

Bond Basics and Disclosure Requirements

Office of the Chief Financial Officer

11/8/2016



What is a Capital Project?

- **Capital project.** A long-term investment made in order to build, add or improve on a capital-intensive project. A capital project is any undertaking which requires the use of notable amounts of capital, both financial and labor, and results in a capital asset with a useful life of greater than one year.

EXAMPLES OF CAPITAL PROJECTS

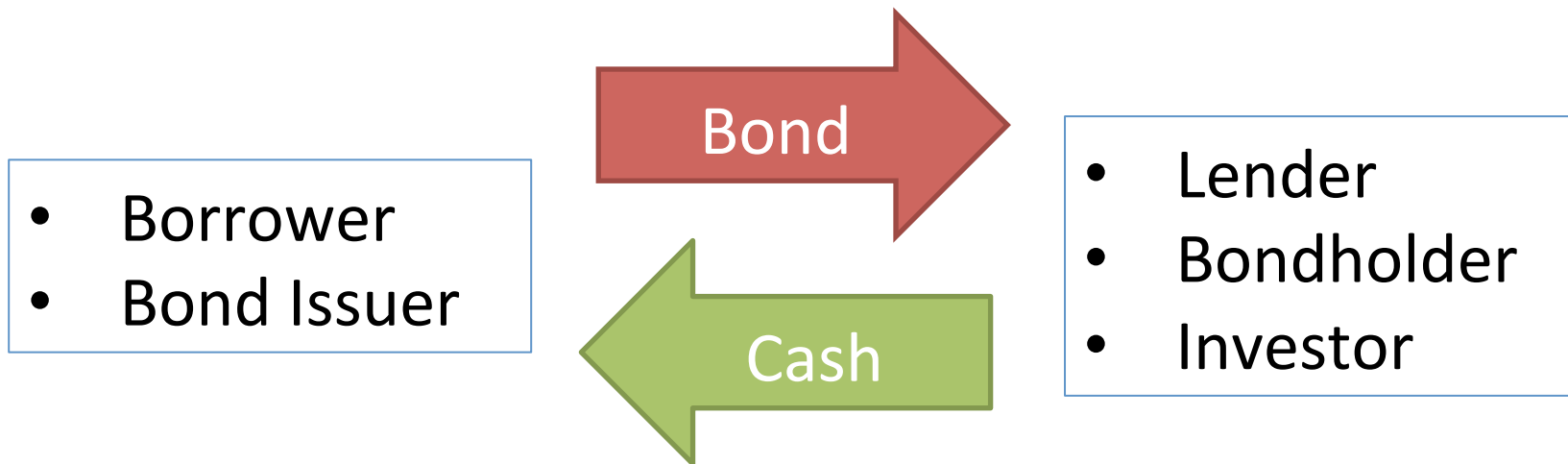
- New School Construction and School Modernizations
- Facilities improvements (e.g. roof repair)
- Beaudry building
- SAP/BTS/LRP
- Instructional Technology Initiative
- School Buses



Robert F. Kennedy
Community Schools
Middle School

What is a bond?

- A Bond is an 'IOU' in which an investor agrees to loan money to a company or government in exchange for a predetermined interest rate for a pre-determined length of time.

