on investments was $4.7 million (16.1%) less than expected, however, actual receipts reflected a modest 1% increase over fiscal year 2002 receipts. Total expenditures and budgetary transfers from other funds to support departmental operations were less than the budgeted amounts due to budget reduction measures exercised by the Mayor, City Council and departments that included a hiring freeze. Also, certain negotiated civilian employees contracts that included retroactive salary payments, although budgeted, were not approved until September 2003. Furthermore, contract negotiations for certain projects were yet to be finalized.

Overall, fiscal prudence and better than expected revenue collection helped the General Fund survive difficult economic times while building a strong Reserve Fund.

LONG-TERM DEBT

At June 30, 2003, the City's bonded indebtedness and long-term notes payable totaled $11.3 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 2003	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002
Debt backed by Full Faith and Credit of the City						
General Obligation Bonds	$ 978,120	$ 765,535	$ –	$ –	$ 978,120	$ 765,535
Judgment Obligation Bonds	41,450	74,770	–	–	41,450	74,770
Special Assessment Debt	38,380	21,355	–	–	38,380	21,355
Debt Secured by Specified Revenue Sources						
Certificates of Participation and Lease Revenue Bonds	1,554,624	1,477,890	–	–	1,554,624	1,477,890
Revenue Bonds and Notes Payable	252,085	166,247	8,326,035	7,724,577	8,578,120	7,890,824
Loans Payable to U.S. Department of Housing and Urban Development	104,501	105,223	–	–	104,501	105,223
Total	$ 2,969,160	$ 2,611,020	$ 8,326,035	$ 7,724,577	$ 11,295,195	$ 10,335,597

Significant new issuances during the year are the following:

- $262.2 million general obligation bonds for library, zoo, animal shelter and fire/paramedic equipment.

- $192.6 million MICLA certificates of participation for real property acquisition, various City facilities improvement, and refunding issues.
- $226 million fixed rate and $235.5 million variable rate Convention Center lease revenue refunding bonds to refund certain outstanding revenue bonds.
- $103.6 million Airports Enterprise Fund revenue bonds to advance refund a portion of a prior bond issue.
- $388.5 million Power Enterprise Fund variable rate bonds to defease outstanding commercial paper.
- $300 million and $202 million Water Enterprise Fund revenue bonds for water system capital improvements and to defease certain outstanding bonds, respectively.
- $569.8 million Wastewater revenue bonds and $300 million commercial paper notes. The bonds are refunding issues while proceeds of the commercial paper notes were issued as a means of interim financing for the construction of sewer facilities.

A more detailed information on the City's bonds and other long-term debt can be found in Note 4H of the Notes to the Basic Financial Statements beginning on page 99.

There were no changes in the ratings of the City's outstanding bonds except for the Wastewater System Senior Lien bond program which was upgraded by Standard and Poor's from A+ to AA-.

In August 1998, the City adopted a formal debt 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.

Management's Discussion and Analysis (Continued)

As of June 30, 2003, the City is in compliance with the aforementioned policies.

In May 2003, in order to protect against 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 associated with the swap agreements are discussed in Note 4J of the Notes to the Basic Financial Statements beginning on page 110.

The City's statement of legal debt margin is found on page 293. The revenue bond coverage for the City's business-type activities is found on page 297.

CAPITAL ASSETS

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2003, amounted to $18.9 billion (net of accumulated depreciation). This investment in capital assets, which accounts for 64.6% of the City's total assets, includes land, buildings, facilities, equipment, infrastructure, and construction in progress. As mentioned earlier, the governmental activities have only reported a small portion of its investments in infrastructure assets, the majority of which relate to additions during the fiscal years 2002 and 2003. The City is currently gathering information on infrastructure assets acquired prior to fiscal year 2002.

The following table presents the City's capital assets (in thousands):

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Not Depreciated						
Land	$ 385,370	$ 336,848	$ 1,749,509	$ 1,653,168	$ 2,134,879	$ 1,990,016
Infrastructure	57,377	40,350	–	–	57,377	40,350
Construction in Progress	540,410	495,652	2,783,034	2,335,208	3,323,444	2,830,860
	983,157	872,850	4,532,543	3,988,376	5,515,700	4,861,226
Depreciated, Net						
Buildings, Facilities and Equipment	1,652,576	1,483,106	11,604,010	11,284,302	13,256,586	12,767,408
Infrastructure	113,867	81,292	–	–	113,867	81,292
	1,766,443	1,564,398	11,604,010	11,284,302	13,370,453	12,848,700
Nuclear Fuel at Amortized Cost	–	–	13,431	16,943	13,431	16,943
Total	$2,749,600	$2,437,248	$16,149,984	$15,289,621	$ 18,899,584	$ 17,726,869

Major capital assets activities during the year are as follows:

Governmental Activities

- Completed building constructions and various improvements amounted to $146 million that includes the $31.8 million Marvin Braude Constituent Service Center financed through MICLA.

- Charges to various construction in progress projects totaled $230.5 million. These charges were for police, library, recreational, zoo, storm water, streets, traffic and various other City facilities and infrastructure projects.

Management's Discussion and Analysis (Continued)

- Additions to infrastructure assets that will be reported under the modified approach amounted to $17 million, while for those to be reported under the depreciation approach amounted to $38.1 million.
- Acquisition for machinery and equipment that were capitalized totaled $152.3 million, while those retired, salvaged, deleted or sold amounted to $38.9 million.

Business-type Activities

- The Airports Enterprise Fund capitalized $84.1 million in fiscal year 2003 that included additions for noise mitigation projects of $50 million, improvements to a terminal building of $19 million and taxiway extension of $5.9 million.
- The Harbor Enterprise Fund recorded a total net addition of $167.4 million to its capital assets. Of this amount, construction in progress accounted for $142.1 million, which include Phase II wharf and backland of the Pier 400 Project that began in January 2003. The Pier 400 comprises a 484-acre container terminal complex with full rail, highway and utility access.
- The Power Enterprise Fund capitalized $288 million of additions to utility plant in service. Of this $288 million, $203 million related to distribution and transmission utility plant assets. These additions were incurred for normal capital activities to maintain and support load growth of distribution and transmission systems. Construction work in progress increased by $383 million primarily as a result of ongoing local generation projects.
- The Water Enterprise Fund capitalized $237 million additions to utility plant in service. Of the $237 million, $111 million related to distribution utility plant assets and $100 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 supply assets were primarily associated with the completed phases of the Owens Valley Dust Mitigation Project.
- The Sewer Enterprise Fund's recorded a net increase in capital assets of $131 million. The largest ongoing project of the Sewer Fund is the $280 million North Outfall Sewer - East Central Interceptor Sewer project. Through fiscal year 2003, $223 million has been spent on this project, which is driven by regulatory requirements.

The City has fully implemented the provisions of GASB Statement No. 34 on its fiber optic telecommunications system infrastructure while only the prospective provisions were implemented on the other infrastructure assets. The City will continue to implement the retroactive provisions for networks and subsystems as information becomes available. The retroactive reporting is subject to an extended four-year implementation period and final implementation is required for the City by fiscal year ending June 30, 2006.

Significant commitments that include construction contracts are discussed in Note 5B of the Notes to the Basic Financial Statements on page 137.

The City's policy affecting capital assets can be found in Note1E of the Notes to the Basic Financial Statements on pages 65-67. Additional information can be found in Note 4E on pages 93-95.

Management's Discussion and Analysis (Continued)

ECONOMIC FACTORS AFFECTING NEXT YEAR'S BUDGET

The City's 2003-04 adopted budget is $5.2 billion. Of this amount, $2.9 billion, or 56.8%, is appropriated for departmental expenditures. The remainder of $2.3 billion is appropriated for non-departmental expenditures. Estimated general receipts of $3.5 billion and special receipts of $1.4 billion, and available balances of $0.3 billion fund the budget.

The budgeted General Fund receipts of $3.5 billion were $165.7 million or a 5% increase from fiscal year 2002-03 actual receipts. Economy-sensitive revenues (property, utility users, sales, business, transient occupancy, documentary transfer, and motor vehicle in-lieu taxes) accounted for $93.6 million of the increase, while transfers from the Reserve Fund accounted for $91.6 million of the increase. Budgeted receipts from other categories, including transfers from Power and Water of $181.3 million, accounted a net increase of $19.5 million. The growth forecast for the economy sensitive revenue categories is only slightly above anticipated inflation, reflecting the unusually slow recovery. Since the revenue change is directly tied to the local economy, 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.

- Employment in Los Angeles County grew by nearly 2% annually between 1997 and 2000. Employment growth came to a standstill in 2001 and then declined in 2002. The Los Angeles County Economic Development Corporation (LAEDC) projects 1% growth in 2003 and 2% growth in 2004. The UCLA Andersen forecast (UCLA) during the 2003-04 period is about the same at 1.7%.

- The local unemployment rate provides another perspective. This rate dropped to the 5.5% range during calendar years 2000 and 2001 - the lowest level in a decade. The unemployment rate then climbed to nearly 7% in 2002 and LAEDC expects it to remain near that level in 2003 and anticipates a decline to 6.3% in 2004. Although this is still relatively high, it is below the average 8.9% rate experienced during the prolonged recession from 1991 through 1996.

- Another good indicator of the local economy is the change in personal income. Los Angeles County personal income grew by nearly 10% in 2000 and averaged nearly 6% growth during the 1995 to 2000 period. The rate of growth declined to 3% in 2001 and 1% in 2002. LAEDC forecasts growth in the 4% range in 2003 and 2004.

- LAEDC anticipates that inflation, as measured by the consumer price index, will be less than 3.5% range during fiscal year 2003-04. This is about 1% higher than the inflation rate in 2002, but it is about the same level experienced in 2000 and 2001.

- Since employment is the primary determining factor of income and income determines the ability of consumers to make purchases, a major constraint on the potential growth in local taxable sales is the ability of the local economy to add jobs. Reflecting the slow recovery, most of the gain in income is driven by inflation. City sales tax revenue grew by 8.3% in fiscal year 2000 and 7.7% in fiscal year 2001 as a result of strong local job growth, but the recession caused the fiscal year 2002 decline of 1.7%. The sales tax budget estimate of $376.8 million is consistent with the 3.6% gain in fiscal year 2003 and UCLA's forecast of 3.5% growth in local taxable sales and the consensus of local economic experts.

Management's Discussion and Analysis (Continued)

- Property tax is still the City's largest General Fund revenue source. It accounted for 19.9% of the total fiscal year 2003 receipts. 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. Assessed values in the City have been growing between 6% and 7% in the last four years and the County Assessor is projecting a 7% growth in the 2003-04 budget year. The documentary transfer tax, which is based on the dollar value of transactions instead of assessed value, increased 22.1% in fiscal year 2003 but is expected to post a little more than 4% in fiscal year 2004.

Other matters that are affecting and will affect the City's operations for fiscal years 2003-04 and 2004-05 are as follows:

- As of November 2003, the City has projected a budget shortfall of $72.5 million for fiscal year 2003-04. The Mayor and City Council have taken steps to address the shortfall through a hard hiring freeze, monitoring and adjustments to appropriations, and transfers of funds from the Reserve Fund.

- The Governor has released his proposed State budget for fiscal year 2004-05. Included in his budget proposal is a property tax shift from local governments to the State totaling $1.3 billion, of which $189 million would be from cities. The potential fiscal impact of this proposal to the City is approximately $40-$45 million.

- The State has placed a 2003-04 Economic Recovery Bond (ERB) measure for the March 2004 ballot to address the State budget deficit. Repayment of the bond, if approved by the voters, will come from increasing the State's share of the sales tax of 0.25% beginning July 1, 2004 and reducing local government's share by the same amount. The sales tax reduction to local governments will be offset by increasing local property tax revenue by an equal amount. The property tax revenue to local governments will come from education's share of property tax revenue that will be back-filled by the Educational Revenue Augmentation Fund.

- Resolution of the State budget crisis overshadows all other potential adjustments to City revenue. The City has already lost $45 million in vehicle license fee (VLF). The Governor has instructed the State Controller to issue approximately $2.5 billion VLF backfill payments to local governments. However, neither the Governor nor the Legislature has identified the source for the $2.5 billion. Additionally, the ERB does not specifically designate proceeds to backfill the State's general fund for the VLF payments. If the ERB measure does not pass in the March 2004 elections, the State will withhold the VLF backfill payments.

- Due to prior losses in investment earnings and decline in value of pension plan assets, the City's contributions to the three pension plans are expected to increase by over $100 million in fiscal year 2004.

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.

Management's Discussion and Analysis (Continued)

At June 30, 2003, the CRA's total liabilities exceeded its total assets by $224.8 million. Although the CRA's net assets reflected a deficit, it was an improvement over the previous year's deficit of $235.9 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 actiivities 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.

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 2003	FY 2002
Current and other assets	$ 338,927	$ 346,131
Capital assets	106,526	91,628
Total assets	445,453	437,759
Current and other liabilities	44,113	43,599
Long-term liabilities	626,188	630,024
Total liabilities	670,301	673,623
Net assets:		
Invested in capital assets,		
net of related debt	63,701	48,851
Restricted	219,781	247,681
Unrestricted	(508,330)	(532,396)
Total net assets	$ (224,848)	$ (235,864)

At June 30, 2003, the CRA's long-term debt posted a net decrease of $3.8 million, or 0.6%. Of the $626.2 million total long-term debt, $494.7 million (79%) are tax allocation bonds. The CRA issues tax allocation bonds to finance certain redevelopment programs. Receipts from incremental property tax 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.

For the fiscal year ended June 30, 2003, the CRA's revenues totaled $128.4 million, a $21 million (19.5%) improvement from the prior fiscal year. Incremental property taxes contributed $15.2 million to the overall revenue growth. The CRA benefited from the relatively strong real estate market that spurred the growth in assessed valuation. Total expenses posted a net increase of $26.3 million (28.8%).

Management's Discussion and Analysis (Continued)

The following table presents the operating results of the CRA:

Community Redevelopment Agency
Condensed Statement Activities
(amounts expressed in thousands)

	FY 2003	FY 2002
Program Revenues		
Charges for Services	$ 5,963	$ 4,660
Capital Grants and Contributions	19,328	28,740
General Revenues		
Incremental Property Taxes	77,960	62,719
Interest Income	6,203	9,689
Other	18,945	1,598
Total Revenues	128,399	107,406
Program Expenses		
Housing	27,826	14,793
Community and Economic Development	15,566	25,965
Public Improvement	13,134	6,504
Project General	18,903	15,666
Parking facilities	4,433	1,116
Interest on Long-term Debt	37,521	27,057
Total Expenses	117,383	91,101
Change In Net Assets	$ 11,016	$ 16,305

For the year ended June 30, 2003, the CRA's change in net assets of $11 million was down $5.3 million or 32.4% from the prior year.

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 K-12 schools and community colleges. Statewide, $75 million for fiscal year 2003 and $135 million for fiscal year 2004 will be shifted to the schools. The CRA's share was $2.1 million in 2003 and will be $4 million in 2004. The proposed State budget for fiscal year 2005 includes a $135 million tax increment revenues to be shifted from redevelopment agencies. The CRA estimates its share to be $4 million.

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.

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Basic Financial Statements

CITY OF LOS ANGELES

Statement of Net Assets (Deficit)
June 30, 2003
(amounts expressed in thousands)

	Primary Government			Component Unit-Community Redevelopment Agency
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and Pooled Investments	$ 3,143,804	$ 1,123,900	$ 4,267,704	$ 150,001
Other Investments	65,468	43,107	108,575	10,424
Receivables, Net	946,727	1,980,469	2,927,196	49,254
Loans Receivable from Component Unit	76,050	--	76,050	--
Due from Fiduciary Funds	137	--	137	--
Inventories	30,345	142,061	172,406	35,167
Prepaid Items and Other Assets	51,685	159,198	210,883	16,050
Restricted Assets	12,358	2,412,004	2,424,362	78,031
Investment in Joint Ventures	--	6,000	6,000	--
Net Pension Assets	--	177,750	177,750	--
Capital Assets				
Not Depreciated	983,157	4,532,543	5,515,700	72,080
Depreciated, Net	1,766,443	11,604,010	13,370,453	34,446
Nuclear Fuel, at Amortized Cost	--	13,431	13,431	--
TOTAL ASSETS	7,076,174	22,194,473	29,270,647	445,453
LIABILITIES				
Accounts Payable and Accrued Expenses	256,589	495,076	751,665	6,060
Obligations Under Securities Lending Transactions	469,159	452,060	921,219	--
Matured Bonds and Interest Payable	1,742	--	1,742	--
Accrued Interest Payable	39,930	94,590	134,520	12,542
Internal Balances	28,461	(28,461)	--	--
Due to Fiduciary Funds	111	--	111	--
Deposits and Advances	14,807	44,608	59,415	20,339
Other Liabilities	56,797	509,702	566,499	5,172
Accrued Postretirement Benefit	--	329,879	329,879	--
Advances from Fiduciary Funds	12,621	--	12,621	--
Non-current Liabilities				
Due Within One Year	456,940	679,948	1,136,888	15,012
Due In More Than One Year	4,124,015	7,922,952	12,046,967	535,126
Loans Payable to Primary Government	--	--	--	76,050
TOTAL LIABILITIES	5,461,172	10,500,354	15,961,526	670,301
NET ASSETS				
Invested In Capital Assets, Net of Related Debt	730,518	7,996,013	8,726,531	63,701
Restricted for:				
Capital Projects	178,644	182,333	360,977	83,695
Debt Service	155,079	1,107,830	1,262,909	50,129
Special Purposes	1,213,893	643,609	1,857,502	85,957
Unrestricted (Deficit)	(663,132)	1,764,334	1,101,202	(508,330)
TOTAL NET ASSETS (DEFICIT)	$ 1,615,002	$ 11,694,119	$ 13,309,121	$ (224,848)

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, 2003
(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	$ 1,055,535	$ 269,016	$ 16,311	$ --	$ (770,208)	$ --	$ (770,208)	$ --
Protection of Persons and Property	1,761,748	263,394	120,489	23,401	(1,354,464)	--	(1,354,464)	--
Public Works	320,230	124,291	103,098	6,713	(86,128)	--	(86,128)	--
Health and Sanitation	293,573	190,243	26,814	--	(76,516)	--	(76,516)	--
Transportation	294,116	66,639	156,214	1,884	(69,379)	--	(69,379)	--
Cultural and Recreational Services	320,123	90,695	25,331	59,043	(145,054)	--	(145,054)	--
Community Development	336,611	46,257	296,562	--	6,208	--	6,208	--
Interest on Long-Term Debt	142,946	--	--	--	(142,946)	--	(142,946)	--
Total Governmental Activities	4,524,882	1,050,535	744,819	91,041	(2,638,487)	--	(2,638,487)	--
Business-type Activities:								
Airports	508,649	622,877	5,090	23,292	--	142,610	142,610	--
Harbor	227,704	359,103	--	1,386	--	132,785	132,785	--
Power	2,059,768	2,295,357	--	25,818	--	261,407	261,407	--
Water	550,514	569,623	--	14,044	--	33,153	33,153	--
Sewer	473,517	425,951	20,422	23,116	--	(4,028)	(4,028)	--
Other- Convention Center	35,823	22,224	--	--	--	(13,599)	(13,599)	--
Total Business-type Activities	3,855,975	4,295,135	25,512	87,656	--	552,328	552,328	--
Total Primary Government	$ 8,380,857	$ 5,345,670	$ 770,331	$ 178,697	(2,638,487)	552,328	(2,086,159)	--
Component Unit- Community Redevelopment Agency	$ 117,383	$ 5,963	$ --	$ 19,328	--	--	--	(92,092)
General Revenues:								
Property Taxes					787,048	--	787,048	77,960
Utility Users Taxes					521,148	--	521,148	--
Business Taxes					356,937	--	356,937	--
Other Taxes					335,779	--	335,779	--
Grants and Contributions Not Restricted to Specific Programs								
Sales Taxes					367,112	--	367,112	--
Motor Vehicle In-Lieu Taxes					219,694	--	219,694	--
Other					3,849	--	3,849	--
Unrestricted Investment Earnings					49,173	--	49,173	6,203
Gain on Sale of Capital Assets					--	2,270	2,270	--
Other					33,435	--	33,435	18,945
Loss on Asset Impairment and Abandoned Projects					--	(15,845)	(15,845)	--
Investment Loss					--	(19,000)	(19,000)	--
Litigation Settlement					--	(44,747)	(44,747)	--
Transfers					211,936	(211,936)	--	--
Total General Revenues and Other Items					2,886,111	(289,258)	2,596,853	103,108
Change In Net Assets					247,624	263,070	510,694	11,016
Net Assets (Deficit) - July 1, As Restated					1,367,378	11,431,049	12,798,427	(235,864)
Net Assets (Deficit) - June 30					$ 1,615,002	$ 11,694,119	$ 13,309,121	$ (224,848)

The notes to the financial statements are an integral part of this statement.

CITY OF LOS ANGELES

Balance Sheet
Governmental Funds
June 30, 2003
(amounts expressed in thousands)

	General	Proposition A Local Transit Assistance	Recreation and Parks	Special Gas Tax Street Improvement	Community Development
ASSETS					
Cash and Pooled Investments	$ 801,219	$ 78,824	$ 111,028	$ 20,090	$ 3,794
Other Investments	--	--	--	--	--
Taxes Receivable					
(Net of Allowance for Uncollectibles of $25,148)	242,284	--	--	--	--
Accounts Receivable					
(Net of Allowance for Uncollectibles of $339,442)	144,277	42	7	--	--
Special Assessments Receivable					
(Net of Allowance for Uncollectibles of $2,312)	8,821	--	--	--	--
Investment Income Receivable	9,855	907	1,061	228	17
Intergovernmental Receivable	65,169	15,601	--	6,713	2,486
Loans Receivable					
(Net of Allowance for Uncollectibles of $509,059)	--	--	--	--	102,362
Due from Other Funds	51,954	119	3,351	2,766	39
Loans Receivable from Component Unit					
(Net of Allowance for Uncollectibles of $500)	--	--	--	--	76,050
Inventories	30,345	--	--	--	--
Prepaid Items and Other Assets	--	--	--	--	1,447
Advances to Other Funds	10,450	6,898	827	--	--
Restricted Assets	--	--	--	--	--
TOTAL ASSETS	$ 1,364,374	$ 102,391	$ 116,274	$ 29,797	$ 186,195
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts, Contracts and Retainage Payable	$ 44,964	$ 7,151	$ 2,662	$ 1	$ 6,345
Obligations Under Securities					
Lending Transactions	191,409	11,422	16,065	2,911	550
Accrued Salaries and Overtime Payable	97,423	--	6,639	--	--
Accrued Compensated Absences Payable	1,550	--	59	--	--
Estimated Claims and Judgments Payable	19,224	--	--	--	--
Intergovernmental Payable	86	--	5	--	--
Due to Other Funds	17,796	394	40	--	2,676
Deferred Revenue and Other Credits	243,800	7,372	464	98	6
Deposits and Advances	4,366	19	315	--	59
Matured Bonds and Interest Payable	--	--	--	--	--
Advances from Other Funds	51,998	--	10,230	--	1,447
Other Liabilities	9,887	--	--	--	10
TOTAL LIABILITIES	682,503	26,358	36,479	3,010	11,093
FUND BALANCES					
Reserved for:					
Encumbrances	105,309	7,032	11,136	3,690	31,722
Assets Not Available for Appropriation	40,795	6,898	827	--	179,859
Debt Service	--	--	--	--	--
Special Purposes	25,941	--	--	--	--
Unreserved					
Designated for Special Purposes	71,000	--	--	--	--
Undesignated					
General Fund	438,826	--	--	--	--
Special Revenue Funds	--	62,103	67,832	23,097	(36,479)
Capital Projects Funds	--	--	--	--	--
TOTAL FUND BALANCES	681,871	76,033	79,795	26,787	175,102
TOTAL LIABILITIES AND FUND BALANCES	$ 1,364,374	$ 102,391	$ 116,274	$ 29,797	$ 186,195

Continued...

CITY OF LOS ANGELES

Balance Sheet - (Continued)
Governmental Funds
June 30, 2003
(amounts expressed in thousands)

	Seismic Bond Reimbursement	Municipal Improvement Corporation Special Revenue	Municipal Improvement Corporation Debt Service	Other Governmental Funds	Total
ASSETS					
Cash and Pooled Investments	$ 63,154	$ 198,722	$ 90,109	$ 1,776,864	$ 3,143,804
Other Investments	--	13,394	33,578	18,496	65,468
Taxes Receivable (Net of Allowance for Uncollectibles of $25,148)	--	--	--	13,830	256,114
Accounts Receivable (Net of Allowance for Uncollectibles of $339,442)	--	--	--	9,712	154,038
Special Assessments Receivable (Net of Allowance for Uncollectibles of $2,312)	--	--	--	10,760	19,581
Investment Income Receivable	667	773	--	22,556	36,064
Intergovernmental Receivable	1,780	--	--	67,181	158,930
Loans Receivable (Net of Allowance for Uncollectibles of $509,059)	--	--	--	219,638	322,000
Due from Other Funds	--	--	--	20,283	78,512
Loans Receivable from Component Unit (Net of Allowance for Uncollectibles of $500)	--	--	--	--	76,050
Inventories	--	--	--	--	30,345
Prepaid Items and Other Assets	--	116	967	280	2,810
Advances to Other Funds	--	--	--	32,140	50,315
Restricted Assets	--	--	--	12,358	12,358
TOTAL ASSETS	$ 65,601	$ 213,005	$ 124,654	$ 2,204,098	$ 4,406,389
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts, Contracts and Retainage Payable	$ 2,969	$ 9,813	$ --	$ 56,732	$ 130,637
Obligations Under Securities Lending Transactions	9,151	5,616	--	232,035	469,159
Accrued Salaries and Overtime Payable	--	--	--	2,187	106,249
Accrued Compensated Absences Payable	--	--	--	5	1,614
Estimated Claims and Judgments Payable	--	--	--	--	19,224
Intergovernmental Payable	271	6,330	--	13,011	19,703
Due to Other Funds	5,644	--	--	25,372	51,922
Deferred Revenue and Other Credits	864	205	--	95,848	348,657
Deposits and Advances	--	--	--	10,048	14,807
Matured Bonds and Interest Payable	--	--	--	1,742	1,742
Advances from Other Funds	--	--	--	54,286	117,961
Other Liabilities	--	--	--	4,862	14,759
TOTAL LIABILITIES	18,899	21,964	--	496,128	1,296,434
FUND BALANCES					
Reserved for:					
Encumbrances	6,950	76,943	--	299,530	542,312
Assets Not Available for Appropriation	--	116	--	252,031	480,526
Debt Service	--	--	124,654	158,592	283,246
Special Purposes	--	--	--	12,358	38,299
Unreserved					
Designated for Special Purposes	--	--	--	--	71,000
Undesignated					
General Fund	--	--	--	--	438,826
Special Revenue Funds	39,752	113,982	--	453,045	723,332
Capital Projects Funds	--	--	--	532,414	532,414
TOTAL FUND BALANCES	46,702	191,041	124,654	1,707,970	3,109,955
TOTAL LIABILITIES AND FUND BALANCES	$ 65,601	$ 213,005	$ 124,654	$ 2,204,098	$4,406,389

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, 2003
(amounts expressed in thousands)

Total Fund Balances - Governmental Funds	$ 3,109,955
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.	2,749,600
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	346,313
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(4,590,866)
Net Assets of Governmental Activities	$ 1,615,002

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, 2003
(amounts expressed in thousands)**

	General	Proposition A Local Transit Assistance	Recreation and Parks	Special Gas Tax Street Improvement	Community Development
REVENUES					
Property Taxes	$ 666,977	$ --	$ --	$ --	$ --
Sales Taxes	367,112	--	--	--	--
Utility Users Taxes	521,148	--	--	--	--
Business Taxes	356,937	--	--	--	--
Other Taxes	311,004	--	--	--	--
Licenses and Permits	38,345	--	579	--	--
Intergovernmental	225,968	63,237	6,943	89,121	108,323
Charges for Services	360,372	5,887	62,434	--	--
Services to Enterprise Funds	206,412	--	10	--	--
Fines	116,115	--	--	--	--
Special Assessments	1,397	--	--	--	--
Investment Earnings	49,424	4,405	5,309	1,182	33
Program Income	--	--	--	--	1,693
Other	33,664	1,474	255	72	226
TOTAL REVENUES	3,254,875	75,003	75,530	90,375	110,275
EXPENDITURES					
Current					
General Government	931,710	--	--	--	--
Protection of Persons and Property	1,556,554	--	--	--	--
Public Works	170,546	--	--	84,277	--
Health and Sanitation	186,286	--	--	--	--
Transportation	103,113	65,616	--	--	--
Cultural and Recreational Services	30,502	--	156,649	--	--
Community Development	26,488	--	--	--	109,318
Capital Outlay	22,013	6,619	16,711	4,634	--
Debt Service					
Principal	--	--	--	--	--
Interest	--	--	--	--	--
Cost of Issuance	223	--	--	--	--
Advance Refunding Escrow	--	--	--	--	--
TOTAL EXPENDITURES	3,027,435	72,235	173,360	88,911	109,318
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	227,440	2,768	(97,830)	1,464	957
OTHER FINANCING SOURCES (USES)					
Proceeds from Issuance of Debt	--	--	--	--	--
Proceeds of Refunding Bonds	--	--	--	--	--
Proceeds from HUD Loans	--	--	--	--	--
Transfers In	227,227	37	110,651	467	9,665
Transfers Out	(375,740)	(3,039)	(364)	--	(3,126)
Payment to Refunded Bond Escrow Agent	--	--	--	--	--
TOTAL OTHER FINANCING SOURCES (USES)	(148,513)	(3,002)	110,287	467	6,539
NET CHANGE IN FUND BALANCES	78,927	(234)	12,457	1,931	7,496
FUND BALANCES, JULY 1, AS RESTATED	597,390	76,267	67,338	24,856	167,606
INCREASE IN RESERVE FOR INVENTORIES	5,554	--	--	--	--
FUND BALANCES, JUNE 30	$ 681,871	$ 76,033	$ 79,795	$ 26,787	$ 175,102

Continued...

CITY OF LOS ANGELES

Statement of Revenues, Expenditures,
and Changes in Fund Balances - (Continued)
Governmental Funds
For the Fiscal Year Ended June 30, 2003
(amounts expressed in thousands)

	Seismic Bond Reimbursement	Municipal Improvement Corporation Special Revenue	Municipal Improvement Corporation Debt Service	Other Governmental Funds	Total
REVENUES					
Property Taxes	$ --	$ --	$ --	$ 125,862	$ 792,839
Sales Taxes	--	--	--	--	367,112
Utility Users Taxes	--	--	--	--	521,148
Business Taxes	--	--	--	--	356,937
Other Taxes	--	--	--	24,633	335,637
Licenses and Permits	--	--	--	2,045	40,969
Intergovernmental	15,888	--	--	426,103	935,583
Charges for Services	200	--	--	189,547	618,440
Services to Enterprise Funds	--	--	--	538	206,960
Fines	--	--	--	15,645	131,760
Special Assessments	--	--	--	91,171	92,568
Investment Earnings	3,345	7,248	3,206	84,907	159,059
Program Income	--	--	--	2,547	4,240
Other	--	4	--	27,371	63,066
TOTAL REVENUES	19,433	7,252	3,206	990,369	4,626,318
EXPENDITURES					
Current					
General Government	--	--	223	34,279	966,212
Protection of Persons and Property	--	--	--	153,884	1,710,438
Public Works	20,449	--	--	59,074	334,346
Health and Sanitation	--	--	--	99,084	285,370
Transportation	--	--	--	74,464	243,193
Cultural and Recreational Services	--	--	--	89,798	276,949
Community Development	--	--	--	237,341	373,147
Capital Outlay	4,773	150,974	--	352,769	558,493
Debt Service					
Principal	--	--	89,695	101,021	190,716
Interest	--	--	43,132	100,652	143,784
Cost of Issuance	--	2,488	671	11,005	14,387
Advance Refunding Escrow	--	--	--	23,076	23,076
TOTAL EXPENDITURES	25,222	153,462	133,721	1,336,447	5,120,111
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(5,789)	(146,210)	(130,515)	(346,078)	(493,793)
OTHER FINANCING SOURCES (USES)					
Proceeds from Issuance of Debt	--	144,429	11,117	467,820	623,366
Proceeds of Refunding Bonds	--	--	47,419	468,678	516,097
Proceeds from HUD Loans	--	--	--	2,095	2,095
Transfers In	--	342	100,145	262,478	711,012
Transfers Out	--	(14,921)	(301)	(101,585)	(499,076)
Payment to Refunded Bond Escrow Agent	--	--	(46,654)	(535,341)	(581,995)
TOTAL OTHER FINANCING SOURCES (USES)	--	129,850	111,726	564,145	771,499
NET CHANGE IN FUND BALANCES	(5,789)	(16,360)	(18,789)	218,067	277,706
FUND BALANCES, JULY 1, AS RESTATED	52,491	207,401	143,443	1,489,903	2,826,695
INCREASE IN RESERVE FOR INVENTORIES	--	--	--	--	5,554
FUND BALANCES, JUNE 30	$ 46,702	$ 191,041	$ 124,654	$ 1,707,970	$ 3,109,955

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, 2003 (amounts expressed in thousands)

Net Change in Fund Balances - Total Governmental Funds	$	277,706
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.		312,352
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.		16,818
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.		(331,862)
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.		(32,944)
Increase in reserve for inventory.		5,554
Change in Net Assets of Governmental Activities	$	247,624

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, 2003
(amounts expressed in thousands)

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	$ 2,177,564	$ 2,177,564	$ 2,203,276	$ 25,712
Licenses, Permits, Fees and Fines	531,257	531,823	579,912	48,089
Intergovernmental	264,896	264,896	265,781	885
Charges for Services	3,600	3,600	2,725	(875)
Interest	29,179	29,179	24,471	(4,708)
Other	11,678	11,678	12,405	727
TOTAL REVENUES	3,018,174	3,018,740	3,088,570	69,830
EXPENDITURES				
Current				
General Government	1,122,732	1,191,933	1,092,046	99,887
Protection of Persons and Property	1,408,498	1,467,424	1,463,049	4,375
Public Works	286,153	314,736	286,398	28,338
Health and Sanitation	201,881	206,897	200,309	6,588
Transportation	112,004	119,904	115,760	4,144
Cultural and Recreational Services	109,380	108,348	107,791	557
Community Development	76,937	99,929	91,882	8,047
Pension and Retirement Contributions	96,929	100,660	100,659	1
Capital Outlay	5,485	24,072	10,771	13,301
TOTAL EXPENDITURES	3,419,999	3,633,903	3,468,665	165,238
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(401,825)	(615,163)	(380,095)	235,068
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	774,160	1,016,688	904,120	(112,568)
Loans from Other Funds	--	4,841	15,504	10,663
Transfers to Other Funds	(372,335)	(406,998)	(401,485)	5,513
Payment of Loans to Other Funds	--	--	(10,256)	(10,256)
TOTAL OTHER FINANCING SOURCES (USES)	401,825	614,531	507,883	(106,648)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	--	(632)	127,788	128,420
FUND BALANCES, JULY 1	--	--	--	--
Appropriation of Fund Balance and Carryforward Appropriations	--	632	--	(632)
Encumbrances Lapsed	--	--	26,063	26,063
Reversion to Reserve Fund	--	--	(153,851)	(153,851)
FUND BALANCES, JUNE 30	$ --	$ --	$ --	$ --

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, 2003
(amounts expressed in thousands)

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
REVENUES				
Intergovernmental	$ 62,695	$ 66,092	$ 68,430	$ 2,338
Charges for Services	3,208	3,208	6,061	2,853
Interest	3,550	3,550	3,681	131
Other	--	--	1,485	1,485
TOTAL REVENUES	69,453	72,850	79,657	6,807
EXPENDITURES				
Current				
Transportation	113,937	189,924	62,658	127,266
Capital Outlay	--	6,327	5,543	784
TOTAL EXPENDITURES	113,937	196,251	68,201	128,050
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(44,484)	(123,401)	11,456	134,857
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	--	37	37	--
Transfers to Other Funds	(5,800)	(10,836)	(9,572)	1,264
TOTAL OTHER FINANCING SOURCES (USES)	(5,800)	(10,799)	(9,535)	1,264
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(50,284)	(134,200)	1,921	136,121
FUND BALANCES, JULY 1	50,284	50,284	56,462	6,178
Appropriation of Fund Balance and Carryforward Appropriations	--	83,916	--	(83,916)
Encumbrances Lapsed	--	--	36	36
FUND BALANCES, JUNE 30	$ --	$ --	$ 58,419	$ 58,419

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, 2003
(amounts expressed in thousands)

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
REVENUES				
Intergovernmental	$ 88,432	$ 88,432	$ 82,445	$ (5,987)
Interest	900	900	1,173	273
Other	20	20	73	53
TOTAL REVENUES	89,352	89,352	83,691	(5,661)
EXPENDITURES				
Current				
Public Works	13,531	13,531	13,527	4
Capital Outlay	9,031	9,620	2,773	6,847
TOTAL EXPENDITURES	22,562	23,151	16,300	6,851
EXCESS OF REVENUES OVER EXPENDITURES	66,790	66,201	67,391	1,190
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	--	--	467	467
Transfers to Other Funds	(74,758)	(77,026)	(70,200)	6,826
TOTAL OTHER FINANCING SOURCES (USES)	(74,758)	(77,026)	(69,733)	7,293
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(7,968)	(10,825)	(2,342)	8,483
FUND BALANCES, JULY 1	7,968	7,968	13,350	5,382
Appropriation of Fund Balance and Carryforward Appropriations	--	2,857	--	(2,857)
Encumbrances Lapsed	--	--	39	39
FUND BALANCES, JUNE 30	$ --	$ --	$ 11,047	$ 11,047

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, 2003
(amounts expressed in thousands)

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	$ 33,439	$ 132,288	$ 105,724	$ (26,564)
Interest	--	--	3	3
Program Income	--	--	22,402	22,402
Other	--	--	226	226
TOTAL REVENUES	33,439	132,288	128,355	(3,933)
EXPENDITURES				
Current				
Community Development	9,961	179,013	81,104	97,909
Capital Outlay	--	30	30	--
TOTAL EXPENDITURES	9,961	179,043	81,134	97,909
EXCESS (DEFICIENCY) OF REVENUES OVER OVER EXPENDITURES	23,478	(46,755)	47,221	93,976
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	--	--	1,261	1,261
Transfers to Other Funds	(23,478)	(45,988)	(35,432)	10,556
TOTAL OTHER FINANCING SOURCES (USES)	(23,478)	(45,988)	(34,171)	11,817
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	--	(92,743)	13,050	105,793
FUND BALANCES (DEFICIT), JULY 1	--	--	(53,896)	(53,896)
Appropriation of Fund Balance and Carryforward Appropriations	--	92,743	--	(92,743)
Encumbrances Lapsed	--	--	5,451	5,451
FUND BALANCES (DEFICIT), JUNE 30	$ --	$ --	$ (35,395)	$ (35,395)

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, 2003
(amounts expressed in thousands)

	Business-type Activities - Enterprise Funds			
	Airports	Harbor	Power	Water
ASSETS				
CURRENT ASSETS				
Cash and Pooled Investments				
Unrestricted	$ 531,747	$ 84,499	$ 369,433	$ 85,149
Restricted	--	88,426	120,742	231,767
Notes Receivable				
(Net of Allowance for Uncollectibles of $1,000)	--	--	63,827	--
Accounts Receivable				
Accounts Receivable				
(Net of Allowance for Uncollectibles of $47,002)	31,975	33,709	171,442	52,775
Accrued Unbilled Revenue	10,266	--	118,853	44,214
Investment Income Receivable	6,672	1,434	7,120	4,748
Intergovernmental Receivable	6,708	2,671	30,817	4,578
Due from Other Funds	--	3,516	--	67,447
Inventories	1,885	1,564	111,236	15,027
Prepaid Items and Other Assets	10	998	95,635	32,557
TOTAL CURRENT ASSETS	589,263	216,817	1,089,105	538,262
NONCURRENT ASSETS				
Restricted Assets				
Cash and Investments	536,066	8,699	--	--
Investments Held by Escrow and Fiscal Agents	53,821	95	961,265	4,613
Investment Income Receivable	4,937	2	7,156	366
Passenger Facility Charge Receivable	8,786	--	--	--
Total Restricted Assets	603,610	8,796	968,421	4,979
Long-term Investment				
Investment in Joint Venture	--	6,000	--	--
Capital Assets				
Land	545,379	782,392	156,725	92,376
Buildings, Facilities and Equipment	1,615,310	1,680,812	8,103,759	3,879,765
Leased Property and Improvements	184,423	--	--	--
Accumulated Depreciation	(829,431)	(711,852)	(4,073,466)	(1,385,526)
Construction in Progress	248,097	882,820	763,000	262,252
Nuclear Fuel, at Amortized Cost	--	--	13,431	--
Total Capital Assets	1,763,778	2,634,172	4,963,449	2,848,867
Other Noncurrent Assets				
Loans Receivable - Notes				
(Net of Allowance for Uncollectibles of $1,000)	--	1,006	1,164,457	--
Advances to Other Funds	--	51,511	--	--
Net Pension Assets	--	--	119,198	58,552
Other Assets	5,019	5,240	171,822	--
Total Other Noncurrent Assets	5,019	57,757	1,455,477	58,552
TOTAL NONCURRENT ASSETS	2,372,407	2,706,725	7,387,347	2,912,398
TOTAL ASSETS	$ 2,961,670	$ 2,923,542	$ 8,476,452	$ 3,450,660

Continued...

