

Los Angeles Unified School District
Debt Report
Fiscal Year 2015-16



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Deputy Chief Financial Officer
April 18, 2017

LOS ANGELES UNIFIED SCHOOL DISTRICT

Office of the Chief Financial Officer

MICHELLE KING
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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"). It presents a complete picture of the District's indebtedness in the categories of General Obligation Bonds and Certificates of Participation. Sometimes referred to as "bonded indebtedness", long-term debt is typically used to finance capital projects with a long useful life. Issuing debt to pay for long-term assets is based upon the principle of matching the cost of acquiring the asset to the time period that taxpayers and the general community utilize those assets. The District strives to achieve an equitable balance between the debt burden to the community and the time frame over which the assets are to be used.

The vast majority of the District's capital projects fall within the new construction, modernization, technology and safety programs being financed with \$20.605 billion of voter-approved General Obligation Bonds (GOs). The District also receives some State matching funds and other revenue sources to finance part of the GO bond program's projects. A relatively small number of projects are being financed with Certificates of Participation (COPs) that are being repaid primarily from the General Fund and developer fees.

This report 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 variety of instruments in the municipal market, regardless of their precise legal status. The rating agencies and investor community evaluate the District's debt position based on all of its outstanding obligations whether or not such obligations are "debt" as defined within the California Constitution context.

The District has a comprehensive Debt Management Policy designed to assure the District follows best practices when debt is issued. A copy of the Debt Management Policy appears as Appendix 5 to 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.

General Obligation Bonds represent debt that is paid from voter approved *ad valorem* property taxes that are levied and collected by the County of Los Angeles. The proceeds of such *ad valorem* property tax levies are neither received by nor 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. 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.

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 and type of COPs indebtedness that may be undertaken. This Debt Report provides a discussion of the District's COPs debt performance, which is in compliance with policy limitations.

Both General Obligation Bonds and COPs are considered "direct debt" of the District and are also included in the measurement of "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 reflect the debt burden borne by our taxpayers and provide perspective on taxpayers' capacity for future additional debt. The Debt Management Policy sets forth various municipal market debt ratios and benchmarks against which the District measures and compares its debt burden. This Debt Report provides a summary of the District's direct debt performance in this regard.

When debt is issued, independent credit rating agencies selected by the District assign a rating to the issue. Historically, the District's credit ratings on its GOs and COPs have been directly related to the financial condition and fiscal management of the District. We note that following a legislative change that went into effect on January 1, 2016, certain rating agencies' methodologies on California school district GOs changed as more fully discussed in Section IV. As of June 30, 2016, the District's current General Obligation Bond ratings were AAA by Fitch Ratings, AA+ by Kroll Bond Rating Agency, Aa2 by Moody's Investors Service, and AA- by Standard & Poor's and reflect best or high quality investment grade status, depending on the rating agency. In addition, as of June 30, 2016, the current ratings on the District's COPs were A1 and A+ by Moody's Investors Service and Standard & Poor's, reflecting an upper medium grade credit. The ratings assigned to the District's General Obligation Bonds and COPs affect its interest payments and the cost to the District's general obligation taxpayers, the General Fund and the Capital Facilities Fund (i.e. developer fees), as applicable. In addition, the fiscal health of the State has also affected the District's interest costs. When the State's credit quality declined and its interest rates rose relative to market indices during the financial crisis and recession, the interest costs of other issuers viewed as "agencies" of the State, including the District were also negatively impacted, though not as dramatically. Alternatively, as the State's credit has improved, the interest costs of "agencies" of the State have been positively impacted. A history of the District's 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,

John F. Walsh
Deputy Chief Financial Officer

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SECTION I: GENERAL OBLIGATION BOND DEBT

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

In accordance with Education Code Section 15106, the District's bonded debt limitation (also known as general obligation bonding capacity) equals 2.5% of the value of taxable property (i.e., assessed valuation) in the District. For Fiscal Year 2015-16, total assessed valuation in the District was \$570.2 billion¹, resulting in a bonded debt limitation of \$14.3 billion. Table 1 presents the District's maximum debt limit versus outstanding debt as of June 30, 2016. The difference is the "Legal Debt Margin."

Table 1
Bonded Debt Limitation and Legal Debt Margin
As of June 30, 2016
(in thousands)

Total Assessed Valuation	<u>\$ 570,169,464</u>
Bonded Debt Limitation (2.5% times Assessed Valuation)	\$ 14,254,237
Less: Outstanding General Obligation Bonds ²	<u>(10,457,615)</u>
<i>Equals: Legal Debt Margin²</i>	<u>\$ 3,796,622</u>

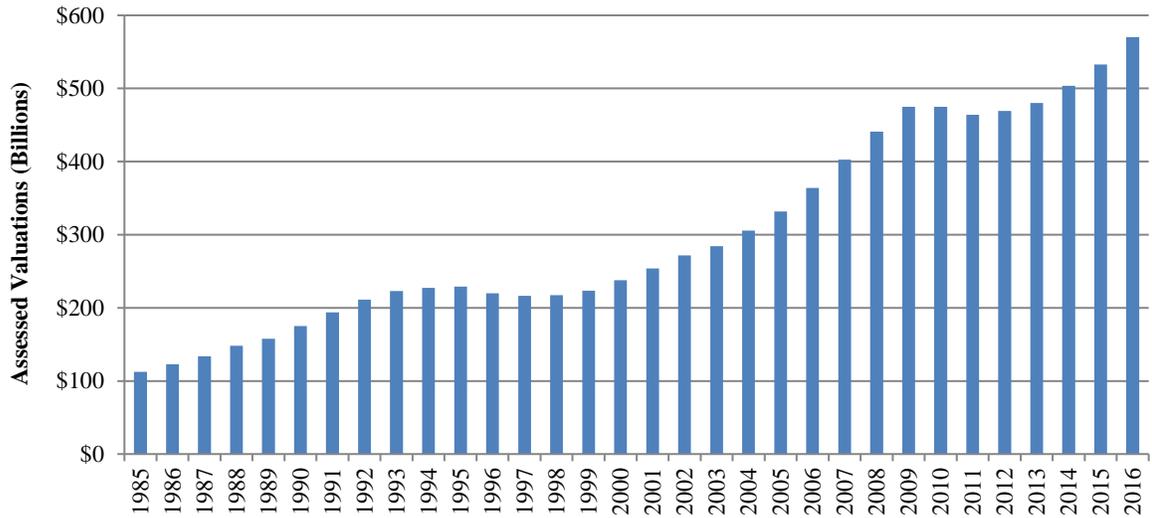
In addition to new District debt issuance and the amortization pattern of the outstanding debt, the Legal Debt Margin is affected by the assessed valuation growth in the District. Assessed valuation typically grows up to the maximum base annual rate of 2% allowed under Proposition 13 for existing property, with additional growth coming from new construction and the sale and exchange of property. Chart 1 on page 3 shows assessed valuation in the District from 1985 to 2016. Chart 2 shows the annual growth rate in assessed valuation in the District over the same period. The District's all-time maximum assessed valuation of \$606.0 billion occurred in Fiscal Year 2016-17, one year beyond the reporting period in this Debt Report. The average growth rate has been 5.34% over the 30 years through FY 2015-16 and a lower 4.24% over the past 5 years.

Anticipated increases in future assessed valuation will permit issuance of new General Obligation Bonds to the extent that Proposition 39 tax rate limitations are not exceeded and bond proceeds on hand are sufficiently spent down. See the discussion on Proposition 39 tax rate limitations in Section I.E.

¹ Subsequent to the reporting period for this Debt Report, assessed valuation for Fiscal Year 2016-17 was reported to be \$606 billion, an increase of 6.3% from the Fiscal Year 2015-16 level.

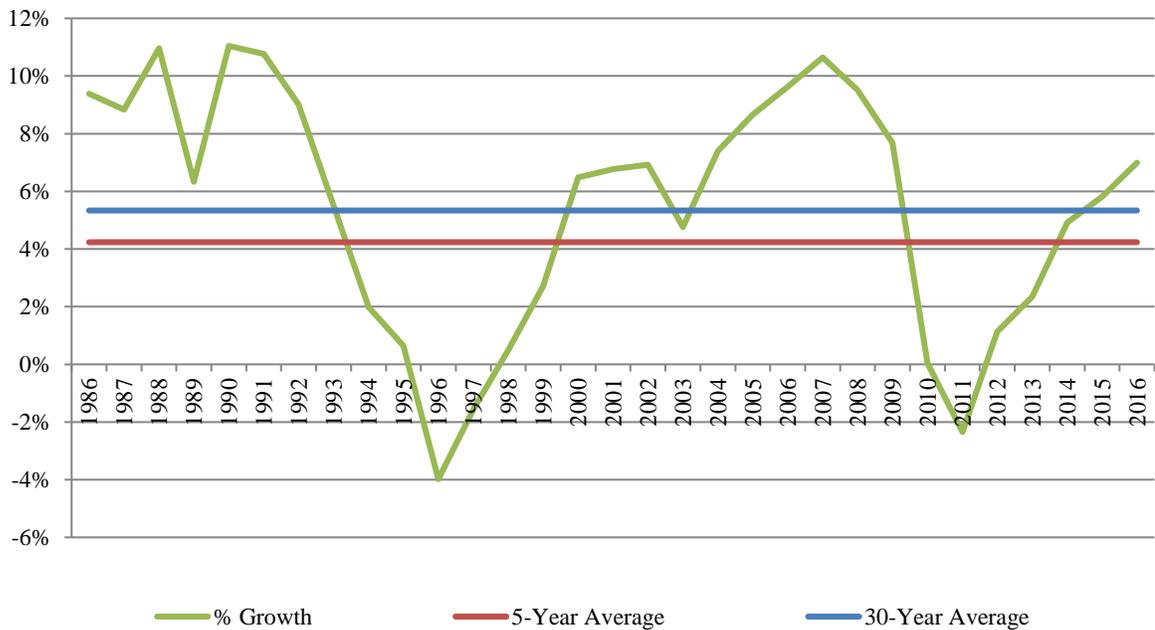
² Subsequent to the reporting period for this Debt Report, on August 18, 2016, the District sold \$500,855,000 of 2016 General Obligation Refunding Bonds, Series B. These bonds closed on September 15, 2016.

Chart 1
LAUSD Assessed Valuation
 (As of June 30, 2016)



For Fiscal Year End as of June 30

Chart 2
LAUSD Growth in Assessed Valuation
 (As of June 30, 2016)



B. Bonds Outstanding and Bonds Authorized But Unissued

As of June 30, 2016, the District had a total of \$10.5 billion of outstanding voter authorized General Obligation Bonds, for which a detailed listing and the debt service requirements can be found in Appendix 1-A.

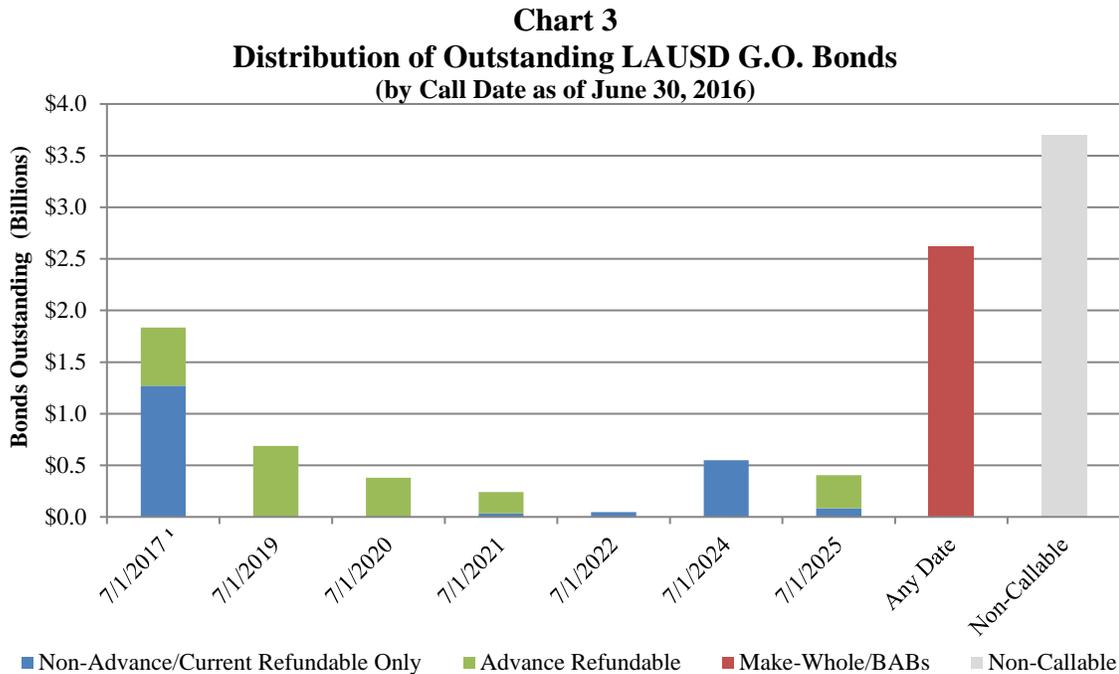
The District had a total of \$6.89 billion of authorized but unissued General Obligation Bonds as of June 30, 2016. Table 2 presents overall highlights of the District's authorized but unissued bonds.

Table 2
Authorized but Unissued General Obligation Bonds
As of June 30, 2016
(in thousands)

	<u>Proposition BB</u>	<u>Measure K</u>	<u>Measure R</u>	<u>Measure Y</u>	<u>Measure Q</u>
Voter Authorization Amount	\$2,400,000	\$3,350,000	\$3,870,000	\$3,985,000	\$7,000,000
Issued	<u>2,400,000</u>	<u>3,350,000</u>	<u>3,710,010</u>	<u>3,602,850</u>	<u>648,955</u>
Authorized but Unissued	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 159,990</u>	<u>\$ 382,150</u>	<u>\$6,351,045</u>

C. Distribution of Bonds by Prepayment/Call Flexibility; General Obligation Bond Refundings

The District’s outstanding General Obligation Bonds have varying degrees of prepayment or call flexibility. Chart 3 shows the District’s outstanding General Obligation Bonds by call date that are: 1) non-callable, 2) eligible to be advance refunded prior to their call date, 3) eligible to be refunded only on a taxable or forward basis prior to their call date (and current refundable on a tax-exempt basis after said call date), and 4) eligible to be refunded with a make whole call. The General Obligation Bonds that have a make whole/extraordinary redemption feature represent special bond structures permitted under the American Reinvestment and Recovery Act (ARRA); see Section I.D - “Federal Tax Subsidy and Tax Credit Bonds.”



The Chief Financial Officer regularly monitors market conditions for advance and current refunding opportunities. Pursuant to the Debt Management Policy, the District will not proceed with a refunding that will not produce at least 3% net present value savings for each maturity of bonds refunded or for which negative arbitrage is greater than the net present value savings except under certain circumstances. Table 3 on page 6 provides a summary of the savings from refundings that have been completed through June 30, 2016. These refundings are saving taxpayers approximately \$609.9 million over the term of the bonds.

¹ Subsequent to the reporting period for this Debt Report, on August 18, 2016, the District sold \$500,855,000 of 2016 General Obligation Refunding Bonds, Series B, which refunded the advance refundable portion of bonds callable on July 1, 2017. These bonds closed on September 15, 2016

Table 3
Summary of General Obligation Refunding Bonds Savings
(As of June 30, 2016)¹

<u>Refunding Bond Issue</u>	<u>Amount Refunded (millions)</u>	<u>Term of the Refunding Bonds (years)</u>	<u>Total Savings (millions)</u>
2002	\$ 262.7	17	\$ 12.8
2004 A-1 & A-2	215.7	18	10.6
2005 A-1 & A-2	485.0	20	38.4
2006 A	131.9	13	6.3
2006 B	561.4	21	29.3
2007 A-1 & A-2	1,250.3	21	82.1
2007 B	25.8	12	1.8
2009 A	72.3	9	2.1
2010 A	72.8	5	2.4
2011 A-1 & A-2	425.6	13	37.9
2012A	158.8	17	12.9
2014	1,706.4	17	171.6
2015	378.1	10	81.0
2016 A	<u>661.2</u>	14	<u>120.7</u>
Total	<u>\$ 6,408.0</u>		<u>\$ 609.9</u>

D. Federal Tax Subsidy and Tax Credit Bonds

In Fiscal Year 2009-10, the District took advantage of innovative bond programs permitted under the Federal government's new American Reinvestment and Recovery Act (ARRA). The ARRA financing structures provided lower debt service costs than traditional tax-exempt bonds, with LAUSD achieving expected savings of \$1.1 billion.

