MOODY'S INVESTORS SERVICE

CREDIT OPINION
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College of New Jersey, NJ

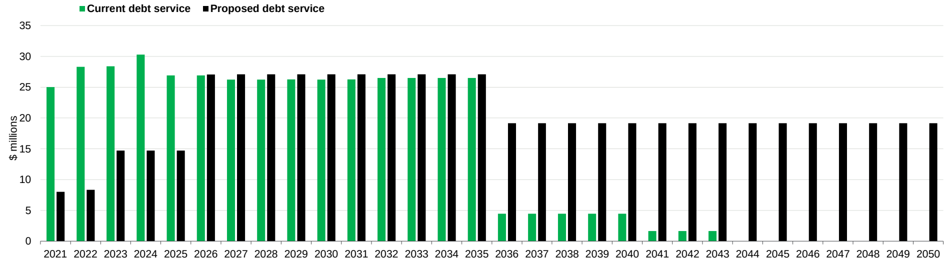
Update to credit analysis

Summary

The College of New Jersey's (A2 stable) very good strategic positioning is supported by the college's mid-sized scale of operations with a distinct market niche in New Jersey that results in ongoing strong student demand and growth in net tuition revenue. Conservative budgeting and steady revenue growth have contributed to healthy operating cash flow. However, margins have weakened in recent years due to growth in expenses without compensating revenue growth, reflecting some relaxing of historically strong fiscal discipline. Disruptions caused by the coronavirus pandemic, including the move to distance learning in March, will further weaken the college's operating performance. Expense reductions and direct CARES Act support will largely offset a $5 million reduction in state operating funding for fiscal year 2020 and $13 million in room and board refunds. The remaining $4 million deficit will be funded from reserves and any additional allocation for the Cares Act from the State of New Jersey. A planned bond issuance will also provide near-term operating relief by reducing debt service for the next five years. Offsetting credit considerations include a very high debt burden and resulting moderate debt service coverage and a high reliance on student-driven revenue in a competitive student market.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. The rapid and widening spread of the coronavirus outbreak, deteriorating global economic outlook, and financial market declines are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. We expect that students at TCNJ will return to campus this fall, though potentially with some shifts in course timing and delivery.

Exhibit 1
Series 2020 financing will provide budgetary relief in the short term



Source: Moody's Investors Service, The College of New Jersey

Credit strengths

- Sound student demand as an academically selective public college in New Jersey, resulting in a 13% growth in net tuition revenue in the last five years
- Good financial reserves and liquidity, with 167 monthly days cash on hand, enhances financial flexibility
- Operating cash flow remains solid even with recent thinning

Credit challenges

- Operational and financial disruption because of coronavirus pandemic with uncertain magnitude of ultimate effects
- Very high debt burden, with debt to operating revenue of 1.5x, and debt service consuming over 9% of operations in fiscal 2019
- 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

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 flows even in the face of operational risks caused by the pandemic.

Factors that could lead to an upgrade

- Substantial growth in wealth relative to debt and operations

Factors that could lead to a downgrade

- Further weakening of operating cash flow margin and debt service coverage excluding the impact from coronavirus in fiscal 2020 and potentially into fiscal 2021
- Significant debt issuance without meaningful growth of financial reserves or cash flow

Key indicators

Exhibit 2

	2015	2016	2017	2018	2019	Median: A Rated Public Universities
Total FTE Enrollment	6,957	7,006	7,199	7,285	7,465	10,083
Operating Revenue ($000)	222,011	225,417	231,082	240,669	246,772	226,004
Annual Change in Operating Revenue (%)	3.7	1.5	2.5	4.1	2.5	1.2
Total Cash & Investments ($000)	161,773	156,843	159,424	163,623	159,455	197,458
Total Debt ($000)	366,725	357,179	392,240	382,847	371,113	147,430
Spendable Cash & Investments to Total Debt (x)	0.4	0.4	0.4	0.4	0.4	1.0
Spendable Cash & Investments to Operating Expenses (x)	0.7	0.7	0.7	0.6	0.6	0.6
Monthly Days Cash on Hand (x)	213	205	194	184	167	154
Operating Cash Flow Margin (%)	19.7	19.6	19.5	16.9	15.1	10.7
Total Debt to Cash Flow (x)	8.4	8.1	8.7	9.4	10.0	6.5
Annual Debt Service Coverage (x)	1.7	1.6	1.9	1.7	1.6	2.0

Source: Moody's Investors Service

Profile

The College of New Jersey is located in the 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 nearly 7,500 full-time equivalent students and generates $247 million of operating revenue.

