Los Angeles Unified School District
Debt Report
Fiscal Year 2011-12

Megan K. Reilly
Chief Financial Officer
January 3, 2013

LOS ANGELES UNIFIED SCHOOL DISTRICT
Office of the Chief Financial Officer

JOHN E. DEASY
Superintendent of Schools

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Chief Financial Officer

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

I present to you the report of the Los Angeles Unified School District's long-term debt (the "Debt Report"). Sometimes referred to as "bonded indebtedness", long-term debt is typically used to finance capital projects with a long useful life. Issuing debt to pay for long-term assets is based upon the principle of matching the cost of acquiring the asset to the time period that taxpayers and the general community utilize those assets. The District strives to achieve an equitable balance between the debt burden to the community and the time frame over which the assets are to be used.

The vast majority of the District's capital projects fall within the new construction, modernization, technology and safety programs being financed with $20.605 billion of voter-approved General Obligation Bonds and at least $7.4 billion of State matching funds and other sources. A relatively small number of projects are being financed with Certificates of Participation ("COPs") that are repaid from the General Fund, developer fees or cafeteria fund sources.

This report frequently uses the words "bonds" and "debt" interchangeably, even when the underlying obligation does not technically constitute "debt" under California's Constitution.[1] This conforms with market convention for the general use of the term "debt" and "debt service" as applied to a broad variety of instruments in the municipal market, regardless of their precise legal status. The rating agencies and the investor community evaluate the District's debt position based on all of its outstanding obligations whether or not such obligations are "debt" as defined within the California Constitution context.

This Debt Report presents a complete picture of the District's indebtedness in the categories of General Obligation Bonds and Certificates of Participation.

General Obligation Bonds represent debt that is paid from voter approved taxes that are levied and collected by the County of Los Angeles. The proceeds of such tax levies are neither received by or under the control of the District. The District's taxpayers have shown strong commitment to the District's capital program by approving five General Obligation Bond authorizations since 1997, with each successive authorization being the largest school district measure of its kind at the time. A top priority of the District is to manage the issuance of these bonds in a manner that minimizes the tax rates paid by our taxpayers, which the District believes it has accomplished, as more fully detailed in this Debt Report.

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

COPs represent debt that is paid from revenues under the District's control, such as General Fund revenues, developer fees and cafeteria fund sources. To assure that issuance of such debt is undertaken in a prudent manner that protects the District's instructional programs and operations, the Board of Education has adopted a Debt Management Policy that prescribes limits to the amount and type of COPs indebtedness that may be undertaken. This Debt Report provides a discussion of the District's COPs debt performance, which is in compliance with policy limitations.

Both General Obligation Bonds and COPs are considered to be "direct debt" of the District and are also included in the measurement of the "overall direct debt" issued by all local public agencies within the District's boundaries. It is important to monitor the levels and growth of direct debt and overall direct debt as they portray the debt burden borne by our taxpayers and serve as proxies for the capacity taxpayers have to take on additional debt in the future. The Debt Management Policy sets forth various municipal market debt ratios and benchmarks against which the District measures and compares its own direct and overall direct debt burden. This Debt Report provides a complete summary of the District's direct debt performance in this regard.

When debt is issued, independent credit rating agencies assign a rating to the issue. The District's credit ratings are directly related to the financial condition of the District. The District's current General Obligation Bond ratings are Aa2 by Moody's Investors Service and AA- by Standard & Poor's and reflect high quality investment grade status. The ratings assigned to its General Obligation Bonds and COPs affect the District's interest payments and the cost to District taxpayers and the General Fund, as applicable. In addition, the fiscal health of the State can further affect the District's interest costs. The recent deterioration of the State's credit quality and the massive amount of debt it needs to issue in the future to fund voter approved bond projects has resulted in increased credit spreads for agencies of the State, including the District, even though such agencies may have maintained their own credit quality. A complete history of the District's long-term credit ratings is provided in this Debt Report.

I hope that the information in this Debt Report can be used to support development of sound capital plans and adherence to the District's finance and debt policies. I look forward to working with you in pursuing such capital plans, as they provide critical guidance for the protection of the District's infrastructure and assets. Together with sound capital planning, the District's debt and finance policies secure the District's fiscal strength in the years ahead.

If you have any questions or comments regarding this Debt Report, please contact my office at (213) 241-7888. Your input is important to us and would be greatly appreciated.

Sincerely,

Megan K. Reilly
Chief Financial Officer

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PREFACE

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

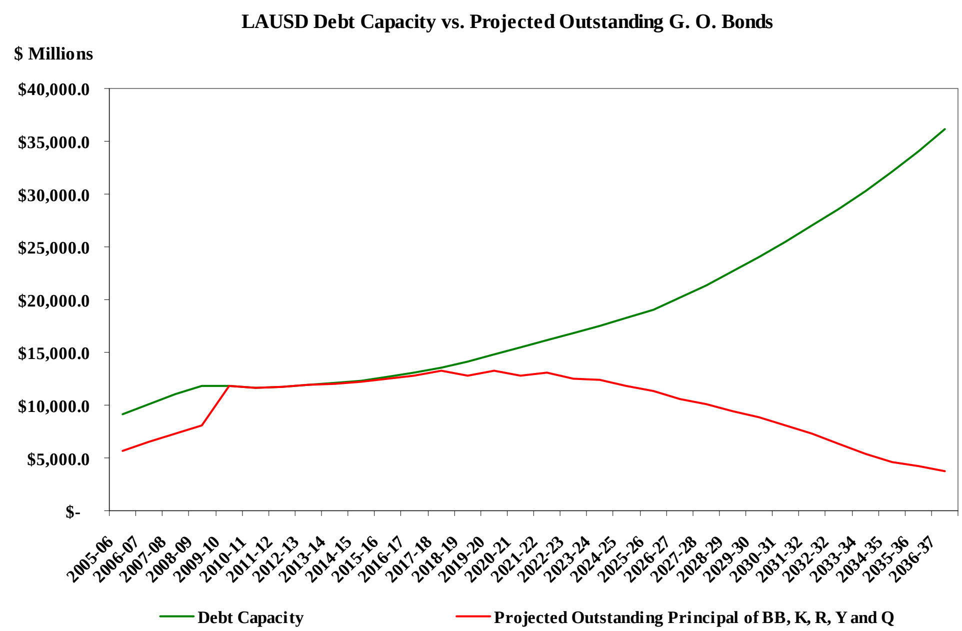
SECTION I: GENERAL OBLIGATION BOND DEBT

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

In accordance with Education Code Section 15106, the District's bonded debt limitation (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 2011-12, total assessed valuation in the District was $469.1 billion[1], resulting in a bonded debt limitation of $11.7 billion. Table 1 presents the District's maximum debt limit versus outstanding debt as of June 30, 2012. The difference is the "Legal Debt Margin." Chart 1 shows that the Legal Debt Margin (i.e., the distance between the red and green lines) was used up in Fiscal Year 2009-10. Anticipated increases in future assessed valuation will permit issuance of new general obligation bonds to the extent that tax limitations are not exceeded and bond proceeds on hand are sufficiently spent down. See the discussion on tax limitations in Section I. F, herein.

Table 1
Bonded Debt Limitation and Legal Debt Margin
As of June 30, 2012
(in $000s)

Total Assessed Valuation	$469,095,225
Bonded Debt Limitation (2.5% times Assessed Valuation)	$11,727,381
Less: Outstanding General Obligation Bonds[2]	11,290,485
Equals: Legal Debt Margin[1]	**$436,896**



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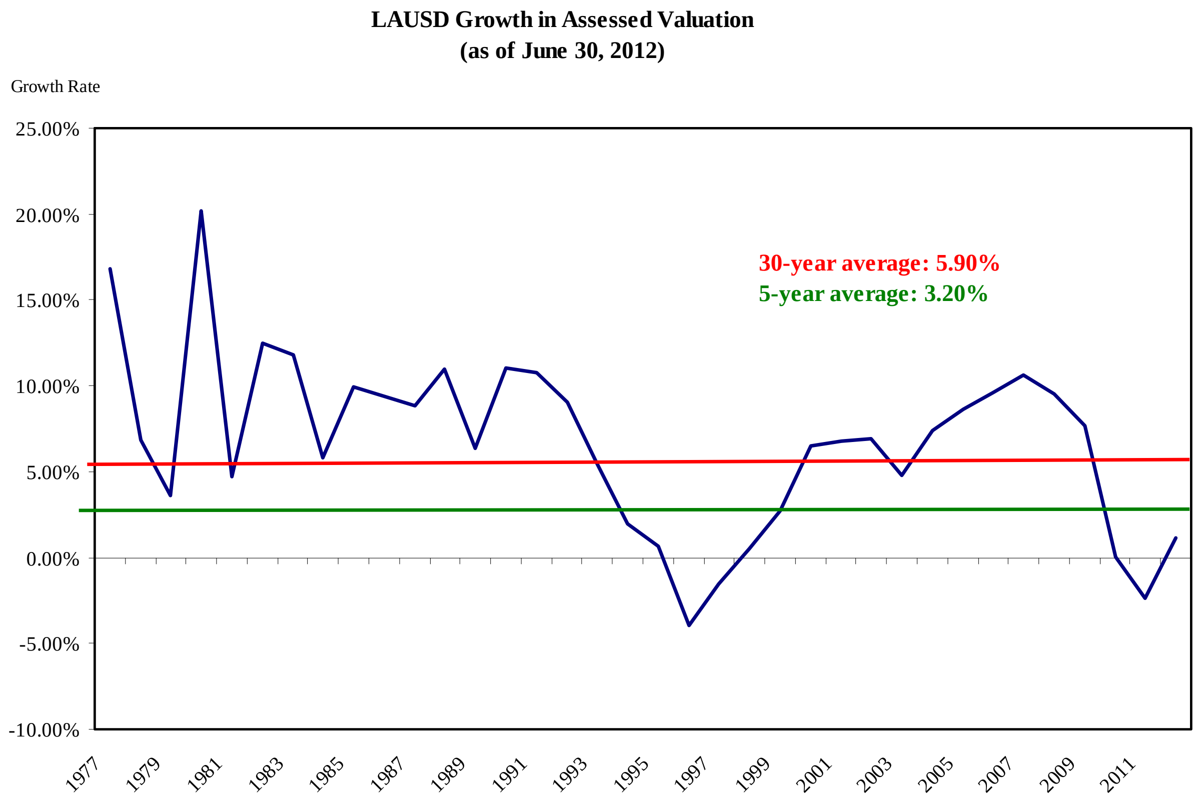
1 Subsequent to the reporting period for this Debt Report, assessed valuation for Fiscal Year 2012-13 was reported to be $480.1 billion, an increase of 2.34% from the Fiscal Year 2011-12 level.

2 The District's Comprehensive Annual Financial Report ("CAFR") reports these figures differently by adjusting them for unamortized bond premiums and discounts and amounts available in the Bond Interest and Redemption Fund to pay bond principal.

In addition to the District's debt issuance and amortization patterns, the Legal Debt Margin is greatly affected by assessed valuation growth in the District, which is depicted in Chart 2. Assessed valuation typically grows up-to-the 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. The District's all-time maximum assessed valuation of $475 billion occurred in Fiscal Year 2008-09. The annual growth rate of assessed valuation averaged 5.90% over the last 30 years and averaged a lower 3.20% over the past 5 years. However, significant price weakness in the current housing and commercial markets may continue to adversely affect near-term assessed valuation growth. The District contracted with an econometrics consulting firm in May 2009 to provide projections of the District's assessed valuation. The baseline projection is for assessed valuation to increase modestly in the near term from its base of $480 billion in Fiscal Year 2012-13.[1]

Chart 2



B. Bonds Outstanding and Bonds Authorized But Unissued

As of June 30, 2012, the District had a total of $11,290,485,000 of outstanding voter authorized General Obligation Bonds, a detailed listing and the debt service requirements for which can be found in Appendix 1.

[1] These projections are as of September, 2012. The District's Fiscal Year 2012-13 assessed valuation of $480 billion is a new all-time maximum.

