Los Angeles Unified School District
Debt Report
Fiscal Year 2010-11

Megan K. Reilly
Chief Financial Officer
June 5, 2012

LOS ANGELES UNIFIED SCHOOL DISTRICT

Office of the Chief Financial Officer

JOHN E. DEASY
Superintendent of Schools

MEGAN K. REILLY
Chief Financial Officer

A Message to the Board of Education of the Los Angeles Unified School District and the District's Taxpayers

I present to you the report of the Los Angeles Unified School District's long-term debt (the "Debt Report"). Sometimes referred to as "bonded indebtedness", long-term debt is typically used to finance capital projects with a long useful life. Issuing debt to pay for long-term assets is based upon the principle of matching the cost of acquiring the asset to the time period that taxpayers and the general community utilize those assets. The District strives to achieve an equitable balance between the debt burden to the community and the time frame over which the assets are to be used.

The vast majority of the District's capital projects fall within the new construction, modernization, technology and safety programs being financed with $20.605 billion of voter-approved General Obligation Bonds and at least $7.4 billion of State matching funds and other sources. A relatively small number of projects are being financed with Certificates of Participation ("COPs") that are repaid from the General Fund, developer fees or cafeteria fund sources.

This report frequently uses the words "bonds" and "debt" interchangeably, even when the underlying obligation does not technically constitute "debt" under California's Constitution.[1] This conforms with market convention for the general use of the term "debt" and "debt service" as applied to a broad variety of instruments in the municipal market, regardless of their precise legal status. The rating agencies and the investor community evaluate the District's debt position based on all of its outstanding obligations whether or not such obligations are "debt" as defined within the California Constitution context.

This Debt Report presents a complete picture of the District's indebtedness in the categories of General Obligation Bonds and Certificates of Participation.

General Obligation Bonds represent debt that is paid from voter approved taxes that are levied and collected by the County of Los Angeles. The proceeds of such tax levies are neither received by or under the control of the District. The District's taxpayers have shown strong commitment to the District's capital program by approving five General Obligation Bond authorizations since 1997, with each successive authorization being the largest school district measure of its kind at the time. A top priority of the District is to manage the issuance of these bonds in a manner that minimizes the tax rates paid by our taxpayers, which the District believes it has accomplished, as more fully detailed in this Debt Report.

[1] "Debt" under the California Constitution excludes short-term obligations such as tax and revenue anticipation notes and lease transactions such as COPs.

COPs represent debt that is paid from revenues under the District's control, such as General Fund revenues, developer fees and cafeteria fund sources. To assure that issuance of such debt is undertaken in a prudent manner that protects the District's instructional programs and operations, the Board of Education has adopted a Debt Management Policy that prescribes limits to the amount and type of COPs indebtedness that may be undertaken. This Debt Report provides a discussion of the District's COPs debt performance, which is in compliance with policy limitations.

Both General Obligation Bonds and COPs are considered to be "direct debt" of the District and are also included in the measurement of the "overall direct debt" issued by all local public agencies within the District's boundaries. It is important to monitor the levels and growth of direct debt and overall direct debt as they portray the debt burden borne by our taxpayers. The Debt Management Policy sets forth various municipal market debt ratios and benchmarks against which the District measures and compares its own direct and overall direct debt burden. This Debt Report provides a complete summary of the District's direct debt performance in this regard.

When debt is issued, independent credit rating agencies assign a rating to the issue. The District's credit ratings are directly related to the financial condition of the District. The District's current General Obligation Bond ratings are Aa2 by Moody's Investors Service and AA- by Standard & Poor's and reflect high quality investment grade status. The ratings assigned to General Obligation Bonds and COPs affect the District's interest payments and the cost borne by District taxpayers and the General Fund, as applicable. In addition, the fiscal health of the State can further affect the District's interest costs. The recent deterioration of the State's credit quality and the massive amount of debt it needs to issue in the future to fund voter approved bond projects has resulted in increased credit spreads for agencies of the State, including the District, even though such agencies may have maintained their own credit quality. A complete history of the District's long-term credit ratings is provided in this Debt Report.

I hope that the information in this Debt Report can be used to support development of sound capital plans and adherence to the District's finance and debt policies. I look forward to working with you in pursuing such capital plans, as they provide critical guidance for the protection of the District's infrastructure and assets. Together with sound capital planning, the District's debt and finance policies secure the District's fiscal strength in the years ahead.

If you have any questions or comments regarding this Debt Report, please contact my office at (213) 241-7888. Your input is important to us and would be greatly appreciated.

Sincerely,

Megan K. Reilly
Chief Financial Officer

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PREFACE

In accordance with the requirement of the District's Debt Management Policy, the Chief Financial Officer must submit a Debt Report to the Board of Education and Superintendent annually. The following list identifies the information required to be included and its location in the Debt Report:

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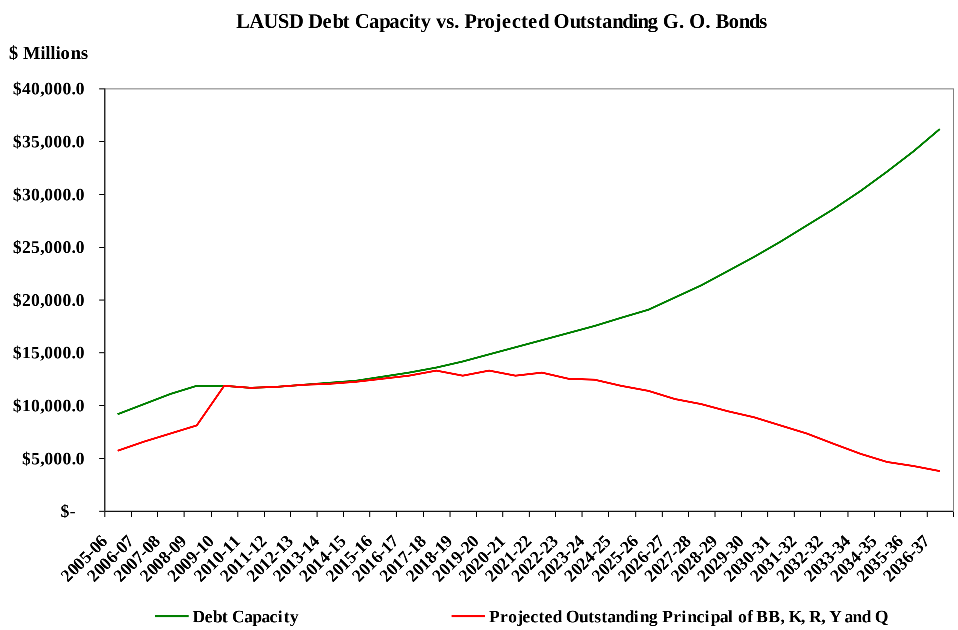
SECTION I: GENERAL OBLIGATION BOND DEBT

A. District's Bonded Debt Limitation and Assessed Valuation Growth

In accordance with Education Code Section 15106, the District's bonded debt limitation (also known as general obligation bonding capacity) equals 2.5% of the value of taxable property (i.e., assessed valuation) in the District. For Fiscal Year 2010-11, total assessed valuation in the District was $463.8 billion[1], resulting in a bonded debt limitation of $11.596 billion. Table 1 presents the District's maximum debt limit versus outstanding debt as of June 30, 2011. The difference is the "Legal Debt Margin." Chart 1 shows that the Legal Debt Margin (i.e., the distance between the red and green lines) was used up in Fiscal Year 2009-10. Anticipated increases in future assessed valuation will permit issuance of new general obligation bonds to the extent that tax limitations are not exceeded and bond proceeds on hand are sufficiently spent down. See the discussion on tax limitations in Section I. F, herein.

