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ISSUER COMMENT
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RATING

Seniormost Rating [1]

A2	Stable

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The College of New Jersey, NJ

Annual comment on The College of New Jersey

Issuer profile

The College of New Jersey (TCNJ) is a small public college located in Ewing Township, NJ. In fiscal 2019, it generated operating revenue of $247 million and enrolled 7,465 full-time equivalent (FTE) students as of fall 2019.

Credit overview

TCNJ's credit strengths include its scale of operations, strong student demand, and growth of net tuition revenue. The college's strategic positioning is very good, supported by consistently healthy demand for its programs and a management team that continues to exhibit strong fiscal stewardship with a dedicated focus on optimizing the use of financial resources. TCNJ has a track record of demonstrating good financial management and has been able to generate consistently positive cash flow margins. These strengths are counterbalanced by a challenging state funding environment, and high debt burden inclusive of significant pension liabilities.

Exhibit 1
The College of New Jersey, NJ [2]

	2015	2016	2017	2018	2019	Median: A2 rated public universities
Total FTE Enrollment	6,957	6,962	7,154	7,285	7,465	7,297
Operating Revenue ($000)	222,011	225,417	231,082	240,669	246,772	145,911
Annual Change in Operating Revenue (%)	3.7	1.5	2.5	4.1	2.5	0.4
Total Cash and Investments ($000)	161,773	156,843	159,424	163,623	159,455	118,294
Total Debt ($000)	366,725	357,179	392,240	382,847	371,113	149,198
Spendable Cash and Investments to Total Debt (x)	0.4	0.4	0.4	0.4	0.4	0.5
Spendable Cash and Investments to Operating Expenses (x)	0.7	0.7	0.7	0.6	0.6	0.6
Monthly Days Cash on Hand	213	205	194	184	167	163
Operating Cash Flow Margin (%)	19.7	19.6	19.5	16.9	15.1	10.5
Total Debt to Cash Flow (x)	8.4	8.1	8.7	9.4	10.0	9.1
Annual Debt Service Coverage (x)	1.7	1.6	1.9	1.7	1.6	1.6

Total debt of $371,113 million as of June 30, 2019, included $37.1 million in advance refunded debt, the proceeds of which was held by bond trustees and was redeemed on July 1, 2019.
Source: Moody's Investors Service

Market profile: The college's robust student demand and ability to grow revenue from tuition and fees support its very good strategic positioning. Net tuition per student, an indicator of pricing power, has increased in each of the past five years, although the pace of increase has moderated. TCNJ 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.

» The college's scope of operations at $247 million in fiscal 2019 provides some ability to manage through periods of operating volatility and has increased by 11% since fiscal 2015, mainly driven by a 14% increase in tuition and auxiliaries.

» The annual change in operating revenue of 2.5% in fiscal 2019 reflects the competitive environment and is in line with the A2-rated public university median.

