OFFICIAL STATEMENT
DATED MARCH 30, 2011

NEW ISSUE - Book-Entry-Only

ENHANCED/UNENHANCED RATINGS: Fitch: "AAA"/"AA"
Moody's: "Aaa"/"Aa2"
PSF Guaranteed
(See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "OTHER INFORMATION – Ratings" herein)

In the opinion of Bond Counsel (defined below), under existing law, interest on the Bonds (defined below) is excludable from gross income for federal income tax purposes, subject to the matters described under "TAX MATTERS" herein, and is not a preference item on an individual's federal tax return for purposes of the alternative minimum tax. However, such interest is included in the calculation of a corporation's adjusted current earnings for the purpose of the alternative minimum tax. See "TAX MATTERS" herein for a discussion of the opinion of Bond Counsel relating to the Bonds.

$99,085,000.00

SAN ANTONIO INDEPENDENT SCHOOL DISTRICT
(A Political Subdivision of the State of Texas located in Bexar County)

UNLIMITED TAX REFUNDING BONDS
SERIES 2011

Dated: March 1, 2011 (Interest accrues from delivery date) **Due: August 15, as shown on inside cover**

The San Antonio Independent School District (the "District") is issuing its $99,085,000.00 Unlimited Tax Refunding Bonds, Series 2011 (the "Bonds") pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Chapter 1207, as amended, Texas Government Code ("Chapter 1207"), and an order (the "Order") authorizing the Bonds adopted by the District's Board of Trustees (the "Board") on March 7, 2011. As permitted by Chapter 1207, the Board has, in the Order, delegated to certain authorized officials of the District the authority to establish final terms of sale of the Bonds, which final sales terms of the Bonds shall be evidenced in an Approval Certificate relating to the Bonds. This Approval Certificate was executed by a duly authorized District representative on March 30, 2011.

The Bonds are direct obligations of the District payable from an ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District, as provided in the Order. (See "THE BONDS – Security and Source of Payment".) The District has received conditional approval from the Texas Education Agency for payment of the principal of and interest on the Bonds to be guaranteed under the Texas Permanent School Fund Guarantee Program, which will automatically become effective when the Attorney General of the State of Texas approves the Bonds. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM"; see also "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" for a discussion of recent developments in Texas law affecting the financing of school districts in Texas.

The Bonds are dated the date specified above, but accrue interest from their date of initial delivery to the initial purchasers thereof named below (the "Underwriters"), anticipated to occur on or about May 18, 2011, with such interest payable on February 15 and August 15 of each year, commencing on August 15, 2011 until stated maturity or prior redemption. Interest on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Bonds will be issued as fully registered obligations in the denomination of $5,000 of principal amount or any integral multiple thereof within a stated maturity. The Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the Book-Entry-Only System described herein. DTC will act as securities depository. Book entry interests in the Bonds may be acquired in denominations of $5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the owners thereof. Principal of, redemption premium (if any), and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. (See "THE BONDS – Book Entry Only System" herein.) The initial Paying Agent/Registrar is Wells Fargo Bank, National Association, Fort Worth, Texas. (See "THE BONDS - Paying Agent/Registrar" herein.)

Proceeds from the sale of the Bonds will be used for the purpose of (i) refunding a certain portion of the District's currently outstanding unlimited tax obligations, as identified in Schedule I attached hereto (the "Refunded Bonds"), to realize debt service savings and (ii) paying the costs of issuing the Bonds. (See "PLAN OF FINANCING – Purpose" herein.)

SEE TERMS OF BONDS ON REVERSE OF THIS PAGE

The Bonds are offered for delivery when, as, and if issued and received by the initial purchasers thereof named below (the "Underwriters") and subject to the approving opinion of the Attorney General and the legal opinion of Escamilla, Poneck & Cruz, LLP, San Antonio, Texas, Bond Counsel. Certain legal matters also will be passed upon for the Underwriters by their co-counsel, Fulbright & Jaworski L.L.P., Shelton & Valadez, P.C., and the Law Office of Manuel G. Escobar, all of San Antonio, Texas. It is expected that the Bonds will be available for initial delivery through the services of DTC on or about May 18, 2011.

LOOP CAPITAL MARKETS
BOFA MERRILL LYNCH
FROST BANK

CABRERA CAPITAL MARKETS, LLC
FIRSTSOUTHWEST
STIFEL, NICOLAUS & COMPANY, INCORPORATED

CUSIP Prefix[1]: 796269

$99,085,000.00
SAN ANTONIO INDEPENDENT SCHOOL DISTRICT
(A Political Subdivision of the State of Texas located in Bexar County)
UNLIMITED TAX REFUNDING BONDS, SERIES 2011

Stated Maturity (8/15)	Principal Amount ($)	Interest Rate (%)	Initial Yield (%)	CUSIP Suffix[1]
2013	6,010,000	4.000	0.780	UX4
2014	6,245,000	5.000	1.120	UK2
2015	3,560,000	5.000	1.610	UV8
2015	3,000,000	2.000	1.610	UL0
2016	4,795,000	5.000	1.950	UY2
2016	2,000,000	4.000	1.950	UM8
2017	4,115,000	5.000	2.260	UZ9
2017	3,000,000	4.000	2.260	UN6
2018	3,000,000	5.000	2.580	UW6
2018	4,435,000	3.250	2.580	UP1
****	****	****	****	****
2025	10,665,000	5.000	3.940[2]	UQ9
2026	11,200,000	5.000	4.060[2]	UR7
2027	11,755,000	5.000	4.150[2]	US5
2028	12,345,000	5.000	4.240[2]	UT3
2029	12,960,000	5.000	4.330[2]	UU0

(Interest to accrue from date of initial delivery.)

Redemption. The Bonds are subject to redemption prior to stated maturity, in whole or in part, at the prices and times and in the amounts described herein. (See "THE BONDS – Redemption".)

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(1) CUSIP numbers are included solely for the convenience of owners of the Bonds. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the District, the Financial Advisor, nor the Underwriters are responsible for the selection or correctness of the CUSIP numbers set forth herein.

(2) Yield calculated on the basis that the Bonds denoted and sold at a premium will be redeemed on February 15, 2021, the first optional call date for such Bonds, at the price of par plus accrued interest to such date of redemption.

USE OF INFORMATION IN THE OFFICIAL STATEMENT

This Official Statement and the information contained herein are subject to completion and amendment. Under no circumstances will this Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor will there be any sale of the Bonds in any jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

No dealer, broker, salesman, or other person has been authorized by the District, the Financial Advisor, or the Underwriters to give any information or to make any representation with respect to the Bonds, other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement, which includes the cover page, Schedule, and the Appendices hereto, does not constitute an offer to sell or a solicitation of an offer to buy, nor will there be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale. The information set forth herein has been obtained from the District and other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness and is not to be construed as a promise or guarantee of the Financial Advisor or by the Underwriters. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will under any circumstances create any implication that there has been no change in the information or opinion set forth herein after the date of this Official Statement. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the District's undertaking to provide certain information on a continuing basis.

In making an investment decision, investors must rely on their own examination of the District and the terms of the offering, including the merits and risks involved.

The prices and other terms respecting the offering and sale of the Bonds may be changed from time to time by the Underwriters after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THE BONDS HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

NONE OF THE DISTRICT, THE FINANCIAL ADVISOR, NOR THE UNDERWRITERS MAKES ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY ("DTC") OR ITS BOOK-ENTRY-ONLY SYSTEM OR THE AFFAIRS OF THE TEXAS EDUCATION AGENCY ("TEA") DESCRIBED UNDER "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM", AS SUCH INFORMATION HAS BEEN PROVIDED BY DTC AND THE TEA, RESPECTIVELY.

THE UNDERWRITERS HAVE PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT. THE UNDERWRITERS HAVE REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH THEIR RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITERS DO NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

The agreements of the District and others related to the Bonds are contained solely in the contracts described herein. Neither this Official Statement nor any other statement made in connection with the offer or sale of the Bonds is to be construed as constituting an agreement with the purchasers of the Bonds. INVESTORS SHOULD READ THIS ENTIRE OFFICIAL STATEMENT, INCLUDING THE SCHEDULE AND ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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DISTRICT ADMINISTRATION

Elected Officials

Name	Office	Length of Service	Term Expires	Occupation/Area of Training
James Howard	President (District 2)	12 years, 9 months	2011	Employee Relations Specialist
Carlos Villarreal	Vice-President (District 3)	6 years, 9 months	2013	Retired
Thomas López	Secretary (District 5)	28 years, 3 months	2011	U.S. Department of Defense
Rubén D. Cuero	Member (District 1)	1 year, 9 months	2013	Small Business Consultant
Adela R. Segovia	Member (District 4)	1 year, 9 months	2013	Social Work
Olga M. Hernandez	Member (District 6)	4 years, 9 months	2011	Retired
Ed Garza	Member (District 7)	1 year, 9 months	2013	Developer

Key District Staff

Dr. Robert J. Duron ..... Superintendent of Schools

Mary "Betty" Burks ..... Deputy Superintendent, Teaching & Learning

Toni Thompson ..... Associate Superintendent, Human Resources

Kamal ElHabr ..... Associate Superintendent, Facilities Services

Steven J. Bassett, CPA, RTSBA ..... Associate Superintendent, Financial Services, Business Operations & Food Services

Marcos Zorola ..... Chief Information Officer, Technology and Management Information Systems

Leslie Price ..... Executive Director, Communications & Printing Services

Consultants and Advisors

Auditors ..... Garza/Gonzalez & Associates, Certified Public Accountants
San Antonio, Texas

General Counsel and Bond Counsel ..... Escamilla, Poneck & Cruz, LLP
San Antonio, Texas

Financial Advisor ..... Sterne, Agee & Leach, Inc.
San Antonio, Texas

For additional information regarding the District, please contact:

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Associate Superintendent for Financial Services,
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OFFICIAL STATEMENT

RELATING TO

$99,085,000.00

SAN ANTONIO INDEPENDENT SCHOOL DISTRICT
(A Political Subdivision of the State of Texas located in Bexar County)

UNLIMITED TAX REFUNDING BONDS
SERIES 2011

INTRODUCTION

This Official Statement, which includes the Schedule and Appendices hereto, provides certain information regarding the issuance by the San Antonio Independent School District (the "District") of its $99,085,000.00 Unlimited Tax Refunding Bonds, Series 2011 (the "Bonds"). Except as otherwise indicated herein, capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Order.

All financial and other information presented in this Official Statement has been provided by the District from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from taxes and other sources, is intended to show recent historic information, and is not intended to indicate future or continuing trends in financial position or other affairs of the District. No representation is made that past experience, as is shown by financial and other information, will necessarily continue or be repeated in the future.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained upon request from the District's Financial Advisor, Sterne, Agee & Leach, Inc., San Antonio, Texas, at the address provided under "DISTRICT ADMINISTRATION–Consultants and Advisors" appearing on page v hereof, by electronic mail or upon payment of reasonable copying, handling, and delivery charges.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the final Official Statement and the Escrow Agreement (defined herein) pertaining to the Bonds will be deposited with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access ("EMMA") system. See "CONTINUING DISCLOSURE OF INFORMATION" herein for a description of the District's undertaking to provide certain information on a continuing basis.

The District is a political subdivision of the State of Texas located in Bexar County, Texas. The District is governed by a seven-member Board of Trustees (the "Board"), the members of which serve staggered four-year terms, with elections being held in May of each year. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools, who is the chief administrative officer of the District. Support services are supplied by consultants and advisors.

The District encompasses an area of approximately 79 square miles in Bexar County, Texas and has a population of approximately 321,367. The District's total enrollment for the 2010-11 school year totaled approximately 54,839 (See "GENERAL INFORMATION REGARDING THE DISTRICT" attached hereto as Appendix B.)

PLAN OF FINANCING

Purpose

The Bonds are being issued for the purposes of (i) refunding a portion of the District's currently outstanding obligations, as identified in Schedule I attached hereto (the "Refunded Bonds"), to realize debt service savings and (ii) paying the costs of issuing the Bonds.

The Refunded Bonds, and interest due thereon, are to be paid on the scheduled maturity and/or redemption date from funds to be deposited with Wells Fargo Bank, National Association, Fort Worth, Texas (the "Escrow Agent") pursuant to an Escrow Agreement dated as of March 7, 2011 (the "Escrow Agreement") between the District and the Escrow Agent.

The Order provides that the District will deposit certain proceeds of the sale of the Bonds along with other lawfully available funds of the District, if any, with the Escrow Agent in the amount necessary to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Escrow Agent in an escrow fund (the "Escrow Fund") irrevocably pledged to the payment of principal of and interest on the Refunded Bonds and will be used to purchase certain obligations of the United States of America and/or obligations of agencies or instrumentalities of the United States, including obligations that are

unconditionally guaranteed by the agency or instrumentality, that are noncallable and that were, on the date the Order was adopted, rated as to investment quality by a nationally recognized rating firm not less than "AAA" (the "Federal Securities"). Under the laws of the State of Texas, particularly Section 1207.062(b), as amended, Texas Government Code, AAA-rated obligations of agencies or instrumentalities of the United States may be deposited with the Escrow Agent under the terms of the Escrow Agreement for the payment and defeasance of the Refunded Bonds issued after September 1, 1999. Such maturing principal of and interest on the Federal Securities will not be available to pay the debt service requirements on the Bonds.

Prior to or simultaneously with the issuance of the Bonds, the District will give irrevocable instructions to provide notice, if any, to the owners of the Refunded Bonds that the Refunded Bonds will be redeemed prior to stated maturity on which date money will be made available to redeem the Refunded Bonds from money held under the Escrow Agreement.

The issuance of the Bonds will be subject to delivery by Grant Thornton LLP, Minneapolis, Minnesota, certified public accounts (the "Accountants"), of a report of the mathematical accuracy of certain computations. The Accountants will verify from the information provided to them the mathematical accuracy as of the date of the closing on the Bonds of (1) the computations contained in the provided schedules to determine that the anticipated receipts from the Federal Securities and cash deposits listed in the schedules provided by Sterne, Agee & Leach, Inc. to be held in escrow, will be sufficient to pay, when due, the principal and interest requirements of the Refunded Bonds and (2) the computations of yield on both the Federal Securities and the Bonds contained in the provided schedules used by Bond Counsel in its determination that the interest on the Bonds is excludable from the gross income of the holders thereof and for the defeasance of the Refunded Bonds. The Accountants will express no opinion on the assumptions provided to them, nor as to the exemption from taxation of the interest on the Bonds. (See "VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS" herein.)

By the deposit of Bond proceeds and cash, if any, with the Escrow Agent pursuant to the Escrow Agreement, and the investment thereof in the Federal Securities, if such funds are invested, the District will have effectuated the defeasance of the Refunded Bonds pursuant to the terms of the District order authorizing their issuance. It is the opinion of Bond Counsel that, as a result of such defeasance, the Refunded Bonds will no longer be payable from the pledge of the District's unlimited ad valorem tax levied upon all property within the District made under the order of the District authorizing the issuance of Refunded Bonds, but will be payable solely from the amounts on deposit in the Escrow Fund and held for such purpose by the Escrow Agent, and that the Refunded Bonds will be defeased and are not to be included in or considered to be indebtedness of the District for the purpose of a limitation of indebtedness or for any other purpose.

The District has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund, from lawfully available funds, of any additional amounts required to pay the principal of and interest on the Refunded Bonds, if for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund be insufficient to make such payment.

Upon defeasance of the Refunded Bonds, the guaranty of the regularly scheduled payment of principal thereof and interest thereon by the Permanent School Fund of the State of Texas will terminate.

Sources and Uses of Funds

The proceeds from the sale of the Bonds will be applied approximately as follows:

Sources of Funds	
Principal Amount of the Bonds	$ 99,085,000.00
Net Original Issue Premium	8,257,856.35
Total Sources of Funds	$ 107,342,856.35
Uses of Funds	
Deposit to Escrow Fund	$ 106,409,031.00
Costs of Issuance (Including Underwriters' Discount and Contingency Amount)	933,825.35
Total Uses of Funds	$ 107,342,856.35

THE BONDS

Description of the Bonds

The Bonds are dated March 1, 2011, but accrue interest from their date of initial delivery to the Underwriters, anticipated to occur on or about May 18, 2011, with such interest payable on February 15 and August 15 of each year, commencing on August 15, 2011 until stated maturity or prior redemption. Interest on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds will mature on the dates, in the principal amounts, and will bear interest at the rates set forth on the inside cover page of this Official Statement.

The Bonds will be issued only as fully registered bonds in denominations of $5,000 principal or any integral multiple thereof within a stated maturity. Interest on the Bonds is payable by check mailed on or before each interest payment date by the Paying Agent/Registrar, initially Wells Fargo Bank, National Association, Fort Worth, Texas, to the registered owner at the last known address as it appears on the Bond registration books maintained by the Paying Agent/Registrar (the "Register") on the Record Date (defined herein) or by such other customary banking arrangement acceptable to the Paying Agent/Registrar and the registered owner to whom interest is to be paid; provided, however, that such person shall bear all risk and expense of such other arrangements. Principal of the Bonds will be payable only upon presentation of such Bonds at the corporate trust office of the Paying Agent/Registrar at stated maturity or upon prior redemption. So long as the Bonds are registered in the name of Cede & Co. or other nominee for The Depository Trust Company ("DTC"), payments of principal and interest, as applicable, of the Bonds will be made as described in "THE BONDS – Book-Entry-Only System" herein.

If the date for any payment due on any Bond is a Saturday, Sunday, legal holiday, or a day on which banking institutions in the city in which the designated corporate trust office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a day. The payment on such date shall have the same force and effect as if made on the original date payment was due.

Authority for Issuance

The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Chapter 1207, as amended, Texas Government Code ("Chapter 1207"), and an order adopted by the Board on March 7, 2011 authorizing the issuance of the Bonds (the "Order"). As permitted by Chapter 1207, the Board has, in the Order, delegated to certain authorized officials of the District the authority to establish final terms of sale of the Bonds, which final sales terms shall be evidenced in an Approval Certificate relating to the Bonds. This Approval Certificate was executed by a duly authorized District representative on March 30, 2011.

Security and Source of Payment

The Bonds are payable from and secured by the proceeds of a continuing direct annual ad valorem tax, without legal limit as to rate or amount, levied by the District against all taxable property located within its boundaries. (See "TAX INFORMATION – Tax Rate Limitations" herein.) Additionally, the District has received conditional approval for the payment of all Bonds to be guaranteed by the corpus of the Permanent School Fund of Texas. (See "THE BONDS – Permanent School Fund Guarantee" below.)

Permanent School Fund Guarantee

In connection with the sale of the Bonds, the District has received conditional approval from the Texas Education Agency for guarantee of the Bonds under the Texas Permanent School Fund Guarantee Program (Chapter 45, Subchapter C, of the Texas Education Code). Subject to meeting certain conditions discussed herein under the heading "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM," payment of the principal of and interest on the Bonds will be absolutely and unconditionally guaranteed by the corpus of the Texas Permanent School Fund. In the event of default in payment of interest on or principal of the Bonds by the District, registered owners will receive all payments due from the corpus of the Texas Permanent School Fund. Defeasance of the Bonds will cancel the Texas Permanent School Fund Guarantee with respect to such defeased Bonds. (See "THE BONDS – Defeasance of Bonds" herein.)

Legality

The Bonds are offered when, as and if issued, subject to the approval of legality by the Attorney General of the State of Texas and the legal opinion of Escamilla, Poneck & Cruz, LLP, San Antonio, Texas, Bond Counsel. (See "OTHER INFORMATION – Legal Matters" herein and "Form of Bond Counsel's Opinion" attached hereto as Appendix D.) Certain legal matters also will be passed upon for the Underwriters by their co-counsel, Fulbright & Jaworski L.L.P., Shelton & Valadez, P.C., and the Law Office of Manuel G. Escobar, all of San Antonio, Texas.

Payment Record

The District has never defaulted on the payment of its bonded indebtedness.

Record Date for Interest Payment

The date for determining the person to whom interest on the Bonds is payable on any interest payment date (the "Record Date") is the close of business on the last business day of the month immediately preceding the month in which said interest payment date falls.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new Record Date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the

payment of such interest have been received from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which will be 15 days after the Special Record Date) will be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each registered owner of a Bond appearing on the Register of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

Redemption

Optional Redemption. The Bonds with a Stated Maturity of August 15, 2025 or any date thereafter are subject to redemption prior to Stated Maturity, at the option of the District, on February 15, 2021 or any date thereafter, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, at a price of par plus accrued interest to the date fixed for redemption.

