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CREDIT OPINION
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College of New Jersey, NJ

Update to key credit factors

Summary

The College of New Jersey's (A2 stable) very good credit profile is supported by the college's mid-sized scale of operations and distinct market niche in New Jersey, which will result in ongoing strong student demand. The college's strong governance and financial management contribute to healthy operating cash flow and solid liquidity relative to peers. These credit strengths partially mitigate some of the challenges associated with the constrained state funding environment in the State of New Jersey (A3 stable), including flat to declining state operating support. New Jersey's near-term budget flexibility and structural balance have improved but remain weak compared to peers at this stage in the economic cycle and given the state's significant historic pension underfunding. Other offsetting credit considerations include very high financial leverage and resulting moderate debt service coverage.

Credit strengths

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

» Favorable regional reputation as an academically selective public college, enabling good growth of net tuition revenue despite a highly competitive market

» Healthy operating performance from conservative budgeting and prudent fiscal management resulting in average operating cash flow margin of 20%.

» Very good financial reserves and liquidity, with 194 monthly days cash on hand, enhance financial flexibility

Credit challenges

» Very high debt burden, with debt to operating revenue of 1.7x, and debt service consuming over 10% of operations

» Constrained funding from A3-rated State of New Jersey, with flat to decreasing operational support

» High reliance (70%) on tuition-sensitive student-driven revenue in a competitive student market

» 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 cash flow even in the face of stagnant state operating appropriations, with no material deterioration of financial reserves.

Factors that could lead to an upgrade

» Substantial growth in wealth relative to debt and operations to better absorb high leverage and provide an enhanced financial cushion in a challenged 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 material state funding reductions

Key indicators

Exhibit 1

	2013	2014	2015	2016	2017	Median: A Rated Public Universities
Total FTE Enrollment	6,901	6,944	6,957	6,962	7,154	10,190
Operating Revenue ($000)	210,199	214,169	222,011	225,417	231,082	205,676
Annual Change in Operating Revenue (%)	2.0	1.9	3.7	1.5	2.5	3.0
Total Cash & Investments ($000)	130,741	151,298	161,773	156,843	157,453	143,541
Total Debt ($000)	359,797	377,022	366,725	357,179	392,240	124,888
Spendable Cash & Investments to Total Debt (x)	0.3	0.4	0.4	0.4	0.4	0.8
Spendable Cash & Investments to Operating Expenses (x)	0.6	0.7	0.7	0.6	0.6	0.6
Monthly Days Cash on Hand (x)	208	208	213	205	194	139
Operating Cash Flow Margin (%)	21.6	20.0	19.7	19.6	19.5	10.4
Total Debt to Cash Flow (x)	7.9	8.8	8.4	8.1	8.7	6.3
Annual Debt Service Coverage (x)	2.4	2.2	1.7	1.6	1.9	2.0

"The total debt of $392.2 million includes $39.8 million in advanced refunded debt, the proceeds of which is held by bond trustees and will be redeemed on July 1, 2019.
Source: Moody's Investors Service

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 maintains a strong regional reputation, with an acceptance rate of under 48% and consistent growth in net tuition per student highlighting the depth of demand for the college. TCNJ 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 $230 million of operating revenue.

Detailed credit considerations

Market profile: strong student demand in a highly competitive market

TCNJ will continue to benefit from strong student demand, diversified program offerings and an attractive campus. The college differentiates itself from its competitors by offering high-quality affordable education with small classes on an attractive campus. The strength of TCNJ's market position is further supported by its high freshman to sophomore retention of 94%. By offering both affordable tuition and mid-sized enrollment, TCNJ competes effectively with Rutgers (Aa3 stable), the state's flagship public university, as well as other public and private universities in New Jersey and nearby Pennsylvania and Delaware.

Net tuition per student, a key indicator of pricing power and of TCNJ's favorable market position, has grown 11% since fiscal 2013 to $16,198 in fiscal 2017. However, the rate of growth of net tuition revenue and net tuition per student will continue to slow, as they have in recent years, as TCNJ emphasizes affordability.

TCNJ's limited enrollment growth of only about 4% from fall 2013 to fall 2017 reflects the college's desire to preserve its size (7,154 FTE students, fall 2017) and character. The college has experienced growth in market share from multiple states outside of New Jersey and has begun a more aggressive scholarship program in an effort to increase the yield of these students. The college has plans to grow enrollment at the graduate level, which accounted for just over 5% total fall 2017 enrollment.

Operating performance: positive cash flow to continue

TCNJ's sound operating performance will continue given its dedicated fiscal discipline. High expense growth associated with rising benefit costs has outpaced modest tuition increases, slightly narrowing the historically very robust operating cash flow margin in the 22%-24% range. The cash flow margin remains strong, however, at just under 20% over the past three fiscal years, covering debt service by 1.9x in fiscal 2017. For fiscal 2018, TCNJ is projecting performance to be similar to the prior year.

TCNJ has relatively moderate dependence on the state for direct operating support, as only 12% of its operating revenue was derived from direct state support in fiscal 2017. However, this appropriation has not increased since fiscal 2012, forcing the college to compensate for state support that has not kept up with inflation. For fiscal 2018, operating funding for TCNJ will remain at the current level ($27.2 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: flexible reserves provide good cushion to debt and expenses

TCNJ's consistently strong operating performance and growing fundraising have resulted in solid growth of its flexible reserves. Spendable cash and investments of $144 million in fiscal 2017 increased over 18% in the last four years and cushioned debt 0.4x and expenses 0.6x. This growth is impressive, especially considering that TCNJ invested almost $200 million in its facilities over the last five years, largely through its own reserves.

Liquidity

Liquidity is comparatively strong for the rating category, with unrestricted monthly liquidity of $105 million at the end of fiscal 2017, providing 194 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

TCNJ's debt burden is very high, with debt to operating revenue of 1.7x and debt service representing around 11% of expenses in fiscal 2017. These metrics are very high relative to the .07x debt to operating revenue and 4.9% debt service to expenses for fiscal 2017 medians for A rated public universities. 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. The college has very limited debt capacity at the current rating. Management reports having future debt plans related to student housing. The timeline and the size of financing have not yet been determined, and we will continue to evaluate the potential credit impact of any plans as information becomes available.

TCNJ 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. The credit impact to TCNJ could change if the college were to provide financial or significant additional support to the project.

Debt structure

All rated debt is fixed rate and regularly amortizing

Legal security

Payments under the NJEFA loan agreement are general, unsecured obligations of the college. There are no debt service reserve funds and no pledged mortgages of college assets.

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 State of New Jersey defined benefit plans as well as a defined contribution program (ABP) that also receives state funding. Compared to other universities of similar size, the defined benefit pension obligation is manageable, with a Moody's adjusted net pension liability (ANPL) of $164 million. Combined with outstanding pro forma debt, this represents 2.4x operating revenues for fiscal year 2017, which is comparable to the Moody's A2-median of 2.1x.

Total state appropriations for fringe benefits in fiscal 2017 of $26.9 million were modestly higher than the fiscal 2016 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: fiscal discipline supports very good strategic positioning

TCNJ benefits from a strong senior leadership team, with a forward-looking focus on growing and adapting its business and continually improving the college's brand. Management engages in financial best practices, such as monitoring the budget carefully, containing expenses and generating consistently healthy operating performance that will aid growth in unrestricted liquidity over time. The college's management practices, together with its healthy cash flow and budgetary flexibility, are key factors supporting the A2 rating despite the very high debt burden and constrained state funding environment.

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