

San Angelo Independent School District, Texas

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Credit Profile

US\$117. mil Unlimited Tax School Building Bonds, Series 2009 dated 03/01/2009, due 02/15/2034

Long Term Rating	AA-/Stable	New
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US\$4.09 mil Unlimited Tax Refunding Bonds, Series 2009 dated 03/01/2009, due 02/15/2017

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

Outstanding Unlimited Tax School Building and Refunding Bonds, Various Series, PSF Guaranteed

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

Rationale

Standard & Poor's Ratings Services has raised its issuer credit rating (ICR) on San Angelo Independent School District, Texas' general obligation (GO) debt to 'AA-' from 'A+', based on the district's continued economic expansion and historical financial strength.

At the same time, the rating service assigned its 'AA-' standard long-term rating to the school district's series 2009 unlimited-tax school building bonds and its 'AAA' enhanced program rating and 'AA-' ICR to the district's series 2009 unlimited-tax refunding bonds.

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

The 'AA-' ICR reflects our view of the district's:

- Strong presence as a regional service and trade economy;
- Sound financial position; and
- Low overall debt burden per capita, with no plans to issued additional debt in the near future.

These strengths are somewhat mitigated, in our opinion, by the district's:

- History of declining enrollment, despite a recent increase; and
- Low wealth and income levels.

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

San Angelo Independent School District, with a population of about 90,000, serves San Angelo, Texas ('AA' SPUR on GO debt), about 260 miles southwest of Dallas, Texas. The district also serves as an important regional center for a 14-county area in western Texas. Wealth levels are adequate, in our opinion, at 80% of the nation's median household effective buying income level. Market value, a measure of wealth, is low at \$32,301 per capita. Over the past five years, assessed value (AV) has increased by 40% to \$2.9 billion in fiscal 2009 from \$2.1 billion in fiscal 2004. The district's property tax base is very diverse, in our opinion; the 10 leading taxpayers account for 12% of total AV.

After years of declining enrollment, total enrollment increased 2.4% to 14,408 in fiscal 2009. While the district continues to budget based on declining enrollment, officials indicate that births in the district have increased the past three to four years and that the recent enrollment increase may continue.

San Angelo Independent School District's financial position has remained sound in our opinion, despite a general fund drawdown in fiscal 2008. After operating surpluses in each of the previous five fiscal years, officials reported a general fund deficit of \$3.1 million in fiscal 2008 due to expenditures for one-time capital expenditures associated with major renovations of older facilities. This decreased the unreserved general fund balance to \$22.7 million, or a still very strong 23% of expenditures. The fiscal 2009 budget reflects balanced operations. In fiscal 2008, state aid accounted for 56% of total governmental revenues, while local sources provided 30%.

The local maintenance tax rate has declined to \$1.04 per \$100 of AV due to the Texas Legislature's passage of new public school reform legislation that reduced school district's local operating and maintenance tax rates by 11% in fiscal 2007 and an additional 22% in fiscal 2008. In fiscal 2008, the school board chose to levy an additional four cents per \$100 of AV from the four cents of local-enrichment property taxes allowed by the reform legislation. School district officials indicate they have no imminent plans to seek voter approval for an increase in the maintenance property tax rate of up to 13 cents, as allowed by the school reform legislation. Officials project the debt service tax rate to increase by approximately 25 cents to 32 cents per \$100 of AV after issuance of the bonds.

San Angelo Independent School District's management practices are considered "good" under Standard & Poor's Financial Management Assessment (FMA). In our framework, an FMA of good indicates that practices are deemed currently good but not comprehensive.

After accounting for state support of debt service, the overall net debt burden is low, in our opinion, at \$1,795 per capita and moderate at 5.6% of market value. Amortization is slow, with only 27% of principal being retired over the next 10 years and 66% in 20 years. Debt service carrying charges are moderate at an estimated 8.2% of total governmental fund expenditures. Officials will use bond proceeds from the school building bonds for renovation of existing buildings, as well as for construction of new science laboratory buildings on existing campuses. The refunding bonds will be used to refund previously issued obligations in order to achieve costs savings. After this issuance, and with the completion of its long-range facility plan to address aging facilities that were built from 1909-1990, officials do not plan to issue additional debt for about 10 years.

Outlook

The stable outlook on the enhanced program rating reflects the outlook on the Texas Permanent School Fund. The stable outlook on the ICR reflects Standard & Poor's expectation that the district will maintain its strong financial performance and general fund reserve levels, despite budgetary constraints the district faces under the current state funding formula.

Economy

Goodfellow Air Force Base, with its combined 6,237 military and civilian personnel, anchors the economy. The base's future appears stable because it serves as an intelligence training center for the U.S. Air Force. The city has a diverse economy with significant health care, education, retail, manufacturing, and agriculture sectors. Unemployment averaged 3.7% in 2007, below the national rate of 4.6%.

Financial Management Assessment: 'Good'

San Angelo Independent School District's management practices are considered good under Standard & Poor's FMA. In our framework, an FMA of good indicates that practices are deemed currently good but not comprehensive. The district has a formal general fund reserve policy to maintain the unreserved fund balance at 20%-25% of budgeted operations. Revenue and expenditure estimates are calculated using five years of historical data, in addition to outside information sources such as a demographer's enrollment projection. Budget amendments are approved as needed, and the board receives monthly financial reports that are updated with the latest enrollment report. Officials use informal two-year revenue projections. The district does not maintain formal debt management policies, but does maintain a formal investment management policy and provides monthly investment updates to the board. The district has a formal long-term capital improvement plan, in addition to a seven-year revitalization plan with funding alternatives for capital projects.

San Angelo Independent School District, Texas

Economic statistics

Population	90,000
Median household EBI, % of U.S.	80
Per capita EBI, % of U.S.	84
Total market value per capita (\$)	32,301
Net direct debt (\$000s)	129,172
Net direct debt per capita (\$)	1,435
Net direct debt, % of market value	4.4
Assessed value (\$000s)	2,907,082
Market value (\$000s)	2,907,082

EBI—Effective buying income. Population and income—Source: Claritas.

Financial statistics (fiscal year end)	8/31/2008	8/31/2007	8/31/2006
General fund balance (\$000s)	31,202	34,280	31,597
General fund balance, % of general fund expenditures	32.2	37.3	37.1
Unreserved fund balance (\$000s)	22,742	25,690	25,779
Unreserved fund balance, % of general fund expenditures	23.5	27.9	30.2
Total general fund expenditures (\$000s)	96,978	91,938	85,221

San Angelo Independent School District, Texas (cont.'d)			
Total general fund expenditures—one-year change (%)	5.5	7.9	4.5
Total general fund revenues (\$000s)	95,080	94,629	86,057
Total general fund revenues-one-year change (%)	0.5	10.0	2.6