CITY OF LOS ANGELES

Statement of Fund Net Assets - (Continued)
Proprietary Funds
June 30, 2003
(amounts expressed in thousands)

	Business-type Activities - Enterprise Funds		
	Sewer	Other-Convention Center	Total
ASSETS			
CURRENT ASSETS			
Cash and Pooled Investments			
Unrestricted	$ 48,421	$ 4,651	$ 1,123,900
Restricted	221,334	--	662,269
Notes Receivable (Net of Allowance for Uncollectibles of $1,000)	--	--	63,827
Accounts Receivable			
Accounts Receivable (Net of Allowance for Uncollectibles of $47,002)	39,984	2,602	332,487
Accrued Unbilled Revenue	33,757	--	207,090
Investment Income Receivable	1,097	--	21,071
Intergovernmental Receivable	17,042	--	61,816
Due from Other Funds	--	--	70,963
Inventories	12,349	--	142,061
Prepaid Items and Other Assets	--	2,344	131,544
TOTAL CURRENT ASSETS	373,984	9,597	2,817,028
NONCURRENT ASSETS			
Restricted Assets			
Cash and Investments	135,993	--	680,758
Investments Held by Escrow and Fiscal Agents	27,936	--	1,047,730
Investment Income Receivable	--	--	12,461
Passenger Facility Charge Receivable	--	--	8,786
Total Restricted Assets	163,929	--	1,749,735
Long-term Investment			
Investment in Joint Venture	--	--	6,000
Capital Assets			
Land	33,045	139,592	1,749,509
Buildings, Facilities and Equipment	4,462,234	593,211	20,335,091
Leased Property and Improvements	--	9,601	194,024
Accumulated Depreciation	(1,787,672)	(137,158)	(8,925,105)
Construction in Progress	626,865	--	2,783,034
Nuclear Fuel, at Amortized Cost	--	--	13,431
Total Capital Assets	3,334,472	605,246	16,149,984
Other Noncurrent Assets			
Loans Receivable - Notes (Net of Allowance for Uncollectibles of $1,000)	--	--	1,165,463
Advances to Other Funds	3,521	--	55,032
Net Pension Assets	--	--	177,750
Other Assets	17,395	--	199,476
Total Other Noncurrent Assets	20,916	--	1,597,721
TOTAL NONCURRENT ASSETS	3,519,317	605,246	19,503,440
TOTAL ASSETS	$ 3,893,301	$ 614,843	$22,320,468

Continued...

CITY OF LOS ANGELES

Statement of Fund Net Assets - (Continued)
Proprietary Funds
June 30, 2003
(amounts expressed in thousands)

	Business-type Activities - Enterprise Funds			
	Airports	Harbor	Power	Water
LIABILITIES				
CURRENT LIABILITIES				
Accounts, Contracts and Retainage Payable	$ 43,792	$ 29,425	$ 212,161	$ 67,960
Obligations Under Securities Lending Transactions	155,672	12,956	243,361	40,071
Accrued Salaries and Overtime Payable	6,421	--	29,140	14,462
Accrued Compensated Absences Payable	3,545	306	35,267	18,548
Intergovernmental Payable				
Due to Other Funds	--	--	96,447	--
Deferred Revenue and Other Credits	50	358	--	--
Deposits and Advances	--	--	--	42,321
Capital Lease Obligations - Current Portion	798	--	--	--
Interest Payable	2,431	13,941	49,723	20,214
Bonds and Notes Payable - Current Portion, Net	25,525	20,503	163,180	47,632
Advances from Other Funds	--	--	--	--
Other Current Liabilities	13,836	22,843	--	--
TOTAL CURRENT LIABILITIES	252,070	100,332	829,279	251,208
LONG-TERM LIABILITIES				
Capital Lease Obligations - Noncurrent Portion	54,648	--	--	--
Bonds and Notes Payable - Noncurrent Portion, Net	411,097	831,500	3,232,088	1,297,190
Other Liabilities	44,220	60,914	491,330	10,969
TOTAL LONG-TERM LIABILITIES	509,965	892,414	3,723,418	1,308,159
OTHER NONCURRENT LIABILITY				
Accrued Postretirement Benefit	--	--	230,693	99,186
TOTAL LIABILITIES	762,035	992,746	4,783,390	1,658,553
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	1,296,867	1,782,169	1,568,405	1,688,726
Restricted for:				
Capital Projects	16,345	--	222	--
Debt Service	51,519	95	858,883	39,372
Special Purposes	212,205	--	329,087	68,717
Unrestricted (Deficit)	622,699	148,532	936,465	(4,708)
TOTAL NET ASSETS	$ 2,199,635	$ 1,930,796	$ 3,693,062	$ 1,792,107

Continued...

CITY OF LOS ANGELES

Statement of Fund Net Assets - (Continued)
Proprietary Funds
June 30, 2003
(amounts expressed in thousands)

	Business-type Activities - Enterprise Funds		
	Sewer	Other-Convention Center	Total
LIABILITIES			
CURRENT LIABILITIES			
Accounts, Contracts and Retainage Payable	$ 65,918	$ 1,465	$ 420,721
Obligations Under Securities Lending Transactions	--	--	452,060
Accrued Salaries and Overtime Payable	--	124	50,147
Accrued Compensated Absences Payable	--	887	58,553
Intergovernmental Payable			--
Due to Other Funds	--	1,079	97,526
Deferred Revenue and Other Credits	--	--	408
Deposits and Advances	--	2,287	44,608
Capital Lease Obligations - Current Portion	--	--	798
Interest Payable	8,281	--	94,590
Bonds and Notes Payable - Current Portion, Net	331,530	--	588,370
Advances from Other Funds	--	7	7
Other Current Liabilities	19,757	--	56,436
TOTAL CURRENT LIABILITIES	425,486	5,849	1,864,224
LONG-TERM LIABILITIES			
Capital Lease Obligations - Noncurrent Portion	--	--	54,648
Bonds and Notes Payable - Noncurrent Portion, Net	1,965,790	--	7,737,665
Other Liabilities	32,500	--	639,933
TOTAL LONG-TERM LIABILITIES	1,998,290	--	8,432,246
OTHER NONCURRENT LIABILITY			
Accrued Postretirement Benefit	--	--	329,879
TOTAL LIABILITIES	2,423,776	5,849	10,626,349
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	1,054,600	605,246	7,996,013
Restricted for:			
Capital Projects	165,766	--	182,333
Debt Service	157,961	--	1,107,830
Special Purposes	33,600	--	643,609
Unrestricted (Deficit)	57,598	3,748	1,764,334
TOTAL NET ASSETS	$ 1,469,525	$ 608,994	$11,694,119

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, 2003
(amounts expressed in thousands)

	Business-type Activities - Enterprise Funds			
	Airports	Harbor	Power	Water
OPERATING REVENUES				
Charges for Services	$ 189,343	$ 302,078	$ 2,145,913	$ 552,977
Rent, Concessions and Royalties	307,585	40,160	--	--
Other Operating Revenues	2,331	1,416	--	--
TOTAL OPERATING REVENUES	499,259	343,654	2,145,913	552,977
OPERATING EXPENSES				
Fuel for Generation	--	--	273,905	--
Purchased Power/Water	--	--	697,824	141,389
Maintenance and Repairs	--	--	214,347	85,254
Operating and Administrative	418,973	124,046	460,834	184,256
Depreciation	61,344	59,365	268,612	91,520
TOTAL OPERATING EXPENSES	480,317	183,411	1,915,522	502,419
OPERATING INCOME (LOSS)	18,942	160,243	230,391	50,558
NONOPERATING REVENUES (EXPENSES)				
Investment Income	40,085	12,264	136,996	8,819
Net Increase (Decrease) in Fair Value of Investments	8,077	2,883	(4,565)	2,671
Loss on Asset Impairment and Abandoned Projects	--	--	(8,330)	(3,402)
Interest Expense	(26,610)	(44,293)	(139,439)	(43,477)
Gain on Sale of Capital Assets	--	--	--	2,270
Other Income and Expenses, Net	78,824	(63,445)	12,206	538
TOTAL NONOPERATING REVENUES (EXPENSES)	100,376	(92,591)	(3,132)	(32,581)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	119,318	67,652	227,259	17,977
Capital Contributions	23,292	1,386	25,818	14,044
Transfers In	--	--	--	--
Transfers Out	--	--	(185,358)	(27,523)
CHANGE IN NET ASSETS	142,610	69,038	67,719	4,498
NET ASSETS, JULY 1, AS RESTATED	2,057,025	1,861,758	3,625,343	1,787,609
NET ASSETS, JUNE 30	$ 2,199,635	$ 1,930,796	$ 3,693,062	$ 1,792,107

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, 2003
(amounts expressed in thousands)

	Business-type Activities - Enterprise Funds		
	Sewer	Other-Convention Center	Total
OPERATING REVENUES			
Charges for Services	$ 398,671	$ 6,045	$ 3,595,027
Rent, Concessions and Royalties	--	10,537	358,282
Other Operating Revenues	14,439	5,460	23,646
TOTAL OPERATING REVENUES	413,110	22,042	3,976,955
OPERATING EXPENSES			
Fuel for Generation	--	--	273,905
Purchased Power/Water	--	--	839,213
Maintenance and Repairs	--	572	300,173
Operating and Administrative	197,516	22,455	1,408,080
Depreciation	168,709	12,796	662,346
TOTAL OPERATING EXPENSES	366,225	35,823	3,483,717
OPERATING INCOME (LOSS)	46,885	(13,781)	493,238
NONOPERATING REVENUES (EXPENSES)			
Investment Income	2,249	150	200,563
Net Increase (Decrease) in Fair Value of Investments	9,314	--	18,380
Loss on Asset Impairment and Abandoned Projects	(4,113)	--	(15,845)
Interest Expense	(82,626)	--	(336,445)
Gain on Sale of Capital Assets	--	--	2,270
Other Income and Expenses, Net	(2,966)	32	25,189
TOTAL NONOPERATING REVENUES (EXPENSES)	(78,142)	182	(105,888)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(31,257)	(13,599)	387,350
Capital Contributions	23,116	--	87,656
Transfers In	--	1,000	1,000
Transfers Out	--	(55)	(212,936)
CHANGE IN NET ASSETS	(8,141)	(12,654)	263,070
NET ASSETS, JULY 1, AS RESTATED	1,477,666	621,648	11,431,049
NET ASSETS, JUNE 30	$ 1,469,525	$ 608,994	$11,694,119

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, 2003
(amounts expressed in thousands)

	Business-type Activities - Enterprise Funds			
	Airports	Harbor	Power	Water
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers and Users	$ 608,233	$ 352,692	$ 2,306,220	$ 595,237
Receipts for Interfund Services	--	--	283,803	235,412
Payments to Suppliers	(176,335)	(65,379)	(1,141,701)	(299,851)
Payments to Employees	(173,020)	(53,671)	(368,289)	(179,611)
Payments for Interfund Services	(50,004)	(18,525)	(287,448)	(238,347)
NET CASH PROVIDED BY OPERATING ACTIVITIES	208,874	215,117	792,585	112,840
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers In	--	--	--	--
Transfers Out	--	--	(181,358)	(27,523)
Amounts Received on Advances to Other Funds	--	3,412	--	--
Grants Received	5,090	--	--	--
Cash Paid for Grant Expenses	--	--	--	--
Interest Paid on Noncapital Revenue Bonds	--	--	(6,862)	--
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	5,090	3,412	(188,220)	(27,523)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and Construction of Capital Assets	(84,112)	(250,309)	(672,865)	(245,944)
Proceeds from Escrow Investment Maturities	--	--	28,593	3,085
Proceeds from Sale of Bonds and Notes	214,495	491,424	402,385	489,773
Deposits to Refunded Debt Escrow Account	--	--	--	--
Payments on Capital Leases - Interest	(5,301)	--	--	--
Payments on Capital Leases - Principal	(69,108)	--	--	--
Payments on Bonds and Notes - Interest	(20,322)	(47,023)	(143,462)	(30,049)
Payments on Bonds and Notes - Principal	(134,968)	(427,099)	(419,320)	(2,565)
Payments for Defeased Bonds and Notes	--	--	--	(197,310)
Capital Contributions/Grants Received	18,925	15,918	26,025	16,936
Purchase of Escrow Investment	(5,079)	--	(34,408)	--
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(85,470)	(217,089)	(813,052)	33,926
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment Income Received	39,886	9,515	140,255	8,911
Increase (Decrease) in Fair Value of Pooled Investments	8,077	2,883	(4,565)	2,671
Cash Collateral Received Under Securities Lending Transactions	34,995	2,084	56,181	6,290
Distribution from Joint Ventures	--	4,000	--	--
Purchase of Investment Securities	--	--	(4,637,343)	(32,640)
Proceeds from Maturities of Investment Securities	--	--	4,636,609	--
Collection on Notes Receivable	--	--	70,322	--
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	82,958	18,482	261,459	(14,768)

Continued...

Statement of Cash Flows - (Continued)
Proprietary Funds
For the Fiscal Year Ended June 30, 2003
(amounts expressed in thousands)

	Business-type Activities - Enterprise Funds		
	Sewer	Other-Convention Center	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers and Users	$ 399,973	$ 23,899	$ 4,286,254
Receipts for Interfund Services	14,822	--	534,037
Payments to Suppliers	(69,878)	(5,337)	(1,758,481)
Payments to Employees	--	(14,745)	(789,336)
Payments for Interfund Services	(149,321)	(1,960)	(745,605)
NET CASH PROVIDED BY OPERATING ACTIVITIES	195,596	1,857	1,526,869
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers In	--	1,000	1,000
Transfers Out	(600)	(55)	(209,536)
Amounts Received on Advances to Other Funds	1,258	--	4,670
Grants Received	11,159	--	16,249
Cash Paid for Grant Expenses	--	--	--
Interest Paid on Noncapital Revenue Bonds	--	--	(6,862)
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	11,817	945	(194,479)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and Construction of Capital Assets	(313,807)	(242)	(1,567,279)
Proceeds from Escrow Investment Maturities	--	--	31,678
Proceeds from Sale of Bonds and Notes	869,368	--	2,467,445
Deposits to Refunded Debt Escrow Account	(576,429)	--	(576,429)
Payments on Capital Leases - Interest	--	--	(5,301)
Payments on Capital Leases - Principal	--	--	(69,108)
Payments on Bonds and Notes - Interest	(87,317)	--	(328,173)
Payments on Bonds and Notes - Principal	(35,363)	--	(1,019,315)
Payments for Defeased Bonds and Notes	--	--	(197,310)
Capital Contributions/Grants Received	18,287	--	96,091
Purchase of Escrow Investment	--	--	(39,487)
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(125,261)	(242)	(1,207,188)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment Income Received	12,562	150	211,279
Increase (Decrease) in Fair Value of Pooled Investments	9,314	--	18,380
Cash Collateral Received Under Securities Lending Transactions	--	--	99,550
Distribution from Joint Ventures	--	--	4,000
Purchase of Investment Securities	--	--	(4,669,983)
Proceeds from Maturities of Investment Securities	--	--	4,636,609
Collection on Notes Receivable	--	--	70,322
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	21,876	150	370,157

Continued...

CITY OF LOS ANGELES

Statement of Cash Flows - (Continued)
Proprietary Funds
For the Fiscal Year Ended June 30, 2003
(amounts expressed in thousands)

	Business-type Activities - Enterprise Funds			
	Airports	Harbor	Power	Water
NET INCREASE IN CASH AND CASH EQUIVALENTS	$ 211,452	$ 19,922	$ 52,772	$ 104,475
CASH AND CASH EQUIVALENTS, JULY 1	856,361	153,003	437,403	212,441
CASH AND CASH EQUIVALENTS, JUNE 30	$ 1,067,813	$ 172,925	$ 490,175	$ 316,916
CASH AND CASH EQUIVALENTS COMPONENTS:				
Unrestricted Cash, Pooled and Other Investments	$ 531,747	$ 84,499	$ 369,433	$ 85,149
Restricted Cash, Pooled and Other Investments	536,066	88,426	120,742	231,767
TOTAL CASH AND CASH EQUIVALENTS, JUNE 30	$ 1,067,813	$ 172,925	$ 490,175	$ 316,916
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating Income (Loss)	$ 18,942	$ 160,243	$ 230,391	$ 50,558
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Depreciation	61,344	59,365	268,612	91,520
Bad Debts (Recovery)	(252)	20,378	12,791	5,848
Passenger Facility Charges Received	77,490	--	--	--
Gain on Sale of Capital Assets	--	--	--	2,270
Cash Provided By Other Nonoperating Income	11,608	--	17,013	5,156
Cash Used in Other Nonoperating Expenses	--	(2,724)	(4,807)	(4,618)
Decrease (Increase) in Assets:				
Accounts Receivable				
Accounts Receivable	5,229	(9,398)	43,697	5,264
Accrued Unbilled Revenue	15,138	--	1,175	(2,927)
Due from Other Funds	--	--	--	(61,423)
Inventories	(77)	(160)	(3,646)	2,725
Prepaid Items and Other Current Assets	801	(694)	(15,633)	2,005
Other Assets	--	2,290	6,457	1,296
Increase (Decrease) in Liabilities:				
Accounts, Contracts and Retainage Payable	9,420	(10,115)	63,439	(18,386)
Accrued Salaries and Overtime Payable	1,141	--	11,346	5,502
Accrued Compensated Absences Payable	6,675	(1,015)	2,266	1,507
Due to Other Funds	--	--	61,423	--
Deferred Revenue and Other Credits	(50)	--	44,335	--
Deposits and Advances	--	--	--	(2,161)
Other Liabilities	1,465	(3,053)	53,726	28,704
TOTAL ADJUSTMENTS	189,932	54,874	562,194	62,282
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 208,874	$ 215,117	$ 792,585	$ 112,840
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES				
Loss on Asset Impairment and Abandoned Projects	$ --	$ --	$ (8,330)	$ (3,402)

Continued...

CITY OF LOS ANGELES

Statement of Cash Flows - (Continued)
Proprietary Funds
For the Fiscal Year Ended June 30, 2003
(amounts expressed in thousands)

	Business-type Activities - Enterprise Funds		
	Sewer	Other-Convention Center	Total
NET INCREASE IN CASH AND CASH EQUIVALENTS	$ 104,028	$ 2,710	$ 495,359
CASH AND CASH EQUIVALENTS, JULY 1	301,720	1,941	1,962,869
CASH AND CASH EQUIVALENTS, JUNE 30	$ 405,748	$ 4,651	$ 2,458,228
CASH AND CASH EQUIVALENTS COMPONENTS:			
Unrestricted Cash, Pooled and Other Investments	$ 48,421	$ 4,651	$ 1,123,900
Restricted Cash and Other Investments	357,327	--	1,334,328
TOTAL CASH AND CASH EQUIVALENTS, JUNE 30	$ 405,748	$ 4,651	$ 2,458,228
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income (Loss)	$ 46,885	$ (13,781)	$ 493,238
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation	168,709	12,796	662,346
Bad Debts (Recovery)	(923)	7	37,849
Passenger Facility Charges Received	--	--	77,490
Gain on Sale of Capital Assets	--	--	2,270
Cash Provided By Other Nonoperating Income	--	32	33,809
Cash Used in Other Nonoperating Expenses	(20,488)	--	(32,637)
Decrease (Increase) in Assets:			
Accounts Receivable			
Accounts Receivable	4,750	1,569	51,111
Accrued Unbilled Revenue	(4,507)	--	8,879
Due from Other Funds	--	--	(61,423)
Inventories	137	39	(982)
Prepaid Items	--	580	(12,941)
Other Assets	--	--	10,043
Increase (Decrease) in Liabilities:			
Accounts, Contracts and Retainage Payable	(3,350)	(460)	40,548
Accrued Salaries and Overtime Payable	--	124	18,113
Accrued Compensated Absences Payable	--	(369)	9,064
Due to Other Funds	--	1,079	62,502
Deferred Revenue and Other Credits	--	--	44,285
Deposits and Advances	--	823	(1,338)
Other Liabilities	4,383	(582)	84,643
TOTAL ADJUSTMENTS	148,711	15,638	1,033,631
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 195,596	$ 1,857	$ 1,526,869
NONCASH CAPITAL, INVESTING AND FINANCING ACTIVITIES			
Loss on Asset Impairment and Abandoned Projects	$ (4,113)	$ --	$ (15,845)

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, 2003
(amounts expressed in thousands)

	Pension Trust Funds	Agency Funds
ASSETS		
Cash and Pooled Investments	$ 5,742	$ 83,453
Other Investments	24,159,459	1,057
Accounts Receivable	24,889	--
Special Assessments Receivable	--	375
Investment Income Receivable	109,319	290
Intergovernmental Receivable	--	225
Due from Brokers	216,027	--
Due from Other Funds	--	111
Advances to Other Funds	--	12,621
Capital Assets (Net of Accumulated Depreciation of $27)	56	--
TOTAL ASSETS	24,515,492	$ 98,132
LIABILITIES		
Accounts, Contracts and Retainage Payable	38,554	--
Fiduciary Liabilities	--	26,906
Obligations Under Securities Lending Transactions	1,360,413	2,360
Due to Other Funds	--	138
Deposits and Advances	--	68,728
Loans Payable-- Current Portion	2,571	--
Loans Payable-- Noncurrent Portion	206,747	--
Due to Brokers	353,887	--
TOTAL LIABILITIES	1,962,172	$ 98,132
NET ASSETS		
Held in Trust for Pension and Postemployment Healthcare Benefits		
Benefit Pension Plans	21,299,741	
Postemployment Healthcare Plans	1,166,886	
Disability Plan	49,296	
Death Benefit	37,397	
TOTAL NET ASSETS	$ 22,553,320	

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, 2003
(amounts expressed in thousands)

	Pension Trust Funds
ADDITIONS	
Contributions	
Employer	$ 247,179
Plan Member	191,182
Other	4,179
Total Contributions	442,540
Investment Income	
Net Appreciation in Fair Value of Investments	171,855
Interest Income	440,791
Dividend Income	203,103
Other Investment Income	6,363
Real Estate Operating Income, Net	85,188
Total Investment Income	907,300
Investment Expense	(41,767)
Net Investment Income	865,533
TOTAL ADDITIONS	1,308,073
DEDUCTIONS	
Benefit Payments	1,249,465
Refunds of Member Contributions	21,806
Administrative Expenses	19,474
TOTAL DEDUCTIONS	1,290,745
CHANGE IN NET ASSETS	
Benefit Pension Plans	14,452
Postemployment Healthcare Plans	1,364
Disability Plan	1,719
Death Benefit Plan	(207)
TOTAL CHANGE IN NET ASSETS	17,328
Net Assets Held in Trust for Pension and Postemployment Healthcare Benefits, July 1	
Benefit Pension Plans	21,284,237
Postemployment Healthcare Plans	1,166,574
Disability Plan	47,577
Death Benefit Plan	37,604
NET ASSETS HELD IN TRUST FOR PENSION AND POSTEMPLOYMENT HEALTHCARE BENEFITS, JUNE 30	$ 22,553,320

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:

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CITY OF LOS ANGELES

NOTES TO THE BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2003

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 new 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

The City (the primary government), for financial reporting purposes, 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:

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- 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.

Based on the foregoing criteria, the City's financial statements prepared in accordance with generally accepted accounting principles include 45 departments, bureaus, commissions and offices, and 3 pension systems governed by the City Charter. The financial statements of the departments of Airports, Harbor, and Water and Power, which are independent proprietary departments, are reported in the Business-type Activities - Enterprise Funds. In addition, joint power authorities and public benefit corporations meet the requirements for inclusion in the City's reporting entity.

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 of whom 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 MICLA)

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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Venture

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)

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 State and municipal code. 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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 fiduciary 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.

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 *Seismic Bond Reimbursement Fund* accounts for the funds received from the Federal government and other sources to reimburse the City for its seismic bond program.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 except for the Power and Water Enterprise Funds that followed private-sector guidance through fiscal year 2002.

In fiscal year 2003, the Power and Water Enterprise Funds changed their election under the guidance in GASB Statement No. 20, *"Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting."* The funds were required to retroactively apply this change. This change did not impact the Water Enterprise Fund's financial statements. The impact on the Power Enterprise Fund's financial statements was the discontinuation of the application of Statement of Financial Accounting Standards No. 133, *"Accounting for Derivative Instruments and Hedging Activities"* (SFAS No. 133), which, prior to this change in election, required the Power Enterprise Fund to report its derivative instruments at fair value. With the change in election, the Power Enterprise Fund is no longer required to report its derivative instruments at fair value but must now comply with GASB Technical Bulletin No. 2003-1, *"Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets."* The effect of the retroactive application of the change in accounting for derivative instruments resulted in the restatement of the beginning net assets of the Power Enterprise Fund (see Note 4Q on page 124).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Power and Water Enterprise Funds continued to apply the provisions of SFAS No. 106, *"Employers' Accounting for Postretirement Benefits Other Than Pensions,"* and recognized expenses associated with postretirement healthcare benefits on an accrual basis. Currently, there is no prescriptive guidance under governmental standards, however the GASB is finalizing its project on accounting for postretirement benefits other than pensions. The Funds will continue to apply the provisions of SFAS No. 106 until the GASB has finalized its project and will adopt the new GASB Standard as required in the final transition 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. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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.

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, 2003, the Proprietary Funds' investments held by escrow and fiscal agents of $1,047.7 million and restricted investments of $8.7 million have maturities beyond three months and therefore are not considered cash and cash equivalents.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, and donated resources for the renovation of the Griffith Observatory. For the business-type activities and proprietary funds, amounts are reserved 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.

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.

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, 2003 was $8.7 million.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The business-type activities and proprietary funds long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to their fair value, which is normally determined through analysis of the future undiscontinued net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount that the carrying value exceeds the fair value of the assets.

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 $112 million in 2001 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.

During fiscal year 2003, the Power Enterprise Fund changed its estimate of service lives of certain utility plant assets and ceased depreciating two of its major facilities as they reached the end of their useful lives for accounting purposes. This change in estimate resulted in a reduction to the Power Enterprise Fund's depreciation expense by a total of $54 million.

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.

The estimated useful lives of the primary government's capital assets are as follows:

	Useful Life	
Category	Governmental Activities	Business-type Activities
Infrastructure	20-60 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 is required to report new infrastructure assets beginning fiscal year ended June 30, 2002. The City's infrastructure assets and the reporting methods the City has elected are as follows:

Infrastructure	Reporting Method
Bridges	Modified
Stormwater system	Modified
Streets	Modified
Traffic signals	Modified
Automated traffic signal and control	Depreciation
Bikepaths	Depreciation
Fiber optic telecommunication system	Depreciation
Street lighting system	Depreciation
Street pavement markings	Depreciation
Traffic signs	Depreciation

The City has fully implemented the provisions of GASB Statement No. 34 on its fiber optic telecommunication system infrastructure while only the prospective provisions were implemented on the other infrastructure categories. The City will continue to implement the retroactive provisions as information becomes available. The retroactive reporting is subject to an extended implementation period and final implementation is required by fiscal year ending June 30, 2006.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 80 consecutive hours 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 termination or 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 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, 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 following the month in which the taxes are collected.

Interfund Transactions

Interfund transactions are reflected as either 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

- 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New GASB Pronouncements

The City adopted the following:

Governmental Accounting Standards Board (GASB) Statement No. 41, *"Budgetary Comparison Schedules- Perspective Differences, An Amendment of GASB Statement No. 34."* The amendment clarifies issues about presenting budgetary comparisons, for the general and major special revenue funds, when significant perspective differences exist. The City's General Fund perspective difference is shown as a reconciling item in the reconciliation of operations on budgetary basis to the GAAP basis (see Note 3B on page 78).

GASB Technical Bulletin No. 2003-1 (GTB 2003-1), *"Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets."* GTB 2003-1 supersedes Technical Bulletin 94-1 and clarifies guidance on derivative disclosures. It applies to derivatives that are not reported at fair value on the statement of net assets. It provides an updated definition of derivatives. It also provides disclosure requirements for the government's objective for entering into the derivative and the derivative's terms, fair value, and risk exposure.

Recent GASB Pronouncements

In May 2002, the GASB issued Statement No. 39 (GASB 39), *"Determining Whether Certain Organizations are Component Units."* The objective of GASB 39 is to provide criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with a primary government and to clarify reporting requirements for those organizations. The provisions of GASB 39 are effective for the City beginning fiscal year 2004. The City is evaluating the financial impact of adopting this new statement.

In March 2003, the GASB issued Statement No. 40, *"Deposit and Investment Risk Disclosures, An Amendment of GASB Statement No. 3."* This statement establishes and modifies disclosure requirements related to investments and deposits risks: credit risk (including custodial credit risk and concentration of credit risk), interest rate risk, and foreign currency risk. This statement supersedes certain provisions of GASB Statement Nos. 3, 16, and 25 and will be effective for the City beginning fiscal year 2005.

In November 2003, the GASB issued Statement No. 42, *"Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries."* This statement establishes accounting and financial reporting standards for impairment of capital assets. This statement also clarifies and establishes accounting requirements for insurance recoveries. This statement is effective for the City beginning fiscal year 2005 and will not require restatement of previously reported impairment charges. The City has not yet determined the financial impact of adopting the new statement.

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 a 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 $4,590,866 difference are as follows (in thousands):

Bonds and Certificates of Participation	$ 2,864,659
Add: Issuance Premium (to be amortized as interest income)	39,692
Less: Deferred Charge on Refunding (to be amortized as interest expense)	(29,508)
Less: Deferred Charge for Issuance Costs (to be amortized over the life of the debt)	(19,365)
Loans Payable	104,501
Accrued Interest Payable	39,930
Accrued Landfill Liability	46,013
Accrued Compensated Absences	294,916
Estimated Claims and Judgments Payable	1,250,028
Net adjustments to reduce governmental fund balance to arrive at governmental activities net assets	$ 4,590,866

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 a 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 $312,352 difference are as follows (in thousands):

Capital Outlay	$ 444,381
Less: Depreciation Expense	(132,029)
Net adjustments to increase net change in fund balances of governmental funds to arrive at change in net assets of governmental activities	$ 312,352

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 $331,862 difference are as follows (in thousands):

Debt issued or incurred:	
General Obligation Bonds	$ 341,255
Add: Issuance Premium	13,265
Less: Deferred Charge on Refunding	(6,359)
Less: Deferred Charge for Issuance Costs	(2,160)
Certificates of Participation and Revenue Bonds	761,310
Add: Issuance Premium	23,601
Less: Deferred Charge on Refunding	(25,728)
Less: Deferred Charge for Issuance Costs	(11,717)
HUD Loans	2,095
Principal repayments and payments to refunded bond escrow agent:	
General and Judgment Obligation Bonds	(161,990)
Certificates of Participation and Revenue Bonds	(598,801)
Notes Payable	(92)
HUD Loans	(2,817)
Net adjustments to decrease net change in fund balances of governmental funds to arrive at change in net assets of governmental activities	$ 331,862

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 $32,944 difference are as follows (in thousands):

Decrease in Accrued Landfill Liability	$ (3,262)
Decrease in Accrued Interest	(838)
Decrease in Accrued Compensated Absences	(11,624)
Increase in Estimated Claims and Judgments	46,221
Amortization of Deferred Charge on Refunding	645
Amortization of Deferred Charge for Cost of Issuance	1,802
Net adjustments to decrease net change in fund balances of governmental funds to arrive at change in net assets of governmental activities	$ 32,944

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 38 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. 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, Environmental Affairs Trust, Fire Hydrant Installation and Main Replacement, First and Broadway Childcare, Pershing Square Project, Street Banners, Urban Development Action Grant, Used Oil Collection, Warner Center Transportation Improvement, Welfare to Work, and Youth Opportunities Grant Special Revenue Funds), and the *Parks Assessment (Proposition K) Capital Projects Fund* are 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 other accounts component

Special Revenue
Recreation and Parks
Seismic Bond Reimbursement
Municipal Improvement Corporation

Debt Service
Municipal Improvement Corporation

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

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, 2003, the adjusted amount was $37,639. Transfers that exceed the amount limits require the approval of the City Council. During the fiscal year, additional appropriations of $474.6 million and capital related appropriations of $77.5 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 $591.7 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.

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.

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

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.

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. 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, 2003 is presented in the following pages for the City's budgeted major funds. The dollar amounts are expressed in thousands.

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

	General Fund	Proposition A Local Transit Assistance Fund
Excess of Revenues and Other Sources Over Expenditures and Other Uses- Budgetary Basis	$ 127,788	$ 1,921
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.	31,067	(5,264)
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).	(5,248)	--
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	209,530	9,867
Prior year encumbrances expended in current year	(199,298)	(6,758)
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 type activity for GAAP purposes.	(84,912)	--
Excess (Deficiency) of Revenues and other Financing Sources Over Expenditures and Other Financing Uses/Net Change in Fund Balance- GAAP Basis	$ 78,927	$ (234)

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

	Special Gas Tax Street Improvement Fund	Community Development Fund
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses- Budgetary Basis	$ (2,342)	$ 13,050
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.	7,079	6,732
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	881	23,422
Prior year encumbrances expended in current year	(3,687)	(31,382)
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).	--	(4,326)
Excess of Revenues and other Financing Sources Over Expenditures and Other Financing Uses/Net Change in Fund Balance- GAAP Basis	$ 1,931	$ 7,496

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 $71 million consists of advances and technical adjustments totaling $10 million, and an emergency reserve of $61 million.

The Crime Bills and Workforce Investment Act Special Revenue Funds have deficit fund balances of $0.3 and $3.1 million, respectively, 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

As provided for by the California Government Code, 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 yield. Interest earned on pooled investments is allocated to certain participating funds, as authorized by the City Council and permitted by the City's Charter and California Government Code, 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 investment practices. The Policy addresses soundness of financial institutions in which the City will deposit funds, and types of investment instruments permitted by California Government Code Sections 53601 and 16429.1. Investments permitted by the City's investment policy include obligations of the U.S. Treasury and government agencies, commercial paper notes, negotiable certificates of deposit, and guaranteed investment contracts.

Oversight responsibility for conformance with the Policy is placed with the Investment Advisory Committee (IAC) 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.

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 CRA cash deposits are maintained with different banks within the various redevelopment project areas. Its investments, carried at fair value, consist of U.S. government securities that are deposited into CRA safekeeping accounts to ensure segregation of CRA owned securities.

Summary of Cash and Investments

A summary of cash, pooled and other investments for all City funds and the CRA at June 30, 2003, is presented below (in thousands):

	Cash and Investments With City Treasurer	Other Cash and Investments		Total	CRA
		Pension Trust	Other		
Cash and Pooled Investments	$ 3,993,539	$ --	$ 363,360	$ 4,356,899	$ 150,001
Other Investments	--	24,159,459	109,632	24,269,091	10,424
Restricted Assets	1,342,760	--	1,060,355	2,403,115	78,031
Total	$ 5,336,299	$ 24,159,459	$ 1,533,347	$ 31,029,105	$ 238,456

	Primary Government		Fiduciary Funds	Total
	Governmental Activities	Business-type Activities		
Cash and Pooled Investments	$ 3,143,804	$ 1,123,900	$ 89,195	$ 4,356,899
Other Investments	65,468	43,107	24,160,516	24,269,091
Restricted Assets (Note 4C page 91)	12,358	2,390,757	--	2,403,115
Total	$ 3,221,630	$ 3,557,764	$ 24,249,711	$ 31,029,105

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

Summary of Deposits and Investments

A summary of the carrying amount of cash on hand, deposits and investments at June 30, 2003, is as follows (in thousands):

	Cash and Pooled Investments With City Treasurer	Other Cash and Investments	Total	CRA
Cash on Hand	$ 1	$ 726	$ 727	$ --
Deposits	349,055	43,718	392,773	6,313
Investments	4,987,243	25,648,362	30,635,605	232,143
Total	$ 5,336,299	$ 25,692,806	$31,029,105	$ 238,456

Deposits

At June 30, 2003, the book balance of the City's deposits was approximately $392.8 million and the balance per various financial institutions was approximately $495.8 million. The difference of $103 million represents primarily outstanding checks and other reconciling items. Of the bank balance, $6.8 million was covered by Federal depository insurance and $489 million was uninsured. The uninsured deposits of $489 million are held by financial institutions which 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.

The CRA cash deposits had a book balance of $6.3 million at June 30, 2003, while the bank balance totaled $7.8 million. Of the bank balance, $0.8 million was covered by Federal depository insurance and $7 million was fully collateralized in accordance with State law as described above.

The investments held by the City are categorized separately below to give an indication of the level of custodial credit risk assumed by the City at year-end. Category 1 includes investments that are insured or registered, or are held by the City or its agents in the City's name. Category 2 includes uninsured and unregistered investments held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments held by the counterparty, or by its trust department or agent, but not in the City's name.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

The three categories do not apply to certain types of investments, such as mutual funds, real estate, investments held by broker-dealers under securities loans with cash collateral, venture capital investments, investments in a securities lending short-term investment pool, guaranteed investment contract, and State of California Local Agency Investment Fund (LAIF), a State Treasurer's investment pool.

At June 30, 2003, the investments held in the City Treasury's General and Special Investment Pool Programs are as follows (in thousands):

Type of Investments	Category 1	Category 2	Total
Categorized Investments			
Bonds	$ 630,471	$ --	$ 630,471
Commercial Paper	466,426	17,642	484,068
Negotiable Certificates of Deposits	173,859	21,000	194,859
Repurchase Agreements	--	663,741	663,741
Short-Term Investment Funds	12	--	12
U.S. Government Securities not on Securities Loan	2,183,787	--	2,183,787
Total Categorized Investments	$ 3,454,555	$ 702,383	4,156,938
Investments Not Categorized			
Investments Held by Broker-Dealer Under Securities Loans with Cash Collateral –			
U.S. Government Securities			651,585
Guaranteed Investment Contract			139,028
State of California LAIF			39,692
Total General and Special Investment Pool Programs in City Treasury			$ 4,987,243

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

The City's other investments are categorized as follows at June 30, 2003 (in thousands):

Type of Investments	Category 1	Category 2	Category 3	Total
Categorized Investments				
U.S. Government Securities	$ 2,190,431	$ 51,847	$ --	$ 2,242,278
Bonds	3,605,653	--	--	3,605,653
Stocks	11,910,749	--	--	11,910,749
Commercial paper	211,404	--	--	211,404
Repurchase Agreements	--	218,666	--	218,666
Short-Term Investment Funds	1,225,249	--	323,998	1,549,247
Negotiable Certificates of Deposits	33,313	--	--	33,313
Futures Initial Margin	2,146	--	--	2,146
Mortgage-backed Securities	190,106	--	--	190,106
Investments Under Securities Loans with Securities Collateral:				
U.S. Government Securities	156,408	--	--	156,408
Bonds	3,557	--	--	3,557
Stocks	138,298	--	--	138,298
Total Categorized Other Investments	$ 19,667,314	$ 270,513	$ 323,998	20,261,825
Investments Not Categorized				
Investments Held by Brokers-Dealers Under Securities Loans with Cash Collateral:				
U.S. Government Securities				766,180
Bonds				124,686
Stocks				652,910
Mutual funds				209
Securities Lending Short-term Investment Pool				1,768,570
Mutual Funds				148,509
Real Estate				1,258,601
Venture Capital				255,532
Alternative Investments				362,079
Guaranteed Investment Contract				49,261
Total Other Investments				$ 25,648,362

The CRA investments are categorized as follows at June 30, 2003 (in thousands):

Category 1 Investments:	
U.S. Government Securities	$ 176,376
Negotiable Certificates of Deposit	210
Total Categorized Investments	176,586
Investment Not Categorized - State of California LAIF	55.557
Total	$ 232.143

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

As of June 30, 2003, the City and the CRA's investments in the State of California Local Agency Investment Fund (LAIF) are $39.7 million and $55.6 million, respectively. The total amount invested by all public agencies in LAIF at that date is $55.4 billion. Of that amount, 97.7% is invested in non-derivative financial products and 2.3% 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 value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the City's and CRA's position in the pool.

