

**New Jersey Educational Facilities  
Authority  
College Of New Jersey; Public  
Coll/Univ - Unlimited Student Fees**

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# New Jersey Educational Facilities Authority

## College Of New Jersey; Public Coll/Univ - Unlimited Student Fees

### Credit Profile

#### **New Jersey Educl Facs Auth, New Jersey**

College of New Jersey, New Jersey

#### **Ser 2010 B, 2012 A & 2013 A**

*Long Term Rating*

A/Stable

Current

### Rationale

S&P Global Ratings' long-term rating on the New Jersey Educational Facilities Authority's (NJEFA) tax-exempt series 2010B, 2012A, 2013A, 2015G, 2016F, and 2016G-taxable revenue bonds issued on behalf of the College of New Jersey (TCNJ or the college) is 'A'. The outlook is stable for all bond issues.

We have assessed the college's enterprise profile as very strong, reflecting its rising enrollment, excellent selectivity, robust retention and graduation rates, and satisfactory management and governance. We have assessed the college's financial profile as strong, with conservative budgeting and financial planning, slightly elevated dependence upon student-generated revenue, healthy operating surpluses, high maximum annual debt service (MADS) and modest available resources. When we combine the enterprise and financial profiles, this leads to an indicative stand-alone credit profile of 'a+'. As our criteria indicate, the final rating can be within one notch of the indicative credit level. In our opinion, the 'A' rating on the college's bonds better reflects its weaker available resources to debt compared with medians and peers, and ongoing state budgetary pressure including funding of pension and other postemployment benefits (OPEB) liabilities.

As of this writing, we rate the state of New Jersey 'A-' with a stable outlook. Since TCNJ receives less than 30% of its adjusted operating revenues from state operating appropriations (including employees' fringe benefits paid by the state), we believe the rating on TCNJ reflects a relatively limited dependence on ongoing funding for its operations from the state. However, if the rating on the state were to fall below its present level and TCNJ's state operating appropriation dependence increased to 30% or greater, this could have negative credit implications for our rating on the college.

The 'A' rating reflects our assessment of TCNJ's:

- Healthy enrollment and favorable other student demand metrics for a public college;
- Positive and recurring financial operating surpluses on a full accrual basis recorded for each of the past five fiscal years including its latest fiscal year ended June 30, 2018;
- Satisfactory management and governance with only normal turnover of senior management positions; and

- Adjusted unrestricted net assets (UNA) as a percentage of adjusted operating expenses at 41.9% as of June 30, 2018, that exceeds the 30.7% median for its rating category.

Offsetting factors, in our view, include TCNJ's:

- Low adjusted UNA relative to debt compared with the rating category median;
- High debt burden of 11.7% as of June 30, 2018, based on MADS--a high debt burden is characteristic of many New Jersey state colleges and universities due to the lack of historical state capital support; and
- Limited fundraising history and relatively small size of the college endowment.

Total debt payable as of June 30, 2018 (unaudited results) was \$382.8 million, which includes \$374.5 million of bonds issued by the NJEFA (includes \$38.2 million of crossover debt-series 2010B that will be redeemed on July 1, 2019 from escrow proceeds), and roughly \$9 million of other long-term obligations including leases. The long-term debt structure is all fixed-rate and the college has no swaps. Although the college indicates, it could issue additional debt within the next two years, its plans are preliminary and the board has not authorized or approved any additional debt. At this time, we have not factored in the effects of any additional debt given uncertainty around the amount and timing. We will evaluate the effect of any additional debt on college finances at the time of issuance.

TCNJ may have the need to issue additional debt to support further development of its programs and campus facilities. However in our view, given TCNJ's somewhat low available resources to pro forma debt (giving effect to the scheduled crossover of the series 2010B issue on July 1, 2019) and high MADS debt burden any issuance of additional debt must be weighed carefully to preserve the rating. The overall debt repayment schedule is moderately rapid, in our view, with roughly half of debt repaid over the next 10 years. Through fiscal year ended 2021 the college plans to repay \$37.8 million of debt principal, which we believe could moderate its debt burden.

