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June 11, 2008

Summary:

San Diego Unified School District, California; Note

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Credit Profile		
US$215. mil 2008-09 TRANs ser A due 07/01/2009		
Short Term Rating	SP-1+	New

Rationale

Standard & Poor's Rating Services assigned its 'SP-1+' short-term rating to San Diego Unified School District, Calif.'s 2008-2009 tax and revenue anticipation notes (TRANs) series A.

The rating reflects:

- The district's strong underlying general credit characteristics ('AA' GO rating);
- Structural provisions that include early set-asides of pledged revenues in a segregated note repayment account; and
- Projections that show adequate coverage of debt service at each set-aside date and narrow 1.03x coverage at final maturity; however, the district also has access to strong alternate liquidity sources totaling roughly $509 million that can be transferred internally for TRAN repayment -- which boosts projected coverage at maturity to a very strong 3.31x.

The notes are secured by taxes, income, revenue, cash receipts, and other money received by the district in fiscal 2009. Note proceeds will fund seasonal cash deficits during fiscal 2009, and the notes will mature on July 1, 2009.

Projections are based on the governor's May budget revision, and the district's assumptions used for fiscal 2009 differ slightly from those of fiscal 2008 due to state budget constraints. State revenue limit receipts are expected to be largely flat in fiscal 2009 compared to fiscal 2008. Categorical programs and special projects revenues are also projected to be reduced by about 6.5%. Other general purpose revenues are down by $30 million, which reflect above-average receipts and disbursements in fiscal 2008, due to one-time awards and a return to typical levels in fiscal 2009. The district is conservatively assuming a 72% decline in interest, in part due to lower interest rates and the deferral of its July state apportionment to September. Reimbursement from other funds are also projected to decline 21%, as payroll costs related to one-time projects are phased out. For disbursements, fiscal 2009 cash flow projections show a 5% decrease in salaries and a 7% decrease in benefits, which reflect the district's lower staffing levels. No other major variations are projected and cash flows include step and column salary increases as well as a 7.6% increase in health and welfare benefits.

Projected coverage of TRAN debt service at maturity provided by net available general fund cash balances is a marginal 1.03x at fiscal year-end June 30, 2009, which is lower than previous years' projections of final coverage. The district has access to about $509 million in alternate liquidity sources that are readily available for TRAN repayment, increasing projected coverage at maturity to a very strong 3.31x.

These alternate liquidity sources ($000s) include:

- General fund restricted resources: $69,641;
- Worker's comp/Insurance fund: $40,994;
- Special reserve for non-capital outlay: $11,047;
- Stores revolving: $1,314;
- Deferred maintenance fund: $830;
- Trust reserve: $1,256;
- Long range facilities master plan: $33,712;
- Property management fund: $4,205;
- County school facilities fund: $301,536;
- Capital facilities fund: $17,228;
- Retiree medical benefits funds: $1,279;
- Redevelopment agencies' facilities fund/SIM revolving: $18,782; and
- State preschool fund: $6,859.

The district covenants to set aside 40% of note principal in January and the remaining 60% of principal plus interest in April. Projected coverage at these set-aside dates is adequate at 1.98x and 1.06x, respectively. The district issued $210 million in TRANs for use during fiscal 2008, with coverage based on actual cash flows through March 2008 of 1.07x, which was slightly above the 1.05x projected. The fiscal 2009 issuance reflects a 2% increase in TRANs principal from the previous year.

The district's general fund financial performance has been good in recent years. At the end of audited fiscal 2007, the district had a $17 million surplus after transfers, which raised its ending fund balance to $124 million, or 11% of expenditures, with unrestricted funds at $48 million, or an adequate 4.1% of expenditures. In response to the governor's January proposed budget reductions, the district implemented a hiring freeze and expenditure reductions during the current fiscal year. According to management, the district expects structurally balanced general fund operations in fiscal 2008 and similar general fund balance levels. The district projects balanced general fund operations for fiscal 2009.

Note proceeds will be invested with the San Diego County Investment Pool, which satisfies our guidelines for municipal investment funds or other Standard & Poor's permitted investments.

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