

DEBT MANAGEMENT POLICY
AND PROPOSED CERTIFICATES
OF PARTICIPATION (COPs)
TRANSACTION

Los Angeles Unified School District
Office of the Chief Financial Officer

Background

- Since 1990, District has issued about \$1.3 billion in Certificates of Participation (COPs) and \$5.0 billion in General Obligation Bonds (GO Bonds).
- However, District has no comprehensive Debt Management Policy.
- District needs a Debt Management Policy that is aligned with Government Finance Officers Association (GFOA) guidelines and other recognized professional standards.

Basic Definitions of District Debt

<p><u>Bonds</u></p>	<p>Are “debt” instruments under the State Constitution. “General Obligation Bonds” are the gold standard, as their repayment is backed by voter referendum. State Constitution requires either 2/3 voter approval (traditional G.O.) or 55% approval (Proposition 39). State Constitution imposes a bond debt limitation of 2.5% of A.V. District’s underlying G.O. Bond ratings are:</p> <p style="text-align: center;">Aa3 (Moody’s) AA- (S&P) AA- (Fitch)</p>
<p><u>Certificates of Participation</u></p>	<p>Are not “debt” within the meaning of debt under the State Constitution. Do not require voter approval and are not backed by voter referendum. Structure is a “lease”. Repayment relies on District’s covenant to budget and appropriate annual lease payments. Ratings are not as high as G.O. bonds because repayment is less secure; therefore, interest cost is also higher and field of potential investors is narrower:</p> <p style="text-align: center;">A1 (Moody’s) A+ (S&P) A (Fitch)</p>
<p><u>Tax and Revenue Anticipation Notes (TRANS)</u></p>	<p>Short-term cash flow borrowing (13 months or less) to even out cash receipts and disbursements patterns. Are not “debt” within the meaning of debt under the State Constitution, but are subject to strict IRS rules. District sets aside repayment funds after January 1 each year to assure provision of full repayment by fiscal year end. This results in achieving the highest possible ratings:</p> <p style="text-align: center;">MIG 1 (Moody’s) SP-1+ (S&P)</p>
<p><u>Others</u></p>	<p>Unfunded Pension Liabilities and/or Pension Obligation Bonds, Workers’ Compensation, Unfunded Retiree Health Costs, Energy Conservation, Lease to Service Contracts, Turn-key School Construction Project Agreements.</p>

Why We Need a Debt Management Policy

The Debt Management Policy will:

- Establish prudent debt burden targets
- Provide for improved debt management practices
- Assist in Strategic Capital Planning
- Assist in preserving District's credit strength
- Establish priorities in relationship to other District needs

Development of the Policy

- District reviewed Debt Management Policies of other governmental agencies, including:
 - City of Los Angeles
 - Metropolitan Water District of Los Angeles
 - County of Los Angeles
- District compiled recommended debt policy guidelines of GFOA and the major rating agencies

Development of the Policy (cont'd)

- District solicited input from:
 - District's Legal Counsel
 - District's Facilities Division Staff
 - Tamalpais Advisors, Inc. (Financial Advisor)
 - Lehman Brothers, Merrill Lynch, UBS and Banc of America Securities, LLC (Underwriters)
 - Sidley Austin Brown and Wood LLP (Bond Counsel)
- District will solicit additional input from:
 - Audit Business and Technology Committee
 - Bond Oversight Committee

Contents of the Policy

- Purpose and Goals
- Authorization
- Structural Features, Legal and Credit Concerns
 - Includes prescribed Debt Burden Ratios
- Related Issues
 - Emphasizes the coordination of the District's Capital Improvement Program with the Policy's financing goals
 - Sets forth selection process for Financial Advisors, Underwriters and Other Professional Consultants

Current Debt Service Limit for COPs

- In May 2003, the Board approved an increase in annual net debt service limit from \$75 million to \$90 million of General Fund Regular Program expenditures.
- GO Bonds are not included in this debt limit as these are backed by independent tax levies.
- The District's current annual net debt service from General Fund Regular Program for COPs will peak at approximately \$85 million in fiscal year 2004-05.
- Peak annual net debt service from General Fund Regular Program for COPs will increase to \$92 million once the remaining \$17 million of Beaudry projects, \$44 million of IT projects and \$43 million of Land Bank projects are approved and issued.