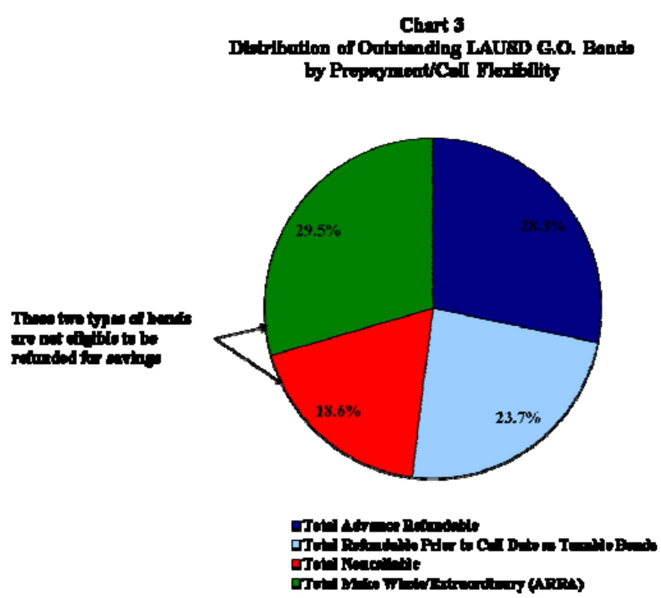
The District had a total of $7.68 billion of authorized but unissued General Obligation Bonds as of June 30, 2012. Table 2 presents overall highlights of the District's authorized but unissued bonds and Chart 3 in the next subsection depicts projected issuance of bonds in the future.

Table 2
Authorized but Unissued General Obligation Bonds as of June 30, 2012
($ Thousands)

	Proposition BB	Measure K	Measure R	Measure Y	Measure Q
Voter Authorization Amount	$2,400,000	$3,350,000	$3,870,000	$3,985,000	$7,000,000
Issued	2,400,000	3,350,000	3,634,795	3,542,235	0
Authorized but Unissued	$0	$0	$235,205	$442,765	$7,000,000

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

The District's outstanding General Obligation Bonds have varying degrees of prepayment or call flexibility. Chart 3 below shows the percentage of outstanding General Obligation Bonds that are: 1) noncallable, 2) eligible to be advance refunded prior to their call date, 3) eligible to be refunded on a taxable basis prior to their call date (and current refundable on a tax exempt basis after said call date), and 4) eligible to be refunded with a make whole call. The General Obligation Bonds that have a make whole/extraordinary redemption feature represent special bond structures permitted under the American Reinvestment and Recovery Act (ARRA); see Section I.E - "Innovative Transactions" below.



The Chief Financial Officer regularly monitors market conditions for advance and current refunding opportunities that, pursuant to the Debt Management Policy, will produce at least 3% net present value savings for each maturity of bonds refunded. Table 3 provides a summary of the savings from refundings through June 30, 2012. The Chief Financial Officer estimates that these refundings will save taxpayers approximately $236.6 million, over the term of the bonds.

Table 3
Refunding Savings
(as of June 30, 2012)

Refunding Bond Issue	Amount Refunded[1] ($ millions)	Term of the Refunding Bonds (years)	Savings ($ millions)	Average Annual Savings ($ millions)
2002	$262.730	17	$12.8	$0.75
2004 A-1 & A-2	215.680	18	10.6	0.59
2005 A-1 & A-2	484.950	20	38.4	1.92
2006 A	131.935	13	6.3	0.48
2006 B	561.375	21	29.3	1.40
2007 A-1 & A-2	1,250.320	21	82.1	3.91
2007 B	25.790	12	1.8	0.15
2009 A	72.270	9	2.1	0.23
2010 A	72.845	5	2.4	0.48
2011 A-1 & A-2	425.555	13	37.9	2.92
2012A	158.815	17	12.9	0.76
Total	$3,662.265		$236.6	$13.59

Memoranda:

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

D. Innovative Transactions

Going into Fiscal Year 2009-10, the District was expecting assessed valuation to decline in the following fiscal year and, possibly, in the several subsequent fiscal years as well. This would have jeopardized the District's ability to issue G.O. Bonds in those years as planned, thereby making it extremely difficult for the District to achieve its goal of reducing overcrowding and returning all schools to a two-semester calendar by the end of 2012. To address these concerns, the District issued $4.0 billion of General Obligation Bonds (G.O. Bonds) in Fiscal Year 2009-10 to fund projects for Measures K, R and Y, essentially accelerating its near term planned issuances into one fiscal year. This strategy was also designed to capture the maximum benefit from innovative bond structures permitted under the American Reinvestment and Recovery Act (ARRA) that provided dramatically lower debt service costs than traditional tax-exempt bonds. Among other things, ARRA provided opportunities for local agencies such as LAUSD to access a wider array of capital markets in 2009 and 2010 in an effort to obtain more cost effective financing than available in the municipal market alone.

One of the federal bond programs is known as Build America Bonds (BABs). These are taxable bonds for which the federal government subsidizes 35% of the interest cost. The District sold about $1.4 billion of BABs in October 2009 and another $1.25 billion in February 2010 to corporate investors rather than typical municipal investors who seek tax-exempt paper. The District's combined BABs offerings were by far the largest of any school district in the U.S. [insert language about sequestration, if it happens prior to publication of the Debt Report].

Another federal bond program used by LAUSD is known as Qualified School Construction Bonds (QSCBs). These are taxable bonds for which the investor receives a tax credit against their federal income tax. The District sold $318.8 million of QSCBs to corporate investors in October 2009 in what was the largest QSCBs offering of any school district in the U.S. in 2009. The District received an allocation of $290.2 million for 2010 and, under new legislation enacted in March 2010, was able to sell those QSCBs as BABs rather than tax credit bonds. The legislative change was important because, unlike the District, many school districts were not able to successfully sell their QSCBs as tax credit bonds.

For its May 2010 QSCB sale, the District was approached by an investor who offered to purchase $100 million of the QSCBs at 25 basis point lower yield than the purchasers of the remaining QSCBs. The investor was motivated by being able to use the purchase to meet their need to give back something to the local community either in the form of reduced lending rates to loan applicants or the purchase of investments from an agency such as the District. This investor purchased $100 million of the QSCBs at zero net interest cost to LAUSD. As for the remaining QSCBs, the net interest cost was only 0.261%, so the blended overall QSCB interest rate was 0.17%, an incredibly low interest rate on 17 year bonds.

District taxpayers enjoy the direct benefit of lower debt service on BABs and QSCBs versus traditional tax-exempt bonds that mature on certain bond maturity dates. In the October 2009 bond sale, the integrated BABs and QSCBs structure resulted in a reduction of $648 million (or 20% of par in present value terms) in debt service compared to debt service on traditional tax exempt bonds. In the February 2010 BABs sale, an estimated $253 million of savings (or $143 million in present value terms) were achieved versus traditional tax-exempt structures. Finally, in the May 2010 QSCBs sale, the structure produced an estimated savings of $206 million versus traditional tax exempt bonds. The combined savings from all QSCBs and BABs was $1.1 billion.

LAUSD took advantage of innovative bond structures provided under ARRA more than any other school district in the nation.

Since the initial series of Proposition BB bonds was sold in the G.O. Bond market in 1997, LAUSD has successfully completed 50 G.O. Bond transactions (including refundings). Voter-approved school bond initiatives have been and will continue to be the driving force behind the construction of hundreds of building projects, among them new schools, health and safety upgrades, classroom equipment purchases and improved adult learning facilities. The proceeds from the District's G.O. Bonds have funded an historic building program that is the largest school district construction program in the U.S., which will deliver about 167,000 new classroom seats through the construction of 131 new schools and which will complete about 20,000 modernization projects.

E. Tax Rate Performance on Outstanding Bonds

The respective Tax Rate Statements for each of the District's five General Obligation Bond authorizations set forth the following specific estimated tax rates to be paid by District taxpayers to service the debt on the outstanding General Obligation Bonds for the particular authorization:

(1) The estimated tax rate in the fiscal year following issuance of the first series of bonds;

(2) The estimated maximum tax rate and the fiscal year in which the maximum tax rate occurs;

(3) The estimated tax rate in the fiscal year following the issuance of the last series of bonds; and

(4) The estimated average tax rate over the term of all issued bonds.

The tax rates and fiscal years estimated in the respective Tax Rate Statements are not technically binding on the District, as actual issuance patterns, actual interest rates and the growth pattern of the assessed valuation base combine to determine 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. A discussion of the particular tax rates disclosed to taxpayers in each Tax Rate Statement and the District's actual tax rate performance is provided below.

E.1. **Proposition BB Tax Rates**. Prior to the Proposition BB election on April 8, 1997, assessed valuation growth in the District had weakened due to an economic recession triggered by contraction in the defense industry in the early 1990s. In fact, actual assessed valuation growth was negative at the time of the election, as shown earlier in Chart 2. Therefore, the District used a very conservative assumption for average annual assessed valuation growth (2%) relative to historical averages in structuring the tax rate model; the District also used a conservative estimate of 5.75% for the assumed interest rate on bonds to be issued over time (see Section III.B.1. for a discussion of interest rate trends).

Table 4 below provides the District's projected tax rates for the Proposition BB bond program at the time of the Proposition BB election and the District's latest updated projections. Actual and projected tax rate performance has generally been better than expected due to a combination of interest cost on issued bonds being less than assumed and actual growth in assessed valuation being on average higher than assumed. The District's updated projections show, for example, that the average tax rate over the term of all issued bonds will be approximately \$28.87 per \$100,000 of assessed valuation, which is \$11.42 lower than the originally estimated \$40.29 per \$100,000 of assessed valuation at the time of the election. In addition to producing excellent tax rate performance, the District was also able to accelerate issuance of Proposition BB bonds such that the final series of bonds was issued in Fiscal Year 2002-03, five years earlier than originally projected. This has benefited District taxpayers by delivering much needed school construction and modernization projects ahead of schedule at reduced taxpayer cost.

Table 4
Estimated Tax Rates Set Forth in Tax Rate Statements for Proposition BB
(Rates expressed as $ per $100,000 of assessed valuation)

Tax Rate Description	As Projected in Tax Rate Statement	Actual/Projected[1]
Estimated tax rate in the fiscal year following the issuance of the first series of bonds	$23.43 (in FY 1998-99)	$24.42 (in FY 1998-99) Actual
Estimated maximum tax rate and the year in which the maximum tax rate occurs	$67.46 (in FY 2010-11)	$50.55 (in FY 2004-05) Actual
Estimated tax rate in the fiscal year following the issuance of the last series of bonds	$67.46 (in FY 2010-11)	$50.55 (in FY 2004-05) Actual
Estimated average tax rate over the term of all issued bonds	$40.29	$28.87

E.2. Measure K Tax Rates. Measures K, R, Y and Q were each approved pursuant to Proposition 39 which, among other things, requires a unified district such as LAUSD to represent at the time of each issuance that the tax rate for each separate Proposition 39 authorization will not exceed $60 per $100,000 of assessed valuation in any given year that bonds are outstanding. When developing the tax rate model for the November 5, 2002 Measure K bond election, the District was mindful of this requirement and structured the expected bond issuance accordingly. In addition, owing to a resumption of assessed valuation growth as the local economy recovered from the defense cutbacks of the 1990s, the District assumed that average annual assessed valuation growth would be 3.90%, higher than what was assumed in the Proposition BB tax rate model but still a conservative assumption relative to historical trends. The assumed interest rate on bonds to be issued was 5.50%, lower than what was assumed in the Proposition BB tax rate model but still a conservative assumption relative to interest rate trends (see Section III.B.1. for a discussion of interest rate trends).

Table 5 below provides the District's projected tax rates for the Measure K bond program at the time of the Measure K election and the District's updated projections. Actual and projected tax rate performance has been better than expected due to a combination of interest cost on issued bonds being less than assumed, the issuance pattern of bonds being slower than assumed and estimated growth in assessed valuation being higher than assumed. The District's updated projections show, for example, that the average tax rate over the term of all issued bonds will be approximately $34.38 per $100,000 of assessed valuation, which is $18.61 lower than the originally estimated $52.99 per $100,000 of assessed valuation at the time of the election. Also, the tax rate is not expected to ever exceed the $60 per $100,000 Proposition 39 limitation.

[1] The projections in the Proposition BB tax rate model use Fiscal Year 2012-13 as the base year for the assessed valuation data, the "medium" assessed valuation growth forecast prepared by Beacon Economics and the actual debt service for all bonds issued as of June 30, 2012. There are no remaining unissued Proposition BB bonds.