One of the federal bond programs, Build America Bonds (BABs), is a taxable bond program for which the federal government initially subsidized 35% of the interest cost. The District sold about \$1.4 billion of taxable BABs in October 2009 and another \$1.25 billion in February 2010.

Another federal bond program used by LAUSD at that time is known as Qualified School Construction Bonds (QSCBs). These are also taxable bonds, however, under this structure investors receive a tax credit against their federal income tax, with very low or no interest payments. The District sold \$318.8 million of QSCBs to taxable investors in October 2009. The District also received a QSCB allocation of \$290.2 million for 2010 and, under new legislation enacted in March 2010, sold those QSCBs as subsidized taxable bonds rather than tax credit bonds.

Sequestration. On March 4, 2013 the Internal Revenue Service announced certain automatic reductions to federal budget items would take place, effective March 1, 2013. Based upon the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, the automatic reductions are due to so-

¹ Subsequent to the reporting period for this Debt Report, on August 18, 2016, the District sold \$500,855,000 of 2016 General Obligation Refunding Bonds, Series B. These bonds closed on September 15, 2016. These refunding bonds will generate \$166.5 million in total savings over the life of the bonds.

called “sequestration.” Federal subsidies on BABs and QSCBs, among others, were reduced by 8.70%, or a reduction of \$3.2 million from the subsidies provided toward the District’s July 1, 2013 bond interest cost. The sequestration has continued with the annual sequestration rate determined at the beginning of each Federal fiscal year (October 1). The IRS announced that the Federal subsidy for Federal fiscal year 2016 would be reduced by 6.8%, calculated to result in \$2.5 million less for each of the District’s interest payments in January and July 2016¹. The reduced subsidies are offset by additional tax levies on District taxpayers. Unless Congress otherwise addresses the federal deficit matter, sequestration will occur each federal fiscal year.

E. Tax Rate Performance on Outstanding Bonds

The Tax Rate Statements for each of the District’s five General Obligation Bond authorizations set forth various assumptions including the average annual assessed valuation growth over the life of the bonds, the average interest rate on the future bond issuances, and the estimated tax rates to be paid by District taxpayers to service the debt on the outstanding General Obligation Bonds. The assumptions in the respective Tax Rate Statements are not technically binding on the District, as actual issuance patterns, interest rates, and the growth pattern of the assessed valuation base combine to determine the actual tax rates. 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.

Table 4 below summarizes the assumptions in the Tax Rate Statements for each of the five bond measures for the assessed valuation growth rate and the interest rates on the bond sales. It also provides the election date, amount approved, and election authorization.

**Table 4
Summary of Tax Rate Performance Assumptions**

	Election Date	Amount (billions)	Assumed Average Assessed Valuation Growth	Assumed Interest Rate	Type of Election
Proposition BB	04/08/97	\$2.400	2.0%	5.75%	Traditional 66 2/3 ^{ths} % Minimum Approval
Measure K	11/05/02	3.350	3.9%	5.50%	Proposition 39 – 55%
Measure R	03/02/04	3.870	5.0%	5.25%	Proposition 39 – 55%
Measure Y	11/08/05	3.985	6.0%	5.25%	Proposition 39 – 55%
Measure Q	11/04/08	7.000	6.0%	5.25%	Proposition 39 – 55%

Table 5 on page 8 provides the assumptions included in the Tax Rate Statements for initial and future tax rates and actual results to date. Future tax rates will depend on a combination of additional bond issuance, future assessed valuation and economic refundings.

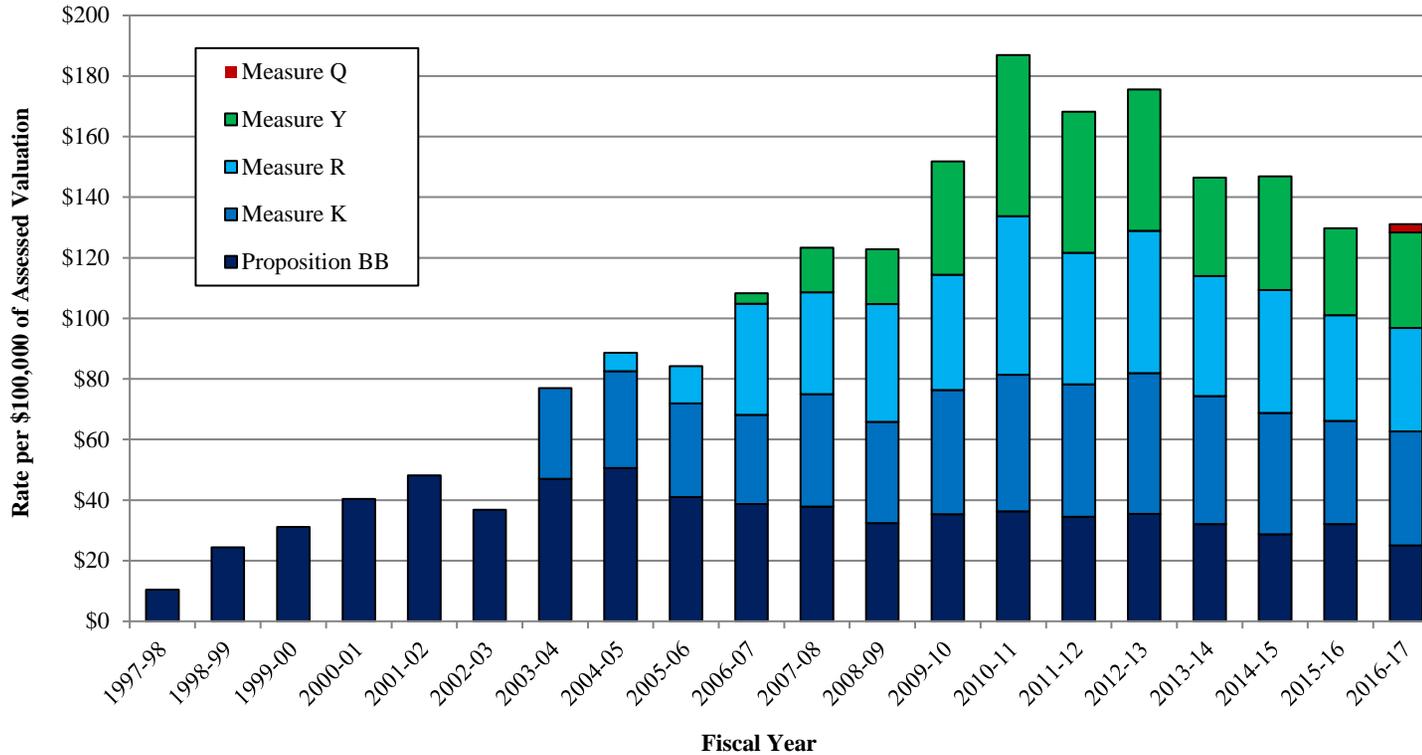
Chart 4, also on page 8, presents a history of the District’s GO Bond tax rates by measure and in aggregate from FY1997-98 through FY 2016-17.

¹ The sequestration rate for January 2017 and July 2017 bond interest payments is 6.9%.

Table 5
Estimated Tax Rates Set Forth in Tax Rate Statements for Measure BB, K, R, Y, and Q
(per \$100,000 of Assessed Valuation)

Tax Rate Description	Proposition BB		Measure K		Measure R		Measure Y		Measure Q	
	As Projected in Tax Rate Statement	Actual/Projected	As Projected in Tax Rate Statement	Actual/Projected	As Projected in Tax Rate Statement	Actual/Projected	As Projected in Tax Rate Statement	Actual/Projected	As Projected in Tax Rate Statement	Actual/Projected
Estimated Tax Rate in FY Following Issuance of 1st Series of Bonds	\$23.43 FY 1998-99	\$24.42 FY 1998-99	\$47.53 FY 2004-05	\$30.01 FY 2003-04	\$21.93 FY 2005-06	\$12.33 FY 2005-06	\$5.74 FY 2006-07	\$3.45 FY 2006-07	\$0.00 FY 2010-11	\$2.73 FY 2016-17
Estimated Maximum Tax Rate Year it Occurs	\$67.36 FY 2013-14	\$50.55 FY 2004-05	\$59.38 2027	\$46.46 FY 2012-13	\$60.00 FY 2011-12	\$52.37 FY 2010-11	\$60.00 FY 2012-13	\$53.23 FY 2010-11	\$60.00 FY 2019-20	\$60.00 FY 2028-29
Current Tax Rate (2016-17)		\$25.03		\$37.70		\$34.12		\$31.52		\$2.73

Chart 4
Tax Rates by Bond Measure per \$100,000 of Assessed Valuation



SECTION II: CERTIFICATES OF PARTICIPATION (“COPs”)

A. COPs Outstanding

Over the years, the District has issued COPs to fund a variety of capital projects needed either prior to the voter approval of GO measures or that were not eligible for GO funding, including the construction of non-school facilities, equipment, and certain IT systems. While all COPs are legally secured by the District’s General Fund, debt service on certain COPs has been eligible to be repaid from other revenue sources. The District has strived to maximize the portion of its COPs debt service that is paid from non-General Fund sources, including using developer fees for debt service on projects related to enrollment growth or overcrowding and using cafeteria funds for cafeteria-related projects. The District has also prepaid COPs when possible with GO bond proceeds and other available funds, as described in the following Section B.

Table 6 provides a listing of the District’s outstanding COPs. All of the District’s outstanding COPs were issued as fixed rate financings. As of June 30, 2016, a total of \$266.1 million of COPs were outstanding, net of defeased COPs. The debt service requirements on outstanding COPs can be found in Appendix 2.

Table 6
Certificates of Participation Outstanding
(As of June 30, 2016)

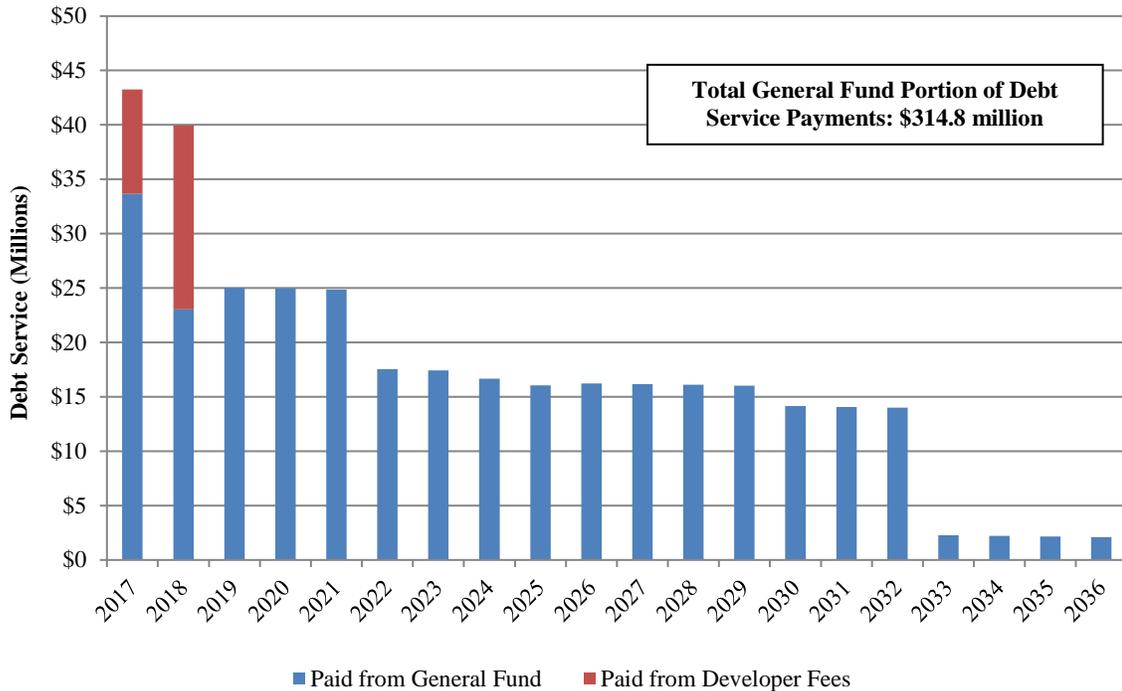
Issue Description	Date of Issue	Principal Amount Issued (thousands)	Principal Outstanding (June 30, 2016) (thousands)	Original Final Maturity
COPs (Qualified Zone Academy Bonds) Series 2005 (taxable) ¹	12/13/2005	\$ 10,000	\$ 10,000	12/13/2020
COPs (Information Technology Projects), 2007 Series A ²	11/15/2007	99,660	16,041	10/01/2017
COPs Refunding (Multiple Properties Project), 2010 Series A	01/27/2010	69,685	25,035	12/01/2017
COPs (Federally Taxable Direct Pay Build America Bonds, Capital Projects I), 2010 Series B-1	12/21/2010	21,615	21,615	12/01/2035
COPs (Tax-Exempt, Capital Projects I), 2010 Series B-2	12/21/2010	61,730	33,605	12/01/2020
COPs (Refunding Headquarters Building Projects), 2012 Series A	06/12/2012	87,845	68,270	10/01/2031
COPs (Refunding Headquarters Building Projects), 2012 Series B	06/12/2012	72,345	70,925	10/01/2031
Series 2013A (Refunding Lease)	06/24/2013	24,780	20,640	08/01/2028
Total		\$ 447,660	\$ 266,131	

¹ The Series 2005 COPs do not carry interest payments; instead, the purchaser receives a tax credit. The guaranteed investment contract (GIC) used for part of the defeasance on the 2005 COPs was terminated in August 2008 due to the rating downgrade of the GIC provider. A portion of the base rental payments in the amount of \$6.6 million has been set aside such that the net amount due by the District as of June 30, 2016 was approximately \$3.4 million. The District may need to contribute more funds to redeem the 2005 Qualified Zone Academy Bonds, depending upon the amount of ongoing investment returns.

² \$16.2 million and \$12.7 million of General Obligation Bond proceeds were used to partially defease these COPs in September 2010 and August 2014, respectively.

Chart 5 shows COPs debt service as of the close of Fiscal Year 2015-16. Debt service payments from the General Fund total \$315 million through the final maturity of the COPs, before deducting the federal subsidies expected to be received and applied toward the debt service requirements for the 2010 Series B-1 COPs that were issued as BABs.

Chart 5
Certificates of Participation Debt Service
(As of June 30, 2016)



B. COPs Refundings

As noted previously, the District relied on COPs in part to finance school facilities prior to the voter approval of its GO bond measures. Following voter approval, in Fiscal Years 2004-05 and 2005-06, the District used Measure R and Measure Y bond proceeds to defease \$143.42 million and \$177.95 million of COPs, respectively, providing direct General Fund savings. Similarly, in September 2010 and August 2014, the District used Measure Y bond proceeds, unspent project funds and other funds on hand with the COPs trustee to defease and/or prepay debt service payments on the 2007 Series A and 2009 Series A COPs relating to \$63.45 million of principal. The District has also used other available amounts such as one-time funds and shifted certain debt service payments to non-General Fund sources such as developer fees to reduce its General Fund COPs debt service.

Table 7 below presents a history of the District's COPs refundings.

Table 7
Los Angeles Unified School District
Summary of COPs Refundings

Issue Description	Date of Issue	Principal Amount Issued (thousands)	Refunded COPs	Term of Refunding COPs (Years)	Nominal Savings (thousands)
1991 Refunding COPs (Francisco Bravo Medical Magnet Senior High School)	11/13/91	\$46,110	1988 COPs	16.0	\$1,609.4
1993 Refunding COPs ¹	11/15/93	69,925	1991 COPs	20.0	N/A
1998A Refunding COPs (Multiple Properties Project)	06/10/98	60,805	1993 Refunding COPs	16.0	\$3,076.7
2002A Refunding COPs (Francisco Bravo Medical Magnet Senior High School)	03/06/02	21,655	1991 Refunding COPs	6.5	\$6,755.2
2004A&B Refunding COPs (Refinancing Project I and Refunding Project I)	05/24/05	57,625	Portions of 2000A, 2001B, 2001C, 2002B, 2002C, 2003A and 2003B COPs	7.0	N/A
2004A, B and D General Obligation Bonds (Measure R) ²	09/23/04	150,000	2000B and 2002B COPs	5.0	\$155,836.3
2005A Refunding COPs (Administration Building Project) ³	05/24/05	86,525	2001C COPs	20.0	N/A
2005C Refunding COPs (Multiple Properties Project) ⁴	05/24/05	44,225	1996 COPs	26.0	\$(8,922.4)
2006A, B and D General Obligation Bonds (Measure Y) ²	02/22/06	184,385	2002A, 2003A and 2004 COPs	15.5	\$215,741.9
2008A&B Variable Rate Refunding COPs ⁵	08/06/08	120,950	2005A&B COPs	23.0	N/A
2010A Refunding COPs (Multiple Properties Project) ⁶	01/27/10	69,685	1997A and 1998A COPs	8.0	N/A
2012 A&B Refunding COPs (Administration Building Projects) ⁷	6/12/12	160,190	2001B, 2002C, 2008 A & B COPs	20.0	\$4,066.0
2013 Refunding Lease	06/24/13	24,780	2003B COPs	15.0	\$4,822.1
2014K General Obligation Bonds (Measure Y) ²	08/19/14	33,360	2007A and 2009A	5.5	\$35,338.6
				Total	\$418,323.8

¹ The 1993 Refunding COPs refunded the 1991 COPs (Capital Facilities Project) that funded the acquisition of the Ambassador Hotel site through eminent domain. The legal documents for the 1991 COPs provided that said COPs would be refunded within 3 years if title to the Ambassador Hotel site had not been obtained. Since title had not been obtained by the three year mark, the District refunded the 1991 COPs. There were no savings associated with this refunding, as the transaction was done as a restructuring.