Table 1
Bonded Debt Limitation and Legal Debt Margin
As of June 30, 2011
(in $000s)

Total Assessed Valuation	$463,845,551
Bonded Debt Limitation (2.5% times Assessed Valuation)	$11,596,139
Less: Outstanding General Obligation Bonds[2]	(11,596,250)
Equals: Legal Debt Margin[1]	**-($111)**



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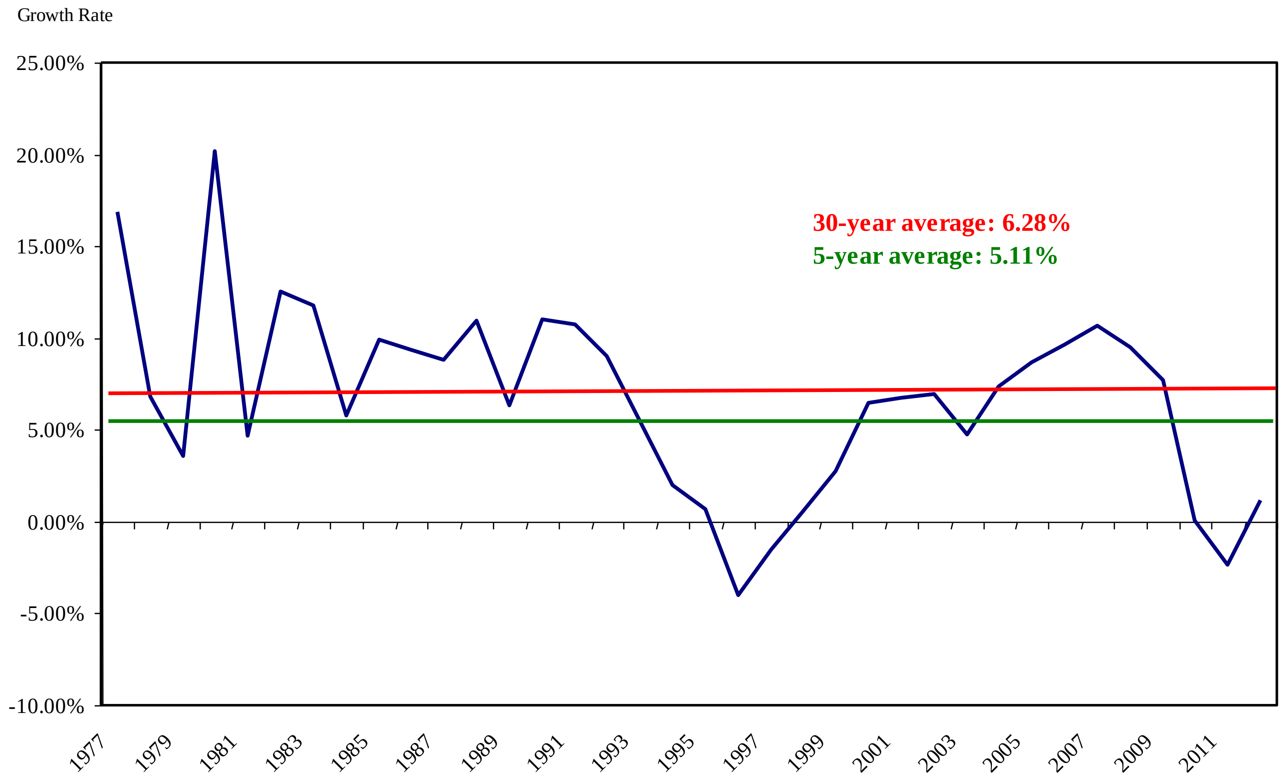
[1] Subsequent to the reporting period for this Debt Report, assessed valuation for Fiscal Year 2011-12 was reported to be $469.1 billion, an increase of 1.13% from the Fiscal Year 2010-11 level.

[2] The District's Comprehensive Annual Financial Report ("CAFR") reports these figures differently by adjusting them for unamortized bond premiums and discounts and amounts available in the Bond Interest and Redemption Fund to pay bond principal.

In addition to the District's debt issuance and amortization patterns, the Legal Debt Margin is greatly affected by assessed valuation growth in the District, which is depicted in Chart 2. Assessed valuation typically grows at the maximum annual rate of 2% allowed under Proposition 13 for existing property, with additional growth coming from new construction and the sale and exchange of property. The annual growth in assessed valuation averaged 6.28% over the last 30 years and averaged a somewhat lower 5.11% over the past 5 years. However, significant price weakness in the current housing and commercial markets may continue to adversely affect near-term assessed valuation growth. The District contracted with an econometrics consulting firm in May 2009 to provide projections of the District's assessed valuation. The baseline projection is for assessed valuation to increase modestly in the near term and for it to return to the peak Fiscal Year 2009-10 level in about two years.[1]

Chart 2

LAUSD Growth in Assessed Valuation
(as of August 2011)



B. Bonds Outstanding and Bonds Authorized But Unissued

As of June 30, 2011, the District had a total of $11,596,250,000 of outstanding voter authorized General Obligation Bonds, a detailed listing and the debt service requirements for which can be found in Appendix 1.

[1] These projections are as of August 2011.

The District had a total of $7.68 billion of authorized but unissued General Obligation Bonds as of June 30, 2011. Table 2 presents overall highlights of the District's authorized but unissued bonds and Chart 3 in the next subsection depicts projected issuance of bonds in the future.

Table 2
Authorized but Unissued General Obligation Bonds as of June 30, 2011
($ Thousands)

	Proposition BB	Measure K	Measure R	Measure Y	Measure Q
Voter Authorization Amount	$2,400,000	$3,350,000	$3,870,000	$3,985,000	$7,000,000
Issued	2,400,000	3,350,000	3,634,795	3,542,235	0
Authorized but Unissued	$0	$0	$235,205	$442,765	$7,000,000

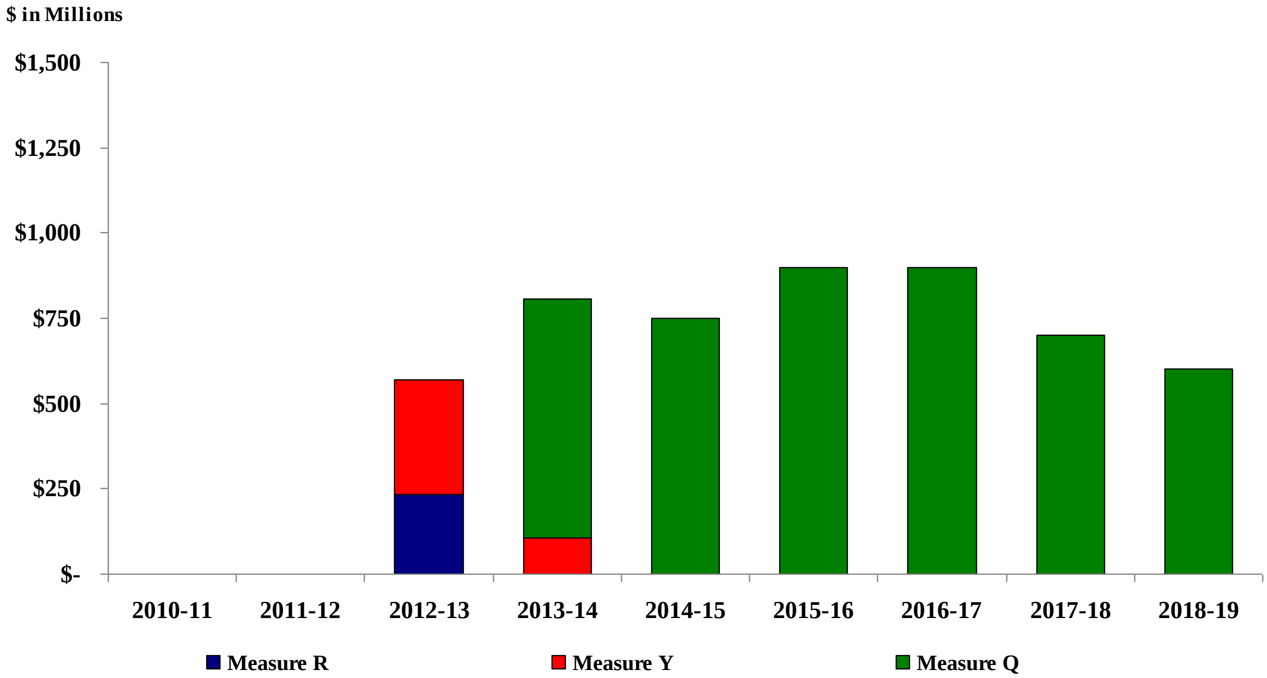
Since the initial series of Proposition BB bonds was sold in the G.O. Bond market in 1997, LAUSD has successfully completed 44 G.O. Bond transactions (including refundings)[1]. Voter-approved school bond initiatives have been and will continue to be the driving force behind the construction of hundreds of building projects, among them new schools, health and safety upgrades, classroom equipment purchases and improved adult learning facilities. The proceeds from the District's G.O. Bonds have funded an historic building program that is the largest school district construction program in the U.S., which will deliver about 167,000 new classroom seats through the construction of 131 new schools and which will complete about 20,000 modernization projects.

C. Intended Issuances of Bonds

Intended issuances are based on actual spending patterns and expenditure projections prepared by the Facilities Services Division and other departments and are subject to change. Generally, the District expects a pause in issuance from Fiscal Year 2010-11 until Fiscal Year 2012-13. Projections of the intended issuances of General Obligation Bonds for each bond authorization through Fiscal Year 2018-19 are presented in Chart 3.

[1] This includes the 2011 General Obligation Refunding Bonds, Series A-1 and Series A-2 completed on November 1, 2011.

Chart 3
Estimated Issuance Pattern of Remaining Bonds through Fiscal Year 2018-19



D. General Obligation Bond Refundings

The Chief Financial Officer regularly monitors market conditions for refunding opportunities that, pursuant to the Debt Management Policy, will produce at least 3% net present value savings for each maturity of bonds refunded. Table 3 provides a summary of the savings from refundings through June 30, 2011[1]. The Chief Financial Officer estimates that, as of the refunding transactions of June 2011, these refundings will save taxpayers approximately $185.8 million over the term of the bonds.

