

The College of New Jersey

New Jersey Educational Facilities Authority Revenue Bonds Full Rating Report

Ratings

\$105,255,000 New Jersey Educational Facilities Authority Revenue Refunding Bonds, Series 2016G (Taxable)	AA-
\$87,925,000 New Jersey Educational Facilities Authority Revenue Refunding Bonds, Series 2016F	AA-
\$114,525,000 New Jersey Educational Facilities Authority Revenue Refunding Bonds, Series 2015G	NR
\$23,535,000 New Jersey Educational Facilities Authority Revenue Bonds, Series 2013A	AA-
\$5,125,000 New Jersey Educational Facilities Authority Revenue Refunding Bonds, Series 2012A	AA-
\$1,045,000 New Jersey Educational Facilities Authority Revenue Bonds, Series 2010B (Build America Bonds)	AA-

NR – Not Rated.

Rating Outlook^a

Negative

^aRevised from Stable on Aug. 14, 2018.

Key Rating Drivers

Increasingly Vulnerable Margins: The College of New Jersey's (TCNJ) GAAP operating deficits widened further in fiscal 2017, reflecting expense growth, which has outpaced revenue growth over the prior three years and an increasing reliance on student-fee generated revenue. TCNJ's underlying cash flow operations are stable with steady debt service coverage, but GAAP margin pressure will persist due in large part to pension accruals. The Rating Outlook revision to Negative from Stable reflects TCNJ's increasing vulnerability to operating variability and flat-to-weakening operating support from the state of New Jersey (IDR rated A/Stable by Fitch Ratings).

Very High Debt Burden: TCNJ's debt burden is high for the rating category, limiting its operating flexibility and ability to fund future strategic and capital needs. With little room for variability, TCNJ will need to balance its cash flow against strategic and capital demands going forward.

Demand-Driven Flexibility: Student-generated revenues are the primary revenue driver, and TCNJ's headcount enrollment has incrementally increased in recent years despite consistent tuition increases. While this has helped to help offset volatility in state appropriations, TCNJ will need to generate increasing student-fee income to support operations going forward.

Sufficient Liquidity: TCNJ's available fund (AF) level has remained steady over time. Fundraising efforts have begun to accelerate in recent years but have yet to be significantly reflected in operations to date. Fitch considers TCNJ's AF against debt (26% in fiscal 2017) very weak; AF to expenses is stronger at 44%.

Rating Sensitivities

Stable Coverage: The affirmation reflects the expectation TCNJ's operating performance will improve at sufficient levels to support capital and strategic needs and stable debt service coverage. The rating would be negatively affected by an increase in debt absent commensurate increase in operating performance and AF levels or by unexpected erosion in demand or state operating support.

Related Research

Fitch Affirms the College of New Jersey's Revs at 'AA-'; Outlook Revised to Negative (August 2018)

Fitch: New Jersey Meeting Expectations for 'A' Rating (April 2017)

Analysts

Emily Wadhwani
+1 312 368-3347
emily.wadhwani@fitchratings.com

Nancy Moore
+1 212 908-0725
nancy.moore@fitchratings.com

Rating History

Rating	Action	Outlook/ Watch	Date
AA-	Affirmed	Negative	8/14/18
AA-	Affirmed	Stable	8/15/16
AA-	Downgraded	Stable	11/12/15
AA	Affirmed	Stable	11/15/13
AA	Affirmed	Stable	4/8/13
AA	Affirmed	Stable	2/21/12
AA	Affirmed	Stable	12/14/11
AA	Revised	Stable	4/30/10
AA-	Assigned	Stable	12/29/09

Credit Profile

TCNJ, founded in 1855 and located in the Trenton suburb of Ewing, NJ, is a public institution of higher education in the state. The college's strong liberal arts core forms the foundation for over 50 majors offered throughout seven schools. Full-time equivalent (FTE) enrollment was 7,155 for fall 2017, up 3% from fall 2016. Most students attend full time and enter as freshmen.

Margin Pressures

TCNJ'S revenue base is concentrated, with tuition and fees accounting for a high 66% of operating revenue, followed by state appropriations, operating and fringe benefits at about 23%. Tuition and fee revenues have grown steadily year over year, supported by modest and consistent growth in tuition and fees as well as mild growth in total FTE enrollment.