² These GO bonds shifted the COPs debt service from the District's General Fund to taxpayers, thereby saving General Fund resources.

³ This series converted a prior fixed rate series to a variable rate structure. The District has indicated the savings for this transaction to be "not available" because future variable rates and ancillary costs could not be known with certainty at the time of the refunding and this table is meant to provide only actual savings.

⁴ The amortization of this series was 20 years versus the 12 year amortization of the refunded bonds, resulting in dissavings in the out years.

⁵ These series changed the variable rate structure from variable rate bonds secured with a line of credit and bond insurance to variable rate bonds secured by a letter of credit. Thus, no estimates of any savings were prepared at the time of the transaction, as the transaction was more a restructuring than a transaction designed to achieve savings.

⁶ These series changed the refunded COPs' variable rate structure to a fixed rate structure. Savings are considered "not available" on the variable to fixed rate series because future variable rates and ancillary costs could not be known with certainty at the time of the refunding. This table is meant to provide only actual savings.

⁷ These series converted two prior variable rate series (2008A and B) to a fixed-rate structure and refunded two fixed rate series. The savings shown in the table are only the known savings from the fixed-rate refunding of the two prior fixed rate series (the 2001B and 2002C). Savings are considered "not available" on the variable to fixed rate series because future variable rates and ancillary costs could not be known with certainty at the time of the refunding. This table is meant to provide only actual savings.

SECTION III: THE MARKET FOR THE DISTRICT’S DEBT

A. Municipal Bond Market

The District’s GO 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 tax-exempt bond funds, insurance companies, investment bank portfolios, trust departments, investment advisors, individual investors, and money market funds. The various market participants may have different 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 these investor groups. The table to the right is a listing of the largest institutional holders of the District’s long-term bonds that are required to publicly report their holdings. These generally include bond funds, professional retail investors such separately managed accounts and insurance companies.

**Largest Institutional Investors (GOs and COPs)
Los Angeles Unified School District**

Company	Thousands
Vanguard	\$1,265,089
Franklin Templeton	255,455
Wellington Management Company	206,124
Dodge & Cox	198,204
BlackRock Fund Advisors	132,606
Nuveen Asset Management	127,755
Alliance Bernstein	116,875
PIMCO	114,822
Prudential Investments	90,411
Guggenheim Partners Asset Management	89,107
Metropolitan Life Insurance	76,720
BlackRock Financial Management	74,887
Babson Capital Market	73,525
J.P. Morgan Investment Management	64,097
Mason Street Advisors	63,650
AIG Asset Management	60,883
John Hancock Financial Services	60,625
Goldman Sachs Asset Management	59,456
American Century Investment Management	57,510
TIAA Global Asset Management	55,275

**As of December 6, 2016

The District’s borrowing costs reflect the interest rates the District achieves each time it sells bonds. Those rates are a function of many factors, including the credit ratings on the District’s obligations, market interest rate levels, competing supply, investor asset levels and anticipated Federal Reserve policy actions at the time of sale. These factors combine to determine the level of investor demand for the District’s obligations and the interest rates achieved. For the District’s voter approved general obligation bonds, an important credit factor is the fact the repayment of the bonds is from property taxes collected and held in trust by the County of Los Angeles. In addition, particularly on the COPs, an important determinant of the rates of return investors demand is their perception of the District’s overall financial, debt and economic performance compared to other issuers. The investment community has historically viewed both the District’s GOs and COPs as high quality investment grade securities, owing to the repayment source for the GOs as well as the District’s financial position, vast local economy, and pristine debt service payment track record.

In addition to the federal tax-exemption available to all investors, the State's progressive income tax system provides in-state investors with additional incentives to purchase the District’s tax-exempt GO bonds and COPs. However, the interest rates on the District’s and other local government issuers’ bonds in California have also been subject to the State’s fiscal position. Investor perception of the State’s bonds had weakened significantly over a multi-year period beginning in 2009 due to the State’s credit deterioration. During this period, the State's credit was downgraded by the three major rating agencies to the lowest level of any state in the country and its borrowing costs relative to other issuers rose dramatically. While not as dramatic, the State’s credit issues had a direct impact on the borrowing costs of other issuers that were 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. Over the last five years, however, the State’s credit profile and credit ratings improved significantly. The Legislature has passed on-time balanced budgets for the last several years and the administration has repaid a significant portion of its budgetary borrowings. As a result, the State’s credit ratings have improved and its interest rates relative to national indices have improved dramatically. The

State's improvement has in turn had a positive effect on interest rates for other California issuers associated with the State, including the District.

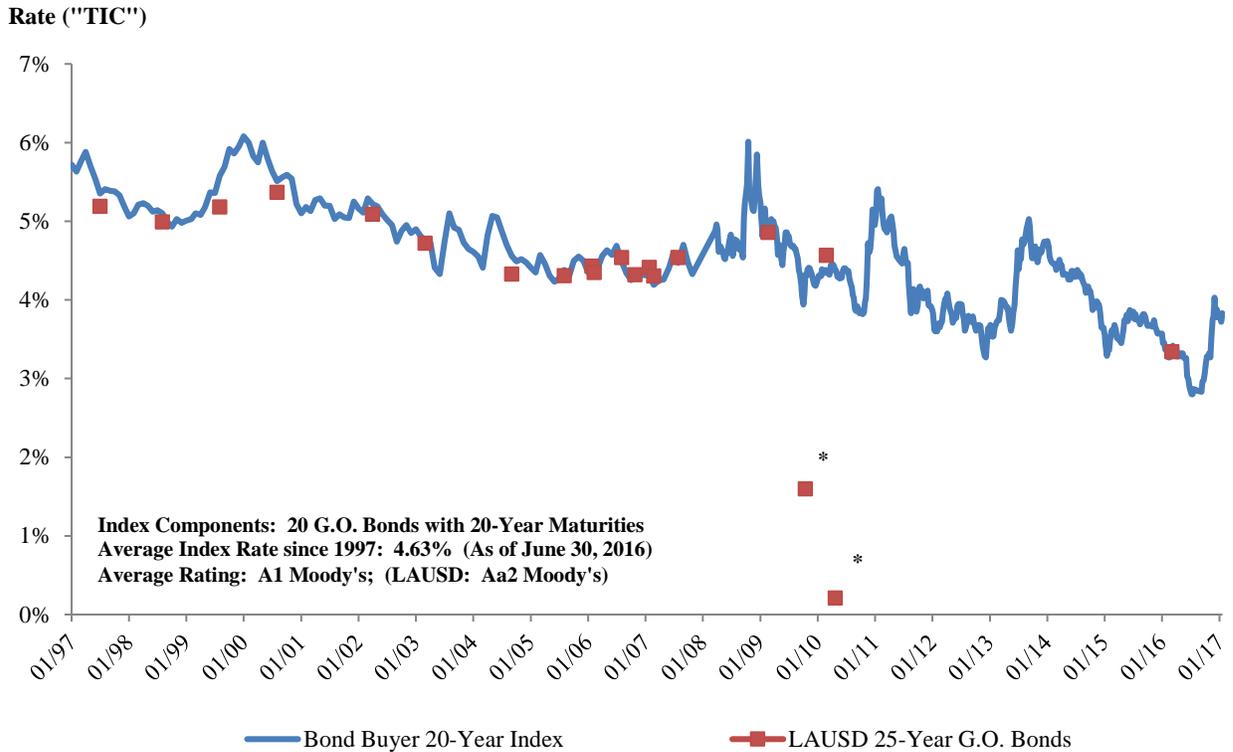
The District's interest rates are also subject to the broader financial market conditions. This was particularly apparent during the financial crisis. During the financial crisis, there were periods when market access became very restricted and certain municipal products failed. While some products that had been common in the municipal market, such as auction rate securities and AAA-rated bond insurance, are no longer available, the municipal market has recovered and has been very strong, with low interest rates as described further below.

B. Cost of the District's Debt; No Variable Rate Debt Outstanding

B-1. Fixed Rate Debt

All of the District's General Obligation Bond and 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 costs on its General Obligation Bonds, as shown in Chart 6. The chart includes the Bond Buyer 20-Bond Index consists of 20 General Obligation Bonds that mature in 20 years. The average rating of the 20 bonds is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp.'s AA. The District's bonds have a term to maturity of 25 years so, *ceteris paribus*, one would expect their true interest costs ("TICs") to be above the Index; however, yields on the District's issues tend to be similar to the Index. In addition, the District's TICs on its two QSCB issues in 2009 and 2010 were well below the Index due to the heavily subsidized interest rate provided under the QSCB program. A listing of the TICs for each series of 25-year General Obligation Bonds sold by the District is provided in Appendix 1-A.

Chart 6
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



* The two low TIC outliers are the Election of 2005, Series H (2009) and Series J (2010) Qualified School Construction Bonds (Tax Credit 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 *ad valorem* property tax levies. Thus, with the vast majority of the District’s debt necessarily being issued as fixed rate bonds, the District has looked to COPs from time to time to achieve debt portfolio diversification in the form of variable rate COPs. As of June 30, 2016, however, the District has no outstanding variable rate COPs.

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.

In July 2015, the California legislature enacted Senate Bill 222 (“SB222”) which became effective on January 1, 2016. SB222 established a statutory lien in the voter-approved property taxes that secure California school districts’ General Obligation Bonds. For the March 1, 2016 GO bond sale, LAUSD capitalized on the legislative change and pursued ratings from two different rating agencies, Fitch Ratings (“Fitch”) and Kroll Bond Rating Agency (“KBRA”), in addition to Moody’s Investors Services (“Moody’s”) that has traditionally rated the District’s GOs. The District received ratings of AAA from Fitch, AA+ from Kroll, and Aa2 from Moody’s. Fitch also provided the District with an Issuer Default Rating (“IDR”) of A+ which is based on the District’s financial operations. The distinction between the “AAA” rating on the GO Bonds and the A+ IDR reflects Fitch’s assessment that the GO bondholders are “legally insulated from any operating risk of the District”. GO Bonds issued prior to Fiscal Year 2015-16 have outstanding ratings of AA- by Standard & Poor’s (S&P).

The District’s General Obligation Bond ratings are considered “best quality” and “high quality” investment grade ratings depending on the rating agency as shown in Table 8. The District’s COPs are currently rated in the “upper medium grade” category as A1 and A+, respectively by Moody’s and S&P. Fitch and Kroll do not rate the District’s outstanding COPs. 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. All rating agencies currently assign an outlook of “Stable” to the District’s ratings through the reporting period.

Table 8				
Credit Ratings				
(District’s GO Bond Ratings Highlighted in Red)				
(District’s COPs Ratings Highlighted in Blue)¹				
	Moody’s	Fitch	KBRA	S&P
Best Quality	Aaa	AAA	AAA	AAA
High Quality	Aa1	AA+	AA+	AA+
	Aa2	AA	AA	AA
	Aa3	AA-	AA-	AA-
Upper Medium Grade	A1	A+	A+	A+
	A2	A	A	A
	A3	A-	A-	A-
Medium Grade	Baa1	BBB+	BBB+	BBB+
	Baa2	BBB	BBB	BBB
	Baa3	BBB-	BBB-	BBB-
Below Investment Grade	Ba1	BB+	BB+	BB+
	and Lower	and Lower	and Lower	and Lower
S&P rates COPs one notch lower than the rating on General Obligation Bonds, whereas Moody’s rates COPs two notches lower than the rating on General Obligation Bonds.				

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 Policy also stipulates that the fund balance be categorized into five separate components,

namely, non-spendable, restricted, committed, assigned, and unassigned fund balance. A history of the District's General Obligation Bond and COPs ratings is presented in Appendix 3.

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

The District monitors General Fund cash flows each month as part of its cash management program's policy of ensuring timely payment of all operational expenses. It issued tax and revenue anticipation notes each fiscal year from Fiscal Year 1991-92 through Fiscal Year 2012-13 to finance periodic cash flow deficits and manage its cash flow needs. The District has always received the highest possible short-term ratings from Moody's (MIG 1) and S&P (SP-1+) on its TRANs and has always timely repaid its TRANs. The District has not issued TRANs since Fiscal Year 2012-13 due to the State increasing its funding of school districts and reducing its cash deferrals and the District's financial management.

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 calculates certain debt factors and debt burden ratios, compares them to benchmarks, and reports 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 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. Such conversions were recommended and executed in Fiscal Year 2011-12.
- 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 the District's taxpayers and serve as proxies for taxpayer capacity to take on additional debt in the future. A summary of overlapping debt in the District is set forth in Appendix 4.
- Ratio of Outstanding Debt Per Capita. The formula for this computation is Outstanding Debt divided by the population residing within the District's boundaries. Ratios are computed for both "Direct Debt Per Capita" and "Overall Debt Per Capita." It is important to monitor these ratios as they attempt to measure the degree to which debt is concentrated, i.e. whether it is spread across a large or small population. It

should be noted that no official population data is collected at the District level, but the District uses estimates of its population in the per capita ratios.

The District’s ratios and benchmark targets are provided in Tables 9 and 10.

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

Table 9 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 annual debt service to be no more than 2 – 2 ½ % of General Fund Expenditures. In addition, the Board imposed an even more restrictive COPs annual debt service ceiling of \$105.0 million in 2004. Fiscal year 2015-16 COPs debt service was \$43.3 million and future maximum annual COPs debt service is currently \$43.2 million. The District’s actual performance is well within the policy targets and ceilings for its COPs gross debt service and any unhedged variable rate obligations.

**Table 9
Policy Benchmarks, Targets and Ceilings for Debt Paid
From General Fund or Other Resources (COPs)
(As of June 30, 2016)**

Factor	Benchmark/Target	Ceiling	LAUSD Actual	Over (Under) Policy Ceiling
Maximum COPs Gross Debt Service Limit (percentage)	2% of General Funds Expenditures (FY2015-16)	2.5% of General Funds Expenditures	0.65%	(1.85%)
Maximum COPs Gross Debt Service Limit (\$ million)	Not applicable	\$105.0	\$43.2	(\$61.8)
Unhedged Variable Rate Debt as % of Total COPs Debt		20%	0%	(20%)

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 10 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 10 and the large size of the District’s bonding program relative to other large school districts, the District’s debt burden ratios are not unexpectedly higher than most of the benchmarks. Nevertheless, the District believes the “large, highly-rated” school district cohort to be the most appropriate cohort group against which it should be compared.

Table 10
Policy Benchmarks for District's Direct and Overall Debt¹
(As of June 30, 2016)

Debt Burden Ratio	Benchmark	Benchmark's Value	LAUSD Actual
Direct Debt to Assessed Value	Moody's Median for Aa Rated School Districts With Student Population Above 200,000	1.20%	1.83%
	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	3.10%	3.23%
	Standard & Poor's Mean for AA Rated School Districts With Student Population Above 150,000	3.20%	
Direct Debt Per Capita	Standard & Poor's Median for AA Rated School Districts With Student Population Above 150,000	\$736	\$2,205
	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	\$3,885
	Standard & Poor's Mean for AA Rated School Districts With Student Population Above 150,000	\$2,639	

¹ Benchmarks pulled from Moody's 2016 US Local Government Medians – Growing Tax Bases and Stable Fund Balances Support Sector's Stability article on March 17, 2016 and Standard and Poor's Public Finance Criteria: Ratios and GO Credit Ratings from April 23, 2003.

