NJEFA
New Jersey Educational Facilities Authority

Building futures

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Viewpoint

In higher education, 3 pillars under stress

By Kurt M. Landgraf
Member, NJ Commission on Higher Education

In many ways, the story of American success is the story of American higher education. No other society has been so successful at providing advanced education to so many of its citizens, and no other society has been so enriched as a result.

But if higher education is a leading indicator of social success, then we are in trouble.

Today, the pillars of postsecondary education – quality, affordability and access – are in danger of buckling. Shoring them up is one of the most important steps we can take to promote prosperity and stability at home, and competitiveness abroad.

MEASURING QUALITY

It is not just that U.S. students underperform their counterparts in other countries, although they do. And it is not just that our colleges and universities produce too few graduates in the high-demand areas of science, technology, engineering and math, although they do.

Our problem is more fundamental: we do not even measure, in a systemic way, learning outcomes in our colleges and universities. We are awash in data: the number of degrees granted; which majors are popular; the number of Ph.D.s on the faculty. The only thing we don't know is whether students are actually learning.

It is not for want of proposals. Over the past two years, ETS has developed a framework for measuring postsecondary learning outcomes in a series of research papers under the collective title "A Culture of Evidence." In these analyses, we have outlined an accountability system for higher education that focuses on four dimensions of student learning:

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A record year for NJEFA

The Richard Stockton College of New Jersey's campus center (top) and Princeton University's Sherrerd Hall (right)

NJEFA had another record year in 2008, completing more than $1.2 billion in financings that benefitted twelve of New Jersey's colleges and universities. Mirroring national trends among general purpose and higher education issuers, the Authority's refunding activity, about $800 million, was significantly higher than in 2007 due to the broad financial crisis and wide-scale market failures.

In response to rapidly deteriorating market conditions, last February, the Authority began implementing a global restructuring effort to help its clients move out of short-term debt that was affected by the collapse of the Auction Rate Securities and Insured Variable Rate Demand Bond markets and precipitated by the sub-prime mortgage crisis. At the outset, the Authority had nine clients with seventeen affected issues that had a combined par value of more than $800 million. To date, the Authority has successfully completed seven debt restructurings for seven institutions and expects to complete its remaining two restructurings within the next several weeks.

The Authority's new money issuance for the year was approximately $500 million, which helped finance new capital projects at Drew University, The William Paterson University of New Jersey, Saint Peter's College, The Richard Stockton College of New Jersey, and Princeton University. Among the capital projects is the construction of Stockton College's, new 155,000 square-foot campus center (rendering shown above). As part of the College's facilities master plan, the center will feature food service, event and dining facilities, offices and a theater.

Authority financing is also helping Princeton undertake a number of construction projects for academic, student life and administrative facilities. Among them is the completion of Sherrerd Hall (shown above right), which will house the University's Department of Operations Research and Financial Engineering and the Center for Information Technology. The new building will provide space that fosters collaboration in teaching and research across a number of disciplines that include public policy, business, finance and technology.

Building futures is a publication of the New Jersey Educational Facilities Authority. For further information, please contact NJEFA at 103 College Road East, Princeton, NJ 08540, by phone at 609.987.0880 or visit our website at **www.njefa.com**.

2009 BOARD CALENDAR*

March 25
April 22
May 27
June 24
July 22
August 26
September 23
October 28
November 25
December 23

*Meeting dates subject to change.

Can crisis be opportunity?

By Roger L. Anderson, NJEFA Executive Director

One of the most indelible lessons of 2008 is that the unthinkable can and does happen. As the 2008 Year End Review makes painfully clear, 2008 was a horrible time for the economy. Higher education suffered right along with everyone else.

Many colleges had issued auction-rate securities or insured variable rate securities, the markets for which collapsed. The rates on those securities soared, and most such issuers had to restructure or refinance such debt. The market in which student loans were financed also froze, creating uncertainty about students' ability to get loans for the new academic year. Stock markets were down more than 25%, hurting college endowments, as well as family savings that had been set aside to pay for college. General economic uncertainty added to the worries about families' ability to afford rising tuition costs. It also had a depressing effect on gifts to colleges.

