NJEFA
New Jersey Educational Facilities Authority

Building futures

February 2005 Vol. 4, No. 1

Viewpoint

The State's growing demands for higher education

By Francis J. Mertz, Chair
NJ Commission on Higher Education

Francis J. Mertz

While I am the relatively new Chairman of the Commission on Higher Education and therefore a new member of the Educational Facilities Authority, my experience with NJEFA goes back to my service as President of Fairleigh Dickinson University and before that as Vice President at St. Peter's College. That experience, and my knowledge of higher education in New Jersey, lead me to believe that it is critical for the Commission, working with the Governor's Office, the Treasurer's Office, NJEFA, the Legislature, the colleges and universities, and the private sector, to develop a long-term strategy for funding capital expansion and improvements at our colleges and universities.

The convergence of more high school graduates, strong economic competitiveness, and growing workforce demands requires increased capacity of New Jersey's higher education system. Executive Director Jeanne Oswald summarized the Commission's Blueprint for Excellence, the State's long-range plan for higher education, in the July 2004 edition of Building Futures. Consistent with the Blueprint, New Jersey aims to improve access and outcomes for all students and to enhance the economy of the State through research and workforce development. The significant challenge, however, is to provide sufficient funding for the appropriate facilities

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NJEFA 2004 transactions show continued new capital financing demand

A rendering of Rowan University's new academic building in Camden, New Jersey

Last year was the second busiest year in Authority history, as NJEFA closed 11 transactions issuing nearly $650 million in bond financing on behalf of New Jersey's colleges and universities. Of this amount, $332 million provided financing to the State's public institutions, while $240 million benefited its independent colleges and universities. The remaining $76.7 million was issued for seven institutions representing the final authorization of bonds under the State-backed Capital Improvement Fund (CIF) program. The CIF was a $550 million partial grant program that was created in 1999 to help finance campus improvement projects at institutions across sectors.

Of the total par amount issued in 2004, $464 million financed new capital construction or renovation projects. Four of the Authority's transactions in 2004 were refundings or partial refundings and provided a combined net present value savings of almost $12 million to participating institutions.

Highlights of NJEFA's financing activity in 2004 include a $61.3 million financing for Rowan University for the construction of a new 50,000-square-foot academic building in Camden (shown in rendering above) and for the completion of a new 113-unit townhouse complex in Glassboro (pictured on page 6). The academic facility will allow the University to double its student capacity in Camden and will feature a variety of classrooms, multi-purpose event rooms, theater facilities, as well as computer and science labs.

The Authority issued $94.5 million in bonds for Montclair State University, a portion of which is being used to finance a new 270,000-square-foot academic building. The facility will serve as the campus information technology hub and will feature a variety of high-tech classrooms.

Thirty million dollars in bonds were issued for William Paterson University and $14.7

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BOARD CALENDAR
2005

February 23: NJEFA
March 23: MSU
April 27: NJEFA
May 25: NJEFA
The Board Calendar is adopted for the following 12 months at its annual meeting which is generally held in May.

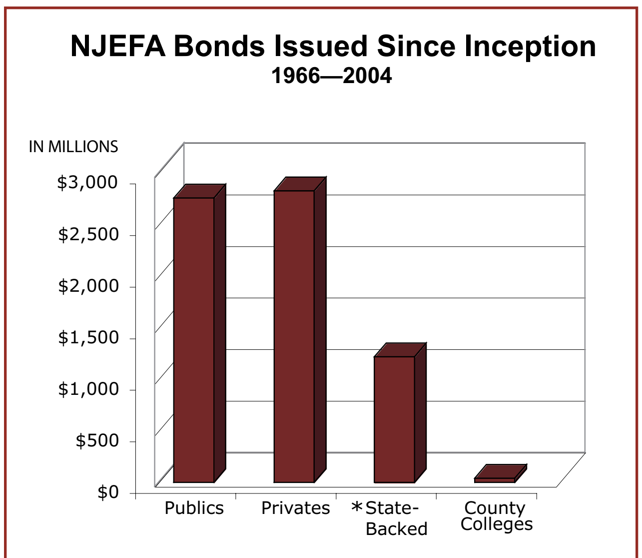
NJEFA has provided 38 years of service to New Jersey's colleges and universities

by Roger L. Anderson, NJEFA Executive Director

The year 2004 marked NJEFA's 38th year of providing financial services to New Jersey's colleges and universities. The amount of bonds we issued during the year was the second highest in our history.