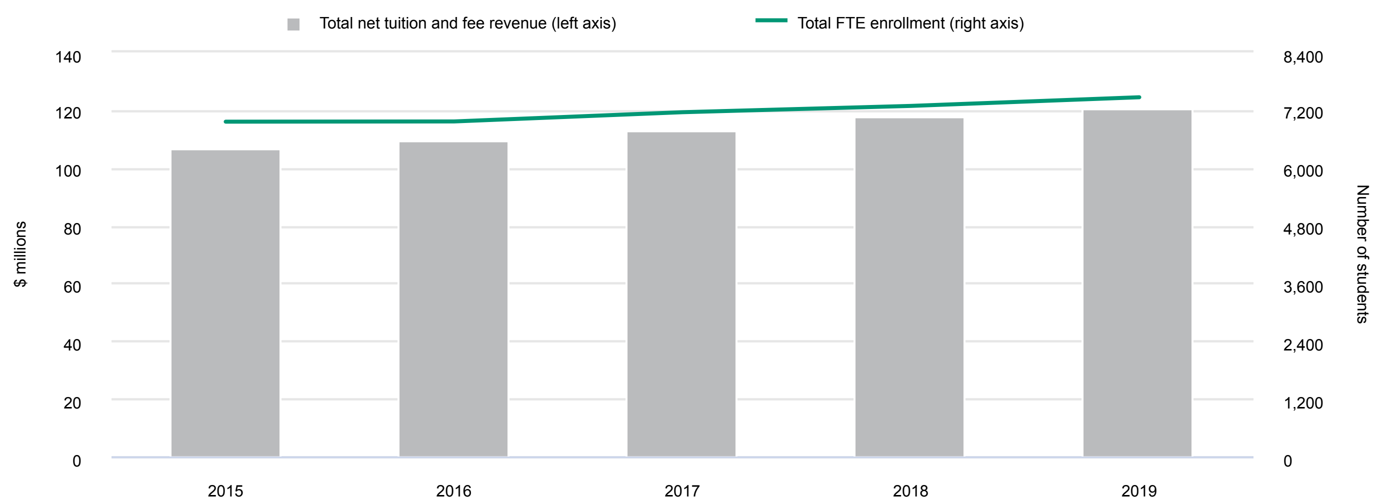
» Enrollment has risen modestly by 7% to 7,465 students in fall 2019 from 6,957 students in fall 2015 due to strong demand for STEM education.

» With 24% in fall 2019 of admitted students enrolling, the college's yield is somewhat low but it has been stable compared with fall 2015.

» Net tuition per student of $16,569 in fiscal 2019 highlights the strong pricing power of the college and has grown by 8% compared with $15,340 in fiscal 2015.

Exhibit 2

Net tuition growth driven primarily by tuition increases as well as enrollment growth over the last five years



Source: Moody's Investors Service

Operating performance: TCNJ's strong financial management has translated into continued positive operating cash flow margins, and we expect this trend to continue. The college's senior leadership has a demonstrated history of conservatively budgeting for enrollment and a track record of cost containment efforts.

» The college has a favorable operating cash flow margin of 15.1% in fiscal 2019, higher than the 10.5% median for similarly rated entities. These margins have softened in recent years due to strategic initiatives related to new programs.

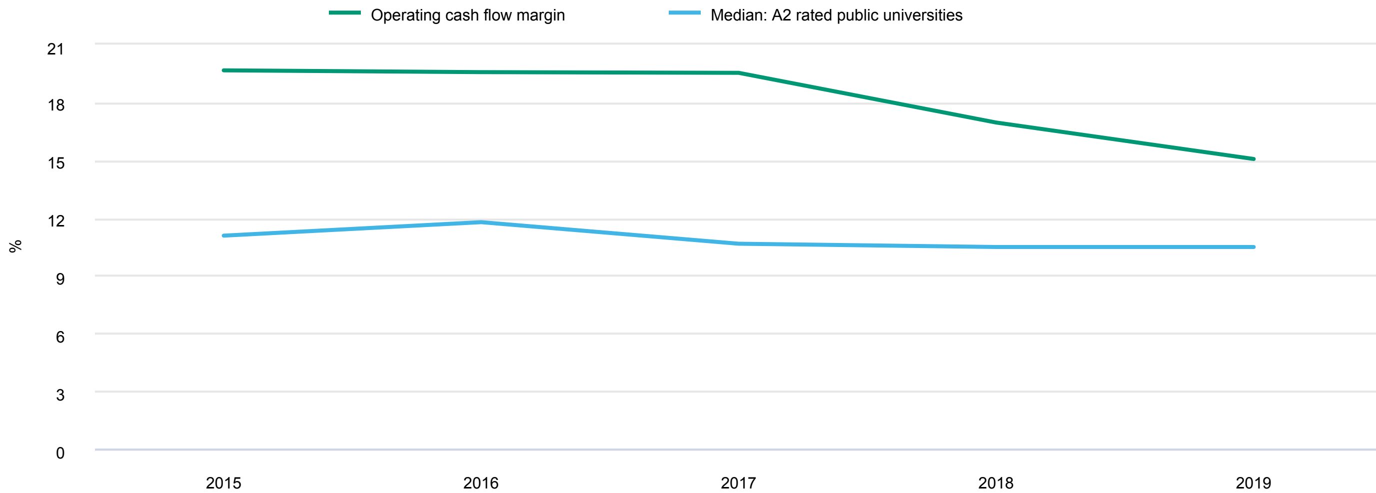
» Debt service coverage of 1.6x in fiscal 2019 indicates solid ability to cover debt service from operating cash flow and is line with medians for similarly rated peers.