APPENDIX 1-A

Los Angeles Unified School District General Obligation Bond Issuance and True Interest Cost As of June 30, 2016¹

Continued on the Following Page

Bond Issue	Date of Issue	Principal Amount Issued (thousands)	Outstanding Principal (thousands)	True Interest Cost (%)
Proposition BB Series A	7/22/97	\$356,000	\$0	5.19%
Proposition BB Series B	8/25/98	350,000	0	4.99%
Proposition BB Series C	8/10/99	300,000	0	5.18%
Proposition BB Series D	8/03/00	386,655	0	5.37%
Proposition BB Series E	4/11/02	500,000	0	5.09%
Proposition BB Series F	3/13/03	507,345	0	4.43%
Measure K Series A	3/05/03	2,100,000	0	4.75%
Measure K Series B	2/22/07	500,000	242,540	4.31%
Measure K Series C	8/16/07	150,000	62,565	4.86%
Measure K Series D	2/19/09	250,000	208,195	4.82%
Measure R Series A (5 year maturity)	9/23/04	72,630	0	2.28%
Measure R Series B (5 year maturity)	9/23/04	60,475	0	2.24%
Measure R Series C	9/23/04	50,000	0	4.33%
Measure R Series D	9/23/04	16,895	0	4.33%
Measure R, Series E	8/10/05	400,000	0	4.36%
Measure R, Series F	2/16/06	500,000	17,270	4.21%
Measure R, Series G	8/17/06	400,000	12,445	4.55%
Measure R, Series H	8/16/07	550,000	228,850	4.86%
Measure R, Series I	2/19/09	550,000	439,585	4.82%
Measure R, Series J	8/19/14	68,170	36,355	0.51%
Measure R, Series K	8/19/14	7,045	3,695	0.88%
Measure Y, Series A	2/22/06	56,785	820	3.72%
Measure Y, Series B	2/22/06	80,200	1,035	3.85%
Measure Y, Series C	2/22/06	210,000	6,595	4.15%
Measure Y, Series D (taxable)	2/22/06	47,400	0	5.18%
Measure Y, Series E	8/16/07	300,000	125,960	4.86%
Measure Y, Series F	2/19/09	150,000	125,320	4.82%
Measure Y, Series G	10/15/09	5,615	0	3.11%
Measure Y, Series H	10/15/09	318,800	318,800	1.60%
Measure Y, Series I	3/04/10	3,795	0	4.57%
Measure Y, Series J-1 (QSCB)	5/06/10	190,195	190,195	0.21%
Measure Y, Series J-2 (QSCB)	5/06/10	100,000	100,000	0.21%
Measure Y, Series K	8/19/14	35,465	22,990	0.84%
Measure Y, Series L	8/19/14	25,150	13,205	0.88%
Measure Q, Series A	04/05/16	648,955	648,955	2.87%
Series KRY (Tax Exempt) (2009)	10/15/09	205,785	72,580	2.53%
Series KRY (BABs) (2009)	10/15/09	1,369,800	1,369,800	3.73%
Series KRY (Tax Exempt) (2010)	3/04/10	478,575	432,865	4.57%
Series RY (BABs) (2010)	3/04/10	1,250,585	1,250,585	4.44%
Series KY (2010)	5/06/10	159,495	55,405	2.46%

Continued from the Previous Page

Bond Issue	Date of Issue	Principal Amount Issued (thousands)	Outstanding Principal (thousands)	True Interest Cost (%)
2002 General Obligation Refunding Bonds	4/17/02	\$258,375	\$58,280	4.94%
2004 General Obligation Refunding Bonds, Series A-1	12/21/04	90,740	0	4.13%
2004 General Obligation Refunding Bonds, Series A-2	12/21/04	128,385	0	4.38%
2005 General Obligation Refunding Bonds, Series A-1	7/20/05	346,750	72,720	4.17%
2005 General Obligation Refunding Bonds, Series A-2	7/20/05	120,925	14,790	4.22%
2006 General Obligation Refunding Bonds, Series A	2/22/06	132,325	0	4.07%
2006 General Obligation Refunding Bonds, Series B	11/15/06	574,905	63,955	4.32%
2007 General Obligation Refunding Bonds, Series A-1	1/31/07	1,153,195	1,118,785	4.41%
2007 General Obligation Refunding Bonds, Series A-2	1/31/07	136,055	136,055	4.41%
2007 General Obligation Refunding Bonds, Series B	2/22/07	24,845	24,650	4.12%
2009 General Obligation Refunding Bonds, Series A	10/15/09	74,765	24,235	2.53%
2010 General Obligation Refunding Bonds, Series A	3/04/10	74,995	0	4.57%
2011 General Obligation Refunding Bonds, Series A-1	11/1/11	206,735	166,710	2.75%
2011 General Obligation Refunding Bonds, Series A-2	11/1/11	201,070	152,770	2.71%
2012 General Obligation Refunding Bonds, Series A	5/8/12	156,000	140,445	2.75%
2014 General Obligation Refunding Bonds, Series A	6/26/14	196,850	178,330	1.49%
2014 General Obligation Refunding Bonds, Series B	6/26/14	323,170	323,170	1.96%
2014 General Obligation Refunding Bonds, Series C	6/26/14	948,795	947,240	2.97%
2014 General Obligation Refunding Bonds, Series D	6/26/14	153,385	153,385	2.60%
2015 General Obligation Refunding Bonds, Series A	5/28/15	326,045	318,085	1.87%
2016 General Obligation Refunding Bonds, Series A	4/05/16	577,400	577,400	2.87%
Total		\$19,917,525	\$10,457,615	

¹ Subsequent to the reporting period for this Debt Report, on August 18, 2016, the District sold \$500,855,000 of 2016 General Obligation Bonds, Series B. These bonds closed on September 15, 2016. The TIC on the 16-year refunding bonds was 2.28%.

APPENDIX 1-B

**Los Angeles Unified School District
Outstanding Debt Service Payments on General Obligation Bonds
As of June 30, 2016^{1, 2}**

Fiscal Year Ending June 30	Election of 1997 (Prop BB)	Election of 2002 (Measure K) ³	Election of 2004 (Measure R)	Election of 2005 (Measure Y)	Election of 2008 (Measure Q)	Aggregate Fiscal Year Debt Service
2017	\$ 156,373,667	\$ 234,740,282	\$ 241,959,343	\$ 242,813,419	\$ 21,590,500	\$ 897,477,211
2018	151,632,499	232,022,628	229,156,928	237,300,253	44,279,100	894,391,408
2019	155,493,997	245,881,225	229,634,161	246,946,797	44,257,600	922,213,779
2020	150,288,974	249,959,460	237,587,736	235,045,059	44,236,600	917,117,829
2021	148,947,337	258,698,346	236,044,461	236,873,716	44,392,850	924,956,711
2022	153,981,775	267,155,421	223,198,061	241,614,297	44,296,425	930,245,979
2023	149,354,838	288,426,971	230,591,161	244,418,922	44,280,125	957,072,017
2024	150,282,400	283,487,528	225,960,867	247,909,222	44,263,825	951,903,842
2025	128,133,481	296,785,246	232,269,405	252,161,803	44,147,650	953,497,586
2026	77,349,331	303,862,090	233,006,899	252,081,944	44,121,025	910,421,289
2027	41,700,450	311,278,046	238,529,824	288,644,172	44,091,400	924,243,892
2028	24,500,969	319,246,296	261,774,504	252,363,364	44,066,025	901,951,159
2029	0	98,572,127	277,372,225	254,114,228	44,032,150	674,090,729
2030	0	100,880,330	225,936,869	316,922,186	44,001,900	687,741,285
2031	0	103,119,354	230,157,219	325,198,633	43,967,150	702,442,356
2032	0	105,331,488	274,721,792	293,543,138	43,934,650	717,531,067
2033	0	107,459,428	280,201,635	295,763,138	43,896,025	727,320,225
2034	0	109,248,855	283,087,350	297,497,039	44,018,425	733,851,669
2035	0	110,781,725	285,204,118	298,771,392	43,997,425	738,754,660
2036	0	0	0	0	43,968,925	43,968,925
2037	0	0	0	0	44,031,288	44,031,288
2038	0	0	0	0	43,822,250	43,822,250
2039	0	0	0	0	43,777,250	43,777,250
2040	0	0	0	0	43,736,000	43,736,000
2041	0	0	0	0	43,689,125	43,689,125
Total	\$1,488,039,718	\$4,026,936,845	\$4,676,394,558	\$5,059,982,721	\$1,078,895,687	\$16,330,249,529

¹ Subsequent to the reporting period for this Debt Report, on August 18, 2016, the District sold \$500,855,00 of 2016 General Obligation Refunding Bonds, Series B. These bonds closed on September 15, 2016.

² Includes refunding bonds and excludes refunded bonds with respect to the particular bond authorization.

³ Includes QSCB Sinking Fund Payments, but does not include BABs or QSCB Subsidies.

APPENDIX 1-C

Los Angeles Unified School District Debt Service Requirements on General Obligation Bonds After Delivery of Additional Bonds on September 15, 2016^{1, 2}

Fiscal Year Ending June 30	Election of 1997 (Prop. BB)	Election of 2002 (Measure K) ³	Election of 2004 (Measure R)	Election of 2005 (Measure Y)	Election of 2008 (Measure Q)	Aggregate Fiscal Year Debt Service
2017	\$ 26,580,702	\$ 61,476,304	\$ 84,458,806	\$ 93,919,884	\$ 14,610,113	\$ 281,045,808
2018	151,632,499	229,430,253	226,109,578	235,844,753	44,279,100	887,296,183
2019	155,493,997	243,101,898	226,586,811	245,491,297	44,257,600	914,931,603
2020	150,288,974	247,346,935	234,540,386	233,589,559	44,236,600	910,002,454
2021	148,947,337	256,085,821	232,997,111	235,418,216	44,392,850	917,842,336
2022	153,981,775	264,542,896	220,150,711	240,158,797	44,296,425	923,130,604
2023	149,354,838	285,814,446	227,543,811	242,963,422	44,280,125	949,956,642
2024	150,282,400	280,875,003	222,913,517	246,453,722	44,263,825	944,788,467
2025	128,133,481	294,172,721	229,222,055	250,706,303	44,147,650	946,382,211
2026	77,349,331	297,333,304	229,959,549	250,626,444	44,121,025	899,389,653
2027	41,700,450	304,739,356	235,482,474	287,188,672	44,091,400	913,202,351
2028	24,500,969	312,039,656	256,344,535	249,505,807	44,066,025	886,456,992
2029	0	91,349,565	271,929,688	251,229,357	44,032,150	658,540,760
2030	0	94,375,619	221,098,625	314,363,958	44,001,900	673,840,102
2031	0	95,893,929	224,724,609	322,310,594	43,967,150	686,896,281
2032	0	98,610,487	269,717,718	290,892,316	43,934,650	703,155,171
2033	0	106,097,815	275,223,046	293,119,640	43,896,025	718,336,526
2034	0	109,248,855	283,087,350	297,497,039	44,018,425	733,851,669
2035	0	110,781,725	285,204,118	298,771,392	43,997,425	738,754,660
2036	0	0	0	0	43,968,925	43,968,925
2037	0	0	0	0	44,031,288	44,031,288
2038	0	0	0	0	43,822,250	43,822,250
2039	0	0	0	0	43,777,250	43,777,250
2040	0	0	0	0	43,736,000	43,736,000
2041	0	0	0	0	43,689,125	43,689,125
Total	\$1,358,246,753	\$3,783,316,587	\$4,457,294,499	\$4,880,051,171	\$1,071,915,300	\$ 15,550,824,310

¹ Subsequent to the reporting period for this Debt Report, on August 18, 2016, the District sold \$500,855,000 of 2016 General Obligation Refunding Bonds, Series B. These bonds closed on September 15, 2016.

² Includes refunding bonds and excludes refunded bonds with respect to the particular bond authorization.

³ Includes QSCB Sinking Fund Payments, but does not include BABs or QSCB Subsidies.

APPENDIX 2

**Los Angeles Unified School District
Certificates of Participation Lease Obligations Debt Service Schedule¹
As of June 30, 2016**

Fiscal Year Ending	Paid from General Fund ² (thousands)	Paid from Developer Fees ³ (thousands)	Fiscal Year Total Debt Service (thousands)
06/30/2017	\$ 33,672	\$ 9,575	\$ 43,247
06/30/2018	23,052	16,886	39,938
06/30/2019	25,043	0	25,043
06/30/2020	24,955	0	24,955
06/30/2021	24,864	0	24,864
06/30/2022	17,532	0	17,532
06/30/2023	17,429	0	17,429
06/30/2024	16,668	0	16,668
06/30/2025	16,048	0	16,048
06/30/2026	16,218	0	16,218
06/30/2027	16,163	0	16,163
06/30/2028	16,112	0	16,112
06/30/2029	16,037	0	16,037
06/30/2030	14,147	0	14,147
06/30/2031	14,073	0	14,073
06/30/2032	14,001	0	14,001
06/30/2033	2,277	0	2,277
06/30/2034	2,222	0	2,222
06/30/2035	2,169	0	2,169
06/30/2036	2,108	0	2,108
Total⁴	\$ 314,791	\$ 28,461	\$ 341,252

¹ The lease payments reflect the net obligations of the District due to the defeasance of certain COPs.

² Does not assume receipt of a direct cash subsidy payment from the United States Department of Treasury for certain series of these COPs; includes QSCB set-asides

³ Developer fees are used to satisfy debt service payments on a portion of the District's outstanding lease obligations. The General Fund is obligated to pay these obligations in the event that there are insufficient developer fees, subject to the terms of the lease. The District expects to pay a portion of the final debt service for Fiscal Year 2017-18 with a combination of funds from developer fees and funds released from the debt service reserve fund on the maturity date as required under the legal documents for these COPs. To date, such developer fees have been and are expected to continue to be sufficient to pay these lease obligations as and when due.

⁴ Totals may not equal sum of component parts due to rounding.

APPENDIX 3

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

Fiscal Years	General Obligation Bonds				Certificates of Participation		
	Moody's	Fitch	KBRA	S&P	Moody's	Fitch	S&P
1988-1989	Aa2	Not rated	Not rated	AA	A1	Not rated	A+
1990-1992	Aa2	AA	Not rated	AA	A1	A+	A+
1992-1993	A1	AA	Not rated	AA-	A2	A+	A
1994-1995	A1	AA-	Not rated	AA-	A2	A	A
1996-1998	Aa3	AA-	Not rated	AA-	A2	A	A
1999-2000	Aa3	AA	Not rated	AA-	A2	A+	A
2001 ¹ -2002	Aa3	AA	Not rated	AA-	A2	A+	A+
2002-2003	Aa3	AA-	Not rated	AA-	A2	A	A+
2004-2005	Aa3	A+	Not rated	AA-	A2	A-	A+
2006 ² -2008	Aa3	A+	Not rated	AA-	A2	A	A+
2008-2009 ³	Aa3	Not rated	Not rated	AA-	A2	Not rated	A+
2009- 2015 ⁴	Aa2	Not rated	Not rated	AA-	A1	Not rated	A+
2016 ⁵	Aa2	AAA	AA+	AA-	A1	Not rated	A+

¹ 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

² 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.

³ The District requested withdrawal of all Fitch Ratings in September, 2009.

⁴ Moody's implemented a migration of its rating scale that resulted in the indicated changes to the District's ratings on April 20, 2010.

⁵ In July 2015, the California legislature enacted Senate Bill 222 ("SB222") which became effective on January 1, 2016. SB222 established a statutory lien in the voter-approved property taxes that secure California school districts' General Obligation Bonds. LAUSD capitalized on the legislative change and pursued ratings from two different rating agencies, Fitch Ratings ("Fitch") and Kroll Bond Rating Agency ("KBRA"), in addition to Moody's Investors Services ("Moody's") that has traditionally rated the District's GOs.

APPENDIX 4

Los Angeles Unified School District Statement of Overlapping Debt As of June 30, 2016

Overlapping Debt Obligations

Set forth on the following page is the report prepared by California Municipal Statistics Inc. which provides information with respect to direct and overlapping debt within the District as of June 30, 2016 (the "Overlapping Debt Report"). The Overlapping Debt Report is included for general information purposes only. The District has not reviewed the Overlapping Debt Report for completeness or accuracy and makes no representations in connection therewith. The Overlapping Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the District. Such long-term obligations generally are not payable from revenues of the District (except as indicated) nor are they necessarily obligations secured by land within the District. In many cases, long-term obligations issued by a public agency are payable only from the General Fund or other revenues of such public agency.

The first column in the Overlapping Debt Report names each public agency which has outstanding debt as of the date of the report and whose territory overlaps the District in whole or in part. Column 2 shows the percentage of each overlapping agency's assessed value located within the boundaries of the District. This percentage, multiplied by the total outstanding debt of each overlapping agency (which is not shown in Overlapping Debt Report) produces the amount shown in column 3, which is the apportionment of each overlapping agency's outstanding debt to taxable property in the District.

