Los Angeles County School and Community College Districts Fiscal Summit

- School District Credit Ratings
- Continuing Disclosure
- State Facilities Program
L.A. COUNTY SCHOOL AND COMMUNITY COLLEGE DISTRICT CREDIT RATINGS
Municipal Credit Ratings

- Municipal credit ratings are an assessment of the general fiscal soundness of a bond issuer and the management of its finances.
- Credit ratings are assigned before debt issuance, are reviewed periodically, and may be adjusted to reflect changes in the issuer’s credit position.
- Three credit rating agencies are nationally recognized in the municipal sector:
  - Moody's Investors Service
  - S&P Global Ratings
  - Fitch Ratings
Primary Credit Rating Factors

➢ Rating agencies consider these primary factors when assigning a credit rating:

- Economic and demographic conditions
- Financial resources (ability to repay debt)
- Operational and financial management capabilities (willingness to repay debt)
- Repayment structure of existing and proposed debt
- Borrowing purpose
- Financial covenants and terms of legal documents
## Long-Term Debt Credit Rating Descriptions

<table>
<thead>
<tr>
<th>Moody’s</th>
<th>S&amp;P and Fitch</th>
<th>Capacity to Meet Financial Commitments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aaa</td>
<td>AAA</td>
<td>Extremely Strong</td>
</tr>
<tr>
<td>Aa1/Aa2/Aa3</td>
<td>AA+/AA/AA-</td>
<td>Very Strong</td>
</tr>
<tr>
<td>A1/A2/A3</td>
<td>A+/A/A-</td>
<td>Strong</td>
</tr>
<tr>
<td>Baa1/Baa2/Baa3</td>
<td>BBB+/BBB/BBB-</td>
<td>Adequate</td>
</tr>
<tr>
<td>Ba1/Ba2/Ba3</td>
<td>BB+/BB/BB-</td>
<td>Moderate</td>
</tr>
<tr>
<td>B1/B2/B3</td>
<td>B+/B/B-</td>
<td>to Highly Speculative</td>
</tr>
<tr>
<td>Caa/Ca</td>
<td>CCC/CC/C</td>
<td></td>
</tr>
<tr>
<td>C</td>
<td>D</td>
<td>Default</td>
</tr>
</tbody>
</table>
Credit Ratings & Borrowing Cost

By receiving the highest (practical) credit ratings, a bond issuer can sell its debt at a lower interest cost

<table>
<thead>
<tr>
<th>Credit Rating</th>
<th>MMD 15-Year Yields for Sept. 22, 2017</th>
<th>Spread from AAA</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA</td>
<td>2.31%</td>
<td>--</td>
</tr>
<tr>
<td>AA</td>
<td>2.53%</td>
<td>0.22%</td>
</tr>
<tr>
<td>AA (insured)</td>
<td>2.75%</td>
<td>0.44%</td>
</tr>
<tr>
<td>A</td>
<td>2.85%</td>
<td>0.54%</td>
</tr>
<tr>
<td>BBB</td>
<td>3.21%</td>
<td>0.90%</td>
</tr>
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</table>
Fitch’s Special Revenue Analysis of GO Bonds

- Fitch: “The ‘AAA’ unlimited tax GO bond rating is based on a dedicated tax analysis without regard to the district’s financial operations. Fitch Ratings has received legal opinions by district counsel that provide a reasonable basis for concluding that the tax revenues levied to repay the bonds would be considered ‘pledged special revenues’ in the event of a district bankruptcy.”

- Fitch: “The distinction between the 'AAA' rating on the GO bonds and the 'A-' IDR reflects Fitch's assessment that bondholders are legally insulated from any operating risk of the district”

- 17 K-14 GO Bond issuers in the County have been assigned an IDR by Fitch, and 10 of these issuers have GO bonds with the special revenue rating of “AAA”
Credit Ratings of LA County K-14 GO Bond Issuers

- Of the 93 school and community college districts in the County, 10 (11%) have one credit rating, 63 (68%) have two credit ratings and 14 (15%) have three credit ratings.

- All 13 CCDs have two credit ratings.

<table>
<thead>
<tr>
<th>K-12</th>
<th>CCD</th>
<th>Total</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Rating</td>
<td>6</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>1 Rating</td>
<td>10</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>2 Ratings</td>
<td>50</td>
<td>13</td>
<td>63</td>
</tr>
<tr>
<td>3 Ratings</td>
<td>14</td>
<td>0</td>
<td>14</td>
</tr>
<tr>
<td>Total</td>
<td>80</td>
<td>13</td>
<td>93</td>
</tr>
</tbody>
</table>
## Distribution of LA County K-14 GO Credit Ratings

<table>
<thead>
<tr>
<th>Credit Rating</th>
<th>Moody’s</th>
<th>S&amp;P</th>
<th>Fitch</th>
<th>Total</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aaa/AAA</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>1%</td>
</tr>
<tr>
<td>Aa1/AA+</td>
<td>11</td>
<td>5</td>
<td>0</td>
<td>16</td>
<td>9%</td>
</tr>
<tr>
<td>Aa2/AA</td>
<td>27</td>
<td>15</td>
<td>1</td>
<td>43</td>
<td>24%</td>
</tr>
<tr>
<td>Aa3/AA-</td>
<td>17</td>
<td>24</td>
<td>4</td>
<td>45</td>
<td>25%</td>
</tr>
<tr>
<td>A1/A+</td>
<td>14</td>
<td>30</td>
<td>5</td>
<td>49</td>
<td>28%</td>
</tr>
<tr>
<td>A2/A</td>
<td>6</td>
<td>7</td>
<td>5</td>
<td>18</td>
<td>10%</td>
</tr>
<tr>
<td>A3/A-</td>
<td>0</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>2%</td>
</tr>
<tr>
<td>Baa/BBB</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>2</td>
<td>1%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>78</strong></td>
<td><strong>83</strong></td>
<td><strong>17</strong></td>
<td><strong>178</strong></td>
<td></td>
</tr>
</tbody>
</table>

