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Ratings

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New Jersey Educational Facilities Authority
College Of New Jersey; Public Coll/Univ - Unlimited Student Fees

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Table Of Contents

New Jersey Educational Facilities Authority College Of New Jersey; Public Coll/Univ - Unlimited Student Fees

Credit Profile		
New Jersey Educl Facs Auth, New Jersey		
College of New Jersey, New Jersey		
New Jersey Educl Facs Auth (College of New Jersey) PCU_USF (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
New Jersey Educl Facs Auth (College of New Jersey) PCU_USF (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
New Jersey Educl Facs Auth (College of New Jersey) PCU_USF (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
New Jersey Educl Facs Auth (College of New Jersey) PCU_USF (BAM) (SECMKT)		
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New Jersey Educl Facs Auth (College of New Jersey) PCU_USF (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
New Jersey Educl Facs Auth (College of New Jersey) (AGM)		
Unenhanced Rating	A(SPUR)/Stable	Outlook Revised
New Jersey Educl Facs Auth (College of New Jersey) (AGM)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
New Jersey Educl Facs Auth (College of New Jersey) (BAM) (SECMKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed

Rating Action

S&P Global Ratings revised its outlook to stable from negative and affirmed its 'A' long-term rating on various series of revenue bonds or revenue refunding bonds issued by New Jersey Educational Facilities Authority (NJEFA) on behalf of the College of New Jersey (TCNJ or the college). Total debt affected by this action outstanding as of the college's fiscal year ended June 30, 2020, is $321 million inclusive of only a very small amount of operating leases. We understand TCNJ has no near-term additional debt plans.

The revised outlook and rating reflect TCNJ's stable enrollment prior to the pandemic with some recent softening, impressive retention and graduation rates, and expected stronger financial performance in fiscal years 2021 and 2022 due to New Jersey and the federal government's enhanced funding for higher education after the impact of the COVID-19 pandemic became better known. The rating action also reflects TCNJ's reduced debt and available resources that have improved slightly while endowment growth is healthy offsetting some ongoing concern about a high debt burden.

Established in 1855 as a "normal" (teaching) school, TCNJ is on a residential campus about five miles from Trenton, in Ewing. It is a midsize, comprehensive public college with a fall 2020 full-time equivalent enrollment (FTE) of 7,424 students, most of whom are undergraduates. Of the total FTE students only 60 or just under 1% are international students. The college offers 50 undergraduate and 14 graduate degree programs in seven schools.

TCNJ's revenue bonds are a general obligation payable from any legally available funds available to the college. Legally available funds include all funds of the college, including state appropriations that are not designated for a specific purpose. Although state appropriations are not specifically pledged to the bondholders, they are part of the pool of resources available for payment of debt service on the bonds.

Because of the COVID-19 pandemic, as of March 20, 2020, the college transitioned its spring term classes to remote learning. The college refunded $13.3 million of student housing, dining, and other fees on a pro-rated basis and collected no room and board revenue for fall 2020. Additional unexpected losses incurred were a $5.3 million rescission of state operating appropriation for fiscal 2020. Partially offsetting these unexpected losses are receipt of $2.5 million from the college portion of the CARES Act proceeds, savings related to its meal plan of $4.4 million, and savings it realized from various budget reduction measures including implementing a hiring freeze, spending freeze, project deferment and foregone travel costs estimated to collectively total $4.3 million. As a result, TCNJ posted an adjusted operating loss of $12.5 million or a negative 4.5% operating margin up from the prior year's adjusted operating deficit of $3.5 million or negative 1.3% operating margin. However, for fiscal 2021 we understand the college expects to post a positive financial operating margin in response to further cost cutting, restoration of the prior year's recission by New Jersey and inclusion of $13.1 million of stimulus funds received under CARES Act Higher Education Emergency Funding (HEERF) II. Furthermore, we understand the college will realize $6.5 million in stimulus funds in fiscal 2022 from the American Rescue Plan Act of 2021.

Credit overview

We have assessed the college's enterprise profile as very strong, reflecting a rising enrollment trend prior to the pandemic and more recent slight declines in enrollment in fall 2020 and 2021, robust retention and graduation rates, impressive faculty, 92% of whom have terminal degrees in their specialty, and satisfactory management and governance. We have assessed the college's financial profile as strong, with conservative and healthy budgeting and financial planning practices, dependence upon student-generated revenue for slightly more than two-thirds of total revenue, recent adjusted operating deficits in fiscal years 2018 through 2020 when the state funding environment became constrained, a high debt burden based on maximum annual debt service (MADS) and a moderate available resources position. When we combine the enterprise and financial profiles, this leads to an indicative stand-alone credit profile of 'a+'. As our criteria indicate, the final rating can be within one notch of the indicative credit level. In our opinion, the 'A' rating on the college's bonds better reflects its weaker available resources to debt compared with medians and peers, and ongoing state budgetary pressure, although there has been some improvement in the funding of pension and other postemployment benefits (OPEB) liabilities.