Selection of Bonds to be Redeemed. The Bonds of a denomination larger than $5,000 may be redeemed in part (in increments of $5,000 or any integral multiple thereof). The Bonds to be partially redeemed must be surrendered in exchange for one or more new Bonds of the same series, stated maturity and interest rate for the unredeemed portion of the principal. If less than all of the Bonds of any stated maturity are to be redeemed, the District will determine the amounts of each maturity or maturities to be redeemed and will direct the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) to select, at random and by lot, the particular Bonds, or portions thereof, within such maturity or maturities to be redeemed. If a Bond (or any portion of the principal sum thereof) will have been called for redemption and notice of such redemption will have been given, such Bond (or the principal amount thereof to be redeemed), will become due and payable on such redemption date and interest thereon will cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

Notice of Redemption of Bonds. Not less than 30 days prior to a redemption date for the Bonds, a notice of redemption will be sent by United States mail, first class postage prepaid, in the name of the District and at the District's expense, by the Paying Agent/Registrar to each registered owner of a Bond to be redeemed in whole or in part at the address of the registered owner appearing on the Register at the close of business on the business day next preceding the date of mailing such notice, and any notice of redemption so mailed shall be conclusively presumed to have been duly given irrespective of whether received by the registered owners.

ANY NOTICE SO MAILED WILL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION WILL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF WILL CEASE TO ACCRUE.

All notices of redemption will (i) specify the date of redemption for the Bonds, (ii) identify the Bonds to be redeemed and, in the case of a portion of the principal amount to be redeemed, the principal amount thereof to be redeemed, (iii) state the redemption price, (iv) state that the Bonds, or the portion of the principal amount thereof to be redeemed, will become due and payable on the redemption date specified, and the interest thereon, or on the portion of the principal amount thereof to be redeemed, will cease to accrue from and after the redemption date, and (v) specify that payment of the redemption price for the Bonds, or the principal amount thereof to be redeemed, will be made at the designated corporate trust office of the Paying Agent/Registrar only upon presentation and surrender thereof by the registered owner. If a Bond is subject by its terms to redemption and has been called for redemption and notice of redemption thereof has been duly given or waived as provided in the Order, such Bond (or the principal amount thereof to be redeemed) so called for redemption will become due and payable, and on the redemption date designated in such notice, interest on said Bond (or the principal amount thereof to be redeemed) called for redemption will cease to accrue and such Bond will not be deemed to be outstanding.

The Paying Agent/Registrar and the District, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Order or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the Beneficial Owner, will not affect the validity of the redemption of the Bonds called for redemption or any other action premised or any such notice. Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Bonds from the Beneficial Owners. Any such selection of Bonds to be redeemed will not be governed by the Order and will not be conducted by the District or the Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants, or Beneficial Owners of the selection of portions of the Bonds for redemption.

Book-Entry-Only System

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by DTC, New York, New York, while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book Entry Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District, the Financial Advisor, and the Underwriters believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The District cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of each maturity of such issue, and will be deposited with DTC.

General. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the United States Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as defaults and proposed amendments to the Bond documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to the Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of notices be provided directly to them.

Redemption notices will be sent to DTC. If less than all of the Bonds within a stated maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such stated maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, principal, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC; and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bonds are required to be printed and delivered. The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from DTC, but the District takes no responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of this Official Statement. In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Direct or Indirect Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Order will be given only to DTC.

Paying Agent/Registrar

The initial Paying Agent/Registrar is Wells Fargo Bank, National Association, Fort Worth, Texas. In the Order, the District retains the right to replace the Paying Agent/Registrar. The District has covenanted to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar will be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District has agreed to promptly cause a written notice thereof to be sent to each Registered Owner of the Bonds by United States mail, first class, postage prepaid, which notice will also give the address of the new Paying Agent/Registrar.

Transfer, Exchange, and Registration

In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the Register only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange will be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange, and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new Registered Owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the Registered Owner or assignee of the Registered Owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized Paying Agent/Registrar, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer will be in any integral multiple of $5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "THE BONDS – Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. Neither the District nor the Paying Agent/Registrar will be required to transfer or exchange any Bond called for redemption, in whole or in part, within 45 days of the date fixed for

redemption; provided, however, such limitation of transfer will not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

Mutilated, Destroyed, Lost, or Stolen Bonds

Upon discontinuance of the Book-Entry-Only System, the District has agreed to replace mutilated, destroyed, lost, or stolen bonds upon surrender of the mutilated Bonds to the Paying Agent/Registrar, or receipt of satisfactory evidence of such destruction, loss, or theft, and receipt by the District and Paying Agent/Registrar of security or indemnity as may be required by either of them to hold them harmless. The District may require payment of taxes, governmental charges, and other expenses in connection with such replacement.

Amendments

The District may amend the Order without the consent of or notice to any registered owner in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding and affected thereby, amend, add to, or rescind any of the provisions of the Order; except that, without the consent of the registered owners of all of the Bonds affected, no such amendment, addition or rescission may (1) make any change in the maturity of any of the outstanding Bonds; (2) reduce the rate of interest borne by any of the outstanding Bonds; (3) reduce the amount of the principal payable on any outstanding Bonds; (4) modify the terms of payment of principal of, of interest on, or redemption premium (if any) payable on any outstanding Bonds or any of them or impose any condition with respect to such payment; or (5) change the minimum percentage of the principal amount of the Bonds necessary for consent to such amendment.

Defeasance of Bonds

Any Bond is deemed paid and no longer considered to be outstanding within the meaning of the Order when payment of the principal on such Bond to its stated maturity or date of prior redemption has been made or provided for by depositing with a paying agent, in trust (1) money in an amount sufficient to make such payment, (2) Government Obligations (defined herein) having such maturities and interest payment dates and bearing such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, be sufficient to make such payment, or (3) a combination of money and Government Obligations together sufficient to make such payment. The District has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Obligations originally deposited, to reinvest the uninvested money on deposit for such defeasance and to withdraw for the benefit of the District money in excess of the amount required for such defeasance.

The term "Government Obligations" means the (i) direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by the United States of America; (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; and (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding obligations for purposes of applying any limitation on indebtedness or for purposes of taxation. After firm banking and financial arrangements for the discharge and final payment of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the District's right to redeem Bonds defeased to stated maturity is not extinguished if the District has reserved the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption, at an earlier date, those Bonds which have been defeased to their stated maturity date, if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

In the event of defeasance of any of the Bonds as described in herein, the Permanent School Fund Guarantee is removed in its entirety with respect to the Bonds defeased.

Bondholders' Remedies

The Order establishes specific events of default with respect to the Bonds. If the District defaults in the payment, when due, of principal, interest, redemption price, as applicable, of the Bonds, or defaults in the observation or performance of any other

covenants, conditions, or obligations set forth in the Order, and the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Order, the Order provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the District to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or the Order and the District's obligations are not uncertain or disputed, as well as to enforce the rights of payment under the Permanent School Fund Guarantee with respect to the Bonds. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of stated maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court has ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages, bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and by general principles of equity that permit the exercise of judicial discretion.

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

The District has made application to the Texas Education Agency (the "TEA") for a Permanent School Fund guarantee of the Bonds and has received conditional approval for the Bonds to be guaranteed through the Guarantee Program (as defined and described below).

This disclosure statement provides information relating to the program administered by the TEA with respect to the Texas Permanent School Fund guarantee of Texas school district bonds, which program is referred to, and defined herein, as the Guarantee Program. The information below has been provided by TEA and is not guaranteed as to accuracy or completeness by, and is not construed as a representation of, the District, the Financial Advisor, or the Underwriters.

Some of the information contained in this Section may include projections or other forward-looking statements regarding future events or the future financial performance of the Texas Permanent School Fund (the "PSF" or the "Fund"). Actual results may differ materially from those contained in any such projections or forward-looking statements.

History and Purpose

The PSF was created with a $2,000,000 appropriation by the Texas Legislature (the "Legislature") in 1854 expressly for the benefit of the public schools of Texas. The Constitution of 1876 stipulated that certain lands and all proceeds from the sale of these lands should also constitute the PSF. Additional acts later gave more public domain land and rights to the PSF. In 1953, the U.S. Congress passed the Submerged Lands Act that relinquished to coastal states all rights of the U.S. navigable waters within state boundaries. If the state, by law, had set a larger boundary prior to or at the time of admission to the Union, or if the boundary had been approved by Congress, then the larger boundary applied. After three years of litigation (1957-1960), the U. S. Supreme Court on May 31, 1960, affirmed Texas' historic three marine leagues (10.35 miles) seaward boundary. Texas proved its submerged lands property rights to three leagues into the Gulf of Mexico by citing historic laws and treaties dating back to 1836. All lands lying within that limit belong to the PSF. The proceeds from the sale and the mineral-related rental of these lands, including bonuses, delay rentals and royalty payments, become the corpus of the Fund. Prior to the approval by the voters of the State of an amendment to the constitutional provision under which the Fund is established and administered, which occurred on September 13, 2003 (the "Total Return Constitutional Amendment"), and which is further described below, the PSF had as its main sources of revenues capital gains from securities transactions and royalties from the sale of oil and natural gas.

The Total Return Constitutional Amendment provides that interest and dividends produced by Fund investments will be additional revenue to the PSF. The State School Land Board ("SLB") maintains the land endowment of the Fund on behalf of the Fund and is authorized to manage the investments of the capital gains, royalties and other investment income relating to the land endowment. The SLB is a three member board, the membership of which consists of the Commissioner of the Texas General Land Office (the "Land Commissioner") and two citizen members, one appointed by the Governor and one by the Texas Attorney General (the "Attorney General").

The Texas Constitution describes the PSF as "permanent" and "perpetual". Prior to the approval by Total Return Constitutional Amendment, only the income produced by the PSF was to be used to complement taxes in financing public education.

On November 8, 1983, the voters of the State approved a constitutional amendment that provides for the guarantee of school district bonds by the PSF. On approval by the State Commissioner of Education (the "Commissioner"), bonds properly issued by a school district are fully guaranteed by the corpus of the PSF. See "The Guarantee Program".

The sole purpose of the PSF is to assist in the funding of public education for present and future generations. Prior to the adoption of the Total Return Constitutional Amendment, all interest and dividends produced by Fund investments flowed into the Available School Fund (the "ASF"), where they are distributed to local school districts based on average daily attendance. Any net gains from investments of the Fund accrue to the corpus of the PSF. Prior to the approval by the voters of the State of the Total Return Constitutional Amendment, costs of administering the PSF were allocated to the ASF. With the approval of the Total Return Constitutional Amendment, the administrative costs of the Fund have shifted from the ASF to the PSF. In fiscal year 2010, the total amount distributed to the ASF was $60.70 million.

Audited financial information for the PSF is provided annually through the PSF Annual Report (the "Annual Report"), which is filed with the Municipal Securities Rulemaking Board ("MSRB"). The Annual Report includes the Message of the Executive Administrator of the Fund (the "Message") and the Management's Discussion and Analysis ("MD&A"). Reference is made to the Annual Report for the complete Message and MD&A for the year ended August 31, 2010 and for a description of the financial results of the PSF for the year ended August 31, 2010, the most recent year for which audited financial information regarding the Fund is available. The 2010 Annual Report is incorporated herein and made a part hereof for all purposes, but the 2010 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2010 Annual Report or any other Annual Report. The TEA posts each Annual Report, which includes statistical data regarding the Fund as of the close of each fiscal year, the most recent disclosure for the Guarantee Program, the Statement of Investment Objectives, Policies and Guidelines of the Texas Permanent School Fund, which is codified at 19 Texas Administrative Code, Chapter 33 (the "Investment Policy"), monthly updates with respect to the capacity of the Guarantee Program (collectively, the "Web Site Materials") on the TEA web site at www.tea.state.tx.us/psf and with the MSRB at www.emma.msrb.org. Such monthly updates regarding the Guarantee Program are also incorporated herein and made a part hereof for all purposes. In addition to the Web Site Materials, the Fund is required to make quarterly filings with the Securities and Exchange Commission ("SEC") under Section 13(f) of the Securities Exchange Act of 1934. Such filings, which consist of a list of the Fund's holdings of securities specified in Section 13(f), including exchange-traded (e.g., NYSE) or NASDAQ-quoted stocks, equity options and warrants, shares of closed-end investment companies and certain convertible debt securities, is available from the SEC at www.sec.gov/edgar.shtml. A list of the Fund's equity and fixed income holdings as of August 31, 2010 has been posted to the TEA web site and filed with the MSRB. Such list excludes holdings in the Fund's securities lending program. Such list is incorporated herein and made a part hereof for all purposes.

The Total Return Constitutional Amendment

The Total Return Constitutional Amendment approved a fundamental change in the way that distributions are made to the ASF from the PSF. The Total Return Constitutional Amendment requires that PSF distributions to the ASF be determined using a total-return-based formula instead of the current-income-based formula, which was used from 1964 to the end of the 2003 fiscal year. The Total Return Constitutional Amendment provides that the total amount distributed from the Fund to the ASF: (1) in each year of a State fiscal biennium must be an amount that is not more than 6% of the average of the market value of the Fund, excluding real property (the "Distribution Rate"), on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium (the "Distribution Measurement Period"), in accordance with the rate adopted by: (a) a vote of two-thirds of the total membership of the State Board of Education ("SBOE"), taken before the Regular Session of the Legislature convenes or (b) the Legislature by general law or appropriation, if the SBOE does not adopt a rate as provided by clause (a); and (2) over the ten-year period consisting of the current State fiscal year and the nine preceding state fiscal years may not exceed the total return on all investment assets of the Fund over the same ten-year period (the "Ten Year Total Return"). In April 2009, the Attorney General issued a legal opinion, Op. Tex. Att'y Gen. No. GA-0707 (2009) ("GA-0707"), at the request of the Chairman of the SBOE with regard to certain matters pertaining to the Distribution Rate and the determination of the Ten Year Total Return (see "Other Events and Disclosures").

In determining the Distribution Rate, the SBOE has adopted the goal of maximizing the amount distributed from the Fund in a manner designed to preserve "intergenerational equity." Intergenerational equity is the maintenance of endowment purchasing

power to ensure that endowment spending keeps pace with inflation, with the ultimate goal being to ensure that current and future generations are given equal levels of purchasing power. In making this determination, the SBOE takes into account various considerations, and relies particularly upon its external investment consultant, which undertakes a probability analysis for long term projection periods that includes certain assumptions. Among the assumptions used in the analysis are a projected rate of growth of the average daily scholastic attendance State-wide, the projected contributions and expenses of the Fund, projected returns in the capital markets and a projected inflation rate. In September 2006, the SBOE established the Distribution Rate from the Fund to the ASF for fiscal years 2008 and 2009 at 3.5% of the average of the PSF market value during the Distribution Measurement Period. The decision of the SBOE regarding the Distribution Rate for 2008 and 2009 took into account a commitment by the SLB to transfer at least $100 million per year for each year of the biennium commencing September 1, 2007. The SLB has advised the SBOE that it will make a similar $100 million release to the PSF in the 2011 fiscal year. The SBOE set the Distribution Rate for the Fund for fiscal years 2010 and 2011 at 2.5% of the average of the PSF market value during the Distribution Measurement Period that ended in November 2008, which will produce transfers of approximately $1.15 billion during the 2010-11 biennium. At its November 2010 meeting, the SBOE set the Distribution Rate for the upcoming biennium at 3.5%, but, based upon correspondence received from the Commissioner of the General Land Office by the Chair of the SBOE during that meeting, the SBOE approved an increased Distribution Rate of 4.2% contingent on the SLB voting to release a total of $500 million to the PSF in quarterly installments during the 2012-13 biennium, which contingency was satisfied by a resolution adopted by the SLB on January 4, 2011. Since the enactment of a prior amendment to the Texas Constitution in 1964, the investment of the Fund has been managed with the dual objectives of producing current income for transfer to the ASF and growing the Fund for the benefit of future generations. As a result of this prior constitutional framework, prior to the adoption of the 2004 Asset Allocation Policy (as defined below) the investment of the Fund historically included a significant amount of fixed income investments and dividend-yielding equity investments, to produce income for transfer to the ASF.

With respect to the management of the Fund's investment portfolio, the single most significant change made to date as a result of the Total Return Constitutional Amendment has been new asset allocation policies adopted by the SBOE in February 2004 (the "2004 Asset Allocation Policy"), in July 2006 (as subsequently reaffirmed in July 2008 such asset allocation is referred to herein as the "2008 Asset Allocation Policy") and in July 2010 (the "2010 Asset Allocation Policy"), which have significantly altered the asset allocations of the Fund. The Fund's investment policy provides for minimum and maximum ranges among the components of each of the three general asset classifications: equities, fixed income and alternative asset investments. The 2004 Asset Allocation Policy decreased the fixed income target from 45% to 25% of Fund investment assets and increased the allocation for equities from 55% to 75% of investment assets. In July 2006, the SBOE modified its asset allocation to reduce the equity allocation, including both domestic and foreign equity portfolios, to a target of 53% of Fund assets, further reduced the fixed income allocation target to 19% and added an alternative asset allocation, which included real estate, real return, absolute return and private equity components, totaling 28% of the Fund's asset target. Alternative asset classes diversify the SBOE-managed assets and are not as correlated to traditional asset classes, which is intended to increase investment returns over the long run while reducing risk and return volatility of the portfolio. In July 2010, the SBOE modified the 2008 Asset Allocation Policy by decreasing the equity allocation to 50%, and the fixed income allocation to 15%, while increasing the alternative asset allocation (which may include equity and fixed income investments as part of a variety of alternative investment strategies) to 35%. The new asset categories added by the 2010 Asset Allocation Policy are a new 7% allocation for risk parity investments, added in accordance with the recommendation of a new investment advisor, and a .5% allocation for charter school investments, both of which are categorized within the Fund's alternative asset category. With respect to the charter school investment category, the SBOE Chair has indicated that she will seek an opinion of the Attorney General with respect to several questions presented by that allocation, including whether investments in Texas charter school facilities are consistent with the constitutionally-established prudent person standard applicable to the Fund. Any charter school investments would be made in part for the purpose of increasing funding for charter school facilities in the State.

The PSF Staff and the Fund's investment advisor are tasked with advising the SBOE with respect to the implementation of the 2010 Asset Allocation Policy, including the timing and manner of the selection of any external managers and other consultants. For a variety of reasons, each change in asset allocation for the Fund, including the 2010 Asset Allocation Policy, has been, and is being, implemented in phases. At August 31, 2010 the Fund was invested as follows: 63.76% in public and private market equity investments; 25.18% in fixed income investments; 10.61% in absolute return assets, 0.33% in real estate assets; and 0.12% in cash.

In accordance with the Texas Constitution, the SBOE views the PSF as a perpetual institution. Consistent with its perpetual nature, the PSF is managed as an endowment fund with a long-term investment horizon. Under the total-return investment objective, the Investment Policy provides that the PSF shall be managed consistently with respect to the following: generating income for the benefit of the public free schools of Texas, the real growth of the corpus of the PSF, protecting capital, and balancing the needs of present and future generations of Texas school children. As described above, the Total Return Constitutional Amendment restricts the annual pay out from the Fund to the total-return on all investment assets of the Fund over a rolling ten-year period. State law provides that each transfer of funds from the PSF to the ASF is made monthly, with each transfer to be in the amount of one-twelfth of the annual distribution. The heavier weighting of equity securities relative to fixed income investments has resulted in greater volatility of the value of the Fund. Given the greater weighting in the overall portfolio of passively managed investments, it is expected that the Fund will reflect the general performance returns of the markets in which the Fund is invested.

The asset allocation of the Fund is subject to change by the SBOE from time to time based upon a number of factors, including recommendations to the SBOE made by internal investment staff and external consultants, changes made by the SBOE without regard to such recommendations and directives of the Legislature. Fund performance may also be affected by factors other than asset allocation, including, without limitation, the general performance of the securities markets in the United States and abroad; political and investment considerations including those relating to socially responsible investing; application of the prudent person investment standard, which may eliminate certain investment opportunities for the Fund; and limitations on the number and compensation of internal and external investment staff, which is subject to Legislative oversight. The Guarantee Program could also be impacted by changes in State or federal law or the implementation of new accounting standards.

Management and Administration of the Fund

The Texas Constitution and applicable statutes delegate to the SBOE the authority and responsibility for investment of the PSF's financial assets. In investing the Fund, the SBOE is charged with exercising the judgment and care under the circumstances then prevailing which persons of ordinary prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income therefrom as well as the probable safety of their capital. The SBOE has adopted a "Statement of Investment Objectives, Policies, and Guidelines of the Texas Permanent School Fund," which is codified in the Texas Administrative Code beginning at 19 TAC section 33.1.