» Revenue is concentrated with 70% derived from student charges, which increases the importance of successful recruitment and retention of students to maintaining credit quality.

» State funding at the aggregate level remains stagnant, but the funding for operating support continues to decline in favor of funding for benefits (including pension costs), pressuring operations. Student charges revenue and cost controls must fill the operating gap, and there is a potential increase in operating pressure if the state were to require increased college contributions to the underfunded state retirement system.

Exhibit 3

Operating cash flow margin outperforms the median for similarly rated peers nationwide but has softened in recent years



Source: Moody's Investors Service

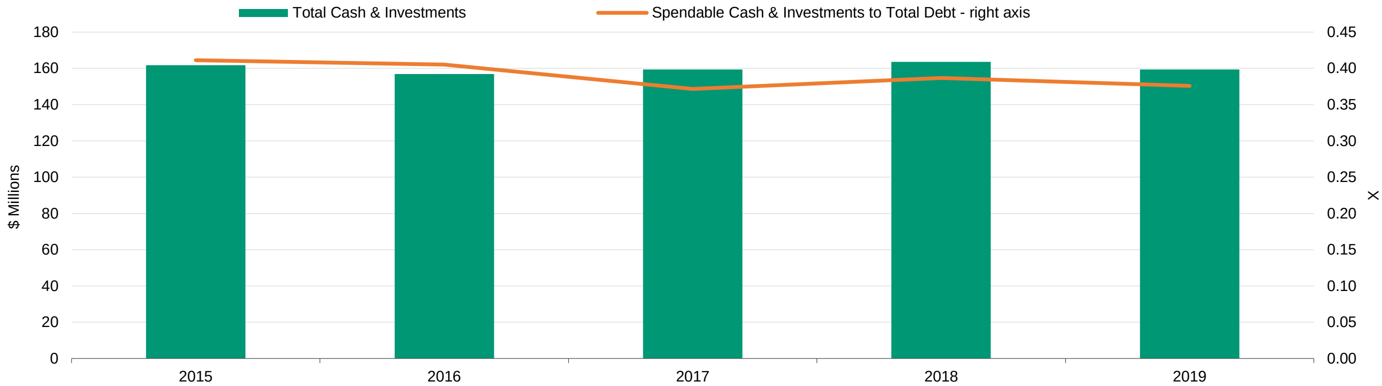
Wealth and liquidity: TCNJ's financial reserve cushion relative to outstanding debt and expenses is generally in line with peers, with total cash and investments covering debt by 0.4x and expenses by 0.6x. Flexible reserves have not grown in the last five years due to softening of operating performance and regular capital investment from reserves. We expect TCNJ to resume growth of reserves as it slows down on capital spending and improves fundraising.

» Total cash and investments have been flat at $159 million in fiscal 2019 compared with fiscal 2015 due to softening cash flow margins and capital investment from reserves.

» Spendable cash and investments to operating expenses of 0.6x in fiscal 2019 provides a good runway to respond to operating volatility. It has decreased modestly from 0.7x in fiscal 2015 but it is comparable with similarly rated peers.

» The college's strong monthly days cash on hand of 167 days in fiscal 2019 has declined from 213 days in fiscal 2015. However, it is comparable with similarly rated peers.

Exhibit 4
Over the last five fiscal years, wealth and spendable cash and investments relative to total debt have been stagnant



Source: Moody's Investors Service

Leverage: The college's debt burden remains very high for the rating category. There is very limited additional debt capacity at this rating without a compensating increase in financial resources or revenue. In fiscal 2019, the debt to cash flow ratio was a weak 10x, with debt service a high 9% of operating expenses.

