Review of the LACCD's Debt

Presentation to the Los Angeles Community College District
Board of Trustees Finance and Audit Committee

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Topics for Discussion

1. Overview of the LACCD's debt program
2. The District's bond tax rate and future bond issuance
3. KNN's review of prior practices
4. Next steps
   a) Selection of underwriters
   b) 2014 bond issue
   c) Consideration of revisions to debt policy

Overview of the LACCD's debt program

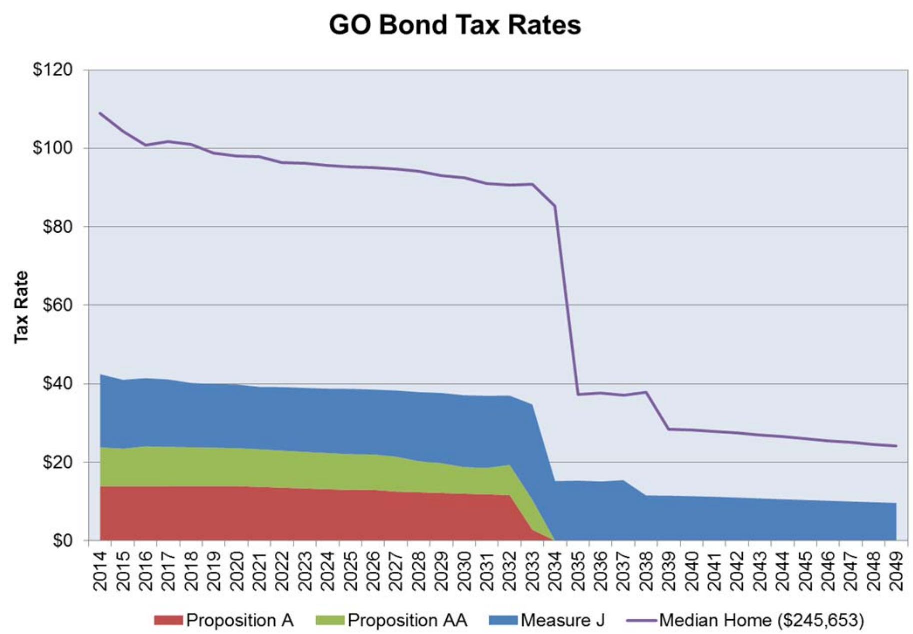
- The District has sought and received three bond authorizations from its voters

Measure	Date of Election	Amount Authorized	Amount Issued	Amount Outstanding
Proposition A	April 10, 2001	$1,245,000,000	$1,245,000,000	$908,550,000
Proposition AA	May 20, 2003	$980,000,000	$980,000,000	$761,205,000
Measure J	November 4, 2008	$3,500,000,000	$1,875,000,000	$1,875,000,000
	Total	$5,725,000,000	$3,850,000,000	$3,555,755,000

- $1,625,000,000 in Measure J bonds remain to be issued; there are <u>no</u> remaining bonds to be issued from Proposition A or Proposition AA

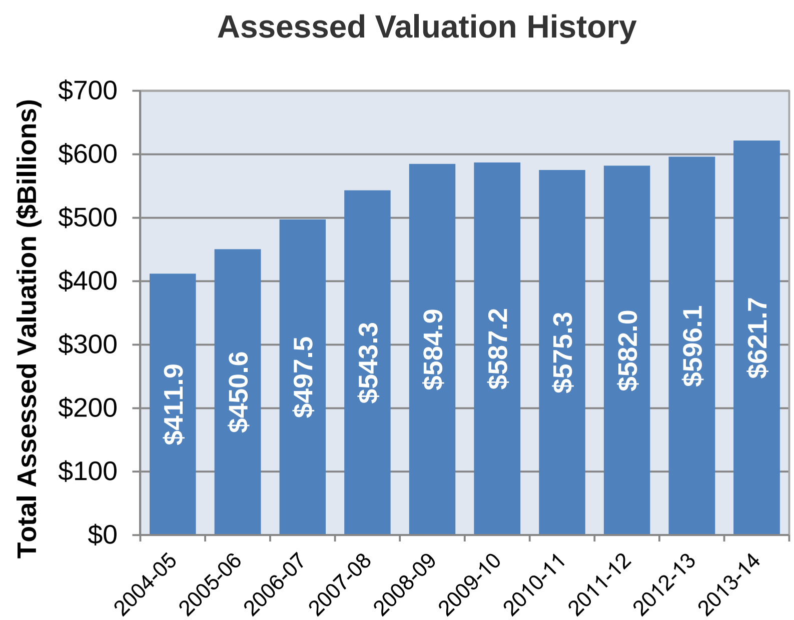
General Obligation Bond Tax Rates

- District's general obligation bonds were approved under Proposition 39
  - 55% voter approval
  - Each authorization has a limit of $25 tax rate per $100,000 of assessed valuation
  - Limit is based on expectations at the time bonds are issued
- Each of the District's three bond programs has its own tax rate limit of $25 per $100,000 assessed valuation
- Median home in District is assessed at $245,653 ("median" represents the valuation that half of the homes are higher than, half lower than)
  - Median tax to support District bonds is about $100 per home



