Los Angeles Unified School District
Debt Report
Fiscal Year 2023-24

Chris Mount-Benites
Chief Financial Officer
June 3, 2025

LOS ANGELES UNIFIED SCHOOL DISTRICT

Office of the Chief Financial Officer

ALBERTO M. CARVALHO
Superintendent of Schools

CHRIS MOUNT-BENITES
Chief Financial Officer

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

I present to you the report of the Los Angeles Unified School District's long-term debt (the "Debt Report"). It presents a complete picture of the District's indebtedness in the categories of General Obligation Bonds and Certificates of Participation[1]. 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 $27.605 billion[2] 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 have been financed with Certificates of Participation ("COPs") that are repaid from the General Fund.

This report uses the words "bonds" and "debt" interchangeably, even when the underlying obligation does not technically constitute "debt" under California's Constitution[3]. 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.

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 a strong commitment to the District's capital program by approving six General Obligation Bond authorizations since 1997[2]. 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. 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's Debt Management Policy prescribes limits to the amount and

---

[1] For purposes of this report, references to COPs also include the District's 2022 private placement lease agreement.

[2] Subsequent to the reporting period, on November 5, 2024, voters approved the District's Measure US, authorizing an additional $9.0 billion of general obligation bonds, bringing the District's total authorization to $36.605 billion.

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

type of COPs indebtedness that may be undertaken. This Debt Report provides a discussion of the District's COPs issuance, 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 debt as they reflect the debt burden borne by our taxpayers and provide perspective on taxpayers' capacity for future additional debt.

When debt is issued, independent credit rating agencies evaluate the District's credit profile and assign a rating to the issue. Historically, the District's credit ratings on its GOs and COPs had been directly related to the financial condition and fiscal management of the District. However, following a 2016 legislative change, certain rating agencies' methodologies on California school district GOs changed as more fully discussed in Section IV. As of June 30, 2024, the District's GO bond ratings were AAA by Fitch Ratings, AAA by KBRA, Aa2 by Moody's Investors Service, and AA- by Standard & Poor's. In addition, as of June 30, 2024, the ratings on the District's COPs were A1 by Moody's Investors Service and A+ by Fitch Ratings. Regardless of each agency's specific methodology, all rating agencies provide commentary on the District's general fund credit characteristics. In the rating agencies' most recent reports from April 2025 they recognized the District's credit strengths as well as its weaknesses. They noted the District's "favorable financial performance" and "strong budget management track record." However, they also noted that the District's "financial operations are challenged as evidenced by continued deficit spending" and that there is "a need for future spending cuts". In terms of strengths, they highlighted the District's consistent financial performance driven by conservative budgeting practices, adopted policies and multi-year planning However, they continue to note the District's challenges. To maintain its current ratings, the agencies have an expectation that the District will align operations and staffing levels with revenues to support stable operations. In terms of weaknesses, the rating agencies noted the District's ongoing enrollment declines, deficit spending pressures with projections of significantly reduced fund balances, inability to independently raise revenues and significant long-term liabilities, including pensions and OPEBs.

- ➢ Factors that can lead to an upgrade include i) maintenance of strong reserves; ii) elimination of projected operating deficits and reliance on one-time revenues to meet spending needs and iii) stabilized enrollment, with continued improvement in student attendance.
- ➢ Factors that can lead to a downgrade include i) reduction in reserves or liquidity significantly below current projections; ii) enrollment declines that exceed projections or are unaddressed by reductions in expenditures; and iii) significant increased leverage.

The ratings assigned to the District's GO bonds and COPs affect its interest payments and the cost to the District's taxpayers and the General Fund respectively. A history of the District's ratings is provided in this Debt Report.

I hope that the information in this Debt Report can be used to support the continued development of sound capital plans and for 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 help to 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,

Chris Mount-Benites
Chief Financial Officer

TABLE OF CONTENTS

SECTION I: GENERAL OBLIGATION BOND DEBT

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

As specified in 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 2023-24, total assessed valuation in the District was $930.0 billion, resulting in a bonded debt limitation of $23.2 billion. Table 1 presents the District's maximum debt limit versus outstanding debt as of June 30, 2024. The difference is the "Legal Debt Margin."

Table 1
Bonded Debt Limitation and Legal Debt Margin
As of June 30, 2024
(in thousands)

Total Assessed Valuation	$ 929,980,077
Bonded Debt Limitation (2.5% times Assessed Valuation)	$ 23,249,502
Less: Outstanding General Obligation Bonds	(10,723,385)
Equals: Legal Debt Margin	**$ 12,526,117**

In addition to new District debt issuance and the amortization pattern of its 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 2 shows assessed valuation in the District from 1995 to 2024. Chart 2 shows the annual growth rate in assessed valuation in the District over the same period. The District's assessed valuation for Fiscal Year 2024-25, which is one year beyond the reporting period in this report, is at an all-time high of $972.87 billion. The average growth rate has been 4.87% over the 30 years through FY 2023-24 and a higher 6.07% 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 Proposition 39 tax rate limitations in Section I.E.

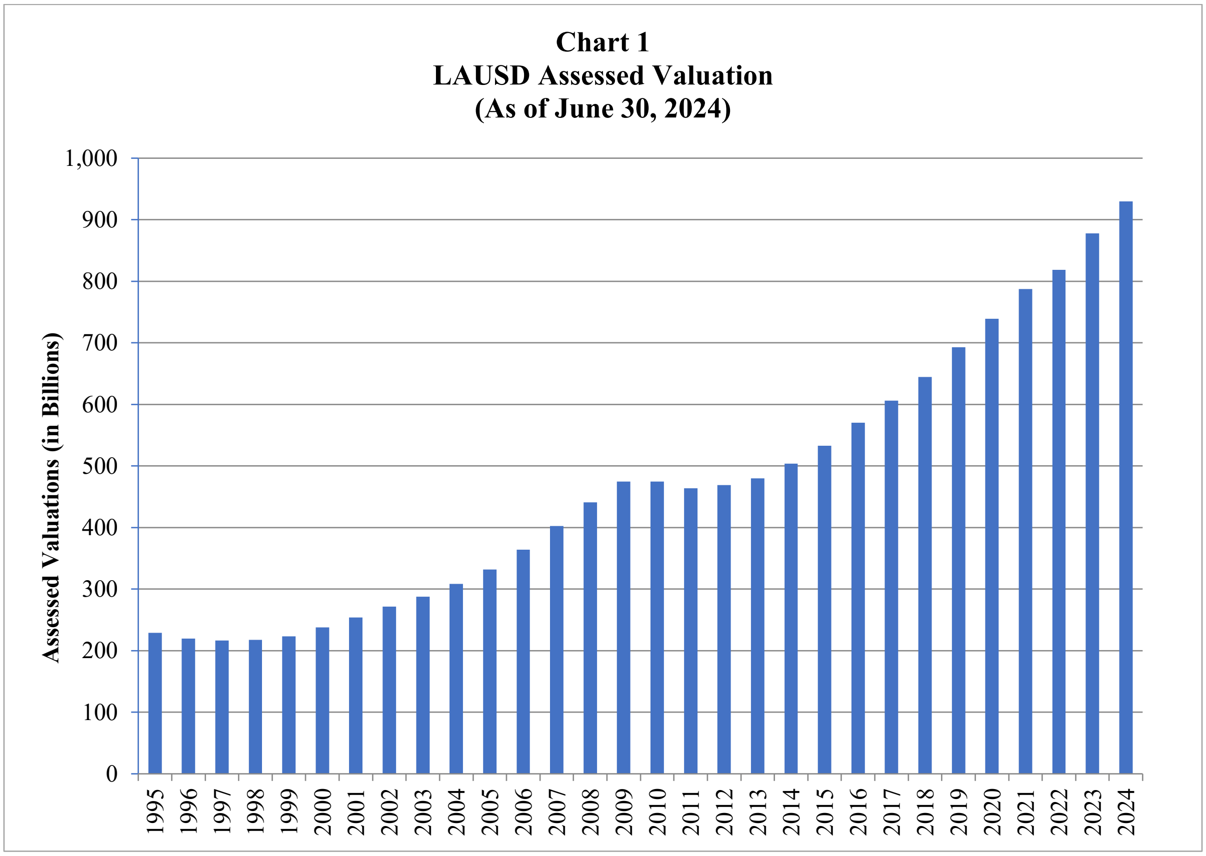


Chart 1
LAUSD Assessed Valuation
(As of June 30, 2024)
Assessed Valuations (in Billions)
0
100
200
300
400
500
600
700
800
900
1,000
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024