As of this writing, we rate the state of New Jersey 'BBB+' with a positive outlook. Since TCNJ receives less than 20% of its adjusted operating revenues from state operating appropriations (including employees' fringe benefits paid by the state), we believe the rating on TCNJ reflects a limited dependence on ongoing funding for its operations from the state. However, if the rating on the state were to fall below its present level causing adverse budgetary implications for TCNJ or if the state's operating appropriation is cut markedly, this could have negative credit implications for our rating on the college.

The 'A' rating reflects our assessment of TCNJ's:

- Rising enrollment prior to the pandemic and more recent slight enrollment decline while certain of its key student demand metrics such as retention and graduation rate are generally favorable for a public college;
- Satisfactory management and governance with only normal turnover of senior management positions and a focus on budgetary stability;
- Improving, though still somewhat modest, fundraising with $63 million raised in its latest capital campaign that ended in fiscal 2019 exceeding its $54.5 million goal with its affiliated foundation raising $9.6 million in fiscal 2020 and $20 million in fiscal 2021; and
- Adjusted unrestricted net assets (UNA) as a percentage of adjusted operating expenses at 32.8% as of June 30, 2020, that exceeds the 31.0% median for its rating category.

Offsetting factors, in our view, include TCNJ's:

- Financial operating performance that has been plagued by recent deficits after posting surpluses prior to fiscal 2018 with the recent deficits largely due to flat or declining state operating appropriation in fiscal years 2018 to 2020;
- Low adjusted UNA to pro forma debt at fiscal year-end 2020 of 32.1% compared with the rating category median of 64.6%; and
- High pro forma debt burden of 9.5% as of June 30, 2020, based on MADS, although after issuing its series 2020D issue in fiscal 2021 MADS falls to $26.2 million from $30.5 million.

The stable outlook reflects our view that over the two-year outlook period, TCNJ's enrollment, state operating appropriation and financial operating performance are likely to be sound after a recent period when its enrollment and finances were adversely affected by the COVID-19 pandemic and New Jersey's budgetary issues. In addition, any additional debt issuance without a commensurate increase in available resources is likely to pressure the rating.

Environmental, social, and governance (ESG) factors

While vaccine progress has helped alleviate some of the health and safety social risk stemming from the pandemic, we believe the higher education sector remains one at a greater risk than others given the importance of resumption in pre-pandemic activities and the corresponding influence on operating revenue. While we believe management has taken prudent actions regarding the health and safety of its students, including hybrid learning options for students, we believe uncertainty remains on the trajectory of the pandemic due to the highly contagious delta variant. We view the college's exposure to state pension plans with very weak funding levels that has led to significant budget pressure at the college in recent years, as a governance weakness. However, we believe New Jersey's recent efforts to address the liability through spending surplus revenues in fiscals 2021 and 2022 to possibly raise the funding ratio to more than 40% from 38.4%--the lowest funding rate among all states. Despite the elevated social risk, we believe TCNJ's environmental and governance risk are in line with our view of the sector as a whole.

Stable Outlook

Upside scenario

A higher rating would be predicated upon TCNJ's enrollment improving, returning to positive financial operating performance on a full accrual basis, and strengthening its available resources to operations and debt.

Downside scenario

An unexpected decline in TCNJ's enrollment leading to recurring operating deficits, an increase in debt or a marked decline in state operating appropriation resulting in budgetary stress could trigger a negative rating action. In addition, a decline in available resources relative to operating expenses or debt could also pressure the rating.

Credit Opinion

Enterprise Profile

Market position and demand

Fall 2020 FTE enrollment was 7,424 just under a 1% decrease from fall 2019's enrollment of 7,465. The fiscal 2020 budget had assumed the incoming class would decline by 5% due to the COVID 19 pandemic. The actual freshman class increased 3.5% to 1,605 in fall 2019 (fiscal 2020) from 1,551 in fall 2018 (fiscal 2019).

We understand fall 2021 FTE enrollment is 7,276 a 2% decline from the fall 2021 enrollment as noted above. This further dip in enrollment was due to the continuation of the pandemic through fall 2020 and spring 2021 with on campus visitation only resuming earlier this past summer.

