

RatingsDirect®

Summary:

Central New Mexico Community College, New Mexico; General Obligation

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Summary:

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Credit Profile

US\$34.0 mil GO bonds ser 2018A due 08/15/2033

<i>Long Term Rating</i>	AA+/Stable	New
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Central New Mexico Comnty Coll GO

<i>Long Term Rating</i>	AA+/Stable	Affirmed
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Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to Central New Mexico Community College, N.M.'s series 2018A general obligation (GO) bonds. S&P Global Ratings also affirmed its 'AA+' long-term rating on the college's outstanding GO debt. The outlook on all ratings is stable.

The GO bonds are secured by ad valorem property taxes levied on all taxable property within the college's taxing district. While state statute nominally limits this ad valorem levy to five mills, it provides that the five-mill limit may be exceeded if necessary to pay principal and interest on the GO bonds if the valuation of property within the college's taxing district declines to a level lower than the valuation of such property in the year in which the bonds were issued. Therefore, we view this security as equivalent to an unlimited ad valorem tax security. The college's current debt service levy rate is one mill. We understand that the college is issuing the series 2018A bonds to finance the construction, renovation, and equipping of educational facilities.

The rating reflects our view of the college's:

- Participation in the Albuquerque metropolitan statistical area's (MSA) broad and diverse economy;
- Positive budgetary performance since fiscal 2016;
- Very strong available fund balance as of fiscal 2017, with an expected increase in fiscal 2018; and
- Rapid debt amortization schedule.

Partially offsetting these strengths, in our view, are the college's reliance on state funding for a significant portion of its operating revenue, declining enrollment, and large unfunded pension liability.

Economy and tax base

The college's taxing area covers roughly 1,325 square miles, comprising the entirety of Bernalillo County--centered on the city of Albuquerque--and part of Sandoval County (including the municipalities of Rio Rancho and Corrales). The college is fully accredited, and operates five full campuses--four of which are located in Albuquerque, with the fifth in Rio Rancho--as well as other training centers and facilities. The college is the largest higher-education provider in the state, and as a result plays a strategic role in guiding the Albuquerque regional economy--as well as the statewide

economy. In line with this mission, the college has invested in several workforce and economic development programs in recent years, including establishing the nonprofit CNM Ingenuity Inc. in 2014 to pursue entrepreneurial educational-technological ventures. The college also maintains close relationships with the University of New Mexico (the state's flagship public university), Albuquerque Public Schools, and Rio Rancho Public Schools, and is also increasing its online education programs.

Bernalillo County is the economic and cultural hub of the state (accounting for about a third of the state's population), and we believe that the college benefits from participation in the broad and diverse Albuquerque MSA. The county's economic base is diverse and includes manufacturing (Intel, Honeywell Aerospace, General Mills), technology (Raytheon), federal and military institutions (Sandia National Labs, Kirtland Air Force Base, the Air Force Research Laboratory), higher education, health care, and back-office centers for major multinational corporations. The film and television industry, in particular, has been a major source of growth in recent years. This diverse base, as well as the city's central role in the statewide economy, helped stabilize employment during the Great Recession: The county unemployment rate peaked at 7.7% in 2010, and has decreased to 5.3% for the year ended March 2018 (below the statewide rate, but higher than the national rate). In 2017, the college district's median household effective buying income (EBI) was 92% of the national level and its EBI per capita was 95% of the national level--both of which we consider good. Its market value per capita was about \$76,000, which we consider strong.

The college's tax base was relatively stable during the recession, further reflecting local area's centrality to the state economy. The college's total assessed value (AV) fell by 5.8% cumulatively in fiscals 2010 and 2011, and has since grown by 2.2% annually, surpassing its prerecession peak in fiscal 2015.

Looking ahead, we are forecasting positive near-term growth for the broader Mountain region, inclusive of New Mexico, which will benefit from appreciating housing prices as well as robust housing construction. Given the region's focus on professional services, natural resources and mining, leisure, and hospitality, we expect that Mountain states are likely to experience minimal adverse economic effects from rising trade tensions with China and other international trade partners. As a result, we expect the broader macroeconomic forces to support our view of continued property tax growth for the college. For additional information, please refer to our U.S. State And Local Government Credit Conditions Forecast, published July 26, 2018, on RatingsDirect.

Financial profile

New Mexico's allocation of state funding for community colleges is based primarily on credit enrollment, although performance measures also play a role--which benefits the college due to its strong student success indicators. This college's credit enrollment has declined by 14.8% cumulatively since fiscal 2013, to about 24,400 in fiscal 2017. Management attributes this decline to deliberate initiatives to structure its programs more efficiently for students, which helps them graduate or transfer more quickly, as well as broader regional outmigration and countercyclical trends. Despite multiple other higher education institutions in the area, management reports that competition for students is not a major driver of the college's enrollment trends. The college is also focusing on developing its noncredit programs, for which it has flexibility in setting tuition rates; in fiscal 2017, noncredit enrollment accounted for 10.7% of total enrollment.

We view the college's financial profile as very strong. The college returned to positive operational results in fiscal 2016,

following a run of deficits in fiscals 2012 to 2015. In fiscal 2017, its operational funds (unrestricted and restricted) showed a surplus of 3.3% of expenditures on a budgetary basis, and its fiscal 2018 estimated actuals show a similar result. State appropriations are the college's largest revenue source, accounting for 24.5% of total operational revenues in fiscal 2017. The college's state appropriations declined by 6.2% in fiscal 2017 due to a deteriorating state funding environment (after increasing steadily from fiscals 2012 to 2016 despite ongoing enrollment declines) and remained stagnant in fiscal 2018. However, the college has budgeted for a 5.0% increase in state appropriations for fiscal 2019. The college's local mill levy (for operations and debt service) is its second-largest revenue source (23.5% of total revenues in fiscal 2017), followed by tuition and fees (11.2%).

