# Los Angeles Unified School District
# Debt Report
# Fiscal Year 2007-08

Megan K. Reilly
Chief Financial Officer
May 27, 2009

# LOS ANGELES UNIFIED SCHOOL DISTRICT

Office of the Chief Financial Officer

RAMON C. CORTINES
*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 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 $6.1 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 or developer fees.

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" in the narrow definition.

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 and that are not 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 and developer fees. 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 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 targets and ceilings.

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 and serve as proxies for the capacity taxpayers have to take on additional debt in the future. The District must be mindful not to overburden its taxpayers by issuing debt too quickly, for example. The Debt Management Policy sets forth various municipal market debt ratios and benchmarks against which the District measures and compares its own 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. As of June 30, 2008, the District's General Obligation Bond ratings were Aa3 by Moody's Investors Service, AA- by Standard & Poor's and A+ by Fitch Ratings, reflecting high quality investment grade status. The ratings assigned to all General Obligation Bonds and COPs associated with the District affect interest payments and the cost to 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

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

## SECTION I: GENERAL OBLIGATION BOND DEBT

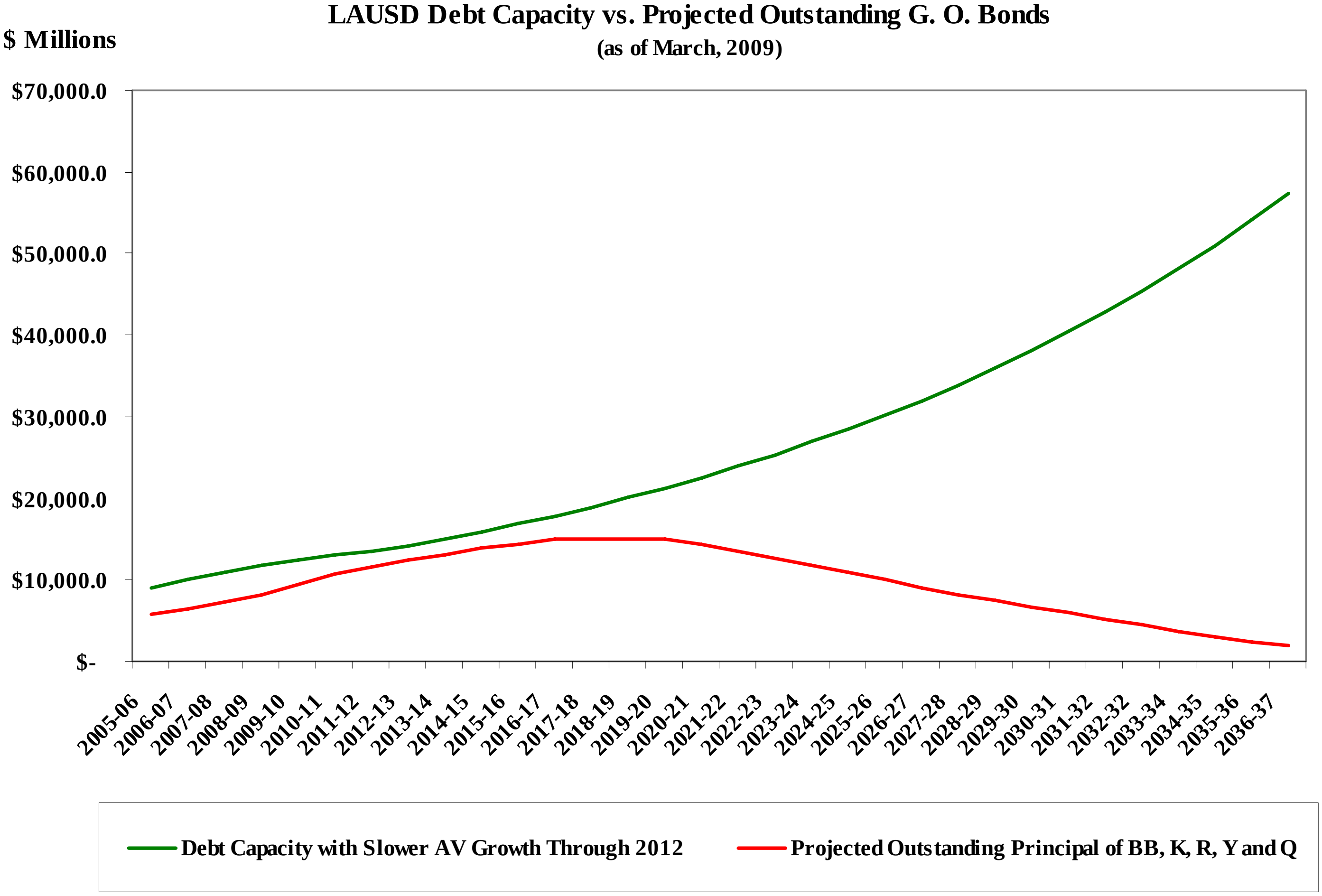
### A. District's Bonded Debt Limitation and Assessed Valuation Growth

In accordance with Education Code Section 15106, the District's bonded debt limitation equals 2.5% of the value of taxable property (i.e., assessed valuation) in the District. For Fiscal Year 2007-08, total assessed valuation in the District was $440.9 billion, resulting in a bonded debt limitation of $11.0 billion. Table 1 presents the District's maximum debt limit versus current outstanding debt. The difference is the "Legal Debt Margin." Chart 1[1] shows that the Legal Debt Margin (i.e., the distance between the red and green lines) is expected to remain positive even as the District issues a significant amount of General Obligation Bonds in the years ahead.

**Chart 1**

**LAUSD Debt Capacity vs. Projected Outstanding G. O. Bonds**

**(as of March, 2009)**




[1] Chart 1 reflects issuance of $7.0 billion of Measure Q general obligation bonds approved by voters in November 2008, subsequent to the Fiscal Year 2007-08 timeframe of this Debt Report.

In addition to the District's debt issuance pattern, 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 plus additional growth from new construction and the sale and exchange of property. The annual growth in assessed valuation averaged 7.18% over the last 30 years (including growth from 2007-08 to 2008-09) and averaged a somewhat higher 9.23% over the past 5 years. Based on this historical context, the District's assumed long-run annual growth rate of 6% in Chart 1 is reasonable. However, current weakness in the housing market may negatively affect near-term assessed valuation growth.[1]

**Chart 2**
**LAUSD Growth in Assessed Valuation**
**(as of March, 2009)**

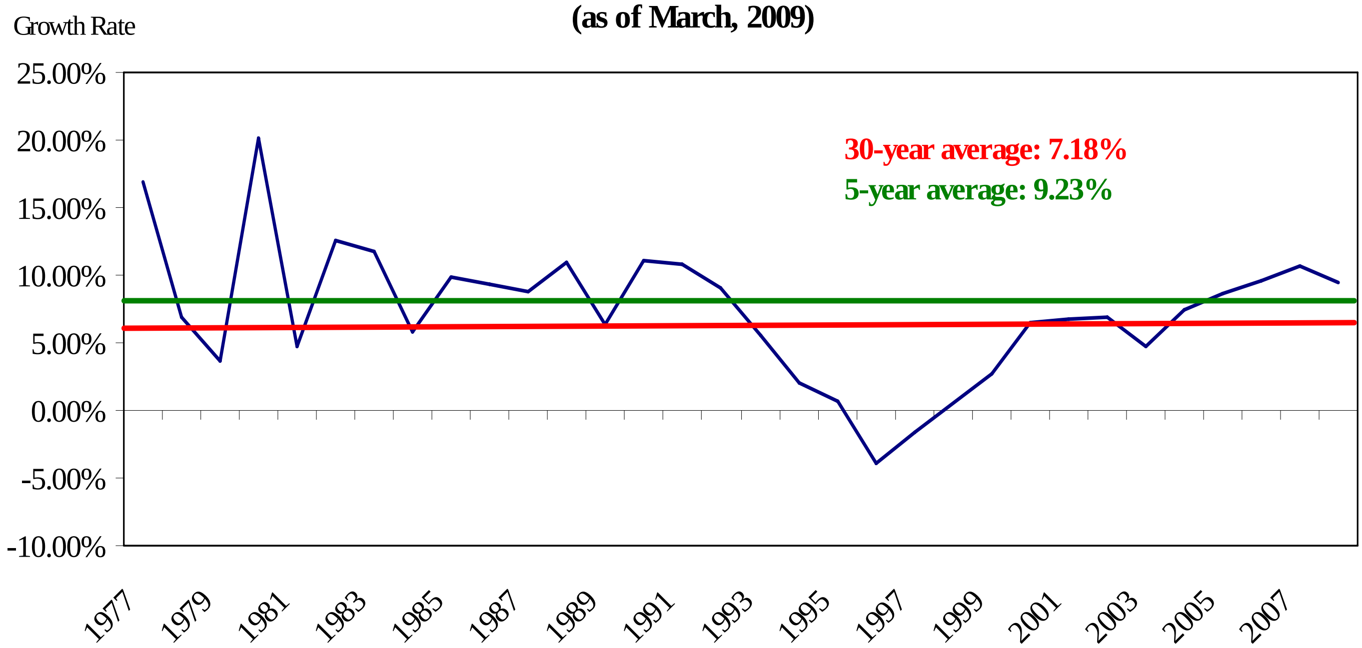



**Table 1**
**Bonded Debt Limitation and Legal Debt Margin, Fiscal Year 2007-08**
**(in $000s)**

| | |
|---|---|
| Total Assessed Valuation | $440,914,390 |
| | |
| Bonded Debt Limitation (2.5% times Assessed Valuation) | 10,065,221 |
| Less: Outstanding General Obligation Bonds[2] | (6,504,880) |
| Plus: Amounts Available in Bond Interest and Redemption Fund to Pay Principal | 360,140 |
| ***Equals: Legal Debt Margin[1]*** | **$3,920,481** |

[1] The District's assessed valuation base grew 7.68% in Fiscal Year 2008-09, subsequent to the fiscal year of this Debt Report. The District still believes that current weakness in the housing market could negatively affect near-term assessed valuation growth.

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

## B. Bonds Outstanding and Bonds Authorized But Unissued

As of June 30, 2008, the District had a total of $7.3 billion of outstanding voter authorized General Obligation Bonds, a detailed listing of which is shown in Table 2 and the debt service requirements for which can be found in Appendix 1.

**Table 2**
**General Obligation Bond Issuance and True Interest Cost**
**(as of June 30, 2008[1])**

| Bond Issue | Date of Issue | Principal Amount Issued ($000s) | Outstanding Principal ($000,) | True Interest Cost (%) |
|---|---|---|---|---|
| Proposition BB Series A | 7/22/97 | $356,000 | $114,750 | 5.19% |
| Proposition BB Series B | 8/25/98 | 350,000 | 24,345 | 4.99% |
| Proposition BB Series C | 8/10/99 | 300,000 | 28,790 | 5.18% |
| Proposition BB Series D | 8/03/00 | 386,655 | 34,535 | 5.37% |
| Proposition BB Series E | 4/11/02 | 500,000 | 106,390 | 5.09% |
| Proposition BB Series F | 3/13/03 | 507,345 | 336,880 | 4.43% |
| Measure K Series A | 3/05/03 | 2,100,000 | 501,040 | 4.79% |
| Measure K Series B | 2/22/07 | 500,000 | 500,000 | 4.31% |
| Measure K Series C | 8/16/07 | 150,000 | 150,000 | 4.86% |
| Measure R Series A (5 year maturity) | 9/23/04 | 72,630 | 38,085 | 2.28% |
| Measure R Series B (5 year maturity) | 9/23/04 | 60,475 | 25,645 | 2.24% |
| Measure R Series C | 9/23/04 | 50,000 | 45,920 | 4.33% |
| Measure R Series D | 9/23/04 | 16,895 | 8,695 | 4.33% |
| Measure R, Series E | 8/10/05 | 400,000 | 357,365 | 4.36% |
| Measure R, Series F | 2/16/06 | 500,000 | 488,190 | 4.21% |
| Measure R, Series G | 8/17/06 | 400,000 | 377,500 | 4.55% |
| Measure R, Series H | 8/16/07 | 550,000 | 550,000 | 4.86% |
| Measure Y, Series A | 2/22/06 | 56,785 | 56,785 | 3.72% |
| Measure Y, Series B | 2/22/06 | 80,200 | 80,200 | 3.85% |
| Measure Y, Series C | 2/22/06 | 210,000 | 210,000 | 4.15% |
| Measure Y, Series D (taxable) | 2/22/06 | 47,400 | 47,400 | 5.18% |
| Measure Y, Series E | 8/16/07 | 300,000 | 300,000 | 4.86% |
| 2002 General Obligation Refunding Bonds | 4/17/02 | 258,375 | 254,085 | 4.94% |
| 2004 General Obligation Refunding Bonds A-1 | 12/21/04 | 90,740 | 90,560 | 4.13% |
| 2004 General Obligation Refunding Bonds A-2 | 12/21/04 | 128,385 | 127,975 | 4.38% |
| 2005 General Obligation Ref. Bonds, A-1 | 7/20/05 | 346,750 | 346,750 | 4.17% |
| 2005 General Obligation Ref. Bonds, A-2 | 7/20/05 | 120,925 | 120,925 | 4.22% |
| 2006 General Obligation Ref. Bonds, Series A | 2/22/06 | 132,325 | 132,325 | 4.07% |
| 2006 General Obligation Ref. Bonds, Series B | 11/15/06 | 574,905 | 563,080 | 4.32% |
| 2007 General Obligation Ref. Bonds, Series A-1 | 1/31/07 | 1,153,195 | 1,146,125 | 4.41% |
| 2007 General Obligation Ref. Bonds, Series A-2 | 1/31/07 | 136,055 | 136,055 | 4.41% |
| 2007 General Obligation Ref. Bonds, Series B | 2/22/07 | 24,845 | 24,650 | 4.12% |
| | ***Total*** | ***$10,860,885*** | ***$7,325,045*** | |

[1] Excludes the issuance of $250 million of Measure K, Series D; $550 million of Measure R, Series I; and $150 million of Measure Y, Series F on February 4, 2009. These bonds were issued subsequent to the fiscal year of this Debt Report (Fiscal Year 2007-08).