Since 1966, the Authority has issued $7.4 billion bonds in 364 transactions. Approximately $4 billion is still outstanding. NJEFA's business has grown steadily over each of the four decades with the volume in the last five years alone dwarfing the volume of any prior decade and already representing 45% of the debt the Authority has ever issued.

Over our 38 years, we have issued (see chart below) roughly the same amount of bonds – $2.8 billion – for public as for private institutions. Another $40 million has benefited county colleges, and $1.2 billion has been issued under state-backed programs, which allocate funds across all sectors.



* State-Backed programs provided financing for all sectors as well as $45 million for public libraries

Growth in the Authority's business is part of a national trend. Higher education's share of the tax-exempt bond market has doubled over the last 10 years. *(See chart on page 3.)* Even in the recent era of historically low interest rates, both in New Jersey and nationally, most of the borrowing has been for new money projects and not refundings. Over the last two years, approximately 61% of the Authority's $1.3 billion in financings has provided new money for campus improvement projects. These have included: 17 residence hall projects, of which 9 were new dorms; 22 academic building projects, of which 11 were new facilities; 10 new or substantially renovated student life and recreational facilities; 3 athletic facility projects; 1 new library; 3 major parking facilities, and 9 major infrastructure and deferred maintenance projects.


Roger L. Anderson

The favorable bond market in recent years is only part of the story behind such financing activity. As Chairman Mertz states on page one of this newsletter, the most important reason driving the increase in bonding is a growing student population, which is increasing the demand for enrollment. Compounding this challenge are aging buildings and facilities that are already at capacity.

As Darryl Greer points out on page five, it is likely, at least in the short term, that public support for higher education will be constrained by the state budget problems described by Mary Lyons on page three. Therefore, to meet their needs, institutions will need to continue to issue debt.

In addition to the suggestions by Chairman Mertz and Dr. Greer for greater State funding, we at NJEFA, as called for by the CHE's Blueprint for Excellence, are committed to expanding our clients' financing flexibility in order to lower their costs. We look forward to working with the Governor's Office, the Legislature, the CHE and our clients to help New Jersey's colleges and universities continue to build and maintain a world-class system of higher education.

A look back on market influences for higher education debt

By Mary K. Lyons, V.P.
Capital Financial Advisors, Inc.

Municipal bond issuance for 2004 ranked third with the amount of debt issued totaling $358.55 billion. According to Thompson Financial data, bond issuance for 2004 was 6.6% less than that of 2003, for which the largest annual amount of municipal debt issuance was recorded. Education transactions, as a whole, were up 5.2% from last year, although national higher education debt mirrored the overall industry trend. Higher education issuance through November 30th totaled $20.418 billion, representing 641 transactions, compared with volume for a similar period in 2003 of $22.474 billion, through 700 transactions, resulting in a 9% drop in volume. Higher education volume for New Jersey, however, actually increased almost 19% with $1.015 billion sold through November of 2004, compared with volume of $854 million for the same period last year. 2004 issues have been fewer in number but have increased in size.

Bond yields were fairly volatile for the year, with markets particularly sensitive to FOMC statements, economic data releases, US Treasury market forces, and the price of oil. The average yield for the MMD AAA index was 3.76% as of January 2, 2004, ending December at almost the same level with at a 3.9% yield. Its low was in mid-March at 3.40% with the high in mid-May at 4.33%.

Interest rate volatility contributed to a decline in overall refundings, which fell 8.2% from last year, although refunding activity picked up towards year's end. New money issues for 2004 were 11.9% less than for 2003. In New Jersey, 87% of Higher Education transactions through November were new money issues.