[1] Subsequent to the June 30, 2011 reporting period for this Debt Report, the District issued its 2011 General Obligation Refunding Bonds, Series A-1 and Series A-2 in an aggregate principal amount of $407.805 million that produced net present value savings of $32.6 million, inclusive of savings due to restructuring of the refunding escrow on December 1, 2011, representing an aggregate savings rate of 7.7%.

Table 3
Refunding Savings
(as of June 30, 2011)

Refunding Bond Issue	Amount Refunded[1] ($ millions)	Term of the Refunding Bonds	Savings ($ millions)	Average Annual Savings ($ millions)
2002	$262.730	17 years	$12.8	$0.75
2004 A-1 & A-2	215.680	18 years	10.6	0.59
2005 A-1 & A-2	484.950	20 years	38.4	1.92
2006 A	131.935	13 years	6.3	0.48
2006 B	561.375	21 years	29.3	1.40
2007 A-1 & A-2	1,250.320	21 years	82.1	3.91
2007 B	25.790	12 years	1.8	0.15
2009 A	72.270	9 years	2.1	0.23
2010 A	72.845	5 years	2.4	0.48
Total	$3,077.895		$185.8	$9.91

Memoranda:

[1] The principal amount of refunded bonds typically does not equal the principal amount of refunding bonds.

E. Innovative Transactions

Going into Fiscal Year 2009-10, the District was expecting assessed valuation to decline in the following fiscal year and, possibly, in the several subsequent fiscal years as well. This would have jeopardized the District's ability to issue G.O. Bonds in those years as planned. To address these concerns, the District issued $4.0 billion of General Obligation Bonds (G.O. Bonds) in Fiscal Year 2009-10 to fund projects set forth in Measures K, R and Y, essentially accelerating its near term planned issuances into one fiscal year. This strategy was also designed to capture the maximum benefit from innovative bond structures permitted under the American Reinvestment and Recovery Act (ARRA) that provided dramatically lower debt service costs than traditional tax-exempt bonds. Among other things, ARRA provided opportunities for local agencies such as LAUSD to access a wider array of capital markets in 2009 and 2010 in an effort to obtain more cost effective financing than available in the municipal market alone.

One of the federal bond programs is known as Build America Bonds (BABs). These are taxable bonds for which the federal government subsidizes 35% of the interest cost. The District sold about $1.4 billion of BABs in October 2009 and another $1.25 billion in February 2010 to corporate investors rather than typical municipal investors who seek tax-exempt paper. The District's combined BABs offerings were by far the largest of any school district in the U.S.

Another federal bond program used by LAUSD is known as Qualified School Construction Bonds (QSCBs). These are taxable bonds for which the investor receives a tax credit against their federal income tax. The District sold $318.8 million of QSCBs to corporate investors in October 2009 in what was the largest QSCBs offering of any school district in the U.S. in 2009. The District received an allocation of $290.2 million for 2010 and, under new legislation enacted in March 2010, was able to sell those QSCBs as BABs rather than tax credit bonds. The legislative change was important because, unlike the District, many school districts were not able to successfully sell their QSCBs as tax credit bonds.

For its May 2010 QSCB sale, the District was approached by an investor who offered to purchase $100 million of the QSCBs at 25 basis point lower yield than the purchasers of the remaining QSCBs. The investor was motivated by being able to use the purchase to meet their need to give back something to the local community either in the form of reduced lending rates to loan applicants or the purchase of investments from an agency such as the District. This investor purchased $100 million of the QSCBs at zero net interest cost to LAUSD. As for the remaining QSCBs, the net interest cost was only 0.261%, so the blended overall QSCB interest rate was 0.17%, an incredibly low interest rate on 17 year bonds.

District taxpayers enjoy the direct benefit of lower debt service on BABs and QSCBs versus traditional tax-exempt bonds that mature on certain bond maturity dates. In the October 2009 bond sale, the integrated BABs and QSCBs structure resulted in a reduction of $648 million (or 20% of par in present value terms) in debt service compared to debt service on traditional tax exempt bonds. In the February 2010 BABs sale, an estimated $253 million of savings (or $143 million in present value terms) were achieved versus traditional tax-exempt structures. Finally, in the May 2010 QSCBs sale, the structure produced an estimated savings of $206 million versus traditional tax exempt bonds. The combined savings from all QSCBs and BABs was $1.1 billion.

Overall, LAUSD took advantage of innovative bond structures provided under ARRA more than any other school district in the nation.

F. Tax Rate Performance on Outstanding Bonds

The respective Tax Rate Statements for each of the District's five General Obligation Bond authorizations set forth the following specific estimated tax rates to be paid by District taxpayers to service the debt on the outstanding General Obligation Bonds:

(1) The estimated tax rate in the fiscal year following issuance of the first series of bonds;

(2) The estimated maximum tax rate and the fiscal year in which the maximum tax rate will occur;

(3) The estimated tax rate in the fiscal year following the issuance of the last series of bonds; and

(4) The estimated average tax rate over the term of all issued bonds.

The tax rates and fiscal years estimated in the respective Tax Rate Statements are not technically binding on the District, as actual issuance patterns, actual interest rates and the growth pattern of the assessed valuation base combine to determine actual tax rates. Nevertheless, the District actively manages its bond issuance program so that actual tax rates are close to or lower than the projected tax rates set forth in each respective Tax Rate Statement. A discussion of the particular tax rates disclosed to taxpayers in each Tax Rate Statement and the District's actual tax rate performance is provided below.

F.1. **Proposition BB Tax Rates**. Prior to the Proposition BB election on April 8, 1997, assessed valuation growth in the District had weakened due to an economic recession triggered by contraction in the defense industry in the early 1990s. In fact, actual assessed valuation growth was negative at the time of the election, as shown earlier in Chart 2. Therefore, the District used a very conservative assumption for average annual assessed valuation growth (2%) relative to historical averages in structuring the tax rate model; the District also used a conservative estimate of 5.75% for the assumed interest rate on bonds to be issued over time (see Section III.B.1. for a discussion of interest rate trends).

Table 4 below provides the District's projected tax rates for the Proposition BB bond program at the time of the Proposition BB election and the District's latest updated projections. Actual and projected tax rate performance has generally been better than expected due to a combination of interest cost on issued bonds being less than assumed and actual growth in assessed valuation being on average higher than assumed. The District's updated projections show, for example, that the average tax rate over the term of all issued bonds will be approximately $30.42 per $100,000 of assessed valuation, which is $9.87 lower than the originally estimated $40.29 per $100,000 of assessed valuation at the time of the election. In addition to producing excellent tax rate performance, the District was also able to accelerate issuance of Proposition BB bonds such that the final series of bonds was issued in Fiscal Year 2002-03, five years earlier than originally projected. This has benefited District taxpayers by delivering much needed school construction and modernization projects ahead of schedule at reduced taxpayer cost.

Table 4
Estimated Tax Rates Set Forth in Tax Rate Statements for Proposition BB
(Rates expressed as $ per $100,000 of assessed valuation)

Tax Rate Description	As Projected in Tax Rate Statement	Actual/Projected[1]
Estimated tax rate in the fiscal year following the issuance of the first series of bonds	$23.43 (in FY 1998-99)	$24.42 (in FY 1998-99) Actual
Estimated maximum tax rate and the year in which the maximum tax rate occurs	$67.46 (in FY 2010-11)	$50.55 (in FY 2004-05) Actual
Estimated tax rate in the fiscal year following the issuance of the last series of bonds	$67.46 (in FY 2010-11)	$50.55 (in FY 2004-05) Actual
Estimated average tax rate over the term of all issued bonds	$40.29	$30.42

F.2. **Measure K Tax Rates.** Measures K, R, Y and Q were each approved pursuant to Proposition 39 which, among other things, requires a unified school district such as LAUSD to represent at the time of each issuance that the tax rate for each separate Proposition 39 authorization will not exceed $60 per $100,000 of assessed valuation in any given year that bonds are outstanding.

[1] The projections in the Proposition BB tax rate model use Fiscal Year 2011-12 as the base year for the assessed valuation data and the actual debt service for all bonds issued as of June 30, 2011. There are no remaining unissued Proposition BB bonds.

When developing the tax rate model for the November 5, 2002 Measure K bond election, the District was mindful of this requirement and structured the expected bond issuance accordingly. In addition, owing to a resumption of assessed valuation growth as the local economy recovered from the defense cutbacks of the 1990s, the District assumed that average annual assessed valuation growth would be 3.90%, higher than what was assumed in the Proposition BB tax rate model but still a very conservative assumption relative to historical trends. The assumed interest rate on bonds to be issued was 5.50%, lower than what was assumed in the Proposition BB tax rate model but still a conservative assumption relative to interest rate trends (see Section III.B.1. for a discussion of interest rate trends).

