WHY COMMUNITY COLLEGE CREDITS SHOULDN’T BE OVERLOOKED

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At Breckinridge, clients often ask us to explain why certain types of municipal credits qualify for sustainable investment mandates. Some types of bonds have an inherently “sustainable” feel. For example, water revenue bonds finance projects to purify drinking water and protect local watersheds. Others aren’t as obvious. In our view, community college bonds are an underappreciated sector when it comes to identifying safe and sustainable municipal investments. Community colleges generally exhibit stable and acyclical credit profiles. Also, they often promote upward mobility, green jobs and a shared-value mindset in the communities they serve.

From a credit perspective, the community college sector is a nice fit for high-grade investors. Community colleges generally issue general obligation (GO) bonds backed by property taxes. Their operating budgets are typically well diversified, supported by a mix of tax revenue, state aid, federal aid and tuition. Moreover, community college finances are generally acyclical. When the economy is strong, tax revenue growth buoys budgets. When it weakens, job opportunities decline and enrollment—along with total tuition revenue—rises. In California, community college bonds benefit from very strong security features, including a statutory lien on pledged property tax revenue. Notwithstanding recent state budget cuts to community colleges in places such as Illinois and Arizona, we believe the community college sector is generally a stable place to invest.

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Second, community colleges are often at the forefront of preparing students for a sustainable economy and a variety of green jobs. Community colleges typically have more-flexible curricula than traditional four-year universities, making community colleges better equipped to adjust to broad shifts in labor demands or to respond to direct labor requests from regional businesses. Recently, Northern Maine Community College partnered with wind turbine company Vestas to create a curriculum covering certain aspects of wind power, with the goal of producing a pipeline of qualified workers in the wind turbine industry. Meanwhile, in California, community colleges are aligning education for low-income and first-generation college students, often preparing academically underdeveloped students for traditional four-year colleges. They also offer an affordable alternative to traditional four-year colleges, which have been raising tuition rates to offset the decline of state aid in most states. While tuition at public four-year institutions has risen by 33 percent over the past 10 years, community college tuition has risen only 22 percent. The average total tuition and fees at a community college remains just under $10,000 annually (Figure 1).

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First, perhaps unique among municipal credits, community colleges can be directly linked to upward mobility. In our view, this link is meaningful given heightened income inequality in many communities throughout the country. Community colleges have been cited as a gateway to higher
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their course offerings with the growing demand for labor within green economies such as solar, wind, alternative fuels and biotech. Companies within the sectors, are working with community colleges to generate curricula to prepare field-ready workers right out of college.

Third, by improving access to education and providing work opportunities, community colleges provide a tangible example of “shared value” principles at work. Relative to other municipal issuers, community colleges are uniquely positioned to buoy local businesses and the economy through an improved workforce, potentially drawing more people to the area and in turn improving tax support that buttresses funding for community colleges (see below).

Notably, public support for promoting and valuing the benefits of community colleges is reflected in the property taxes that back community college bonds and operating budgets. Community colleges could not issue property tax-backed GO bonds without the consent of community residents or the support of state and local governments. In our view, this property tax backing shows that governments and communities recognize the potential social and economic benefits of community colleges.

Figure 2: Community College Benefit Cycle

COMMUNITY COLLEGE BENEFIT CYCLE

BENEFIT TO STUDENTS
- Higher wages
- Better quality of life
- Employment opportunities created especially with corporate partnerships in effect

BENEFIT TO CORPORATIONS
- More skilled workers available, especially with corporate partnerships in effect
- Increased productivity
- Local roots and community goodwill fostered

BENEFIT TO COMMUNITY COLLEGES
Increased corporate and personal income tax revenues can provide greater support

IT IS A VIRTUOUS CIRCLE
By benefiting communities and local businesses, community colleges benefit themselves

1. National Student Clearinghouse Research Center notes five straight years of declining enrollment (fall 2011-fall 2015), despite a decline in unemployment over the same time span. During the recession, community colleges saw a cumulative 22 percent increase in enrollment.

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