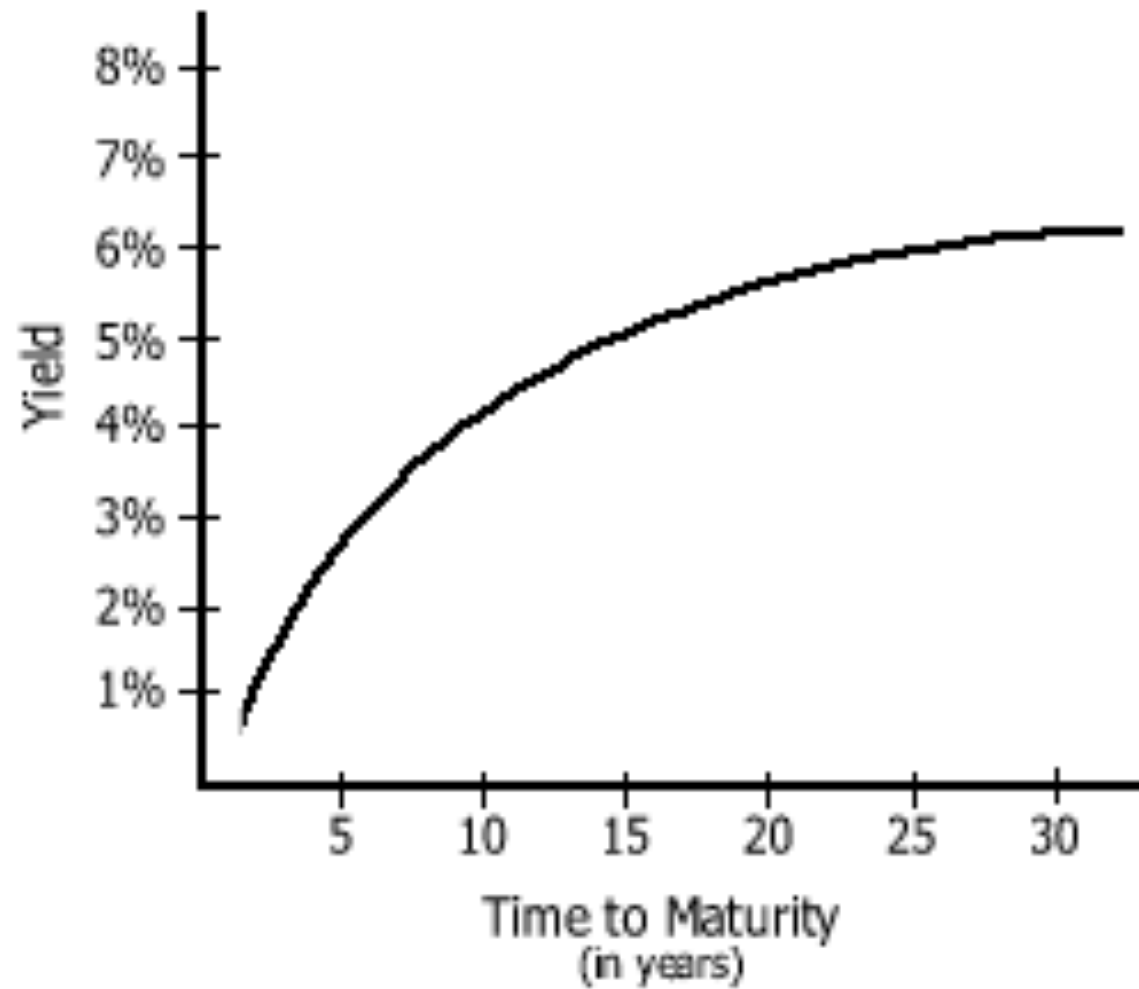


- Bonds are often traded between investors.

