



Los Angeles Unified School District



Los Angeles 3rd Regional Investors Conference

March 31, 2016



Overview of LAUSD

- ❑ Second largest school district in the U.S.; largest in California
- ❑ Governed by a 7-member Board of Education
- ❑ New Superintendent, Michelle King, was unanimously selected by the Board on January 11
- ❑ Student Enrollment (FY 2014-15)
 - 542,433 – K-12 students
 - 39,997 – adult education
 - 582,430 – total enrollment
- ❑ Facilities
 - 940 K-12 schools
 - 334 charter schools and other centers
- ❑ One of the largest voter-approved capital programs in the country



GOs are the District's Primary Capital Project Funding Source

Bond Authorization	Date Authorized by Voters	Amount Authorized (\$Billions)	Amount Issued (\$Billions)	Amount Unissued (\$Billions)	% Voter Approved
Proposition BB	April 8, 1997	\$2.400	\$2.400	-	71%
Measure K	November 5, 2002	3.350	3.350	-	64%
Measure R	March 2, 2004	3.870	3.710	0.160	63%
Measure Y	November 8, 2005	3.985	3.603	0.382	66%
Measure Q	November 4, 2008	7.000	0.649	6.351	69%
	Total	\$20.605	\$13.712	\$6.893	



Modified Approach to California School District GO Credits

- Senate Bill 222 was passed by the legislature in July 2015 and become effective January 1, 2016
- Created an explicit statutory lien on the property tax revenues dedicated to the repayment of voter approved local agency GO Bonds
- Further, for California school districts and community colleges, the property taxes are required to be lock-boxed by the county
- SB222, in conjunction with legal opinions that property tax revenues would be considered “special revenues” under the bankruptcy code, created an opportunity to realign school district GO credits
- As a result, LAUSD modified its rating approach on its most recent sale in March to capitalize on these developments



Positioned the GOs as a Dedicated Unlimited *Ad Valorem* Property Tax Bond Credit

Legal Authorization

- Voter-approved bonds
- Secured by dedicated unlimited ad valorem property taxes levied on all property subject to taxation by the District

Unlimited Tax

- County is empowered and is obligated to levy ad valorem taxes upon all property subject to taxation by the District, without limitation as to rate or amount

Lock Box

- Tax revenues, once collected and held by the County Treasurer in the District's Interest and Sinking Fund, are to be used solely for the payment of GO bonds of the District
- Tax revenues are never commingled with operating funds of the District or the County
- The County cannot borrow/transfer any of the moneys in the District's bond accounts

Investments

- Under California law, the District's funds are deposited with the Los Angeles County Treasurer-Tax Collector and invested under the investment policy of the County

Distinct Credit

- Creditworthiness of the District's GO Bonds is distinct from the State, City of Los Angeles, and County of Los Angeles
- The GO bonds do not depend on the District's General Fund or the State for payment

Limited District Responsibilities

- Generated taxpayer support and passed the Bond Measures
- Spend bond proceeds on capital projects
- Provide debt service schedule to County Treasurer for annual tax levy calculation



Credit Analysis Differed Across the Rating Agencies

FitchRatings

AAA (Stable)

- GO Bonds
- Based on Property Tax security
- Acknowledges “Pledged Special Revenues” Legal Opinion

A+ (Stable)

- Issuer Default Rating
- Incorporates District Operations

KBRA **KROLL BOND RATING AGENCY**

AA+ (Stable)

- GO Methodology
 - Governance, Management and Policies
 - Municipal Resource Base
 - Debt and Add’l Continuing Obligations
 - Financial Performance & Liquidity Position
- Acknowledges “Pledged Special Revenues” Legal Opinion