The Total Return Constitutional Amendment provides that expenses of managing the PSF are to be paid "by appropriation" from the PSF. In January 2005, at the request of the SBOE, the Attorney General issued a legal opinion, Op. Tex. Att'y Gen. No. GA-0293 (2005) ("GA-0293"), that the Total Return Constitutional Amendment requires that SBOE expenditures for managing or administering PSF investments, including payments to external investment managers, be paid from appropriations made by the Legislature, but that the Total Return Constitutional Amendment does not require the SBOE to pay from such appropriated PSF funds the indirect management costs deducted from the assets of a mutual fund or other investment company in which PSF funds have been invested.

Texas law assigns control of the Fund's land and mineral rights to the three-member SLB, which consists of the elected Commissioner of the General Land Office ("GLO"), an appointee of the Governor, and an appointee of the Attorney General. Administrative duties related to the land and mineral rights reside with the GLO, which is under the guidance of the Commissioner of the GLO. In 2007, the Legislature established the real estate special fund account of the PSF (the "Real Estate Account") consisting of the land, mineral or royalty interest, real estate investment, or other interest, including revenue received from those sources, that is set apart to the PSF under the Texas Constitution and laws, together with the mineral estate in riverbeds, channels, and the tidelands, including islands. The investment of the Real Estate Account is subject to the sole and exclusive management and control of the SLB and the Land Commissioner, who is also the head of the GLO. The 2007 legislation that established the Real Estate Account, House Bill 3699 ("HB 3699") presented constitutional questions regarding the respective roles of the SBOE and the SLB relating to the disposition of proceeds of real estate transactions to the ASF, among other questions. On April 9, 2008, the Attorney General issued a legal opinion, Op. Tex. Att'y Gen. No. GA-0617 (2008), at the request of the Chair of the SBOE advising, among other matters, that any proceeds from the sale of real estate that are not reinvested by the SLB in other real estate assets must be invested under the direction of the SBOE, and that the provisions of H.B. 3699 that permit the SLB to directly transfer real estate investment proceeds to the ASF (in lieu of transfer to the investment portfolio of the PSF under the management of the SBOE), would likely be determined by a court to be in violation of the State constitution. Amounts in the investment portfolio of the PSF are taken into account by the SBOE for purposes of determining the Distribution Rate.

The SBOE contracts with its securities custodial agent to measure the performance of the total return of the Fund. A consultant is typically retained for the purpose of providing consultation with respect to strategic asset allocation decisions and to assist the SBOE in selecting external fund management advisors. The SBOE also contracts with financial institutions for custodial and securities lending services. The SBOE has established the Committee of Investment Advisors, which consists of independent investment experts each appointed by a member of the SBOE to closely advise the respective SBOE member on investment issues.

As noted above, the Texas Constitution and applicable statutes make the SBOE responsible for investment of the PSF's financial assets. By law, the Commissioner is appointed by the Governor, with Senate confirmation, and assists the SBOE, but the Commissioner can neither be hired nor dismissed by the SBOE. The Executive Administrator of the Fund is also hired by and reports to the Commissioner. Moreover, although the Fund's Executive Administrator and his staff implement the decisions of and provide information to the School Finance/PSF Committee of the SBOE and the full SBOE, the SBOE can neither select nor dismiss the Executive Administrator. TEA's General Counsel provides legal advice to the Executive Administrator and to the SBOE. The SBOE has also engaged outside counsel to advise it as to its duties over the Fund, including specific actions regarding the investment of the PSF to ensure compliance with fiduciary standards, and to provide transactional advice in connection with the investment of Fund assets in non-traditional investments.

The Guarantee

The Guarantee Program for School District Bonds (the "Guarantee Program") was authorized by an amendment to the Texas Constitution in 1983 and by Subchapter C of Chapter 45 of the Texas Education Code (the "Act"). If the conditions for the Guarantee Program are satisfied, the guarantee becomes effective upon approval of the Bonds by the Attorney General and remains in effect until the guaranteed bonds are paid or defeased, by a refunding or otherwise.

In the event of default, holders of guarantee bonds will receive all payments due from the corpus of the PSF. Following a determination that a district will be or is unable to pay maturing or matured principal or interest on any guaranteed bond, the Act requires the district to notify the Commissioner not later than the fifth day before the stated maturity date of such bond or interest payment. Immediately following receipt of such notice, the Commissioner must cause to be transferred from the appropriate account in the PSF to the Paying Agent/Registrar an amount necessary to pay the maturing or matured principal and interest. Upon receipt of funds for payment of such principal or interest, the Paying Agent/Registrar must pay the amount due and forward the canceled bond or evidence of payment of the interest to the State Comptroller of Public Accounts (the "Comptroller"). The Commissioner will instruct the Comptroller to withhold the amount paid, plus interest, from the first State money payable to the district. The amount withheld will be deposited to the credit of the PSF. The Comptroller must hold such canceled bond or evidence of payment of the interest on behalf of the PSF. Following full reimbursement of such payment by the district to the PSF with interest, the Comptroller will cancel the bond or evidence of payment of the interest and forward it to the district. The Act permits the Commissioner to order a school district to set a tax rate sufficient to reimburse the Fund for any payments made with respect to guaranteed bonds, and also sufficient to pay future payments on guaranteed bonds, and provides certain enforcement mechanisms to the Commissioner, including the appointment of a board of managers or annexation of a defaulting district to another district.

If a district fails to pay principal or interest on a bond as it is stated to mature, other amounts not due and payable are not accelerated and do not become due and payable by virtue of the district's default. The Guarantee Program does not apply to the payment of principal and interest upon redemption of bonds, except upon mandatory sinking fund redemption, and does not apply to the obligation, if any, of a school district to pay a redemption premium on bonds.

In the event that two or more payments are made from the PSF on behalf of a district, the Commissioner shall request the Attorney General to institute legal action to compel the district and its officers, agents and employees to comply with the duties required of them by law in respect to the payment of guaranteed bonds.

Capacity Limits for the Guarantee Program

The capacity of the Fund to guarantee bonds under the Guarantee Program is limited in two ways: by State law (the "State Capacity Limit") and by regulations and a notice issued by the Internal Revenue Service (the "IRS" and the "IRS Limit," respectively). Prior to May 20, 2003, the State Capacity Limit was equal to two times the lower of cost or fair market value of the Fund's assets, exclusive of real estate. During the 78th Regular Session of the Legislature in 2003, legislation was enacted that increased the State Capacity Limit by 25%, to two and one half times the lower of cost or fair market value of the Fund's assets as estimated by the SBOE and certified by the State Auditor, and eliminated the real estate exclusion from the calculation. Prior to the issuance of the IRS Notice (defined below), the capacity of the program under the IRS Limit was limited to two and one-half times the lower of cost or fair market value of the Fund's assets adjusted by a factor that excluded additions to the Fund made since May 14, 1989. During the 2007 Texas Legislature, Senate Bill 389 ("SB 389") was enacted providing for additional increases in the capacity of the Guarantee Program, and specifically providing that the SBOE may by rule increase the capacity of the Guarantee Program from two and one-half times the cost value of the PSF to an amount not to exceed five times the cost value of the PSF, provided that the increased limit does not violate federal law and regulations and does not prevent bonds guaranteed by the Guarantee Program from receiving the highest available credit rating, as determined by the SBOE. SB 389 further provides that the SBOE shall at least annually consider whether to change the capacity of the Guarantee Program. Since 2005, the Guarantee Program has twice reached capacity under the IRS Limit, and in each instance the Guarantee Program was closed to new bond guarantee applications until relief was obtained from the IRS. The most recent closure of the Guarantee Program commenced in March 2009 and the Guarantee Program reopened in February 2010 on the basis of receipt of the IRS Notice.

On December 16, 2009, the IRS published Notice 2010-5 (the "IRS Notice") stating that the IRS will issue proposed regulations amending the existing regulations to raise the IRS limit to 500% of the total cost of the assets held by the PSF as of December 16, 2009. In accordance with the IRS Notice, the amount of any new bonds to be guaranteed by the PSF, together with the then outstanding amount of bonds previously guaranteed by the PSF, must not exceed the IRS limit on the sale date of the new bonds to be guaranteed. The IRS Notice further provides that the IRS Notice may be relied upon for bonds sold on or after December 16, 2009, and before the effective date of future regulations or other public administrative guidance affecting funds like the PSF.

The IRS Notice establishes a static capacity for the Guarantee Program based upon the cost value of Fund assets on December 16, 2009 multiplied by five. On December 16, 2009, the cost value of the Guarantee Program was $23,463,749,653

(estimated and unaudited), thereby producing an IRS Limit of approximately $117.3 billion. The State Capacity Limit is determined on the basis of the cost value of the Fund from time to time multiplied by the capacity multiplier determined annually by the SBOE, but not to exceed a multiplier of five. The capacity of the Guarantee Program will be limited to the lower of the State Capacity Limit and the IRS Limit. On May 21, 2010, the SBOE modified the regulations that govern the Guarantee Program (the "Guarantee Program Rules"), and increased the State Law Capacity to an amount equal to three times the cost value of the PSF. Such modified regulations, including the revised capacity rule, became effective on July 1, 2010. The Guarantee Program Rules provide that the Commissioner may reduce the multiplier to maintain the AAA credit rating of the Guarantee Program, but provide that any changes to the multiplier made by the Commissioner are to be ratified or rejected by the SBOE at the next meeting following the change. See "Valuation of the PSF and Guaranteed Bonds," below.

Since July 1991, when the SBOE amended the Guarantee Program Rules to broaden the range of bonds that are eligible for guarantee under the Guarantee Program to encompass most Texas school district bonds, the principal amount of bonds guaranteed under the Guarantee Program has increased sharply. In addition, in recent years a number of factors have caused an increase in the amount of bonds issued by school districts in the State. See the table "Permanent School Fund Guaranteed Bonds" below. The SBOE has approved and modified the Guarantee Program Rules in recent years, most recently in May 2010. Generally, the Guarantee Program Rules limit guarantees to certain types of notes and bonds, including, with respect to refunding bonds, a requirement that the bonds produce debt service savings, and that bonds issued for capital facilities must have been voted as unlimited tax debt of the issuing district. The Guarantee Program regulations include certain accreditation criteria for districts applying for a guarantee of their bonds, and limit guarantees to districts that have less than the amount of annual debt service per average daily attendance that represents the 90th percentile of annual debt service per average daily attendance for all districts, but such limitation will not apply to school districts that have enrollment growth of at least 25% over the previous five school years. Effective September 1, 2009, the Act provides that the SBOE may annually establish a percentage of the cost value of the Fund to be reserved from use in guaranteeing bonds. The capacity of the Guarantee Program in excess of any reserved portion is referred to herein as the "Capacity Reserve". The Guarantee Program Rules provide for a minimum Capacity Reserve of no less than 5%, and provide that the amount of the Capacity Reserve may be increased by a majority vote of the SBOE. The Commissioner is authorized to change the Capacity Reserve, which decision must be ratified or rejected by the SBOE at its next meeting following any change made by the Commissioner. The Guarantee Program Rules are codified in the Texas Administrative Code at 19 TAC sections 33.65 et seq., and are available on the TEA web site at www.tea.state.tx.us/rules/tac/chapter033/index.html. The current Capacity Reserve is noted in the monthly updates with respect to the capacity of the Guarantee Program on the TEA web site at www.tea.state.tx.us/psf, which are also filed with the MSRB.

Based upon historical performance of the Fund, the legal restrictions relating to the amount of bonds that may be guaranteed has generally resulted in a lower ratio of guaranteed bonds to available assets as compared to many other types of credit enhancements that may be available for Texas school district bonds. However, changes in the value of the Fund due to changes in securities markets, investment objectives of the Fund, an increase in bond issues by school districts in the State or legal restrictions on the Fund, among other factors, could adversely affect the ratio of Fund assets to guaranteed bonds and the growth of the Fund in general. It is anticipated that the issuance of the IRS Notice will substantially increase the amount of bonds guaranteed under the Guarantee Program.

The Act requires that the Commissioner prepare, and the SBOE approve, an annual report on the status of the Guarantee Program (the Annual Report). The State Auditor audits the financial statements of the PSF, which are separate from other State financial statements. The TEA has filed the audited annual report of the PSF for the year ended August 31, 2010 with the MSRB. The 2009 Annual Report has also been filed with the Municipal Advisory Council of Texas and posted to the PSF web site. Such report speaks only as of the date thereof.

Ratings of Bonds Guaranteed Under the Guarantee Program

Moody's Investors Service, Standard & Poor's Rating Service, a Standard & Poor's Financial Service LLC business, and Fitch Ratings rate bonds guaranteed by the PSF "Aaa", "AAA", and "AAA", respectively. Not all districts apply for multiple ratings on their bonds, however. See "OTHER INFORMATION – Ratings" herein.

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Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations

Fiscal Year Ended 8/31	Book Value ($)[1]	Market Value ($)[1]
2006	19,359,570,146	26,537,687,968
2007	21,234,323,093	29,251,882,931
2008	22,926,299,922	29,336,248,611
2009	23,117,052,793	25,443,104,623
2010	23,653,185,489[2]	27,066,200,259[2]

(1) SLB managed assets are included in the market value and book value of the Fund. In determining the market value of the PSF from time to time during a fiscal year, the TEA uses current, unaudited values for TEA managed investment portfolios and cash held by the SLB. Market values of land and mineral interests, and investments in externally managed real estate funds managed by the SLB are based upon information reported to the PSF by the SLB. Beginning in fiscal year 2009, the SLB reported that information to the PSF on a quarterly basis. The valuation of such assets at any point in time is dependent upon a variety of factors, including economic conditions in the State and nation in general, and the values of these assets, and, in particular, the valuation of mineral holdings administered by the SLB, can be volatile and subject to material changes from period to period. At August 31, 2010, land, external real estate investments, mineral assets and cash managed by the SLB had book values of approximately $462.9 million, $1.150 billion, $13.39 million and $1 billion, respectively, and unaudited market values of approximately $827.6 million, $749.8 million, $2.38 billion and $1 billion, respectively.

(2) At February 28, 2011, the PSF had a book value of $23,842,180,439 and a market value of $30,820,974,175 (in each case, based on unaudited data).

Permanent School Fund Guaranteed Bonds

At 8/31	Principal Amount[1]
2006	$37,793,429,328
2007	44,856,621,419
2008	49,860,572,025
2009	50,032,724,439
2010[1]	49,301,683,338[2]

(1) Represents original principal amount; does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities). The amount shown excludes bonds that have been refunded and released from the Guarantee Program. The TEA does not maintain records of the accreted value of capital appreciation bonds that are guaranteed under the Guarantee Program.

(2) As of August 31, 2010, the TEA expected that the principal and interest to be paid by school districts over the remaining life of the bonds guaranteed by the Guarantee Program is $84.7 billion, of which $35.4 billion represents interest to be paid. At February 28, 2011, there were $51,664,586,943 of bonds guaranteed under the Guarantee Program and the capacity of the Guarantee Program was $71,526,541,317 based on the three times cost value multiplier approved by the SBOE on May 21, 2010. The guarantee capacity of the Fund was increased by $13.2 billion (22.8%) during fiscal year 2010 due to the change in the State multiplier approved by the SBOE during the year. Such capacity figures include the Reserve Capacity.

Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2010

The following discussion is derived from the Annual Report for the year ended August 31, 2010, including the Message of the Executive Administrator of the Fund and the Management's Discussion and Analysis contained therein. Reference is made to the Annual Report for the complete Message and MD&A. Investment assets managed by the fifteen member SBOE are referred to throughout this MD&A as the PSF(SBOE) assets. As of August 31, 2010, the Fund's land, mineral rights and certain real assets are managed by the three-member SLB and these assets are referred to throughout as the PSF(SLB) assets. The 2008 Asset Allocation Policy includes an allocation for real estate investments, and as such investments are made, and become a part of the PSF investment portfolio, those investments will be managed by the SBOE and not the SLB.

At the end of fiscal 2010, the total Fund balance was $24.4 billion. Fund balance increased $1.80 billion from the prior year primarily attributable to the increase in the fair value of the PSF(SBOE) investments and the recovering markets. During the year, the SBOE continued implementing its revised long term strategic asset allocation to diversify and strengthen the PSF(SBOE) investment assets of the Fund. The revised allocation is projected to increase returns over the long run while reducing risk and return volatility of the portfolio. The one year, three year, five year and ten year annualized total returns for the PSF(SBOE) assets were 7.51%, -2.64%, 3.11% and 2.87% respectively (total return takes into consideration the change in the market value of the Fund during the year as well as the interest and dividend income generated by the Fund's investments). In addition, the SLB continued its shift into externally managed real asset investment funds and the one year, three year, and five year annualized total returns for the PSF(SLB) real assets, including cash, are -2.85%, -4.68%, and 2.19% respectively.

The market value of the Fund's assets is directly impacted by the performance of the various financial markets in which the assets are invested. The most important factors affecting investment performance are the asset allocation decisions made by the SBOE and SLB. The current SBOE long term asset allocation policy allows for diversification of the PSF(SBOE) portfolio into alternative asset classes whose returns are not as correlated to traditional asset classes. The implementation of the long term asset allocation will occur over several fiscal years and is expected to provide incremental total return at reduced risk. As of August 31, 2010, the PSF(SBOE) portion of the Fund had diversified into emerging market international equities, absolute return funds, real estate and private equity. Other asset classes such as risk parity and real return will be strategically added commensurate with the economic environment and the goals and objectives of the SBOE.

The PSF(SLB) portfolio is generally characterized by three broad categories: (1) discretionary real assets investments, (2) sovereign and other lands, and (3) mineral interests. Discretionary real assets investments consist of externally managed real estate, infrastructure, and energy/minerals investment funds; internally managed direct real estate investments, and cash. Sovereign and other lands consist primarily of the lands set aside to the PSF when it was created. Mineral interests consist of the minerals that are associated with PSF lands. The investment focus of PSF(SLB) discretionary real assets investments has shifted from internally managed direct real estate investments to externally managed real assets investment funds. Approximately $230 million of capital commitments to externally managed real assets investment funds were funded during fiscal year 2010. At August 31, 2010, the SLB had approved total capital commitments, net of the original capital commitments associated with any investments that were subsequently sold or dissolved, of $2.122 billion to thirty-four funds, and one co-investment vehicle, of which approximately $971 million remains unfunded.

The PSF(SBOE)'s investment in equity securities experienced a return of 5.50% during the fiscal year ended August 31, 2010. The PSF(SBOE)'s investment in fixed income securities produced a return of 11.29% during the fiscal year and absolute return investments yielded a return of 7.85%. Combined, all PSF(SBOE) asset classes produced an investment return of 7.51% for the fiscal year ended August 31, 2010, outperforming the target index by approximately 84 basis points. All PSF(SLB) real assets (including cash) returned -2.85% for the fiscal year ending August 31, 2010.

For fiscal year 2010, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, totaled $1.93 billion, an increase of $3.92 billion from fiscal year 2009 negative earnings of $1.98 billion. This increase is primarily attributable to the recovery of domestic and international securities markets in fiscal year 2010. In fiscal year 2010, revenues earned by the Fund included lease payments, bonuses and royalty income received from oil, gas and mineral leases; lease payments from commercial real estate; surface lease and easement revenues; revenues from the resale of natural and liquid gas supplies; dividends, interest, and securities lending revenues; the net change in the fair value of the investment portfolio; and, other miscellaneous fees and income.

Expenditures are paid from the Fund before distributions are made under the total return formula. Such expenditures include the costs incurred by the SLB to manage the land endowment, as well as operational costs of the Fund, including external management fees paid from appropriated funds. Total operating expenditures, net of security lending rebates and fees, decreased 41.7% for the fiscal year ending August 31, 2010. This decrease is primarily attributable to the decrease in the expenditures for gas supplies purchased for resale within the State Energy Management Program.

The Fund supports the public school system in the State by distributing a predetermined percentage of its asset value to the ASF. For fiscal years 2009 and 2010, this distribution to the ASF totaled $716.53 million and $60.7 million, respectively.

At the end of the 2010 fiscal year, PSF assets guaranteed $49.3 billion in bonds issued by 776 local school districts. Since its inception in 1983, the Fund has guaranteed 4,243 school district bond issues totaling $88.9 billion in principal amount. During the 2010 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program decreased by 76, or -3.1%. The dollar amount of guaranteed school bond issues outstanding decreased by $731.0 million or 1.5%. The guarantee capacity of the Fund increased by $13.167 billion, or 22.8%, during fiscal year 2010 due to the change in the multiplier.

