

Rutgers, The State University of New Jersey

Revenue Bonds New Issue

Ratings

New Issue Debt

\$46,395,000 General Obligation Bonds, 2018 Series N (Tax Exempt) AA-

\$95,830,000 General Obligation Bonds, 2018 Series O (Taxable) AA-

Outstanding Debt

\$1,352,440,000 General Obligation Bonds AA-

\$78,200,000 General Obligation Bonds, Variable Rate^a AA-

\$233,440,000 New Jersey Economic Development Authority General Obligation Lease Revenue Bonds (College Avenue Redevelopment Project), Series 2013 AA-

\$200,000,000 General Obligation Commercial Paper Program^a NR

^aDebt secured by various bank liquidity facilities.

Rating Outlook

Stable

Related Research

Fitch Rates Rutgers University, NJ GO Bonds 'AA-'; Outlook Stable (March 2018)

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New Issue Details

Sale Information: \$46,395,000 General Obligation (GO) Bonds, 2018 Series N (Tax Exempt) and \$95,830,000 General Obligation Bonds, 2018 Series O (Taxable) to sell via negotiation the week of March 19.

Security: The GO bonds are an unsecured general obligation of Rutgers, The State University of New Jersey (Rutgers), payable from all legally available funds and on parity with outstanding bonds.

Purpose: To finance or refinance capital expenditures and to pay costs of issuance.

Final Maturity: May 1, 2048.

Key Rating Drivers

Strong Demand Profile: As the state's flagship institution of higher education and research, Rutgers enjoys strong student demand with growing enrollment and high student-quality indicators on its main campus and robust fundraising ability. Counterbalancing these strengths is the relatively high tuition for a public institution, although common among New Jersey's public colleges and universities, and significant outmigration of the state's college-going population.

Fully Integrated Platform: Following the 2013 integration of the former University of Medicine and Dentistry of New Jersey's (UMDNJ) medical schools, Rutgers is expanding its healthcare platform, which should continue to support solid enrollment and research levels in health sciences and balanced operations.

Operating Margin Pressures: Operating margins remain negative on a full accrual basis. However, excluding noncash depreciation and pension expenses, Rutgers generates positive operating performance. Performance is expected to improve slightly going forward from enrollment growth and growth in Rutgers' healthcare platform.

Diverse Revenues; Steadied State Funding: Rutgers maintains a diverse revenue base, supported by consistent growth in enrollment and related net tuition and fee revenue, and state support that has stabilized since 2016. State support equaled \$808 million for fiscal 2017 and is budgeted to remain level for fiscal 2018.

Rating Sensitivities

Sustained Cash Flow Operations: Given the expectation for constrained state appropriations for operations going forward, rating stability will be dependent on the university maintaining solid net income available for debt service, supported by strong student demand characteristics and continued net tuition growth.

Rating History (GO Bonds)

Rating	Action	Outlook/ Watch	Date
AA-	Affirmed	Stable	3/7/18
AA-	Affirmed	Stable	2/25/16
AA-	Affirmed	Stable	7/29/15
AA-	Affirmed	Stable	8/1/13
AA-	Assigned	Stable	6/5/13

Related Criteria

[Rating Criteria for Public-Sector, Revenue-Supported Debt \(February 2018\)](#)

[U.S. Public Finance College and University Rating Criteria \(April 2017\)](#)

Credit Profile

Originally chartered in 1766, Rutgers is one of the nation's nine colonial colleges and became New Jersey's land grant college in 1864. It is the flagship institution of public higher education and research in the state of New Jersey (rated 'A'/Stable). It consists of 32 schools and colleges, including the Rutgers Biomedical Health Sciences division that was created by the UMDNJ integration in July 2013. Rutgers is situated on seven campuses throughout New Jersey, encompassing nearly 6,000 acres. Five campuses are located in and around New Brunswick (collectively referred to as the New Brunswick campus), including the main College Avenue campus. The other two campuses are located in Newark and Camden.

Today, Rutgers is the largest of New Jersey's 11 four-year public colleges and universities. Fall 2017 enrollment was an historic high of 69,198, reflecting a CAGR of 1.7% over the past five years and spread across the campuses.

Operating Profile

Healthy demand continues to support the key rating factor. Total enrollment has increased consistently year over year, to 69,198 for the 2017–2018 (fiscal 2018) class. Transfer students remained steady, although yield slipped slightly to 27.8% from over 30% in prior years.