Table 5 below provides the District's projected tax rates for the Measure K bond program at the time of the Measure K election and the District's updated projections. Actual and projected tax rate performance has been better than expected due to a combination of interest cost on issued bonds being less than assumed, the issuance pattern of bonds being slower than assumed and estimated growth in assessed valuation being higher than assumed. The District's updated projections show, for example, that the average tax rate over the term of all issued bonds will be approximately $34.47 per $100,000 of assessed valuation, which is $18.52 lower than the originally estimated $52.99 per $100,000 of assessed valuation at the time of the election. Also, the tax rate is not expected to ever exceed the $60 per $100,000 Proposition 39 limitation.

One of the reasons that issuance of Measure K bonds was slower than assumed is that the District was able to secure more State matching funds in the early part of the 2000 decade than originally projected and, thus, was not required to issue Measure K bonds as quickly. In addition, the large first issuance of Measure K bonds in 2003 provided $2.1 billion of bond proceeds and afforded the District more time between bond issuances.

Table 5
Estimated Tax Rates Set Forth in Tax Rate Statements for Measure K
(Rates expressed as $ per $100,000 of assessed valuation)

Tax Rate Description	As Projected in Tax Rate Statement	Actual/Projected[1]
Estimated tax rate in the fiscal year following the issuance of the first series of bonds	$60.00 (in FY 2004-05)	$31.97 (in FY 2004-05) Actual
Estimated maximum tax rate and the year in which the maximum tax rate occurs	$60.00 (in FY 2004-05)	$48.28 (in FY 2012-13)
Estimated tax rate in the fiscal year following the issuance of the last series of bonds	$59.06 (in FY 2006-07)	$45.35 (in FY 2010-11), Actual
Estimated average tax rate over the term of all issued bonds	$52.99	$34.47

1 The projections in the Measure K tax rate model use Fiscal Year 2011-12 as the base year for the assessed valuation data and the actual debt service for all bonds issued as of June 30, 2011. There are no remaining unissued Measure K bonds.

F.3. Measure R Tax Rates. When developing the tax rate model for the March 2, 2004 Measure R bond election, the District was mindful of the $60 per $100,000 of assessed valuation limitation under Proposition 39 and structured the expected bond issuance accordingly. In addition, the District assumed that annual assessed valuation growth would be 5.0%, higher than what was assumed in the Proposition BB and Measure K tax rate models but still a conservative assumption relative to historical trends at the time. The assumed interest rate on bonds to be issued was 5.25%, lower than what was assumed in the Proposition BB and Measure K tax rate models but still a conservative assumption relative to interest rate trends (see Section III.B.1. for a discussion of interest rate trends).

Table 6 below provides the District's projected tax rates for the Measure R bond program at the time of the Measure R election and the District's updated projections. Actual and projected tax rate performance has been slightly worse than expected due an accelerated issuance schedule that maximizes the amount of proceeds available to finish most Measure R projects before anticipated assessed valuation declines result in lack of bonding capacity. This strategy also enabled the District to keep Measure R projects on track despite the State's decision to freeze distribution of State matching funds owing to the State's fiscal crisis. Measure R's primary focus is new construction, with the District committed to its goal of returning all District schools to a traditional two semester calendar by the end of 2012.

The District's updated projections show, for example, that the average tax rate over the term of all issued bonds would be approximately $36.52 per $100,000 of assessed valuation, which is $3.26 higher than the originally estimated $33.26 per $100,000 of assessed valuation at the time of the election. The tax rate is not expected to ever exceed the $60 per $100,000 Proposition 39 limitation.

The District issued its first Measure R bonds in Fiscal Year 2004-05. Of the $200 million issued, $150 million was applied toward defeasance of outstanding COPs, thereby providing $156 million of debt service savings to the District's General Fund (see Section II. A. for further details). The COPs had been previously issued by the District to fund critical infrastructure projects identical to the type of projects on the Measure R project list. With removal of the COPs debt service from the General Fund, more general fund resources were made available to support the educational initiatives of the District.

Table 6
Estimated Tax Rates Set Forth in Tax Rate Statements for Measure R
(Rates expressed as $ per $100,000 of assessed valuation)

Tax Rate Description	As Projected in Tax Rate Statement	Actual/Projected[1]
Estimated tax rate in the fiscal year following the issuance of the first series of bonds	$21.93 (in FY 2005-06)	$12.33 (in FY 2005-06) Actual
Estimated maximum tax rate and the year in which the maximum tax rate occurs	$60.00 (in FY 2011-12)	$52.37 (in FY 2010-11)
Estimated tax rate in the fiscal year following the issuance of the last series of bonds	$58.65 (in FY 2012-13)	$51.85 (in FY 2013-14)
Estimated average tax rate over the term of all issued bonds	$33.26	$36.52

F.4. Measure Y Tax Rates. When developing the tax rate model for the November 8, 2005 Measure Y bond election, the District was mindful of the $60 per $100,000 of assessed valuation limitation under Proposition 39 and structured the estimated bond issuance accordingly. In addition, the District assumed that average annual assessed valuation growth would be 6.0%, a conservative assumption relative to historical trends. The assumed interest rate on bonds to be issued was 5.25%, the same as in the Measure R tax rate model.

Table 7 below provides the District's projected tax rates for the Measure Y bond program at the time of the Measure Y election and the District's updated projections. Actual and projected tax rate performance has been somewhat worse than expected due to an accelerated issuance schedule that maximized the amount of proceeds available to finish most Measure Y projects before anticipated assessed valuation declines result in lack of bonding capacity. This strategy also enables the District to keep Measure Y projects on track despite the State's decision to freeze distribution of State matching funds owing to the State's fiscal crisis. Measure Y's primary focus is new construction, with the District committed to its goal of returning all District schools to a traditional two semester calendar by the end of 2012.

The District's updated projections show, for example, that the average tax rate over the term of all issued bonds would be approximately $32.21 per $100,000 of assessed valuation, which is $5.50 higher than the originally estimated $26.71 per $100,000 of assessed valuation at the time of the election. The tax rate is not expected to ever exceed the $60 per $100,000 Proposition 39 limitation. The District issued its first Measure Y bonds in Fiscal Year 2005-06. Of the $394.4 million issued, $184.4 million was applied toward defeasance of or sinking fund payments for outstanding COPs, thereby providing $223.4 million of debt service savings to the District's General Fund (see Section II.A. for further details). In addition, a net amount of $32.6 million of Measure Y proceeds were used to defease outstanding COPs debt service in September 2010. All of the affected COPs series had been previously issued by the District to fund critical infrastructure projects identical to the type

[1] The projections in the Measure R tax rate model use Fiscal Year 2011-12 as the base year for the assessed valuation data and the actual debt service for all bonds issued as of June 30, 2011. The debt service on future issuances of Measure R bonds is estimated in the model.

of projects on the Measure Y project list. With removal of the COPs debt service from the General Fund, more general fund resources are available to support the educational initiatives of the District.

Table 7
Estimated Tax Rates Set Forth in Tax Rate Statements for Measure Y
(Rates expressed as $ per $100,000 of assessed valuation)

Tax Rate Description	As Projected in Tax Rate Statement	Actual/Projected[1]
Estimated tax rate in the fiscal year following the issuance of the first series of bonds	$5.74 (in FY 2006-07)	$3.45 (in FY 2006-07) Actual
Estimated maximum tax rate and the year in which the maximum tax rate occurs	$60.00 (in FY 2012-13)	$53.23 (in FY 2010-11)
Estimated tax rate in the fiscal year following the issuance of the last series of bonds	$57.05 (in FY 2013-14)	$49.59 (in FY 2013-14)
Estimated average tax rate over the term of all issued bonds	$26.71	$32.21

F.5. Measure Q Tax Rates. When developing the tax rate model for the November 4, 2008 Measure Q bond election, the District was mindful of the $60 per $100,000 of assessed valuation limitation under Proposition 39 and structured the estimated bond issuance accordingly. In addition, the District assumed that average annual assessed valuation growth would be lower than 6% and tax delinquencies higher through Fiscal Year 2012-13, reflecting the possibility of a weak economy. The long-run assumed rate of assessed valuation was 6%. The assumed interest rate on bonds to be issued was 5.25%, the same as in the Measures R and Y tax rate models.

The District currently anticipates a pause in issuance of general obligation bonds that began in Fiscal Year 2010-11 due to weakness in assessed valuation growth and, hence, in available bonding capacity. In addition, the District intends to wait until a significant portion of the approximately $4.0 billion of new money proceeds from issuances in Fiscal Year 2009-10 are sufficiently spent down. Thus, the Measure Q program is currently on hold. The District will report its expected tax rates for Measure Q once bonds under this measure are issued.

