NJEFA
New Jersey Educational Facilities Authority

Building futures

Volume 2, Number 1

Viewpoint

NJEFA welcomes a new Executive Director

Vivian Altman

Last fall the Board welcomed a new Executive Director as Roger Anderson joined the Authority, bringing impressive public finance and government experience to the NJEFA.

In the short time our new Executive Director has been with us, he has guided staff through the busiest financing period in the Authority's history, closing a record year in 2002 with nearly $1 billion in project financings for 14 transactions. He has also responded to our clients' interests in pursuing unique financing structures to fund capital needs with sound debt management strategies, and is planning a seminar for mid-spring to help institutions understand derivatives and other new financial products in the municipal markets.

Mr. Anderson's career includes service in the U.S. Treasury Department as former Deputy Assistant Secretary for Federal Finance where he designed and implemented the first new Treasury product developed in many decades — Inflation Indexed Securities. He also redesigned both State and Local Government Series Securities and Savings Bonds and had regulatory oversight responsibility for the Government Securities Market.

In other public positions, Mr. Anderson served as Deputy Comptroller for Finance of the City of New York and as a clerk to the chief judge of the United States Court of Claims.

On behalf of the Board, I sincerely welcome Roger to the NJEFA and speaking for the Board and the staff, we are delighted to have the opportunity to work with Roger. He is a professional with an in-depth knowledge of municipal finance and the capital markets. I am certain that the Authority and New Jersey's higher education community will benefit from his expertise.

NJEFA helps The College of New Jersey identify funding for 3-year capital budget

The New Jersey Educational Facilities Authority began working with its financial advisor, Municipal Advisory Partners (MAP), Merrill Lynch and The College of New Jersey (TCNJ) to help identify ways to cost-effectively fund a three-year capital budget that would include a parking garage, a state-of-the-art library and the expansion and renovation of several dormitories on its campus.

The NJEFA, its financial advisor and TCNJ analyzed various debt structures. These proposed structures had to fit within TCNJ's existing debt profile and also had to reflect the College's projected revenue streams for the varied projects. TCNJ wanted fixed-rate debt service to best match its projected revenue streams assuring sufficient funds to cover debt service on each project. The NJEFA, MAP, Merrill Lynch, and TCNJ evaluated several financing structures and interest rate mode options.

The Travers/Wolfe Parking Deck on The College of New Jersey campus in Ewing was funded by the NJEFA's Series D 2002 bond issue.

TCNJ ultimately decided to issue insured, non-putable variable-rate bonds and immediately swap them into a fixed interest rate to provide an extremely low cost of capital, relative to traditional fixed-rate debt. The bonds were structured with Merrill Lynch's proprietary variable-rate product known as R-FLOATs that eliminate the need for a liquidity facility through a "soft put" feature similar to an auction product. Merrill Lynch's remarketing desk sets the weekly rate on these R-FLOATs; in a traditional auction, the market establishes the clearing interest rate.

Interest payment dates on R-FLOATs are structured to align with interest payment dates on traditional derivative instruments. The NJEFA, and its financial team — which included DeCotiis, Fitzpatrick, Gluck and Cole as bond counsel — evaluated, structured and implemented a financing plan that utilized R-FLOATs and a 67% of LIBOR fixed payor swap in which TCNJ pays 67% of LIBOR and receives BMA index. TCNJ was able to lock in a fixed interest rate of 4.095% on $138.55 million with an average life of 29 years and a final maturity of 2035. This enabled TCNJ to realize $45 million in debt service savings over the life of the issue, when compared to the cost of traditional fixed rate bonds.

After soliciting proposals from several bond insurers, FGIC insured the bonds, the swap and the swap termination.

Additionally, because of this extraordinary low cost of capital, TCNJ decided

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BOARD CALENDAR

February 26, 2003
March 26, 2003
April 23, 2003
May 28, 2003 (Annual Meeting)

The Board Calendar for June 2003 through May 2004 will be set at the Annual Meeting on May

‘Building futures’ through derivatives and other innovative products

by Roger L. Anderson
NJEFA Executive Director

2002 was a banner year for the NJEFA. By the end of December, our gross issuance surpassed $5.7 billion, of which more than half is outstanding. In fact, the NJEFA issued more than $900 million bonds last year, more than 15% of the total issued in its 36-year history. This new record is almost 60% higher than the Authority's prior record year.