TCNJ's revenue bonds are a general obligation payable from any legally available funds available to the college. Legally available funds include all funds of the college, including state appropriations that are not designated for a specific purpose. Although state appropriations are not specifically pledged to the bondholders, they are part of the pool of resources available for payment of debt service on the bonds.

All references to fiscal 2018 financial results are based on draft financial statements provided by management. Management does not expect material differences between its audited and draft financials.

## Outlook

The stable outlook reflects our expectation that over the outlook period, TCNJ's enrollment will grow slightly, financial operating margins on a full-accrual basis will remain positive and available resource ratios will show some improvement and not be diluted by any additional debt.

### Downside scenario

In our view, a lower rating could occur if enrollment unexpectedly declined leading to full-accrual operating losses or if there is deterioration in available resource ratios. Additional debt issuance also is likely to pressure the rating. Also, if

TCNJ's state operating appropriation reliance became 30% or greater (currently 21%) and there was a negative rating action on New Jersey, then a negative rating action on TCNJ would be possible.

### **Upside scenario**

We do not expect to raise the rating during the two-year outlook period due to TCNJ's modest available resources to debt and potential for additional capital expenditures that could entail debt issuances. We would view growth in available resource ratios, endowment, and positive fundraising trends favorably.

## **Enterprise Profile**

### **Industry risk**

Industry risk addresses the higher education sector's overall cyclicity and competitive risk and growth by applying various stress scenarios and evaluating barriers to entry, levels and trends of profitability, substitution risk, and growth trends observed in the industry. We believe the higher education sector represents a low credit risk when compared with other industries and sectors.

### **Economic fundamentals**

In our view, the college has limited geographic diversity, with 93% of fall 2018 students classified as in-state students, with the rest coming from other states and countries. Geographic diversity for fall 2019 is likely to be comparable to fall 2018. As such, the New Jersey GDP per capita anchors our assessment of the college's economic fundamentals.

### **Market position and demand**

Established in 1855 as a "normal" (teaching) school, TCNJ is on a residential campus about five miles from Trenton, in Ewing. It is a midsize, comprehensive public college that concentrates primarily on the undergraduate experience and offers 50 undergraduate and 14 graduate degree programs in seven schools.

Fall 2018 full-time equivalent (FTE) enrollment was 7,285, an increase of 1.8% over the prior year's 7,155 enrollment. Total FTE enrollment five years earlier in fall 2013 was 6,901.

Approximately 92% of students are undergraduates, and the college had a very regional student draw, with 94% of its fall 2018 undergraduate students originating from New Jersey. Education officials in New Jersey project the population of graduating high school seniors will remain flat during the next couple of years. In addition, there is a large outmigration of New Jersey graduating high school students to schools in other states. To counter these trends the college takes a targeted approach to branding and marketing. It also ramped up its recruitment efforts in contiguous and select other states including Connecticut, Massachusetts, New York, and California.

Freshman applications increased 5.6% to 13,625 in fall 2018 from the previous fall. The freshman selectivity rate at 49.8% remains well above the median for the rating category. The fiscal 2019 budget assumes enrollment growth of 70 undergraduate and 20 graduate students.

Student quality is solid and above the national average, in our view, with the average combined SAT scores for incoming freshman at 1255 (the national average is 1060) for fall 2018. The freshman-to-sophomore student retention rate at 93% and six-year graduation rate at 86% are both robust and well above state and national averages.

For the 2017-2018 academic year, tuition increased by 2.5% for all student categories to \$12,947 and \$24,662, for in- and out-of-state students, respectively. Including fees and room and board charges, total charges for a full-time in-state student equaled \$30,168. TCNJ's in-state and out-of-state tuition and mandatory fees are the highest of its state public peers.

