New Issue: Moody’s assigns A2 rating to The College of New Jersey’s (NJ) $109M Ser. 2015 G bonds; outlook stable

Global Credit Research - 07 Aug 2015

$369M pro-forma rated debt

NEW JERSEY EDUCATIONAL FACILITIES AUTHORITY
Public Colleges & Universities
NJ

Moody’s Rating

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<th>ISSUE</th>
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Sale Amount: $109,260,000
Expected Sale Date: 08/18/15
Rating Description: Revenue: Public University Broad Pledge

Moody’s Outlook: STA

NEW YORK, August 07, 2015 --Moody's Investors Service assigns an A2 rating to The College of New Jersey's (TCNJ) proposed $109 million of Revenue Refunding Bonds, Series 2015 G (final maturity in 2035), to be issued through the New Jersey Educational Facilities Authority. Bonds are expected to be issued as fixed rate bonds. The outlook is stable.

SUMMARY RATING RATIONALE

Assignment of the A2 rating is supported by the college’s operating scale ($215 million revenue in FY 2014 and over 6,900 full-time equivalent students), strong student demand and conservative financial management, which have translated into excellent operating performance and significant growth in cash and investments. These strengths are counterbalanced by a very high debt burden and challenging state funding environment.

OUTLOOK

The stable outlook is based on our expectation that TCNJ will continue to generate strong operating performance and debt service coverage. The strength of the college’s student demand, management team and planning efforts should enable the college to adjust to reductions in state funding for operations.

WHAT COULD MAKE THE RATING GO UP

- Significant growth in financial resources and flexible reserves

WHAT COULD MAKE THE RATING GO DOWN

- Narrowing cash flow margin
- Declining liquidity
- Additional borrowing without accompanying growth in financial resources
- Further pressure on the State of New Jersey’s credit quality

STRENGTHS

- Sound student demand as an academically selective public university in New Jersey, resulting in a 15% growth in
- Trend of positive operating performance (FY 2014 operating cash flow margin: 20%) is expected to continue based on moderate overall revenue growth and prudent expense management

- Strong governance and management monitoring financial results throughout the year and producing monthly financial statements

CHALLENGES

- Minimal capital support from the State of New Jersey has led to very high debt burden, with pro-forma debt to operating revenue of 1.8 times and expendable financial resources to pro-forma debt of 0.4 times in FY 2014.

- Declining state operating support pressures operations; student charges revenue and cost controls must fill the operating gap

- Potential increase in pressure if the state were to require increased college contributions to the underfunded state retirement system

RECENT DEVELOPMENTS

Recent developments are incorporated in detailed rating rationale.

DETAILED RATING RATIONALE

MARKET POSITION: STABLE ENROLLMENT AND STRONG STUDENT DEMAND FOR SELECTIVE PUBLIC INSTITUTION

The college’s robust student demand and ability to grow revenue from tuition and fees enables it to meet its high debt service. TCNJ also benefits from having its enrollment diversified among fields related to business, engineering, education, and science, providing broad stability in the event of a downturn in any single field.

TCNJ competes effectively with other New Jersey public universities as well as out-of-state public universities and private colleges in Pennsylvania and Delaware. The college has established a recognized niche by offering an affordable education with small classes on an attractive campus to high quality students. In fall 2014, the college accepted approximately 50% of applicants and over one-quarter of those accepted chose to attend. Eight percent of TCNJ’s students come from outside of New Jersey. The strength of TCNJ’s market position is further supported by its high retention of 94%. The college is projecting a modest increase in the fall 2015 incoming class.

A key indicator of pricing power and a favorable market position, net tuition per student has grown 17% since FY 2010 to $13,759 in FY 2014. The rate of growth, however, in net tuition revenue and net tuition per student has slowed in recent years due to TCNJ’s strategic decision to keep tuition from rising too fast. Per the college’s budget, the rate of tuition will pick up beginning in FY 2016.

TCNJ’s limited enrollment growth of only about 3% from fall 2009 to fall 2014, reflects the college’s desire to preserve its size (6,944 FTE students) and character. The college has the capacity to add up to 800 additional students and plans to add an additional 500 students, in total, over the next five years on campus, in addition to expanding off-site graduate global programs.

TCNJ is the most expensive of the New Jersey public institutions, however, for many New Jersey students, TCNJ remains the lower-priced option when compared to tuition at an out-of-state public or a private university. This price differential, coupled with TCNJ’s solid market reputation, gives the college sufficient flexibility to grow tuition and fee revenue without negatively impacting demand.

OPERATING PERFORMANCE, BALANCE SHEET, AND CAPITAL PLANS: OPERATIONS EXPECTED TO REMAIN STABLE DESPITE PRESSURE ON STATE APPROPRIATIONS

TCNJ will continue to generate positive cash flows providing a healthy coverage of its debt service. The college’s consistently strong operating cash flow is a key factor anchoring its A2 rating given its high degree of financial leverage. The college’s cash flows remain strong, consistently around 20%, resulting in a 2.1 times debt service coverage in FY 2014. For FY 2015, the college is expecting stronger performance.

TCNJ has limited dependence on the state for direct operating support, as only 13.5% of its operating revenue comes in the form of direct state support. Furthermore, this appropriation has remained flat at $29.3 million since
FY 2012, forcing the college to compensate for state support that has not kept up with inflation. The state's FY 2016 budget includes a $2.1 million reduction in appropriations for operations off-set by a similar increase in fringe benefits.