One of the reasons that issuance of Measure K bonds was slower than assumed is that the District was able to secure more State matching funds in the early part of the 2000 decade than originally projected and, thus, didn't need to issue Measure K bonds as quickly. In addition, the large first issuance of Measure K bonds in 2003 provided $2.1 billion of bond proceeds and afforded the District more time between bond issuances.

Table 5
Estimated Tax Rates Set Forth in Tax Rate Statements for Measure K
(Rates expressed as $ per $100,000 of assessed valuation)

Tax Rate Description	As Projected in Tax Rate Statement	Actual/Projected[1]
Estimated tax rate in the fiscal year following the issuance of the first series of bonds	$60.00 (in FY 2004-05)	$31.97 (in FY 2004-05) Actual
Estimated maximum tax rate and the year in which the maximum tax rate occurs	$60.00 (in FY 2004-05)	$47.10 (in FY 2014-15)
Estimated tax rate in the fiscal year following the issuance of the last series of bonds	$59.06 (in FY 2006-07)	$45.35 (in FY 2010-11), Actual
Estimated average tax rate over the term of all issued bonds	$52.99	$34.38

E.3. Measure R Tax Rates. When developing the tax rate model for the March 2, 2004 Measure R bond election, the District was mindful of the $60 per $100,000 of assessed valuation limitation under Proposition 39 and structured the expected bond issuance accordingly. In addition, the District assumed that annual assessed valuation growth would be 5.0%, higher than what was assumed in the Proposition BB and Measure K tax rate models but still a conservative assumption relative to historical trends at the time. The assumed interest rate on bonds to be issued was 5.25%, lower than what was assumed in the Proposition BB and Measure K tax rate models but still a conservative assumption relative to interest rate trends (see Section III.B.1. for a discussion of interest rate trends).

Table 6 below provides the District's projected tax rates for the Measure R bond program at the time of the Measure R election and the District's updated projections. Actual and projected tax rate performance has been slightly better than expected even though the issuance schedule was accelerated in Fiscal Year 2009-10 to maximize the amount of proceeds available to finish most Measure R projects before then-anticipated assessed valuation declines would result in lack of bonding capacity. This strategy also enabled the District to keep Measure R projects on track despite the State's decision to freeze distribution of State matching funds owing to the State's fiscal crisis. Measure R's primary focus is new construction, with the District committed to its goal of returning virtually all District schools to a traditional two semester calendar by the end of 2012.

[1] The projections in the Measure K tax rate model use Fiscal Year 2012-13 as the base year for the assessed valuation data, the "medium" assessed valuation growth forecast prepared by Beacon Economics and the actual debt service for all bonds issued as of June 30, 2012. There are no remaining unissued Measure K bonds.

The District's updated projections show, for example, that the average tax rate over the term of all issued bonds will be approximately $32.59 per $100,000 of assessed valuation, which is $0.67 lower than the originally estimated $33.26 per $100,000 of assessed valuation at the time of the election. The tax rate is not expected to ever exceed the $60 per $100,000 Proposition 39 limitation.

The District issued its first Measure R bonds in Fiscal Year 2004-05. Of the $200 million issued, $150 million was applied toward defeasance of outstanding COPs, thereby providing $156 million of debt service savings to the District's General Fund (see Section II. A. for further details). The COPs had been previously issued by the District to fund critical infrastructure projects identical to the type of projects on the Measure R project list. With removal of the COPs debt service from the General Fund, more general fund resources are available to support the educational initiatives of the District.

Table 6
Estimated Tax Rates Set Forth in Tax Rate Statements for Measure R
(Rates expressed as $ per $100,000 of assessed valuation)

Tax Rate Description	As Projected in Tax Rate Statement	Actual/Projected[1]
Estimated tax rate in the fiscal year following the issuance of the first series of bonds	$21.93 (in FY 2005-06)	$12.33 (in FY 2005-06) Actual
Estimated maximum tax rate and the year in which the maximum tax rate occurs	$60.00 (in FY 2011-12)	$52.37 (in FY 2010-11)
Estimated tax rate in the fiscal year following the issuance of the last series of bonds	$58.65 (in FY 2012-13)	$50.18 (in FY 2013-14)
Estimated average tax rate over the term of all issued bonds	$33.26	$32.59

E.4. Measure Y Tax Rates. When developing the tax rate model for the November 8, 2005 Measure Y bond election, the District was mindful of the $60 per $100,000 of assessed valuation limitation under Proposition 39 and structured the estimated bond issuance accordingly. In addition, the District assumed that average annual assessed valuation growth would be 6.0%. The assumed interest rate on bonds to be issued was 5.25%, the same as in the Measure R tax rate model.

Table 7 below provides the District's projected tax rates for the Measure Y bond program at the time of the Measure Y election and the District's updated projections. Actual and projected tax rate performance has been somewhat worse than expected due to an accelerated issuance schedule in Fiscal Year 2009-10 that maximized the amount of proceeds available to finish most Measure Y projects before then-anticipated assessed valuation declines would result in lack of bonding capacity. This strategy also enabled the District to keep Measure Y projects on track despite the State's decision to freeze distribution of State matching funds owing to the State's fiscal crisis. Measure Y's

[1] The projections in the Measure R tax rate model use Fiscal Year 2012-13 as the base year for the assessed valuation data, the "medium" assessed valuation growth forecast prepared by Beacon Economics and the actual debt service for all bonds issued as of June 30, 2012. The debt service on future issuances of Measure R bonds is estimated in the model.

primary focus is new construction, with the District committed to its goal of returning virtually all District schools to a traditional two semester calendar by the end of 2012.

The District's updated projections show, for example, that the average tax rate over the term of all issued bonds will be approximately $32.34 per $100,000 of assessed valuation, which is $5.63 higher than the originally estimated $26.71 per $100,000 of assessed valuation at the time of the election. The tax rate is not expected to ever exceed the $60 per $100,000 Proposition 39 limitation. The District issued its first Measure Y bonds in Fiscal Year 2005-06. Of the $394.4 million issued, $184.4 million was applied toward defeasance of or sinking fund payments for outstanding COPs, thereby providing $223.4 million of debt service savings to the District's General Fund (see Section II.A. for further details). In addition, a net amount of $32.6 million of Measure Y proceeds were used to defease outstanding COPs debt service in September 2010. All of the affected COPs series had been previously issued by the District to fund critical infrastructure projects identical to the type of projects on the Measure Y project list. With removal of the COPs debt service from the General Fund, more general fund resources are available to support the educational initiatives of the District.

Table 7
Estimated Tax Rates Set Forth in Tax Rate Statements for Measure Y
(Rates expressed as $ per $100,000 of assessed valuation)

Tax Rate Description	As Projected in Tax Rate Statement	Actual/Projected[1]
Estimated tax rate in the fiscal year following the issuance of the first series of bonds	$5.74 (in FY 2006-07)	$3.45 (in FY 2006-07) Actual
Estimated maximum tax rate and the year in which the maximum tax rate occurs	$60.00 (in FY 2012-13)	$53.23 (in FY 2010-11)
Estimated tax rate in the fiscal year following the issuance of the last series of bonds	$57.05 (in FY 2013-14)	$40.90 (in FY 2013-14)
Estimated average tax rate over the term of all issued bonds	$26.71	$32.34

E.5. Measure Q Tax Rates. When developing the tax rate model for the November 4, 2008 Measure Q bond election, the District was mindful of the $60 per $100,000 of assessed valuation limitation under Proposition 39 and structured the estimated bond issuance accordingly. In addition, the District assumed that average annual assessed valuation growth would be lower than 6% and tax delinquencies higher through Fiscal Year 2012-13, reflecting the possibility of a weak economy. The long-run assumed rate of assessed valuation was 6%. The assumed interest rate on bonds to be issued was 5.25%, the same as in the Measures R and Y tax rate models.

The District experienced a pause in issuance of general obligation bonds that began in Fiscal Year 2010-11 due to weakness in assessed valuation growth and, hence, in available bonding capacity. In addition, the District decided to wait until a significant portion of the approximately $4.0 billion of

[1] The projections in the Measure Y tax rate model use Fiscal Year 2012-13 as the base year for the assessed valuation data, the "medium" assessed valuation growth forecast prepared by Beacon Economics and the actual debt service for all bonds issued as of June 30, 2012. The debt service on future issuances of Measure Y bonds is estimated in the model.

new money proceeds from issuances in Fiscal Year 2009-10 are sufficiently spent down. Thus, the Measure Q program is currently on hold. The District will report its expected tax rates for Measure Q once bonds under this measure are issued.

SECTION II: CERTIFICATES OF PARTICIPATION DEBT

A. COPs Outstanding

The District has issued COPs over the years to fund a variety of capital projects including the construction of two medical magnet high schools, the acquisition of portable classrooms for class size reduction and relief of overcrowding, the acquisition of buses, the matching of federal funds for the E-Rate computer program, the acquisition and implementation of major information technology systems, the acquisition and construction of cafeteria projects and the construction of adult education facilities. Debt service on COPs that were issued to fund projects related to enrollment growth or relief of overcrowding is paid from developer fees that are levied when new housing creates a need for additional seats for students; should developer fees be insufficient to pay debt service on these COPs, the debt service will be paid from General Fund sources. Debt service on COPs that were issued to fund cafeteria projects is paid from Cafeteria Fund sources; should such sources be insufficient to pay debt service on these COPs, the debt service will be paid from General Fund sources. Debt service on all other existing COPs is paid from General Fund sources.

Table 8 provides a listing of outstanding COPs in fixed rate mode. The District currently has no COPs in variable rate mode. As of June 30, 2012, a total of $432.6 million of COPs were outstanding. The debt service requirements on outstanding COPs can be found in Appendix 2.

In seeking to achieve the benefits of a diversified debt portfolio, the District has periodically issued variable rate COPs[1]. The Debt Management Policy (which appears in Appendix 5) permits issuance of variable rate COPs so long as the total unhedged amount in that mode does not exceed 20% of outstanding COPs or $100 million, whichever is less. The maximum amount of unhedged variable rate COPs would thus be $86.5 million, which is equal to 20% of outstanding COPs.

[1] It is currently impractical for school districts in California to issue variable rate General Obligation Bonds, so any variable rate portfolio would be comprised solely of COPs.

Table 8
Fixed-Rate Certificates of Participation Issuance and True Interest Cost
(as of June 30, 2012)

Issue Description	Date of Issue	Principal Amount Issued ($000s)	Principal Outstanding (June 30, 2012) ($000s)	True Interest Cost (%)
COPs (Multiple Properties Project), 2003 Series B	06/26/03	$31,620.0	$24,575.0	4.11%
COPs (Refinancing Project I and Refunding Project I), 2004 Series A	07/28/04	50,700.0	6,740.0	3.46%
COPs (Qualified Zone Academy Bonds) Series 2005 (taxable) [1]	12/01/05	10,000.0	10,000.0	N/A
COPs (Information Technology Projects), 2007 Series A[2]	11/15/07	99,660.0	64,735.0	3.83%
COPs (Food Services Projects), 2009 Series A[2]	09/29/09	40,728.2	31,984.0	3.92%
COPs Refunding (Multiple Properties Project), 2010 Series A	01/27/10	69,685.0	55,735.0	3.29%
COPs (Federally Taxable Direct Pay Build America Bonds, Capital Projects I), 2010 Series B-1	21/21/10	21,615.0	21,615.0	5.56%
COPs Refunding (Tax-Exempt, Capital Projects I), 2010 Series B-2	12/21/10	61,730.0	57,020.0	4.20%
COPs (Refunding Headquarters Building Projects), 2012 Series A	6/6/12	87,845.0	87,845.0	2.97%
COPs (Refunding Headquarters Building Projects), 2012 Series B	6/12/12	72,345.0	72,345.0	4.17%
	TOTAL	***$545,928.2***	***$432,594.00.0***	

[1] The Series 2005 COPs do not carry interest payments; instead, the purchaser receives a tax credit. The guaranteed investment agreement ("GIC") used for part of the defeasance on the 2005 COPs was terminated in August 2008 due to the rating downgrade of the GIC provider. A portion of the base rental payments has been set aside such that the net amount due by the District as of June 30, 2012 was approximately $6.1 million. The District may need to contribute more funds to redeem the 2005 Qualified Zone Academy Bonds, depending upon the amount of ongoing investment returns.

[2] A portion of debt service payments for these COPs totaling $32.6 million was defeased from general obligation bond proceeds in September 2010.