The slowly recovering economy had a two-prong impact on higher education funding for private and public colleges, with private colleges benefiting more quickly from improving equity markets, and public institutions experiencing a delay in anticipated improved funding expected as a result of the pick-up in state finances. Early in 2004, Moody's Investors Service modified its rating outlook for the private higher education sector to cautiously stable, in light of a rebound in the equity markets, promising relief on financial growth constraints felt by private institutions over the past few years.

Moody's outlook for public institutions is similarly cautiously stable, but Moody's characterized the budget difficulties felt by many state governments in FY2003 as detrimental to operating results for public colleges in FY2004. In its Special Comment entitled "Public College and University Medians 2004-2005," Moody's cited data collected by the Center for the Study of Educational Policy at Illinois State University that indicated that the actual dollar amount to state funding for higher education was expected to decline in FY2004 by 2.1% from FY2003 levels, down 1.9% from FY2002. Similar findings were cited by the Center on Budget and Policy Priorities in a May 2004 report, which noted that higher education funding was being cut by states across the country, resulting in double-digit tuition increases for students.

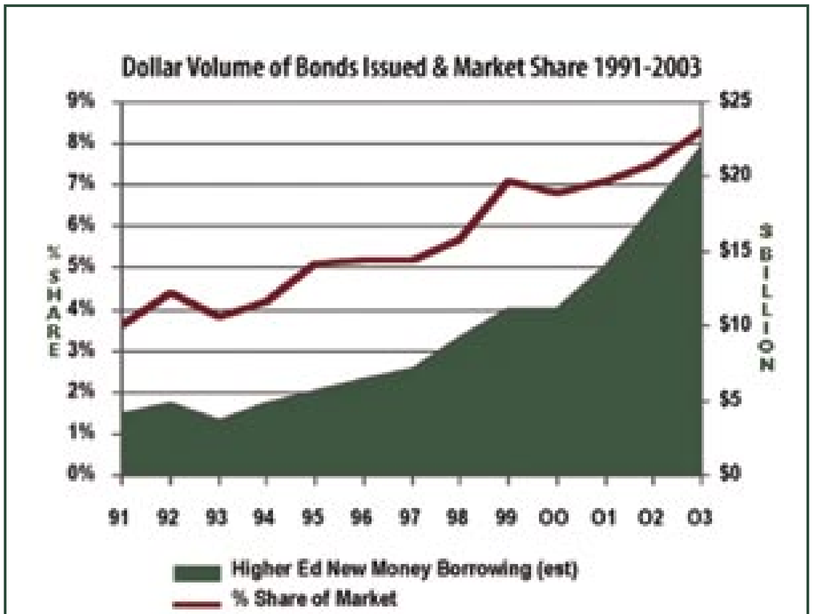


CHART PROVIDED BY MOODY'S INVESTORS SERVICE

As always, international and political events impacted bond market trends to varying degrees. The assassination of the Iraqi Interim Council President in May, the start of the Olympics in August and the US Presidential election in November all influenced interest rates. The re-election of President Bush initially caused a stock market rally, pushing up municipal bond market yields slightly. Market focus soon shifted to other influences however, as upward yield movement was temporarily tempered by a poor showing in the October Institute for Supply Management's manufacturing index, and then buoyed by an October Labor report which beat market expectations.

Looking forward, the encouraging outlook for state finances in 2005 must be viewed with a certain amount of caution, as continued spending pressures and depleted resources at the state level, and federal decisions with regard to tax law changes, deficit financing, and unchanged or only modestly improved levels of funding for domestic programs also are predicted. A report issued at the end of November by the Nelson A. Rockefeller Institute of Government concluded that most states have gotten past the recessionary effects on their budget and are well into recovery. However, the report maintained that despite economic growth, states may still need to address prospective problems including depleted reserve funds and rising costs including that of Medicaid and spending pressures for homeland security and higher education.

Higher education in particular, cannot look to the federal level for much relief in 2005 – changes to the Pell Grant program are expected to adversely limit student eligibility, and several other programs such as LEAP face flat or decreased funding.