MOODY’S

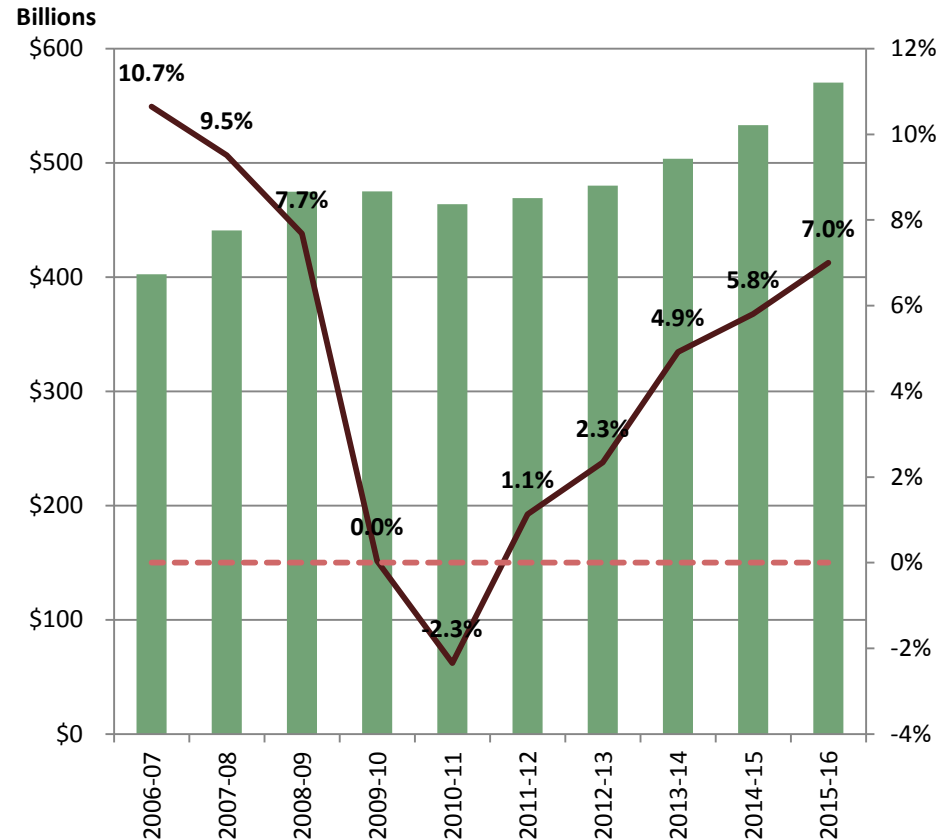
Aa2 (Stable)

- Economy and Tax Base
- Financial Operations and Reserves
- Debt, Pension, and OPEB
- Management and Governance
- Legal Security: GO Pledge of property tax revenues
- No Mention of “Pledged Special Revenues” Legal Opinion



Economic and Tax Base Strengths of the District

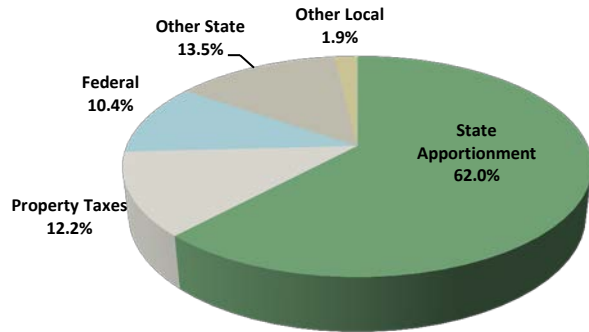
Indicator	2010	2011	2012	2013	2014
1. Construction Lending (mm) (\$)	2,128	3,258	4,601	6,379	8,750
2. Residential Purchase Lending (mm) (\$)	22,491	20,469	23,675	27,910	31,441
3. New & Existing Median Home Prices (\$)	335,363	316,469	330,463	412,795	458,677
4. New & Existing Home Sales	77,313	74,216	83,686	84,229	76,348
5. Notices of Default Recorded	68,603	64,490	49,354	20,970	17,883
6. Unsold New Housing (at year-end)	1,997	1,517	845	561	552
7. Office Market Vacancy Rates	17.00%	17.00%	16.70%	16.90%	15%
8. Industrial Market Vacancy Rates	3.20%	2.90%	2.10%	1.90%	1.60%