The District significantly reduced the portion of COPs paid from General Fund sources in Fiscal Years 2004-05 and 2005-06 when proceeds from Measure R and Measure Y bonds were used to defease $143.42 million and $183.7 million of COPs principal, respectively. Chart 4 shows the total General Fund COPs debt service prior to the Measure R and Y defeasances in Fiscal Years 2004-05 and 2005-06. Chart 5 shows the resulting significant decline in General Fund COPs debt service due to the defeasance of those COPs versus the debt service level prior to defeasance. The COPs defeasance resulted in nearly $500 million of savings to the General Fund through Fiscal Year 2024-25. In addition, the District used $32.6 million of Measure Y funds to defease certain COPs debt service payments in September 2010 that would otherwise have been paid from the General Fund. Chart 6 shows COPs debt service as of Fiscal Year 2011-12 and reflects the impact of the COPs defeasance completed in September 2010. Debt service payments from the General Fund total $474.9 million through the final maturity of the COPs, which amount reflects the defeasance of certain debt service payments on the 2007 Series A COPs and the 2009 Series A COPs but does not reflect the anticipated remaining $10.8 million of federal subsidies expected to be received and applied toward the debt service requirements for the 2010 Series B-1 COPs.

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Chart 4

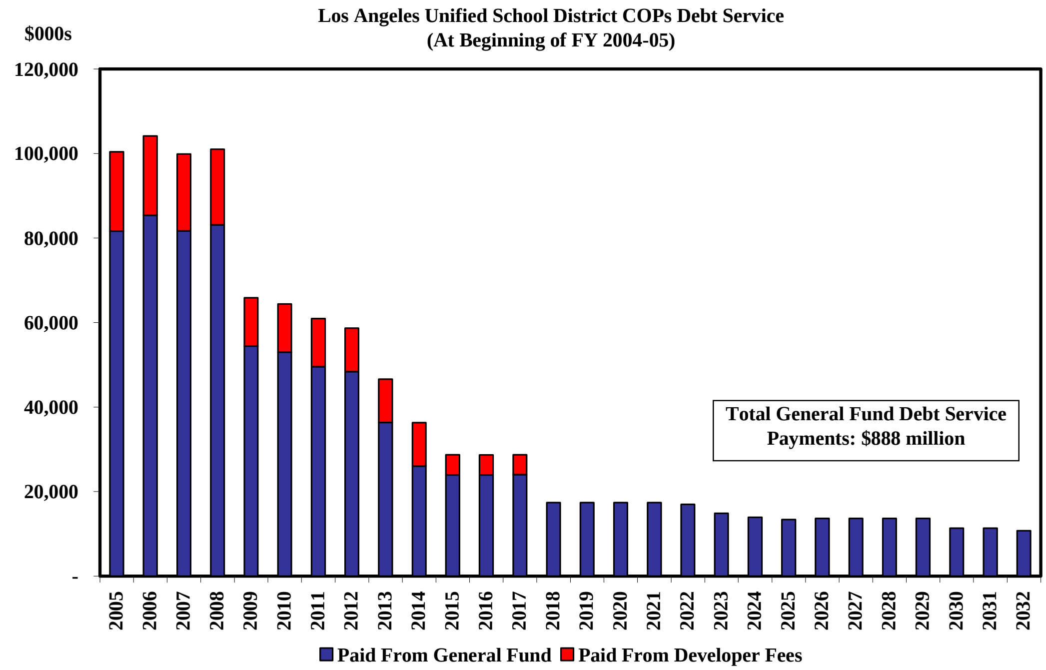


Chart 5

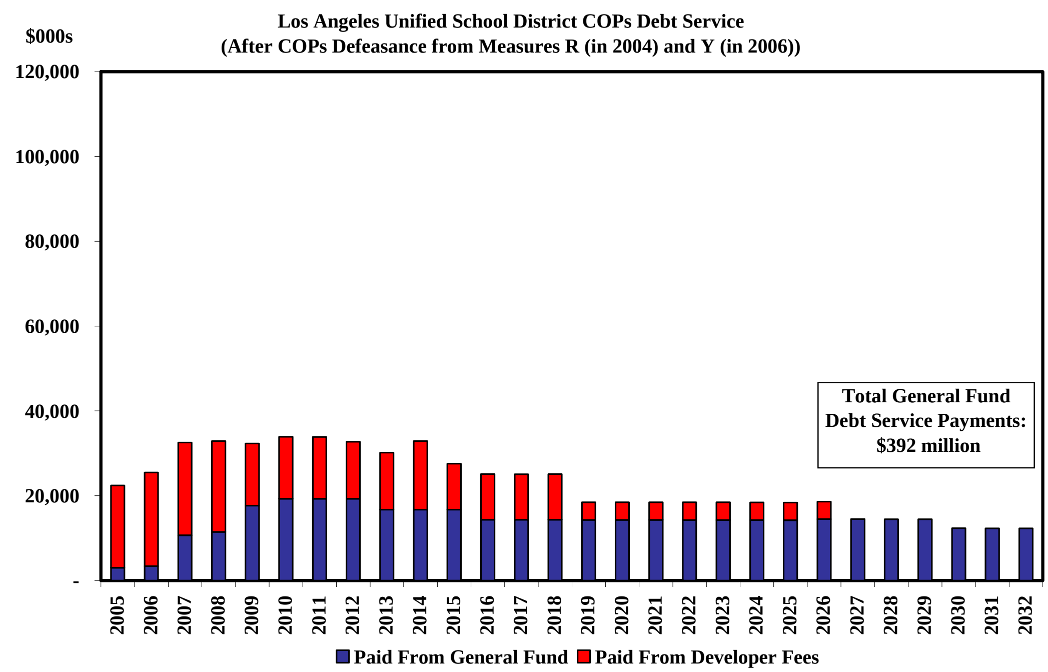
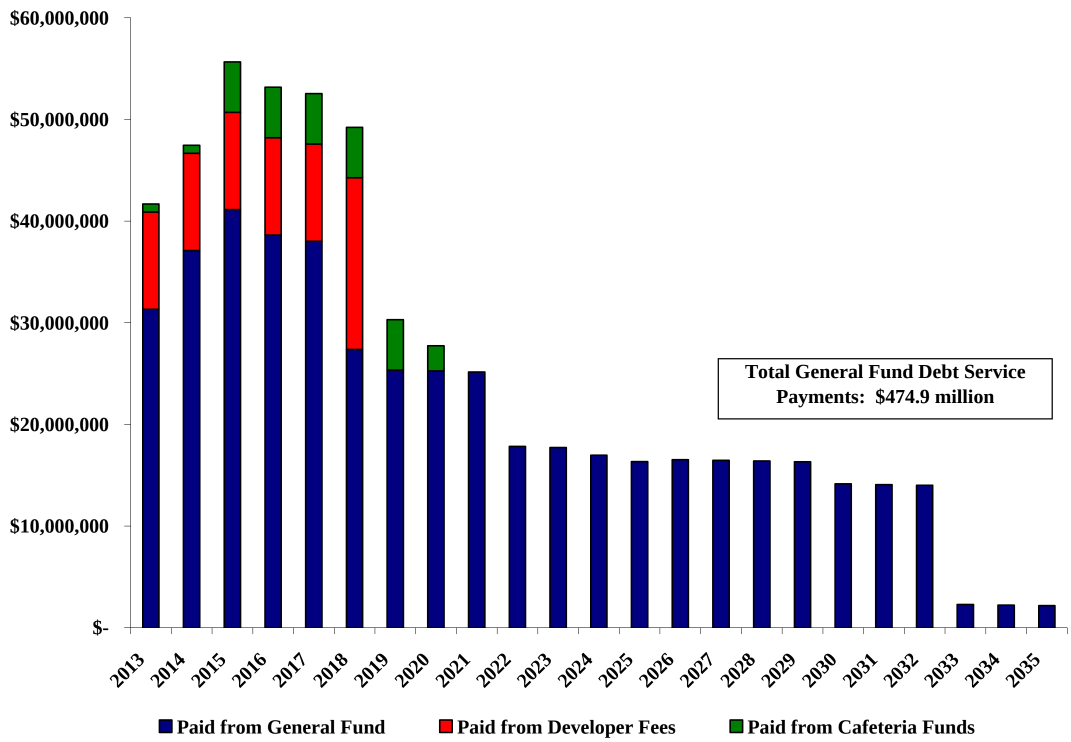


Chart 6

Los Angeles Unified School District COPs Debt Service (as of June 30 2012)



SECTION III: THE MARKET FOR THE DISTRICT'S DEBT

A. Municipal Bond Market

Rank	Managing Firm Name	$ Thousands
1	Vanguard Group Inc, The	795,808
2	Pacific Investment Management Co LLC (PIMCO)	539,340
3	Franklin Templeton Investments	533,410
4	PineBridge Investments LLC	261,500
5	Wellington Management Co LLP	202,813
6	Dodge & Cox	163,780
7	AllianceBernstein LP	123,581
8	BlackRock Financial Management Inc (Fixed-Income)	120,468
9	Prudential Investment Management-Fixed Income (PIM Fixed Income)	118,383
10	Deutsche Asset Management (DeAM) (NYC) (345 Park Avenue)	87,611
11	AIG Asset Management (US) LLC (Houston)	84,725
12	Nuveen Asset Management LLC	82,940
13	Guggenheim Partners Asset Management LLC (Guggenheim Investments)	80,792
14	BlackRock Fund Advisors	78,582
15	Fidelity Management & Research Company (Fixed-Income Division)	77,965
16	John Hancock Life Insurance Co (USA)	73,750
17	J.P. Morgan Investment Management Inc (New York)	69,409
18	Metropolitan Life Insurance Co (Investments) (MetLife)	66,370
19	Mason Street Advisors LLC	64,650
20	Goldman Sachs Asset Management LP (GSAM) (USA)	62,164
21	State Farm Insurance Companies	58,620
22	OppenheimerFunds Inc (Rochester)	57,815
23	Teachers Advisors Inc (TIAA-CREF)	57,525
24	JPMorgan Investment Management Inc (Columbus)	53,792
25	Lord, Abbett & Co LLC	52,213
	Total (Top 25)	**$3,968,006**

The District's bonds, COPs, and tax and revenue anticipation notes ("TRANs") are issued and traded in the United States' municipal bond market. Major groups of investors in this market include insurance companies, bond funds, investment bank portfolios, trust departments, investment advisors, individual investors, and money market funds. Each of these market participants may exhibit differing preferences for the structure and maturities of the bonds, COPs or TRANs that they purchase. As one of the largest issuers of municipal bonds in the country, the District is able to draw significant attention from all of these investor groups. The table above is a listing of the largest institutional holders of the District's long-term bonds.
The borrowing cost that the District pays its investors is a function of the District's credit ratings, market interest rate levels, anticipated Federal Reserve policy actions and, most importantly, the investment community's perception of and demand for the District's credit. Investors demand rates of return on their investments commensurate with their perception of the District's ability and willingness to repay its obligations as well as the District's overall financial, debt and economic performance compared to other issuers. The investment community has historically viewed the District's bonds and COPs as high quality investment grade securities, owing to the District's financial position, a vast local economy, significant access to voter-approved tax levies, and a pristine debt service payment track record.

Traditionally, the large numbers of investors residing in California and the State's progressive income tax system have provided investors with incentives to purchase the District's bonds and COPs. During recent years, however, investor perception of California debt weakened due to the State's credit deterioration, investor concerns over the magnitude of the State's budget shortfalls, massive issuance of energy-crisis and economic recovery bonds by the State and massive anticipated debt issuance in the future. During this period, the State's credit was downgraded by the three major rating agencies to the lowest level of any state other than Illinois. The State's borrowing costs rose accordingly as did interest costs for issuers viewed as "agencies" of the State, such as LAUSD, even though the District's credit ratings remained very strong and well-above those of the State.

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

In addition to dealing with interest rate impacts stemming from the State's fiscal problems, the District has also been affected by the national and global financial crisis that resulted in a total freeze of capital markets in September 2008. Preceding the market freeze, major bond insurers were steadily downgraded from their coveted triple-A ratings, a situation that caused tremendous volatility in the market. The short-term sector of the market was particularly hard hit, especially the auction rate market and the variable rate demand obligation ("VRDO") market. One of the downgraded bond insurers was Ambac, the insurer of the District's 2005A VRDO COPs and 2005B VRDO COPs; a second downgraded insurer was Financial Security Assurance, the insurer of the 2005C VRDO COPs. None of the District's fixed rate debt service or debt service on other VRDOs were affected by the downgrades of bond insurers. However, investors holding the fixed rate securities may have been exposed to capital losses to the extent they had to sell the securities prior to maturity at unfavorable prices.