» Spendable cash and investments to total debt is moderate at 0.4x in fiscal 2019 and was flat compared with fiscal 2015.

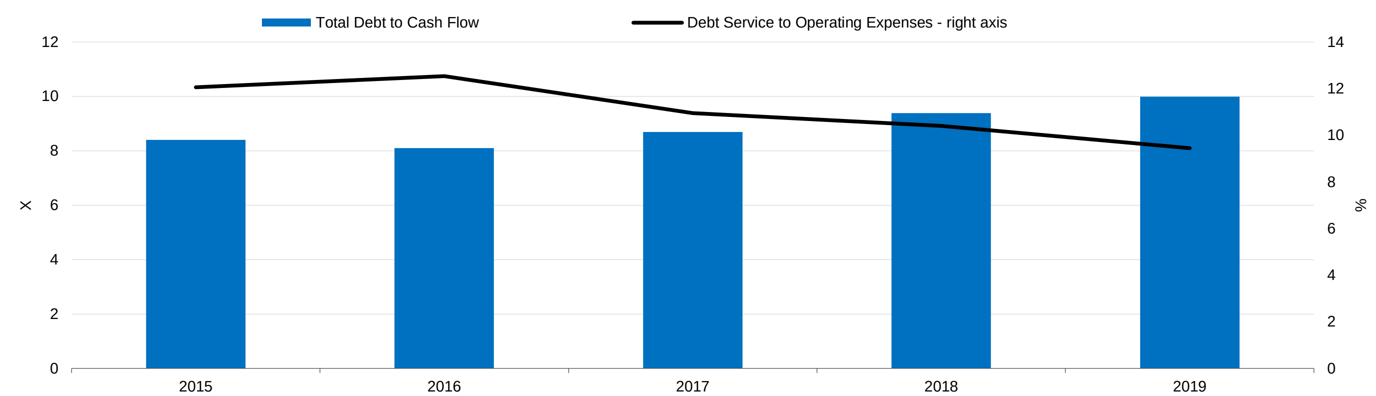
» TCNJ's relatively high debt to cash flow has weakened to 10x in fiscal 2019 from 8.4x in fiscal 2015 as a result of a modest deterioration in operating cash flow. Also, it is weaker compared with the A2-rated public university median of 9.1x.

» Debt service to operating expenses of 9.4% in fiscal 2019 materially limits financial flexibility and future capital plans and is unfavorable compared with the A2-rated public university median of 6.3%.

» Total debt has remained stable at $371 million in fiscal 2019 compared with fiscal 2015.

» Total adjusted debt of $560 million in fiscal 2019 compared to total debt of $371 million reflects a material pension obligation. TCNJ's pension expense is far below our calculated tread water payment, leading to a growth in the overall liability and constraining future financial flexibility.

Exhibit 5
Debt burden has reduced relative to expenses but debt still accounts for a very high 10x of cash flows



Source: Moody's Investors Service

Sector trends

We have a stable outlook for the US higher education sector through 2020. The stable outlook acknowledges that while business conditions will remain difficult for a notable portion of the sector in the next 12-18 months, they will not deteriorate materially.

Relative stability in state funding, endowment income, and patient care revenue at academic medical centers will help offset continued low growth in net tuition revenue. Comprehensive universities, both public and private, and wealthy, national liberal arts college will continue to fare well over the outlook period, supported by strong brands and reputations, diversified enrollment and business lines, and healthy reserves. Universities with comparatively low wealth and a higher concentration on tuition revenue will face more difficulties.

Endnotes

1 The rating referenced in this report is the college's or university's seniormost public rating.

2 Definitions of the metrics in the Key Indicators table are available in the appendices of our most recently published Higher Education medians reports, public university and private university. The appendices also provide additional metrics broken out by sector and rating category. We use data from a variety of sources to calculate the medians, some of which have differing reporting schedules. Median data for prior years published in this report may not match last year's publication because of data refinement and changes in the sample sets used, as well as rating changes, initial ratings, and rating withdrawals. Median data represents the most recent published median data, which in some cases could be from the prior fiscal year.

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