



# FY2015-16 Debt Report



## Presentation to the Budget, Facilities and Audit Committee

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Office of the Chief Financial Officer  
April 4, 2017



## What is the Purpose of the Annual Debt Report?

The District's Debt Management Policy requires a Debt Report to be issued each Fiscal Year that provides:

- ❑ Overview of the District's outstanding debt
  - General Obligation Bonds (GO Bonds) and Certificates of Participation (COPs)
- ❑ District's statutory Debt Limit and Debt Capacity
- ❑ District's tax rate performance on its GO bond measures
- ❑ District's debt ratio performance compared to rating agency benchmarks of other large school districts in the nation
- ❑ District's credit ratings



## Highlights of FY 2015-16 Debt-Related Items

- ❑ In FY 2015-16, the District sold:
  - \$649 million new money General Obligation Bonds (“GOs”)
  - \$577 million refunding GOs
  - \$ 0 Certificates of Participation (“COPs”)
- ❑ The new money GO bonds were the inaugural bond issuance under Measure Q
- ❑ The GO refunding bonds generated \$121 million in taxpayer savings
- ❑ SB 222 effective January 1, 2016 changed the approach to rating California school district GOs



## Overview of Outstanding Debt as of June 30, 2016

	General Obligation Bonds (GOs)	Certificates of Participation (COPs)
Total Par Amount Outstanding	\$10,457,615,000	\$266,131,386
FY 2015-16 Debt Service	\$911,716,941	\$43,864,836
Debt Service Paid By	Taxpayers	General Fund and Developer Fees
All Fixed Rate Debt	Yes	Yes



## Debt Limit and Debt Capacity

- ❑ As of 6/30/2016, District's Legal Debt Margin for additional GO Bonds was about \$3.8 billion (based on FY 2016-17 AV and currently outstanding GO bonds, the current Legal Debt Margin is about \$5.1 billion)

### Bonded Debt Limitation and Legal Debt Margin (As of June 30, 2016, in \$000's)

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

- ❑ Under the Debt Management Policy, maximum annual COPs debt service is 2.5% of general fund expenditures or \$105 million; as of June 30, 2016, maximum annual COPs debt service was \$43.2 million (0.65% of general fund expenditures)



## Tax Rate Performance

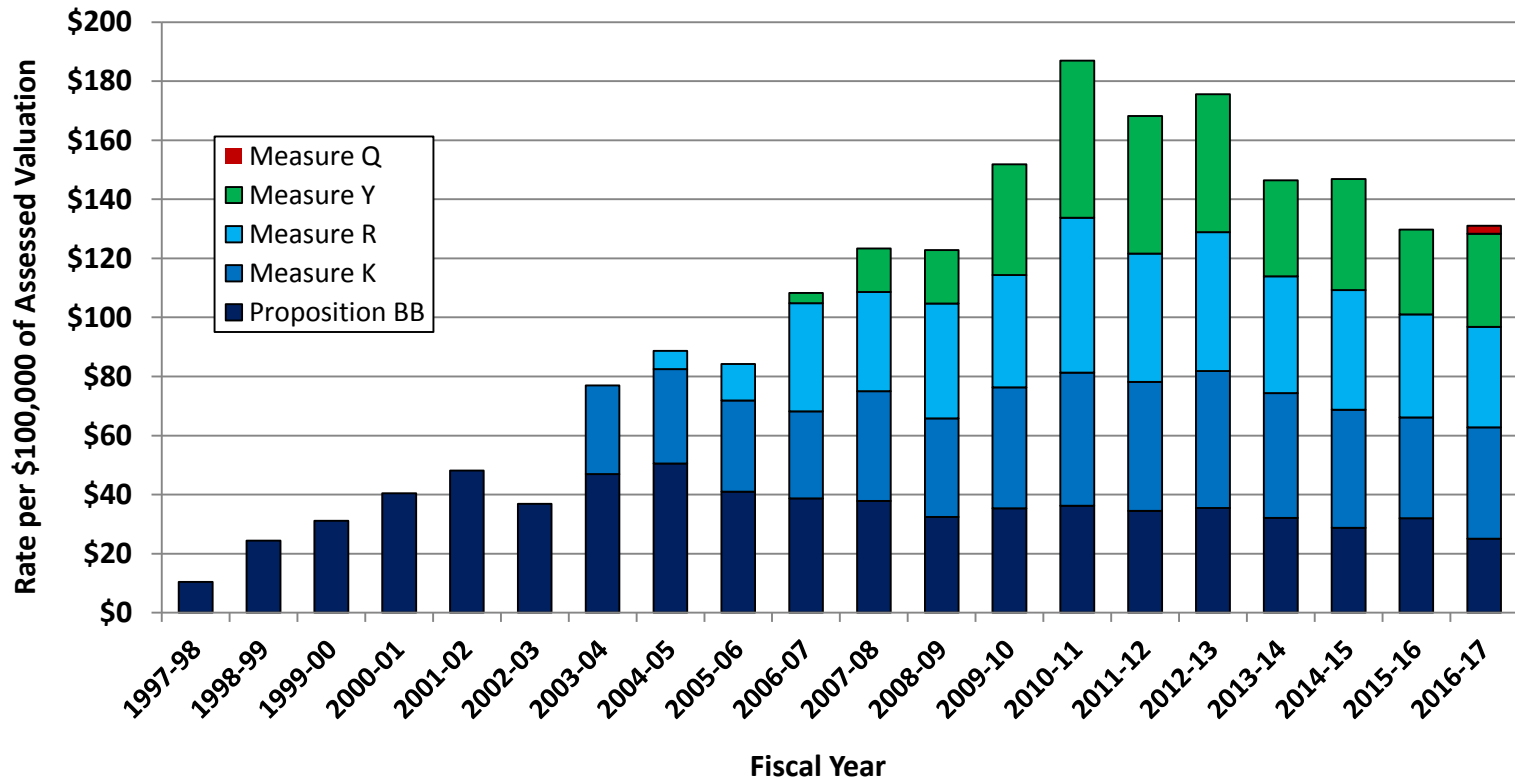
- ❑ Tax rates paid by District taxpayers to pay GO Bond debt service are expressed as \$/\$100,000 of assessed valuation (AV) in the Debt Report
  - For example, a tax rate of \$60/\$100,000 of AV means an owner of a \$300,000 property pays 3 times \$60, or \$180, in the given year
- ❑ The District has outperformed the projected tax rates estimated at the time of each bond election