Other Events and Disclosures

The State Investment Ethics Code governs the ethics and disclosure requirements for financial advisors and other service providers who advise certain State governmental entities, including the PSF. In accordance with the provisions of the State Investment Ethics Code, the SBOE periodically modifies its code of ethics, which occurred most recently in May 2010. The SBOE code of ethics includes prohibitions on sharing confidential information, avoiding conflict of interests and requiring disclosure filings with respect to contributions made or received in connection with the operation or management of the Fund. The code of ethics applies to members of the SBOE as well as to persons who are responsible by contract or by virtue of being a TEA PSF staff member for managing, investing, executing brokerage transactions, providing consultant services, or acting as a custodian of the PSF, and persons who provide investment and management advice to a member of the SBOE, with or without compensation under certain circumstances. The code of ethics is codified in the Texas Administrative Code at 19 TAC sections 33.5 et seq., and is available on the TEA web site at www.tea.state.tx.us/rules/tac/chapter033/index.html.

For the 2008-2009 biennium, the SBOE requested an additional appropriation of approximately $18 million to be used for the implementation of the 2008 Asset Allocation Policy. Such amount was requested in addition to a general operating appropriation for 2008-2009 of $14 million. The 2007 Legislature appropriated $9 million of the requested 2008-2009 additional appropriation for external management services, and a $14 million operating appropriation. For the 2010-2011 biennium, the SBOE made an exceptional item request of approximately $12.5 million to fund costs of implementing the 2008 Asset Allocation Policy, but the exceptional item was not funded. The Legislature provided a total appropriation of $23.2 million for the general administration of the Fund for the 2010-2011 biennium. While funds were not appropriated in the 2009 Legislature to implement the 2008 Asset Allocation Policy, Fund management is of the view that there are sufficient resources available to continue the phased implementation of new alternative asset allocations during the 2010-2011 biennium. In accordance with HB 3699, the SLB approved a resolution on August 7, 2007 to begin depositing revenues previously deposited with the PSF into the Real Estate Account, commencing September 1, 2007. Also on August 7, 2007, July 23, 2008 and August 6, 2009, the SLB adopted resolutions to make four quarterly payments of $25,000,000 during fiscal years 2008, 2009 and 2010, respectively, from the Real Estate Account to the SBOE for investment, which action was taken to honor a SLB commitment to the Fund that was made prior to the enactment of HB 3699.

As of August 31, 2010, certain lawsuits were pending against the State and/or the GLO, which challenge the Fund's title to certain real property and/or past or future mineral income from that property. Reference is made to the Annual Report for a description of such lawsuits that are pending, which may represent contingent liabilities of the Fund.

PSF Continuing Disclosure Undertaking

The SBOE has adopted an investment policy rule (the "TEA Rule") pertaining to the PSF and the Guarantee Program. The TEA Rule is codified in Section I of the TEA Investment Procedure Manual, which relates to the Guarantee Program. The most recent amendment to the TEA Rule was adopted by the SBOE on November 19, 2010, and is summarized below. Through the adoption of the TEA Rule and its commitment to guarantee the Bonds, the SBOE has made the following agreement for the benefit of the District and holders and beneficial owners of the Bonds. The TEA (or its successor with respect to the management of the Guarantee Program) is required to observe the agreement for so long as it remains an "obligated person," within the meaning of SEC Rule 15c2-12 ("Rule 15c2-12"), with respect to the Bonds. Nothing in the TEA Rule obligates the Agency to make any filings or disclosures with respect to guaranteed bonds, as the obligations of the Agency under the TEA Rule pertain solely to the Guarantee Program. The district issuing the guaranteed bonds has assumed the applicable obligation under Rule 15c-12 to make all disclosures and filings relating directly to guaranteed bonds, and the TEA takes no responsibility with respect to such district undertakings. Under the TEA agreement, the TEA will be obligated to provide annually certain updated financial information and operating data, and timely notice of specified material events, to the MSRB.

The MSRB has established the Electronic Municipal Market Access ("EMMA") system, and the TEA is required to file its continuing disclosure information using the EMMA system. Investors may access continuing disclosure information filed with the MSRB at www.emma.msrb.org.

Annual Reports

The TEA will annually provide certain updated financial information and operating data to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the Guarantee Program and the PSF of the general type included in this Official Statement under the heading "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM." The information also includes the Annual Report. The TEA will update and provide this information within six months after the end of each fiscal year.

The TEA may provide updated information in full text or may incorporate by reference certain other publicly-available documents, as permitted by Rule 15c2-12. The updated information includes audited financial statements of, or relating to, the State or the PSF, when and if such audits are commissioned and available. Financial statements of the State will be prepared in accordance with generally accepted accounting principles as applied to state governments, as such principles may be changed from time to time, or such other accounting principles as the State Auditor is required to employ from time to time pursuant to State law or regulation. The financial statements of the Fund were prepared to conform to U.S. Generally Accepted Accounting Principles as established by the Governmental Accounting Standards Board.

The Fund is reported by the State of Texas as a permanent fund and accounted for on a current financial resources measurement focus and the modified accrual basis of accounting. Measurement focus refers to the definition of the resource flows measured. Under the modified accrual basis of accounting, all revenues reported are recognized based on the criteria of availability and measurability. Assets are defined as available if they are in the form of cash or can be converted into cash within 60 days to be usable for payment of current liabilities. Amounts are defined as measurable if they can be estimated or otherwise determined. Expenditures are recognized when the related fund liability is incurred.

The State's current fiscal year end is August 31. Accordingly, the TEA must provide updated information by the last day of February in each year, unless the State changes its fiscal year. If the State changes its fiscal year, the TEA will notify the MSRB of the change.

Material Event Notices

The TEA will also provide timely notices of certain events to the MSRB. Such notices will be provided not more than ten business days after the occurrence of the event. The TEA will provide notice of any of the following events with respect to the Guarantee Program: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if such event is material within the meaning of the federal securities laws; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax-exempt status of the Guarantee Program, or other material events affecting the tax status of the Guarantee Program; (7) modifications to rights of holders of Bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (8) Bond calls, if such event is material within the meaning of the federal securities laws, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of Bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the Guarantee Program (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Guarantee Program in a proceeding under the United States 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 Guarantee Program, or if such jurisdiction has been assumed by leaving the existing governing 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 Guarantee Program); (13) the consummation of a merger, consolidation, or acquisition involving the Guarantee Program or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) the appointment of a successor or additional trustee with respect to the Guarantee Program or the change of name of a trustee, if such event is material within the meaning of the federal securities laws. (Neither the Act nor any other law, regulation or instrument pertaining to the Guarantee Program make any provision with respect to the Guarantee Program for bond calls, debt service reserves, credit enhancement, liquidity enhancement, early redemption or the appointment of a trustee with respect to the Guarantee Program.) In addition, the TEA will provide timely notice of any failure by the TEA to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports".

Availability of Information

The TEA has agreed to provide the foregoing information only to the MSRB and to transmit such information electronically to the MSRB in such format and accompanied by such identifying information as prescribed by the MSRB. The information is available from the MSRB to the public without charge at www.emma.msrb.org.

Limitations and Amendments

The TEA has agreed to update information and to provide notices of material events only as described above. The TEA has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The TEA makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The TEA disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the TEA to comply with its agreement.

The continuing disclosure agreement of the TEA is made only with respect to the PSF and the Guarantee Program. The District may make a continuing disclosure undertaking in accordance with Rule 15c2-12 with respect to its obligations arising under Rule 15c2-12 pertaining to financial and operating data concerning the District and notices of material events relating to the Bonds. A description of the District's undertaking, if any, is included elsewhere in the Official Statement relating to the Bonds.

This continuing disclosure agreement may be amended by the TEA from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the TEA, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell guaranteed bonds in the primary offering of such bonds in compliance with Rule 15c2-12, taking into account any amendments or interpretations of Rule 15c2-12 since such offering as well as such changed circumstances and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding bonds guaranteed by the Guarantee Program consent to such amendment or (b) a person that

is unaffiliated with the TEA (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interest of the holders and beneficial owners of the bonds guaranteed by the Guarantee Program. The TEA may also amend or repeal the provisions of its continuing disclosure agreement if the SEC amends or repeals the applicable provision of Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling bonds guaranteed by the Guarantee Program in the primary offering of such bonds.

Compliance with Prior Undertakings

The TEA has not previously failed to substantially comply with its previous continuing disclosure agreements in accordance with Rule 15c2-12.

SEC Exemptive Relief

On February 9, 1996, the TEA received a letter from the Chief Counsel of the SEC that pertains to the availability of the "small issuer exemption" set forth in paragraph (d)(2) of Rule 15c2-12. The letter provides that Texas school districts which offer municipal securities that are guaranteed under the Guarantee Program may undertake to comply with the provisions of paragraph (d)(2) of Rule 15c2-12 if their offerings otherwise qualify for such exemption, notwithstanding the guarantee of the school district securities under the Guarantee Program. Among other requirements established by Rule 15c2-12, a school district offering may qualify for the small issuer exemption if, upon issuance of the proposed series of securities, the school district will have no more than $10 million of outstanding municipal securities.

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

On April 9, 2001, four property wealthy districts filed suit in the 250th District Court of Travis County, Texas (the "District Court") against the Texas Education Agency, the Texas State Board of Education, the Texas Commissioner of Education (the "Commissioner") and the Texas Comptroller of Public Accounts in a case styled *West Orange-Cove Consolidated Independent School District, et al. v. Neeley, et al.* The plaintiffs alleged that the $1.50 maximum maintenance and operations tax rate (the "M&O Tax") had become in effect a state property tax, in violation of Article VIII, Section 1-e of the Texas Constitution, because it precluded them and other school districts from having meaningful discretion to tax at a lower rate. Forty school districts intervened alleging that the Texas public school finance system (the "Finance System") was inefficient, inadequate, and unsuitable, in violation of Article VII, Section 1 of the Texas Constitution, because the State of Texas (the "State") did not provide adequate funding. As described below, this case has twice reached the Texas Supreme Court (the "Supreme Court"), which rendered decisions in the case on May 29, 2003 ("West Orange-Cove I") and November 22, 2005 ("West Orange-Cove II"). After the remand by the Supreme Court back to the District Court in West Orange-Cove I, 285 other school districts were added as plaintiffs or intervenors. The plaintiffs joined the intervenors in their Article VII, Section 1 claims that the Finance System was inadequate and unsuitable, but not in their claims that the Finance System was inefficient.

On November 30, 2004, the final judgment of the District Court was released in connection with its reconsideration of the issues remanded to it by the Supreme Court in West Orange-Cove I. In that case, the District Court rendered judgment for the plaintiffs on all of their claims and for the intervenors on all but one of their claims, finding that (1) the Finance System was unconstitutional in that the Finance System violated Article VIII, Section 1-e of the Texas Constitution because the statutory limit of $1.50 per $100.00 of taxable assessed valuation on property taxes levied by school districts for maintenance and operation purposes had become both a floor and a ceiling, denying school districts meaningful discretion in setting their tax rates; (2) the constitutional mandate of adequacy set forth in Article VII, Section 1, of the Texas Constitution exceeded the maximum amount of funding available under the funding formulas administered by the State; and (3) the Finance System was financially inefficient, inadequate, and unsuitable in that it failed to provide sufficient access to revenue to provide for a general diffusion of knowledge as required by Article VII, Section 1, of the Texas Constitution.

The intervening school district groups contended that funding for school operations and facilities was inefficient in violation of Article VII, Section 1 of the Texas Constitution, because children in property-poor districts did not have substantially equal access to education revenue. All of the plaintiff and intervenor school districts asserted that the Finance System could not achieve "[a] general diffusion of knowledge" as required by Article VII, Section 1 of the Texas Constitution, because the Finance System was underfunded. The State, represented by the Texas Attorney General, made a number of arguments opposing the positions of the school districts, as well as asserting that school districts did not have standing to challenge the State in these matters.

In West Orange-Cove II, the Supreme Court's holding was twofold: (1) that the local M&O Tax had become a state property tax in violation of Article VIII, Section 1-e of the Texas Constitution and (2) the deficiencies in the Finance System did not amount to a violation of Article VII, Section 1 of the Texas Constitution. In reaching its first holding, the Supreme Court relied on evidence presented in the District Court to conclude that school districts did not have meaningful discretion in levying

the M&O Tax. In reaching its second holding, the Supreme Court, using a test of arbitrariness determined that: the public education system was "adequate," since it is capable of accomplishing a general diffusion of knowledge; the Finance System was not "inefficient," because school districts have substantially equal access to similar revenues per pupil at similar levels of tax effort, and efficiency does not preclude supplementation of revenues with local funds by school districts; and the Finance System does not violate the constitutional requirement of "suitability," since the Finance System was suitable for adequately and efficiently providing a public education.

In reversing the District Court's holding that the Finance System was unconstitutional under Article VII, Section 1 of the Texas Constitution, the Supreme Court stated:

> Although the districts have offered evidence of deficiencies in the public school finance system, we conclude that those deficiencies do not amount to a violation of Article VII, Section 1. We remain convinced, however, as we were sixteen years ago, that defects in the structure of the public school finance system expose the system to constitutional challenge. Pouring more money into the system may forestall those challenges, but only for a time. They will repeat until the system is overhauled.

In response to the intervenor districts' contention that the Finance System was constitutionally inefficient, the West Orange-Cove II decision states that the Texas Constitution does not prevent the Finance System from being structured in a manner that results in gaps between the amount of funding per student that is available to the richest districts as compared to the poorest district, but reiterated its statements in *Edgewood Independent School District v. Meno*, 917 S.W.2d 717 (Tex. 1995) ("Edgewood IV") that such funding variances may not be unreasonable. The Supreme Court further stated that "[t]he standards of Article VII, Section 1 - adequacy, efficiency, and suitability - do not dictate a particular structure that a system of free public schools must have." The Supreme Court also noted that "[e]fficiency requires only substantially equal access to revenue for facilities necessary for an adequate system," and the Supreme Court agreed with arguments put forth by the State that the plaintiffs had failed to present sufficient evidence to prove that there was an inability to provide for a "general diffusion of knowledge" without additional facilities.

Funding Changes in Response to West Orange-Cove II

In response to the decision in West Orange-Cove II, the Texas Legislature (the "Legislature") enacted House Bill 1 ("HB 1"), which made substantive changes in the way the Finance System is funded, as well as other legislation which, among other things, established a special fund in the State treasury to be used to collect new tax revenues that are dedicated under certain conditions for appropriation by the Legislature to reduce M&O Tax rates, broadened the State business franchise tax, modified the procedures for assessing the State motor vehicle sales and use tax and increased the State tax on tobacco products (HB 1 and other described legislation are collectively referred to herein as the "Reform Legislation"). The Reform Legislation generally became effective at the beginning of the 2006-07 fiscal year of each district.

Possible Effects of Litigation and Changes in Law on District Bonds

The Reform Legislation did not alter the provisions of Chapter 45, Texas Education Code, that authorizes districts to secure their bonds by pledging the receipts of an unlimited ad valorem debt service tax as security for payment of the Bonds. Reference is made, in particular, to the information under the heading "THE BONDS - Security and Source of Payment" in the Official Statement.

In the future, the Legislature could enact additional changes to the Finance System which could benefit or be a detriment to a school district depending upon a variety of factors, including the financial strategies that the district has implemented in light of past State funding systems. Among other possibilities, a district's boundaries could be redrawn, taxing powers restricted, State funding reallocated, or local ad valorem taxes replaced with State funding subject to biennial appropriation. In Edgewood IV, the Supreme Court stated that any future determination of unconstitutionality "would not, however, affect the district's authority to levy the taxes necessary to retire previously issued bonds, but would instead require the Legislature to cure the system's unconstitutionality in a way that is consistent with the Contract Clauses of the U.S. and Texas Constitutions" (collectively, the "Contract Clauses"). Consistent with the Contract Clauses, in the exercise of its police powers, the State may make such modifications in the terms and conditions of contractual covenants related to the payment of the Bonds as are reasonable and necessary for the attainment of important public purposes.

Although, as a matter of law, the Bonds, upon issuance and delivery, will be entitled to the protections afforded previously existing contractual obligations under the Contract Clauses, the District can make no representations or predictions concerning the effect of future legislation or litigation, or how such legislation or future court orders may affect the District's financial condition, revenues or operations. While the disposition of any possible future litigation or the enactment of future legislation to address school funding in Texas could substantially adversely affect the financial condition, revenues or operations of the District, as noted herein, the District does not anticipate that the security for payment of the Bonds, specifically, the District's obligation to levy an unlimited debt service tax and the Permanent School Fund guarantee of the Bonds, would be adversely affected by any such litigation or legislation. (See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM.")

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

General

The following description of the Finance System is a summary of the Reform Legislation and the changes made by the State Legislature to the Reform Legislation since its enactment, including modifications made during the regular session of the 81st Texas Legislature (the "2009 Regular Legislative Session"). For a more complete description of school finance and fiscal management in the State, reference is made to Vernon's Texas Codes Annotated, Education Code, Chapters 41 through 46, as amended.

The Reform Legislation, which generally became effective at the beginning of the 2006-07 fiscal year of each district, made substantive changes to the manner in which the Finance System is funded, but did not modify the basic structure of the Finance System. The changes to the manner in which the Finance System is funded were intended to reduce local M&O Tax rates by one third over two years, with M&O Tax levies declining by approximately 11% in fiscal year 2006-07 and approximately another 22% in fiscal year 2007-08, subject to local referenda that may increase local M&O Tax levies, thus offsetting a part of the compression in local M&O Tax levies. (See "TAX INFORMATION – Tax Rate Limitations.") Additional State funding needed to offset local tax rate reductions must be generated by the modified State franchise, motor vehicle and tobacco taxes or any other revenue source appropriated by the Legislature. The Legislative Budget Board projected that the Reform Legislation would be underfunded from the Reform Legislation revenue sources by a cumulative amount of $25 billion over fiscal years 2006-07 through 2010-11, however State surpluses have been appropriated to offset the revenue shortfall in fiscal year 2006-07 and for the 2008-09 and 2010-11 State biennia.

Under the Finance System, as modified during the 2009 Regular Legislative Session, a school district that imposes an M&O Tax at least equal to the product of the "State compression percentage" (as defined below) multiplied by the district's 2005-06 M&O Tax rate is entitled to at least the amount of State funding necessary to provide the district with the sum of (A) the amount of State and local revenue per weighted average daily attendance ("WADA") to which the school district would be entitled for the 2009-10 school year as calculated under the law as it existed on January 1, 2009, (B) an additional $120 per WADA, (C) an amount to which the district is entitled based on supplemental payments owed to any tax increment fund for a reinvestment zone and (D) any amount due to the district to the extent the district contracts for students residing in the district to be educated in another district (i.e., tuition allotment). If a district adopts an M&O Tax rate in any fiscal year below a rate equal to the State compression percentage for the district in that year multiplied by the M&O Tax rate adopted by the district for the 2005-06 fiscal year, the district's guaranteed amount is reduced in a proportionate amount. If a district would receive more State and local revenue from the Tier One and Tier Two allotments (each as hereinafter defined) and wealth equalization than the guaranteed amount described above, the amount of State funding will be reduced by the amount of such surplus over the guaranteed amount described above.

In general terms, funds are allocated to districts in a manner that requires districts to "compress" their tax rates in order to receive increased State funding at a level that equalizes local tax wealth at the 88th percentile yield for the 2006-07 fiscal year. The State compression percentage is a basic component of the funding formulas. The State compression percentage was 66.67% for fiscal years 2007-08 and 2008-09. For fiscal year 2009-10 and thereafter, the Commissioner is required to determine the State compression percentage for each fiscal year based on the percentage by which a district is able to reduce its M&O Tax rate for that year, as compared to such district's adopted M&O Tax rate for the 2005-06 fiscal year, as a result of State funds appropriated for distribution for the current fiscal year from the property tax relief fund established under the Reform Legislation, or from any other funding source made available by the Legislature for school district property tax relief. For fiscal year 2009-10, the Commissioner determined the State compression percentage to be 66.67%.

State Funding for Local School Districts

To limit disparities in school district funding abilities, the Finance System (1) compels districts with taxable property wealth per weighted student higher than the "equalized wealth level" (described under "Wealth Transfer Provisions") to reduce their wealth to the equalized wealth level or to divert a portion of their tax revenues to other districts as described below and (2) provides various State funding allotments, including a basic funding allotment and other allotments for "enrichment" of the basic program, for debt service tax assistance and for new facilities construction.