Approximately 91% of students are undergraduates, and the college has a very regional student draw, with 95% of its fall 2020 undergraduate students originating from New Jersey. Education officials in New Jersey project the population of graduating high school seniors will remain flat during the next couple of years. In addition, there is a large outmigration of New Jersey graduating high school students to schools in other states. To counter these trends the college takes a targeted approach to branding and marketing. It also ramped up its recruitment efforts in contiguous and select other states including Connecticut, Massachusetts, New York, and California.

The freshman selectivity rate at 51.3% is quite favorable relative to the 75.2% median for the rating category.

Student quality is solid and above the national average, in our view, with the average combined SAT scores for incoming freshman at 1233 for fall 2020. The freshman-to-sophomore student retention rate at 94 and six-year graduation rate at 86% are both robust and well above state and national averages.

For the 2019-2020 academic year, tuition and fees increased by 2.0% for resident and out-of-state students with total charges for a full-time in-state student equaling $30,991. TCNJ's in-state and out-of-state tuition and mandatory fees tend to be somewhat higher than its state public peers.

TCNJ primarily competes for applicants with public and private institutions with national draws, including the

University of Delaware, Rutgers University, Rowan University, Villanova University, Boston College, and New York University and as such its tuition and fees are competitive with those charged by these institutions. Our calculation of the overall tuition discount rate (including federal and state financial aid) was a low 20.2% in fiscal 2020; this discount rate is lower than many of TCNJ's public university peers.

Management and governance

The governing body of TCNJ has 15 gubernatorial members, plus two students (one voting on all matters except those precluded by state statue, plus a nonvoting alternate student trustee). Gubernatorial trustees typically serve no more than two consecutive full six-year terms. We understand the board has a new chairman who was previously the vice chairman and four nominees for trustee were being considered by the governor.

The college welcomed its 16th president, Kathryn A. Foster Ph.D., at the start of fiscal 2019 after the retirement of the prior long-serving president, Dr. R. Barbara Gitenstein, in June 2018. President Foster previously was the president of the University of Maine at Farmington from 2012 to 2018. No additional senior management turnover is anticipated at the present time. We consider the college's senior management team seasoned and experienced with a solid record of achieving strategic goals and objectives.

Financial Profile

Financial performance

We consider the college's budgeting, financial policies, and practices conservative. Key practices include payment of debt service from a capital budget that the college funds primarily with the proceeds of a general service fee, rather than from the operating budget. The general service/capital fee is a per-credit fee charged to all students and is exclusively dedicated to the funding of TCNJ's debt service and capital needs related to academic, administrative, and student recreational facilities. Housing and student center capital projects undertaken by the college are primarily funded through annual transfers from the housing and student center operating budgets. We understand the college does not budget for depreciation per se, but uses a proxy for depreciation in funding its asset renewal and replacement program while preparing its budgets and interim financial statements.

TCNJ produced positive financial operations on a full-accrual basis in fiscal years 2015 through fiscal 2017. However, beginning in fiscal 2018 through fiscal 2020, largely owing to the effect of a constrained state appropriation, TCNJ posted small adjusted operating deficits of $2.3 million (negative 0.9%) in fiscal 2018, $3.5 million (negative 1.3%) in fiscal 2019, and $12.5 million (negative 4.5%) in fiscal 2020. The latter deficit was significantly higher than the prior two deficits in large part related to the pandemic and New Jersey's decision to implement a budget recission in spring 2020, which cost TCNJ $5 million in unanticipated appropriation decline. We understand early in fiscal 2021 New Jersey essentially reversed the recission and restored full budgeted appropriation funding to its public universities and colleges. TCNJ indicates that in addition to the restoration of the prior recission it received a $1.4 million increase in appropriation for fiscal 2021 and an $8.3 million increase for fiscal 2022. As a result of a brighter state funding environment for higher education in fiscal years 2021 and 2022 combined with federal stimulus funds that will be recognized in these years, TCNJ expects to return to positive financial performance. In fiscal 2021 TCNJ expects to recognize approximately $13 million in stimulus funds, compared with only $2.8 million recognized in fiscal 2020, and is estimating it will recognize $6.5 million in fiscal 2022.

The college's revenue diversity, while not classified as concentrated per our criteria definition, is somewhat limited, in our view. Student-derived revenues (net tuition and auxiliary revenues) account for 68.1% of adjusted revenue in fiscal 2020 followed by state operating appropriation at 19.2%.