Demand Summary

(Fall Semester of Fiscal Years Ended June 30)

	2014	2015	2016	2017	2018
Headcount					
Undergraduate Enrollment — Full-Time	45,960	46,809	48,096	49,359	49,681
Total Undergraduate Enrollment	45,960	46,809	48,096	49,359	49,681
Graduate — Full-Time	19,552	19,204	19,460	19,583	19,517
Total Graduate	19,552	19,204	19,460	19,583	19,517
Total Headcount Enrollment	65,512	66,013	67,556	68,942	69,198
Total Undergraduate / Total Headcount Enrollment (%)	70.2	70.9	71.2	71.6	71.8
Admissions					
Freshman Applications	33,545	33,717	37,641	39,173	41,361
Freshman Admissions	22,368	23,050	25,242	26,054	30,054
Acceptance Rate (%)	66.7	68.4	67.1	66.5	72.7
Freshman Matriculants	7,888	7,856	8,236	8,467	8,351
Matriculation Rate (%)	35.3	34.1	32.6	32.5	27.8
Transfer Matriculants	4,126	4,544	4,602	4,813	4,716
Average SAT					
Freshmen (New Brunswick)	1,212	1,216	1,226	1,229	1,294
Annual Undergraduate Costs of Attendance					
Tuition	10,718	10,954	11,217	11,408	11,619
Mandatory Fees	2,781	2,859	2,914	2,964	3,019
Room and Board	11,578	11,748	12,054	12,260	12,452
Total	25,077	25,561	26,185	26,632	27,090

Sources: Rutgers State University (NJ) and Fitch.

Freshmen acceptance and matriculation rates have been fairly consistent, with healthy increases in application volume. Applications for fall 2016 increased 4.1% and another 5.6% in fall 2017. Of the 41,361 applicants, 72% were accepted for admission; of those, 28% matriculated.

Student quality, as measured by standardized tests, has shown annual improvement at the New Brunswick campus, with continued improvement since the fall 2015 opening of the Honors College of Rutgers. For fall 2017 the average SAT score was 1294, compared with state and national averages closer to 1060.

Following a slight decline, the absolute level of state support recovered some in 2017 and is expected to be steady for 2018. State support incorporates operating appropriations and the fringe benefits payment, although the increasing fringe benefit payment has been offset by reduction in the operating appropriation. Going forward, Rutgers may be pressured by further declines in state appropriations for operations, which could require incrementally greater increases to tuition and other operating revenue.

Financial Profile

Rutgers' GAAP-basis operating margin remained negative in 2017, at a negative 4.3%. However, excluding noncash items (depreciation and pension), its margin remains positive, and Rutgers produced net income available for debt service (NIADS) of \$305 million and debt service coverage of 2x.

Financial Ratios

(%, Audited Fiscal Years Ended June 30)

	2014	2015	2016	2017
Revenue Diversity (% Adjusted Total Unrestricted Operating Revenues)				
Tuition	24.7	25.0	25.6	24.8
Student Fees (Tuition and Auxiliary Revenues)	33.5	33.8	34.5	32.3
Federal Grants and Contracts	12.0	11.3	11.1	10.1
State / Local Grants and Contracts	7.3	7.9	7.3	6.6
Other Grants and Contracts	3.6	3.4	3.4	4.8
Total Grants and Contracts	22.9	22.6	21.8	21.4
State Appropriations	23.4	22.6	21.9	21.5
Healthcare Operations	14.7	15.0	15.1	19.0
Gifts and Contributions	1.2	1.5	1.4	0.9
Total Investment Return	0.5	0.7	0.7	0.9
Expense Ratios (% of Total Unrestricted Operating Expenses)				
Instruction	24.9	25.6	25.4	23.4
Research	15.3	18.9	18.1	11.2
Healthcare Operations	18.0	18.7	19.0	16.3
Operation and Maintenance of Plant	6.1	5.9	6.0	6.1
Depreciation	4.3	4.4	4.2	4.7
Interest	2.4	2.3	2.3	2.3
Financial Aid Ratios				
Tuition Discounting	18.9	19.2	19.2	20.1
Net Tuition and Fees (\$000)	820,229	863,051	905,762	930,727
Change in Net Tuition and Fees	22.3	5.2	4.9	2.8
Operating Performance Ratios				
Operating Margin	(2.6)	(1.0)	(1.6)	(4.3)
Balance Sheet Ratios				
Available Funds / Total Operating Expense	43.1	41.0	41.3	33.6
Available Funds / Total Long-Term Debt	65.3	66.9	69.6	60.6
Available Funds / Total Pro Forma Long-Term Debt	65.3	66.9	56.4	46.5
Available Funds / MADS (x)	9.9	9.7	9.6	7.1
Unfunded Capital Commitments / Available Funds	4.1	7.1	9.1	14.6
Leverage (Adjusted Total Unrestricted Operating Revenues Basis)				
Current Debt Service Coverage (x)	1.00	1.80	2.00	2.00
Current Debt Burden (%)	4.37	4.47	4.27	4.02
Pro Forma MADS Coverage (x)	0.99	1.88	1.94	1.63
Pro Forma MADS Burden (%)	4.45	4.28	4.39	4.94
Variable Rate Bonds as % of Total Bonds	7.1	6.6	5.9	5.2