Proposed COPs Debt Limit

- The Debt Management Policy proposes an annual COPs debt service target of 2.0% and a gross ceiling of 2.5% of General Fund Appropriations.
- “General Funds Appropriations” includes appropriations of all Governmental Fund Types as reported in the CAFR (\$7.6 billion in fiscal year 01-02).

Proposed Debt Ratios: Targets and Ceilings

Ratio	Current Actual ⁽¹⁾	Target ⁽²⁾	Ceiling ⁽²⁾
Direct Debt to Assessed Value	1.92%	90% of Moody's Median (2.25%)	Moody's Median (2.5%)
Overall Debt to Assessed Value	3.87%	90% of Moody's Median (4.23%)	Moody's Median (4.7%)
Direct Debt per Capita	\$1,124	90% of S&P Mean for AA Issuer (\$1,521)	S&P Maximum for AA Issuer (\$1,690)
COPs Gross Debt Service Limit ⁽³⁾	1.54%	2% of General Funds appropriations	2.5% of General Funds appropriations

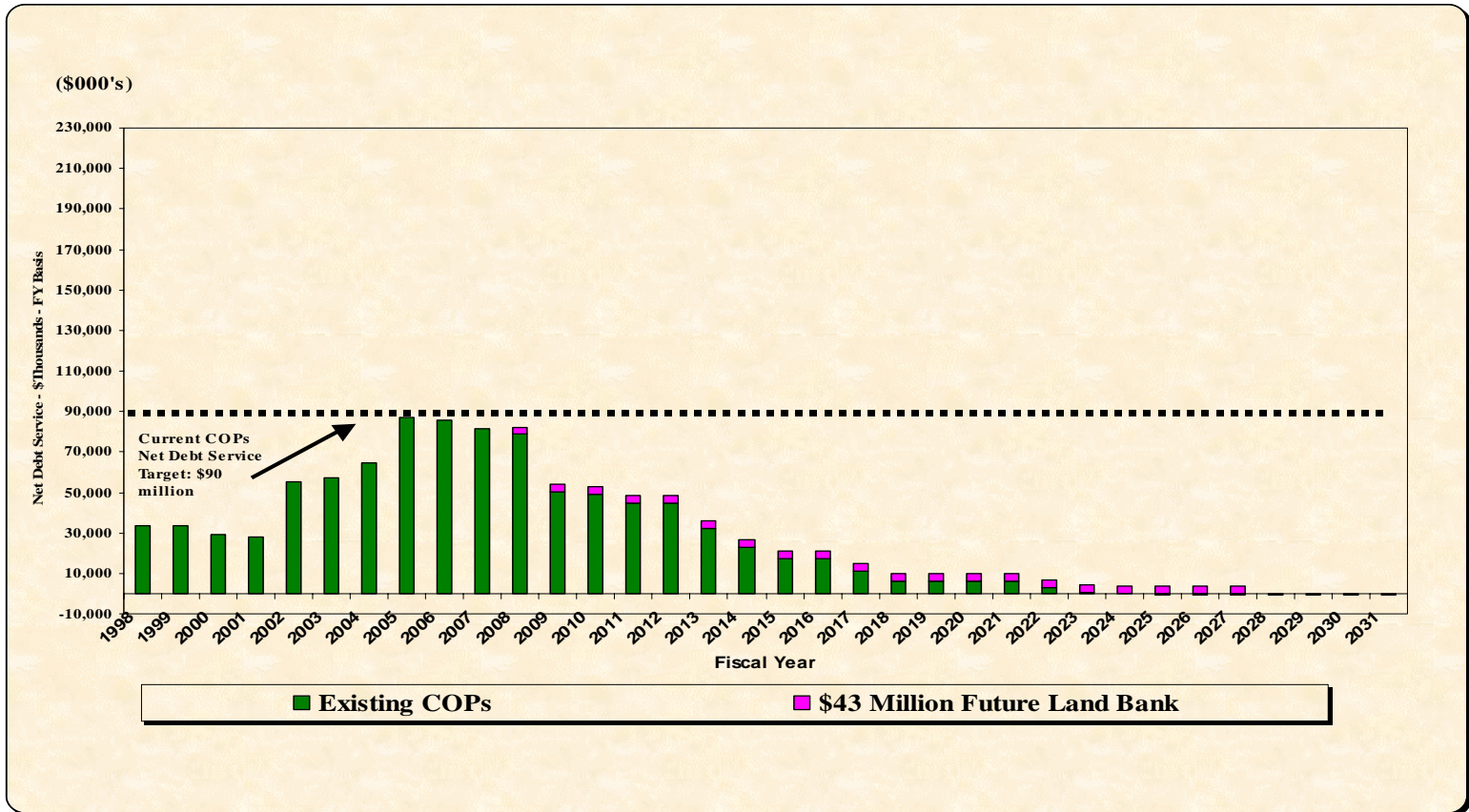
(1) As of August 1, 2003.