Securities Lending Transactions

City General Investment Pool

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 composed of the City Treasurer (as Chairperson), City Controller, Chief Legislative Analyst, City Administrative Officer, and a contracted financial advisor.

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. Matched maturities between securities lent and securities invested shall be at least 75% of the Pool's securities lending portfolio. Matched securities include those investments associated with a term loan and overnight investments associated with open loans. Earnings from securities lending shall accrue to the Pool and shall be allocated on a pro-rata basis to all Pool participants.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

At June 30, 2003, the assets and liabilities arising from the reinvested cash collateral were recognized in the respective participants financial statements. Investments made with cash collateral were categorized in accordance with GASB Statement No. 3. Securities on loan that were collateralized with cash are not subject to custodial credit risk categorization. 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.

Water and Power Enterprise Funds

In December 1999, DWP initiated a securities lending program for its power and water systems, which is managed by its custodial bank. The bank lends up to 20% of the investments held in the debt reduction trust funds, decommissioning trust funds, and plan assets held in the postretirement benefits trust funds for securities, cash collateral or letters of credit equal to 102% of the market value of the loaned securities and interest, if any. DWP 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 DWP because the amounts owed to the borrowers exceeded the amounts borrowed.

Pension Plans

The City Charter and the investment policies adopted by their respective boards authorize the securities lending transactions of the three City pension systems. The securities lending transactions of the systems are described below:

Water and Power Employees' Retirement, Disability and Death Benefit Insurance Plan

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 102% of the underlying securities market value.

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 fiduciary net assets. Securities lent at year-end for cash collateral are presented as unclassified in the schedule of custodial credit risk; securities lent for securities collateral are classified according to the category for the collateral. 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.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

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 (LACERS)

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. Securities collateral and investments made with the cash collateral were categorized in accordance with GASB Statement No. 3. 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.

Fire and Police Pension System (Pensions)

The Pensions also has entered into various short-term lending arrangements with its custodian whereby investments selected by the custodian are loaned to various brokers. The lending arrangements are collateralized by cash that can be reinvested, letters of credit and marketable securities, held on behalf of Pensions by the custodian. Pensions cannot pledge or sell non-cash collateral unless the borrower defaults. 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.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

The cash collateral received is included in the statement of fiduciary net assets at June 30, 2003. Investments made with the cash collateral were uncategorized in accordance with GASB Statement No. 3. During the year, Pensions had no losses due to borrowers default. There was no credit risk exposure because the amounts owed the borrowers exceeded the amounts the borrowers owed Pensions.

Borrowers of LACERS and 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. LACERS and Pensions are entitled to receive all distributions made by the issuer of the borrowed securities directly from the borrower. Under the securities lending agreements, the custodians will indemnify LACERS and Pensions as a result of the custodian's failure to: 1) make a reasoned determination of the credit worthiness of a potential borrower before lending, and during the term of the loans, if the borrower files a petition of bankruptcy or similar action, 2) demand adequate collateral, or 3) otherwise maintain the securities lending program in compliance with the Federal Financial Institutions Examination Council Supervisory Policy on Securities Lending.

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 fluctuations 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.

At June 30, 2003, LACERS had outstanding futures contracts for foreign currencies and the Standard and Poor's 500 Index with an aggregate notional amount of $52.9 million. In addition, at June 30, 2003, LACERS had outstanding forward purchase commitments with a notional amount of $69.1 million and offsetting forward sales commitments with notional amounts of $69.1 million which expire through September 2003. LACERS maintains margin collateral on the positions with brokers, consisting of cash and U.S. Treasury Bills. The total collateral margin was $2.1 million as of June 30, 2003. The realized gain on foreign currency translation was $39.2 million for the year ended June 30, 2003.

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.

Lines of Credit

The City has $100 million available line of credit with a financial institution that maintains the City's operating accounts. No amounts were drawn during the year on this line of credit.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

The MICLA has a $5.6 million open line of credit related to a project. As of June 30, 2003, no amounts were drawn on this credit line.

B. Receivables

The primary government's net receivables at June 30, 2003 are as follows (in thousands):

	Governmental Activities	Business-type Activities
Gross Receivables		
Taxes	$ 281,262	$ –
Accounts	493,480	715,294
Special Assessments	21,893	–
Investment Income	36,064	21,071
Intergovernmental	158,930	61,816
Loans	831,059	1,231,290
Total	1,822,688	2,029,471
Allowance for Uncollectibles		
Taxes	(25,148)	–
Accounts	(339,442)	(47,002)
Special Assessments	(2,312)	–
Loans	(509,059)	(2,000)
Total	(875,961)	(49,002)
Net Receivables	$ 946,727	$ 1,980,469
Net Receivables not scheduled for collection during the subsequent year:		
Loans	$ 288,630	$ 1,165,463
Accounts	–	128,715

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 damages; 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 net receivable of $38 million from the Los Angeles Community Development Bank (see Note 5D on page 145).

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At June 30, 2003, the various components of deferred revenue reported in the governmental funds were as follows (in thousands):

Taxes	$ 72,291
Accounts	131,567
Intergovernmental	117,069
Special Assessments	12,029
Investment Income	13,357
Total Deferred Revenue for Governmental Funds	$ 346,313

The business-type activities loans include the Power Enterprise Fund's long-term notes of $1,228.3 million from Intermountain Power Agency (see Note 5B on page 138), and $3 million long-term Harbor notes receivable.

The $49.3 million net receivables of the CRA at June 30, 2003 consisted of $3.3 million property taxes, $5.1 million intergovernmental, $0.5 million investment income, $38.2 million loans, and $2.2 million other.

The CRA net loans receivable of $38.2 million reflected an adjustment to fair market value of $460.5 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.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

C. Restricted Assets

The primary government's restricted assets of $2.4 billion are composed of the following at June 30, 2003 (in thousands):

	Governmental Activities	Business-type Activities	Total
Cash and Investments:			
Cash and Pooled Investments With City Treasurer	$ 4,014	$ 1,338,746	$ 1,342,760
Other Investments	8,344	1,052,011	1,060,355
Subtotal	12,358	2,390,757	2,403,115
Other Restricted Assets:			
Investment Income Receivable	--	12,461	12,461
Other Receivables	--	8,786	8,786
Total	$ 12,358	$2,412,004	$2,424,362

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, and donated resources for the renovation of the Griffith Observatory. 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.

The CRA's restricted assets totaling $78 million include investments maintained with fiscal agents that are pledged as collateral for the payment of principal and interest on tax allocation and parking revenue bonds.

D. 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.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

The ICTF was formed for the purpose of financing and constructing a facility to transfer cargo containers between truck and railroad cars. The Southern Pacific Transportation Company (a wholly owned subsidiary of Union Pacific Corporation) operates the facility under a long-term lease agreement. The Harbor and the Port of Long Beach each have a 50% interest in the venture, with the Harbor having an investment of $6 million at June 30, 2003. The Harbor's investment, which is accounted for using the equity method, is included in the government-wide and proprietary funds statement of net assets. 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 along the proposed corridor route for approximately $370 million.

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. The ACTA also 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. The Harbor's share of the ACTA's operations and assets, liabilities and equity at June 30, 2003, 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)

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, which represents a 13.2% equity participation of the total committed capital of $143.2 million. This capital was raised from the shareholders through the purchase of stock in the corporation. The Harbor's investment totaled $19 million at June 30, 2003, which is accounted for using the equity method. The Harbor has a 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.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

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 set aside $16.8 million reserve in the event that the receivable from LAXT are lost. Separate financial statements for LAXT may be obtained from the General Manager of LAXT, P.O. Box 1769, San Pedro, California 90733.

E. Capital Assets

Capital asset activity for Governmental Activities for the year ended June 30, 2003 is as follows (in thousands):

Governmental Activities	Balance July 1, 2002	Additions/ Transfers	Deductions/ Transfers	Balance June 30, 2003
Capital Assets Not Depreciated				
Land	$ 336,848	$ 48,522	$ --	$ 385,370
Infrastructure	40,350	17,027	--	57,377
Construction in Progress	495,652	230,517	(185,759)	540,410
Total Capital Assets Not Depreciated	872,850	296,066	(185,759)	983,157
Capital Assets Depreciated				
Buildings and Improvements	1,623,431	146,094	(3,168)	1,766,357
Machinery, Furniture and Equipment	806,662	152,326	(38,924)	920,064
Infrastructure	101,577	38,084	--	139,661
Total Capital Assets Depreciated	2,531,670	336,504	(42,092)	2,826,082
Less: Accumulated Depreciation				
Buildings and Improvements	(456,037)	(46,300)	738	(501,599)
Machinery, Furniture and Equipment	(490,950)	(80,220)	38,924	(532,246)
Infrastructure	(20,285)	(5,509)	--	(25,794)
Total Accumulated Depreciation	(967,272)	(132,029)	39,662	(1,059,639)
Total Capital Assets Depreciated, Net	1,564,398	204,475	(2,430)	1,766,443
Governmental Activities Capital Assets, Net	$ 2,437,248	$ 500,541	$ (188,189)	$ 2,749,600

Depreciation expense was charged to functions/programs of the governmental activities as follows (in thousands):

Function/Program	Amount
General Government	$ 23,770
Protection of Persons and Property	42,125
Public Works	13,792
Health and Sanitation	11,112
Transportation	12,813
Cultural and Recreational Services	27,533
Community Development	884
Total Depreciation Expense- Governmental Activities	$ 132,029

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

Capital asset activity for Business-type Activities for the year ended June 30, 2003 is as follows (in thousands):

Business-type Activities	Balance July 1, 2002	Additions/ Transfers	Deductions/ Transfers	Balance June 30, 2003
Capital Assets Not Depreciated				
Land	$ 1,653,168	$ 97,229	$ (888)	$ 1,749,509
Construction in Progress	2,335,208	1,286,599	(838,773)	2,783,034
Total Capital Assets Not Depreciated	3,988,376	1,383,828	(839,661)	4,532,543
Capital Assets Depreciated				
Buildings, Facilities and Equipment	19,411,623	1,002,892	(79,424)	20,335,091
Leased Property and Improvements	193,848	176	--	194,024
Total Capital Assets Depreciated	19,605,471	1,003,068	(79,424)	20,529,115
Less: Accumulated Depreciation				
Buildings, Facilities and Equipment	(8,252,024)	(690,049)	90,053	(8,852,020)
Leased Property and Improvements	(69,145)	(3,940)	--	(73,085)
Total Accumulated Depreciation	(8,321,169)	(693,989)	90,053	(8,925,105)
Capital Assets Depreciated, Net	11,284,302	309,079	10,629	11,604,010
Nuclear Fuel at Amortized Cost	16,943	8,058	(11,570)	13,431
Business-type Activities Capital Assets, Net	$15,289,621	$1,700,965	$(840,602)	$16,149,984

Additions to accumulated depreciation are accounted for as follows (in thousands):

Depreciation expense charged to functions of business-type activities:	
Airports	$ 61,344
Harbor	59,365
Power	268,612
Water	91,520
Sewer	168,709
Other Enterprise Fund	12,796
Capitalized depreciation expense:	
Power	22,368
Water	9,275
Total	$ 693,989

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

The Power Enterprise Fund has direct interests in several electrical generating stations and transmission systems that are jointly owned with other utilities. Each project participant is responsible for financing its proportionate share of construction and operating costs. The following schedule shows the investment in each jointly owned utility plant as included in capital assets in the statement of net assets at June 30, 2003 (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	$ 514,284	$ 242,883
Navajo Generating Station	21.2%	477	210,205	199,063
Mohave Generating Station	10.0%	158	66,633	41,742
Pacific Intertie DC Transmission Line	40.0%	1,240	192,277	55,217
Other Transmission Systems	various	various	75,015	37,348
			$1,058,414	$ 576,253

Capital assets activity for the CRA for the year ended June 30, 2003 is as follows (in thousands):

	Balance July 1, 2002	Additions/ Transfers	Deductions/ Transfers	Balance June 30, 2003
Capital Assets Not Depreciated				
Land	$ 57,127	$ 15,468	$ (515)	$ 72,080
Capital Assets Depreciated				
Buildings and Improvements	40,375	985	--	41,360
Equipment	10,566	468	--	11,034
Total Capital Assets Depreciated	50,941	1,453	--	52,394
Less – Accumulated Depreciation	(16,440)	(1,508)	--	(17,948)
Capital Assets Depreciated, Net	34,501	(55)	--	34,446
Total Capital Assets, Net	$ 91,628	$ 15,413	$ (515)	$ 106,526

The CRA allocated the depreciation expense of $1.5 million to its various projects.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

F. Interfund Receivables, Payables, and Transfers

The following tables are summaries of the City's interfund balances at June 30, 2003 (in thousands):

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Proposition A Local Transit Assistance	$ 394
	Recreation and Parks	25
	Community Development	2,330
	Seismic Bond Reimbursement	4,077
	Other Governmental Funds	14,911
	Power	29,000
	Other Enterprise Fund	1,079
	Agency Funds	138
		51,954
Proposition A Local Transit Assistance	General	119
Recreation and Parks	Other Governmental Funds	3,351
Special Gas Tax Street Improvement	General	1,739
	Seismic Bond Reimbursement	1,027
		2,766
Community Development	General	39
Other Governmental Funds	General	12,383
	Recreation and Parks	15
	Community Development	346
	Seismic Bond Reimbursement	540
	Other Governmental Funds	6,999
		20,283
Harbor	General	3,516
Water	Power	67,447
Agency Funds	Other Governmental Funds	111
Total		$ 149,586

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 receivable from the Power Enterprise Fund is related to transfers in accordance with budgetary authorizations.

The payable balance of the General Fund to the Harbor Enterprise Fund is related to the current portion of a litigation settlement. The payable balance of the Power Enterprise Fund to the Water Enterprise Fund is related to outstanding costs of certain administrative functions shared by the funds.

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	7,213
	Other Enterprise Fund	7
		10,450
Proposition A Local Transit Assistance	Other Governmental Funds	6,898
Recreation and Parks	Other Governmental Funds	827
Other Governmental Funds	Community Development	1,447
	Other Governmental Funds	30,693
		32,140
Harbor	General	51,511
Sewer	General	487
	Other Governmental Funds	3,034
		3,521
Agency Funds	Recreation and Parks	7,000
	Other Governmental Funds	5,621
		12,621
Total		$ 117,968

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 Special Revenue	$ 9,377
	Other Governmental Funds	4,969
	Power	185,358
	Water	27,523
		227,227
Proposition A Local Transit Assistance	General	3
	Other Governmental Funds	34
		37
Recreation and Parks	General	110,167
	Other Governmental Funds	484
		110,651
Special Gas Tax Street Improvement	Other Governmental Funds	467
Community Development	Other Governmental Funds	9,665
MICLA Special Revenue	General	342

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

Transfers In	Transfers Out	Amount
MICLA Debt Service	General	$ 54,174
	MICLA Special Revenue	5,544
	Other Governmental Funds	40,427
		100,145
Other Governmental Funds	General	210,054
	Proposition A Local Transit Assistance	3,039
	Recreation and Parks	364
	Community Development	3,126
	MICLA Debt Service	301
	Other Governmental Funds	45,539
	Other Enterprise Funds	55
		262,478
Other Enterprise Fund	General	1,000
Total		$ 712,012

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.

G. Accounts Payable and Accrued Expenses

The primary government's accounts payable and accrued expenses at June 30, 2003 is broken down as follows (in thousands):

	Governmental Activities	Business-type Activities
Accounts, Contracts and Retainage Payable	$ 130,637	$ 420,721
Accrued Salaries and Overtime Payable	106,249	50,147
Intergovernmental Payable	19,703	--
Other Current Liabilities	--	24,208
Total	$ 256,589	$ 495,076

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

H. 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, 2003 are as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	$ 765,535	$ 341,255	$ (128,670)	$ 978,120	$ 66,730
Judgment Obligation Bonds	74,770	--	(33,320)	41,450	6,655
Notes Payable	92	--	(92)	--	--
Certificates of Participation and Lease Revenue Bonds	1,477,890	671,405*	(594,671)	1,554,624	103,888
Special Assessments and Revenue Bonds	187,510	107,085	(4,130)	290,465	6,435
Loans Payable to HUD	105,223	2,095	(2,817)	104,501	2,282
Total Bonds, Notes and Loans	2,611,020	1,121,840	(763,700)	2,969,160	185,990
Compensated Absences	309,676	22,042	(35,188)	296,530	30,647
Claims and Judgments	1,231,192	225,931	(187,871)	1,269,252	236,224
Landfill Liability	49,275	--	(3,262)	46,013	4,079
Governmental Activities Long-term Liabilities	$4,201,163	$1,369,813	$ (990,021)	$4,580,955	$ 456,940

* Includes $17.18 million adjustment as discussed on page 101.

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, 2003	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	230,145	302,503
March 2002	Emergency Operations, Fire, Dispatch and Police Facilities	600,000	155,775	444,225
Total		$2,023,948	$ 1,277,220	$ 746,728

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

The GO bonds outstanding as of June 30, 2003 and the original amounts issued are as follows (in thousands):

	Final Maturity	Interest Rates	Original Amount	Outstanding Balance
Series 1993-A	9/01/13	4.50% - 7.50%	$ 147,000	$ 22,050
Series 1993-B, Refunding	9/01/08	4.50% - 7.50%	31,320	29,135
Series 1993-C, Refunding	9/01/11	4.60% - 7.60%	49,240	45,900
Series 1994-A	9/01/14	4.75% - 7.50%	110,700	11,070
Series 1995-A	9/01/15	4.20% - 6.50%	229,970	11,500
Series 1998-A, Refunding	9/01/15	4.00% - 5.25%	119,990	102,180
Series 1999-A, Refunding	9/01/14	3.00% - 4.70%	97,320	94,020
Series 1999-B	9/01/19	4.75% - 6.00%	60,000	36,000
Series 2000-A	9/01/20	4.125% - 5.50%	88,330	65,080
Series 2000-B, Refunding	9/01/06	4.00% - 5.00%	49,440	48,835
Series 2001-A	9/01/21	4.00% - 5.00%	201,290	171,095
Series 2002-A	9/01/22	2.50% - 5.25%	262,200	262,200
Series 2002-B, Refunding	9/01/14	2.00% - 5.00%	79,055	79,055
Total			$ 1,525,855	$ 978,120

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, 2003, 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	$ 12,755
Series 2000-A	4/01/10	4.25% - 5.25%	25,000	17,500
Series 2000-B	8/01/10	4.00% - 5.00%	13,995	11,195
Total			$ 63,995	$ 41,450

Notes Payable

The notes were issued for the purchase of a property that was developed into a parking facility. The notes, which were originally issued for $2.75 million, matured in September 2002 and carried an interest rate of 11%.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

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.

During fiscal year 2003, MICLA issuances are as follows: (a) Program AU for $70.7 million- to finance the acquisition and installation of certain equipment and the acquisition of certain real property; (b) Program T3 for $42.4 million- to finance the acquisition of and improvements to certain real property; (c) Program AV for $43.3 million to current refund certain certificates of participation and revenue bonds with an aggregate outstanding balance of $42.2 million; and (d) Project AW for $36.2 million- to finance the acquisition of an office building complex and to finance the design costs for a City police headquarters.

Included in the additions for certificates of participation and lease revenue bonds is an adjustment to restore $17.2 million outstanding bonds that were subject to a crossover refunding. Until the crossover date of September 1, 2007, both the refunding and the refunded bonds will remain as long-term debt.

The aggregate outstanding balance at June 30, 2003 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	2.90% - 7.25%	$ 1,391,015	$ 981,330

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

The Convention Center lease revenue bonds outstanding at June 30, 2003, and the original amounts issued are as follows (in thousands):

	Final Maturity	Interest Rates	Original Amount	Outstanding Balance
1990 Series	8/15/21	6.200% - 7.100%	$ 202,030	$ 17,383
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	43,166
2003 Series A, Refunding	8/15/15	2.000% - 5.000%	226,045	226,045
2003 Series B through F, Refunding	8/15/21	variable	235,520	235,520
Total			$ 1,213,045	$ 573,294

In May 2003, the City issued $226 million fixed rate and $235.5 million variable rate lease revenue refunding bonds to pay at maturity or current refund outstanding Convention Center lease revenue bonds with a par value totaling $452.5 million.

The variable rate refunding bonds of $235.5 million accrue interest at the Initial Interest Rate from the date of delivery to and including June 15, 2004 (2.903% - 2.908%). There is no optional right to tender the bonds during the Initial Interest Rate period. On June 16, 2004, the bonds will be subject to mandatory tender and unless the City directs in writing, the bonds will accrue interest based on the Weekly Rate Mode. 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 liquidity facility agreement expires on June 4, 2008, unless extended or terminated.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

Special Assessment and Revenue Bonds

In July 2002, the City issued $19.6 million special assessment bonds bringing the total special assessments debt issuances to $44.3 million as of June 30, 2003. The bonds were issued to finance the acquisition and construction of, and improvements to certain park, recreation and community facilities owned by the City. The bonds carry interest rates ranging from 3.75% to 7.00% and mature through March 2022. At June 30, 2003, the outstanding special assessments bonds were $38.4 million. 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.

In February 2003, the City issued $39.6 million parking system revenue bonds to reimburse a fund for the cost of acquisition of a parking lot. As of June 30, 2003, the total parking revenue bond issuances amounted to $120.6 million with an outstanding balance of $117.6 million. The bonds are payable from and secured by a pledge of the parking revenues generated from parking facilities owned by the City. The bonds carry interest rates ranging from 2.00% to 5.25% with final maturity date of May 2029.

In April 2003, the City issued $47.8 million sanitation equipment charge revenue bonds. As of June 30, 2003, the total sanitation charge revenue bond issuances amounted to $134.5 million. The bonds were issued to finance the acquisition and construction of certain equipment and facilities for the refuse collection and disposal system of the City. The total amount issued is outstanding at June 30, 2003. The bonds carry interest rates ranging from 3.625% to 5.25 % with final maturity date of February 2020.

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
2004	$ 183,708	$ 125,414	$ 309,122
2005	198,578	125,080	323,658
2006	194,998	119,047	314,045
2007	198,280	100,929	299,209
2008	213,970	92,195	306,165
2009 – 2013	789,090	341,308	1,130,398
2014 – 2018	560,210	185,413	745,623
2019 – 2023	414,590	73,722	488,312
2024 – 2028	86,350	20,075	106,425
2029 – 2033	24,885	2,924	27,809
	2,864,659	1,186,107	4,050,766
Net Unamortized Premium/ (Discounts and Deferred Charges)	(9,181)	--	(9,181)
Total	$2,855,478	$1,186,107	$4,041,585

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

Interest requirements include those of the Convention Center variable rate refunding bonds using the 2.903% - 2.908% initial interest rate.

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):

Fiscal Year	Principal	Interest	Total
2004	$ 2,282	$ 5,731	$ 8,013
2005	4,343	5,534	9,877
2006	2,423	5,331	7,754
2007	2,563	5,184	7,747
2008	9,613	4,828	14,441
2009 – 2013	41,405	16,073	57,478
2014 – 2018	31,432	4,634	36,066
2019	10,440	4,190	14,630
Total	$104,501	$ 51,505	$156,006

The interest rates on the above loans range from 2.92% to 7.21% and have maturity dates through 2019.

Business-type Activities

Changes in Long-term Liabilities

The changes in the business-type activities long-term liabilities for the year ended June 30, 2003 are as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Airports Revenue Bonds and Notes, Net	$ 341,542	$ 228,864	$ (133,784)	$ 436,622	$ 25,525
Harbor Revenue Bonds and Notes, Net	890,116	388,233	(426,346)	852,003	20,503
Power Services Revenue Bonds and Notes, Net	3,413,588	464,655	(482,975)	3,395,268	163,180
Water Services Revenue Bonds and Notes, Net	1,045,551	516,480	(217,209)	1,344,822	47,632
Wastewater System Revenue Bonds and Notes, Net	2,033,780	835,279	(571,739)	2,297,320	331,530
Total Revenue Bonds and Notes, Net	7,724,577	2,433,511	(1,832,053)	8,326,035	588,370
Capital Lease Obligations	124,554	–	(69,108)	55,446	798
Compensated Absences	87,354	85,547	(72,271)	100,630	78,013
Claims and Judgments	128,018	13,876	(21,105)	120,789	12,767
Business-type Activities Long-term Liabilities	$ 8,064,503	$ 2,532,934	$ (1,994,537)	$ 8,602,900	$ 679,948

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

New Issuances

The Airports issued the following revenue bonds in fiscal year 2003: $32.5 million and $57.4 million in December 2002, $23.7 million in February 2003 to finance capital improvements, and $103.6 million in May 2003 to advance refund a portion of a prior revenue bond issue. These bonds are payable from and secured by a pledge of the Airports revenues. The $57.4 million and $23.7 million bonds are also secured by an irrevocable direct pay letter of credit from a consortium of certain financial institutions.

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. The Harbor intends to refinance the commercial paper on a long-term basis by uninterrupted renewal of the commercial paper and future issuance of revenue bonds. Rates varied on the commercial paper from 0.80% to 1.65% during the fiscal year ended June 30, 2003. Due dates also vary but normally less than 270 days from the issue dates. As of June 30, 2003, the Harbor's commercial paper outstanding was $92 million.

In August 2002, the Power Enterprise Fund issued $388.5 million variable rate bonds for the purpose of defeasing outstanding commercial paper. The net proceeds from the issuance were deposited into a trust and were used to secure the new bonds until September 2002 at which time the commercial paper was paid. In November 2002, the Power Enterprise Fund issued $14 million fixed rate mini bonds to be used for distribution system capital improvements.

In January 2003, the Water Enterprise Fund issued $300 million fixed rate bonds to be used for water system capital improvements. In March 2003, an additional $202 million fixed rate refunding bonds were issued to refund outstanding revenue bonds issued in 1993.

Wastewater revenue bonds and commercial paper notes amounting to $569.8 million and $300 million, respectively, were issued during the year. The bonds are refunding issues while the proceeds of the commercial paper notes were issued as a means of interim financing for the construction of sewer facilities.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

Outstanding Balances

The business-type activities outstanding revenue bonds and notes at June 30, 2003, and the original amounts issued are as follows (in thousands):

	Final Maturity	Interest Rates	Original Amount	Outstanding Balance
Airports				
Fixed rate revenue bonds	2026	3.500% - 8.380%	$ 706,105	$ 411,465
Commercial paper notes	–	variable	15,500	15,500
Subtotal			721,605	426,965
Harbor				
Fixed rate revenue bonds	2027	4.875% - 6.625%	964,625	758,215
Commercial paper notes	–	0.800% - 1.650%	92,002	92,002
Notes payable	2015	4.500% - 5.500%	9,887	9,887
Subtotal			1,066,514	860,104
Power				
Fixed rate revenue bonds	2032	4.375% - 5.945%	2,929,430	2,443,180
Variable rate revenue bonds	2036	variable	1,009,100	1,009,100
Subtotal			3,938,530	3,452,280
Water				
Fixed rate revenue bonds	2044	4.014% - 5.202%	1,056,635	1,053,153
Variable rate revenue bonds	2036	variable	325,000	325,000
Loans payable	2022	2.320%	13,252	13,252
Subtotal			1,394,887	1,391,405
Sewer				
Fixed rate revenue bonds	2033	3.600% - 8.700%	1,845,660	1,741,165
Variable rate revenue bonds	2031	variable	308,600	307,900
Commercial paper notes	–	0.800% - 1.200%	300,000	299,800
Subtotal			2,454,260	2,348,865
Total			$ 9,575,796	8,479,619
Less: Unamortized deferred charges and discounts/ premiums				(153,584)
Net Revenue Bonds and Notes				$ 8,326,035

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

The Airports variable rate commercial paper notes of $15.5 million currently bear interest at a market rate not to exceed 12% per annum. During the year the actual average interest rate was 1.13%. The Airports implemented a commercial paper program to finance a portion of the Airports' short-term borrowing needs as well as pay all of the principal of and interest on the notes when due. The program authorization is $300 million. The commercial paper notes are secured by an irrevocable direct pay letter of credit in the amount of $163.5 million from a consortium of certain financial institutions.

The Power and Water Enterprise Funds' variable rate bonds currently bear interest at daily and weekly rates ranging from 0.97% to 1.05%, and 0.85% to 1.05%, respectively, as of June 30, 2003. 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. DWP has entered into Standby Agreements with a syndicate of commercial banks in an initial amount of $620.6 million and $388.5 million for Power, and $325 million for Water to provide liquidity for these bonds. The extended Standby Agreements expire in February 2004 (for the $620.6 million) and August 2004 (for the $388.5 million) for Power, and in March 2004 and November 2004 for Water. 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 were tendered and purchased by the commercial banks under the Standby Agreements has been included in the current portion of long-term debt and was $100.9 million for Power and $32.5 million for Water as of June 30, 2003.

The Wastewater System variable rate revenue bonds initially carried interest in the Long Mode at the Long Rate, which was 2.15%, and was paid on October 31, 2002, the final date of the initial Long Mode. The interest thereafter automatically converted to the Weekly Mode (1.25% as of June 30, 2003) and the bonds are no longer subject to mandatory tender. Long Mode and Weekly Mode are defined as the mode in which the interest rate payable is adjusted at the intervals determined by the applicable remarketing agent.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

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
2004	$ 454,960	$ 353,364	$ 808,324
2005	170,253	342,923	513,176
2006	164,831	334,144	498,975
2007	156,873	326,133	483,006
2008	137,055	319,361	456,416
2009 – 2013	1,027,970	1,458,225	2,486,195
2014 – 2018	1,195,539	1,153,417	2,348,956
2019 – 2023	1,560,406	823,268	2,383,674
2024 – 2028	1,380,115	458,059	1,838,174
2029 – 2033	1,144,765	225,447	1,370,212
2034 – 2038	544,365	130,983	675,348
2039 – 2043	255,180	63,055	318,235
2044	179,805	--	179,805
Total	8,372,117	5,988,379	14,360,496
Less: Unamortized Discounts/ Premiums and Deferred Charges	(153,584)	--	(153,584)
Net	$ 8,218,533	$ 5,988,379	$ 14,206,912

The above schedule does not include the debt service requirements for the Airports' $15.5 million and the Harbor's $92 million commercial paper notes. The Airports and the Harbor intend to refinance the notes on a long-term basis by uninterrupted renewal of the commercial paper and/or issuance of revenue bonds.

The schedule of maturities for fiscal year 2004 exclude $100.9 million and $32.5 million in variable rate bonds for the Power and Water Funds, respectively, that were classified as short term for reporting purposes as described earlier.

Interest requirements include those of the variable rate debt using the average variable debt interest rate in effect as of June 30, 2003 as follows: Power Services Variable Rate Bonds- 1.01%, Water Services Variable Rate Bonds- 0.997%, and Wastewater System Variable Rate Refunding Bonds- 1.25%.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

Fiduciary Funds

The notes payable of the Fire and Police Pension System are secured by real estate. Interest rates range from 2.82% to 8.26%. The debt service payments to maturity for these notes are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2004	$ 2,571	$ 9,786	$ 12,357
2005	58,433	9,574	68,007
2006	15,555	9,039	24,594
2007	14,952	7,165	22,117
2008	15,773	6,605	22,378
2009 – 2013	66,770	14,457	81,227
2014 – 2018	5,818	11,989	17,807
2019 – 2023	8,383	9,424	17,807
2024 – 2028	13,537	5,718	19,255
2029 – 2032	7,526	1,183	8,709
Total	$ 209,318	$ 84,940	$ 294,258

Component Unit

At June 30, 2003 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	2032	2.625% - 9.750%	$501,501	$ 445,889
Variable Rate	2018	variable	80,000	50,000
Project Notes				
Fixed Rate	2009	8.000% - 8.750%	1,098	825
Variable Rate	2003	variable	10,000	6,444
No fixed term	–	0.00% - 10.000%	3,418	3,350
Parking System Revenue Bonds and Notes	2032	4.60% - 10.000%	46,258	46,258
Total			$642,275	552,766
Unamortized Discount				(2,628)
Amount due within one year				(15,012)
Amount due in more than one year				$ 535,126
Loans Payable to Primary Government				
Community Development Block Grant Loans	–	–	$ 50,671	$ 50,671
CDBG 20-year and Float Loans	2021	3.000% - 5.000%	25,379	25,379
Total			$ 76,050	$ 76,050

The interest rate on the outstanding variable tax allocation bonds of $50 million is determined by the remarketing agent pursuant to the bond indenture agreement (1.95% as of June 30, 2003). The interest rate on the outstanding variable rate project note of $6.4 million is determined by using the bank's prime rate plus 100 basis points or the LIBOR rate plus 225 basis points pursuant to the revolving loan agreement (3.79% as of June 30, 2003).

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

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
2004	$ 15,012	$ 30,950	$ 45,962
2005	16,001	29,473	45,474
2006	19,418	29,064	48,482
2007	14,103	27,918	42,021
2008	14,454	27,097	41,551
2009 - 2013	99,173	122,229	221,402
2014 - 2018	94,946	92,718	187,664
2019 - 2023	157,337	59,426	216,763
2024 - 2028	105,308	29,223	134,531
2029 - 2033	42,343	5,268	47,611
2034 - 2038	50,721	--	50,721
Total	628,816	453,366	1,082,182
Unamortized Discount	(2,628)	--	(2,628)
Net	$ 626,188	$ 453,366	$ 1,079,554

Interest requirements include those of the variable rate bonds and notes using the variable debt interest rate in effect as of June 30, 2003 of 1.95% and 3.79%, respectively.

I. Tax and Revenue Anticipation Notes

During the 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 contribution to the Fire and Police Pension Fund 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 fund from this early payment is used to discount the required City contribution without reducing the pension fund's annual receipts.

Short–term debt activity for the fiscal year ended June 30, 2003 was as follows (in thousands):

	Beginning Balance	Issued	Redeemed	Ending Balance
Tax and Revenue Anticipation Notes	$ –	$332,600	$ (332,600)	$ --

J. Interest Rate Swaps

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.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

Terms, fair values, and credit risks. The terms, including the fair values and credit ratings of the outstanding swaps as of June 30, 2003 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
$ 117,760	06/01/04	2.9030%	65% of LIBOR	$ 1,219	August 2021	Aaa/AAA/AAA
117,760	06/01/04	2.9075%	65% of LIBOR	1,163	August 2021	Aa3/AA-/AA-
$ 235,520				$ 2,382		

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 have risen since the date the swaps were entered into, the swaps have a positive fair value as of June 30, 2003. 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, 2003. Should the counterparties to these transactions fail to perform according to the terms of the swap contracts, the City faced a maximum possible loss equivalent to the swaps' aggregate fair value of $2.4 million. 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, and/or AA- of Standard & Poor's and Fitch Ratings. Collateral would be posted with a third-party custodian.

Basis risk. The City is exposed to basis risk on the swaps after June 1, 2004 when the relationship between LIBOR and the actual rates on the associated variable rate bonds converge. Should the rates move to convergence, the expected cost savings may not be realized. As of June 30, 2003, the variable bond rate was 0.86% while 65 percent of the LIBOR was 0.728%.

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 that payment.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

Swap payments and associated debt. Using rates as of June 30, 2003, net swap payments and debt service requirements of the associated variable-rate debt are as follows (in thousands):

Fiscal Year	Variable-Rate Bonds Principal	Variable-Rate Bonds Interest	Interest Rate Swaps, Net	Total
2004	$ --	$ 2,096	$ --	$ 2,096
2005	--	2,025	4,615	6,640
2006	--	2,025	6,998	9,023
2007	--	2,025	6,998	9,023
2008	--	2,026	6,998	9,024
2009-2013	--	10,127	34,991	45,118
2014-2018	73,850	9,815	33,910	117,575
2019-2022	161,670	3,346	11,578	176,594
Total	$ 235,520	$ 33,485	$ 106,088	$ 375,093

As rates vary, variable-rate bond interest payments and net swap payments will vary.

K. Power Enterprise Fund Derivative Instruments

As a result of the change in election under GASB Statement No. 20, the Power Enterprise Fund no longer records its derivative instruments at fair value in the statement of net assets. The Power Enterprise Fund has four main types of derivative instruments as of June 30, 2003: electricity forward contracts, electricity swaps, electricity option and swaption contracts, and gas forward contracts.

Objective of electricity forward contracts. DWP routinely enters into electricity forward contracts to manage its requirements to service its electric customers. Forward contracts to buy or sell energy scheduled for delivery in future periods generally qualify as derivative instruments as described in GASB Technical Bulletin 2003-1, "*Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets,*" (GTB 2003-1).

Objective of electricity swaps, options and swaptions. 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, 2003, the Power Enterprise Fund has recorded $1.3 million of deferred option revenue relating to options and swaptions entered into prior to the fiscal year end.

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. DWP does not routinely enter into sale or swap transactions for gas. Through fiscal year 2003, all gas transactions entered into by DWP were physical transactions.

Certain of the derivatives described above qualify as an exception provided under GTB 2003-1 for activities that are considered normal purchases and normal sales. These transactions are excluded from the scope of GTB 2003-1.

Terms, fair value, and credit risks. As of June 30, 2003, 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 *	110,451 MW	$ 59.00 - $ 70.25	7/1/03	9/30/03	$ (219)	$ –
Sales *	110,451 MW	63.60 - 78.00	7/1/03	9/30/03	71	82
Electricity Swaption Contract	30,800 MW	78.00	7/1/03	9/30/03	242	601
Electricity Option Contracts						
Sales **	87,640 MW	76.49 - 95.00	7/1/03	9/30/03	2,963	937
Gas Contract ***	49,500,000 MMBtu	3.76 - 5.18	3/15/91	3/15/06	(2,736)	–

* The swap contracts include one contract with a price partially dependent on the SoCal Border Daily Gas Index, which averaged $5.10 per MMBtu (Million British Thermal Units) as of June 30, 2003 for the forward period of July 1, 2003 – September 30, 2003.

** The electricity option contracts include one contract with a price that is dependent on the SoCal Border Daily Gas Index, which averaged $5.10 per MMBtu as of June 30, 2003 for the forward period of July 1, 2003 – September 30, 2003.

*** The gas contract quantities represent the contract maximum of 50,000 MMBtu per day. Contract prices are based in part on Gas Price Indices, including Henry Hub and Kern River Prices.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

Fair value. As a result of forward wholesale electricity prices being in excess of contract prices as of June 30, 2003, all of the Power Enterprise Fund's electric sale derivative contracts generally had positive fair values, and the electric purchase derivative contracts generally had negative fair values. All fair values were estimated using forward market prices available from broker quotes or exchange prices in the case of the gas contract.

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 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. During fiscal year 2001, the Power Enterprise Fund experienced nonperformance and material counterparty default with the California Independent System Operator (CISO) 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, 2003. The Power Enterprise Fund did not experience any material counterparty default during fiscal year 2003.

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.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

L. Current and Advance Refunding of Debt

Governmental Activities

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. (Amounts in thousands.)

Refunding Debt	Refunded Debt	Cash Flow Savings	Economic Gain
GOB Refunding Series 2002-B $79,055 2.0% - 5.0%	GOB Series 1993-A $22,050 5.00% - 5.25% GOB Series 1999-B $15,000 5.00% - 5.25% GOB Series 2000-A $18,600 4.50% - 5.00% GOB Series 2001-A $20,130 5.00%	$ 3,045	$ 2,391
MICLA Program AV Refunding Revenue Bonds $43,330 3.00% - 5.25%	MICLA Program R Refunding Revenue Bonds $53,080 4.75% - 7.75%	3,343	3,326
Convention Center Lease Revenue Refunding Bonds, Series 2003-A $226,045 2.00% - 5.00% Convention Center Variable Rate Lease Revenue Refunding Bonds Series 2003-B through 2003-F $235,520	Convention Center Lease Revenue Refunding Bonds Series 1993-A $452,485 4.700% - 5.375%	102,755 (Note: The above cash flow savings and economic gain were computed based on an assumed variable rate of 0.97% during the initial variable rate period, date of delivery through 6/15/04, and an assumed variable rate of 3.23% after the initial period.)	71,445

The above debt refunding transactions resulted in a net loss for accounting purposes of $9 million, which is deferred and amortized through 2021. They also represent in-substance defeasance such that the refunded debts were removed from the accompanying financial statements.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

Business-type Activities

Airports Enterprise Fund

The Airports issued the $103.6 million 2003 Series B Revenue Bonds on May 7, 2003 to advance refund a portion of its 1995 Revenue Bonds. The refunding resulted in cash flows difference between the old debt and the new debt of $0.8 million with an economic gain of $3.9 million.

