MOODY'S INVESTORS SERVICE

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New Issue

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The College of New Jersey, NJ

New Sale - Moody's Assigns A2 to The College of New Jersey's $189M Series 2016 Bonds; Outlook Stable

Summary Rating Rationale

Moody's Investors Service has assigned an A2 to The College of New Jersey's proposed $189 million of fixed-rate Series 2016F and 2016G Revenue Refunding Bonds which have an expected maturity in 2040. We have also affirmed the A2 rating on outstanding bonds. The outlook is stable.

The A2 rating is supported by the college's mid-sized scale of operations ($222 million revenue in FY 2015 and over 6,900 full-time equivalent students), with a distinct market niche in New Jersey that is expected to result in ongoing strong student demand. Conservative budgeting and steady revenue growth have contributed to historically excellent operating cash flow. The strength of governance and management is a key factor supporting the current stable outlook given the State of New Jersey's (A2 negative) own fiscal challenges. The college's market strength, combined with good financial planning and forecasting, improves prospects of fiscal stability even as the college confronts what is likely to be an increasingly challenging state funding environment over the next several years. Offsetting credit considerations include very high financial leverage and resulting moderate debt service coverage.

Credit Strengths

» Sound student demand as an academically selective public college in New Jersey, resulting in a 14% growth in net tuition per student in the last five years

» Consistently favorable operating performance (FY 2015 operating cash flow margin: 19.7%) resulting in still good debt service coverage

» Very good levels of financial reserves and liquidity, with 213 monthly days cash on hand, enhance financial flexibility

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

Credit Challenges

» Very high debt burden, with pro-forma debt to operating revenue of 1.6 times, and debt service consuming nearly 12% of operations

» Expected increasing pressure on state support, resulting in stagnant to declining state funding for operations and pension expense

- » Expense containment will become increasingly critical for maintaining fiscal stability, given expectations of moderating revenue growth
- » Ongoing identified capital needs, with only modest additional debt capacity given already high leverage

Rating Outlook

The stable outlook is based on our expectation that TCNJ will maintain solid student demand and will make prudent adjustments to sustain cash flow even in the face of stagnant to moderately declining state operating appropriations.

Factors that Could Lead to an Upgrade

- » Substantial growth of financial reserves and revenue to better absorb leverage and provide an enhanced financial cushion in an evolving state funding environment

Factors that Could Lead to a Downgrade

- » Sustained weakening of operating cash flow and deterioration of debt service coverage
- » Additional sizeable debt issuance without meaningful growth of financial reserves or cash flow
- » Further pressure on the State of New Jersey's credit quality or increased expectations of more material state funding reductions

Key Indicators

Exhibit 1

The College of New Jersey, NJ

	2011	2012	2013	2014	2015
Total FTE Enrollment	6,779	6,799	6,901	6,944	6,957
Operating Revenue ($000)	201,231	206,125	210,199	214,169	222,011
Annual Change in Operating Revenue (%)	4.1	2.4	2.0	1.9	3.7
Total Cash & Investments ($000)	121,319	120,054	130,741	151,298	161,773
Total Debt ($000)	371,259	362,086	359,797	377,022	366,725
Spendable Cash & Investments to Total Debt (x)	0.3	0.3	0.3	0.4	0.4
Spendable Cash & Investments to Operating Expenses (x)	0.6	0.6	0.6	0.7	0.7
Monthly Days Cash on Hand (x)	208	197	208	208	213
Operating Cash Flow Margin (%)	23.0	22.2	21.6	20.0	19.7
Total Debt to Cash Flow (x)	8.0	7.9	7.9	8.8	8.4
Annual Debt Service Coverage (x)	2.3	2.2	2.4	2.2	1.7

Source: Moody's Investors Service

Recent Developments

Included in Detailed Rating Considerations.

Detailed Rating Considerations

Market Profile: Strong Student Demand in a Highly Competitive Market

TCNJ 's strategic positioning will remain sound driven by its strong student demand, diversified program offerings, and an attractive campus. The college's market niche of offering an affordable tuition, with a mid-sized enrollment (6,957 FTE students) allows it to compete effectively with Rutgers, the state's flagship public university, as well as public universities and private colleges in New Jersey, Pennsylvania and Delaware. TCNJ also benefits from having its enrollment diversified among fields related to business, engineering, education, science, nursing, and liberal arts, providing broad stability in the event of a downturn in any single field.

Strong student demand is reflected in college's selectivity (ratio of students accepted to student application received; lower is better) and matriculation rate (ratio of students enrolled to student admitted; higher is better). In fall 2015, the college accepted 49% of freshman applicants, making it the most selective college among New Jersey public universities. Over one-quarter of those accepted chose to attend in fall 2015. The strength of TCNJ's market position is further supported by its high retention rate of 94% which was the highest among all New Jersey public universities. The college is projecting a modest increase in the fall 2016 incoming class. Net tuition per student, a key indicator of pricing power and favorable market position, has grown 14% since FY 2011 to $15,340 in FY 2015.

