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CREDIT OPINION
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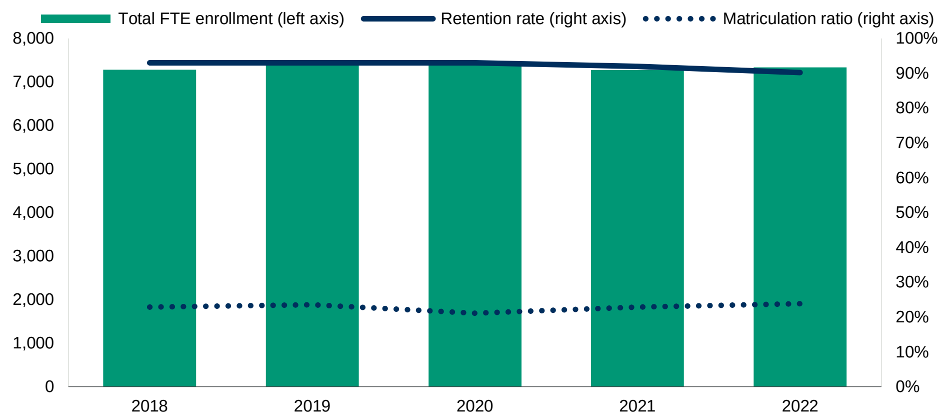
College of New Jersey, NJ

Update to credit analysis

Summary

The College of New Jersey's (A2 stable; TCNJ) very good credit quality reflects its brand as a selective mid-sized public college with a distinct market niche that supports strong student demand. Good wealth of approximately $182 million in total cash and investments provides support for strategic investments to maintain the college's position in a highly competitive student market. Operating performance has weakened somewhat in recent years, but disciplined budgetary practices and a track record of expense control provide prospects for improved margins in fiscal 2024 and beyond. Operating support from the State of New Jersey (A1 stable) remains flat, but the state has provided appropriations for capital projects in recent years as its fiscal position improves. TCNJ maintains very high leverage, due in part to a large pension obligation, that restricts future borrowing capacity for campus improvements and capital investment.

Exhibit 1
TCNJ's healthy student demand and excellent retention support stable enrollment



Data are for the fall of each academic year
Source: Moody's Investors Service

Credit strengths

» Strong student demand as an academically selective public college in New Jersey, with high retention and favorable post-graduate outcomes

» Stable net tuition revenue provides prospects for improved operating performance in fiscal 2024 and 2025

» Good wealth and liquidity provides for financial flexibility and resources for strategic investments

Credit challenges

» Elevated leverage profile, with total cash and investments to total adjusted debt of 2.5x in fiscal 2022, provides for limited additional debt capacity

» High reliance on tuition as a source of revenue, with 65% of fiscal 2022 operating revenue coming from student charges

» Historically constrained funding for operations and minimal capital appropriations from the State of New Jersey

Rating outlook

The stable outlook is based on our expectation that TCNJ will maintain strong student demand and improve operating performance in fiscal 2024 and fiscal 2025, with mid-double digit EBIDA margins.

Factors that could lead to an upgrade

» Substantial growth in total cash and investments that improves the college's leverage profile and provides for greater financial flexibility

» Sustained strengthening of student demand, reflected in increasing net tuition revenue growth

» Improved revenue diversity with material improvement in philanthropic giving and support for operations and capital from the State of New Jersey

Factors that could lead to a downgrade

» Weakening of student demand evidenced by declining enrollment or softening of net tuition revenue

» Deterioration of operating performance in fiscal 2024 that requires elevated draws on reserves

» Issuance of new debt without accompanying growth of financial reserves or operating performance

Key indicators

Exhibit 2
COLLEGE OF NEW JERSEY, NJ

	2018	2019	2020	2021	2022	Median: A Rated Public Universities
Total FTE Enrollment	7,285	7,465	7,423	7,276	7,333	8,977
Operating Revenue ($000)	242,347	248,360	231,289	210,642	252,333	244,842
Annual Change in Operating Revenue (%)	4.9	2.5	-6.9	-8.9	19.8	5.3
Total Cash & Investments ($000)	163,623	159,455	147,745	186,116	181,633	246,428
Total Adjusted Debt ($000)	676,581	671,665	624,841	713,594	723,868	366,930
Total Cash & Investments to Total Adjusted Debt (x)	0.2	0.2	0.2	0.3	0.3	0.7
Total Cash & Investments to Operating Expenses (x)	0.7	0.6	0.6	0.9	0.7	1.1
Monthly Days Cash on Hand (x)	184	167	153	214	187	193
EBIDA Margin (%)	17.6	15.6	11.9	15.2	12.9	12.9
Total Debt to EBIDA (x)	9.0	9.6	11.7	11.2	11.0	4.1
Annual Debt Service Coverage (x)	1.7	1.6	1.1	1.7	4.1	3.1

Source: Moody's Investors Service

Profile

The College of New Jersey is a moderate-sized public college located in Ewing Township, NJ best known for its programs in business, education, engineering, humanities, nursing and science. In fiscal 2022 TCNJ generated operating revenue of $249 million and enrolled 7,333 full-time equivalent students (FTE) as of fall 2022.

