

San Antonio Independent School District, Texas

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Credit Profile

Outstanding Unlimited Tax School Building and Refunding Bonds, Various Series

Long Term Rating	AAA/Stable	Affirmed
School Issuer Credit Rating	AA-/Stable	Affirmed

Rationale

The 'AAA' enhanced rating on San Antonio Independent School District, Texas' unlimited-tax general obligation (GO) bonds has been affirmed, reflecting what Standard & Poor's Ratings Services considers the strength and liquidity of the Texas Permanent School Fund. The 'AA-' issuer credit rating (ICR) has also been affirmed, reflecting what we view as the district's strong general fund balance history, coupled with the economic diversity provided by San Antonio as a trade and employment center.

The ICR also reflects the district's:

- Deep and increasingly diversifying economic base,
- Consistent property tax base growth,
- High levels of state support for operations and debt service payments, and
- Strong financial position.

These strengths are somewhat offset by the district's:

- Income levels that remain below the state and national medians;
- Gradual decrease in enrollment, which over time has reduced supplemental state aid; and
- Above-average overall net debt burden coupled with significant capital needs to address the district's restructuring plans and its aging infrastructure.

The district's full faith and credit pledge secures the bonds.

Located in Bexar County, San Antonio Independent School District is one of Texas' 15-largest school districts in terms of student enrollment. While the military remains a significant

component of the local economy, recent employment growth has been strong in education, health care, and tourism. Median household effective buying income, an indicator of wealth, is low at 65% and 63% of state and national averages, respectively. The district, which is in the heart of San Antonio, Texas, has experienced a decrease in population of roughly 33,000 over the past two years to a total 282,000 in fiscal 2009. While enrollment increased to 55,297 in 2009 from 54,726 in the previous year, the district's enrollment has decreased an estimated 2.6% since fiscal 2004. Management projects that enrollment will increase in 2010, and attributes the growth to redevelopment efforts and the development of the district's "Head Start" program, aimed at preparing pre-elementary school students for kindergarten.

San Antonio Independent School District's financial position remains strong. In fiscal 2009, unaudited results indicate the district increased its general fund balance to \$62.7 million, or a very strong 17% of expenditures, from \$52.7 million, or a strong 13% of expenditures. In fiscal 2010, projected figures reflect a further increase in general fund reserves of approximately \$500,000. District officials are implementing several cost-cutting measures to maintain the district's structural balance, in light of anticipated capital expenditures. The school district's management practices are considered "good" under Standard & Poor's Financial Management Assessment (FMA). An FMA of good indicates financial management practices exist in most areas, though not all might be formalized or regularly monitored by governance officials.

Outlook

The stable outlook reflects the outlook on the Texas Permanent School Fund. The stable outlook on the ICR reflects the district's growing tax base and strong financial position. Future rating stability will be contingent upon management's ability to address the budgetary challenges related to decreasing enrollment and state aid. Further deterioration of the district's general financial position can put pressure on the rating.

Diverse And Growing Economy

San Antonio Independent School District serves the central portion of the city of San Antonio, including the downtown area. The tax base is diverse: The leading taxpayers account for less than 10% of net assessed value. The district's property tax base growth has been steady; the tax base has grown by an average of 7.7% annually over the past five years to \$12.7 billion in fiscal 2009. However, the district's income levels remain below average: Per capita effective buying income indicators are at 60% of the state average and 54% of the national average. The district's market value, an indication of relative wealth, is adequate at roughly \$40,861 per capita.

Budget Challenges And Aging Infrastructure

San Antonio Independent School District's decreasing student enrollment has increasingly pressured the district's finances. Texas' school funding formula is largely driven by student attendance and property tax valuation levels. As the district's wealth per student increases due to rising property values and decreases in attendance, causing a reduction in state aid, the district continues to face financial pressures. State revenue accounted for nearly 63% of general fund revenues in fiscal 2008, up from about 60% in fiscal 2004. In order to address the budgetary imbalances caused by decreasing enrollment and sustained expenditure growth, district officials have reduced the staff by 200 positions

and closed repurposed nine campuses in fiscals 2008 and 2009 and will continue to reduce nonessential spending. In addition, the district is in the process of identifying facilities and programs that can potentially be consolidated.

The district's overall net debt burden is moderately high. Under the district's restructuring plan, school officials are looking to close up to 14 campuses in order to overcome budget shortfalls over the next decade. The restructuring plan will include school system upgrades and renovations to existing facilities in order to accommodate an enrollment increase resulting from the closed campuses. The district may look to issue debt to accommodate the need for additional classrooms due to enrollment pressure on several campuses.

Financial Management Assessment: 'Good'

San Antonio Independent School District's management practices are considered "good" under Standard & Poor's Financial Management Assessment (FMA), indicating financial management practices exist in most areas, though not all might be formalized or regularly monitored by governance officials. The district's investment policy complies with state investment requirements, and requires officials to prepare quarterly investment reports. The district does not have a formal general fund and debt management policy; however, officials target a minimum level of reserves of two to three months' operations, and follow the state education agency's guidelines for debt management. A long-range capital improvement plan exists, but has not been updated for the past two years. Management has long-range financial projections that include the current fiscal year and four forward years.

Daniel Cuddy contributed to this article.

Related Research

USPF Criteria: GO Debt, Oct. 12, 2006

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