The weekly interest rate resets for the 2005A, 2005B and 2005C COPs were above market rates during the period when Ambac and FSA were being downgraded, so the District quickly took steps to remedy the situation. The full amount of funds necessary to defease the 2005C COPs were placed in an escrow that prepaid these COPs on May 11, 2009. The 2005A and 2005B COPs were refunded with the 2008A and 2008B COPs that were VRDOs with a letter of credit from Bank of America, although the District refunded those COPs with fixed rate COPs in 2012. The weekly resets on the 2008A and 2008B COPs had been at market levels until regulatory changes and rating downgrades of Bank of America resulted in adverse pressure on the District's interest costs.

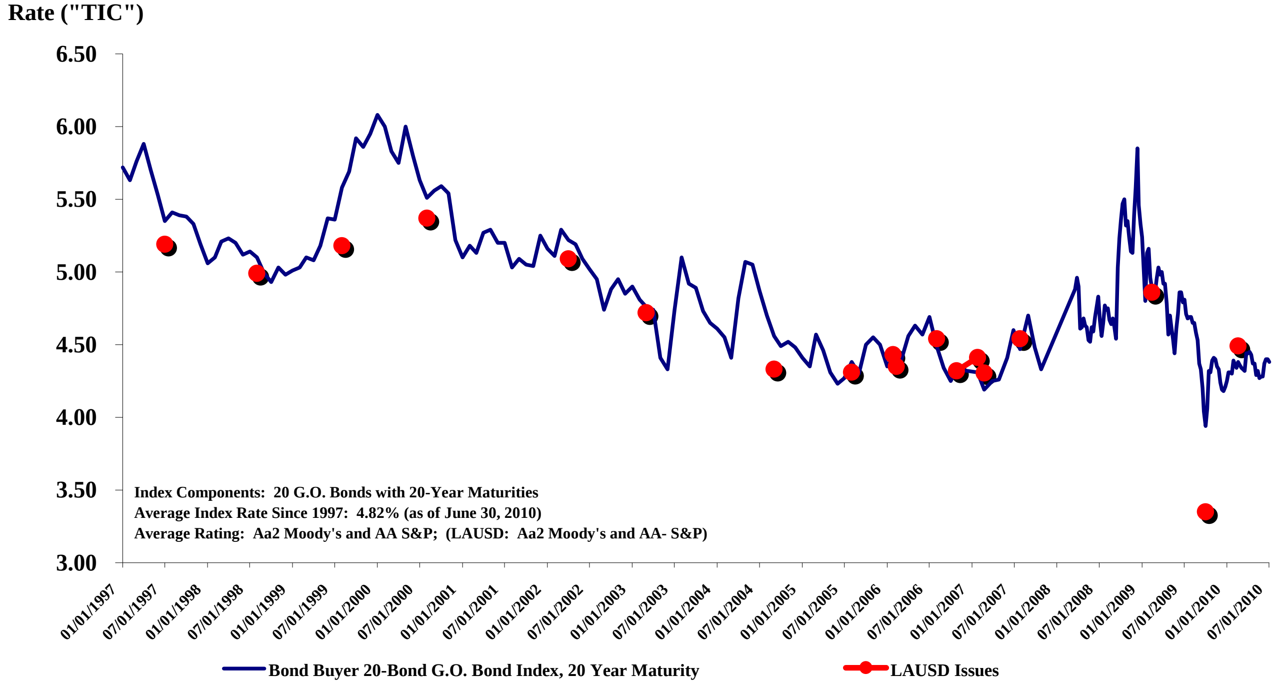
The fixed rate sector of the municipal market was also affected by the financial crisis. The District had intended to sell $950 million of general obligation bonds in the fall of 2008 but placed the transaction on the sidelines until market conditions were more receptive. The District was able to sell the bonds in February 2009 in what was the largest bond sale in California since the prior June. As of this writing, issuers with strong credit ratings are able to access the market at reasonable cost whereas some lower rated credits have difficulty accessing the market. With hedge funds, tender option bond programs and arbitrage accounts no longer the predominant investors in the market, traditional investors such as retail investors, bond funds, insurance companies and other institutional investors now provide the bulk of liquidity in the market. These investors have a strong preference for highly rated issues.

B. Cost of the District's Fixed Rate and Variable Rate Debt

B.1. Fixed Rate Debt. All of the District's General Obligation Bond issues and many of its COPs issues carry fixed interest rates. Since reaching a cyclical high in 1999, fixed interest rates have fallen to historically low levels. This has helped the District achieve very low interest cost on its General Obligation Bonds when compared to industry benchmarks such as The Bond Buyer 20-Bond Index, as shown in Chart 7 below. The District's bonds have a term to maturity of 25 years so, *ceteris paribus*, one would expect the true interest costs ("TICs") to be above The Bond Buyer 20-Bond Index; however, yields on the District's issues tend to be below the index. A listing of the TICs for each series of 25-year General Obligation Bond is provided in Appendix 1 and in Table 8 for the District's COPs.

Chart 7

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



B.2. Variable Rate Debt. Current statutory provisions make it impractical for the District to issue variable rate General Obligation Bonds, as ancillary costs such as remarketing fees and liquidity fees cannot be paid from voter approved tax levies. Thus, with the vast majority of the District's debt necessarily being issued as fixed rate bonds, the District has looked to its COPs issuance program from time to time to achieve debt portfolio diversification in the form of variable rate COPs. As of June 30, 2012, however, the District has no outstanding variable rate COPs.

SECTION IV: THE DISTRICT'S CREDIT RATINGS

A. Long-Term Credit Ratings on General Obligation Bonds and Certificates of Participation

Long-term credit ratings provided by a rating agency are an independent assessment of the relative credit risk associated with purchasing and holding a particular bond through its scheduled term of repayment. Long-term credit ratings serve as independent opinions of a borrower's financial strength and ability to repay its debt on a timely basis. Long-term credit ratings are one of the most important indicators of creditworthiness readily available to the investment community and have a direct impact on the borrowing rates paid by the District.

Moody's Investors Service ("Moody's") and Standard & Poor's ("S&P") currently rate the District's General Obligation Bonds as Aa2 and AA- respectively. The District has requested ratings from only Moody's and S&P since 2006. The District requested withdrawal of all of its prior Fitch ratings in September 2009.

The District's General Obligation Bond ratings are generally "high quality investment grade" ratings as shown in Chart 8. Moody's and S&P currently rate the District's COPs in the "upper medium grade" category as A1 and A+, respectively. General Obligation Bond ratings are typically one to two notches higher than those of COPs, owing to the superior credit strength of the *ad valorem* property taxes pledged to repay General Obligation Bonds versus the General Fund pledge that supports repayment of COPs.

Chart 8
Credit Ratings on Recent Debt Issuances
(District's G.O. Bond Ratings Highlighted in Red)
(District's COPs Ratings Highlighted in Blue) [1]

	Moody's	S&P
Best Quality	Aaa	AAA
High Quality	Aa1	AA+
	Aa2	AA
	Aa3	**AA-**
Upper Medium Grade	**A1**	**A+**
	A2	A
	A3	A-
Medium Grade	Baa1	BBB+
	Baa2	BBB
	Baa3	BBB-
Below Investment Grade	Ba1 and lower	BB+ and lower

[1] S&P rates COPs one notch lower than general obligation bonds, whereas Moody's rates COPs two notches lower than general obligation bonds.

In addition to the rating itself, each rating agency publishes an outlook on the rating. Outlooks are either "Positive", "Stable" or "Negative." A "Positive" outlook indicates a possible upgrade in the rating may occur; a "Negative" outlook indicates a possible rating downgrade may occur; and a "Stable" outlook indicates that neither an upgrade nor a downgrade is anticipated to occur. Each of the two agencies has assigned an outlook of "Stable" to the District's ratings.

Recognizing the importance of maintaining high quality ratings, the Board of Education adopted a Budget and Finance Policy that, among other things, establishes a minimum 5% General Fund reserve, effective July 1, 2005. The Chief Financial Officer notes, however, that the District's 5% reserve is comprised of both restricted and unrestricted balances, whereas the average unrestricted balance is about 9% for unified school districts in California. A history of the District's General Obligation Bond and COPs ratings is presented in Appendix 3.

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

The District has issued tax and revenue anticipation notes ("TRANs") each fiscal year since Fiscal Year 1991-92 to finance periodic cash flow deficits. The District has always received the highest possible short-term ratings from Moody's (MIG 1) and S&P (SP-1+) on its TRANs. As of the date of this Debt Report, the District has $600 million outstanding 2012-13 TRANs that mature on February 28, 2013.

SECTION V: DEBT RATIOS

A. Use of Debt Ratios

Pursuant to the District's Debt Management Policy set forth in Appendix 5, the Chief Financial Officer must calculate certain debt factors and debt burden ratios, compare them to benchmarks, and report the results in this Debt Report. Measuring the District's debt performance through the use of debt ratios provides a convenient way to compare the District to other borrowers. The most common debt ratios applied to school districts are:

- Ratio of Outstanding Debt to Assessed Value. The formula for this computation is contained in Section 15106 of the Education Code. The ratio is calculated for both "Direct Debt" (i.e., general obligation bonds) and "Combined Direct Debt" (both general obligation bonds and COPs), the latter commonly referred to as "Debt Burden" in the California Municipal Statistics Overlapping Debt Statement. In addition, the ratio "Overall Debt Burden" includes the District's Direct Debt plus the Direct Debt of issuers whose boundaries overlap those of the District. It is important to monitor the levels and growth of Direct Debt and Overall Direct Debt as they portray the debt burden borne by our taxpayers and serve as proxies for taxpayer capacity to take on additional debt in the future. A summary of overlapping debt in the District is set forth in Appendix 4.

- Ratio of Outstanding Debt Per Capita. The formula for this computation is Outstanding Debt divided by the population residing within the District's boundaries. Ratios are computed for both "Direct Debt Per Capita" and "Overall Debt Per Capita." It is important to monitor these ratios as they attempt to measure the degree to which debt is concentrated, i.e. whether it is spread across a large or small population. It should be noted that no official population data is collected at the District level, but the District provides estimates of its population, that are used in the per capita ratios.

- Ratio of Annual Lease Debt Service to General Funds Expenditures. The formula for this computation is annual lease debt service expenditures divided by General Funds (i.e., General and Debt Service Funds) expenditures (excluding interfund transfers) as reported in the most recent Comprehensive Annual Financial Report.

- Proportion of Fixed-Rate and Variable-Rate COPs Issues. The Debt Management Policy requires the District to keep its variable rate exposure, to the extent not hedged or swapped to fixed rate, at or below 20% of the total principal of outstanding COPs or $100 million, whichever is less. If variable rate debt is issued, the Chief Financial Officer periodically, but at least annually, determines whether it is appropriate to convert the debt to fixed interest rates. Such conversions were recommended and executed in Fiscal Year 2011-12.

The District's ratios and benchmark targets are provided below in Table 10.

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

Table 10 provides a summary of the District's performance against policy benchmarks, targets and ceilings for debt paid from General Fund or other resources controlled by the District, such as developer fees and cafeteria funds. The District's policy calls for such debt service to be no more than 2 – 2 ½ % of General Funds Expenditures. In addition, the Board imposed an even more restrictive COPs debt service ceiling of $105.0 million in 2004. The District's actual performance is well within the policy targets and ceilings.

Table 10
Policy Benchmarks, Targets and Ceilings for Debt Paid From General Fund or Other District Resources (COPs)
(As of June 30, 2012)

Factor	Benchmark/Target	Ceiling	LAUSD Actual	Over(Under) Policy Ceiling
Maximum COPs Gross Debt Service Limit (percentage)	2% of General Funds Expenditures (FY 2011-12)	2.5% of General Funds Expenditures	0.95%	(1.55%)
Maximum COPs Gross Debt Service Limit ($ million)	Not applicable	$105.0	$55.7	($49.3)
Unhedged Variable Rate Debt as % of Total COPs Debt		20.0%	0%	(20%)

The District is the largest independent public school district in the United States. On the basis of its size, one could argue that it is appropriate to compare LAUSD to other entities with similar size. However, those types of entities comprise a heterogeneous collection of cities, states, school districts and other public agencies rather than a homogenous group such as school districts. Thus, the Debt Management Policy requires that the Chief Financial Officer include a comparison of the District to the cohort of other large school districts, even though that category includes districts with varying types of funding mechanisms different from the District's funding mechanisms and includes no other district as large as LAUSD.