The growth in the NJEFA's business comes directly from the growing demand for admission at the State's colleges and universities.

There are three forces driving this demand that stand out. First, as a result of the second baby boom, more students are graduating from New Jersey's high schools, and the number of high school graduates is expected to continue to grow until at least 2008. Second, over the last few years, the percentage of New Jersey high school graduates going to college in New Jersey has risen. Third, there is a rising tide of non-traditional students (students who are not entering college straight from high school) seeking higher education.

"...we are prepared to help our clients understand the risks and rewards of using derivatives..."

The convergence of these forces on our State's higher education community means significant strain on the capacity of New Jersey's colleges and universities to meet the growing demand for space. Further, while these institutions are building capacity, they are also in need of significant capital investment to modernize their existing facilities. Simultaneously, they must meet the challenges of capital construction, deferred maintenance and making investments in equipment and technology necessary for a 21st century education.

The growth in the NJEFA's "book of business" in the last three years shows that our clients have been responding to these challenges with robust investment in their campus facilities. There is every reason to believe that such investment will continue for the next several years.

We are prepared to assist our clients meet their financial needs both through access to the capital markets for lower-cost borrowing and also by helping them understand and make knowledgeable decisions about debt capacity and debt management issues.


Roger L. Anderson

The Authority advises each client on the most advantageous financing structures for its projects. For instance, we worked with The College of New Jersey last year to structure a $138 million financing using derivatives rather than a traditional fixed rate structure (see cover story).

Derivatives are one of the fastest growing sectors of the financial markets today. I helped introduce derivatives into municipal finance when I worked for New York City, and I understand the education and risk management processes required when institutions start to get involved with new financial products.

The Authority anticipates using these types of products more often, and therefore we are prepared to help our clients understand the risks and rewards of using derivatives and also how best to manage these innovative instruments. As part of the education process, we will host a seminar for our clients on derivatives and risk management in mid-spring. We will have more information on the seminar in the weeks ahead.

Educating and helping our clients keep pace with the continuous evolution of products and services in the municipal marketplace is one way the Authority can help assure that New Jersey has a system of higher education that can meet expanding demand. The NJEFA's mission goes beyond simply providing financial services. It includes fostering a sound economic future for the State by enhancing the ability of our institutions to compete in a rapidly changing market place in order to meet the educational needs and technological challenges of a new generation.

The year 2002: A volatile market

By Noreen White
Municipal Advisory Partners, Inc.

If it is true that what goes up must come down, then is the converse true? Market participants entered 2002 reeling from the effects of September 11th and dizzy from the eleven interest rate cuts made by the Federal Reserve during the course of that year. After spending most of 2001 watching the Federal Reserve cut rates, again and again and again, bond market participants were left to ponder where rates go from here. The Bond Buyer Indexes were at all time lows but the focus became the economy: would low interest rates spur economic growth? And, if growth did occur, would rates then start to creep up again? Despite the low interest rate environment, the economy was on shaky ground.

Declining State Revenues

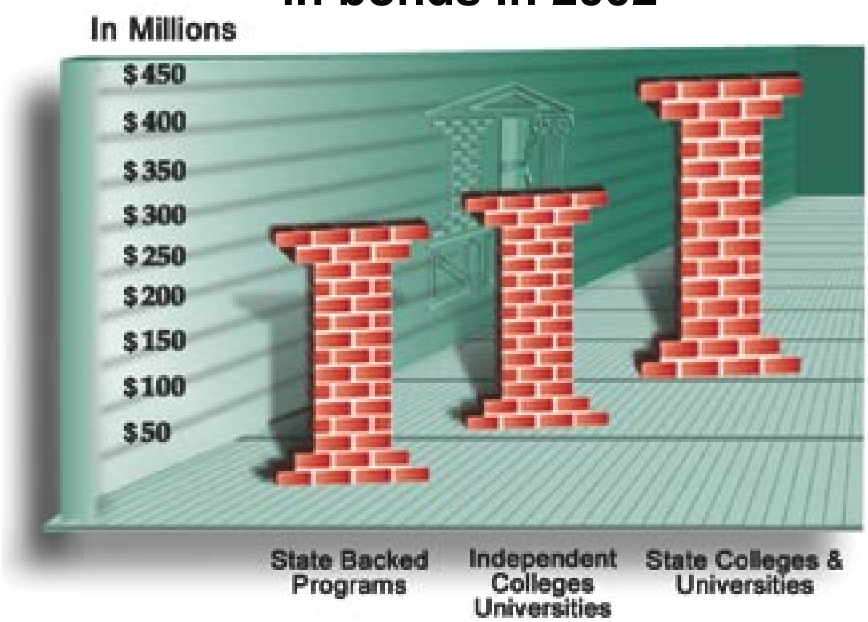
The first shock waves appeared as state after state revealed staggering shortfalls in revenues and each tried to craft solutions to what was hoped to be a temporary problem. This was a chilling development as no region of the country was spared and we couldn't dismiss the economic problems with a cliche blaming the rust belt or farming or service sector economy of a region.

