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## **LA Unified School District Seeks to Shed Build America Bonds.**

- **LAUSD expects to experience 2.5% annual enrollment declines**
- **District is selling \$3 billion of refunding bonds next week**

The Los Angeles Unified School District is heading to Wall Street next week to lower the cost on some of its outstanding debt, a bond sale that comes amid a push to align spending with declining enrollment that was cited by Moody's Ratings when it raised its issuer credit rating recently.

LAUSD - as the second largest public school system in the US is known - is selling \$3 billion of general obligation refunding bonds beginning Tuesday through a negotiated sale led by Bank of America, Jefferies and RBC Capital Markets. It will use the proceeds to replace \$2.65 billion of taxable Build America Bonds with lower-yielding, tax-exempt securities.

Moody's on Wednesday said it had raised the district one step to Aa3 from A1 for its conservative budgeting practices aimed at reducing spending to accommodate future reductions of federal pandemic-aid and continuing declines in enrollment. It assigned an Aa2 rating to the \$3 billion bond offering.

"School districts across the state and country are increasingly having to cut spending; enrollments have declined post-Pandemic which reduces capitulated state aid payments and Federal Pandemic aid has been exhausted," said Dora Lee, director of research at Belle Haven Investments. "You also have increasing wage pressures to contend with."

The sale is part of a wave of planned refundings to replace taxable debt sold under the Obama-era Build America Bonds program with tax-exempt securities. A provision in such bonds allows state and local governments to buy back their debt before it comes due if an extraordinary event occurs. That means existing holders could incur losses on the outstanding bonds when the issuer buys them back at a price close to par, and may also have trouble replacing the securities in their portfolio. Such redemptions have been contentious, even sparking a potential legal dispute.

LAUSD announced a hiring freeze at the end of 2023, and it has said it is considering closing or consolidating schools. Moody's said it upgraded the district, in part, because it improved its general fund balance by negotiating favorable wage agreements, cutting costs and maximizing the operating efficiency of individual schools.

"The ratings were upgraded because of the district's consistent financial performance driven by conservative budgeting practices, adopted policies and multiyear planning that will support satisfactory finances as the district spends down its final pandemic-related grants and adjusts to slowed state aid growth," Moody's said in a release.

California is home to the most billionaires in the US as well as more than 1 million millionaires and levies a rate of at least 13.3% on its highest earners. That creates ample appetite for tax-exempt debt in the state as wealthy investors look to shield their income from high taxes and lock in yields

before interest rate cuts.

“Demand for tax exempt paper is even more appealing after everyone is reminded of their tax liabilities at tax time,” Lee said.

## **Bloomberg Markets**

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April 19, 2024

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