

**New Issue: Anna Independent School District, TX**

**MOODY'S UPGRADES TO Baa1 FROM Baa2 THE UNDERLYING RATING FOR ANNA I.S.D. [TX]; RATING AFFECTS \$34 MILLION IN OUTSTANDING PARITY DEBT INCLUDING CURRENT SALE OF \$8 MILLION UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2006**

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**MOODY'S ASSIGNS Aaa ENHANCED RATING TO CURRENT SALE BASED ON TEXAS PSF GUARANTEE**

Primary & Secondary Education  
 TX

**Moody's Rating**

ISSUE	UNDERLYING RATING	RATING
Unlimited Tax School Building Bonds, Series 2006	Baa1	Aaa
<b>Sale Amount</b>	\$8,000,000	
<b>Expected Sale Date</b>	08/02/06	
<b>Rating Description</b>	Texas PSF Guarantee	

**Opinion**

NEW YORK, Jul 27, 2006 -- Moody's Investors Service has upgraded to Baa1 from Baa2 the underlying rating of Anna Independent School District [TX], affecting approximately \$26 million in outstanding parity debt. Concurrently, Moody's assigns a Baa1 underlying rating to the current sale of \$8 million Unlimited Tax School Building Bonds, Series 2006. Moody's also assigns the sale a Aaa enhanced rating. Prime credit quality is provided by a guarantee of the Texas Permanent School Fund (PSF) for timely payment of principal and interest in the event that the school district is unable to meet debt service requirements. Sizable PSF assets and conservative program regulations provide strong bondholder protection. Moody's believes the limitations placed upon the PSF's actual leverage remain conservative and consistent with this highest of ratings.

State statutes provide for the advancement of revenues by the PSF from their cash reserves, prior to default, sufficient to meet a school district's debt service obligations should the district be unable to make timely payment. These funds will, in turn, be intercepted from the District's next state aid allocation until full repayment, as either a lump sum or installment payment, to the PSF. For additional information on the PSF program please see Moody's Special Comment "Moody's Affirms The Aaa Rating for Texas Permanent School Fund Guarantee" dated August 2005.

The rating upgrade reflects the District's robust tax base growth which is expected to continue through the medium term, improved financial position, and rising wealth levels. Challenges include a considerably elevated debt position with ongoing borrowing plans. The proceeds from the sale will be used to purchase land for future campuses. Annual principal and interest payments are secured by both principal and interest from ad valorem taxes to be levied on all taxable property within the District, without legal limitation as to rate or amount.

**SINGLE FAMILY HOUSING CONSTRUCTION DRIVES RAPID TAX BASE EXPANSION**

The District is located in far northern Collin County (general obligation rated Aaa), approximately 40 miles north of Dallas (Aa1) along state highway 75. Over the past 5 years, new residential housing construction has spurred rapid tax base growth. During this time period, the District's assessed valuation (A.V.) increased at an average annual rate of 25.4%. The District's population has expanded by 92% over the past five years to reach approximately 8,000 in 2006. Accompanying the favorable migration trends into the District over the past two decades has been a marked improvement in wealth levels. Per capita income in the District rose from 91% of the state median in 1990 to 99% in 2000. Moody's believes that the next census will reflect even higher levels of income among District residents. Location and affordable pricing are two primary factors encouraging strong demand for housing in Anna. The District is conveniently located to employment centers in Plano, Richardson, and Sherman. Moreover, as land costs and housing prices increase in neighboring suburbs closer to Dallas, such as McKinney (Aa3) and Frisco (Aa3), many families have moved further out to purchase affordable single-family homes.

The District's A.V. increased a vigorous 31% in FY 2006 to reach \$317 million. Of the \$76 million added to the FY 2006 tax roll, officials indicate that approximately \$49.5 million was derived from new construction. Preliminary FY 2007 appraisal reports reflect an AV of \$391 million, which would represent a 23% increase over the prior year. With over 10,000 single family lots expected to be developed in the coming years, Moody's believes the District's tax base will continue to grow rapidly. As housing growth continues, the District's enrollment will also continue to expand rapidly. Based on demographic studies and a ten-year facility plan, officials estimate that the District's enrollment will swell from 1,581 to over 5,000 within the next ten years. Enrollment rose a robust 21.6% in FY 2006 alone. The suggested final build out configuration for the District calls for a total student enrollment of 20,000 students with 16 elementary schools sized for 700 students, eight middle schools with 750 students each, and four high schools each slated for an enrollment of 1,800. Currently, the District operates one elementary school, one middle school, and one high school. A second elementary school will be opened within a year. With less than 10% of the District's territory developed thus far and with favorable migration trends expected to continue well into the future, Moody's believes the District's tax base will experience brisk expansion through the medium term.