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*Note: The table above provides a distribution of credit ratings for LA County K-14 GO bonds, categorized by rating agencies Moody's, S&P, and Fitch.*

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*Image Credit: Montague DeRose & Associates, LLC*
CONTINUING DISCLOSURE
Issuer Enforcement

• In the past, the SEC gave limited attention to enforcement of continuing disclosure on Issuers

• But that has changed....
MCDC Initiative

• Municipalities Continuing Disclosure Cooperation Initiative

• Underwriters had to pay substantial financial penalties under the settlement terms: up to $500,000 per firm; a total of $18 million overall

• Enforcement actions since then have been severe and include financial penalties levied on individuals as well as underwriting firms as a whole
Bottom-Line

• If you do not comply, you will not be able to borrow funds through the capital markets

• Underwriters will not underwrite your bonds or other financings unless you can demonstrate that you will comply in the future

• Investors either will not purchase or demand higher interest rates for bonds of issuers with a poor compliance history

• Even if you have hired a company to assist you with this, you as the issuer are still ultimately responsible for compliance
• Continuing Disclosure Requirements Annual Report

• Look for requirements in each Official Statement
SECTION 3. Provision of Annual Reports.
a) The District shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the District’s fiscal year (presently ending June 30), commencing with the report for the 2012-13 Fiscal Year, provide to the Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate.

SECTION 4. Content and Form of Annual Reports.
a) The District’s Annual Report shall contain or include by reference the following:

1. The audited financial statements of the District for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District’s audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

2. Material financial information and operating data with respect to the District of the type included in the Official Statement in the following categories (to the extent not included in the District’s audited financial statements):
   a) State funding received by the District for the last completed fiscal year;
   b) average daily attendance of the District for the last completed fiscal year;
   c) outstanding District indebtedness; and
   d) summary financial information on revenues, expenditures and fund balances for the District’s general fund reflecting adopted budget for the then-current fiscal year;
   e) assessed valuation of taxable property within the District for the then-current fiscal year;
   f) secured tax charges and delinquencies for property within the District for the then-current year, except to the extent the County of Los Angeles adopts the Teeter Plan in connection with ad valorem tax levies for bonded debt of the District; and
   g) a list of the largest 20 secured taxpayers within the District for the then-current year.
• Annual Reports must be filed on the earliest date of any outstanding issue

• File one Annual Report that contains all requirements from all outstanding issues
Continuing Disclosure Requirements – Listed Events

• Continuing Disclosure Requirements – Filing of Listed or Significant Events

• Look for requirements in each Official Statement
Continuing Disclosure Requirements for Current Issue

APPENDIX C
FORM OF CONTINUING DISCLOSURE CERTIFICATE
***Excerpts Only***

SECTION 5. Reporting of Significant Events.

a) Pursuant to the provisions of this Section 5(a), the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not in excess of 10 business days after the occurrence of the event:

1) principal and interest payment delinquencies.
2) tender offers.
3) defeasances.
4) rating changes.
5) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, or Notices of Proposed Issue (IRS Form 5701-TEB).
6) unscheduled draws on the debt service reserves reflecting financial difficulties.
7) unscheduled draws on credit enhancement reflecting financial difficulties.
8) substitution of the credit or liquidity providers or their failure to perform.
9) bankruptcy, insolvency, receivership or similar event of the District. For the purposes of the event identified in this Section 5(a)(9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the District in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

b) Pursuant to the provisions of this Section 5(b), the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1) non-payment related defaults.
2) modifications to rights of Bondholders.
3) optional, contingent or unscheduled Bond calls.
   (additional events #4 - 7 not included because of space limitation)
Filing of Listed or Significant Events:

- Must be filed within 10 business days from occurrence of the event (regardless of whether the issuer is aware of the event)

- Some events are not tracked by most school districts e.g., the change of rating of a bond insurer
EMMA – Continuing Disclosure Repository

- [http://emma.msrb.org](http://emma.msrb.org)
- Check for bond and other issues
- Download official statements
- Check OS language on continuing disclosure: current requirements and past compliance
- Check continuing disclosure filings
- Set-up reminders and notices and/or alerts
State Matching Funds Changes

• Governor Brown’s requirements for issuing Prop. 51 (K-14 State Facility) Bonds:
  - Grant Agreements
  - Facilities Audits

• Funding Model is the same as before:
  - first come, first serve . . .

• Routine Restricted Maintenance Account requirements will rise to 3% of GF Expenses
State Facility Program – SAB

• The Office of Public School Construction of the State Allocation Board has two lists:

  ➢ $368 million (129 projects) = “Unfunded List” previously approved before State ran out of bond funds. These have the highest priority and Districts do not need to re-certify their projects

  ➢ $2.3 billion (719 projects) = “Acknowledged List”. If already on list, will need to be re-certified for new construction. If not on list, get on it ASAP
Contact Information

Montague DeRose and Associates, LLC

• Annette Yee, Managing Director
  ➢ E-mail: yee@montaguederose.com
  ➢ Telephone: (831) 626-4524

• Michael Kremer, Managing Director
  ➢ E-mail: kremer@montaguederose.com
  ➢ Telephone: (805) 728-1958