Power Enterprise Fund

In August 2002, DWP issued $388.5 million Power Services variable rate bonds for the purpose of defeasing outstanding commercial paper. The net proceeds from the issuance were deposited into a trust and were used to secure the new bonds until September 2002, at which time the commercial paper was paid. The defeasance is not expected to reduce total debt payments over the life of the new issues nor to result in present value savings. The purpose of this defeasance was to bring the variable rate bonds under DWP's new Master Bond Resolution.

In July 2000, DWP deposited $32 million into a trust established for the purpose of making future debt service payments on specified revenue bonds with a par value of $35 million. The final maturity of the related revenue bonds is 2031. The escrow balance was $34.3 million stated at fair value as of June 30, 2003. Interest expense from refunding bonds and interest earned on related escrow investments are included in investment income.

Water Enterprise Fund

In March 2003, DWP issued $202 million Water Services fixed rate bonds to refund outstanding bonds issued in 1993. Based on interest cost of 4.0% for the fixed rate bonds, the defeasance is expected to decrease total debt payments over the life of the new issues by approximately $15 million and is expected to result in present value savings of approximately $10 million. These transactions resulted in a net loss for accounting purposes of $15 million which was deferred and will be amortized through 2030.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

Sewer Enterprise Fund

During the year, the Sewer Enterprise Fund issued $569.8 million fixed rate bonds to current refund outstanding bonds with a par value of $503.2 million and commercial paper revenue notes of $50.2 million. The Fund deposited the $563.3 million net proceeds of the refunding bonds plus an additional $13.2 million in an irrevocable escrow account to be used solely for satisfying scheduled principal, interest and call premiums on the refunded bonds and notes. The current refunding represents an in-substance defeasance such that the refunded debt was removed from the accompanying financial statements. These transactions resulted in a net loss for accounting purposes of $27.7 million, which is deferred and amortized through 2023. The current refunding increased aggregate future debt service payments by $118.3 million and resulted in an economic gain of $43.1 million.

Community Redevelopment Agency

During the year, the CRA used a portion of the proceeds of a certain refunding bond issue to purchase $1.5 million U.S. government securities that were deposited in an irrevocable escrow account to provide debt service payments on outstanding bonds with a par value of $1.3 million. The transaction resulted in the defeasance of the old debt and although it resulted in an economic loss of $0.1 million, the defeasance removed certain restrictions in the issuance of tax increment-supported debt in the project area.

M. 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, 2003, the following bonds and certificates of participation are considered defeased (in thousands):

	Outstanding Balance June 30, 2003
Governmental Activities	
General Obligation Bonds	$ 305,850
Los Angeles Convention and Exhibition Authority Certificates of Participation	702,155
Public Facilities Corporation Leasehold Mortgage Bonds	21,300
Total	$ 1,029,305

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

Business-type Activities	
Harbor Revenue Bonds	$ 105,815
Power Revenue Bonds	729,590
Water Revenue Bonds	193,750
Wastewater System Revenue Bonds	8,150
Total	$ 1,037,305
Component Unit	
Community Redevelopment Agency	$ 88,290

N. Leases

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, 2003 were approximately $31.9 million. The future lease payments under noncancelable operating lease agreements are as follows (in thousands):

Fiscal Year Ending June 30	
2004	$ 15,287
2005	13,778
2006	11,221
2007	9,765
2008	6,942
2009 – 2013	14,697
2014 – 2018	1,140
2019 – 2023	160
2024 – 2027	157
Total	$ 73,147

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.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

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 has made rental payments during fiscal year ended June 30, 2003. 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.

Enterprise Funds

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, 2003, was $184.4 million. Accumulated depreciation with respect to such property at June 30, 2003, was $73.1 million.

Estimated future minimum lease payments under these agreements are as follows (in thousands):

Fiscal Year Ending June 30:	
2004	$ 2,852
2005	2,880
2006	2,905
2007	2,985
2008	3,061
2009 – 2013	16,257
2014 – 2018	18,883
2019 – 2023	23,004
2024 – 2027	14,397
Total minimum lease payments	87,224
Less – Portion representing interest	(31,778)
Present value of minimum lease payments	$ 55,446

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

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, 2003, revenues from such agreements aggregated approximately $195.5 million.

The property on lease at June 30, 2003 consists of the following (in thousands):

Wharves and sheds	$ 439,621
Cranes/bulk facilities	63,818
Municipal warehouses	11,606
Port pilot facilities and equipment	5,111
Buildings and other facilities	462,449
Cabrillo Marina	35,430
Total	1,018,035
Less – Accumulated Depreciation	(479,726)
Net	$ 538,309

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:	
2004	$ 209,707
2005	210,693
2006	211,454
2007	211,670
2008	212,461
Total	$1,055,985

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

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 2004 are approximately $2 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.

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, 2003 were $0.7 million. Future minimum lease payments under the agreement are as follows (in thousands):

Fiscal Year Ending June 30:	
2004	$ 809
2005	820
2006	834
2007	956
2008	976
2009 – 2011	3,102
Total	$ 7,497

Community Redevelopment Agency

The CRA leases office spaces under operating lease agreements that expire through 2019. Lease payments for the fiscal year ended June 30, 2003 were $1.5 million. Future minimum lease payments under the agreements are as follows (in thousands):

Fiscal Year Ending June 30:	
2004	$ 1,616
2005	1,546
2006	1,364
2007	1,283
2008	1,219
2009 – 2013	2,844
2014 - 2018	676
2019	135
Total	$ 10,683

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

O. Risk Management - Estimated Claims and Judgments Payable

Government 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.

As of June 30, 2003, 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 liability to be probable of occurring as of June 30, 2003 at approximately $438.7 million. Of this amount, approximately $97.7 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 $197.2 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, 2003.

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, 2003, the City estimates its workers' compensation liability at $830.5 million. Of this amount, $138.5 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 2003-04 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 $120.8 million consists of $63.7 million long-term litigation-type claims and $57.1 million workers' compensation liability. The amount estimated to be payable in the next fiscal year is approximately $12.8 million.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

Claim Changes

The changes in the City's total estimated claims and judgments liability are as follows (in thousands):

	2003	2002
Unpaid claims, July 1	$1,359,210	$ 867,465
Provision for current year's events and changes in provision for prior years' events	239,807	688,627
Claims payments	(208,976)	(196,882)
Unpaid claims, June 30	$1,390,041	$1,359,210

P. 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, 2003, the City's liability of $46 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, 2003, investments of $8.3 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 4 – DETAILED NOTES ON ALL FUNDS (Continued)

Q. Restatement of Beginning Fund Balance and Net Assets

For the fiscal year ended June 30, 2003, the City restated the previously reported fund balance of the MICLA Debt Service Fund as follows (in thousands):

Fund balance, July 1, 2002, as previously reported	$ 125,539
Adjustment to record deposit made to refunded bond escrow agent for the crossover refunding of certain MICLA bonds. Until the crossover date of September 1, 2007, the amount deposited as well as the outstanding amount of the refunded debt will remain in the Fund's balance sheet.	17,904
Fund balance, July 1, 2002, as restated	$ 143,443

As discussed in Note1D on page 63, the Power and Water Enterprise Funds changed their election under the guidance in GASB Statement No. 20 to follow GASB statements and only FASB statements and interpretation issued prior to December 1, 1989. The impact of this change was on the previously reported net assets of the Power Enterprise Fund. Also, the Sewer Enterprise Fund made adjustments to record the cumulative effect of the retroactive recalculation of wastewater billings. These adjustments are as follows (in thousands):

	Power Enterprise Fund	Sewer Enterprise Fund	Business-type Activities
Net assets, July 1, 2002 as previously reported	$3,630,881	$1,501,217	$11,460,138
Adjustment to record the effect of the discontinuation of the application of FASB 133, *"Accounting for Derivatives and Hedging Activities,"* as a result of the change in election under GASB Statement No. 20.	(5,538)	--	(5,538)
Adjustment to record the cumulative effect of the retroactive recalculation of wastewater billings. The recalculation resulted from a universal term agreements entered into between the Sewer Fund and two of its contract agencies.	--	(23,551)	(23,551)
Net assets, July 1, 2002 as restated	$3,625,343	$1,477,666	$11,431,049

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). Each plan provides retirement, disability, death benefits, postemployment healthcare and annual cost-of-living adjustments to plan members and beneficiaries. The City Charter assigns the administration of the plans to the Board of Administration/Commissioners of each plan. Subject to Council approval, the Boards adopt and amend benefit provisions. Each plan issues a publicly available financial report that includes financial statements and required supplementary information for that plan.

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	3.84% of covered payroll	6.6% of covered payroll	8.66% 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, and 5	6% of salaries upon becoming a member on or after June 1, 1984; Prior to June 1, 1984, amount based on entry age percentage rate
Annual pension cost	$51,604	$64,134	$48,330
Contributions made	$70,923 (including City subsidy of $19,108 and death insurance cost of $211)	$64,134	$40,577
Actuarial valuation date	June 30, 2001	June 30, 2001	June 30, 2002
Actuarial cost method	Projected unit credit	Entry Age Normal	Entry Age Normal
Amortization method	Level percent supplemental cost	Level Dollar- Tiers 1 & 2 Level Percent of Payroll- Tiers 3,4,& 5	Rolling 15-year periods effective July 1, 2000
Remaining amortization period	Varies 15-30 years, closed	34 years, closed	Varies 15 years, closed
Asset valuation method	5-year market related	5-year market related	4-year smoothing
Actuarial assumptions Investment rate of return	8%	8.5%	8%
Projected salary increases	5%, higher for members with less than five years of service	5.5% to 10%	5.5%
Includes inflation rate at	4%	5%	3%
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
LACERS	6/30/01	$ 59,153	100%	$ --
	6/30/02	32,296	100%	--
	6/30/03	51,604	100%	--
Pensions	6/30/01	113,849	100%	--
	6/30/02	73,121	100%	--
	6/30/03	64,134	100%	--
DWP Retirement Plan	6/30/01	6,200	413%	165,084
	6/30/02	6,830	400%	185,503
	6/30/03	48,330	84%	177,750

The DWP Power and Water Systems' combined annual pension cost (APC) and interest on net pension obligation (NPO) (asset) consists of the following (in thousands):

Annual required contribution	$ 41,417
Interest on net pension asset	(14,107)
Adjustment to annual required contribution	21,020
APC (including $14.1 million of amounts capitalized in fiscal year 2003)	48,330
Department contributions	(40,577)
Change in NPO (asset)	7,753
NPO (asset) at beginning of year	(185,503)
NPO (asset) at end of year	($ 177,750)

Postemployment Healthcare Benefits

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 or retirement at age 70 (if it was compulsory). The medical benefits are available to an eligible spouse or domestic partner after the death of the eligible member.

NOTE 5 – OTHER INFORMATION (Continued)

The maximum medical subsidy is the rate currently paid for active City employees. 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. 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. The City's actuarially required and actual contribution for medical and dental subsidies for fiscal year ended June 30, 2003 was $26.6 million (1.89% of covered payroll).

Members of the Fire and Police Pension System who retire from the System with ten years of service are eligible for health subsidy benefits. Regular benefits begin at age fifty-five. Temporary subsidies are available to certain groups at earlier stages. The benefit paid is a percentage of a maximum subsidy for health care based on the lesser of the amount used by the LACERS and active Safety Members. Effective July 1, 2002, the maximum monthly subsidy is $563. 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, 2003, the maximum monthly dental subsidy is $38.38. The City's actuarially required and actual contribution for fiscal year ended June 30, 2003 was $33.9 million (3.5% of covered payroll).

At June 30, 2003 the total active plan participants were 26,358 for LACERS and 24,472 for Pensions. As of June 30, 2003, 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	$ 660,138	$ 677,061
Active members	545,673	249,700
Total healthcare benefits liability	1,205,811	926,761
Less - Reserve for healthcare benefits at actuarial value (Market value of $723,900 and $442,987, respectively)	(848,983)	(592,539)
Unfunded healthcare benefits liability	$ 356,828	$ 334,222

NOTE 5 – OTHER INFORMATION (Continued)

DWP provides certain health care benefits to active and retired employees and their dependents. The health plan is administered by DWP, and 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. Any changes to these provisions must be approved by the Board. DWP pays a maximum subsidy of health plan premiums. Participants choosing plans with a cost in excess of the subsidy are required to pay the difference. The total number of active and retired participants entitled to receive benefits was approximately 14,200 at June 30, 2003. The cost of providing such benefits amounted to $134 million for Power and $42 million for Water for fiscal year 2003. Of these costs, $33 million for Power and $17 million for Water were capitalized and the remainder was charged to expense.

As stated in Note 1D, the Power and Water Enterprise Funds continued to account for postretirement benefits in accordance with SFAS No. 106, "*Employers' Accounting for Postretirement Benefits Other Than Pensions*," which requires that the cost of postretirement benefits be recognized as expense over employees' service periods. The postretirement benefit costs for the Power and Water Enterprise Funds for the fiscal year ended June 30, 2003 are as follows (in thousands):

Service cost	$ 20,154
Interest cost	66,704
Expected return on plan assets	(4,014)
Amortization of transition obligation	15,142
Amortization of prior service costs	14,008
Amortization of actuarial losses	7,698
Total	$ 119,692

The funded status and the accrued benefit cost related to postretirement benefits for both Power and Water Enterprise Funds are summarized as follows (in thousands):

Change in benefit obligation:	
Benefit obligation at beginning of year	$ 941,626
Service cost	20,154
Interest cost	66,704
Actuarial losses	846,000
Benefits paid	(43,132)
Benefit obligation at end of year	1,831,352
Change in fair value of plan assets:	
Fair value of plan assets at beginning of year	81,493
Department contribution	96,000
Actual return on plan assets	7,232
Fair value of plan assets at end of year	184,725
Funded status	(1,646,627)
Unrecognized net loss	1,124,256
Unrecognized transition obligation	152,721
Unrecognized prior service cost	39,771
Accrued benefit cost	$ (329,879)

NOTE 5 – OTHER INFORMATION (Continued)

Weighted average actuarial assumptions used in determining postretirement benefit costs are as follows: Discount Rate– 5.75% and Expected Return on Plan Assets– 6.25%. Plan assets consist primarily of commercial paper, United States Government and governmental agency securities, and corporate bonds. No funding policy has been established for the future benefits to be provided under this plan. However, in fiscal year 2003, DWP made an employer contribution of $96 million.

For measurement purposes, a 10% annual rate increase in the per capita cost of covered health care benefits was assumed for 2003; the rate was assumed to decrease gradually to 5.5% in 2012 and remain at that level thereafter. For the dental plan, an 8% annual rate of increase in the per capita cost was assumed for 2003; the rate was assumed to decrease gradually to 5.5% in 2008 and remain at that level thereafter. The effect of a 1% change in these assumed health care cost trend rates would increase or decrease DWP's total benefit obligation by approximately $387 million or $298 million, respectively. In addition, such a 1% change would increase or decrease the aggregate service and interest cost components of net periodic benefit cost by approximately $13 or $10 million, respectively.

During fiscal year 2000, DWP began contributing toward dental coverage for retirees enrolled in a DWP-sponsored plan. This amendment resulted in a $46 million increase in the DWP's accumulated postretirement benefit obligation at June 30, 2000. The increase is being amortized through 2008, the remaining average service period. This change also resulted in a $12 million increase in postretirement benefit costs for fiscal year 2003.

Deferred Retirement Option Plan

Effective May 1, 2002 and through April 30, 2007, members of the Fire and Police Pension System 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 System 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, credited semi-annually. 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. At June 30, 2003, 882 pensioners were enrolled in the program and the total estimated value of the DROP accounts was $63 million.

NOTE 5 – OTHER INFORMATION (Continued)

Community Redevelopment Agency Employees Retirement System

The CRA participates in the California Public Employees Retirement System (PERS), 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 PERS serves as the CRA's investment and administrative agent with respect to the pension plan. A separate report for the CRA Plan within the PERS is not available, however, copies of PERS' 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 PERS, 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 highest salary 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 PERS 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 current rate is 0% of annual payroll. The contribution requirements of plan members and the CRA are established and may be amended by PERS.

For fiscal year 2003, the actuarial value of the assets exceeds the present value of the projected actuarial value of future benefits. As a result, the CRA's annual pension costs and required contribution is zero. The required contribution was determined as part of the June 30, 2000 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.25% investment rate of return, net of administrative expenses, (b) projected annual salary increases that vary by duration of service, and (c) 2% per year cost-of-living adjustments. Both assumption (a) and (b) included an inflation component of 3.5%. The actuarial value of PERS 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). PERS 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 is as follows:

Three-Year Trend Information (amounts in thousands):

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/01	$ --	--	$ --
6/30/02	--	--	--
6/30/03	--	--	--

NOTE 5 – OTHER INFORMATION (Continued)

In addition to the pension benefits, the CRA provides post retirement health 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 health 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. Expenditures for post-retirement benefits are recognized in the year incurred. The CRA recognized $0.3 million for the current fiscal year for 73 eligible retirees.

B. Commitments and Contingencies

Pending Lawsuits and Claims

As mentioned in Note 4O, certain pending lawsuits and claims have a reasonable possibility of resulting in additional General Fund liability totaling approximately $197.2 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, 2003.

Rampart Division Litigation

Investigations are continuing into alleged illegal activities of some police officers at the Los Angeles Police Department's Rampart Division. As of January 16, 2004, two hundred twenty four lawsuits have been served on the City so far. One hundred thirty seven cases have been resolved for approximately $43.9 million. The total estimated cases may range from 250 to 275. The City estimates the total liability for all Rampart Division cases at $125 million. The Los Angeles Police Department has announced an expansion of the corruption investigation into additional police divisions. It is possible that additional incidents of wrongdoing could be uncovered and that the potential liability of the City in connection with the investigations could increase beyond the $125 million currently estimated by the City Attorney.

Federal Consent Decree

On June 15, 2001, the City entered into a consent decree with the U.S. Department of Justice as a result of a lawsuit alleging a pattern and practice of police misconduct. It is a five-year agreement that the City is required to implement in order to avoid litigation with the Federal government. To the extent that the Court determines that the terms and conditions have not been met after the five-year term, the term may be extended. 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.

NOTE 5 – OTHER INFORMATION (Continued)

Airports Enterprise Fund

City Services Reimbursements

Two nearly identical administrative proceedings involving formal complaints were filed in March and June 1995, concerning a transfer to the City General Fund in the amount of $58 million. The complaints challenge the transfer of funds related to a condemnation award received from the State of California in connection with real estate acquired by the State for the Century Freeway Project. The complainants, the Air Transport Association of America (ATA) and Aircraft Owners and Pilots Association alleged that the transfer was in violation of the Airport and Airways Improvement Act of 1982 (AAIA) governing the use of airport revenues, and certain grant assurances executed pursuant to AAIA.

The complainants seek an order barring the City from expending the funds for non-airport uses, directing the City General Fund to repay to the Airports amounts already transferred, suspending Airports eligibility for grant funds pending compliance with its grant assurances and imposing a civil penalty of $50,000. The Federal Aviation Administration (FAA) failed to act on the complainants' request for a preliminary ruling that the City be barred from using the funds while proceedings are pending. Answers to both complaints have been filed. In December 1995, the FAA denied respondents' motion to dismiss the complaints. There has been no decision by the FAA as to whether or not to institute an investigation on the complaints or to hold full hearings.

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 owned by it. 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 he 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.

NOTE 5 – OTHER INFORMATION (Continued)

Contracting Practices

In a performance audit, the City Controller raised concerns regarding the existing contracting practices and procedures for procuring professional and personal services, concessions, construction services, purchasing, leasing, and other contracts at the Airports. The impact of those concerns, if any, on the City's basic financial statements for the period ended June 30, 2003 is not determinable at this time.

Power Enterprise Fund

Claims and a lawsuit for damages have been filed with the DWP, IPA and SCPPA seeking $100 million in special damages and like amount in general damages. The claimants allege, among other things, that due to improper grounding of the transmission line of Southern Transmission System, their dairy herds were damaged and the value of their land was diminished. The claimants also seek injunctive relief. DWP, IPA and SCPPA intend to vigorously defend the claims.

Harbor Enterprise Fund

Alameda Corridor Transportation Authority Agreement

In 1998, the Harbor and the Port of Long Beach (Ports), Alameda Corridor Transportation Authority (ACTA), and the railroads that will operate on the corridor entered into a Corridor Use and Operating Agreement (Corridor Agreement). The Corridor Agreement obligates the railroads, after completion of construction, to pay certain Use Fees and container charges that ACTA will assess for the privilege of using the corridor to transport into and out of the Ports.

The Use Fees will be used to pay for (a) the debt service which ACTA incurs on approximately $1.2 billion of bonds issued by ACTA in 1999 and on a $400 million loan which ACTA has received or will receive from the U.S. Department of Transportation (the loan may reach a balance of $900 million with accrued interest depending on the level and timing of ACTA revenues received); and (b) the cost of funding required reserves and costs associated with the financing, including credit enhancement and rebated requirements, if any. The Use Fees end after 35 years or sooner if ACTA obligations are paid off earlier.

If ACTA revenues are insufficient to pay ACTA obligations, the Corridor Agreement obligates each Port to pay 20% of the shortfall on an annual basis. If this contingency occurs, the payments to ACTA are intended to ensure that the Corridor is available to maintain continued cargo movement through the Ports. Annual shortfall payments by the Harbor to ACTA, if required, are estimated to range from $20,000 to $12.7 million per year from fiscal year 2002 through 2018. Completion of the Corridor, and therefore, the amount and timing of the Harbor's obligation to make shortfall payments, is subject to a variety of risks and contingencies.

NOTE 5 – OTHER INFORMATION (Continued)

In addition, the Corridor Agreement obligates the Harbor to pay up to $2 million per year for each of the nine years after the Corridor is substantially completed to be used for an ACTA capital and expense reserve fund if monies payable to this reserve fund by the railroads do not maintain an annual reserve fund balance of $15 million. The Corridor Agreement allows the Harbor to make certain payments to ACTA if ACTA revenues do not cover ACTA administrative expenses. The Harbor's payments to ACTA to cover such administrative expenses are estimated to range from $155,000 to $760,000 each year for the period 2002 through 2019.

Any shortfall advance made by the Harbor is reimbursable with interest subject to the priority payments ordered in the Corridor Agreement. The agreement subordinates repayment of shortfall advances to principal and interest payment on debt issued and loans received for construction of the Corridor, operating and maintenance reserve account funding, subordinate lien revenue bonds, ACTA administrative expenses, and property assembly reimbursements. The construction of the Corridor was completed in April 2002.

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 has been charged as an expense of the Harbor Enterprise Fund as of June 30, 2003. The Harbor has also set up a restricted mitigation fund and has funded the first $10 million called for in the settlement. Of this $10 million, $5 million has actually been disbursed from the fund as of June 30, 2003 to pay for the designated uses.

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. 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 2001-02, inclusive, had the reimbursement been computed during those fiscal years using the settlement formula. This amount is estimated as $8.4 million. Payment for this period is to be reimbursed to the Harbor over 15 years including 3% simple interest.

NOTE 5 – OTHER INFORMATION (Continued)

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 during the period July 1, 1977 through June 30, 2003. Accordingly, the Harbor had recorded the amount due from the City General Fund as Advances From Other Funds of $51.5 million and the current portion as Due From Other Funds of $3.5 million as of June 30, 2003.

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. The City Attorney estimates $27.5 million liability to be probable of occurring and payable in the long-term.

On November 9, 1998, the Santa Monica Baykeeper filed an action under the Federal Clean Water Act (Act) Citizen Suit Provisions for alleged violations of the Act. The suit seeks to recover approximately $539 million in damages. On December 23, 2002, a federal court found the City in violation of the Act and a trial date is set for April 2004. The Regional Water Quality Control Board has already issued a Cease and Desist Order requiring the construction of a number of sewer projects totaling approximately $600 million and an Administrative Civil Liability Penalty for the same events covered by the Baykeeper lawsuit. The City cannot estimate the potential impact of the lawsuit on the Fund at this time.

Community Redevelopment Agency

Angels Flight

On February 1, 2001, an accident occurred at the Angels Flight Funicular Railway when two cars collided. In its report, the National Transportation Safety Board cited improper design and construction of the drive system that caused the collision. The report also cited the failure of the CRA and the California Public Utilities Commission to ensure that the railway system conformed to safety design specifications and known funicular safety standards.

The CRA is a co-defendant in lawsuits resulting from the funicular accident. In addition, there are a number of cross-complaints among the defendants and their insurance carriers.

NOTE 5 – OTHER INFORMATION (Continued)

At the time of the Angels Flight accident, the CRA's primary insurance carrier, Reliance National Insurance Company (Reliance) was under liquidation. Reliance's limit of liability is $4 million per occurrence. Although the CRA has excess insurance coverage with another carrier, that carrier has taken the position that it has no responsibility to fill the gap in insurance coverage due to Reliance's liquidation. Accordingly, the CRA may be responsible to cover the insurance coverage gap, which could be reduced by amounts available from the other co-defendants' insurance.

While the total financial exposure cannot be determined at this time, CRA's portion may be reduced because of certain indemnity agreements among the co-defendants. Currently, the CRA is a participant in settlement mediations with several claimants where the collective demand is less than $4 million.

Central Business District (CBD) Tax Increment Revenues and Related Litigation

A 1977 judgment resulting from litigation challenging the CBD redevelopment plan provided that during the life of the CBD Redevelopment Project (Project), the CRA could not receive more than $750 million tax increment revenues (lifetime cap) for use in connection with the Project, or more than $75 million in any one fiscal year. Since the Project reached its lifetime cap in fiscal year 2000, redevelopment activities will be funded by non-tax increment sources through the Project's end date of July 2010.

The Project was amended in May 2002 and detached certain areas. Some of the detached areas were incorporated in the May 2002 City Center Redevelopment Project and in the November 2002 City Industrial Redevelopment Project. The County of Los Angeles and another party filed separate lawsuits challenging the amendment of the Project and the adoption of the City Center and City Industrial Redevelopment Projects. On July 28, 2003, the Superior Court ruled that the Project amendment and the adoption of the two new redevelopment projects violated the 1977 judgment. The CRA and the City filed a notice of appeal on August 21, 2003.

Commitments

As of June 30, 2003, the following Enterprise Funds have commitments for construction contracts and open purchase orders in the following amounts (in thousands):

Airports	$ 13,187
Harbor	649,198
Sewer	222,500

NOTE 5 – OTHER INFORMATION (Continued)

Other Enterprise Fund Commitments

Power Enterprise Fund

Long-term Purchased Energy and Transmission Contracts

The DWP has entered into a number of energy and transmission service contracts that involve substantial commitments scheduled to expire from 2027 to 2030 (dollars in thousands):

			DWP's Interest in Agency Share		
	Agency	Agency Share	Interest	Capacity (Megawatts)	Outstanding Principal
Intermountain Power Project	IPA	100%	66.8%	1,068	$ 1,670,100
Palo Verde Nuclear Generating Station	SCPPA	5.9%	67.0%	151	510,175
Mead-Adelanto Project	SCPPA	67.9%	35.7%	291	81,828
Mead-Phoenix Project	SCPPA	17.8%-22.4%	24.8%	148	17,883
Southern Transmission System	SCPPA	100%	59.5%	1,142	594,194

IPA: *The Intermountain Power Agency is a Utah State Agency 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.*

All these 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 $295 million in 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 $245 million annually during each of the next five years). Total payments under these contracts were approximately $546 million in fiscal year 2003.

The Power Enterprise Fund earned fees under the IPP Project Manager and Operating agreements totaling $15.8 million in fiscal year 2003.

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 $1.12 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 $615 million and $611 million, respectively. The net discount of $114 million is being amortized using the effective interest method over the lives of the bonds through 2023.

NOTE 5 – OTHER INFORMATION (Continued)

On September 7, 2000, DWP transferred another $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. The net discount of $9 million is being amortized using the effective interest method over the life of the bonds through 2017.

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.

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 $11 million in fiscal year 2003.

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 and 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.

In July 2002, a measure was signed into law designating the Yucca Mountain in the State of Nevada, as the nation's high-level nuclear waste repository. This means the DOE can now file a construction and operation plan for Yucca Mountain with the Nuclear Regulatory Commission (the NRC). The DOE expects that the Yucca Mountain site would be open by 2010, a date which many believe is highly optimistic. The State of Nevada and its congressional delegation have vowed to prevent the launch of the project through the NRC process or through legal challenges.

Disagreement over funding of the repository is ongoing. The Administration and Congressional leaders continue to push for full and adequate funding, in order for the DOE to meet the application deadline of 2004. The Nevada delegation has been working diligently to try to delay the DOE's work on the license application for the Yucca site in hopes of halting the transfer of nuclear waste to the Nevada facility.

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). In addition to the facility, the costs also account for heavy lift equipment inside the units and at the yard, railroad track, tractors, transporter, transport canister, and surveillance equipment.

NOTE 5 – OTHER INFORMATION (Continued)

The facility has the capacity to store all the spent fuel generated by the plant until 2026, the end of its lifetime. To date, five casks, each containing 24 fuel assemblies, from Unit 2 were placed in the Storage Facility. Moving of the spent fuel from Unit 1 to the Storage Facility is in progress. The current plan calls for the removal of between 240 and 288 fuel assemblies from the units to the Storage Facility every year. The costs incurred by the procurement, packing, preparation and transportation of the casks are included as part of the fuel expenses, and would cost approximately $12 million a year (about $1.2 million for Power Enterprise Fund). If the permanent repository in Yucca Mountain is opened as scheduled in 2010, the spent fuel from PVNGS will be shipped to the repository starting in 2031. 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.

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. The Act limits liability from third-party claims to over $9.5 billion per incident. Participants in the PVNGS currently insure potential claims and liability through commercial insurance with a $300 million limit; the industry-wide retrospective assessment program provided under the Act covers the remainder of the potential liability. 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.

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.

NOTE 5 – OTHER INFORMATION (Continued)

Based on DWP's significant increase in sales for resale during the spring and the early summer of 2000, DWP anticipated a potential shortfall in RTCs to provide for both its native load and demands of the California grid during the remaining months of calendar year 2000. As a result, during August 2000, DWP entered into a Settlement Agreement (Agreement) with the SCAQMD. The Agreement released DWP from any and all claims or penalties arising from the incidents that give rise to the RECLAIM violations at its local facilities through December 31, 2000. The Agreement also provides for a civil penalty of not less than $14 million. The Civil penalty must be spent within a three-year period on supplemental environmental projects agreed to by the SCAQMD and DWP.

Although DWP did not have a shortfall of RTCs at the end of calendar year 2000, DWP has continued its partnership with SCAQMD in DWP's funding of environmental projects. DWP and SCAQMD have agreed to projects in the areas of micro-turbine development and commercialization, natural gas fueling station infrastructure, tree plantings at schools, advanced fuel cell demonstration, and hybrid-electric midsize school buses.

In May 2001, SCAQMD adopted amendments to RECLAIM with the intention of lowering and stabilizing RTC prices. One key element of the amendments is that existing power plants are bifurcated from the rest of the RECLAIM market and are required to install Best Available Retrofit Control Technology (BARCT) through compliance plans. DWP's compliance plans were submitted for SCAQMD approval in August 2001. The plans demonstrate that DWP has sufficient RTCs to meet its needs for the next five years, operates its generating units using "environmental dispatch," and has installed BARCT or better on all sources of NOx emissions or will do so by January 2003. Thus DWP has established a program of installing NOx control equipment and repowering existing generating units with more efficient, cleaner equipment such that NOx emissions will be reduced 65 percent from 1999 levels.

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. These changes will improve water quality while maintaining flexibility in the water system.

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 began on the Encino project in December 2002 and the Stone Canyon Water Quality Improvement Project is scheduled to begin construction in December 2003. As of June 30, 2003, 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 $319 million and are expected to reach $539 million at completion in 2007.

NOTE 5 – OTHER INFORMATION (Continued)

Owens Valley

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 District and the City Council approved a 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 the phased implementation of the control measures.

The District incorporated the MOA into a formal air quality State Implementation Plan (SIP) that was approved by the United States Environmental Protection Agency in October 1999. The SIP will demonstrate that upon completion of work, emissions from the Owens Lake bed will be reduced so that the Owens Valley Planning Area will attain and maintain ambient air quality standards for particulate matters as required by the Federal Clean Air Act. The Clean Air Act requires that the area meet the ambient air quality standards by the end of 2006. The District is in the process of revising the SIP for the redefined 30 square miles of the lakebed area that needs to be controlled. The City has committed to complete dust control measures on 16.5 square miles by 2003 and on the additional areas delineated in the District's revised 2003 SIP.

To date, the City has completed construction and is operating dust control measures covering an area of approximately 19 square miles. Planning and design are underway for the additional 11 square miles. The control measures that the District has certified as Best Available Control Measures for Owens Lake are: shallow flooding, managed vegetation, and gravel.

As of June 30, 2003, DWP has incurred capital costs of approximately $212 million associated with the Owens Dry Lake project. Based on the anticipated 2003 SIP, DWP management estimates that the total capital related costs of implementing the pollution control measures through 2006 will be approximately $415 million.

Fire and Police Pension System

The System has commitments to contribute capital for real estate and venture capital investments in the aggregate amount of approximately $330.6 million at June 30, 2003.

All members of the System, 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, 2003, the total amount is $975.9 million.

Los Angeles City Employees Retirement System

At June 30, 2003, the LACERS was committed to future purchases of real estate and alternative investments at an aggregate cost of approximately $305.5 million.

NOTE 5 – OTHER INFORMATION (Continued)

Community Redevelopment Agency

Hollywood, Highland and Marketplace Projects

The CRA facilitated public improvements financing for the Hollywood and Highland commercial development by the TrizecHahn Corporation. Public financing consists of tax-exempt parking revenue bonds issued by the City for a subterranean parking structure and taxable certificates of participation issued by MICLA for the live broadcast theater.

The parking revenue bonds are secured by the City's Special Parking Revenue Fund which collects all City parking lot and meter monies. If City parking revenues generated outside Council District 13 are needed and are unable to be reimbursed by Council District 13, the CRA has agreed to reimburse the City for that excess amount from Hollywood Redevelopment Project Area (Hollywood Project) tax increment revenues. This obligation is subordinate to outstanding and future tax allocation bond debt service, pass-through obligations and housing set-aside requirements.

The theater certificates of participation represent annual lease rental payments from the City's General Fund. TrizecHahn has guaranteed a level of revenue generation that is sufficient to pay for the debt service requirements of the bonds. Under certain conditions, the guarantee may be released after the eleventh year. Following such release, the CRA has agreed to provide a back-up reimbursement mechanism from subordinate Hollywood Project tax increment revenues, on the same terms and conditions as the TrizecHahn guarantee.

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.

On August 31, 2000, the CRA executed an Owner Participation Agreement with Hollywood Marketplace LLC for the development of a commercial-residential project at Sunset Boulevard and Vine Street in the Hollywood Redevelopment Project. Under the agreement, the CRA signed a $3.3 million promissory note payable to the developer at the rate of 10% interest annually, which will accrue beginning July 2002.

Payments are due annually on September 30 following successful completion of the retail and parking components and are limited, on a basis subordinated to outstanding tax allocation bond debt service. Payment of the note will come from additional tax increment generated at the development site. If such revenues are insufficient to pay the scheduled principal and interest based on level amortization, the unpaid amount will be compounded into the principal balance of the loan.

NOTE 5 – OTHER INFORMATION (Continued)

Others

At June 30, 2003, the CRA had approximately $71.3 million in outstanding commitments under various agreements, including construction, public improvements, housing loans, professional services and other costs related to redevelopment plans.

C. Conduit Debt 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, 2003
Multifamily Housing Bonds – 80 Issues	$ 828,950
Home Mortgage Revenue Bonds – 10 Issues	148,252
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 – 11 Issues	68,820
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	45,562
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	10,925
The proceeds were used to fund the 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 the 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 Assessment 1911/1913 Act Bonds	2,870
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	$1,240,379

NOTE 5 – OTHER INFORMATION (Continued)

The City is not obligated in any manner for repayment of the indebtedness. Accordingly, the liabilities are not reported in the accompanying financial statements.

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, 2003, the outstanding balance of such issues was $402.7 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

Northridge Earthquake Damage

As of June 30, 2003, the Federal and State governments have obligated approximately $770 million to fund repairs to City buildings, streets and bridges, sewer and related facilities, and recreation and parks facilities damaged in the January 1994 Northridge Earthquake. The total amount reimbursed by the Federal and State governments to the City as of June 30, 2003 was $685 million.

The Federal Emergency Management Agency (FEMA) has asked the State Office of Emergency Services (OES) to accelerate the closeout of completed projects by the end of March 2003. This emphasis is due to the Federal government's reprogramming of unused funds to more recent disasters and the fight against terrorism. However, because of the State budget crisis, there are delays in the collection of the $85 million balance from FEMA and OES.

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 original amount of the City's participation was $55 million, of which $10 million was defeased in July 2001. The City participated in another issue, Series HUD 1997-A, for $30 million that was defeased in July 2000. The County of Los Angeles also participated in the issue and its outstanding portion is $1 million. 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. At June 30, 2003, of the $45 million receivable from LACDB, the City recognized $7 million uncollectible allowance.

NOTE 5 – OTHER INFORMATION (Continued)

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.

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. Subsequently, LACDB submitted a Transition Plan (Plan) on October 15, 2002. The County Board of Supervisors approved the Plan on December 10, 2002. The Mayor and City Council approved the amended Plan on January 6, 2003 with instructions that LACDB continues to work with certain City departments so that by the end of calendar year 2003 there will be a transition to sustainable self sufficiency or assumption of functions by another entity. As part of the Plan, LACDB is considering selling its loan portfolio or retaining a contractor to assume day-to-day responsibilities for managing the portfolio. If LACDB sells its loan portfolio, the proceeds would be used to defease or retire the outstanding Section 108 certificates.

On October 30, 2003, the LACDB submitted an updated Transition Plan, which provides for the transfer of assets and liabilities to the City and the wind up and dissolution of the LACDB by December 31, 2003. The Council disapproved the updated Transition Plan and instructed the same City departments and LACDB to work on a more viable plan and report back by March 31, 2004.

Airports Enterprise Fund

Terrorist Activities

The Airports like the rest of North American transport system, has been adversely affected by the terrorist attacks that occurred in the United States on September 11, 2002 (the September 11 Events). As a result of the September 11 Events, there was a temporary suspension of air carrier operations in the United States, including operations at the Airports. 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. For the fiscal year ended June 30, 2003, Airports experienced a 1% reduction in passenger levels and a 20% reduction in air traffic movements. Aviation activity was also affected by the hostilities in Iraq and the outbreak of severe acute respiratory syndrome (SARS).

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. Capital expenditures were reevaluated and much of such expenditures were suspended except where the affected projects were near completion or essential from a security or safety standpoint.

NOTE 5 – OTHER INFORMATION (Continued)

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 were experiencing economic difficulties prior to the September 11 Events. This situation was worsened by the September 11 Events and most of the airlines have been downgraded by the rating agencies. Several airlines operating at LAX, including United Airlines, have filed for bankruptcy protection and two of them suspended operations. UAL Corporation, the parent company of United Airlines, has also filed for bankruptcy protection.

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 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 airlines.

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, 2003, the cumulative PFC collections and the related interest earned as reported to the FAA were $614 million and $82.5 million, respectively. The increased rate of $4.50 effective August 1, 2003 at LAX has been approved by the FAA.

Power and Water Enterprise Funds

Fair Value of Power and Water Enterprise Funds Bonds and Notes Payable

The fair value of bonds payable are based on estimates that represent the present value of interest and principal payments on the long-term debt discounted using current interest rates obtainable by DWP for debt of similar quality and maturities. The fair value of both current and long-term bonds payable is $3.2 billion for Power and $1.3 billion for Water.