Los Angeles Unified School District
Schedule of Direct and Overlapping Bonded Debt
Year Ended June 30, 2016
(In thousands)
(Unaudited)

Government	Percentage Applicable	Amount Applicable
Direct:		
Los Angeles Unified School District		
General Obligation Bonds	100.000%	\$10,457,615
Certificates of Participation	100.000	273,805 ¹
		<u>11,015,806</u>
Overlapping ² :		
Los Angeles County General Fund Obligations	44.744	907,861
Los Angeles County Superintendent of Schools Certificates of Participation	44.744	3,555
Los Angeles County Flood Control District	45.630	5,763
Metropolitan Water District	23.163	21,510
Los Angeles Community College District	80.922	2,970,647
Pasadena Area Community College District	0.001	1
City of Los Angeles	99.934	789,863
City of Los Angeles General Fund and Judgment Obligations	99.934	1,640,833
Other City General Fund and Pension Obligation Bonds	Various	247,648
Los Angeles County Sanitation District		
Nos. 1, 2, 4, 5, 8, 9, 16 and 23 Authorities	Various	23,498
Los Angeles County Regional Park & Open Space Assessment District	44.744	22,645
City Community Facilities Districts	100.000	88,305
Other City and Special District 1915 Act Bonds	91.089-100.000	21,734
Other Cities	Various	23,911
Palos Verdes Library District	4.740	59
City of Los Angeles Redevelopment Agency	100.000	502,385
Other Redevelopment Agencies	Various	433,907
Total Overlapping		<u>7,704,123</u>
Total Gross Direct and Overlapping Debt		<u>18,435,545</u> ³
Less:		
Los Angeles Unified School District (amount accumulated in Sinking Fund for repayment of 2005 Qualified Zone Academic Bonds)		13,527
City supported obligations		484
Total Net Direct and Overlapping Debt		<u>\$18,421,534</u>

Source: California Municipal Statistics, Inc. and District records.

¹ The amount shown above includes 2007 COPs portion economically defeased for \$7.7 million.

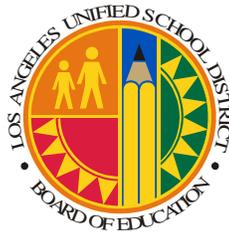
² Generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the District.

³ Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

APPENDIX 5

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

**Los Angeles Unified School District
DEBT MANAGEMENT POLICY**



Prepared by:

The Office of the Chief Financial Officer

January 10, 2017

DEBT MANAGEMENT POLICY

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Background

The policies set forth in this Debt Management Policy (the “Policy”) have been developed to provide guidelines for the issuance of general obligation bonds (“GO Bonds”), certificates of participation (“COPs”) and other lease-backed financings, tax and revenue anticipation notes (“TRANS”) 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 budgetary and financial flexibility.

The District has enjoyed some of the highest credit ratings of any major urban school district in the nation. Prior to the District’s GO Bond sale in March 2016, the District’s General Obligation Bond ratings were Aa2 by Moody’s Investors Service (“Moody’s”) and AA- by Standard & Poor’s Corporation (“S&P”). The District’s COPs have been rated A1 (Moody’s) and A+ (Standard & Poor’s). Following the passage of State Senate Bill 222, which effective January 1, 2016, created a statutory lien in the voter-approved property taxes that secure California school district GOs, some rating agencies modified their methodology. The ratings on the District’s GOs that were sold after SB222 became effective were AAA, AA+ and Aa2 by Fitch Ratings (“Fitch”), Kroll Bond Rating Agency (“KBRA”) and Moody’s, respectively.

High GO credit ratings reduce the interest costs paid by the District on the amounts borrowed, which results in lower property taxes paid by the District’s taxpayers to pay the debt service. Lower interest rates on the COPs reduce the burden on the District’s operating funds. The District’s debt management policies are intended to assist in maintaining the District’s high credit ratings so that access to borrowed funds is provided at the lowest possible interest rates, as well as to provide guidelines for the prudent use and management of debt issued to finance the District’s capital needs. Additionally, these policies set forth selection criteria for financial consultants and attorneys to 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 partners.

The District faces continuing capital infrastructure and cash requirements. In particular, the District is presently engaged in building new schools and modernizing existing 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 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 has seen an increase in its levels of debt and other obligations and needs to anticipate future issuance of debt obligations, some of which may be repaid from the District’s General Fund. With these additional debt issuances, the effects of decisions regarding the 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. In addition, the District’s practices with

respect to monitoring its outstanding debt issues for compliance with all Internal Revenue Service requirements and other transaction requirements are set forth in Appendix A to this Policy.

Article I. **Purpose and Goals**

The purpose of this 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 general obligation bond debt, tax and revenue anticipation notes, and lease financings in a conservative and prudent manner. This Debt Policy is intended to achieve the following policy objectives:

- The District shall strive to fund capital improvements from referendum-approved general obligation bond issues to preserve the availability of its General Fund 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 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 that will negatively impact current credit ratings on existing or future debt issues.
- The District shall remain mindful of its statutory debt limit 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 match 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 the future.
- The District shall, when pursuing the planning goals and objectives for the issuance of new debt, consider the impact of such new debt on overlapping debt of local, state and other governments that 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 contribution from 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 District shall ensure that local and emerging businesses will be considered and used in lead and other roles in the financing team when appropriate.

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

- A. Budget and Finance 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 as part of its Budget and Finance Policy.
- B. Capital Financing Plan: The Office of the Chief Financial Officer will prepare a Capital Financing Plan in conjunction with the capital budget.
- C. Annual Debt Report: The Chief Financial Officer will annually prepare for and submit to the Superintendent and the Board a Debt Report 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. Prior to the sale of any debt issue, including financing leases as provided under State law, the District is required to submit a report of the proposed debt issuance to the California Debt Investment and Advisory Commission (“CDIAC”) that is to include a certification that the District has adopted local debt policies and that the debt issuance is consistent with those local debt policies.

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

- A. Short-Term Debt: 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’s general objective is to 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 funding shorter-term acquisitions, such as equipment, or interim funding for capital costs that will ultimately be replaced with longer-term 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. The District may also issue bond anticipation notes (“BANs”) to provide interim financing for bond projects that will ultimately be paid from general obligation bonds.

- B. Long-Term General Obligation Bonds: GO Bonds may be issued under Article XIII A of the State Constitution, either under Section 1(b)(2) which requires at least a two-thirds majority or Section 1(b)(3) (“Proposition 39”) which requires approval by at least 55% of voters, subject to additional restrictions. 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 voter approval 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. GO debt will not be used to fund District operations.
- C. Lease Financing: Lease obligations, including COPs, lease revenue bonds (“LRBs”) and other lease-purchase financings are a routine and appropriate means of financing capital facilities, including equipment. 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. In particular, lease financing for facilities is appropriate when there is insufficient time to obtain voter approval or in instances where obtaining voter approval is not feasible. If and when voter-approved GO Bond proceeds are available, the District may use such proceeds to refinance such lease financing. The District may issue COPs or LRBs in variable rate mode as provided for in Section 3.08A hereof. The District may use “asset transfer” COPs or LRBs to finance emergency capital needs in accordance with this Debt Policy. Additionally, asset transfer COPs may be used if significant savings in financing costs can be generated compared to other financing alternatives.
- 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 debt ceilings in Section 3.08 of this Policy are not exceeded.
- D. 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.

- E. 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. 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 at a cost effective rate.

- F. 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.

- J. Use of Special Financing Structures: The District may use special financing structures permitted by the federal government if they are analyzed and expected to result in sufficiently lower financing costs versus traditional tax-exempt bonds and/or COPs/LRBs that offset any additional administrative and compliance costs and risks.

- K. Capital Appreciation Debt: The District may use Capital Appreciation Bonds ("CABs") for various forms of debt (e.g., GO Bonds, COPs, LRBs, etc.) pursuant to state law. CABs will not be used unless the Board determines it is necessary to issue them for urgent projects that cannot be more cost-effectively financed by an alternative method.

Section 2.03 **State Law**

Section 18 of Article XVI of the State Constitution provides 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 (including CABs) 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 of Debt Policy**

The Policy shall be reviewed and submitted to the Board for approval separately from the budget at least annually. 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/LRBs, 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:
- a. 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.
 - b. The final maturity of General Obligation Bonds issued under the Government Code will be limited to the shorter of the average useful life of the asset financed or 40 years. Per AB 182, the maturity of the bonds may not exceed 30 years unless there is no compounding of interest.
 - c. General Obligation Bond issues will generally be sized to the amount reasonably expected to be required for up to two years' expenditure requirements.
- ii. Lease-Purchase Obligations: The final maturity of equipment or real property lease obligations will be limited to the useful life of the assets to be financed. The final maturity of real property obligations will also consider the size of the financing.
- 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, 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 structured on a level basis per component financed; however,

principal amortization may occur more quickly or slowly where permissible, to meet debt repayment, tax rate, 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 or LRBs may require that interest on the debt be paid from capitalized interest until the District has use and possession of the pledged asset. 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 advisor 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. The preferred method of sale shall be the competitive method as it is likely to result in the lowest interest cost to the District. All three methods of sale shall be considered for all issuance of debt, however, 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”). A private placement sale is 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 would provide.

Section 3.03 **Markets**

The District shall consider products and conditions in the 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. To assure that the District uses credit enhancement cost-effectively, the Chief Financial Officer will review an economic analysis, by maturity where appropriate, prepared by the financial advisor before selecting which maturities to insure.

The District may undertake certain hedging strategies in connection with its debt issues only if it provides a clear net economic benefit. The credit rating of any counterparty must be at least A+ at the time of the transaction. Authorized strategies include interest rate caps and their variants. The Chief Financial Officer may develop an appropriate policy regarding interest rate swaps 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

The potential impact of debt service and additional operating costs associated with new projects on the operating budget of the District, both short and long-term, will be evaluated. The projected ratio of annual debt service secured by the General Fund to General Fund expenditures is one method, as is the additional debt burden of overlapping agencies on 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. Thus, Section 15106 of the Education Code limits the issuance of new debt when the District has total bonded indebtedness in excess of 2.5% of the assessed valuation in the District. TRAns and lease payment obligations in support of COPs/LRBs 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 are not limited to, those items normally funded in the District's annual operating budget and having a useful life of less than one year.

The CFO will review potential financing methods to determine which method results in the lowest cost to the District. Potential financing sources include Tax and Revenue Anticipation Notes, commercial bank lines of credit, temporary borrowing from the County of Los Angeles Treasurer, and internal temporary inter-fund borrowing. In analyzing the impact on District cost, the CFO will consider the lost interest earnings for the District funds providing temporary borrowing capacity.

Section 3.08 Credit Rating Methodologies and Debt Burden Ratios

Credit Rating Methodologies: After January 1, 2016, when SB222 became effective, Fitch rates California school district GO Bonds based on the strength of the property tax pledge and tax base that provides the security for their repayment. However, along with the GO bond rating, Fitch releases a separate Issuer Default Rating (IDR) that reflects their broader analysis of the overall credit quality of a district's operations including governance, management, financial

performance, liquidity position, etc. KBRA also recognizes the strength of the property tax pledge and tax base, but also considers the overall credit quality of the districts' operations and provides a single rating on a district's GOs. Moody's and Standard and Poor's also release a single rating on GOs that incorporates a broad analysis of credit quality. For any District COPS/LRBs that are secured solely by the District's general fund, the ratings from all agencies are based on an analysis of the overall credit quality of the District. To achieve the highest credit ratings and lowest cost of funds on its GOs and COPS/LRBs across all rating agencies, it is therefore important for the District to consider the impact of financial decisions on the credit quality of its GOs and COPS/LRBs.

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 GO Bonds. Even though COPS/LRBs 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 include both long-term GO Bonds and long-term COPS/LRBs as "debt" in the respective calculations.

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 GO Bonds, COPS and LRBs. 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 Fund 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 inter-fund transfers) as reported in the most recent Comprehensive Annual Financial Report.
- *Proportion of Fixed-Rate and Variable-Rate COPS Issues.* The District can benefit from some variable rate exposure in its portfolio of COPS/LRBs. However, the District shall keep its variable rate exposure, to the extent not hedged or swapped to a fixed rate, at or below 20% of the total principal of outstanding COPS/LRBs 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 fixed interest rates.

- A. Debt Affordability: The determination of how much indebtedness the District should incur will be based on a Capital Financing Plan (the “Plan”) that is periodically 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 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 issuance of debt will be determined by evaluating, among other factors, the impact such issuance has on the District’s credit ratings and borrowing costs and analyzing debt service metric trends over time.
- B. 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 COPs and LRBs) must be carefully monitored to maintain a balance between debt and the resources available to repay the debt.

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 (“Overlapping Debt”). It is important for the District to examine debt burden ratios for such Overlapping Debt 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 District’s General Obligation Bonds are levied and collected by the County of Los Angeles and are not controlled by the District. The District shall include data on the Overlapping Debt burden along with the debt that is repaid from the District’s General Fund or from any tax revenues deposited into special funds not supporting revenue bonds (the District’s Direct Debt) in the Statistical Section of its annual CAFR.

Table 1 below lists 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. These 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. On the contrary, each and every proposed debt issuance must be individually presented to and approved by the Board of Education.

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 below 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 Officers Association debt policy guidelines with respect to debt burden ratios.

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 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.

- C. 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 CAFR. In addition, the District will monitor the performance of the actual tax levy rate 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 (the "BOC") 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, as supplemented by any proposed issuance of debt. 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 the 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 in conjunction with the capital program budget as part of the annual budget for the District.

Section 4.02 Reporting of Debt

The CAFR will include statements of indebtedness. The fiscal year debt statements in each CAFR certify the amount of (i) new debt issued, (ii) debt outstanding, (iii) assessed valuation, and (iv) 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, the District's dissemination agent's website and the Municipal Securities Rulemaking Board's Electronic Municipal Market Access (EMMA) website.

The CFO will also produce an annual Debt Report which covers the following information: (i) bonded debt limitation and assessed valuation growth, (ii) debt outstanding, (iii) bonds authorized but unissued, (iv) debt refundings, (v) tax rate performance on outstanding bonds, (vi) cost of district debt, and (vii) credit ratings. This report will be provided to the Board and uploaded to the District's website.

Section 4.03 Financial Disclosure

The CFO shall designate a Chief Disclosure Officer (currently the Deputy Chief Financial Officer) and Disclosure Coordinator (currently the Director of Capital Fund Compliance). Together, they shall be responsible for the District's disclosure compliance functions, in conjunction with the disclosure counsel appointed by the District.

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 District's website, the District's dissemination agent's website, and on the Electronic Municipal Market Access (EMMA) 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 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 Priorities

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 general financial advisor shall meet with, make presentations to, or otherwise communicate with the rating agencies on a consistent and as appropriate basis in order to keep the agencies informed about the District's capital plans, debt issuance program, and other appropriate financial information. The CFO with the District's General Financial Advisor shall communicate with credit enhancers as appropriate

to determine if a cost effective product for the District is commercially available with reasonable terms and conditions.

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 minimum net present value savings as a percentage of the refunded aggregate principal amount to be considered for refunding 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 GO Bonds or other structuring considerations. In addition, the net present value savings must exceed any negative arbitrage associated with the refunding, subject to the Chief Financial Officer's discretion. Another consideration in deciding which debt to refinance and the timing of the refinancing shall be the maximization of the District's expected net savings over the life of the bonds.

The Chief Financial Officer may waive the 3% per maturity savings threshold when evaluating a fixed rate refunding of variable rate debt, as the refinancing of certain variable rate structures may provide other substantial benefits to the District that include, but are not limited to, elimination of interest rate risk, renewal risk, and counterparty risk.

The Chief Financial Officer shall 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 and legal documents for particular debt issuance shall govern specific methods of

investment of bond related proceeds. Preservation of principal will be the primary goal of any investment strategy followed by the availability of funds, followed by return on investment.

The District shall competitively bid the purchase of investment securities (except State and Local Government Series (SLGs) issued by the US Treasury), investment contracts, float contracts, forward purchase agreements and any other investments pertaining to its tax-exempt debt issues. A duly registered investment advisor or the County of Los Angeles Treasurer-Tax Collector shall solicit bids for investment products. Eligible and qualified providers, but not any of the members of the District's financial advisor pool, may bid on investment products.

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. General: All financial advisors, investment advisors, bond counsel, disclosure counsel, tax counsel, and underwriters will be selected from pools to be created through a Request for Proposals (RFP) or Request for Qualifications (RFQ) process. In isolated instances, such contracts may be awarded on a sole source basis if it is clear that an RFP or 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 advisors, investment advisors, underwriters, and bond, tax, and disclosure counsels will be for up to five years.

Members of the financing team for each specific transaction will be identified and presented to the Board as part of the financing transaction Board report or as a separate informative. If however, an urgent financing opportunity or need arises such that there is not enough time to obtain Board approval of the financing team through the regular process, the Superintendent may authorize the appointment of the team.