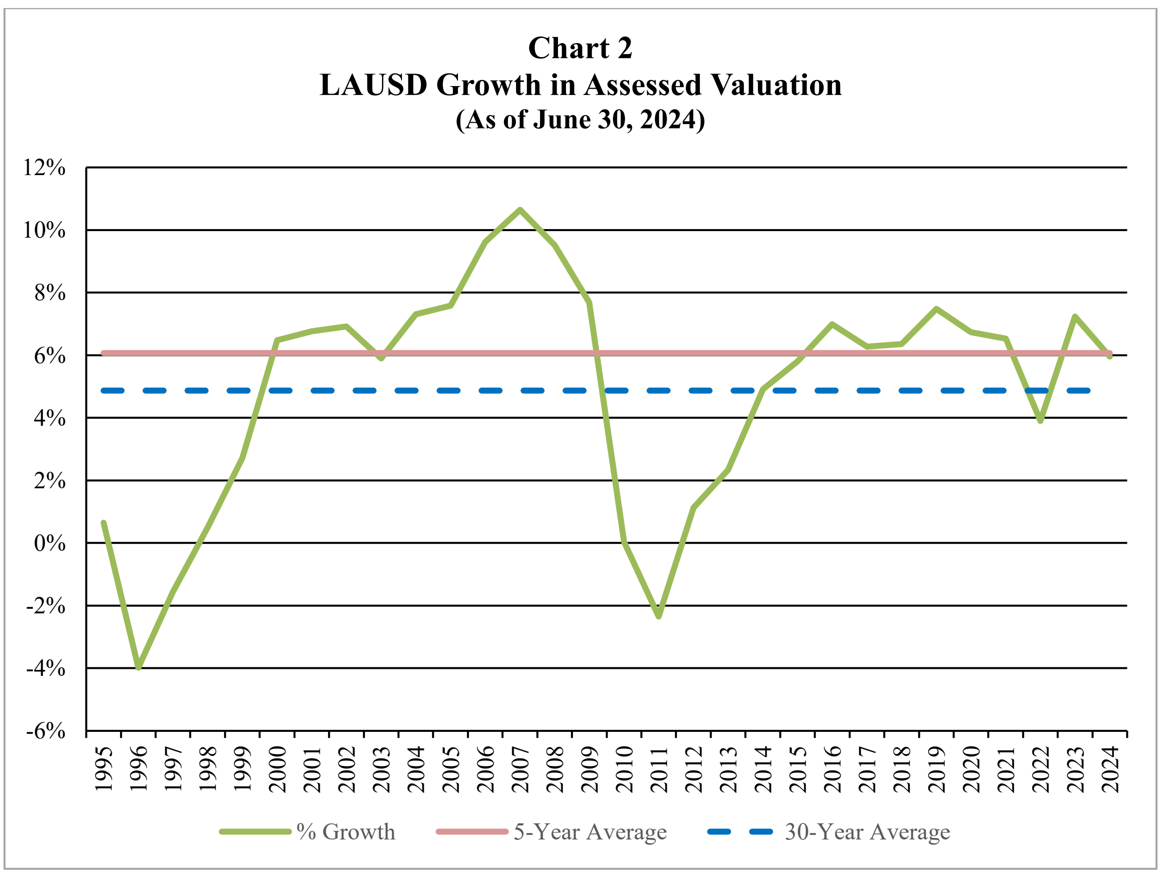


Chart 2
LAUSD Growth in Assessed Valuation
(As of June 30, 2024)
12%
10%
8%
6%
4%
2%
0%
-2%
-4%
-6%
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024
% Growth
5-Year Average
30-Year Average

B. Bonds Outstanding and Bonds Authorized But Unissued

As of June 30, 2024, the District had a total of $10.723 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 and 1-B. In Fiscal Year 2023-24, the District issued $850.0 million of General Obligation new money bonds.[1]

The District had a total of $8.699 billion of authorized but unissued General Obligation Bonds as of June 30, 2024. Table 2 presents overall highlights of the District's authorized but unissued bonds[2].

Table 2
Authorized but Unissued General Obligation Bonds
As of June 30, 2024
(in thousands)

	Voter Authorization Amount	Issued	Authorized but Unissued
Proposition BB	$2,400,000	$2,400,000	$0
Measure K	3,350,000	3,350,000	0
Measure R	3,870,000	3,870,000	0
Measure Y	3,985,000	3,985,000	0
Measure Q	7,000,000	4,275,955	2,724,045
Measure RR	7,000,000	1,025,000	5,975,000
	$27,605,000	**$18,905,955**	**$8,699,045**

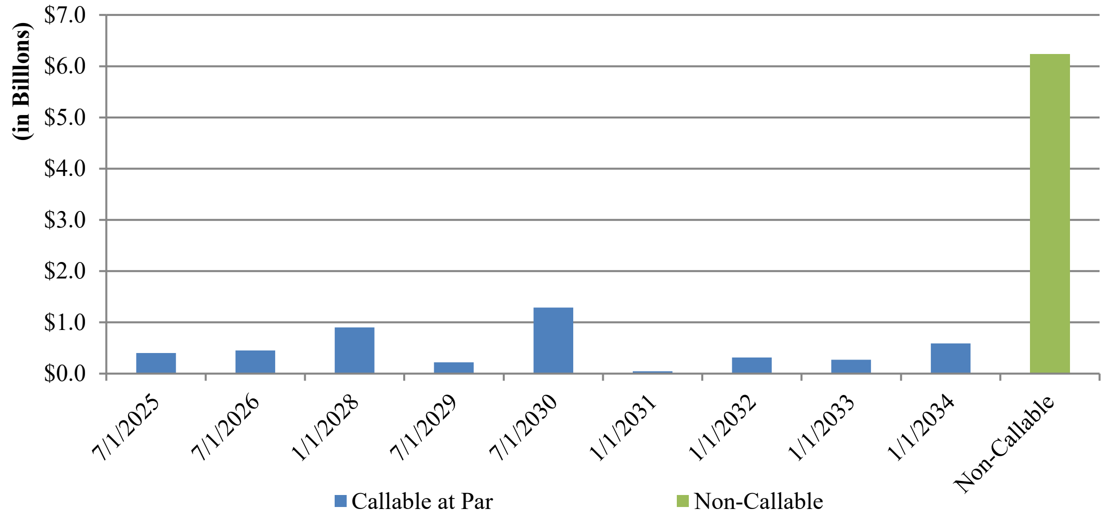
C. Distribution of Bonds by Prepayment/Call Flexibility; General Obligation Bond Refundings

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 current refunded with tax-exempt bonds, and 3) 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." On December 2017, the Federal government enacted the Tax Cuts and Jobs Act (Public Law No: 115-97), which eliminated the ability of state and local governments to do advance refundings with tax-exempt bonds. The chart below reflects current tax law.

[1] Subsequent to the reporting period, the District issued $1.100 billion of General Obligation Bonds, Series QRR (2024) on October 8, 2024. The Series QRR Bonds are comprised of $525 million of Measure Q Bonds and $575 million of Measure RR Bonds. Additionally, on May 13, 2025, the District issued $948.345 million of General Obligation Bonds, comprised of $700 million of Election of 2024, General Obligation Bonds, US Series A-1, A-2, and B, and $248.345 million of 2025 General Obligation Refunding Bonds, Series A.

[2] Subsequent to the reporting period, on November 5, 2024, voters approved Measure US, which authorized the issuance of $9.000 billion of General Obligation Bonds.

Chart 3
Distribution of Outstanding LAUSD G.O. Bonds
(by Call Date as of June 30, 2024)



The Chief Financial Officer regularly monitors market conditions for refunding opportunities. Pursuant to the Debt Management Policy, the District will not proceed with a tax-exempt refunding unless it generates at least 3% net present value savings for each maturity of bonds refunded and for which the net present value savings is greater than negative arbitrage except under certain circumstances. Alternative structures such as taxable advance refundings or tax-exempt forward refundings may be acceptable if the net present value savings is in excess of 5% on a maturity-by-maturity basis and/or other benefits to the District are identified by the Chief Financial Officer and the District's municipal advisor. Table 3 provides a summary of the savings from refundings that have been completed through June 30, 2024[1]. These refundings are saving taxpayers approximately $1.59 billion over the term of the bonds.

Table 3
Summary of General Obligation Refunding Bonds Savings
(As of June 30, 2024)

Refunding Bond Issue	Amount Refunded (millions)	Term of the Refunding Bonds (years)	Total Savings (millions)
2002	$262.7	17	$12.8
2004 A-1 & A-2	215.7	18	10.6
2005 A-1 & A-2	486.0	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

[1] Subsequent to the reporting period, on May 13, 2025, the District issued $248.345 million of 2025 General Obligation Refunding Bonds, Series A, which refunded $218.030 million of outstanding GO bonds over 15 years, generating $19.6 million in total savings.

2012 A	158.8	17	12.9
2014	1,706.4	17	171.6
2015	378.1	10	81.0
2016 A	661.2	14	126.6
2016 B	563.0	16	166.5
2017 A	1,271.2	10	258.4
2019 A	687.6	15	170.8
2020 A	379.7	13	135.3
2021 A	240.1	11	67.6
2021 B	46.4	7	5.9
2024 A	3,168.4	10	173.9
	$12,765.4		$1,594.2

D. Federal Tax Subsidy and Tax Credit Bonds

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

One of the federal programs, Build America Bonds (BABs), was 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 $1.25 billion in March 2010. All of the District's $2.6 billion of BABs were refunded with the issuance of the 2024 General Obligation Refunding Bonds, Series A on April 30, 2024. The District's only remaining Federal Tax Subsidy/Tax Credit Bonds are the General Obligation Bonds Election of 2005, Series J (2010) QSCBs, with $290.2 million outstanding as of June 30, 2024. Another federal program used by LAUSD at that time is known as Qualified School Construction Bonds (QSCBs). These were also taxable bonds, however, under this structure, investors receive a tax credit against their federal income tax, with 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 QSCBs in May 2010, as subsidized taxable rather than tax credit bonds.

Sequestration. On March 1, 2013, then-President Barack Obama signed an executive order (the "Sequestration Executive Order") to reduce budgetary authority in certain accounts subject to sequester in accordance with the Budget Control Act of 2011 and the American Taxpayer Relief Act of 2012. Pursuant to the Sequestration Executive Order, budget authority for all accounts in the domestic mandatory spending category including, among others, accounts for the payments to issuers of "Direct Pay Bonds," which includes the District's outstanding Series J (Qualified School Construction Bonds), are subject to sequestration. Direct Pay Bonds are issued as taxable bonds and provide credits to the District from the federal government pursuant to Section 54AA(d) and 54AA(g) of the Code.

Pursuant to the Bipartisan Budget Act of 2013, enacted in December 2013, the District's Direct Pay Bonds became subject to the full amount of sequestration budget cuts. The federal subsidy for the Direct Pay Bonds for the federal fiscal year ended September 30, 2023, was reduced by 5.7%, and the U.S. Treasury Department announced a decrease in subsidy amounts by 5.7% through federal fiscal year ending 2031. During the federal fiscal year ended September 30, 2024, the sequestration resulted in a reduction in the aggregate amount of approximately $0.9 million with respect to the refundable credits for the Series J Bonds.