District Finances: FY 2015-16 General Fund Budget

FY 2015-16 Budgeted Revenues

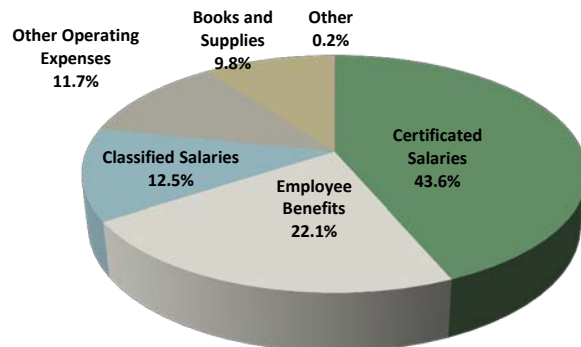


☐ State apportionment revenues are the District's largest revenue source

☐ 2015-16 is 3rd year of the LCFF funding approach, which is beneficial to LAUSD

- Unduplicated Pupil Percentage of 83.19%

FY 2015-16 Budgeted Expenditures

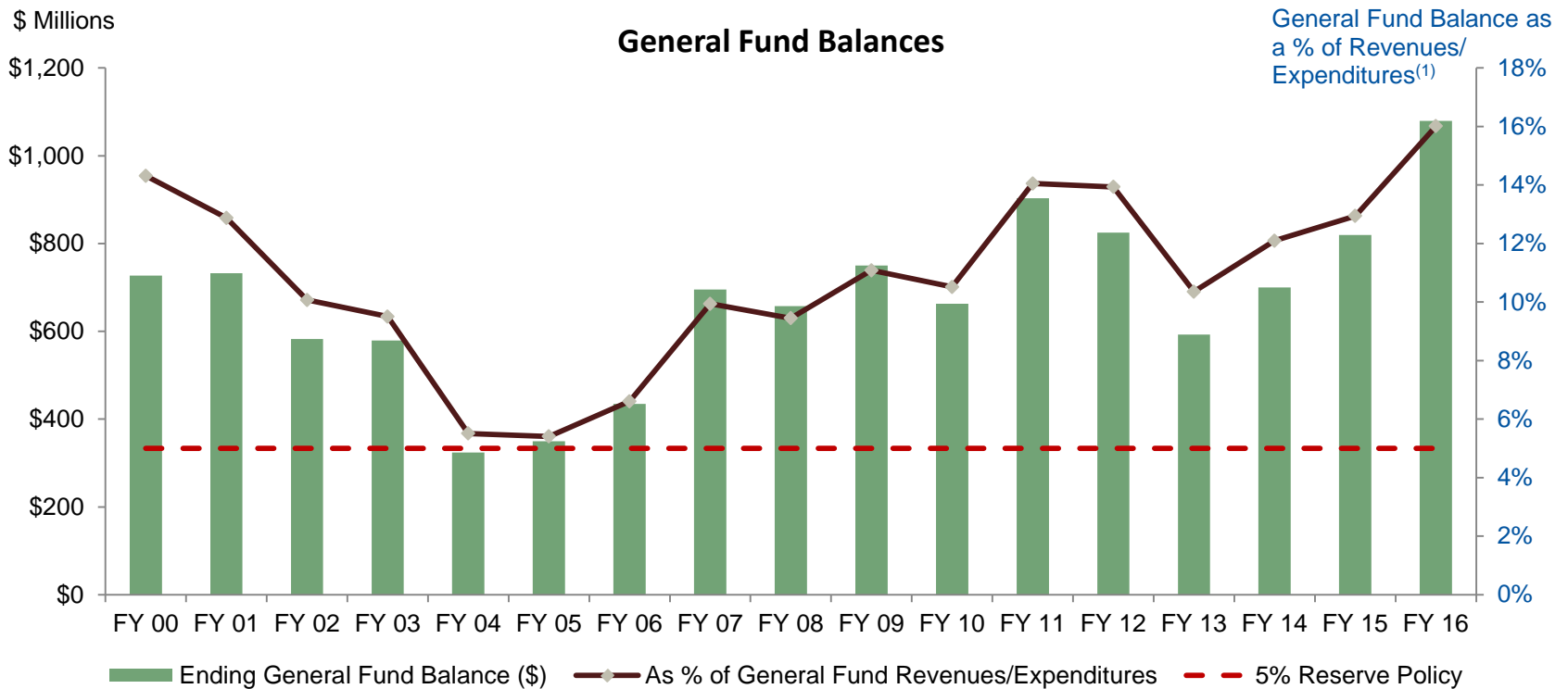


☐ Revenues grew 13% from FY 2013 to 2015

☐ Salaries and benefits are the District's largest expense category totaling over 78%



District Finances: General Fund Balances Consistently Exceed 5% Reserve Policy



(1) FY2001-13 - % of revenues and transfers-in; beginning in FY2013-14, the District's reserve policy changed to be a % of expenditures and transfers-out.



Bondholder Protections: Legal Provisions and Statutory Protection

- ❑ GO Bonds are not payable from the General Fund of the District but from special Ad Valorem Property Taxes
- ❑ **Cal. Educ. Code Section 15250** requires the County to collect the special tax on behalf of District in an amount that “shall not be less than sufficient to pay the interest on the bonds as it becomes due and to provide a sinking fund for the payment of the principal on or before maturity”
- ❑ **Cal. Educ. Code Section 15251** requires the deposit of the proceeds of the tax in a special fund within the County Treasury (called the interest and sinking fund) separate from any other funds of the County or District
- ❑ **Cal. Educ. Code Section 15251** further provides that monies in the interest and sinking fund “shall be used for the payment of the principal and interest of the bonds and for no other purpose”



Bondholder Protections: AB1200 Mitigates Bankruptcy Risk

- ❑ In California, under AB1200, there is significant institutionalized financial oversight of school districts by the State
 - Districts' financial status are tracked on an ongoing basis by the District and the County Office of Education through mandatory interim reports; early warning system
- ❑ For fiscally distressed districts, the State Superintendent of Schools is authorized to take actions to ensure that a district meets its financial obligations
 - If approved, an insolvent district may receive an emergency apportionment; school board would lose its powers and an Administrator would be appointed by the State
- ❑ Districts are not authorized to file for bankruptcy and not subject to involuntary bankruptcy; only the Administrator is authorized to file under Chapter 9
 - However, State oversight and the process for emergency apportionments are meant to prevent the need for any district to file for bankruptcy protection in California
- ❑ While bankruptcy opinions were provided to the rating agencies as part of the rating process, under AB1200, bankruptcy risk is mitigated



