



## LOS ANGELES UNIFIED SCHOOL DISTRICT

### Board of Education Report

<b>Report Number:</b>	318-09/10 REVISED
<b>Date:</b>	April 13, 2010
<b>Subject:</b>	2010 Series B Certificates of Participation
<b>Responsible Staff:</b>	
Name	Timothy S. Rosnick
Office/Division	Accounting and Disbursements Division
Telephone No.	(213) 241-7990

### BOARD REPORT

**Action Proposed:** It is proposed that the Board:

- 1) approve the attached Resolution (Attachment A) authorizing the preparation, sale, execution and delivery of not to exceed \$120 million in Certificates of Participation (COPs), 2010 Series B (Capital Projects I) and the preparation, execution and delivery of documents relating thereto and authorizing and directing certain actions in connection therewith;
- 2) authorize the sale of the 2010 COPs by negotiation with a team of underwriters in the District's underwriting pool or by private placement;
- 3) direct the Chief Financial Officer and other Officers of the District to assemble the financing team to be comprised of Hawkins, Delafield & Wood LLP, as Bond, Tax and Disclosure Counsel; Public Financial Management as Financial Advisor; and Piper Jaffray, Morgan Stanley, and Rice Financial as Underwriters; and
- 4) authorize the Budget Services and Financial Planning Division to make the necessary budget adjustments to reflect the anticipated COPs receipts.
- 5) approve the sale of not to exceed amount of \$240 million in one or more series to support the projects in the capital plan as submitted to the Board on March 17, 2010

**Background:** District staff identified certain capital projects that need financing in fiscal years 2009-10 and 2010-11. An informative on Financing Strategies for Capital Plan was sent out on March 17, 2010. This informative outlined the projects, the financing structures and the timing of financing recommended by District staff based on certain criteria.

This Board report seeks approval for financing the projects that need to be



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funded by June 30, 2010. It also seeks approval for financing of projects that are proposed to be issued in November 2010.

**Expected Outcomes:** The 2009-10 COPs proceeds will enable the District to move forward with the projects identified above before Measure Q funds are available, thereby allowing the District to maximize matching funds for the bus project, secure the use of Bell Federal for adult education purposes and provide General Fund relief from having to pay for the projects on a pay-as-you-go basis. The approval of the 2010-11 COPs will allow District staff to move forward with the projects and the necessary financing actions required.

**Board Options and Consequences:** If the Board does not approve the issuance of the COPs, the District's General Fund will have to absorb the costs for some of the projects, risk losing matching grant funds and risk losing title to the Bell Federal property. And if the Financing Strategies for Capital Plan is not approved, the projects scheduled for financing in November will be delayed and the expected savings and efficiencies will not be realized.

**Policy Implications:** The issuance of the COPs is in compliance with the District's Debt Management Policy.

The proposed finance team and form of the required legal documents will be brought to the Board for approval when before the 2010-11 COPs are issued.

**Budget Impact:** There will be no impact to the District's General Fund in fiscal years 2009-10 and 2010-11 and only a small impact in 2011-12 because the proposed financing structure will include capitalized interest, thereby delaying principal and interest payments to 2011-12 at the earliest. Beginning in 2011-12 and 2012-13, as the case may be, it is further proposed that the financing structure require interest only payments on some projects until such time as Measure Q is expected to be available in 2016-17. Under this structure, the estimated annual interest payment will be as high as \$34 million between 2012-13 and 2016-17. If the Measure Q bonds are not issued by fiscal year 2016-17, the annual debt service payments will increase to a maximum of about \$49 million, assuming that the projected savings from terminated leases and reduced energy bills materialize.

**Issues and Analysis:** Some of the projects to be financed are eligible for Measure Q funds. Unfortunately, the projected decline in assessed valuation is precluding the District from issuing Measure Q bonds as originally scheduled. Since



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the implementation of these projects are critical to the operations of the District and will enable the District to maximize matching funds, financing with COPs that are structured with capitalized interest and interest only payments for a few years is the best option for the District at this time.

The rest of the projects that are not eligible for Measure Q are also proposed to be structured with capitalized interest to minimize the impact on General Fund for a few years. This will allow the District to realize some of the projected savings to use it to offset the debt service payments.