NOTE 5 – OTHER INFORMATION (Continued)

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 (CISO). In 2001, legislation was enacted to suspend direct access to retail customers in California.

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 CISO. In addition, management has implemented debt and cost reduction programs and restructured certain 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. This plan has been amended to allow for a total budget of $2 billion. Through June 30, 2003, DWP has incurred $930.8 million related to such upgrades.

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. Based on current and projected market prices, management does not believe that market issues or the introduction of direct access will negatively impact DWP's financial position.

Federal Energy Regulatory Commission (FERC) Price Mitigation Plan

In June 2001, the Federal Energy Regulatory Commission issued a price mitigation plan that imposes price limits on spot market electricity sales in the Western Electric Coordinating Council (WECC). The price limits are 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 calculation is based on factors existing at the then most current California Stage 1 Emergency. Sellers and other marketers have the opportunity to justify prices above the limit to the FERC. On July 17, 2002, FERC ordered effective October 1, 2002, among other things, a new price cap and certain automatic procedure in the WECC, designed to mitigate the effects of market power. 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.

NOTE 5 – OTHER INFORMATION (Continued)

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, 2003, these agencies, the CISO 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 that owe significant amounts to these agencies, the Southern California Edison Company and the Pacific Gas & Electric, have stated in public disclosure documents that they may not be able to pay all the power they consumed in 2001. Southern California Edison Company has paid all amounts due by it to the CPX, however, the amounts remain in escrow accounts pending the resolution of disbursement of the funds. Pacific Gas & Electric has filed for protection under Chapter 11 of the Federal Bankruptcy Statute and all amounts due from that entity are outstanding.

As of June 30, 2003, the receivable of the Power Enterprise Fund from CISO and CPX totaled $168.7 million. The FERC has questioned whether amounts charged for energy sold to the CISO and CPX during 2000 and 2001 represent "unlawful profits" that should be subject to refund. The FERC has considered various options to determine a refund amount but has not issued definitive guidance on what represents unlawful profits for sales during the period. If the FERC issued an order requiring a refund under defined conditions, the Power Enterprise Fund may be liable to refund a portion of amounts recorded as sales. However, it has not been established that the FERC has any jurisdictions over municipal utilities, including the DWP.

As of June 30, 2003, the Power Enterprise Fund has recorded a $40 million lability against the $168.7 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 paid and is based on the most recent formula disclosed by FERC. However, DWP management believes that it is entitled to all amounts due from sales to counterparties in California, including those mentioned above. In addition, DWP management does not believe that the Power System's exposure to losses with respect to these receivable balances can be currently estimated. If final settlement of these receivables results in an amount less than the recorded balance, net of the $40 million reserve, DWP will be required to record a loss in the Power Enterprise Fund's operating statement.

NOTE 5 – OTHER INFORMATION (Continued)

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. 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 2003, the Power Enterprise Fund changed its public benefits deferral estimate. The change in estimate was the result of an updated interpretation of Assembly Bill 1890. As a result, Power Enterprise Fund recorded an increase in its public benefits deferred credit balance of $27 million. During fiscal year 2003, $74.9 million was spent on public benefits programs including investments in electric buses and vehicles, photovoltaic power and other alternative energy sources, and support for low-income customers. As of June 30, 2003, the Power Enterprise Fund recorded deferred expenses of $11.7 which will be recognized when the corresponding revenue is earned.

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.

NOTE 5 – OTHER INFORMATION (Continued)

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.

Recent Litigation Involving Assessment Practices

Properties which have been subject to downward valuation by county assessors as a result of natural disasters, economic downturns or other factors, have often had that value restored by the assessors at rates higher than 2% annually depending on the success of repairs following a disaster or the speed of a recovery from an economic downturn. All fifty-eight county assessors have followed this procedure that was codified in the State of California Revenue and Taxation Code. On December 27, 2001, an Orange County Superior Court ruled that such decreases create a new "base year value" for purposes of Proposition 13 and that subsequent increases in the assessed value of a homeowner's property by more than 2% in a single year violated Article XIIIA of the California Constitution. The Court's ruling only applies to the particular assessment involved in the *"County of Orange v. Orange County Assessment Appeals Board No. 3"* case. If the Court's reasoning is applied to other local governments, property tax revenues, including those of the City, may be reduced. On May 30, 2002, the Court denied the Orange County Assessor's Motion for Judgment on the Pleadings. On December 12, 2002, the Court granted class-action status to the lawsuit.

The same attorney pursuing the Orange County case subsequently filed a similar case in Los Angeles County seeking a refund from the Los Angeles County Assessor. On April 30, 2002, the judge in the Los Angeles County case dismissed the plaintiffs' action stating in part that no support presently exists in statute, case law or policy for the contention that upon property decline in value below its acquisition value, its Proposition 13 based value is permanently reduced.

The City cannot predict the impact on its property tax revenues future actions and court decisions that may apply to other similarly situated property owners.

NOTE 5 – OTHER INFORMATION (Continued)

The South Coast Air Quality Management District (SCAQMD) Fleet Rules

The SCAQMD has adopted new rules with which the City must comply related to clean air requirements for government fleets (Fleet Rules). Current estimates indicate that implementing the Fleet Rules will cost the City $100 million over a seven-year period starting in fiscal year 2002. Funding this program will be considered as part of the annual budget process of the City.

Community Redevelopment Agency

Bunker Hill Project

On December 30, 1997, the CRA issued $80 million of variable-rate Bunker Hill Subordinate Tax Allocation Refunding Bonds. The refunding debt defeased $25 million of Series D taxable bonds dated November 1991 and funded a $49.7 million Supplemental Debt Service Fund held by the bond trustee. The Supplemental Debt Service Fund is available to pay principal and interest and certain fees related to the subordinate bonds and if necessary, principal and interest on the senior tax allocation bonds.

The bond insurance requires that all future Bunker Hill tax increment revenues in excess of current debt service requirements be used to redeem subordinate bonds. In December 2002, the CRA redeemed $30 million of the subordinated bonds. After the subordinate bonds are fully retired, the release of tax increment revenues to the CRA, after payment of senior bond debt service, will be conditioned upon meeting coverage tests imposed by the insurer. Therefore, while the subordinate and the senior bonds are outstanding, the Bunker Hill budget and work program will be funded by available non-tax increment resources such as program income, special revenues and grants.

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.

NOTE 5 – OTHER INFORMATION (Continued)

On two instances during the fiscal year, the CRA directed the bond trustee to draw a total of $2 million from the letter of credit to cover debt service requirement shortfalls. 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.

E. Subsequent Events

Indebtedness

Subsequent to June 30, 2003, the City and the CRA issued the following indebtedness (in millions):

Issue Date	Bond Description	Amount	Interest Rate
City			
July 1, 2003	2003 Tax and Revenue Anticipation Notes	$ 443.6	2.000% - 6.000%
July 1, 2003	Wastewater System Subordinate Revenue Bonds Refunding Series 2003-B	269.5	1.250% - 5.000%
July 8, 2003	Power System Revenue Bonds 2003 Series A	955.9	2.000% - 5.000%
July 29, 2003	General Obligation Bonds Series 2003-A	233.4	3.000% - 6.000%
July 29, 2003	General Obligation Bonds Refunding Series 2003-B	77.3	3.625% - 6.000%
August 1, 2003	Wastewater System Revenue Bonds Refunding Series 2003-B	225.5	2.000% - 5.000%
August 20, 2003	Power System Revenue Bonds 2003 Series B	200.0	3.500% - 5.125%
December 2, 2003	Sanitation Equipment Charge Revenue Bonds Series 2003-B	61.1	4.000% - 5.000%
CRA			
August 26, 2003	CRFA Taxable Financing Bonds Series J	18.0	4.180% - 6.380%
August 26, 2003	CRFA Tax-exempt Financing Bonds Series J	4.5	2.000% - 5.000%
August 26, 2003	CRFA Taxable Financing Bonds Series K	4.6	6.980% - 9.380%
November 25, 2003	Tax Allocation Refunding Bonds Hollywood Series D	23.0	3.940% - 6.000%
December 18, 2003	Tax Allocation Refunding Bonds Little Tokyo Series D	11.4	4.300% - 4.750%
December 18, 2003	Tax Allocation Bonds Little Tokyo Series E	8.1	2.000% - 5.400%

Impact of State Budget Crisis on City Budget

The original State budget adopted for fiscal year 2004 included a reduction in the motor vehicle license fee (VLF), a major local government revenue collected and distributed by the State. The effect of this State action was a $45 million revenue loss for the City. The State recently made changes to the VLF, and depending upon the outcome of those changes, the City may sustain additional revenue loss of $60 million in fiscal year 2004.

NOTE 5 – OTHER INFORMATION (Continued)

The Governor has instructed the State Controller to issue VLF backfill payments to local governments. However, neither the Governor nor the State Legislature has identified the source of the backfill payments.

The Governor's proposed State budget for fiscal year 2004-05 involves property tax shift from local governments to the State. The tax diversion, if approved by the State Legislature will reduce the City's property tax revenues by approximately $40-$45 million.

Pension Plans Contribution Increases

Due to prior losses in investment earnings and decline in value of the City's pension plans assets, the City's contributions to the three pension plans are expected to post a cumulative increase of over $100 million in fiscal year 2004.

Department of Water and Power

On December 17, 2003, the Board of Water and Power Commissioners approved the $37 million reduced sale price of one of the DWP's administrative facilities. The original sale price approved by DWP management in 2001 was $50 million. The facility being sold has mold in the structure. DWP and the purchaser each conducted a study to determine the estimated cost for mold clean up. This reduction in price caused DWP to recognize an additional total loss of $11.7 million as of June 30, 2003. The reduced price remains subject to the City Council approval.

On December 17, 2003, the DWP Retirement Board adopted a change in the actuarial asset valuation method for the DWP's Retirement, Disability and Death Benefit Insurance Plan from the four-year smoothing method to recognizing the unrecognized returns for each of the last five years (but not before July 11, 2001) over a five-year period.

Sewer Rates

On September 16, 2003, the City Council approved to increase, effective October 25, 2003, the sewer service charge rate from $2.26 per one hundred cubic feet (hcf) to $2.33 per hcf (1 hcf = 748 gallons).

Community Redevelopment Agency

On December 31, 2003, due to the shortages in revenues of the Cinerama Dome Public Parking Project, the CRA made a $.6 million draw down from the irrevocable letter of credit issued by a bank that secures the parking project revenue bonds. The letter of credit was provided by the developer of the project as part of the development agreement. The CRA is obligated to reimburse the developer for the drawing at 10% interest from any available cash flow from the parking garage operations and/or property tax increment generated by the project. Through December 31, 2003, drawings from the $9.3 million letter of credit totaled $2.6 million.

CITY OF LOS ANGELES

Schedule of Funding Progress
Benefit Pension Plans
(amounts expressed in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Overfunded (Unfunded) AAL	Funded Ratio	Covered Payroll	Overfunded (Unfunded) AAL as a Percentage of Covered Payroll
Los Angeles City Employees' Retirement System						
06/30/01	$ 6,988,782	$ 6,468,066	$ 520,716	108.1%	$ 1,293,350	40.3%
06/30/02	7,060,188	7,252,118	(191,930)	97.4%	1,334,335	-14.4%
06/30/03	6,999,647	7,659,846	(660,199)	91.4%	1,405,058	-47.0%
Fire and Police Pension System						
06/30/01	$ 11,835,549	$ 9,954,056	$ 1,881,493	118.9%	$ 882,758	213.1%
06/30/02	11,491,922	10,606,825	885,097	108.3%	946,037	93.6%
06/30/03	11,690,751	11,203,559	487,192	104.3%	970,727	50.2%
Water and Power Employees' Retirement and Death Benefit Insurance Plan						
06/30/01	$ 5,833,275	$ 5,306,263	$ 527,012	109.9%	$ 403,266	130.7%
06/30/02	5,790,263	5,714,525	75,738	101.3%	430,398	17.6%
06/30/03	6,128,376	6,042,087	86,289	101.4%	472,432	18.3%

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 AAL	Funded Ratio	Covered Payroll	Overfunded AAL as a Percentage of Covered Payroll
06/30/99	$ 95,066	$ 76,131	$ 18,935	124.9%	$ 12,832	147.6%
06/30/00	104,616	80,994	23,622	129.2%	12,733	185.5%
06/30/01	106,876	88,427	18,449	120.9%	14,124	130.6%

CITY OF LOS ANGELES

FOUNDED 1781

APPENDIX C

CERTAIN DEFINITIONS AND SUMMARY OF THE FINANCING DOCUMENTS

CITY OF LOS ANGELES
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APPENDIX C

CERTAIN DEFINITIONS AND SUMMARY OF THE FINANCING DOCUMENTS

Set forth below are the definitions of certain terms used in the Official Statement, the Trust Agreement and the Lease Agreement applicable to the Program AX Certificates, followed by a brief summary of certain provisions of such documents. Set forth thereafter are the definitions of certain terms used in the Trust Agreement, First Supplemental Trust Agreement, Lease Agreement, First Amendment to Lease Agreement, Site Lease and First Amendment to Site Lease applicable to the Additional AR Certificates, followed by a brief summary of certain provisions of such documents, and a summary of the Continuing Disclosure Certificate applicable to each series of the Certificates. All capitalized terms not defined here or elsewhere in the Official Statement have meanings set forth in such financing documents. In some cases, the defined terms used in the body of the Official Statement vary from the definitions used in this summary; the latter conform to the definitions used in such financing documents. This summary is not intended to be definitive and is qualified in its entirety by reference to the financing documents for the complete text thereof. Copies of such financing documents are available from the City upon written request.

CERTAIN DEFINITIONS IN THE PROGRAM AX FINANCING DOCUMENTS

"Acquisition Costs" means the price paid or to be paid by the City or the Corporation for the acquisition of the Equipment.

"Acquisition Fund" means the fund by that name established and held by the City pursuant to the Trust Agreement.

"Additional Certificates" means the certificates of participation executed and delivered from time to time pursuant to the Lease Agreement and the Trust Agreement.

"Additional Payments" means the payments required by of the Lease Agreement.

"Basic Lease Payments" means all payments required to be paid by the City on any date pursuant to the Lease Agreement, including any prepayment thereof pursuant to the Lease Agreement.

"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 are required or authorized to remain closed, or on which the New York Stock Exchange is closed.

"Capitalized Interest" means the portion of the proceeds of the Certificates to be used to pay a portion of the Basic Lease Payments all as set forth on Exhibit B to the Trust Agreement.

"Certificates of Participation" or "Certificates" means the Program AX Certificates plus any Outstanding Additional Certificates.

"Certificate Yield" means, with respect to each series of Certificates, the yield on the Certificates within the meaning set forth in Section 148(a) of the Code.

"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 Principal Deputy City Controller, the Chief Accountant 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 shall designate in writing, acting on behalf of the City with respect to the Trust Agreement and the Lease.

"Closing Date" means the day when the Program AX Certificates duly executed by the Trustee, are delivered to the Original Purchaser.

"Code" means the Internal Revenue Code of 1986, as amended.

"Continuing Disclosure Certificate" means the Continuing Disclosure Certificate dated as of the Closing Date, entered into by the City with respect to the Program AX Certificates.

"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, any Assistant Secretary and 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 Trust Agreement.

"Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the City or the Corporation relating to the execution and delivery of the Lease Agreement or the execution, sale and delivery of the Certificates, including but not limited to filing costs, settlement costs, printing costs, document reproduction and binding costs, initial fees and charges of the Trustee, financing discounts, legal fees and charges, bond insurance 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, fees for execution, transportation and safekeeping of the Certificates and charges and fees in connection with the foregoing.

"Costs of Issuance Account" means the Costs of Issuance Account within the Trustee Acquisition Fund established and held by the Trustee pursuant to the Trust Agreement.

"Credit Facility" means a letter of credit, line of credit, surety bond, insurance policy or other similar credit enhancement.

"Equipment" means those items of personal property more particularly described in Exhibit B to the Lease.

"Event of Default" means an event of default under the Lease Agreement.

"Federal Securities" means any of the following which are noncallable and which at the time of investment are legal investments under the laws of the State for trust funds held by the Trustee:

(1) Cash (insured at all times by the Federal Deposit Insurance Corporation or otherwise with obligations described in paragraph (2) below), or

(2) Direct obligations of (including obligations issued or held in book entry form on the books of) the Department of the Treasury of the United States of America.

"Financing Statement" means a completed financing statement within the meaning of Section 9101 et seq. of the Commercial Code of the State of California showing the Trustee to be the secured party thereunder for those items of Equipment secured by a Financing Statement.

"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.

"Insurance and Condemnation Fund" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

"Interest Payment Date" means each April 1, and October 1, beginning October 1, 2004, so long as any Certificates are Outstanding under the Trust Agreement.

"Lease Agreement" or "Lease" means the Lease Agreement dated as of April 1, 2004, by and between the City and the Corporation, together with any duly authorized and executed amendments thereto.

"Lease Payments" means the Basic Lease Payments and the Additional Payments.

"Lease Payment Date" means the fifteenth (15th) day of March and September in each year during the Term of the Lease, commencing September 15, 2004, except that if the Principal Corporate Trust Office of the Trustee is not open for business on any such date, then that Lease Payment Date shall be the next day on which such office is open for business.

"Lease Payment Fund" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

"Maximum Annual Basic Lease Payments" means the aggregate Basic Lease Payments under the Lease Agreement and required to be paid in any future rental period calculated for the Rental Period in which such aggregate Basic Lease Payments are the greatest and taking into account the effect of any scheduled prepayments on the amount of future Basic Lease Payments.

"Moody's" means Moody's Investors Service, Inc., or its successors.

"Net Proceeds" means any insurance proceeds (including self insurance proceeds) or condemnation award paid with respect to the Equipment, to the extent remaining after payment therefrom of all expenses incurred in the collection thereof.

"Official Statement" means the Official Statement dated April 20, 2004, relating to the Certificates.

"Original Purchaser" means the first purchaser of any series of Certificates, and, in the case of the Program AX Certificates, means J.P. Morgan Securities, Inc.

"Outstanding", when used as of any particular time with respect to Certificates, means (subject to the provisions of the Trust Agreement) all Certificates theretofore executed and delivered by the Trustee under the Trust Agreement except:

(a) Certificates theretofore canceled by the Trustee or surrendered to the Trustee for cancellation;

(b) Certificates for the payment or redemption of which funds or Federal Securities in the necessary amount shall have theretofore been deposited with the Trustee (whether upon or prior to the maturity or redemption date of such Certificates), provided that, if such Certificates are to be redeemed prior to maturity, notice of such redemption shall have been given as provided in or provision satisfactory to the Trustee shall have been made for the giving of such notice; and

(c) Certificates in lieu of or in exchange for which other Certificates shall have been executed and delivered by the Trustee pursuant to the Trust Agreement.

"Owner" or "Certificate Owner" or "Owner of a Certificate", or any similar term when used with respect to a Certificate means the person in whose name the ownership of such Certificate shall be registered on the Registration Books.

"Permitted Encumbrances" means, 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 Trust Agreement, permit to remain unpaid; (ii) the Lease Agreement (including any amendment thereto); (iii) any encumbrance, indebtedness and leases permitted under the Lease Agreement; and (iv) 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 Trust Agreement.

"Permitted Investments" means any of the following which at the time of investment are legal investments under the laws of the State of California for the moneys proposed to be invested therein:

1. Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

2. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

a. Farmers Home Administration (FmHA)

Certificates of beneficial ownership

b. Federal Housing Administration Debentures (FHA)

c. General Services Administration

Participation certificates

d. Government National Mortgage Association (GNMA or "Ginnie Mae")

GNMA - guaranteed mortgage-backed bonds

GNMA - guaranteed pass-through obligations (participation certificates)

(not acceptable for certain cash-flow sensitive issues.)

e. U.S. Maritime Administration

Guaranteed Title XI financing

f. U.S. Department of Housing and Urban Development (HUD)

Project Notes

Local Authority Bonds

3. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

a. Federal Home Loan Bank System

Senior debt obligations (Consolidated debt obligations)

b. Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac")

Participation Certificates (Mortgage-backed securities)
Senior debt obligations

c. Federal National Mortgage Association (FNMA or "Fannie Mae")

Mortgage-backed securities and senior debt obligations (excluded are stripped mortgage securities which are valued greater than par on the portion of unpaid principal.)

d. Student Loan Marketing Association (SLMA or "Sallie Mae")

Senior debt obligations

e. Resolution Funding Corp. (REFCORP) Only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form are acceptable.

f. Farm Credit System

Consolidated systemwide bonds and notes

4. Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of AAAm-G; AAAm; or AA-m and if rated by Moody's rated Aaa, Aa1 or Aa2.

5. Certificates of deposit secured at all times by collateral described in (1) and/or (2) above. CD's must have a one year or less maturity. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks whose short term obligations are rated "A-1+" or better by S&P and "Prime-1" by Moody's.

The collateral must be held by a third party and the Trustee must have a perfected first security interest in the collateral.

6. Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF.

7. Investment Agreements, including GIC's, acceptable to the bond insurer.

8. Commercial paper rated "Prime - 1" by Moody's and "A-1+" or better by S&P.

9. Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest long-term rating categories assigned by such agencies.

10. Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime - 1" or "A3" or better by Moody's and "A-1+" by S&P.

11. Repurchase agreements ("repos") hat provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to the Trustee (buyer/lender), and the transfer of cash from the Trustee to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the Trustee in exchange for the securities at a specified date.

Repurchase Agreements must satisfy the following criteria:

a. Repos must be between the Trustee and a dealer bank or securities firm

(1) Primary dealers on the Federal Reserve reporting dealer list which fall under the jurisdiction of the SIPC and which are rated A or better by S&P and Moody's, or

(2) Banks rated "A" or above by S&P and Moody's.

b. The written repo contract must include the following:

(1) Securities which are acceptable for transfer are:

(a) Direct U.S. governments

(b) Federal agencies backed by the full faith and credit of the U.S. government (and FNMA & FHLMC)

(2) The term of the repo may be up to 30 days

(3) The collateral must be delivered to the Trustee (if Trustee is not supplying the collateral) or third party acting as agent for the trustee (if the Trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities).

(4) The Trustee has a perfected first priority security interest in the collateral.

(5) Collateral is free and clear of third-party liens and in the case of SIPC broker was not acquired pursuant to a repo or reverse repo.

(6) Failure to maintain the requisite collateral percentage, after a two day restoration period, will require the Trustee to liquidate collateral.

(7) Valuation of Collateral

(a) The securities must be valued weekly, marked-to-market at current market price plus accrued interest

(b) The value of collateral must be equal to 104% of the amount of cash transferred by the Trustee to the dealer bank or security firm under the repo plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by Trustee, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.

c. Legal opinion which must be delivered to the Trustee:

Repo meets guidelines under state law for legal investment of public funds.

12. Pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by S&P. If, however, the issue is only rated by S&P (i.e., there is no Moody's rating), then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA rated pre-refunded municipals to satisfy this condition.

(8) Municipal obligations rated "Aaa/AAA" or general obligations of states with a rating of at least "A2/A" or higher by both Moody's and S&P.

The Value of the above investments shall be determined as follows:

"Value", which shall be determined as of the end of each month, means the value of any investments shall be calculated as follows:

a) For securities:

(1) the closing bid price quoted by Interactive Data Systems, Inc; or

(2) a valuation performed by a nationally recognized and accepted pricing service whose valuation method consists of the composite average of various bid price quotes on the valuation date; or

(3) the lower of two dealer bids on the valuation date. The dealers or their parent holding companies must be rated at least investment grade by Moody's and S&P and must be market markers in the securities being valued.

b) As to certificates of deposit and bankers' acceptance: the face amount thereof, plus accrued interest; and

c) As to any investment no specified above: the value thereof established by prior agreement between the City and the Trustee.

"Principal Corporate Trust Office" means the corporate trust office of the Trustee, in Los Angeles, California, provided, however, that for the transfer, registration, exchange, payment and surrender of Certificates, such terms means in care of the corporate trust office of the Trustee in St. Paul, Minnesota, or such other of office of the Trustee designated from time to time.

"Principal Payment Date" means each October 1, beginning October 1, 2005.

"Program AX Certificates" means the $64,170,000 original aggregate principal amount of Certificates of Participation (Equipment Acquisition Program AX) to be executed and delivered pursuant to the Trust Agreement.

"Rating Agencies" means Moody's and S&P, or the one of such rating agencies then providing a rating for the Certificates if only one such agency then provides a rating for the Certificates.

"Rebate Fund" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

"Registration Books" means the records maintained by the Trustee pursuant to the Trust Agreement for registration of the ownership and transfer of ownership of the Certificates.

"Regular Record Date" means the close of business on the fifteenth day of the month preceding each Interest Payment Date, whether or not such fifteenth day is a Business Day.

"Rental Period" means each twelve-month period during the Term of the Lease commencing on July 1 in any year and ending on June 30 in the next succeeding year; except that the first Rental Period under the Lease shall commence on the Closing Date and end on June 30, 2004.

"Reserve Fund" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

"Reserve Requirement" means, (A) on the Closing Date and until March 15, 2010, an amount equal to the least of (i) the Maximum Annual Basic Lease Payments, (ii) the amount equal to 10% of the proceeds of the Certificates), or (iii) the amount which is 125% of the average of the aggregate Basic Lease Payments required to be paid in each future Rental Period taking into account the effect of any scheduled prepayments in the amount of future Basic Lease Payments, and (B) after March 15, 2010, the amount which is an amount equal to the average of the aggregate Basic Lease Payments required to be paid in each future Rental Period taking into account the effect of any scheduled prepayments in the amount of future Basic Lease Payments.

"S&P" means Standard & Poor's, a division of The McGraw-Hill Companies, and its successors.

"Special Tax Counsel" means an attorney or firm of attorneys of nationally recognized standing in matters pertaining to the tax-exempt status of interest on obligations issued by states and their political subdivisions.

"State" means the State of California.

"Supplemental Trust Agreement" means a Supplemental Trust Agreement entered into pursuant to the Trust Agreement.

"Term of the Lease Agreement" or "Term" means the time during which the Lease Agreement is in effect, as provided in the Lease Agreement.

"Trust Agreement" means the Trust Agreement, together with any amendments or supplements thereto.

"Trustee" means U.S. Bank National Association, or any successor thereto acting as Trustee pursuant to the Trust Agreement.

"Trustee Acquisition Fund" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

THE PROGRAM AX LEASE AGREEMENT

General

The Corporation and the City will enter into the Lease, pursuant to which the Corporation will lease the Equipment to the City for the Term of the Lease.

Term of the Lease; Possession

The Term of the Lease will commence on the Closing Date and will end on May 1, 2014; provided, however, that the Term will end at an earlier time upon the discharge of the Trust Agreement due to prepayment of the Certificates; and the Term may be extended due to an abatement or nonpayment of rental payments until the Basic Lease Payments have been paid and the Trust Agreement discharged, but in no event later than May 1, 2024.

The City will accept possession and use of the Equipment on the Closing Date or as soon thereafter as the Equipment become available. The City will make the first Basic Lease Payment on September 15, 2004, the first Basic Lease Payment Date. All or a portion of the initial Basic Lease Payments will be made from proceeds of the Certificates used as capitalized interest pursuant to a schedule included in the Trust Agreement.

Lease Payments

Subject to the provisions of the Lease, the City will pay to the Corporation, its successors and assigns, as rental for the use and possession of the Equipment during each Rental Period, the Basic Lease Payments, each comprised of components of principal and interest in the amounts specified in the Lease, to be due and payable on the respective Lease Payment Dates specified in the Lease. The City also will pay the Additional Payments required under the Lease.

Any amount held in the Lease Payment Fund on any Lease Payment Date (other than amounts resulting from partial prepayment of Basic Lease Payments and amounts required for payment of past due principal or interest with respect to any Certificates not presented for payment) will be credited toward the Basic Lease Payment next due and payable; and no Basic Lease Payment need be made if the amounts then held in the Lease Payment Fund are at least equal to the Basic Lease Payment then required to be paid; provided, however, that amounts contained in the Lease Payment Fund representing capitalized interest shall be expended only as set forth in the Trust Agreement. The Lease Payments for the Equipment payable in any Rental Period will be for the use of the Equipment for such Rental Period. Notwithstanding any dispute between the Corporation and the City, the City shall make all Basic Lease Payments when due and shall not withhold any Basic Lease Payment pending final resolution of the dispute.

If the City prepays all remaining Lease Payments in full, the City's obligations under the Lease will terminate, including, without limitation, the City's obligation to pay Basic Lease Payments. If the City purchases any of the Equipment or prepays the Lease Payments in part 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 Lease attributable to such Equipment shall be paid or provided for; (ii) the principal components of each remaining Basic Lease Payment shall 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, shall be reduced by the aggregate corresponding amount of interest which would otherwise be payable with respect to the Certificates thereby redeemed pursuant to the Trust Agreement.

If the City fails to make any of the Basic Lease Payments, the payment in default shall continue as an obligation of the City until the amount in default shall have been fully paid. The City has agreed 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 Certificate Yield on the Certificates.

The Lease Payments for the Equipment for each Rental Period shall constitute the total rental for such Equipment 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 Equipment during such Rental Period. The City and the Corporation have determined that the Lease Payments for the Equipment under the Lease Agreement is not greater than the fair rental value for such Equipment. In making such determination, consideration has been given to the appraised or market value of the Equipment, other obligations of the parties under the Lease, the uses and purposes which may be served by the Equipment and the benefits therefrom which will accrue to the City and the general public.

The City covenants to take such action as may be necessary to include all Lease Payments due thereunder 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 funds on deposit in the various Funds and Accounts under the Trust Agreement that are properly available to make such Lease Payments.

The City assents to the Corporation's assignment of the Basic Lease Payments to the Trustee pursuant to the Trust Agreement. The Corporation will direct the City, and the City will agree to pay the Trustee at the Principal Corporate Trust Office of the Trustee, all payments payable by the City pursuant to the Lease.

Quite Enjoyment

The Corporation will provide the City with quiet use and enjoyment of the Equipment during the Term, so that the City will peaceably and quietly have and hold and enjoy the Equipment. The Corporation will, at the request of the City and 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.

Prepayment of Lease Payments

If the City prepays all remaining Lease Payments in full or makes the advance deposit as permitted by the Lease, or pays all Lease Payments during the Term of the Lease as they become due and payable, all right, title and interest of the Corporation in and to the Equipment shall be transferred to and vested in the City, and the Lease Agreement shall terminate. If the City prepays the Lease Payments in part but not in whole in an amount sufficient to purchase any of the Equipment, all right, title and interest of the Corporation in and to such Equipment shall be transferred to and vested in the City, and the Lease Agreement shall terminate as to such Equipment.

Additional Payments

In addition to the Basic Lease Payments, the City shall pay as Additional Payments (i) all taxes, fees or assessments levied upon the Equipment leased under such Lease Agreement or upon any interest therein of the Corporation or the Trustee, (ii) insurance premiums, if any, on insurance required under such Lease Agreement, (iii) all fees and expenses of the Trustee, and expenses of the City required to comply with such Lease Agreement and Trust Agreement, (iv) any other fees, costs, or expenses incurred by the Corporation in connection with the execution, performance or enforcement of such Lease Agreement or such Trust Agreement, 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 City must pay all such amounts when due within 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

During the Term of the Lease, all improvements to or repair and maintenance of the Equipment will be the responsibility of the City. The City will 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 and affecting the Equipment or the respective interests therein. However, with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the City must pay only such installments as are required to be paid during the Term of the Lease as and when the same becomes due.

The City has the right, at its own expense, to make additions, modifications and improvements to the Equipment. All such additions, modifications and improvements, will comprise part of the Equipment and be subject to the provisions of the Lease except for those fixtures, replacements or modifications which are added to the Equipment by the City at its own expense and which may be removed without damaging the Equipment. Additions, modifications and improvements must not cause the Equipment to be used for purposes other than those authorized under the provisions of state and federal law. Upon completion of any additions, modifications and improvements, the Equipment shall have a fair rental value which is approximately equal to or greater than the fair rental value of such Equipment immediately prior to the making of such additions, modification and improvements. The City will not permit any mechanic's or other lien to be established or remain against any of the Equipment for labor or materials furnished in connection with any remodeling, repair or replacements made by the City.

The City will maintain or cause to be maintained, commencing upon its possession of the Equipment, and thereafter throughout the Term of the Lease, a program of general liability insurance protecting the Corporation, the City and their respective officers, directors, agents, assigns and employees. Such policy or policies must provide for indemnification of such parties against loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the use of the Equipment. Such insurance shall provide coverage in the minimum liability limits of $3,000,000 combined single combined single limit per occurrence (subject to a deductible clause of not to exceed $1,000,000). 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 risk retention programs in such proportions as are deemed appropriate and actuarially sound by professional risk management personnel or independent consultants.

The City shall procure and maintain, or cause to be procured and maintained, commencing upon its possession of the Equipment, and thereafter throughout the Term, insurance against loss or damage to any structures or equipment constituting any part of the Equipment by fire and lightning, with extended coverage and vandalism and malicious mischief, and earthquake insurance, but as to earthquake insurance only if such insurance is required by a Rating Agency rating the Certificates as a condition precedent to obtaining or maintaining an investment grade rating on the Certificates and such insurance is available on the open market from reputable insurance companies at a reasonable price. The determination as to whether earthquake insurance is available on the open market from reputable insurance companies at a reasonable price shall be made annually by a professional risk manager or insurance consultant. If acceptable to the applicable Rating Agencies the City may provide satisfactory self-insurance or a favorably completed Natural Hazards Survey for Earthquake Risks (or similar survey) for any structures in which any Equipment is located in lieu of commercial earthquake insurance on the structures. In the event such earthquake insurance shall at any time during the Term not be commercially available at a reasonable price as determined in the manner set forth in the Lease Agreement, the City shall not be obligated to maintain earthquake insurance during the period of such unavailability; provided, however, that in the event of any uninsured loss to the Equipment resulting from earthquake, (a) the City must 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 Equipment, and (b) the City must repair or replace the Equipment or defease the outstanding Certificates from moneys, if any, legally available therefor. Said extended coverage 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 will be in an amount equal to 100% of the replacement cost of the applicable Equipment (it being understood and agreed that in the event of the loss of such improvements and the redemption of Certificates from the Net Proceeds of such insurance, the remaining Equipment will have a fair rental value equal to or exceeding the remaining Lease Payments). Such insurance may be subject to a deductible clause of not to exceed $100,000 for any one loss except that such earthquake insurance may be subject to a deductible clause of not to exceed 10% of said replacement costs of the insured Equipment for any one loss. Such insurance, including earthquake 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; provided, however, that the City shall include in its annual budget an item to provide funds for commercial insurance covering physical property damage to the Equipment.

If commercially available, the City will, commencing upon its possession of the Equipment pursuant to the Lease, procure and maintain rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of the Equipment during the Term as a result of any of the hazards covered in the fire and extended coverage insurance required of the Lease, in an amount to insure against loss of substantial use and possession of any part of the Equipment for a period of 12 months during the Term of the Lease. Loss under this insurance shall be adjusted with the City and the Net Proceeds of such insurance will be paid to the City and the Trustee as their interest may appear, and will be credited towards the payment of the Lease Payments in the order in which such Lease Payments come due and payable.

Each policy of insurance required by the Lease will name the Trustee as a loss payee as its interests may appear and provide that all proceeds thereunder shall be payable to the Trustee and applied as provided in the Lease.

Substitution

The City shall, at any time, have the right to substitute for all or a portion of the Equipment other personal property of a comparable value and having a remaining useful life not less than the useful life of the Equipment substituted for, but only by providing the Trustee with a written certificate describing both the new Equipment and the Equipment for which it is to be substituted, and stating that such Equipment is of comparable value and has a useful life not less than the useful life of the Equipment described in the Lease for which it is being substituted and a Financing Statement for the new Equipment. All costs or expenses incurred in connection with the substitution shall be borne by the City. The property substituted for the original Equipment shall be subject to the terms of the Lease. Notwithstanding any substitution of Equipment, there shall be no reduction in the Basic Lease Payments due from the City under the Lease and no reduction of the aggregate fair rental value of the Equipment as a result of such substitution.

Damage, Destruction and Eminent Domain; Use of Net Proceeds

The City covenants that if any component of the Equipment is damaged in a manner that substantially interferes with its use, such Equipment shall be promptly repaired, or replaced, unless such damage (taking into account any other Equipment lost, damaged or destroyed) would not result in the abatement of any portion of the Lease Payments.

If all of the Equipment shall be taken permanently under the power of condemnation or eminent domain or sold to a government entity threatening to exercise the power of eminent domain, the Lease Term shall cease as of the day possession shall be so taken. If less than all of the Equipment shall be taken permanently, or if all of the Equipment or any part thereof shall be taken temporarily, under the power of eminent domain, (a) the Lease shall continue in full force and effect and shall not be terminated by virtue of such taking and the parties waive the benefit of any law to the contrary, and (b) there shall be 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 under the Lease, 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.

The Net Proceeds of any insurance award resulting from any damage to the destruction of any of the Equipment by fire or other casualty shall be deposited in the Insurance and Condemnation Fund by the Trustee promptly upon receipt thereof and applied as set forth in the Trust Agreement.

The Net Proceeds of any condemnation or eminent domain award shall be deposited in the Insurance and Condemnation Fund and applied as set forth in the Trust Agreement.

Abatement

The Lease Payments will be abated during any period in which by reason of damage, destruction or otherwise (other than by condemnation or eminent domain) there is substantial interference with the use and possession by the City of the Equipment. The City and the Corporation must calculate the rental abatement amount taking into account the entire 12 month period (commencing with each October 15 within which the damage or destruction occurs). Such abatement will continue for the period commencing with such interruption of use and possession and end with the substantial completion of the work of repair or reconstruction. In the event of any such interruption of use and possession, the Lease will continue in full force and effect and the Lease Payment shall not be subject to abatement to the extent that the proceeds of rental interruption insurance pursuant to the Lease or amounts in the Reserve Fund are available to pay Lease Payments which would otherwise be abated under the Lease.

Assignment, Subleasing and Amendment

The Lease may not be assigned by the City. The City may sublease the Equipment or any portion thereof, and the following additional conditions:

(i) The Lease and the obligation of the City to make Lease Payments thereunder shall remain obligations of the City;

(ii) The City shall, within 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;

(iii) No such sublease by the City or any further sublease or use of such Equipment shall 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;

(iv) The City shall furnish the Corporation and the Trustee with a written opinion of Special Tax Counsel, stating that such sublease and any use related to such sublease does not cause the interest components of the Lease Payments to be included in the gross income for federal income tax purposes and that such sublease complies with the Lease requirements for subleasing the Equipment;

(v) Each sublease and all further subleases shall be subject to termination upon default by the City under the Lease and shall not diminish the rights and remedies of the Trustee to the Equipment and the improvements thereon in such event of default;

(vi) Each sublease and subsequent sublease shall contain such provisions for the maintenance of insurance on any improvements constructed on the subleased Equipment 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;

(vii) Each sublease and subsequent sublease shall contain provisions securing the timely payment of all taxes and assessments arising from or related to any improvements constructed on the subleased Equipment, and securing such Equipment from the establishment and maintenance of any mechanics liens or other liens for labor or materials furnished in connection with such improvements;

(viii) Improvements existing on subleased Equipment at the time of the sublease may be modified by a sublease only in accordance with the provisions of the Lease Agreement; and

(ix) Prior to any sublease being effective, the City shall furnish the Trustee such opinion of counsel and certificate to evidence the satisfaction of the above conditions precedent to sublease.

The City will not, modify or cancel, or agree or consent to modify or cancel the Lease excepting only such or modification or cancellation as may be permitted by the Trust Agreement or as follows. The Lease may be amended without the consent of the Owners of the Certificates for any of the following purposes:

(a) to add to the agreements, conditions, covenants and terms contained in the Lease 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 herein to or conferred herein on the City or the Corporation, and which in either case shall not materially adversely affect the interests of the Owners;

(b) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained herein or in regard to questions arising hereunder 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;

(c) to modify the legal description of the Equipment to add or delete the property description of Equipment, or to provides for substitution or addition of Equipment pursuant to the Lease;

(d) to make any modifications or changes to the Lease including any increase in Basic Lease Payments resulting therefrom in order to enable the execution and delivery of Additional Certificates on a parity with the Certificates (unless otherwise provided in any Supplemental Trust Agreement) in accordance with the Trust Agreement and to make any modifications or changes necessary or appropriate in connection with the execution and delivery of Additional Certificates;

(e) to reflect the substitution of one or more components of the Equipment under the Lease; or

(f) to make any other modification or change to the provisions of the Lease which do not materially adversely affect the interests of the Owners of the Certificates.