Even before these shocks, higher education faced huge challenges. As Kurt Landgraf says on page one, "The pillars of postsecondary education—quality, affordability and access—are in danger of buckling."

There are some signs, . . . that the economic crisis has focused public attention on higher education's promise . . .

Yet America needs higher education more than ever before. According to the National Center for Education Statistics, the U.S. is falling behind other countries in educating its youth, at the same time that the U.S. Census Bureau estimates that nearly half of all job growth in the U.S. in the next decade will be in positions requiring higher education and will be greatest in jobs that require a doctorate.

There are some signs, however, that the economic crisis has focused public attention on higher education's promise and challenges, to an extent not seen in decades. The U.S. Secretary of Education has described "a historic opportunity . . . to educate our way to a better economy."

Higher education has always had countercyclical strength, as people seek to increase their earnings power in down times. This is particularly true for public higher education, as students and parents seek lower cost alternatives. Already, the *Star Ledger* has reported that both the number and the quality of applications have increased significantly at several public institutions in New Jersey.


Roger L. Anderson

To help colleges serve their historical role in these challenging times, the American Recovery and Reinvestment Act will provide some immediate help through substantial increases in student aid and research funding. Colleges may also benefit from the $1.3 billion that New Jersey will receive from the stimulus program's State Fiscal Stabilization Fund to help restore state aid to school districts and public colleges and universities.

Hard times seem to have begun to focus attention on the essentiality of the services that colleges provide. President Obama told Congress that ¾ of the fastest growing occupations in America require more than a high school education. He therefore challenged every American to get at least one year of post-secondary education. Further, the President set a new goal for the country: "By 2020, America will once again have the highest proportion of college graduates in the world."

This goal is vital because, in the words of Sister Rosemary Jeffries on page 4, "Higher education provides a 'common good,' as well as a 'personal good.'"

The Authority had its busiest year ever in 2008, mostly in response to market failures. Still, we issued more than $450 million for new projects. We are hopeful that even more of our future business will be these kinds of investments in knowledge that the knowledge economy requires.

2008 year end review

By Noreen White, Co-President, Acacia Financial Group, Inc.

When I reflect on 2008, I don't think Frank Sinatra's memorable ballad, "It was a very good year" will ever come to mind. Rather the year was more a "Boulevard of Broken Dreams". No matter how you choose to reflect on 2008 (and let's hope distance will at least give us perspective if nothing else), it was an unprecedented year for the global economy and the U.S. municipal bond industry. Credit and liquidity concerns driven by the sub-prime mortgage crisis came to fruition in 2008. Fear and uncertainty rippled across every sector of the financial marketplace and impacted nearly every facet of the global economy. Over the last several months, the U.S. Government has taken a variety of approaches to deal with the mortgage crisis; including a variety of loans, guarantees and asset purchases (e.g., the $300 million Housing and Economic Recovery Act, the $700 million Troubled Asset Relief Program and the $200 million Fannie Mae and Freddy Mac bailout, etc.).

The uncertainty that had surrounded Wall Street investment banks and mono-line bond insurers towards the end of 2007 turned into bankruptcy, consolidation and downgrades in 2008; resulting in an extraordinary, market-driven reshaping of the municipal bond industry. Despite the efforts of the Federal Government, turmoil continued for large financial institutions. Following the fire sale of Bear Stearns to JP Morgan in March 2008, Merrill Lynch was sold to Bank of America, Lehman Brothers filed for bankruptcy, Wells Fargo bought Wachovia, Goldman Sachs and Morgan Stanley proposed to become bank holding companies and the Federal Government had to guarantee more than $300 million of troubled Citigroup assets. Beginning with Ambac in January 2008, all of the then existing municipal bond insurers were downgraded below AAA or had their ratings withdrawn. Berkshire Hathaway Assurance Corporation, who entered the market in the beginning of 2008, remains the only bond insurer with a AAA credit rating.

