

New Issue: MOODY'S ASSIGNS Aa2 TO SAN ANTONIO I.S.D'S (TX) \$11 M UNLMTD. TAX SCHL. BLDG. BONDS, SERIES 2010A, & \$139 M UNLMTD. TAX SCHL. BLDG. BONDS, TAXABLE SERIES 2010B (DIRECT SUBSIDY - BUILD AMERICA BONDS (BABS)); Aaa ENHANCED RATING ASSIGNED DUE TO TEXAS PSF

Global Credit Research - 07 Dec 2010

Aa2 RATING AND AFFIRMATION AFFECTS \$549 MILLION IN OUTSTANDING PARITY DEBT, INCLUSIVE OF CURRENT ISSUE

Primary & Secondary Education
TX

Moody's Rating

ISSUE		UNDERLYING RATING	RATING
Unlimited Tax School Building Bonds, Series 2010A		Aa2	Aaa
Sale Amount	\$11,025,000		
Expected Sale Date	12/18/10		
Rating Description	General Obligation		
Unlimited Tax School Building Bonds, Taxable Series 2010 B (Direct Subsidy - Build America Bonds)		Aa2	Aaa
Sale Amount	\$138,975,000		
Expected Sale Date	12/18/10		
Rating Description	General Obligation		

Opinion

NEW YORK, Dec 7, 2010 -- Moody's Investors Service has assigned an Aa2 underlying rating to San Antonio Independent School District's (TX) \$11 million Unlimited Tax School Building Bonds, Series 2010A, and \$139 million Unlimited Tax School Building Bonds, Taxable Series 2010B (Direct Subsidy - Build America Bonds (BABS)). Concurrently, Moody's has affirmed the Aa2 rating on the district's \$460.6 million in outstanding parity debt. In addition to the underlying rating, we have assigned an Aaa enhanced rating to the current sale provided by a guarantee of the Texas Permanent School Fund (PSF). Proceeds from the sale of the bonds will be used to acquire, renovate, improve and equip various school buildings within the district, and pay for the costs of issuing the bonds.

RATINGS RATIONALE - UNDERLYING

The bonds are secured by a continuing and direct annual ad valorem tax, levied against all taxable property in the district, without legal limitation as to rate or amount. The rating assignment reflects the district's trend of favorable financial management amidst declining enrollment, following a structural imbalance in fiscal year 2006. The rating also reflects the district's sizable tax base, low wealth indicators, and a moderate debt burden, when considering the effect of state aid.

RATINGS RATIONALE - ENHANCED

The Aaa rating reflects our assessment of the PSF's ability to make payments on the guarantee relative to the substantial value of the fund corpus. Additional credit considerations include: the PSF's constitutionally protected corpus, the general obligation credit quality of the Texas school district guaranteed by the fund, an investment portfolio that provides satisfactory coverage and liquidity given our estimated probability of calls on the guarantee, and strong legal mechanics that facilitate timely reimbursement to the PSF should guarantee payments occur. The enhanced rating also reflects an expected increase in PSF leverage to no more than 3.5 times PSF cost value. For additional information on the PSF program, please see Moody's High Profile Ratings Update "Texas Permanent School Fund (PSF)" dated April 2010.

FAVORABLE FINANCIAL MANAGEMENT FOLLOWING STRUCTURAL IMBALANCE IN FISCAL YEAR 2006

Moody's expects the trend of sound fiscal practices to continue in the near term, preserving the district's satisfactory reserves. Following a series of aggressive expenditure reduction such as reducing several positions through attrition, consolidating classrooms and closing schools, the district was able to overturn its structural imbalance in fiscal year 2006, yielding a three year trend of sound financial management. The reductions were largely due to the institution of a new academic model supported by more efficient and effective practices to yield overall better quality education for students within the district. With the changes, the district was able to yield a three year trend of operating surpluses, increasing its General Fund to \$62.761 million (a satisfactory 16.2% of General Fund revenues) at fiscal year end 2009, from \$49.147 million (an adequate 12.7% of General Fund revenues) at fiscal year end 2006. In fiscal year 2010, unaudited numbers indicate another operating surplus of \$100,000, yielding a total General Fund balance of \$62.861 million (a sufficient 16.2% of 2009 General Fund revenues) as officials continue revamping the old academic model. The district's reserve levels remain well above its policy of 10% of the prior year's expenditures or approximately \$37.8 million. Given no revenue or expenditure challenges anticipated, officials expect flat growth in reserve levels for fiscal year 2011, and continue to maintain flexibility on the expenditure side for any challenges in the near term.

