

**RATING ACTION COMMENTARY**

# **Fitch Affirms The College of New Jersey, NJ Revs at 'A+'; Outlook Negative; Withdraws Rating**

Mon 17 Aug, 2020 - 4:02 PM ET

Fitch Ratings - Chicago - 17 Aug 2020: Fitch Ratings has affirmed the 'A+' Issuer Default Rating and bond rating on certain New Jersey Educational Facilities Authority revenue bonds issued on behalf of The College of New Jersey (TCNJ), and simultaneously withdraws the 'A+' rating.

The Rating Outlook is revised to Negative from Stable.

Fitch is withdrawing the ratings as TCNJ has elected to not participate in the rating process going forward. Therefore, Fitch will no longer have sufficient information to maintain the ratings.

**SECURITY**

The bonds are an unsecured general obligation of The College of New Jersey.

## **ANALYTICAL CONCLUSION**

The Outlook Revision to Negative from Stable reflects the expected near-term pressures on The College of New Jersey's cash flow and vulnerability to further operating variability coupled with flat operating support from the state of New Jersey (IDR of 'A'/Neg). The 'A+' rating is supported by noted strength in demand characteristics, stable enrollment and growing net tuition and fees in a challenging and competitive market which tempers TCNJ's tuition pricing flexibility somewhat. The recent series 2020D bond transaction provides near-term debt service relief, adding flexibility against an otherwise elevated debt burden.

### **Coronavirus Impacts**

The ongoing coronavirus pandemic and related government-led containment measures create an uncertain environment for the U.S. Public Finance higher education sector. Fitch's forward-looking analysis is informed by management's expectations coupled with Fitch's common set of baseline and downside macroeconomic scenarios. Fitch's scenarios will evolve as needed during this dynamic period. Fitch's current baseline scenario includes a sharp economic contraction in 2Q20 with a sequential recovery starting from 3Q20 onward.

Fitch's baseline case assumes TCNJ will have a primarily remote learning plan for the fall semester before resumption of on-campus activities in 2021. TCNJ shifted to a fully remote learning mode in March 2020 and recently announced plans to continue its remote learning environment for the fall semester in a revision to earlier plans of a hybrid structure. The college refunded \$12.9 million of student housing, dining and other fees on a prorated basis. Additional unexpected losses are anticipated to total approximately \$7.8 million including a \$5 million holdback of the state operating appropriation for fiscal 2020. Partially offsetting these losses are the receipt of \$2.5 million from the institutional portion of the CARES Act proceeds, and other savings realized from various expenditure reduction measures including a hiring freeze, spending freeze, project deferment and foregone travel costs-estimated to collectively total \$16.6 million. Fiscal 2021 will include wider revenue impacts, and require greater expense reductions for TCNJ to preserve its margins and currently modest deficit operations.

## **Revenue Defensibility: 'aa'**

### **Strong Demand Profile in Competitive Market**

TCNJ's strong demand characteristics anchor the 'aa' assessment, supporting very steady enrollment trends in a competitive and challenging market. Very high student quality and retention are tempered by somewhat midrange matriculation, indicative of the competitive environment.

## **Operating Risk: 'aa'**

### **Manageable Capital Needs; Strong Cash Flow**

Cash flow margins have softened in recent years, but are expected to recover beyond near-term operating pressures in 2020 and 2021 with attention from management. TCNJ's stated capital plans are relatively modest and flexible, and TCNJ has been successful in utilizing fundraising and other external sources for some of its capital needs.

## **Financial Profile: 'a'**

### **Relatively High Leverage Softened by State Pension Support**

With an available funds to adjusted debt (including net pension liabilities) ratio of 22% in fiscal 2019, TCNJ maintains a financial profile through Fitch's scenario analysis consistent with a 'a' assessment, and the scenario incorporates the approximately \$37 million in series 2010B crossover refunded debt redeemed on July 1, 2019. Consideration for this metric is also strengthened by the state's consistent operating and pension funding support, which lessens the burden of

adjusted debt relative to the calculated value and further supports the financial profile assessment of 'a' and the 'A+' IDR.

## **ASYMMETRIC ADDITIONAL RISK CONSIDERATIONS**

No asymmetric risk factors affected the rating.

## **RATING SENSITIVITIES**

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Not relevant as rating is withdrawn.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Not relevant as rating is withdrawn.

## **BEST/WORST CASE RATING SCENARIO**

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [<https://www.fitchratings.com/site/re/10111579>].

## **CREDIT PROFILE**

TCNJ, founded in 1855 and located in Ewing, NJ, a suburb of Trenton, 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 7,465 for fall 2019. Most students attend full-time and enter as freshmen.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

## ESG CONSIDERATIONS

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

## RATING ACTIONS

ENTITY/DEBT	RATING		
College of New Jersey (The) (NJ)	LT IDR	A+ Rating Outlook Negative	Affirmed
●	LT IDR	WD	Withdrawn

ENTITY/DEBT	RATING
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- College of New Jersey (The) (NJ) LT A+ Rating Outlook Negative Affirmed

[VIEW ADDITIONAL RATING DETAILS](#)

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## APPLICABLE CRITERIA

[U.S. Public Finance College and University Rating Criteria \(pub. 26 Mar 2020\)](#)  
(including rating assumption sensitivity)

[Public Sector, Revenue-Supported Entities Rating Criteria \(pub. 27 Mar 2020\)](#)  
(including rating assumption sensitivity)

## APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Portfolio Analysis Model (PAM), v1.3.1 ([1](#))

## ADDITIONAL DISCLOSURES

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College of New Jersey (The) (NJ)	EU Endorsed
New Jersey Educational Facilities Authority (NJ)	EU Endorsed

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