Yield curve



"Normal" Yield Curve



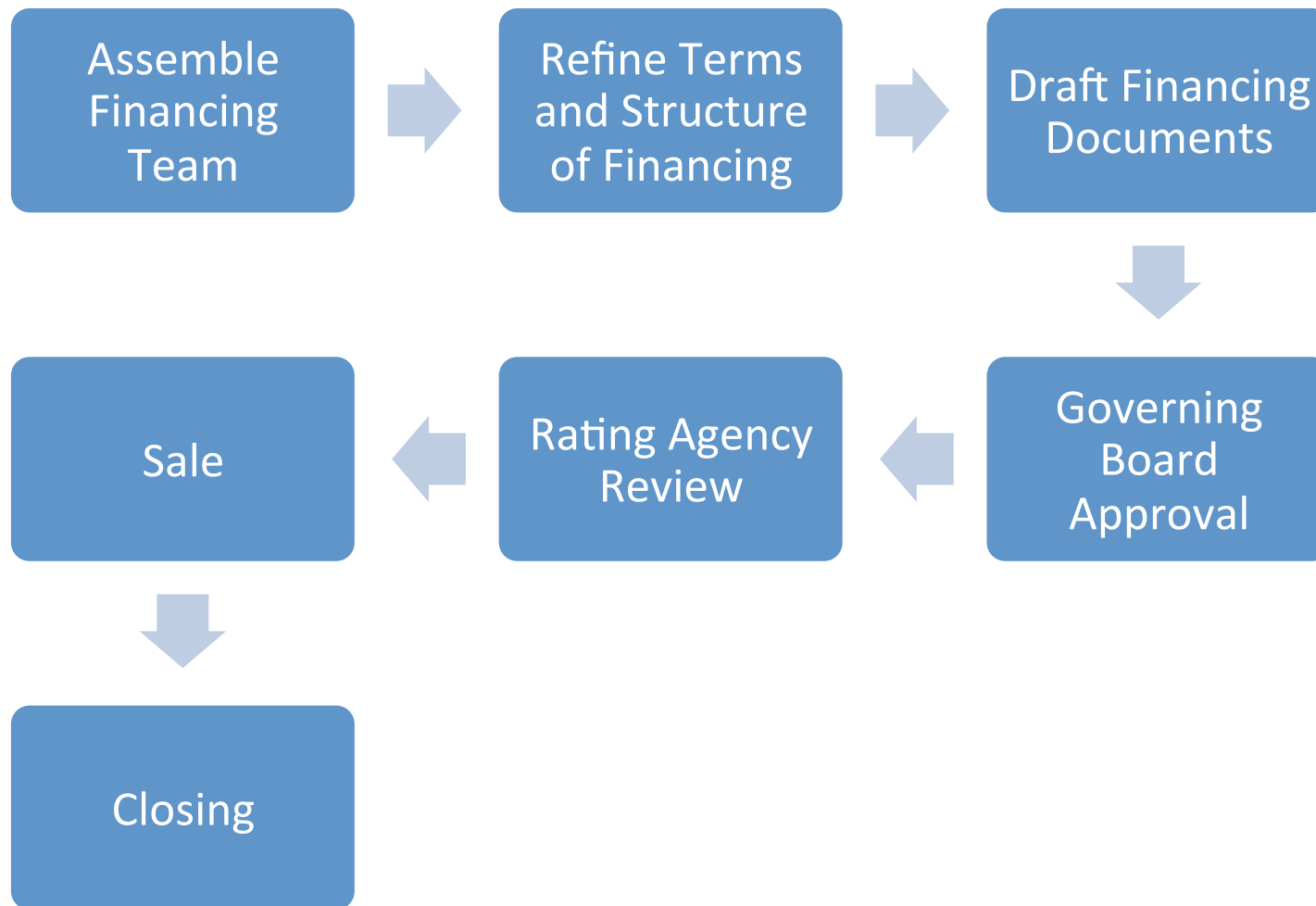
Types of Long-Term Debt (“Bonds”)



	General Obligation Bonds ("GO Bonds")	Certificates of Participation ("COPs")
Voter Approval Required?	Yes	No
Source of Repayment	Property taxes levied on district taxpayers	General Fund/ Developer Fees/ Cafeteria Fund
Statutory Authority	Ed Code, Government Code	Ed Code
What Can Be Financed?	Real property; school facilities	Broad array of capital expenditures
Amounts Outstanding	\$10.5 billion	\$266.1 million



Steps to Issuing Debt



Source: [The XYZs of California School District Debt Financing](#)

IRS Issuance Requirements



IRS Tax Rules – *GO and COPs*

- Must reasonably expect to spend at least 85% of new bond proceeds within 3 years of issuance
 - Program staff provides cash flows to demonstrate
- Must spend proceeds only on bond-financeable items (i.e. capital costs)
- Must structure the term of the bonds in relation to the useful lives of the assets being funded
 - No more than 120% of the aggregate expected lives of the facilities financed
- Private Use and Private Loan Constraints



Refunding (Refinance) Bonds

- We refund bonds when we can save money
 - GO Bonds: Saving to Property Taxpayers
 - COPs: Savings to District
- Latest Refunding
 - Refunded \$563.0 million of GO Bonds
 - Saved Taxpayers \$166.5 million over the life of the bonds
- Total Savings:
 - GO Bonds: \$776.4M
 - COPs: \$418.3M



Regulatory Oversight

- Various regulations govern the different areas involved in a bond issuance and post-issuance matters:

Area	Regulations
Bond Issuance	State Constitution Government Code Education Code
Tax-Exempt Status	IRS Regulations
Securities Laws	SEC Regulations

The District's Responsibilities under the Federal Securities Laws



- The District's debt offerings are subject to the federal anti-fraud securities laws.
- Accordingly, in connection with the District's issuance of debt, the financial and economic information about the District in the Official Statement must be complete.