Management of Tax Rate

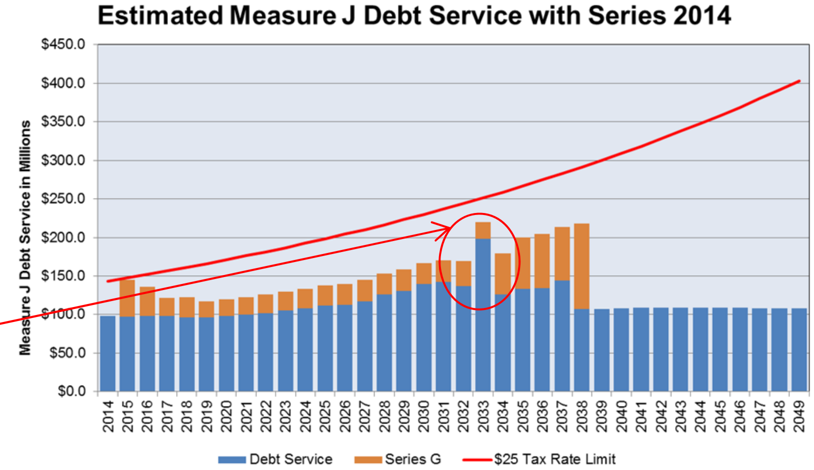
- Original plan for Measure J was to structure bond issues to maintain $25 overall rate per $100,000 assessed valuation across all three District bond authorizations
- Due to a decline in tax base and a decision to accelerate borrowing, the District revised its goals for its general obligation tax rate
  - 2010 bond issue structured to allow Measure J bond rate to be as high as $25 per $100,000 assessed valuation.

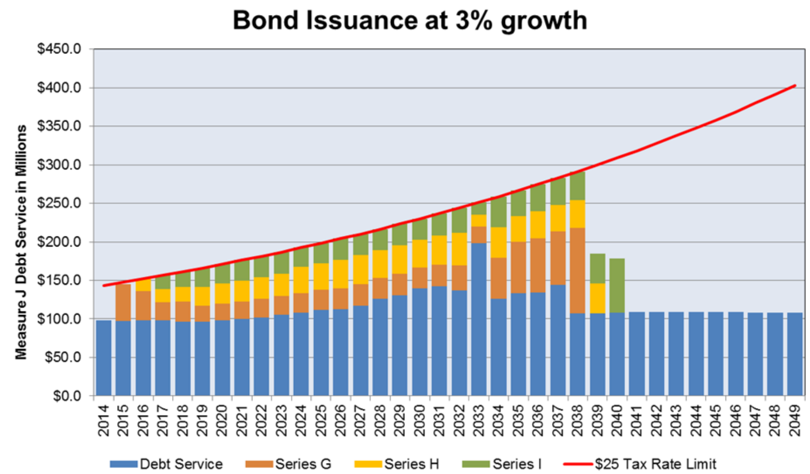


Source: California Municipal Statistics, Inc.; LA County Auditor/Controller

Managing the Measure J Authorization

- First Measure J bond issue structured to maintain $25 overall tax (for all bond measures per $100,000 AV), back-loading principal to be paid after prior bond measures mature in 2033
- Now, large principal maturity in 2033 may constrain ability to issue all Measure J debt
- By structuring each new issue to front-load some principal to hit the $25 rate, we expect you can issue all Measure J debt without use of capital appreciation bonds
  - Capital appreciation bonds or "CABS" pay off interest at maturity, and have been the subject of controversy





2013 Review of Prior General Obligation Bond Practices

- KNN was directed to report on prior bond activities.
- Review was undertaken to provide for the continuing improvement of the District's debt practices, with the primary goals of:
  - Reducing cost and risk
  - Increasing transparency and accountability
- Study looked at
  - Various business practices
  - Pricing of debt and financial services
  - Debt-related policies