The District had a total of $5.7 billion of authorized but unissued General Obligation Bonds as of June 30, 2008 and $12.7 billion when the Measure Q bonds approved by voters in November 2008 are included. Table 3 presents overall highlights of the District's authorized but unissued bonds and Chart 3 in the next subsection depicts actual and projected issuance of bonds[1].

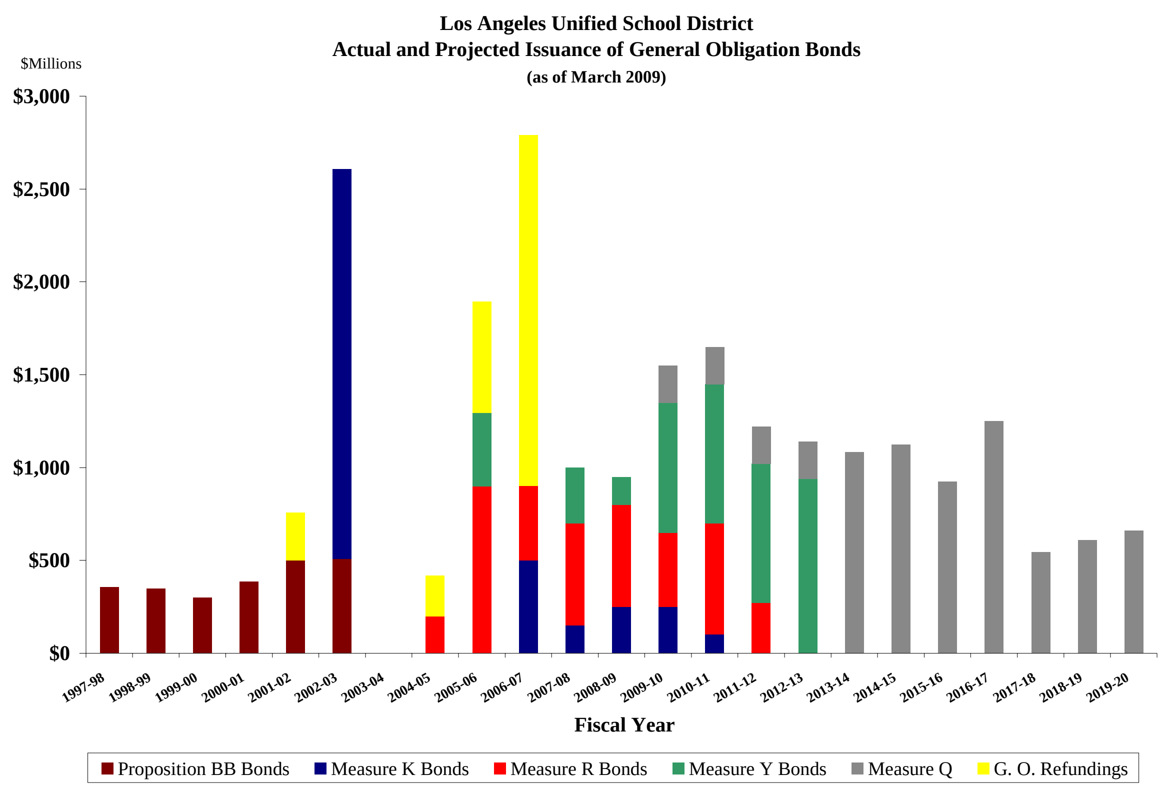
**Table 3**
**Authorized but Unissued General Obligation Bonds as of June 30, 2008**
**(Includes Measure Q Authorization, $ Thousands)**

| | 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 | 2,750,000 | 2,050,000 | 694,385 | 0 |
| Authorized but Unissued | $0 | $600,000 | $1,820,000 | $3,290,615 | $7,000,000 |

## 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 to issue bonds semiannually over the next twelve fiscal years. Projections of the intended issuances of General Obligation Bonds for each bond authorization are presented in Chart 3[2], with details for the next two fiscal years shown in Table 4.

**Chart 3**

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1 Chart 3 and Table 4 reflect actual issuance of bonds and refunding bonds issued through February 2009, subsequent to the June 30, 2008 reporting period of this Debt Report.

**Table 4**
**Intended Issuances of Bonds**
**Fiscal Years 2008-09 and 2009-10**
**($ Thousands)**

| | FY 2008-09 | FY 2009-10 | Total |
|---|---|---|---|
| Measure K | $250,000 | $250,000 | $500,000 |
| Measure R | 550,000 | 400,000 | 950,000 |
| Measure Y | 150,000 | 700,000 | 850,000 |
| Measure Q | 0 | 200,000 | 200,000 |
| ***Total General Obligation Bonds*** | $950,000 | $1,550,000 | $2,500,000 |

The District's actual issuance of $950 million of General Obligation Bonds in Fiscal Year 2008-09 and intended issuance of $1.6 billion in Fiscal Year 2009-10 are expected to increase General Obligation Bond debt service by $84.5 million in Fiscal Year 2009-10. A detailed schedule of the projected annual payments on these obligations for the next two fiscal years can be found in Appendix 2.

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 5 provides a summary of the savings from refundings through June 30, 2008. The Chief Financial Officer estimates that these refundings will save taxpayers approximately $181.3 million, which equates to saving about $45.03 per $100,000 of assessed valuation over the term of the bonds.

**Table 5**
**Refunding Savings**
**(as of June 30, 2008)**

| Refunding Bond Issue | Amount Refunded[1] ($ millions) | Term of the Refunding Bonds | Savings ($ millions) | Annual Savings | Annual Savings per $100,000 AV[2] | Total Savings per $100,000 AV[3] |
|---|---|---|---|---|---|---|
| 2002 | $262.730 | 17 years | $12.8 | $752,941 | $0.19 | $ 3.18 |
| 2004 A-1 & A-2 | 215.680 | 18 years | 10.6 | 588,889 | 0.15 | 2.63 |
| 2005 A-1 & A-2 | 484.950 | 20 years | 38.4 | 1,920,000 | 0.48 | 9.54 |
| 2006 A | 131.935 | 13 years | 6.3 | 484,615 | 0.12 | 1.56 |
| 2006 B | 561.375 | 21 years | 29.3 | 1,395,238 | 0.35 | 7.28 |
| 2007 A-1 & A-2 | 1,250.320 | 21 years | 82.1 | 3,909,524 | 0.97 | 20.39 |
| 2007 B | 25.790 | 12 years | 1.8 | 150,000 | 0.04 | 0.45 |
| Total | $2,933.780 | | $181.3 | $9,201,207 | $2.29 | $45.03 |

*Memoranda:*

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

2 Calculated based upon assessed valuation of $402.6 billion for Fiscal Year 2006-07, the last fiscal year in which refunding bonds were issued.

3 Figure represents the marginal effect of the refunding savings only; the tax levy is also affected by the interest rates on each issue of bonds relative to what was assumed at the time of each bond election, by the actual issuance pattern of bonds and by assessed valuation growth, i.e. higher assessed valuation growth also reduces the levy per $100,000 AV.

## D. 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 for the particular authorization:

(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 occurs;

(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. Nevertheless, the District actively manages its bond issuance program so that actual tax rates are close to or lower than the 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 are provided below.

**D.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 in Chart 2 earlier. Therefore, the District used a very conservative assumption for 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 6 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 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 $27.02 per $100,000 of assessed valuation, which is $13.27 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 6**
**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 | $27.02 |

**D.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 district such as LAUSD to represent that the tax rate for each separate Proposition 39 authorization will not exceed $60 per $100,000 of assessed valuation in any given year. 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 bond program 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 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 7 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 actual 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 $27.34 per $100,000 of assessed valuation, which is $25.65 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 has been slower than assumed is that the District was able to secure more State matching funds than originally projected and, thus, hasn't needed to issue Measure K bonds as quickly. In addition, the large first issuance of Measure K

[1] The projections in the Proposition BB tax rate model use Fiscal Year 2008-09 as the base year for the assessed valuation data and the actual debt service for all bonds issued as of September 1, 2008. There are no remaining unissued Proposition BB bonds.

bonds in 2003 provided $2.1 billion of bond proceeds and afforded the District more time between bond issuances.

**Table 7**
**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) | $45.79 (in FY 2010-11 |
| Estimated tax rate in the fiscal year following the issuance of the last series of bonds | $59.06 (in FY 2006-07) | $45.79 (in FY 2010-11) |
| Estimated average tax rate over the term of all issued bonds | $52.99 | $27.34 |

**D.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 bond program 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. 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 8 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 better than expected due to a combination of interest cost on issued bonds being less than assumed and actual 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 $27.08 per $100,000 of assessed valuation, which is $6.18 lower than the originally estimated $33.26 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.

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 resources are available to support the educational initiatives of the District.

[1] The projections in the Measure K tax rate model use Fiscal Year 2008-09 as the base year for the assessed valuation data and the actual debt service for all bonds issued as of September 1, 2008. The debt service on future issuances of Measure K bonds is estimated in the model.

**Table 8**
**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) | $52.00 (in FY 2011-12) |
| Estimated tax rate in the fiscal year following the issuance of the last series of bonds | $58.65 (in FY 2012-13) | $48.81 (in FY 2012-13) |
| Estimated average tax rate over the term of all issued bonds | $33.26 | $27.08 |

**D.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 bond program accordingly. In addition, the District assumed that 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 9 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 better than expected due to a combination of interest cost on issued bonds being less than assumed and actual 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 $24.95 per $100,000 of assessed valuation, which is $1.75 lower than the originally estimated $26.71 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.

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). The COPs had been previously issued by the District to fund critical infrastructure projects identical to the type of projects on the Measure Y project list. With removal of the COPs debt service from the General Fund, more general resources are available to support the educational initiatives of the District.

[1] The projections in the Measure R tax rate model use Fiscal Year 2008-09 as the base year for the assessed valuation data and the actual debt service for all bonds issued as of September 1, 2008. The debt service on future issuances of Measure R bonds is estimated in the model.

**Table 9**
**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) | $53.02 (in FY 2013-14) |
| Estimated tax rate in the fiscal year following the issuance of the last series of bonds | $57.05 (in FY 2013-14) | $53.02 (in FY 2013-14) |
| Estimated average tax rate over the term of all issued bonds | $26.71 | $24.95 |

**D.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 bond program accordingly. In addition, the District assumed that annual assessed valuation growth would be slower 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.

Table 9 below provides the District's projected tax rates for the Measure Q bond program at the time of the Measure Q election. 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 and actual growth in assessed valuation being higher than assumed. The District's initial projections show, for example, that the average tax rate over the term of all issued bonds will be approximately $29.01 per $100,000 of assessed valuation.

[1] The projections in the Measure Y tax rate model use Fiscal Year 2008-09 as the base year for the assessed valuation data and the actual debt service for all bonds issued as of September 1, 2008. The debt service on future issuances of Measure Y bonds is estimated in the model.

**Table 10**
**Estimated Tax Rates Set Forth in Tax Rate Statements for Measure Q**
**(Rates expressed as $ per $100,000 of assessed valuation)**

| Tax Rate Description | As Projected in Tax Rate Statement |
|---|---|
| Estimated tax rate in the fiscal year following the issuance of the first series of bonds | $0.0 (in FY 2010-11) |
| Estimated maximum tax rate and the year in which the maximum tax rate occurs | $60.00 (in FY 2019-20) |
| Estimated tax rate in the fiscal year following the issuance of the last series of bonds | $59.18 (in FY 2020-21) |
| Estimated average tax rate over the term of all issued bonds | $29.01 |

## 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, 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 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 all other existing COPs is paid from General Fund sources.