Events of Default and Remedies

The following will be "events of default" under the Lease:

(i) Failure by the City to pay any Basic Lease Payment or other payment required to be paid thereunder at the time specified therein, and the continuation of such failure for a period of 10 days.

(ii) Failure by the City to observe and perform any covenant, condition or agreement in the Lease or Trust Agreement on its part to be observed or performed, other than as referred to in clause (i) above, for a period of 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 5% in aggregate principal amount of Certificates 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 shall 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.

(iii) 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 entity, or assignment by the City for the benefit of the 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 Act, as amended, or under any similar acts which may hereafter be enacted.

(iv) The occurrence of an event of default or a default under any sublease or related document entered into pursuant to the Lease.

Whenever any event of default shall have happened and be continuing, the Corporation may exercise any and all remedies available pursuant to law or granted pursuant to the Lease; however, there will be 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. The Lease provides that in the event such a default and notwithstanding any re-entry by the Corporation or termination of the Lease, the City will continue to remain liable for the payment of the Lease Payments and/or damages for breach of the Lease and the performance of all conditions contained therein and, in the event such rent and/or damages shall be payable to the Corporation at the time and in the manner as provided in the Lease, as follows:

(a) If the Corporation does not elect to terminate the Lease (as described below), the City will remain liable for the payment of all Lease Payments and the performance of all conditions contained therein and will reimburse the Corporation for any deficiency arising out of the re-leasing of the Equipment or, if the Corporation is unable to re-lease the Equipment, then for the full amount of all Lease Payments to the end of the Term, but such Lease Payments and/or deficiency will be payable only as in the Lease provided for the payment of Lease Payments, notwithstanding such repossession by the Corporation or any suit in unlawful detainer, or otherwise, brought by the Corporation for the purpose of obtaining possession of the Equipment or exercise of any other remedy by the Corporation.

(b) In an event of default thereunder, the Corporation at its option may terminate the Lease and re-lease all or any portion of the Equipment. In the event of such a termination due to a default by the City (and notwithstanding any repossession of the Equipment by the Corporation in any manner whatsoever or the re-leasing of (or subleasing) the Equipment), the City must pay to the Corporation all costs, losses or damages howsoever arising or occurring payable at the same time and in the same manner as is provided therein in the case of payment of Lease Payments. The Lease provides that any surplus received by the Corporation from such re-leasing shall be the absolute property of the Corporation and the City shall have no right thereto, nor shall the City be entitled to apply any surplus as a credit in the event of a deficiency in the rentals received by the Corporation from the Equipment.

THE AX TRUST AGREEMENT

The Trust Agreement authorizes and directs the Trustee to prepare, execute and deliver the Program AX Certificates to the Original Purchaser. Transfers of the Certificates are to be registered in a register maintained by the Trustee.

On the Closing Date the City and the Corporation will pay or cause to be deposited with Trustee the proceeds of the sale of the Certificates as follows: (i) an amount equal to the Reserve Requirement will be deposited in the Reserve Fund, (ii) all capitalized interest will be deposited in the Capitalized Interest Account of the Lease Payment Fund, and (iii) the remaining balance of the proceeds of the sale of the Certificates will be deposited in the Trustee Acquisition Fund. All moneys held under the Trust Agreement will be invested in accordance with the restrictions set forth in the Trust Agreement.

Trustee Acquisition Fund; Acquisition Fund

The City will establish a special fund designated as the "Acquisition Fund" or the "MICLA AX Acquisition Fund" and will keep such fund separate and apart from all other funds and moneys held by it. Moneys in the Acquisition Fund will be disbursed to pay Acquisition Costs and any Costs of Issuance paid after September 1, 2004.

The Trustee will establish a special fund designated as the "Trustee Acquisition Fund" and within such fund shall establish a "Costs of Issuance Account" and disburse moneys from said fund pursuant to the Trust Agreement.

The Trustee will deposit in the Trustee Acquisition Fund the proceeds of sale of the Certificates required to be deposited therein and any other funds from time to time deposited with the Trustee in the Trustee Acquisition Fund for such purposes. Upon the City's written notice to the Trustee that the City has established the Acquisition Fund, the Trustee shall transfer the amount in the Trustee Acquisition Fund to the City, provided that the Trustee shall retain in the Costs of Issuance Account the amount designated for the Costs of Issuance, which shall be paid by the Trustee pursuant to the terms of the Trust Agreement. Moneys in the Trustee Acquisition Fund will be disbursed as follows: (1) in the case of payment of Costs of Issuance, the Trustee will disburse moneys upon the written requisition of the City Representative, and (2) during such time, if any, that the Trustee holds funds in the Trustee Acquisition Fund to pay Acquisition Costs, in the case of Acquisition Costs, the Trustee will disburse moneys from the Costs of Issuance Account upon the written requisition of the City Representative.

Subject to certain provisions of the Trust Agreement, the Trustee will be responsible for the safekeeping and investment of the moneys in the Trustee Acquisition Fund, and the City will be responsible for the safekeeping and investment of the moneys held in the Acquisition Fund prior to disbursement as described above. Until expended in accordance with the Trust Agreement, the moneys in the Acquisition Fund and the Trustee Acquisition Fund shall be held for the benefit of the Trustee on behalf of the Owners of the Certificates, and the City shall promptly remit all such moneys remaining in the Acquisition Fund to the Trustee without the requirement of a demand or notice thereof in the case there is an Event of Default.

Upon the earlier of (A)(i) April 1, 2007 with respect to moneys for Acquisition Costs in the Trustee Acquisition Fund, if applicable, and (ii) December 1, 2004 with respect to moneys for Costs of Issuance in the Costs of Issuance Account, or (B) or the filing with the Trustee by the Corporation of a certificate stating that all of the Acquisition Costs and/or Costs of Issuance, as applicable, have been paid, the Trustee will withdraw all remaining moneys in the Trustee Acquisition Fund and will transfer such moneys for deposit in the Lease Payment Fund to be applied to the payment of the Basic Lease Payments as the same shall become due and payable. Upon the request of the City Representative supported by an opinion of Special Counsel, the Trustee may retain such remaining moneys in the Trustee Acquisition Fund.

Moneys in the Trustee Acquisition Fund and the Acquisition Fund in Permitted Investments are subject to the restrictions and conditions set forth in the Trust Agreement. All investment income on moneys held in the Trustee Acquisition Fund will be held in the Trustee Acquisition Fund, and all investment income on moneys held in the Acquisition Fund will be held in the Acquisition Fund.

Assignment of Rights in Lease

Pursuant to the Trust Agreement, the Corporation has assigned and set over to the Trustee its rights in the Lease, including but not limited to all of the Corporation's rights to receive and collect all the Basic Lease Payments, and all other amounts required to be deposited in the Lease Payment Fund pursuant to the Lease or the Trust Agreement. All Basic Lease Payments and such other amounts to which the Corporation may at any time be entitled will be paid directly to the Trustee, and all of the Basic Lease Payments collected or received by the Corporation will be deemed to be held and to have been collected or received by the Corporation as the agent of the Trustee, and if received by the Corporation at any time shall be deposited by the Corporation with the Trustee within one Business Day after the receipt thereof, and all such Basic Lease Payments and such other amounts will be forthwith deposited by the Trustee upon the receipt thereof in the Lease Payment Fund.

Lease Payment Fund

The Trustee will establish a special fund designated as the "Lease Payment Fund," and within such fund the Trustee will establish a "Capitalized Interest Account." All moneys at any time deposited by the Trustee in the Lease Payment Fund will be held by the Trustee in trust for the benefit of the Owners of the Certificates. So long as any Certificates are Outstanding, neither the City nor the Corporation will have beneficial right or interest in the Lease Payment Fund or the moneys deposited therein, except only as provided in the Trust Agreement, and such moneys will be used and applied by the Trustee as set forth in the Trust Agreement.

There will be deposited in the Lease Payment Fund all Basic Lease Payments received by the Trustee, and any other moneys required to be deposited therein pursuant to the Lease or pursuant to the Trust Agreement. All amounts in the Lease Payment Fund will be used and withdrawn by the Trustee solely for the purpose of paying the principal, interest and prepayment premiums, if any, with respect to the Certificates as the same shall become due and payable, and to the extent funds are available and upon the written direction of the City, to make Additional Payments.

Any surplus remaining in the Lease Payment Fund after redemption and payment of all Certificates, including premiums and accrued interest, if any, and payment of any applicable fees and expenses of the Trustee, or provision for such redemption or payment having been made, shall be drawn by the Trustee and remitted to the City.

Reserve Fund

The Trustee will establish a special fund designated as the "Reserve Fund." All moneys at any time on deposit in the Reserve Fund will be held by the Trustee in trust for the benefit of the Owners of the Certificates. On the Closing Date, there will be deposited into the Reserve Fund an amount equal to the Reserve Requirement. Such moneys will be held in trust as a reserve for the payment when due of all the Basic Lease Payments to be paid pursuant to the Lease.

At the option of the Corporation as directed by the City, a Credit Facility in the amount of all or a portion of the Reserve Requirement may be substituted for the funds held by the Trustee in the Reserve Fund provided that:

(i) the Credit Facility is issued by a bank or other financial institution and the Credit Facility is rated the equivalent of the rating on the Certificates by the Rating Agencies then rating the Credit Facility or, if issued by an insurance company, such company and its claims paying rating or obligations insured by such insurance company at the time of issuance of the Credit Facility are rated at least equivalent to the rating on the Certificates by the Rating Agencies then rating the Certificates, but in no case will the Credit Facility be rated lower than "A" by both Rating Agencies;

(ii) such Credit Facility is renewable or extendable on an annual basis and such Credit Facility unconditionally permits the Trustee to draw funds thereunder not less than 10 days prior to the expiration of the Credit Facility in the event the term of the Credit Facility (not including any optional renewals thereof) is less than the final maturity date of the Certificates;

(iii) such Credit Facility is issued for at least an initial three year term (or the term remaining to the maturity of the Certificates, if shorter);

(iv) such Credit Facility provides for a reimbursement term of not less than three years from the date of any draw thereunder;

(v) such Credit Facility contains terms consistent with the Trust Agreement requirements regarding the substitution of a Credit Facility, as described below; and

(vi) The Trustee receives written evidence from the Rating Agencies then rating the Certificates that the substitution will not cause the Certificates to be downgraded.

If the Corporation, at the direction of the City, exercises its option to substitute the Credit Facility for the moneys held by the Trustee in the Reserve Fund, then such moneys, on or after date that the Credit Facility becomes effective, shall be transferred to the Lease Payment Fund and used as a credit against Basic Lease Payments or constitute a partial prepayment thereof as shall be directed by the City to the Trustee in writing. Upon any such transfer, neither the City nor the Corporation shall direct investment of any amounts transferred so as to provide a yield greater than the yield on the Certificates.

If the Corporation, at the direction of the City, exercises its option to substitute the Credit Facility for the moneys held by the Trustee in the Reserve Fund, the City shall give prompt notice of such substitution to the Rating Agencies.

If a Credit Facility is substituted for the moneys held by the Trustee in the Reserve Fund, then, notwithstanding any other provision of the Trust Agreement, (i) the Trustee will draw upon the Credit Facility for amounts which the terms of the Trust Agreement require to be transferred from the Reserve Fund, and (ii) amounts required by the terms of the Trust Agreement to be deposited or transferred to the Reserve Fund shall (a) in the event the Credit Facility has been drawn upon, be paid to the Credit Facility issuer if the City or the Corporation has an outstanding reimbursement obligation to such issuer resulting from such draw, which will result in an increase in the amount of the Credit Facility equal to such payment or (b) otherwise be transferred or deposited pursuant to the terms of the Trust Agreement as if no deposit or transfer to the Reserve Fund is required.

Semiannually on each March 15 and September 15, beginning September 15, 2004, until the earlier of March 15, 2007 or the date on which the City certifies to the Trustee that all acquisition costs for the Equipment have been paid, the Trustee shall transfer any moneys on hand in the Reserve Fund in excess of the Reserve Requirement to the Lease Payment Fund to pay capitalized interest by being credited to the Basic Lease Payments next coming due and payable. In determining the amount of the Basic Lease Payment required to be paid on each Lease Payment Date, the City and the Trustee shall be entitled to take moneys to be transferred from the Reserve Fund into account. Upon receipt by the Trustee or the transfer by the Trustee from the Reserve Fund of the Basic Lease Payment required to be paid by the City each March 15 and September 15, the Reserve Requirement as of such March 15, and September 15, shall be determined as if the Basic Lease Payment and the corresponding principal and interest with respect to the Certificates becoming due and payable on the immediately next Certificates Payment Date have been duly paid.

If on any Interest Payment Date the moneys available in the Lease Payment Fund do not equal the amount of the principal and interest with respect to the Certificates then coming due and payable, the Trustee will apply the moneys available in the Reserve Fund to make delinquent Basic Lease Payments on behalf of the City by transferring the amount necessary for this purpose to the Lease Payment Fund. Thereafter, the Trustee shall apply delinquent Basic Lease Payments with respect to which moneys have been advanced from the Reserve Fund, such Basic Lease Payments shall be deposited in the Reserve Fund to the extent of such advance.

If on any Interest Payment Date, the moneys on deposit in the Reserve Fund and the Lease Payment Fund (excluding amounts required for payment of past due principal or interest and redemption premium, if any, with respect to Certificates not presented for payment) are sufficient to pay all Outstanding Certificates, including all principal, interest and redemption premiums, if any, plus any additional amounts which may be payable under the Lease, the Trustee will notify the City Representative and transfer all amounts then on hand in the Reserve Fund to the Lease Payment Fund to be applied to the payment of the Basic Lease Payments on behalf of the City, and such moneys will be distributed to the Owners of Certificates in accordance with the Trust Agreement. Any amounts remaining in the Reserve Fund upon payment in full of all Outstanding Certificates, or upon defeasance, shall be withdrawn by the Trustee and paid to the City.

Insurance and Condemnation Fund

Any Net Proceeds of insurance against accident to or destruction of any item of the Equipment collected by the City in the event of any such accident or destruction shall be paid to the Trustee by the City and deposited by the Trustee in a special fund designated as the "Insurance and Condemnation Fund". If the City determines within 90 days following the date of such deposit, that the replacement, repair, restoration or modification of such Equipment is not economically feasible or in the best interest of the City, then the Trustee shall use such Net Proceeds to pay any unpaid Additional Payments attributable to the Equipment and transfer the remaining amounts to the Lease Payment Fund to be applied to prepayment of Basic Lease Payments and redemption of Certificates as provided in the Trust Agreement and the Lease; provided, however, that in the event of damage or destruction of a portion of the Equipment in full, such Net Proceeds shall be transferred to the Lease Payment Fund only if sufficient, together with other moneys available therefor, to cause the prepayment of the principal components of all unpaid Basic Lease Payments allocable to such Equipment. All Net Proceeds deposited in the Insurance and Condemnation Fund and not so transferred to the Lease Payment Fund or used to make Additional Payments shall be applied to the replacement, repair, restoration or modification of the damaged or destroyed Equipment by the City.

Any Net Proceeds of condemnation or eminent domain proceedings (or sale to a government threatening to exercise the power of eminent domain) with respect to any portion of the Equipment collected by the City shall be deposited by the Trustee in the Insurance and Condemnation Fund and disbursed by the Trustee (i) to pay any unpaid Additional Payments and to prepay Basic Lease Payments for such portion of the Equipment, where use of such Equipment is not affected and such proceeds are not needed to repair or rehabilitate the Equipment, and to redeem a portion of the Certificates as provided in the Trust Agreement, or (ii) to repair, rehabilitate or replace the Equipment where the use of the Equipment is not materially affected but the Equipment must be rehabilitated, repaired or replaced, with any balance of such Net Proceeds being applied to make up any deficiency in any funds or accounts established under the Trust Agreement or if no deficiency exists then said amounts shall be paid to the City, or (iii) to prepay Basic Lease Payments and to redeem a portion of the Certificates as provided in the Trust Agreement, where any partial taking of the Equipment materially affects its use or there is a full taking of a Equipment.

All investment income on moneys held in the Insurance and Condemnation Fund will be held in the Insurance and Condemnation Fund.

Investment of Moneys

The moneys and investments held by the Trustee under the Trust Agreement are irrevocably held in trust for the benefit of the Owners of the Certificates, and for the purposes specified in the Trust Agreement, and such moneys, and any income or interest earned thereon, will be expended only as provided in the Trust Agreement, and will not be subject to levy or attachment or lien by or for the benefit of any creditor of the Corporation, the Trustee or the City or any Owner of Certificates. Investments in any and all funds may be commingled for the purposes of making, holding and disposing of investments provided that the Trustee shall at all times account for such investments strictly in accordance with the particular funds to which they are credited and otherwise as provided in the Trust Agreement.

Moneys held by the Trustee will be invested and reinvested by the Trustee in Permitted Investments in accordance with the written order of the City Representative and, in the absence of such written order, shall be invested by the Trustee in Permitted Investments set forth in (4) of the definition thereof.

The Trustee is not responsible or liable for selection or liquidation of investments or any loss suffered in connection with any investment of funds made by it in accordance with the Trust Agreement.

For the purpose of determining the amount in any fund, all Permitted Investments shall be valued as provided in the definition of "Value" in the Trust Agreement, which definition is contained in the definition of Permitted Investments. The Trustee will sell at the best price obtainable after accepting at least three bids or consulting at least three potential bidders, or present for redemption, any Permitted Investment so purchased by the Trustee whenever it is necessary in order to provide moneys to meet any required payment.

Rebate

The Corporation and the City individually covenant that each such entity shall take all action as is necessary to comply with the rebate provisions of Section 148 of the Code and the Trustee shall establish and maintain a fund separate from any other fund designated the "Rebate Fund," the funds of which will be pledged to secure the payments to the United States Government for purposes of satisfying the rebate provisions.

Modification or Amendment

The Trust Agreement and the rights and obligations of the Owners of the Certificates and the Lease and the rights and obligations of the parties thereto, may be modified or amended at any time by a supplemental agreement which will become effective when the written consents of the Owners of at least 60% in aggregate principal amount of the Certificates then Outstanding, exclusive of Certificates disqualified as provided in the Trust Agreement are filed with the Trustee. No such modification or amendment shall (i) extend or have the effect of extending the fixed maturity of any Certificate or reducing the interest rate with respect thereto or extending the time of payment of interest, or reducing the amount of principal thereof or reducing any premium payable upon the redemption thereof, without the express consent of the Owner of such Certificate, or (ii) reduce or have the effect of reducing the percentage of Certificates required for the affirmative vote or written consent to an amendment or modification of the Trust Agreement or the Lease, or (iii) modify any of the rights or obligations of the Trustee without its written assent thereto.

The Trust Agreement and the rights and obligations of the Owners of the Certificates and the Lease and the rights and obligations of the parties thereto, may be modified or amended at any time by a supplemental agreement, without the consent of such Owners, but only to the extent permitted by law and only (i) to add to the covenants and agreements of any party, other covenants to be observed, or to surrender any right or power herein reserved for the Corporation or the City, (ii) to cure, correct or supplement any ambiguous or defective provision contained in the Trust Agreement or the Lease, (iii) in regard to questions arising under the Trust Agreement or under the Lease, as the parties deem necessary or desirable, which shall not be inconsistent with the Trust Agreement or the Lease, and which do not materially adversely affect the interest of the Trustee or the Owners of the Certificates, (iv) to modify the rebate provisions of the Trust Agreement, or (v) with respect to the Lease, for the purpose of the amendment thereto as permitted by the Lease.

Limited Liability of the City

Except for the payment of Lease Payments when due in accordance with the Lease and the performance of the other covenants and agreements of the City contained in the Trust Agreement and the Lease, the City has no pecuniary obligation or liability to any of the other parties or to the Owners of the Certificates with respect to the Trust Agreement or the terms, execution, delivery or transfer of the Certificates, or the distribution of Basic Lease Payments to the Owners by the Trustee. Neither the City nor the Corporation shall have obligation or liability to any of the other parties or to the Owners of the Certificates with respect to the performance by the Trustee of any duty imposed on the Trustee under the Trust Agreement, except to the extent the Trustee's action was at the authorized direction of such parties.

Events of Default; Remedies

"Events of Default" under the Trust Agreement shall be the Events of Default as defined in the Lease. If an Event of Default shall occur, then and in each and every such case during the continuation of the Event of Default, the Trustee may, and upon request of the Owners of at least 25% in aggregate principal amount of the Certificates then Outstanding shall (subject to the provision of an indemnity bond to the Trustee, if so requested), exercise any and all remedies available pursuant to law or granted pursuant to Lease; provided, however, there shall be no right under any circumstances to accelerate or otherwise to declare any Lease Payment by the City not then in default to be immediately due and payable.

Application of Funds

All moneys received by the Trustee pursuant to any right given or action taken in exercising remedies following an Event of Default will be deposited into the Lease Payment Fund and be applied by the Trustee in the following order upon presentation of the several Certificates, and the stamping thereon of the payment if only partially paid, or upon the surrender thereof if fully paid--

First, to the payment of the costs and expenses of the Trustee and of the Certificate Owners in declaring such Event of Default, including reasonable compensation to its or their agents, attorneys and counsel;

Second, to the payment to the persons entitled thereto of all installments of interest then due in the order of maturity of such installment, and, if the amount available is not sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Third, to the payment to the persons entitled thereto of the unpaid principal of any Certificates which has become due, in the order of their due dates, with interest on the overdue principal and interest at a rate equal to the rate paid with respect to the Certificates and, if the amount available is not sufficient to pay in full all the amounts due with respect to the Certificates on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference.

Events of Default; Institution of Legal Proceedings

If one or more Events of Default shall occur and be continuing, the Trustee in its discretion may, and upon the written request of the Owners of a majority in principal amount of the Certificates then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of the Owners of Certificates by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained in the Trust Agreement, or in aid of the execution of any power granted in the Trust Agreement, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee shall deem most effectual in support of its rights or duties thereunder.

Limitation on Certificate Owners' Right to Sue

No Owner of any Certificate has the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Trust Agreement, unless (i) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default under the Lease Agreement; (ii) the Owners of at least 25% in aggregate principal amount of all the Certificates then Outstanding shall have made written request upon the Trustee to exercise the powers granted or to institute such action, suit or proceeding in its own name; (iii) said Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (iv) the Trustee shall have refused or omitted to comply with such request for period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Defeasance

If and when all Outstanding Certificates are paid and discharged in any one or more the following ways--

(i) by paying or causing to be paid the principal of and interest and redemption premiums, if any, with respect to all Certificates Outstanding, as and when the same become due and payable;

(ii) by depositing with the Trustee, in trust, at or before maturity, money which, together with amounts then on deposit in the Lease Payment Fund and the Reserve Fund and available therefor, is sufficient to pay all Certificates Outstanding, including all principal and interest and prepayment premium, if any;

(iii) by depositing with the Trustee, in trust, cash and Federal Securities in such amount as will (as verified by an independent certified public accountant), together with interest to accrue thereon and moneys then on deposit in the Lease Payment Fund and the Reserve Fund and available therefor together with the interest to accrue thereon, be fully sufficient to pay and discharge all Certificates (including all principal, interest and prepayment premiums) at or before their maturity date; or

(iv) by depositing with the Trustee, under an escrow deposit and trust agreement, security for the payment of Basic Lease Payments as more fully described in the Lease, said security to be held by the Trustee as agent for the City to be applied by the Trustee to pay the Basic Lease Payments as the same become due and payable and prepay the Basic Lease Payments in full on any prepayment date pursuant to the Lease; then

notwithstanding that any Certificates shall not have been surrendered for payment, all obligations of the Corporation, the Trustee and the City with respect to all Outstanding Certificates shall cease and terminate, except only the obligation of the Trustee to pay or cause to be paid, from Basic Lease Payments paid by or on behalf of the City from funds deposited pursuant to paragraphs (ii) thru (iv) above, to the Owners of the Certificates not so surrendered and paid all sums due with respect thereto, and in the event of deposits pursuant to paragraphs (ii) through (iv), the Certificates shall continue to represent direct and proportionate interests of the Owners thereof in Basic Lease Payments under the Lease.

Filing Financing Statement

The City shall file the Financing Statement and all such documents as may be required by law (and shall take all further actions which may be necessary or be reasonably required by the Trustee), all in such manner, at such times and in such places as may be required by law in order fully to preserve, protect and perfect the security of the Trustee and the Certificate Owners. With respect to each item of Equipment that is (i) a vehicle and registered pursuant to the California Vehicle Code, or (ii) aircraft or a boat and registered as to ownership with a State agency, a Financing Statement need not be filed, and the certificate of ownership (the "Ownership Certificate") for each such item shall show the Corporation as the lessor and the City as the lessee and registered owner for such item of Equipment. The City, on behalf of the Corporation pursuant to the Agency Agreement, shall hold the Ownership Certificates for such items of Equipment and shall maintain such Ownership Certificates in a safe and secure place. At the request of the Trustee, the City and the Corporation shall promptly (a) transfer possession of such Ownership Certificates to the Trustee or (b) cause a duplicate of such Ownership Certificates to be issued by the appropriate State agency to the Trustee, in order to permit the Trustee to enforce the City's obligations pursuant to the Lease and Trust Agreement an protect an enforce its rights and the rights of the Owners of Certificates.

Additional Certificates

By execution of a Supplemental Trust Agreement without the consent of the Owners, the City, the Corporation and the Trustee may provide for the execution and delivery of Additional Certificates representing additional Basic Lease Payments, and the Trustee may execute and deliver to or upon the written request of the City, such Additional Certificates, in such principal amount as shall reflect the additional principal components of the Basic Lease Payments. The proceeds of such Additional Certificates may be applied, under, to acquire, construct or improve property owned or to be owned by the City or any improvement thereon or related thereto, or to refund Certificates. Such Additional Certificates may only be executed and delivered upon compliance with the following requirements:

(i) The City and the Corporation shall not be in default under the Trust Agreement or any Supplemental Trust Agreement or under the Lease;

(ii) The Additional Certificates shall be payable as to principal on May 1 or November 1 of each year in which principal components are due and shall be payable as to interest on May 1 and November 1 of each year commencing after their date of execution and delivery and extending no longer than the useful life of the property financed by such Additional Certificates;

(iii) The aggregate principal amount of Certificates executed and delivered and at any time Outstanding hereunder or under any Supplemental Trust Agreement shall not exceed any limit imposed by law, by the Trust Agreement or by any Supplemental Trust Agreement;

(iv) The Lease shall have been amended so as to modify the Basic Lease Payments payable by the City thereunder to be equal in aggregate amount to the principal and interest represented by the Certificates that are Outstanding plus such Additional Certificates (the "New Basic Lease Payments"), payable at such times and in such manner as may be necessary to provide for the payment of the principal and interest represented by all such Certificates; provided, however, that no such amendment shall be made such that the sum of the New Basic Lease Payments, including any such amendment, plus Additional Payments shall be in excess of the fair rental value of the Equipment after taking into account the use of the proceeds of any Additional Certificates, executed and delivered in connection therewith (evidence of the satisfaction of this condition shall be by written certificate of the City);

(v) If Additional Certificates are to be executed and delivered for the purpose of permitting the City to further improve or acquire additional Equipment pursuant to the Lease Agreement, the New Basic Lease Payments shall not exceed the fair rental value of the existing Equipment (including the additional Equipment) for the remainder of the Lease Term;

(vi) Such Supplemental Trust Agreement shall provide that from such proceeds or other sources an amount shall be deposited in the Reserve Fund so that the following such deposit there shall be on deposit in the Reserve Fund an amount at least equal to the Reserve Fund Requirement for the New Basic Lease Payments; and

(vii) Such Supplemental Trust Agreement shall provide principal payment dates and/or mandatory redemption of Additional Certificates in amounts sufficient to provide for the payment of the Additional Certificates when principal and interest components on said Additional Certificates are due.

Any Additional Certificates must be on parity with, and each Owner thereof shall have the same rights upon an Event of Default as, the Owner of any other Certificates delivered under the Trust Agreement, except as otherwise provided in the Supplemental Trust Agreement under which Additional Certificates are executed and delivered.

Before such Additional Certificates shall be executed and delivered, the City and Corporation shall file or cause to be filed certain documents with the Trustee, including, in particular, an opinion of Special Counsel addressing certain issues relating to the Additional Certificates and a written certification of the City stating that the requirements for the issuance of Additional Certificates as provided in the Trust Agreement have been satisfied.

CERTAIN DEFINITIONS IN THE PROGRAM AR FINANCING DOCUMENTS

"Acquisition Costs" means the price to be paid by the City or the Corporation for the acquisition and improvement of the AR Projects.

"Acquisition Fund" means the fund by that name established and held by the City pursuant to the Trust Agreement.

"Additional AR Certificates" means the $16,875,000 aggregate principal amount of additional Certificates of Participation (Real Property Program AR), Series 2004, executed and delivered pursuant to the Fisrt Supplement.

"Additional Certificates" means the additional certificates of participation executed and delivered from time to time pursuant to the Lease and the Trust Agreement.

"Additional Payments" means the payments required to be paid by the City pursuant to the Lease.

"Ambac" or "Ambac Assurance" means Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company.

"AR Certificates" means the $62,105,000 initial aggregate principal amount of Municipal Improvement Corporation of Los Angeles Certificates of Participation (Real Property Program AR).

"AR Projects" means the improvement of real property by that name as described in the Official Statement for the Additional AR Certificates.

"Assignment Agreement" means each of the Assignment Agreements, dated as of April 1, 2002, by and between the Corporation and the Trustee, together with any duly authorized and executed amendments thereto, pursuant to which the Corporation assigns substantially all of its rights under the Lease to the Trustee.

"Basic Lease Payments" means the payments required to be paid by the City pursuant to the Lease including any prepayment thereof.

"Capitalized Interest" means the portion of the proceeds of the Certificates to be used to pay a portion of the Basic Lease Payments, all as set forth in the Trust Agreement.

"Certificates of Participation" or "Certificates" means the AR Certificates, plus any Outstanding Additional Certificates (including the Additional AR Certificates).

"Certificate Yield" means the yield on the Certificates within the meaning of Section 148(a) of the Code.

"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 of Administrative Officer, the City Controller, the Chief Deputy City Controller, the Principal Deputy City Controller, the Chief Accountant Controller, the City Treasurer, any Deputy City Treasurer or such other employee of the City as the City Administrative Officer, the City Controller or the City Treasurer shall designate in writing, acting on behalf of the City with respect to the Trust Agreement and the Lease.

"Closing Date" means the day when the Additional AR Certificates, duly executed by the Trustee, are delivered to the Original Purchaser.

"Code" means the Internal Revenue Code of 1986, as amended.

"Continuing Disclosure Certificate" means the Continuing Disclosure Certificate dated as of the Closing Date.

"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 and any successor entity.

"Corporation Representative" means the President, Vice President, Secretary, Treasurer or any Assistant Secretary or Assistant Secretary and 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 Trust Agreement.

"Credit Facility" means a letter of credit, line of credit, surety bond, insurance policy or other similar credit enhancement.

"Event of Default" means an event of default under the Lease Agreement.

"Federal Securities" means any of the following which are noncallable and which at the time of investment are legal investments under the laws of the State for trust funds held by the Trustee:

(1) Cash (insured at all times by the Federal Deposit Insurance Corporation or otherwise with obligations described in paragraph (2) below), or

(2) Direct obligations of (including obligations issued or held in book entry form on the books of) the Department of the Treasury of the United States of America.

“Financial Guaranty Insurance Policy” means the financial guaranty insurance policy issued by Ambac Assurance insuring the payment when due of the principal of and interest on the Additional AR Certificates as provided therein.

"First Amendment to Lease" means the First amendment to Lease dated as of April 1, 2004, by and between the Corporation, as lessor, and the City, as lessee, which amends the Lease.

"First Amendment to Site Lease" means the First Amendment to Site Lease and Grant of Support Easement dated as of April 1, 2004, by and between the City, as lessor, and the Corporation, as lessee.

"First Supplement" means the First Supplemental Trust Agreement dated as of April 1, 2004, by and among the City, the Corporation and the Trustee.

"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.

"Insurance and Condemnation Fund" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

"Interest Payment Date" means the first day of each April 1 and October 1, beginning October 1, 2002, so long as any Certificates are Outstanding.

"Lease" or "Lease Agreement" means the Lease Agreement dated as of April 1, 2002, by and between the Corporation, as lessor, and the City, as lessee, for the Property, along with any duly authorized and executed amendments thereto (including the First Amendment to Lease).

"Lease Payments" means the Basic Lease Payments and the Additional Payments.

"Lease Payment Dates" means the fifteenth day of March and September in each year during the Term of the Lease, commencing September 15, 2002, except that if the Principal Corporate Trust Office of the Trustee is not open for business on any such date, then that Lease Payment Date shall be the next day on which such office is open for business.

"Lease Payment Fund" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

"Maximum Annual Basic Lease Payments" means the aggregate Basic Lease Payments under the Lease Agreement and required to be paid in any future rental period calculated for the Rental Period in which such aggregate Basic Lease Payments are the greatest and taking into account the effiect of any scheduled prepayments on the amount of future Basic Lease Payments.

"Moody's" means Moody's Investors Service, Inc., or its successors.

"Net Proceeds" means any insurance proceeds (including self-insurance proceeds) or condemnation award, paid with respect to the Property, to the extent remaining after payment therefrom of all expenses incurred in the collection thereof.

"Official Statement" means the Official Statement dated April 20, 2004, relating to the Additional AR Certificates.

"Original Purchaser" means the first purchaser of any series of Certificates, and, in the case of the Additional AR Certificates, means Fidelity Capital Markets.

"Outstanding" when used as of any particular time with respect to the Certificates, means (subject to the provisions of the Trust Agreement) all Certificates theretofore executed and delivered by the Trustee under the Trust Agreement except:

(a) Certificates theretofore canceled by the Trustee or surrendered to the Trustee for cancellation;

(b) Certificates for the payment or redemption of which funds or Federal Securities in the necessary amount shall have theretofore been deposited with the Trustee (whether upon or prior to the maturity or redemption date of such Certificates), provided that, if such Certificates are to be redeemed prior to the maturity, notice of such redemption shall have been given as provided in the Trust Agreement or provision satisfactory to the Trustee shall have been made for the giving of such notice; and

(c) Certificates in lieu of or in exchange for which other Certificates shall have been executed and delivered to the Trustee pursuant to the Trust Agreement.

"Owner" or "Certificate Owner" or "Owner of a Certificate" means, when used with respect to a Certificate, the person in whose name the ownership of such Certificate shall be registered on the Registration Books.

"Permitted Encumbrances" means, 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 Lease Agreement, permit to remain unpaid; (ii) the Site Lease; (iii) the Lease Agreement (including any amendment thereto); (iv) any encumbrance, indebtedness and leases permitted under the Lease Agreement; (v) 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 Lease Agreement; and (vi) 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 the City certifies in writing will not materially impair the use of the Property.

"Permitted Investments" means any of the following which at the time of investment are legal investments under the laws of the State of California for the moneys proposed to be invested therein:

A. (1) Cash (insured at all times by the Federal Deposit Insurance Corporation),

(2) Obligations of, or obligations guaranteed as to principal and interest by, the U.S. or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the U.S. including:

- U.S. treasury obligations
- All direct or fully guaranteed obligations
- Farmers Home Administration
- General Services Administration
- Guaranteed Title XI financing
- Government National Mortgage Association (GNMA)
- State and Local Government Series

Any security used for defeasance must provide for the timely payment of principal and interest and cannot be callable or prepayable prior to maturity or earlier redemption of the rated debt (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date).

B. Ambac will allow the following Obligations to be used as Permitted Investments for all purposes other than defeasance investments in refunding escrow accounts.

(1) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:

-Export-Import Bank
-Rural Economic Community Development Administration
-U.S. Maritime Administration
-Small Business Administration
-U.S. Department of Housing & Urban Development (PHAs)
-Federal Housing Administration
-Federal Financing Bank

(2) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

-Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC).
-Obligations of the Resolution Funding Corporation (REFCORP)
-Senior debt obligations of the Federal Home Loan Bank System
-Senior debt obligations of other Government Sponsored Agencies approved by Ambac

(3) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P and maturing not more than 360 calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);

(4) commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1+" by S&P and which matures not more than 270 calendar days after the date of purchase;

(5) investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P;

(6) Pre-refunded Municipal Obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(A) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Moody's or S&P or any successors thereto; or

(B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph A(2) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(7) municipal obligations rated "Aaa/AAA" or general obligations of States with a rating of "A2/A" or higher by both Moody's and S&P.

(8) investment agreements approved in writing by Ambac Assurance Corporation (supported by appropriate opinions of counsel); and

(9) other forms of investments (including repurchase agreements) approved in writing by Ambac.

C. The value of the above investments shall be determined as follows:

a) For the purpose of determining the amount in any fund, all Permitted Investments credited to such fund shall be valued at fair market value. The Trustee shall determine the fair market value based on accepted industry standards and from accepted industry providers. Accepted industry providers shall include but are not limited to pricing services provided by Financial Times Interactive Data Corporation, Merrill Lynch, Salomon Smith Barney, Bear Stearns, or Lehman Brothers.

b) As to certificates of deposit and bankers' acceptances: the face amount thereof, plus. accrued interest thereon; and

As to any investment not specified above: the value thereof established by prior agreement among the Issuer, the Trustee, and Ambac.

"Principal Corporate Trust Office" means the principal corporate trust office of the Trustee in Los Angeles, California.

"Property" means the real property leased by the City pursuant to the Lease, including all improvements and facilities currently located thereon, together with all other improvements, facilities and improvements thereon pursuant to the Lease Agreement, but excluding improvements or items excluded under the Lease Agreement and excluding new improvements subsequently constructed on such Property with moneys other than the proceeds of the Certificates.

"Rating Agencies" means Moody's and S&P or the one of such rating agencies then providing a rating for the Certificates if only one such agency then provides a rating for the Certificates.

"Rebate Fund" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

"Regular Record Date" means the close of business on the fifteenth day of the month preceding each Interest Payment Date, whether or not such fifteenth day is a Business Day.

"Rental Period" means each twelve-month period during the Term of the Lease commencing on July 1 in any year and ending on June 30 in the next succeeding year, except that the first Rental Period under the Lease shall commence on April 2, 2002 and end of June 30, 2002.

"Reserve Fund" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

"Reserve Requirement" means, as of the date of calculation, an amount equal to the least of (i) the Maximum Annual Basic Lease Payments, (ii) an amount (which is equal to 10% of the proceeds of the Certificates, or (iii) 125% of the average of the aggregate Basic Lease Payments required to be paid in each future Rental Period taking into account the effect of any scheduled prepayments in the amount of future Basic Lease Payments.

"S&P" means Standard & Poor's Ratings Services, a division of McGraw-Hill, and its successors.

"Site Lease" means of the Site Lease and Grant of Support Easement, dated April 1, 2002, by and between the City and the Corporation, pursuant to which the City leases the Property, to the Corporation, and any duly authorized and executed amendments thereto (including the First Amendment to Site Lease).

"Special Tax Counsel" means an attorney or firm of attorneys of nationally recognized standing in matters pertaining to the tax-exempt status of interest on obligations issued by states and their political subdivisions.

"State" means the State of California.

"Supplemental Trust Agreement" means a Supplemental Trust Agreement, entered into pursuant to the Trust Agreement.

"Term of the Lease Agreement" or "Term" means the time during which the Lease Agreement is in effect, as provided in the Lease Agreement.

"Trust Agreement" means the Trust Agreement dated as of April 1, 2002, by and among the City, the Corporation and the Trustee together with any amendments or supplements thereto (including the First Supplement).

"2004 Acquisition Costs" means the cost of acquiring and improving the AR Projects.

"2004 Acquisition Fund" means the fund by that name established and held by the City pursuant to the First Supplement.

"2004 Capitalized Interest Account" means the amount by that name established within the Lease Payment Fund pursuant to the First Supplement.

"2004 Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the City or the Corporation relating to the execution and delivery of the First Amendment to Lease or the execution, sale and delivery of the Additional AR Certificates, including but not limited to filing and recording costs, settlement costs, printing costs, document reproduction and binding costs, initial fees and charges of the Trustee, financing discounts, legal fees and charges, bond insurance fees and charges, financial and other professional consultant fees, costs of rating agencies for credit ratings, initial insurance premiums, fess related to the Depository Trust Company, accounting fees, fees for execution, transportation and safekeeping of the Additional AR Certificates and charges and fees in connection with the foregoing.

