

**Summary:**

## San Antonio Independent School District, Texas; School State Program

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## Summary:

# San Antonio Independent School District, Texas; School State Program

Credit Profile		
US\$92.5 mil unlt'd tax sch bldg bnds, taxable (Direct Subsidy-Bab) ser 2010B dtd 12/01/2010 due 08/15/2040		
<i>Long Term Rating</i>	AAA/Stable	New
<i>School Issuer Credit Rating</i>	AA-/Stable	New
US\$7.5 mil unlt'd tax sch bldg bnds ser 2010A dtd 12/01/2010 due 08/15/2016		
<i>Long Term Rating</i>	AAA/Stable	New
<i>School Issuer Credit Rating</i>	AA-/Stable	New
San Antonio Indpt Sch Dist Texas PSF		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
<i>School Issuer Credit Rating</i>	AA-/Stable	Affirmed

## Rationale

Standard & Poor's Ratings Services assigned its 'AAA' enhanced program rating and 'AA-' issuer credit rating (ICR) to San Antonio Independent School District (ISD), Texas' unlimited-tax school building bonds, series 2010A and series 2010B (Build America Bonds, or BABs -- direct subsidy).

At the same time, Standard & Poor's affirmed its 'AA-' ICR and 'AAA' long-term rating on the district's outstanding general obligation (GO) debt. The outlook on all ratings is stable.

The enhanced program rating reflects the district's qualification for, and the guarantee provided by, the Texas Permanent School Fund.

The ICR reflects our view of the district's:

- Deep and increasingly diverse economic base, bolstered by its central location within the San Antonio MSA;
- High levels of state support for operations and debt service payments; and
- Very strong financial position.

The preceding credit strengths are offset in part by our view of the district's:

- Enrollment fluctuation over the past several years; and
- Moderately high overall net debt burden, coupled with significant impending capital needs to address the district's restructuring plans and its aging infrastructure.

An unlimited ad valorem property tax pledge secures the bonds. The district intends to issue the taxable series 2010B unlimited-tax school building bonds as federally taxable BABs, in which the district will receive a subsidy from the U.S. Treasury equal to 35% of the stated interest paid, but the district is obligated and expects to pay for 100% of annual interest payments from lawfully available funds. The U.S. Treasury subsidy for BABs, if issued, will be paid directly to the district and does not constitute security for the payment of principal or interest on the series

2010B bonds. Bond proceeds will be used to fund the acquisition, construction, renovation, improvement, and equipment of various school buildings within the district.

San Antonio ISD (estimated population 321,367) is located in Bexar County and encompasses approximately 79 square miles in San Antonio ('AAA' GO rating), portions of the City of Balcones Heights, and a small unincorporated area east of Bexar County. The local economy continues to expand and diversify and has substantial military, health care, tourism, and education components. As of September 2010, San Antonio's unemployment rate was 6.8%, which was below both the state and nation's rates of 8.1% and 9.6%, respectively. Income levels remain low, with median household effective buying income at 63% of the state and 62% of the national average. The district is the third-largest public school system in the county and the 13th largest in Texas in terms of enrollment. District enrollment increased to 53,850 in fiscal 2009 from 53,422 in fiscal 2008, and in fiscal 2010 dropped by approximately 3% to 52,149 students. Enrollment as of Oct. 1, 2010, rose by about 5% to 54,839 students. However, enrollment has declined by an estimated 5% overall since fiscal 2005, which district officials attributed to residents leaving the inner city for other districts. In response, the district implemented a long-term restructuring plan three years ago to improve the programs offered and to repurpose many of the existing school facilities. Through consolidating five of the district's 91 schools, the district strives to compete with nearby charter schools and private schools by offering unique classroom settings and a variety of higher-education preparation programs. According to district officials, the district has been able implement these changes without laying off staff.

The district's tax base has historically experienced stable growth, with assessed value (AV) increasing by an average of 8% annually over the past five years to \$12.18 billion in fiscal 2010. AV for fiscal 2011 declined by approximately 3% to \$11.8 billion, which district officials attribute to the national economic decline. The district's tax base is very diverse, with the 10 leading taxpayers accounting for less than 10% of fiscal 2011 AV. Market value, an indicator of wealth, is adequate, at approximately \$36,717 per capita.

San Antonio ISD's financial position is very strong, in our view. The district ended fiscal 2009 with a general fund balance of approximately \$62.7 million. Of that amount, approximately \$59.3 million is considered unreserved, which equates to a very strong 16% of operations. This level of reserves is within the district's recently adopted reserve policy of maintaining a minimum fund balance equal to 10% of operations. The district has added to its general fund reserves in each of the past three fiscal years. General fund revenues consist primarily of state aid (64% of fiscal 2009 general fund revenues) and property tax collections (34%). According to unaudited results, the district's fiscal 2010 ending general fund balance totaled approximately \$62.8 million, following an additional surplus. The district has adopted a balanced budget for fiscal 2011. The district raised the debt service portion of its tax rate by roughly 3 cents for fiscal 2011, bringing the total direct property tax rate to approximately \$1.28 per \$100 of AV.

San Antonio Independent School District's management practices are considered "good" under Standard & Poor's Financial Management Assessment (FMA) methodology. An FMA of "good" indicates financial management practices exist in most areas, though not all might be formalized or regularly monitored by governance officials.

After factoring out approximately 29% state support for debt service, the district's overall net debt burden is moderately high at approximately 7.7% of fiscal 2011 market value and moderate on a per capita basis at approximately \$2,828. This calculation is based on the district's approximately \$100 million in series 2010A and series 2010B bonds. District officials have indicated the sum of these two series of bonds may increase to a maximum of \$150 million, which would bring the district's debt burden to approximately 8% of market value and

\$2,934 per capita. Amortization of the district's debt burden is extended, with approximately 39% of principal retiring over the next 10 years and all debt currently scheduled to retire by 2040. Debt service carrying charges were approximately 7.66% of expenditures in fiscal 2009. We understand the district plans to issue approximately \$62 million of qualified school construction bonds (QSCBs) in 2011 as well as approximately \$98.68 million of refunding bonds for present value savings currently estimated at between 11% and 13%.

For additional information on the 'AAA' rating of the Texas Permanent School Fund, please see the article published Jan. 29, 2010, on RatingsDirect on the Global Credit Portal.

## Outlook

The stable outlook on the program rating reflects the Texas Permanent School Fund's strength and liquidity. The stable outlook on the ICR reflects our expectation that over the next two years, district officials will remain committed to the maintenance of the district's strong financial reserve levels, and at least comply with the district's recently adopted reserve policy. The outlook also reflects our opinion that the district's overall net debt levels are likely to remain elevated over at least the next two years as the district's capital needs, particularly those associated with its restructuring plan, remain extensive. The district's efficient and timely administration of the issuance of additional debt is an important rating factor. If once the district's restructuring plan is complete, enrollment grows as anticipated and the district's overall net debt burden moderates, there could be positive pressure on the rating. However, if the district's financial position were to decline below the district's adopted reserve policy, we could lower the rating.

## Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: State Credit Enhancement Programs, Nov. 13, 2008

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