Tables 11 and 12 provide listings of outstanding COPs in fixed rate mode and variable rate mode, respectively. As of June 30, 2008, a total of $493.047 million of COPs were outstanding. The debt service requirements on outstanding COPs can be found in Appendix 3.

In seeking to achieve the benefits of a diversified debt portfolio, the District has periodically issued variable rate COPs[1]. In Fiscal Year 2007-08, the Debt Management Policy (which appears in Appendix 5) permitted 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 $85.4 million (20% of outstanding COPs). Given the District's average General Fund unrestricted cash balance (net of TRANs) of $203.8 million in Fiscal Year 2007-08 and that cash is a natural hedge, the District believes its interest rate exposure on the $ 206.125 million of variable rate COPs to be 99% hedged.

For a discussion of the impact of the current financial crisis on the District's variable rate COPs, see Section II, Part A of this Debt Report.

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[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 11
## Fixed-Rate Certificates of Participation Issuance and True Interest Cost
## (as of June 30, 2008; excludes matured and/or refunded issues)

| Issue Description | Date of Issue | Principal Amount Issued ($000s) | Principal Outstanding (as of June 30, 2008) ($000s) | True Interest Cost (%) |
|---|---|---|---|---|
| Refunding COPs (Multiple Properties Project), Series 1998A[1] | 06/10/98 | $60,805.0 | $28,100.0 | 4.76% |
| COPs (Qualified Zone Academy Bonds), Series 2000A (taxable)[2] | 05/23/00 | 30,446.7 | 25,372.0 | N/A |
| COPs (Multiple Properties Project), 2000 Series B | 10/04/00 | 172,715.0 | 3,185.0 | 4.24% |
| 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 | 8,545.0 | 4.77% |
| COPs (Multiple Properties Project), 2003 Series B | 06/26/03 | 31,620.0 | 28,310.0 | 4.11% |
| COPs (Refinancing Project I and Refunding Project I), 2004 Series A | 07/28/04 | 50,700.0 | 12,935.0 | 3.46% |
| COPs (Refinancing Project I and Refunding Project I), 2004 Series B (taxable) | 07/28/04 | 6,925.0 | 1,925.0 | 4.09% |
| COPs (Qualified Zone Academy Bonds) Series 2005 (taxable)[2] | 12/01/05 | 10,000.0 | 10,000.0 | N/A |
| COPs (Information Technology Projects), 2007 Series A | 11/15/07 | 99,660.0 | 99,660.0 | 3.83% |
| | ***TOTAL*** | ***$562,906.7*** | ***$286,922.0*** | |

1 Debt service on these COPs is currently paid from developer fees.
2 The Series 2000A and 2005 COPs do not carry interest payments; instead, the purchaser receives a tax credit. A portion of the 2000A COPs has been economically defeased such that the net amount due as of June 30, 2008 was $8,245,008. 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. The District may need to contribute more funds to redeem the 2005 Qualified Zone Academy Bonds, depending upon the amount of ongoing investment returns.

**Table 12**
**Variable-Rate Certificates of Participation Issuance**
**(as of June 30, 2008)[1]**

| Issue Description | Date of Issue | Principal Amount Issued ($000s) | Principal Outstanding (June 30, 2008) |
|---|---|---|---|
| COPs (Belmont Learning Complex), 1997 Series A[2] | 12/09/97 | $91,400 | $54,600 |
| Refunding COPs (Administration Building Project), 2005 Series A | 05/24/05 | 86,525 | 86,525 |
| COPs (Administration Building Project III), 2005 Series B | 05/24/05 | 21,340 | 20,775 |
| Refunding COPs (Multiple Properties Project), 2005 Series C[2,3] | 05/24/05 | 44,225 | 44,225 |
| | ***TOTAL*** | ***$243,490*** | ***$206,125*** |

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. Chart 5 shows the resulting significant decline in General Fund COPs debt service due to the defeasance of these 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. Chart 6 provides the COPs debt service as of Fiscal Year 2007-08[4]. Debt service payments from the General Fund total $514 million through the final maturity of the COPs.

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1 The District issued its 2008 Series A and B Variable Rate COPs in the aggregate principal amount of $120.95 million on August 6, 2008 to refund its 2005 Series A COPs and 2005 Series B COPs and to fund a reserve fund and costs of issuance. The TIC on the 2008 Series A COPs and 2008 Series B COPs was 2.8%, assuming a variable interest rate of 2.75%. The 2008 Series A and B COPs are not shown in Table 12 because they were delivered after the June 30, 2008 "as of" date for Table 12.

2 Debt service on these COPs is currently paid from developer fees.

3 An escrow account has been established with the trustee to redeem these COPs in their entirety by May 11, 2009.

4 The debt service associated with the 2008 Series A COPs and 2008 Series B COPs is not reflected in chart 6, as these COPs were issued after the "as of June 30, 2008" timeframe of this Debt Report. The average annual projected debt service on the 2008 Series A and 2008 Series B COPs is approximately $6.5 million.

**Chart 4**

**Los Angeles Unified School District COPs Debt Service**
**(At Beginning of FY 2004-05)**

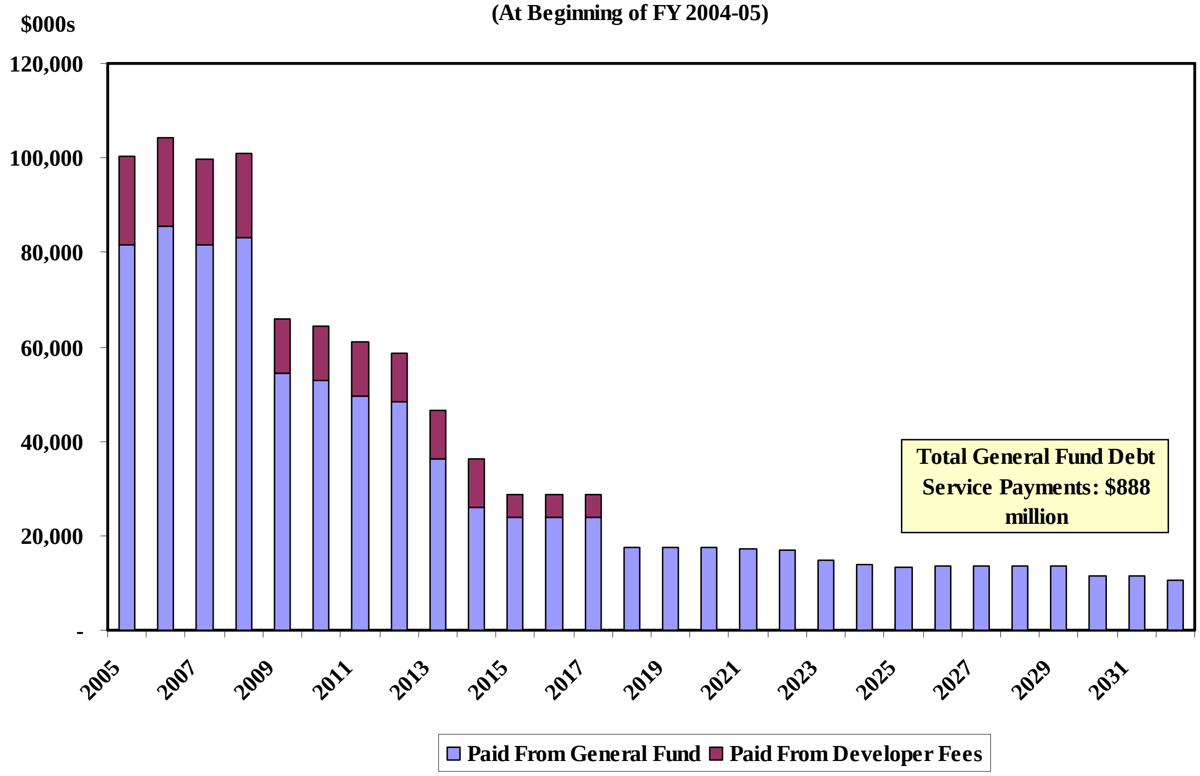



**Chart 5**

**Los Angeles Unified School District COPs Debt Service**
**(After COPs Defeasance from Measures R (in 2004) and Y (in 2006); Excludes 2005 A, B and C COPs))**

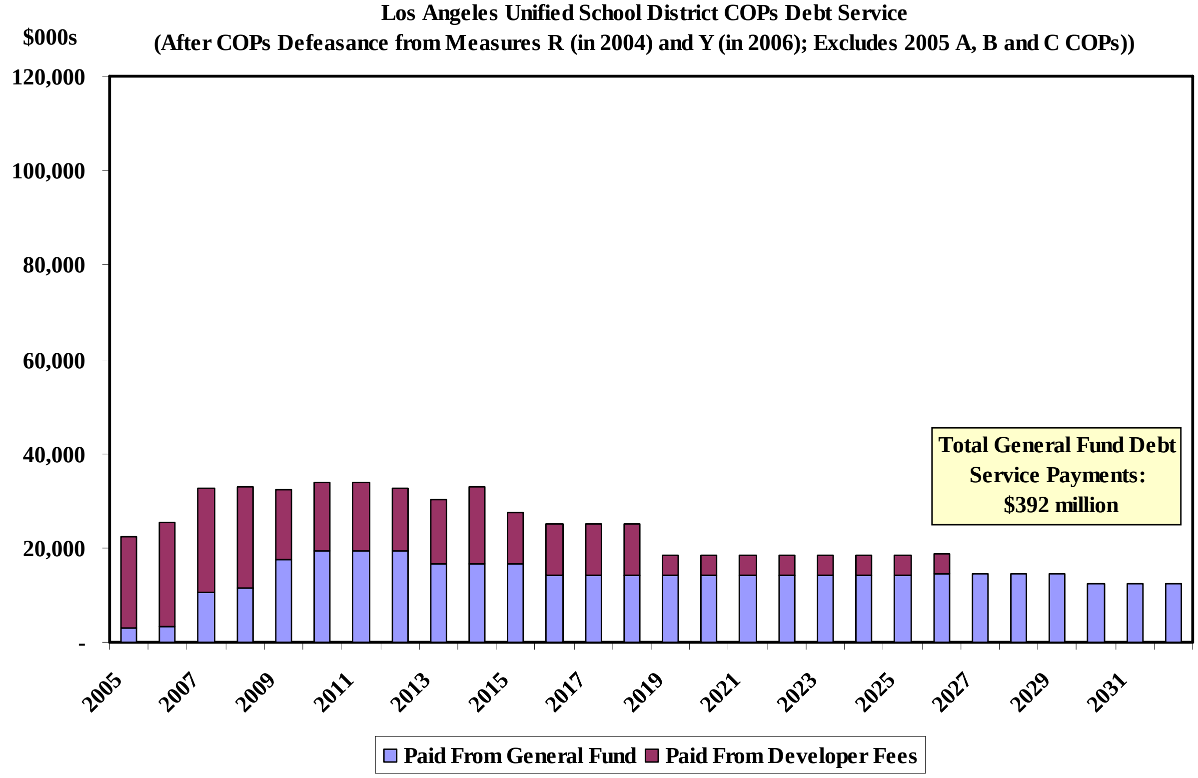
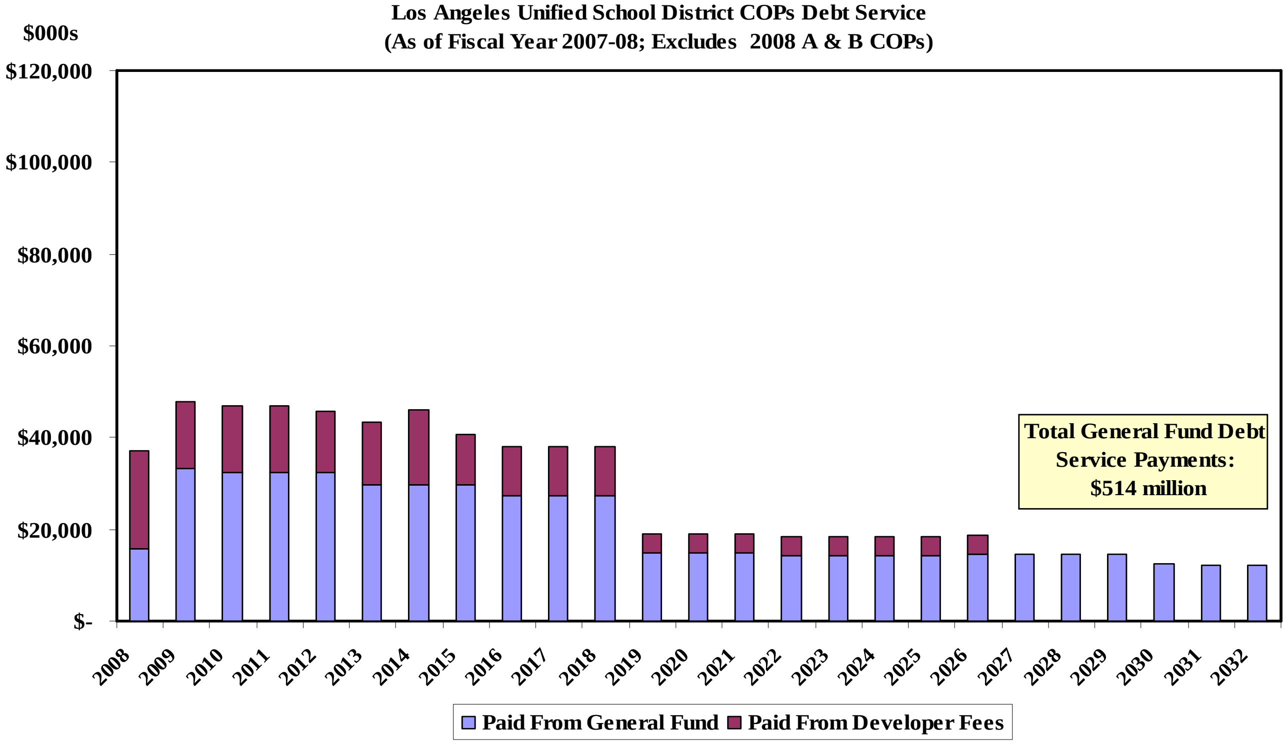