In addition to operating support, the state contributes to the public pension plans on behalf of the college. This portion of the state appropriation, which covers fringe benefits including pension and other post-retirement benefits, grew to $24 million in FY 2014 (11% of operating revenue). There is increasing pressure on the state to cope with its underfunded pension plans, and we believe that there is an increased likelihood that the state will continue to shift its support to pension and OPEB contributions or will reduce total appropriations. In February 2015, the governor proposed a pension overhaul, including freezing the current defined benefit plans and shifting active employees to a new cash balance defined benefit plan. For more information about the State of New Jersey, please refer to Moody’s report dated April 16, 2015.

The college has a number of viable strategies to increase and diversify revenue as well as to cut expenses, if necessary. It continues to expand its program offerings to enhance its market position. It recently partnered with two medical centers to offer RN to BSN degrees and agreed with the US Department of Education and American Council for International Education to offer ESL courses for international students which, together, should represent an incremental $1 million in revenue. It also has the flexibility to raise tuition, cut positions, and draw on strategic reserves.

Liquidity
The college's liquidity is strong for the rating category, with unrestricted monthly liquidity of $107.4 million at the end of FY 2014 providing 209 monthly days cash on hand. Calls for liquidity are limited as the college has no health care exposure, no demand debt, no swaps, and no unfunded commitments for private equity investments.

DEBT AND OTHER LIABILITIES
TCNJ has a heavy debt burden, with pro-forma direct debt of $377 million relative to operating revenue of $215 million resulting in 1.7 times pro-forma debt to operating revenue compared to a FY 2014 median 1.1 times for public universities. Expendable financial resources are a low 0.40 times relative to pro-forma debt which is in line with the median.

Debt Structure
All rated debt is fixed rate.

The college also has a public private partnership transaction for the Campus Town project (housing facilities and retail, not for exclusive use by the college), which includes no direct obligation of the college to support the project. We have not included the debt on the college's balance sheet. However, the credit impact to TCNJ could change if the college were to provide financial or significant additional support to the project. Campus Town is scheduled to open in fall 2015. The project cost was estimated at $70 million.

Debt-Related Derivatives
Not applicable

Pensions and OPEB

TCNJ, like other New Jersey public higher education institutions, is challenged by participation in a poorly funded multi-employer defined benefit as well as a defined contribution program that also receives state funding. TCNJ participates in four retirements plans: the Public Employees' Retirement System (PERS), Teachers’ Pension and Annuity Fund (TPAF), and Police and Firemen's Retirement System (PFRS) which are defined benefit plans. The college also participates in the Alternate Benefit Program (ABP) which is defined contribution plan.

Employer contributions for all PERS, TPAF, and PFRS participants and for ABP participants under a maximum contribution limit are paid by the State of New Jersey through appropriated funds; these funds cover approximately 28% of the state funded fringe benefits for college's employees as of June 30, 2014. Total state appropriations for fringe benefits in FY 2015 were approximately at the FY 2014 level of $24 million. Appropriations for FY 2016 are anticipated to increase marginally.

The college pays the employer pension contribution for ABP participants in excess of the state's maximum limit on compensation (currently $141,000 per calendar year) for TCNJ employees.
MANAGEMENT AND GOVERNANCE: PRUDENT FISCAL MANAGEMENT SUPPORT CONSISTENT OPERATING SURPLUSES DESPITE STATE FUNDING PRESSURES

The college's management practices, together with its healthy cash flow and budgetary flexibility, are the key factors behind confirming the rating with a stable outlook in spite of the challenging state funding environment. The strength of the college's management team and planning efforts should enable TCNJ to prudently manage any potential reductions in state operating funding or shift of pension expense responsibilities, consistent with its established track record.

The board and senior management have instituted a thorough risk management evaluation process, which involves metrics and monitoring to assess the risks and development of action plans. We expect management to continue its careful budgeting practices and management of expenses which have resulted in consistently solid operating performance.

KEY STATISTICS (Fall 2014 enrollment data and FY 2014 financial data):

- Total FTE Enrollment: 6,944 students
- Total Financial Resources: $159 million
- Total Pro-forma Direct Debt: $377 million
- Total Operating Revenue: $215 million
- Reliance on Tuition and Auxiliary Revenue (as % of operating revenue): 66%
- Reliance on State Appropriation Revenue (as % of operating revenue): 25%
- Monthly Days Cash on Hand: 209 days
- Operating Cash Flow Margin: 20%
- Three-Year Average Debt Service Coverage: 2 times

OBLIGOR PROFILE

The College of New Jersey is located in the Trenton suburb of Ewing Township and is one of 12 public, four-year institutions of higher education in the State of New Jersey. The college is best known for its programs in business, education, engineering, humanities, nursing and science. The college has around 7,000 full-time equivalent students and generates $215 million of operating revenue.

LEGAL SECURITY

The bonds are an unsecured general obligation of the college, payable from any legally available funds.

USE OF PROCEEDS

Proceeds from the Series 2015 G bonds will be used to advance refund a portion of the Series 2008 bonds and to pay the cost of issuance.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was U.S. Not-for-Profit Private and Public Higher Education published in August 2011. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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