Detailed credit consideration

Market position: strong student demand supports stable net tuition revenue and provides prospects for modest enrollment growth

TCNJ's market position will continue to be supported by strong student demand and a diverse array of program offerings. The college maintains a niche as a selective public institution in New Jersey that is able to provide an affordable education and a smaller class sizes than other public colleges and universities in the state. TCNJ's retention rate remained very high at 90% in fall 2022, well above many peer institutions.

Stable student demand and strong retention support continued enrollment stability despite a highly competitive market for students and declining demographics in the northeast region. FTE enrollment has remained stable at approximately 7,300-7,500 students over the past five years despite pandemic-related disruptions. Net tuition revenue has held steady as well, growing by a modest 4% since fiscal 2018.

The college expects enrollment to grow by about 200 FTE students in fall 2023, in line with strategic plans to grow undergraduate and graduate enrollment each year into 2027. College leadership plans for much of this growth to come via new and expanding graduate programs and continued investments in its within its traditionally strong business, education, and engineering programs to meet evolving student market demands.

Operating performance: thinner operating results continue to be a challenge for the college

Operating performance has thinned in recent fiscal years due to rising expense pressures and revenue disruptions related to the pandemic. Deficit operations will continue in fiscal 2023, with the college drawing on reserves to address a modest budget gap. Despite deficit operations, the college has maintained sound cash flow generation, with a three-year average EBIDA margin 13% in fiscal 2022 in line with the A-rated median for public institutions. Operating expenses, however, grew substantially in fiscal 2022 and continued to grow in fiscal 2023 as a result inflation-related increases.

New financial leadership at the college is implementing a number of expense control measures to structurally improve operating results, and is budgeting for a small surplus operations in fiscal 2024 and beyond. Prospects for improved operating performance are good given a scheduled 4% tuition increase and modest increases in operating appropriations from the state that will provide for revenue growth as the college implements expense control measures. Favorably, the college maintains good relationships with the collective bargaining units that comprise much of its faculty and staff employees.

Wealth and liquidity: solid wealth supports strategic plans and programmatic investments

The college's good overall wealth will continue to provide support for strategic program investments and capital spending. Fiscal 2022 cash and investments totaled $182 million, and covered operating expenses by 0.7x. Future wealth growth will largely be dependent on the college's ability to improve operating results over the next two fiscal years. Philanthropic support remains modest, with three-year average gift revenue of $3.4 million in fiscal 2022.

Liquidity

TCNJ's liquidity profile remains sound, with monthly liquidity of $116 million providing for 187 monthly days cash on hand in fiscal 2022. This is in line with the median 193 monthly days for A-rated public universities. The college has few potential calls on its liquidity, with no demand debt or unfunded commitments for private equity investments.

Leverage: high debt burden limits future debt capacity; pension obligations elevate total adjusted debt

TCNJ's debt burden remains very high, with total direct debt outstanding of $357 million in fiscal 2022 well above the A-rated median of $186 million. TCNJ's large use of debt financed substantial investments in its facilities over the past decade, as the college continued to grow and expand its academic program offerings. This investment is reflected in a low age of plant of 13.8 years as well as minimal deferred maintenance needs throughout the campus. TCNJ's debt affordability is low, with total direct debt to EBIDA of 11x over double the median for A2 public institutions of 4.8x. Given its high leverage profile, the capacity for additional debt at its current rating level is minimal. Favorably, the college has benefitted from strong capital appropriations from the state the past two fiscal years, reversing a long trend of minimal capital support for institutions of higher education in New Jersey that contributed to the need for borrowing.

The college's total adjusted debt for fiscal 2022 includes approximately $103 million related to a public-private partnership (PPP) with private developer PRC Group for the Campus Town residential and retail property. The terms of the PPP provide for no direct financial obligation of the college to support the project, which is financed and operated by the PRC group under a 50-year lease agreement that began in fiscal 2015.

Legal security

All bonds are an unsecured general obligation of the college and payable from any legally available funds.

Debt structure

The college's debt is all fixed-rate and regularly amortizing.

Debt-related derivatives

None.