Chart 6

Los Angeles Unified School District COPs Debt Service
(As of Fiscal Year 2007-08; Excludes 2008 A & B COPs)




## 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 United States' 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 exhibit 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 to the right is a listing of the largest institutional holders of the District's bonds.

**Top 25 Institutional Holders of LAUSD Bonds**

| Rank | Firm Name | $ Thousands |
|---|---|---|
| 1 | AIG | $ 597,490 |
| 2 | Vanguard Group Inc, The | 588,085 |
| 3 | Franklin Templeton Investments | 384,445 |
| 4 | BlackRock | 200,597 |
| 5 | PIMCO | 163,163 |
| 6 | Nuveen Asset Management Inc | 104,683 |
| 7 | AllianceBernstein | 104,055 |
| 8 | Hartford Investment Management Co | 75,420 |
| 9 | Deutsche Asset Management | 74,733 |
| 10 | JPMorgan Asset Management | 60,597 |
| 11 | State Farm Insurance Companies | 58,620 |
| 12 | Chubb Corp, The | 48,885 |
| 13 | Liberty Mutual Insurance Co | 43,100 |
| 14 | Citigroup Asset Management | 43,000 |
| 15 | American Century Investment Management | 41,025 |
| 16 | Capital Research & Management Co | 39,345 |
| 17 | Fidelity Management & Research Co | 39,170 |
| 18 | Northern Trust Global Advisors Inc | 38,935 |
| 19 | Wells Fargo | 33,635 |
| 20 | TOB Capital | 30,000 |
| 21 | Dreyfus Corp, The | 28,925 |
| 22 | Babson Capital Management LLC | 25,000 |
| 23 | Lord, Abbett & Co LLC | 22,205 |
| 24 | Barclays Global Investors | 21,225 |
| 25 | Eaton Vance Management Inc | 21,075 |
| | **Total** | **$ 2,887,413** |

The borrowing cost that the District pays its investors is a function of 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 strong financial position, a vast local economy, 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.

The impact of the State's "penalty" on LAUSD was not as great as the penalty on the State itself, reflecting the District's ability to maintain its high ratings. However, the State's ratings are still well below the triple-A level enjoyed by the State when its fiscal health was much stronger and, as a result, California issuers such as the District may continue to have to pay interest costs at higher spreads to national names than would have otherwise been the case.

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 on the District's 2005 A COPs and 2005 B COPs; a second downgraded insurer was Financial Security Assurance, the insurer on the 2005C COPs. All of the affected COPs were VRDOs. None of the District's fixed rate debt service or debt service on other VRDOs were affected by the downgrades of bond insurers.

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 VRDO's 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 has been placed in an escrow that will prepay these COPs by May 11, 2009.

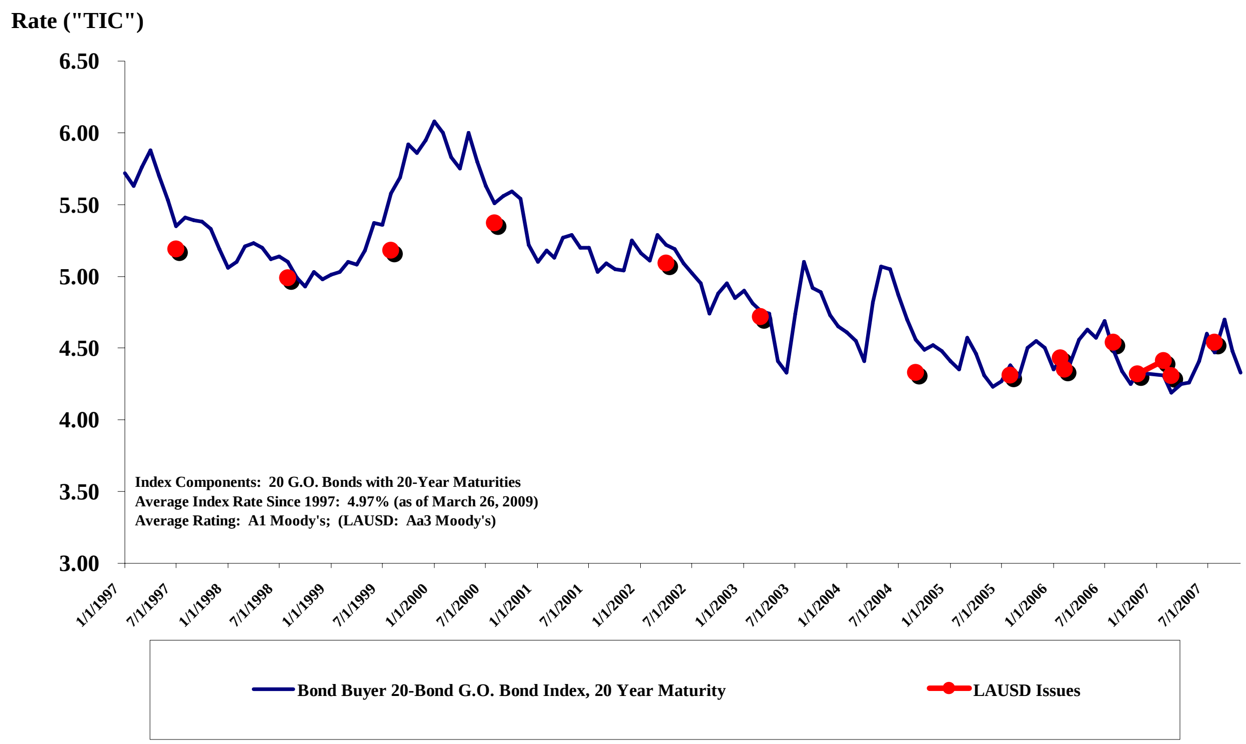
The fixed rate sector of the municipal market was also affected by the financial crisis. The District had intended to sell $950 million of general obligation bonds in the fall of 2008 but placed the transaction on the sidelines until market conditions were more receptive. The District was able to sell 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 are able to access the market at reasonable cost whereas many lower rated credits are having 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 and insurance companies 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 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, *ceteris paribus*, 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 11 for the District's fixed-rate COPs.

**Chart 7**

**True Interest Cost ("TIC") Rates on Actual LAUSD 25-Year G. O. Bond Issues vs. The Bond Buyer 20-Bond Index for G.O. Bonds**



**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 has issued four series of variable rate COPs, as summarized earlier in Table 12. 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"), Standard & Poor's ("S&P"), and Fitch Ratings ("Fitch") currently rate the District's General Obligation Bonds as Aa3, AA-, and A+, respectively.

**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.

The District has requested ratings from only Moody's and S&P since 2006; however, Fitch downgraded the District in Fiscal Year 2004-05 from AA- to A+, citing as the principal rationale the reduction in the District's reserves from a previous level of 10% of expenditures in Fiscal Year 2002-03 to 5% of expenditures in Fiscal Years 2003-04 and 2004-05. Despite the downgrade by Fitch, the District's General Obligation Bond ratings are generally "high quality investment grade" ratings as shown in Chart 8. Moody's, S&P and Fitch currently rate the District's COPs in the "upper medium grade" category as A2, A+ 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.

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. In July 2006, both Moody's and S&P had removed their respective Negative outlooks on the District ratings. Citing the District's improved financial flexibility and reserves, each of the two agencies assigned an outlook of "Stable" for the District's ratings. Fitch has also assigned a "Stable" outlook to its rating of the District.

In 2008, both Moody's and Fitch announced they would undertake a "migration" of ratings to a single rating scale for both municipal and corporate credits. Owing to the low historical default rate of municipal debt issues, it was expected that the migration of ratings would result in higher ratings for municipal issuers such as the District. Moody's and Fitch have delayed their respective migrations due to the financial crisis, however, and are waiting for more stable market conditions before resuming their respective projects.

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 key objective for the District going forward is to rebuild its unrestricted reserves above the 5% mark so that additional resources will be available to deal with significant fiscal challenges such as those experienced in Fiscal Year 2003-04. A history of the District's General Obligation Bond and COPs ratings is presented in Appendix 4.

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

The District issued tax and revenue anticipation notes ("TRANs") from Fiscal Year 1983-84 through Fiscal Year 1986-87 and 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.

## 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. The District must be mindful not to overburden its taxpayers by issuing debt too quickly, for example.

- 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.

- 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 2007-08.

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

Table 13 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. 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 13**
**Policy Benchmarks, Targets and Ceilings for Debt Paid From General Fund or Other District Resources (COPs)**
**(As of June 30, 2008)**

| Factor | Benchmark/Target | Ceiling | LAUSD Actual | Over(Under) Policy Ceiling |
|---|---|---|---|---|
| Maximum COPs Gross Debt Service Limit (percentage) | 2% of General Funds Expenditures (FY 2007-08) | 2.5% of General Funds Expenditures | 0.69% | (1.81%) |
| Maximum COPs Gross Debt Service Limit (dollars) | Not applicable | $105,000,000 | $47,927,000[1] | ($57,073,000) |
| Unhedged Variable Rate Debt as % of Total COPs Debt | | 20.0% | 0.7% | (19.3%) |

The District is the largest independent public school district in the United States. On the basis of its size, one could argue that it is appropriate to compare LAUSD to other 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 14 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 14 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.

[1] Includes the annual base rental payments deposited into the sinking fund for the 2000 QZABs; excludes base rental payments into the sinking fund of the 2005 QZABs. See footnote 2 on page 12.