NJEFA Issues Closed in 2004

Institution	Project	Closing	Amount
Private			
Rider University	New Residence Hall/Sports & Rec. Facility	6-17-04	$14,735,000
Stevens Institute of Technology	Renovation of Apartment Buildings for Student Housing	7-1-04	$13,265,000
Fairleigh Dickinson University	Refunding	7-14-04	$35,285,000
Princeton University	Capital Improvements	7-29-04	$175,000,000
Public			
Montclair State University	New Academic Building/Refunding	1-15-04	$94,540,000
William Paterson University	New Residence Hall and other Capital Improvements	1-22-04	$30,035,000
Ramapo College of New Jersey	Refunding	1-29-04	$18,930,000
New Jersey Institute of Technology	Refunding	4-5-04	$73,530,000
Rowan University	Academic Building/Capital Improvements	7-15-04	$61,275,000
Ramapo College of New Jersey	Parking Garage/Residence Facility/Renovations	10-28-04	$53,980,000
State-Backed			
H.E. Capital Improvement Fund	Capital Improvements	4-14-04	$76,725,000
		Grand Total	**$647,300,000**

Viewpoint, *continued from page 1*

and technologies through which these goals can be met.

During the past 20 years, the State has authorized the issuance of over $1.5 billion in bonds to finance the renewal and expansion of New Jersey's public and independent higher education institutions. County bonds have also played an important part in funding community college facilities. In addition, the State, from time to time, has provided a direct appropriation to the senior public colleges and universities specifically for maintenance and renewal projects, but lack of adequate and predictable State support has led to deferred maintenance.

Since its creation in 1966, NJEFA has been a constant partner with our institutions and the State in financing college facilities. The combined use of NJEFA financing, and state/county and institutional funding mechanisms has enabled New Jersey's colleges and universities to build safe, state-of-the art facilities. But, institutional bonding has grown significantly over the years. In fact, New Jersey's public research universities and state colleges and universities have relied increasingly on their own debt for facility investment. According to Moody's Investors Service, they are now among the most leveraged public higher education institutions in the nation. The resulting debt service for institutional bonding generally falls to students through tuition or fees.

We are now faced with a critical need for preservation and expansion at a time of significant state and institutional fiscal constraints. The Blueprint calls for a long-term plan for higher education capital needs, whether through a dedicated funding source, ongoing bonding, or other means. Such a plan will require significant increased investment, new approaches and accountability for colleges and universities, and the development of options and innovative funding mechanisms that provide flexibility to the institutions to lower their financing costs without increasing state debt. The Blueprint also calls for an annual capital program for regular renewal and replacement of facilities at the three public research universities and nine state colleges and universities in order to plan rationally for the maintenance of the State's higher education assets.

Addressing higher education's capital needs in order to meet growing State demands is an opportunity and an obligation deserving statewide attention and resources. This spring the Commission will initiate a task force to recommend long-term capital funding strategies that will fuel New Jersey's economy and enhance quality of life.

— *In my opinion* —
Will higher education spending match demand? It is a matter of priorities

By Darryl G. Greer, Ph.D.
Executive Director/CEO
NJ Association of State Colleges
and Universities

Darryl G. Greer

This year demand for education at New Jersey's nine state colleges and universities reached new heights, with total undergraduate and graduate enrollment surpassing 90,000 students and first-time, full-time freshman applications surpassing 44,000. The residential student population likewise reached a new pinnacle with over 18,000 students living on campus, including some who were in temporary quarters until the completion of new residence halls.

Also robust was construction at the nine institutions which include The College of New Jersey, Kean University, Montclair State University, New Jersey City University, Ramapo College, Richard Stockton College of New Jersey, Rowan University, Thomas Edison State College, and William Paterson University. The building is being done to meet immediate and projected demand requiring more residence halls, additional, up-to-date academic buildings, parking garages, offices as well as performing arts and recreation centers that support blossoming student life at the eight traditional colleges, where over 75% of undergraduates are enrolled full-time.

