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Ratings

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Portland Community College District, Oregon; General Obligation

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Portland Community College District, Oregon; General Obligation

Credit Profile		
Portland Comnty Coll GO		
Long Term Rating	AA+/Stable	Affirmed

Rationale

S&P Global Ratings affirmed its 'AA+' long-term rating on the Portland Community College District (CCD), Ore.'s series 2018 full faith and credit pension bonds and other general obligation and limited-tax pension bonds outstanding. The outlook is stable.

The district's total direct debt equaled approximately $598 million as of fiscal year-end (June 30) 2021.

The CCD's full faith and credit, including the obligation to levy property taxes without limitation as to rate or amount, secures the GO bonds. The series 2018 full faith and credit pension bonds and series 2003 limited-tax pension bonds outstanding are payable from the CCD's available general funds and are subject to taxing power within constitutional limitations. The rating on these obligations is based on the application of our criteria, titled "Issue Credit Ratings Linked to U.S. Public Finance Obligors' Creditworthiness" (published Nov. 20, 2019 on RatingsDirect). Given the fungibility of the district's resources and because pledged revenues are not measurably narrower or subject to disproportionate risks relative to the district's overall revenues, we rate the limited-tax debt on par with our view of the district's general creditworthiness.

Due to the COVID-19 pandemic, the CCD transitioned to remote learning in March 2020. Since the start of the 2020-2021 academic year, the CCD has offered both in-person and online instructional modes, though on-campus activity to date has been limited. The pandemic has pressured enrollment, with a steep 9.3% decline in fiscal 2021 (total year full-time equivalent (FTE)), following a larger 11% decline in fiscal 2020. This closely mirrors community college enrollment trends within the state and nationally. Preliminarily for fiscal 2022, FTE enrollment was down about 5% for the fall 2021 term. Since the onset of the pandemic, the CCD has engaged in several cost savings measures, which, in conjunction with generous federal relief funding, have helped sustain its general fund operating performance. As an offset to the revenue challenges due to the pandemic, the CCD has been allocated three rounds of federal stimulus funding that total about $60.5 million for institutional use and an additional $40.3 million for student aid. We understand that this funding has largely offset the financial impact of the substantial enrollment declines and the corresponding influence on tuition revenues and operating expenses. We understand that all institutional funds will be recognized by the end of fiscal 2022.

Despite the economic uncertainty at the onset of the pandemic, state operating support has continued, and even grown, with an increase in funding for the fiscal 2021-2023 biennium of about 10% from the prior biennium. We understand from management that the local economy has begun to rebound from the early days of the pandemic and that tax revenues continue to grow.

Credit overview

The CCD is located in central Portland in northern Oregon and serves an estimated population of 1.4 million, including central Portland, its immediate southern suburbs, and a large urban area to the west in the counties of Multnomah, Washington, Yamhill, Clackamas, and Columbia. It is the largest post-secondary institution in Oregon and operates four larger main campus facilities offering two-year degrees and five smaller facility centers offering limited or specialized programs.

The rating reflects our view of the CCD's:

- Large and diverse property tax base in the core of the Portland-Vancouver regional economy;
- Extremely strong property wealth indicators compared with national levels;
- Very strong fund balances, with additional discretionary reserves outside the general fund;
- Strong policies and practices under our financial management assessment (FMA) methodology; and
- Low overall debt burden as a percentage of market value, albeit moderately elevated on a per capita basis.

Partly offsetting these strengths, in our view, are the CCD's:

- Continued significant enrollment declines, which could pressure financial operations; and
- Reliance on state funding, which can be volatile.

Environmental, social, and governance

In our view, the district's location might make it vulnerable to extreme weather conditions such as wildfires and seismic activity, exposing it to acute environmental physical risks that could influence our credit rating analysis if unexpected costs affect financial performance. In addition, the district is exposed to elevated social risk as a result of the ongoing pandemic and potential variants, which have and could continue to negatively affect enrollment trends. We view the district's governance risks as in line with our view of the sector.