(2) "Moody's Medians" means published medians for large issuers

(3) Large Issuers such as LA County use a ceiling of 4.0% of General Fund Appropriations

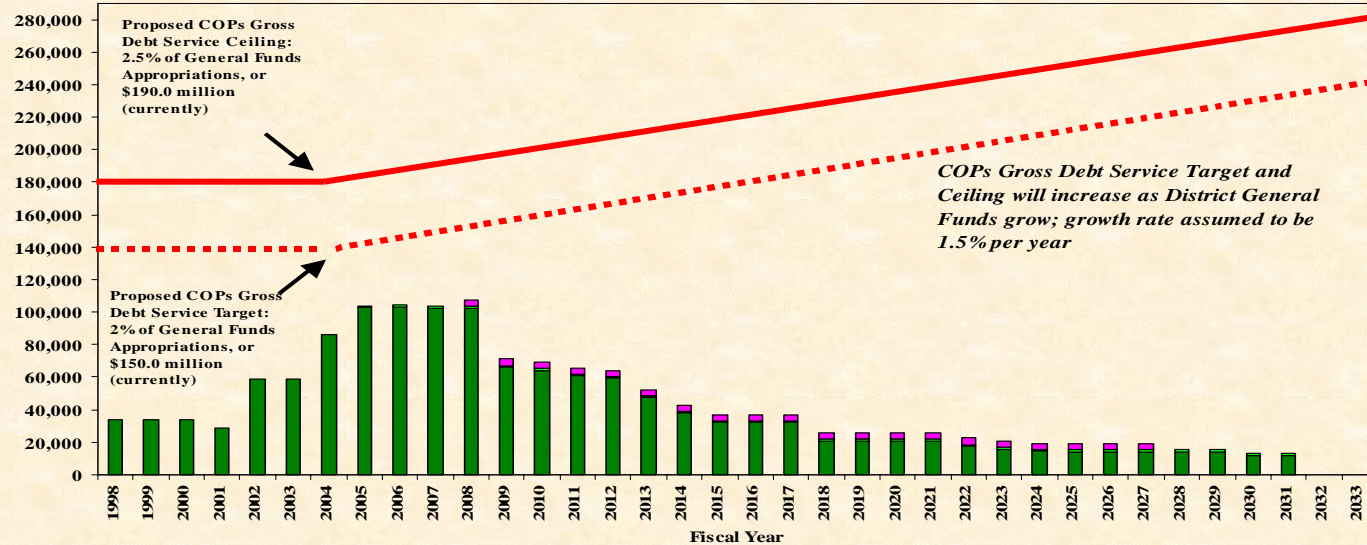
Where We Are Today

All Authorized COPs – Net Debt Service



Where We Are Today

All Authorized COPs – Gross Debt Service



■ Existing COPs ■ \$17.1 Million Beaudry Projects ■ \$43 Million Future Land Bank