The Finance System provides for (1) State guaranteed basic funding allotments per student ("Tier One") and (2) State guaranteed revenues per student for each cent of local tax effort that exceeds the compressed tax rate to provide operational funding for an "enriched" educational program ("Tier Two"). In addition, to the extent funded by the Legislature, the Finance System includes, among other funding allotments, an allotment to subsidize existing debt service up to certain limits ("EDA"), the Instructional Facilities Allotment ("IFA"), and an allotment to pay operational expenses associated with the opening of a new instructional facility. Tier One, Tier Two, EDA and IFA are generally referred to as the Foundation School Program. Tier One and Tier Two allotments represent the State funding share of the cost of maintenance and operations of school districts and supplement local ad valorem M&O Taxes levied for that purpose. Tier One and Tier Two allotments and prior year IFA allotments are generally required to be funded each year by the Legislature. EDA and future year IFA allotments supplement

local ad valorem taxes levied for debt service on bonds issued by districts to construct, acquire and improve facilities and are generally subject to appropriation by the Legislature. State funding allotments may be altered and adjusted to penalize school districts with high administrative costs and, in certain circumstances, to account for shortages in State appropriations or to allocate available funds in accordance with wealth equalization goals.

Tier One allotments are intended to provide all districts a basic program of education rated academically acceptable and meeting other applicable legal standards. If needed, the State will subsidize local tax receipts at a tax rate of the State compression percentage multiplied by the lesser of (a) $1.50 or (b) the district's 2005 M&O Tax to ensure that the cost to a district of the basic program is met. Tier Two allotments are intended to guarantee each school district that is not subject to the wealth transfer provisions described below an opportunity to supplement that program at a level of its own choice, however Tier Two allotments may not be used for the payment of debt service or capital outlay.

The cost of the basic program is based on an allotment per student known as the "Tier One Basic Allotment." The Tier One Basic Allotment is adjusted for all districts by a cost-of-living factor known as the "cost of education index." In addition, a district-size adjustment further adjusts the Tier One Basic Allotment for districts that (i) have not more than 1,600 students in average daily attendance (with alternative formulas established for such districts that contain at least 300 square miles and those districts that contain less than 300 square miles) or (ii) offer a kindergarten through grade 12 program and have less than 5,000 students in average daily attendance. For fiscal year 2007-08, the Tier One Basic Allotment was $3,135 based upon a guaranteed yield of $36.45 for each cent of tax effort, and for fiscal year 2008-09, the Tier One Basic Allotment was $3,218 based upon a guaranteed yield of $37.42 for each cent of tax effort. For the 2009-10 through 2012-13 school years, the basic allotment is set at the greater of $4,765 or 1.65% of the statewide average property value per student in WADA and, thereafter, at the lesser of $4,765 or that amount multiplied by the quotient of the district's compressed tax rate divided by the State maximum compressed tax rate of $1.00. This increase was due to changes in law effected by the Legislature during the 2009 Regular Legislative Session, which combined certain funding allotments that previously were separate components of Tier Two funding into the Tier One Basic Allotment. An additional change made during the 2009 Regular Legislative Session limits, beginning with 2010-11 school year, the annual increases in a district's M&O Tax revenue per WADA for purposes of State funding to not more than $350, excluding Tier Two funds. For the 2009-10 school year, the revenue increases are limited to the funds that a district would have received under the school finance formulas as they existed on January 1, 2009, plus an additional $350 per WADA, excluding Tier Two funds.

Tier Two currently provides two levels of enrichment with different guaranteed yields depending on the district's local tax effort. For fiscal year 2009-10, the first six cents of tax effort that exceeds the compressed tax rate will generate a guaranteed yield equivalent to (a) that of the Austin Independent School District or (b) the amount of tax revenue per WADA received on that tax effort in the previous year, whichever is greater. The second level of Tier Two is generated by tax effort that exceeds the compressed tax rate plus six cents and has a guaranteed yield per penny of local tax effort of $31.95. Before 2009-10, Tier Two consisted of a district's M&O Tax levy above $0.86. For fiscal year 2008-09, State funding to equalize local M&O Tax levies above $0.86, up to a district's compressed rate, was funded at a guaranteed yield of $37.42 per student in WADA for each cent of tax effort; any amount above a district's compressed rate up to $0.04 was funded at a guaranteed yield of $50.98 per WADA for each cent of tax effort; and any tax effort associated with a tax approved by voters at a rollback election was funded at a guaranteed yield of $31.95 per WADA for each cent of tax effort above a district's compressed rate plus $0.04. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - General" for a discussion of the State compression percentage.

The IFA guarantees each school district a specified amount per student (the "IFA Guaranteed Yield") in State and local funds for each cent of tax effort to pay principal of and interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. To receive an IFA, a school district must apply to the Commissioner in accordance with rules adopted by the Commissioner before issuing the bonds to be paid with State assistance. The total amount of debt service assistance over a biennium for which a district may be awarded is limited to the lesser of (1) the actual debt service payments made by the district in the biennium in which the bonds are issued; or (2) the greater of (a) $100,000 or (b) $250 multiplied by the number of students in average daily attendance. The IFA is also available for lease-purchase agreements and refunding bonds meeting certain prescribed conditions. If the total amount appropriated by the State for IFA in a year is less than the amount of money school districts applying for IFA are entitled to for that year, districts applying will be ranked by the Commissioner by wealth per student, and State assistance will be awarded to applying districts in ascending order of adjusted wealth per student beginning with the district with the lowest adjusted wealth per student. In determining wealth per student for purposes of IFA, adjustments are made to reduce wealth for certain fast growing districts. Once a district receives an IFA award for bonds, it is entitled to continue receiving State assistance without reapplying to the Commissioner and the guaranteed level of State and local funds per student per cent of tax effort applicable to the bonds may not be reduced below the level provided for the year in which the bonds were issued. In 2007, the Legislature appropriated funds for outstanding school district bonds that qualified in prior budget cycles for IFA allotments and added funding for qualified debt to be issued for instructional facilities in the State's 2008-09 fiscal biennium; however, the Texas Education Agency has indicated that it intends to reserve all such new appropriation for the second year of the biennium.

State financial assistance is provided for certain existing debt issued by school districts (referred to herein as EDA) to produce a guaranteed yield (the "EDA Yield"), which for the 2009-11 State Biennium is $35.00 (subject to adjustment as

described below) in State and local revenue per student for each cent of debt service tax levy; however, for bonds that became eligible for EDA funding after August 31, 2001, and prior to August 31, 2005, EDA assistance for such eligible bonds may be less than $35 in revenue per student for each cent of debt service tax, as a result of certain administrative delegations to the Commissioner under State law. Effective September 1, 2003, the portion of the local debt service rate that has qualified for equalization funding by the State has been limited to the first 29 cents of debt service tax or a greater amount for any year provided by appropriation by the Legislature. In general, a district's bonds are eligible for EDA assistance if (i) the district made payments on the bonds during the final school year of the preceding State fiscal biennium or (ii) levied taxes to pay the principal of and interest on the bonds for that school year. Access to EDA funding will be determined by the debt service taxes collected in the final year of the preceding biennium. A district may not receive EDA funding for the principal and interest on a series of otherwise eligible bonds for which the district receives IFA funding.

A district may also qualify for an allotment for operational expenses associated with opening new instructional facilities. This funding source may not exceed $25,000,000 in one school year on a State-wide basis. For the first school year in which students attend a new instructional facility, a district is entitled to an allotment of $250 for each student in average daily attendance at the facility. For the second school year in which students attend that facility, a district is entitled to an allotment of $250 for each additional student in average daily attendance at the facility. The new facility operational expense allotment will be deducted from wealth per student for purposes of calculating a district's Tier Two State funding.

Local Revenue Sources - Property Tax Authority

The primary source of local funding for school districts is ad valorem taxes levied against the local tax base. The former provision of the Education Code, Section 45.003, that in general limited the M&O Tax rate to $1.50 per $100 of taxable assessed value, was replaced by the Reform Legislation with a formula using the State compression percentage so that the maximum tax rate that may be adopted by a district in any fiscal year is limited based on the amount of State funds to be received by the District in that year. For the 2006-07 and 2007-08 fiscal years, districts were permitted to generate additional local funds by raising their M&O Tax rate by $0.04 above the compressed tax rates (without taking into account changes in taxable valuation) without voter approval, and such amounts generated equalized funding dollars from the State under the Tier Two program. In fiscal year 2008-09 and thereafter, districts may, in general, increase their tax rate by an additional two or more cents and receive State equalization funds for such taxing effort so long as the voters approve such tax rate increase. Many school districts, however, voted their M&O Tax under prior law and may be subject to other limitations on the M&O Tax rate. School districts are also authorized to levy a bond debt service tax that may be unlimited in rate. (See "TAX INFORMATION – Tax Rate Limitations" herein). The governing body of a school district cannot adopt an annual tax rate which exceeds the district's "rollback tax rate" without submitting such proposed tax rate to the voters at a referendum election. (See "TAX INFORMATION – Public Hearing and Rollback Tax Rate" herein.)

Wealth Transfer Provisions

Under the Finance System, districts are required, with certain limited exceptions, to effectively adjust taxable property wealth per weighted student ("wealth per student") for each school year to no greater than the "equalized wealth level", determined in accordance with a formula set forth in the Reform Legislation. A district may effectively reduce its wealth per student either by reducing the amount of taxable property within the district relative to the number of weighted students, by transferring revenue out of the district or by exercising any combination of these remedies.

The wealth level that required wealth reduction measures for fiscal year 2006-07 was $319,500 per student in average daily attendance. For 2007-08 that wealth level was increased to $364,500 per student in average daily attendance with respect to that portion of a district's M&O tax effort that did not exceed its compressed tax rate, and remained at $319,500 with respect to that portion of a district's local tax effort that was beyond its compressed rate plus $.04. For 2008-09 that wealth level was further increased to $374,200 per student in average daily attendance with respect to that portion of a district's M&O Tax effort that did not exceed its compressed tax rate, and remained at $319,500 with respect to that portion of a district's local tax effort that was beyond its compressed rate plus $0.06. For 2009-10 that wealth level has been increased to $476,500 per student in average daily attendance with respect to that portion of a district's M&O Tax effort that does not exceed its compressed tax rate, and remains at $319,500 with respect to that portion of a district's local tax effort that is beyond its compressed rate plus $.06.

Property wealthy districts may also be able to levy up to an additional six cents per $100 of assessed valuation of M&O Taxes above their compressed rate to provide revenue that is not subject to recapture.

A district has four options to reduce its wealth per student so that it does not exceed the equalized wealth level: (1) A district may consolidate by agreement with one or more districts to form a consolidated district. All property and debt of the consolidating districts vest in the consolidated district. (2) Subject to approval by the voters of all affected districts, a district may consolidate by agreement with one or more districts to form a consolidated taxing district solely to levy and distribute either M&O Taxes or both M&O Taxes and debt service taxes. (3) A district may detach property from its territory for annexation by a property-poor district. (4) A district may educate students from other districts who transfer to the district without charging tuition to such students.

A district has three options to transfer tax revenues from its excess property wealth. First, a district with excess wealth per student may purchase "attendance credits" by paying the tax revenues to the State for redistribution under the Foundation School Program. Second, it can contract to disburse the tax revenues to educate students in another district, if the payment does not result in effective wealth per student in the other district to be greater than the equalized wealth level. Both options to transfer property wealth are subject to approving elections by the transferring district's qualified voters. Third, a wealthy district may reduce its wealth by paying tuition to a non-wealthy district for the education of students that reside in the wealthy district.

A district may not adopt a tax rate until its effective wealth per student is the equalized wealth level or less. If a final court decision holds any of the preceding permitted remedial options unlawful, districts may exercise any remaining option under a revised schedule approved by the Commissioner.

If a district fails to exercise a permitted option, the Commissioner must reduce the district's property wealth per student to the equalized wealth level by detaching certain types of property from the district and annexing the property to a property-poor district or, if necessary, consolidate the district with a property-poor district. Provisions governing detachment and annexation of taxable property by the Commissioner do not provide for assumption of any of the transferring district's existing debt.

Possible Effects of Wealth Transfer Provisions on the District's Financial Condition

The District's wealth per student for the 2010-11 school year is less than the equalized wealth value. Accordingly, the District has not been required to exercise one of the permitted wealth equalization options. As a district with wealth per student less than the equalized wealth value, the District may benefit in the future by agreeing to accept taxable property or funding assistance from or agreeing to consolidate with a property-rich district to enable such district to reduce its wealth per student to the permitted level.

A district's wealth per student must be tested for each future school year and, if it exceeds the maximum permitted level, must be reduced by exercise of one of the permitted wealth equalization options. Accordingly, if the District's wealth per student should exceed the maximum permitted level in future school years, it will be required each year to exercise one or more of the wealth reduction options. If the District were to consolidate (or consolidate its tax base for all purposes) with a property-poor district, the outstanding debt of each district could become payable from the consolidated district's combined property tax base, and the District's ratio of taxable property to debt could become diluted. If the District were to detach property voluntarily, a portion of its outstanding debt (including the Bonds) could be assumed by the district to which the property is annexed, in which case timely payment of the Bonds could become dependent in part on the financial performance of the annexing district.

82nd Texas Legislature in Session

The Texas Legislature convened in regular session on January 11, 2011 and is scheduled to adjourn on May 30, 2011. On January 10, 2011, the Texas Comptroller of Public Accounts released its biennial revenue estimate (the "BRE") which provides a formal estimate of the funds likely to be available to the Texas Legislature from taxes and other revenue sources over the next two years. The budget to be adopted by the Texas Legislature will be directly impacted by the BRE. The BRE projected a $26.8 billion budget shortfall for the State of Texas for the 2012-2013 biennium. A result of this shortfall could be a substantial decrease in the funding of Texas school districts, whose funding currently accounts for approximately 44 percent of the budget for the State of Texas. The District is preparing budget reduction plans that include campus and administration reconfiguration and consolidation, reduction in staff, decrease in employee benefits packages, and other cost cutting measures.

In addition to the State's budget, the Texas Legislature will, while in session, consider various pieces of legislation which could, if enacted, have a further and additional impact on school finance matters. Any legislation will likely not become effective until after August 31, 2011. Other than the possible impact on school finance resulting from the State's biannual budget, the District is unaware of any specific proposed legislation which would have any impact, whether positive or negative in nature, on the District's operations or financial condition.

TAX INFORMATION

Ad Valorem Tax Law

The appraisal of property within the District is the responsibility of the Bexar Appraisal District (the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under the Property Tax Code to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount that would not exceed either the lesser of (1) the property's market value in the most recent tax year in which it was assessed or (2) the sum of (a) 10% of the property's appraised value in the preceding tax

year, plus (b) the property's appraised value the preceding tax year, plus (c) the market value of all new improvements to the property. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of three members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The District may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the District by petition filed with the Appraisal Review Board.

Reference is made to the Texas Property Tax Code, for identification of property subject to taxation; property exempt or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem taxation purposes; and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Article VIII of the State Constitution ("Article VIII") and State law provide for certain exemptions from property taxes, the valuation of agricultural and open-space lands at productivity value, and the exemption of certain personal property from ad valorem taxation.

Certain residence homestead exemptions from ad valorem taxes for public school purposes are mandated by Section 1-b, Article VIII, and State law and apply to the market value of residence homesteads in the following sequence:

$15,000; and an additional

$10,000 for those 65 years of age or older, or the disabled. A person over 65 and disabled may receive only one $10,000 exemption, and only one such exemption may be received per family, per residence homestead. State law also mandates a freeze on taxes paid on residence homesteads of persons 65 years of age or older which receive the $10,000 exemption. Such residence homesteads shall be appraised and taxes calculated as on any other property, but taxes shall never exceed the amount imposed in the first year in which the property received the $10,000 exemption. The freeze on ad valorem taxes on the homesteads of persons 65 years of age or older for general elementary and secondary public school purposes is also transferable to a different residence homestead. Also, the surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as (i) the taxpayer died in a year in which he qualified for the exemption, (ii) the surviving spouse was at least 55 years of age when the taxpayer died, and (iii) the property was the residence homestead of the surviving spouse when the taxpayer died and the property remains the residence homestead of the surviving spouse. If improvements (other than maintenance or repairs) are made to the property, the value of the improvements is taxed at the then current tax rate, and the total amount of taxes imposed is increased to reflect the new improvements with the new amount of taxes then serving as the ceiling on taxes for the following years. Pursuant to a constitutional amendment approved by the voters on May 12, 2007, legislation was enacted to reduce the school property tax limitation imposed by the freeze on taxes paid on residence homesteads of persons 65 years of age or over or of disabled persons to correspond to reductions in local school district tax rates from the 2005 tax year to the 2006 tax year and from the 2006 tax year to the 2007 tax year. (See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – General" herein.) The school property tax limitation provided by the constitutional amendment and enabling legislation apply to the 2007 and subsequent tax years.

In addition, under Section 1-b, Article VIII, and State law, the governing body of a political subdivision, at its option, may grant:

(i) An exemption of not less than $3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision; or

(ii) An exemption of up to 20% of the market value of residence homesteads; minimum exemption $5,000.

In the case of residence homestead exemptions granted under Section 1-b, Article VIII, ad valorem taxes may continue to be levied against the value of homesteads exempted where ad valorem taxes have previously been pledged for the payment of debt if cessation of the levy would impair the obligation of the contract by which the debt was created.

State law and Article VIII, Section 2, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from $5,000 to a maximum of $12,000.

A disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead.

Effective January 1, 2004, the freeze on taxes paid on residence homesteads of persons 65 years of age and older was extended to include the resident homesteads of "disabled" persons, including the right to transfer the freeze to a different residence homestead. A "disabled" person is one who is "under a disability for purposes of payment of disability insurance benefits under the Federal Old Age, Survivors and Disability Insurance".

Article VIII provides that eligible owners of both agricultural land (Section l-d) and open-space land (Section l-d-l), including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified under both Section 1-d and 1-d-1.

The freeze on ad valorem taxes on the homesteads of persons 65 years of age or older for general elementary and secondary public school purposes is also transferable to a different residence homestead.

Nonbusiness personal property, such as automobiles or light trucks, are exempt from ad valorem taxation unless the governing body of a political subdivision elects to tax this property. Boats owned as nonbusiness property are exempt from ad valorem taxation.

Article VIII, Section 1-j of the Texas Constitution provides for "freeport property" to be exempted from ad valorem taxation. Freeport property is defined as goods detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Notwithstanding such exemption, counties, school districts, junior college districts and cities may tax such tangible personal property provided official action to tax the same was taken before April 1, 1990. Decisions to continue to tax may be reversed in the future; decisions to exempt freeport property are not subject to reversal.

Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." "Goods-in-transit", defined by a new provision to the Tax Code effective for tax years 2008 and thereafter, as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. The Tax Code provision permits local governmental entities, on a local option basis, to take official action by January 1 of the first year in which goods-in-transit are proposed to be taxed, and after holding a public hearing, to take official action to tax goods-in-transit during the following tax year and to continue to tax those goods until the action authorizing such taxation is rescinded or repealed. A taxpayer may receive only one of the freeport exemptions or the goods-in-transit exemptions for items of personal property.

The District and the other taxing bodies within the territory may jointly agree to the creation of a tax increment financing zone, under which the tax values on property in the zone are "frozen" at the value of the property at the time of creation of the zone. In the case of a tax increment financing zone, the property owners pay taxes on all improvements located in the zone, and the District in turn remits payment of taxes levied on "incremental values" to the tax increment financing zone which are then used to finance infrastructure improvements for properties within the zone. The District also may enter into tax abatement agreements to encourage economic development. Under an abatement agreement, a property owner agrees to construct certain improvements on its property. The District in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the abatement agreement. The abatement agreement could last for a period of up to 10 years. Under current law, the Comptroller of Public Accounts is to determine taxable value of property within each school district in the State (which taxable value figure is used in calculating a district's wealth per student) and in making such determination the taxable value is to exclude (i) the total dollar amount of any captured appraised value of property located in a reinvestment zone on August 31, 1999, that generates taxes paid into a tax increment fund and is eligible for tax increment financing under a reinvestment zone financing plan approved before September 1, 1999 and (ii) the total dollar value of taxable property covered by a tax abatement agreement entered into.

Tax Rate Limitations

A school district is authorized to levy M&O Taxes subject to approval of a proposition submitted to district voters. The maximum M&O Tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the next succeeding paragraph. The maximum voted M&O Tax rate for the District is $1.50 per $100 of assessed valuation as approved by the voters at an election held on January 27, 1968 pursuant to Article 2784e-1, Texas Revised Civil Statues Annotated, as amended ("Article 2784e-1").