Operating Performance: Positive Cash Flows Continue Despite Stagnation in State Operating Support

TCNJ will continue to achieve sound operating performance given its dedicated fiscal oversight and demonstrated history of conservatively budgeting for enrollment, and cost containment efforts. High expense growth associated with rising benefit costs have outpaced modest tuition increases, somewhat narrowing the historically robust cash flow margin. The FY 2015 cash flow margin was 19.7%, covering debt service by 1.7 times. For FY 2016, TCNJ is projecting performance to be similar to FY 2015.

TCNJ has relatively moderate dependence on the state for direct operating support, as only 13% of its operating revenue was derived from direct state support in FY 2015. However, this appropriation has not increased since FY 2012, forcing the college to compensate for state support that has not kept up with inflation. Per the Governor's recent budget proposal for FY 2017, operating funding for TCNJ will remain at the FY 2016 level ($27.1 million) with a modest increase for fringe benefits funding, a trend for all public universities in New Jersey where a growing share of state funding is dedicated to employee benefits.

Wealth and Liquidity: Relatively Good Reserves and Liquidity

TCNJ has been able to grow its reserves due to retained earnings and improvement in fundraising. Spendable cash and investments increased to $151 million in FY 2015, up from $114 million in FY 2011. As of FY 2015, spendable cash and investments covered over 8 months of operating expenses, a reasonably sound cushion given healthy operating cash flow.

LIQUIDITY

The college's liquidity is comparatively strong for the rating category, with unrestricted monthly liquidity of $114 million at the end of FY 2015 providing 213 monthly days cash on hand. Calls for liquidity are currently limited as the college has favorable operating performance, no demand debt, no swaps, and no unfunded commitments for private equity investments.

Leverage: Very High Debt Burden Limits Debt Capacity; Pension Burden an Additional Credit Challenge

The college has very high debt burden with debt to operating revenue ratio of 1.6 times and spendable cash and investments of $151 million providing just 0.4 times coverage of $367 million of outstanding debt as of FYE 2015. The aggressive use of debt was a key component in TCNJ's transformation from a teacher's training institution into a selective, nationally recognized liberal arts, business and education college, attracting highly qualified New Jersey students. Additionally, given that the state support for capital projects remains below average in New Jersey, TCNJ borrowed for most academic and auxiliary projects.

The college has very limited debt capacity at the current rating. Annual debt service represents over 11% of operating expenses, limiting the college's financial flexibility. Management reports having future debt plans related to student housing. The timeline and the size of financing have not yet been determined.

The college also has a public private partnership 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, but monitor the project as a component of the college's capital strategy. Currently credit neutral, the credit impact to TCNJ could change if the college were to provide financial or significant additional support to the project. Phase One of Campus Town opened in fall 2015 and Phase Two will open in fall 2016 with a total of 612 beds that will be fully occupied. The total project cost is estimated at $120 million.

DEBT STRUCTURE

All rated debt is fixed rate and regularly amortizing.

DEBT-RELATED DERIVATIVES

None

PENSIONS AND OPEB

TCNJ, like other New Jersey public higher education institutions, is challenged by participation in poorly funded multi-employer defined benefit plans as well as a defined contribution program that also receives state funding. After Moody's adjustments, the defined benefit pension plans in which the college participates were funded at a weighted average of approximately 26% at FYE 2015, contributing to a $135 million Moody's-adjusted average net pension liability. Combined with outstanding debt, this represents a sizeable 2.3 times operating revenue for FY 2015, approximately double the median for all rated public universities.

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 a 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. Total state appropriations for fringe benefits in FY 2015 of $24.9 million were modestly higher than the FY 2014 level and are expected to grow as the state continues to ramp up pension funding, possibly depressing funding for operations to compensate.

Currently, 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, amounting to well under 1% of the college’s operating expenses.

Governance and Management: Sound Fiscal Stewardship Supports Positive Operations

The college's management practices, together with its healthy cash flow and budgetary flexibility, are key factors behind maintaining the A2 rating in spite of the very high debt burden and increasingly challenging state funding environment. TCNJ's sound fiscal stewardship is reflected in conservative budgeting, multi-year forecasting, regular budgetary oversight and consistently strong operating cash flow.

Legal Security

Series 2016F and G bonds are an unsecured general obligation of the college, on parity with the rated debt, and payable from any legally available funds.

Use of Proceeds

Proceeds will be used to advance refund a portion of the Series 2008D bonds, a portion of Series 2010B bonds, and to pay the costs of issuance.

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 $222 million of operating revenue.

Methodology

The principal methodology used in this rating was Global Higher Education published in November 2015. Please see the Ratings Methodologies page on www.moodys.com for a copy of this methodology.

Ratings

Exhibit 2

College of New Jersey, NJ

Issue	Rating
Revenue Refunding Bonds, Series 2016 F	A2
Rating Type	Underlying LT
Sale Amount	$84,000,000
Expected Sale Date	08/23/2016
Rating Description	Revenue: Public University Broad Pledge
Revenue Refunding Bonds, Series 2016 G (Federally Taxable)	A2
Rating Type	Underlying LT
Sale Amount	$105,000,000
Expected Sale Date	08/23/2016
Rating Description	Revenue: Public University Broad Pledge

Source: Moody's Investors Service

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