State operating appropriations have been flat and are expected to remain so over the near term, while state fringe payments are modestly increasing. TCNJ's GAAP operating margins have been negative since fiscal 2015, when GASB 68 pension reporting changes took place, with \$17 million in pension expense and a negative 3.8% margin reported for fiscal 2017. Eliminating non-cash items (including pension and depreciation expense), TCNJ's net income available for debt service has remained steady over time at \$39 million, sufficient for 1.4x coverage in fiscal 2017.

Management anticipates that TCNJ's net position will increase in fiscal 2018 excluding GASB 68, and debt service coverage will be steady; however, pressures remain. Required pension contributions by the state for its public entities, including universities, have historically fallen short of actuarially sufficient amounts, and Fitch views the state's fringe benefit appropriations for contributions on the university's behalf do not spare TCNJ from the pressure of supporting the pension benefits of its employees over the long term. As such, Fitch believes TCNJ must continue to build operating cash flow strength (net income available) to sufficiently offset continued pressure from pension obligations.

Solid Demand

TCNJ has maintained a strong demand profile, which is a key credit strength against rated peers. Freshman applications have continued to grow, up 25% since fall 2012 and 9% year over year for the fall 2017 class. Freshman applications increased 5.6% for fall 2018, and out-of-state deposits are 10% ahead of budget. In-state students make up the great majority of the student population (about 94%), as the college seeks to keep the state's most talented students in-state.

Strong student quality is evident, with a very high freshman retention rate at 94%, and a four-year graduation rate of 75%, which ranked TCNJ sixth among public colleges across the country. TCNJ maintains fairly good selectivity; 48% of applicants were accepted for admission in fall 2017, consistent with prior years. Still, the matriculation rate is steady near 25% and indicative of the competitive environment in which the college operates.

Growth in margins and net student revenue will be key to maintaining the rating going forward. Given its reliance on student-generated fees for the great majority of operating revenue, TCNJ will need to execute on plans for modest enrollment and tuition growth to support its operating and capital needs and to preserve its liquidity and coverage.

Slim Financial Cushion

Despite some GAAP margin pressure, TCNJ remains positive on a cash flow basis and has maintained relatively steady AF levels. At fiscal 2017, TCNJ had \$105 million in AF, which equaled 45% of its total expenses, consistent with Fitch's 'AA' rating category median of 48%. However, AF to total long-term debt equaled a light 25%, which is low for the rating level and

Related Criteria

U.S. Public Finance College and University Rating Criteria (April 2017)

Rating Criteria for Public-Sector Revenue-Supported Debt (February 2018)

reflects an elevated debt burden as well as a history of weak state support for capital expenditures.

TCNJ's associated foundation has an additional \$48 million that was not included in Fitch's AF calculation. Management reports increased focus on fundraising and philanthropy in recent years, which could help support future strategic and capital initiatives.

High Debt Burden

TCNJ has approximately \$414 million in debt outstanding, all of which is fixed rate. Total debt includes approximately \$37 million in series 2010B crossover refunded debt, which has been fully escrowed against and will be redeemed on July 1, 2019. Excluding this debt would bring AF to debt up slightly to 29%.

While TCNJ will amortize 25% of its debt by 2024 and 50% by 2029, it does not have debt capacity at current operating levels. MADS is \$30.3 million (in 2024) and debt service is largely level through 2035, equal to a high 12% of fiscal 2017 revenues. This debt burden limits TCNJ's near-term flexibility to support meaningful capital or strategic initiatives or to absorb unexpected operating volatility.

Demand Summary

(Fall Semester of Fiscal Years Ended June 30)