Article 2784e-1 limits the District's annual M&O Tax rate based upon a comparison between the District's outstanding bonded indebtedness and the District's taxable assessed value per $100 of assessed valuation. Article 2784e-1 provides for a reduction of $0.10 for each one percent (1%) or major fraction thereof increase in bonded indebtedness beyond seven percent (7%) of assessed valuation of property in the District. This limitation is capped when the District's bonded indebtedness is ten percent (10%) (or greater) of the District's assessed valuation which would result in an annual M&O Tax rate not to exceed $1.20. Lastly, the Texas Attorney General in reviewing the District's transcript of proceedings will allow the District to reduce the amount of its outstanding bonded indebtedness by the amount of funds (on a percentage basis) that the District receives in State assistance for the repayment of this bonded indebtedness (For example, if the District anticipates that it will pay 75% of its bonded indebtedness from State assistance, for the purposes of Article 2784e-1, the Texas Attorney General will assume that only 25% of the District's bonded indebtedness is outstanding and payable from local ad valorem taxes). The bonded indebtedness of the District after the issuance of the Bonds will be approximately 5.08% (3.28% after application of State financial assistance) of

the District's current taxable assessed valuation of property. (See "Table 1 – Valuation, Exemptions and Tax Supported Debt" included in "SELECTED FINANCIAL INFORMATION OF THE DISTRICT" attached hereto as Appendix A.)

The maximum tax rate per $100 of assessed valuation that may be adopted by the District may not exceed the lesser of (A) $1.50, or such lower rate as described in the preceding paragraph, and (B) the sum of (1) the rate of $0.17, and (2) the product of the "State compression percentage" multiplied by $1.50. The State compression percentage was 66.67% for fiscal years 2007-08 and 2008-09. For fiscal year 2009-10 and thereafter, the Commissioner is required to determine the State compression percentage for each fiscal year which is based on the amount of State funds appropriated for distribution to the District for the current fiscal year. For fiscal year 2009-10, the Commissioner has determined to maintain the State compression percentage at 66.67%. For a more detailed description of the State compression percentage, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – General". Furthermore, a school district cannot annually increase its tax rate in excess of the district's "rollback tax rate" without submitting such tax rate to a referendum election and a majority of the voters voting at such election approving the adopted rate. (See "TAX INFORMATION – Public Hearing and Rollback Tax Rate.")

A school district is also authorized to issue bonds and levy taxes for payment of bonds subject to voter approval of a proposition submitted to the voters under Section 45.003(b)(1), Texas Education Code, as amended, which provides a tax unlimited as to rate or amount for the support school district bonded indebtedness. (See "THE BONDS – Security and Source of Payment".)

Chapter 45 of the Texas Education Code, as amended, requires a district to demonstrate to the Texas Attorney General that it has the prospective ability to pay debt service on a proposed issue of bonds, together with debt service on other outstanding "new debt" of the district, from a tax levied at a rate of $0.50 per $100 of assessed valuation before bonds may be issued. In demonstrating the ability to pay debt service at a rate of $0.50, a district may take into account State allotments to the district which effectively reduces the district's local share of debt service. Once the prospective ability to pay such tax has been shown and the bonds are issued, a district may levy an unlimited tax to pay debt service. Taxes levied to pay debt service on bonds approved by district voters at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds) are not subject to the foregoing threshold tax rate test. In addition, taxes levied to pay refunding bonds issued pursuant to Chapter 1207, Texas Government Code, are not subject to the $0.50 tax rate test; however, taxes levied to pay debt service on such bonds are included in the calculation of the $0.50 tax rate test as applied to subsequent issues of "new debt." The Bonds are issued as refunding bonds pursuant to Chapter 1207, as amended, Texas Government Code, and are, therefore, not subject to the $0.50 threshold tax rate test. Under current law, a district may demonstrate its ability to comply with the $0.50 threshold tax rate test by applying the $0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a district uses projected future taxable values to meet the $0.50 threshold tax rate test and subsequently imposes a tax at a rate greater than $0.50 per $100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Attorney General must find that the district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the $0.50 threshold tax rate test from a tax rate of $0.45 per $100 of valuation. The District has not used projected property values to satisfy this threshold test.

Public Hearing and Rollback Tax Rate

In setting its annual tax rate, the governing body of a school district generally cannot adopt a tax rate exceeding the district's "rollback tax rate" without approval by a majority of the voters voting at an election approving the higher rate. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures and (2) a rate for debt service. For the 2007-08 fiscal year and thereafter, the rollback tax rate for a school district is the lesser of (A) the sum of (1) the product of the district's "State compression percentage" for that year multiplied by $1.50, (2) the rate of $0.04, (3) any rate increase above the rollback tax rate in prior years that were approved by voters, and (4) the district's current debt rate, or (B) the sum of (1) the district's effective M&O Tax rate, (2) the product of the district's State compression percentage for that year multiplied by $0.06; and (3) the district's current debt rate. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – General" for a description of the "State compression percentage." If for the preceding tax year, a district adopted an M&O Tax rate that was less than its effective M&O Tax rate for that preceding tax year, the district's rollback tax for the current year is calculated as if the district had adopted an M&O Tax rate for the preceding tax year equal to its effective M&O Tax rate for that preceding tax year.

The "effective maintenance and operations tax rate" for a school district is the tax rate that, applied to the current tax values, would provide local maintenance and operating funds, when added to State funds to be distributed to the district pursuant to Chapter 42 of the Texas Education Code for the school year beginning in the current tax year, in the same amount as would have been available to the district in the preceding year if the funding elements of wealth equalization and State funding for the current year had been in effect for the preceding year.

Section 26.05 of the Property Tax Code provides that the governing body of a taxing unit is required to adopt the annual tax rate for the unit before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the taxing unit, and a failure to adopt a tax rate by such required date will result in the tax rate for the taxing unit for the tax year to be the

lower of the effective tax rate calculated for that tax year or the tax rate adopted by the taxing unit for the preceding tax year. Before adopting its annual tax rate, a public meeting must be held for the purpose of adopting a budget for the succeeding year. A notice of public meeting to discuss budget and proposed tax rate must be published in the time, format and manner prescribed in Section 44.004 of the Texas Education Code. Section 44.004(e) of the Texas Education Code provides that a person who owns taxable property in a school district is entitled to an injunction restraining the collection of taxes by the district if the district has not complied with such notice requirements or the language and format requirements of such notice as set forth in Section 44.004(b), (c) and (d) and if such failure to comply was not in good faith. Section 44.004(e) further provides the action to enjoin the collection of taxes must be filed before the date the district delivers substantially all of its tax bills.

A district may adopt its budget after adopting a tax rate for the tax year in which the fiscal year covered by the budget begins if the district elects to adopt its tax rate before receiving the certified appraisal roll. A district that adopts a tax rate before adopting its budget must hold a public hearing on the proposed tax rate followed by another public hearing on the proposed budget rather than holding a single hearing on the two items.

Property Assessment and Tax Payment

Property within the District is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of a valuation process which uses an average of the daily price of oil and gas for the prior year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first installment due on February 1 of each year and the final installment due on August 1.

Penalties and Interest

Charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

Month	Cumulative Penalty	Cumulative Interest	Total
February	6%	1%	7%
March	7%	2%	9%
April	8%	3%	11%
May	9%	4%	13%
June	10%	5%	15%
July	12%	6%	18%

In addition, the Board has approved a resolution initiating an additional 20% penalty to defray attorney costs in the collection of delinquent taxes over and above the penalty automatically assessed under the Property Tax Code. Interest continues to accrue after August 1 at the rate of 1% per month until paid.

Taxes levied by the District are a personal obligation of the owner of the property. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each taxing unit, including the District, having the power to tax the property. The District's tax lien is on a parity with tax liens of all other such taxing units. A tax lien on real property has priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty and interest. At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. The ability of the District to collect delinquent taxes by foreclosure may be adversely affected by the amount of taxes owed to other taxing units, adverse market conditions, taxpayer redemption rights, or bankruptcy proceedings which restrain the collection of a taxpayer's debt. Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

Property Tax Code as Applied to the San Antonio Independent School District

The Appraisal District has the responsibility for appraising the majority of the property in the District as well as other taxing units in Bexar County. The Appraisal District is governed by a board of five directors appointed by voters of the governing bodies of various Bexar County political subdivisions. The District's taxes are collected by the Bexar County Tax Assessor/Collector.

The District grants a State mandated $15,000 general residence homestead exemption.

The District grants a State mandated $10,000 residence homestead exemption for persons 65 years of age or older or the disabled.

The District grants a State mandated residence homestead exemption for disabled veterans ranging from $5,000 to $12,000.

See Table 1 included in Appendix A hereto for a listing of the amounts of the exemptions described above.

Ad valorem taxes are not levied by the District against the exempt value of residence homesteads for the payment of debt.

The District taxes freeport property.

The Board has adopted a resolution that authorized the District's continued taxation of goods-in-transit for the 2008 tax year and beyond.

The District does not grant any tax abatements.

The District does not tax nonbusiness personal property.

TAX MATTERS

The Bonds

Tax Exemption. The delivery of the Bonds is subject to the opinion of Escamilla, Poneck & Cruz, LLP, San Antonio, Texas ("Bond Counsel"), to the effect that interest on the Bonds for federal income tax purposes (1) is excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), of the owners thereof pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereafter described, corporations. The statute, regulations, rulings, and court decisions on which such opinion is based are subject to change. The form of the opinion of Bond Counsel concerning the excludability of interest on the Bonds for federal income tax purposes is attached hereto as APPENDIX D.

Interest on all tax-exempt obligations, including the Bonds, owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust (REIT), a financial asset securitization investment trust (FASIT), or a real estate mortgage investment conduit (REMIC). A corporations' alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code will be computed.

In rendering the foregoing opinion, Bond Counsel will rely upon the report by Grant Thornton LLP, Minneapolis, Minnesota, described herein under the subcaption "OTHER INFORMATION – Verification of Arithmetical and Mathematical Computations," and the District certifications of the District made in a certificate of even date with the initial delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance with the provisions of the Order by the District subsequent to the issuance of the Bonds. The Order contains covenants by the District with respect to, among other matters, the use of the proceeds of the Bonds and the facilities and equipment financed or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, if required, the calculation and payment to the United States Treasury of any arbitrage "profits" and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of, the Bonds.

Bond Counsel's opinion is based on existing law, which is subject to change. Such opinion is further based on Bond Counsel's knowledge of facts as of the date hereof. Bond Counsel assumes no duty to update or supplement its opinion to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinion is not a guarantee of result and is not binding on the Service; rather, such opinion represents Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinion. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures, the Service is likely to treat the District as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds regardless of the ultimate outcome of the audit.

Federal Income Tax Considerations

Tax Accounting Treatment of Original Issue Premium. The issue price of all or a portion of the Bonds may exceed the stated redemption price payable at maturity of such Bonds. Such Bonds (the "Premium Bonds") are considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis of a Premium Bond in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Bond in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Bond by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined using the yield to maturity on the Premium Bond based on the initial offering price of such Bond.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Premium Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of amortized bond premium upon the redemption, sale or other disposition of a Premium Bond and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and sale, redemption or other disposition of such Premium Bonds.

Tax Accounting Treatment of Original Issue Discount. The issue price of all or a portion of the Bonds may be less than the stated redemption price payable at maturity of such Bonds (the "Original Issue Discount Bonds"). In such case, the difference between (i) the amount payable at the maturity of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Bonds. Generally, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussions regarding interest on the Bonds under the captions "TAX MATTERS – The Bonds – Tax Exemption", "TAX MATTERS – Federal Income Tax Considerations", and "TAX MATTERS – Additional Tax Consequences" generally applies, and should be considered in connection with the discussion in this portion of the Official Statement.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

The foregoing discussion assumes that (i) the Underwriters have purchased the Bonds for contemporaneous sale to the public and (ii) all of the Original Issue Discount Bonds have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the cover page of this Official Statement. Neither the District nor Bond Counsel has made any investigation or offers any comfort that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions.

Under existing law, the original issue discount on each Original Issue Discount Bond accrues daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (i) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (ii) the amounts payable as current interest during such accrual period on such Bond.

The federal income tax consequences of the purchase, ownership, and redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds

Additional Tax Consequences

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively connected earnings and profits, including tax-exempt interest such as interest on the Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Bonds should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year.

CONTINUING DISCLOSURE OF INFORMATION

In the Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually and timely notice of specified material events to the MSRB. The information provided to the MSRB will be available to the public free of charge via the EMMA system through an internet website accessible at www.emma.msrb.org.

Annual Reports

The District will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in Appendix A to this Official Statement (with the exception of Table 7) and in Appendix C. The District will update and provide this information within six months after the end of each Fiscal Year ending in or after 2011. The District will provide the updated information to the MSRB in an electronic format, which will be available through EMMA to the general public without charge.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by Rule 15c2-12. The updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial statements by the required time and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix C or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation.

The District's current fiscal year end is August 31. Accordingly, it must provide updated information by the last day of February in each year following the end of its fiscal year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Material Event Notices

The District will file with the MSRB notice of any of the following events with respect to the Bonds in a timely manner (and not more than 10 business days after occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the federal income tax status of the Bonds, or other material events affecting the tax–exempt status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material. Neither the Bonds nor the Order make any provision for debt service reserves, credit enhancement (except for the guarantee of the Texas Permanent School Fund) or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The District will provide each notice described in this paragraph to the MSRB.

For these purposes, any event described in the immediately preceding paragraph (12) 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 United States 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 governing 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.

Availability of Information

Effective July 1, 2009 (the "EMMA Effective Date"), the SEC implemented amendments to Rule 15c2-12 which approved the establishment by the MSRB of EMMA, which is now the sole successor to the national municipal securities information repositories with respect to filings made in connection with undertakings made under Rule 15c2-12 after the EMMA Effective Date. Commencing with the EMMA Effective Date, all information and documentation filing required to be made by the District in accordance with its undertaking made for the Bonds will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB.

With respect to debt of the District issued prior to the EMMA Effective Date, the District remains obligated to make annual required filings, as well as notices of material events, under its continuing disclosure obligations relating to those debt obligations (which includes a continuing obligation to make such filings with the Texas state information depository (the "SID")). Prior to EMMA Effective Date, the Municipal Advisory Council of Texas (the "MAC") had been designated by the State and approved by the SEC staff as a qualified SID. Subsequent to the EMMA Effective Date, the MAC entered into a Subscription Agreement with the MSRB pursuant to which the MSRB makes available to the MAC, in electronic format, all Texas-issuer continuing disclosure documents and related information posted to EMMA's website simultaneously with such posting. Until the District receives notice of a change in this contractual agreement between the MAC and EMMA or of a failure of either party to perform as specified thereunder, the District has determined, in reliance on guidance from the MAC, that making its continuing disclosure filings solely with the MSRB will satisfy its obligations to make filings with the SID pursuant to its continuing disclosure agreements entered into prior to the EMMA Effective Date.

Limitations and Amendments

The District has agreed to update information and to provide notices of material events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The District may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with Rule 15c2-12, taking into account any amendments or interpretations of Rule 15c2-12 to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the registered owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of Rule 15c2-12 are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the District so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

During the past five years, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with Rule 15c2-12.

Due to the recalibration of municipal credit ratings recently completed by Moody's Investors Service, Inc. ("Moody's") and Fitch Ratings ("Fitch"), the District received from Moody's and Fitch on April 23, 2010 and April 30, 2010, respectively, notice of a change in its unenhanced unlimited ad valorem tax-supported indebtedness rating to "Aa2" from "A1" and to "AA" from

"AA-", respectively. (See "OTHER INFORMATION – Ratings" herein). On April 29, 2010 and May 12, 2010, respectively, the District filed notices of these material events with the MSRB through EMMA.

INVESTMENT AND FINANCIAL POLICIES

Investments

General. The District invests its investable funds in investments authorized by State law in accordance with investment policies approved by the Board of the District. Both State law and the District's investment policies are subject to change. A statement of the District's current investments is included in Appendix A attached hereto.

Legal Investments. Under State law, the District is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies or instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) collateralized mortgage bonds directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent, (6) certificates of deposit that are guaranteed or insured by the Federal Deposit Insurance Corporation or are secured as to principal by obligations described in the preceding clauses or in any other manner and amount provided by law for District deposits, (7) certificates of deposit and share certificates issued by a state or federal credit union domiciled in the State of Texas that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in the clauses (1) through (5) or in any other manner and amount provided by law for District deposits, (8) fully collateralized repurchase agreements that have a defined securities dealer or a financial institution doing business in the State of Texas, (9) bankers' acceptance with a remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency, (10) commercial paper that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that provides the investing entity with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that has a dollar weighted average portfolio maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share, and (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invests exclusively in bonds described in the preceding clauses; and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent, (13) obligations issued, assumed, or guaranteed by the State of Israel, and (14) guaranteed investment contracts secured by obligations of the United States of America or its agencies and instrumentalities, other than the prohibited obligations described in the next succeeding paragraph.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAA-m" or an equivalent by at least one nationally recognized rating service. The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Investment Policies. Under State law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for District funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under State law, District investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the investment officers of the District will submit an investment report detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset

at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) State law. No person may invest District funds without express written authority from the Board of the District.

Additional Provisions. Under State law, the District is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt an order or resolution stating that it has reviewed its investment policy and investment strategies and record any changes made to either its investment policy or investment strategy in the said order or resolution on an annual basis, (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the Board; (4) require the qualified representative of firms offering to engage in an investment transaction with the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the District and the business organization that are not authorized by the District's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the District's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the District and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the District's investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in mutual funds in the aggregate to no more than 15% of the entity's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the District.

For a description of the District's current investments, see "Table 13 – Current Investments" in Appendix A attached hereto.

Financial Policies

Basis of Accounting. The accounting policies of the District substantially comply with the rules prescribed in Bulletin 679, Financial Accounting Manual, by the Texas Board of Education. These accounting policies conform to generally accepted accounting principles applicable to governments. (See "SAN ANTONIO INDEPENDENT SCHOOL DISTRICT ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED AUGUST 31, 2010" attached hereto as Appendix C.)

General Fund Balance. The District has established a policy that the balance of the General Fund provide for a contingency fund that will allow the District to maintain financial and program stability and flexibility. The unreserved undesignated fund balance should be sufficient to cover anticipated normal operating cash flow deficits and should provide additional protection for possible budgeted revenue and expenditure variances.

The policy further states that a threshold of no less than 10% of the prior fiscal year's total expenditures as a minimum unreserved undesignated fund balance be established to ensure that revenue and expenditure fluctuations do not place the District in jeopardy of dropping into a negative cash flow position.

Budgetary Procedures. District budget planning is an integral part of overall program planning so that the budget effectively reflects the District's programs and activities and provides the resources to implement them. In the budget planning process, general educational goals, specific program goals, and alternatives for achieving program goals are considered by the District, as well as input from the District and campus-level planning and decision-making committees. Preliminary end-of-year financial projections are to be provided by appropriate District personnel and considered as part of the budget process. Budget planning and evaluation are continuous processes and are to be a part of each month's activities.

Once adopted, the budget provides authority to expend funds for the purposes indicated and in accordance with State law, Board policy, and the District's approved purchasing procedures. The expenditure of funds are made under the direction of the Superintendent of Schools or his designee who ensures that funds are expended in accordance with the adopted budget.

District policy requires that the then-current budget be amended when a change is made to a fund balance.

A monthly statement showing budget appropriations, expenditures for the current month and for the year-to-date, together with a statement of receipts and the balances in the several funds, are presented to the Board.

EMPLOYEE RETIREMENT PLAN, OTHER POST-EMPLOYMENT BENEFITS, HEALTHCARE, AND WORKERS COMPENSATION LIABILITY

The District's employees participate in a retirement plan (the "Plan") with the State of Texas. The Plan is administered by the Teacher Retirement System of Texas ("TRS"). State contributions are made to cover costs of the TRS retirement plan up to certain statutory limits. The District is obligated for a portion of TRS costs relating to employee salaries that exceed the statutory

limit. For the year ended August 31, 2010, the State contributed $14,173,032 to TRS on behalf of the District's employees and the District paid additional State contributions of $7,043,909. Aside from the District's contribution to TRS, the District has no pension fund expenditures or liabilities. The District generally does not offer any post-employment retirement benefits and has no liabilities for "Other Post Employment Retirement Benefits" as defined in GASB Statement No. 45. For a discussion of the TRS retirement plan, see "Note F – Retiree Health Plan" to the audited financial statements of the District that are attached hereto as Appendix C (the "Financial Statements").