As the states began to cope with declining revenues, the next wave hit as the corporate scandals and corporate earning projections were revised and accounting errors were routinely announced. What little confidence investors had left in the equity market quickly vanished. By summer, investors were looking to buy bonds.

Shift Toward Bonds

Investors looked to the bond market just as municipal issuers began to flock to the market.

Authority issues nearly $1 billion in bonds in 2002



"The growth in the NJEFA's "book of business" comes directly from the growing demand for admission at the State's colleges and universities."

— Roger L. Anderson

Those refundings that were put on hold in 2001 were resurrected in 2002. New issue volume was up as well and many states used financings to help with their budgets. According to The Bond Buyer, at the end of November 2002, the year-to-date municipal volume topped $328 billion, eclipsing the record set in 1993 of $292 billion. The three largest deals of the year were a $7 billion issue by the California Department of Water Resources, a $1.8 billion transaction for the Empire State Development Corp. and a $750 million general obligation bond transaction for Massachusetts.

Virtually every sector of the municipal industry saw an increase in volume. Interest rates began to edge further downward with The Bond Buyer 25-Bond Revenue Index reaching the low for the year of 5.02% on October 10th.

And then a funny thing happened at the end of the third quarter: the market saw some good corporate earnings reports and a huge volume of bonds on the horizon. Investors left the bond market behind and municipal yields shot up. The Bond Buyer 40 Index had its worst week in over eight years with the average yield to par call increasing 60 basis points. Deals were pulled and eventually, as supply slowed, rates stabilized although at yields 25-30 basis points from the lows of the year reached just a week or two earlier. And then the Federal Reserve who had left rates unchanged for the better part of the year, slashed rates 50 basis points to a mind numbing 1.25% on November 6th.

Uncertain Future

So where do we go from here? It's clear that the recovery is slow in coming and bond prices have appeared to bottom out. It seems inevitable that rates will rise slightly in the coming year but continued rockiness in the stock market could again spur investors back to the bond market and help to stabilize rates. The municipal marketplace has become a more difficult place to navigate and it is clear that the volatility and volume of the past year will not go quietly into that good night.

Authority closes two State-backed deals and 12 stand-alone issues for nearly $1 billion in projects in 2002

The NJEFA closed 2002 with nearly $1 billion in project financings representing a total of 14 transactions. As shown on page 5 (Individual NJEFA bond issues in 2002) nearly $250 million in bonds were issued to finance projects at four of the State's private institutions, and almost double that amount, $411 million, was issued by the NJEFA to finance a variety of capital projects at seven of New Jersey's public institutions.

The NJEFA closed the last quarter of the year with two significant and long awaited state-backed transactions.

These included the Higher Education Capital Improvement Fund Issue Series 2002 A (HECIF) in the amount of $194.6 million in bonds to finance eligible institutions and their capital projects and the $45 million Public Library Project Grant Program Issue, Series 2002 A, a first time bond issue to provide 3:1 matching grants for new construction, expansion and/or renovation projects at 67 public libraries throughout the State.

The Cranford Public Library, shown above, is among the 67 public libraries that are beneficiaries of the Authority's $45 million Series 2002 A bond issue.