Detailed credit considerations

Market profile: strong student demand in a highly competitive market

The College of New Jersey (TCNJ) will continue to benefit from strong student demand and diversified program offerings. 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 93%. By offering both affordable tuition and mid-sized enrollment, TCNJ competes effectively with Rutgers, the state's flagship public university, as well as other public and private universities in New Jersey and nearby Pennsylvania and Delaware.

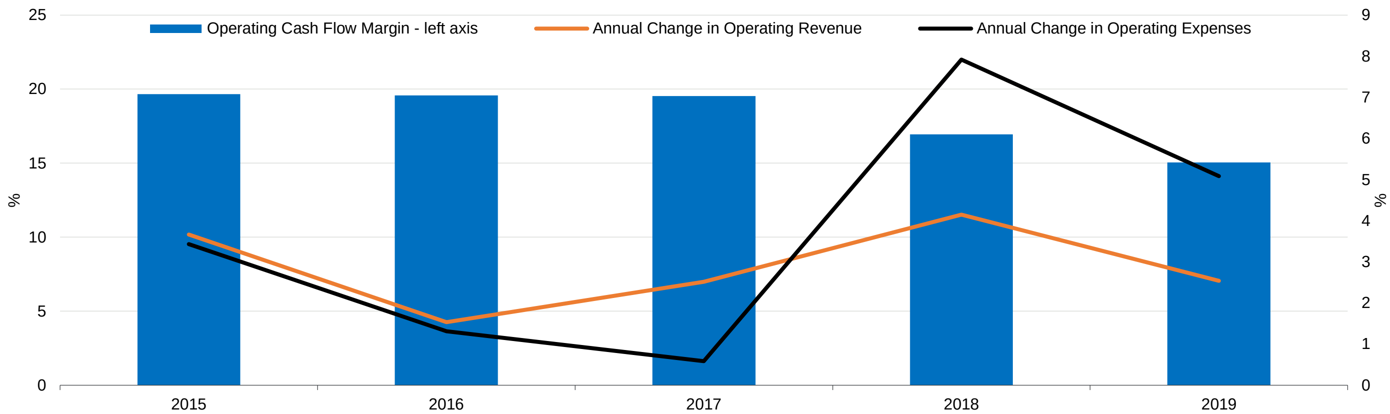
TCNJ's ability to consistently grow net tuition per student and maintain a low tuition discount rate speak to its strong market position. Enrollment growth has been modest at 7% over the last five years due to the college's desire to preserve its size (7,500 FTE students, fall 2019) and character. TCNJ plans to grow enrollment at the graduate level, although near term growth prospects are limited given the impact of coronavirus and the related uncertainty.

Operating performance: despite recent thinning, cash flow remains strong; operations likely to contract then recover

The college's operating performance will contract in fiscal 2020 and 2021 because of the effects of the pandemic, but through conservative budgeting and contingency planning, it is likely to recover in fiscal 2022. Given management's proactive actions in reducing $10 million expenses in fiscal 2020 and another $17 million in fiscal 2021, the impact of the pandemic will be manageable. Additionally, given TCNJ's good market position, it has the option to increase its enrollment and/or tuition pricing to provide additional revenue if needed. In May, New Jersey announced that the State will distribute additional CARES Act funding to higher education institutions in the State. From the U.S. Department of Education, the Governor's Emergency Education Relief (GEER) Fund is expected to further offset costs incurred due to the pandemic.

In fiscal 2019, TCNJ's generated a 15% operating cash flow margin, weaker than the almost 20% margins prior to fiscal 2018. Expense growth of 13% since fiscal 2017 significantly outpaced revenue growth of 7%, reflecting some relaxing of historically strong fiscal discipline. The current financing further acknowledges some operating pressure, as it will provide budgetary relief to the college by reducing annual debt service for the next five years to between $8 million and $15 million, from over $27 million. While the college will end up paying more over the life of bonds with a negative net present value, the near term cash flow savings of $78 million over the next five years help offset stagnant to declining state funding and uncertainty about the coronavirus impact in addition to supporting strategic growth initiatives and opportunities being explored by the college.