Authorized and Unissued COPs

Project	Authorized	Issued	Closed	Unissued
Lincoln Medical Magnet	\$45.0	\$43.8	\$1.2	\$0.0
Multiple Projects	22.0	22.0	0.0	0.0
Multiple Projects	14.3	13.9	0.4	0.0
Ambassador	68.0	68.0	0.0	0.0
Multiple Projects	62.0	61.5	0.5	0.0
Bravo Refunding	46.5	46.1	0.4	0.0
Ambassador Refunding	73.0	69.9	3.1	0.0
Multiple Projects	67.0	61.2	5.8	0.0
King Drew, Relocatables	100.0	94.4	5.6	0.0
Belmont	100.0	91.4	8.6	0.0
Ambassador Refunding	69.9	60.8	9.1	0.0
QZABs, Multiple Projects	32.0	30.4	1.6	0.0
Multiple Projects	180.0	172.7	7.3	0.0
Land Acquisition I	35.0	35.0	0.0	0.0
Beaudry Project	180.0	162.9	0.0	17.1
Land Acquisition II	75.0	32.0	0.0	43.0
Bravo Refunding	35.0	21.7	13.3	0.0
Multiple Projects	200.0	128.8	71.2	0.0
Multiple Projects*	155.0	131.8	23.2	0.0
Totals	\$1,559.7	\$1,348.3	\$151.3	\$60.1

*Additional \$44.4 million of technology projects is expected to be needed in fiscal year 07; COPs have not been authorized.

District's Additional Capital Needs

- There is an unfunded need of \$400 to \$600 million to complete all projects proposed under the Proposition BB bonds.
- There are also unmet capital assets needs being compiled by CFO's staff, such as police cars, technology costs, computers, buses, magnet schools, science labs, furniture, parking facilities, environmental remediation, employment centers, etc.

Constraints on Funding Sources

- Limited availability of General Fund to cover shortfall or other capital needs on a pay-as-you-go basis.
- A portion of the unfunded BB projects may be eligible for funding from Measure K funds, but such an approach would crowd out Measure K projects already allocated for funding.
- A new bond measure will be on the March 2004 ballot. Proceeds from that bond could fund the Prop BB shortfall.

Proposed COPs

- Staff is requesting immediate authorization to issue COPs in the Spring of 2004 to fund \$250 million Proposition BB shortfall in case new bond measure is unsuccessful.
- Staff is also requesting authorization to advance General Funds to encumber contracts and reimburse itself with proceeds from COPs or bonds.

Critical Path Events if \$250 Million of Funds are Encumbered for BB Projects and Bond Measure is Successful

Date	Event
Aug-03	District prepares for March election
Sep-03	Board approves \$250 million of encumbrances; \$35 million of encumbrances are booked
Oct-03	\$90 million of encumbrances are booked
Nov-03	District prepares for December adoption of documents for March election
Dec-03	December 2: deadline for adoption of District Resolution and submission of Tax Statement; \$55.0 million of encumbrances are booked
Jan-04	\$70.0 million of encumbrances are booked; Identify property to be pledged for COPs, in case COPs are needed
Feb-04	Assemble G.O. bond financing team; assemble COPs team as a back-up in case the election is unsuccessful
Mar-04	Election is successful; Prepare G.O. bond documents and schedule District and County Resolution dates
Apr-04	Election is certified; prepare GO bond financing
May-04	Sell bonds and reimburse General Fund cash advances, if any were made