#### **Attachments:**

Attachment A: Resolution of the Board of Education Authorizing the Preparation, Sale, Execution and Delivery of Not to Exceed \$120 million in Certificates of Participation

☐ **Informative**

☐ **Desegregation  
Impact Statement**



# LOS ANGELES UNIFIED SCHOOL DISTRICT

## Board of Education Report

### APPROVED BY:

Respectfully submitted,

RAMON C. CORTINES  
Superintendent of Schools

JAMES MORRIS  
Chief Operating Officer

### APPROVED & PRESENTED BY:

MEGAN K. REILLY  
Chief Financial Officer

### REVIEWED BY:

DAVID HOLMQUIST  
General Counsel

☐ No legal issues

☐ Legal informative

### REVIEWED BY:

YUMI TAKAHASHI  
Budget Director

☐ No budget issues

☐ Budget Informative

## RESOLUTION

RESOLUTION OF THE BOARD OF EDUCATION  
AUTHORIZING THE PREPARATION, SALE, EXECUTION  
AND DELIVERY OF NOT TO EXCEED \$120,000,000  
AGGREGATE PRINCIPAL AMOUNT OF CERTIFICATES OF  
PARTICIPATION, 2010 SERIES B (CAPITAL PROJECTS I),  
THE PREPARATION, EXECUTION AND DELIVERY OF  
DOCUMENTS RELATING THERETO, INCLUDING AN  
OFFICIAL STATEMENT, CONTINUING DISCLOSURE  
CERTIFICATE, TRUST AGREEMENT, LEASE AGREEMENT,  
SITE LEASE AND CONTRACT OF PURCHASE AND  
AUTHORIZING AND DIRECTING CERTAIN ACTIONS IN  
CONNECTION THEREWITH

WHEREAS, the Los Angeles Unified School District (the “District”) is a school district organized and existing under and pursuant to the Constitution and laws of the State of California (the “State”); and

WHEREAS, the District has determined that it would be in the best interests of the District and citizens of the District to authorize the preparation, sale, execution and delivery of Certificates of Participation, 2010 Series B (Capital Projects I), in one or more series (with such other or additional series designations as may be approved by the District) in an aggregate principal amount not to exceed \$120,000,000 (the “Certificates”), pursuant to the terms of the Trust Agreement (the “Trust Agreement”), by and among the District, the Corporation and the trustee named therein (the “Trustee”), which Certificates shall evidence the proportionate interests in the lease payments and prepayments to be made by the District to finance certain equipment and capital improvements of the District (collectively, the “Project”); and

WHEREAS, the District proposes to utilize the assistance of the LAUSD Financing Corporation, a nonprofit public benefit corporation duly organized and existing under the laws of the State (the “Corporation”), including, without limitation, the Nonprofit Public Benefit Corporation Law (Sections 5110 *et. seq.* of the State Corporations Code); and

WHEREAS, the District and the Corporation desire to facilitate the financing of the Project by entering into the Site Lease (the “Site Lease”), by and between the District and the Corporation, pursuant to which the District will lease to the Corporation real property to be designated in the Site Lease, together with the facilities and improvements thereon (collectively, the “Property”); and

WHEREAS, the District and the Corporation propose to enter into the Lease Agreement (the “Lease Agreement”), by and between the District and the Corporation, pursuant to which the Corporation will sublease the Property to the District and the District will pay lease payments to be evidenced and represented by the Certificates; and

WHEREAS, the Corporation proposes to assign without recourse certain of its rights under the Site Lease and the Lease Agreement, including all of its rights to receive the lease

payments scheduled to be paid by the District pursuant to the Lease Agreement, to the Trustee for the benefit of the owners of the Certificates pursuant to an Assignment Agreement (the "Assignment Agreement"), by and between the Corporation and the Trustee; and

WHEREAS, the District and the Corporation propose to sell the Certificates pursuant to a negotiated public offering or a private placement, in each case pursuant to a Contract of Purchase (the "Contract of Purchase") to be entered into with one or more of the underwriters (the "Underwriters") on the District's current approved underwriting bench, as determined by the Chief Financial Officer of the District (the "Chief Financial Officer"); and

WHEREAS, the District has determined that it may be in the best interests of the District to fund a debt service reserve fund for the Certificates, to obtain such credit enhancement and/or a reserve fund surety for the Certificates, and such other insurance policies or surety and/or swap agreements as may be necessary to improve the marketability of the Certificates; and

