



Moody's Investors Service

New Issue: MOODY'S ASSIGNS Aaa RATING TO SAN ANTONIO ISD [TX] \$47.6 MILLION UNLIMITED TAX REFUNDING BONDS, SERIES 2006

Global Credit Research - 13 Nov 2006

A1 UNDERLYING RATING AFFECTS \$505.6 MILLION IN PARITY DEBT, INCLUDING CURRENT ISSUE AND EXCLUDING REFUNDED BONDS

Primary & Secondary Education
TX

Moody's Rating

ISSUE	UNDERLYING RATING	RATING
Unlimited Tax Refunding Bonds, Series 2006	A1	Aaa
Sale Amount \$47,609,950		
Expected Sale Date 11/16/06		
Rating Description TEXAS PSF GUARANTEE		

Opinion

NEW YORK, Nov 13, 2006 -- Moody's Investors Service has assigned a Aaa rating to San Antonio Independent School District's \$47.6 million Unlimited Tax Refunding Bonds, Series 2006. Prime credit quality is provided by a guarantee of the Texas Permanent School Fund (PSF) for timely payment of principal and interest in the event that the school district is unable to meet debt service requirements. Sizable PSF assets and conservative program regulations provide strong bondholder protection. Moody's believes the limitations placed upon the PSF's actual leverage remain conservative and consistent with this highest of ratings.

State statutes provide for the advancement of revenues by the PSF from their cash reserves, prior to default, sufficient to meet a school district's debt service obligations should the district be unable to make timely payment. These funds will, in turn, be intercepted from the District's next state aid allocation until full repayment, as either a lump sum or installment payment, to the PSF. For additional information on the PSF program please see Moody's Special Comment "Moody's Affirms the Aaa Rating for Texas Permanent School Fund Guarantee" dated August 2005.

At the same time, Moody's has assigned an A1 underlying rating to the current sale and affirmed the A1 rating affecting \$458.0 million of outstanding parity general obligation debt. The bonds are secured by an unlimited ad valorem tax levied against all taxable property within the District without limit as to rate or amount. Proceeds from the bonds will be used to refund certain portions of the District's outstanding debt for an estimated net present value savings exceeding 3% of the refunded principal. Assignment of the A1 rating reflects the District's large and growing tax base but also takes into consideration the declining enrollment that is driven by serving the central part of the city with a more mature base. The A1 rating also reflects debt burdens that are made manageable with State assistance and General Fund operations that are pressured by declining enrollment but sufficiently maintained with adequate reserves.

DOWNTOWN SAN ANTONIO SPURS TAX BASE BUT NOT ENROLLMENT GROWTH

Located in central Bexar County (Moody's rated Aa2), the District serves a large population of 316,000 encompassing much of the area around downtown San Antonio. The tax base has steadily grown an average of 5.5% annually over the last five years. Growth on the tax base is primarily driven by reappraisals as well as some new construction of hotels. Approximately 44% of the total tax base is residential properties and 29% of the total tax base is commercial and industrial properties. In fiscal 2007, the full valuation grew 10% reaching a sizable \$9.5 billion. Given the diversity of the City of San Antonio (Moody's rated Aa2), the top ten taxpayers in the District are not concentrated and include various businesses. Enrollment has declined annually by an average of 0.3% since fiscal 2002 recording 52,711 ADA in fiscal

2006. Wealth levels in the District remain low although they have improved over the last decade. The 2000 Census per capita income (PCI) of \$12,411 is 63.3% of the State and an improvement over the 1990 Census PCI of \$7,528 which was equal to 58.4% of the State. Moody's believes the tax base will continue to expand in the near to medium term although the growth rate will most likely begin to decrease as the District approaches build out.

DEBT BURDENS MITIGATED BY STATE AID

The District's debt burdens would be very high without State assistance with a 5.4% direct debt burden and 8.3% overall debt ratio. With the State providing about 50% of funding required for debt service, the debt burdens are significantly lowered to 2.5% on a direct basis and 5.4% on an overall basis. The overall debt burden is primarily due to overlapping debt of the City and the County. Debt is scheduled for slow repayment with 30.8% of principal retired in ten years; however, Moody's recognizes this payout allows the District to maximize State funding and the refunding does not lengthen the debt repayment. Future debt is anticipated for facilities; although the amount has not yet been determined, the District could be going to voters with an election in November of 2007 or May of 2008. Moody's believes the debt position will remain manageable with State assistance and prudent capital project planning.

SATISFACTORY RESERVES; GENERAL FUND OPERATIONS CHALLENGED BY DECLINING ENROLLMENT

The 2006 total General Fund balance was a decrease from prior years but remains at a satisfactory level considering the amount of State funding for operations. The undesignated, unreserved portion of the fund balance has remained at a constant amount approximating \$32 million; however, as the budget has increased annually, the percentage of General Fund revenues has declined from 16% in prior years to 13% in fiscal 2005. In fiscal 2006, the total fund balance is projected to decrease from \$57 million to \$54 million given that State funding declines as student enrollment declines. In fiscal 2005, 58% of General Fund revenues were derived from State revenue and 34.5% of revenue came from local property taxes. The District would like to increase the fund balance another \$12 million in order to have 2 months of operating expenditures in reserves and the current plan is to get to this level in 2008. District officials are looking at expenditure levels and hoping to optimize capacity levels in the future to contain expenditures. Although Moody's is concerned about the declining enrollment and the resulting fiscal challenges for the District, Moody's believes management is working to address these challenges and will develop prudent measures to stabilize financial operations over the long term.

KEY STATISTICS:

Population: 316,000

2005 Full valuation: \$9.5 billion

2005 Full value per capita: \$30,327

2000 Per capita income: \$12,411 (63.3% of the State)

Direct debt burden (inclusive of State aid): 2.5%

Overall debt burden (inclusive of State aid): 5.4%

Payout (ten years): 30.85%

2004 Unreserved General Fund balance: \$63.7 million (16.2% of General Fund revenues)

2005 Unreserved General Fund balance: \$32.4 million (13.3% of General Fund revenues)

Post-sale parity debt: \$506.6 million

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