These monumental events further exacerbated the already floundering markets and sparked the collapse of municipal auction rate securities beginning in February 2008. As the creditworthiness of the insurer's municipal bond insurance policies began to erode, investment in insured auction rate securities dried up. Meanwhile, the banking institutions, which had traditionally supported the auction rate market by buying bonds when investor demand was low, no longer had the capital to commit to purchase auction rate securities. Unfortunately, in a time of fragile confidence and low investor demand, this had catastrophic consequences. Auctions failed across the country and many municipal entities were suddenly paying exorbitant interest rates on their outstanding securities (in some cases 10%-20%).

Those issuers seeking to refinance out of their poorly performing auction rate securities to either variable rate demand bonds or traditional fixed rate debt found it difficult and costly. The VRDO market also felt the effects of the credit crunch (albeit less than the Auction Rate Security Market). The market demand for VRDO's in general was diminished significantly in 2008, which forced many issuers to tap lines of credit just as banks were facing their own funding predicaments. The ratings downgrades of many banks

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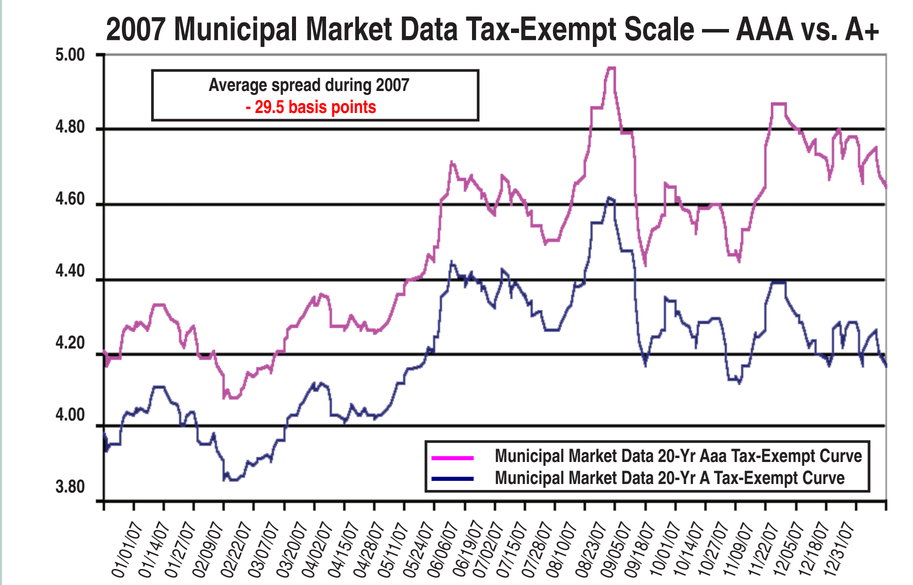