E. Tax Rate Performance on Outstanding Bonds

The Tax Rate Statements for the District's six GO 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 GO 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 six 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

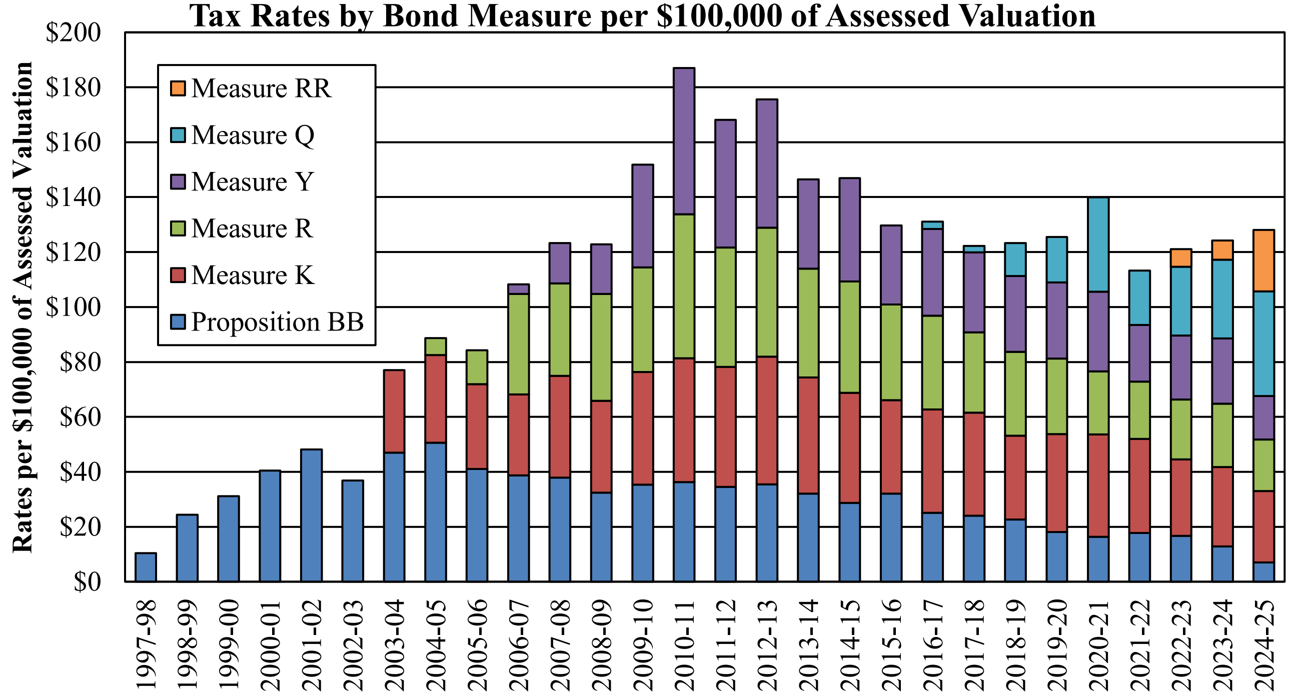
	Election Date	Amount (billions)	Assumed Average Assessed Valuation Growth	Assumed Interest Rate	Type of Election
Proposition BB	04/08/97	$2.400	2.0%	5.75%	Traditional 66 2/3rds% Minimum Approval
Measure K	11/05/02	3.350	3.9%	5.50%	Proposition 39 – 55%
Measure R	03/02/04	3.870	5.0%	5.25%	Proposition 39 – 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%
Measure RR	11/03/20	7.000	4.0%	4.00%	Proposition 39 – 55%

Table 5 on page 7 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 bond refundings. Chart 4, also on page 7, presents a history of the District's GO Bond tax rates by measure and in aggregate from FY1997-98 through FY2023-24.

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

Tax Rate Description	Proposition BB		Measure K		Measure R		Measure Y		Measure Q		Measure RR	
	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	As Projected at the Time of Election	Actual/ Projected
Estimated Tax Rate in FY Following 1st Issuance of Bonds	$23.43 FY 98-99	$24.42 FY 98-99	$47.53 FY 04-05	$30.01 FY 03-04	$21.93 FY 05-06	$12.33 FY 05-06	$5.74 FY 06-07	$3.45 FY 06-07	$0.00 FY 10-11	$2.73 FY 16-17	$2.31 FY 21-22	$6.42 FY 22-23
Estimated Maximum Tax Rate Year it Occurs	$67.36 FY 13-14	$50.55 FY 04-05	$59.38 FY 26-27	$46.46 FY 12-13	$60.00 FY 11-12	$52.37 FY 10-11	$60.00 FY 12-13	$53.23 FY 10-11	$60.00 FY 19-20	$38.67 FY 28-29	$39.73 FY 32-33	$39.05 FY 30-31
Current Tax Rate (2024-25)		**$6.97**		**$26.03**		**$18.79**		**$15.80**		**$38.09**		**$22.33**

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 when available. In the past, 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 II. B.

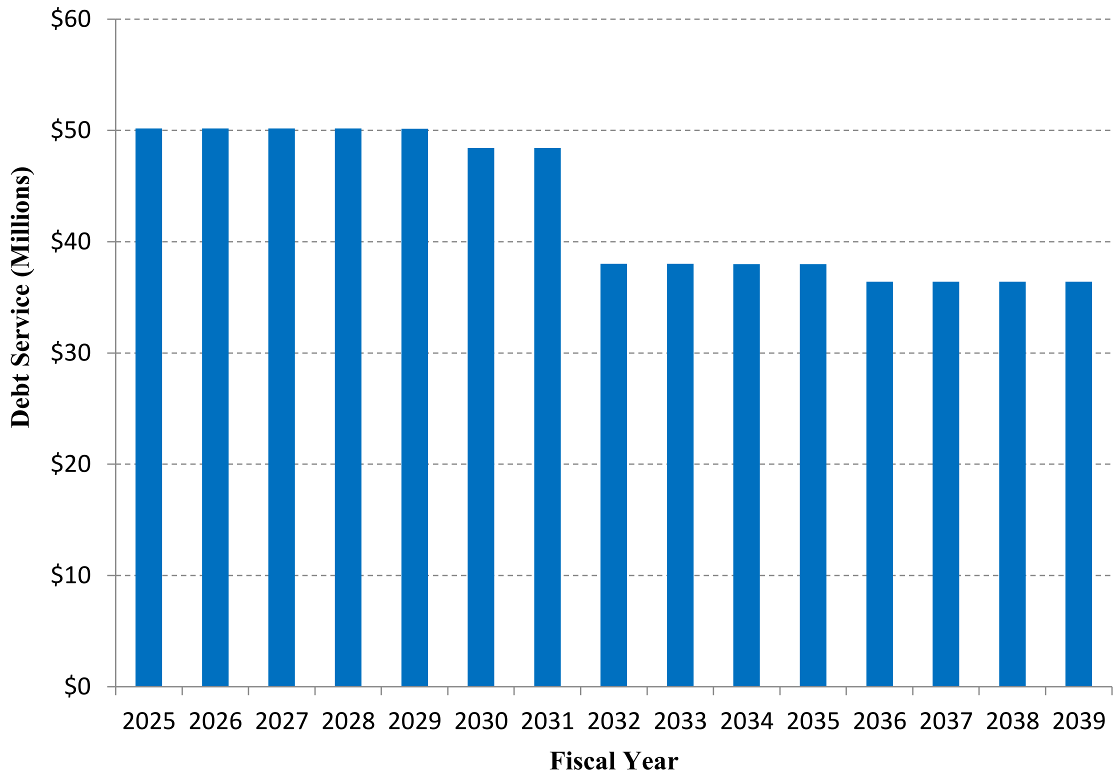
All of the District's outstanding COPs were issued as fixed rate financings. As of June 30, 2024, a total of $471.59 million of COPs were outstanding. The debt service requirements on outstanding COPs as of June 30, 2024, can be found in Appendix 2.

Table 6
Certificates of Participation Outstanding
As of June 30, 2024
(in thousands)

Issue Description	Date of Issue	Principal Amount Issued	Principal Outstanding	Final Maturity
COPs (Refunding, 2020 Series A)	10/27/2020	28,390	21,850	10/01/2034
COPs (Refunding, 2022 Lease Agreement)	08/30/2022	73,730	65,480	10/01/2030
COPs (2023 Series A) (Sustainability Bonds)	08/31/2023	384,260	384,260	10/01/2038
Total		**$486,380**	**$471,590**	

Chart 5 shows COPs debt service as of the close of Fiscal Year 2023-24. Debt service payments from the General Fund in Fiscal Year 2023-24 total $645.3 million through final maturity.

Chart 5
Certificates of Participation Debt Service (Paid from General Fund)
(As of June 30, 2024)



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. In the past, 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[1].

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[2]	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&C, 2002B&C, and 2003A&B COPs	7.0	N/A
2004A, B and D General Obligation Bonds (Measure R)[3]	09/23/04	150,000	2000B and 2002B COPs	5.0	155,836.3
2005A Refunding COPs (Administration Building Project)[4]	05/24/05	86,525	2001C COPs	20.0	N/A
2005C Refunding COPs (Multiple Properties Project)[5]	05/24/05	44,225	1996 COPs	26.0	(8,922.4)
2006A, B and D General Obligation Bonds (Measure Y)[3]	02/22/06	184,385	2002A, 2003A and 2004 COPs	15.5	215,741.9
2008A&B Variable Rate Refunding COPs[4]	08/06/08	120,950	2005A&B COPs	23.0	N/A
2010A Refunding COPs (Multiple Properties Project)[4]	01/27/10	69,685	1997A and 1998A COPs	8.0	N/A
2012 A&B Refunding COPs (Admin. Building Projects)[6]	06/12/12	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
2020A COPs Refunding	10/27/20	28,390	2010 B-1/B-2 COPs; 2013A	14.0	8,733.8
2022 Refunding Lease	8/30/22	73,730	2012A and 2012B Refunding COPs	8.0	11,255.5
				Total	**$438,313.1**

1 Subsequent to the reporting period, on May 13, 2025, the District issued $239.575 million of Election of 2024, General Obligation Bonds, US Series B (2025) Federally Taxable, which refunded $218.030 million of outstanding Certificates of Participation, 2023 Series A (Sustainability Bonds) over 14 years, generating $40.6 million in total savings.

2 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 three 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.

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

4 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.

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

6 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 Reported Institutional Holders of LAUSD Debt

Company	Thousands
Vanguard Group	$1,097,689
Blackrock Advisors LLC	583,366
Mackay Shields LLC	211,025
AllianceBernstein	195,915
Fidelity	153,144
Franklin Advisors	128,075
Guggenheim Funds Investment Advisors	117,000
Nuveen Asset Management LLC	92,471
Allstate Insurance	89,755
Charles Schwab Investment Mgmt	88,565
Dimensional Fund Advisors	55,560
Capital Research & Management Company	51,090
T Rowe	50,605
RGA Reinsurance	49,500
Invesco Advisers Inc	47,870
Barings LLC	45,110
American Century	32,145
PIMCO	28,045
JP Morgan	27,015
Northwestern Mutual Investment Mgmt Co. LLC	25,000

Source: IPREO as of June 30, 2024

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, tax law, 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 views the District's GOs as high-quality investment grade securities, owing to their repayment source and the vast local economy. The COPs which directly reflect the District's financial position are considered upper medium investment grade securities.