Table 11 below sets forth the debt burden ratios that recognize the direct debt and overall debt of the District compared to benchmarks for large school districts whose ratings are in the double-A or higher rating category.

Due to the statistical dispersion of the underlying data for the benchmarks in Table 11 and the large size of the District's bonding program relative to other large school districts, the District's debt burden ratios are not unexpectedly higher than most of the benchmarks. Nevertheless, the District believes the "large, highly-rated" school district cohort to be the most appropriate cohort group against which it should be compared.

Table 11
Policy Benchmarks for District's Direct and Overall Debt
(As of June 30, 2012)

Debt Burden Ratio	Benchmark	Benchmark's Value	LAUSD Actual[1]
Direct Debt to Assessed Value	Moody's Median for Aa Rated School Districts With Student Population Above 200,000	1.10%	2.50%
	Standard & Poor's Mean for AA Rated School Districts With Student Population Above 150,000	1.50%	
Overall Debt to Assessed Valuation	Moody's Median for Aa Rated School Districts With Student Population Above 200,000	2.60%	4.11%
	Standard & Poor's Mean for AA Rated School Districts With Student Population Above 150,000	3.20%	
Direct Debt Per Capita	Standard & Poor's Median for AA Rated School Districts With Student Population Above 150,000	$736	$2,558
	Standard & Poor's Mean for AA Rated School Districts With Student Population Above 150,000	$847	
Overall Debt Per Capita	Standard & Poor's Median for AA Rated School Districts With Student Population Above 150,000	$1,665	$4,208
	Standard & Poor's Mean for AA Rated School Districts With Student Population Above 150,000	$2,639	

[1] The District's Comprehensive Annual Financial Report ("CAFR") reports these figures differently by adjusting outstanding bonds and COPs for amounts held in sinking funds and redemption accounts.

APPENDIX 1

General Obligation Bond Issuance and True Interest Cost
(as of June 30, 2012)

Bond Issue	Date of Issue	Principal Amount Issued ($000s)	Outstanding Principal ($000s)	True Interest Cost (%)
Proposition BB Series A	7/22/97	$356,000	$64,120	5.19%
Proposition BB Series B	8/25/98	350,000	0	4.99%
Proposition BB Series C	8/10/99	300,000	0	5.18%
Proposition BB Series D	8/03/00	386,655	0	5.37%
Proposition BB Series E	4/11/02	500,000	15,665	5.09%
Proposition BB Series F	3/13/03	507,345	35,000	4.43%
Measure K Series A	3/05/03	2,100,000	82,930	4.75%
Measure K Series B	2/22/07	500,000	449,130	4.31%
Measure K Series C	8/16/07	150,000	134,765	4.86%
Measure K Series D	2/19/09	250,000	234,740	4.82%
Measure R Series A (5 year maturity)	9/23/04	72,630	0	2.28%
Measure R Series B (5 year maturity)	9/23/04	60,475	0	2.24%
Measure R Series C	9/23/04	50,000	36,905	4.33%
Measure R Series D	9/23/04	16,895	0	4.33%
Measure R, Series E	8/10/05	400,000	229,210	4.36%
Measure R, Series F	2/16/06	500,000	436,035	4.21%
Measure R, Series G	8/17/06	400,000	334,290	4.55%
Measure R, Series H	8/16/07	550,000	476,705	4.86%
Measure R, Series I	2/19/09	550,000	518,525	4.82%
Measure Y, Series A	2/22/06	56,785	23,750	3.72%
Measure Y, Series B	2/22/06	80,200	31,615	3.85%
Measure Y, Series C	2/22/06	210,000	177,500	4.15%
Measure Y, Series D (taxable)	2/22/06	47,400	22,345	5.18%
Measure Y, Series E	8/16/07	300,000	271,065	4.86%
Measure Y, Series F	2/19/09	150,000	141,145	4.82%
Measure Y, Series G	10/15/09	5,615	5,615	3.11%
Measure Y, Series H	10/15/09	318,800	318,800	1.60%
Measure Y, Series I	3/04/10	3,795	3,795	4.57%
Measure Y, Series J-1 (QSCB)	5/06/10	190,195	190,195	0.21%
Measure Y, Series J-2 (QSCB)	5/06/10	100,000	100,000	0.21%
Series KRY (Tax Exempt) (2009)	10/15/09	205,785	170,930	2.53%
Series KRY (BABs) (2009)	10/15/09	1,369,800	1,369,800	3.73%
Series KRY (Tax Exempt) (2010)	3/04/10	478,575	432,865	4.57%
Series RY (BABs) (2010)	3/04/10	1,250,585	1,250,585	4.44%
Series KY (2010)	5/06/10	159,495	159,495	2.46%
2002 General Obligation Refunding Bonds	4/17/02	258,375	210,440	4.94%
2004 General Obligation Refunding Bonds, Series A-1	12/21/04	90,740	90,165	4.13%
2004 General Obligation Refunding Bonds, Series A-2	12/21/04	128,385	127,080	4.38%
2005 General Obligation Refunding Bonds, Series A-1	7/20/05	346,750	346,750	4.17%
2005 General Obligation Refunding Bonds, Series A-2	7/20/05	120,925	120,925	4.22%
2006 General Obligation Refunding Bonds, Series A	2/22/06	132,325	132,325	4.07%
2006 General Obligation Refunding Bonds, Series B	11/15/06	574,905	558,340	4.32%
2007 General Obligation Refunding Bonds, Series A-1	1/31/07	1,153,195	1,133,525	4.41%
2007 General Obligation Refunding Bonds, Series A-2	1/31/07	136,055	136,055	4.41%
2007 General Obligation Refunding Bonds, Series B	2/22/07	24,845	24,650	4.12%
2009 General Obligation Refunding Bonds, Series A	10/15/09	74,765	55,570	2.53%
2010 General Obligation Refunding Bonds, Series A	3/04/10	74,995	73,335	4.57%
2011 General Obligation Refunding Bonds, Series A-1	11/1/11	206,735	206,735	2.75%
2011 General Obligation Refunding Bonds, Series A-2	11/1/11	201,070	201,070	2.71%
2012 General Obligation Refunding Bonds, Series A	5/8/2012	156,000	156,000	2.75%
	Total	$16,607,095	$11,290,485	

APPENDIX 1 (cont'd)

Outstanding Debt Service Payments on General Obligation Bonds (as of June 30, 2012)

Fiscal Year Ending June 30	Election of 1997 (Proposition BB)[1]	Election of 2002 (Measure K)[1,2]	Election of 2004 (Measure R)[1,2]	Election of 2005 (Measure Y)[1,2]	AGGREGATE Fiscal Year Debt Service
2013	$168,250,582.54	$217,988,436.65	$232,460,562.76	$279,471,246.88	$898,170,828.83
2014	165,396,311.90	221,088,734.38	233,715,387.44	258,438,434.37	878,638,868.09
2015	164,523,451.53	222,974,523.50	237,098,218.69	243,636,203.11	868,232,396.83
2016	164,579,104.89	231,275,647.64	239,719,769.94	223,213,778.11	858,788,300.58
2017	164,200,872.90	235,959,889.00	218,970,089.93	225,460,737.49	844,591,589.32
2018	163,961,980.77	243,409,703.00	221,027,121.17	228,154,603.12	856,553,408.06
2019	164,658,817.92	250,639,497.10	235,159,893.04	244,865,690.62	895,323,898.68
2020	165,996,805.78	260,535,746.74	242,663,033.66	233,876,653.12	903,072,239.30
2021	164,611,931.91	268,839,154.98	241,568,106.16	239,546,684.37	914,565,877.42
2022	169,707,156.25	268,246,546.26	228,721,023.66	243,249,388.12	909,924,114.29
2023	165,051,312.50	289,521,721.26	235,358,724.91	247,088,282.49	937,020,041.16
2024	163,701,625.00	284,583,152.51	232,101,719.91	250,480,969.36	930,867,466.78
2025	141,591,925.00	297,881,808.76	238,415,759.91	254,724,296.86	932,613,790.53
2026	90,814,106.25	304,126,215.01	239,154,229.91	257,098,594.36	891,193,145.53
2027	65,503,525.00	311,544,546.26	245,438,055.16	252,502,753.11	874,988,879.53
2028	24,500,968.75	319,246,296.26	267,774,248.03	291,829,622.76	903,351,135.80
2029		98,572,127.01	282,566,337.03	256,135,727.53	637,274,191.57
2030		100,880,330.13	233,777,325.03	318,759,311.05	653,416,966.21
2031		103,119,353.75	234,934,093.50	327,033,383.35	665,086,830.60
2032		105,331,487.50	276,065,729.15	293,543,137.60	674,940,354.25
2033		107,459,427.50	280,201,635.10	295,763,137.75	683,424,200.35
2034		109,248,855.00	283,087,349.95	297,497,039.30	689,833,244.25
2035		110,781,725.00	285,204,118.20	298,771,391.65	694,757,234.85
Total	$2,307,050,478.90	$4,963,254,925.19	$5,665,182,532.24	$6,061,141,066.48	$18,996,629,002.81

[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 BABs or QSCB Subsidies.

APPENDIX 2

Los Angeles Unified School District
Certificates of Participation Lease Obligations
Debt Service Schedule [1], [2]
As of June 30, 2012 ($ in thousands)

Fiscal Year Ending	Paid from General Fund	Paid from Cafeteria Fund	Paid From Developer Fees	Fiscal Year Total Debt Serice
06/30/2013	$31,321	$786	$9,576	$41,684
06/30/2014	37,098	786	9,577	47,462
06/30/2015	41,128	4,963	9,574	55,666
06/30/2016	38,631	4,963	9,574	53,169
06/30/2017	38,010	4,963	9,575	52,549
06/30/2018	27,382	4,963	16,886	49,231
06/30/2019	25,346	4,963	0	30,309
06/30/2020	25,256	2,482	0	27,737
06/30/2021	25,161	0	0	25,161
06/30/2022	17,832	0	0	17,832
06/30/2023	17,725	0	0	17,725
06/30/2024	16,962	0	0	16,962
06/30/2025	16,341	0	0	16,341
06/30/2026	16,512	0	0	16,512
06/30/2027	16,455	0	0	16,455
06/30/2028	16,398	0	0	16,398
06/30/2029	16,323	0	0	16,323
06/30/2030	14,147	0	0	14,147
06/30/2031	14,073	0	0	14,073
06/30/2032	14,001	0	0	14,001
06/30/2033	2,277	0	0	2,277
06/30/2034	2,222	0	0	2,222
06/30/2035	2,169	0	0	2,169
06/30/2036	2,108	0	0	2,108
	$474,877	$28,872	$64,763	$568,512

(1) The lease payments stated above reflect the net obligations of the District, adjusted for the defeasance of certain certificates of participation but not for receipt of federal subsidies on the series issued as BABs or the availability of a debt service reserve fund to pay debt service in the final year of maturity for certain series.

(2) In the event that insufficient developer fees or cafeteria funds are available to pay these respective lease obligations, the District General Fund is obligated to pay these obligations, subject to the terms of the applicable leases. However, such fees have been sufficient to date to pay these lease obligations. Debt service payments for the Fiscal Year 2017-18 will be paid in part from funds in a debt service reserve fund.

