

# RatingsDirect®

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**Summary:**

## Central New Mexico Community College, New Mexico; General Obligation

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### Table Of Contents

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Rationale

Outlook

Related Research

## Summary:

# Central New Mexico Community College, New Mexico; General Obligation

### Credit Profile

US\$42.0 mil GO bnds ser 2016 due 08/15/2031

*Long Term Rating*

AA+/Stable

New

Central New Mexico Comnty Coll GO

*Long Term Rating*

AA+/Stable

Affirmed

## Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to Central New Mexico Community College, N.M.'s series 2016 limited-tax 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 series 2016 bonds and outstanding GO bonds are secured by a limited ad valorem tax pledge. Including this issuance, the college district's current levy will be 1.00 mills. The current cap is 5.00 mills per \$1,000 of net taxable value; however, the limit may be exceeded if it is necessary to levy more than 5.00 mills to pay principal and interest on the bonds in the event that property valuation within the district declines to a level lower than the valuation of such property in the year in which the bonds were issued. The 2016 bond proceeds will be used 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 tax base;
- Ability to generate noncredit hour enrollment as a measure to offset the credit-seeking enrollment declines;
- Strong management, as demonstrated by our strong Financial Management Assessment (FMA);
- Very strong available fund balance levels, despite recent general fund operating deficits; and
- Low overall net debt burden.

In our opinion, offsetting credit factors include the college's reliance on state funding for a significant portion of its operating revenue and declining credit-seeking enrollment.

The fully accredited, 1,325 square-mile district serves an approximately 731,000-resident area that encompasses the entirety of Albuquerque, Tijeras, Los Ranchos, Corrales, and Rio Rancho. The district operates five campuses, four of which are located in Albuquerque with the remainder located in Rio Rancho. The district is the largest education provider in the state, including the state's flagship University of New Mexico. As a result, the district is charged with guiding the state's economy (versus reacting to market demand), and our conversation with the district management's team echoed that point. Due to this mandate, the district recently invested in science, technology, engineering, and math (STEM)- and computer engineering-focused developments financed in part by the 2014 bond program. The

district expects to continue its trend of revitalization of current facilities and infrastructure as it seeks to offer competitive on-campus and online course offerings to support the state's economy.

As a result of the district's location, residents have access to the broad and diverse Albuquerque MSA, the state's largest. As a result, we consider the district's income indicators to be good, as demonstrated by median household effective buying income (EBI) at 95% of the national level and per capita household EBI at 92%. In addition, we consider the district's projected market value per capita to be strong at \$73,074 for fiscal 2016, which is an improvement from \$71,700 in fiscal 2015 due to the roughly 2% market value. The district's assessed value (AV) totaled about \$17.8 billion for fiscal 2016. Historically, the district's AV is stable, as it has experienced only two years of relatively moderate declines (fiscals 2010 and 2011) in the last 10 years. As a result, the district's preliminary fiscal 2016 AV is approximately \$334 million, or 2% above the fiscal 2009 prerecession high of \$14.5 billion.

Overall, we are forecasting stable to positive growth for the broader New Mexico region, inclusive of Albuquerque. As we believe that the region's above-average population growth over the next two years will come in large part from expanding employment in the professional service, hospitality, and leisure sectors, we don't expect global uncertainty and volatile equity markets will have much impact on local governments. We also expect increases in home prices and consumer spending will contribute to improved revenue performance for many local governments in the Mountain region, particularly those that rely on property taxes and sales taxes. As a result, we expect the broader macroeconomic forces to support our view of continued property tax growth for the district. For additional information, please refer to our U.S. State And Local Government Credit Conditions Forecast, published July 27, 2016, on RatingsDirect.

With a student population of roughly 29,000 (including online), the college is the largest higher-education provider in the state, as previously mentioned. While there is a multitude of higher-education institutions--including numerous community colleges--within the area, management continues to report that its enrollment is not significantly affected by competition from neighboring institutions. In fiscal 2013, New Mexico implemented performance-based funding, which focuses on student credit hours, certificates and degree awards, and the percentage of those awards that are earned by STEM as well as in health fields and by financially at-risk students. Credit enrollment totals, which are most closely linked to state funding, continue to risk fluctuations in response to economic trends on top of the state's financial position. Credit enrollment totals have declined by about a 4% average annual rate since fiscal 2012 to the current level of 25,760. We note that the district's total headcount also includes noncredit enrollment, and the trend within this category, though relatively small, at about 11% of total headcount, is growing as the district is adding students, inclusive of interyear volatility. The noncredit enrollment stems from the district's investment and promotion of job training programs, technology-focused boot camps, and other related programs evenly divided between its adult & education center and its workforce training center. The district expects continued growth within this unit through our two-year outlook horizon. Altogether, the district's total headcount is 29,100, or a small decrease from 30,644 a year ago.