"2004 Costs of Issuance Account" means the 2004 Costs of Issuance Account within the 2004 Trustee Acquisition Fund established and held by the Trustee pursuant to the First Supplement.

"2004 Trustee Acquisition Fund" means the fund by that name established and held by the Trustee pursuant to the First Supplement.

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THE SITE LEASE

Pursuant to the Site Lease, the City leases the Property to the Corporation for a term concurrent with the term of the Lease (except in the event of a default by the City under the Lease), in consideration for which the Corporation will pay to the City a prepaid rental of $1.00. The First Amendment to Site Lease amends the original Site Lease by modifying the Property leased pursuant thereto.

THE LEASE AGREEMENT

General

The Corporation and the City have entered into the original Lease and will enter into the First Amendment to Lease, pursuant to which the Corporation will lease the Property to the City for the Term of the Lease.

Term of the Lease; Possession

The Term of the Lease commenced on April 2, 2002 and will end on April 1, 2027, provided, however, that the Term will end at an earlier time upon the discharge of the Trust Agreement due to prepayment of the Certificates; and the Term may be extended due to an abatement or nonpayment of rental payments until the Basic Lease Payments have been paid and the Trust Agreement discharged, but in no event later than April 1, 2037.

The City will accept possession, use and occupancy of the Property on the Closing Date or as soon thereafter as the Property become available. The City made the first Basic Lease Payment on September 15, 2002, the first Basic Lease Payment Date. All or a portion of the initial Basic Lease Payments attributable to the Additional AR Certificates will be made from proceeds of the AR Additional Certificates used as capitalized interest pursuant to a schedule included in the Trust Agreement the First Supplement.

Lease Payments

Subject to the provisions of the Lease, the City will pay to the Corporation, its successors and assigns, as rental for the use and possession of the Property during each Rental Period, the Basic Lease Payments, each comprised of components of principal and interest in the amounts specified in the Lease, to be due and payable on the respective Lease Payment Dates specified in the Lease. The City also will pay the Additional Payments required under the Lease.

Any amount held in the Lease Payment Fund on any Lease Payment Date (other than amounts resulting from partial prepayment of Basic Lease Payments and amounts required for payment of past due principal or interest with respect to any Certificates not presented for payment) will be credited toward the Basic Lease Payment next due and payable; and no Basic Lease Payment need be made if the amounts then held in the Lease Payment Fund are at least equal to the Basic Lease Payment then required to be paid; provided, however, that amounts contained in the Lease Payment Fund representing capitalized interest shall be expended only as set forth in the Trust Agreement. The Lease Payments for the Property payable in any Rental Period will be for the use of the Property for such Rental

Period. Notwithstanding any dispute between the Corporation and the City, the City shall make all Basic Lease Payments when due and shall not withhold any Basic Lease Payment pending final resolution of the dispute.

If the City prepays all remaining Lease Payments in full, the City's obligations under the Lease will terminate, including, without limitation, the City's obligation to pay Basic Lease Payments. If the City purchases any of the Property or prepays the Lease Payments in part as a result of any insurance or condemnation award with respect to the Property, such prepayment will be credited entirely towards the prepayment of the Lease Payments allocable to such Property as follows: (i) Additional Payments due or to become due pursuant to the Lease attributable to such Property shall be paid or provided for, (ii) the principal components of each remaining Basic Lease Payment shall 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, shall be reduced by the aggregate corresponding amount of interest which would otherwise be payable with respect to the Certificates thereby redeemed pursuant to the Trust Agreement.

If the City fails to make any of the Basic Lease Payments, the payment in default shall continue as an obligation of the City until the amount in default shall have been fully paid. The City has agreed 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 Certificate Yield on the Certificates.

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 Property during such Rental Period. The City and the Corporation have determined that the Lease Payments for the Property under the Lease Agreement is not greater than the fair rental value for such Property. In making such determination, consideration has been given to the appraised or market value of the Property, other obligations of the parties under the Lease, 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.

The City covenants to take such action as may be necessary to include all Lease Payments due thereunder 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 funds on deposit in the various Funds and Accounts under the Trust Agreement that are properly available to make such Lease Payments.

The City assents to the Corporation's assignment of the Basic Lease Payments to the Trustee pursuant to the Trust Agreement. The Corporation will direct the City, and the City will agree to pay the Trustee at the Principal Corporate Trust Office of the Trustee, all payments payable by the City pursuant to the Lease.

The Corporation will provide the City with quiet use and enjoyment of the Property during the Term, so that the City will peaceably and quietly have and hold and enjoy the Property. The Corporation will, at the request of the City and 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.

Prepayment of Lease Payments

If the City prepays the Lease Payments in full or makes the advance deposit as permitted by the Lease, or pays all Lease Payments during the Term of the Lease as they become due and payable, all right, title and interest of the Corporation in and to the Property shall be transferred to and vested in the City, and the Lease Agreement shall terminate. If the City prepays the Lease Payments in part but not in whole in an amount sufficient to purchase any of the Property, all right, title and interest of the Corporation in and to such Property shall be transferred to and vested in the City, and the Lease Agreement shall terminate as to such Property.

Additional Payments

In additon to the Basic Lease Payments, the Cith shall pay as Additional Payments (i) all taxes, fees or assessments levied upon the Property leased under such Lease Agreement or upon any interest therein of the Corporation or the Trustee, (ii) insurance premiums, if any, on insurance required under such Lease Agreement, (iii) all fees and expenses of the Trustee, and expenses of the City required to comply with such Lease Agreement and Trust Agreement, (iv) any other fees, costs, or expenses incurred by the Corporation in connection with the execution, performance or enforcement of such Lease Agreement or such Trust Agreement, 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 City must pay all such amounts when due within 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

During the Term of the Lease, all improvements to or repair and maintenance of the Property will be the responsibility of the City. The City will 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 and affecting the Property or the respective interests therein. However, with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the City must pay only such installments as are required to be paid during the Term of the Lease as and when the same becomes due.

The City may, at its own expense, make additions, modifications and improvements to the Property. All such additions, modifications and improvements, will comprise part of the Property and be subject to the provisions of the Lease except for those fixtures, 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. Additions, modifications and improvements must not cause the Property to be used for purposes other than those authorized under the provisions of state and federal law. Upon completion of any additions, modifications and improvements, the Property shall have a fair rental value which is approximately equal to or greater than the fair rental value of such Property immediately prior to the making of such additions, modification and improvements. The City will not permit any mechanic's or other lien to be established or remain against any of the Property for labor or materials furnished in connection with any remodeling, repair or replacements made by the City.

The City will maintain or cause to be maintained, commencing upon the acquisition of the Property, and thereafter throughout the Term of the Lease, a program of general liability insurance protecting the Corporation, the City and their respective officers, directors, agents, assigns and employees. Such policy or policies must provide for indemnification of such parties against loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the use of the Property. Such insurance shall provide coverage in the minimum liability limits of $3,000,000 combined single combined single limit per occurrence (subject to a deductible clause of not to exceed $1,000,000). 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 risk retention programs in such proportions as are deemed appropriate and actuarially sound by professional risk management personnel or independent consultants.

The City shall procure and maintain, or cause to be procured and maintained, commencing upon the acquisition of the Property, and thereafter, throughout the Term, 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, and earthquake insurance, but as to earthquake insurance only if such insurance is required by a Rating Agency rating the Certificates as a condition precedent to obtaining or maintaining an investment grade rating on the Certificates and such insurance is available on the open market from reputable insurance companies at a reasonable price. The determination as to whether earthquake insurance is available on the open market from reputable insurance companies at a reasonable price shall be made annually by a professional risk manager or insurance consultant. If acceptable to the applicable Rating Agencies the City may provide satisfactory self-insurance or a favorably completed Natural Hazards Survey for Earthquake Risks (or similar survey) for the structures in lieu of commercial earthquake insurance on the structures. In the event such earthquake insurance shall at any time during the Term not be commercially available at a reasonable price as determined in the manner set forth in the Lease Agreement, the City shall not be obligated to maintain earthquake insurance during the period of such unavailability; provided, however, that in the event of any uninsured loss to the Property resulting from earthquake, (a) the City must 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 must repair or replace the Property or defease the outstanding Certificates from moneys, if any, legally available therefor. Said extended coverage 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 will be in an amount equal to 100% of the replacement cost of the Property (it being understood and agreed that in the event of the loss of such improvements and the redemption of Certificates from the Net Proceeds of such insurance, the remaining Properties will have a fair rental value equal to or exceeding the remaining Lease Payments). Such insurance may be subject to a deductible clause of not to exceed $100,000 for any one loss except that such earthquake insurance may be subject to a deductible clause of not to exceed 10% of said replacement costs of the insured Property for any one loss. Where the insured coverage applies to aircraft then the insurance may be subject to a deductible clause not to exceed 5% of the replacement cost of the insured aircraft for any one loss. Such insurance, including earthquake 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; provided, however, that the City shall include in its annual budget an item to provide funds for commercial insurance covering physical property damage to the Property.

If commercially available, the City will, commencing upon its possession of the Property pursuant to the Lease, procure and maintain rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of the Property during the Term as a result of any of the hazards covered in the fire and extended coverage insurance required of the Lease, in an amount to insure against loss of substantial use and possession of any part of the Property for a period of 24 months during the Term of the Lease. Loss under this insurance shall be adjusted with the City and the Net Proceeds of such insurance will be paid to the City and the Trustee as their interest may appear, and will be credited towards the payment of the Lease Payments in the order in which such Lease Payments come due and payable.

The City shall obtain at its own expense on or before the commencement of the Term of the Lease, a CLTA title insurance policy in the amount not less then the appraised value of the Property, insuring the City's leasehold estate in the Property, subject only to permitted encumbrances. All Net Proceeds receive under any of said policies shall be deposited with the Trustee and shall be credited towards the prepayment of the remaining Lease Payments pursuant to the Lease.

Each policy of insurance required by the Lease will name the Trustee as a loss payee at its interests may appear and provide that all proceeds thereunder shall be payable to the Trustee and applied as provided in the Lease.

Substitution of Property

The City shall, at any time, have the right to substitute for all or a portion of the Property other real property of a comparable value and having a remaining useful life not less than the useful life of the Property substituted for, but only by providing the Trustee with a written certificate describing both the new Property and the Property for which it is to be substituted, and stating that such Property is of comparable value and has a useful life not less than the useful life of the Property described in the Lease for which it is being substituted. All costs or expenses incurred in connection with the substitution shall be borne by the City. The Property substituted for the original Property shall be subject to the terms of the Lease. Notwithstanding any substitution of Property, there shall be no reduction in the Basic Lease Payments due from the City under the Lease and no reduction of the aggregate fair rental value of the Property as a result of such substitution.

Damage, Destruction and Eminent Domain; Use of Net Proceeds

The City covenants that if the Property is damaged in a manner that substantially interferes with its use, such Property shall be promptly repaired, or replaced, unless such damage (taking into account any other Property lost, damaged or destroyed) would not result in the abatement of any portion of the Lease Payments.

If all of the Property shall be taken permanently under the power of condemnation or eminent domain or sold to a government entity threatening to exercise the power of eminent domain, the Lease Term shall cease as of the day possession shall be so taken. If less than all of the Property shall be taken permanently, or if all of the Property or any part thereof shall be taken temporarily, under the power of eminent domain, (a) the Lease shall continue in full force and effect and shall not be terminated by virtue of such taking and the parties waive the benefit of any law to the contrary, and (b) there shall be 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 hereunder, 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 Property.

The Net Proceeds of any insurance award resulting from any damage to the destruction of any of the Property by fire or other casualty shall be deposited in the Insurance and Condemnation Fund by the Trustee promptly upon receipt thereof and applied as set forth in the Trust Agreement.

The Net Proceeds of any condemnation or eminent domain award shall be deposited in the Insurance and Condemnation Fund and applied as set forth in the Trust Agreement.

Abatement

The Lease Payments will be abated during any period in which by reason of damage, destruction or otherwise (other than by condemnation or eminent domain) there is substantial interference with the use and occupancy by the City of any of the Property. The City and the Corporation must calculate the rental abatement amount taking into account the entire 12 month period (commencing with each March 15 within which the damage or destruction occurs). Such abatement will continue for the period commencing with such interruption of use and end with the substantial completion of the work of repair or reconstruction. In the event of any such interruption of use, the Lease will continue in full force and effect and the Lease Payment shall not be subject to abatement to the extent that the proceeds of rental interruption insurance pursuant to the Lease or amounts in the Reserve Fund are available to pay Lease Payments which would otherwise be abated under the Lease.

Assignment, Subleasing and Amendment

The Lease may not be assigned by the City. The City may sublease any of the Property or any portion thereof, subject to the following additional conditions:

(i) The Lease and the obligation of the City to make Lease Payments thereunder shall remain obligations of the City;

(ii) The City shall, within 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;

(iii) No such sublease by the City or any further sublease or use of such Property shall cause any of the Property 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;

(iv) The City shall furnish the Corporation and the Trustee with a written opinion of Special Tax Counsel, stating that such sublease and any use related to such sublease does not cause the interest components of the Lease Payments to be included in the gross income for federal income tax purposes and that such sublease complies with the Lease requirements for subleasing the Property;

(v) Each sublease and all further subleases shall be subject to termination upon default by the City under the Lease and shall not diminish the rights and remedies of the Trustee to the Property and the improvements thereon in such event of default;

(vi) Each sublease and subsequent sublease shall contain such provisions for the maintenance of insurance on any improvements constructed on the subleased 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;

(vii) Each sublease and subsequent sublease shall contain provisions securing the timely payment of all taxes and assessments arising from or related to any improvements constructed on the subleased Property, and securing such Property from the establishment and maintenance of any mechanics liens or other liens for labor or materials furnished in connection with such improvements;

(viii) Improvements existing on subleased Property at the time of the sublease may be modified by a sublease only in accordance with the provisions of the Lease Agreement; and

(ix) Prior to any sublease being effective, the City shall furnish the Trustee such opinion of counsel and certificate to evidence the satisfaction of the above conditions precedent to sublease.

The City may not, modify or cancel, or agree or consent to modify or cancel the Lease excepting only such or modification or cancellation as may be permitted by the Trust Agreement or as follows. The Lease may be amended without the consent of the Owners of the Certificates for any of the following purposes:

(a) to add to the agreements, conditions, covenants and terms contained in the Lease 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 herein to or conferred herein on the City or the Corporation, and which in either case shall not materially adversely affect the interests of the Owners;

(b) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained herein or in regard to questions arising hereunder 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;

(c) to provide for substitution or addition of Property pursuant to the Lease.

(d) to make any modifications or changes to the Lease including any increase in Basic Lease Payments resulting therefrom in order to enable the execution and delivery of Additional Certificates on a parity with the Certificates (unless otherwise provided in any Supplemental Trust Agreement) in accordance with the Trust Agreement and to make any modifications or changes necessary or appropriate in connection with the execution and delivery of Additional Certificates,

(e) to reflect the substitution of one or more components of the Property under the Lease; or

(f) to make any other modification or change to the provisions of the Lease which do not materially adversely affect the interests of the Owners of the Certificates.

Events of Default and Remedies

The following will be "events of default" under the Lease:

(i) Failure by the City to pay any Basic Lease Payment or other payment required to be paid thereunder at the time specified therein, and the continuation of such failure for a period of 10 days.

(ii) Failure by the City to observe and perform any covenant, condition or agreement in the Lease or Trust Agreement on its part to be observed or performed, other than as referred to in clause (i) above, for a period of 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 5% in aggregate principal amount of Certificates 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 shall 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.

(iii) 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 entity, or assignment by the City for the benefit of the 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 Act, as amended, or under any similar acts which may hereafter be enacted.

(iv) The occurrence of an event of default or a default under any sublease or related document entered into pursuant to the Lease.

Whenever any event of default shall have happened and be continuing, the Corporation may exercise any and all remedies available pursuant to law or granted pursuant to the Lease; however, there will be 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. The Lease provides that in the event such a default and notwithstanding any re-entry by the Corporation or termination of the Lease, the City will continue to remain liable for the payment of the Lease Payments and/or damages for breach of the Lease and the performance of all conditions contained therein and, in the event such rent and/or damages shall be payable to the Corporation at the time and in the manner as provided in the Lease, as follows:

(a) If the Corporation does not elect to terminate the Lease (as described below), the City will remain liable for the payment of all Lease Payments and the performance of all conditions contained therein and will reimburse the Corporation for any deficiency arising out of the re-leasing of the Property or, if the Corporation is unable to re-lease the Property, then for the full amount of all Lease Payments to the end of the Term, but such Lease Payments and/or deficiency will be payable only as in the Lease provided for the payment of Lease Payments, notwithstanding such repossession by the Corporation or any suit in unlawful detainer, or otherwise, brought by the Corporation for the purpose of effecting such re-entry or obtaining possession of the Equipment or exercise of any other remedy by the Corporation.

(b) In an event of default thereunder, the Corporation at its option may terminate the Lease and re-lease all or any portion of the Property. In the event of such a termination due to a default by the City (and notwithstanding any repossession of the Property by the Corporation in any manner whatsoever or the re-leasing of (or subleasing) the Property), the City must pay to the Corporation all costs, losses or damages howsoever arising or occurring payable at the same time and in the same manner as is provided therein in the case of payment of Lease Payments. The Lease provides that any surplus received by the Corporation from such re-leasing (or subleasing) shall be the absolute property of the Corporation and the City shall have no right thereto, nor shall the City be entitled to apply any surplus as a credit in the event of a deficiency in the rentals received by the Corporation from the Property.

Prepayment of Lease Payments

Notwithstanding any other provisions of the Lease, the City may on any date secure the payment of Lease Payments by a deposit with the Trustee of: (i) an amount which, together with amounts on deposit in the Lease Payment Fund, the Insurance and Condemnation Fund and the Reserve Fund, is sufficient to pay all unpaid Basic Lease Payments, including the principal and interest components thereof, in accordance with the Lease Payment Schedule set forth in the Lease, and any Additional Payments to become due pursuant to the Lease, 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 Lease Payment Fund, the Insurance and Condemnation Fund and the Reserve Fund, be fully sufficient to pay all unpaid Basic Lease Payments and any unpaid Additional Payments pursuant to the Lease on their respective Lease Payment Dates or by a permitted prepayment thereof, as the City shall instruct at the time of such deposit. In the event of such a deposit, all obligations of the City for such Basic Lease Payments shall 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, and the Lease will terminate on the date of such deposit automatically and without further action by the City or the Corporation.

The City may exercise its option to prepay the Basic Lease Payments for all of the Property attributable to the AR Certificates on any Lease Payment Date on or after March 15, 2012, by paying a prepayment price equal to (i) the aggregate unpaid principal components of all such remaining Basic Lease Payments, (ii) the interest component of such Basic Lease Payments required to be paid on such date, and (iii) all Additional Payments related thereto to become due under the Lease. Such prepayment price shall be deposited with the Trustee to be applied to the redemption of AR Certificates pursuant to the Trust Agreement. The City shall 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 City may exercise its option to prepay the Basic Lease Payments for all of the Property attributable to the Additional AR Certificates on any Lease Payment Date on or after March 15, 2014, by paying a prepayment price equal to (i) the aggregate unpaid principal components of all such remaining Basic Lease Payments, (ii) the interest component of such Basic Lease Payments required to be paid on such date, and (iii) all Additional Payments related thereto to become due under the Lease. Such prepayment price shall be deposited with the Trustee to be applied to the redemption of Additional AR Certificates pursuant to the Trust Agreement. The City shall 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 City must 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 any insurance award or a condemnation or eminent domain award with respect to such Property deposited with the Trustee for such purpose pursuant to the Lease and Trust Agreement. The Lease further provides that in the event of any such prepayment of the principal components in full such that the Trust Agreement is discharged, all amounts then on deposit in the Lease Payment Fund, the Insurance and Condemnation Fund and the Reserve Fund shall be credited towards the amounts required to be prepaid.

THE TRUST AGREEMENT

The First Supplemental authorizes and directs the Trustee to prepare, execute and deliver the Additional AR Certificates, to the Original Purchaser. Transfers of the Certificates are to be registered in a register maintained by the Trustee.

On the Closing Date the City and the Corporation will pay or cause to be deposited with Trustee the proceeds of the sale of the Additional AR Certificates as follows: (i) an amount necessary to bring the amount in the Reserve Fund to the Reserve Requirement will be deposited in the Reserve Fund, (ii) capitalized interest will be deposited in the 2004 Capitalized Interest Account of the Lease Payment Fund, and (iii) the remaining balance of the proceeds of the sale of the Additional AR Certificates will be deposited in the 2004 Trustee Acquisition Fund. All moneys held under the Trust Agreement will be invested in accordance with the restrictions set forth in the Trust Agreement.

Trustee Acquisition Fund; Acquisition Fund

The City will establish a special fund designated as the "2004 Acquisition Fund" and will keep such fund separate and apart from all other funds and moneys held by it. Moneys in the 2004 Acquisition Fund will be disbursed to pay 2004 Acquisition Costs and any 2004 Costs of Issuance paid after September 1, 2004.

The Trustee will establish a special fund designated as the "Trustee Acquisition Fund" and within such fund shall establish a "2004 Costs of Issuance Account" and disburse moneys from said fund pursuant to the First Supplement. The Trustee will deposit in the 2004 Trustee Acquisition Fund the proceeds of sale of the Additional AR Certificates required to be deposited therein and any other funds from time to time deposited with the Trustee in the 2004 Trustee Acquisition Fund for such purposes. Upon the City's written notice to the Trustee that the City has established the 2004 Acquisition Fund, the Trustee shall transfer the amount in the 2004 Trustee Acquisition Fund to the City, provided that the Trustee shall retain in the 2004 Costs of Issuance Account the amount designated for the 2004 Costs of Issuance, which shall be paid by the Trustee pursuant to the terms of the First Supplement. Moneys in the 2004 Trustee Acquisition Fund will be disbursed as follows: (1) in the case of payment of 2004 Costs of Issuance, the Trustee will disburse moneys upon the written requisition of the City Representative, and (2) during such time, if any, that the Trustee holds funds in the 2004 Trustee Acquisition Fund to pay 2004 Acquisition Costs, in the case of 2004 Acquisition Costs, the Trustee will disburse moneys from the 2004 Costs of Issuance Account upon the written requisition of the City Representative.

Subject to certain provisions of the Trust Agreement, the Trustee will be responsible for the safekeeping and investment of the moneys in the 2004 Trustee Acquisition Fund, and the City will be responsible for the safekeeping and investment of the moneys held in the 2004 Acquisition Fund prior to disbursement as described above. Until expended in accordance with the First Supplement, the moneys in the 2004 Acquisition Fund and the 2004 Trustee Acquisition Fund shall be held for the benefit of the Trustee on behalf of the Owners of the AR Additional Certificates, and the City shall promptly remit all such moneys remaining in the 2004 Acquisition Fund to the Trustee without the requirement of a demand or notice thereof in the case there is an Event of Default.

Upon the earlier of (A)(i) April 1, 2007 with respect to moneys for 2004 Acquisition Costs in the 2004 Trustee Acquisition Fund, if applicable, and (ii) December 1, 2004 with respect to moneys for 2004 Costs of Issuance in the 2004 Costs of Issuance Account, or (B) or the filing with the Trustee by the Corporation of a certificate stating that all of the 2004 Acquisition Costs and/or 2004 Costs of Issuance, as applicable, have been paid, the Trustee will withdraw all remaining moneys in the 2004 Trustee Acquisition Fund and will transfer such moneys for deposit in the Lease Payment Fund to be applied to the payment of the Basic Lease Payments as the same shall become due and payable. Upon the request of the City Representative supported by an opinion of Special Counsel, the Trustee may retain such remaining moneys in the 2004 Trustee Acquisition Fund.

Moneys in the 2004 Trustee Acquisition Fund and the 2004 Acquisition Fund in Permitted Investments subject to the restrictions and conditions set forth in the Trust Agreement. All investment income on moneys held in the 2004 Trustee Acquisition Fund will be held in the 2004 Trustee Acquisition Fund, and all investment income on moneys held in the Acquisition Fund will be held in the 2004 Acquisition Fund.

Assignment of Rights in Lease

Pursuant to the Assignment Agreement and the First Supplement, the Corporation has assigned and set over to the Trustee its rights in the Lease, including but not limited to all of the Corporation's rights to receive and collect all the Basic Lease Payments, and all other amounts required to be deposited in the Lease Payment Fund pursuant to the Lease or the Trust Agreement. All Basic Lease Payments and such other amounts to which the Corporation may at any time be entitled will be paid directly to the Trustee, and all of the Basic Lease Payments collected or received by the Corporation will be deemed to be held and to have been collected or received by the Corporation as the agent of the Trustee, and if received by the Corporation at any time shall be deposited by the Corporation with the Trustee within one Business Day after the receipt thereof, and all such Basic Lease Payments and such other amounts will be forthwith deposited by the Trustee upon the receipt thereof in the Lease Payment Fund.

Lease Payment Fund

The Trustee has established a special fund designated as the "Lease Payment Fund," and within such fund the Trustee will establish a "2004 Capitalized Interest Account." All moneys at any time deposited by the Trustee in the Lease Payment Fund will be held by the Trustee in trust for the benefit of the Owners of the Certificates. So long as any Certificates are Outstanding, neither the City nor the Corporation will have beneficial right or interest in the Lease Payment Fund or the moneys deposited therein, except only as provided in the Trust Agreement, and such moneys will be used and applied by the Trustee as set forth in the Trust Agreement.

There will be deposited in the Lease Payment Fund all Basic Lease Payments received by the Trustee, and any other moneys required to be deposited therein pursuant to the Lease or pursuant to the Trust Agreement. All amounts in the Lease Payment Fund will be used and withdrawn by the Trustee solely for the purpose of paying the principal, interest and prepayment premiums, if any, with respect to the Certificates as the same shall become due and payable.

Any surplus remaining in the Lease Payment Fund after redemption and payment of all Certificates, including premiums, if any, and accrued interest, if any, and payment of any applicable fees and expenses of the Trustee, or provision for such redemption or payment having been made, shall be drawn by the Trustee and remitted to the City.

Reserve Fund

The Trustee has established a special fund designated as the "Reserve Fund." All moneys at any time on deposit in the Reserve Fund will be held by the Trustee in trust for the benefit of the Owners of the Certificates. Such moneys will be held in trust as a reserve for the payment when due of all the Basic Lease Payments to be paid pursuant to the Lease.

At the option of the Corporation as directed by the City, a Credit Facility in the amount of all or a portion of the Reserve Requirement may be substituted for the funds held by the Trustee in the Reserve Fund provided that:

(i) the Credit Facility is issued by a bank or other financial institution and the Credit Facility is rated the equivalent of the rating on the Certificates by the Rating Agencies then rating the Credit Facility or, if issued by an insurance company, such company and its claims paying rating or obligations insured by such insurance company at the time of issuance of the Credit Facility are rated at least equivalent to the rating on the Certificates by the Rating Agencies then rating the Certificate, but in no case will the Credit Facility be rated lower than "A" by both Rating Agencies;

(ii) such Credit Facility is renewable or extendable on an annual basis and such Credit Facility unconditionally permits the Trustee to draw funds thereunder not less than 10 days prior to the expiration of the Credit Facility in the event the term of the Credit Facility (not including any optional renewals thereof) is less than the final maturity date of the Certificates;

(iii) such Credit Facility is issued for at least an initial three year term (or the term remaining to the maturity of the Certificates, if shorter); and

(iv) such Credit Facility provides for a reimbursement term of not less than three years from the date of any draw thereunder;

(v) such Credit Facility contains terms consistent with the Trust Agreement requirements regarding the substitution of a Credit Facility, as described below; and

(vi) The Trustee receives written evidence from the Rating Agencies then rating the Certificates that the substitution will not cause the Certificates to be downgraded.

If the Corporation, at the direction of the City, exercises its option to substitute the Credit Facility for the moneys held by the Trustee in the Reserve Fund, then such moneys, on or after date that the Credit Facility becomes effective, shall be transferred to the Lease Payment Fund and used as a credit against Basic Lease Payments or constitute a partial prepayment thereof as shall be directed by the City to the Trustee in writing. Upon any such transfer, neither the City nor the Corporation shall direct investment of any amounts transferred so as to provide a yield greater than the yield on the Certificates.

If the Corporation, at the direction of the City, exercises its option to substitute the Credit Facility for the moneys held by the Trustee in the Reserve Fund, the City shall give prompt notice of such substitution to the Rating Agencies.

If a Credit Facility is substituted for the moneys held by the Trustee in the Reserve Fund, then, notwithstanding any other provision of the Trust Agreement, (i) the Trustee will draw upon the Credit Facility for amounts which the terms of the Trust Agreement require to be transferred from the Reserve Fund, and (ii) amounts required by the terms of the Trust Agreement to be deposited or transferred to the Reserve Fund shall (a) in the event the Credit Facility has been drawn upon, be paid to the Credit Facility issuer if the City or the Corporation has an outstanding reimbursement obligation to such issuer resulting from such draw, which will result in an increase in the amount of the Credit Facility equal to such payment or (b) otherwise be transferred or deposited pursuant to the terms of the Trust Agreement as if no deposit or transfer to the Reserve Fund is required.

Semiannually on each January 15 and July 15, beginning July 15, 2002, the Trustee shall transfer any moneys on hand in the Reserve Fund in excess of the Reserve Requirement to the Lease Payment Fund to be credited to the Basic Lease Payments next coming due and payable. In determining the amount of the Basic Lease Payment required to be paid on each Lease Payment Date, the City and the Trustee shall be entitled to take moneys to be transferred from the Reserve Fund into account. Upon receipt by the Trustee or the transfer by the Trustee from the Reserve Fund of the Basic Lease Payment required to be paid by the City each January 15 and July 15, the Reserve Requirement as of such January 15, and July 15, shall be determined as if the Basic Lease Payment and the corresponding principal and interest with respect to the Certificates becoming due and payable on the immediately next Certificates Payment Date have been duly paid.

If on any Interest Payment Date the moneys available in the Lease Payment Fund do not equal the amount of the principal and interest with respect to the Certificates then coming due and payable, the Trustee will apply the moneys available in the Reserve Fund to make delinquent Basic Lease Payments on behalf of the City by transferring the amount necessary for this purpose to the Lease Payment Fund. Thereafter, the Trustee shall apply delinquent Basic Lease Payments with respect to which moneys have been advanced from the Reserve Fund, such Basic Lease Payments shall be deposited in the Reserve Fund to the extent of such advance.

If on any Interest Payment Date, the moneys on deposit in the Reserve Fund and the Lease Payment Fund (excluding amounts required for payment of past due principal or interest and redemption premium, if any, with respect to Certificates not presented for payment) are sufficient to pay all Outstanding Certificates, including all principal, interest and redemption premiums, if any, plus any additional amounts which may be payable under the Lease, the Trustee will notify the City Representative and transfer all amounts then on hand in the Reserve Fund to the Lease Payment Fund to be applied to the payment of the Basic Lease Payments on behalf of the City, and such moneys will be distributed to the Owners of Certificates in accordance with the Trust Agreement. Any amounts remaining in the Reserve Fund upon payment in full of all Outstanding Certificates, or upon defeasance, shall be withdrawn by the Trustee and paid to the City.

Insurance and Condemnation Fund

Any Net Proceeds of insurance against accident to or destruction of any item of the portion of the Property collected by the City in the event of any such accident or destruction shall be paid to the Trustee by the City and deposited by the Trustee in a special fund designated as the "Insurance and Condemnation Fund". If the City determines within 90 days following the date of such deposit, that the replacement, repair, restoration or modification of such Property is not economically feasible or in the best interest of the City, then the Trustee shall use such Net Proceeds to pay any unpaid Additional Payments attributable to the Property and transfer the remaining amounts to the Lease Payment Fund to be applied to prepayment of Basic Lease Payments and redemption of Certificates as provided in the Trust Agreement and the Lease; provided, however, that in the event of damage or destruction of a portion of the Property in full, such Net Proceeds shall be transferred to the Lease Payment Fund only if sufficient, together with other moneys available therefor, to cause the prepayment of the principal components of all unpaid Basic Lease Payments allocable to such Property. All Net Proceeds deposited in the Insurance and Condemnation Fund and not so transferred to the Lease Payment Fund or used to make Additional Payments shall be applied to the replacement, repair, restoration or modification of the damaged or destroyed Property by the City.

Any Net Proceeds of condemnation or eminent domain proceedings (or sale to a government threatening to exercise the power of eminent domain) with respect to any portion of the Property collected by the City shall be deposited by the Trustee in the Insurance and Condemnation Fund and disbursed by the Trustee (i) to pay any unpaid Additional Payments and to prepay Basic Lease Payments for such portion of the Property, where use of such Property is not affected and such proceeds are needed to repair or rehabilitate the Property, and to redeem a portion of the Certificates as provided in the Trust Agreement, or (ii) to repair, rehabilitate or replace the Property where the use of the Property is not materially affected but the Property must be rehabilitated, repaired or replaced, with any balance of such Net Proceeds being applied to make up any deficiency in any funds or accounts established under the Trust Agreement or if no deficiency exists then said amounts shall be paid to the City, or (iii) to prepay Basic Lease Payments and to redeem a portion of the Certificates as provided in the Trust Agreement, where any partial taking of the Property materially affects its use or there is a full taking of a Property.

All investment income on moneys held in the Insurance and Condemnation Fund will be held in the Insurance and Condemnation Fund.

Investment of Moneys

The moneys and investments held by the Trustee under the Trust Agreement are irrevocably held in trust for the benefit of the Owners of the Certificates, and for the purposes specified in the Trust Agreement, and such moneys, and any income or interest earned thereon, will be expended only as provided in the Trust Agreement, and will not be subject to levy or attachment or lien by or for the benefit of any creditor of the Corporation, the Trustee or the City or any Owner of Certificates. Investments in any and all funds may be commingled for the purposes of making, holding and disposing of investments provided that the Trustee shall at all times account for such investments strictly in accordance with the particular funds to which they are credited and otherwise as provided in the Trust Agreement.

Moneys held by the Trustee will be invested and reinvested by the Trustee in Permitted Investments in accordance with the written order of the City Representative and, in the absence of such written order, shall be invested by the Trustee in Permitted Investments set forth in (5) of the definition thereof.

The Trustee is not responsible or liable for selection or liquidation of investments or any loss suffered in connection with any investment of funds made by it in accordance with the Trust Agreement.

For the purpose of determining the amount in any fund, all Permitted Investments shall be valued as provided in the definition of "Value" in the Trust Agreement, which definition is contained in the definition of Permitted Investments. The Trustee will sell at the best price obtainable after accepting at least three bids or consulting at least three potential bidders, or present for redemption, any Permitted Investment so purchased by the Trustee whenever it is necessary in order to provide moneys to meet any required payment.

Rebate

The Corporation and the City individually covenant that each such entity shall take all action as is necessary to comply with the rebate provisions of Section 148 of the Code and the Trustee shall establish and maintain a fund separate from any other fund designated the "Rebate Fund," the funds of which will be pledged to secure the payments to the United States Government for purposes of satisfying the rebate provisions.

Modification or Amendment

The Trust Agreement and the rights and obligations of the Owners of the Certificates and the Lease and the rights and obligations of the parties thereto, may be modified or amended at any time by a supplemental agreement which will become effective when the written consents the Owners of at least 60% in aggregate principal amount of the Certificates then Outstanding, exclusive of Certificates disqualified as provided in the Trust Agreement are filed with the Trustee. No such modification or amendment shall (i) extend or have the effect of extending the fixed maturity of any Certificate or reducing the interest rate with respect thereto or extending the time of payment of interest, or reducing the amount of principal thereof or reducing any premium payable upon the redemption thereof, without the express consent of the Owner of such Certificate, or (ii) reduce or have the effect of reducing the percentage of Certificates required for the affirmative vote or written consent to an amendment or modification of the Trust Agreement or the Lease, or (iii) modify any of the rights or obligations of the Trustee without its written assent thereto.

The Trust Agreement and the rights and obligations of the Owners of the Certificates and the Lease and the rights and obligations of the parties thereto, may be modified or amended at any time by a supplemental agreement, without the consent of such Owners, but only to the extent permitted by law and only (i) to add to the covenants and agreements of any party, other covenants to be observed, or to surrender any right or power herein reserved for the Corporation or the City, (ii) to cure, correct or supplement any ambiguous or defective provision contained in the Trust Agreement or the Lease, (iii) in regard to questions arising under the Trust Agreement or under the Lease, as the parties deem necessary or desirable, which shall not be inconsistent with the Trust Agreement or the Lease, and which do not materially adversely affect the interest of the Trustee or the Owners of the Certificates, (iv) to modify the rebate provisions of the Trust Agreement, or (v) to modify the legal description of the Property as permitted by the Lease.

Limited Liability of the City

Except for the payment of Lease Payments when due in accordance with the Lease and the performance of the other covenants and agreements of the City contained in the Trust Agreement and the Lease, the City has no pecuniary obligation or liability to any of the other parties or to the Owners of the Certificates with respect to the Trust Agreement or the terms, execution, delivery or transfer of the Certificates, or the distribution of Basic Lease Payments to the Owners by the Trustee. Neither the City nor the Corporation shall have obligation or liability to any of the other parties or to the Owners of the Certificates with respect to the performance by the Trustee of any duty imposed on the Trustee under the Trust Agreement, except to the extent the Trustee's action was at the authorized direction of such parties.

Events of Default

"Events of Default" under the Lease shall be Events of Default under the Trust Agreement:

(i) Failure by the City to pay any Basic Lease Payment or other payment required to be paid hereunder at the time specified herein, and the continuation of such failure for a period of 10 days.

(ii) Failure by the City to observe and perform any covenant, condition or agreement in this Lease or the Trust Agreement on its part to be observed or performed, other than as referred to in (i) for a period of 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 5% in aggregate principal amount of Certificates 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 shall 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.

(iii) 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 Act, as amended, or under any similar acts which may hereafter by enacted.

(iv) The occurrence of an event of default or a default under any sublease or related document entered into pursuant to the Lease Agreement.

Remedies

If an Event of Default shall occur, then and in each and every such case during the continuation of the Event of Default, the Trustee may, and upon request of the Owners of at least 25% in aggregate principal amount of the Certificates then Outstanding shall (subject to the provision of an indemnity bond to the Trustee, if so requested), exercise any and all remedies available pursuant to law or granted pursuant to Lease; provided, however, there shall be no right under any circumstances to accelerate or otherwise to declare any Lease Payment by the City not then in default to be immediately due and payable.

Application of Funds

All moneys received by the Trustee pursuant to any right given or action taken in exercising remedies following an Event of Default will be deposited into the Lease Payment Fund and be applied by the Trustee in the following order upon presentation of the several Certificates, and the stamping thereon of the payment if only partially paid, or upon the surrender thereof if fully paid--

First, to the payment of the costs and expenses of the Trustee and of the Certificate Owners in declaring such Event of Default, including reasonable compensation to its or their agents, attorneys and counsel;

Second, to the payment to the persons entitled thereto of all installments of interest then due in the order of maturity of such installment, and, if the amount available is not sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Third, to the payment to the persons entitled thereto of the unpaid principal of any Certificates which has become due, in the order of their due dates, with interest on the overdue principal and interest at a rate equal to the rate paid with respect to the Certificates and, if the amount available is not sufficient to pay in full all the amounts due with respect to the Certificates on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference.

Events of Default; Institution of Legal Proceedings

If one or more Events of Default shall occur and be continuing, the Trustee in its discretion may, and upon the written request of the Owners of a majority in principal amount of the Certificates then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of the Owners of Certificates by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained in the Trust Agreement, or in aid of the execution of any power granted in the Trust Agreement, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee shall deem most effectual in support of its rights or duties thereunder.