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APPENDIX 3

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

Fiscal	General Obligation Bonds			Certificates of Participation[1]			
Year	Moody's	S&P	Fitch	Moody's		S&P	Fitch
1988	Aa2	AA	Not rated	A1		A+	Not rated
1989	Aa2	AA	Not rated	A1		A+	Not rated
1990	Aa2	AA	AA	A1		A+	A+
1991	Aa2	AA	AA	A1		A+	A+
1992	Aa2	AA	AA	A1		A+	A+
1993	A1	AA-	AA	A2		A	A+
1994	A1	AA-	AA-	A2		A	A
1995	A1	AA-	AA-	A2		A	A
				Non-abatable	Abatable		
1996[3]	Aa3	AA-	AA-	A1	A2	A	A
1997	Aa3	AA-	AA-	A1	A2	A	A
1998	Aa3	AA-	AA-	A1	A2	A	A
1999	Aa3	AA-	AA	A1	A2	A	A+
2000	Aa3	AA-	AA	A1	A2	A	A+
2001[4]	Aa3	AA-	AA	A1	A2	A+	A+
2002	Aa3	AA-	AA	A1	A2	A+	A+
2003[5]	Aa3	AA-	AA-	A1	A2	A+	A
2004[6]	Aa3	AA-	A+	A1	A2	A+	A-
2005	Aa3	AA-	A+	A1	A2	A+	A-
2006[7]	Aa3	AA-	A+	A1	A2	A+	A
2007	Aa3	AA-	A+	A1	A2	A+	A
2008	Aa3	AA-	A+	A1	A2	A+	A
2009[8]	Aa3	AA-	Not rated	A1	A2	A+	Not rated
2010[9]	Aa2	AA-	Not rated	Aa3	A1	A+	Not rated
2011 through 2012	Aa2	AA-	Not rated	Aa3	A1	A+	Not rated

1 Table does not include the ratings on any District long-term variable rate COPs that were issued from time to time; the ratings on those COPs issues reflect the ratings of the credit provider for each transaction.
2 Municipal bond insurance policies were purchased to allow the ratings to be increased to Aaa/AAA/AAA on all or a portion of all fixed-rate issues at the time of issuance from 1993 until February 2009, at which point the credit downgrades of insurers resulted in no benefit of insurance to the District.
3 Beginning in 1996, Moody's began to rate non-abatable leases one notch higher than abatable leases; the other agencies do not make such a distinction. In addition, Moody's replaced their two-notch per tier system (e.g. Aa1, Aa2) with a three notch per tier system (e.g. Aa1, Aa2, Aa3).
4 Beginning in 2001, Standard and Poor's began to rate lease obligations only one notch (rather than the previous two notches) lower than the issuer's general obligation bond rating.
5 On February 11, 2003, Fitch downgraded the District's ratings by one notch and assigned an Outlook of Stable.
6 On July 8, 2004, Fitch downgraded the District's ratings by one notch and assigned an Outlook of Stable and Moody's assigned an Outlook of Negative to all District ratings. On July 12, 2004, S&P assigned an Outlook of Negative to all District ratings.
7 On July 19, 2006, S&P and Moody's revised the Outlook on all District ratings to Stable; on July 31, 2006, Fitch upgraded the District's COPs rating to A.
8 The District requested withdrawal of all Fitch Ratings in September, 2009.
9 Moody's implemented a migration of its rating scale that resulted in the indicated changes to the District's ratings on April 20, 2010.

APPENDIX 4

Statement of Overlapping Debt
(as of June 30, 2012)

Overlapping Debt Obligations

Set forth on the following page is the Debt Statement prepared by California Municipal Statistics Inc., which provides information with respect to direct and overlapping debt within the District as of June 30, 2012 (the "Debt Statement"). The Debt Statement is included for general information purposes only. The District has not reviewed the Debt Statement for completeness or accuracy and makes no representations in connection therewith. The Debt Statement 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 Debt Statement 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 the Debt Statement) 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, 2012 [1]
(Dollars in thousands)
(Unaudited)

Government	Percentage Applicable	Amount Applicable
Direct:		
Los Angeles Unified School District		
General Obligation Bonds	100.000%	$ 11,507,003
Certificates of Participation	100.000	442,885
		11,949,888
Overlapping:		
Los Angeles County General Fund Obligations	46.028	678,509
Los Angeles County Superintendent of Schools Certificates of Participation	46.028	5,187
Los Angeles County Flood Control District	46.670	17,359
Metropolitan Water District	23.591	46,367
Los Angeles Community College District	81.431	2,854,083
Pasadena Area Community College District	0.001	1
City of Los Angeles	99.922	1,214,667
City of Los Angeles General Fund and Judgment Obligations	99.922	1,964,172
Other City General Fund and Pension Obligations	Various	191,187
Los Angeles County Sanitation Districts		
Nos. 1, 2, 3, 4, 5, 8, 9, 16 and 23 Authorities	Various	43,719
Los Angeles County Regional Park & Open Space Assessment District	46.028	78,581
City Community Facilities Districts	100.000	135,400
City of Los Angeles Landscaping and Special Tax Assessment District	99.922	61,502
Other City and Special District 1915 Act Bonds	99.832-100.000	23,965
Other Cities	Various	45,688
Palos Verdes Library District	4.890	273
Total Overlapping		7,360,660
Total Gross Direct and Overlapping Bonded Debt		19,310,548
Less:		
Los Angeles County General Fund Obligations supported by landfill revenues		7,686
Los Angeles Unified School District (amount set-aside in Building Fund to make payments on 2000 Series A Qualified Zone Academic Bonds)		1,805
Los Angeles Unified School District (amount set-aside in Building Fund to make payments on 2005 Qualified Zone Academic Bonds)		542
Los Angeles Unified School District (amount accumulated in Sinking Fund for repayment of 2000 Series A Qualified Zone Academic Bonds)		27,909
Los Angeles Unified School District (amount accumulated in Sinking Fund for repayment of 2005 Qualified Zone Academic Bonds)		3,866
City self-supporting bonds		10,382
Total Net Direct and Overlapping Bonded Debt		$ 19,258,358

(1) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds, and nonbonded capital lease obligations.

(2) These figures reflect adjustments for amounts held in sinking and redemption funds.

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

APPENDIX 5

Los Angeles Unified School District
Debt Management Policy

Los Angeles Unified School District

DEBT MANAGEMENT POLICY

Prepared by:

The Office of the Chief Financial Officer

September 13, 2011

DEBT MANAGEMENT POLICY

Index

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

Background

The District enjoys some of the highest credit ratings of any major urban school district in the nation. The District's general obligation bonds are rated Aa2 by Moody's Investors Service and AA- by Standard & Poor's Corporation. The District's COPs ratings are Aa3 (Moody's, for non-abatement leases), A1 (Moody's, for leases subject to abatement) and A+ (Standard & Poor's, for both lease types). These high credit ratings reduce the interest costs paid by the District on the amounts borrowed. Lower interest costs result in lower tax rates paid by the District's taxpayers and a reduced burden on the General Fund. These debt management policies are intended to maintain the District's high credit ratings so that access to borrowed funds is provided at the lowest possible interest rates. Additionally, these policies are intended to set forth selection criteria for certain financial consultants and attorneys which will ensure a fair and open selection process, provide opportunities for all firms (including small business enterprises) to participate in District contracts, and result in the selection of the best qualified advisors.

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

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

Article I. **Purpose and Goals**

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

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

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

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

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

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

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

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

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

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

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

- The District shall ensure that local and emerging businesses will be considered for and utilized in lead roles and for other roles in the senior tier when appropriate.

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

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

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

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

Article II. **Authorization**

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

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

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

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

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

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

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

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

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

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

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

F. Use of General Obligation Bonds: Voter-approved general obligation bonds typically provide the lowest cost of borrowing and do not impact the District's General Fund.

General obligation bond debt to the extent authorized for the District requires either two-thirds approval of the voters (in the case of traditional general obligation bonds) or 55% approval of the voters (in the case of general obligation bonds issued pursuant to Proposition 39). In recognition of the difficulty in achieving the required two-thirds voter approval or 55% voter approval, as the case may be, to issue general obligation bonds, such bonds will be generally limited to facilities and projects that provide wide public benefit and for which broad public support has been generated.

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

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

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

J. Use of Special Financing Structures: The District may use special financing structures permitted by the federal government if they are determined to result in significantly lower financing costs versus traditional tax-exempt bonds and/or COPs.

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

Section 2.03 **State Law**

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

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

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

Section 2.04 **Annual Review**

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

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

Section 3.01 **Structure of Debt Issues**

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

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

ii. Lease-Purchase Obligations: The final maturity of equipment obligations will be limited to the average useful life of the equipment to be financed. The final maturity of real property obligations will be determined, in part, by 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 and/or redevelopment funds, constitute overlapping indebtedness of the District and have an impact on the overall level of debt affordability. The District will develop separate guidelines for the issuance of such obligations as the need arises.

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

C. Capitalized Interest: Unless required for structuring purposes, the District will avoid the use of capitalized interest in order to avoid unnecessarily increasing the bond size and interest expense. Certain types of financings such as COPs may require that interest on the debt be paid from capitalized interest until the District has use and possession of the underlying project. However, the District may pledge assets using an asset-transfer structure as collateral for the issue in order to eliminate the need for capitalized interest.

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

Section 3.02 **Sale of Securities**

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

Section 3.03 **Markets**

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

Section 3.04 **Credit Enhancements and Derivatives**

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

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

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

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

Section 3.06 **Debt Limitation**

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

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

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

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

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

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

- Ratio of Outstanding Debt to Assessed Value. The ratio "Direct Debt" shall be calculated using both G.O. Bonds and COPs. In addition, the ratio "Overall Direct Debt" or "Overall Debt" shall be calculated by aggregating all debt issues attributable to agencies located in the District as presented in the California Municipal Statistics Overlapping Debt Statement. It is important to monitor the levels and growth of Direct Debt and Overall Debt as they portray the debt burden borne by the District's taxpayers and serve as proxies for taxpayer capacity to take on additional debt in the future.

- Ratio of Outstanding Debt Per Capita. The formula for this computation is Outstanding Debt divided by the population residing within the District, based upon the most recent estimates as determined by the United States Bureau of the Census. Ratios shall be computed for both "Direct Debt Per Capita" and "Overall Debt Per Capita".

- Ratio of Annual Lease Debt Service to General Funds Expenditures. The formula for this computation is annual lease debt service expenditures divided by General Funds (i.e., General and Debt Service Funds) expenditures (excluding interfund transfers) as reported in the most recent CAFR.

- Proportion of Fixed-Rate and Variable-Rate COPs Issues. The District can benefit from some variable rate exposure in its portfolio of COPs issues. However, the District shall keep its variable rate exposure, to the extent not hedged or swapped to fixed rate, at or below 20% of the total principal of outstanding COPs or $100 million, whichever is less. "Hedges" include unrestricted cash resources as well as interest rate products such as caps and collars. Under no circumstances will the District issue variable rate debt for arbitrage purposes. If variable rate debt is used, the Chief Financial Officer will periodically, but at least annually, determine whether it is appropriate to convert the debt to bear fixed interest rates.

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

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

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

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

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

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

Table 1

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

Table 2

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

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

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

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

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

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

Article IV. **Related Issues**

Section 4.01 **Capital Improvement Program**

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

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

Section 4.02 **Reporting of Debt**

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

Section 4.03 **Financial Disclosure**

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

The District shall make available its annual CAFRs, budgets, and Official Statements on the official District website, 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 the lending or pledging of the District's credit initially shall be referred to the Chief Financial Officer who shall determine the financial feasibility of such proposal and make recommendations accordingly to the Board.

Section 4.05 **Establishing Financing Prioritie**s

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

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

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

Section 4.07 **Investment Community Relations**

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

Section 4.08 **Refunding and Restructuring Policy**

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

The Chief Financial Officer shall be empowered to restructure escrow funds for the District's refunded Bonds and COPs from time to time when savings can be achieved. The Chief Financial Officer shall review a savings analysis of any proposed restructuring in order to make a determination regarding its cost-effectiveness. The target net savings shall be no less than $1.0 million unless, at the discretion of the Chief Financial Officer, a lower amount is more appropriate given the nature of the particular escrow fund. Any savings from such restructuring shall be applied in accordance with legal and tax considerations and legal analysis at the time such savings are available.

Section 4.09 **Investment of Borrowed Proceeds**

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

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

Section 4.10 **Federal Arbitrage Rebate Requirement**

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

Section 4.11 **Transaction Records**

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

Section 4.12 **Financing Team Members**

A. Retention of Consultants

i. General: All financial advisors, bond counsel, disclosure counsel and underwriters will be selected from a pool to be created through a Request for Proposals (RFP) or Request for Qualifications (RFQ) process, whichever is most appropriate given the circumstances. In isolated instances, such contracts may be awarded on a sole source basis if it is clear that an RFP/RFQ process would not be feasible or in the District's interests. The District's contracting policies will apply to all contracts with finance professionals. Generally, contracts for financial advisor, underwriter, and bond counsel will be for five years with two one-year renewal options.