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. We note that the Tax Reform and Jobs Act of 2017 (the "Act") had an impact on investor demand for tax-exempt bonds. On one hand, the Act capped the amount of property and income tax deductions that individuals can use to offset taxable income, which increased demand for tax-exempt obligations from investors in high tax states, such as California. On the other hand, the lower corporate tax rates reduced demand for tax-exempt obligations from banks. In addition, 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 at that time 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 well-above those of the State during that period. Over the last several years, however, the State's credit profile and credit ratings improved significantly. During this period, the Legislature passed on-time balanced budgets, the administration repaid a significant portion of its budgetary borrowings and the State built up its reserves. As a result, the State's credit ratings improved and its interest rates relative to national indices also 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 Great Recession and more recently, during the COVID-19 pandemic. During both the financial crisis and the early months of the COVID-19 pandemic, there were periods when market access became very restricted and with respect to the Great Recession, certain municipal products failed. While some products that had been common in the municipal market prior to the Great Recession, such as auction rate securities and AAA-rated bond insurance, are no longer available, the municipal market recovered following the Great Recession. In addition, following intervention by the federal government to address COVID-19 in spring 2020, access to the municipal market normalized and interest rates remained low throughout fiscal year 2020-21. More recently, starting in March 2022, to combat inflation, the Federal Reserve Board has increased the Federal Funds interest rate eleven times totaling 525 basis points. This in turn impacts the District's cost of funds. The 25-year tax-exempt interest rate index, MMD, rose 116 basis points through the same period. While rates remained elevated during the reporting period for this report, the Federal Reserve Board, citing progress on its goal of combatting inflation, began interest rate cuts in September 2024, with consecutive decreases of 50, 25, and 25 basis points through December 2024.

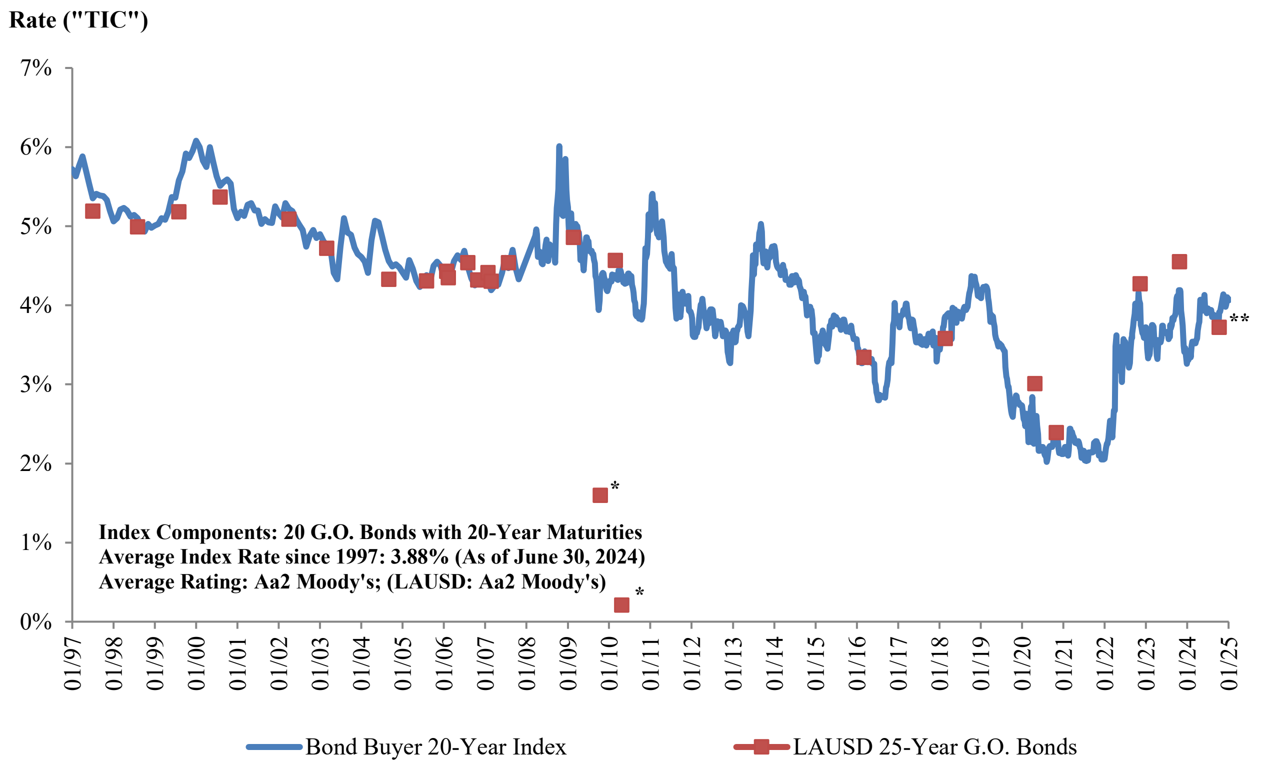
B. Cost of the District's Debt; No Variable Rate Debt Outstanding[1]

B-1. Fixed Rate Debt

As of June 30, 2024, all of the District's General Obligation Bond and COPs issues carry fixed interest rates. Since reaching a cyclical high in 1999, tax-exempt fixed interest rates saw a significant move lower through the end of 2021, allowing the District to achieve very low interest costs during this period. Tax-exempt rates have since rebounded higher following the Federal Reserve Board's interest rate hikes, which started in the first quarter of 2022, as shown in Chart 6. The chart includes the Bond Buyer 20-Bond Index which 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 AA rating. The District's new money bonds have typically been structured with 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.

[1] Subsequent to the reporting period, the District issued three series of variable rate TRANs as interim financing vehicles, totaling approximately $70.0 million.

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)
** The Series QRR (2024) General Obligation Bonds were issued subsequent to the reporting period on October 8, 2024.

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, while the vast majority of the District's debt has necessarily been issued as fixed rate bonds, the District has issued COPs in a variable rate mode from time to time. Variable rate COPs provide the District with the flexibility to prepay or restructure a portion of its debt and serves as a natural hedge to variable rate earnings. As of June 30, 2024, 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. They 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 on the voter-approved property taxes that secure California school districts' General Obligation Bonds. Beginning with the March 1, 2016 GO bond sale, LAUSD capitalized on the legislative change and pursued ratings from Fitch Ratings ("Fitch") and Kroll Bond Rating Agency ("KBRA"), in addition to Moody's Investors Services ("Moody's) that had traditionally rated the District's GOs.

Table 8
Credit Ratings (as of June 30, 2024)
(District's GO Bond Ratings Highlighted in Red)
(District's COPs Ratings Highlighted in Blue)

	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 and Lower	BB+ and Lower	BB+ And Lower	BB+ and Lower

S&P rates COPs one notch lower than its rating on General Obligation Bonds, whereas Moody's rates COPs two notches lower than its rating on General Obligation Bonds.

In April 2024, two rating agencies made changes to the District's credit ratings: Moody's upgraded the District's GO bonds rating from Aa3 to Aa2, its issuer default rating from A1 to Aa3, and its COPs rating from A2 to A1; Fitch Ratings upgraded the District's issuer default rating from A to AA- and its COPs rating from A- to A+. As of June 30, 2024, the District's GO bond ratings were AAA from Fitch, AAA from KBRA, AA- from Standard & Poor's, and Aa2 from Moody's. Fitch also provided the District with an Issuer Default Rating ("IDR") of "AA-" 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". As of June 30, 2024, any outstanding GO Bonds issued prior to Fiscal Year 2015-16 also have ratings of AA- by Standard & Poor's (S&P).

Depending on the rating agency and its methodology, as of June 30, 2024, the District's General Obligation Bond ratings are considered "best quality" or "high quality" as shown in Table 8. As of June 30, 2024, the District's COPs are currently rated A1 by Moody's and A+ by Fitch, which is considered "upper medium grade." Moody's, S&P and Fitch generally rate General Obligation Bonds several notches higher, due 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. As of June 30, 2024, Kroll does not rate the District's outstanding COPs. A history of the District's General Obligation Bond and COPs ratings is presented in Appendix 3.

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 that a possible rating downgrade may occur; and a "Stable" outlook indicates that neither an upgrade nor a downgrade is anticipated. As of June 30, 2024, the District had a Stable outlook from all rating agencies.

Recognizing the importance of 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 District has updated the Budget and Finance Policy to establish annual contributions to an Other-Post-Employment Benefit (OPEB) trust, including an increased contribution when unrestricted fund balance exceeds 5% of revenues.

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

The District evaluates its monthly General Fund cash position 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 for cashflow purposes since Fiscal Year 2012-13[1].

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 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 interfund transfers) as reported in the most recent Audited 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 a fixed rate, at or below $100 million. 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 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.

---

[1] Subsequent to the reporting period, the District issued three series of variable rate TRANs as interim financing vehicles, totaling approximately $70.0 million.