WHEREAS, all acts, conditions and things required by the Constitution and laws of the State to exist, to have happened and to have been performed precedent to and in connection with the consummation of the transactions authorized hereby do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the District is now duly authorized and empowered, pursuant to each and every requirement of law, to consummate such transactions for the purpose, in the manner and upon the terms herein provided;

NOW, THEREFORE, it is resolved by the Board of Education of the Los Angeles Unified School District (the "Board") as follows:

SECTION 1. Findings. The Board hereby specifically finds and declares that the above recitals are true and correct, that the actions authorized hereby constitute the public affairs of the District, and that the statements, and findings and determinations of the District set forth in the preambles of the documents approved herein are true and correct. The Board hereby declares its intention of entering into the Lease Agreement, the Site Lease, the Trust Agreement, the Continuing Disclosure Certificate (herein defined) and the Contract of Purchase.

SECTION 2. Authorization of Certificates. The Board hereby expresses its intention to cause the preparation, sale, execution and delivery of the Certificates, in one or more series, in an amount not to exceed \$120,000,000, the interest with respect to which shall be evidenced at (i) variable rates or index rates or (ii) fixed rates, in each case not to exceed the maximum rate permitted by law and in accordance with the terms and provisions of the Trust Agreement. The proceeds of the sale of the Certificates will be used (i) to finance the Project, (ii) to fund a reserve fund or obtain a reserve surety, as appropriate for the Certificates, and (iii) to pay costs of sale, execution and delivery of the Certificates. The Certificates shall be designated as "Certificates of Participation, 2010 Series B (Capital Projects I)" with such other or additional designations as may be approved in accordance with Section 11 of this Resolution.

SECTION 3. Lease Agreement. The form of the Lease Agreement presented to this meeting and on file with the Executive Officer of the Board (the "Executive Officer") is hereby approved. Each of the Chief Financial Officer and the Controller of the District, and the authorized designees of such officers (each, an "Authorized Officer" and, collectively, the

“Authorized Officers”), acting singly, is hereby authorized and directed, for and in the name and on behalf of the District, to execute and deliver to the Corporation the Lease Agreement in substantially said form, with such changes therein as such Authorized Officer may require or approve (including, but not limited to the designation of the Property to be subject to the Lease Agreement), such approval to be conclusively evidenced by the execution and delivery thereof.

SECTION 4. Trust Agreement. The form of the Trust Agreement presented to this meeting and on file with the Executive Officer, is hereby approved. Each of the Authorized Officers, acting singly, is hereby authorized and directed, for and in the name and on behalf of the District, to execute and deliver to the Corporation and the Trustee said Trust Agreement in substantially said form, with such changes therein as such Authorized Officer may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof. The Trustee is requested to execute and deliver Certificates in the form attached to the Trust Agreement.

SECTION 5. Site Lease. The form of the Site Lease presented to this meeting and on file with the Executive Officer, is hereby approved. Each of the Authorized Officers, acting singly, is hereby authorized and directed, for and in the name and on behalf of the District, to execute and deliver to the Corporation said Site Lease in substantially said form, with such changes therein as such Authorized Officer may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

SECTION 6. Assignment. The Board hereby consents to the assignment by the Corporation of its rights, title, and interest under the Site Lease and the Lease Agreement, including the right to receive lease payments and prepayments to be made by the District pursuant to the Lease Agreement, to the Trustee for the benefit of the owners of the Certificates pursuant to the Assignment Agreement.

SECTION 7. Official Statement. The form of the Official Statement (the “Official Statement”) in preliminary form relating to the Certificates on file with the Executive Officer is hereby deemed approved. The Underwriters named therein are hereby authorized to distribute copies of the Official Statement in preliminary form to persons who may be interested in purchasing such Certificates. Each Authorized Officer, acting singly, is hereby authorized to certify to the Underwriters, on behalf of the District, that the Official Statement in preliminary form was deemed final as of its date, within the meaning of Rule 15c2-12 (“Rule 15c2-12”) promulgated under the Securities Exchange Act of 1934, as amended (except for the omission of certain final pricing, rating and related information as permitted by Rule 15c2-12). The Official Statement in substantially said form, with such changes as each Authorized Officer, acting singly, may approve (including all information previously permitted to have been omitted by Rule 15c2-12), which approval shall be conclusively evidenced by execution by such Authorized Officer of the Official Statement and delivery thereof to the Underwriters within seven (7) business days of the sale of the Certificates, is hereby approved.