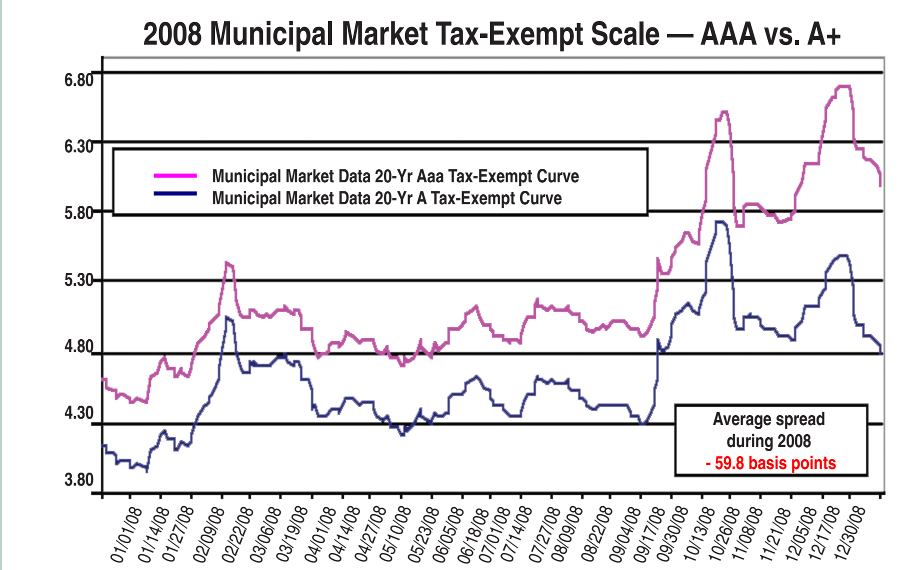

— In my opinion—

Planning amidst growing uncertainty and expectations

By Sr. Rosemary Jeffries, Chair, New Jersey Presidents' Council and President, Georgian Court University

The New Jersey Presidents' Council is in the unique position of leading higher education at a time when the economic challenges in our country and state are palpable, while at the same time the federal government releases new expectations for higher education, and prospective students are looking for increased opportunities, both academically and socially, at affordable rates. These issues of economic challenge, increased scrutiny and increased expectations require those leading higher education to carefully plan amidst financial uncertainty and escalating expectations.

In that context, our advocacy for higher education needs to underscore the contribution of higher education to our state, to our nation and, of course, to the individual students pursuing degrees. In short, higher education provides a "common good," as well as a "personal good."

Each institution of higher education responds to federal mandates, the ongoing struggle with funding in the state, and increased expectations of students in ways that are consonant with their particular mission.

Yet, when we come together as a Presidents' Council inclusive of the state colleges and universities, the research universities, county colleges and the independent colleges and universities, our task as leaders in this collaborative body requires collective reflection and action on those same sets of challenges – looking for ways we can work together for the good of all the students in New Jersey.

The National Center for Public Policy and Higher Education in a straight-forward essay on "Engaging Higher Education in Societal Challenges of the 21st Century" (April 2008) advocates that all stakeholders in higher education work together "to create a stronger sense that meeting the educational needs of the 21st century is essential for the nation's continued vitality." The essay outlines the key roles of state and federal government, local business leaders, university and college boards and higher education faculties and administration. The real point is not suggesting one of these key stakeholders alone holds the total responsibility for elevating the place of higher education in setting policy or budget; rather, the working together of various stakeholders for the common good of society and for the students themselves is the key.

As educational leaders in New Jersey, we need to work collaboratively with the key stakeholders in business, industry and government to explore initiatives to meet state and national priorities. Each sector of higher education provides essential services to these key stakeholders who seek educated employees. The Presidents' Council provides a unique forum where we come together across sectors and collectively consider how the higher education community can meet current needs in our state and beyond through partnerships, collaborations and ongoing cooperation.

I believe the New Jersey Presidents' Council has the responsibility in these challenging times to advocate for all students in New Jersey, exemplify our commitment to good stewardship and communicate the great contribution higher education collectively makes toward the "common good" in our state.

Viewpoint, *Continued from page 1*

- workplace readiness and general skills
- domain-specific knowledge and skills
- soft skills, such as teamwork, communication and creativity
- student engagement with learning

The Europeans are far ahead of us in this area. They are articulating "qualifications frameworks" to specify what a person at various educational levels should know and be able to do. We need to do the same.

AFFORDABILITY

Despite producing product of unknown quality, colleges and universities charge vast sums. We should all have such pricing power in our businesses.

Notwithstanding its exemplary record of postsecondary degree productivity, New Jersey is no exception to escalating college costs. Tuition here is among the highest in the nation, and students' share of education costs has risen to more than 50 percent, from about 30 percent, since 1990, according to the New Jersey Association of State Colleges and Universities (NJASCU).

Unfortunately, the State's FY 2009 budget included sharp cuts for public and private colleges and universities and county colleges.

The result? Rising costs, combined with a declining economy and tight credit, are putting college further out of reach of more students.

