Fitch Ratings-New York-15 November 2013: Fitch Ratings assigns an 'AA' rating to $25 million New Jersey Educational Facilities Authority (NJEFA) revenue bonds, the College of New Jersey (the college, or TCNJ) issue, series 2013 A.

In addition, Fitch has affirmed the 'AA' rating on TCNJ's $352.9 million of outstanding revenue bonds.

The Rating Outlook is Stable.

SECURITY
The bonds are essentially secured by a general obligation of the college, payable from legally available funds.

KEY RATING DRIVERS
STABLE CREDIT CHARACTERISTICS: The 'AA' rating reflects the college's prudent fiscal management leading to a consistent positive operating margin, historically healthy demand and selective profile. Counterbalancing these positive attributes is TCNJ's significant financial leverage.

MANAGEMENT PRACTICES SUPPORTING STABILITY: TCNJ's leadership emphasizes long-term financial sustainability in its operational decisions. The college regularly generates a healthy surplus, despite a modest decline in fiscal 2013, which has enabled it to gradually build reserve levels.

DEMAND-DRIVEN FINANCIAL FLEXIBILITY: Student-generated revenues are the primary revenue driver and TCNJ has been able to grow enrollment which has offset volatility in state appropriations in recent years. Favorably, TCNJ's state base appropriations remained flat in fiscal 2013, while the state fringe benefit continued to decline over the prior year as a result of the state controlling program costs.

LARGE, BUT MANAGEABLE, DEBT BURDEN: TCNJ's significant debt burden is high for the rating category, but the college generates sufficient net income available for debt service to cover its annual obligations. This high debt should moderate due to fairly rapid amortization of principal and prudent debt management, with no additional debt anticipated until fiscal 2018.

RATING SENSITIVITIES
INCREASING LEVERAGE: Issuance of additional debt, including the planned fiscal 2018 bond issuance, without a commensurate increase in financial resources available to support repayment, may trigger a negative rating action.

OPERATIONS DRIVEN BY ENROLLMENT: An inability to grow future enrollment and student generated revenues, offsetting decreasing state support, to maintain operating surpluses at current levels, could negatively impact the rating.

CREDIT PROFILE
TCNJ, founded in 1855 and located in the suburb of Ewing, New Jersey, is a recognized public institution of higher education in the state. The college's strong liberal arts core forms the foundation for 43 undergraduate degree programs offered throughout the college's seven schools. In fall 2013,
TCNJ enrolled 6,533 full-time equivalent (FTE) undergraduate students and 368 FTE graduate students. The college has residential facilities and houses approximately 60% of students.

Solid Operating Performance
Continuing a long-time trend of strong surpluses, TCNJ generated a 3.3% margin in fiscal 2013, albeit lower than the 4.5% generated in the prior year. Surpluses were somewhat lower than the $9 million anticipated due to a one-time loss in auxiliary revenues of approximately $3 million and non-recurring costs associated with taking a dormitory off-line in fall 2012. Management expects revenues to be up approximately $4 million in fiscal 2014. TCNJ’s fiscal 2014 operating budget anticipates another surplus, similar to that generated in fiscal 2012. TCNJ does not budget for depreciation expense; however, TCNJ annually funds the asset renewal and replacement fund in the amount of $13 million as a proxy for depreciation. Fitch notes favorably that regular surpluses have allowed TCNJ to establish adequate reserve levels.

Sound Liquidity Levels
Available funds (defined by Fitch as cash and investments less non-expendable restricted net assets) are sound at $102.5 million as of June 30, 2013. This cushion covered fiscal 2013 operating expenses by 51.2%. Coverage of pro-forma debt was weaker at 25.9%, but improved from prior years. Fitch notes additional support from the foundation’s endowment which reached $27.9 million in September 2013; however, this is not typically included in Fitch’s available funds calculation for public universities. Fitch expects that TCNJ’s cushion will continue to grow in the near term as it continues to generate annual surpluses at current levels, barring any enrollment decline that would impact operating performance and significant future debt financings beyond what is currently expected.

Increasing fundraising efforts, including launching a larger general comprehensive capital campaign than anticipated, will include endowment building in addition to funding for science, technology, engineering and math (STEM) initiatives. In Fitch’s view, TCNJ’s aggressive endowment-building effort should provide a sustainable source of revenue for the institution.

High But Manageable Leverage
Projected maximum annual debt service (MADS) consumes a high 15.1% of fiscal 2013 operating revenues, which does not include non-recourse debt. Further, Fitch does not include any Campus Town debt in its calculation of debt burden given the state’s legislation prohibiting the college from financing any portion of Campus Town, or being financially obligated.

TCNJ’s debt burden is the highest amongst public colleges and universities rated by Fitch in the ‘AA’ category. Fitch notes positively though that MADS coverage from net income available for debt service remained sound at 1.3x, which is consistent with prior years.

Management recognizes its high leverage and has adopted practices which include the funding of expendable and non-expendable reserves within unrestricted net assets, to provide flexibility. Regular surpluses and the improving financial cushion help alleviate leverage concerns. Rapid principal amortization in the next 10 years should help moderate this high debt burden. Additional debt plans of approximately $25 million for renovations to the school of engineering have been deferred until fiscal 2018, reflecting management's prudent debt practices, and is viewed favorably by Fitch.

Strong Student Demand
Student demand remains strong, evidenced by an increasing number of freshmen applicants in fall 2013, high selectivity for a public institution and retention of nearly 95%. For the fall 2013 freshmen class, applications were up by 8.3% versus 1.4% in fall 2012, with an increased number of matriculants. After a planned decrease in the size of the fall 2011 class, freshmen matriculation was up 3.2% to 1,406, above historical levels. Going forward, management anticipates maintaining entering classes at or near the current size.
Fall 2013 FTEs equaled 6,901, a notable increase from fall 2008 (6,480), and up 1.5% from fall 2012. The college remains one of the more selective public universities in the state of New Jersey, with an improving average acceptance rate at 43%. SAT scores (25th-75th percentiles) for incoming classes typically exceed those of all other four-year public colleges in New Jersey comfortably. Favorably, student quality reflects well in TCNJ’s six-year graduation rate, which is strong at 86%, and amongst the best graduation rates in the state.

Growth in freshmen applications reflects continued demand strength, particularly in the science programs. TCNJ’s capital plan, including the new STEM facility, supports its efforts to grow enrollment in this area. The fall 2013 freshmen class exceeded expectations by 31 students, while improving student quality. TCNJ is conservatively budgeting an additional 40 students in fall 2014 and 60 additional students each year thereafter. Non-resident growth continues to be a key management focus, including expanding internationally. TCNJ reported an 11% increase in applications received from non-resident students for fall 2013 versus the prior enrollment cycle.

TCNJ’s state base appropriation remained flat in fiscal 2013, showing signs of stability after several years of declining appropriations including a $1.2 million reduction in fiscal 2012. The state fringe appropriation continued to decline another $1 million due to the state’s effort to control the state-funded portion of these programs, which is offset by the reduction in fringe expense. Tuition and fees comprise the largest source of revenues for TCNJ, with reliance on state appropriations declining in recent years. Fitch views TCNJ’s strong demand as key to allowing TCNJ important financial flexibility in light of uncertainty around future state appropriations.

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In addition to the sources of information identified in the Revenue Supported Rating Criteria, this action was informed by information from NJEFA.

Applicable Criteria and Related Research:
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U.S. College and University Rating Criteria

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