[1] The projections in the Measure Y tax rate model use Fiscal Year 2011-12 as the base year for the assessed valuation data and the actual debt service for all bonds issued as of June 30, 2011. The debt service on future issuances of Measure Y bonds is estimated in the model.

SECTION II: CERTIFICATES OF PARTICIPATION DEBT

A. COPs Outstanding

The District has issued COPs over the years to fund a variety of capital projects including the construction of two medical magnet high schools, the acquisition of portable classrooms for class size reduction and relief of overcrowding, the acquisition of buses, the matching of federal funds for the E-Rate computer program, the acquisition and implementation of major information technology systems, the acquisition and construction of cafeteria projects and the construction of adult education facilities. Debt service on COPs that were issued to fund projects related to enrollment growth or relief of overcrowding is paid from developer fees that are levied when new or remodeled housing creates a need for additional seats for students; should developer fees be insufficient to pay debt service on these COPs, the debt service will be paid from General Fund sources. Debt service on COPs that were issued to fund cafeteria projects is paid from Cafeteria Fund sources; should such sources be insufficient to pay debt service on these COPs, the debt service will be paid from General Fund sources. Debt service on all other existing COPs is paid from General Fund sources.

Tables 8 and 9 provide listings of outstanding COPs in fixed rate mode and variable rate mode, respectively. As of June 30, 2011, a total of $510.769 million of COPs were outstanding. The debt service requirements on outstanding COPs can be found in Appendix 2.

In seeking to achieve the benefits of a diversified debt portfolio, the District has periodically issued variable rate COPs[1]. The Debt Management Policy (which appears in Appendix 5) permits issuance of variable rate COPs so long as the total unhedged amount in that mode does not exceed 20% of outstanding COPs or $100 million, whichever is less. The maximum amount of unhedged variable rate COPs would thus be $98.4 million (20% of outstanding COPs). Given the District's estimated average General Fund unrestricted cash balance (net of TRANs) of $568.0 million in Fiscal Year 2011-12 and that cash is a natural hedge, the District believes its interest rate exposure on the $103.6 million of variable rate COPs to be 100% hedged.

[1] It is currently impractical for school districts in California to issue variable rate General Obligation Bonds, so the District's variable rate portfolio is comprised solely of COPs.

Table 8
Fixed-Rate Certificates of Participation Issuance and True Interest Cost
(as of June 30, 2011)

Issue Description	Date of Issue	Principal Amount Issued ($000s)	Principal Outstanding (June 30, 2011) ($000s)	True Interest Cost (%)
COPs (Qualified Zone Academy Bonds), Series 2000A (taxable) [1]	05/23/00	$30,446.7	$30,446.7	N/A
COPs (Administration Building Project I), 2001 Series B	11/06/01	68,890.0	68,890.0	4.88%
COPs (Administration Building Project II), 2002 Series C	12/19/02	9,490.0	7,890.0	4.77%
COPs (Multiple Properties Project), 2003 Series B	06/26/03	31,620.0	25,545.0	4.11%
COPs (Refinancing Project I and Refunding Project I), 2004 Series A	07/28/04	50,700.0	8,805.0	3.46%
COPs (Qualified Zone Academy Bonds) Series 2005 (taxable) [1]	12/01/05	10,000.0	10,000.0	N/A
COPs (Information Technology Projects), 2007 Series A[2]	11/15/07	99,660.0	73,855.0	3.83%
COPs (Food Services Projects), 2009 Series A[2]	09/29/09	40,728.2	35,587.4	3.92%
COPs Refunding (Multiple Properties Project), 2010 Series A	01/27/10	69,685.0	62,780.0	3.29%
COPs (Federally Taxable Direct Pay Build America Bonds, Capital Projects I), 2010 Series B-1	21/21/10	21,615.0	21,615.0	%
COPs Refunding (Tax-Exempt, Capital Projects I), 2010 Series B-2	12/21/10	61,730.0	61,730.0	%
	TOTAL	***$494,564.9***	***$407,144.10***	

[1] The Series 2000A and 2005 COPs do not carry interest payments; instead, the purchaser receives a tax credit. The portion of the Series 2000A COPs attributable to District projects is 75.04%, with the remaining 24.96% attributable to projects at two charter schools. The outstanding principal amount for the Series 2000A COPs is reflected as $25.372 million in the District's Comprehensive Annual Financial Report, as the auditor reduced the nominal outstanding principal by the amount of base rental payments ($5.074 million) defeased by the District's Series 2004B COPs that were issued on July 28, 2004 and have since matured. As a result of prior defeasances, contributions from general obligation bond proceeds, the deposit of any net annual sinking fund payments made by the District and the two charter schools into the sinking fund, and interest earnings on a forward delivery agreement, the net amount outstanding as of June 30, 2011 was $732,696. The guaranteed investment agreement ("GIC") used for part of the defeasance on the 2005 COPs was terminated in August 2008 due to the rating downgrade of the GIC provider. A portion of the base rental payments has been set aside such that the net amount due by the District as of June 30, 2011 was $6,717,888.24. The District may need to contribute more funds to redeem the 2005 Qualified Zone Academy Bonds, depending upon the amount of ongoing investment returns.

[2] A portion of debt service payments for these COPs totaling $32.6 million was defeased from general obligation bond proceeds in September 2010.

Table 9
Variable-Rate Certificates of Participation Issuance
(as of June 30, 2011)

Issue Description	Date of Issue	Principal Amount Issued ($000s)	Principal Outstanding (June 30, 2011) ($000)
Refunding COPs (Administration Building Project), 2008 Series A	08/06/08	$97,530	$82,465
Refunding COPs (Administration Building Project III), 2008 Series B	08/06/08	23,420	21,160
	TOTAL	***$120,950***	***$103,625***

The District significantly reduced the portion of COPs paid from General Fund sources in Fiscal Years 2004-05 and 2005-06 when proceeds from Measure R and Measure Y bonds were used to defease $143.42 million and $183.7 million of COPs principal, respectively. Chart 4 shows the total General Fund COPs debt service prior to the Measure R and Y defeasances in Fiscal Years 2004-05 and 2005-06. Chart 5 shows the resulting significant decline in General Fund COPs debt service due to the defeasance of those COPs versus the debt service level prior to defeasance. The COPs defeasance resulted in nearly $500 million of savings to the General Fund through Fiscal Year 2024-25. In addition, the District used $32.6 million of Measure Y funds to defease certain COPs debt service payments in September 2010 that would otherwise have been paid from the General Fund. Chart 6 shows COPs debt service as of Fiscal Year 2010-11 and reflects the impact of the COPs defeasance completed in September 2010. Debt service payments from the General Fund total $624 million through the final maturity of the COPs, which amount does not reflect the anticipated $11.6 million of federal subsidies expected to be received and applied toward the debt service requirements for the 2010 Series A COPs.