The college's available fund balance (its budgetary-basis unrestricted ending net position) increased to \$54.0 million, or 25.7% of expenditures, in fiscal 2017, which we view as very strong. The college's fiscal 2018 estimated actuals show a further increase to \$60.6 million, or 30.7% of expenditures. The college has budgeted for an operating deficit of 4.9% of expenditures for fiscal 2019, although we expect that actual results will be significantly better than this given the college's record of favorable budget-to-actual variances. But even if the college realizes its full budgeted deficit for fiscal 2019, we would likely still view its available fund balance as very strong at 17.1% of expenditures. (We include CNM Ingenuity's unrestricted fund balances in our assessment of the college's available balance based on our understanding from management that the college's board can authorize transfers from Ingenuity to its operational funds if necessary.)

Financial policies and practices

We have revised our view of the college's financial management practices to good from strong under our Financial Management Assessment (FMA) methodology. The change reflects our current understanding that the district no longer engages in formal long-term financial planning or forecasting. An FMA of good indicates that practices exist in most areas, although not all may be formalized or regularly monitored by governance officials.

Key policies and practices include:

- A strong process for developing realistic budgetary assumptions based on active involvement by management in the annual process for determining the state funding formula, an internal enrollment projection model, and conservative AV growth assumptions;
- Quarterly reporting of budget-to-actuals to the board, with budgetary amendments made as needed;
- A lack of formal long-term financial planning;
- A five-year capital improvement plan that is updated annually, but explicitly identifies funding sources only for current-year projects;
- Formal investment policies for the college's operational funds, endowment funds, and CNM Ingenuity, but only annual reporting of holdings and performance to the board;
- A formal debt management policy that regulates debt issuance, manages tax levy rates, and dictates the terms of issuances that include the use of alternative liabilities; and
- A formal reserve policy requiring a minimum Instruction & General fund balance of 12% of expenditures, and a maximum balance of 18% of expenditures, which is based on an assessment of cash flow needs.

Debt, pension, and other postemployment benefit (OPEB) liabilities

We consider the college's overall net debt burden to be moderate on a per capita basis (\$2,003 in fiscal 2017) and low as a share of market value (2.6%). The college's debt service burden was 5.8% of total noncapital operational expenditures in fiscal 2017, which we consider low, but its estimated actuals for fiscal 2018 show this burden increasing to 8.4% (moderate, in our view). The college's pace of debt amortization is rapid, with 82% of debt being retired within 10 years as of fiscal 2019. Following the issuance of the series 2018A bonds, the college will have no remaining authorized but unissued general obligation bonding capacity. We understand that it may seek voter approval for up to \$84 million in additional capacity in 2020, but that it does not anticipate having to increase its debt service levy rate. We also understand that the college does not have any privately placed debt that we would view as imposing liquidity risk.

We consider the college's pension liability to be a source of long-term risk. The college participates in the New Mexico Educational Retirement Board (ERB) pension plan, which is a cost-sharing, multiple-employer, defined-benefit pension system. In April 2017, the ERB made a number of adjustments to its actuarial assumptions and methods, including lowering its discount rate to 7.25% (from 7.75%) and its payroll growth rate to 3.00% (from 3.50%). While we believe that these changes will likely support the plan's sustainability over the long term, they also decreased the plan's reported funded ratio to 53.0% in fiscal 2017 (from 61.6% in fiscal 2016) under Governmental Accounting Standards Board's current reporting guidelines. Additionally, under the new assumptions, the plan's actuarial assets and future contributions will only be able to finance benefits payments through 2053. Finally, while the college has historically made its full statutorily required pension contribution, planwide actual contributions were only 82.8% of the actuarially determined contribution (which is based on an amortization of the plan's unfunded liability by 2042) in fiscal 2017. Accordingly, we believe that the college's pension costs are likely to rise significantly in the coming years, although its fiscal 2017 pension carrying charge of 4.8% of total operational expenditures is still moderate.

The college's OPEBs consist of health care benefits provided through the New Mexico Retiree Health Care Fund (a cost-sharing, multiple-employer plan). The plan is funded on a pay-as-you-go basis, and the district's contributions accounted for 0.7% of total operational expenditures in fiscal 2017.

Outlook

The stable outlook reflects our expectation that the college will likely maintain very strong available fund balances, despite ongoing enrollment declines, and our view of the state's improved funding environment for education in fiscal 2019. As a result, we do not expect to change the rating within the next two years.

Upside scenario

We would consider a higher rating if the college were to increase its revenue flexibility outside of the state funding system--perhaps through robust noncredit enrollment growth--while concurrently increasing available reserves to a level in line with those of 'AAA' rated peers.

Downside scenario

We could lower the rating if persistent enrollment declines or reductions in state funding were to lead the college to reduce its available fund balances below a level that we consider to be very strong.

Related Research

U.S. State And Local Government Credit Conditions Forecast, July 26, 2018

Ratings Detail (As Of August 3, 2018)

Central New Mexico Comnty Coll GO

Long Term Rating

AA+/Stable

Affirmed

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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