TCNJ primarily competes for applicants with public and private institutions with national draws, including the University of Delaware, Rutgers University, Rowan University, Villanova University, Boston College, and New York University and as such its tuition and fees are competitive with those charged by these institutions. Our calculation of the overall tuition discount rate (including federal and state financial aid) was a low 17.5% in fiscal 2018. This discount rate is lower than many of TCNJ's private university peers.

### **Foundation and fundraising**

The college has a separate foundation, which held \$48 million of net assets as of June 30, 2018, the bulk of which is restricted. The college's development function has historically been limited but it continues to strengthen with investment in additional personnel. TCNJ successfully completed its first-ever comprehensive campaign in June 2017 with an initial \$40 million goal and \$47.5 million in actual gifts and pledges. The college is using campaign proceeds to support student scholarships and academic programs. In fiscal years 2018 through 2020 the college has a goal of raising \$7 million annually and in fiscal 2018 raised \$8.2 million. TCNJ's alumni participation rate at 7.1% remains well below the rates at a number of the competitor private colleges and universities. No new campaign is expected during the outlook period.

### **Management and governance**

The governing body of TCNJ has 15 gubernatorial members, plus two students (one voting on all matters except those precluded by state statute, plus a nonvoting alternate student trustee). Gubernatorial trustees typically serve no more than two consecutive full six-year terms. We understand the board of trustees remains stable.

The college welcomed its sixteenth president, Kathryn A. Foster Ph.D., at the start of the current school year after the retirement of the prior long-serving president, Dr. R. Barbara Gitenstein, in June 2018. President Foster comes to TCNJ from the University of Maine at Farmington where she served as president from 2012 to 2018. No additional senior management turnover is expected within the next two years. We consider the college's senior management team seasoned and experienced with a solid record of achieving strategic goals and objectives.

## **Financial Profile**

### **Financial policies**

The college has formal policies for endowment funds and other investments, reserves, and debt, which we view favorably. Its 2017-2021 strategic plan outlines specific goals for enrollment, net tuition revenues, and new programs. This plan's key themes include signature experiences, revenue generation, assessment, and achieving a sustainable financial model. Specifically, the plan focuses on developing multiyear operating and capital budgets and tracking results through key financial performance indicators. The plan also outlines cost containment initiatives and development of an incentive-based budget model. The college has a robust enterprise risk management program that we view favorably.

The college's cash and debt management functions are centralized and integrated. There is a board-approved reserves policy that establishes minimum targets for designated unexpendable reserves at six months of the current fiscal year average operating expenses, which the college has complied with historically. A long-term investment policy for managing various investment pools is in place with defined asset allocation ranges. The investment policy specifies prohibited investment types. Asset allocations are in line with target ranges and investments monitored regularly. The college has a well-defined debt policy revised in February 2016 under which debt is evaluated periodically and proposed issuances undergo extensive financial review and require board approval prior to issuance. We understand no deviations from the policy have occurred. While derivatives and variable-rate debt are allowable under the policy, the college has not used these over the past five fiscal years. Proposed new debt is evaluated using key financial ratios to focus on the college's ability to service additional debt and refundings are undertaken if they meet minimum net present value saving thresholds. The college routinely conducts debt capacity assessment to guide its future borrowings. TCNJ evaluates new debt for proposed projects that are mission-critical, self-supporting, or critical for risk-reduction purposes. All policies are periodically revised.

The college meets standard annual disclosure requirements. In addition to full-accrual audited financials, the budget office produces unaudited internal monthly and quarterly financial reports. Per management, it can produce quarterly full-accrual financial reports for internal purposes if needed. This is not that common for most public colleges and universities we rate.

The financial policies assessment is neutral, reflecting our opinion that, while there may be some areas of risk, the organization's overall financial policies are not likely to weaken its future ability to pay debt service. Our analysis of financial policies includes a review of the organization's financial reporting and disclosure, investment allocation and liquidity, debt profile, contingent liabilities, and legal structure, and a comparison of these policies with comparable providers.