- ii. **Underwriters:** The minimum qualifications for underwriters to be considered for the District’s underwriter pools are: the firm must have a permanent office in the State of California; the firm must have completed at least ten (10) financings in the prior two years; the firm must maintain net capital of at least \$100,000 at all times; the lead investment banker must have at least three years of experience working on large, complex transactions and must be authorized to sign a bond purchase contract; the firm must hold and maintain at all times all appropriate and required Federal and State licenses and registrations; and the firm must at all times have at least one full-time professional employee with a NASD Series 53 license (Municipal Securities Principal).

Based on the evaluation of submitted statements of qualifications, underwriting firms will be assigned to one of four specific tiers:

Tier	Eligible Syndicate Assignments
Senior Manager	Senior, co-senior, or co-manager on any transaction
Co-Senior Manager	Co-senior or co-manager on any transaction; senior manager on transactions under \$200 million principal amount.
Co-Manager	Co-manager on any transaction.
Emerging Firm	Co-manager with a reduced liability on appropriate transactions.

In the event the District issues bonds through a negotiated sale, the selection of underwriters will be based upon a mini-RFP process and will generally be for a single transaction. The mini-RFP will specify the scoring system for selection of the underwriters and will consider the following factors in decreasing order of priority:

1. Past performance on financing transactions. Exceptionally strong or poor results on District transactions will carry extra weight.
2. Analysis of the District’s financing needs and proposed financing structure, recommended marketing plan and determination that the firm has sufficient net capital.
3. Proposed underwriting fees, including takedown, direct expenses, and the cost of underwriter’s counsel.
4. Demonstrated commitment, track record, and investment in the communities served by the LAUSD.

Underwriters may be selected for multiple transactions if multiple issuances are planned for the same project. In addition, the District will include at least one firm with an office within the District’s boundaries on each standard, fixed rate financing transaction.

- iii. 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 rating agency relationships. Additionally, the general financial advisor may be used on an as-needed basis to structure issuances of District debt obligations. Any firm serving as general financial advisor must be duly registered at all times with both the Securities and Exchange Commission (SEC) and the Municipal Securities Rulemaking Board (MSRB) and must also hold any certifications and/or licenses required by the SEC and/or MSRB.
- iv. Bond Counsel, Tax Counsel, and Disclosure Counsel: The District will select bond, tax, disclosure and/or other financial counsel to assist with debt issuances or special projects that do not fall under the bonds, COPs, and TRANs categories of District debt obligations. Additionally, one or more of the firms may be selected to provide general legal advice on, among other things, debt financing, disclosure documents, and continuing disclosure.
- v. Range of Financings: Financial advisory, external legal counsel, and underwriting teams will be selected for the District's COPs 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: Any firm serving as financial advisor must be duly registered as a municipal advisor on financings at all times with both the Securities and Exchange Commission (SEC) and the Municipal Securities Rulemaking Board (MSRB) and must also hold any certifications and/or licenses required by the SEC and/or MSRB. In recognition of the fact that in a financing the goals of the underwriters and the issuer may inherently conflict, 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, although said firm must comply with any SEC and/or MSRB rules and restrictions pertaining to broker-dealer or investment banks serving as financial advisor.
- ii. Financial Advisor Pool: The CFO will maintain a pool of financial advisors separated into two tiers.
 - a. Firms in the General Financial Advisor Tier may be used for various financial projects for which the District requires advanced financial expertise not available within the District. The General FA Tier will also be used to select the District's Independent Registered Municipal Advisor

- (IRMA). Firms in the General FA Tier may serve as financial advisors on the District's debt issuances.
- b. Firms in the Transactional Financial Advisor Tier may serve the district as financial advisors on the District's debt issuances.
- iii. Independent Registered Municipal Advisor: The Office of the Chief Financial Officer will select a specific firm to serve as the District's IRMA, as defined by the SEC. In order to facilitate open communication with underwriters, the District will prepare and post on its website a letter stating that the District has an IRMA. Before acting on any proposal received from underwriters, the District will provide the proposal to the IRMA and consider all feedback received from the IRMA.
- iv. 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, an investment advisor may provide investment advice on refundings and other transactions with specialized investment needs. Any firm serving as investment advisor on a District transaction must be registered at all times as an investment advisor with both the Securities and Exchange Commission (SEC) and the Municipal Securities Rulemaking Board (MSRB), as applicable, must hold any certifications and/or licenses required by the SEC and/or MSRB, and must present its Form ADV or equivalent and written fee proposal to the District prior to commencement of any work.
- 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. 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.

APPENDIX A

LOS ANGELES UNIFIED SCHOOL DISTRICT

LONG-TERM DEBT—TAX COMPLIANCE PROCEDURES

Statement of Purpose

This Tax Compliance Policy (the “Policy”) sets forth specific policies of the Los Angeles Unified School District (the “District”) designed to monitor tax compliance by the District with respect to Tax-Advantaged Obligations,¹ including but not limited to post-issuance tax compliance with applicable provisions of the Internal Revenue Code of 1986, as amended (the “Code”), and regulations promulgated thereunder (the “Treasury Regulations”).

This Policy is intended to document and supplement existing practices and describe various procedures and systems implemented and to be implemented to demonstrate compliance with the requirements that must be satisfied at the time of, and subsequent to, the issuance of Tax-Advantaged Obligations. Compliance with applicable provisions of the Code and the Treasury Regulations is an on-going process and an integral component of the District’s debt management program. Accordingly, implementation of this Policy will require ongoing surveillance through, and sometimes beyond, the final maturity of the related issue of Tax-Advantaged Obligations and, likely, consultation with legal counsel beyond the initial engagement for the issuance of particular obligations.

This Policy is meant to set forth best practices and procedures and is intended to be revised over time. The Policy is meant to be the District’s initiative to document compliance with the provisions of the Federal tax law addressing Tax-Advantaged Bonds. Given the size, scope, and complexity of the District’s financings and school construction and maintenance program, strict compliance with all elements of this Policy will require ongoing review and refinement of the Policy. Any failure to conform to any component of this Policy shall in no way infer that the District is not in compliance with the provisions of the Code applicable to Tax-Advantaged Obligations of the District.

Policies and Procedures Generally

The District’s Chief Financial Officer (“CFO”) will establish a Tax Compliance Officer (currently the Director of Capital Fund Compliance) for monitoring tax compliance with regard

¹ The District issues (i) bonds, certificates of participation and other obligations, the interest on which is intended to be excluded from gross income for federal income tax purposes (“Tax-Exempt Obligations”) and (ii) bonds and other obligations, which provide certain credits to bondholders in lieu of or in addition to interest payments or interest subsidy payments to issuers (*e.g.*, Build America Bonds and Qualified School Construction Bonds), that finance property that was otherwise eligible to be financed with proceeds of Tax Exempt Obligations (“Tax Credit/Subsidy Obligations,” collectively with Tax-Exempt Obligations, “Tax-Advantaged Obligations”).

to debt offerings. The CFO shall also be responsible for ensuring an adequate succession plan for transferring tax compliance responsibility when changes in staff occur.

The Tax Compliance Officer should coordinate procedures for record retention and review of such records as more fully described herein and needs to gain familiarity with Internal Revenue Service (“IRS”) Forms 8038-G, 8038-B, 8038-CP, 14002, and relevant provisions of the Code and the Treasury Regulations, including but not limited to Treasury Regulations Sections 1.141-2, 1.141-3, 1.141-12, and 1.148-1 through 1.150-2.

The Tax Compliance Officer needs to review tax compliance procedures and systems on a periodic basis, but not less than annually, and consult with the District’s General Counsel, Chief Financial Officer, Chief Facilities Executive and bond counsel as appropriate and as needed.

Electronic media will be the preferred method for storage of all records maintained by the District in connection with tax compliance. Document maintenance requirements may change over time, and the Tax Compliance Officer shall consult with bond counsel to develop and maintain a comprehensive records retention policy so as to facilitate continuing compliance with the provisions of the Code applicable to the District’s Tax-Advantaged Obligations. The District will maintain the following categories of records with respect to each issue of its outstanding Tax-Advantaged Obligations:

- (i) Documentation relating to the authorization, sale, and issuance of Tax-Advantaged Obligations;
- (ii) Documentation setting forth the dates, amounts and purposes of each expenditure of Tax-Advantaged Obligations were expended, as more fully described under “Expenditure of Proceeds” below;
- (iii) Documentation of arrangements governing the use of Property Financed with Proceeds of each issue of Tax-Advantaged Obligations, as more fully described under “Private Use and Ownership” below; and
- (iv) Documentation relating to the investment of proceeds and replacement proceeds allocable to each issue of Tax-Advantaged Obligations.

The foregoing records shall be maintained by the District under the supervision of the Tax Compliance Officer for a period of not less than six years after the final payment of principal on such Tax-Advantaged Obligations, provided that with respect to property financed with proceeds of Tax-Advantaged Obligations, such records shall be maintained for a period of not less than six years after the final payment of principal on such Tax-Advantaged Obligations or any Tax-Advantaged Obligations issued to refund, directly or indirectly, the issue of Tax-Advantaged Obligations that financed such property.

Issuance of Obligations

With respect to each new issue of Tax-Advantaged Obligations, the Tax Compliance Officer is to (a) obtain and store a closing binder and/or CD or other electronic copy of the relevant and customary transaction documents, (b) confirm that bond counsel or tax counsel has filed with IRS Form 8038-G or Form 8038-B for such issue, and (c) coordinate receipt and retention of relevant books and records with respect to the investment and expenditure of the proceeds of such Tax-Advantaged Obligations. Documentation to be maintained shall include, but not be limited to:

- (i) Resolutions of the District and the County authorizing the issuance of the Bonds;
- (ii) Bond Purchase Agreement;
- (iii) (Preliminary Official Statement, Official Statement and any other documentation circulated to potential investors;
- (iv) Certifications with respect to delivery of Tax-Advantaged Bonds and the receipt of the purchase price therefor;
- (v) Tax Certificate or Tax Compliance Agreement (including exhibits, such as an issue price certificate of the underwriter or, in the event of a private placement, the purchaser);
- (vi) Schedules prepared by the Financial Advisor or Underwriter setting forth the sources and uses of funds, projected expenditure of proceeds, projected investment earnings on proceeds and computation of yields, together with any verification reports issued in connection with the issue;
- (vii) With respect to guaranteed investment agreements, or yield restricted defeasance escrows, documentation evidencing compliance with three-bid rules set forth in Treasury Regulation Section 1.148-5;
- (viii) Any verification reports issued with respect to the issue; and
- (ix) Information reporting forms filed with the Internal Revenue Service, and proofs of filings such forms.

Expenditure of Proceeds

The administrator of each office that is responsible for spending proceeds of the District's Tax—Advantaged Bonds will maintain records setting forth the date and amount of each disbursement of proceeds of Tax-Advantaged Obligations administered by its office, together with invoices or other proofs with respect to each disbursement, the name of the vendor or other payee, an identification of the facility or other property acquired, constructed, improved or renovated with the proceeds of such disbursement and a brief description of the actual work performed or property acquired with the proceeds of such disbursement. Within 120 days following the end of

each fiscal year of the District, the Tax Compliance Officer shall obtain records setting forth with respect to each disbursement of proceeds of Tax-Advantaged Obligations:

- (i) The date of such disbursement;
- (ii) The amount of such disbursement;
- (iii) The funding source (e.g., specific GO measure or COPs issue);
- (iv) The location code and location name;
- (v) The object of expenditure; and
- (vi) The project number and description, when available, or a brief description of the type of the expenditure.

Within six months after the end of each fiscal year, the Tax Compliance Officer shall prepare a report setting forth the date, amount and purpose of each disbursement of proceeds of each issue of Tax-Advantaged Bonds during the prior fiscal year (the “Issue Expenditure Reports”). The term “purpose” shall mean each separate school facility financed with a disbursement or a description of other property financed with such disbursement.

Private Use and Ownership

Tax-Advantaged Obligations may lose their tax status if a bond issue meets (1) the private business use test (*i.e.*, results in Private Use (defined below)) in Section 141(b)(1) of the Internal Revenue Code of 1986, as amended (the “Code”) and (2) (a) the private security or payment test (“Private Security or Payments”) in Section 141(b)(2) of the Code (collectively, the “Private Business Test”), or (b) the private loan financing test in Section 141(c) of the Code. The Private Business Test relates to the use of the proceeds of an issue and the test is met if more than the lesser of (1) \$15,000,000 and (2) 10 percent² of the proceeds of an issue meet both prongs of the Private Business test.

Definition of Private Payments. For purposes of this Policy, “Private Payments” means payments derived, directly or indirectly, in respect of property used or to be used for Private Use. The District will periodically enter into arrangements that result in Private Use but will not involve any Private Payments. Except in the case of certificates of participation, which involve leases of properties that are used in a Private Use or secures obligations that financed property used in a Private Use, or loans of bond proceeds, arrangements that result in Private Use, but do not

² Such ten percent limitation is reduced to five percent with respect to Private Use that is either unrelated to governmental uses of proceeds of the same issue, or disproportionate to related governmental uses of proceeds of such issue.

involve Private Payments, will not cause the District's general obligation bonds to become private activity bonds.³

Definition of Private Use. For purposes of this Policy, the term "Private Use" means any activity that constitutes a trade or business that is carried on by persons or entities other than state or local governmental entities ("Nongovernmental Entities"). State or local governmental entities are referred to herein as "Governmental Entities." The United States of America is not treated as a Governmental Entity. Any activity carried on by a person other than a natural person is treated as a trade or business. Any asset financed with Tax-Advantaged Obligations not owned by a Governmental Entity will be considered to be used in a Private Use.

In most cases, Private Use will occur only if a Nongovernmental Entity has a special legal entitlement to use the bond financed property. Such a special legal entitlement includes ownership or actual or beneficial use pursuant to a lease, management, service or incentive payment contract, output contract, research agreement or similar arrangement. Private Use may also be established solely on the basis of a special economic benefit to one or more Nongovernmental Entities.

Management and Service Contracts. With respect to management and service contracts, the determination of whether a particular contract results in Private Use shall be based on the application of the Code and Treasury Regulations, including particularly Revenue Procedure 97-13, 1997-1 C.B. 632, as amended by Revenue Procedure 2001-39, 2001-2 C.B. 39, a summary of which is attached hereto as Exhibit A. Such management and service contracts include, but are not limited to, operating agreements, construction management agreements, business services agreements, technical consulting services agreements and other similar agreements. Further, for purposes of determining the nature of a Private Use, any management or service contract that is properly characterized as a lease for federal income tax purposes is treated as a lease. Consequently, any such agreements, even though referred to as a management or service contract may nevertheless be treated as a lease. In determining whether a management or service contract is properly characterized as a lease, it is necessary to consider all of the facts and circumstances, including the following factors: (i) the degree of control over the property that is exercised by a nongovernmental person; and (ii) whether a nongovernmental person bears risk of loss of the financed or refinanced property.

Short-Term Use Exception. Arrangements fitting within either of the following two exceptions will not result in Private Use.

Use Pursuant to Generally Applicable and Uniformly Applied Rates. Use pursuant to an arrangement will not result in Private Use if (A) the arrangement does not transfer ownership of the property to a nongovernmental person, (B) the term of the use under the arrangement,

³ Private use alone may cause the Private Business Test limitations to be exceeded in the event that the obligations to that financed the privately used property are also secured by property used in a private use. For example, certificates of participation in a lease of property that is involved in a private use that finance property that is also used in a private business use may become taxable private activity bonds even if the District receives no payments with respect to such property.

including all renewal options, is not longer than 100 days, and (C) compensation under the arrangement is based on generally applicable and uniformly applied rates.

Use Pursuant to Negotiated Arm's Length Arrangements. Use pursuant to an arrangement will not result in Private Use if (A) the arrangement does not transfer ownership of the property to a nongovernmental person, (B) the term of the use under the arrangement, including all renewal options, is not longer than 50 days, and (C) the arrangement is a negotiated arm's-length arrangement and compensation under the arrangement is at fair market value.

Construction Contracts and Other Purchases of Capital Assets. A contract with a nongovernmental person to construct capital assets or to sell capital assets to the District does not generally result in Private Use unless additional services are being provided by the nongovernmental person in connection with such contract, *e.g.*, construction management or consulting services. Such services with respect to bond financed property must be analyzed for Private Use under Revenue Procedure 97-13.

Materials and Commodity Supply Contracts. A contract or purchase order for materials, commodities, inventory or other supplies from a nongovernmental person does not generally result in Private Use unless there are additional services being provided by the nongovernmental person in connection with the contracts, *e.g.*, consulting services. Such service arrangements with respect to bond financed property must be analyzed for Private Use under Revenue Procedure 97-13.