The stable outlook reflects our view that the CCD has sufficient reserves to maintain its stable financial position and that even though enrollment may remain challenged in the near term, management will be active in managing its expense base to maintain generally stable financial performance. The stable outlook further reflects our view of the CCD's strong and diverse economy within the Portland metropolitan statistical area, which we believe continues to support the rating with a growing tax base. We understand that the district plans to seek voter approval for a potential $450 million general obligation issuance in the upcoming November 2022 election; however, this potential debt has not been factored into our analysis.

Stable Outlook

Downside scenario

We could take a negative rating action in the event of continued material enrollment declines or economic or financial deterioration that lead to sustained declines in reserves or liquidity. We could also lower the rating if the debt load and

commensurate debt metrics increased to levels that are no longer commensurate with the rating and those of similar-rated peers.

Upside scenario

We do not anticipate raising the rating in the near term due to recent substantial enrollment declines and our expectation for softer operating results in the near term.

Economy and enrollment

The CCD's market value has shown stable growth, most recently increasing by 4.8% in fiscal 2021 to $282.6 billion, with another increase projected for fiscal 2022. The CCD's market value per capita is, in our opinion, extremely strong at approximately $198,180. The CCD's assessed value (AV) has grown as well, increasing by 4.6% to $152.7 billion in fiscal 2021.

The tax base is very diverse, in our opinion, with the top 10 taxpayers accounting for 5.3% of total AV in fiscal 2021. Averaging Washington and Multnomah counties' effective buying income (EBI), we calculate the CCD's median household and per capita EBI at 116% and 116%, respectively, of the national levels, which we consider strong. As of January 2022, the area's unemployment rate was 4.4%, slightly higher than the state and national averages. While economic activity continues to recover from the onset of the pandemic, the CCD's management team acknowledges that uncertainties remain with the local economy concerning the return of business travel and employees continuing to work from home.

The CCD's overall enrollment and FTE student enrollment declines have been exacerbated by the pandemic, though enrollment has declined since 2013 after several years of increases during the recession. FTE enrollment declined 9.3% in fiscal 2021, following a decline of 11% in fiscal 2020. Preliminarily for the 2022 fiscal year, management anticipates that FTE will also be pressured, though not to the extent it was in fiscal 2021, with fall 2021 FTE down about 5% from the prior fall. While management anticipates near-flat enrollment for fiscal 2023 and beyond, it believes that a small increase is possible in the following biennium. Given the historical enrollment challenges and challenging demographic trends, the CCD has been active in the development and implementation of a strategic enrollment plan that focuses on workforce development, corporate sponsorship programs, branding, and retention.

Finances

The CCD's operating revenue primarily consists of a combination of state aid and property tax revenue under an enrollment-based funding formula and from tuition and fees, both of which it has discretion to adjust. State aid represents approximately 45% of the CCD's general fund revenue, and tuition and fees represent approximately 36%. In addition, we view property taxes as a stable revenue source at about 16% of general fund revenue. Tuition rates by credit hour are near the statewide average for community colleges.

The state provides funding based on a share of the overall state-level allocation up to a specific number of FTE students and does not fund above that level. The CCD does allow a certain number of unfunded FTE students, which in recent years has been about 1,000. Large amounts of unfunded FTE students could harm operations, but a careful balance can bring in additional revenue without too many additional costs.

In our view, the CCD has maintained a solid financial position and healthy fund balances. It ended audited fiscal 2021

with its general fund increasing by $38.4 million, and a $101.2 million general fund balance, which we consider a very strong 46.5% of general fund expenditures. In addition, the CCD holds about $61.3 million in discretionary reserves that it could legally use for general fund purposes without an obligation to replenish, subject to board approval. While tuition revenue was down notably in fiscal 2021 due to enrollment declines, this was largely offset by federal stimulus HEERF funds and savings due to limited campus activity and reduced personnel and benefit expenses. While management has budgeted conservatively for fiscal 2022, it anticipates that the general fund result will be flat, as federal stimulus funds continue to provide a cushion for general fund operations. State funding has been stable, with an increase of about 10% for the 2021-2023 biennium.