Critical Path Events if \$250 Million of Funds are Encumbered for BB Projects and Bond Measure is Not Successful

Date	Event
Aug-03	District prepares for March election
Sep-03	Board approves \$250 million of encumbrances; \$35 million of encumbrances are booked
Oct-03	\$90 million of encumbrances are booked
Nov-03	District prepares for December adoption of documents for March election
Dec-03	December 2: deadline for adoption of District Resolution and submission of Tax Statement; \$55.0 million of encumbrances are booked
Jan-03	\$70.0 million of encumbrances are booked; Identify property to be pledged for COPs, in case COPs are needed
Feb-03	Assemble G.O. bond financing team; assemble COPs team as a back-up in case the election is unsuccessful
Mar-04	Election is unsuccessful; prepare COPs financing documents; initiate valuation of properties
Apr-04	Continue preparations for COPs financing
May-04	Continue preparations for COPs financing
Jun-04	Sell COPs; reimburse General Fund for cash advances, if any were made

General Fund Projected Cash Flow If Bond Measure is Successful

Month	Projected Beginning Balance (Fund 01 and 03 Combined)	Projected Receipts	Projected Disbursements	Estimated Encumbrances for \$250 Million of Unfunded BB Projects Through March 2004 (Advanced from GF)	Estimated Cash Draws for \$250 Million of Unfunded BB Projects Through March 2004 (Advanced from GF)	Estimated Draws for Unfunded BB Projects After March 2004 ⁽¹⁾ (Advanced from GF)	May 2004 GOs Reimburse GF ⁽²⁾	Projected Cash Balance at End of Month	**Memorandum: Projected Intrafund Borrowing Capacity for Cash Flow Needs**
Aug-03	\$ 1,188.6	\$ 966.0	\$ 793.3	\$ -		\$ -	\$ -	\$ 1,361.3	\$ 200.8
Sep-03	\$ 1,361.4	\$ 448.2	\$ 580.3	\$ 35.0		\$ -	\$ -	\$ 1,229.3	\$ 307.2
Oct-03	\$ 1,229.3	\$ 284.1	\$ 722.6	\$ 90.0		\$ -	\$ -	\$ 790.8	\$ 323.1
Nov-03	\$ 749.1	\$ 1,100.1	\$ 1,182.0			\$ -	\$ -	\$ 667.2	\$ 324.8
Dec-03	\$ 625.5	\$ 914.8	\$ 720.1	\$ 55.0		\$ -	\$ -	\$ 820.2	\$ 308.0
Jan-04	\$ 778.6	\$ 684.0	\$ 830.6	\$ 70.0		\$ -	\$ -	\$ 632.0	\$ 264.0
Feb-04	\$ 590.4	\$ 1,081.5	\$ 525.1			\$ -	\$ -	\$ 1,146.8	\$ 319.9
Mar-04	\$ 1,105.1	\$ 440.7	\$ 1,075.5		TBD	\$ -	\$ -	\$ 470.3	\$ 322.3
Apr-04	\$ 428.7	\$ 789.2	\$ 824.0	\$ -	TBD	\$ -	\$ -	\$ 393.9	\$ 334.5
May-04	\$ 393.8	\$ 832.1	\$ 624.2	\$ -	TBD	\$ -		\$ 601.7	\$ 334.5
Jun-04	\$ 851.7	\$ 260.9	\$ 651.9	\$ -	TBD	\$ -	\$ -	\$ 460.7	\$ 345.1
				\$ 250.0					

⁽¹⁾ After the 2004 election, the Board will be requested to approve the funding of approximately \$150 million of additional unfunded BB projects through the use of new 2004 bond proceeds and/or COPs.

⁽²⁾ If the 2004 election is unsuccessful, it may take until June 2004 to repay any cash advances from the General Fund as it may take longer to prepare a COPs issue than a GO issue.