SECTION 8. Contract of Purchase. The form of Contract of Purchase between the District and the Underwriters on file with the Executive Officer is hereby approved. Each Authorized Officer, acting singly, is hereby authorized and directed, for and in the name and on behalf of the District, to sell the Certificates either (i) by a negotiated public offering or (ii) by a

private placement to the Underwriters, and to execute and deliver to the Underwriters the Contract of Purchase in substantially said form as such Authorized Officer may require or approve (including, but not limited to, preparation of separate contracts of purchase for each series of Certificates), such approval to be conclusively evidenced by the execution and delivery thereof, provided, however, that the maximum true interest costs with respect to the Certificates shall not be in excess of 7% per annum, the underwriting discount (including underwriters' expenses) shall not exceed 1%, the final maturity date of the Certificates shall not be later than 30 years from the delivery thereof and the aggregate principal amount of the Certificates shall not exceed \$120,000,000.

SECTION 9. Attestations. The Executive Officer or persons as may have been designated by the Chief Financial Officer are hereby authorized and directed to attest to the signatures of the Authorized Officers, and to affix and attest to the seal of the District, as may be required or appropriate in connection with the execution and delivery of the Certificates, the Lease Agreement, the Trust Agreement and the Site Lease.

SECTION 10. Continuing Disclosure Certificate. The Continuing Disclosure Certificate (the "Continuing Disclosure Certificate") on file with the Executive Officer is hereby approved. Each of the Authorized Officers, acting singly, is hereby authorized and directed, for and in the name and on behalf of the District, to execute, acknowledge and deliver the Continuing Disclosure Certificate in substantially said form, with such changes therein as such Authorized Officer may require or approve (including, but not limited to, preparation of separate continuing disclosure certificates for each series of Certificates), such approval to be conclusively evidenced by the execution and delivery thereof.

SECTION 11. Other Actions. The Authorized Officers are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all instruments, agreements and other documents that they may deem necessary or advisable (including, but not limited to the pledge of additional assets of the District to secure lease payments and the purchase of title insurance) in order to consummate the sale, execution and delivery of the Certificates and otherwise to carry out, give effect to and comply with the terms and intent of this Resolution and the Certificates, the Lease Agreement, the Trust Agreement, the Site Lease, the Contract of Purchase and the Continuing Disclosure Certificate, including but not limited to any certifications. Such actions heretofore taken by such Authorized Officers and all other officers and agents of the Board with respect to the Certificates are hereby ratified, confirmed and approved. The Authorized Officers are hereby authorized and directed, jointly and severally, to execute any amendment to the Lease Agreement, Trust Agreement, Site Lease, Contract of Purchase and the Continuing Disclosure Certificate, exclusive of amendments that would require consent of the owners of all or a portion of the Certificates, that they may deem to be necessary and desirable to remove any ambiguity in such documents or otherwise to carry out, give effect to and comply with the terms and intent of this Resolution.

SECTION 12. Additional Authority. If an Authorized Officer determines that it will be advantageous to the District to purchase municipal bond insurance or other credit enhancement or liquidity with respect to some or all of the Certificates, any Authorized Officer is hereby authorized to purchase such insurance or other credit enhancement or liquidity at market rates. Additionally, the Board hereby finds that it is necessary from time to time to enter into contracts,



arrangements or a program of contracts for one or more of the purposes described in California Government Code Section 5922, including, without limitation, interest rate cap agreements, interest rate swap agreements, liquidity facility agreements, credit enhancement agreements, reserve fund sureties and other contracts of this type, and hereby finds that such arrangements are designed to reduce the amount of payments that may come due with respect to the Certificates and/or to maintain a lower overall cost of borrowing for the District, and therefor authorizes the Authorized Officers, acting singly, to enter into, extend, renew or terminate such contracts on behalf of the District, and to pay the provider of, or counterparty to, each such agreement (or to a trustee or paying agent to facilitate transfer to the provider) available funds sufficient for the purpose of making payments due from time to time under any such arrangements and to pay incidental costs in connection therewith.

SECTION 13. Effect. This Resolution shall take effect immediately upon its passage.

PASSED AND ADOPTED this \_\_\_\_\_ day of \_\_\_\_\_, 2010 by the following  
vote:

AYES:

NOES:

ABSTENTIONS:

ABSENT:

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Executive Officer of the Board of Education  
of the Los Angeles Unified School District