A	B	C	D	E	F
Bond Measure	Total Authorization (\$Billions)	Remaining Authorization (\$Billions)	Estimated Maximum Tax Rate per \$100,000 of AV at Time of Bond Election	Actual Maximum Tax Rate per \$100,000 of AV to Date	Current Tax Rate per \$100,000 of AV (FY2016-17)
Prop BB	\$2.400	\$0.000	\$67.36	\$50.55	\$25.03
Measure K	\$3.350	\$0.000	\$59.38	\$46.46	\$37.70
Measure R	\$3.870	\$0.160	\$60.00	\$52.37	\$34.12
Measure Y	\$3.985	\$0.382	\$60.00	\$53.23	\$31.52
Measure Q	\$7.000	\$6.351	\$60.00	\$ 2.73	\$ 2.73



# Aggregate Tax Rates FY 1997-98 to FY 2016-17

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





## Ratings (As of 6/30/2016)

Long-Term Credit Ratings				
<b>(District's GO Bond Ratings Highlighted in Red)</b>				
<b>(District's COPs Ratings Highlighted in Blue)</b>				
	Moody's	Fitch	KBRA	S&P
<b>Best Quality</b>	Aaa	<b>AAA</b>	AAA	AAA
<b>High Quality</b>	Aa1	AA+	<b>AA+</b>	AA+
	<b>Aa2</b>	AA	AA	AA
	Aa3	AA-	AA-	<b>AA-</b>
<b>Upper Medium Grade</b>	<b>A1</b>	A+	A+	<b>A+</b>
	A2	A	A	A
	A3	A-	A-	A-
<b>Medium Grade</b>	Baa1	BBB+	BBB+	BBB+
	Baa2	BBB	BBB	BBB
	Baa3	BBB-	BBB-	BBB-
<b>Below Investment Grade</b>	Ba1 and Lower	BB+ and Lower	BB+ and Lower	BB+ and Lower

- ❑ SB222, effective January 2016, changed the approach to rating California school district GOs
- ❑ Recent District GO Bond sales:
  - Fitch: AAA ; KBRA: AA+ ; Moody's: Aa2
  - High ratings reflect property tax-backed view of the credit
  - Fitch does not consider District's finances or operations in its GO ratings
- ❑ District COPs / Fitch's Issuer Default Rating ("IDR") carry lower ratings
  - Not property tax-backed
  - Based on District operations and finances
  - Moody's: A1 ; S&P: A+ ; Fitch IDR: A+





## Market for the District's Bonds

❑ Diverse group of investors own the District's GOs and COPs

- Retail investors
- Municipal bond funds
- Insurance companies
- Commercial banks
- Money managers

❑ Vanguard is the District's largest investor by far at over \$1.2 billion

### 10 Largest Institutional Investors Los Angeles Unified School District

Company	\$ Thousands
Vanguard	\$1,265,089
Franklin Templeton	255,455
Wellington Management Company	206,124
Dodge & Cox	198,204
BlackRock Fund Advisors	132,606
Nuveen Asset Management	127,755
Alliance Bernstein	116,875
PIMCO	114,822
Prudential Investments	90,411
Guggenheim Partners Asset Management	89,107

As of December 6<sup>th</sup>, 2016



## Debt Ratio Performance

- ❑ District's debt ratios are higher than rating agencies' medians/means primarily because LAUSD has the largest school district capital program in the nation

### District's Direct and Overall Debt Metrics vs. Rating Agency Medians/Means (As of June 30, 2016)

Debt Burden Ratio	Medians/Means	Value	LAUSD Actual
Direct Debt to Assessed Value	Moody's Median for Aa Rated School Districts With Student Population Above 200,000	1.20%	1.83%
	Standard & Poor's Mean for AA Rated School Districts With Student Population Above 150,000	1.50%	
Overall Debt to Assessed Valuation	Moody's Median for Aa Rated School Districts With Student Population Above 200,000	3.10%	3.23%
	Standard & Poor's Mean for AA Rated School Districts With Student Population Above 150,000	3.20%	



## FY 2015-16 Debt Report Conclusions

- ❑ District successfully sold \$1.226 billion of new money and refunding GO Bonds in FY 2015-16
- ❑ Effective January 1, 2016, SB222 enabled California school districts to achieve higher ratings on GO bonds by two rating agencies
  - District took advantage of SB222 and achieved higher GO Bond ratings
- ❑ Tax rates paid by taxpayers on the District's GO Bonds have generally been declining and are lower than estimated at the time of each bond election
- ❑ As of June 30, 2016, the District had capacity to issue about \$3.8 billion of additional GO Bonds<sup>(1)</sup>

<sup>(1)</sup> As of today, capacity for new GO Bonds is almost \$5.1 billion, due to the ongoing paydown of prior bonds, refundings, new money issuance, and increased AV in FY 2016-17.