Pensions and OPEB

TCNJ, like other institutions of higher education in New Jersey, continues to be challenged by participation in poorly funded multi-employer defined benefit programs with a risk that the state could transfer an increasing portion of the funding obligation to the college. The state currently makes the employer contribution from funds allotted to the university, and the total state appropriations for fringe benefits has increased as the state fulfills its commitment to increase pension funding. In fiscal 2022, Moody's three-year average adjusted net pension liability (ANPL) was $264 million.

The college also operates a defined contribution plan for some employees, which also receives state funding. In fiscal 2022 expenses related to the defined contribution plan were approximately $6 million, a manageable 2% of total operating expenses.

ESG considerations

College of New Jersey, NJ's ESG Credit Impact Score is Moderately Negative CIS-3

Exhibit 3
ESG Credit Impact Score

CIS-3
Moderately Negative

For an issuer scored CIS-3 (Moderately Negative), its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-2.

Source: Moody's Investors Service

The College of New Jersey's ESG credit impact score (**CIS-3**) reflect its exposure to social and governance risks, particularly demographic and societal trends and financial strategy risks. The college's strong student outcomes and favorable management credibility and track record partly mitigate exposure to ESG risks. Strong management of operations and healthy capital investment help mitigate the college's exposure to social ESG risks.

Exhibit 4
ESG Issuer Profile Scores

ENVIRONMENTAL
E-2
Neutral-to-Low

SOCIAL
S-3
Moderately Negative

GOVERNANCE
G-3
Moderately Negative

Source: Moody's Investors Service

Environmental

TCNJ's exposure to environmental risks is (**E-2**). The college's location in Ewing, New Jersey provides for moderate exposure to environmental risks that include hurricanes, heat stress, and water stress. With this risk profile, the likelihood of material operational disruption or budgetary impact is low. TCNJ has pursued a number of carbon reduction and sustainability initiatives related to energy conservation and emissions reductions. These efforts are guided by the Presidents' Climate Commitment Committee, which has committed to achieving carbon neutrality on campus in the future.

Social

The college's social issuer profile score (**S-3**) incorporates its exposure to demographic and societal risks as well as customer relations and human capital risks. Like most of the higher education sector, it has a mission that is aligned with positive social impact through education and service. The high reliance on students from the mid-Atlantic and northeast markets, areas with heightened competition and a weak demographic outlook, will continue to suppress pricing power and net tuition revenue growth. Favorably, the college's solid student demand derived from some market distinction will partly temper demographic risks. Customer relations risks reflect the need to adapt to both student preferences with a relatively high reliance on tuition revenue along with state priorities. A high graduation rate and solid levels of postgraduate student debt relative to median earnings positively factor into the customer relations framework. TCNJ's human capital risks are elevated, due to potential future exposure to New Jersey's underfunded pension plan and exposure to faculty tenure that provides labor rigidity.

Governance

The college's exposure to governance risks (**G-3**) are driven by its track record of slightly elevated financial strategy, board structure and compliance and reporting risks. The college's management team has a strong track record of budget discipline, which will continue to support solid cash flow, but high financial leverage and thinner operating performance in recent years inform financial strategy risks. Board structure risks are similar to those of other public universities with a seven to fifteen-member board appointed by the governor with the advice and consent of the state senate. This introduces the potential for political considerations that may be misaligned with creditor interests. However, New Jersey Higher Education Statutes provide for the universities to be given a high degree of self-governance and call for the conduct of the colleges to be free from partisanship, a partial mitigant. Constraints in information from the State of New Jersey have resulted in delayed release of audited financials, contributing to moderately negative compliance and reporting exposure.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The principal methodology used in this rating was Higher Education Methodology published in August 2021. 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 brand and strategic positioning, financial policy and strategy, and operating environment on a qualitative basis.

Exhibit 5

The College of New Jersey, NJ

Scorecard Factors and Sub-factors		Value	Score
Factor 1:	**Scale (15%)**		
	Adjusted Operating Revenue (USD Million)	252	A
Factor 2:	**Market Profile (20%)**		
	Brand and Strategic Positioning	A	A
	Operating Environment	Baa	Baa
Factor 3:	**Operating Performance (10%)**		
	EBIDA Margin	13%	A
Factor 4:	**Financial Resources and Liquidity (25%)**		
	Total Cash and Investments (USD Million)	182	Aa
	Total Cash and Investments to Operating Expenses	0.7	A
Factor 5:	**Leverage and coverage (20%)**		
	Total Cash and Investments to Total Adjusted Debt	0.3	A
	Annual Debt Service Coverage	4.1	Aaa
Factor 6:	**Financial Policy and Strategy (10%)**		
	Financial Policy and Strategy	A	A
	Scorecard-Indicated Outcome		A2
	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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