B. LAUSD's Compliance with Debt Management Policy;

Table 9 provides a summary of the District's performance against policy maximums 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% of General Fund Expenditures. Fiscal Year 2023-24 COPs debt service was $13.8 million and future maximum annual COPs debt service is $50.2 million (2024-25). The District's actual performance is well within the policy 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, 2024)

Factor	Maximum	LAUSD Actual	Over (Under) Policy Ceiling
Maximum COPs Gross Debt Service Limit	2% of General Fund Expenditures (FY2023-24)	0.48%	(1.52%)
Unhedged Variable Rate Debt	$100 million	$0	($100 million)

APPENDIX 1-A

Los Angeles Unified School District
General Obligation Bond Issuance and True Interest Cost
As of June 30, 2024[1]

Continued on the Following Page

Bond Issue	Date of Issue	Principal Amount Issued (thousands)	Outstanding Principal (thousands)	True Interest Cost (%)
Proposition BB Series A	7/22/1997	$356,000	$0	5.19%
Proposition BB Series B	8/25/1998	350,000	0	4.99%
Proposition BB Series C	8/10/1999	300,000	0	5.18%
Proposition BB Series D	8/3/2000	386,655	0	5.37%
Proposition BB Series E	4/11/2002	500,000	0	5.09%
Proposition BB Series F	3/13/2003	507,345	0	4.43%
Measure K Series A	3/5/2003	2,100,000	0	4.75%
Measure K Series B	2/22/2007	500,000	0	4.31%
Measure K Series C	8/16/2007	150,000	0	4.86%
Measure K Series D	2/19/2009	250,000	0	4.82%
Measure R Series A (5 year maturity)	9/23/2004	72,630	0	2.28%
Measure R Series B (5 year maturity)	9/23/2004	60,475	0	2.24%
Measure R Series C	9/23/2004	50,000	0	4.33%
Measure R Series D	9/23/2004	16,895	0	4.33%
Measure R Series E	8/10/2005	400,000	0	4.36%
Measure R Series F	2/16/2006	500,000	0	4.21%
Measure R Series G	8/17/2006	400,000	0	4.55%
Measure R Series H	8/16/2007	550,000	0	4.83%
Measure R Series I	2/19/2009	550,000	0	4.82%
Measure R Series J	8/19/2014	68,170	0	0.51%
Measure R Series K	8/19/2014	7,045	0	0.88%
Measure Y Series A	2/22/2006	56,785	0	3.72%
Measure Y Series B	2/22/2006	80,200	0	3.85%
Measure Y Series C	2/22/2006	210,000	0	4.15%
Measure Y Series D (taxable)	2/22/2006	47,400	0	5.18%
Measure Y Series E	8/16/2007	300,000	0	4.86%
Measure Y Series F	2/19/2009	150,000	0	4.82%
Measure Y Series G	10/15/2009	5,615	0	3.11%
Measure Y Series H	10/15/2009	318,800	318,800	1.60%
Measure Y Series I	3/4/2010	3,795	0	4.57%
Measure Y Series J-1 (QSCB)	5/6/2010	190,195	190,195	0.21%
Measure Y Series J-2 (QSCB)	5/6/2010	100,000	100,000	0.21%
Measure Y Series K	8/19/2014	35,465	0	0.84%
Measure Y Series L	8/19/2014	25,150	0	0.88%
Measure Y Series M-1	3/8/2018	117,005	101,735	3.56%

[1] Subsequent to the reporting period, LAUSD issued $1.1 billion General Obligation Bonds, Series QRR (2024) on October 08, 2024 with a True Interest Cost of 3.72%

Continued from the Previous Page

Bond Issue	Date of Issue	Principal Amount Issued (thousands)	Outstanding Principal (thousands)	True Interest Cost (%)
Measure Y Series M-2	3/8/2018	12,995	0	1.86%
Measure Q Series A	4/5/2016	648,955	320,505	3.34%
Measure Q Series B-1	3/8/2018	$1,085,440	949,510	3.58%
Measure Q Series B-2	3/8/2018	134,560	0	1.86%
Measure Q Series C	11/10/2020	1,057,060	855,585	2.39%
Series KRY (BABs) (2009)	10/15/2009	1,369,800	0	3.73%
Series KRY (Tax Exempt (2009)	10/15/2009	205,785	0	2.53%
Series KRY (Tax Exempt) (2010)	3/4/2010	478,575	0	4.57%
Series KY (2010)	5/6/2010	159,495	0	4.44%
Series RY (BABs) (2010)	3/4/2010	1,250,585	0	4.44%
Series RYQ (2020)	4/30/2020	942,940	735,215	3.01%
Series RYRR (2021)	11/10/2021	494,140	413,795	2.42%
Series QRR (2022)	11/22/2022	500,000	444,015	4.27%
Series QRR (2023)	11/7/2023	850,000	801,530	4.55%
2002 General Obligation Refunding Bonds	4/17/2002	258,375	0	2.46%
2004 General Obligation Refunding Bonds, Series A-1	12/21/2004	90,740	0	4.13%
2004 General Obligation Refunding Bonds, Series A-2	12/21/2004	128,385	0	4.38%
2005 General Obligation Refunding Bonds, Series A-1	7/20/2005	346,750	0	4.17%
2005 General Obligation Refunding Bonds, Series A-2	7/20/2005	120,925	0	4.22%
2006 General Obligation Refunding Bonds, Series A	2/22/2006	132,325	0	4.07%
2006 General Obligation Refunding Bonds, Series B	11/15/2006	574,905	0	4.32%
2007 General Obligation Refunding Bonds, Series A-1	1/31/2007	1,153,195	0	4.41%
2007 General Obligation Refunding Bonds, Series A-2	1/31/2007	136,055	0	4.41%
2007 General Obligation Refunding Bonds, Series B	2/22/2007	24,845	0	4.12%
2009 General Obligation Refunding Bonds, Series A	10/15/2009	74,765	0	2.53%
2010 General Obligation Refunding Bonds, Series A	3/4/2010	74,995	0	4.57%
2011 General Obligation Refunding Bonds, Series A-1	11/1/2011	206,735	0	2.75%
2011 General Obligation Refunding Bonds, Series A-2	11/1/2011	201,070	0	2.71%
2012 General Obligation Refunding Bonds, Series A	5/8/2012	156,000	0	2.75%
2014 General Obligation Refunding Bonds, Series A	6/26/2014	196,850	0	1.49%
2014 General Obligation Refunding Bonds, Series B	6/26/2014	323,170	30,165	1.96%
2014 General Obligation Refunding Bonds, Series C	6/26/2014	948,795	86,100	2.97%
2014 General Obligation Refunding Bonds, Series D	6/26/2014	153,385	15,600	2.60%
2015 General Obligation Refunding Bonds, Series A	5/28/2015	326,045	51,055	1.87%
2016 General Obligation Refunding Bonds, Series A	4/5/2016	577,400	168,185	1.73%
2016 General Obligation Refunding Bonds, Series B	9/15/2016	500,855	498,240	2.28%
2017 General Obligation Refunding Bonds, Series A	5/25/2017	1,080,830	698,660	1.94%
2019 General Obligation Refunding Bonds, Series A	5/29/2019	594,605	453,100	2.22%
2020 General Obligation Refunding Bonds, Series A	10/6/2020	302,000	283,785	1.26%
2021 General Obligation Refunding Bonds, Series A	4/29/2021	196,310	185,650	0.85%
2021 General Obligation Refunding Bonds, Series B	11/10/2021	48,855	47,015	1.59%
2024 General Obligation Refunding Bonds, Series A	4/30/2024	2,974,945	2,974,945	3.04%
	Total		**$10,723,385**	

APPENDIX 1-B

Los Angeles Unified School District
Outstanding Debt Service Payments on General Obligation Bonds
As of June 30, 2024 [1, 2]

Fiscal Year Ending June 30	Election of 1997 (Proposition BB)	Election of 2002 (Measure K)	Election of 2004 (Measure R)	Election of 2005 (Measure Y)	Election of 2008 (Measure Q)	Election of 2020 (Measure RR)	Aggregate Fiscal Year Debt Service
2025	$122,619,150	$269,132,222	$209,534,216	$239,414,457	$266,352,725	$69,014,181	$1,176,066,951
2026	75,466,375	274,804,711	208,788,513	243,017,549	257,566,850	75,678,306	1,135,322,304
2027	39,809,325	282,161,546	214,335,888	277,400,190	257,402,850	75,636,181	1,146,745,980
2028	10,813,100	182,677,057	235,518,513	230,889,481	262,459,725	75,587,306	997,945,182
2029	0	85,062,100	251,488,638	233,888,856	257,089,725	75,547,181	903,076,500
2030	0	83,212,900	193,974,438	292,014,481	256,941,350	75,491,306	901,634,475
2031	0	85,202,950	198,119,363	304,243,731	259,629,100	61,502,431	908,697,575
2032	0	88,081,475	244,096,188	277,126,506	259,693,100	57,119,681	926,116,950
2033	0	95,831,500	253,088,688	285,680,031	257,275,975	57,084,806	948,961,000
2034	0	98,319,125	261,554,688	293,873,181	264,150,650	57,053,431	974,951,075
2035	0	58,378,875	276,645,038	297,094,731	198,343,425	57,017,181	887,479,250
2036	0	0	8,913,913	22,431,606	264,136,800	56,977,681	352,460,000
2037	0	0	9,100,213	23,339,631	263,006,263	56,997,581	352,443,688
2038	0	0	8,963,613	22,650,481	263,451,825	56,958,131	352,024,050
2039	0	0	8,940,213	22,547,238	263,423,850	56,919,406	351,830,706
2040	0	0	8,574,413	20,673,425	265,265,581	56,882,706	351,396,125
2041	0	0	8,835,313	22,002,688	263,399,444	56,826,388	351,063,831
2042	0	0	10,378,613	29,825,025	210,149,163	56,798,644	307,151,444
2043	0	0	10,389,484	29,826,800	209,931,013	56,768,972	306,916,269
2044	0	0	10,383,841	21,593,653	132,622,113	56,719,856	221,319,463
2045	0	0	10,375,656	21,577,547	132,488,275	56,655,109	221,096,588
2046	0	0	6,875,800	3,890,591	154,094,069	56,600,013	221,460,472
2047	0	0	6,871,606	3,885,950	42,041,438	56,544,172	109,343,166
2048	0	0	0	0	41,988,969	39,874,175	81,863,144
2049	0	0	0	0	34,102,288	21,951,488	56,053,775
Total	$248,707,950	$1,602,864,462	$2,655,746,841	$3,218,887,831	$5,337,006,563	$1,480,206,316	$14,543,419,961

[1] Includes refunding bonds and excludes refunded bonds with respect to the particular bond authorization.
[2] Includes QSCB Sinking Fund Payments, but does not include QSCB Subsidies.