Promising, but less robust, was the state's investment in senior public institutions of higher education. For the first time in many years there was an increase in State appropriations and recognition of some important policy principles. These common sense principles, long advocated by our association, include: the principle that the State should invest, on a regular basis, in facilities at its senior public colleges and universities; and the principle that the State should offer incentives to four-year institutions to help offset the costs tied to growing enrollment. Modest additional funding for facilities and for enrollment growth was contained in the State's 2004-2005 spending plan.

Higher education advocates across the U.S. have been told for years that State budgets are unlikely to return to past days of budget surpluses when higher education spending was significantly increased as a matter of course. Perhaps, though, we can hope for something akin to what happened recently in Michigan; as the result of a study commission on the future of higher education and state economic growth, Governor Jennifer Granholm declared that she would make funding for colleges and universities a higher budgetary priority so that more residents could obtain degrees.

Currently, we have cautious hope that the State will, even amid its significant, current budget deficit, keep higher education on a reasonable upward funding trend that will partially make up for the years of cuts endured. Another hope we hold out is State action to create some vehicle that would result in a new, dedicated revenue stream for public colleges and universities, such as proceeds from the use of Video Lottery Terminals at racetracks.

Meanwhile, the State should enact, with bipartisan support and voter approval, pending legislation to expand the Higher Education Facilities Trust Fund and a newly proposed bill to bring to the voters a multi-billion dollar bond issue for higher education facilities. Many of our political leaders in both parties fully understand why such investment is urgently needed and we are working to educate them about how it would help our institutions keep down student fees. Polls we sponsored show voters would support this measure. We should let the voters decide this matter of critical state spending priorities. I am confident the result would be positive for those entering our institutions in the years ahead.

NJEFA transactions, *continued from page 1*

million for Rider University. William Paterson University is using bond proceeds to construct a new 372-bed dormitory and to complete related roadway and infrastructure projects. Rider University is constructing a new 166-bed student residence hall and 45,114-square-foot sports and recreation complex.

NJEFA issued $175 million in bonds for Princeton University for a number of projects that include the construction of Whitman College, a 275,000-square-foot residential college designed to accommodate 2,000 new students. Other projects include the University's new Andlinger Center for the Humanities to serve as a hub of interdisciplinary study, as well as its new Lawrence Apartment Complex. This complex will provide needed housing for graduate students and their families and will consist of a 12-story high rise with 55 one-bedroom units and a cluster of 2-story buildings that will provide an additional 55 two-bedroom units.

To conclude the year, NJEFA completed a $13.3 million financing for Stevens Institute of Technology to convert six brownstone apartment buildings into student residences and a $54 million issue for the Ramapo College of New Jersey for construction of a 432-bed dormitory and a parking garage.

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IN THIS ISSUE

NJEFA welcomes new Board member and new member to accounting staff

NEW BOARD MEMBER

NJEFA recently welcomed Felice Vazquez as a new Board member. Ms. Vazquez, from Elizabeth, New Jersey, was appointed to the NJEFA Board in December to serve for a five-year term. Speaking on behalf of the entire Board and Staff at NJEFA's January meeting, Chair Vivian Altman welcomed Ms. Vazquez and said, "Felice will be a terrific addition to our Board and we all look forward to working with her."

Ms. Vazquez brings substantial public sector experience to the Agency. She currently serves as Executive Assistant to the Director of Planning and Development for the City of Elizabeth where she formerly held the positions of Public Information Officer and Legislative Specialist. Prior to her work for the City of Elizabeth, Ms. Vazquez was a Project Coordinator for the Gateway Institute for Regional Development and the Assistant Director of Kean University's Office of Financial Aid.

Ms. Vazquez is a graduate of Kean University where she received both her Bachelor of Arts in Psychology and her Masters of Public Administration. She is also currently a law student at Rutgers School of Law in Newark.

NEW STAFF MEMBER

In November, NJEFA also welcomed Jamie Wright to its staff.

Ms. Wright serves as an administrative assistant in the Accounting Department.

Her responsibilities include regular updating of the bond fund investment database, processing requi-sitions and assisting staff accountants with accounts payable and receivable functions.

Ms. Wright is a graduate of Lycoming College with a B.A. in Sociology.