**Table 14**
**Policy Benchmarks for District's Direct and Overall Debt**
**(As of June 30, 2008)**

| 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% | 1.77% |
| | 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% | 3.04% |
| | 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 | $1,614 |
| | 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 | $2,778 |
| | 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

# APPENDIX 1

## LOS ANGELES UNIFIED SCHOOL DISTRICT
## General Obligation Bonds, Semi-Annual Debt Service
## (As of June 30, 2008)

**LOS ANGELES UNIFIED SCHOOL DISTRICT**
**General Obligation Bonds, Semi-Annual Debt Service**
**(As of June 30, 2008)**

| Payment Date | **Election of 1997** (Proposition BB) Series A-F and Refundings [1] | **Election of 2002** (Measure K) Series A-C and Refundings [1] | **Election of 2004** (Measure R) Series A-H | **Election of 2005** (Measure Y) Series A-G | **AGGREGATE** Semi-annual Debt Service | **AGGREGATE** Fiscal Year Total Debt Service |
|---|---|---|---|---|---|---|
| 7/1/2008 | $ 120,574,289.93 | $ 98,809,477.58 | $ 132,287,075.01 | $ 53,341,025.88 | $ 405,011,868.40 | |
| 1/1/2009 | 47,714,060.21 | 63,513,904.80 | 43,886,547.51 | 16,059,497.76 | 171,174,010.28 | $ 576,185,878.68 |
| 7/1/2009 | 122,165,097.76 | 102,932,867.25 | 125,361,547.51 | 62,064,497.76 | 412,524,010.28 | |
| 1/1/2010 | 46,038,233.30 | 62,825,660.46 | 42,056,070.01 | 14,997,923.76 | 165,917,887.53 | 578,441,897.81 |
| 7/1/2010 | 123,160,443.81 | 108,463,449.95 | 88,451,070.01 | 58,502,923.76 | 378,577,887.53 | |
| 1/1/2011 | 44,162,458.99 | 61,901,774.14 | 41,037,758.76 | 13,954,011.26 | 161,056,003.15 | 539,633,890.68 |
| 7/1/2011 | 124,225,842.46 | 114,398,390.67 | 89,532,758.76 | 56,109,011.26 | 384,266,003.15 | |
| 1/1/2012 | 42,134,136.32 | 60,694,936.81 | 39,936,215.01 | 12,908,855.01 | 155,674,143.15 | 539,940,146.30 |
| 7/1/2012 | 125,942,736.00 | 120,826,337.13 | 90,686,215.01 | 57,113,855.01 | 394,569,143.15 | |
| 1/1/2013 | 39,997,491.83 | 59,228,725.05 | 38,800,346.26 | 11,854,092.51 | 149,880,655.65 | 544,449,798.80 |
| 7/1/2013 | 128,858,329.33 | 127,567,887.55 | 91,860,346.26 | 46,479,092.51 | 394,765,655.65 | |
| 1/1/2014 | 37,588,940.08 | 57,694,109.30 | 37,661,446.26 | 10,990,398.75 | 143,934,894.39 | 538,700,550.04 |
| 7/1/2014 | 131,314,993.78 | 134,718,055.60 | 93,056,446.26 | 39,355,398.75 | 398,444,894.39 | |
| 1/1/2015 | 35,030,835.25 | 55,879,899.13 | 36,367,177.51 | 10,255,080.00 | 137,532,991.89 | 535,977,886.28 |
| 7/1/2015 | 133,986,148.40 | 142,454,585.98 | 94,417,177.51 | 27,135,080.00 | 397,992,991.89 | |
| 1/1/2016 | 32,388,621.49 | 53,710,555.39 | 34,989,072.51 | 9,843,850.00 | 130,932,099.39 | 528,925,091.28 |
| 7/1/2016 | 136,412,168.95 | 148,947,007.93 | 95,864,072.51 | 27,533,850.00 | 408,757,099.39 | |
| 1/1/2017 | 29,631,256.45 | 51,400,852.93 | 33,520,781.88 | 9,412,034.38 | 123,964,925.64 | 532,722,025.03 |
| 7/1/2017 | 139,019,844.20 | 158,797,265.18 | 97,415,781.88 | 27,962,034.38 | 423,194,925.64 | |
| 1/1/2018 | 26,777,669.07 | 48,789,084.06 | 31,947,413.13 | 8,957,909.38 | 116,472,075.64 | 539,667,001.28 |
| 7/1/2018 | 142,664,679.10 | 168,917,074.03 | 99,047,413.13 | 28,417,909.38 | 439,047,075.64 | |
| 1/1/2019 | 23,748,431.32 | 45,802,934.31 | 30,292,841.25 | 8,481,409.38 | 108,325,616.26 | 547,372,691.90 |
| 7/1/2019 | 145,768,923.94 | 182,142,441.69 | 100,772,841.25 | 28,891,409.38 | 457,575,616.26 | |
| 1/1/2020 | 20,752,786.84 | 42,486,666.29 | 28,532,966.25 | 7,981,559.38 | 99,753,978.76 | 557,329,595.02 |
| 7/1/2020 | 148,854,290.66 | 194,355,162.47 | 102,587,966.25 | 29,391,559.38 | 475,188,978.76 | |
| 1/1/2021 | 17,589,658.75 | 38,725,603.75 | 26,697,913.75 | 7,457,109.38 | 90,470,285.63 | 565,659,264.39 |
| 7/1/2021 | 157,384,658.75 | 206,900,603.75 | 104,477,913.75 | 29,907,109.38 | 498,670,285.63 | |
| 1/1/2022 | 14,139,225.00 | 34,523,248.75 | 24,774,028.75 | 6,906,431.88 | 80,342,934.38 | 579,013,220.01 |
| 7/1/2022 | 154,394,225.00 | 223,013,248.75 | 106,484,028.75 | 30,456,431.88 | 514,347,934.38 | |
| 1/1/2023 | 10,699,525.00 | 30,209,193.75 | 22,739,941.25 | 6,328,003.75 | 69,976,663.75 | 584,324,598.13 |
| 7/1/2023 | 158,564,525.00 | 222,689,193.75 | 108,599,941.25 | 29,968,003.75 | 519,821,663.75 | |
| 1/1/2024 | 7,083,350.00 | 25,797,525.00 | 20,601,273.75 | 5,742,443.75 | 59,224,592.50 | 579,046,256.25 |
| 7/1/2024 | 139,608,350.00 | 240,517,525.00 | 110,811,273.75 | 30,552,443.75 | 521,489,592.50 | |
| 1/1/2025 | 3,933,606.25 | 20,949,462.50 | 18,353,568.75 | 5,127,500.00 | 48,364,137.50 | 569,853,730.00 |
| 7/1/2025 | 88,878,606.25 | 253,164,462.50 | 113,138,568.75 | 30,682,500.00 | 485,864,137.50 | |
| 1/1/2026 | 1,935,500.00 | 15,687,881.25 | 15,990,975.00 | 4,492,090.00 | 38,106,446.25 | 523,970,583.75 |
| 7/1/2026 | 44,375,500.00 | 266,312,881.25 | 115,560,975.00 | 31,322,090.00 | 457,571,446.25 | |
| 1/1/2027 | 21,128,025.00 | 10,009,343.75 | 13,537,118.75 | 3,824,962.50 | 48,499,450.00 | 506,070,896.25 |
| 7/1/2027 | 12,419,581.25 | 162,069,343.75 | 118,102,118.75 | 31,979,962.50 | 324,571,006.25 | |
| 1/1/2028 | 12,081,387.50 | 122,022,181.25 | 10,951,968.75 | 3,124,850.00 | 148,180,387.50 | 472,751,393.75 |
| 7/1/2028 | - | 41,392,937.50 | 120,776,968.75 | 32,684,850.00 | 194,854,756.25 | |
| 1/1/2029 | - | 3,084,925.00 | 8,234,518.75 | 2,409,962.50 | 13,729,406.25 | 208,584,162.50 |
| 7/1/2029 | - | 42,259,925.00 | 123,584,518.75 | 32,229,962.50 | 198,074,406.25 | |
| 1/1/2030 | - | 2,181,962.50 | 5,380,312.50 | 1,686,187.50 | 9,248,462.50 | 207,322,868.75 |
| 7/1/2030 | - | 43,161,962.50 | 123,240,312.50 | 32,951,187.50 | 199,353,462.50 | |
| 1/1/2031 | - | 1,237,312.50 | 2,433,812.50 | 927,318.75 | 4,598,443.75 | 203,951,906.25 |
| 7/1/2031 | - | 44,102,312.50 | 63,293,812.50 | 19,997,318.75 | 127,393,443.75 | |
| 1/1/2032 | - | 249,125.00 | 912,625.00 | 474,406.25 | 1,636,156.25 | 129,029,600.00 |
| 7/1/2032 | - | 10,214,125.00 | 37,417,625.00 | 20,449,406.25 | 68,081,156.25 | 68,081,156.25 |
| | $ 2,993,128,433.22 | $ 4,527,735,391.93 | $ 3,156,465,462.69 | $ 1,079,676,801.54 | $ 11,757,006,089.38 | $ 11,757,006,089.38 |

[1] Includes refunding bonds and excludes refunded bonds with respect to the particular bond authorization.

## APPENDIX 2

## Los Angeles Unified School District
## Debt Service Requirements on Intended Sales
## of Authorized but Unissued Bonds

# APPENDIX 2

## Debt Service Requirements on Intended Sales of Authorized but Unissued Bonds during Fiscal Years 2008-09 and 2009-10

| Fiscal Year Ending June 30, | FY 2008-09 GO Sales Debt Service | FY 2009-10 GO Sales Debt Service | Total All New Bonds Debt Service |
|---|---|---|---|
| 2009 | $ - | $ - | $ - |
| 2010 | 56,951,614 | 27,562,500 | 84,514,114 |
| 2011 | 60,147,404 | 100,434,725 | 160,582,129 |
| 2012 | 66,689,479 | 113,010,744 | 179,700,223 |
| 2013 | 66,642,904 | 113,010,688 | 179,653,591 |
| 2014 | 66,560,766 | 107,511,031 | 174,071,798 |
| 2015 | 88,032,204 | 107,358,600 | 195,390,804 |
| 2016 | 66,407,585 | 107,358,231 | 173,765,816 |
| 2017 | 54,849,088 | 113,013,619 | 167,862,707 |
| 2018 | 54,793,885 | 113,011,375 | 167,805,260 |
| 2019 | 66,315,985 | 113,009,838 | 179,325,823 |
| 2020 | 66,242,160 | 113,012,181 | 179,254,341 |
| 2021 | 66,227,991 | 113,006,450 | 179,234,441 |
| 2022 | 66,169,698 | 113,010,163 | 179,179,860 |
| 2023 | 66,101,173 | 113,015,181 | 179,116,354 |
| 2024 | 66,027,904 | 113,008,500 | 179,036,404 |
| 2025 | 66,012,029 | 113,016,325 | 179,028,354 |
| 2026 | 65,948,929 | 113,009,469 | 178,958,398 |
| 2027 | 65,922,210 | 113,003,613 | 178,925,823 |
| 2028 | 65,868,460 | 113,008,256 | 178,876,716 |
| 2029 | 65,793,850 | 113,012,375 | 178,806,225 |
| 2030 | 65,736,340 | 113,009,813 | 178,746,153 |
| 2031 | 65,674,073 | 113,013,625 | 178,687,698 |
| 2032 | 65,606,838 | 113,011,213 | 178,618,050 |
| 2033 | 65,536,228 | 113,014,319 | 178,550,546 |
| 2034 | 98,160,243 | 113,009,031 | 211,169,274 |
| 2035 | - | 113,010,650 | 113,010,650 |
| | $ 1,668,419,036 | $ 2,823,452,513 | $ 4,491,871,549 |

# APPENDIX 3

## Los Angeles Unified School District
## Debt Service Payments on Outstanding Certificates of Participation

## APPENDIX 3

**Los Angeles Unified School District**
**Certificates of Participation Lease Obligations**
**Gross Debt Service[1]**
**As of June 30, 2008[2]**
**($ in thousands)**

| Fiscal Year Ending 30-Jun | Paid from General Fund[3] | Paid from Developer Fees[4] | Total |
|---|---|---|---|
| 2009 | $33,257 | $14,670 | $47,927 |
| 2010 | 32,420 | 14,586 | 47,006 |
| 2011 | 32,392 | 14,588 | 46,980 |
| 2012 | 32,385 | 13,455 | 45,840 |
| 2013 | 29,792 | 13,436 | 43,229 |
| 2014 | 29,784 | 16,138 | 45,923 |
| 2015 | 29,765 | 10,818 | 40,584 |
| 2016 | 27,347 | 10,785 | 38,131 |
| 2017 | 27,328 | 10,734 | 38,062 |
| 2018 | 27,312 | 10,783 | 38,095 |
| 2019 | 14,856 | 4,152 | 19,008 |
| 2020 | 14,850 | 4,156 | 19,005 |
| 2021 | 14,840 | 4,152 | 18,992 |
| 2022 | 14,294 | 4,146 | 18,440 |
| 2023 | 14,285 | 4,147 | 18,432 |
| 2024 | 14,280 | 4,144 | 18,424 |
| 2025 | 14,247 | 4,141 | 18,388 |
| 2026 | 14,494 | 4,139 | 18,634 |
| 2027 | 14,486 | - | 14,486 |
| 2028 | 14,473 | - | 14,473 |
| 2029 | 14,455 | - | 14,455 |
| 2030 | 12,329 | - | 12,329 |
| 2031 | 12,309 | - | 12,309 |
| 2032 | 12,303 | - | 12,303 |
| | $498,284 | $163,173 | $661,457 |

[1] The District has assumed certain interest rates for the variable rate lease obligations included in the above table.

[2] The District subsequently refinanced one series of COPs and has set-aside funds to prepay another series; neither event is reflected here.

[3] Includes the annual base rental payments deposited into the sinking fund for the 2000 QZABs; excludes base rental payments into the sinking fund of the 2005 QZABs, as that issue had been economically defeased. However, the GIC investment for the defeasance was terminated due to a downgrade of the provider. The District may need to deposit additional funds to pay off the 2005 QZABs.

[4] In the event that insufficient developer fees are available to pay the indicated lease obligations, the General Fund would need to pay said obligations.