APPENDIX 2

Los Angeles Unified School District
Certificates of Participation Lease Obligations Debt Service Schedule
As of June 30, 2024

Fiscal Year Ending	Fiscal Year Total Debt Service (thousands)
06/30/2025	$50,177
06/30/2026	50,167
06/30/2027	50,166
06/30/2028	50,171
06/30/2029	50,164
06/30/2030	48,411
06/30/2031	48,412
06/30/2032	38,004
06/30/2033	38,001
06/30/2034	37,992
06/30/2035	37,986
06/30/2036	36,407
06/30/2037	36,409
06/30/2038	36,411
06/30/2039	36,408
Total[1]	**$645,285**

[1] Totals may not equal sum of component parts due to rounding.

APPENDIX 3

Los Angeles Unified School District
History of Outstanding Underlying Fixed Rate Long-Term Ratings
(As of June 30, 2024)

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+
2006-2008	Aa3	A+	Not rated	AA-	A2	A	A+
2008-2009	Aa3	Not rated	Not rated	AA-	A2	Not rated	A+
2009-2015[2]	Aa2	Not rated	Not rated	AA-	A1	Not rated	A+
2016[3]-2018	Aa2	AAA	AA+	AA-	A1	Not rated	A+
2019	Aa3	AAA	AA+	A+	A2	Not rated	A
2020[4]	Aa3	AA+	AAA	A+	A2	Not rated	A
2021[5]	Aa3	AA+	AAA	A+	A2	Not rated	A
2022	Aa3	AA+	AAA	A+	A2	Not rated	A
2023	Aa3	AAA	AAA	AA-	A2	Not rated	Not rated
2024[6]	Aa2	AAA	AAA	AA-	A1	A+	Not rated

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

[3] In July 2015, the California legislature enacted Senate Bill 222 ("SB222") which became effective in January 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 and KBRA, in addition to Moody's that has traditionally rated the District's GOs.

[4] In August 2019, based on their updated analysis of the legal framework for school district bankruptcies in California, KBRA upgraded the LAUSD GO bonds it rates to AAA.

[5] In January 2021, Moody's revised its rating methodology for K-12 schools. Under the new methodology, Moody's provides both a general obligation bond rating and an issuer credit rating to school districts nationally. In addition to affirming the District's General Obligation bond rating of Aa3, at the time it released the new methodology, Moody's also provided the District with an Issuer Rating of A1. The higher rating for the District's General Obligation bonds versus its Issuer Rating reflects its security structure, which relies on voter approved property taxes as the debt service repayment source.

[6] In August 2023, Fitch resumed rating the District's COPs, assigning a rating of A-. In April 2024, Fitch upgraded the District's COPs rating and Issuer Default Rating due to a criteria change. Concurrently, Moody's upgraded the District's GOs, COPs, and Issuer Default Ratings due to "consistent financial performance driven by conservative budgeting practices and multiyear planning."

APPENDIX 4

Los Angeles Unified School District
Statement of Overlapping Debt
As of June 30, 2024

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, 2024 (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, 2024
(Unaudited)

Government	% Applicable	Amount Applicable
Direct:		
Los Angeles Unified School District		
General Obligation Bonds	100.000	$10,723,385,000
Certificates of Participation	100.000	471,590,000
		$11,194,975,000
Overlapping[1]:		
Metropolitan Water District	23.866	4,345,999
Los Angeles Community College District	81.868	4,220,987,185
Pasadena Area Community College District	0.001	1,747
City of Los Angeles	99.944	948,078,778
Other Cities	Various	18,945,440
Santa Clarita Landscaping and Streetlighting Zones A and B	0.003	390
City Community Facilities Districts	100.000	77,195,000
Other City and Special District 1915 Act Bonds	99.983-100.000	18,997,853
Los Angeles County General Fund Obligations	46.377	1,149,792,372
Los Angeles County Superintendent of Schools Certificates of Participation	46.377	1,325,130
Pasadena Area Community College District Certificates of Participation	0.001	288
City of Los Angeles General Fund Obligations	99.944	1,338,676,740
Other City General Fund and Pension Obligation Bonds	Various	476,317,779
City of Los Angeles Redevelopment Agency (Successor Agency)	100.000	245,930,000
Other Redevelopment Agencies (Successor Agency)	Various	185,265,780
Total Overlapping		$8,685,860,481
Total Gross Debt and Overlapping[2]		$19,880,835,481
Less:		
Los Angeles Unified School District General Obligation Bonds Election of 2005 Series H (2009) and Series J (2010) Qualified School Construction Bonds Amount accumulated in Interest and Sinking Fund and Set Aside Repayment		200,675,000
City supported obligations		188,661
Total Net Debt and Overlapping Debt		$19,679,971,820

1 Generally includes long term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries for the District.

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

Los Angeles Unified School District

DEBT MANAGEMENT POLICY

Prepared by:

The Office of the Chief Financial Officer

June 3, 2025

DEBT MANAGEMENT POLICY

Table of Contents

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. In 2024, the District approved the issuance of judgment obligation bonds and notes ("JOBs") and a revolving credit facility ("RCA") to assist it in prudently amortizing and/or restructuring its tort liabilities over time. While the issuance of debt can be an appropriate method of financing capital projects, extraordinary liabilities, and annual cash flow management, careful and consistent monitoring of such debt issuance is required to preserve the District's credit strength and budgetary and financial flexibility. The District's long-term debt that finances its capital projects include GO bonds that are backed by i) voter approved property taxes and ii) certificates of participation ("COPs") that are backed by the District's General Fund. All or a portion of the District's outstanding GO bonds and COPs are rated by Fitch Ratings (Fitch), Kroll Bond Rating Agency ("KBRA"), Moody's Investor Services ("Moody's) and Standard & Poor's (S&P). All rating agencies rate California school districts' COPs based primarily on the overall credit quality of a district's operations including governance, management, financial performance, liquidity position, etc. However, the rating agencies differ in their approach to rating a California school district's GOs. Fitch and KBRA focus primarily on the strength of the voter-approved property tax pledge and the District's tax base that provides the security for repayment whereas Moody's and S&P focus more on the District's general fund, financial management and operations. As a result, Fitch and KBRA rate the District's GOs higher than Moody's and S&P.

In FY 2023-24, the District received several rating upgrades. In FY 2024-25, Moody's, Fitch, and KBRA affirmed the District's ratings in April. The ratings agencies cited both District strengths and weaknesses. They noted the District's "favorable financial performance" and "strong budget management track record." However, they also noted that the District's "financial operations are challenged as evidenced by continued deficit spending" and that there is "a need for future spending cuts". As of April 8, 2025, the District's credit ratings on its GO bonds and COPs were as provided below.

	Rating (Outlook)	
Agency	**GO Bonds**	**COPs**
Moody's Investor Service (Moody's)	Aa2 (Stable)	A1 (Stable)
Fitch Ratings (Fitch)	AAA (Stable)	A+ (Stable)
Kroll Bond Rating Agency (KBRA)	AAA (Stable)	n/a
Standard & Poor's (S&P)	AA- (Stable)	n/a

We note that Fitch and Moody's also provide a rating related to the District's general fund credit that is separate from its rating on the District's GO bonds or COPs. As of April 8, 2025, Fitch provides a "AA-" Issuer Default Rating (Stable Outlook) and Moody's provides a "Aa3" Issuer Rating (Stable Outlook). While these ratings are not directly tied to the District's GO bond or COPs ratings, they reflect these rating agencies' views on the overall financial credit profile of the District.

The District continues to face capital program and cash requirements and through the Facilities Improvement Program, has been engaged in building new schools and modernizing existing schools.

The costs of these requirements have and will continue to 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, Measure Q, Measure RR and Measure US adopted by the voters in April 1997, November 2002, March 2004, November 2005, November 2008, November 2020 and November 2024, respectively, the District has had a combined $36.605 billion in general obligation bond authorization for its Facilities Improvement Program and other capital projects, including capital projects that provide General Fund relief. Consequently, the District has seen an increase in its levels of debt and other long-term financial obligations, some of which are 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 continue to be 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.

The various forms of financing below are described as 'debt', even when the underlying obligation does not technically constitute "debt" under California's Constitution. 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.

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, lease financings and other forms of indebtedness 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 and maintain 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 credit ratings on existing or future debt issues.

- ☐ The District shall remain mindful of its statutory debt limit in relation to assessed valuation 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, when selecting projects to finance with bond proceeds, ensure that the projects to be financed support the district's future needs and goals.

☐ The District shall share capital improvement data with the public.

☐ The District shall ensure that local and small businesses will be considered and used in lead and other roles in the financing team when appropriate.

☐ The District shall ensure that its financing arrangements comply in all respects with applicable state law, tax law, disclosure requirements, and the District's existing debt covenants.

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

A. <u>Budget and Finance Policy</u>: The District recognizes the importance of emergency reserves, including liquidity in the General Fund, which 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. <u>Capital Financing Plan</u>: The Office of the Chief Financial Officer will prepare a Capital Financing Plan in conjunction with the capital budget.

C. <u>Annual Debt Report</u>: 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, 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 capital 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. In addition, if a district has a qualified or negative certification from LACOE in any fiscal year, it may not issue, in that fiscal year or in the next succeeding fiscal year, COPs, TRANs, revenue bonds, or any other debt instruments that do not require the approval of the voters of the school district, unless the County superintendent of schools determines that the school district's repayment of the indebtedness is probable.

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

A. <u>Short-Term Debt</u>: The District may issue fixed-rate and/or variable rate short-term debt for various purposes. Tax and revenue anticipation notes ("TRANs") can be issued when such instruments enable 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. Short-term notes including TRANs or RCAs may also be issued in conjunction with the District's JOB program as described in Section 2.02 D below. In addition, commercial paper may be issued to fund shorter-term acquisitions, such as equipment, or as interim funding for capital costs that will ultimately be replaced with longer-term COPs. Bond anticipation notes ("BANs") may be issued to provide interim financing for projects that will ultimately be paid from general obligation bond proceeds. 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 sufficient benefit to the District.