Capital Improvement Fund

The HECIF, originally enacted in 1999, authorized the NJEFA to issue up to $550 million in bonds to fund partial grants to public and private four-year colleges and universities to assist in the financing of facilities preservation and to improve and expand technological infrastructures.

In 2000, the NJEFA issued two series of bonds under this program for a combined total of $278 million in par amount of bonds sold. The NJEFA's Series 2002 A transaction represented the third tranch of bonds sold under this program. Over 94% of the Series 2002 A bond proceeds were used to fund capital projects at public institutions. There is $77 million in remaining authorization under the HECIF program for which the NJEFA anticipates selling bonds during the first half of 2003, assuming requisite review and project approvals are completed from New Jersey's Commission on Higher Education.

Public Library Grant Fund

The Public Library Project Grant Fund Program was enacted in 1999. It authorized the NJEFA to issue up to $45 million in State-supported bond financing to provide matching grants to public libraries for new construction and/or rehabilitation projects.

The NJEFA worked for many months with its financing team to bring this transaction to market by year's end. Bond counsel on the transaction was Riker Danzig Scherer Hyland & Perretti; NW Capital served as senior manager, and Municipal Advisory Partners served as the NJEFA's financial advisor.

The transaction closed on December 5, 2002 and to date nearly $13 million of grant dollars have been distributed to 27 of the State's eligible public libraries.

The NJEFA is currently monitoring pending legislation Senate bill 1236 (A-2594), co-sponsored by Senators Smith and Littell, which would increase the financing authorization of the NJEFA under the Public Library Grant Program to $95 million to fund additional matching grants. The bill was reported out of the Senate Education Committee on May 9, 2002 and was referred to the Senate Budget and Appropri- ations Committee where it is awaiting consideration.

2003 Forward Calendar

The NJEFA's forward calendar for 2003 anticipates continued high volume of transactions. The Authority expects to complete another six to nine stand-alone transactions for public and private institutions as well as an additional three state-backed issues by year's end. The state-backed issues include an estimated $77 million under the Higher Education Capital Improvement Fund, $17 million in remaining Dormitory Safety Trust Fund Bonds, and $13 million under the Equipment Leasing Fund Program.

The NJEFA's projected total par value of these issues is expected to be well in excess of $500 million.

Individual NJEFA bond issues in 2002

Private	Project	Closing	Amount
Rider University	Refunding of 1992 Series D Bonds	April	$27,560,000
Princeton University	Maintenance, Renovations, Equipment, Acquisitions	July	$100,000,000
Stevens Institute	School of Technology, Parking, Capital Improvements	December	$59,585,000
Fairleigh Dickinson	Dormitories, Fitness Center, Buildings, Student Center	December	$63,650,000
		Total	$250,795,000
Public			
NJ City University	Fine Arts Building, Capital Improvements	May	$15,115,000
Stockon State	Refunding of Series 1992 B & Series 1992 C Bonds	April	$8,340,000
The College of NJ	Refunding of Series 1992 A & Series 1992 E Bonds	June	$53,155,000
The College of NJ	Dormitories, Parking & Academic Facilities, Sportsfield	June	$138,550,000
William Paterson	Renovations to Student Center & Wayne Hall	August	$42,125,000
Ramapo College	Housing, Parking, Recreation Center, Field House	October	$60,420,000
Montclair State	Student Residence Hall	November	$78,500,000
Rowan University	Acquisition of Housing Complex, Renovations	November	$14,920,000
		Total	$411,125,000
State Backed			
CIF	Capital Improvements at 4 Year Colleges & Universities	November	$194,590,000
Library	Expansion, Renovation or Acquisition for Public Libraries	December	$45,000,000
		Total	$239,590,000
		Grand Total	**$901,510,000**

Moody's: Demand for higher education continues to grow

"Fundamental student demand demographics remain strong." That was the message to the Authority's Board in December by John Nelson, Managing Director for Moody's Investors Service, on how the national economy is affecting the higher education industry in New Jersey and across the nation.