Ownership of bond financed property. If bond financed property is owned by a nongovernmental person, such ownership will be considered Private Use of the asset for purposes of the Private Use rules.

Leases of bond financed property. All leases of bond financed property to a nongovernmental person constitute Private Use of such property unless an exception for short-term use is satisfied.

Nonpossessory Incidental Use. Any non-possessory incidental use such as vending machines, bank machines and similar uses may be excluded from the Private Use rules to the extent of 2.5% of an issue of Tax-Advantaged Obligations. Such use of bond-financed property shall be tracked by Tax Compliance Designee.

Joint Ventures, Partnerships or other forms of Joint Ownership. Entry into a joint venture, partnership or other form of joint ownership with a nongovernmental person generally gives rise to Private Use. Such arrangements with respect to bond financed property must be reviewed by bond counsel.

Special Priority Rights or Special Economic Benefits. A contract which conveys special priority rights or special economic benefits in bond-financed property to a nongovernmental person may create Private Use. In determining whether special economic benefit gives rise to Private Use of bond financed property, it is necessary to consider all of the facts and circumstances, including one or more of the following factors: (a) whether the bond financed property is functionally related or physically proximate to property used in the trade or business of a nongovernmental

person; (b) whether only a small number of nongovernmental persons receive the economic benefit; and (c) whether the cost of the bond financed property is treated as depreciable by the nongovernmental person. Such arrangements with respect to bond financed property must be reviewed by bond counsel.

Compilation and Maintenance of Logs Listing Arrangements Potentially Involving Private Trade or Business Use.

From time to time, the District enters into the following types of arrangements involving bond financed property:

- Use Agreements and Leases with Charter Schools
- After School Programs
- Summer Camps
- Civic Center Leases
- Naming Rights
- Other Leases, Licenses or Use Agreements Involving Bond Financed Property

The arrangements described above will be referred to in this Policy as “Arrangements”.

The Tax Compliance Officer will retain copies of the Arrangements, and maintain a log listing such Arrangements, which shall note with respect to each Arrangement (i) whether such Arrangement conforms to the Short-Term Use Exception described above, and (ii) if not, the amount of payments to be received by the District and whether such payments exceed the District’s incremental costs of operating and maintaining the subject facility arising from the Private Use of the subject property.

The Tax Compliance Officer shall also compile and maintain a separate list of each arrangement described above that will not qualify for the Short-Term Use Exception and that provides payments to the District that will exceed the District’s incremental cost of operating and maintaining the subject facility arising from the arrangement (referred to as the “Potential Private Use Contract Log”).⁴ Each item listed in the Private Use Contract Log shall set forth (i) the issue or issues of Tax-Advantaged Bonds that financed property used in connection with such arrangement, (ii) the amount of proceeds of such issue allocable to such property, and (iii) the amount of payments expected with respect to such arrangement, net of the incremental costs incurred by the District to operate and maintain the facility as a result of such arrangement.

⁴ Arrangements involving property that was financed with proceeds of any of the District’s certificates of participation will be listed in the Potential Private Use Contract Log regardless of whether the District is to receive any payments under such Arrangements.

The Tax Compliance Officer shall also compile and maintain the following logs:

- *Property Disposition Log.* The Tax Compliance Officer shall compile and maintain a log listing all assets of the District purchased with proceeds of Tax Advantaged Obligations that have been sold or otherwise disposed by the District (each, a “Disposition”). The log should include with respect to each Disposition, the Issue of Tax-Advantaged Bonds that financed the acquisition, construction or renovation of such asset and the amount of proceeds of such issue that are allocable to such asset (the “Property Disposition Log”).
- *Private Loan Log.* The Tax Compliance Officer shall compile and maintain a log listing all proceeds of each issue of Tax-Advantaged Obligations applied to make loans to third parties (the “Private Loan Log”).

The Tax Compliance Designee shall update the respective logs at least annually.

Structuring of Arrangements to Avoid Private Use or Private Payments. It is the Policy of the District that to the extent consistent with the business objectives of the District, any potential Arrangement which might result in Private Use of bond financed property shall be structured so as to avoid or minimize Private Payments.

Dispositions. No transfer, sale or other proposed disposition of bond financed property by the District shall take place without the prior review and approval by the General Counsel, after consultation with bond counsel.

Remedial Actions. In the event that the District is unable to satisfy the limitations with respect to Private Use and Private Payments with respect to any issue of Tax-Advantaged Obligations, the Tax Compliance Officer shall consult with the General Counsel, the Chief Financial Officer and bond counsel and work with bond counsel to effect a remedial actions or take such other actions as shall be required to maintain the tax-advantaged status of such bonds. The Tax Compliance Officer shall provide any information regarding the bond financed property to effectuate such remedial action to the General Counsel and the Chief Financial Officer. The Tax Compliance Officer must maintain copies of the documentation with respect to the remedial action with the Potential Private Use Contract Log and attach such copies to the transcript of closing documents it maintains with respect to each affected issue of Tax-Advantaged Obligations.

Periodic Review. Although the District will monitor Private Use of assets financed with Tax-Advantaged Obligations and Private Payments relating to such use, the Tax Compliance Officer will no less frequently than annually review and update the Potential Private Use Contract Log, the Disposition Log the Private Loan Log and the log that it maintains with respect to each issue of Tax-Advantaged Obligations. The Tax Compliance Officer shall at least annually prepare a detailed calculation of all existing Private Use and Private Payments, if any, that occurred during the prior year (the “Private Use Calculation”) with respect to each issue of the District’s Tax-Advantaged Obligations. The Potential Private Use Contract Log, the Disposition Log and the Private Use calculations are referred to herein as the “Annual Reports.” The Tax Compliance Officer will provide the Annual Reports, reflecting activity through the last day of each fiscal year, to the General Counsel by November 30th of the following fiscal year.

Arbitrage and Rebate

Section 148 of the Code, the regulations promulgated thereunder and the pronouncement relating thereto (the “Arbitrage Rules”) are intended to ensure that issuers, such as the District, are issuing Tax-Advantaged Obligations for the primary purpose of financing property needed by the District to carry-out its governmental purposes, and not for the purpose of taking advantage of the difference between its tax-advantaged costs of borrowing and its ability, if any, to invest proceeds of such obligations in higher yielding obligations. Continuing compliance with the Arbitrage Rules primarily involves ensuring that proceeds of Tax-Advantaged Obligations (“Proceeds”) are invested in accordance with yield limitations set forth in the Arbitrage Rules, except to the extent an exception to such yield limitation cannot be satisfied, and rebating certain investment earnings to the United States Treasury. With respect to certain issues of Tax-Advantaged Obligations, the District will need to ensure that all proceeds and investment earnings are either expended on qualifying projects within specified periods, or portions of such issues are timely redeemed.

Specific post-issuance procedures to effect compliance with the Arbitrage Rules are addressed below. However, the procedures set forth herein are not intended to be exhaustive and further procedures may need to be identified and implemented, in consultation with the District’s staff, bond counsel, tax counsel, if any, and the District’s financial advisors and investment advisors. Since proceeds of the District’s bond issues are deposited in a Building Fund administered and invested by the Los Angeles County Treasurer and Tax Collector (the “County Treasurer”), and the County Treasurer collects and invests moneys to be used to pay debt service on the District’s Tax-Advantaged Obligations, the County Treasurer shall also be involved in the development and implementation of this Policy insofar as this Policy relates to compliance with the Arbitrage Rules.

Procedures Generally – the following policies relate to procedures and systems for monitoring post-issuance compliance generally with the Arbitrage Rules.

- (i) The Tax Compliance Officer shall be responsible for monitoring the District’s post-issuance arbitrage compliance issues. The Chief Financial officer of the District shall be responsible for ensuring an adequate succession plan for transferring post-issuance arbitrage compliance responsibility when changes in staff occur.
- (ii) The Tax Compliance Officer should coordinate procedures for record retention and review in accordance with the provisions of this Policy described below. In addition, the Tax Compliance Officer shall ensure that adequate records are established and maintained to set forth the date, amount, and nature of each expenditure of proceeds of each issue of Tax-Advantaged Obligations and investment earnings thereon (the “Proceeds”). Such records shall be consistent with and may be part of the Issue Expenditure Reports described under “Expenditure of Proceeds” above. The Tax Compliance Officer shall also establish and maintain a record of each investment of Proceeds, which shall include (i) the purchase date, (ii) the purchase price, (iii) information establishing that the purchase price is the fair market value as of such date (e.g., the published quoted bid by a dealer in such an investment on the date of

purchase), (iv) any accrued interest paid, (v) the face amount, (vi) the coupon rate, (vii) periodicity of interest payments, (viii) disposition price, (ix) any accrued interest received, and (x) disposition date. To the extent any investment becomes allocable to Proceeds after it was originally purchased, it shall be treated as if it were acquired at its fair market value at the time it becomes allocable to Proceeds. To the extent Proceeds are maintained by the County Treasurer, the Tax Compliance Officer shall advise the County Treasurer of the requirement to maintain such records with respect to each investment of Proceeds by the County Treasurer, and obtain a copy of such records from the County Treasurer at least annually.

- (iii) The Tax Compliance Officer should review post-issuance arbitrage compliance procedures and systems with bond counsel or tax counsel at least annually.

The following procedures shall be implemented with respect to the issuance of each issue of Tax-Advantaged Obligations:

- (i) Following the issuance of each issue of Tax-Advantaged Obligations, the Tax Compliance Officer shall obtain and maintain each of the documents listed above under “Issuance of Obligations” including, a fully executed tax certificate with respect to such issue and any information reporting forms filed with the Internal Revenue Service with respect to each issue, together with proof of filing. A copy of such certificate and information reporting forms, together with the Timetable (as defined below), shall be provided to the County Treasurer as soon as practicable after the issue date of each issue of Tax-Advantaged Obligations.
- (ii) The Tax Compliance Officer should confirm that bond counsel has filed with the Internal Revenue Service (the “IRS”) the applicable information report (e.g., Form 8038-G, Form 8038 or Form 8038-B) for such issue.
- (iii) The Tax Compliance Officer should coordinate receipt and retention of relevant books and records with respect to the investment and expenditure of the proceeds of such Tax-Advantaged Obligations with other members of the District’s staff and staff of the County Treasurer.
- (iv) A record should be maintained with respect to each issue of Tax-Advantaged Obligations containing a schedule setting forth (i) the latest date such proceeds may be invested at an unrestricted yield, (ii) the benchmarks that must be satisfied in order to meet an exception to the arbitrage rebate rules, (iii) the dates on which any arbitrage rebate computations are required to be completed and arbitrage rebate is required to be paid to the United States Treasury and (iv) any date by which proceeds are required to either be expended or applied to redeem bonds and any other dates on which all or a portion of the Proceeds of such issue are required or expected to be expended (the “Timetable”)

Arbitrage – the following procedures should be carried-out from the issue date through the final redemption date of each issue of Tax-Advantaged Obligations:

- (i) The Tax Compliance Officer should coordinate the tracking of expenditures and any investment earnings with other applicable District staff, including staff of the Facilities Division. The Tax Compliance Officer should obtain and review at least monthly reports of the expenditure and investment of proceeds of each issue of Tax-Advantaged Obligations that are on deposit in the District's Building Fund. The Tax Compliance Officer should maintain a procedure for the allocation of proceeds of the issue and investment earnings to expenditures, including the reimbursement of pre-issuance expenditures.
- (ii) The Tax Compliance Officer should obtain a computation of the yield on each issue of Tax-Advantaged Obligations from the District's financial advisor, and obtain from bond counselor tax counsel a listing of all arbitrage yield restrictions attributable to Proceeds or amounts treated as proceeds of each issue. For example, with respect to each issue of qualified school construction bonds, the Tax Compliance Officer should obtain from tax counsel or bond counsel the yield limitation with respect to any invested sinking fund established for such issue.
- (iii) The Tax Compliance Officer should monitor compliance with the applicable "temporary period" (as defined in the Code and Treasury Regulations), and expectations for the expenditure of proceeds of the issue, and advise the County Treasurer of the need to yield restrict investments with respect to proceeds that are not eligible to be invested at an unrestricted yield pursuant to a temporary period.
- (iv) The Tax Compliance Officer should coordinate with the County Treasurer and the bond trustee, if applicable, to ensure that investments acquired with proceeds of each issue of Tax-Advantaged Obligations are purchased at fair market value. In determining whether an investment is purchased at fair market value, any applicable Treasury Regulation safe harbor may be used. In the event Proceeds are invested in an investment contract or any other investment that is not traded on an established market, and for which fair market values are not continually published, the Tax Compliance Officer or County Treasurer shall consult with bond counsel or tax counsel to ensure that fair market rules set forth in the Treasury Regulations are satisfied.
- (v) The Tax Compliance Officer should coordinate with the County Treasurer, the Chief Facilities Executive, and the applicable bond trustee to avoid formal or informal creation of funds reasonably expected to be used to pay debt service on such issue without determining in advance whether such funds must be invested at a restricted yield.
- (vi) The Tax Compliance Officer should consult with bond counsel or tax counsel prior to engaging in any post-issuance credit enhancement transactions (e.g., bond insurance, letter of credit) or hedging transactions (e.g., interest rate swaps, caps).
- (vii) The Tax Compliance Officer should coordinate with bond counsel to identify situations in which compliance with applicable yield restrictions depends upon later investments and monitor implementation of any such restrictions.

- (viii) The Tax Compliance Officer should coordinate with the arbitrage rebate consultant, as described in (ix) below, to monitor compliance with six-month, 18-month or 2-year spending exceptions to the rebate requirement, as applicable.
- (ix) The Tax Compliance Officer should coordinate with Chief Financial Officer to ensure that the District continuously engages a firm nationally recognized in the area of arbitrage rebate compliance with respect to each issue of Tax-Advantaged Obligations to arrange, as applicable, for timely computation of arbitrage rebate or arbitrage yield reduction liability and, if rebate or a yield reduction payment is due to the IRS, for timely filing of Form 8038-T and, to arrange timely payment of such rebate liability. Such arbitrage rebate consultant shall also confirm whether any of the spending exceptions to the arbitrage rebate rules are satisfied. The Tax Compliance Officer should ensure that each arbitrage rebate consultant is provided with a copy of the Timetable with respect to each issue of Tax-Advantaged Obligations and that the contract or engagement letter with such arbitrage rebate consultant provides for such arbitrage rebate consultant to work with the District to refine the Timetable and provide timely notification to the Tax Compliance Officer of each deadline set forth in the Timetable. The Tax Compliance Officer shall maintain its records with respect to each issue of Tax-Advantaged Obligations copies of each report submitted by any arbitrage rebate consultant and each Form 8038-T filed by the District.
- (x) The Tax Compliance Officer should, in the case of any issue of refunding obligations, coordinate with the District's financial advisor, the applicable bond trustee, and the applicable escrow agent to arrange for the purchase of the refunding escrow securities, should obtain a computation of the yield on such escrow securities from the Treasury's outside arbitrage rebate specialist and should monitor compliance with applicable yield restrictions. Timetables should be adjusted to reflect the termination of temporary periods, the allocation of Proceeds of the refunded bonds as transferred proceeds of the refunding bonds and other matters resulting from such refunding.

Retention of Records

Retention of Records. As described above, the District is required to prepare the Annual Reports, which summarize and analyze certain underlying documentation related to the Tax-Advantaged Obligations. In addition to the requirement to retain the Annual Report, the District will also need to retain the related underlying documentation (the "Records") described below.

Records Required to be Retained. The Records that must be retained include, but are not limited to, the following:

- (i) All legal and accounting documents relating to proceeds of the Tax-Advantaged Obligations, including opinions of counsel and the tax certificate with respect to each issue of Tax-Advantaged Obligations.
- (ii) Expenditure of Proceeds of Tax-Advantaged Obligations as described below.

- (A) Documents evidencing the expenditure of the proceeds of the Tax-Advantaged Obligations and investment earnings thereon and the specific assets financed with such proceeds, including projected draw schedules and invoices (*e.g.*, records with respect to the bond accounts and funds);
 - (B) Documents setting forth all funds and accounts relating to the Tax-Advantaged Obligations;
 - (C) Documents pertaining to the investment of the proceeds of the Tax-Advantaged Obligations (*e.g.*, records with respect to the bond accounts and funds), including the purchase and sale of securities, guaranteed investment contracts, and swap/hedge transactions;
 - (D) With respect to all investments acquired in any fund or account in connection with the Tax-Advantaged Obligations, the information set forth under the heading “Arbitrage and Rebate” herein;
- (iii) Documents evidencing any allocations with respect to the proceeds of the Tax-Advantaged Obligations.
 - (iv) Documents evidencing the use and ownership of the bond financed property, including contracts for the use of such property (*e.g.*, the Annual Reports, and the logs described herein, and documents evidencing the sale or other disposition of the bond financed property.

