

Tax Supported
New IssueSan Antonio Independent School
District, Texas**Ratings**

New Issues	
Unlimited Tax School Building Bonds, Series 2010A ^a	AAA
Unlimited Tax School Building Bonds, Taxable Series 2010B (Direct Subsidy-Build America Bonds) ^a	AAA
Outstanding Debt	
Unlimited Tax Bonds	AA

^aThe 'AAA' long-term rating reflects the guaranty provided by the Texas Permanent School Fund, whose insurer financial strength is rated 'AAA' by Fitch Ratings. The bonds' underlying long-term rating, reflecting the credit quality before consideration of the guaranty, is 'AA'.

Rating OutlookStable^a

^aRevised from Negative on Dec. 7, 2010.

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New Issue Details

Sale Information: \$11,025,000 Unlimited Tax School Building Bonds, Series 2010A, and \$138,975,000 Unlimited Tax School Building Bonds, Taxable Series 2010B (Direct Subsidy-Build America Bonds), via negotiated sale during the week of Dec. 13.
Security: Unlimited property tax levy. Additionally, bonds secured by the Texas Permanent School Fund guaranty.
Purpose: Proceeds of bonds to finance improvements to school facilities.
Final Maturity: Aug. 15, 2040.

Related Research

For information on Build America Bonds, visit www.fitchratings.com/BABs.

Applicable Criteria

- *Tax-Supported Rating Criteria, Aug. 16, 2010*
- *U.S. Local Government Tax-Supported Rating Criteria, Oct. 8, 2010*

Rating Rationale

- The Rating Outlook revision to Stable from Negative reflects San Antonio Independent School District's stabilized financial position, enabled by management's efforts to right-size operations as the enrollment base continues to contract.
- The 'AA' underlying rating reflects the district's solid financial position and management's notable efforts to maintain structural balance, despite the challenges of shifting demographic patterns that have caused the enrollment base to stagnate.
- Stabilization of the enrollment base hinges on the successful implementation of the district's comprehensive plan to restructure and improve its aging schools. However, its demographic challenges are formidable, given countywide population growth patterns in the suburban areas beyond the district's boundaries.
- The recent voter approval of the district's large bond program is key to implementing its long-term plans but will further increase its already high debt burden.
- The service area has fared relatively well during the national recession, aided by its diverse economy, large and growing military presence, and stable home prices; however, overall wealth levels remain below average.

Key Rating Driver

- The district's continued progress in restructuring efforts aimed at right-sizing its operations and capital plant is key to its long-term financial sustainability and maintenance of credit quality.

Credit Summary

The district, which covers about 80 square miles, is located in Bexar County and primarily encompasses downtown San Antonio. Prominent sectors in the local economy are domestic and international trade, convention and tourism, military and government, medical and healthcare, finance, and telecommunications. Due primarily to shifting demographic patterns, the district's average daily attendance (ADA) has declined by a

Considerations for Taxable Bond Investors

This sector credit profile is provided as background for investors new to the municipal market.

Local Government General Obligation Bonds

The unlimited taxing power of most local government general obligation pledges is the broadest security a U.S. local government can provide to the repayment of its long-term borrowing and, therefore, is the best indicator of its overall credit quality. The average local government general obligation rating is 'AA', with approximately 85% rated at or above 'AA-' and 1% rated 'BBB+' or below. The relatively high ratings reflect local governments' inherent strengths: the authority to levy property taxes, nonpayment of which can result in property foreclosures; additional taxing power that can include sales, utility, and income taxes; and essentiality of and lack of competition for services provided by local governments. Those with low investment-grade or below-investment-grade ratings generally have a combination of a limited or highly volatile economic base, high levels of long-term liabilities, including debt and post-employment benefits, and/or unusually limited financial flexibility. For additional information on these ratings, see "U.S. Local Government Tax-Supported Rating Criteria," dated Oct. 8, 2010 and available on Fitch's Web site at www.fitchratings.com.

Related Research (continued)

Applicable Criteria

- [Revenue-Supported Rating Criteria, Oct. 8, 2010](#)
- [State Revolving Fund and Municipal Loan Pool Rating Guidelines, April 28, 2008](#)

Rating History

Rating	Action	Outlook/ Watch	Date
AA	Affirmed	Stable	12/7/10
AA	Revised ^a	Negative	4/30/10
AA-	Affirmed	Negative	11/15/06
AA-	Upgraded	Stable	2/9/05
A+	Affirmed	—	8/13/01
A+	Affirmed	—	7/21/00
A+	Affirmed	—	5/23/00
A+	Assigned	—	8/30/99

^aReflects rating recalibration.

total of 9.2% since fiscal 2000, despite the district's efforts to reverse the trend through the expansion of early childhood programs and implementation of alternative educational venues, such as internal charter schools, as well as its previous bond-financed campus improvements.