Note: Fitch may have reclassified certain financial statement items for analytical purposes.
Sources: Rutgers State University (NJ) and Fitch.

Still, Rutgers continues to benefit from a diverse revenue base composed of student-generated revenues (32% in fiscal 2017); state appropriations (21.5%); grants, contracts and governmental student aid revenues (21.4%) and healthcare services (19%). Notably, healthcare revenues have increased steadily year over year, due largely to successful strategic clinical growth resulting in an 8% increase in net patient revenues.

Rutgers' balance sheet remains modest, but it is adequate for the category. As of June 30, 2017, available funds totaled \$1.3 billion, equal to 34% of expenses and approximately 61% of debt. The market value of Rutgers' long-term investment pool was \$1.19 billion at Dec. 31, 2017, and its endowment spend policy is to spend no more than 4% of the long-term investment pool's 13-quarter average market value.

Debt Profile

As part of its 2030 master plan, key projects underway include a chemistry building in New Brunswick, life sciences building in Newark and nursing and science building in Camden. Rutgers expects to issue some additional debt to help finance future projects and will continue to use commercial paper as a source of interim funding. Fitch Ratings believes the university has sufficient capacity to absorb some additional debt, assuming operations remain steady.

Rutgers' debt burden remains manageable, with pro forma debt service (excluding interest subsidies for Rutgers series 2010H Build America bonds) consuming a moderate 4.9% of fiscal 2017 operating revenues.

Debt outstanding as of June 30, 2017 totaled \$2.2 billion, including revenue bonds, commercial paper notes, capital and noncancellable operating leases and notes payable. The debt portfolio is largely fixed rate, with only two series structured as variable rate debt and par outstanding of \$78.2 million.

There are four interest rate swaps associated with the variable rate debt, with a notional value of \$136.2 million. By May 2018, two of the four swaps will have terminated. The mark-to-market value as of June 30, 2017 of the four swaps was negative \$28.5 million and required Rutgers to post collateral of \$6.5 million. Fitch views Rutgers' level of exposure to variable rate and derivatives as modest relative to its financial cushion.

Rutgers' reported net pension liability was \$2.06 billion in fiscal 2017 under its cost-sharing, multiple-employer defined benefit pension plan administered by the State of New Jersey. Rutgers reported a \$193 million in noncash pension expense accrual for fiscal 2017.

Financial Summary

(\$000, Audited Fiscal Years Ended June 30)