### **Financial performance**

A key credit strength is TCNJ's consistently positive financial operations on a full-accrual basis. Net adjusted operating surplus \$1.9 million for fiscal 2018 translates to a net operating margin of 0.7% somewhat lower than recent prior margins ranging between 2% to 4%. Results on a cash basis in fiscal year 2018 are much stronger given depreciation expense of \$22.9 million. Management expects another full-accrual operating surplus in fiscal 2019 similar to fiscal 2018.

We consider the college's budgeting, financial policies, and practices conservative. Key practices include payment of debt service from a capital budget that the college funds primarily with the proceeds of a general service fee, rather than from the operating budget. The general service/capital fee is a per-credit fee charged to all students and is exclusively dedicated to the funding of TCNJ's debt service and capital needs related to academic, administrative, and student recreational facilities. The fee per year for a full-time student was approximately \$2,969 in fiscal 2018. Housing and student center capital projects undertaken by the college are primarily funded through annual transfers from the housing and student center operating budgets. We understand the college does not budget for depreciation per se, but uses a proxy for depreciation in funding its asset renewal and replacement program while preparing its budgets and interim financial statements.

The college's revenue diversity, while not classified as concentrated per our criteria definition, is somewhat limited, in our view. Student-derived revenues (net tuition and auxiliary revenues) account for 68% of revenue in fiscal 2018, followed by state operating appropriation at 21%, state and federal grants and contracts at 8%, and miscellaneous 3%. State appropriation is \$54.0 million in fiscal 2018 (operating appropriation \$27.2 million plus fringe benefit appropriation \$26.8 million) a slight improvement from fiscal 2017's \$52.0 million. For the current fiscal year the college budgeted an appropriation 11.9% higher than fiscal 2018 with all of the increase coming from the fringe benefit component of the appropriation.

### **Available resources**

In our view, the college's balance sheet is somewhat weak for its rating. We come to this conclusion based on available resources that are modest and a debt burden that is high. Adjusted unrestricted net assets (UNA) to operating expense for fiscal 2018 is 41.9% exceeding the median for the rating category of 30.7%, however, adjusted UNA to pro forma debt (excluding debt that will be cross-over refunded on July 1, 2019) is low in our view at 36.0% and below the median for the rating category of 66.7%. Also, TCNJ's pro forma MADS (debt) burden is high at 11.7% for fiscal 2018.

Approximately \$37.1 million of the proceeds from the series 2016F bonds funded an escrow for the purpose of crossover refunding the college's series 2010B bonds on their earliest call date of July 1, 2019. These crossover bonds were sized to pay interest on the series 2016 bonds associated with the series 2010B refunding through July 1, 2019, and the redemption price on the series 2010B bonds (at par in an amount equal to \$37.1 million). The escrow is invested in either State or Local Government Series, or qualified securities such as U.S. Treasuries. On the crossover date, the funds in the escrow will redeem the series 2010B bonds. In our available resource and debt calculations, we have excluded the crossover debt to represent the college's true debt load.

Cash and investments (which we view as a less conservative measure of balance-sheet strength as it includes restricted funds) equaled 41.5% of total adjusted operating expenses in fiscal 2018 and 31.4% of pro forma debt.

The College of New Jersey Foundation is a legally separate, tax-exempt, component unit of TCNJ. Foundation assets totaled \$41.5 million at fiscal year-end 2018 and are invested in a fairly typical asset allocation for colleges and universities.

### **Contingent liabilities: Campus Town Project**

TCNJ has completed the Campus Town Project, which involved roughly \$120 million in a public private partnership. The project was financed through private equity and from a traditional bank loan to a private developer, the PRC Group. The costs of planning, construction and operation were borne by the PRC Group. The college did not subsidize any portion of the debt service. Management has reported residential occupancy levels of 100% since it became available for occupancy in fall 2016.