During the year ended August 31, 2010, District employees were covered by one of four health insurance plans, selected at their option. The District contributed between $345.50 and $403.10 per month, per employee, for medical coverage. The District also contributed $17.43 per month, per employee, for dental coverage. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. (See "Note B – Health and Dental Care Insurance" of the Financial Statements.)

Formal collective bargaining agreements relating directly to wages and other conditions of employment are prohibited by State law, as are strikes by teachers. There are various local, state and national organized employee groups who engage in efforts to better terms and conditions of employment of school employees. Some districts have adopted a policy to consult with employer groups with respect to certain terms and conditions of employment. Some examples of these groups are the Texas State Teachers Association, the Texas Classroom Teachers Association, the Association of Texas Professional Educators and the National Education Association.

The District maintains a workers' compensation program on behalf of its employees, under which it provides coverage in an amount equal to $350,000 per claim. For claims in excess of this amount, the District maintains commercial insurance. No settlements in excess of program coverage have occurred in any of the last three fiscal years. Under this program, the District had a total claims liability of $8,808,571 as of August 31, 2010. This represented an increase from the total liability of $6,113,969 as of August 31, 2009. The District anticipates addressing this liability through the budget process over time. For more information on the District's workers' compensation program, see "Note H – Other Long-Term Debt" of the Financial Statements.

OTHER INFORMATION

Ratings

Fitch Ratings ("Fitch") and Moody's Investors Service, Inc. ("Moody's") have rated the Bonds "AAA" and "Aaa", respectively, by virtue of the Permanent School Fund guarantee relating thereto. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.) Fitch and Moody's have also rated the Bonds "AA" and "Aa2", respectively, without regard to credit enhancement The ratings from Moody's and Fitch represent changes from "A1" and "AA-", respectively, received on April 23, 2010, and April 30, 2010, respectively, as a result of such rating agencies recalibrating their respective rating scales for municipal debt. (See "CONTINUING DISCLOSURE OF INFORMATION – Compliance with Prior Undertakings" herein.) The District has not applied to Standard & Poor's Rating Services, a Standard & Poor's Financial Services LLC business, for a contract rating on the Bonds.

An explanation of the significance of such a rating may be obtained from Fitch and Moody's. The ratings of the Bonds by Fitch and Moody's reflect only the view of such companies at the time the ratings are given, and the District makes no representations as to the appropriateness of the ratings. There is no assurance that the ratings will continue for any given period of time, or that the ratings will not be revised downward or withdrawn entirely by Fitch or Moody's, if in their sole and absolute judgment, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

Litigation

On the date of delivery of the Bonds to the Underwriters, the District will execute and deliver to the Underwriters a certificate to the effect that, except as disclosed herein, no litigation of any nature has been filed or is pending, as of that date, to restrain or enjoin the issuance or delivery of the Bonds or which would affect the provisions made for their payment or security or in any manner question the validity of the Bonds.

Except as may be disclosed elsewhere in this Official Statement, the District is not a party to any litigation or other pending, or to its knowledge, threatened litigation in any court, agency or other administrative body (either state or federal) which, if decided adversely to the District, would have a material adverse effect on the financial statements of the District.

Registration and Qualification of Bonds for Sale

The sale of the Bonds has not been registered under the federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2) thereof; and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any jurisdiction. The District assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in

which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds will not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

Legal Investments and Eligibility to Secure Public Funds in Texas

Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds constitute negotiable instruments, and are investment securities governed by Chapter 8, Texas Uniform Commercial Code, notwithstanding any provisions of law or court decision to the contrary, and are legal and authorized investments for banks, savings banks, trust companies, building and loan associations, savings and loan associations, insurance companies, fiduciaries, and for the sinking funds of cities, towns, villages, school districts, and other political subdivisions or public agencies of the State of Texas. The Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Bonds may have to be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. (See "OTHER INFORMATION – Ratings" herein.) In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least $1 million of capital, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

The District has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bond for such purposes. The District has made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

Legal Matters

The District will furnish a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without limit as to rate or amount, upon all taxable property in the District, the legal opinion of Escamilla, Poneck & Cruz, LLP, San Antonio, Texas, Bond Counsel, a copy of the proposed form of which is attached as Appendix D hereto, to the effect that the Bonds are valid and legally binding obligations of the District, are payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District, except to the extent the enforceability of the Bonds may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights and general principles of equity that permit the exercise of judicial discretion and that the interest on the Bonds is exempt from federal income taxation under existing statutes, published rulings, regulations, and court decisions. (See "TAX MATTERS" herein.) Though it represents the Financial Advisor and the Underwriters from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the District in connection with the issuance of the Bonds. Except as noted below, Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein. In its capacity as Bond Counsel, such firm has reviewed the information appearing under captions or subcaptions "THE BONDS" (except for information contained in the subheadings "Permanent School Fund Guarantee," "Payment Record," "Book-Entry-Only System," and "Bondholders' Remedies," as to which no opinion is expressed), "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" (except for information contained in the subheading "Possible Effects of Wealth Transfer Provisions on the District's Financial Condition", as to which no opinion is expressed), "TAX MATTERS," "CONTINUING DISCLOSURE OF INFORMATION" (except under the subheading "Compliance with Prior Undertakings," as to which no opinion is expressed), "OTHER INFORMATION – Litigation", "OTHER INFORMATION – Registration and Qualification of Bonds for Sale," "OTHER INFORMATION – Legal Investments and Eligibility to Secure Public Funds in Texas," and "OTHER INFORMATION – Legal Matters" (except for the last sentence of the first paragraph thereof, as to which no opinion is expressed), in the Official Statement and such firm is of the opinion that the information relating to the Bonds and the Order contained under such captions is a fair and accurate summary of the information purported to be shown and that the information and descriptions contained under such captions relating to the provisions of applicable state and federal laws are correct as to matters of law. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. The legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon by the Underwriters by their co-counsel, Fulbright & Jaworski L.L.P., Shelton & Valadez, P.C., and the Law Office of Manuel G. Escobar, all of San Antonio, Texas, whose compensation is contingent upon the sale and delivery of the Bonds.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorney rendering the opinion as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney

does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Authenticity of Financial Data and Other Information

The financial data and other information contained hereunder have been obtained from the District's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and orders contained in this Official Statement are made subject to all of the provisions of such statutes, documents and orders. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

Verification of Arithmetical and Mathematical Computations

The arithmetical accuracy of certain computations included in the schedules provided by Sterne, Agee & Leach, Inc. on behalf of the District was examined by Grant Thornton LLP, Minneapolis, Minnesota, certified public accountants (the "Accountants"). Such computations were based solely on assumptions and information supplied by Sterne, Agee & Leach, Inc. on behalf of the District. The Accountants have restricted their procedures to examining the arithmetical accuracy of certain computations and have not made any study or evaluation of the assumptions and information on which the computations are based, and accordingly, have not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome. The Accountants will verify from the information provided to them the mathematical accuracy as of the date of the closing on the Bonds of (i) the computations contained in the provided schedules to determine that the anticipated receipts from the Federal Securities and cash deposits listed in the schedules provided by Sterne, Agee & Leach, Inc., to be held in the Escrow Fund, will be sufficient to pay, when due, the principal and interest requirements of the Refunded Bonds, and (ii) the computations of yield on both the Federal Securities and the Bonds contained in the provided schedules used by Bond Counsel in its determination that the interest on the Bonds is excludable from the gross income of the holders thereof and the effective defeasance of the Refunded Bonds.

Financial Advisor

Sterne, Agee & Leach, Inc. is employed as Financial Advisor to the District in connection with the issuance of the Bonds. Sterne, Agee & Leach, Inc., in its capacity as Financial Advisor, has relied on the opinion of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants, and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Financial Advisor has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the District and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

Underwriting

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the District at the prices indicated on the inside front cover hereof less an underwriting discount of $559,136.33 from the initial public offering prices for the Bonds, and no accrued interest.

The Underwriters' obligation is subject to certain conditions precedent. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such offering prices, and such public prices may be changed, from time to time, by the Underwriters.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

Forward Looking Statements

The statements contained in this Official Statement, and in any other information provided by the District, that are not purely historical, are forward-looking statements, including statements regarding the District's expectations, hopes, intentions, or strategies regarding the future.

Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the District on the date hereof, and the District assumes no obligation to

update any such forward-looking statements. It is important to note that the District's actual results could differ materially from those in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the District. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

Approval of Official Statement

The Order also approves the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Bonds by the Underwriters. The Official Statement has been approved by the Board for distribution in accordance with provisions of Rule 15c2-12 of the United States Securities and Exchange Commission.

SAN ANTONIO INDEPENDENT SCHOOL DISTRICT

/s/ Mr. James Howard
President, Board of Trustees

ATTEST:

/s/ Mr. Thomas López
Secretary, Board of Trustees

SCHEDULE I

TABLE OF BONDS REFUNDED

Series	Maturity Date (8/15)	Interest Rate (%)	Par Amount ($)	Call Date	Call Price
San Antonio Independent School District Unlimited Tax Refunding Bonds, Series 2001B	2011 (PCAB)	11.000	970,221.00	--	--
	2012	5.375	200,000.00	08/15/2011	100.00
	2013	5.375	5,760,000.00	08/15/2011	100.00
	2014	5.375	6,065,000.00	08/15/2011	100.00
	2015	5.375	6,390,000.00	08/15/2011	100.00
	2016	5.375	6,735,000.00	08/15/2011	100.00
	2017	5.375	7,095,000.00	08/15/2011	100.00
	2018	5.375	7,475,000.00	08/15/2011	100.00
	2024[1]	5.125	1,060,000.00	08/15/2011	100.00
	2026[1]	5.000	22,265,000.00	08/15/2011	100.00
	2029[1]	5.375	37,890,000.00	08/15/2011	100.00

[1] Term Bonds.

APPENDIX A
SELECTED FINANCIAL INFORMATION OF THE DISTRICT

Table 1 - Valuation, Exemptions, and Tax-Supported Debt

2010-2011 Market Valuation Established by Bexar Appraisal District (excluding totally exempt property)		**$ 13,755,258,090**
Less: Exemptions/Reductions at 100% Market Value:		
Residential Homestead Exemptions (State Mandated)	743,652,642	
Productivity Loss	9,228,379	
Over 65 or Disabled Homestead Exemptions	213,897,970	
Disabled Veterans or Deceased Survivors' Exemptions	53,820,854	
Disabled Residential Homestead Exemptions	30,645,963	
Freeport Exemption	190,464,640	
Cap Exemption	74,509,115	
Freeze Value Loss	619,693,288	
Other	19,759,571	
Total Exemptions/Reductions		**(1,955,672,422)**
Taxable Assessed Valuation		**$ 11,799,585,668**
Debt Payable from Ad Valorem Taxes (as of December 31, 2010)		
Unlimited Tax Bonds[1]	600,435,178	
The Refunded Bonds[2]	(101,905,221)	
The Bonds	99,085,000	
Debt Payable from Ad Valorem Taxes before Application of Offsets		**$ 597,614,957**
Less: Ad Valorem Tax Debt Offsets		
Instructional Facilities Allotment (IFA) & Tier III Allotment (EDA)[3]	172,890,007	
Interest and Sinking Fund as of August 31, 2010	38,433,403	
Total Ad Valorem Tax Debt Offsets		(211,323,410)
Net Debt Payable from Ad Valorem Taxes		**$ 386,291,547**

Ratio Tax Supported Debt to Taxable Assessed Valuation	5.06%
Ratio Tax Supported Debt to Taxable Assessed Valuation After State Assistance	3.27%

Estimated Population - 2010	321,367
Per Capita Taxable Assessed Valuation:	36,717
Per Capita Debt Payable from Ad Valorem Taxes:	1,202

(1) Includes the Refunded Bonds; excludes the Bonds.
(2) Includes accreted value of Refunded Bonds structured as premium capital appreciation bonds.
(3) The District currently receives approximately 28.93% in debt payment assistance from the State through the Texas Education Agency's Instructional Facilities Allotment ("IFA") and its Existing Debt Allotment (Tier III) ("EDA") programs, as provided by Chapter 46, Texas Education Code, as amended. (See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement.) The amount of State aid for debt service may substantially differ from year to year, depending on a number of factors, including amounts, if any, appropriated for that purpose by the Texas Legislature from time to time.

Table 2 - Taxable Assessed Valuations by Category (Certified Values Only)

	Taxable Appraised Value for Fiscal Year Ended August 31					
	2011		2010		2009	
Category	Amount ($)	% of Total	Amount ($)	% of Total	Amount ($)	% of Total
Real Estate						
Single-Family	6,088,820,982	44.3	6,161,545,812	43.2	6,188,233,938	43.5
Real, Residential, Multi-Family	806,056,908	5.9	842,580,800	5.9	831,848,228	5.8
Real, Vacant Lots/Tracts	183,798,075	1.3	194,143,105	1.4	182,925,950	1.3
Rural (Acreage, Farm/Ranch Improvements	32,091,611	0.2	32,688,525	0.2	33,690,979	0.2
Commercial & Industrial	4,531,426,124	32.9	4,778,068,540	33.5	4,797,989,790	33.7
Utilities (Real & Personal)	203,265,050	1.5	209,572,500	1.5	216,420,870	1.5
Personal						
Commercial	1,363,691,369	9.9	1,457,335,987	10.2	1,386,690,786	9.7
Industrial	502,083,203	3.7	539,772,680	3.8	539,106,380	3.8
Other[1]	44,024,768	0.3	47,311,328	0.3	58,834,403	0.4
Total Appraised Value Before Exemptions	13,755,258,090	100.0	14,263,019,277	100.0	14,235,741,324	100.0
Less: Total Exemptions/Reductions[2]	1,955,672,422		2,086,406,077		2,246,964,563	
Total Taxable Assessed Value	11,799,585,668		12,176,613,200		11,988,776,761	

	Taxable Appraised Value for Fiscal Year Ended August 31			
	2008		2007	
Category	Amount ($)	% of Total	Amount ($)	% of Total
Real Estate				
Single-Family	5,777,041,595	44.8	5,175,278,268	45.2
Real, Residential, Multi-Family	773,267,609	6.0	643,424,637	5.6
Real, Vacant Lots/Tracts	180,485,573	1.4	142,920,447	1.2
Rural (Acreage, Farm/Ranch Improvements	31,969,709	0.2	32,148,987	0.3
Commercial & Industrial	3,980,674,957	30.8	3,430,135,416	30.0
Utilities (Real & Personal)	244,410,723	1.9	236,540,930	2.1
Personal				
Commercial	1,334,698,802	10.3	1,188,669,141	10.4
Industrial	537,718,610	4.2	551,907,020	4.8
Other[1]	43,638,263	0.3	39,633,948	0.3
Total Appraised Value Before Exemptions	12,903,905,841	100.0	11,440,658,794	100.0
Less: Total Exemptions/Reductions[2]	2,164,350,293		1,918,279,171	
Total Taxable Assessed Value	10,739,555,548		9,522,379,623	

Note: Valuations shown are certified taxable assessed values reported by the Bexar Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

[1] Includes values from mobile homes, real property inventory, and uncertified real and personal property.

[2] Includes value loss to state mandated over 65 tax freeze.

Table 3 - Valuation and Tax Debt History

Fiscal Year Ended 8/31	Estimated District Population[1]	Taxable Assessed Valuation ($)[2]	Per Capita Taxable Assessed Valuation ($)	Unlimited Tax Debt Outstanding at End of Fiscal Year ($)	Ratio of Tax Supported Debt to Taxable Assessed Valuation (%)	Tax Support Debt per Capita ($)
2007	322,114	9,522,379,623	29,562	500,304,561	5.25%	1,553.19
2008	313,001	10,739,555,548	34,312	479,804,561	4.47%	1,532.92
2009	297,421	11,988,776,761	40,309	462,974,561	3.86%	1,556.63
2010	321,367	12,176,613,200	37,890	448,985,178	3.69%	1,397.11
2011	321,367	11,799,585,668	36,717	589,244,766 [3]	4.99% [3]	1,833.56 [3]

(1) Source: District staff.
(2) As reported by the Bexar Appraisal District on District's annual certified totals; subject to change for fiscal year end 2011.
(3) Includes the Bonds and excludes the Refunded Bonds. Excludes IFA and EDA assistance. See footnote 3 to Table 1 entitled "Valuation, Exemptions, and Tax-Supported Debt".

Table 4 - Tax Rate, Levy, and Collection History

	Taxing Purposes					
Fiscal Year Ended (8/31)	Local Maintenance ($)	Debt Service ($)	Total Tax Rate ($)	Total Tax Levy ($)	Current Collections (%)	Total Collections (%)
2007[1]	1.3700	0.2097	1.5797	150,425,031	96.83%	99.70%
2008[1]	1.0400	0.2097	1.2497	134,212,226	96.81%	99.57%
2009	1.0400	0.2097	1.2497	149,823,743	96.92%	98.91%
2010	1.0400	0.2097	1.2497	152,171,135	96.35%	97.81%
2011	1.0400	0.2397	1.2797	150,999,298	(In Process of Collection)	

Source: San Antonio Independent School District
(1) The declines in the District's M&O Tax for the 2006/07 and 2007/08 fiscal years are a function of House Bill 1 adopted by the Texas Legislature in May 2006. (See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement.)

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Table 5 – Ten Largest Taxpayers

Name of Taxpayer	Type of Property	2009 Taxable Assessed Valuation ($)	Percentages of 2009 Total Assessed Valuation (%)
Marriott Hotel Property II LTD	Hotel	164,490,480	1.35
HEB Grocery Company LP	Retail	156,941,310	1.29
AT&T	Telephone Utility	156,761,170	1.28
Hotel Investments LP	Hotel	150,689,600	1.23
Hyatt Regency Hotel	Hotel	96,851,767	0.79
New Rivercenter Mall LP	Retail Mall	89,087,738	0.73
NMH Rivers Inc.	Hotel	80,203,290	0.66
VHS San Antonio Partners LP	Medical	78,683,610	0.64
Palacio Del Rio Inc.	Hotel	78,450,360	0.64
Silver Rio LTD Partnership	Real Estate	77,405,361	0.63
		1,129,564,686	9.25

Source: Bexar Appraisal District.

Table 6 - Tax Adequacy

2010-2011 Principal and Interest Requirements on Unlimited Tax Bonds[1]	$37,722,671
Less: Projected State Debt Payment Assistance [2]	(9,923,456)
Less: Withdrawal from Interest and Sinking Fund	-
Net Debt Service Requirements	$27,799,215
$0.2397 Tax Rate at 98.29% Collection Rate	$27,799,215

(1) Includes the Bonds and excludes the Refunded Bonds.

(2) A projection based upon receiving State of Texas payments from the IFA program and the EDA program, which is subject to annual appropriation and change. Approximately 28.93% of the District's bonds are supported with debt payment assistance funds received under the State's IFA and EDA programs.

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Table 7 - Estimated Overlapping Debt

Expenditures of the various taxing entities within the territory of the District are paid out of ad valorem taxes levied by such entities on properties within the District. Such entities are independent of the District and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax debt ("Tax Debt") was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional bonds since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the District.

Taxing Jurisdiction	Total Tax Debt ($)	As of	Estimated Overlap (%)	District's Overlapping Tax Debt ($)
Alamo Community College District	519,743,778	08/31/2010	12.40	64,448,228
Balcones Heights, City of	990,000	08/31/2010	44.93	444,807
Bexar County	879,840,000	08/31/2010	12.61	110,947,824
Bexar County Hospital District	756,795,000	08/31/2010	12.61	95,431,850
Olmos Park, City of	4,940,000	8/31/2010	5.91	291,954
San Antonio River Authority	38,235,000	06/30/2010	12.64	4,832,904
San Antonio, City of	1,300,330,000	08/31/2010	18.62	242,121,446
Total Overlapping Debt				**518,519,013**
The District[1]				$597,614,957
Total Direct and Overlapping Tax Debt				$1,116,133,969
Ratio of Direct and Overlapping Tax Debt to Taxable Assessed Valuation				9.46%
Per Capita Overlapping Tax Debt				3,473.08

Source: Municipal Advisory Council of Texas and the District.

(1) Includes the Bonds and excludes the Refunded Bonds. Excludes, also, approximately 28.93% of the currently outstanding unlimited tax bonds supported by the Texas Education Agency's IFA and EDA programs as provided by Chapter 46, as amended, Texas Education Code. See footnote 1 of Table 1 entitled "Valuations, Exemptions, and Tax-Supported Debt."