Required Retention Periods. The District will retain the Records and Reports until the date that is six years after the complete retirement of the related Tax-Advantaged Obligations.

Form of Records. The District will keep all records in a manner that ensures complete access thereto for the applicable above described period either in hard copy or electronic format. If the records are kept in electronic format, compliance is necessary with the requirements of Revenue Procedure 97-22, 1997-1 C.B. 652, (or subsequent guidance provided by the Internal Revenue Service), which provides guidance for maintaining books and records by using an electronic storage system that either images their hardcopy books and records or transfers their computerized books and records to an electronic storage media (*e.g.*, an electronic data compression system).

Failure to Retain Records. A failure to maintain material records required to be retained by this Section may result in the loss of the tax status of the Tax-Advantaged Obligations and could cause additional arbitrage rebate to be owed.

Reissuance

The following policies relate to compliance with rules and regulations regarding reissuance of Tax-Advantaged Obligations issued by the District:

The CFO and the Tax Compliance Officer in conjunction with the General Counsel are to (a) identify and consult with bond counsel regarding any post-issuance change to any terms of an issue of Tax-Advantaged Obligations, (b) request bond counsel to determine whether such potential change would cause the issue to be treated as “reissued” for federal income tax purposes, and (c) confirm with bond counsel whether any “remedial action” in connection with a “change in use” (as such terms are defined in the Code and Treasury Regulations) must be treated as a reissuance for tax purposes.

Training

The District shall engage its bond counsel or special tax counsel to provide a seminar at least biennially, which shall be attended by the Tax Compliance Officer, representatives of the Chief Financial Officer, the General Counsel and the Chief Facilities Executive and staff members from each office of the District responsible for the expenditure of proceeds of the District’s Tax-Advantaged Obligations. The County Treasurer and members of the Bond Oversight Committee should also be invited to participate in such seminar. Such seminar shall include a review of the District’s compliance initiatives during the prior twelve-month period, discussions relating to restrictions on the use of proceeds of Tax-Advantaged Bonds, arbitrage requirements and recent developments in such areas.

APPENDIX B

LOS ANGELES UNIFIED SCHOOL DISTRICT CONTINUING DISCLOSURE PROCEDURES

I. INTRODUCTION

A. Purpose

These continuing disclosure procedures (“Continuing Disclosure Procedures” or “Procedures”) of the Los Angeles Unified School District (the “District”) are intended to (a) ensure that the District’s Continuing Disclosure Documents (as defined below) are accurate and comply with all applicable federal and state securities laws, and (b) promote best practices regarding the preparation of the District’s Continuing Disclosure Documents.

B. Definitions

1. “Continuing Disclosure Documents” means (a) annual continuing disclosure reports filed with the MSRB, (b) event notices and any other filings with the MSRB, and (c) debt reports filed with the California Debt and Investment Advisory Commission (CDIAC).
2. “Official Statements” means preliminary and final official statements, private placement memoranda and remarketing memoranda relating to the District’s securities, together with any supplements, for which a continuing disclosure obligation is required.

II. KEY PARTICIPANTS

A. Disclosure Practices Working Group

1. *Composition.* The Disclosure Practices Working Group (the “Disclosure Working Group”) has been created by the Chief Financial Officer (“CFO”) to have general oversight over the entire continuing disclosure process. Membership in the Disclosure Working Group shall be appointed by the CFO and consist of persons relevant to the disclosure process. The following persons currently constitute the Disclosure Working Group, commencing in December 2014.
 - a. Chief Financial Officer;
 - b. Chief Disclosure Officer (currently the Deputy Chief Financial Officer);

- c. Disclosure Coordinator (currently the Director of Capital Fund Compliance);
 - d. Disclosure Counsel
 - e. Any other individuals appointed by the CFO.
2. The Disclosure Working Group shall consult with external professionals (such as those with expertise as bond counsel, tax counsel, disclosure counsel, and financial advisor) or other interested parties as the CFO or any other member of the Disclosure Working Group determine is advisable related to continuing disclosure issues and practices. Meetings of the Disclosure Working Group may be held in person or via conference call.
3. The Disclosure Working Group is an internal working group of the District staff (with the exception of Disclosure Counsel) and not a decision-making or advisory body subject to the provisions of the Ralph M. Brown Act (Government Code Section 54950 et seq.)
4. *Responsibilities.* The Disclosure Working Group is responsible for:
 - a. Reviewing and approving all Continuing Disclosure Documents as contained in the District's Preliminary and Final Official Statements before such documents are posted;
 - b. Reviewing annually the District's status and compliance with continuing disclosure obligations including filings of Annual Reports and Notices of Listed Events as described in Sections III.B. and III.C. below;
 - c. Reviewing any items referred to the Disclosure Working Group; and
 - d. Evaluating the effectiveness of these Continuing Disclosure Procedures and approving changes to these Continuing Disclosure Procedures.

B. Chief Disclosure Officer

1. *Appointment.* The CFO, in consultation with the other members of the Disclosure Working Group, shall select and appoint the Chief Disclosure Officer (currently the Deputy Chief Financial Officer).
2. *Responsibilities.* The Chief Disclosure Officer is responsible for:

- a. Approving the Continuing Disclosure Documents, Listed Event Notices, and Voluntary Filings.
- b. Overseeing the work of the Disclosure Coordinator.

C. Disclosure Coordinator

1. Appointment. The CFO, in consultation with the other members of the Disclosure Working Group, shall select and appoint the Disclosure Coordinator (currently the Director of Capital Fund Compliance).
2. Responsibilities. The Disclosure Coordinator is responsible for:
 - a. Preparing and filing the Continuing Disclosure Documents and seeking assistance from professionals in the financial advisory and bond, tax, and disclosure counsel pools, as necessary;
 - b. Serving as a “point person” to communicate issues or information that should be or may need to be included in any Continuing Disclosure Document or a specific filing of, for example, a Listed Event Notice or a Voluntary Filing;
 - c. Monitoring compliance by the District with these Continuing Disclosure Procedures, including timely dissemination of the annual report and event filings as described in Sections III.B. and C. below;
 - d. Recommending changes to these Continuing Disclosure Procedures to the Disclosure Working Group as necessary or appropriate;
 - e. Following up with others, including management of outside consultants assisting the District, in the preparation and dissemination of Continuing Disclosure Documents to make sure that assigned tasks have been completed on a timely basis and making sure that the filings are made on a timely basis and are accurate;
 - f. Together with the CFO, coordinating the timely provision of information to Disclosure Counsel as needed to fulfill its responsibilities to the District;
 - g. In anticipation of preparing Continuing Disclosure Documents, soliciting “material” information (as defined in Securities and Exchange Commission Rule 10b-5) from District units;
 - h. Maintaining records documenting the District’s compliance with these Continuing Disclosure Procedures; and

- i. Reviewing compliance with and providing appropriate certifications in connection with the various covenants in bond, COPs, and TRANs documents. The Disclosure Coordinator shall review the bond documents to determine which covenants require an annual or regular certification and maintain a list of the same.
- j. Monitoring the websites and subscribing to the communications (e.g., news alerts, press releases, etc.) of each Rating Agency and Bond Insurer (defined herein) in order to be aware of any rating change as described in each Continuing Disclosure Document.

III. CONTINUING DISCLOSURE FILINGS

A. Overview of Continuing Disclosure Filings

1. Under the continuing disclosure undertakings in connection with its debt offerings, the District is required to file annual reports (“Annual Reports”) with the Municipal Securities Rulemaking Board’s (“MSRB”) Electronic Municipal Market Access (“EMMA”) system in accordance with such agreements in each year. Such Annual Reports are required to include the District’s audited financial statements and certain updated financial and operating information (or may incorporate by reference publically-available documents that contain such information).
2. In accordance with each Continuing Disclosure Documents, if audited financial statements are not available by the date the Annual Report is required to be filed, unaudited financial statements are to be included in such Annual Report, and audited financial statements shall be filed when such statements become available. If unaudited financial statements are filed, the cover page may include a disclaimer stating that such financial statements are unaudited and are subject to adjustments and modifications, the result of which will be presented in the audited financial statements. In addition, in accordance with the applicable Continuing Disclosure Document, the District shall file or cause to be filed a notice of any failure to provide its Annual Report on or before the date specified in a Continuing Disclosure Document.
3. The District is also required under its continuing disclosure obligations to file notices of certain events on EMMA.
4. In accordance with State law, the District is required to file annual debt reports (“CDIAC Reports”) with the CDIAC for any issue of debt, including capital leases, issued during the reporting period. The CDIAC Reports are due within seven months of the close of the reporting period, defined as July 1st to June 30th.

B. Annual Reports

The Disclosure Coordinator shall ensure that the preparation of the District's Annual Reports commences as required under each specific continuing disclosure obligation. Before any annual report is submitted to EMMA, the Disclosure Coordinator shall confer with the Disclosure Working Group as needed regarding the content and accuracy of any Annual Report.

C. Event Filings

Each member of the Disclosure Working Group shall notify the other members of the Disclosure Working Group if he or she becomes aware of any of the material events listed in any of the District's continuing disclosure certificates. The Disclosure Working Group may meet to discuss the event and to determine, in consultation with counsel from the bond, tax, and disclosure counsel pool to the extent determined by the Disclosure Coordinator and the CFO, whether a filing is required or is otherwise desirable.

D. Paying Agent, Bond Insurer, and Rating Agency Filings

1. The Disclosure Coordinator shall submit to each issuer of a financial guaranty insurance or municipal bond insurance policy guaranteeing the scheduled payment of principal of and interest on an outstanding issue of bonds when due (a "Bond Insurer"), paying agent and trustee such annual or interim financial information and other information as it may request in accordance with the respective agreements with the District.
2. Each member of the Disclosure Working Group shall notify the other members of the Disclosure Working Group if he or she becomes aware of any of the events for which Moody's Investor's Service, Standard & Poor's Rating Services, a Standard & Poor's Financial Services LLC business or any other such rating agency then-rating the District's bonds (each, a "Rating Agency"), any Bond Insurer, paying agent or trustee of the District's bonds requires notice. The Disclosure Working Group may meet to discuss the event and to determine, in consultation with counsel from the bond, tax, and disclosure counsel pool to the extent determined by the Disclosure Coordinator and the CFO, whether a filing is required or is otherwise desirable.
3. The Disclosure Coordinator shall submit to each such Rating Agency such financial and other information it may request to obtain or maintain a rating on the Bonds

E. Uncertainty

The CFO may direct questions regarding the Procedures or disclosure to counsel from the bond, tax and disclosure counsel pool, the Office of General Counsel, or such other counsel or consultant as he/she deems appropriate.

F. Voluntary Disclosures

The District's policy is to only file annual financial information and operating data and listed event notices that are required under the Continuing Disclosure Documents and applicable federal securities laws. The Disclosure Coordinator may determine to file voluntary disclosure information that is not required under the Continuing Disclosure Documents.

G. CDIAC Reports

The Disclosure Coordinator shall ensure that the preparation of the CDIAC Reports shall commence as required under State law. Before any report is submitted to CDIAC, the Disclosure Coordinator shall confer with the Disclosure Working Group as needed regarding the content and accuracy of any CDIAC Report.

IV. DOCUMENTS TO BE RETAINED

The Disclosure Coordinator shall be responsible for maintaining records demonstrating compliance with these Continuing Disclosure Procedures. The Disclosure Coordinator shall retain an electronic or paper file ("Disclosure File") for each Annual Report that the District files or causes to be filed on EMMA. Each Disclosure File shall include final versions of the Continuing Disclosure Documents; written confirmations, certifications, letters and legal opinions described herein; copies of these Continuing Disclosure Procedures and a list of individuals to whom they have been distributed and the dates of such distributions; and a written record of the dates of meetings and/or conference calls of the Disclosure Working Group. The Disclosure File shall be maintained in a central depository for a period of five years from the later of the date of delivery of the securities referenced in the Continuing Disclosure Document, or the date the Continuing Disclosure Document is published, posted, or otherwise made publically available, as applicable.

V. EDUCATION

A. The CFO shall ensure that the Disclosure Coordinator and the Disclosure Working Group are properly trained to understand and perform their responsibilities. Such training may include training sessions conducted by consultants with expertise in municipal securities law, municipal securities

compliance and disclosure or by attendance at conferences, or other appropriate methods identified by the CFO.

- B. The District shall engage a law firm of nationally recognized standing in matters pertaining to the federal securities laws (“Disclosure Counsel”) its disclosure counsel to provide a seminar at least biennially, which shall be attended by the Disclosure Coordinator, representatives of the Chief Financial Officer and the General Counsel, and members of the District’s Board of Education. Members of the Bond Oversight Committee should also be invited to participate in such seminar. Such seminar shall include a review of the District’s disclosure compliance initiatives during the prior twelve-month period.

VI. AMENDMENTS

Other than timely meeting the requirements of its Continuing Disclosure Documents continuing disclosure certificates, any provisions of these Continuing Disclosure Procedures may be waived or amended at any time upon consultation with the CFO.

APPENDIX C

LOS ANGELES UNIFIED SCHOOL DISTRICT INTERNAL CONTROL PROCEDURES

I. PURPOSE

These internal control procedures (“Internal Control Procedures” or “Procedures”) of the Los Angeles Unified School District (the “District”) are intended to ensure that the proceeds of the issuance general obligation bonds (“GO Bonds”), certificates of participation (“COPs”) and other lease-backed financings, tax and revenue anticipation notes (“TRANS”) and other forms of indebtedness will be directed to the intended and allowable use.

II. BACKGROUND

The District has been authorized by voters to issue up to \$20.6 billion in GO bonds under five separate bond measures. Pursuant to the requirements of the bond measures, the Bond Oversight Committee (BOC) was established. The BOC is a 15-member independent oversight panel that reviews the recommendations for expenditure of the bond proceeds.

The District issues COPs to fund other capital needs not covered by the GO Bond authorizations. The Capital Fund Compliance Office was established to monitor the use of the proceeds from the issuance of GO Bonds and COPs.

District schools and offices enter into capital lease agreements for various equipment items such as computers, printers and copiers. The process for lease agreements is outlined in the District’s procurement manual.

III. KEY CONTROL ACTIVITIES

A. Authorization and Approval of Projects

1. A Strategic Execution Plan is presented to the Board of Education outlining the proposed projects, funding sources (primarily GO bonds) and project schedule.
2. The BOC meets monthly to review and to adopt resolutions recommending the expenditure of bond funds to the Board of Education. LAUSD staff present proposed projects to the BOC for consideration as "Strategic Execution Plan" (SEP) amendments.

3. After the review and recommendation from the BOC, the Board of Education reviews and adopts the amendments to the SEP.

B. Budget and Expenditure Authorization

1. Budget adjustments (BAs), such as those to create and control positions, for GO bond and COPs funding sources are reviewed by the Office of Capital Fund Compliance for:
 - a. Required Board and BOC project approval
 - b. Appropriate use of funds under state and federal law
2. Expenditure transfers for GO bond and COPs funding sources are reviewed and approved by the Accounting and Disbursements Division for appropriate accounting treatment, and then approved by the Office of Capital Fund Compliance for bond-eligibility.

C. Procurement Manual

The District's procurement manual outlines internal control procedures for procuring supplies, equipment, and general and professional services, including contracts and equipment leases.

D. Equipment Inventory

Each District site is required to maintain equipment inventory records for equipment whose current market value exceeds \$500. The requirements and guidelines for inventory records are outlined in District Bulletin #BUL-953.1.

E. Fixed Assets Module

The District uses SAP's Fixed Asset Module to account for the District's fixed assets. This serves as a subsidiary ledger for fixed assets and handles the acquisition, depreciation and retirement of assets.

F. SAP

The District uses SAP for recording financial transactions. This provides for a workflow process that is used for enforcing internal controls. It also provides an audit trail for all transactions.

G. Audits

1. The GO Bond Funds are audited as part of the District's Annual Financial Audit.
2. The GO Bond Funds are also subject to an Audit of Agreed-Upon Procedures

each year.

3. COPs proceeds and capital leases are audited as part of the District's Annual Financial Audit

IV. References

- A. Facilities Strategic Execution Plans

<http://www.laschools.org/new-site/sep/>

- B. Facilities Policies and Procedures

<http://mo.laschools.org/policies-procedures/>

- C. ITD Strategic Execution Plans

<http://achieve.lausd.net/page/361>

- D. Procurement Manual

<http://achieve.lausd.net/Page/7468>

- E. Equipment Inventory Bulletin

http://notebook.lausd.net/pls/ptl/docs/PAGE/CA_LAUSD/FLDR_ORGANIZATIONS/FLDR_OFFICE_OF_CFO/INVENTORY%20BULLETIN%20953.PDF