	2014	2015	2016	2017
Unrestricted Operating Revenues				
Gross Tuition and Fees	1,011,742	1,068,382	1,120,950	1,165,388
Less: Student Aid	191,513	205,331	215,188	234,661
Net Tuition and Fees	820,229	863,051	905,762	930,727
Sales and Services of Auxiliary Enterprises	291,460	306,260	317,429	282,384
Federal Grants and Contracts	397,862	391,624	392,147	377,539
State / Local Grants and Contracts	243,697	272,086	259,380	246,026
Other Grants and Contracts	120,703	117,210	119,725	179,049
State Appropriations	777,393	781,884	775,666	807,511
Healthcare Operations	487,578	518,019	533,932	711,167
Gifts and Contributions	40,625	52,416	51,367	32,560
Dividend and Interest Income	15,678	23,287	23,539	34,349
All Other Operating Revenues	126,880	130,439	163,661	148,886
Total Operating Revenue	3,322,105	3,456,276	3,542,608	3,750,198
Unrestricted Operating Expenses				
Instruction	849,438	893,347	914,508	914,052
Academic Support	123,342	115,343	129,483	448,726
Institutional Support	260,811	243,608	264,165	237,767
Student Services	107,332	93,050	105,216	133,840
Public Service	146,128	50,395	51,595	251,856
Research	522,675	660,879	649,903	436,186
Auxiliary Enterprises	292,991	288,869	288,680	260,895
Student Aid	52,517	54,201	58,596	79,708
Healthcare Operations	613,492	653,446	684,222	636,343
Operation and Maintenance of Plant	207,167	205,281	216,132	237,835
Depreciation	147,629	152,525	151,254	184,782
Interest Expense	83,053	80,214	83,866	88,010
All Other Operating Expenses	494	784	398	228
Total Operating Expense	3,407,069	3,491,942	3,598,018	3,910,228
Change in Net Assets from Operations	(84,964)	(35,666)	(55,410)	(160,030)
Unrestricted Non-Operating Revenues / (Expenses)				
Realized and Unrealized Gain / (Loss) on Investments	102,931	24,212	(4,159)	118,046
Additions to Permanent Endowment	27,756	20,721	34,709	27,573
Capital Grants and Gifts	13,221	112,994	124,702	101,484
Other Non-Operating Expenses	(1,539)	(928)	(206)	(62,423)
Other Non-Operating Revenues	10,836	5,297	1,386	—
Total Non-Operating Revenue	153,205	162,296	156,432	184,680
Change in Net Assets	68,241	126,630	101,022	24,650
Adjusted Change in Net Assets from Operations	(84,964)	(35,666)	(55,410)	(160,030)
Add Back: Depreciation, Amortization, Pension and Other Noncash Items	147,629	233,125	273,554	369,182
Add Back: Interest Expense	83,053	80,214	83,866	92,743
Adjusted Net Income Available for Debt Service	145,718	277,673	302,010	301,895
Current Debt Service	145,106	154,366	151,254	150,742
Pro Forma Maximum Annual Debt Service (MADS)	147,858	147,858	155,361	185,089
Balance Sheet — Assets				
Cash and Cash Equivalents	782,092	705,885	600,982	449,875
Investments	1,286,182	1,329,550	1,501,766	1,558,375
Total Cash and Investments	2,068,274	2,035,435	2,102,748	2,008,250
Property, Plant and Equipment, Net	3,051,175	3,235,141	3,439,243	3,575,173
Balance Sheet — Liabilities and Net Assets				
Fixed-Rate Bonds Payable	1,510,352	1,472,122	1,450,384	1,425,625
Hedged Variable-Rate Bonds Payable	115,435	103,490	91,080	78,200
Total Bonds Payable	1,625,787	1,575,612	1,541,464	1,503,825
Notes Payable	2,276	1,655	3,176	3,199
Capitalized Leases	471,176	431,708	340,745	331,731
Noncancellable Operating Leases	65,061	67,172	100,608	162,040
Commercial Paper	48,475	65,833	65,608	85,670
All Other Obligations	38,943	—	83,942	79,198
Total Long-Term Debt	2,251,718	2,141,980	2,135,543	2,165,663
Total Other Obligations	625,931	566,368	594,079	661,838
Total Pro Forma Debt	2,251,718	2,141,980	2,638,135	2,819,297
Unfunded Capital Commitments	60,500	101,900	134,967	191,054
Unrestricted Net Assets	708,775	(577,874)	(639,917)	(816,376)
Invested In Capital	1,351,416	1,457,539	1,601,474	1,750,777
Restricted Net Assets — Non-Expendable (Fitch Adjusted)	598,218	603,487	616,002	695,898
Restricted Net Assets — Expendable (Fitch Adjusted)	409,945	431,334	437,949	409,859
Total Net Assets	3,068,354	1,914,486	2,015,508	2,040,158
Balance Sheet — Resources and Liquidity				
Available Funds (AF)	1,470,056	1,431,948	1,486,746	1,312,352

Note: Fitch may have reclassified certain financial statement items for analytical purposes.
Sources: Rutgers State University (NJ) and Fitch.

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