### **Pensions and other postemployment benefits**

TCNJ participates in four retirement plans covering its employees. Three of these pension plans are cost-sharing, multiemployer defined-benefit pension plans administered by the state of New Jersey, and one is a defined-contribution pension plan-fully funded by definition. The three defined-benefit plans are the Public Employee's Retirement System (PERS), Police and Firemen's Retirement System (PFRS) and Teacher's Pension and Annuity Fund. New Jersey, through separate appropriations, pays certain fringe benefits (including pension and health care benefits

and FICA taxes) for current and retired university employees. OPEB costs on behalf of university employees are part of the healthcare benefits just cited. The total of all of these benefit costs for TCNJ for fiscal 2018 is \$26.8 million. This amount is a component of the total appropriation the college receives from New Jersey and records in its financial statements. Total pension expense in fiscal 2018 is \$13.1 million and the net pension liability on the balance sheet is \$159.6 million.

In our view, given New Jersey's significantly underfunded state defined-benefit pension plans, 35.79% as of fiscal 2017, is a long-term credit risk for New Jersey public colleges and universities if broader pension reform occurs and results in the state shifting funding responsibilities for pension and OPEB for all or a portion of these costs to the colleges and universities.

College of New Jersey , New Jersey Enterprise And Financial Statistics						
	--Fiscal year ended June 30--					Medians for 'A' rated public colleges and universities
	2019	2018	2017	2016	2015	2017
<b>Enrollment and demand</b>						
Headcount	7,686	7,552	7,396	7,406	7,409	MNR
Full-time equivalent	7,285	7,155	6,962	6,957	6,944	11,963
Freshman acceptance rate (%)	49.8	47.5	48.9	48.7	48.8	73.4
Freshman matriculation rate (%)	22.9	25.2	25.2	26.4	26.7	MNR
Undergraduates as a % of total enrollment (%)	91.7	92.1	91.8	91.3	91.0	83.7
Freshman retention (%)	93.0	94.0	94.0	94.0	94.0	76.1
Graduation rates (six years) (%)	86.0	87.0	87.0	87.0	85.0	MNR
<b>Income statement</b>						
Adjusted operating revenue (\$000s)	N.A.	262,400	249,672	243,973	242,221	MNR
Adjusted operating expense (\$000s)	N.A.	260,497	240,738	236,300	236,689	MNR
Net adjusted operating income (\$000s)	N.A.	1,903	8,934	7,673	5,532	MNR
Net adjusted operating margin (%)	N.A.	0.73	3.71	3.25	2.34	(0.86)
Estimated operating gain/loss before depreciation (\$000s)	N.A.	24,761	30,817	28,872	26,235	MNR
Change in unrestricted net assets (UNA; \$000s)	N.A.	(10,911)	(33,425)	(1,000)	(118,128)	MNR
State operating appropriations (\$000s)	N.A.	54,006	51,979	52,439	53,847	MNR
State appropriations to revenue (%)	N.A.	20.6	20.8	21.5	22.2	22.3
Student dependence (%)	N.A.	67.7	67.9	67.2	66.4	54.4
Research dependence (%)	N.A.	7.8	7.5	7.9	7.8	MNR
Endowment and investment income dependence (%)	N.A.	1.7	1.3	1.1	1.4	0.7
<b>Debt</b>						
Outstanding debt (\$000s)	N.A.	382,847	392,240	357,179	366,725	177,725
Total pro forma debt (\$000s)**	N.A.	344,687	N.A.	N.A.	N.A.	MNR
Pro forma MADS	N.A.	30,499	N.A.	N.A.	N.A.	MNR