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Chart 4

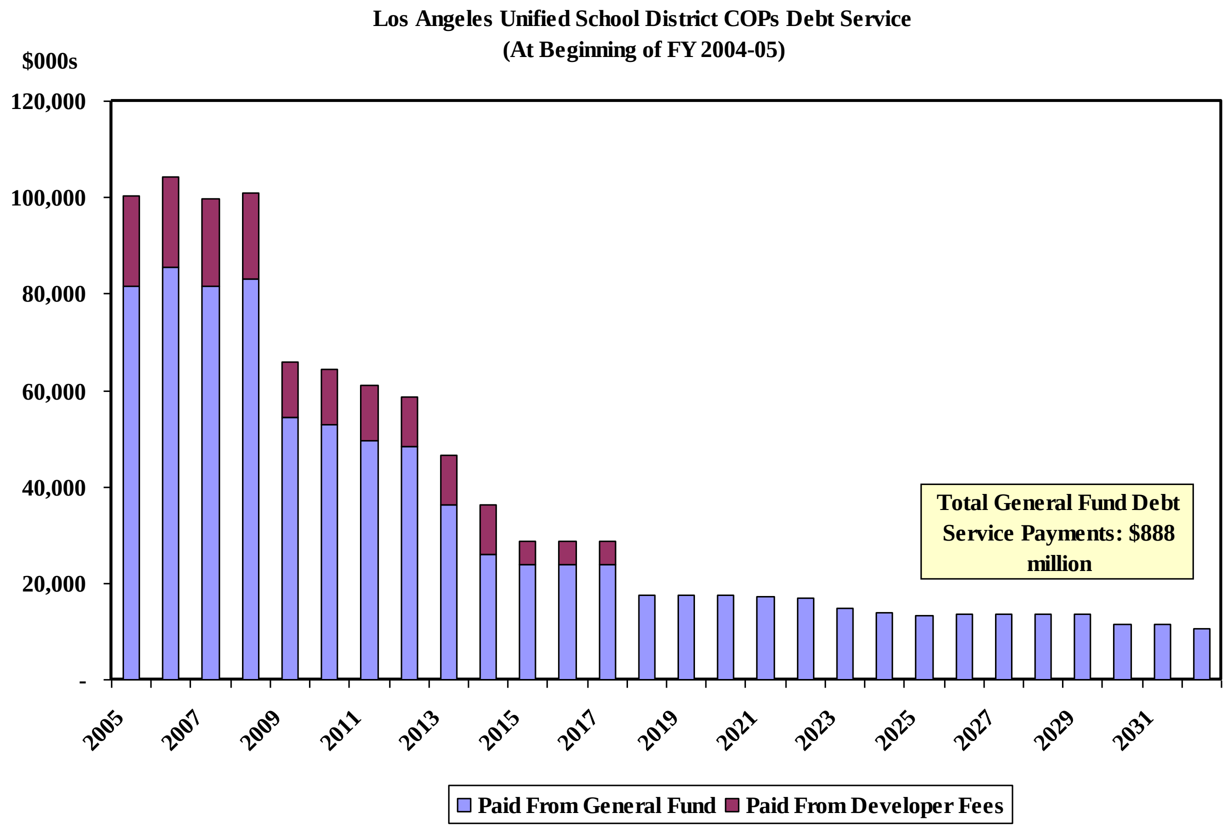


Chart 5

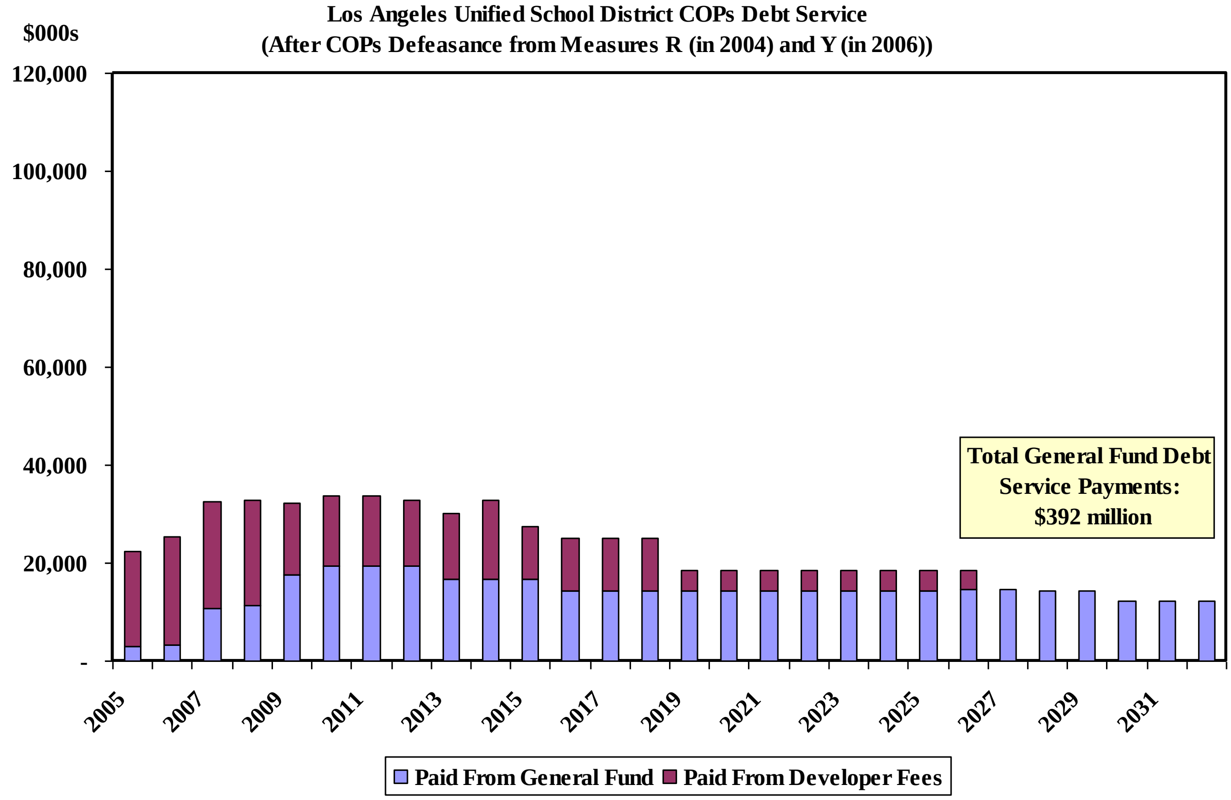
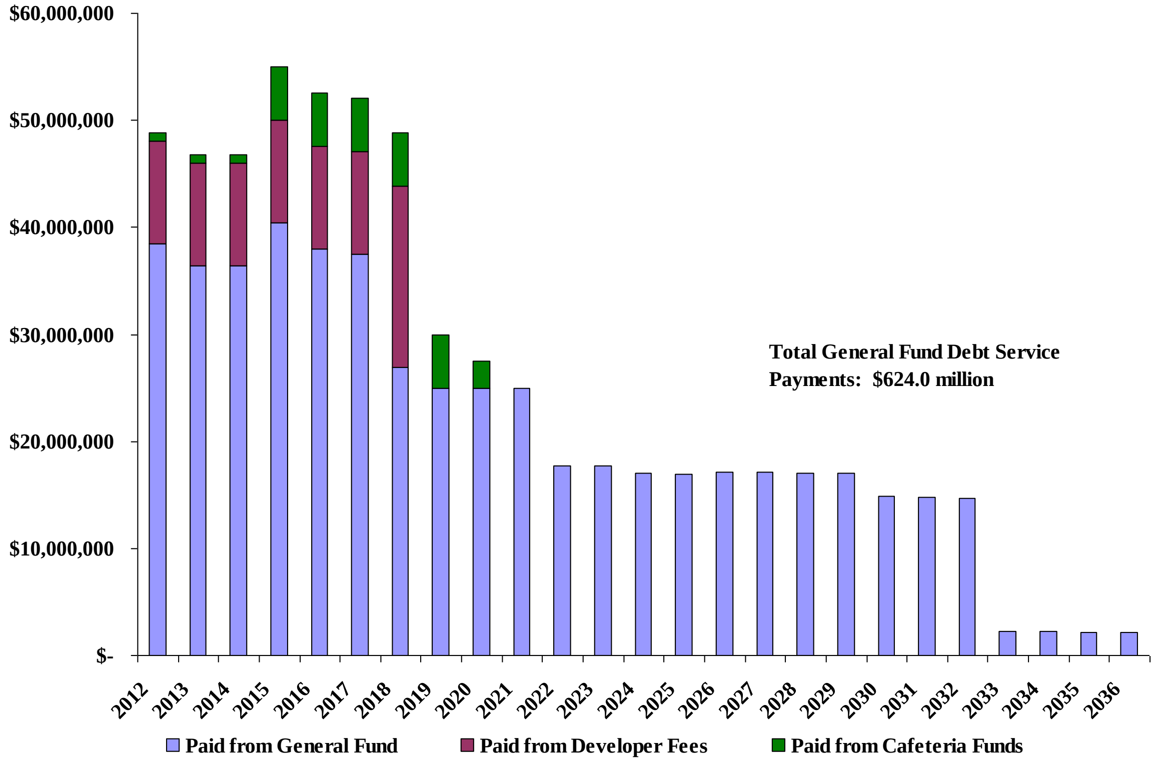


Chart 6

Los Angeles Unified School District COPs Debt Service (as of June 30 2011)



SECTION III: THE MARKET FOR THE DISTRICT'S DEBT

A. Municipal Bond Market

The District's bonds, COPs, and tax and revenue anticipation notes ("TRANs") are issued and traded in the municipal bond market. Major groups of investors in this market include insurance companies, bond funds, investment bank portfolios, trust departments, investment advisors, individual investors, and money market funds. Each of these market participants may hold differing preferences for the structure and maturities of the bonds, COPs or TRANs that they purchase. As one of the largest issuers of municipal bonds in the country, the District is able to draw significant attention from all of these investor groups. The table above is a listing of the largest institutional holders of the District's long-term bonds.