Outline of KNN Report

1. Introduction and Summary
2. Overview of LACCD's Bond Program
3. Review of Financing Team Participation
4. Review of Underwriter Compensation
5. Review of Underwriter Performance
6. Review of Other Costs of Issuance
7. Bond Structure and Frequency of Bond Issues
8. Tax Rate Management
9. Recent Controversies Regarding General Obligation Bond Structure and Practice
10. Refunding Practices
11. Debt Policy

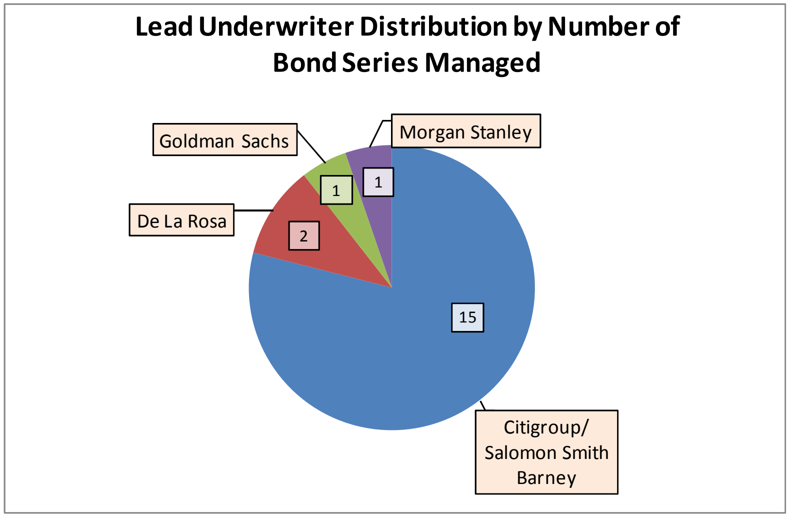
Appendices:

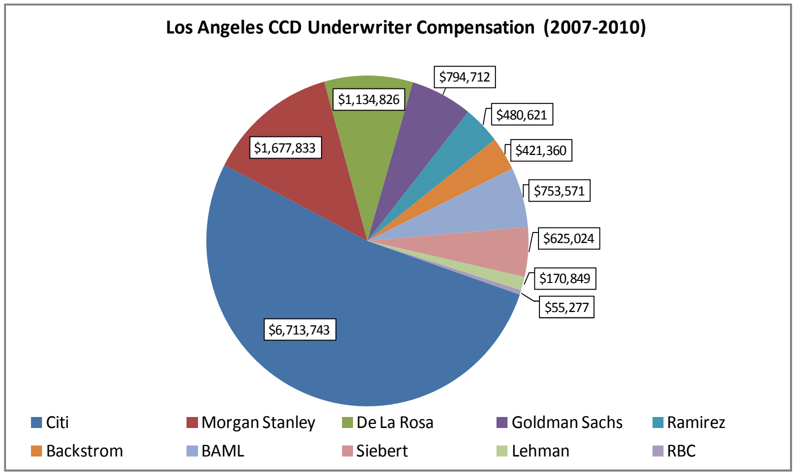
A. Debt Map
B. Analysis of Prior Bond Pricing
C. Costs of Issuance
D. District's Average Annual AV Growth
E. LA County Treasurer "White Paper"
F. Comments on Debt Policy

Team Participation

- Study noted that one firm consistently served as senior underwriter for the District's bonds: Citi
  - Served as lead underwriter on 15 of 19 series of bonds since 2001
  - From 2007, Citi made over $6.7 million in underwriting fees

- The District's new debt policy calls for rotating the senior management of your bond transactions





Some Key Recommendations of the Study

- Implement new process for selecting underwriting team
  - Consider mini-RFPs from pool to determine lead of each bond issue
  - Use competitive sale occasionally to benchmark pricing
- Periodically review proposals from financial advisors and bond counsel
- Greater incorporation of Finance Committee and Board of Trustees in review of financing program and key policy objectives
  - Clear written record of key factors in decision making
  - Every bond issue be considered within the context of its overall impact on the long-term plan of finance, including projected impact on tax rates from current and future issuance.
- Recommendations for changes and improvements should be included in the Debt Policy, so that it is memorialized going forward
- **Many of these recommendations have already been incorporated in District's practices**

Underwriter RFP Process

- Request for Proposal for Underwriters has been prepared, awaiting approval by Contracts section
- Review committee established in District's debt policy
- Next issue expected in late spring to meet expenditure program
- Policy decisions to discuss
  - Additional review of RFP and appointments
  - Size and frequency of bond issues

Next Steps

- Establishment of underwriting pool and selection for next deal
- Review and update debt policies
- 2014 bond issue
- 2014-15 tax rates