

AUSTIN--([BUSINESS WIRE](#))--Fitch Ratings assigns an 'AAA' rating to the following Sharyland Independent School District (ISD), Texas (the district) unlimited tax (ULT) bonds:

--\$4.1 million ULT refunding bonds, series 2013.

The 'AAA' long-term rating reflects the guarantee provided by the Texas Permanent School Fund (PSF), whose bond guarantee program is rated 'AAA' by Fitch. Fitch also assigns an 'AA-' underlying rating to the series 2013 bonds.

The bonds are expected to price via negotiation the week of Oct. 28, 2013. Proceeds will be used to refund outstanding obligations for debt service savings.

Fitch also affirms \$123.5 million (pre-refunded basis) of outstanding district ULT bonds at 'AA-'.

The Rating Outlook is Stable.

SECURITY

The bonds are secured by ad valorem taxes levied against all taxable property within the district, without limitation as to rate or amount. In addition, the bonds are secured by the PSF guarantee.

KEY RATING DRIVERS

STABLE FINANCES: The district maintains a sound financial profile, as evidenced by

successful management of growth pressures and healthy reserves.

RECENT TAX RATIFICATION ELECTION: A voter-approved increase in the maintenance and operations (M&O) tax rate increases operational funding, but reduces future flexibility as the district's M&O tax rate now is at the statutory maximum.

GROWING TAX BASE: Taxable assessed valuation (TAV) has realized moderate growth throughout the recession, benefitting from the district's location in the growing lower Rio Grande Valley. The tax base is without taxpayer concentration.

MIXED DEBT PROFILE: Fitch expects overall debt to remain elevated based on the current load and anticipated regional growth. The district's carrying costs, including debt service, pension and other post-employment (OPEB) contributions, place a manageable burden on the district's governmental budget.

RATING SENSITIVITIES

SOUND FINANCES: The rating is sensitive to a material decline in the district's reserves, which serve as a mitigant to state funding exposure. The Stable Outlook anticipates continuation of sound financial management practices, including maintenance of structurally balanced operations.

CREDIT PROFILE

Sharyland Independent School District, population 43,500, serves the municipalities of Mission and McAllen in Hidalgo County, at the southernmost tip of the state.

STABLE FINANCIAL PROFILE

District operations are supported by state funding (60%) and local property tax revenues (40%). Both have realized moderate five-year growth, mirroring the regional economy. Anticipating a reduction of state support in the fiscal 2012-2013 biennium, the district trimmed costs in fiscal 2011, eliminating positions and undertaking a salary freeze. Recurring savings from these actions, combined with moderate enrollment growth generated a net surplus in fiscal 2012 of \$1.9 million. The unrestricted operating reserves of \$16 million at year-end represented a solid 22% of general fund expenditures and transfers out.

Officials report an unaudited fiscal 2013 net deficit of \$200,000, reflecting an equal amount of nonrecurring and capital expenditures. The district's fiscal 2014 budget is balanced.

The district's M&O tax rate increased to the maximum rate of \$1.17 per \$100 of TAV in fiscal 2013 following a voter-approved transfer of \$0.13 from the interest & sinking (I&S) fund. The swap provides the district with approximately \$5.4 million in additional state aid for operations beginning in fiscal 2014, \$3.3 million of which will be transferred to the debt service fund beginning in fiscal 2014. Fitch views the tax rate structure as unconventional, but recognizes that the I&S rate could be raised without voter approval to repay the bonds or the tax rate swap could be reversed.

TEXAS SCHOOL DISTRICT LITIGATION

In February 2013 a district judge ruled that the state's school finance system is unconstitutional. The ruling, which was in response to a consolidation of six lawsuits representing 75% of Texas school children, found the system 'inefficient, inequitable, and unsuitable and arbitrarily funds districts at different levels...'. The judge also cited inadequate funding as a constitutional flaw in the current system.

The judge reopened the lawsuit in June 2013 after state legislative action that partially restored state funding levels and made other program changes. A new trial date of Jan. 6, 2014 has been set. If the state school finance system is ultimately found unconstitutional, the legislature will be directed to make changes to the system to restore its constitutionality. Fitch would consider any changes that include additional funding for schools a positive credit consideration.

MIXED DEBT PROFILE

The district's overall debt is above-average at 5.6% of market value and roughly \$4,350 per capita; amortization is slow at 35% in 10 years. Near term capital needs are moderate. Upon completion of its second high school in fiscal 2014, the district reports ample capacity through fiscal 2016. A resumption of previously rapid population growth likely will pressure campus capacity in the medium to longer term, generating both facility and operational needs.

The district's pension liabilities are limited to its participation in the state pension plan administered by the Teachers Retirement System of Texas (TRS). The district's annual contribution to TRS is determined by state law, as is the contribution for the state-run post-employment benefit healthcare plan; the vast majority of these contributions are made by the state on behalf of the district. Including debt service, pension and OPEB contributions, carrying costs were a low 8.4% of fiscal 2012 governmental spending.

SOUTH TEXAS ECONOMY; MIXED ECONOMIC METRICS

The district participates in a regional economy traditionally based on international trade with Mexico and maquiladora operations, where manufacturing and assembly occurs in Mexico, with warehousing and distribution in the U.S. The district's TAV has enjoyed steady growth of about 3% annually over the past seven years, and the fiscal 2014 TAV totals \$2.55 billion. Comprising a low 5.4% of total TAV, the top 10 taxpayers represent technology, utility, retail, commercial and industrial interests.

The district's population has more than doubled since the 2000 census, although growth has moderated over the past couple of years. Officials report migration of wealthy Mexican nationals into the district, which appears to be reflected in wealth and income metrics that exceed regional averages. The district's median household income is about 75% above the regional average but just 15% above that of Texas. Nearby city and county unemployment rates are improved from a year ago, but continue to exceed state and U.S. metrics, characteristic of the region.

Additional information is available at ' www.fitchratings.com '.

In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, IHS Global Insight, National Association of Realtors.

Applicable Criteria and Related Research:

--'Tax-Supported Rating Criteria' (Aug. 14, 2012);

--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

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Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015

U.S. Local Government Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314

Additional Disclosure

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http://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=805783

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