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

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

Based upon evaluation of submitted statements of qualifications, underwriting firms will be assigned to one of three specific tiers: the senior manager tier (with those firms eligible to serve as senior or co-senior manager); the co-manager tier (with those firms eligible to serve as co-manager); and the emerging firms tier (with those firms eligible to serve as co-manager). In the event the par amount of a transaction is $200 million or less, firms in the co-manager tier may compete to serve as senior manager, in keeping with the District's procurement policy that competition is the cornerstone of the procurement process.

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

1. Past performance, especially on transactions for the District.
2. Analysis of the financing need and proposed financing structure, recommended marketing plan and determination that the firm has sufficient net capital.
3. Proposed underwriting fees, including takedown, direct expenses, and the cost of underwriter's counsel.
4. Demonstrated commitment to, track record in, and investing in the communities served by the LAUSD.

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

iii. General Financial Advisor: The District will retain a general financial advisory team to provide general advice on the District's debt management program, financial condition, budget options and bond rating agency relations. Additionally, the general financial advisor will structure the District's General Obligation bond issuances and may be used on an as-needed basis to structure bond issuances that do not fall into the other categories of District debt obligations. Any firm serving as general financial advisor must be 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. As-Needed Bond Counsel: The District will select a bond counsel team to be used on an as-needed basis to structure bond issuances which do not fall into the other categories of District debt obligations. Additionally, one or more of the firms will be selected to provide general legal advice on debt financing.

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

B. Use of Independent Financial Advisors

i. Use of Independent Financial Advisors: Any firm serving as financial advisor on a District transaction must be 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 are inherently in conflict, the District will strive to hire financial advisors who do not participate in the underwriting or trading of bonds or other securities. Under certain circumstances, however, it may be in the District's interests to hire an investment banking firm to act as financial advisor on specific bond issues, although said firm must obey any SEC and/or MSRB rules and restrictions regarding when a broker-dealer or investment bank can serve as financial advisor and then "flip" to the role of underwriter.

ii. 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 financial 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, and must also hold any certifications and/or licenses required by the SEC and/or MSRB.

C. Disclosure by Financing Team Members; Ethics

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

Section 4.13 **Special Situations**

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

APPENDIX A

LOS ANGELES UNIFIED SCHOOL DISTRICT

LAUSD LONG-TERM DEBT—COMPLIANCE PROCEDURES

Statement of Purpose

This Tax Compliance Policy (the "Policy") sets forth specific policies of the Los Angeles Unified School District (the "District") designed to monitor tax compliance by the District with respect to Tax-Advantaged Obligations,[2] 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 General Counsel (the "General Counsel") shall identify a staff member to be responsible for monitoring tax compliance with regard to debt offerings (the "District Tax Compliance Designee"). The General Counsel shall also be responsible for ensuring an adequate succession plan for transferring tax compliance responsibility when changes in staff occur.

[2] 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").

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

The District Tax Compliance Designee 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 Officer 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 District Tax Compliance Designee shall consult with bond counsel to develop and maintain a comprehensive records retention policy so as to facilitate continuing compliance with the provisions of the Code applicable to the District's Tax-Advantaged Obligations. The District will maintain the following categories of records with respect to each issue of its outstanding Tax-Advantaged Obligations:

(i) Documentation relating to the authorization, sale and issuance of Tax-Advantaged Obligations;

(ii) Documentation setting forth the dates, amounts and purposes of each expenditure of Tax-Advantaged Obligations were expended, as more fully described under "Expenditure of Proceeds" below;

(iii) Documentation of arrangements governing the use of Property Financed with Proceeds of each issue of Tax-Advantaged Obligations, as more fully described under "Private Use and Ownership" below; and

(iv) Documentation relating to the investment of proceeds and replacement proceeds allocable to each issue of Tax-Advantaged Obligations.

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

(i) Resolutions of the District and the County authorizing the issuance of the Bonds;

(ii) Bond Purchase Agreement;

(iii) Preliminary Official Statement, Official Statement and any other documentation circulated to potential investors;

(iv) Certifications with respect to delivery of Tax-Advantaged Bonds and the receipt of the purchase price therefor;

(v) Tax Certificate or Tax Compliance Agreement (including exhibits, such as an issue price certificate of the underwriter or, in the event of a private placement, the purchaser);

(vi) Schedules prepared by the Financial Advisor or Underwriter setting forth the sources and uses of funds, projected expenditure of proceeds, projected investment earnings on proceeds and computation of yields, together with any verification reports issued in connection with the issue;

(vi) 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

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

(viii) 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 administrator of each office of the District responsible for the expenditure of proceeds of the District's Tax-Advantaged Obligations shall submit a report (each, an "Annual Expenditure Report") to the District Tax Compliance Designee 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 G.O. 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.

The District Tax Compliance Designee shall monitor the receipt of, and maintain each Annual Expenditure Report and, based upon the data set forth in the Annual Expenditure Report provided by each office of the District that is responsible for the expenditure of proceeds of Tax-Advantaged Bonds, and within 6 months after the end of each fiscal year, 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[3] 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.[4]

[3] 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.

[4] 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 is 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

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

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

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

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

Use Pursuant to Generally Applicable and Uniformly Applied Rates. Use pursuant to an arrangement will not result in Private Use if (A) the arrangement does not transfer ownership of the property to a nongovernmental person, (B) the term of the use under the arrangement, including all renewal options, is not longer than 100 days, and (C) compensation under the arrangement is based on generally applicable and uniformly applied rates.

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

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

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

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

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

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

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

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

Special Priority Rights or Special Economic Benefits. A contract which conveys special priority rights or special economic benefits in bond financed property to a nongovernmental person may create Private Use. In determining whether special economic benefit gives rise to Private Use of bond financed property, it is necessary to consider all of the facts and circumstances, including one or more of the following factors: (a) whether the bond financed property is functionally related or physically proximate to property used in the trade or business of a nongovernmental person; (b) whether only a small number of nongovernmental persons receive the economic benefit; and (c) whether the cost of the bond financed property is treated as depreciable by the nongovernmental person. Such arrangements with respect to bond financed property must be reviewed by bond counsel.

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

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

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

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

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

- Property Disposition Log. The District Tax Compliance Designee 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”).

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

- Private Loan Log. The District Tax Compliance Designee shall compile and maintain a log listing all proceeds of each issue of Tax-Advantaged Obligations applied to make loans to third parties (the "Private Loan Log").

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

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

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

Remedial Actions. In the event that the District is unable to satisfy the limitations with respect to Private Use and Private Payments with respect to any issue of Tax-Advantaged Obligations, the District Tax Compliance Designee 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 District Tax Compliance Designee shall provide any information regarding the bond financed property to effectuate such remedial action to the General Counsel and the Chief Financial Officer. The District Tax Compliance Designee must maintain copies of the documentation with respect to the remedial action with the Potential Private Use Contract Log and attach such copies to the transcript of closing documents it maintains with respect to each affected issue of Tax-Advantaged Obligations.

Periodic Review. Although the District will monitor Private Use of assets financed with Tax-Advantaged Obligations and Private Payments relating to such use, the District Tax Compliance Designee 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 District Tax Compliance Designee shall at least annually prepared 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 District Tax Compliance Designee will provide the Annual Reports, reflecting activity through the last day of each fiscal year, to the General Counsel by November 30th of the following fiscal year.

Arbitrage and Rebate

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

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

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

(i) The Chief Financial Officer has identified an appropriate staff member (currently the Treasurer of the District) responsible for monitoring the District's post-issuance arbitrage compliance issues (the "Arbitrage Compliance Designee"). 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 Arbitrage Compliance Designee should coordinate procedures for record retention and review in accordance with the provisions of this Policy described below. In addition, the Arbitrage Compliance Designee 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 "<u>Expenditure of Proceeds</u>" above. The Arbitrage Compliance Designee 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 Arbitrage Compliance Designee 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 Arbitrage Compliance Designee should review post-issuance arbitrage compliance procedures and systems with bond counsel or tax counsel at least annually.

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

(i) Following the issuance of each issue of Tax Advantaged Obligations, the Arbitrage Compliance Designee shall confirm that the District Tax Compliance Designee has obtained and is maintaining each of the documents listed above under "Issuance of Obligations" including, a fully executed tax certificate with respect to such issue and any information reporting forms filed with the Internal Revenue Service with respect to each issue, together with proof of filing. A copy of such certificate and information reporting forms, together with the Timetable (as defined below), shall be provided to the County Treasurer as soon as practicable after the issue date of each issue of Tax-Advantaged Obligations.

(ii) The Arbitrage Compliance Designee 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 Arbitrage Compliance Designee should coordinate receipt and retention of relevant books and records with respect to the investment and expenditure of the proceeds of such Tax-Advantaged Obligations with other members of the District's staff and staff of the County Treasurer.

(iv) A record should be maintained with respect to each issue of Tax-Advantaged Obligations containing a schedule setting forth (i) the latest date such proceeds may be invested at an unrestricted yield, (ii) the benchmarks that must be satisfied in order to meet an exception to the arbitrage rebate rules, (iii) the dates on which any arbitrage rebate computations are required to be completed and arbitrage rebate is required to be paid to the United States Treasury and (iv) any date by which proceeds are required to either be expended or applied to redeem bonds and any other dates on which all or a portion of the Proceeds of such issue are required or expected to be expended (the "Timetable")

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

(i) The Arbitrage Compliance Designee should coordinate the tracking of expenditures and any investment earnings with other applicable District staff, including staff of the Facilities Division. The Arbitrage Compliance Designee 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 Arbitrage Compliance Designee 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 Arbitrage Compliance Designee should obtain a computation of the yield on each issue of Tax-Advantaged Obligations from the District's financial advisor, and obtain from bond counselor tax counsel a listing of all arbitrage yield restrictions attributable to Proceeds or amounts treated as proceeds of each issue. For example, with respect to each issue of qualified school construction bonds, the Arbitrage Compliance Designee should obtain from tax counsel or bond counsel the yield limitation with respect to any invested sinking fund established for such issue.

(iii) The Arbitrage Compliance Designee 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 Arbitrage Compliance Designee 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 Arbitrage Compliance Designee 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 Arbitrage Compliance Designee 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 Arbitrage Compliance Designee 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 Arbitrage Compliance Designee 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 Arbitrage Compliance Designee 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 Arbitrage Compliance Designee 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 Arbitrage Compliance Designee 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 Arbitrage Compliance Designee of each deadline set forth in the Timetable. The Arbitrage Compliance Designee shall maintain with 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 Arbitrage Compliance Designee should, in the case of any issue of refunding obligations, coordinate with the District's financial advisor, the applicable bond trustee and the applicable escrow agent to arrange for the purchase of the refunding escrow securities, should obtain a computation of the yield on such escrow securities from the Treasury's outside arbitrage rebate specialist and should monitor compliance with applicable yield restrictions. Timetables should be adjusted to reflect the termination of temporary periods, the allocation of Proceeds of the refunded bonds as transferred proceeds of the refunding bonds and other matters resulting from such refunding.

Retention of Records

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

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

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

(ii) Expenditure of Proceeds of Tax-Advantaged Obligations as described below.

(A) Documents evidencing the expenditure of the proceeds of the Tax-Advantaged Obligations and investment earnings thereon and the specific assets financed with such proceeds, including projected draw schedules and invoices (*e.g.*, records with respect to the bond accounts and funds);

(B) Documents setting forth all funds and accounts relating to the Tax-Advantaged Obligations;

(C) Documents pertaining to the investment of the proceeds of the Tax-Advantaged Obligations (*e.g.*, records with respect to the bond accounts and funds), including the purchase and sale of securities, guaranteed investment contracts, and swap/hedge transactions;

(D) With respect to all investments acquired in any fund or account in connection with the Tax-Advantaged Obligations, the information set forth under the heading "Arbitrage and Rebate" herein;

(iii) Documents evidencing any allocations with respect to the proceeds of the Tax-Advantaged Obligations;

(iv) Documents evidencing the use and ownership of the bond financed property, including contracts for the use of such property (*e.g.*, the Annual Reports, and the logs described herein, and documents evidencing the sale or other disposition of the bond financed property.

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

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

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

Reissuance

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

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

Training

The District shall engage its bond counsel or special tax counsel to provide a seminar at least annually, which shall be attended by the District Tax Compliance Designee, the Arbitrage Compliance Designee, representatives of the Chief Financial Officer, the General Counsel and the Chief Facilities Officer and representatives of the District's arbitrage rebate compliance consultant. The County Treasurer 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.