Bondholder Protections: SB222

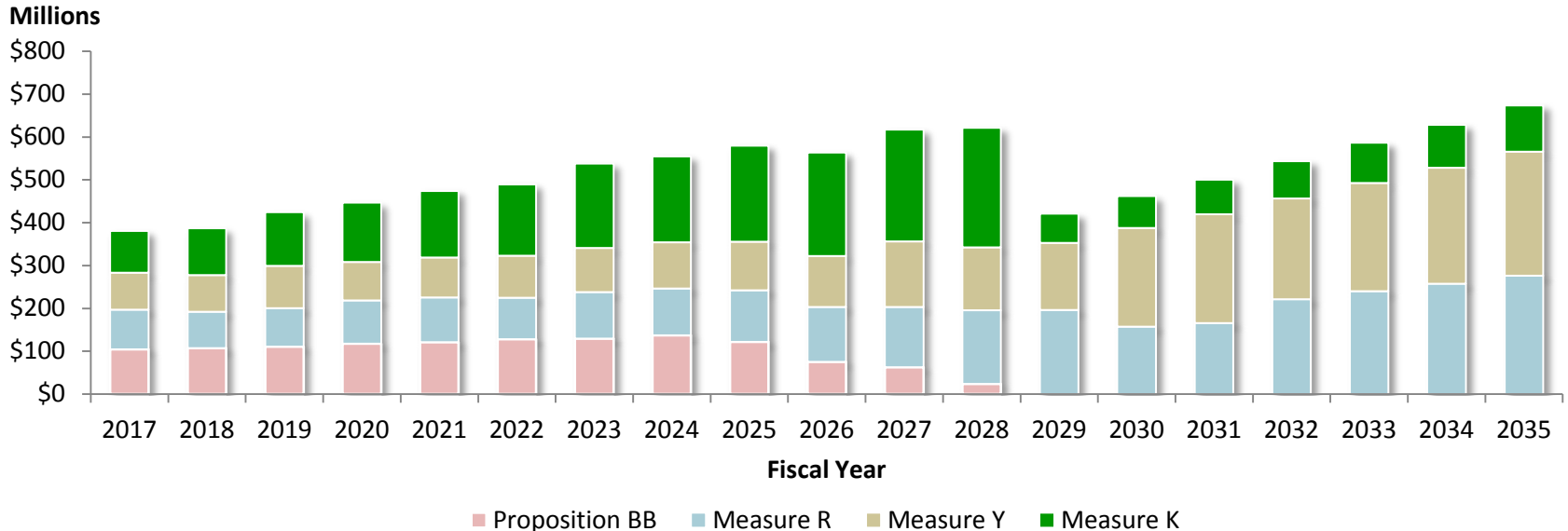
- ❑ California Senate Bill 222 (2015), which became effective January 1, 2016, provides that all GO bonds issued by California local agencies are secured by a statutory lien on the ad valorem taxes levied and collected to pay principal of and interest on the bonds. Neither the bond issuer nor bondholders need to take any additional steps to pledge, record, or take possession of the taxes
- ❑ No action or authorization by the school district is necessary for the lien to be valid and enforceable
- ❑ Lien attaches to the revenues and is effective, binding, and enforceable against the school district immediately upon execution and delivery of the bonds
- ❑ SB222 and the “special revenues” legal opinions strengthened the foundation for higher ratings on California school district GOs



Outstanding GO Bonds

- ❑ \$9.9 billion outstanding GO bonds as of January 1, 2016
 - All bonds are fixed rate, current interest bonds with no CABs or swaps
 - Outstanding principal is amortized annually through 2035 (i.e., over 20 years)
 - Typical new money issue is amortized over 25 years
 - Capacity to layer in additional bonds without exceeding debt limit

Outstanding General Obligation Bonds by Bond Measure by Fiscal Year





Closing Remarks

- ❑ Conservative financial management has resulted in consistently exceeding reserve targets throughout the economic cycle
- ❑ Under the Local Control Funding Formula and with the repayment of the State's wall of debt, financial position has significantly improved
- ❑ Pro-actively addressing challenges following the Independent Panel's review
- ❑ Strong and deep economy with assessed valuation at an all time high of \$570 billion this year
- ❑ General Obligation bonds secured by voter-approved property taxes that can only be used to pay debt service
- ❑ County has a long, successful history of managing the levy and collection of the property taxes
- ❑ Several legal provisions protect bondholder interests
- ❑ Most recent GO Bond ratings of AAA, AA+ and Aa2 by Fitch, Kroll and Moody's reflect these strong credit characteristics