In his presentation, "Higher Education Post-September 11: Colleges and Universities Face Tougher Times," Nelson reported that in addition to rising numbers of high school graduates seeking spaces in colleges and universities, New Jersey, like many other states is experiencing significant growth in demand among non-traditional students. Noting that this trend is typical in a difficult economy, Nelson said, "The recession has created a demand for higher education from older adults returning to school to seek additional degrees and training because of the potential career pay-offs." He added that polls show education at the top of the list of issues of importance in four of the last five years as institutions grapple with ways to accommodate growing demand with limited resources and significant capacity constraints. While noting that demand brings its own challenges, Nelson said that New Jersey's public schools continue to do well, though they are among the most leveraged and therefore most dependent on a strong flow of public money.

Moody's rates nine colleges and universities in New Jersey. Nelson said with few exceptions New Jersey's private schools have relatively low tuitions, which should continue to make them attractive to students and their parents.

However, students continue to look outside New Jersey for higher education opportunities, he said, because affluent families can afford to have their children travel; 75 miles is out-of-state in New Jersey and neighboring states have robust private college opportunities for New Jersey's high school graduates.

On the national scene, Nelson noted that schools report that they are lowering their endowment targets by as much as 50 percent. Although fund-raising is holding steady, many in the industry acknowledge that fund-raising will become more difficult since personal wealth has declined in the current economy.

Public versus private college choices will be impacted by the deterioration of family wealth in the stock market downturn; remaining familial wealth is tied to real estate which isn't an asset readily available to cover college costs. During recessions, Nelson said, public schools have to shift the financial burden to students through tuition increases.

John Nelson

At the same time, private institutions moderate tuition increases. But even with slower increases in private school tuition, Nelson noted that the average private institution charges about $14,000 more a year in tuition than the average public school, making public schools very attractive and more competitive in times of financial strain.

Since Nelson's last report to the Authority Board in 2001, there have been some downgrades in ratings and a few small schools have failed, though none were in New Jersey. He predicted that there may be mergers, alliances, and more failures in the next few years. However, Moody's still expects to upgrade institutions because, despite trying economic times, the higher education industry is healthy and some institutions are doing very well.

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The College of New Jersey

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to expand its project scope to include additional projects in its five-year capital plan.

The College OF New Jersey

Through the NJEFA, TCNJ successfully structured and sold bonds that satisfy its short- and long-term objectives while also enabling it to enhance its strategic position by increasing its project scope at low cost. TCNJ also refunded its Series 1992A and E bonds concurrently in a fixed interest rate to achieve an additional $17 million in debt service savings.

These two bond issues were important components of TCNJ's rating strategy as the College more than doubled its overall debt.

NJEFA welcomes new Board Member and a new Director of Project Management

New Board Member

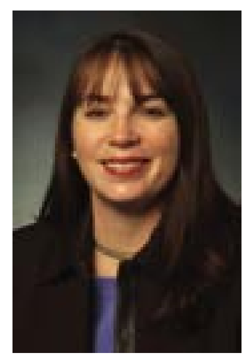
In September, Governor McGreevey appointed a new Board Member to the NJEFA, Robert Medina, P.E. from Long Valley, New Jersey. Mr. Medina is Founder and President of Medina Consultants, P.C., a company which provides broad-based engineering and land surveying services to public and private clients in the New Jersey, New York and Pennsylvania region.

Speaking on behalf of the Staff and Board, NJEFA's Chair Vivian Altman officially welcomed Mr. Medina at the Authority's meeting on September 25th saying, "We welcome you to the NJEFA family and appreciate the perspective your experience will bring to assisting our college and university clients."

Mr. Medina's current term of appointment is through April 30, 2006.

Director of Project Management

Mary Jane Darby joined the NJEFA in September as Director of Project Management. Her responsibilities include the management of statewide debt issuance by all colleges and universities in New



Mary Jane Darby

Mary Jane Darby joined the NJEFA in September as Director of Project Management. Her responsibilities include the management of statewide debt issuance by all colleges and universities in New Jersey, both public and private, and state-supported debt issues for higher education programs.

Ms. Darby brings over 15 years experience in private sector financial services to the NJEFA, including service as Vice President in the Public Finance Department of Tucker Anthony, Inc. of New York City and Fair Haven, NJ, and as First Vice President of the Public Finance Department of Ryan, Beck & Co., LLC of Livingston and Shrewsbury, NJ.

Ms. Darby is a graduate of Lafayette College and is Series 7 Registered.