Available resources

In our view, the college's balance sheet has improved but still lags in certain metrics for the rating. Available resources to debt is modest at 32.1% for fiscal year end 2020 and the college's debt burden based on MADS is high. Adjusted unrestricted net assets (UNA) to operating expense for fiscal 2020 is 36.79% exceeding the median for the rating category of 31.3%; however, adjusted UNA to debt is low in our view at 32.8% as of June 30, 2020, and below the median for the rating category of 64.6.%. Also, TCNJ's MADS (debt) burden is high at 9.5% for fiscal 2020 but should decline in fiscal year 2021 when the effect of the series 2020D financing is realized.

Cash and investments (which we view as a less conservative measure of balance-sheet strength as it includes restricted funds) equaled 34.3% of total adjusted operating expenses in fiscal 2020 and 29.3% of debt.

The College of New Jersey Foundation is a legally separate, tax-exempt, component unit of TCNJ. Foundation assets totaled $48.2 million at fiscal year-end 2020, the bulk of which is restricted, and are invested in a typical asset allocation for colleges and universities. The college's development function has historically been limited but it continues to strengthen with investment in additional personnel. TCNJ, through its foundation, successfully completed its first-ever comprehensive campaign in June 2019 with an initial $54.5million goal and $63.0 million in actual gifts and pledges. The college is using campaign proceeds to support student scholarships and academic programs. In fiscal year 2020 the college, through its foundation, raised $9.6 million, exceeding its goal for fiscal year 2020 by 19%. In addition, we understand in fiscal 2021 raised $20.1 million exceeding its goal by almost 200%.

Debt and contingent liabilities

Total debt at fiscal year-end June 30, 2020, is approximately $321.2 million down from $357.6 million at fiscal year-end 2019, which includes $6.7 million of other long-term obligations including leases. The long-term debt structure is all fixed-rate and the college has no swaps. We understand TCNJ does not have any additional debt plans at present and given its moderate available resources to pro forma debt and high MADS debt burden, any issuance of additional debt could weigh heavily on the rating.

TCNJ has completed the Campus Town Project, which involved roughly $120 million in a public private partnership. The project was financed through private equity and from a traditional bank loan to a private developer, the PRC Group. The costs of planning, construction and operation were borne by the PRC Group. The college did not subsidize any portion of the debt service.

Pensions and other postemployment benefits

TCNJ participates in four retirement plans covering its employees. Three of these pension plans are cost-sharing, multiemployer defined-benefit pension plans administered by the state of New Jersey, and one is a defined-contribution pension plan, fully funded by definition. The three defined-benefit plans are the Public Employee's Retirement System (PERS), Police and Firemen's Retirement System (PFRS), and Teacher's Pension and Annuity Fund.

New Jersey, through separate appropriations, pays certain fringe benefits (including pension and health care benefits and FICA taxes) for current and retired college employees. OPEB costs on behalf of college employees are part of the health care benefits just cited. The total of all of these benefit costs for TCNJ for fiscal 2020 is $11.1 million down from $23.3 million in fiscal 2019. This amount is a component of the total appropriation the college receives from New Jersey and records in its financial statements. Total pension expense in fiscal 2020 is $10.0 million and the net pension liability on the balance sheet is $144.7 million.

In our view, given New Jersey's significantly underfunded defined-benefit pension plans (38.4% as of fiscal 2020), pensions are a long-term credit risk for New Jersey public colleges and universities if broader pension reform occurs and results in the state shifting funding responsibilities for pension and OPEB for all or a portion of these costs to the colleges and universities.

