

Johnson County Community College, Kansas; Junior/Community College

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Johnson County Community College, Kansas; Junior/Community College

Credit Profile

US\$8.435 mil student commons and parking sys rfdg rev bnds ser 2019 due 11/15/2027

Long Term Rating

AA+/Stable

New

Johnson Cnty Comnty Coll stud commons and pkg sys rev bnds

Long Term Rating

AA+/Stable

Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' rating and stable outlook to Johnson County Community College (JCCC), Kan.'s series 2019 student commons and parking system refunding revenue bonds and affirmed its 'AA+' rating, with a stable outlook, on JCCC's existing student commons and parking system revenue debt.

The rating reflects our opinion of the strength of JCCC's healthy operating margins, still healthy financial resource ratios, broad and expanding county property tax base, and significant tax-raising flexibility (no limits on the tax levy). In our view, the generation of consistent full-accrual operating surpluses and maintenance of financial resource ratios near current levels is important to preserve the rating.

The rating also reflects our opinion of JCCC's:

- Healthy positive operations during the past five audited fiscal years due to consistent revenue increases from taxes, somewhat offsetting enrollment decreases;
- Good financial resources for the rating category with adjusted unrestricted net assets (UNA) of \$127.9 million, or 68.5% of adjusted operating expenses at June 30, 2018, coupled with similar expectations;
- Manageable pro forma debt at 2.9% of fiscal 2018 adjusted operating expenses; and
- Good revenue diversity--Property taxes generated 49.7% of fiscal 2018 adjusted operating revenue while tuition and other student-related charges accounted for 23.4% and state appropriations accounted for 16%.

We believe somewhat offsetting credit factors include, what we consider, JCCC's:

- Enrollment decreases during the past four years due to the countercyclical nature of community college enrollment, and
- Flat state appropriations expected beyond fiscal 2020.

The student commons and parking revenue bonds are fixed-rate debt, secured by a net system revenue pledge, including all rental charges; dining fees; student union fees; and parking fees, as well as other existing and future auxiliary enterprises on the main campus, specifically student-commons-parking-fee charges for each enrolled student. Net system revenue includes an unlimited student fee of \$7 per credit hour and a commons-and-parking fee of \$8 per

credit hour. Due to pledged fee support for the revenue bonds paid by each college student, which JCCC can raise if needed, and the auxiliary system's general operational health, the rating reflects our view of JCCC's strong and broad revenue pledge.

Following the series 2019 issuance, total pro forma debt will be \$66.61 million: \$49.895 million of certificates of participation, \$12.945 million of revenue debt, and \$3.77 million of capital-outlay bonds. Management does not currently plan to issue additional debt within our two-year outlook period.

Established in 1967 by a vote of Johnson County residents, JCCC is Kansas' largest community college, serving more than 18,000 students at its main campus in Overland Park and several leased academic centers countywide. The Higher Learning Commission of the North Central Association of Colleges & Schools accredits JCCC.

Outlook

The stable outlook reflects S&P Global Ratings' opinion that during the two-year outlook period, JCCC will likely maintain solid margins and be able to manage through any further enrollment decreases. The outlook also reflects our view of the continued maintenance of strong financial resources for the category near current levels.

Downside scenario

We could lower the rating or revise the outlook to negative if significant tax revenue were to decrease; management were to sustain full-accrual operating deficits; management were to issue new debt; or management were to draw down reserves, leading to deteriorated financial resource ratios from current levels.

Upside scenario

We do not currently consider a positive rating action likely during the outlook period due to decreasing enrollment and JCCC's enterprise and financial characteristics.

Enterprise Profile

Economy

JCCC's tax base is coterminous with Johnson County, Kansas' largest county by population, with a population estimate of 598,000, and a leading economic center. The county has the highest per capita income in the state and Kansas City metropolitan area, accounting for 144% of the national level. The board of trustees (BOT) is solely responsible for setting the property-tax levy without required voter authorization. The tax and debt-service levies were stable in 2018 compared with 2017. The tax base is very diverse: The 10 leading taxpayers accounted for 4.65% of total fiscal 2018 assessed value (AV).

County unemployment has been lower than state and national levels: It was 2.7% in May 2019. Total fiscal 2019 taxable AV, excluding motor and recreational vehicle values, increased by 7.7% to \$10.558 billion due to overall county growth. Based on construction trends and taxable growth, officials are projecting AV will continue to increase at a similar rate in fiscal 2020.

Management

An elected seven-member BOT governs JCCC with members serving overlapping four-year terms. The BOT sets the budget and local tax levy. We understand there have been no changes at the BOT aside from typical rotations. JCCC's fifth president is retiring on July 1, 2020. The BOT is currently looking for a replacement. The executive vice president for finance and administrative services is also retiring in October 2019. Currently, the vice president for student services and engagement is the interim executive vice president for finance and administrative services. We expect the BOT to appoint a new president prior to July 2020 with a smooth transition. There have not been any other significant changes to senior management, and there are no expected additional changes.

The district's adopted strategic plan will run through 2020. The plan centers on five institutional priorities and strategies:

- Academic Excellence,
- Student Success,
- Employee Engagement,
- Community Engagement, and
- Operational Excellence.