ACCESS

High costs limit access. So does a student's background, even now. Though minority enrollment at state colleges and universities has increased over the past 10 years, according to the NJASCU, here and throughout the country the achievement gap begins early in a child's life, and limits opportunities over the course of an academic career.

For example, research shows that by age four, a child in a professional family has heard some 20 million more words than a child in a working-class family, and about 35 million more words than a child in a family on assistance.

It is a pattern that follows students through their academic careers. Between 1992 and 2007, the White-Black gap in fourth-grade NAEP reading scores narrowed just five points – from a 32-point difference on a 500-point scale to a 27-point difference. In the same period, the White-Hispanic gap narrowed by just one point, to 26.

And, of course, research also shows that about a third of students in the United States – mostly minority and low-income – drop out of high school altogether, a personal and social tragedy of epic dimension.

Expanding access to college has been an American success story. But it is past time to renew our commitment to higher education, and to rethink our approaches to public education generally. This means developing a true, integrated P-20 system of schooling; strengthening the high school curriculum; and making college more accessible, affordable and accountable.

Most of all, we need to recognize the urgency of the situation. If we do not, our state and our nation will pay the price, and bear a heavy burden.

2008 Review

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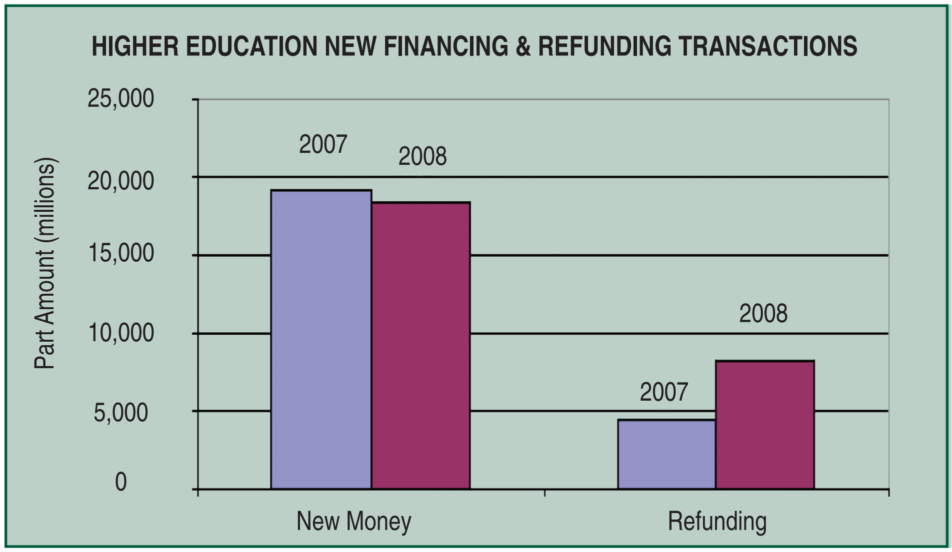

HIGHER EDUCATION — TOTAL PAR AMOUNT		
($ mm)	New Money	Refunding
2007	$19,179	$4,539
2008	$18,370	$8,243

HIGHER EDUCATION — NUMBER OF ISSUES		
	New Money	Refunding
2007	445	93
2008	382	132

Source: Thomson Reuters Research Services

that provide direct pay letters of credit (which provide security and liquidity for the VRDOs) shrunk the pool of qualified institutions while the demand for direct pay letters of credit increased as issuers sought to replace their auction rate securities with another variable rate alternative.

In the fixed rate municipal bond market, the credit environment has made it difficult for all but the highest-quality credits to come to market as spreads between AAA-rated and A-rated credits have widened substantially. According to Municipal Market Data, the spread between a triple-A rated general obligation bond and a single-A rated general obligation bond hit 126 basis points on December 22nd, the highest level ever recorded. In 2007 the Bloomberg Tax-Exempt Municipal Index averaged a spread of 8.2 basis points between the AAA and A+ categories. The same spread for the calendar year 2008 averaged 28.8 basis points as illustrated in the charts on page 3.