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Table 8 - Combined Tax Debt Service Requirements

Fiscal Year Ending	Current Outstanding Total Debt Service[1] ($)	Less: Refunded Bond Debt Service ($)	The Bonds			Total Debt Service ($)
			Principal ($)	Interest[2] ($)	Total ($)	
08/31/2011	42,082,064	5,489,556	-	1,130,163	1,130,163	37,722,671
08/31/2012	44,077,031	5,539,113	-	4,676,538	4,676,538	43,214,456
08/31/2013	44,092,518	11,088,363	6,010,000	4,676,538	10,686,538	43,690,693
08/31/2014	47,800,768	11,083,763	6,245,000	4,436,138	10,681,138	47,398,143
08/31/2015	47,813,297	11,082,769	6,560,000	4,123,888	10,683,888	47,414,416
08/31/2016	47,857,919	11,084,306	6,795,000	3,885,888	10,680,888	47,454,501
08/31/2017	47,883,705	11,082,300	7,115,000	3,566,138	10,681,138	47,482,542
08/31/2018	47,915,497	11,080,944	7,435,000	3,240,388	10,675,388	47,509,940
08/31/2019	47,972,801	3,359,163	-	2,946,250	2,946,250	47,559,888
08/31/2020	48,030,552	3,361,219	-	2,946,250	2,946,250	47,615,583
08/31/2021	46,588,632	3,357,763	-	2,946,250	2,946,250	46,177,120
08/31/2022	46,622,190	3,359,050	-	2,946,250	2,946,250	46,209,390
08/31/2023	46,672,413	3,359,825	-	2,946,250	2,946,250	46,258,838
08/31/2024	46,726,703	3,360,088	-	2,946,250	2,946,250	46,312,866
08/31/2025	46,788,094	14,009,838	10,665,000	2,946,250	13,611,250	46,389,507
08/31/2026	46,871,255	14,011,838	11,200,000	2,413,000	13,613,000	46,472,417
08/31/2027	46,973,052	14,011,588	11,755,000	1,853,000	13,608,000	46,569,465
08/31/2028	31,248,495	14,012,931	12,345,000	1,265,250	13,610,250	30,845,814
08/31/2029	31,244,084	14,009,606	12,960,000	648,000	13,608,000	30,842,477
08/31/2030	17,241,146	-	-	-	-	17,241,146
08/31/2031	17,234,272	-	-	-	-	17,234,272
08/31/2032	9,148,433	-	-	-	-	9,148,433
08/31/2033	9,144,979	-	-	-	-	9,144,979
08/31/2034	9,146,171	-	-	-	-	9,146,171
08/31/2035	9,146,399	-	-	-	-	9,146,399
08/31/2036	9,145,258	-	-	-	-	9,145,258
08/31/2037	9,145,067	-	-	-	-	9,145,067
08/31/2038	9,141,987	-	-	-	-	9,141,987
08/31/2039	9,145,600	-	-	-	-	9,145,600
08/31/2040	9,145,077	-	-	-	-	9,145,077
	972,045,458	167,744,019	99,085,000	56,538,676	155,623,676	959,925,115

(1) Includes the Refunded Bonds; excludes from interest calculation an amount equal to the refundable tax credit anticipated to be received by the District from the United States Department of the Treasury resulting from the District's election to treat the certain of its outstanding unlimited tax supported bonds as "build America bonds".

(2) Calculated at actual rates of interest.

Table 9 - Interest and Sinking Fund Budget Projection

Tax Supported Debt Service Requirements, Fiscal Year Ending August 31, 2011[1]		$37,722,671
Resources Available		
Interest and Sinking Fund Balance as of August 31, 2010	$38,433,403	
$0.2397 Interest and Sinking Fund Tax Levy @ 98.29% Collection	27,799,215	
Projected State Debt Payment Assistance	9,923,456	76,156,074
Projected Interest and Sinking Fund Balance as of August 31, 2011		$38,433,403

[1] Includes the Bonds; excludes the Refunded Bonds.

Table 10 - Authorized But Unissued Unlimited Tax Bonds; Other Debt Obligations

Purpose	Date Authorized	Amount Authorized	Amount Previously Issued	Amount Being Issued	Unissued Balance
Acquiring, Constructing, Renovating, Improving and Equipping School Buildings within the District	11/02/10	$515,000,000	$150,000,000	$0	$365,000,000

In addition to voted, unlimited ad valorem tax-supported bonds, the District may also enter into other financial obligations, including maintenance tax notes payable from its collection of maintenance taxes, public property finance contractual obligations, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes.

Table 11 - Other Outstanding Obligations

On December 27, 2007, the District issued its "Maintenance Tax Notes, Series 2007" for the purpose of financing the costs of school buses and to pay the costs of issuance of such notes. These notes are payable from the District's lawfully available operating funds, including (but not limited to) the District's limited maintenance and operations ad valorem tax collections. The following table evidences the District's remaining payment obligations relating to these notes:

Fiscal Year Ending 8/31	Principal Outstanding ($)	Interest Rate (%)	Total ($)
2011	715,000	3.595	883,066
2012	740,000	3.595	882,362
2013	765,000	3.595	880,759
2014	790,000	3.595	878,257
2015	820,000	3.595	879,857
2016	845,000	3.595	875,378

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Table 12 - General Fund Revenues and Expenditure History

	Fiscal Year Ending August 31				
REVENUES:	2010	2009	2008	2007	2006
Total Local and Intermediate Sources	$129,410,456	$130,376,932	$121,932,159	$139,733,985	$136,963,850
State Program Revenues	239,652,267	248,612,400	261,027,459	230,639,410	219,030,464
Federal Program Revenues	12,625,212	8,067,131	28,994,089	28,972,441	31,309,055
Total Revenues	$381,687,935	$387,056,463	$411,953,707	$399,345,836	$387,303,369
EXPENDITURES:					
Introduction	$212,365,752	$228,172,448	$231,552,700	$224,429,549	$221,977,860
Instructional Resources & Media Services	5,140,857	5,175,200	6,114,886	6,434,375	6,232,594
Curriculum & Instructional Staff Development	4,772,158	3,060,256	2,781,672	2,767,454	3,945,790
Instructional Leadership	6,209,125	5,005,667	5,992,933	4,799,583	4,775,098
School Leadership	22,245,301	21,483,188	20,850,665	20,920,920	22,223,829
Guidance, Counseling & Evaluation Services	16,057,391	15,356,424	15,065,616	15,629,476	14,704,961
Social Work Services	1,790,440	1,840,075	1,910,088	1,846,311	1,815,372
Health Services	6,457,148	5,858,475	5,588,619	5,778,749	5,315,298
Student (Pupil) Transportation	9,895,262	9,677,656	15,887,668	9,289,499	7,508,851
Food Services[1]	116,251	276,277	31,103,896	29,547,413	29,901,187
Extracurricular Activities	9,658,040	8,940,802	8,828,385	9,019,540	8,746,665
General Administration	12,684,089	13,418,615	11,933,056	12,614,732	12,647,373
Debt Service-Bond Issuance Cost & Fees	—	—	31,325	—	—
Plant Maintenance & Operations	46,774,795	44,201,412	45,209,545	44,481,128	43,670,470
Security and Monitoring Services	5,811,769	5,448,812	5,485,767	5,846,976	5,516,092
Data Processing Services	7,492,678	4,769,242	4,142,069	3,867,717	3,413,922
Community Services	1,579,829	1,198,496	1,223,840	1,437,583	2,241,376
Facilities Acquisition and Construction	3,113,446	160,570	792,273	212,857	95,320
Payment to JJAEP	68,333	77,126	59,250	92,250	69,300
Other Intergovernmental Charges	911,195	866,810	865,920	—	—
Total Expenditures	$373,143,859	$374,987,551	$415,420,173	$399,043,112	$394,801,358
Excess (Deficiency) of Revenues and Other Resources Over Expenditures and Other Uses	$8,544,076	$12,068,912	($3,466,466)	$302,724	($7,497,989)
Other Financing Sources (Uses)	—	—	—	—	—
Capital Related Debt Issued	—	—	$6,747,000	—	—
Sale of Real and Personal Property	$89,549	$744,372	$58,395	$4,133,601	$43,419
Transfers In	—	—	$3,767,935	—	—
Transfers Out (Use)	($8,285,700)	($2,869,858)	($6,733,071)	($1,209,894)	($1,210,891)
Total Other Resources and Uses	($8,196,151)	($2,125,486)	$3,840,259	$2,923,707	($1,167,472)
Net Change in Fund Balances	$347,925	$9,943,426	$373,793	$3,226,431	($8,665,461)
Fund Balance – September 1 (Beginning)	62,760,566	52,817,140[1]	52,373,111	49,146,680	57,812,141
Fund Balance – August 31 (Ending)	$63,108,491	$62,760,566	$52,746,904	$52,373,111	$49,146,680

Source: Comprehensive Annual Financial Reports of the District.

[1] See Note 1 next page

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Table 12 - General Fund Revenues and Expenditure History (cont.)

Note 1 - Beginning in 2008-09 Food Services accounted for in separate fund 240. See table below for further detail showing comparability between years.

REVENUES:	2010-Foodsvc Fund 240	2009-Foodsvc Fund 240
Total Local and Intermediate Sources	$2,540,494	$3,193,951
State Program Revenues	212,168	225,719
Federal Program Revenues	32,813,454	29,339,172
Total Revenues	$35,566,116	$32,758,842
EXPENDITURES:		
Food Services	$31,264,322	$29,616,748
General Administration	4,784	3,000
Plant Maintenance and Operations	1,406,267	1,051,671
Security and Monitoring Services	17,326	—
Facilities Acquisition and Construction	20,779	—
Total Expenditures	$32,713,478	$30,671,419
Excess (Deficiency) of Revenues and Other Resources Over Expenditures and Other Uses	$2,852,638	$2,087,423
Transfers In	$873,006	—
Total Other Resources and Uses	$873,006	—
Net Change in Fund Balances	$3,725,644	$2,087,423
Fund Balance – September 1 (Beginning)	$2,776,469	($70,236)
Fund Balance – August 31 (Ending)	$6,502,113	$2,017,187

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Table 13 - Current Investments*

As of November 30, 2010, the District's investable funds were invested as follows:

Type	Par Value ($)	Market Value ($)	Book Value ($)	% of Portfolio
Federal Agency Coupon Securities	10,000,000.00	10,015,625.00	10,000,000.00	5.78
Miscellaneous Coupon Securities	3,970,000.00	4,010,220.80	3,995,079.91	2.31
Investment Pools	59,844,195.32	59,844,195.32	59,884,195.32	34.60
Money market Funds	88,413,067.91	88,413,067.91	88,413,067.91	51.12
Bank Accounts	10,711,088.70	10,711,088.70	10,711,088.70	6.19
	172,938,351.93	172,994,197.13	172,963,431.84	100.00

* Unaudited.

As of such date, the market value of such investments (as determined by the District by reference to published quotations, dealer bids, and comparable information) was approximately 100% of their book value. No funds of the District are invested in derivative securities; i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

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APPENDIX B

GENERAL INFORMATION REGARDING THE DISTRICT

The information contained in this Appendix relating to the District is intended solely to provide certain general information concerning the District.

THE DISTRICT

The District, originally chartered by the State in 1903, now encompasses 79 square miles of densely populated, urban residential and commercial property, including shopping centers and established residential properties. The District is located in and around downtown San Antonio, in central Bexar County. The District has an estimated 2010 population of 321,367.

ENROLLMENT AND FACILITIES

For the 2010-11 school year, the District employed a staff of approximately 7,633 which includes a professional staff of approximately 4,491. Education status of the teachers and administration for prior years is as follows:

Full Time Equivalents Employees Last Six Fiscal Years

	2011	2010	2009	2008	2007	2006
Professional Staff						
Teachers	3,436.8	3,401.8	3,321.2	3,387.6	3,494.2	3,516.0
Professional Support	807.3	777.5	772.3	799.5	798.2	794.8
Campus Administration	177.9	170.8	172.0	174.0	178.6	178.7
Central Administration	69.0	70.0	65.0	70.0	66.7	66.1
Total Professional Staff	4,491.0	4,420.1	4,330.5	4,431.1	4,537.7	4,555.6
Educational Aides	898.7	821.3	855.6	915.7	942.6	950.6
Auxiliary Staff	2,243.0	2,237.8	2,153.2	2,218.2	2,279.3	2,271.5
Total Staff	7,632.7	7,479.2	7,339.3	7,565.0	7,759.6	7,777.7
Pupil to Staff Ratio	7.2	7.4	7.5	7.2	7.1	7.3
Pupil to Teacher Ratio	16.0	16.3	16.5	16.2	15.9	16.0
Student Enrollment	55,129	55,327	54,696	54,779	55,406	56,422

Source: The District.

Teacher Base Salaries Last Ten Years

Fiscal Year	Minimum Salary ($)	Maximum Salary ($)	State Minimum Salary ($)	State Maximum Salary ($)
2010-2011	43,650	54,250	27,320	44,270
2009-2010	43,025	54,098	27,320	44,270
2008-2009	41,525	52,674	27,320	44,270
2007-2008	41,525	53,253	27,320	44,270
2006-2007	41,100	53,484	27,320	44,270
2005-2006	38,200	50,410	24,820	41,770
2004-2005	38,200	51,118	24,240	40,800
2003-2004	36,500	49,788	24,240	40,800
2002-2003	36,000	49,891	24,240	40,800
2001-2002	34,000	49,099	24,240	40,800

Sources: The District; State Maximum/Minimum Salary information obtained from Texas Education Agency website.

Historical enrollment for the District is as follows:

School Year	Student Enrollment	Average Student Attendance	Attendance Percentage(%)	Expense Per Student($)[1]
2004-05	56,075.17	53,011.07	94.62%	11,435
2005-06	55,837.47	52,841.02	94.69%	10,544
2006-07	54,761.07	51,675.91	94.46%	10,700
2007-08	53,421.76	50,489.28	94.60%	11,221
2008-09	53,850.29	50,741.52	94.28%	10,704
2009-10	52,148.53	48,818.56	93.64%	*Unavailable*

Source: The District.

Enrollment by campus as of October 29, 2010:

Elementary Schools	Students
Arnold	634
Ball	553
Baskin Academy	553
Beacon Hill	525
J.T. Brackenridge Academy	675
Brewer	622
Briscoe Academy	618
Cameron	346
Collins Garden	638
Cotton	404
Crockett	814
Douglass Academy	408
De Zavala	579
Fenwick	399
Forbes	363
Foster	595
Franklin	486
Gates	265
Graebner	905
Green	306
Herff	459
Highland Hills	789
Highland Park	746
Hillcrest	565
Hirsch	556
Huppertz	457
Rodriguez	408
Japhet	506
Kelly	286
King	488
Lamar	260
Bowden	534
Madison	617
Margil	603
Maverick	676
Miller	376
Neal	579
Nelson	415
Ogden	586
Pershing	350
Riverside Park Academy	477
Rogers	689
Barkley/Ruiz Academy	516
Schenck	694
Smith	527
Steele	392
Stewart	560
Storm Academy	495
Washington	538
W. W. White	560
Wilson	507
Woodlawn	638
Woodlawn Hills	418
Total Elementary Schools	**27,955**

Middle Schools	Students
Connell	648
Davis	672
Wheatley	366
Harris Academy	808
Irving Academy	820
Longfellow	904
Lowell Academy	449
Page	462
Poe	750
Rhodes	744
Rogers	600
Twain	607
Whittier Academy	912
Tafolla	943
Total Middle Schools	**9,685**

High Schools	Students
Brackenridge	1,861
Burbank	1,426
Edison	1,737
Fox Tech	835
Highlands	1,999
Houston	808
Jefferson	1,944
Lanier	1,490
Early College High School	297
Total High Schools	**12,397**

All Girls Academy	Students
Young Women's Leadership Academy	**266**

Academy (PK-8) Schools	Students
Austin Academy	323
Bonham Academy	471
Hawthorne Academy	715
M. L. King Academy	476
Mission Academy	569
Total Academy (PK-8) Schools	**2,554**

Early Childhood Schools	Students
Carroll Early Childhood Campus	293
Carvajal Early Childhood Campus	471
Knox Early Childhood Campus	269
Tynan Early Childhood Campus	281
Total Early Childhood Schools	**1,314**

Special Campus Schools	Students
Gonzales Achievement Center - DAEP	11
Healy-Murphy	156
Santa Rosa Children's Hospital	4
Seidel Learning Center	19
Roy Maas Youth Alternative - The Bridge	17
Juvenile Detention Center	176
Children's Shelter of San Antonio	21
Pre-Kinder Healy Murphy	37
Gonzales Center - AEP	19
Navarro Academy	168
Bexar County Juvenile Justice Academy - AEP	8
Pickett Center - AEP	32
Total Special Campus Schools	**668**

TOTAL DISTRICT ENROLLMENT	**54,839**

Source: Information supplied by the District.

BEXAR COUNTY AND THE CITY OF SAN ANTONIO

Neither Bexar County, Texas (the "County") nor the City of San Antonio, Texas (the "City") has any obligation with respect to the Bonds. Information concerning the County and the City is provided for general information concerning the area of the District. The County was organized in 1836 as one of the original counties of the Republic of Texas and is the fourth largest of the 254 counties in the state of Texas. According to the U.S. Census of Population, the 2010 population of the County was 1,714,773. The County is located in south central Texas on the edge of the Balcones Escarpment and coastal plains, with the City of San Antonio as the county seat. The County has an area of approximately 1,248 square miles, and contains 22 other incorporated cities within its boundaries.

The City covers approximately 505 square miles. The City was founded in the early eighteenth century and was incorporated by the Republic of Texas in 1837, and is the county seat of the County. According to the U.S. Census of Population, the 2010 population of the City was 1,327,407. The Bureau of Census ranks the City as the second largest city in Texas and the seventh largest in the United States.

The County and the City have a diversified economic base which is composed of agribusiness, manufacturing, construction, tourism, and the South Texas Medical Center complex. The County is the site of the largest concentration of military installations in the United States. The City's proximity to Mexico provides favorable conditions for international business relations with Mexico in the areas of agriculture, tourism, manufacturing of apparel, food products, aircraft, electronics, pharmaceuticals, iron and steel products and oil well equipment. The City is also a major insurance center in the southwest, serving as the headquarters for several insurance companies, including United States Automobile Association, the nation's fifth largest private automobile insurer and the tenth largest homeowners insurer.

The military presence in the County is a principal component of the area's economy. The major installations located in the County include Fort Sam Houston, the U.S. Army Health Services Command, the U.S. Army Southern Command, Randolph Air Force Base, and the Air Force Military Training Center at Lackland Air Force Base.

The County continues to play a significant role in expanding medical service, research and development. The health care industry has an annual impact on the local economy of nearly $10 billion. There are over 101,000 medical industry employees as well as approximately 7,600 military health system employees. The South Texas Medical Center houses 11 major hospitals and almost 80 other related facilities. Southwest Research Institute is one of the world's foremost independent nonprofit applied research and development organizations serving industry and government around the world in the engineering sciences and physical sciences.

LABOR FORCE STATISTICS FOR BEXAR COUNTY[1]

	2010	2009	2008	2007	2006
Civilian Labor Force	781,930	772,218	754,547	737,280	744,087
Total Employed	724,020	718,854	713,801	707,789	715,679
Total Unemployed	57,910	53,364	40,746	29,491	28,408
Unemployment Rate	7.4%	6.9%	5.4%	4.0%	3.8%
% Unemployed (Texas)	8.0%	8.0%	6.0%	4.2%	4.1%
% Unemployed (U.S.)	9.1%	9.7%	7.2%	5.8%	4.3%

[1] As of December of each year.

Source: Texas Workforce Commission and United States Bureau of Labor Statistics.

POPULATION

The following table provides the estimated annual population of the City and the County:

Year	City of San Antonio	Bexar County
1900	53,321	69,422
1910	96,614	119,676
1920	161,379	202,096
1930	231,542	292,533
1940	253,854	338,176
1950	408,442	500,460
1960	587,718	687,151
1970	654,153	830,460
1980	785,880	988,800
1990	935,933	118,394
2000	1,144,646	1,392,931
2010	1,327,407	1,714,773

Source: U.S. Census of Population, *1920-2010.*

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APPENDIX C

SAN ANTONIO INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

For the Year Ended August 31, 2010

The information contained in this Appendix consists of excerpts from the San Antonio Independent School District Annual Financial Report for the Year Ended August 31, 2010, and is not intended to be a complete statement of the District's financial condition. Reference is made to the complete Report for further information.

APPENDIX D

FORM OF BOND COUNSEL'S OPINION