Importance of Proper Disclosures

- The last few years, the Securities and Exchange Commission (SEC) has pursued various enforcement actions against public agencies under the federal securities laws, alleging deficiencies in the disclosure of a variety of subjects.
 - Most recently, the SEC has focused its attention on public issuers' continuing disclosure obligations and the representations made in Official Statements regarding this matter.



Board Members' Responsibilities

- Board members have responsibilities under the federal securities laws. The responsibilities were described in the Orange County enforcement action which followed the SEC's examination of the County's Official Statements preceding its bankruptcy.
- Following the bankruptcy of Orange County, the SEC issued a report on the financial collapse of Orange County, the investment losses in the County Pool, and the Official Statements used in connection with the County's debt.

Board Members' Responsibilities (Cont'd)



- The SEC found that the information disclosed about County Pool contained misrepresentations and omissions that were material to the offerings.
- The SEC concluded that the Board of Supervisors adopted the resolutions approving each offering of bonds, TRANs and other debt “despite their knowledge of facts calling into question the County’s ability to repay the securities.”
- The SEC concluded as follows:

“Based on the Supervisors’ significant knowledge relating to the County’s finances, they should have understood the materiality of that information to the County’s ability to repay the municipal securities. The Supervisors therefore had a duty to take steps appropriate under the circumstances to assure accurate disclosure was made to investors regarding this material information.”

Board Members' Responsibilities (Cont'd)



- If Board Members ***know*** of facts that are material to an offering, they have an obligation to ***either*** read the official statement ***or*** make sure senior staff and outside professionals are advised of any concerns.
- A Board Member should exercise reasonable diligence to see that any material facts of which the member is aware are either reviewed with senior staff and officials to determine that such persons are aware of such facts or read the disclosure document to make such determination directly.

Board Members' Responsibilities (Cont'd)



- The following text from the Report is particularly instructive:

In authorizing the issuance of securities and related disclosure documents, a public official may not authorize disclosure that the official knows to be false; nor may a public official authorize disclosure while recklessly disregarding facts that indicate that there is a risk that the disclosure may be misleading. When, for example, a public official has knowledge of facts bringing into question the issuer's ability to repay the securities, it is reckless for that official to approve disclosure to investors without taking steps appropriate under the circumstances to prevent the dissemination of materially false or misleading information regarding those facts. In this matter, such steps could have included becoming familiar with the disclosure documents and questioning the issuer's officials, employees or other agents about the disclosure of those facts.

Recent SEC Enforcement Action under the Anti-Fraud Rules



- The Harrisburg enforcement action emphasizes the implications of public speech by public officials that can be expected to reach and influence the financial market. This enforcement action also emphasizes the importance of continuing disclosure compliance so that the market relies on complete information.

Preparation of Official Statement by the District



- Prepared by District's Disclosure Counsel, based on public information and information provided by District.
- Appendix A, the basic information statement of the District, includes detailed descriptions of key aspects of the District, including the District Budget, Revenues and Expenditures, State funding, Collective Bargaining, Retirement Systems, OPEB, Insurance, Debt, State Funding, ADA, and State law, including Prop. 98 and Prop 39.
- Reviewed by Senior Staff, including the CFO, Controller, Deputy Controller, Director of Accounting, Director of Capital Funds Compliance, and other relevant District staff.

Approval of Official Statement by the District



- Several drafts are reviewed by Disclosure Counsel, Senior Staff and other Financing Participants, including the Financial Advisor and Bond Counsel and the Underwriters for negotiated transactions.
- The Official Statement is provided to the Board for their review with the Authorizing Resolution and at the time of sale.
- The Official Statement is provided to the public and municipal market in advance of the sale of the bonds.



LAUSD's Continuing Disclosure Policy

- Intended to:
 - Ensure that the District's Continuing Disclosure Documents are accurate and comply with all applicable federal and state securities laws.
 - Promote best practices regarding the preparation of the District's Continuing Disclosure Documents.
- Document here:
 - <http://achieve.lausd.net/cms/lib08/CA01000043/Centricity/Domain/372/Policies%20SEPs/DEBT%20MANAGEMENT%20POLICY%202016.pdf#page=36>
 - Appendix B of District's Debt Management Policy