# APPENDIX 4

## Los Angeles Unified School District
## History of Underlying Long-Term Ratings

## APPENDIX 4

### Los Angeles Unified School District
### History of Underlying Long-Term Ratings[1,2]

| Year | General Obligation Bonds | | | Certificates of Participation[1] | | | |
|---|---|---|---|---|---|---|---|
| | Moody's | S&P | Fitch | Moody's | | S&P | Fitch |
| 1988 | Aa2 | AA | Not rated | A1 | | A+ | Not rated |
| 1989 | Aa2 | AA | Not rated | A1 | | A+ | Not rated |
| 1990 | Aa2 | AA | AA | A1 | | A+ | A+ |
| 1991 | Aa2 | AA | AA | A1 | | A+ | A+ |
| 1992 | Aa2 | AA | AA | A1 | | A+ | A+ |
| 1993 | A1 | AA- | AA | A2 | | A | A+ |
| 1994 | A1 | AA- | AA- | A2 | | A | A |
| 1995 | A1 | AA- | AA- | A2 | | A | A |
| | | | | Non-abatable | Abatable | | |
| 1996[3] | Aa3 | AA- | AA- | A1 | A2 | A | A |
| 1997 | Aa3 | AA- | AA- | A1 | A2 | A | A |
| 1998 | Aa3 | AA- | AA- | A1 | A2 | A | A |
| 1999 | Aa3 | AA- | AA | A1 | A2 | A | A+ |
| 2000 | Aa3 | AA- | AA | A1 | A2 | A | A+ |
| 2001[4] | Aa3 | AA- | AA | A1 | A2 | A+ | A+ |
| 2002 | Aa3 | AA- | AA | A1 | A2 | A+ | A+ |
| 2003[5] | Aa3 | AA- | AA- | A1 | A2 | A+ | A |
| 2004[6] | Aa3 | AA- | A+ | A1 | A2 | A+ | A- |
| 2005 | Aa3 | AA- | A+ | A1 | A2 | A+ | A- |
| 2006[7] | Aa3 | AA- | A+ | A1 | A2 | A+ | A |
| 2007 | Aa3 | AA- | A+ | A1 | A2 | A+ | A |
| 2008 | Aa3 | AA- | A+ | A1 | A2 | A+ | A |

[1] Table does not include the ratings on the District long-term variable rate COPs; the ratings on those COPs issues reflect the ratings of the credit provider for each transaction.

[2] Municipal bond insurance policies were purchased to allow the ratings to be increased to Aaa/AAA/AAA on all or a portion of all fixed-rate issues at the time of issuance from 1993 until February 2009, at which point the credit downgrades of insurers resulted in no benefit of insurance to the District.

[3] Beginning in 1996, Moody's began to rate non-abatable leases one notch higher than abatable leases; the other agencies do not make such a distinction. In addition, Moody's replaced their two-notch per tier system (e.g. Aa1, Aa2) with a three notch per tier system (e.g. Aa1, Aa2, Aa3).

[4] Beginning in 2001, Standard and Poor's began to rate lease obligations only one notch (rather than the previous two notches) lower than the issuer's general obligation bond rating.

[5] On February 11, 2003, Fitch downgraded the District's ratings by one notch and assigned an Outlook of Stable.

[6] On July 8, 2004, Fitch downgraded the District's ratings by one notch and assigned an Outlook of Stable and Moody's assigned an Outlook of Negative to all District ratings. On July 12, 2004, S&P assigned an Outlook of Negative to all District ratings.

[7] On July 19, 2006, S&P and Moody's revised the Outlook on all District ratings to Stable; on July 31, 2006, Fitch upgraded the District's COPs rating to A.

## APPENDIX 5

## Los Angeles Unified School District
## Debt Management Policy

# Los Angeles Unified School District

# DEBT MANAGEMENT POLICY

Fiscal Year 2008-09

Prepared by:

**The Office of the Chief Financial Officer**

February 20, 2009

DEBT MANAGEMENT POLICY

Index

The policies set forth in this Debt Management Policy (the "Policy") have been developed to provide guidelines for the issuance of general obligation bonds, certificates of participation ("COPs") and other forms of indebtedness by the Los Angeles Unified School District (the "District"). While the issuance of debt can be an appropriate method of financing capital projects, careful and consistent monitoring of such debt issuance is required to preserve the District's credit strength and budget and financial flexibility. These guidelines will serve the District in determining the appropriate uses for debt financing and debt structures as well as establishing prudent debt management goals.

## Background

The District enjoys some of the highest credit ratings of any major urban school district in the nation. The District's general obligation bonds are rated Aa3 by Moody's Investors Service, AA- by Standard & Poor's Corporation and A+ by Fitch Ratings. The District's COPs ratings for non-abatement leases are A1 (Moody's), A+ (Standard & Poor's) and A (Fitch). These high credit ratings reduce the interest costs paid by the District on the amounts borrowed. Lower interest costs result in lower tax rates paid by the District's taxpayers and a reduced burden on the General Fund. These debt management policies are intended to maintain the District's high credit ratings so that access to borrowed funds is provided at the lowest possible interest rates. Additionally, these policies are intended to set forth selection criteria for certain financial consultants and attorneys which will ensure a fair and open selection process, provide opportunities for all firms (including small business enterprises) to participate in District contracts, and result in the selection of the best qualified advisors.

The District faces continuing capital infrastructure and cash requirements. In particular, the District is presently engaged in building new schools and modernizing schools with the Facilities Improvement Program to be completed over the next several years. The costs of these requirements will be met, in large part, through the issuance of various types of debt instruments and other long-term financial obligations**.** Under "Proposition BB", "Measure K", "Measure R", "Measure Y" and "Measure Q" adopted by the voters in April 1997, November 2002, March 2004, November 2005 and November 2008, respectively, the District has already raised a combined $20.605 billion in general obligation bond authorization for its Facilities Improvement Program and other capital and General Fund relief projects. Consequently, the District needs to anticipate increases in historical levels of such debt and other obligations, some of which may be repaid from the District's General Fund**.**[1] With these increases, the effects of decisions regarding type of issue, method of sale, and payment structure become ever more critical to the District's fiscal health. To help ensure the District's creditworthiness, an established policy of managing the District's debt is essential. To this end, the Board of Education of the District (the "Board") recognizes this Policy to be financially prudent and in the District's best economic interest.

[1] For purposes of this policy, long-term obligations such as lease payments in support of COPs will be considered "debt."

## Article I. **Purpose and Goals**

The purpose of the Policy is to provide a functional tool for debt management and capital planning, as well as to enhance the District's ability to manage its debt and lease financings in a conservative and prudent manner. In following this Policy, the District shall pursue the following goals:

- The District shall strive to fund capital improvements from referendum-approved bond issues to preserve the availability of its General Funds for District operating purposes and other purposes that cannot be funded by such bond issues.

- The District shall endeavor to attain the best possible credit rating for each debt issue (with or without credit enhancement) in order to reduce interest costs, within the context of preserving financial flexibility and meeting capital funding requirements.

- The District shall take all practical precautions and proactive measures to avoid any financial decision which will negatively impact current credit ratings on existing or future debt issues.

- The District shall remain mindful of debt limits in relation to assessed value growth within the school district and the tax burden needed to meet long-term capital requirements.

- The District shall consider market conditions and District cash flows when timing the issuance of debt.

- The District shall determine the amortization (maturity) schedule which will best fit with the overall debt structure of the District at the time the new debt is issued.

- The District shall give consideration to matching the term of the issue to the useful lives of assets whenever practicable and economic, while considering repair and replacement costs of those assets to be incurred in future years as an offset to the useful lives, and the related length of time in the payout structure.

- The District shall, when planning for the issuance of new debt, consider the impact of such new debt on overlapping debt and the financing plans of local, state and other governments which overlap with the District.

- The District shall, when issuing debt, assess financial alternatives to include new and innovative financing approaches, including whenever feasible categorical grants, revolving loans or other State/federal aid, so as to minimize the encroachment on the District's General Fund.

- The District shall, when planning for the sizing and timing of debt issuance, consider its ability to expend the funds obtained in a timely, efficient and economical manner.

The key financial management tools and goals that are intrinsic to the Policy include:

A. Fund Balance Policy: The District recognizes the importance of emergency reserves, including liquidity in the General Fund, that can provide a financial cushion in years of poor revenue receipts. A Reserve Fund Policy has been adopted by the Board.

B. Capital Financing Plan: The Office of the Chief Financial Officer will prepare a 5 year Capital Financing Plan in conjunction with the capital budget. The Plan will detail the sources of financing for all facilities in the capital budget, establish funding priorities and review the impact of all borrowings on the District's long-term debt affordability ratios. The Plan will consider all potential sources of financing, including non-debt options and ensure that these financing sources are in accordance with the goals of this policy. The Office of the Chief Financial Officer will revise the Plan annually. See Articles III and IV herein.

C. Annual Debt Report: The Chief Financial Officer will annually prepare for and submit to the Superintendent and the Board a Debt Report which reviews the outstanding debt of the District as further described under Section 4.02 herein.

## Article II. **Authorization**

### Section 2.01 **Authority and Purposes of the Issuance of Debt**

The laws of the State of California authorize the issuance of debt by the District, and confer upon it the power and authority to make lease payments, contract debt, borrow money, and issue bonds for public improvement projects. Under these provisions, the District may contract debt to pay for the cost of acquiring, constructing, reconstructing**,** rehabilitating, replacing, improving, extending, enlarging, and equipping such projects: to refund existing debt; or to provide for cash flow needs**.**

### Section 2.02 **Types of Debt Authorized to be Issued**

A. Short-Term: The District may issue fixed-rate and/or variable rate short-term debt which may include tax and revenue anticipation notes ("TRANs") when such instruments allow the District to meet its cash flow requirements. However, the District shall generally manage its cash position in a manner so that internally generated cash flow is sufficient to meet expenditures. The District may also issue commercial paper in the context of providing funding of shorter term acquisitions, such as equipment, or interim funding for capital costs that will ultimately be replaced with COPs. The District may also participate in an annual pooled financing of delinquent property taxes to the extent that the Chief Financial Officer determines such financing produces significant benefit to the District.

B. Long-Term: Debt issues may be used to finance essential capital facilities, projects and certain equipment where it is appropriate to spread the cost of the projects over more than one budget year. In so doing, the District recognizes that future taxpayers who will benefit from the investment will pay a share of its cost. Projects which are not appropriate for spreading costs over future years will not be financed with long-term debt. Long-term debt will, under no circumstances, be used to fund District operations. The District may issue long-term debt which may include, but is not limited to, general obligation bonds ("G. O. Bonds"). G.O. Bonds may be issued pursuant to Proposition 39 which permits bonding authorization if approved by at least 55% of voters versus the two-thirds approval requirement under other statutes. The District may also enter into long-term leases and/or COPs for public facilities, property, and equipment. The District may issue COPs in variable rate mode so long as the requirements in Section 3.08. (A) hereof are met.

C. Equipment Financing: Lease obligations are a routine and appropriate means of financing capital equipment. However, lease obligations also have the greatest impact on budget flexibility. Therefore, efforts will be made to fund capital equipment with pay-as-you-go financing where feasible, and only the highest priority equipment purchases will be funded with lease obligations. With the exception of leases undertaken through the District's standard procurement process, all equipment with a useful life of less than six years shall be funded on a pay-as-you-go basis unless the following conditions are met:

i. In connection with the proposed District budget, the Superintendent makes the finding that there is an "economic necessity" based on a significant economic downturn, earthquake or other natural disaster and there are no other viable sources of funds to fund the equipment purchase.

ii. The Board concurs with the Superintendent's finding in the adoption of the budget.

iii. The various debt ceilings in Section 3.08 of this Policy are not exceeded.

D. Lease Financing of Real Property: Lease financing for facilities is appropriate for facilities for which there is insufficient time to obtain voter approval or in instances where obtaining voter approval is not feasible. Such financings will be structured in accordance with Section 3.01 of the Policy. If and when voter approved debt proceeds become available subsequently, the District will use such proceeds to take out the financing where appropriate.

E. Identified Repayment Source: The District will, when feasible, issue debt with a defined revenue source in order to preserve the use of General Fund supported debt for projects with no stream of user-fee revenues. Examples of revenue sources include voter-approved taxes that repay general obligation or special tax bonds.

F. Use of General Obligation Bonds: Voter-approved general obligation bonds typically provide the lowest cost of borrowing and do not impact the District's General Fund. General obligation bond debt to the extent authorized for the District requires either two-thirds approval of the voters (in the case of traditional general obligation bonds) or 55% approval of the voters (in the case of general obligation bonds issued pursuant to Proposition 39). In recognition of the difficulty in achieving the required two-thirds voter approval or 55% voter approval, as the case may be, to issue general obligation bonds, such bonds will be generally limited to facilities and projects that provide wide public benefit and for which broad public support has been generated.