College of New Jersey, Enterprise And Financial Statistics

	--Fiscal year ended June 30--					Medians for 'A' rated public colleges and universities
	2021	**2020**	**2019**	**2018**	**2017**	**2020**
Enrollment and demand						
Headcount	7,783	7,821	7,686	7,552	7,396	MNR
Full-time equivalent	7,424	7,465	7,285	7,199	7,006	14,547
Freshman acceptance rate (%)	51.3	49.3	49.8	47.5	48.9	75.2
Freshman matriculation rate (%)	21.1	23.6	22.9	25.2	25.2	MNR
Undergraduates as a % of total enrollment (%)	91.3	91.2	91.3	92.1	91.8	82.5
Freshman retention (%)	94.0	93.0	93.0	94.0	94.0	76.9
Graduation rates (six years) (%)	N.A.	86.0	86.0	87.0	87.0	MNR
Income statement						
Adjusted operating revenue ($000s)	N.A.	267,017	269,831	262,400	249,672	MNR
Adjusted operating expense ($000s)	N.A.	274,532	273,317	264,717	240,738	MNR
Net adjusted operating income ($000s)	N.A.	(7,515)	(3,486)	(2,317)	8,934	MNR
Net adjusted operating margin (%)	N.A.	(2.74)	(1.28)	(0.88)	3.71	0.10
Estimated operating gain/loss before depreciation ($000s)	N.A.	20,499	22,048	20,541	30,817	MNR
Change in unrestricted net assets (UNA; $000s)	N.A.	(12,546)	(9,597)	(10,911)	(33,425)	MNR
State operating appropriations ($000s)	N.A.	50,394	54,351	54,006	51,979	MNR
State appropriations to revenue (%)	N.A.	18.9	20.1	20.6	20.8	20.9
Student dependence (%)	N.A.	66.8	67.5	67.7	67.9	52.4
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	8.0	8.2	7.8	7.5	MNR
Endowment and investment income dependence (%)	N.A.	2.5	1.8	1.7	1.3	0.8
Debt						
Outstanding debt ($000s)	N.A.	321,240	371,113	382,847	392,240	239,454
Proposed debt ($000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR

College of New Jersey, Enterprise And Financial Statistics (cont.)						
	--Fiscal year ended June 30--					Medians for 'A' rated public colleges and universities
	2021	**2020**	**2019**	**2018**	**2017**	**2020**
Total pro forma debt ($000s)	N.A.	321,240	N.A.	N.A.	N.A.	MNR
Pro forma MADS	N.A.	30,499	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	8.74	9.44	9.00	9.16	MNR
Current MADS burden (%)	N.A.	11.11	11.16	11.52	12.67	4.50
Pro forma MADS burden (%)	N.A.	11.11	N.A.	N.A.	N.A.	MNR
Financial resource ratios						
Endowment market value ($000s)	N.A.	56,753	39,885	33,270	31,140	151,373
Related foundation market value ($000s)	N.A.	48,160	42,433	36,303	34,789	170,447
Cash and investments ($000s)	N.A.	94,181	102,546	108,182	105,238	MNR
UNA ($000s)	N.A.	(67,467)	(54,921)	(45,324)	(34,413)	MNR
Adjusted UNA ($000s)	N.A.	90,038	100,240	104,875	107,544	MNR
Cash and investments to operations (%)	N.A.	34.3	37.5	40.9	43.7	45.1
Cash and investments to debt (%)	N.A.	29.3	27.6	28.3	26.8	96.5
Cash and investments to pro forma debt (%)	N.A.	29.3	N.A.	N.A.	N.A.	MNR
Adjusted UNA to operations (%)	N.A.	32.8	36.7	39.6	44.7	31.0
Adjusted UNA plus debt service reserve to debt (%)	N.A.	32.1	30.5	31.3	31.2	64.6
Adjusted UNA plus debt service reserve to pro forma debt (%)	N.A.	32.1	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	12.7	13.1	13.5	13.3	15.7
OPEB liability to total liabilities (%)	N.A.	N.A.	N.A.	N.A.	0.0	MNR

N.A.--Not available. MNR--Median not reported. MADS--Maximum annual debt service. Total adjusted operating revenue = unrestricted revenue less realized and unrealized gains/losses and financial aid. Total adjusted operating expense = unrestricted expense plus financial aid expense. Net operating margin = 100*(net adjusted operating income/adjusted operating expense). Student dependence = 100*(gross tuition revenue + auxiliary revenue) / adjusted operating revenue. Current debt service burden = 100*(current debt service expense/adjusted operating expenses). Current MADS burden = 100*(maximum annual debt service expense/adjusted operating expenses). Cash and investments = cash + short-term and long-term investments. Adjusted UNA = Unrestricted net assets + unrestricted net assets of the foundation. Average age of plant = accumulated depreciation/depreciation and amortization expense.

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of November 5, 2021)		
New Jersey Educl Facs Auth, New Jersey		
College of New Jersey, New Jersey		
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Long Term Rating	A/Stable	Affirmed
New Jersey Educl Facs Auth (College of New Jersey) PCU_USF		
Unenhanced Rating	A(SPUR)/Stable	Affirmed

Ratings Detail (As Of November 5, 2021) (cont.)		
New Jersey Educl Facs Auth (College of New Jersey) PCU_USF		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
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Unenhanced Rating	A(SPUR)/Stable	Affirmed
New Jersey Educl Facs Auth (College of New Jersey) (BAM) (SEC MKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.