	2014	2015	2016	2017	2018
Headcount					
Undergraduate Enrollment – Full-Time	6,653	6,743	6,758	6,787	6,955
Total Undergraduate Enrollment	6,653	6,743	6,758	6,787	6,955
Graduate – Full-Time	687	666	648	609	597
Total Graduate	687	666	648	609	597
Total Headcount Enrollment	7,340	7,409	7,406	7,396	7,552
Total Undergraduate/Total Headcount Enrollment (%)	90.6	91.0	91.3	91.8	92.1
Full-Time Equivalent (FTE)					
Total FTE Undergraduate Enrollment	6,533	6,580	6,589	6,608	6,815
Total FTE Graduate Enrollment	368	364	368	354	340
Total FTE Enrollment	6,901	6,944	6,957	6,962	7,155
Admissions					
Freshman Applications	11,146	10,935	11,290	11,825	12,898
Freshman Admissions	4,806	5,335	5,495	5,778	6,130
Acceptance Rate (%)	43.1	48.8	48.7	48.9	47.5
Freshman Matriculants	1,406	1,422	1,452	1,457	1,542
Matriculation Rate (%)	29.3	26.7	26.4	25.2	25.2
Transfer Applications	993	989	1,059	1,035	955
Transfer Admissions	485	507	453	482	433
Acceptance Rate (%)	48.8	51.3	42.8	46.6	45.3
Transfer Matriculants	257	287	249	266	241
Matriculation Rate (%)	53.0	56.6	55.0	55.2	55.7
Graduate Applications	789	687	690	606	554
Graduate Admissions	519	551	545	453	434
Acceptance Rate (%)	65.8	80.2	79.0	74.8	78.3
Graduate Matriculants	459	489	496	402	406
Matriculation Rate (%)	88.4	88.8	91.0	88.7	93.6
Student Profile					
In-State Undergraduate Student (%)	93.0	92.0	94.0	94.0	94.0
Out-of-State Undergraduate Student (%)	7.0	8.0	6.0	6.0	6.0
Average SAT – Freshman	1,235	1,216	1,220	1,210	1,255
Freshmen to Sophomore Year Retention Rate (%)	94.0	94.0	95.0	94.0	94.0
Six-Year Graduation Rate (%)	86.0	85.0	87.0	87.0	78.0
Annual Undergraduate Cost of Attendance					
Tuition	14,730	15,024	15,467	15,814	16,169
Room and Board	11,342	11,616	11,938	12,881	13,200
Total	26,072	26,640	27,405	28,695	29,369

Source: The College of New Jersey and Fitch Ratings.

Financial Ratios

(\$000, Audited Fiscal Years Ended June 30)

	2014	2015	2016	2017
Revenue Diversity (% Adjusted Total Unrestricted Operating Revenues)				
Tuition	43.2	43.5	44.6	44.9
Student Fees (Tuition and Auxiliary Revenues)	65.1	64.2	65.0	66.0
Federal Grants and Contracts	4.2	4.6	4.8	4.5
State/Local Grants and Contracts	4.2	4.0	4.0	3.8
Total Grants and Contracts	8.4	8.6	8.8	8.3
State Appropriations	25.2	24.7	23.7	23.0
Total Investment Return	0.1	0.1	0.1	0.0
Expense Ratios (% Total Unrestricted Operating Expenses)				
Instruction	26.9	26.9	26.9	27.6
Research	5.0	4.8	5.6	5.1
Operation and Maintenance of Plant	11.4	11.8	8.9	11.0
Depreciation	9.7	9.3	9.3	9.3
Interest	8.0	7.4	7.0	5.1
Financial Aid Ratios				
Tuition Discounting (%)	18.9	18.0	17.1	16.7
Net Tuition and Fees	90,913	94,951	98,482	101,532
Change in Net Tuition and Fees (%)	2.9	4.4	3.7	3.1
Operating Performance Ratios (%)				
Operating Margin	0.4	(2.2)	(3.2)	(3.8)
Balance Sheet Ratios (%)				
Available Funds/Total Operating Expense	51.3	51.1	48.5	44.8
Available Funds/Total Long-Term Debt	27.7	30.3	29.6	25.4
Available Funds/Total Pro Forma Long-Term Debt	27.7	30.3	30.7	26.1
Available Funds/MADS (x)	3.6	3.8	3.7	3.5
Leverage (Adjusted Total Unrestricted Operating Revenues Basis)				
Current Debt Service Coverage (x)	1.8	1.3	1.3	1.4
Current Debt Burden (%)	9.9	13.3	13.4	12.1
Pro Forma MADS Coverage (x)	1.3	1.3	1.3	1.3
Pro Forma MADS Burden (%)	14.4	13.9	13.7	13.4

Note: Fitch may have reclassified certain financial statement items for analytical purposes.
Source: The College of New Jersey and Fitch.