G. Use of Revenue Bonds: Revenue bonds supported solely from fees are not included when bond rating agencies calculate debt ratios. Repayment of such bonds would rely on dedicated, pledged funds such as developer fees and/or redevelopment agency pass-throughs. Accordingly, in order to preserve General Fund debt capacity and budget flexibility, revenue bonds will be preferred to General Fund supported debt when a distinct and identifiable revenue stream can be identified to support the issuance of bonds.

H. Use of Asset Transfer COPs: The District will restrict the use of an "asset transfer" COP financing to finance emergency capital needs for which there are no other viable financing options. Additionally, asset transfer COPs may be used if significant savings in financing costs can be generated compared to other financing alternatives.

I. Pay-As-You-Go Financing: Except in extenuating circumstances, the District will fund routine maintenance projects in each year's capital program with pay-as-you-go financing. Extenuating circumstances may include unusually large and non-recurring budgeted expenditures, or when depleted reserves and weak revenues would require the delay or deletion of necessary capital projects.

Pursuant to State law, the District can issue either fixed-rate, variable rate or capital appreciation debt, depending on the applicable law**.**

Section 2.03 **State Law**

Section 18 of Article XVI of the State Constitution contains the basic "debt limitation" formula applicable to the District.

Sections 1(b)(2) and 1(b)(3) of Article XIII A of the State Constitution allow the District to issue traditional general obligation bonds and Proposition 39 bonds, respectively. The statutory authority for issuing general obligation bonds is contained in Section 15000 *et seq.* of the Education Code. Additional provisions applicable only to Proposition 39 general obligation bonds are contained in Section 15264 *et seq.* of the Education Code. An alternative procedure for issuing general obligation bonds is also available in Section 53506 *et seq.* of the Government Code.

The statutory authority for issuing TRANs is contained in Section 53850 *et seq.* of the Government Code. Authority for lease financings is found in Section 17455 *et seq.* of the Education Code and additional authority is contained in Sections 17400 *et seq.*, 17430 *et seq.* and 17450 *et seq.* of the Education Code. The District may also issue Mello-Roos bonds pursuant to Section 53311 *et seq.* of the Government Code.

Section 2.04 **Annual Review**

The Policy shall be reviewed and updated at least annually and presented to the Board for approval as necessary. The Chief Financial Officer is the designated administrator of the Policy and has overall responsibility, with the Board's approval, for decisions related to the structuring of all District debt issues. The Chief Financial Officer may delegate the day-to-day responsibility for managing the District's debt and lease financings. The Board is the obligated issuer of all District debt and awards all purchase contracts for bonds, COPs, TRANs and any other debt issuances**.**

## Article III. **Structural Features, Legal and Credit Concerns**

### Section 3.01 **Structure of Debt Issues**

A. Maturity of Debt: The duration of a debt issue shall be consistent, to the extent possible, with the economic or useful life of the improvement or asset that the issue is financing. The final maturity of the debt shall be equal to or less than the useful life of the assets being financed, and the average life of the financing shall not exceed 120% of the average life of the assets being financed. In addition, the District shall consider the overall impact of the current and future debt burden of the financing when determining the duration of the debt issue.

i. General Obligation Bonds: The final maturity of General Obligation bonds will be limited to the shorter of the average useful life of the asset financed or 25 years when such bonds are issued pursuant to the Education Code. General Obligation bonds may be structured with a term to maturity no longer than 40 years if issued pursuant to the Government Code; however, the selected term to maturity would have to be appropriate relative to the average useful lives of the assets financed. General Obligation bond issues will generally be sized to the amount reasonably expected to be required for two year's expenditure requirements.

ii. Lease-Purchase Obligations: The final maturity of equipment obligations will be limited to the average useful life of the equipment to be financed. The final maturity of real property obligations will be determined by the size of the financing, 15 years for small issues, 20 years for large issues and 30 years for exceptional projects.

iii. Mello-Roos Obligations and Revenue Bonds: These obligations, although repaid through additional taxes levied on a discrete group of taxpayers or from pledged developer fees and/or redevelopment funds, constitute overlapping indebtedness of the District and have an impact on the overall level of debt affordability. The District will develop separate guidelines for the issuance of such obligations as the need arises.

B. Debt Service Structure: The District shall design the financing schedule and repayment of debt so as to take best advantage of market conditions, provide flexibility, and, as practical, to recapture or maximize its debt capacity for future use. Annual debt service payments will generally be amortized on a level basis per component financed; however, slower principal amortization may occur more quickly or slowly where permissible to meet debt repayment and flexibility goals.

C. Capitalized Interest: Unless required for structuring purposes, the District will avoid the use of capitalized interest in order to avoid unnecessarily increasing the bond size and interest expense. Certain types of financings such as COPs may require that interest on the debt be paid from capitalized interest until the District has use and possession of the underlying project.

However, the District may pledge assets using an asset-transfer structure as collateral for the issue in order to eliminate the need for capitalized interest.

D. Call Provisions: The Chief Financial Officer and Controller, based upon analysis from the financial advisors of the economics of callable versus non-callable features, shall set forth call provisions for each issue.

Section 3.02 **Sale of Securities**

There are three methods of sale: competitive, negotiated and private placement. All three methods of sale shall be considered for all issuance of debt to the extent allowed by law, as each method has the potential to achieve the lowest financing cost given the right conditions. Any award through negotiation shall be subject to approval by the District, generally by the Chief Financial Officer or other person designated by the Chief Financial Officer, to ensure that interest costs are in accordance with comparable market interest rates. When a competitive bidding process is deemed the most advantageous method of sale for the District, award will be based upon, among other factors, the lowest offered True Interest Cost ("TIC"). While not used as frequently as negotiated or competitive sale methods, a private placement sale would be appropriate when the financing can or must be structured for a single or limited number of purchasers or where the terms of the private placement are more beneficial to the District than either a negotiated or competitive sale, such as occurred when the District's QZAB programs were structured in 2000 and 2005 and when the 2001 Series C COPs were structured in 2001.

Section 3.03 **Markets**

The District shall consider products and conditions in domestic capital markets in meeting the District's financing needs. When practical in its financing program, the District shall consider local and regional markets as well as retail and institutional investors.

Section 3.04 **Credit Enhancements and Derivatives**

The District may enter into credit enhancement agreements such as municipal bond insurance, surety bonds, letters of credit and lines of credit with commercial banks, municipal bond insurance companies, or other financial entities when their use is judged to lower borrowing costs, eliminate restrictive covenants, or have a net economic benefit to the financing. The District shall use a competitive process to select providers of such products to the extent applicable. In order to assure that the District purchases bond insurance cost-effectively, the Chief Financial Officer will review a bond insurance break-even analysis by maturity before selecting which maturities to insure.

The District may also undertake hedging strategies in connection with its debt issues. The Chief Financial Officer will develop an appropriate policy regarding interest rate swaps, interest rate caps and collars, rate locks and other derivatives for approval by the Board. Such policy, if approved, will be integrated into this Policy.

Section 3.05 **Impact on Operating Budget and District Debt Burden**

When considering any debt issuance, the potential impact of debt service and additional operating costs induced by new projects on the operating budget of the District, both short and long-term, will be evaluated. The ratio of annual debt service to General Fund expenditures is one method as is the additional debt burden of overlapping agencies and taxpayers. The cost of debt issued for major capital repairs or replacements should be judged against the potential cost of delaying such repairs.

Section 3.06 **Debt Limitation**

Section 15106 of the Education Code limits the District's total outstanding bonded debt (i.e., the principal portion only) to 2.5% of the assessed valuation of the taxable property of the District**.** TRANs and lease payment obligations in support of COPs generally do not count against this limit except as provided in Section 17422 of the Education Code**.**

Section 3.07 **Debt Issued to Finance Operating Costs**

The District cannot finance general operating costs from debt having maturities greater than thirteen months. However, the District may deem it necessary to finance cash flow requirements under certain conditions. Such cash flow borrowing must be payable from taxes, income, revenue, cash receipts and other moneys attributable to the fiscal year in which the debt is issued. General operating costs include, but may not be limited to, those items normally funded in the District's annual operating budget and having a useful life of less than one year.

Section 3.08 **Debt Burden Ratios and Debt Affordability Criteria**

A. Debt Burden Ratios: As noted in Section 3.06, the District may issue "bonds" in an amount no greater than 2.5% of taxable property within the school district. The 2.5% issuance limit is known as the District's bonding capacity, with "bonds" referring to G.O. Bonds. Even though COPs do not technically constitute "debt" under California's Constitution and, thus, are excluded from the 2.5% bonding limit, the rating agencies and the investor community evaluate the District's debt position based on all of its outstanding long-term obligations whether or not such obligations are repaid from taxpayer-approved tax levies, the General Fund or developer fee sources. Therefore, the debt burden ratios described below will include both G.O. Bonds and COPs obligations as "debt" in the respective calculations. 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 or source of repayment. "Debt" excludes short-term obligations such as tax and revenue anticipation notes.

The following debt burden ratios should be considered in developing debt issuance plans:

- Ratio of Outstanding Debt to Assessed Value. The ratio "Direct Debt" shall be calculated using both G.O. Bonds and COPs. In addition, the ratio "Overall Direct Debt" or "Overall Debt" shall be calculated by aggregating all debt issues attributable to agencies located in the District as presented in the California Municipal Statistics Overlapping Debt Statement. It is important to monitor the levels and growth of Direct Debt and Overall Debt as they portray the debt burden borne by the District's 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, based upon the most recent estimates as determined by the United States Bureau of the Census. Ratios shall be computed for both "Direct Debt Per Capita" and "Overall Debt Per Capita".

- 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 CAFR.

- Proportion of Fixed-Rate and Variable-Rate COPs Issues. The District can benefit from some variable rate exposure in its portfolio of COPs issues. However, the District shall 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. "Hedges" include unrestricted cash resources as well as interest rate products such as caps and collars. Under no circumstances will the District issue variable rate debt for arbitrage purposes. If variable rate debt is used, the Chief Financial Officer will periodically, but at least annually, determine whether it is appropriate to convert the debt to bear fixed interest rates.

B. Debt Affordability: The determination of how much indebtedness the District should incur will be based on a Capital Financing Plan (the "Plan") that is currently being developed by the Office of the Chief Financial Officer, which analyzes the long-term infrastructure needs of the District, and the impact of planned debt issuances on the long-term affordability of all outstanding debt. The Plan will be based on the District's current five-year capital plan and will include all District financings to be repaid from the General Fund, special funds or *ad valorem* property taxes. The affordability of the incurrence of debt will be determined by calculating various debt ratios (itemized below) which would result after issuance of the debt and analyzing the trends over time.

C. Targets and Ceilings for Debt Affordability: One of the factors contributing to the District's high credit ratings is its moderate General Fund-supported debt level relative to other large issuers and as compared to the resources available to repay the debt. The issuance of debt to be repaid from the General Fund and other internal District resources (typically, the District's certificates of participation) must be carefully monitored to maintain a balance between debt and said resources.

The District's credit environment is also affected by the District's issuance of its general obligation bonds paid from voter approved tax levies as well as the debt issuance activities of other agencies (for example, the City of Los Angeles, the County of Los Angeles and the Los Angeles Community College District) whose jurisdictions overlap those of the District. It is important for the District to examine debt burden ratios for such debt as well, even though such debt is not paid from the District's General Fund or other internal resources. Further, the tax receipts used to repay the Districts general obligation bonds are levied and collected by the County of Los Angeles and are not controlled by the District.

Table 1 provides a listing of the debt burden factors that will be monitored by the Chief Financial Officer in the case of debt to be repaid from the General Fund or other District resources. The measured debt factors will be compared to targeted and maximum levels for those factors. The targets and ceilings are intended to guide policy. The targets and ceilings do not mean that debt issuance is automatically approved if there is room under a particular target or ceiling. On the contrary, each and every proposed debt issuance must be individually presented to and approved by the Board of Education.

Table 2 indicates the benchmark debt burden ratios to be monitored by the Chief Financial Officer that recognize the combined direct debt and overall debt of the District, as applicable. The Office of the Chief Financial Officer shall annually prepare or cause to be prepared a Debt Report providing details of the calculations of debt ratios and projections of the impact of future debt issuance on the District's direct debt. The Office of the Chief Financial Officer shall also develop appropriate appendices to the Debt Report containing relevant information on any rating agency and/or Government Finance Officer's Association debt policy guidelines with respect to debt burden ratios.

i. Debt Ratios: The following table sets forth the debt ratios to be monitored under the Policy and their targeted levels and Policy ceilings, if applicable.