The district's financial profile remains very strong, in our view, with an audited available general fund balance of 21.6% of operating expenditures, or about \$39 million, in audited fiscal 2015. Inclusive of our adjustments, the district's general fund operating performance has been negative. The negative trend is driven in part by the district's recent

investments in technology- and STEM-related programs, the state funding environment, and the trend of reduced student headcount. Looking ahead, we expect the district's financial profile to remain very strong as the district has a financial cushion to bear additional general fund operating deficits, although we expect the district to make corresponding expenditure adjustments to maintain a stable financial profile. Historically, the district undertook a number of initiatives to capture savings prior to fiscal 2012, including increasing tuition and fees, adjusting its organizational structure, implementing targeted department consolidations, reducing salaries, and lowering administrative costs.

State appropriations continue to be the largest source of revenue, at about 40% of total revenues. The state of New Mexico (AA+/Negative) remains on negative outlook, and the outlook reflects the potential for declines in general fund balances due to weak revenue trends as a result of declines in the oil and gas industry and slow federal employment growth. The outlook also reflects findings in the state's audited comprehensive annual financial reports that highlight weak centralized cash management and accounting processes and that create some uncertainty surrounding New Mexico's consolidated financial position. As a result, we consider the district's financial exposure to the state to be a negative factor as the state may be incentivized to reduce funding or to sweep cash positions from community colleges as a stopgap measure for the state's finances. While we do not consider such a move from the state likely, it is within our consideration of the current rating level.

We consider the college's financial management policies to be strong based on our FMA methodology. A FMA of strong indicates that practices are strong, well embedded, and likely sustainable. Significant practices of the college include development of quarterly reports on budget progress and maintenance of three-year strategic and five-year capital improvement plans. The college has a written policy of budgeting for a current fund balance of between 12% and 18% of current operating expenditures to ensure adequate flexibility to manage cash flow. The college also has a debt policy that regulates debt issuance, manages tax levy rates, and dictates the terms of issuance that includes the use of alternative liabilities.

We consider the district's overall net debt burden to be low, at \$1,871 per capita and 2.6% of market value. This newly rated issuance represents a continuation of multiple new-money debt plans in the coming years. We do not expect that the additional authorization will significantly worsen the direct debt burden. Finally, the district did not report any alternative financing on its balance sheet.

The college participates in the Educational Retirement Board, a public employee retirement, cost-sharing, defined benefit plan, and makes 100% of its required contribution. In 2015, the college's contribution rate was 7.9% of gross salary for employees earning less than \$20,000 and 10.7% for employees with an annual gross salary of greater than \$20,000. The college's contribution for fiscal 2015 was about \$10.6 million, a notable increase from the college's \$7.4 million contribution in fiscal 2013. The college also contributes to the New Mexico Retiree Health Care Fund, a postemployment health care plan administered by the Mexico Retiree Health Care Authority. The college's contribution for fiscal 2015 was about \$1.5 million or about 0.8% of total governmental funds expenditures. The combined pension and other postemployment benefit contributions totaled 6.2% of current and plant funds less capital expenditures in fiscal 2015.

## Outlook

The stable outlook reflects our expectation that the district will likely maintain very strong available fund balances despite the potential for reduced state funding and the declining enrollment environment. As a result, we do not expect to change the rating within the two-year outlook horizon.

### Upside scenario

We would consider a higher rating if the district were to generate significant revenue flexibility outside of state funding while concurrently increasing available reserves to a level in line with those of 'AAA' rated peers.

### Downside scenario

We could lower the rating if the district were to reduce available fund balances below a level that we consider to be very strong, indicating weakness within the district's credit profile, or if the state were to dramatically reduce funding, including sweeping cash balances, resulting in a significantly weakened fund balance.

## Related Research

U.S. State And Local Government Credit Conditions Forecast, July 27, 2016

Ratings Detail (As Of October 6, 2016)		
Central New Mexico Comnty Coll GO		
<i>Long Term Rating</i>	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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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