## College of New Jersey , New Jersey Enterprise And Financial Statistics (cont.)

	--Fiscal year ended June 30--					Medians for 'A' rated public colleges and universities
	2019	2018	2017	2016	2015	2017
Current debt service burden (%)	N.A.	9.15	9.16	12.53	12.29	MNR
Current MADS burden (%)	N.A.	11.71	12.67	12.33	13.15	4.45
Pro forma MADS burden (%)	N.A.	11.71	N.A.	N.A.	N.A.	MNR
<b>Financial resource ratios</b>						
Endowment market value (\$000s)	N.A.	33,270	31,140	27,255	26,184	94,176
Related foundation market value (\$000s)	N.A.	36,303	34,789	30,843	30,329	120,665
Cash and investments (\$000s)	N.A.	108,182	105,238	110,616	113,978	MNR
UNA (\$000s)	N.A.	(45,324)	(34,413)	(988)	12	MNR
Adjusted UNA (\$000s)	N.A.	109,094	107,544	126,829	119,893	MNR
Cash and investments to operations (%)	N.A.	41.5	43.7	46.8	48.2	43.2
Cash and investments to debt (%)	N.A.	28.3	26.8	31.0	31.1	96.1
Cash and investments to pro forma debt (%)	N.A.	31.4	N.A.	N.A.	N.A.	MNR
Adjusted UNA to operations (%)	N.A.	41.9	44.7	53.7	50.7	30.7
Adjusted UNA plus debt service reserve to debt (%)	N.A.	32.4	31.2	38.9	35.7	66.7
Adjusted UNA plus debt service reserve to pro forma debt (%)	N.A.	36.0	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	13.5	13.3	12.7	12.1	14.2

N.A.--Not available. MNR--Median not reported. MADS--Maximum annual debt service. Total adjusted operating revenue = unrestricted revenue less realized and unrealized gains/losses and financial aid. Total adjusted operating expense = unrestricted expense plus financial aid expense. Net operating margin = 100\*(net adjusted operating income/adjusted operating expense). Student dependence = 100\*(gross tuition revenue + auxiliary revenue) / adjusted operating revenue. Current debt service burden = 100\*(current debt service expense/adjusted operating expenses). Current MADS burden = 100\*(maximum annual debt service expense/adjusted operating expenses). Cash and investments = cash + short-term and long-term investments. Adjusted UNA = Unrestricted net assets + unrestricted net assets of the foundation. Average age of plant = accumulated depreciation/depreciation and amortization expense. \*\*Assumes cross-over of series 2010B debt has occurred.

This report does not constitute a rating action.

## Ratings Detail (As Of February 8, 2019)

## New Jersey Educl Facs Auth, New Jersey

College of New Jersey, New Jersey

New Jersey Educl Facs Auth (College of New Jersey) PCU\_USF

Long Term Rating A/Stable Current

New Jersey Educl Facs Auth (College of New Jersey) PCU\_USF

Unenhanced Rating A(SPUR)/Stable Current

New Jersey Educl Facs Auth (College of New Jersey) PCU\_USF

Unenhanced Rating A(SPUR)/Stable Current

New Jersey Educl Facs Auth (College of New Jersey) PCU\_USF

Unenhanced Rating A(SPUR)/Stable Current

New Jersey Educl Facs Auth (College of New Jersey) USF (AGM) (SECMKT)

**Ratings Detail (As Of February 8, 2019) (cont.)**

<i>Unenhanced Rating</i>	A(SPUR)/Stable	Current
New Jersey Educl Facs Auth (College of New Jersey) USF (AGM) (SECMKT)		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Current
New Jersey Educl Facs Auth (College of New Jersey) USF (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Current
New Jersey Educl Facs Auth (College of New Jersey) USF (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Current
New Jersey Educl Facs Auth (College of New Jersey) USF (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Current
New Jersey Educl Facs Auth (College of New Jersey) USF (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Current
New Jersey Educl Facs Auth (College of New Jersey) USF (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Current
New Jersey Educl Facs Auth (College of New Jersey) (AGM)		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Current
New Jersey Educl Facs Auth (College of New Jersey) (AGM)		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Current
New Jersey Educl Facs Auth (College of New Jersey) (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Current
New Jersey Educl Facs Auth (College of New Jersey) (BAM) (SEC MKT)		
<i>Unenhanced Rating</i>	A(SPUR)/Stable	Current

Many issues are enhanced by bond insurance.

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