B. <u>General Obligation Bonds</u>: GO Bonds may be issued under Article XIII A of the State Constitution pursuant to voter approved propositions, either under Section 1(b)(2) which requires approval by at least two-thirds of voters 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 Bonds issued under Proposition 39 can only be used for school facilities, including furnishing and equipping of school facilities. In recognition of the difficulty in achieving the required voter approval to issue general obligation bonds, such bonds will be generally limited to projects that provide wide public benefit and for which broad public support has been generated. GO debt cannot 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, including equipment. However, lease obligations 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. For the District, lease financing for facilities is generally only appropriate when there is insufficient time to obtain voter approval, in instances where obtaining voter approval is not feasible and when projects cannot be funded with GO bonds. 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 3.08 hereof. Asset transfer COPs or LRBs 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 five 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 or other significant adverse event, earthquake, or other natural disaster and there are no other viable sources of funds to fund the equipment purchase;

ii. The Board is informed of the Superintendent's finding; and

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

D. Judgement Obligation Bonds ("JOBs"). JOBs are a form of debt that is used to refund certain existing debt, including (if not prohibited by the California Constitution, Article 16, Section 18) involuntary tort indebtedness, when the Board determines it is in the best interests of the District. JOBs enable an issuer to amortize these types of liabilities over time. They are issued pursuant to Articles 10 and 11 (commencing with Section 53570) of Chapter 3 of Division 2 of Title 5 of California Government Code. (Government Code 5357-5372; Government Code 5358-53589.5). JOBs may be used in conjunction with an RCA. Prior to the issuance of JOBs, on an interim basis, involuntary tort indebtedness can be repaid through the issuance of notes under an RCA. When sufficient claims are accumulated under the RCA, JOBs would be issued that pay off the notes. In addition, prior to the issuance of JOBs, TRANs may also be issued to pay off involuntary tort liabilities on an interim basis.

E. Use of Revenue Bonds: Revenue bonds including Mello-Roos Obligations that are supported solely from fees or taxes on a discrete group of taxpayers 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.

G. 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. The special financing structures may be in the form of GO bonds or COPs/LRBs.

H. Capital Appreciation Debt: The use of Capital Appreciation Bonds ("CABs") for various forms of debt (e.g., GO Bonds, COPs, LRBs, etc.) is limited pursuant to AB182 which was passed in 2013. Under this legislation, the ratio of total debt service to principal cannot exceed four to one and the maximum final maturity is 25 years. Any CABs with a maturity date greater than 10 years must be callable at the option of the school district no later than the 10th anniversary of the sale date of the bonds. The agenda of the school board meeting where the sale will be approved must include a resolution to approve the sale of the CABs. Public notice for the resolution must be on at least two consecutive meeting agendas. The governing board must receive a cost impact of the use of CABs that conforms to the requirements in the legislation. The District will not use CABs unless the Board determines it is necessary to issue them for urgent projects that cannot be more cost-effectively financed by an alternative method.

I. 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 property taxes that repay general obligation or special tax bonds.

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 general obligation refunding bonds is contained in Articles 9 (commencing with Government Code Section 53550) and 11 (commencing with Government Code Section 53580) of Chapter 3 of Part 1 of Division 2 of Title 5 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 Office of the Chief Financial Officer will do an annual review of the debt policy. If there are proposed changes in the policy, staff will submit an updated debt policy to the Board for approval. The Chief Financial Officer ("CFO") 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.

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

Section 3.01 **Structure of Debt Issues**

A. Maturity of Debt: The weighted average maturity of a debt issue for capital projects shall be consistent, to the extent possible, with the reasonably expected economic or useful life of the improvements or assets that the issue is financing. The weighted average maturity of a debt issuance for capital projects shall not exceed 120% of the weighted 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 25 years when such bonds are issued pursuant to the Education Code.

b. The final maturity of General Obligation Bonds will be limited to 40 years when such bonds are issued under the Government Code. Per AB 182, the maturity of bonds may not exceed 25 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, taking into account unexpended proceeds of prior issues at the time an issue is sized.

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.

iv. Judgement Obligation Bonds: The Board has authorized JOBs to be amortized for up to 20 years. This amortization period will enable the District to mitigate and manage the impact of large tort liabilities on its budgetary resources.

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 municipal advisor of the economics of callable versus non-callable features and applicable state law, 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 method which is likely to result in the lowest interest cost to the District. All three methods of sale shall be considered for all debt issuance, because 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.

Section 3.03 **Markets**

The District shall consider products and conditions in the capital markets in meeting the District's financing needs. To achieve the lowest cost of funds, the District's goal is to reach as broad a retail and institutional investor base as possible. When appropriate, the District shall consider syndicate policies that give priority to orders from local and regional investors.

Section 3.04 **Credit Enhancement 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 municipal 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 A1/A+ by at least one of the major rating agencies 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 the annual debt service supported 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, it 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 (13) 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, however may be paid from any moneys of the District lawfully available. 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**

A. Credit Rating Methodologies: As described in the Background section of the Debt Policy, there are four rating agencies that currently rate all or a portion of the District's outstanding GOs and COPs. These agencies employ varying rating methodologies with certain agencies' focusing more (or less) on the GO property tax pledge and tax base versus on the District's operations. In addition, two of the agencies now provide just a single rating at the time that they rate a GO bond issue and two provide two ratings – one on the GO credit and one on the underlying issuer credit. After January 1, 2016, when SB222 became effective, Fitch has rated California school district GO Bonds based primarily 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, they also release 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 prioritizes the strength of the property tax pledge and tax base, as well as considering the overall credit quality of a district's operations and provides a single rating on a district's GOs. Historically, both Moody's and S&P have released a single rating on the District's GOs that incorporate a broad analysis of credit quality with more emphasis on a district's finances and operations versus the security for repayment, than Fitch and KBRA. We note however, that in January 2021, Moody's revised its K-12 rating methodology. Under the new methodology, Moody's provides a: i) GO bond rating that recognizes the strength of the security structure and ii) an Issuer Rating that reflects Moody's view of a district's overall financial profile without regard to the GO bonds' security structure. 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 its financial decisions on the credit quality of its GOs and COPs/LRBs.

B. 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 voter-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:

i. *Ratio of Outstanding Debt to Assessed Value*. The ratio "Direct Debt" shall be calculated using the District's GO Bonds, COPs and LRBs. In addition, the ratio of "Overall Debt" shall be calculated by aggregating all debt issues attributable to agencies located within the District's boundaries 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.

ii. *Ratio of Outstanding Debt Per Capita*. The formula for this computation is Outstanding Debt divided by the population residing within the District's boundaries, based upon population estimates using information from the United States Bureau of the Census and the California Department of Finance. Ratios shall be computed for both "Direct Debt Per Capita" and "Overall Debt Per Capita".

iii. *Ratio of Annual Lease Debt Service to General Fund Expenditures*. The formula for this computation is annual lease debt service expenditures divided by General Fund expenditures (excluding inter-fund transfers) as reported in the most recent Audited Annual Financial Report ("AAFR").

iv. *Proportion of Fixed-Rate and Variable-Rate Debt*. The District may benefit from having some variable rate exposure in its debt portfolio. The District shall keep its variable rate exposure, to the extent not hedged or swapped to a fixed rate, at or below $100 million. However, the District may use variable rate interim financing above this limit where the intent is to refund the interim financing with fixed-rate financing within 13 months and the variable rate issuance is necessary to facilitate the refinancing. "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.

C. Debt Affordability: The determination of how much indebtedness the District should incur will be based on a capital financing 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. It 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.

D. Targets and Ceilings for Debt Affordability: While the District's GO bonds are repaid with voter-approved property taxes, it is the debt that is repaid from the District's General Fund and other internal resources (typically, the District's COPs and LRBs) that factor into the District's credit quality. As a result, these debt obligations must be carefully monitored to maintain a balance between General Fund debt and the resources available to repay the debt. However, the credit environment is also affected by the debt burden imposed by the District's issuance of GO Bonds as well as the debt issuance of other agencies whose jurisdictions overlap those of the District ("Overlapping Debt") that are secured with property taxes (for example, the City of Los Angeles, the County of Los Angeles and the Los Angeles Community College District). The rating agencies will note the overall debt burden of the District which will include the overlapping jurisdictions' debt.

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 District's annual Debt Report.

Table 1 on the following page provides the debt burden limit that will be monitored by the Chief Financial Officer for debt that is to be repaid from the General Fund or other District resources. This maximum amount is intended to guide policy; it does 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	**Maximum**
COPs Gross Annual Debt Service	2.0% of General Fund Budgeted Expenditures

E. Monitor Impact on District Taxpayer of Voter-Approved Taxes: In addition to the analysis of the District's debt affordability, the District 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. It is important for the District to be aware of its share of the total overlapping debt. 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, Measure Q and Measure RR 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 (2) 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 for General Obligation Obligation-funded projects 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. Non-Facilities General Obligation Bond-funded projects are under the CFO's direction and will be reviewed by the Office of General Counsel and the Bond Compliance Unit for allowability of the project and the proposed project expenditures, respectively. Non- General Obligation Bond-funded projects are prioritized, and funding is planned by the CFO under the Superintendent's direction and approved by the Board of Education. Non- General Obligation Bond-funded projects are planned and managed by the Division responsible for executing the specific approved work. The Facilities and Information Technology Strategic Execution Plans provide an overall description of the District's current School Upgrade Program, as supplemented by any proposed issuance of debt. The Facilities Services Division and Information Technology 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, facilities, equipment, and technology. The plans must include, for each Board approved project, a summary of the budget, a scope description and a schedule for completion. 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 Annual Audited Financial Report ("AAFR") will include information on the District's indebtedness including the amount of (i) new debt issued, (ii) debt outstanding, and (iii) assessed valuation. The AAFR 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 and Disclosure Coordinator. 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 and to ensure compliance with applicable laws, regulations and agreements.

The District shall make available its annual AAFRs, 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 benefit and 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 municipal advisor(s) 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 along with the District's municipal advisor(s) 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 principal to be considered for a tax-exempt refunding shall be no less than 3% on a maturity by maturity basis unless, at the discretion of the Chief Financial Officer, a lower percentage is more applicable, for situations including, but not limited to, refunding candidates with only a few years until maturity or COPs being defeased or redeemed from proceeds of GO Bonds or other structuring considerations. In addition, alternative structures such as taxable advance refundings or tax-exempt forward refundings may be acceptable if the net present value savings is in excess of 5% on a maturity by maturity basis and/or other benefits to the District are identified by the Chief Financial Officer and the District's municipal advisor. For example, if the District has a very large refunding opportunity approaching and it would benefit from splitting the refunding into more than one sale, a taxable advance refunding of a portion of the bonds may be justified. Another consideration in deciding which debt to refinance and the timing of the refinancing shall be maximizing the District's expected net savings over the life of the bonds.