We consider the district's policies and budgeting practices conservative. JCCC maintains cash-based-reserve; debt-service; and investment-management policies, which we view favorably.

Enrollment

Overall enrollment has decreased recently. We consider this typical due to nationwide community college enrollment decreases due largely to the countercyclical nature of enrollment. Total credit headcount and full-time-equivalent enrollment have continually decreased since fall 2012, and they have decreased by an annual 2% average since then. Total credit headcount and full-time-equivalent enrollment were 18,373 and 9,888, respectively, in fall 2018. Management expects flat enrollment for fall 2019.

The BOT sets tuition. Tuition remains stable and affordable, in our view, at \$2,820 per year for a full-time, resident student for the 2019-2020 academic year, reflecting just a \$1 credit-hour increase for fall 2019 after three years of flat tuition. JCCC has not yet finalized the fiscal 2021 budget, but we do not expect significant tuition increases for fall 2020.

JCCC offers more than 60 associate degree programs and certificate options. In addition, with all of its noncredit workforce training and personal-enrichment programs combined, JCCC has more than 14,000 continuing-education students annually in more than 4,000 certification; recertification; and re-licensure workshops, seminars, independent study, computer-and-information technology classes, and contract-training events. More than 3,800 employees from area companies take advantage of contract-training courses specifically tailored for them and presented at JCCC or the workplace.

Kansas also pays for high school students to take certain technical classes. High school students can also take JCCC courses, often receiving college credit through College Now. Based on these program offerings and affordability

metrics, we expect JCCC will likely remain competitive and enrollment will likely remain relatively stable.

The fiscal 2016 three-year, cohort-student-loan default rate was 11.4%, which exceeded the national average; it, however, was lower than community college averages. In our view, the cohort-default rate is not currently a credit risk because a school could lose Pell Grant funding and access to federal student loans if cohort-default rates exceed 30% for three consecutive years, or 40% in one year. We will continue to monitor the cohort-default rate, and we would view consecutive years of rates greater than 30% as a negative rating factor. About 34% of first-year students received Pell Grants in 2016.

Financial Profile

State appropriations

State operating appropriations to community colleges reflect an enrollment-driven formula associated with tuition at Kansas' three regional state public universities. Total state appropriations have been relatively flat during the past five audited fiscal years, ranging from \$30.9 million to \$32.9 million. In fiscal 2018, appropriations were \$32.9 million, up by 4.3% from fiscal 2017. In fiscal 2019, appropriations were flat, up by about 2%. Officials are projecting another 2% appropriation increase in fiscal 2020 and stable in fiscal 2021. As an overall percent of adjusted operating revenue, state appropriations were slightly more than 16%, which was low compared with its peers.

Financial operations

JCCC has posted consecutive operating surpluses during the past three fiscal years with healthy operating margins. The fiscal 2018 audit reported a very good adjusted operating income, based on our calculation, of \$19.98 million, following a \$15.8 million adjusted operating income in fiscal 2017; AV supports these margins.

Financially, the district benefits from a diverse operating revenue base. Property taxes generate slightly less than half of revenue with student sources accounting for about 23%. Management indicates fiscal 2019 results will be similar to fiscal 2018. The fiscal 2020 budget has held expenses, with less than a 1.5% increase; it also generates additional revenue with a slightly decreased mill levy due to increasing county property valuations.

Financial resources

Financial resources are strong, and they have grown during the past five fiscal years. Adjusted UNA totaled \$127.9 million at June 30, 2018, up from \$115.4 million in fiscal 2017. The adjusted-UNA-to-adjusted-operating-expense ratio was 69% at June 30, 2018, compared with 63% at June 30, 2017. Relative to debt, adjusted UNA was 1.9x pro forma debt service coverage. With a surplus forecast for fiscal 2018, we expect UNA will likely continue to grow as it has each year during the past five fiscal years. Likewise, cash and investments are just a little higher than UNA, at \$196 million in fiscal 2018; cash and investments also continue to grow.

Management has disclosed plans for a multiyear facilities fund, partially funded by internal reserve drawdowns. We understand management intends to stagger these drawdowns during the next two fiscal years, and we do not think they will materially dilute current financial resource ratios due to full-accrual operating surpluses.

Pension plans and other postemployment benefits

We analyze the materiality, strategy, and funding of pension plans separately from our analysis of an entity's long-term debt or operating margin. Consequently, we could make certain adjustments to debt calculations or operating margins for colleges with substantial multiple-employer, cost-sharing, defined-benefit pension plans to separate out net pension liabilities or noncash expense accruals. In our view, these adjustments enhance analytical clarity from a credit perspective, resulting in more-comparable debt and operating metrics across accounting methods.

JCCC contributes to Kansas Public Employees' Retirement System, a cost-sharing, multiple-employer, defined-benefit pension plan. Kansas funds employer contributions for JCCC. Therefore, we consider JCCC in a special-funding situation, as defined by Governmental Accounting Standards Board Statement No. 68. JCCC contributes directly to the system: It contributed \$82,831 in fiscal 2018. JCCC reported its proportionate share of the net pension liability related to these employees was \$1.349 million in fiscal 2018. JCCC contributed roughly \$402,000, over its required contribution, toward other postemployment benefits.

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