Exhibit 3
High expense growth in recent years has pressured operating performance



Source: Moody's Investors Service

Wealth and liquidity: flexible reserves provide good cushion to debt and expenses

TCNJ has good wealth and liquidity relative to similarly rated peers. However, growth in reserves has been weak due to significant investment in campus over the last five years. However, investment has resulted in an attractive campus and bolsters the college's long-term strategic positioning. As of fiscal 2019, spendable cash and investments cushioned debt and expenses by 0.4x and 0.56x, respectively. These metrics are weaker than 1x and 0.6x median for A-rated public institutions which is not surprising given that public universities in New Jersey have low capital support from the state, resulting in a higher debt burden and greater use of reserves to fund capital projects.

Liquidity

The college's liquidity is comparatively strong relative to peers, with unrestricted monthly liquidity of $102 million at the end of fiscal 2019, providing 167 monthly days cash on hand, slightly higher than the median 154 days for A-rated public universities. 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 1.5x and debt service representing around 9% of expenses in fiscal 2019. These metrics are very high relative to the 0.7x debt to operating revenue and 4.8% debt service to expenses for fiscal 2018 medians for A-rated public universities. With the proposed restructuring, pro forma metrics will improve significantly. Debt service coverage is projected to grow to 2.6x (based on fiscal 2019 operating cash flow) and debt service to operations is projected to fall to 5.5% (based on fiscal 2019 expenses). 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 without impacting credit quality. 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

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 $183 million. Combined with outstanding pro forma debt, this represents 2.2x operating revenues for fiscal year 2019, which is comparable to the Moody's A2-median of 1.6x. Total state appropriations for fringe benefits in fiscal 2019 of $33.2 million were modestly higher than the fiscal 2018 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.

ESG considerations

Environmental

Environmental considerations are not a key credit driver for TCNJ at this point.

Social

Moody's regards the coronavirus outbreak as a social risk under its ESG framework, given the substantial implications for public health and safety. The college has ceased in-person course instruction for the remainder of the academic year and transitioned all coursework to an online delivery format. The potential for the outbreak to drive a decline in retention in fall 2020 is a material credit risk, but expense reductions as well as funding from the recent CARES Act will partially offset revenue losses. As a public college, TCNJ maintains a relatively affordable pricing structure and offers various support services to enhance student persistence.

Governance

The college's strong management team supports credit quality in spite of the very high debt burden and increasingly challenging state funding environment. Management has shown recent increased flexibility in reducing expenses, which should prevent further thinning of operating performance after managing through the coronavirus impact. TCNJ's consistently strong capital investment has resulted in an attractive campus with relatively low age of plant which is a competitive advantage that bolsters its strategic position.

Rating methodology and scorecard factors

The Higher Education Methodology includes a scorecard that summarizes the factors that are generally most important to higher education credit profiles. Because the scorecard is a summary and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not match an assigned rating. We assess strategic positioning on a qualitative basis, as described in the methodology.

Exhibit 4

The College of New Jersey, NJ

Rating Factors		Value	Score
Factor 1:	**Market Profile (30%)**		
	Scope of Operations (Operating Revenue) ($000)	246,772	A1
	Reputation and Pricing Power (Annual Change in Operating Revenue) (%)	2.5	Baa2
	Strategic Positioning	A	A
Factor 2:	**Operating Performance (25%)**		
	Operating Results (Operating Cash Flow Margin) (%)	15.1	Aa1
	Revenue Diversity (Maximum Single Contribution) (%)	69.7	Baa1
Factor 3:	**Wealth & Liquidity (25%)**		
	Total Wealth (Total Cash & Investments) ($000)	159,455	Aa3
	Operating Reserve (Spendable Cash & Investments to Operating Expenses) (x)	0.6	Aa3
	Liquidity (Monthly Days Cash on Hand)	167	Aa3
Factor 4:	**Leverage (20%)**		
	Financial Leverage (Spendable Cash & Investments to Total Debt) (x)	0.4	A2
	Debt Affordability (Total Debt to Cash Flow) (x)	10.0	Aa3
	Scorecard-Indicated Outcome		A1
	Assigned Rating		A2

Data is based on most recent fiscal year available. Debt may include pro forma data for new debt issued or proposed to be issued after the close of the fiscal year.

For non-US issuers, nominal figures are in US dollars consistent with the Higher Education Methodology.

Source: Moody's Investors Service

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