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San Antonio Independent School District, Texas; School State Program

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Credit Profile

US\$47.61 mil unlted tax rfdg bnds ser 2006 dtd 11/01/2006 due 08/15/2031 AAA
Sale date: 20-NOV-2006

AFFIRMED

\$519.184 mil. San Antonio Indpt Sch Dist PSF AAA

OUTLOOK:

STABLE

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' enhanced rating and 'AA-' underlying issuer credit rating (ICR) to San Antonio Independent School District, Texas' series 2006 unlimited-tax GO refunding bonds.

The enhanced rating reflects the Texas permanent school fund guarantee.

The ICR 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.

A higher rating is precluded by the district's:

- Income levels that, while improving, remain slightly below the state and national median;
- Gradual decline in enrollment, which overtime has reduced supplemental state aid; and
- Above-average overall net debt burden coupled with significant capital needs to address the district's aging infrastructure

The district's full faith and credit pledge secures the bonds. The district will use bond proceeds to refund a portion of its series 2001-A bonds.

Located in Bexar County, San Antonio Independent School District is one of Texas' 10 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. Income indicators have consistently improved over the past five years; income indicators, however, remain slightly below average: median household income levels are at 92% of state and national averages. The district, which is in the heart of San Antonio, Texas, has maintained a population of roughly 316,000 over the past 10 years; but student enrollment has gradually declined. Management expects that redevelopment efforts and the opening of a Toyota Motor Corp. plant in the MSA's southern portion will have a positive effect on student enrollment, which is currently at about 52,877, down 2% since 2001.

San Antonio Independent School District's financial position remains strong, despite a reduction in general fund reserves. In fiscal 2005, a \$15.2 million reduction in state aid relative to fiscal 2004 resulted in an operating deficit of \$13.7 million, and a year-end unreserved general fund balance of \$50.8 million, or a strong 13% of expenditures. In fiscal 2006, unaudited figures reflect another reduction in general fund reserves of approximately \$3.4 million. District officials are implementing several cost cutting measures to contain the structural imbalance resulting from reduced supplemental state aid. San Antonio Independent School District's management practices are considered standard under Standard & Poor's Financial Management Assessment (FMA). An FMA of standard indicates the finance department maintains adequate policies in most but not all key areas.

Outlook

The stable outlook reflects the outlook on the Texas permanent school fund. The stable outlook on the SPUR reflects the expectation that the district's financial position will remain strong and that the state's continued strong support for debt service payments will allow the district to maintain debt levels at a manageable level.

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 AV. The district's property tax base growth has been steady; the tax base has grown by an average of 4.7% annually over the past five years to \$9.5 billion in fiscal 2007. Employment growth in the San Antonio MSA remains strong averaging 2% annually from 2000-2005. The MSA's income levels have consistently improved over the past five years but remain slightly below average: per capita effective buying income indicators are at 94% of the state's average and 91% of the nation's average. The district's market value, an indication of relative wealth, is also low at roughly \$30,078 per capita.

Budget Challenges And Aging Infrastructure

San Antonio Independent School District's declining student enrollment has increasingly pressured the district's finances. Texas' school funding formula is largely driven by student enrollment and property tax valuation levels. As the district's wealth per student increases due to rising property values and declines in enrollment, causing a reduction in state aid, the district continues to face financial pressures. State revenue accounted for nearly 58% of general fund revenues in fiscal 2005, down from about 63% in fiscal 2001. In order to address the budgetary imbalances caused by declining enrollment and sustained expenditure growth, district officials have cut nonessential spending and are in the process of identifying facilities and programs that can be consolidated.

While the overall net debt burden is high, management plans to continue to support nearly half of the district's debt outstanding with funds received through Texas' instructional facilities allotment program and existing debt allotment funding, reducing the overall net debt burden to a still-high 5.4% of market value and \$1,630 per capita. The district recently updated its facilities needs assessment, which estimated the district's capital needs at close to \$750 million, mainly driven by the need to rehabilitate and update existing facilities. In May 2005, a \$399 million bond election failed by a small margin. District officials are currently planning to seek approval for additional bonds within the next two years.

Financial Management Assessment: Standard

San Antonio Independent School District's management practices are considered standard under Standard & Poor's Financial Management Assessment (FMA). An FMA of standard indicates the finance department maintains adequate policies in most but not all key areas. Management relies on historical trend analysis and for its budget assumptions, and provides monthly budget reports to the board. 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 of 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, which include the current fiscal year and four forward years.

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