General Fund Financial Summary

(\$000, Audited Fiscal Years Ended Aug. 31)

	2006	2007	2008	2009
Revenues	387,303	399,346	411,954	387,056
Expenditures	394,801	399,043	415,420	374,988
Net Change	(7,498)	303	(3,466)	12,068
Transfers In	0	0	3,768	0
Other Sources	44	4,134	6,805	744
Transfers Out and Other Uses	(1,211)	(1,210)	(6,733)	(2,869)
Net Income/(Deficit)	(8,665)	3,227	374	9,943
Total Fund Balance	49,147	52,373	52,747	62,761
As % of Expenditures, Transfers Out, and Other Uses	12.4	13.1	12.5	16.6
Unreserved Fund Balance	43,307	47,535	48,237	59,312
As % of Expenditures, Transfers Out, and Other Uses	10.9	11.9	11.4	15.7
Unreserved, Undesignated Fund Balance	31,025	33,521	41,037	45,924
As % of Expenditures, Transfers Out, and Other Uses	7.8	8.4	9.7	12.2

Note: Numbers may not add due to rounding.

The district's financial profile remains under pressure due to ongoing ADA declines. Notably, management avoided structural imbalances in fiscal years 2008 and 2009 through a combination of closing and repurposing nine schools. School repurposings and closures, deferral of pay hikes in fiscal years 2008 and 2009, and leaner staffing levels enabled the district to cut more than \$36 million from fiscal years 2008–2010, allowing the district to fund pay hikes in fiscal 2010. In fiscal 2009, a solid \$9.9 million operating surplus was posted, increasing the unreserved fund balance to \$59.3 million, or a strong 15.7% of spending. Unaudited fiscal 2010 results point to balanced operations, which provided a 4.9% pay hike. The fiscal 2011 budget is balanced; despite a shortfall in expected ADA growth, ongoing cost controls are expected to maintain level reserves.

The current offering represents the first installment of the large \$515 million authorization approved by a high 66% of voters in November 2010. As total facility needs were estimated at \$1.2 billion, the authorization will fund the first phase of the district's 10–12 year facilities plan. This initial phase will fund extensive renovations to 22 campuses, allowing the district to consolidate five campuses within three years, generating an estimated \$10 million in annual operating costs. The long-term plan, which will need additional voter authorization, calls for the consolidation of a total of 14 campuses, inclusive of these first five schools. Adjusted for 30% state support for debt

Debt Statistics

(\$000)

These Issues	150,000
Outstanding Debt:	
Unlimited Tax Bonds	448,985
Limited Tax Bonds	4,675
Less: State Support	158,821
Direct Debt	444,839
Overlapping Debt	596,490
Total Overall Debt	1,041,329
Debt Ratios	
Direct Debt per Capita (\$) ^a	1,384
As % of MV ^b	3.2
Overall Debt per Capita (\$) ^a	3,240
As % of MV ^b	7.6

^aPopulation: 321,367 (2010 estimate).

^bMarket value (MV): \$13,755,259,000 (fiscal 2011).

Note: Numbers may not add due to rounding.

service, the district’s overall debt burden is moderate on a per capita basis at \$3,240 but high as a percentage of market value at 7.6%. The planned issuance of the remaining \$415 million in authorization by 2014 will further increase the debt burden and increase the debt service tax rate to a projected maximum of a high \$0.41 per \$100 of taxable assessed valuation, up considerably from the current \$0.23 rate. Principal amortization is slow at 35% principal retired within 10 years.

Property Value and Student Enrollment Trends

(Fiscal Years Ending Aug. 31)

	<u>TAV (\$000)</u>	<u>% Change</u>	<u>Average Daily Attendance</u>	<u>% Change</u>
2000	6,386,120		53,635	
2001	6,938,276	8.6	53,545	(0.2)
2002	7,267,286	4.7	53,948	0.8
2003	7,570,318	4.2	53,475	(0.9)
2004	7,968,622	5.3	53,371	(0.2)
2005	8,231,705	3.3	53,001	(0.7)
2006	9,059,121	10.1	52,877	(0.2)
2007	9,522,380	5.1	51,698	(2.2)
2008	10,739,556	12.8	50,488	(2.3)
2009	11,988,776	11.6	50,740	0.5
2010	12,176,613	1.6	48,830	(3.8)
2011	11,799,585	(3.1)	48,707	(0.3)

TAV – Taxable assessed valuation.

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