**Table 1**

| Debt Factor | Target | Ceiling |
|---|---|---|
| COP Debt Service Limit (gross) | 2.0% of General Funds Expenditures | 2.5% of General Funds Expenditures |
| COP Gross Annual Debt Service Cap | $105 Million | |

**Table 2**

| Debt Burden Ratio | Benchmark |
|---|---|
| Direct Debt to Assessed Value | Moody's Median for Aa Rated School Districts With Student Population Above 200,000 |
| | Standard & Poor's Mean for AA Rated School Districts With Student Population Above 150,000 |
| Overall Debt to Assessed Value | Moody's Median for Aa Rated School Districts With Student Population Above 200,000 |
| | Standard & Poor's Mean for AA Rated School Districts With Student Population Above 150,000 |
| Direct Debt Per Capita | Standard & Poor's Median for AA Rated School Districts With Student Population Above 150,000 |
| | Standard & Poor's Mean for AA Rated School Districts With Student Population Above 150,000 |
| Overall Debt Per Capita | Standard & Poor's Median for AA Rated School Districts With Student Population Above 150,000 |
| | Standard & Poor's Mean for AA Rated School Districts With Student Population Above 150,000 |

"Direct Debt" includes all debt that is repaid from the General Fund or from any tax revenues deposited into special funds not supporting revenue bonds.

"Overall Debt" includes any debt that is paid from general tax revenues and special assessments by residents in the District. This includes debt issued by other agencies whose taxing boundaries overlap the District, such as the City of Los Angeles, the County of Los Angeles and the Metropolitan Water District, but excludes revenue bonds with dedicated repayment sources.

D. Monitor Impact on District Taxpayer of Voter-Approved Taxes: In addition to the analysis of the District's debt affordability, the Plan will review the impact of debt issuance on District taxpayers. This analysis will incorporate the District's general obligation bond tax levies as well as tax rates imposed by overlapping jurisdictions as reported in the District's Comprehensive Annual Financial Report (CAFR). In addition, the District will monitor the performance of the actual tax levy rate per $100,000 of assessed value for each general obligation bond authorization versus what the tax levy rate was expected to be at the time of the original bond election and include said performance in the Debt Report. The Measure K, Measure R, Measure Y and Measure Q Bonds were each authorized with a tax levy limitation of $60 per $100,000 of assessed value to repay bonds issued under each authorization (Measure).

### Section 3.09 **Use of Corporations as Lessor for COPs Issues**

The District has established two special purpose corporations to assist in COPs financings as lessor: the LAUSD Financing Corporation and the LAUSD Administration Building Financing Corporation. The District shall use these corporations rather than private corporations as lessor whenever feasible. The District shall maintain proper records relating to the corporations and prepare audits as required.

## Article IV. **Related Issues**

### Section 4.01 **Capital Improvement Program**

Planning and management of the District's Capital Improvement Program rests primarily with the Facilities Services Division under the Superintendent's direction, subject to review by the Bond Oversight Committee and approval by the Board of Education. The Facilities Master Plan and Strategic Execution Plans provide an overall description of the District's current Facilities Improvement Program. The Facilities Services Division will, as appropriate, supplement and revise these plans in keeping with the District's current needs for the acquisition, development and/or improvement of District's real estate and facilities. The plans must include a summary of total cost of each project, schedules for the projects, the expected quarterly cash requirements, and annual appropriations, in order for the projects to be completed.

The Office of the Chief Financial Officer shall prepare an annual capital financing plan and a capital program budget as part of the annual budget for the District. The capital program budget shall identify all appropriations for the capital program, sources of funds, uses of funds, future funding requirements for project completion and an estimate of the capital program's impact on subsequent operating budgets. The District Board, upon advice from the Chief Financial Officer, may consider incurring subsequent debt to fund multiple phases of the Facilities Improvement Program.

### Section 4.02 **Reporting of Debt**

The Comprehensive Annual Financial Report will serve as the repository for statements of indebtedness. The annual debt statement certifies the amount of (i) new debt issued, (ii) debt outstanding, (iii) debt authorized but not issued, (iv) assessed valuation and (v) outstanding debt expressed as a percentage of assessed valuation, each as of the end of the fiscal year to which the CAFR relates. The CAFR will be posted on the District's website as well as the District's dissemination agent's website.

### Section 4.03 **Financial Disclosure**

The District shall prepare or cause to be prepared appropriate disclosures as required by Securities and Exchange Commission Rule 15c2-12, the federal government, the State of California, rating agencies, bond insurers, underwriters, bond counsel, investors, taxpayers, and other persons or entities entitled to disclosure to ensure compliance with applicable laws and regulations and agreements to provide ongoing disclosure.

The District shall make available its annual CAFRs, budgets and Official Statements on the official District website and/or on the dissemination agent's website so that interested persons have a convenient way to locate major financial reports and documents pertaining to the District's finances and debt.

Section 4.04 **Review of Financing Proposals**

All capital financing proposals involving a pledge of the District's credit through the sale of securities, execution of loans, or lease agreements or otherwise directly or indirectly the lending or pledging of the District's credit initially shall be referred to the Chief Financial Officer who shall determine the financial feasibility of such proposal and make recommendations accordingly to the Board.

Section 4.05 **Establishing Financing Prioritie**s

The Chief Financial Officer shall administer and coordinate the Policy and the District's debt issuance program and activities, including timing of issuance, method of sale, structuring the issue, and marketing strategies. The Chief Financial Officer shall, as appropriate, report to the Superintendent and the Board regarding the status of the current and future year programs and make specific recommendations.

Section 4.06 **Rating Agency and Credit Enhancer Relations**

The District shall endeavor to maintain effective relations with the rating agencies and credit enhancers. The Chief Financial Officer along with the District's financial advisors shall meet with, make presentations to, or otherwise communicate with the rating agencies, and credit enhancers on a consistent and regular basis in order to keep the agencies informed concerning the District's capital plans, debt issuance program, and other appropriate financial information.

Section 4.07 **Investment Community Relations**

The District shall endeavor to maintain a positive relationship with the investment community. The Chief Financial Officer shall, as necessary, prepare reports and other forms of communication regarding the District's indebtedness, as well as its future financing plans. This includes information presented to the media and other public sources of information. To the extent applicable, such communications shall be posted on the District's website.

Section 4.08 **Refunding and Restructuring Policy**

Whenever deemed to be in the best interest of the District, the District shall consider refunding or restructuring outstanding debt when financially advantageous or beneficial for debt repayment and structuring flexibility. The Chief Financial Officer shall review a net present value analysis of any proposed refunding in order to make a determination regarding the cost-effectiveness of the proposed refunding. The target net present value savings as a percentage of the refunded aggregate principal amount shall be no less than 3% per maturity unless, at the discretion of the Chief Financial Officer, a lower percentage is more applicable, for situations including, but not limited to, maturities with only a few years until maturity or COPs being defeased or redeemed from proceeds of G.O. Bonds or other structuring considerations.

The Chief Financial Officer shall be empowered to restructure escrow funds for the District's refunded Bonds and COPs from time to time when savings can be achieved. The Chief Financial Officer shall review a savings analysis of any proposed restructuring in order to make a determination regarding its cost-effectiveness. The target net savings shall be no less than $1.0

million unless, at the discretion of the Chief Financial Officer, a lower amount is more appropriate given the nature of the particular escrow fund. Any savings from such restructuring shall be applied in accordance with legal and tax considerations and legal analysis at the time such savings are available.

Section 4.09 **Investment of Borrowed Proceeds**

The District acknowledges its on-going fiduciary responsibilities to actively manage the proceeds of debt issued for public purposes in a manner that is consistent with California law governing the investment of public funds and with the permitted securities covenants of related bond documents executed by the District. Where applicable, the District's official investment policy shall govern specific methods of investment of bond related proceeds. The District shall competitively bid the purchase of investment securities, investment contracts, float contracts, forward purchase agreements and any other investments pertaining to its tax-exempt debt issues. A registered investment advisor or the County of Los Angeles Treasurer-Tax Collector shall solicit bids for investment products. The District's underwriters, but not its financial advisors, may bid on investment products. Preservation of principal will be the primary goal of any investment strategy followed by the availability of funds, followed by return on investment.

The management of public funds shall enable the District to respond to changes in markets or changes in payment or construction schedules so as to (i) ensure liquidity and (ii) minimize risk.

Section 4.10 **Federal Arbitrage Rebate Requirement**

The District shall maintain or cause to be maintained an appropriate system of accounting to calculate bond investment arbitrage earnings in accordance with the Tax Reform Act of 1986, as amended or supplemented and applicable United States Treasury regulations related thereto.

Section 4.11 **Transaction Records**

The Chief Financial Officer or designee shall maintain complete records of decisions made in connection with each financing, including the selection of members of the financing team, the structuring of the financing, selection of credit enhancement products and providers, and selection of investment products. Each transaction file shall include the official transcript for the financing, the final number runs and a post-pricing summary of the debt issue. The Chief Financial Officer shall timely provide a summary of each financing to the Board.

Section 4.12 **Financing Team Members**

A. Retention of Consultants

i. <u>General</u>: All financial advisors, bond counsel, disclosure counsel and underwriters will be selected from a pool to be created through a Request for Proposals (RFP) or Request for Qualifications (RFQ) process, whichever is most appropriate given the circumstances. In isolated instances, such contracts may be awarded on a sole source basis if it is clear that an RFP/RFQ process would not be feasible or in the District's interests. The District's contracting policies will apply to all contracts with finance professionals. [Generally, contracts for financial advisor and bond counsel will be for one year with two one-year renewal options.] In the event that the District issues bonds through a negotiated sale, the selection of underwriters will generally be for a single transaction. Underwriters may be selected for multiple transactions if multiple issuances are planned for the same project.

ii. General Financial Advisor: The District will retain a general financial advisory team to provide general advice on the District's debt management program, financial condition, budget options and bond rating agency relations. Additionally, the general financial advisor will structure the District's General Obligation bond issuances and may be used on an as-needed basis to structure bond issuances that do not fall into the other categories of District debt obligations.

iii. As-Needed Bond Counsel: The District will select a bond counsel team to be used on an as-needed basis to structure bond issuances which do not fall into the other categories of District debt obligations. Additionally, one or more of the firms will be selected to provide general legal advice on debt financing.

iv. Other District Bond Programs: Financial advisory and bond counsel teams will be selected for the District's general lease financings, TRANs, Mello-Roos, special revenue bonds and any other bond program which may be created. Depending on particular expertise and consultant availability, some firms may be used on more than one program. However, efforts will be made to establish different teams to provide a number of firms the opportunity to participate in District contracts.

B. Use of Independent Financial Advisors

i. Use of Independent Financial Advisors on Competitive Sales: The District will strive to hire financial advisors who do not participate in the underwriting or trading of bonds or other securities. Under certain circumstances, however, it may be in the District's interests to hire an investment banking firm to act as financial advisor on specific bond issues. In the event that a financial advisor working for the District does underwrite, the firm will, under no circumstances, be permitted to lead a syndicate which is bidding on the project for which the firm is acting as financial advisor. In some circumstances, such as a very routine financing and financings for which the financial advisor did not play a lead role in structuring the transaction and upon request of the firm, the District may allow the firm to participate in a bidding syndicate in a non-book running role.

ii. Use of Independent Financial Advisors on Negotiated Sales: In recognition of the fact that in a negotiated sale the goals of the underwriters and the issuer are inherently in conflict, the District will hire financial advisors who do not participate in the underwriting or trading of bonds or other securities to represent the District. The only exception to this policy would be that if all independent financial advisory firms which responded to the RFP are found to be unqualified. In this event, the District may hire an underwriter to act as financial advisor to the

District. However, the underwriter would be prevented from participating in the underwriting of the transaction, and no firm which had any profit sharing or other type of agreement with any member of the underwriting team for the transaction in question or any other transaction for any issuer would be allowed to serve as financial advisor.

iii. Use of Investment Advisors for Investment Advice: Although, in most instances, the Office of the Chief Financial Officer will make all investment decisions relative to temporary investments pending the expenditure of bond proceeds, a registered investment advisor may provide investment advice on refundings and other transactions with specialized investment needs.

C. Disclosure by Financing Team Members; Ethics

All financing team members will be required to provide full and complete disclosure, under penalty of perjury, relative to any and all agreements with other financing team members and outside parties. The extent of the disclosure may vary depending on the nature of the transaction. However, in general terms, no agreements will be permitted which would compromise a firm's ability to provide independent advice which is solely in the best interests of the District, or which could reasonably be perceived as a conflict of interest. All financing team members shall abide by the Board's code of ethics.

Section 4.13 **Special Situations**

Changes in the capital markets, District programs and other unforeseen circumstances may from time to time produce situations that are not covered by the Policy. These situations may require modifications or exceptions to achieve policy goals. Management flexibility is appropriate and necessary in such situations, provided specific authorization is received from the Board.