Top 25 Institutional Holders of LAUSD Bonds

Rank	Managing Firm Name	$ Thousands
1	Vanguard Group Inc, The	$788,206
2	Pacific Investment Management Co LLC (PIMCO)	550,510
3	Franklin Templeton Investments	481,398
4	PineBridge Investments LLC	258,395
5	Wellington Management Co LLP	179,621
6	BlackRock Financial Management Inc (Fixed-Income)	155,070
7	Dodge & Cox	146,084
8	AllianceBernstein LP	125,113
9	Prudential Investment Management-Fixed Income (PIM Fixed Income)	120,731
10	Nuveen Asset Management LLC	99,630
11	Fidelity Management & Research Company (Fixed-Income Division)	94,235
12	Deutsche Asset Management (DeAM) (NYC) (345 Park Avenue)	82,173
13	Guggenheim Partners Asset Management LLC	80,792
14	Manulife Asset Management (US) LLC	73,750
15	AIG Asset Management (US) LLC (Houston)	68,750
16	Metropolitan Life Insurance Co (Investments) (MetLife)	68,400
17	Mason Street Advisors LLC	63,575
18	BlackRock Fund Advisors	63,041
19	BlackRock Investment Management LLC (Princeton)	62,710
20	J.P. Morgan Investment Management Inc (New York)	56,049
21	JPMorgan Investment Management Inc (Columbus)	51,051
22	Guggenheim Investment Management LLC (Chicago)	50,000
23	MacKay Shields LLC	47,158
24	Goldman Sachs Asset Management LP (GSAM) (USA)	46,202
25	Northern Trust Global Advisors Inc	43,787
	Total	$3,856,431

Source: eMAXX Report as of November 9, 2011

The borrowing cost that the District pays its investors is a function of the District's credit ratings, market interest rate levels, anticipated Federal Reserve policy actions and, most importantly, the investment community's perception of and demand for the District's credit. Investors demand rates of return on their investments commensurate with their perception of the District's ability and willingness to repay its obligations as well as the District's overall financial, debt and economic performance compared to other issuers. The investment community has historically viewed the District's bonds and COPs as high quality investment grade securities, owing to the District's financial position, a large and diversified local economic base, significant access to voter-approved tax levies, and a pristine debt service payment track record.

Traditionally, the large numbers of investors residing in California and the State's progressive income tax system have provided investors with incentives to purchase the District's bonds and COPs. During recent years, however, investor perception of California debt weakened due to the State's credit deterioration, investor concerns over the magnitude of the State's budget shortfalls, massive issuance of energy-crisis and economic recovery bonds by the State and massive anticipated debt issuance in the future. During this period, the State's credit was downgraded by the three major rating agencies to the lowest level of any state. The State's borrowing costs rose accordingly as did interest costs for issuers viewed as "agencies" of the State, such as LAUSD, even though the District's credit ratings remained very strong and well-above those of the State.

In addition to dealing with interest rate impacts stemming from the State's fiscal problems, the District has also been affected by the national and global financial crisis that resulted in a total freeze of capital markets in September 2008. Preceding the market freeze, major bond insurers were steadily downgraded from their coveted triple-A ratings, a situation that caused tremendous volatility in the market. The short-term sector of the market was particularly hard hit, especially the auction rate market and the variable rate demand obligation ("VRDO") market. One of the downgraded bond insurers was Ambac, the insurer of the District's 2005A VRDO COPs and 2005B VRDO COPs; a second downgraded insurer was Financial Security Assurance, the insurer of the 2005C VRDO COPs. None of the District's fixed rate debt service or debt service on other VRDOs were affected by the downgrades of bond insurers. However, investors holding the fixed rate securities may have been exposed to capital losses to the extent they had to sell the securities prior to maturity at unfavorable prices.

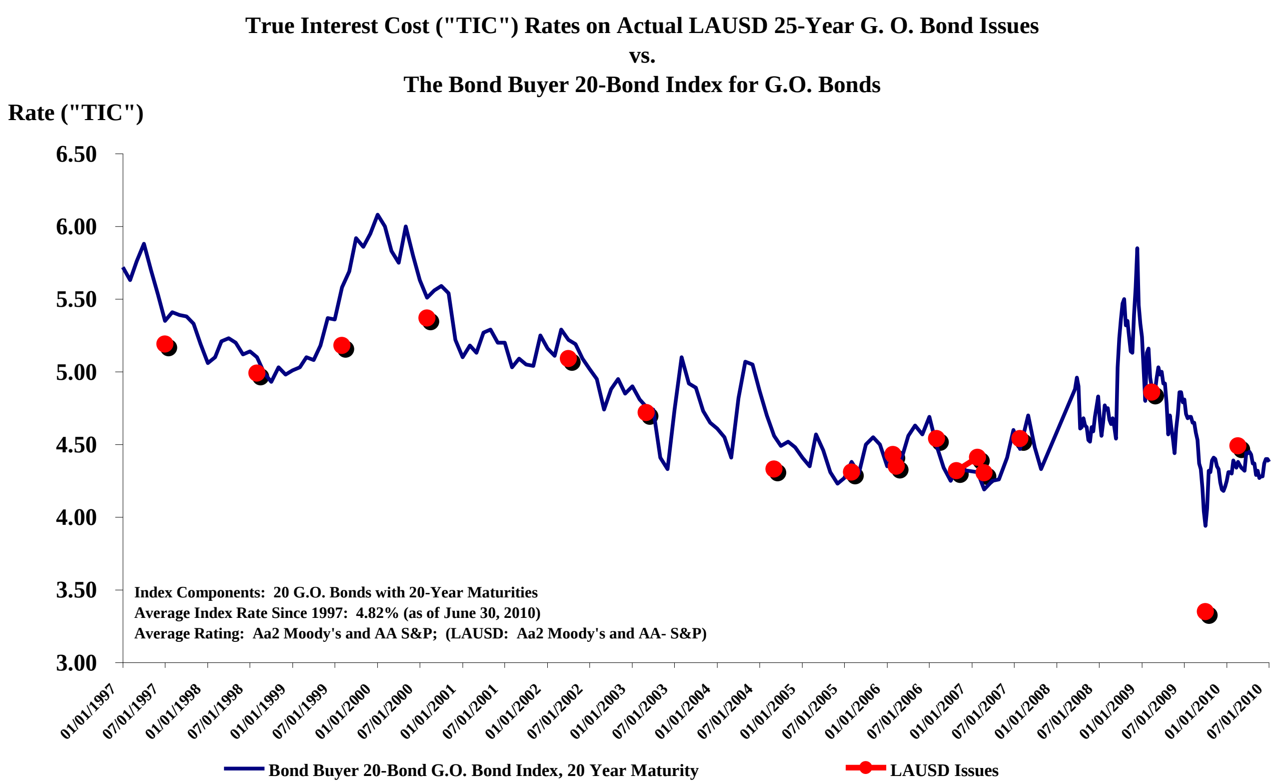
The weekly interest rate resets for the 2005A, 2005B and 2005C COPs were above market rates during the period when Ambac and FSA were being downgraded, so the District quickly took steps to remedy the situation. The 2005A and 2005B COPs were refunded with the 2008A and 2008B COPs that are VRDOs with a letter of credit from Bank of America. The weekly resets on the 2008A and 2008B COPs have been at market levels. The full amount of funds necessary to defease the 2005C COPs were placed in an escrow that prepaid these COPs on May 11, 2009.

The fixed rate sector of the municipal market was also affected by the financial crisis. The District had intended to sell $950 million of general obligation bonds in the fall of 2008 but placed the transaction on hold until market conditions were more receptive. The District was able to sell the bonds in February 2009 in what was the largest bond sale in California since the prior June. As of this writing, issuers with strong credit ratings remain able to access the market at reasonable cost whereas some lower rated credits have difficulty accessing the market. With hedge funds, tender option bond programs and arbitrage accounts no longer the predominant investors in the market, traditional investors such as retail investors, bond funds, insurance companies and other institutional investors now provide the bulk of liquidity in the market. These investors have a strong preference for highly rated issues.

B. Cost of the District's Fixed Rate and Variable Rate Debt

B.1. Fixed Rate Debt. All of the District's General Obligation Bond issues and many of its COPs issues carry fixed interest rates. Since reaching a cyclical high in 1999, fixed interest rates have fallen to historically low levels. This has helped the District achieve very low interest cost on its General Obligation Bonds when compared to industry benchmarks such as The Bond Buyer 20-Bond Index, as shown in Chart 7 below. The District's bonds have a term to maturity of 25 years so, , generally, one would expect the true interest costs ("TICs") to be above The Bond Buyer 20-Bond Index; however, yields on the District's issues tend to be below the index. A listing of the TICs for each series of 25-year General Obligation Bond was provided earlier in Table 2 and in Table 10 for the District's fixed-rate COPs.

Chart 7



B.2. Variable Rate Debt. Current statutory provisions make it impractical for the District to issue variable rate General Obligation Bonds, as ancillary costs such as remarketing fees and liquidity fees cannot be paid from voter approved tax levies. Thus, with the vast majority of the District's debt necessarily being issued as fixed rate bonds, the District has looked to its COPs issuance program to achieve debt portfolio diversification in the form of variable rate COPs. The District had two series of variable rate COPs outstanding as of June 30, 2011, as summarized earlier in Table 9. The interest rates on these COPs vary with the movement of interest rates at the short end of the yield curve, which has generally resulted in low interest expense due to historically low interest rates in the recent market.