Financial Summary

(\$000, Audited Fiscal Years Ended June 30)

	2014	2015	2016	2017
Unrestricted Operating Revenues				
Gross Tuition and Fees	112,141	115,813	118,856	121,819
Less: Student Aid	21,228	20,862	20,374	20,287
Net Tuition and Fees	90,913	94,951	98,482	101,532
Sales and Services of Auxiliary Enterprises	46,083	44,986	45,145	47,770
Federal Grants and Contracts	8,813	10,041	10,531	10,132
State/Local Grants and Contracts	8,823	8,795	8,844	8,673
State Appropriations	53,079	53,847	52,439	51,979
All Other Operating Revenues	2,628	5,459	5,598	6,036
Total Operating Revenue	210,339	218,079	221,039	226,122
Unrestricted Operating Expenses				
Instruction	56,335	60,048	61,384	64,832
Academic Support	14,972	15,132	15,664	17,132
Institutional Support	13,228	17,498	17,909	18,463
Student Services	15,558	17,407	19,310	20,508
Public Service	5,511	6,080	6,795	7,107
Research	10,514	10,693	12,754	11,880
Auxiliary Enterprises	31,494	31,084	31,796	33,719
Student Aid	1,039	1,293	1,302	1,186
Operation and Maintenance of Plant	23,811	26,390	20,395	25,843
Depreciation	20,337	20,703	21,199	21,883
Interest Expense	16,730	16,592	15,983	11,938
All Other Operating Expenses	—	—	3,573	274
Total Operating Expense	209,529	222,920	228,064	234,765
Change in Net Assets from Operations	810	(4,841)	(7,025)	(8,643)
Unrestricted Non-Operating Revenues/(Expenses)				
Realized and Unrealized Gain on Investments	4,447	1,727	1,238	5,704
Capital Grants and Gifts	8,616	15,728	38,587	17,451
Other Non-Operating Expenses	(7,387)	(783)	(1,744)	(4,685)
Other Non-Operating Revenues	1,768	1,980	1,213	1,423
Total Non-Operating Revenue	7,444	18,652	39,294	19,893
Change in Net Assets	8,254	13,811	32,269	11,250
Adjusted Change in Net Assets from Operations	810	(4,841)	(7,025)	(8,643)
Add Back: Depreciation, Amortization and Other Non-Cash Items	20,337	26,677	29,999	36,083
Add Back: Interest Expense	16,730	16,592	15,983	11,938
Adjusted Net Income Available for Debt Service	37,877	38,428	38,957	39,378
Current Debt Service	20,917	29,097	29,607	27,454
Pro Forma Maximum Annual Debt Service (MADS)	30,295	30,295	30,294	30,294
MADS Fiscal Year	2024	2024	2024	2024

Note: Fitch may have reclassified certain financial statement items for analytical purposes.

Source: The College of New Jersey and Fitch.

Financial Summary (continued)

(\$000, Audited Fiscal Years Ended June 30)

	2014	2015	2016	2017
Balance Sheet — Assets and Liquidity				
Cash and Cash Equivalents	50,026	39,817	35,225	18,490
Investments	57,435	74,161	75,391	86,748
Total Cash and Investments	107,461	113,978	110,616	105,238
Available Funds (AF)	107,461	113,978	110,616	105,238
Property, Plant and Equipment, Net	587,655	601,473	638,881	673,155
Balance Sheet — Liabilities and Net Assets				
Fixed-Rate Bonds Payable	368,925	359,250	350,375	383,225
Total Bonds Payable	368,925	359,250	350,375	383,225
Notes Payable	8,097	7,475	6,804	9,015
All Other Obligations	10,435	9,169	16,362	21,908
Total Long-Term Debt	387,457	375,894	373,541	414,148
Total Other Obligations	18,532	16,644	23,166	30,923
Total Pro Forma Debt	387,457	375,894	360,266	403,237
Off Balance Sheet Student Housing Debt	—	85,000	85,000	85,000
Unrestricted Net Assets	118,140	12	(988)	(34,413)
Invested In Capital	229,359	251,027	283,072	324,924
Restricted Net Assets – Non-Expendable (Fitch-Adjusted)	—	—	—	—
Restricted Net Assets – Expendable (Fitch-Adjusted)	11,641	11,383	12,607	15,430
Total Net Assets	359,140	262,422	294,691	305,941

Note: Fitch may have reclassified certain financial statement items for analytical purposes.

Source: The College of New Jersey and Fitch.

The ratings above were solicited and assigned or maintained at the request of the rated entity/Issuer or a related third party. Any exceptions follow below.

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2018 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.