Limitation on Certificate Owners' Right to Sue

No Owner of any Certificate has the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Trust Agreement, unless (i) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default under the Lease Agreement; (ii) the Owners of at least 25% in aggregate principal amount of all the Certificates then Outstanding shall have made written request upon the Trustee to exercise the powers granted or to institute such action, suit or proceeding in its own name; (iii) said Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (iv) the Trustee shall have refused or omitted to comply with such request for period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Defeasance

If and when all Outstanding Certificates are paid and discharged in any one or more the following ways--

(i) by paying or causing to be paid the principal of and interest and redemption premiums, if any, with respect to all Certificates Outstanding, as and when the same become due and payable;

(ii) by depositing with the Trustee, in trust, at or before maturity, money which, together with amounts then on deposit in the Lease Payment Fund and the Reserve Fund and available therefor, is sufficient to pay all Certificates Outstanding, including all principal and interest and prepayment premium, if any; or

(iii) by depositing with the Trustee, in trust, cash and Federal Securities in such amount as will (as verified by an independent certified public accountant), together with interest to accrue thereon and moneys then on deposit in the Lease Payment Fund and the Reserve Fund and available therefor together with the interest to accrue thereon, be fully sufficient to pay and discharge all Certificates (including all principal, interest and prepayment premiums) at or before their maturity date; or

(iv) by depositing with the Trustee, under an escrow deposit and trust agreement, security for the payment of Basic Lease Payments as more fully described in the Lease, said security to be held by the Trustee as agent for the City to be applied by the Trustee to pay the Basic Lease Payments as the same become due and payable and prepay the Basic Lease Payments in full on any prepayment date pursuant to the Lease; then

notwithstanding that any Certificates shall not have been surrendered for payment, all obligations of the Corporation, the Trustee and the City with respect to all Outstanding Certificates shall cease and terminate, except only the obligation of the Trustee to pay or cause to be paid, from Basic Lease Payments paid by or on behalf of the City from funds deposited pursuant to paragraphs (ii) thru (iv) above, to the Owners of the Certificates not so surrendered and paid all sums due with respect thereto, and in the event of deposits pursuant to paragraphs (ii) thru (iv), the Certificates shall continue to represent direct and proportionate interests of the Owners thereof in Basic Lease Payments under the Lease.

Additional Certificates

By execution of a Supplemental Trust Agreement without the consent of the Owners, the City, the Corporation and the Trustee may provide for the execution and delivery of Additional Certificates representing additional Basic Lease Payments, and the Trustee may execute and deliver to or upon the written request of the City, such Additional Certificates, in such principal amount as shall reflect the additional principal components of the Basic Lease Payments. The proceeds of such Additional Certificates may be applied to acquire, construct and improve real property owned by the City or the improvements thereon or related thereto, or to refund Certificates. Such Additional Certificates may only be executed and delivered upon compliance with the following requirements:

(i) The City and the Corporation shall not be in default under the Trust Agreement or any Supplemental Trust Agreement or under the Lease;

(ii) The Additional Certificates shall be payable as to principal on April 1 or October 1 of each year in which principal components are due and shall be payable as to interest on April 1 and October 1 of each year commencing after their date of execution and delivery and extending no longer than the useful life of the improvements financed by such Additional Certificates;

(iii) The aggregate principal amount of Certificates executed and delivered and at any time Outstanding hereunder or under any Supplemental Trust Agreement shall not exceed any limit imposed by law, by the Trust Agreement or by any Supplemental Trust Agreement;

(iv) The Lease shall have been amended so as to modify the Basic Lease Payments payable by the City thereunder to be equal in aggregate amount to the principal and interest represented by the Certificates that are Outstanding plus such Additional Certificates (the "New Basic Lease Payments"), payable at such times and in such manner as may be necessary to provide for the payment of the principal and interest represented by all such Certificates; provided, however, that no such amendment shall be made such that the sum of the New Basic Lease Payments, including any such amendment, plus Additional Payments shall be in excess of the fair rental value of the Equipment after taking into account the use of the proceeds of any Additional Certificates, executed and delivered in connection therewith (evidence of the satisfaction of this condition shall be by written certificate of the City);

(v) If Additional Certificates are to be executed and delivered for the purpose of permitting the City to further improve or acquire additional Projects, the new Basic Lease Payments shall not exceed the fair rental value of the existing Property (including any real property added Property) for the remainder of the Lease Term;

(vi) Such Supplemental Trust Agreement shall provide that from such proceeds or other sources an amount shall be deposited in the Reserve Fund so that the following such deposit there shall be on deposit in the Reserve Fund an amount at least equal to the Reserve Fund Requirement for the New Basic Lease Payments; and

(vii) Such Supplemental Trust Agreement shall provide principal payment dates and/or mandatory redemption of Additional Certificates in amounts sufficient to provide for the payment of the Additional Certificates when principal and interest components on said Additional Certificates are due.

Any Additional Certificates must be on parity with, and each Owner thereof shall have the same rights upon an Event of Default as, the Owner of any other Certificates delivered under the Trust Agreement, except as otherwise provided in the Supplemental Trust Agreement under which Additional Certificates are executed and delivered.

Before such Additional Certificates shall be executed and delivered, the City and Corporation shall file or cause to be filed certain documents with the Trustee, including, in particular, an opinion of Special Counsel addressing certain issues relating to the Additional Certificates and a written certification of the City stating that the requirements for the issuance of Additional Certificates as provided in the Trust Agreement have been satisfied.

Rights of Ambac Assurance

The Trust Agreement grants Ambac Assurance various other rights, including the right to control legal proceedings, consent to any reorganization or liquidation plan with respect to the City, receive various notices and direct an accounting.

CONTINUING DISCLOSURE CERTIFICATE FOR EACH SERIES OF THE CERTIFICATES

Definitions Used in the Continuing Disclosure Certificates

"Annual Report" means the Annual Report to be filed by the City pursuant to the Continuing Disclosure Certificate.

"Beneficial Owner" shall mean any person which (i) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Certificates (including persons holding Certificates through nominees, depositories or other intermediaries), or (ii) is treated as the owner of the Certificates for federal income tax purposes.

"Dissemination Agent" shall mean the City Administrative Officer or any other person authorized to act on his behalf, acting in the capacity of Dissemination Agent, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

"Listed Events" shall mean any of the events designated as such and listed in the Continuing Disclosure Certificate, more particularly consisting of:

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults;

(iii) modifications to rights of Certificate owners;

(iv) optional, contingent or unscheduled bond calls;

(v) defeasances;

(vi) rating changes;

(vii) adverse tax opinions or events affecting the tax-exempt status of the Certificates;

(viii) unscheduled draws on the debt service reserves reflecting financial difficulties;

(ix) any unscheduled draw on credit enhancements reflecting financial difficulties;

(x) substitution of credit or liquidity providers, or their failure to perform; and

(xi) release, substitution or sale of property securing repayment of the Certificates.

"National Repository" means any Nationally Recognized Municipal Securities Information Repository under the Rule.

"Official Statement" means this final Official Statement issued by the Corporation in connection with the sale of the Program AX Certificates and the Additional AR Certificates.

"Participating Underwriter" means any of the original underwriters of the Program AX Certificates or the Additional AR Certificates, as applicable, required to comply with the Rule in connection with offering of the Program AX Certificates or the Additional AR Certificates, as applicable.

"Repository" means each National Repository and each State Repository.

"Rule" means 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 Repository" means any public or private state information depository or entity operated or designated by the State of California and recognized as a state information depository for the purpose of the Rule. As of the date of the Continuing Depository Certificate, there is no State Repository.

Provisions in the Continuing Disclosure Certificate

The City shall cause the Dissemination Agent to provide, not later than June 30 of each year, commencing June 30, 2005, to each Repository an Annual Report consistent with the Continuing Disclosure Certificate. If the City is unable to provide to the Repositories an Annual Report by the date required in the Continuing Disclosure Certificate, the City shall send a notice to each Repository in the form required by the Continuing Disclosure Certificate.

The Annual Report shall consist of:

(i) The audited financial statements of the City for the prior fiscal year. A summary of significant account policies of the City is set forth in Note 1 to the General Purpose Financial Statements of the City for the Year Ended June 30, 2003 included in an Appendix to the Official Statement. If the City's audited financial statements are not available by the time the Annual Report is required to be filed, 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.

(ii) An update to the following subsections and tables set forth in Appendix A to the Official Statement: "BUDGET AND REVENUES," "MAJOR GENERAL FUND REVENUE SOURCES," "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.

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. 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, if any, provided that any notice of Listed Event listed as (iv) and (v) in the definition of Listed Events need not be so given any earlier than the notice (if any) of the underlying event is given to Owners of affected Program AX Certificates or Additional AR Certificates, as applicable, pursuant to the Trust Agreement.

The City's obligations under the applicable Continuing Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Program AX Certificates or the Additional AR Certificates, as applicable. If such termination occurs prior to the final maturity of the Program AX Certificates or Additional AR Certificates, as applicable, the City shall give notice of such termination in the same manner as for a Listed Event.

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 the Continuing 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 the Continuing Disclosure Certificate.

Notwithstanding any other provision of the Continuing Disclosure Certificate, the City may amend it, and any provision thereof may be waived, provided that the following conditions are satisfied:

(i) If the amendment or waiver relates to the provisions regarding the City's obligations to file the Annual Report or report Listed Events or the content of the Annual Report, 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 Program AX Certificates or the Additional AR Certificates, as applicable, or the type of business conducted;

(ii) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Program AX Certificates, or the Additional AR Certificates, as applicable, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(iii) The amendment or waiver either (a) is approved by the holders of the Program AX Certificates or the Additional AR Certificates, as applicable, in the same manner as provided in the Trust Agreement for amendments to the Trust Agreement with the consent of Certificate Holders, or (b) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the Program AX Certificates or the Additional AR Certificates, as applicable.

In the event of any amendment or waiver of a provision of the Continuing 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 presentation) of financial information or operating data being presented by the City. 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, 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 new accounting principles and those prepared on the basis of the former accounting principles.

In the event of a failure by the City to comply with any provision of the applicable Continuing Disclosure Certificate any Owners or Beneficial Owner of the Program AX Certificates or the Additional AR Certificates, as applicable, 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 Continuing Disclosure Certificate. A default under the Continuing Disclosure Certificate shall not be deemed an Event of Default under the Trust Agreement, and the sole remedy under the Continuing Disclosure Certificate in the event of any failure of the City to comply with the Continuing Disclosure Certificate shall be an action to compel performance. The Continuing Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriters, the Owners and the Beneficial Owners from time to time of the Program AX Certificates or the Additional AR Certificates, as applicable, and shall create no rights in any other person or entity.

APPENDIX D

FORMS OF OPINIONS OF SPECIAL COUNSEL

CITY OF LOS ANGELES

FOUNDED 1781

APPENDIX D

FORMS OF OPINIONS OF SPECIAL COUNSEL

April 29, 2004

Municipal Improvement Corporation of Los Angeles
Los Angeles, California

City of Los Angeles
Los Angeles, California

Certificates of Participation (Equipment Acquisition Program AX)
Evidencing the Proportionate Interests of the Owners Thereof in Certain Basic
Lease Payments to be Made by the City of Los Angeles Pursuant to a
Lease Agreement with the Municipal Improvement Corporation of Los Angeles
(Final Opinion)

Ladies and Gentlemen:

I have acted as Special Counsel relative to the execution and delivery of $64,170,000 aggregate principal amount of Certificates of Participation (Equipment Acquisition Program AX) (the "Certificates") representing undivided and proportionate interests of the owners thereof in certain Basic Lease Payments and any prepayments thereof to be made by the City of Los Angeles (the "City") under a Lease Agreement dated as of April 1, 2004 (the "Lease"), by and between the City and the Municipal Improvement Corporation of Los Angeles, a nonprofit corporation formed under the laws of the State of California (the "Corporation"). The Certificates are being delivered pursuant to a Trust Agreement dated as of April 1, 2004 (the "Trust Agreement"), by and among the City, the Corporation and U.S. Bank National Association, as trustee (the "Trustee").

I have examined originals and copies certified to me as being true and complete copies of the record of proceedings submitted to me and such other documents, records and matters of law as I have deemed necessary for the purpose of the opinions expressed herein, including the opinions of Kutak Rock, LLP, Special Tax Counsel, and counsel to the City and the Corporation.

The Lease has been entered into by the City for the purpose of leasing certain equipment described therein. The City is obligated under the Lease to make Lease Payments, including the Basic Lease Payments, from any source of legally available funds, subject to provisions in the Lease providing for abatement of Lease Payments in certain circumstances. The Corporation has assigned all of its right, title and interest in and to the Basic Lease Payments under the Lease to the Trustee pursuant to the Trust Agreement. The Trust Agreement and the rights and obligations of the Corporation and the owners of the Certificates may be modified or amended in the manner and subject to the limitations contained in the Trust Agreement.

The Certificates are authorized to be executed and delivered in fully registered form in denominations of $5,000, or any integral multiple thereof, representing principal components of the Basic Lease Payments. A component of each Basic Lease Payment is designated as interest. The Certificates are dated the date of delivery, and mature on April 1 in the years and in the amounts set forth in the Trust Agreement.

The principal of and interest with respect to the Certificates are payable in lawful money of the United States of America. Such principal is payable at the principal corporate trust office of the Trustee in Los Angeles, California. Interest with respect to the Certificates is payable semiannually on April 1 and October 1 of each year, beginning October 1, 2004, until maturity or redemption of such Certificates by check of the Trustee mailed to the registered owners thereof or by wire in certain circumstances.

The Certificates are subject to prepayment at the times, upon the terms and subject to the conditions set forth in the Certificates and in the Trust Agreement.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. I have not undertaken to determine, or to inform any person, whether or not any such actions are taken or events do occur. I have assumed the genuineness of all documents and signatures presented to me, whether as originals or copies, and the due and legal execution and delivery thereof, and their validity against any parties other than the City and the Corporation. In examining the documents and matters referred to above, I have not undertaken to verify independently and have assumed the accuracy of the factual matters represented, warranted or certified in such documents and the legal conclusions contained in the opinions referred to in the second paragraph hereof. Furthermore, I have assumed compliance with the covenants and agreements contained in the Trust Agreement, including without limitation, covenants with which compliance is necessary to assure that future actions or events will not cause the interest component of the Certificates to be includable in gross income for federal income tax purposes. I am not passing upon and do not assume any responsibility for the accuracy, completeness or fairness of any of the statements contained in the Official Statement and I have not independently verified the accuracy, completeness or fairness of any such statements.

In addition, the opinions expressed below are qualified to the extent that enforcement of the agreements referred to in such paragraphs may be limited by bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium or similar laws or judicial decisions or equitable principles relating to or limiting creditors' rights generally and limitations on the legal remedies against public agencies in the State of California. I express no opinion on the availability of equitable remedies.

Based upon and subject to the foregoing, and in reliance thereon, as of the date hereof, I am of the following opinions:

1. The Lease has been duly and validly authorized, executed and delivered by the City and the Corporation, and constitutes the legally valid and binding obligation of the City and the Corporation, respectively, enforceable in accordance with its terms.

2. The Trust Agreement has been duly and validly authorized, executed and delivered by the City and the Corporation and, assuming due execution and delivery by the Trustee, constitutes the legally valid and binding obligation of the City and the Corporation, respectively, enforceable in accordance with its terms, and the Certificates have been duly executed and delivered thereunder.

3. The assignment continued in the Trust Agreement constitute a valid assignment by the Corporation to the Trustee of such rights in the Lease and Trust Agreement as it purports to assign.

4. The portion of each Basic Lease Payment due under the Lease Agreement designated as and comprising interest (including original issue discount) and received by the owners of the Certificates is excluded from gross income for federal income tax purposes. Furthermore, such interest portion (including original issue discount) of each Basic Lease Payment does not constitute an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations by the Internal Revenue Code of 1986, as amended (the "Code"). However, the interest portion (including original issue discount) of each Basic Lease Payment received by the owners thereof will be included in the adjusted current earnings of certain corporations, and such corporations are required to include in the calculation of alternative minimum taxable income 75% of the excess of such corporations' adjusted current earnings over their alternative minimum taxable income (determined without regard to this adjustment and prior to reduction for certain net operating losses). The opinions set forth in this paragraph are subject to continuing compliance by the City with covenants regarding federal tax law contained in the Trust Agreement and the Tax and No Arbitrage Certificate. Failure to comply with such covenants could cause the interest portion (including original issue discount) of the Certificates to be included in gross income retroactive to the date of delivery of the Certificates. Although I am of the opinion that the interest portion (including original issue discount) of each Basic Lease Payment is excluded from gross income for federal income tax purposes, the accrual or receipt of the interest portion (including original issue discount) of each Basic Lease Payment may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. I express no opinion regarding any such consequences. Purchasers of the Certificates, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrift or other financial institutions, certain recipients of Social Security or Railroad Retirement benefits, or taxpayers who may be deemed to have incurred or continued indebtedness to carry tax-exempt obligations, are advised to consult their tax advisors as to the tax consequences of purchasing or holding the Certificates.

5. The portion of each Basic Lease Payment due under the Lease Agreement designated as and comprising interest and received by the owners of the Certificates is exempt from present State of California personal income taxes.

I express no opinion regarding other income tax consequences caused by ownership or disposition of, or the accrual or receipt of interest on, the Certificates. In rendering the opinions set forth in paragraphs 4 and 5 above, I am relying on the opinion of Kutak Rock, LLP, Special Tax Counsel, of even date herewith and said opinions are subject to the condition that the City comply with all requirements of the Code which must be satisfied subsequent to execution and delivery of the Certificates in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with all such requirements.

My opinion is limited to matters of California law and applicable federal law, and I assume no responsibility as to the applicability of laws of other jurisdictions.

I have acted in this transaction as Special Counsel to the City and the Corporation. This opinion is issued to you as the addressees solely for your benefit in connection with the initial execution and delivery of the Certificates on the date hereof. Except for Kutak Rock, LLP, in its opinion referred to above, no other persons other than you may rely upon this letter without my express written consent. This opinion may not be utilized by you for any other purpose and may not be quoted by you without my express written consent. I express no opinion on any matter other than as specifically set forth herein, and this opinion speaks only as of the date hereof and is limited to the opinions expressly stated herein. I disclaim any obligation to review, update, revise or supplement this opinion subsequent to its date, whether by reason of a change in law, legislative or regulatory actions, judicial decision or for any other reason that may hereafter occur.

Respectfully submitted,

April 29, 2004

Municipal Improvement Corporation of Los Angeles
Los Angeles, California

City of Los Angeles
Los Angeles, California

Additional Certificates of Participation (Real Property Improvements Program AR), Series 2004
Evidencing the Proportionate Interests of the Owners Thereof in Certain New Basic
Lease Payments to be Made by the City of Los Angeles Pursuant to a
Lease Agreement with the Municipal Improvement Corporation of Los Angeles
(Final Opinion)

Ladies and Gentlemen:

I have acted as Special Counsel relative to the execution and delivery of $16,875,000 aggregate principal amount of Additional Certificates of Participation (Real Property Improvements Program AR), Series 2004 (the "Certificates") representing undivided and proportionate interests of the owners thereof in certain New Basic Lease Payments and any prepayments thereof to be made by the City of Los Angeles (the "City") under a Lease Agreement dated as of April 1, 2002 (the "Original Lease"), as amended by a First Amendment to Lease Agreement dated as of April 1, 2004 (the "First Amendment to Lease" and together with the Original Lease, the "Lease"), by and between the City and the Municipal Improvement Corporation of Los Angeles, a nonprofit corporation formed under the laws of the State of California (the "Corporation"). The Certificates are being delivered pursuant to a Trust Agreement dated as of April 1, 2002 (the "Original Trust Agreement"), as amended and supplemented by a First Supplemental Trust Agreement dated as of April 1, 2004 (the "First Supplement," and together with the Original Trust Agreement, the "Trust Agreement"), by and among the City, the Corporation and Wells Fargo Bank National Association, as trustee (the "Trustee"). The City and the Corporation entered into a Site Lease and Grant of Support Easement dated as of April 1, 2002 (the "Original Site Lease"), as amended by a First Amendment to Site Lease and Grant of Support Easement dated as of April 1, 2004 (the "First Amendment to Site Lease" and together with the Original Site Lease, the "Site Lease"), pursuant to which the City leased to the Corporation certain real property described therein.

I have examined originals and copies certified to me as being true and complete copies of the record of proceedings submitted to me and such other documents, records and matters of law as I have deemed necessary for the purpose of the opinions expressed herein, including the opinions of Kutak Rock, LLP, Special Tax Counsel, and counsel to the City and the Corporation.

The Lease has been entered into by the City for the purpose of leasing certain real property described therein. The City is obligated under the Lease to make Lease Payments, including the New Basic Lease Payments, from any source of legally available funds, subject to provisions in the Lease providing for abatement of New Basic Lease Payments in certain circumstances. The Corporation has assigned all of its right, title and interest in and to the New Basic Lease Payments under the Lease to the Trustee pursuant to the First Supplement. The Trust Agreement and the rights and obligations of the Corporation and the owners of the Certificates may be modified or amended in the manner and subject to the limitations contained in the Trust Agreement.

The Certificates are authorized to be executed and delivered in fully registered form in denominations of $5,000, or any integral multiple thereof, representing principal components of a portion of the New Basic Lease Payments. A component of each New Basic Lease Payment is designated as interest. The Certificates are dated the date of delivery, and mature on April 1 in the years and in the amounts set forth in the First Supplement.

The principal of and interest with respect to the Certificates are payable in lawful money of the United States of America. Such principal is payable at the principal corporate trust office of the Trustee in Los Angeles, California. Interest with respect to the Certificates is payable semiannually on April 1 and October 1 of each year, beginning October 1, 2004, until maturity or redemption of such Certificates by check of the Trustee mailed to the registered owners thereof or by wire in certain circumstances.

The Certificates are subject to prepayment at the times, upon the terms and subject to the conditions set forth in the Certificates and in the First Supplement.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. I have not undertaken to determine, or to inform any person, whether or not any such actions are taken or events do occur. I have assumed the genuineness of all documents and signatures presented to me, whether as originals or copies, and the due and legal execution and delivery thereof, and their validity against any parties other than the City and the Corporation. In examining the documents and matters referred to above, I have not undertaken to verify independently and have assumed the accuracy of the factual matters represented, warranted or certified in such documents and the legal conclusions contained in the opinions referred to in the second paragraph hereof. Furthermore, I have assumed compliance with the covenants and agreements contained in the Trust Agreement, including without limitation, covenants with which compliance is necessary to assure that future actions or events will not cause the interest component of the Certificates to be includable in gross income for federal income tax purposes. I am not passing upon and do not assume any responsibility for the accuracy, completeness or fairness of any of the statements contained in the Official Statement and I have not independently verified the accuracy, completeness or fairness of any such statements.

In addition, the opinions expressed below are qualified to the extent that enforcement of the agreements referred to in such paragraphs may be limited by bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium or similar laws or judicial decisions or equitable principles relating to or limiting creditors' rights generally and limitations on the legal remedies against public agencies in the State of California. I express no opinion on the availability of equitable remedies.

Based upon and subject to the foregoing, and in reliance thereon, as of the date hereof, I am of the following opinions:

1. The First Amendment to Site Lease has been duly and validly authorized, executed and delivered by the City and the Corporation, and amends the Original Site Lease, and the Site Lease constitutes the legally valid and binding obligation of the City and the Corporation, respectively, enforceable in accordance with its terms.

2. The First Amendment to Lease has been duly and validly authorized, executed and delivered by the City and the Corporation, and amends the Original Lease, and the Lease constitutes the legally valid and binding obligation of the City and the Corporation, respectively, enforceable in accordance with its terms.

3. The First Supplement has been duly and validly authorized, executed and delivered by the City and the Corporation and, assuming due execution and delivery by the Trustee, and amends the Original Trust Agreement, and the Trust Agreement constitutes the legally valid and binding obligation of the City and the Corporation, respectively, enforceable in accordance with its terms, and the Certificates have been duly executed and delivered thereunder.

4. The assignment contained in the First Supplement constitutes a valid assignment by the Corporation to the Trustee of such rights in the Lease and Trust Agreement as it purports to assign.

5. The portion of each New Basic Lease Payment due under the Lease Agreement designated as and comprising interest (including original issue discount) and received by the owners of the Certificates is excluded from gross income for federal income tax purposes. Furthermore, such interest portion (including original issue discount) of each New Basic Lease Payment does not constitute an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations by the Internal Revenue Code of 1986, as amended (the "Code"). However, the interest portion (including original issue discount) of each New Basic Lease Payment received by the owners thereof will be included in the adjusted current earnings of certain corporations, and such corporations are required to include in the calculation of alternative minimum taxable income 75% of the excess of such corporations' adjusted current earnings over their alternative minimum taxable income (determined without regard to this adjustment and prior to reduction for certain net operating losses). The opinions set forth in this paragraph are subject to continuing compliance by the City with covenants regarding federal tax law contained in the Trust Agreement and the Tax and No Arbitrage Certificate. Failure to comply with such covenants could cause the interest portion (including any original issue

discount) of the Certificates to be included in gross income retroactive to the date of delivery of the Certificates. Although I am of the opinion that the interest portion (including any original issue discount) of each New Basic Lease Payment is excluded from gross income for federal income tax purposes, the accrual or receipt of the interest portion (including original issue discount) of each New Basic Lease Payment may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. I express no opinion regarding any such consequences. Purchasers of the Certificates, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrift or other financial institutions, certain recipients of Social Security or Railroad Retirement benefits, or taxpayers who may be deemed to have incurred or continued indebtedness to carry tax-exempt obligations, are advised to consult their tax advisors as to the tax consequences of purchasing or holding the Certificates.

6. The portion of each New Basic Lease Payment due under the Lease Agreement designated as and comprising interest and received by the owners of the Certificates is exempt from present State of California personal income taxes.

I express no opinion regarding other income tax consequences caused by ownership or disposition of, or the accrual or receipt of interest on, the Certificates. In rendering the opinions set forth in paragraphs 5 and 6 above, I am relying on the opinion of Kutak Rock, LLP, Special Tax Counsel, of even date herewith and said opinions are subject to the condition that the City comply with all requirements of the Code that must be satisfied subsequent to the execution and delivery of the Certificates in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with all such requirements.

My opinion is limited to matters of California law and applicable federal law, and I assume no responsibility as to the applicability of laws of other jurisdictions.

I have acted in this transaction as Special Counsel to the City and the Corporation. This opinion is issued to you as the addressees solely for your benefit in connection with the initial execution and delivery of the Certificates on the date hereof. Except for Kutak Rock, LLP, in its opinion referred to in the second paragraph hereof, no other persons other than you may rely upon this letter without my express written consent. This opinion may not be utilized by you for any other purpose and may not be quoted by you without our express written consent. I express no opinion on any matter other than as specifically set forth herein, and this opinion speaks only as of the date hereof and is limited to the opinions expressly stated herein. I disclaim any obligation to review, update, revise or supplement this opinion subsequent to its date, whether by reason of a change in law, legislative or regulatory actions, judicial decision or for any other reason that may hereafter occur.

Respectfully submitted,

APPENDIX E

FORMS OF OPINIONS OF SPECIAL TAX COUNSEL

CITY OF LOS ANGELES

FOUNDED 1781

APPENDIX E

FORMS OF OPINIONS OF SPECIAL TAX COUNSEL

April 29, 2004

Municipal Improvement Corporation
of Los Angeles
Los Angeles, California

City of Los Angeles
Los Angeles, California

$64,170,000
Certificates of Participation
(Program AX Equipment Acquisition)

Ladies and Gentlemen:

As Special Tax Counsel, we have examined the record of proceedings submitted to us and such other documents, records and matters of law as we have deemed necessary for purposes of this opinion letter relative to the sale, execution and delivery of $64,170,000 principal amount of Certificates of Participation (Program AX Equipment Acquisition) (the "Certificates") evidencing and representing the proportionate interest of the owners thereof in Basic Lease Payments (as that term is defined in the hereinafter described Lease Agreement) to be made by the City of Los Angeles (the "City") pursuant to a Lease Agreement (the "Lease Agreement"), dated as of April 1, 2004, by and between the City and the Municipal Improvement Corporation of Los Angeles (the "Corporation"), a non-profit public benefit corporation organized and existing under the laws of the State of California. The Certificates are being executed and delivered pursuant to a Trust Agreement (the "Trust Agreement"), dated as of April 1, 2004, among the City, the Corporation and U.S. Bank National Association, as trustee (the "Trustee"). All capitalized terms not defined herein shall have the meanings assigned to them in the Trust Agreement.

The Lease Agreement has been entered into by the City for the purpose of financing the acquisition and installation by the City of certain equipment. The City is obligated under the Lease Agreement to make Lease Payments including Basic Lease Payments from any source of legally available funds in amounts intended to be sufficient in both time and amount to pay, when due, the principal, interest and premium, if any, with respect to the Certificates. A portion of each Basic Lease Payment is designated as interest.

The Certificates are authorized to be executed and delivered in fully registered form, in denominations of $5,000 and any integral multiple thereof, such denominations representing the principal components of the Basic Lease Payments. The Certificates shall be dated the date of delivery, and shall mature, and be subject to prior prepayment, on the dates set forth in the Trust Agreement.

The Certificates are subject to mandatory prepayment at the times, upon the terms and subject to the conditions set forth in the Certificates and in the Trust Agreement.

We have also examined certificates of the City, the Corporation, the Trustee and others as to certain factual matters and such other documents, opinions, records and matters as we have deemed necessary in rendering our opinions set forth below.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Also, in examining the documents, records and matters referred to in the preceding paragraph, we have not undertaken to independently verify the accuracy of the factual matters represented, warranted or certified therein, and we have assumed compliance with the covenants and agreements contained in the Trust Agreement and the Lease Agreement.

Based on the foregoing and in reliance thereon, as of the date hereof, we are of the opinion that:

1. The portion of each Basic Lease Payment due under the Lease Agreement designated as and comprising interest (including original issue discount) and received by the owners of the Certificates is excluded from gross income for federal income tax purposes. Furthermore, such interest portion (including original issue discount) of each Basic Lease Payment does not constitute an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations by the Internal Revenue Code of 1986, as amended. However, the interest portion (including original issue discount) of each Basic Lease Payment received by the owners thereof will be included in the adjusted current earnings of certain corporations, and such corporations are required to include in the calculation of alternative minimum taxable income 75% of the excess of such corporations' adjusted current earnings over their alternative minimum taxable income (determined without regard to this adjustment and prior to reduction for certain net operating losses). The opinions set forth in this paragraph are subject to continuing compliance by the City with covenants regarding federal tax law contained in the Trust Agreement and the Tax and No Arbitrage Certificate. Failure to comply with such covenants could cause the interest portion (including original issue discount) of each Basic Lease Payment to be included in gross income retroactive to the date of delivery of the Certificates. Although we are of the opinion that the interest portion (including original issue discount) of each Basic Lease Payment is excluded from gross income for federal income tax purposes, the accrual or receipt of the interest portion (including original issue discount) of each Basic Lease Payment may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences. Purchasers of the Certificates, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions, certain recipients of Social Security or Railroad Retirement benefits, or taxpayers who may be deemed to

have incurred or continued indebtedness to carry tax-exempt obligations, are advised to consult their tax advisors as to the tax consequences of purchasing or holding the Certificates.

2. The portion of each Basic Lease Payment due under the Lease Agreement designated as and comprising interest and received by the owners of the Certificates is exempt from present State of California personal income taxes.

The opinions expressed herein are made in reliance upon the opinions of the Law Offices of Marilyn L. Garcia, Special Counsel, that the Certificates, Lease Agreement and Trust Agreement constitute legally valid and binding obligations of the City and the Corporation, and are enforceable in accordance with their terms and that the Certificates have been duly executed and delivered under the Trust Agreement.

Very truly yours,

KUTAK ROCK LLP

April 29, 2004

Municipal Improvement Corporation
of Los Angeles
Los Angeles, California

City of Los Angeles
Los Angeles, California

$16,875,000
Additional Certificates of Participation
(Real Property Improvement Program AR),
Series 2004

Ladies and Gentlemen:

As Special Tax Counsel, we have examined the record of proceedings submitted to us and such other documents, records and matters of law as we have deemed necessary for purposes of this opinion letter relative to the sale, execution and delivery of $16,875,000 principal amount of Additional Certificates of Participation (Real Property Improvement Program AR), Series 2004 (the "2004 Program AR Certificates") evidencing and representing the proportionate interest of the owners thereof in New Basic Lease Payments (as that term is defined in the hereinafter described First Amendment to Lease Agreement) to be made by the City of Los Angeles (the "City") pursuant to a Lease Agreement (the "Original Lease Agreement"), dated as of April 1, 2002, by and between the City and the Municipal Improvement Corporation of Los Angeles (the "Corporation") and a First Amendment to Lease Agreement (the "First Amendment to Lease Agreement" and, together with the Original Lease Agreement, the "Lease Agreement"), dated as of April 1, 2004, between the City and the Corporation. The 2004 Program AR Certificates are being executed and delivered pursuant to a Trust Agreement (the "Original Trust Agreement"), dated as of April 1, 2002, among the City, the Corporation and Wells Fargo Bank, National Association, as trustee (the "Trustee"), as supplemented by a First Supplemental Trust Agreement, dated as of April 1, 2004 (the "First Supplemental Trust Agreement" and, together with the Original Trust Agreement, the "Trust Agreement"), among the City, the Corporation and the Trustee. All capitalized terms not defined herein shall have the meanings assigned to them in the Trust Agreement.

The First Amendment to Lease Agreement has been entered into by the City for the purpose of financing the design, construction and installation by the City of certain real property improvements to existing facilities owned by the City. The City is obligated under the Lease Agreement to make Lease Payments including New Basic Lease Payments from any source of legally available funds in amounts intended to be sufficient in both time and amount to pay, when due, the principal, interest and premium, if any, with respect to $59,230,000 aggregate outstanding principal amount of Certificates of Participation (Real Property Program AR), dated April 2, 2002 (the "Original Program AR Certificates") and the 2004 Program AR Certificates. A portion of each New Basic Lease Payment is designated as interest. The Original Program AR Certificates and the 2004 Program AR Certificates are payable on a parity from the Basic Lease Payments.

The 2004 Program AR Certificates are authorized to be executed and delivered in fully registered form, in denominations of $5,000 and any integral multiple thereof, such denominations representing the principal components of the New Basic Lease Payments. The 2004 Program AR Certificates shall be dated the date of delivery, and shall mature and be subject to prior prepayment, on the dates set forth in the First Supplemental Trust Agreement.

The 2004 Program AR Certificates are subject to optional and mandatory prepayment at the times, upon the terms and subject to the conditions set forth in the 2004 Program AR Certificates and in the First Supplemental Trust Agreement.

We have also examined certificates of the City, the Corporation, the Trustee and others as to certain factual matters and such other documents, opinions, records and matters as we have deemed necessary in rendering our opinions set forth below.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Also, in examining the documents, records and matters referred to in the preceding paragraph, we have not undertaken to independently verify the accuracy of the factual matters represented, warranted or certified therein, and we have assumed compliance with the covenants and agreements contained in the Trust Agreement and the Lease Agreement.

Based on the foregoing and in reliance thereon, as of the date hereof, we are of the opinion that:

1. The portion of each New Basic Lease Payment due under the Lease Agreement designated as and comprising interest (including original issue discount) and received by the owners of the 2004 Program AR Certificates is excluded from gross income for federal income tax purposes. Furthermore, such interest portion (including original issue discount) of each New Basic Lease Payment does not constitute an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations by the Internal Revenue Code of 1986, as amended. However, the interest portion (including original issue discount) of each New Basic Lease Payment received by the owners of the 2004 Program AR Certificates will be included in the adjusted current earnings of certain corporations, and such corporations are required to include in the calculation of alternative minimum taxable income 75% of the excess of such corporations' adjusted current earnings over their alternative minimum taxable income (determined without regard to this adjustment and prior to reduction for certain net operating losses). The opinions set forth in this paragraph are subject to continuing compliance by the City with covenants regarding federal tax law contained in the Trust Agreement and the Tax and No Arbitrage Certificate. Failure to comply with such covenants could cause the interest portion (including original issue discount) of New Basic Lease Payments received by the owners of the 2004 Program AR Certificates to be included in gross income retroactive to the date of delivery of the 2004 Program AR Certificates. Although we are of the opinion that the interest portion (including original issue discount) of each New Basic Lease Payment received by the owners of the

2004 Program AR Certificates is excluded from gross income for federal income tax purposes, the accrual or receipt of the interest portion (including original issue discount) of each New Basic Lease Payment received by the owners of the 2004 Program AR Certificates may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences. Purchasers of the 2004 Program AR Certificates, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions, certain recipients of Social Security or Railroad Retirement benefits, or taxpayers who may be deemed to have incurred or continued indebtedness to carry tax-exempt obligations, are advised to consult their tax advisors as to the tax consequences of purchasing or holding the 2004 Program AR Certificates.

2. The portion of each New Basic Lease Payment due under the Lease Agreement designated as and comprising interest and received by the owners of the 2004 Program AR Certificates is exempt from present State of California personal income taxes.

The opinions expressed herein are made in reliance upon the opinions of the Law Offices of Marilyn L. Garcia, Special Counsel, that the 2004 Program AR Certificates, the First Amendment to Lease Agreement and the First Supplemental Trust Agreement constitute legally valid and binding obligations of the City and the Corporation, and are enforceable in accordance with their terms and that the 2004 Program AR Certificates have been duly executed and delivered under the Trust Agreement.

Very truly yours,

KUTAK ROCK LLP

APPENDIX F

BOOK-ENTRY-ONLY-SYSTEM

CITY OF LOS ANGELES

FOUNDED 1781

APPENDIX F

BOOK-ENTRY-ONLY SYSTEM

The information below concerning The Depository Trust Company ("DTC"), New York, New York, and DTC's book-entry system has been obtained from DTC and the City takes no responsibility for the completeness or accuracy thereof. The City cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Certificates, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Certificates, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Certificates, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Certificates. The Certificates will be executed and delivered as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for each maturity of the Certificates, each in the aggregate principal amount of such maturity, 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 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 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, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (respectively, "NSCC", "GSCC", "MBSCC", 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 Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Certificates 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 Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Certificates 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 Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the Certificates documents. For example, Beneficial Owners of the Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. The conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants and by DTC 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. Any failure of DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to notify a Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the Certificates called for redemption or of any other action premised on such notice. Redemption of portions of the Certificates by the City will reduce the outstanding principal amount of Certificates held by DTC. In such event, DTC will implement, through its book-entry system, a redemption by lot of interests in the Certificates held for the account of DTC Participants in accordance with its own rules or other agreements with DTC Participants and then DTC Participants and Indirect Participants will implement a redemption of the Certificates for the Beneficial Owners. Any such selection of Certificates to be redeemed will not be governed by the Indenture and will not be conducted by the City or the Trustee.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Certificates 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 Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest evidenced by the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Trustee, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest evidenced by the Certificates to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the 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.

NONE OF THE CITY, THE CORPORATION OR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF CERTIFICATES FOR PREPAYMENT.

None of the City, the Corporation or the Trustee can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal of, premium, if any, and interest on the Certificates paid to DTC or its nominee, as the registered Owner, or any redemption or other notice, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

DTC may discontinue providing its Service as depository with respect to the Certificates at any time by giving reasonable notice to the City or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Certificate certificates will be printed and delivered.

In the event that the book-entry system is discontinued as described above, the requirements of the Trust Agreement will apply. The foregoing information concerning DTC concerning and DTC's book-entry system has been provided by DTC, and none of the City or the Trustee take any responsibility for the accuracy thereof.

Neither the City nor the Corporations can, and does not, give any assurances that DTC, the Participants or others will distribute payments of principal, interest or premium, if any, evidenced by the Certificates paid to DTC or its nominee as the registered owner, or will distribute any redemption 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 Private Placement Memorandum. Neither the City nor the Corporations 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 Certificates or an error or delay relating thereto.

APPENDIX G

SPECIMEN MUNICIPAL BOND INSURANCE POLICY
FOR THE PROGRAM AX CERTIFICATES

CITY OF LOS ANGELES

FOUNDED 1781

FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of a such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

SPECIMEN

President

Attest: ______________________

Assistant Secretary

STD-R-CA-6
4/95

CITY OF LOS ANGELES

FOUNDED 1781

APPENDIX H

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY FOR THE PROGRAM AR CERTIFICATES

CITY OF LOS ANGELES

FOUNDED 1781

Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor: | Policy Number:

Obligations: | Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

President

Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Authorized Officer of Insurance Trustee

Form No.: 2B-0012 (1/01)

Ambac

Ambac Assurance Corporation
One State Street Plaza,
New York, New York 10004
Telephone: (212) 668-0340

Endorsement

Policy for:

Attached to and forming part of Policy No.:

Effective Date of Endorsement:

In the event that Ambac Assurance Corporation were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Ambac Assurance Corporation

President

SEAL

Secretary

Authorized Representative

Form No.: 2B-0004 (7/97)