SECTION IV: THE DISTRICT'S CREDIT RATINGS

A. Long-Term Credit Ratings on General Obligation Bonds and Certificates of Participation

Long-term credit ratings provided by a rating agency are an independent assessment of the relative credit risk associated with purchasing and holding a particular bond through its scheduled term of repayment. Long-term credit ratings serve as independent opinions of a borrower's financial strength and ability to repay its debt on a timely basis. Long-term credit ratings are one of the most important indicators of creditworthiness readily available to the investment community and have a direct impact on the borrowing rates paid by the District.

Moody's Investors Service ("Moody's") and Standard & Poor's ("S&P") currently rate the District's General Obligation Bonds as Aa2 and AA- respectively.

The District has requested ratings from only Moody's and S&P since 2006. The District requested withdrawal of all of its prior Fitch ratings in September 2009. The District's General Obligation Bond ratings are generally "high quality investment grade" ratings as shown in Chart 8. Moody's and S&P currently rate the District's COPs in the "upper medium grade" category as A1 and A+, respectively. General Obligation Bond ratings are typically one to two notches higher than those of COPs, owing to the superior credit strength of the *ad valorem* property taxes pledged to repay General Obligation Bonds versus the General Fund pledge that supports repayment of COPs.

Chart 8
Credit Ratings on Recent Debt Issuances
(District's G.O. Bond Ratings Highlighted in Red)
(District's COPs Ratings Highlighted in Blue) [(1)]

	Moody's	S&P
Best Quality	Aaa	AAA
High Quality	Aa1	AA+
	Aa2	AA
	Aa3	**AA-**
Upper Medium Grade	**A1**	**A+**
	A2	A
	A3	A-
Medium Grade	Baa1	BBB+
	Baa2	BBB
	Baa3	BBB-
Below Investment Grade	Ba1 and lower	BB+ and lower

(1) S&P rates COPs one notch lower than general obligation bonds, whereas Moody's rates COPs two notches lower than general obligation bonds.

In addition to the rating itself, each rating agency publishes an outlook on the rating. Outlooks are either "Positive", "Stable" or "Negative." A "Positive" outlook indicates a possible upgrade in the rating may occur; a "Negative" outlook indicates a possible rating downgrade may occur; and a "Stable" outlook indicates that neither an upgrade nor a downgrade is anticipated to occur. Each of the two agencies has assigned an outlook of "Stable" for the District's ratings.

Recognizing the importance of maintaining high quality ratings, the Board of Education adopted a Budget and Finance Policy that, among other things, establishes a minimum 5% General Fund reserve, effective July 1, 2005. The Chief Financial Officer notes, however, that the District's 5% reserve is comprised of both restricted and unrestricted balances, whereas the average unrestricted balance is about 9% for unified school districts in California. A history of the District's General Obligation Bond and COPs ratings is presented in Appendix 3.

B. Short-Term Credit Ratings on Tax and Revenue Anticipation Notes

The District issued tax and revenue anticipation notes ("TRANs") each fiscal year since Fiscal Year 1991-92 to finance periodic cash flow deficits. The District has always received the highest possible short-term ratings from Moody's (MIG 1) and S&P (SP-1+) on its TRANs. As of the date of this Debt Report, the District has $550 million outstanding 2011-12 TRANs that mature on August 1, 2012.

SECTION V: DEBT RATIOS

A. Use of Debt Ratios

Pursuant to the District's Debt Management Policy set forth in Appendix 5, the Chief Financial Officer must calculate certain debt factors and debt burden ratios, compare them to benchmarks, and report the results in this Debt Report. Measuring the District's debt performance through the use of debt ratios provides a convenient way to compare the District to other borrowers. The most common debt ratios applied to school districts are:

- Ratio of Outstanding Debt to Assessed Value. The formula for this computation is contained in Section 15106 of the Education Code. The ratio is calculated for both "Direct Debt" (i.e., general obligation bonds) and "Combined Direct Debt" (both general obligation bonds and COPs), the latter commonly referred to as "Debt Burden" in the California Municipal Statistics Overlapping Debt Statement. In addition, the ratio "Overall Debt Burden" includes the District's Direct Debt plus the Direct Debt of issuers whose boundaries overlap those of the District. It is important to monitor the levels and growth of Direct Debt and Overall Direct Debt as they portray the debt burden borne by our taxpayers and serve as proxies for taxpayer capacity to take on additional debt in the future.

- Ratio of Outstanding Debt Per Capita. The formula for this computation is Outstanding Debt divided by the population residing within the District's boundaries. Ratios are computed for both "Direct Debt Per Capita" and "Overall Debt Per Capita." It is important to monitor these ratios as they attempt to measure the degree to which debt is concentrated, i.e. whether it is spread across a large or small population. It should be noted that no official population data is collected for the District but the District provides estimates of its population, which are used in the per capita ratios.

- Ratio of Annual Lease Debt Service to General Funds Expenditures. The formula for this computation is annual lease debt service expenditures divided by General Funds (i.e., General and Debt Service Funds) expenditures (excluding interfund transfers) as reported in the most recent Comprehensive Annual Financial Report.

- Proportion of Fixed-Rate and Variable-Rate COPs Issues. The Debt Management Policy requires the District to keep its variable rate exposure, to the extent not hedged or swapped to fixed rate, at or below 20% of the total principal of outstanding COPs or $100 million, whichever is less. If variable rate debt is issued, the Chief Financial Officer periodically, but at least annually, determines whether it is appropriate to convert the debt to fixed interest rates. No such conversions were recommended in Fiscal Year 2009-10.

The District's ratios and benchmark targets are provided below in Table 10.

B. LAUSD's Compliance with Debt Management Policy; Debt Levels Compared to Other School Districts

Table 10 provides a summary of the District's performance against policy benchmarks, targets and ceilings for debt paid from General Fund or other resources controlled by the District, such as developer fees and cafeteria funds. The District's policy calls for such debt service to be no more than 2 – 2 ½ % of General Funds Expenditures. In addition, the Board imposed an even more restrictive COPs debt service ceiling of $105.0 million in 2004. The District's actual performance is well within the policy targets and ceilings.

Table 10
Policy Benchmarks, Targets and Ceilings for Debt Paid From General Fund or Other District Resources (COPs)
(As of June 30, 2011)

Factor	Benchmark/Target	Ceiling	LAUSD Actual	Over(Under) Policy Ceiling
Maximum COPs Gross Debt Service Limit (percentage)	2% of General Funds Expenditures (FY 2010-11)	2.5% of General Funds Expenditures	0.95%	(1.55%)
Maximum COPs Gross Debt Service Limit ($ million)	Not applicable	$105.0	$58.7	($46.3)
Unhedged Variable Rate Debt as % of Total COPs Debt		20.0%	0%	(20%)

The District is the largest independent public school district in the United States. On the basis of its size, one approach would be to compare LAUSD to other public entities with similar size. However, those types of entities comprise a heterogeneous collection of cities, states, school districts and other public agencies rather than a homogenous group such as school districts. Thus, the Debt Management Policy requires that the Chief Financial Officer include a comparison of the District to the cohort of other large school districts, even though that category includes districts with varying types of funding mechanisms different from the District's funding mechanisms and includes no other district as large as LAUSD.

Table 11 below sets forth the debt burden ratios that recognize the direct debt and overall debt of the District compared to benchmarks for large school districts whose ratings are in the double-A or higher rating category.

Due to the statistical dispersion of the underlying data for the benchmarks in Table 11 and the large size of the District's bonding program relative to other large school districts, the District's debt burden ratios are not unexpectedly higher than most of the benchmarks. Nevertheless, the District believes the "large, highly-rated" school district cohort to be the most appropriate cohort group against which it should be compared.

Table 11
Policy Benchmarks for District's Direct and Overall Debt
(As of June 30, 2011)

Debt Burden Ratio	Benchmark	Benchmark's Value	LAUSD Actual[1]
Direct Debt to Assessed Value	Moody's Median for Aa Rated School Districts With Student Population Above 200,000	1.10%	2.60%
	Standard & Poor's Mean for AA Rated School Districts With Student Population Above 150,000	1.50%	
Overall Debt to Assessed Valuation	Moody's Median for Aa Rated School Districts With Student Population Above 200,000	2.60%	4.22%
	Standard & Poor's Mean for AA Rated School Districts With Student Population Above 150,000	3.20%	
Direct Debt Per Capita	Standard & Poor's Median for AA Rated School Districts With Student Population Above 150,000	$736	$2,639
	Standard & Poor's Mean for AA Rated School Districts With Student Population Above 150,000	$847	
Overall Debt Per Capita	Standard & Poor's Median for AA Rated School Districts With Student Population Above 150,000	$1,665	$4,291,
	Standard & Poor's Mean for AA Rated School Districts With Student Population Above 150,000	$2,639	

[1] The District's Comprehensive Annual Financial Report ("CAFR") reports these figures differently by adjusting outstanding bonds and COPs for unamortized bond premiums and discounts.

APPENDIX 1

Los Angeles Unified School District
Debt Service Payments on Outstanding General Obligation Bonds