SIZABLE TAX BASE LOCATED IN BEXAR COUNTY

San Antonio ISD is wholly within the City of San Antonio (Aaa/stable outlook) in Bexar County (Aaa/stable outlook). Following a period of steady growth averaging 5.4% annually over the past five years, taxable value growth within the district has slowed dramatically due to challenges associated with the economic downturn. In fiscal year 2010, taxable values grew a moderated 1.6%, following a more substantial 12.8% growth

in fiscal year 2008, and 11.6% growth in fiscal year 2009 from a combination of commercial and residential development. In fiscal year 2011, per certified numbers, taxable values declined by 3.1% largely due to reappraisal of existing commercial property. Despite the decline, officials report a number of economic developments with the military's Base Realignment and Closure (BRAC), biology, insurance and pet companies slated to bring more than 3,000 jobs into the area within the year. Additionally, officials report modest mixed use developments occurring throughout the district, signifying a relatively stable economy. However, officials will prudently budget for flat growth through fiscal year 2013, with a more moderate average annual growth of 3% over the long term.

San Antonio ISD serves a predominately economically disadvantaged population. As such, the wealth indicators within the district remain lower than national medians. Per the 2000 U.S. Census, the district's 1999 per capita income was \$12,411 or 57.5% of the nation. Also, the 1999 median family income was \$29,279 or 58.5% of the nation. The 2000 U.S. Census also reported approximately 26.5% of residents in the district were below poverty level. Despite unemployment remaining low in Bexar County with a rate of 7.8% reported in August 2010, compared to the state's of 8.4% and the nation's 9.5%, enrollment trends have been negative, averaging an annual decline of 1.2% over the last five years. In fiscal year 2010, enrollment levels declined by 1.9% over the prior year, yielding a total student count of 53,400 students. Preliminary numbers for fiscal year 2011 indicate a more modest decline of 0.8% as the district instituted a Head Start program. In the medium term, officials are hoping to stabilize enrollment with the new programs and initiatives offered as part of the district's revised curriculum.

DEBT BURDENS EXPECTED TO INCREASE IN THE NEAR TERM

Moody's notes that the district's elevated debt burdens, which are expected to increase due to frequent near term issuing, could place downward pressure on the rating, should the district not exhibit growth in taxable values. All of the district' debt is fixed rate and the district is not party to any derivative agreements. Excluding state aid, the district's debt burdens are elevated at 4.7% (9% overall). Inclusive of state aide, the debt burdens are still elevated but more manageable at 3.3% (7.7% overall). Although higher debt burdens are common with growing school districts, we note that the district's anticipated higher debt profile is due largely to renovation projects. After the issuance, the district will have \$415 million in remaining authorization which will be issued in the next five years. Payout is below average with 43.9% of principal retired within 10 years.

WHAT COULD MAKE THE RATING GO UP

Significant increases in reserve levels

Ongoing and continuous tax base expansion; strengthened socioeconomic profile

WHAT COULD MAKE THE RATING GO DOWN

Erosion of reserve levels

Continuous tax base contraction

Substantial increases in debt burdens without corresponding tax base expansion

KEY STATISTICS:

2010 Full Valuation: \$12.2 billion

2011 Certified Full Valuation: \$11.8 billion

Direct Debt Burden (including state aid): 3.3%

Overall Debt Burden (including state aid): 7.7%

Payout of Principal (10 years): 43.9%

2009 General Fund Balance: \$62.761 million (16.2% of General Fund revenues)

Preliminary 2010 General Fund Balance: \$62.8 million (16.2% of 2009 General Fund revenues)

Post-sale general obligation parity debt: \$549 million

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009.

REGULATORY DISCLOSURES

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Analysts

Adebola Kushimo
Analyst
Public Finance Group
Moody's Investors Service

Kristin Button
Backup Analyst
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service
250 Greenwich Street
New York, NY 10007
USA



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