In 2008, total annual volume of long-term bond sales nationwide fell by 9.1%. It should be noted that this decrease would be significantly larger if it weren't for a huge increase in refinancing activity (refundings increased by 42.9% on the year) due largely to the collapse of the auction rate market. Total new money issuance declined by 22.8% in 2008. The $211.8 billion of new money that came to market in 2008 represented the lowest total volume since 2001, and the number of transactions, 7,404, the fewest since 1993.

Total annual volume in New Jersey fell by 12.0%, however the State was still ranked 9th in total volume among the other 49 states. Similarly, volume in the Education sector was down 15.1% compared to last year. This decrease reflects issuers' hesitancy to procure funds for new money projects in a suffering economy and for those with variable rate obligations, a shift in focus to the restructuring of this debt. This shift is most prominently illustrated within the Higher Education sector where new money issuance fell by 4.2% while refunding transactions skyrocketed from $4,539 million to $8,243 million in total par; an increase of 44.9%.

2009 may not mark the end of the country's current recession, but hopefully there will be strides down the road to recovery. In a market obsessed with credit quality, educational institutions must carefully trek down the path of sound management, careful governance oversight, and conservative financial planning in order to insulate themselves from the broader economic crisis. Maintaining a thoughtful and organized management policy will be necessary as educational institutions face obstacles over the next few years. A shift in demand towards lower cost public colleges, shrinking investment and endowment returns, exposure to variable rate debt, underperforming derivative products, cut backs to Federal student loan programs and slowing philanthropic commitments represent just a few of these concerns.

So how does 2009 become a very good year for higher education institutions? We need to return to fundamentals by addressing the stresses placed upon us through the implementation of strong management guidelines, realistic capital spending programs, and sensible investment policies. The ultimate goal is to manage these risks before they have long-lasting, negative consequences that impact credit quality. The goal of preserving credit quality is the best way for higher education institutions to maintain market access and gain positive momentum in the year to come. And if we can succeed with that, then we can sing along with Frank that "The Best is Yet to Come."

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2009/1

NJEFA welcomes new members; promotes staff member

NEW MEMBERS

NJEFA recently welcomed Kurt Landgraf and Ridgeley Hutchinson as new members of the Authority. Kurt Landgraf serves as a designee on behalf of ex-officio member, Laurence M. Downes, Chair of the New Jersey Commission on Higher Education. He is the President and CEO of Educational Testing Service, a nonprofit institution with the mission to advance quality and equity in education. In addition to serving on the New Jersey Commission on Higher Education, Landgraf is also a member of the Washington Higher Education Secretariat, the American Council on Education and serves on the board of directors of the American Association of Community Colleges.

Kurt Landgraf

This past October, Ridgeley Hutchinson was appointed by Governor Corzine to serve as a public member of the Authority for a five-year term. Mr. Hutchinson brings extensive experience in the construction trades to the Authority from a distinguished career that began with his apprenticeship at the Carpenters Union in 1978. He was elected as Business Representative of Carpenters Local 781, Princeton in 1994 and was appointed as trustee to both the New Jersey Regional Council of Carpenters and the New Jersey Carpenters Health and Pension Fund in 2002. Mr. Hutchinson also served on the New Jersey Clean Water Council for 6 years and currently serves as co-chairman of the Mercer County Chapter of the Alliance for Action.

Ridgeley Hutchinson

STAFF PROMOTION

Staff member, Katherine A. Newell, Esq., has been named Director of Risk Management for the Authority.

In her new position, Newell will coordinate all legal and risk management matters for the Authority, including the expanding need for post-issuance monitoring of the Authority's bond issues for contractual and tax compliance.

Katherine Newell

Newell will work closely with the Authority's borrowers to assist them in their post-issuance monitoring of application of bond proceeds and recordkeeping in order to comply with recent IRS initiatives in this area.