The Chief Financial Officer may waive the percent savings per maturity 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 savings analysis and thresholds are not applicable to refundings of indebtedness using JOBs intended to restructure and/or amortize tort liabilities over time; provided that the Board determines any such refunding is in the best interests of the District.

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 analysis at the time such savings are available.

In addition, the District may issue federally taxable bonds or use other available funds to defease tax-exempt bonds if the District's Chief Financial Officer in consultation with tax counsel determines that such action would assist the District in complying with applicable federal tax provisions, or would otherwise enable the District to enter into transactions providing for non-governmental entities or the federal government to use or manage bond financed property.

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, federal tax law provisions applicable to the investment of bond proceeds and 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 municipal 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 with respect to each of the District's tax-exempt debt issues in accordance with the Internal Revenue Code 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 and the structuring of the financing as well as the selection of credit enhancement products and providers, if applicable, and the selection of investment products, if appropriate. 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 provide a timely summary of each financing to the Board.

Section 4.12 **Financing Team Members**

A. Retention of Consultants

i. General: All municipal 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 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 associated with bond-financing related matters. Generally, contracts for municipal 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, a 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 five 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 FINRA Series 53 license (Municipal Securities Principal).

Based upon an evaluation of submitted statements of qualifications, underwriting firms are assigned to one of two tiers, subject to Board approval.

Tier	Eligible Syndicate Assignments
Senior Manager	Eligible to be selected as a senior manager, co-senior manager or co-manager
Small Business Enterprise / Disabled Veteran Business Enterprise	Eligible to be selected as a co-manager

In the event the District issues bonds through a negotiated sale, the underwriters will be selected from the District's underwriter pool by the Office of the CFO. The Office of the CFO will provide the Board of Education the names of the underwriting firms selected and the rationale for their selection. Underwriters may be selected for multiple transactions if multiple issuances are planned for the same project.

iii. General Municipal Advisor(s): The District shall retain general municipal advisory firm(s) to provide general advice on the District's debt management program, financial condition, budget options and rating agency relationships. Additionally, the general municipal advisor(s) may be used to structure issuances of District debt obligations. Any firm serving as a general municipal 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: Underwriters, external legal counsel and municipal advisors will be selected for the District's GOs, COPs, TRANs, Mello-Roos, special revenue bonds, and any other multi-year bond programs which may be created. Depending on expertise and consultant availability, a firm can be used on more than one program. Efforts will be made to establish different underwriting teams to provide a number of firms the opportunity to participate in District financings. However, efficiencies and continuity of service are to be considered to achieve the District's objectives.

B. Use of Independent Municipal Advisors

i. Use of Independent Municipal Advisors: Any firm serving as municipal 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 municipal 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 municipal 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 municipal advisor.

ii. Engagement of Municipal Advisor(s): The Office of the CFO may maintain a pool of municipal advisors separated into two tiers – General and Transactional. In order to select the municipal advisors for its pool, the District shall issue an RFP or RFQ which includes comprehensive questions on the experience and capabilities of the municipal advisory firm and the personnel assigned to the District and the firm's status as an SBE. The Office of the CFO will select the municipal advisory firm(s) to provide general advice and to work on a transaction or other projects from its pool of municipal advisors.

a. Firms in the General Municipal Advisor Tier may be used for various financial projects for which the District requires advanced financial expertise not available within the District. Firms in the General MA Tier may also serve as municipal advisors on the District's debt issuances.

b. Firms in the Transactional Municipal Advisor Tier may serve the District as municipal advisors on the District's debt issuances.

c. SBE status shall be a consideration in the selection of municipal or co-municipal advisors.

iii. Independent Registered Municipal Advisor: The Office of the Chief Financial Officer will select one or more specific firms to serve as the District's IRMA, as defined by the SEC, from the General MA Tier. 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 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.

When an Investment Advisor is warranted, in order to select an Investment Advisor, the District may issue an RFP or RFQ which includes comprehensive questions on the experience and capabilities of the responding firm and the personnel assigned to the District and their status as an SBE. A firm may serve as both the Investment and Municipal Advisor.

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 **Long-Term Debt—Tax Compliance Procedures**

LOS ANGELES UNIFIED SCHOOL DISTRICT

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 to monitor tax compliance with regard 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

[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").

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, 1.141-4, 1.141-5, 1.141-6, 1.141-12, 1.141-13, 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 date, amount and purpose of each expenditure of proceeds of each issue of Tax-Advantaged Obligations, 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) With respect to debt issues sold by competitive bid, documents evidencing compliance with the 3-bid rule for purposes of establishing the "issue price" of such obligations;

(vii) Schedules prepared by the Municipal 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;

(viii) 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;

(ix) Any verification reports issued with respect to the issue; and

(x) 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 percent[2] 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 involve Private Payments, will not cause the District's general obligation bonds to become private activity bonds.[3]

[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.
[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

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 for federal income tax purposes 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 2017-13[4], a summary of which is provided in Exhibit 1 to this appendix. 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.

General Public Use. Use as a member of the general public is not Private Use, provided that the property is intended to be available, and is in fact reasonably available for use by natural persons not engaged in a trade or business. Arrangements providing for use that is available to the general public at no charge or on the basis of rates that are generally applicable and uniformly applied will not result in Private Use. For this purpose, rates may be treated as generally applicable and universally applied even if different rates apply to different classes of users, provided that such differences are customary and reasonable.

---

business use may become taxable private activity bonds even if the District receives no payments with respect to such property.

[4] The determination of whether a particular use pursuant to a service contract entered into prior to August 18, 2017 that is not materially modified or extended on or after August 18, 2017 (other than pursuant to a renewal option as defined in Treasury Regulation Section 1.141-1(b)) may be determined on the basis of applying Revenue Procedure 97-13, as modified by Revenue Procedure 2001-39 and amplified by IRS Notice 2014-67Revenue Procedure 97- 13, 1997-1 C.B. 632, as amended by Revenue Procedure 2001-39, 2001-2 C.B. 39. The District will consult with tax counsel prior to applying Revenue Procedure 97-13.

An arrangement is not treated as general public use if the term of use under the arrangement, including all renewal options is greater than 200 days. For this purpose, a right of first refusal under an arrangement is not treated as a renewal option if (i) the compensation for use under the arrangement is redetermined at market rates in effect at the time of the renewal, and (ii) the use of the financed property under the same or similar arrangement is predominantly by natural persons who are not engaged in a trade or business.

Short Term Use. Arrangements fitting within either of the following two arrangements will not result in Private Use:

Use Not Reasonably Available to Natural Persons not Engaged in a Trade or Business. An arrangement will not result in Private Use if (a) the compensation is based on generally applicable and uniformly applied rates, (b) the arrangement does not result in ownership of the property by a nongovernmental person, (c) the term of the use under the arrangement, including all renewal options, is not longer than 100 days, and (d) the arrangement would be treated as general public use, except that the property is not available on the same basis by natural persons not engaged in a trade or business because generally applicable and uniformly applied rates are not reasonably available to persons not engage in a trade or business.

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 result in ownership of the property by a nongovernmental person, (b) the term of the use under the arrangement, including all renewal options, is not longer than 50 days, (c) the arrangement is a negotiated arm's-length arrangement and compensation under the arrangement is at fair market value and (d) the property is not financed for a principal purpose of providing that property for use by that non-governmental person. .

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 2017-13.

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 2017-13.

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 the 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 may give 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")[5]. 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.

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.

<u>Structuring of Arrangements to Avoid Private Use or Private Payments</u>. 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.

<u>Dispositions</u>. 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.

<u>Remedial Actions</u>. 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

[5] 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.

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 municipal 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.

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

(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 and issue price 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")

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

(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 municipal advisor or senior manager and obtain from bond counsel or 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 municipal 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 verification agent 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, provided that if any portion of the related Tax-Advantaged Obligations is refunded, such retention period shall not expire prior to the date that is six years after the complete retirement of any issue that is refunded, directly or indirectly, such portion of the related Tax-Advantaged Obligation.

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 certain tax purposes.

Training

The District shall engage its bond counsel or special tax counsel to provide a seminar at least every five years, 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.

EXHIBIT 1 to Appendix A

SAFE-HARBOR MANAGEMENT CONTRACT GUIDELINES
REV. PROC. 2017-13

General Rule.

A contract between a state or local governmental unit (a "**Qualified User**") and a manager or operator which is not a state or local government unit (a "**Provider**") for the management of, or services rendered at, or incentive payment in respect of, a tax-exempt bond-financed facility (the "**Managed Property**") that meets the safe-harbor guidelines of Rev. Proc. 2017-13 as summarized below, is treated as not creating any private business use under Section 141(b) of the Internal Revenue Code (the "**Code**"). In addition, if the guidelines are met, the burden to prove that the contract creates impermissible private activity would shift to the Internal Revenue Service ("**IRS**") in a tax court proceeding. All contracts must be reviewed on a case-by-case basis.

Under Rev. Proc. 2017-13, a contract under which the only compensation consists of reimbursements of actual and direct expenses paid by the Provider to "Unrelated Parties" and reasonable related administrative overhead expenses of the Provider does not create private business use. "Unrelated Parties" are persons other than either: (1) a related party (as defined in § 1.150-1(b) of the federal income tax regulations) to the Provider; or (2) a Provider's employee.

General Financial Requirements.

1. *Reasonable Compensation*. The compensation, including any payments to reimburse actual and direct expenses paid by the Provider and related administrative expenses of the Provider, must be reasonable.

2. *No net profits arrangements*. The compensation paid to the Provider must not include a share of net profits from the operation of the Managed Property.

- Compensation to the Provider will not be treated as including a share of net profits if no element of the compensation takes into account, or is contingent upon, either the Managed Property's net profits or both the Managed Property's revenues and expenses for any fiscal period (other than any reimbursements of direct and actual expense paid by the Provider to Unrelated Parties).

- For this purpose, the elements of the compensation are the eligibility for, the amount of, and the timing of the payment of the compensation.

- Incentive compensation will not be treated as providing a share of net profits if the eligibility for the incentive compensation is determined by the Provider's performance in meeting one or more standards that measure quality of services, performance, or productivity, and the amount and the timing of the payment of the compensation is not based on or contingent on the net profits of the Managed Property.