The CCD's 2021-2023 biennium budget reflects balanced operations, but we believe operating results over fiscal 2023 could soften with inflationary pressures, a flat tuition rate, uncertainty with enrollment, and the prior use of all institutional federal stimulus funds. We believe the CCD's effective and strong financial management will continue to support its financial position and ending fund balances for the next two years.

Management and governance

The CCD is governed by a seven-member elected Board of Directors that includes an appointed non-voting student representative. Recent changes with senior leadership include the retirement of its executive vice president in October 2021, with the role currently vacant. Upcoming changes with senior leadership include the retirement of the college president in summer 2022. Following a national search, the board announced Dr. Adrien Bennings as its next president. Dr. Bennings comes to CCD from serving as President of Kellogg Community College in Michigan.

The CCD's strategic priorities are outlined it its current strategic plan, "2020-2025: Discovering New Possibilities." Topics covered in the plan include "Transforming Our Learning Culture Toward Creating a Sense of Belonging and Well-being for Every Student," "Redefining Time, Place, and Systems of Educational Delivery to Create a More Learner Centric Ecosystem," "Cultivating a Long-term Sustainable College Enterprise," and "Responding to Community and Workforce Needs by Developing a Culture of Agility." Other initiatives include a recent restructuring that transitions the four campuses to a "one college" operating model, and the development of a strategic enrollment plan.

Financial management assessment

We assess the district's management practices as "strong" under our FMA methodology, indicating our view that financial practices are strong, well embedded, and likely sustainable.

The CCD's management policies and practices include:

- Use of historical trends, the previous year's financial performance, and the state's biennium budget for revenue and expenditure assumptions;
- Monthly budget and financial summary reviews with board members, with the ability to amend budgets if needed;
- Use of state's biennium budgets and forecasts four years out on a biennium basis for long-term financial planning;
- A facilities and deferred maintenance plan for long-term capital planning, with near-term and long-term funding sources planned for;
- An investment policy that is in compliance with strict state guidelines and investment in Oregon's local government investment pool, the financial summary of which the board reviews monthly;

- A formal debt management policy that limits debt outstanding to 65.0% of its legal limit, and a state-mandated legal debt limit of 1.5% of market value; and
- A reserve policy to maintain an unappropriated balance in the general fund equivalent to a minimum of 9% of the total general fund expenditures for the fiscal year for good fiscal control and flexibility.

Debt

In our view, the CCD's overall net debt burden remains low at 2.9%. Overall net debt per capita is high at $5,778. Amortization of principal is rapid, in our view, with 77% of direct debt to retire in the next 10 years. The CCD issued roughly $120.0 million in pension obligation bonds (POBs) in 2003, which provided an estimated savings of $60.6 million in pension costs. In addition, its 2018 pension bonds provided CCD with approximately $5.6 million in savings for the 2019-2021 biennium.

The CCD is seeking voter approval for a $450 million bond in the upcoming November 2022 election. If approved, the bond would be used to update technology, equipment, classrooms, and other capital requirements.

The CCD has no alternative finance debt such as bank loans, direct purchases, or private placements.

Pension and other postemployment benefits

The CCD participates in the Oregon Public Employees Retirement System (PERS). At June 30, 2021, the CCD reported a net pension liability of about $51.5 million for its proportionate share of the system's net pension liability. PERS' funded ratio, as measured by its fiduciary net position relative to its net pension liability, is adequate, in our view, at about 86%. The CCD has previously issued its series 2003 and series 2018 POBs, which were issued to lower employer contribution rates to the plan and resulted in an excess contribution to the plan in fiscal 2020. The CCD holds a $17.8 million discretionary PERS reserve held outside of its general fund.

The CCD also contributes to an other postemployment benefits (OPEB) plan administered by PERS, with a contribution of $593,338 in fiscal 2021. The combined pension annual required contribution and OPEB contribution represent a manageable 3.3% of noncapital total governmental fund expenditures.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of April 21, 2022)		
Portland Comnty Coll Dist full faith and credit POBs		
Long Term Rating	AA+/Stable	Affirmed
Portland Comnty Coll Dist GO (AGM)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.