#### IMPROVED FINANCIAL POSITION

With District officials choosing to draw down the general fund in FY 2004 by \$1.9 million to purchase key land parcels, the FY 2004 general fund held a narrow \$710,000 or 9.2% of general fund revenues. This balance represented less than one month of operating expenditures. Officials recognized the need to strengthen the District's financial reserves given its rapid growth and set a goal of maintaining at least three months of operating expenditures in reserve. Benefiting from strong AV growth, a modest increase in the maintenance and operations (M&O) tax rate, and a careful attention to costs, the District added \$648,000 to the General Fund in FY 2005. The FY 2005 fund balance of \$1.4 million represents approximately two months of expenditures. Officials expect to significantly bolster the District's General Fund in FY 2006 with an estimated \$1.5 million surplus. The District's FY 2005 financial operations were primarily supported by state program revenues (51%) and property taxes (46%). For FY 2007, officials expect that 50% of operating revenues will be derived from property taxes and the remaining supplied by the state.

With student enrollment projected to grow vigorously for the next several years, attracting and retaining teachers will be a top priority. Subsequently, increased staffing and rising salaries and benefits will spur a rapidly growing budget over the long term. Officials expect to add 15 new teachers in FY 2007. In the midst of such robust expansion, Moody's believes that the District's ability to prudently manage growth and escalating expenditures while maintaining sound financial operations will be a key consideration in further upward pressure on the rating.

#### ELEVATED DEBT PROFILE WITH PLANS FOR ADDITIONAL DEBT ISSUANCE

Inclusive of the current issue, the District's total general obligation debt outstanding stands at \$34 million, with substantially elevated debt burdens of 8.8% direct and 9.1% overall (based on FY 2007 AV). When adjusting for state revenues earmarked for debt service, the debt burdens improve to 6.8% direct and 7.1% overall. Payout of principal is slow with only 25% retired in ten years. Going forward, capital improvement needs will remain ongoing as student enrollment grows. Over the next ten years, officials anticipate funding two new elementary schools, one new high school, and substantial renovations. Voters overwhelmingly approved an \$89 million authorization in 2005. After the current sale, \$81 million remains available for issuance.

Officials expect to issue annually over the long term, with preliminary plans to return to voters for a new authorization in seven to 10 years. However, it is the Board's stated goal to only issue bonds when the District is able to meet the building needs and keep the interest and sinking tax rate (currently at \$3.70 per \$1,000) below \$4.50 per \$1,000. Considering the District's plans for significant ongoing borrowing plans, a slow payout, and an expected decline in state aid over the long term, Moody's believes the District's debt position will remain elevated. However, a rapidly expanding tax base will mitigate upward pressure on the debt ratios and allow for a manageable debt burden. While Moody's recognizes that an elevated debt burden is common among similarly fast growing districts, it is our expectation that officials will prudently manage the rate and size of future debt issuances. Over the long term, a reduction in debt burdens will serve as a key factor when considering upward rating changes.

#### KEY STATISTICS:

2006 Estimated Population: 8,000

2006 Estimated Enrollment: 1,581

Per Capita Income: \$19,489 (99% of state median)

2006 Full Value: \$317 million

2007 Preliminary Full Value: \$391 million

2007 Full Value per Capita: \$48,913

Direct Debt Ratio: 6.8% (adjusted for state aid)

Overall Debt Ratio: 7.1% (adjusted for state aid)

FY 2005 General Fund Balance: \$1.4 million or 14.8% of General Fund Revenues

Post Sale Parity Debt Outstanding: \$34 million

## Analysts

Anil Chandy  
Analyst  
Public Finance Group  
Moody's Investors Service

Gera M. McGuire  
Backup Analyst  
Public Finance Group  
Moody's Investors Service

## Contacts

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

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